# DOWNSIZING STATE GOVERNMENT

## *DOING BETTER WITH LESS*

A Study Commissioned by

The Thomas Jefferson Institute for Public Policy

By

Dana Joel

## Thomas Jefferson Institute for Public Policy

The Thomas Jefferson Institute for Public Policy is a non-partisan research and education organization devoted to improving the lives of the people of Virginia. The Institute was organized in Virginia in 1996, and, at the time, was the only state and local government focused public policy foundation based on a philosophy of limited government, free enterprise and individual responsibility in the state. It is a "solutions tank" seeking better ways to accomplish the policies and programs currently being undertaken by state and local government -- always based on the Institute's underlying philosophy.

The work of the Thomas Jefferson Institute for Public Policy is geared toward educating our political, business and community leadership about the issues facing our society here in Virginia. The Institute offers suggested solutions to the problems facing our commonwealth in a non-partisan manner.

The Thomas Jefferson Institute for Public Policy is a fully approved foundation by the Internal Revenue Service. It is designated a 501 (c) 3 organization and contributions are tax-deductible under the law. Individuals, corporations, foundations and associations are invited to contribute to the Thomas Jefferson Institute and participate in our programs.

For more information on the programs and publications of the Thomas Jefferson Institute for Public Policy, please contact:

Thomas Jefferson Institute for Public Policy
8107 Long Shadows Drive
Fairfax Station, Virginia 22039
703/690-9447

# Foreword

The biggest recent phenomenon in the business world, other than the technology revolution, has been the incredible downsizing of corporations over the past ten years. Companies have cut their work force, brought new efficiencies to their operations, and seen their finances improve.

But state government just keeps growing and growing. The world of downsizing has not yet found a home in Virginia's state government. Some business leaders call for tax increases because they feel state leaders don't have the courage or discipline to cut spending and invest for the future.

When inflation is running at less than 3% a year, our state government is proposing to spend over 11% more in the next two years. Surveys show that voters support cuts in government programs and reduced taxes, not additional spending.

The accompanying report entitled, "Downsizing State Government -- Doing Better With Less," is offered by the Thomas Jefferson Institute for Public Policy as a road map to reducing state spending, better managing state government, and removing government from functions in which it shouldn't be involved.

Several states have, by law, limited spending increases and indexed taxes. Virginia should consider doing the same. As one state senator recently told me, "Unless we are required by law to limit spending we will spend every dollar available."

The current explosion in Virginia revenue doesn't guarantee the same in the future. And with the proposed budget, the baseline of government spending increases rapidly making future adjustments more difficult.

Virginia should manage its resources in a more business-like fashion. For instance, if proposed spending increased by the rate of inflation over the next two years (by $2 billion rather than $4 billion), the entire car tax cut could be paid for from this "savings" and there would be money left over.

This study outlines where almost $2.3 billion can be saved in the proposed budget. And this study shows that over $1 billion can be generated in the sales of state assets.

When the Thomas Jefferson Institute contracted for this study, it did not know what the bottom line would be. This foundation had a basic "gut feel" that money could be cut from the budget, but it didn't have any idea of the amount that could be identified. Indeed, this study is only the first step by the Thomas Jefferson Institute to

outline potential savings in state government. We hope these ideas will be openly and thoroughly discussed.

The specific ideas outlined in this study are those of the author and not necessarily those of the Thomas Jefferson Institute for Public Policy or its Board of Directors. These ideas are presented in an effort to bring to the table of public debate specific ideas that should be considered by the General Assembly and our new Governor as they rewrite the bi-annual budget for our commonwealth.

If Governor-elect Gilmore and the General Assembly can implement budget restraint in 1998, the savings can be very large. The budget reductions outlined in this study are worthy of discussion by the leaders in our state. *The numbers used by the author for savings are, in many cases, the minimum amount based on research of what other states and localities have saved by taking similar actions.*

The annual savings don't include the one-time windfall that the state can enjoy by selling land and businesses it shouldn't own. As outlined in this report, by selling the ABC stores to the private sector, the state could realize a one-time income of over $1 billion. Funds from the sale of assets could be earmarked to pay for the car tax cut. This would allow the budget reductions outlined in this report in the General Fund, those monies over which the General Assembly has direct influence, to be used for long-term investment needs in education and transportation, as well as tax reform.

Using these reasonable management tools, Governor-elect Jim Gilmore's pledge to cut the car tax could be accomplished in two years rather than five.

If these budget reductions were enacted and if spending limitation was the law, the next question is this: What happens with these "extra" funds?

One idea is to create a "Virginia Investment Account" into which this "extra" money would be physically deposited. This would be a line item in the budget. State law would earmark these funds only for long-term education and transportation needs as well as tax reform.

At least $500 million would be deposited into this account each year by state law. The savings detailed in this study along with spending limitations would produce a tremendous amount of money that would also be deposited into this account. The catch would be that $500 million a year could not be touched for any reason for 20 years unless the legislature voted to do so by a super-majority of 60% and the governor agreed.

Amounts over $500 million could be used for the three categories outlined – long-term education and transportation investments and tax reform. Surpluses at year-end would continue to be divided between the "rainy day fund" and the General Fund. The General Fund's share of these surpluses would also be deposited into the Virginia Investment Account. Since surpluses are additional funds, not included in the budget

approved by the General Assembly and governor, it only makes sense that they not be handed out to most every special interest group that roams the halls of the General Assembly Building when "extra money" is available.

If $500 million were actually invested by law each year for 20 years in this Virginia Investment Account, and that investment portfolio achieved only a 6% annual return, it would create an investment balance of $19.5 billion in that 20 year period. That windfall could be the key asset in developing long-term strategies for transportation and education without tax increases.

Once a minimum of $500 million was deposited in the Virginia Investment Account each year, the additional funds available through budget reductions and a required limitation on spending would be used for tax reform and long-term education and transportation needs.

This is how the numbers would work today if this idea were adopted. The funds that would be deposited over the next two years into the Virginia Investment Account would be:

$ 215,882,382 -- half the projected surplus on June 30, 1998
$1,091,835,616 - two year budget savings in the General Fund*
$1,070,212,500 -- income from sales of assets outlined in this study

---

**$2,377,930,498** - total deposited in the Virginia Investment Account

(* Only projected General Fund savings were used in this illustration since these funds are more available to the General Assembly for this type of program. This figure is 60% of the overall savings outlined by the author of this study - a reasonable figure for this purpose.)

Governor George Allen has said that tens of millions of dollars in additional surpluses will be announced in the first half of 1998, for the fiscal year ending June 30th. This means that the figure above would increase as well.

These funds in the Virginia Investment Account would allow the car tax cut to be fully funded in two years. Long term investments in transportation and education could be planned. The ideas suggested in the recent Thomas Jefferson Institute study entitled, "Understanding Virginia's Report Card - Why Standardized Test Scores Vary from One Community to Another," could be financed. And tax reform could be considered such as the ideas presented by the author of the Thomas Jefferson Institute's earlier study, "A Tax Reform Agenda for Virginia."

This can all be done while investing at least $500 million a year in the Virginia Investment Account.

Once the budget reductions are made, spending limitations will keep the budget from increasing through the use of a specified formula such as the rate of

inflation or inflation and growth of population. This fiscal management effort will produce "extra" funds that can be used as outlined above.

This report is offered in an effort to bring the idea of spending restraint and long-term planning in state government to the table of public discussion. Throughout the commonwealth businesses have downsized and economized over the past several years. State government should not consider itself immune from the need to significantly restructure its spending habits.

The suggestions outlined in this study are worthy of careful consideration by Governor-elect Jim Gilmore, the General Assembly and the voters of Virginia. It is hoped that they will be reviewed and seriously considered by all in positions of leadership throughout the commonwealth. We look forward to the debate that will follow on the proposed budget and on the money management ideas suggested in this report.

Michael W. Thompson
Chairman and President
Thomas Jefferson Institute for Public Policy
December 1997

# Downsizing State Government – Doing Better With Less

## Table of Contents


| | |
|---|---|
| Introduction | Page 1 |
| Legislative Department | Page 2-4 |
| Office of Administration | Page 5-9 |
| Office of Commerce and Trade | Page 10-18 |
| Office of Education | Page 19-25 |
| Office of Finance | Page 26 |
| Office of Health and Human Resources | Page 27-36 |
| Office of Natural Resources | Page 37 |
| Office of Public Safety | Page 38 |
| Office of Transportation | Page 39-41 |
| Independent Agencies | Page 42 |
| Areas of Further Study | Page 43 |

# Suggested Total Savings

| | |
|---|---|
| Legislative Department | $ 7,531,283 |
| Office of Administration | $ 9,865,290 |
| Office of Commerce and Trade | $ 72,338,065 |
| Office of Education | $285,070,539 |
| Office of Finance | more study needed |
| Office of Health and Human Resources | $459,904,018 |
| Office of Natural Resources | more study needed |
| Office of Public Safety | $210,000,000 |
| Office of Transportation | $ 88,444,235 |
| Independent Agencies | $ 6,922,083 |
| Total Suggested Savings per year | $1,140,075,513 |
| **Total Two Year Savings in Proposed Budget** | **$2,280,151,026** |

# Introduction

Virginia clearly has been a leader among the states in "rightsizing" government – that is, looking for improved ways to provide services while reducing costs. Through the Commonwealth Competition Council, launched by Governor Allen to identify government services that could be provided both better and cheaper by the private sector, the state has transferred to private operation millions of dollars in savings annually. Among the most significant transfers has been the sale of the Virginia Education Loan Authority (VELA) – generating $59 million to the state coffers; the outsourcing of the state's child support enforcement program in Hampton and Chesapeake – which has reduced administrative costs by 60 percent; and the collection of delinquent state taxes by a private firm.

Virginia's Workforce Transition Act, enacted in 1995, also helped the state to reduce its rapidly expanding government workforce by 9,000 workers by offering cash incentives to workers who chose to take early retirement; placing a freeze on new hires, and providing severance packages to workers who were terminated. Net savings amounted to $13 million to $17 million.

But as Governor Allen leaves office, he has turned on the spending spigot, increasing proposed spending by 11 percent, from $35.7 billion in fiscal 1996-98 to $39.7 billion in fiscal 1999-2000. It is going to be critical that incoming Governor James Gilmore puts Virginia's fiscal house in order.

This report is only the beginning in identifying areas of the budget that should be reduced or eliminated. There are still many programs, boards and commissions, and capital expenditures that need to be examined. For example, how many of these activities duplicate existing programs? Is their function the proper role of government? And if so, are annual increases in line with inflation and population growth or, as the case with many existing programs, much higher? As this report states in the final section, "Areas of Further Study," "The effort to better manage state government and to rid it of unnecessary programs and activities is an on-going process."

The report lists agency by agency the appropriations proposed for fiscal 1999, as recommended by Governor Allen in his Executive Budget released in December 1997. It provides a description of the government program's mission, along with this report's recommendation and the savings that would be generated from that change. "Recommended savings" applies to savings in the General Fund and the Nongeneral Fund, *excluding any savings from federal funding.*

Recommended savings are savings for fiscal 1999, only. This means that substantial savings can be generated for fiscal 2000, as well. For many programs, the Governor's proposed budget increases substantially from fiscal 1999 to fiscal 2000.

Finally, the projected recommended savings in this report are conservative figures. For example, in cases where savings generated by outsourcing is an estimated range, this report uses the lowest estimate.

