

Presentation to the
House Local Government Committee

By

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Tuesday, February 8, 2011

Mr. Chairman and members of the committee, thank you for inviting us to join you today to make a presentation on Redesigning Ohio, a report that outlines ways to transform government into a 21st century institution. This report was prepared by the Ohio Chamber of Commerce and our state's eight Metropolitan Chambers of Commerce and released on December 20, 2010.

I am Linda Woggon, Executive Vice President of the Ohio Chamber, and I will be making our presentation along with Carol Caruso, Senior Vice President of Advocacy with the Greater Cleveland Partnership. We are also joined by our colleagues from the other Metropolitan Chambers of Commerce, all of whom will be happy to participate in responding to your questions upon the completion of our formal presentation. Many of them have also prepared comments to share with you on successful local government collaborations and service consolidations in their communities.

Redesigning Ohio was a project we began more than a year ago. It was a response to our recognition that Ohio's economic recovery is dependent upon coming to grips with the unsustainable cost of our governmental institutions. We knew there were no quick or easy solutions to the fiscal and structural problems facing Ohio. We were, and continue to be however, convinced that we must work together to make transformative changes that address our immediate challenges; and even more importantly, the way in which we govern ourselves over the long term.

Over the last several decades our state and local governments have responded to good times and bad by making incremental changes in the way we create budgets and fund programs and services. By and large, we have perpetuated the status quo and failed to examine the broader fiscal and operational landscape. That approach has resulted in the inefficient, unsustainable situation we face today and has been made even more challenging by the unprecedented fiscal crisis that has shaken our country. We would be remiss if we did not take this opportunity to transform our state and local governments into ones that are sustainable and provide greater value to our citizens. Getting more for less is both the best response to our current crisis and a necessary step toward building a strong state economy that can compete in the 21st century. The time for action is now. Our state and local governments must become more flexible, adaptable and innovative – searching constantly for new ways to improve services and heighten productivity.

Redesigning Ohio was crafted with the able assistance of two well-respected experts. We were pleased to be guided in our work by David Osborne, a national expert on government reform who has authored five books on the topic including *The Price of Government* and *Reinventing Government*. We were also fortunate to have Dr. Greg Browning on our team. Many of you may know Dr. Browning as one of Ohio's foremost advisors on state budgets and governmental processes. He served as Director of the Ohio Office of Budget and Management from 1991 to 1998.

Our report includes ten areas for redesigning and streamlining government. Each of them is an innovative and bold approach to reform. None of them are easy and many of them may be controversial, but together we believe they reflect the kind of action Ohio must take to reinvigorate our economy and make our state great again.

Today, we are going to focus on Redesigning Ohio's recommendations aimed at forging a more efficient relationship between Ohio's state and local governments. But before discussing these specific ideas, it is important to mention that other reforms in Redesigning Ohio, while directed more at state government, are equally compelling ways to transform local governments.

For example, Budgeting for Outcomes, which underlies all of our recommendations, can help local governments become more efficient by purchasing the outcomes that citizen's value most. Budgeting for Outcomes is a complete redesign of the budgeting process. It turns traditional budgeting on its head and focuses on what programs should be kept rather than what should be cut. We strongly recommend that Budgeting for Outcomes be adopted at the state level and that the state encourage local governments to adopt it also.

Other innovative management techniques included in Redesigning Ohio, like Charter Agencies and Entrepreneurial Services can be successful when employed by local governments. These are innovative management strategies that use market based approaches to achieve efficiencies by introducing competition into the process for providing external and internal government services. Furthermore, using incentives to boost voluntary compliance with government regulations, driving health care costs down and improving patient outcomes by using smarter strategies when governments purchase health care, improving the ability to manage by reforming the civil service system, and reducing costs by restructuring public sector pension plans are all transformative actions that work equally as well at the local government level.

Now my colleague Carol Caruso with the Greater Cleveland Partnership will specifically discuss the Local Government section of Redesigning Ohio.

Thank you, Mr. Chairman and members of the committee for allowing us to present Redesigning Ohio to you today. I'd like to begin by providing a snapshot of Ohio's local governments. I'm sure it is no surprise to you that our state's 3700 counties, cities, townships, villages, school districts and special districts vary dramatically in size and sophistication. Some of our 1308 townships are very large and urbanized, but one-third of them have populations of less than 1500. Similarly, of the state's more than 600 school districts, 35% have fewer than 1300 students. Despite these size differences, each local government entity has its own employees, buildings, budgets and revenue sources. All of this government is costly, inefficient, and creates an uncompetitive tax climate when you compare Ohio to other states. When you evaluate our competitiveness on state taxes we do quite well, thanks in large part to the tax reforms enacted in 2005. On a scale that ranks the worst state tax climate as number 1

and the best as number 50, Ohio ranks 38th. But when you add our local tax burden, we move up to the 16th highest per capita tax burden in the nation. This situation demands that we find ways to help our local governments become smarter, cheaper and more effective.