# Legislative Department

**Appropriation for FY 1999[1] = $46,284,134**
**General Fund = $43,614,329**
**Non-General Funds = $2,669,805**
**Recommended savings = $7,531,283**

## Commissions

**Appropriation for FY 1999 = $6,211,376**
**General Fund = $4,636,298**
**Non-General Funds = $1,575,078**
**Recommended savings = $1,778,570**

**Mission:** The Legislative Department houses numerous permanent, legislative study commissions assigned to research specific areas of public interest and report its findings to the Governor and General Assembly.

**Recommendations:** Many of these commissions duplicate the study and research of existing public and private organizations. The following commissions should be dissolved. Any research needed in these areas should be conducted by the Joint Legislative Audit and Review Commission (JLARC) or by other existing private or public organizations:

- Joint Commission on Health Care
- State Water Commission
- Virginia Coal and Energy Commission
- Virginia Commission on Intergovernmental Cooperation
- Virginia Commission on Youth
- Virginia Housing Study Commission
- Virginia State Crime Commission

## Division of Legislative Services

**Appropriation for FY 1999 = $3,904,791**
**General Funds = $3,837,291**
**Non-General Funds = $67,500**
**Recommended savings = $1,925,547**

**Mission:** This department provides administrative, legal, and research assistance to the committees and study commissions.

---

[1] All appropriation figures throughout the report are the recommended appropriations from the *Commonwealth of Virginia: 1998-2000 Executive Budget*, 1997.

**Recommendation:** With the elimination of most of the study commissions, many of the administrative and research functions will no longer be needed.

## National Conference of Commissioners on Uniform State Laws

**Appropriation for FY 1999 = $39,500**
**General Fund = $39,500**
**Non-General Funds = $0**
**Recommended savings = $39,500**

**Mission:** This commission is responsible for reviewing state laws and recommending which laws should be enacted by Virginia to maintain uniformity among states. The commission provides model legislation to members of the General Assembly.

**Recommendation:** Legislators do not need a permanent board to recommend uniform state laws. Legislators that do need such assistance should use the expertise of organizations such as the American Legislative Exchange Council, Council of State Governments, the National Conference of State Legislators, and numerous others.

## Auditor of Public Accounts

**Appropriation for FY 1999 = $9,414,653**
**General Fund = $8,615,482**
**Non-General Funds = $799,171**
**Recommended savings = $2,824,396**

**Mission:** This office conducts financial audits on all state and many local agencies' operations.

**Recommendation:** The state should contract out to the private sector the function of auditing agency records, as has been done in a number of states, including Alaska, Colorado, North Dakota, and Wisconsin.[2]

## Division of Capitol Police

**Appropriation for FY 1999 = $2,833,146**
**General Fund = $2,833,146**
**Non-General Funds = $0**
**Recommended savings = $963,270[3]**

---

[2] Keon S. Chi, "What Other States Are Doing, *Privatization for New York: Competing for a Better Future*, ed. Ronald S. Lauder, January 1992, p. 28.
[3] John Locke Foundation, "Privatization and Competition," *Agenda 1996*, Briefing Paper #5, 1996, p. 5-5. Note: The source estimates an average savings ranging between 34 percent and 59 percent. This report uses the most conservative figure, calculating a 34 percent savings.

**Mission:** As described in the Governor's Budget, the capitol police provide "security for the buildings and grounds of the Capitol and state properties in the Capitol area. The division investigates all crimes that happen on these sites."

**Recommendation:** This department could reduce costs by contracting out some of the functions of the state Capitol Police Force. For example, the protection of state buildings that are not subject to a security threat should be outsourced to private security guards. One example would be the Library of Virginia.

The privatization of police and security is nothing new. In many cities and residential communities throughout the country, localities and businesses have turned to private security guards and police for protection. Reported advantages include not only reducing costs but freeing up a police force to handle more serious and violent crimes.

Privatizing the security of government-owned facilities is not new, either. Some states have actually turned over the operation of maximum security prisons to private firms. And Michigan has contracted out the security of three military facilities to private operation. Last year, the state reported a cost savings of 70 percent.[4]

[4] U.S. General Accounting Office, "Privatization: Lessons Learned by State and Local Governments," p. 29.

# Office of Administration

**Appropriation for FY 1999 = $499,646,714**
**General Fund = $482,833,737**
**Non-General Funds = $16,812,977**
**Recommended savings = $9,865,290**

## Secretary of Administration

**Appropriation for FY 1999 = $906,172**
**General Fund = $906,172**
**Non-General Funds = $0**
**Recommended savings = $90,000**

**Mission:** The Secretary's office provides guidance to the 13 agencies that make up the Administration Department. As much as half the Secretary's budget goes toward office services for the Governor, Lieutenant Governor, cabinet secretaries, and other agencies outside the Administration Department.

**Recommendation:** Spending within this agency has more than doubled in 11 years, rising from $387,233 in 1985 to $853,514 in 1996 in inflation-adjusted dollars. At the least, this office should outsource its accounting operations, a savings of $90,000.

## Department of General Services

**Appropriation for FY 1999 = $37,011,204**
**General Fund = $28,582,117**
**Non-General Funds = $8,429,087**
**Recommended savings = $3,825,906**

**Mission:** The Department of General Services performs many of the state government's administrative duties. Almost half the department's operating budget covers government's purchasing and supply needs, warehousing, mail service for agencies in the Richmond area, graphics for all state agencies, and administering the transfer or sale of state and federal surplus property. A third of the budget covers the maintenance and operation of 60 state-owned buildings. Fifteen percent of the budget goes to "environmental, public health, and law enforcement programs through its laboratory division."

**Recommendation:** The Department of General Services (DGS) has been criticized in recent years for numerous oversights and errors concerning the safety and maintenance of state property and for failing to keep costs under control. Problems have ranged from failures in noticing decay and faulty wiring in state buildings, to botched safety projects such as the removal of asbestos from state buildings, to frequent costly rentals that exceed the rental rates provided by commercial lenders.

Many of the functions of the DGS could be handled more efficiently and less costly through the private sector, as witnessed by other states. According to a study conducted for the North Carolina-based John Locke Foundation, outsourcing the maintenance and renovation of state property to the private sector could save anywhere between 30 percent to 42 percent of the initial cost. Similarly, contracting out the administration of the transfer of state property could save between 15 percent and 25 percent.[5] Other functions that should be contracted out for greater efficiency and cost savings include mail service; graphics operations; the Virginia Distribution Center, which handles the purchasing and distribution of supplies, and the Bureau of Capital Outlay Management.

Other savings can and should be achieved through the sale of the following surplus state land[6]:

| Surplus Property Recommended for Sale | Estimated Savings/Fair Market Value |
|---|---|
| Extra Attic, Richmond – used for storage | $1,250,000 |
| Pinecrest, Richmond – vacant | 100,000 |
| **Total Savings** | **$1,350,000** |

Finally, the Department of General Services, which operates laboratories in Abingdon, Luray, and Richmond, should close the lab in Luray and move its testing activities to the Richmond lab.[7]

## Compensation Board

**Appropriation for FY 1999 = $431,062,576**
**General Fund = $426,862,576**
**Non-General Funds = $4,200,000**
**Recommended savings = $1,232,293**

**Mission:** This board is responsible for determining the salary levels and funding the offices of the state's local sheriffs, prosecutors, Commonwealth Attorneys, and other constitutional local positions. This agency also funds the state's local and regional jails.

**Recommendation:** The Compensation Board, with an annual budget of at least $431 million, is by far the costliest agency within the Administration Department. Created in 1934 under Harry Flood Byrd, the board was intended to reimburse local governments "for the State's share of support for constitutional officers."[8] That is, the board was only

[5] John Locke Foundation, "Privatization and Competition," *op. cit.*
[6] Governor's Commission on Conversion of State-Owned Property, *Initial Report and Recommendations*, April 25, 1996.
[7] For more on this issue, see Press Release, "Senators Find Funds for Higher Education Capital Needs."
[8] Compensation Board, "Activity-based Budget Submission," November 10, 1995, p. 2.

to cover expenses relating to business conducted by the state. Today, however, the board provides funding for local as well as state functions.[9]

In 1994, the Governor's Commission on Government Reform wrote that, "Although there has been strong institutional resistance to any change in the present system, the continued existence of the Compensation Board is an expensive anachronism which can no longer be administratively justified."[10] The Compensation Board should be abolished. In cases where activities are state functions, localities should receive state funds through a designated formula.

## Commission on Local Government

**Appropriation for FY 1999 = $610,242**
**General Fund = $610,242**
**Non-General Funds = $0**
**Recommended savings = $610,242**

**Mission:** The Commission on Local Government works with local governments on annexation issues and helps to mediate settlements.

**Recommendation:** Throughout Virginia's history, cities have been capable of making decisions concerning annexation without the aid of a state commission. In fact, many localities have formed their own committees or organizations to study the feasibility and impact of annexation. Annexation is a local issue and should be decided among local voters residing in the localities at issue, not a state commission. Any disputes or needs for arbitration should be handled by the courts. The commission should be abolished.

## Department of Information Technology

**Appropriation for FY 1999 = $7,410,280**
**General Fund = $7,410,280**
**Non-General Funds = $0**
**Recommended savings = $1,482,056**[11]

**Mission:** Created in 1984, the Department of Information Technology handles the state's computer operations and links state agencies, local governments, and the federal government to the state network. Among its responsibilities, the department runs the Commonwealth's "on-line" system, the telecommunications network, and the teleconferencing service that, according to the Governor's Budget, has "substantially reduced conference and travel costs of state agencies."

---

[9] In addition to funding local sheriffs, jail superintendents, and Commonwealth Attorneys, the board also funds 137 full-time, permanent cooks in 70 localities' jails at an annual cost to taxpayers of $2.6 million a year. *Ibid*, p. 8.

[10] Governor's Commission on Government Reform, *Blue Ribbon Strike Force: Final Report to the Governor*, November 15, 1994, p. 89.

[11] This figure is an estimate based on Connecticut's projected savings of 20 percent.

**Recommendation:** As recommended both by the Governor's Commission on Government Reform and the Commonwealth Competition Council, the Department of Information Technology – merged with the Council on Information Management (see section below) – should be outsourced to the private sector. Many states, including Connecticut, Pennsylvania, and Tennessee, are turning over their state agency information technology centers to private operation. Connecticut, for example, is moving ahead to transfer all the state's computer centers to the private sector, recognizing that technology is not the government's area of expertise. As Gov. Rowland explains it, "We're not in the computer business. We can't stay up on it. It moves too quickly."[12]

## Council on Information Management

**Appropriation for FY 1999 = $1,372,002**
**General Fund = $1,270,107**
**Non-General Funds = $101,895**
**Recommended savings[13] = $292,125[14]**

**Mission:** This body recommends and develops computer systems that link state and local governments. In addition, the council monitors computer technology to equip state agencies with state-of-the-art computer systems.

**Recommendation:** The council should be folded into the Department of Information Technology (for description, see above) and its functions should be contracted out to private operation.[15]

## Charitable Gaming Commission

**Appropriation for FY 1999 = $2,332,668**
**General Fund = $0**
**Non-General Funds = $2,332,668**
**Recommended savings = $2,332,668**

**Mission:** The Commission regulates charity organizations' bingo and raffle operations. Prior to the creation of the Commission in 1996, oversight of gaming activities fell under the jurisdiction of local governments.

---

[12] Christopher Keating, "Rowland Swears in Five State Officials," *The Hartford Courant*, August 15, 1997.

[13] Savings to the Department of Information Technology.

[14] John Locke Foundation, "Privatization and Competition, *Agenda 1996*, Briefing Paper #5, 1996, p. 5-5. Note: The source estimates an average savings ranging between 23 percent and 40 percent. This report uses the most conservative figure, calculating savings at 23 percent.

[15] For more on this, see the Gartner Group Report, November 10, 1997 that reviews private innovations in information technology.

**Recommendation:** The Commission was created to help increase the amount of proceeds from charitable gaming operations to charities. However, the regulations have actually had the opposite effect, causing proceeds to charities to drop. Since the Commission was created, the audit fees assessed on charity game operators – and used to finance the Commission's regulatory activities – have actually eaten into the charities' proceeds.

The only useful purpose the Commission fulfills is to hunt down illegal gaming operations. But this can easily be handled by one of the state's law enforcement agencies or even by the local police. Governor Allen signed into law this year a bill that would abolish the Commission in 1999, unless the General Assembly acts to preserve it. The General Assembly should enact legislation in the upcoming session to abolish the commission and give this responsibility to local police. Any other necessary oversight should be given back to the localities.

# Office of Commerce and Trade

**Appropriation for FY 1999 = $670,878,849**
**General Fund = $163,744,680**
**Non-General Funds = $507,134,169**
**Recommended savings = $72,338,065**

Commerce and trade is best handled by the private sector, not by government, whether it be at the state, local, or federal level. This division has grown over the last decade by 41 percent, after adjusting for inflation – from $450 million in fiscal year 1985 to $634 million by fiscal 1998.

## Department of Housing and Community Development

**Appropriation for FY 1999 = $106,884,270**
**General Fund = $38,238,339**
**Non-General Funds = $68,645,931**
**Recommended savings = $14,150,688**[16]

**Mission:** Close to half of the agency's budget – 45 percent – supports the agency's five key programs. These include the low-interest home loan program, grants to homeless shelters, grants to low-income families for home repair, grants to nonprofit organizations that support low-income projects, and grants for indoor plumbing needs to low- and moderate-income residents. Half the total budget is spent on technical assistance and community block grants for local governments, planning district commissions, nonprofit organizations, and businesses located in enterprise zones.

Over the last few years, the department's focus has shifted toward policies that encourage home ownership, eliminate costly and unnecessary regulatory barriers, and solicit community-based solutions.

**Recommendation:** This department's budget has experienced faster growth than most other agencies over the last decade. From 1985 to 1998, the budget skyrocketed from $11 million to as much as $95 million in inflation-adjusted dollars, making it the second most expensive agency under Commerce and Trade.[17] While 71 percent of the budget comes from federal loans, it will be important that the incoming Governor and General Assembly get overall spending under control within this department.

This report recommends the following changes:

- **Eliminate the General Fund appropriation of the Multifamily and Congregate program.** This program provides funding to low-income and elderly multi-family

[16] This figure may include some savings from federal funding, which would go back to the U.S. Treasury.
[17] Data from the Department of Planning and Budget, "Ten Years of Expenditure History," p. 35.

households for home construction or rehabilitation. As recommended by the department, this program duplicates the role of the Multifamily Flex fund program and should be eliminated.[18]

**Savings = $10,500,000**[19]

- **Eliminate the Virginia Housing Partnership Fund.** As described on the agency's web site, this fund "is designed to provide loans and grants to support a wide variety of low and moderate income housing initiatives."[20] Virginia's Housing Development Authority – a privately funded mortgage finance company – already provides loans to low and middle income families that need financial assistance for housing. Any additional loans should be provided through private investment and backed by the state. Furthermore, the state should encourage local governments to set up private, non-profit community development corporations to assist in availing and renovating potential housing projects. Roanoke currently has two such "CDCs" that work to build and restore housing in some of the poorer neighborhoods. Similarly, Richmond is headquarters to the national nonprofit organization, Local Initiatives Support Corp., which has successfully found homes for hundreds of low-income first-time home buyers in the city.

  **Savings = $9,865,000**[21]

- **Eliminate the Regional Cooperation program.** This program, which is intended to "encourage and facilitate local government cooperation in addressing on a regional basis problems of greater than local significance," contradicts the current housing reform approach, which is community-based, rather than regionally-based. Virginia's local governments do not need regional offices representing them nor providing "a means for coherent articulation of community needs,"[22] particularly as Virginia moves toward more community-based policies. This program should be eliminated.

  **Savings = $1,751,381**[23]

---

[18] Virginia Department of Housing and Community Development, fiscal 1996-98 activity budget documents, Package No. 300.

[19] Based on data from the Virginia Department of Housing and Community Development, fiscal 1996-98 activity budget documents, Package No. 300.

[20] www.state.va.us/~vhda/profile.htm.

[21] This funding is provided by the federal government. Therefore, this figure is not included in the total savings recommended for this agency. Data from the Virginia Department of Housing and Community Development, fiscal 1996-98 activity budget documents, Package No. 300.

[22] Virginia Department of Housing and Community Development, fiscal 1996-98 activity budget documents, Priority No. 5.

[23] *Ibid.*

- **Eliminate the Virginia Water Project.** This program's purpose is to "assist low-income persons in rural communities in improving or securing water or wastewater services."[24] This program duplicates the efforts of the Indoor Plumbing Program and should be eliminated.

  **Savings = $1,290,399**[25]

- **Contract out all functions of the Training and Certification office.** This is to include the Virginia Building Code Academy, other training and education programs, the publication of the trade journal, the administration of the certificates of competency to building and fire officials, and the printing of fire regulations.

  **Savings = $235,494**

- **Contract out various support functions for the department.** This should include fiscal management of the department, the department's administrative activities of the Program Evaluation and Technical Support Office, the computer operations, and the Employee Relations office.

  **Savings = $183,414**

- **Terminate the contract to pay the Virginia Housing Development Authority executive director $190,000 a year after he retires.** The executive director presently earns $193,815 a year and is to receive $190,000 each year for two years after his retirement in 1998, based on a new secret agreement signed by the Authority. The Authority has not been able to explain to Virginia taxpayers why the top government executive should continue earning close to $200,000 a year after he retires. The contract should be terminated.[26]

  **Savings = $190,000**

## Department of Business Assistance

**Appropriation for FY 1999 = $19,878,830**
**General Fund = $17,752,009**
**Non-General Funds = $2,126,821**
**Recommended savings = $17,752,009**

**Mission:** Previously the responsibility of the Department of Economic Development, this department is responsible for the development of small business and industry in the state. Specifically, the office "leads the effort to enhance the relationship between the state and existing Virginia businesses by providing a single point of contact for state services."[27]

---

[24] *Ibid.*
[25] *Ibid.*
[26] For more on this, see Bill Baskerville, "Virginia To Keep Paying Housing Development Chief as 'Assistant,'" *Washington Times*, November 1997.
[27] *1998-2000 Executive Budget, op. cit.*, p. F-6.

**Recommendation:** This should not be the function of government. Nor do small businesses need such an office in order to thrive. This department should be eliminated.

## Department of Labor and Industry

**Appropriation for FY 1999 = $11,395,698**
**General Fund = $6,766,460**
**Non-General Funds = $4,629,238**
**Recommended savings = $1,476,583**

**Mission:** Approximately half of this department's budget goes toward programs designed to protect workers in the workplace, including on-site inspections and investigations over on-the-job accidents. Another 10 percent goes toward the department's apprenticeship program, which prepares and trains interested citizens for skilled and technical jobs. The rest of the budget goes toward miscellaneous programs, including investigations into reports of general labor and child labor law violations.

**Recommendation:** This department has experienced enormous growth in its budget over the last decade, rising from $4 million in 1985 to $10.9 million by 1998. One division that should be eliminated is the Apprenticeship Services program. Virginia is home to numerous private, yet affordable, technical training schools. In addition, the state provides grants and other financial assistance for interested students to attend the state university, Virginia Polytechnic Institute. Also, functions within the Management Information Systems and General Support should be outsourced.

## Department of Professional and Occupational Regulation

**Appropriation for FY 1999 = $9,208,273**
**General Fund = $0**
**Non-General Funds = $9,208,273[28]**
**Recommended savings = $2,134,112[29]**

**Mission:** Most of this department's budget – close to 75 percent – covers the certification, licensing, and registration of more than 25 different professions. The remaining portion of the budget covers investigations concerning complaints against regulated professions and enforcement of state and federal fair housing laws.

**Recommendation:** The unnecessary regulation of certain professions and occupations – that is, restricting certain people from entering a chosen field of work – has the perverse effect of limiting the number of practitioners in a given field, raising the price of services

[28] Only 2.6 percent of the budget is from federal sources; the rest is license and registration fees which, with the recommended reductions, does generate savings out of the nongeneral fund for Virginia citizens.
[29] These figures are based on the fiscal 1998 budget. Savings for fiscal 1999 are, therefore, higher.

for consumers, limiting competition, and reducing the quality of that service.[30] While the intent of many of these regulations is to protect the health, safety, and welfare of consumers, many of the targeted occupations do not pose any kind of a safety risk.

The Department of Professional and Occupational Regulation, comprised of 18 separate regulatory boards, has experienced rapid growth in its budget over the last decade. Funded largely through licensing fees paid by members of those professions being regulated, the budget grew from $6.6 million in fiscal 1985 to more than $9 million in fiscal 1996, after adjusting for inflation. The 10 regulatory boards which do little to preserve the health, safety, and welfare of consumers and, therefore, should be eliminated are those regulating auctioneers, barbers, community associations, cosmetologists, geologists, opticians, polygraph examiners, soil scientists, waste management, and waterworks and wastewater. These industries should be self-regulated by the professional community through natural market forces.

## Department of Agriculture and Consumer Services

**Appropriation for FY 1999 = $42,026,512**
**General Fund = $23,931,831**
**Non-General Funds = $18,094,681**[31]
**Recommended savings = $14,714,136**

**Mission:** About one third of the department's budget supports the promotion of agricultural and seafood products throughout the state, including the "Virginia is Open for Agribusiness Program." The department spends another 20 percent of the budget in assistance programs for farmers, including disease prevention and crop protection. Another twelve percent covers the inspection of foods at grocery stores, food processing plants, storage warehouses, and food processing plants. The department also operates an Office of Consumer Affairs which investigates reports from consumers of questionable food products on the market.

**Recommendation:** Virginia is home to a large and prosperous agricultural industry in the state, generating $25 billion a year in sales. The industry does not need a government public relations agency costing taxpayers $12 million a year to promote its stature. Nor should taxpayers be supporting a state-funded program to promote and market food, seafood, wine, and other agriculture products. Among the department's responsibilities is the publication of brochures listing the agency's "favorite" recipes – such as "Favorite

[30] For more on this issue, see John Locke Foundation, "Occupational Licensing Reform," *Agenda '96*, Briefing Paper #26, 1996.

[31] Only 9.6 percent of the nongeneral fund is from federal sources; the rest is from user fees, registration fees, and excise taxes which, with the recommended reductions, does generate savings out of the nongeneral fund for Virginia citizens.

Breakfast and Brunch Recipes from Virginia Bed and Breakfast Inns"[32] – and booklets promoting the state's wineries.[33] This is not the proper role of government.