To get there we need a productivity enhancing strategy that results in greater public value, lower costs and fewer political subdivisions. Redesigning Ohio lays out a strategy that includes a local government transformation planning process, new requirements to advance greater collaboration, and where possible, consolidation of political subdivisions. Ohio must strike a new and better deal between state and local governments through system redesigns that lower the cost and increase the quality of local government services – in other words get better results for the dollars invested.

Shared Services and Greater Collaboration

Ohio's local government infrastructure encourages independence (local control) and costly redundancies. This results in lower quality and higher costs for public services. Despite increasing evidence that a cooperative approach using shared services is a win-win for local governments, far too little of it is taking place in Ohio. But, when cooperation does occur, it produces positive results.

One of the most rewarding aspects of our work on Redesigning Ohio has been the realization that collaboration is being pursued at the local level already. In fact, my colleagues from the other Metro Chambers are prepared to share successful collaborations and service consolidations that are already occurring in their communities. From using a substantial monetary grant in Montgomery County to successfully incentivize the consolidation of nearly all 911 dispatch operations, to merging community fire departments and trash collection in Lucas County, and health departments and building inspection departments in Summit County, we applaud communities across our state for finding creative ways to become more efficient.

In my area of the state – Northeast Ohio – collaboration has been the hallmark of work undertaken by the Fund for our Economic Future. Not only does this organization encourage local governments to think in new and creative ways to reduce the cost of government and improved efficiency, they have involved the citizens of the region in the process. And, through their “Efficient Gov Now” program, they “put their money where their mouth is” by awarding grants totaling more than \$330,000 to projects that competed for this funding.

While these examples should be commended and prove that a strong commitment to this kind of teamwork produces results, the reality is that collaboration and shared services among Ohio's local governments is the exception rather than the rule.

To move more aggressively toward collaboration and shared services among local governments, Redesigning Ohio recommends adoption of a state policy that requires Ohio counties to lead a planning process with all local government units in the county. This will result in a Local Government Service Coordination and Collaboration Plan for each county designed to lower costs and improve quality in key service areas and purchasing. Examples of service areas that could be leveraged more effectively through shared service and other agreements include: police and fire, emergency medical services, communication and dispatching, transportation infrastructure, human services, judicial and criminal justice services, information technology and bulk purchasing of office, road materials and other supplies.

This planning process should last no longer than one year and result in a written plan. Planning work should be supported through Transformation Grants from a proposed State Innovation Fund. Future local government fund eligibility should be contingent upon the completion and implementation of the plan.

Performance-Based State Aid to Local Governments

As you know, Ohio's historic approach to governing has resulted in an almost laissez faire state/local relationship. The state has provided ongoing state revenue sharing without requiring specific results. This revenue transfer (a little more than \$1 billion in FY 2010) takes place primarily through the Local Government Fund and the Public Library Fund. This "blind to performance" approach to providing state aid, showers as much money on wasteful, ineffective governments as it does on their innovative, cost-effective neighbors.

Ohio's state/local relationship also includes a history of the state passing its fiscal pain to local governments by cutting the local government fund and state subsidies during difficult economic times. Additionally, just as the federal government passes unfunded mandates on to the states, state law often controls both the goals local governments must strive to achieve and the methods by which they must meet them, including collective bargaining constraints.

Redesigning Ohio recommends that in the effort to balance the budget, state leaders should not miss the opportunity to get more value for the dollars they send to local government. This should include the transition to a new model, under which state government buys better, more clearly defined results and related operational efficiencies from local government. This new model should also require local governments, at least on a limited basis beginning with demonstration projects, to compete for state resources based on the results they achieve and should include relief from unfunded mandates that stand in the way of achieving the desired results. This model should be funded by diverting an increasing percentage of the local government fund from the current approach to one that more effectively buys specific results, performance-based innovations and improved efficiencies.

To further encourage innovation among local governments, a Local Government Transformation Fund should be established to finance demonstration projects, help advance county-led collaboration and shared-services planning, and provide information on good government best practices within local political subdivisions.

In the end, the state must work with local governments to incent and when necessary require system redesigns that lower costs and improve services. As much as possible this should be done through a voluntary process that allows local citizens to keep their local political subdivisions, but not at any cost. If local decision-making results in the ineffective delivery of quality public services, the state should not hesitate to reduce or eliminate funding. Over time, this will likely result in fewer local political subdivisions. But, as respected management expert Peter Drucker has long noted, it makes no sense to invest in making organizations more efficient if they should no longer exist.

Mr. Chairman that concludes our formal presentation. We would be happy to respond to your questions and are prepared to provide more detail on any of the collaborative efforts we have cited in this testimony.

Thank you.