Furthermore, the department's Office of Consumer Affairs should be abolished. Programs that handle consumer fraud and other illegal activities should be transferred to law enforcement. Programs that promote consumer education and awareness of certain products should be eliminated and handled by the numerous existing groups that already provide these educational services. Among these groups are the Better Business Bureau, the Consumer Federation of America, and the Virginia Citizens Consumer Council.

Other activities that should be privatized include the Northern Neck of Virginia Farmers' Market, which should be sold to a private operator for a savings of $75,615; and the Southeastern Virginia Farmers' Market, which should be sold to a private operator for a savings of $189,050.[34]

## Virginia Agricultural Council

**Appropriation for FY 1999 = $340,334**
**General Fund = $0**
**Non-General Funds = $340,334**
**Recommended savings = $340,334**

**Mission:** The council "promotes the agricultural interests"[35] and supports projects in agricultural research and public education.

**Recommendation:** As with the Department of Agriculture and Consumer Services, the state should not be in the business of promoting a particular or "chosen" industry. This department should be eliminated.

## Milk Commission

**Appropriation for FY 1999 = $677,300**
**General Fund = $0**
**Non-General Funds = $677,300**
**Recommended savings = $677,300**

**Mission:** The Milk Commission regulates the wholesale prices for milk, as well as the actual sale of milk. It also regulates producers of milk by requiring them to be licensed.

---

[32] Ruth Fantasia, "Morsels: Publishing World Finds B&B Recipes Are 'Inn'," *The Virginian-Pilot*, February 15, 1996.

[33] Note: The department houses a Virginia Wine Marketing Office. See Jim Raper, "With Guidebook, Wine Lovers Can Follow Virginia's Vines; State Publication Includes Calendar, Directions to 47 Wineries," *The Virginian-Pilot*, April 28, 1996.

[34] Commonwealth Competition Council, *Annual Report: To the Governor and the General Assembly*, 1996, p. 165.

[35] *1998-2000 Executive Budget, op. cit.*, p. F-9.

**Recommendation:** The Milk Commission – as with any government entity that is given the authority to dictate prices – disrupts the quantity of production and sale of milk that would normally be driven by market forces. In fact, it is not uncommon for the commission to raise the price of milk to prevent dairy farmers from leaving the state.[36] The pricing and sale of milk should be determined by the market – consumers and producers – like other consumer products, not by a government board. This commission should be dissolved.

## Virginia Employment Commission

**Appropriation for FY 1999 = $375,505,088**
**General Fund = $0**
**Non-General Funds = $375,505,088**
**Recommended savings = $5,126,538**

**Mission:** The Virginia Employment Commission (VEC) is responsible for collecting payroll taxes from all employers in the state and issuing unemployment checks to workers who have lost their jobs, as well as compensation checks to workers injured on the job. In addition, the commission assists workers in finding jobs.

This last legislative session, facing a $900 million surplus in the VEC fund, Governor Allen and the General Assembly agreed to reduce the business tax which funds the VEC by $175 million over the next six years, in exchange for an extension of workers' compensation benefits to cover carpal tunnel syndrome and hearing loss, and an increase in unemployment benefits.

**Recommendation:** Although the commission is fully supported through the nongeneral fund (from the employer payroll tax, federal unemployment and job training revenues, and penalty and interest assessments), this agency absorbs more resources than any other agency within Commerce and Trade. Savings can be achieved by doing the following:

- **Privatize the Job Services operation.** Job Services programs provide counseling, testing, referrals, job-market information, and follow-up. This function should be contracted out to a private company to operate.
  **Savings = $5,038,995**

- **Eliminate the Employee Advisory Committees.** This committee consists of 31 separate committees of over 13,000 employers throughout the state who advise the Virginia Employment Commission on "how best to meet the needs of the employers." This is an expensive program that has little to do with the mission of the Virginia Employment Commission. It should be eliminated.
  **Savings = $87,543**

[36] *UPI*, "Milk Prices on the Rise," July 24, 1990.

## Department of Forestry

**Appropriation for FY 1999 = $21,627,982**
**General Fund = $12,996,077**
**Non-General Funds = $8,631,905**[37]
**Recommended savings = $14,108,365**

**Mission:** A quarter of this department's budget goes toward programs to prevent forest fires and to educate the public on the prevention of forest fires. Another 45 percent supports landowners in the marketing of timber and in teaching them how to use the land for farming and wildlife.

**Recommendation:** Costing Virginia citizens close to $22 million a year, this expensive program has gone far beyond its original intent to protect forests from fires, insects, and disease. Today, this agency has largely become a welfare program for landowners, helping them to cultivate land and sell timber. Since the days of the early settlers, Virginians have been able to cultivate their own land without the help of a government office. The department also sells trees and shrubs, competing with private firms in the nursery business. All functions except the prevention of forest fires and protection of forests against insects and disease should be eliminated.

## Virginia Racing Commission

**Appropriation for FY 1999 = $3,347,888**
**General Fund = $0**
**Non-General Funds = $3,347,888**
**Recommended savings = $1,858,000**

**Mission:** Created in 1989, the Racing Commission oversees horse race betting in the state. Specifically, it regulates and licenses racing facilities, racetrack owners and operators, jockeys, horse trainers, off-track betting facilities, and horse owners.[38] The Commission also helps to promote the horse racing industry throughout the state. The Commission is funded by license and permit fees imposed on racetrack owners. When racetracks are not in operation, the Commission is financed by state loans that are paid back by revenues from the fees.

**Recommendations:** The commission requires increasingly larger sums of money to keep it operating as horse racing begins in Virginia. For the fiscal 1999 budget, recommended funding is $3.3 million. A portion of the budget is financed through state loans.

---

[37] Only 9.4 percent of nongeneral funds is from federal sources; the rest is from forest products tax and sales of tree seedlings which, with the recommended reductions, does generate savings out of the nongeneral fund for Virginia citizens.

[38] Virginia to date has licensed only one track operation. The operation opened in New Kent County in September.

If Virginia is to have a Racing Commission at all, its only function should be to ensure against illegal betting operations. All state activities concerning the promotion of the horse racing industry should be abolished. Virginia should not be in the business of promoting "chosen" industries. The horse racing industry has thrived locally in this state for over a century. It does not need to be assisted by a state-run commission.

# Office of Education

**Appropriation for FY 1999 = $7,741,328,182**
**General Fund = $4,818,094,037**
**Non-General Funds = $2,923,234,145**
**Recommended savings = $285,070,539**

## Virginia School for the Deaf and the Blind at Staunton, and Virginia School for the Deaf and the Blind at Hampton

**Appropriation for FY 1999 = $12,426,579**
**General Fund = $11,417,267**
**Non-General Funds = $1,009,312**
**Recommended savings = $8,545,000**[39]

**Mission:** These two schools provide education and counseling for students in the state who are deaf or blind and cannot be accommodated by the local school divisions. The school at Staunton accepts students west of Interstate 95, while Hampton accepts students east of Interstate 95. Including both schools, the average cost per pupil is $40,000 a year.

**Recommendation:** Since the 1970's, enrollment at the Hampton campus has been steadily falling,[40] as a result of two factors:

1) **School divisions' public schools have become better equipped to accommodate deaf and blind pupils.** Today, 86 percent of all deaf and blind students in the state are able to attend a public school in their local school division.

2) **With the advancement of medicine, the number of deaf or blind cases has been on the decline.**

As a result, both schools are operating far below capacity. For example, Staunton's campus currently enrolls 171 students, yet has the capacity to handle 600. In some cases, buildings are completely empty. But while enrollment has fallen, costs surprisingly have been on the upswing.

Given falling admissions and rising costs, the state would do better to merge the two schools together and pool resources. In fact, Virginia currently is the only state in the nation to operate two separate schools for the deaf and the blind. The Hampton operations

[39] This assumes the closing and sale of the Hampton campus and consolidating programs at the Staunton campus, as supported by as many as 26 studies conducted in the last 18 years. See Virginia State Senate press release, "Senators Find Funds for Higher Education Capital Needs," 1996.
[40] Enrollment at the Hampton campus has dropped from 200 students in 1989-90 to 128 in 1996-97. Data from the Virginia Department of Planning and Budget.

should be merged with Staunton, and the campus and surrounding property should be sold to private interests.

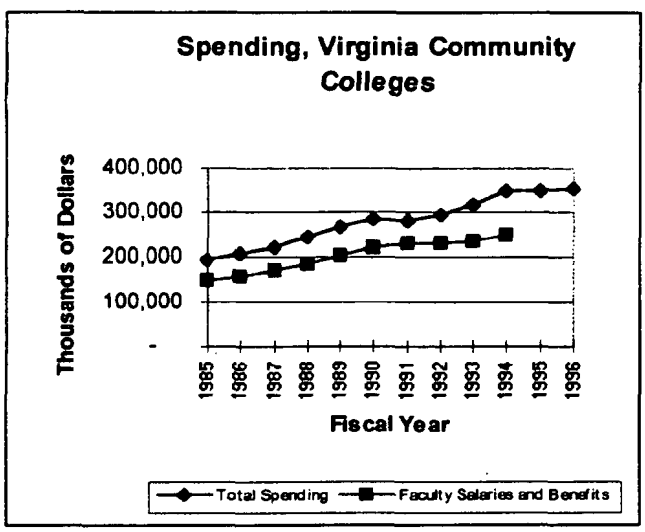
## Virginia Community College System

**Appropriation for FY 1999 = $412,148,574**
**General Fund = $246,648,538**
**Non-General Funds = $165,500,036**
**Recommended savings = $21,643,434**[41]

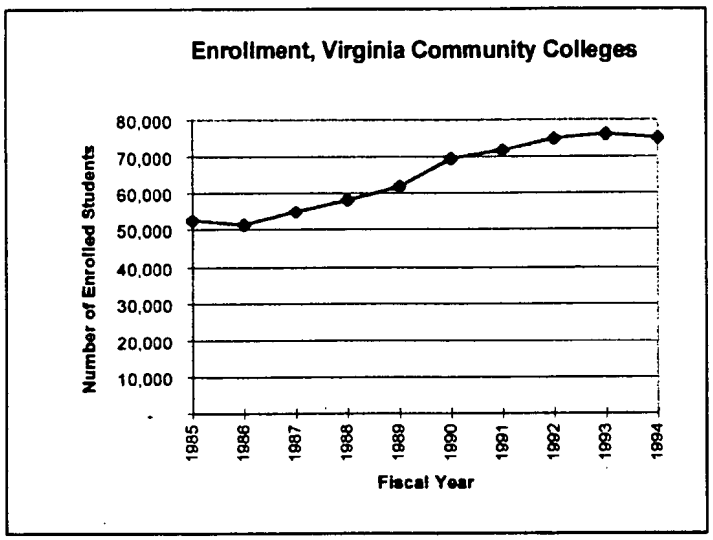
**Mission:** The state of Virginia supports 23 two-year community colleges that offer associate degrees for study in the arts and sciences and technical training. The college system also offers programs for adult and continuing education. According to the Governor's Budget, close to 90 percent of the budget supports instruction and financial assistance, while the rest goes toward student programs, food service, and bookstores. About 17 percent of the 123,300 students attending community colleges receive some form of direct state or federal financial aid. As much as 66 percent of all students' costs are subsidized.

Less than half the budget for the public community colleges is from revenues generated by tuition payments and student fees.

**Recommendation:** All categories of the community college system's total budget – including faculty's tuition and benefits – have been increasing more rapidly since the mid-1980's than student enrollment and inflation (see charts below).




[41] This is an underestimate; the savings that would be generated by outsourcing some services, as recommended by the colleges, was still being calculated by the Commonwealth Competition Council at the time this study went to print.




There are several ideas being discussed to significantly increase financial aid for students attending community colleges. One proposal would provide tuition-free assistance to students who attend certain technical courses and maintain good grades – at a cost to taxpayers of $4 million a year. Unfortunately, the current generous assistance plans aren't helping to move students through the program. Only about 10 percent of full-time students in the system graduate *within a seven-year period.*[42]

State spending on community colleges, including expenses for financial assistance, should increase at the rate of enrollment and inflation. The community colleges should also contract out services that can be provided more efficiently by the private sector. Two-year and four-year colleges throughout the country are learning that they can save money and improve service by turning to private businesses to manage the bookstores, food services, janitorial services, grounds and landscaping, and many others.[43] In the Commonwealth Competition Council's 1997 Annual Report, the community colleges listed many services that could potentially by outsourced. Among these were bookstore operations, debt collection, mail sorting, printing services, ground maintenance, and others.[44] Privatization of these services should be carried out immediately and the legislature should make it a requirement.

[42] State Council of Higher Education for Virginia, see www.schev.edu/wuresrch/index.html.
[43] For more on this, see Katie Fairbank, "Money Squeeze leads Colleges To Use Private Firms for Service," Associated Press, February 2, 1997.
[44] Commonwealth Competition Council, *Annual Report: To the Governor, the General Assembly of Virginia, and the Small Business Commission*, December 1997, p. 19.

## Virginia Four-year Colleges and Universities

**Appropriation for FY 1999 = $3,195,126,400**
**General Fund = $912,774,400**
**Non-General Funds = $2,282,352,200**
**Recommended savings = $253,915,058**[45]

**Mission:** In addition to the community college system, Virginia supports 15 four-year colleges and universities.

**Recommendation:** Overall funding for Virginia's public four-year colleges has more than doubled from fiscal 1985 to 1998.Yet enrollment has risen only a modest 23 percent within that same time frame. After adjusting for inflation, total spending still increased by 34 percent. As with the community college system, overall spending should be kept in line with enrollment and inflation unless a strong case can be made to do otherwise.

One reform that would help reduce operating costs would be to encourage applicants at the remedial level to first learn the basics at a community college before enrolling in a four-year college. (Note: if the public school system was doing its job, students graduating from high school would not need remedial education. Reforms to correct this serious problem, however, are beyond the scope of this study.) The four-year colleges currently spend too much time and money on remedial programs when the community colleges handle this both better and less expensively. In fact, most of the community colleges spend almost a third of their budgets on remedial programs.[46] The four-year colleges should, therefore, raise their acceptance standards (at 67 percent, as of 1995) to include only students properly prepared for higher education; phase out all remediation programs; and leave this area of focus on remediation to the community colleges and the K-12 school systems which are graduating these students without the necessary skills.

Another costly area in higher education is the institutions' numerous capital spending projects. According to the Joint Legislative Audit and Review Commission (JLARC), the state's public colleges and universities spent as much as $1.9 billion between 1988 and 1994 on capital spending programs.[47] While capital outlays are a necessary factor for growth, JLARC found that most institutions are building new facilities and purchasing new space when there is sufficient space in existing buildings. The problem is that the schools aren't using existing space efficiently. According to an analysis conducted by JLARC, only 7 of 39 institutions in 1994 were meeting the State Council of Higher Education in Virginia's ( SCHEV's) classroom "utilization standard."[48] Colleges and

---

[45] This figure is an underestimate. It does not include savings from recommended reductions in capital spending.
[46] Governor's Commission on Government Reform, pp. 179-80.
[47] Joint Legislative Audit and Review Commission, "Review of Capital Outlay in Higher Education," *A JLARC Report Summary*, June 1995.
[48] *Ibid.*

universities should not be permitted to use tax dollars for expansionary purposes if they are failing to meet the "utilization standard."[49]

Furthermore, only institutions experiencing increasing enrollment should take on expansionary capital projects. Schools where enrollment growth is sluggish should not normally be spending tax dollars on new capital programs.

Also, Virginia taxpayers should not be required to shoulder the cost of flashy capital spending projects that may improve a school's "looks" but have little to do with providing a good college education. While such projects no doubt are a boon to universities and local communities, they should be financed with private funding, not with tax dollars or debt. And just because they are self-supporting is not a reason to underwrite these costs with tax dollars.

Contracting out various services will also help save tax dollars, while performing as well or even better than traditional government-performed services. Most of Virginia's four-year colleges and universities already contract out some services including computer maintenance, management of dormitories, parking service, food services, health services, housekeeping, transportation, mail services, and bookstores. Other services that should be contracted out, as recommended by the colleges and universities themselves, include transportation, communication, facilities maintenance and custodial, and housekeeping services.[50]

A number of universities should also sell surplus land, as recommended by JLARC and the Governor's Commission on Conversion of State-Owned Property. These include the following:

| Institution | Property | Estimated Value |
|---|---|---|
| George Mason University[51] | Woodland Acres | $ 427,500 |
| James Madison University | University Farm | 45,100 |
| Mary Washington College[52] | Rowe Tract Two | 520,700 |
| | Rowe Tract Three | 840,000 |
| University of Virginia | Blue Ridge Hospital | 9,164,000 |
| | Milton Airport | 775,000 |
| | Vivarium | 89,300 |
| Virginia Tech | Saltville Property | 24,900 |
| | Winchester Station | 1,076,100 |
| | Winchester Research Lab | 916,400 |
| **Total Savings:** | | **$13,879,000** |

[49] See Governor's Commission on Government Reform, *op. cit.*, p. 176.
[50] Commonwealth Competition Council, 1997, *op. cit.*, pp. 34-42.
[51] Joint Legislative Audit and Review Commission (JLARC), *Review of State-Owned Real Property*, 1995, p. 12.
[52] Governor's Commission on Conversion of State-Owned Property, *Initial Report and Recommendations*, April 25, 1996, p. 10.

## Richard Bland College

**Appropriation for FY 1999 = $6,828,021**
**General Fund = $3,957,674**
**Non-General Funds = $2,870,347**
**Recommended savings = $6,289,089**

**Mission:** Richard Bland College, part of the College of William and Mary, is a 2-year junior college providing programs in the liberal arts, science, and business. Located in Petersburg, the school serves approximately 1,300 students a year. According to the Governor's 1998-2000 Executive Budget, "nearly nine-tenths of the college's total budget supports instruction and financial aid to students. The remainder goes for student services, such as the bookstore and food services, and for special programs." Less than half of the college's budget comes from non-general funds, including tuition and fees, with general fund tax revenues covering the rest. Only 6.2 percent of the budget comes from federal funds.

**Recommendation:** Although Richard Bland College is a two-year college providing an associate degree to students that complete the program, incredibly only 32 percent of its freshmen graduate *within a six-year period.*[53] While most of these students attend part-time, it is still unsettling that the majority of students attending at taxpayer expense take longer than six years to complete the two-year program. And while the budget states that 90 percent of the budget goes to instruction and financial aid, most of that amount is for financial aid, not for instructional purposes; only half of general expenditures goes to instruction. By comparison, 70 percent of the College of William and Mary's budget goes to instruction.[54] With budget growth outpacing enrollment,[55] it's fair to question whether the school is a sound investment of tax dollars. This study recommends, therefore, that the college be closed or merged with one of the state's 23 public, two-year community colleges. The most likely candidate is John Tyler Community College.

## Library of Virginia

**Appropriation for FY 1999 = $30,294,020**
**General Fund = $25,279,454**
**Non-General Funds = $5,014,566**
**Recommended savings = $35,715**

---

[53] "Graduation Report: Norfolk State, Old Dominion, Christopher Newport," *The Virginian-Pilot*, June 13, 1997.
[54] *1996-98 Executive Budget: 1997 Amendments, op. cit.*, pp. R-36, 37.
[55] From 1987-88 to 1995-96, the college's total budget rose 50 percent while enrollment rose 33 percent. "Ten Years of Expenditure History By Agency" and the State Council of Higher Education for Virginia (see www.schev.edu/wuresrch/index.html).

**Mission:** As described in the Governor's 1998-2000 budget, the Library of Virginia "houses a large collection of books and periodicals open to the public, provides long term storage for official state and local records and documents, and provides technical assistance and money to libraries around the state." The library also distributes state and federal funds to the state's 90 local libraries to assist in the preservation of circuit court records. This accounts for approximately 54 percent of the library's total budget. In the spring of 1997, the library opened a new facility in downtown Richmond.

**Recommendation:** The Library of Virginia should contract out its security system. The privatization of security is nothing new; across the country, private businesses and public services are increasingly using private security guards as a less costly and effective way to protect property and deter crime. Michigan, for example, has been contracting out the security personnel at three of its military facilities. During fiscal 1996, the state reduced its costs by $1.2 million, a 70 percent reduction. At one of the bases, the state was actually able to increase its level of security by improving its monitoring capabilities – all while keeping costs down.[56] Private security is nothing new in Virginia, either. The Virginia Museum of Fine Arts has hired private security guards at a savings of $315,000.

Other services that should be contracted out include the microfiche division, Information Technology Services, and support services. Finally, the Library of Virginia should sell its bookshop to the private sector. Although it is self-sustaining and does not receive any tax dollars, there is no need for the state to be in this business, competing with private booksellers.

## Virginia Commission for the Arts

**Appropriation for FY 1999 = $3,666,443**
**General Fund =$3,187,243**
**Non-General Funds = $479,200**
**Recommended savings = $3,187,243**[57]

**Mission:** The Governor's budget describes the mission as follows: "The commission encourages public interest and participation in the arts in Virginia. It does this by granting funds and providing advice to Virginia's artists and art groups."

**Recommendation:** It should not be the role of Virginia to "provide advice" to artists in the state. Nor does the state need to provide funds to groups that it decides produces art worthy of state funding. The arts in Virginia benefit from enormous and generous private support. The state should stay out of the business of choosing what is art and advising artists. The commission should be eliminated.

---

[56] United States General Accounting Office, "Privatization: Lessons Learned by State and Local Governments," *Report to the Chairman*, March 1997, p. 29. Also, for more on the privatization of security, see Reason Public Policy Institute, *Privatization 1997*, 1997, p. 53.

[57] The amount of recommended savings, consistent with the rest of this report, excludes savings from federal dollars.

# Office of Finance

**Appropriation for FY 1999 = $532,151,925**
**General Fund = $517,462,056**
**Non-General Funds = $14,689,869**

There are no specific savings detailed in this report. However, this agency needs to be studied to see if contracting out a substantial part of the computer services makes sense.

# Office of Health and Human Resources

**Appropriation for FY 1999 = $4,794,968,958**
**General Fund = $1,955,135,198**
**Non-General Funds = $2,839,833,760**
**Recommended savings = $459,904,018**

## Virginia's Agencies for People with Disabilities, the Deaf and Hard-of-Hearing, the Visually Handicapped, and the Physically Impaired

**Appropriation for FY 1999 = $118,078,500**
**General Fund = $27,300,308**
**Non-General Funds = $90,778,300**
**Recommended savings = $8,190,092**

**Mission:** Virginia cares for and provides services for its citizens with disabilities through the following separate agencies:

1. **Virginia Board for People with Disabilities.** This Board, as described in the Governor's budget, "manages Virginia's portion of a federal grant that assists people with severe mental, physical, or developmental disabilities. The board advocates for and funds projects to help these individuals. It also awards grants to public and nonprofit agencies to improve community living options." The board's budget has skyrocketed since it became a separate agency in fiscal year 1993. Since that time, its total expenditures have more than *quadrupled* in inflation-adjusted dollars.

2. **Department for the Deaf and Hard-of-Hearing.** This department assists Virginians who are deaf and hard-of-hearing "to become and remain independent and productive citizens." It provides interpreters and telecommunications equipment to help citizens better communicate and "provides training, technical assistance, and specialized information to more than 17,000 consumers, families, and service providers." This agency does not receive any federal funding.

3. **Department of Rehabilitative Services.** As described by the Governor's budget, "The department helps people with disabilities to become independent and self-supporting and determines if they are eligible for federal disability benefits. Through 40 community offices across the state, the agency evaluates, prepares, and trains people with disabilities for employment. It aids Virginians with disabilities in obtaining devices and equipment such as wheelchairs, braces, ramps, and car hand controls. It also helps people with severe disabilities live and work independently in the community."

**4. Virginia Department of the Visually Handicapped.** This agency assists the visually impaired through training programs that teach personal adjustment skills, employment skills, and computer usage.

**Recommendation:** The needs of the hearing-impaired, sight-impaired, and physically-impaired are all very unique. However, greater efficiencies through economies of scale could be realized by consolidating these services into one agency. This study, therefore, recommends that these agencies be merged together. In addition, the General Fund should not be allowed to grow faster than the number of recipients being treated and inflation. Finally, the new consolidated agency should contract out basic and administrative services, including special workload requirements, security, and computer maintenance.[58]

## Department for Rights of Virginians with Disabilities

**Appropriation for FY 1999 = $1,760,428**
**General Fund = $208,438**
**Non-General Funds = $1,551,990**
**Recommended savings = $477,076**[59]

**Mission:** The department is a legal voice and advocacy group for Virginians with disabilities. In addition to insuring that state agencies do not discriminate against citizens with disabilities in the public workforce, the department also provides legal action or mediation in situations of discrimination and human rights violations in the private sector. Close to 80 percent of the department's budget is from federal funds.

**Recommendation:** As recommended by the department's own director, Sandra Reen, this agency can better meet the needs of its recipients through privatization. According to Ms. Reen, turning the agency's operation over to the private sector not only would improve services, it also would "improve relations with constituencies interested in agency programs, and it would eliminate the conflict-of-interest...brought about by having the protection and advocacy responsibility in Virginia within the state government."[60] Given the strong endorsement by its director – as well as many of the agency's customers, according to Reen[61] – and given the success that other states have experienced by privatizing this service, the Administration and the General Assembly should take immediate action to close this agency and turn its functions over to a privately funded foundation.[62]

---

[58] Commonwealth Competition Council, 1996, *op. cit.*, p. 141.
[59] This does not include savings from federal funding.
[60] Commonwealth Competition Council, *op. cit.*, pp. 248-51; 328.
[61] *Ibid*, p. 248.
[62] For more on this, see Bill Baskerville, "Patient Rights Protection Called Inadequate," Associated Press, June 28, 1997.

## Department of Health Professions

**Appropriation for FY 1999 = $11,079,750**
**General Fund = $200,000**
**Non-General Funds = $10,879,750**
**Recommended savings = $1,661,963**[63]

**Mission:** This department, made up of 12 separate boards, regulates over 225,000 health care practitioners by issuing licenses, registrations, and certifications, depending on the type of healthcare practice. Its entire budget comes from nongeneral funds, mostly revenues from licensing and registration.

**Recommendation:** Except for fiscal year 1996, this agency has experienced rapid growth, far outpacing the rate of inflation. Given the department's similar mission and functions to the Department of Professional and Occupational Regulation, these two agencies should be merged. Significant savings can be achieved through economies of scale and the elimination of duplicative responsibilities.

## Department of Health

**Appropriation for FY 1999 = $378,816,133**
**General Fund = $122,369,616**
**Non-General Funds = $256,446,517**
**Recommended savings = $81,637,333**[64]

**Mission:** Through 132 local offices throughout the state, the Department of Health "provides public health, environmental, and medical services." The largest portion of its budget – 43 percent – goes toward health programs geared toward mothers and children. Twenty-two percent is spent to "protect the public from diseases and health hazards caused by the unsanitary disposal of sewage, unsafe water, unsafe handling of food and beverages, and unnecessary exposure to radiation and hazardous materials." An additional 10 percent goes toward the prevention of disease.[65]

**Recommendation:** The following changes should be implemented:

**Elimination of programs better handled at the local level.** Because of the enormous costs to run the state and federal bureaucracies that administer the state's health care programs, only a fraction of the tax dollar allocated to health care services actually makes its way to the intended recipient. Most of the dollar is absorbed through the state and federal maze. For this reason, many of these well-intentioned state programs should be eliminated. Communities that identify a need to provide these services should administer

---

[63] Assumes a savings of 15 percent.
[64] This does include some savings from federal funding.
[65] *1998-2000 Executive Budget, op. cit.*, p. I-6.

them at the local level, where the program is closer to the people requiring the assistance and where a much larger portion of the dollar will be used for the intended purpose. These programs include the following:

- **Communicable Disease Prevention.** This program provides counseling, outreach to high-risk individuals, and education for individuals with, or susceptible to, sexually transmitted diseases, tuberculosis, rabies, and other diseases. These programs would be better handled at the local level.
  **Savings = $10,491,718**

- **Oral Health.** This division "assures optimal oral health for all Virginians by planning, promoting, and implementing effective community based dental prevention programs and by providing comprehensive dental care for that population which is unable to access services through the traditional dental delivery system." These programs would be better handled at the local level, or by the dental community as a voluntary program.
  **Savings = $26,273,981**

**Elimination of programs that should not be a function of state government.** A number of different programs should be handled in the family home or by local private support groups, not by the state. These include the following:

- **Community Prevention and Planning.** Through this activity function, the state runs separate programs to "promote healthy behaviors and responsible personal choices" among adolescents and schoolchildren, to "reduce adolescent pregnancies in Virginia," and to promote public awareness to the importance of the role of the father in the family unit. These activities financed through tax dollars should be eliminated.
  **Savings = $8,786,250**

- **Family Planning.** The state provides funding to the 35 health districts in the state to counsel low-income women on issues pertaining to pregnancy and prevention. The state should not be using tax dollars for this service. Furthermore, there are private organizations that provide this assistance. This program should be eliminated.
  **Savings = $3,406,551**

- **Health Leadership, Policy, and Operational Support.** This division provides "support, leadership, and overall policy direction elements within the Virginia Department of Health." Many of these activities, such as the Information Management program that handles computer services, the accounting office, and purchasing and general services should be outsourced to a private provider. Programs that should be eliminated include Change Management, which is responsible for analyzing and reporting "organizational character, climate, culture" to improve productivity within the agency; and Public Information Services, the agency's media relations office.
  **Savings = $7,565,417**

- **Primary Health Care.** This division's aim is to improve "all Virginians' access to basic healthcare services" through "diagnosis, treatment, consultation, and referral services." Virginia's Medicaid system provides primary and other health care services to the state's indigent citizens (see section on the Department of Medical Assistance Services). Anyone who qualifies for welfare in Virginia may qualify for Medicaid. Virginia's medical system is not a government system. The state should not be providing primary health care services for those who are not considered indigent. This division should be eliminated.

  **Savings = $15,013,416**

**Privatization of various functions.** To date, the Virginia Department of Health has reduced costs by $6 million by privatizing various functions throughout the agency.[66] In addition to these, there are numerous other functions and services that also should be privatized, either by contracting out the service or through a public-private partnership arrangement. These include privatization of the following functions:

- Child Development Center
- Community health promotion services and public awareness campaigns
- Public health education, including surveys, graphics, and specific education campaigns
- Home health services
- Development of computer software

**Savings = $10,100,000**[67]

## Department of Medical Assistance Services

**Appropriation for FY 1999 = $2,524,644,784**
**General Fund = $1,215,468,902**
**Non-General Funds = $1,309,175,882**
**Recommended savings = $47,338,293**[68]

**Mission:** The Department of Medical Assistance Services is the agency that administers the state's Medicaid program, a state and federal funded program that supports the medical care of more than 720,000 low-income Virginians. Half the funds are provided by the federal government and half by the state. Almost all the funds – 97 percent – are distributed directly to the 25,000 hospitals, physicians, nursing homes, pharmacies, and other institutions throughout the state that provide healthcare assistance to Medicaid recipients. The department also provides other healthcare services to the indigent that are provided by the general fund. Among the five largest services provided by Medicaid (which make up 77 percent of the Medicaid budget) are inpatient hospital services

[66] Commonwealth Competition Council, 1996, *op. cit.*, pp. 40-43, 97.
[67] *Ibid*, pp. 139-40.
[68] Assumes a 15 percent savings rate to the general fund by outsourcing hospital care.

(comprising 25 percent of the entire Medicaid budget), and nursing facility services (comprising 18 percent).[69]

**Recommendation:** Compared to other states in the nation, Virginia has been very successful in holding down its Medicaid costs. In fact, Medicaid payments per recipient in Virginia is the fourth lowest in the nation, at $3,133 year.[70] However, the downside is that this agency is still one of Virginia's biggest and fastest growing agencies. One in 7 state dollars spent go toward Medicaid services.[71] While the overall state budget has more than doubled from 1985 to 1996, the department's budget has almost quadrupled. Per recipient costs have been reigned in, yet overall spending within the agency has soared.

To date, this agency has contracted out a number of its administrative and managerial activities, including computer maintenance and audit operations, mainly with the objective of improving the quality of services.[72] However, enormous savings can be achieved, as other states have discovered, by contracting out other functions, including hospital care. California has saved more than $1.5 billion over a seven-year period by contracting out hospital care of Medicaid patients to private hospitals. As part of its "selective contracting" approach, the state accepts bids from hospitals around the state that are interested in providing care for Medicaid patients in the area. Other functions that should be handled by the private sector include the investigation of Medicaid fraud and the purchase of bulk purchases of Medicaid supplies. The latter should be handled through the competitive bidding process.

## Department of Mental Health, Mental Retardation & Substance Abuse Services

**Appropriation for FY 1999 = $610,287,335**
**General Fund = $323,266,039**
**Non-General Funds = $287,021,296**
**Recommended savings = $190,211,061**

**Mission:** This agency provides services to the state's 12,000 citizens with mental illness, mental retardation, or substance abuse problems. According to the Governor's budget, "It operates 10 psychiatric facilities and five training centers with a capacity of 4,900 beds. Operating these facilities accounts for two-thirds of the department's budget. The facilities provide psychiatric and rehabilitative services, medical care, self-help, and social skills training. They offer special mental health programs for the elderly, children, adolescents, and the criminally insane."[73] The agency also funds 40 Community Services Boards representing local governments throughout the state that provide community service to

---

[69] "Technical Report: Review of the Medicaid Forecasting Methodology," *A JLARC Report Summary*, July 1996.
[70] See Citizens for a Sound Economy Foundation, *Fifty State Medicaid Report Card*, 1997, p. 66.
[71] JLARC, "Technical Report," July 1996.
[72] See Commonwealth Competition Council, 1996, *op. cit.*, p. 108.
[73] *1998-2000 Executive Budget, op. cit.*, p. I-9.

186,000 citizens with mental disorders. More than 26 percent of the agency's budget goes to community services.

Forty-nine percent of the budget comes from non-general funds: federal dollars and fees.

**Recommendation:** Despite the fact that experts believe caring for the mentally ill, in general, is more effectively handled at the community level – where patients are closer to family and support systems – Virginia's focus for treating the mentally ill has been through its 15 state institutions. Nationally, Virginia ranks third in per capita spending on institutional care for mental patients, yet ranks 41st in spending for community care. Enormous savings can be achieved by shifting the state's approach to care from state institutions to community-based care. Typically, the annual cost for treating a patient in a state facility is $76,000 to $123,000, while in a community treatment center, the cost is less than $50,000.

**Close hospitals operating below capacity.** Given the rapid drop in admissions in Virginia's state-run mental hospitals, a number of these institutions should be closed. As recommended by the Governor's Commission on Conversion of State-Owned Property and by members of the General Assembly, Virginia should close the Eastern State Hospital and Piedmont Geriatric Hospital – where collectively, the inpatient population has dropped by 65 percent over the last 20 years – and move existing patients to Central State Hospital, which also is operating below capacity.[74] As Senator Steve Martin (R-Chesterfield), one of the sponsors of 1996 legislation to close the hospitals remarked, this action would "save the taxpayer millions of dollars on unnecessary expenditures, preserve service to patients and clients at their needed levels, and free up millions of dollars..."[75] This policy will produce a savings in the operating budget of $40.9 million over the next six years, $65.5 million from capital improvements no longer needed, and $60.1 million from the sale of the facilities.

**Sell surplus property.** The following state surplus property has been recommended for potential sale either by JLARC, the Governor's Commission on Conversion of State-Owned Property, or both:

| Facility | Estimated Value |
|---|---|
| Southeastern Virginia Training Center | $1,400,000 |
| Western State Hospital/DeJarnette Center | 2,759,500 |
| Catawba Hospital | 824,000 |
| **Total Savings:** | **$4,983,500** |

[74] In fact, on average, all of the state-run mental hospitals have experienced reductions in the inpatient population of 65 percent over the last 20 years. "Senator Martin's remarks at press conference on the budget amendments," February 1, 1996.

[75] "Senators Find Funds for Higher Education Capital Needs," Virginia State Senate press release, 1996.

**Privatization.** Like other agencies under Health and Human Resources, this department has turned over many of its staff positions to the private sector. It is also in the process of outsourcing numerous activities, such as its boiler plant operations, pharmacy services, food services, accounting operations, and other administrative services.[76] But also like the other agencies, many other functions could be handled better and less expensively through privatization.

One such example is the privatization of state-run hospitals. Throughout the nation, states and local governments are turning to the privatization of hospitals as a way to reduce costs and taxes while improving the quality and availability of services. As the Reason Public Policy Institute writes, "...the main force driving this change is vigorous competition for treating the poor from private for-profit and nonprofit hospitals. In most communities, even those on public assistance now have a choice of providers."[77]
There are numerous ways the state can privatize government-run hospitals. These range from outsourcing specific services and functions performed within the hospital to a private firm, to contracting out the entire management of the hospital to a private firm, to the actual sale of the hospital.[78]

**Abolish substance abuse programs.** The state's taxpayers should not be responsible for paying the bill for citizens with substance abuse problems. There are numerous private organizations throughout the state which are effective in working with substance abuse users. This division of the agency should be eliminated.

## Department of Social Services

**Appropriation for FY 1999 = $1,039,175,093**
**General Fund = $247,892,025**
**Non-General Funds = $791,283,068**
**Recommended savings = $130,388,200**

**Mission:** The Department of Social Services is the agency responsible for providing for the state's low-income families and, according to the state budget, moving these families "from dependency to self-sufficiency." Thirty percent of the budget goes to the state's Aid to Families with Dependent Children (AFDC), or what is now called the Temporary Assistance to Needy Families (TANF). Another third of the budget goes toward child support programs – to "to investigate, collect, and enforce...payments by parents who do not have custody of their children." The rest of the budget goes to programs that protect mothers and children against domestic abuse and neglect, and to the state's local departments of social services to cover administrative costs.

---

[76] See Commonwealth Competition Council, *op. cit.*, p. 257.
[77] Reason Public Policy Institute, *Privatization 1997*, pp. 25-27.
[78] Recommended savings includes outsourcing of housekeeping, physical plant, food, and accounts receivable services, as recommended by the agency. See Commonwealth Competition Council, *1997 Annual Report*, *op. cit.*, p. 20. The outsourcing of entire hospital facilities should also be explored.

**Recommendation:** As with many of the programs provided within Health and Human Resources, this department absorbs an enormous portion of the state's overall general budget. The largest amount of savings can be achieved, while improving the delivery of services, by – once again – turning to private providers.

- **Welfare Reform.** Virginia should give serious thought and consideration to contracting out either the entire welfare system (now called the Virginia Independence Program) or portions of the system to private providers. Throughout the nation, from Texas to Wisconsin, to Indiana, to Oregon, states are looking to the expertise and abilities of for-profit and non-profit organizations to operate either various components of the welfare program (such as determining eligibility, running the welfare computer system, and operating job training and placement), or managing the entire system. In early 1997, for example, Texas awarded its entire 30-program welfare operation to Lockheed Martin. Lockheed anticipates a savings to the state of 30 to 40 percent.

  This new approach was spurred by President Clinton through the new welfare law enacted in 1996, which grants states the opportunity to contract out welfare services. Under the new law, any savings the state incurs belongs to the state. This new, emerging trend in the provision of social services has been referred by some as no less than a "revolution."[79]

  **Savings = $79,460,000**[80]

- **Collection of child support.** Over the last few years, Virginia has made great progress in enforcing and collecting the payments from fathers for child support. However, with approximately 2,500 new cases added to the rolls each month, the state continues to search for better ways to ensure payment collection and avoid taxpayer bailout. The local offices with by far the greatest success in collecting from missing fathers has been Hampton and Chesapeake, which have turned to private agencies to do the job.[81] Unlike the government agencies, the private offices have greater flexibility because they do not have to go through the same time-consuming chains of command required by state offices. Their response time is much faster. Based on this successful track record, the state should turn to private agencies for collection in other local areas, as well as in Hampton and Chesapeake.

  **Savings = $47,876,000**[82]

---

[79] "USA Economy: Privatizing Poverty Programs," *The Economist*, January 27, 1997.

[80] Assumes a 30 percent savings by contracting out the full Virginia Independence Program. For more on this issue, see The Welfare Information Network, "Contracting for Performances in Welfare Reform, *Resources for Welfare Decisions*, Vol. 1, No. 1, August 1997 (website: www.welfareinto.org).

[81] See Stacy Hawkins Adams, "'Deadbeat' Dads Are Told: Virginia 'Will Find You,'" *The Richmond Times Dispatch*, September 30, 1996.

[82] Assumes outsourcing of 20 local district offices at a savings of 60 percent, based on a report by the U.S. General Accounting Office on Virginia's child support enforcement program. See U.S. General Accounting Office, *Report to the Chairman, House Republican Task Force on Privatization*, "Privatization: Lessons Learned by State and Local Governments," March 1997, p. 31. Also, see Robert Melia, "Public Profits from Private Contracts: A Case Study in Human Services," *Center for Restructuring Government*, Pioneer Institute for Public Policy Research, June 1997, No. 3.

- **Foster Care.** The state should look at opportunities for private foster care, as a number of jurisdictions throughout the country are doing. Kansas, for example, has completely turned its adoption, foster care, and family preservation programs to private care. The results so far? The private providers are placing children in permanent homes at a much faster rate than the state was able to do. Awarding contracts worth $68 million to handle the state's 6,600 children in need of homes, Kansas pays each private provider a flat fee of $13,000 per child, regardless of how long it takes to place the child in a home. Under this pricing scheme, the incentive is placed on the private provider to find a home for the child quickly. Emphasis is on accountability through constant monitoring by the state.

  Another successful private foster care program is occurring in Guilford County, North Carolina, where the private, non-profit organization Youth Focus has been given the job of managing the state's most troubled foster care children. The private contract is expected to save the county approximately 15 percent in the first year, and 18 percent in the second year.

  **Savings = $855,400**[83]

- **Domestic Violence Services.** The state's services to provide emergency shelter, crisis intervention, peer counseling, support groups, personal advocacy, and public awareness duplicate the services provided by many shelters, religious groups, and non-profit counseling and community centers throughout the state, like the YWCA and the Restorer of Hope International. Virginia could continue to maintain its statistical and demographic database through special grants it receives from the federal government. However, the state's counseling and shelter services that duplicate existing services should be eliminated.

  **Savings = $2,196,778**

[83] For more on this issue, see William D. Eggers, "There's No Place Like Home," *Policy Review: The Journal of American Citizenship*, May/June 1997, p. 43; Ben Feller, "Foster Care Changes Look Successfully," *News & Record*, October 3, 1997; and Justin Matlick, "Fifteen Years of Failure: An Assessment of California's Child Welfare System," Pacific Research Institute, March 1997.

# Office of Natural Resources

**Appropriation for FY 1999 = $270,582,910**
**General Fund = $143,989,210**
**Non-General Funds = $126,593,700**

There are no specific savings detailed in this report. However, this agency needs to be carefully reviewed for savings possibilities, including the organizations funded in the budget under the Department of Historic Resources.

# Office of Public Safety

**Appropriation for FY 1999 = $1,483,606,840**
**General Fund = $1,110,215,007**
**Non-General Funds = $373,391,833**
**Recommended savings = $210,000,000**

## Department of Alcoholic Beverage Control

**Appropriation for FY 1999 = $234,460,792**
**General Fund = $0**
**Non-General Funds = $234,460,792**
**Recommended savings = $210,000,000**

**Mission:** The Alcoholic Beverage Control (ABC) purchases, distributes, warehouses, merchandises, and manages the sale of hard liquor in the Commonwealth of Virginia.

**Recommendation:** Virginia – one of only two states that owns and controls the state's liquor business – should remove itself from the business. It is inappropriate for the state to be involved in such an enterprise. The state should ask for bids to buy this business while maintaining an oversight capacity. One possibility, as suggested by the Commonwealth Competition Council, would be to allow the employees of this department to purchase the entire operation through an Employee Stock Ownership Plan (ESOP).

# Office of Transportation

**Appropriation for FY 1999 = $2,644,353,095**
**General Fund = $45,050,099**
**Non-General Funds = $2,599,302,996**
**Recommended savings = $88,444,235**

## Department of Transportation

**Appropriation for FY 1999 = $2,310,709,615**
**General Fund = $45,000,000**
**Non-General Funds = $2,265,709,615**
**Recommended savings**[84]

**Mission:** With a price tag over $2 billion a year, Virginia's Department of Transportation is one of the state's costliest agencies. Its responsibilities are to build and maintain "65,000 miles of roads, over 19,700 bridges, and five tunnel systems. It also provides money to cities and towns for street construction and maintenance; conducts transportation research and evaluation; and operates toll roads, bridges, and ferries."

**Recommendation:** Due to the enormity of this issue, reforming the Department of Transportation should be a separate study altogether. However, for the purposes of this review, the following brief is to encourage further study in the area of privatization of highways, congestion pricing, and other market solutions.

It should be noted that Virginia has been a leader over the last decade in utilizing the private sector to build and maintain many of the state's roads and highways. Virginia has also been a model for other states in the private financing and operation of toll roads. But even Virginia's progressive policies cannot solve the congestion problems that continue to wreak havoc on the state's highways and only promise to get worse as growth throughout key areas of the state continues. In many major arteries throughout the state, worsening congestion – particularly during peak hours – costs residents more time and, therefore, productivity; adds to the pollution of our air; and even effects our very life styles. Where traffic density used to be limited to major cities, the problem is now spreading to suburban areas.

Many politicians and business leaders argue that the answer is to build still more roads and highways. A number of state legislators have suggested an increase in taxes may be needed to pay for the new roads. But Virginia drivers already pay more than $1.6 billion a year – that's $714 per household – on building and maintaining the state's roads.[85] A more efficient way of spending current and future funds should be considered.

---

[84] Projected savings through congestion pricing is beyond the scope of this study but should be explored.
[85] This includes motor fuel taxes, motor vehicle sales and use tax, motor vehicle license fees, toll fees, and other miscellaneous transportation taxes and fees. Virginia Secretary of Finance, "Governor Allen's

The answer may lie in responding to market demands rather than political demands. To this end, all new highway projects should be paid for via tolls, a direct form of user fee. The price of the toll should be based on demand -- that is, during peak times, rates should be set higher to reflect the higher premium placed on traveling at that busier time. This is no different in concept and application than the pricing of many commodities provided by the private sector to reflect market demand. Most airlines provide lower rates for Saturday night stay-overs to reflect the decline in overall travel. Similarly, many movie theatres lower their prices for matinee showings to encourage greater attendance during this non-peak time.

Congestion pricing is neither a new or untested idea. First hailed by environmentalists, economists, and now policy makers as a way to lower congestion on the roads and reduce ground-level smog, this common sense approach is now being explored in Southern California, as well as other parts of the country. Parts of Europe and Asia, where land is scarce, are also experimenting with peak pricing methods.[86]

Market-based approaches such as congestion pricing are much more apt to happen when the road is built and operated by the private sector, rather than the state. Roads should be built, financed (paid off by revenues from tolls), and maintained by private businesses -- which will be much more inclined to adopt market approaches -- rather than by the state. The Dulles Greenway toll road, the first modern-day private road in the nation, provides a perfect model for handling other new transportation projects in the state.[87]

## Department of Motor Vehicles

**Appropriation for FY 1999 = $160,807,664**
**General Fund = $0**
**Non-General Funds = $160,807,664**
**Recommended savings = $88,444,235**[88]

**Mission:** This agency issues licenses and automobile registration to more than five million drivers in the state. The department is financed through fees paid for registration, vehicle titles, licenses, license plates, and other services.

**Recommendation:** A number of states have had overwhelming success passing some – and in several cases, all – functions on to the private sector. For 30 years, North Dakota

---

Proposed Amendments to the 1996-98 Budget: Fiscal Policy, Economic Assumptions, and Revenue Estimates;" and the U.S. Census Bureau.

[86] For more on congestion pricing, see Kenneth A. Small, "Using the Revenues from Congestion Pricing: A Southern California Case Study," *Policy Insight*, Reason Foundation, No. 145, September 1992; and Erin Schiller, "Congestion Pricing Would Ease Bay Area Traffic, Pollution," *San Jose Mercury News*, August 8, 1997.

[87] Peter Samuel, "The Case for Privatizing America's Highways," *USA Today Magazine*, January 1997, p. 60. See section, "A Toll Bonanza."

[88] This is a conservative estimate of 55 percent savings. See Reason Public Policy Institute, *Privatization 1997*, p. 9.

has been out of the business of registering vehicles. Private firms, ranging from local chamber of commerce branches, to insurance companies, to independent companies provide this service without any funds from the state. They are solely funded through fees and charges from the registration. And Ohio has also privatized its Bureau of Motor Vehicles, enabling drivers to obtain both licenses and vehicle registrations from one of 200 branches throughout the state run by either for-profit or non-profit private operators. The decade-old privatized approach has been overwhelmingly endorsed by the public; a recent survey revealed that 98 percent of the private bureaus' customers approved of the job the bureaus were doing. Finally, New Jersey last year turned over the second half of its Division of Motor Vehicle branches to private operation, completing the division privatization process it had begun a decade ago. The state is expected to save $3.8 million a year.

Virginia too should more than satisfy the licensing and registration needs of the state's drivers and save tax dollars by turning over the functions of the Department of Motor Vehicles to private management, as these other states have done.[89]

[89] For more on this issue see, Patrick A. Hazel, "Privatize the Oregon DMV," Cascade Policy Institute, January 1997; and Reason Public Policy Institute, *op. cit.* , pp. 8-9.

# Independent Agencies

**Appropriation for FY 1999 = $157,451,737**
**General Fund = $0**
**Non-General Funds = $157,451,737**
**Recommended savings = $6,922,083**

## State Lottery Department

**Appropriation for FY 1999 = $69,220,828**
**General Fund = $0**
**Non-General Funds = $69,220,828**
**Recommended savings = $6,922,083**[90]

**Mission:** This agency runs the state lottery.

**Recommendation:** This is another agency that, similar to the Department of Alcoholic Beverage Control, could contract out its entire operation except for an oversight function by the state. It appears that only Massachusetts and Virginia run their state's lotteries. Why should Virginia be involved other than to oversee the activity for public safety reasons?

[90] The state should save, at a minimum, 10 percent, by contracting out the state lottery. This study uses the conservative figure of 10 percent in its projections.

# Areas for Further Study

The effort to better manage state government and to rid it of unnecessary programs and activities is an on-going process. To that end the Thomas Jefferson Institute for Public Policy will continue to offer ideas and suggestions on how the state government can reduce spending and run more efficiently and effectively. And this foundation will offer further suggestions on what activities should be eliminated from state spending.

There are a number of areas in the budget that need further study and the Thomas Jefferson Institute will look into these areas in the months ahead.

The Virginia Economic Development Partnership has been very successful in bringing new business into our state. However, with a FY '98 budget of almost $36 million this agency should be carefully reviewed to determine if efficiencies can be brought to bear in this agency. And the role of this agency will be considered in relationship to the proper role of government and how Virginia must proceed in order to compete with other states for new business.

There are a large number of commissions and boards in our state government and these need to be reviewed with a skeptical eye. A case can possibly be made that many of these serve little or no real purpose other than giving the Governor the ability to appoint political friends to nice-sounding commissions and boards.

The role of the state funding various museums and historical sites should be looked at to see if more private funding can be secured and less state funding required. And the proposed state budget requests that spending on what is called State Grants to Non-state Entities increase from $16.2 million in the last budget to $41.5 million in this two-year budget – an increase of 156%! This needs to be carefully reviewed and analyzed.

The whole area of private contracting in capital expenditures will be looked at in a future study. Can the state be removed as middleman from the construction of transportation and education facilities? If the Greenway (private toll road in Northern Virginia) could be built at a significant savings over the state building a similar road, then we must learn from that and try to secure additional savings. If the Virginia Commonwealth University Engineering School can be built with private funds at some 25% less cost than if the state built it, then we should learn from that experience. If informal discussions are close to accurate, a savings of between 25% and 40% might well be achieved if the state were not the middleman in the building of roads and educational structures.

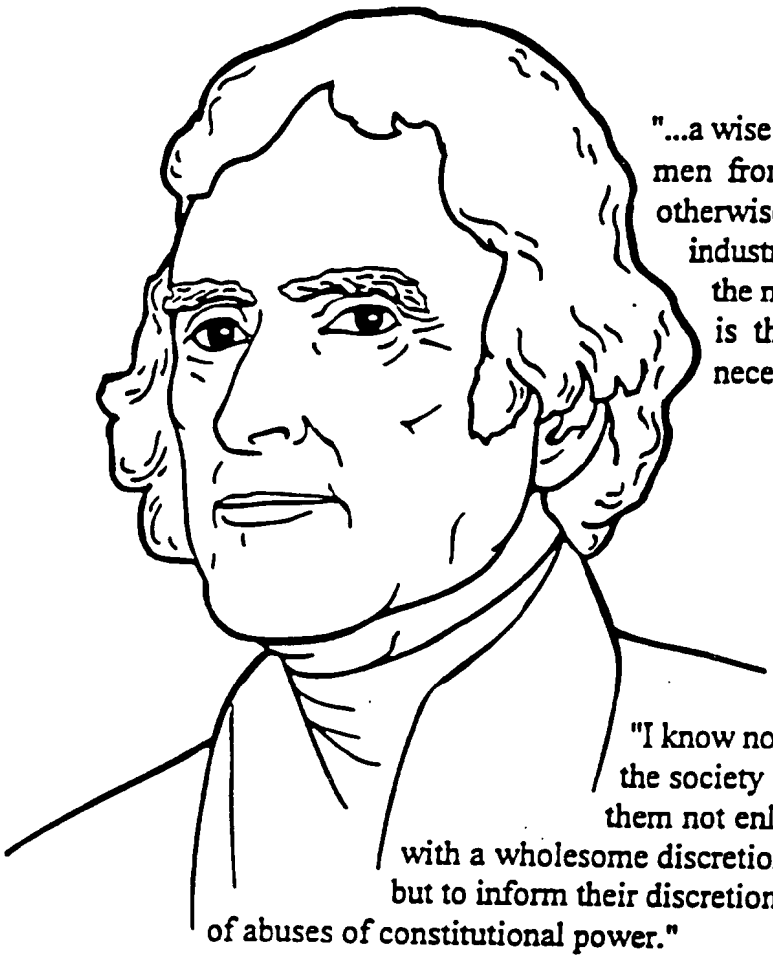
Finally, the legislative budget document should be reformed so that the everyday taxpayer can more easily figure out how and where the state is spending his or her money. A more user-friendly document should be produced that shows the mission of each department, agency; commission, board, etc. and how much state money is budgeted for that activity. The current documents are not easy to read and understand and a case could be made that this is purposefully done so that it is difficult to follow the money train run by the General Assembly and Governor.

## About the Author...

Dana C. Joel is Director of Research with the San Francisco-based Pacific Research Institute. Formerly, Ms. Joel was Deputy Director of Regulatory Affairs for Citizens for a Sound Economy in Washington, D.C. where she focused on environmental and other regulatory policy issues. Before assuming this role, Ms. Joel was Director of New Jersey CSE and Director of Policy for State Projects, where she worked to promote and effect numerous state policy reforms, including education, health care, and tax policy. Before joining CSE, Joel was Research Associate in Domestic Policy Studies at The Heritage Foundation.

Ms. Joel is the author of numerous studies and articles which have appeared or been cited in a variety of newspapers, magazines, and journals across the country, including *The Washington Times*, *USA Today*, the *Baltimore Sun*, *Dallas Morning News*, and *Regulation Magazine*. She is also a contributing author to *Privatizing Correctional Institutions*, a book published by Transaction Publishers in 1994.

Ms. Joel received her education at Butler University in Indianapolis and George Mason University in Fairfax, Virginia. She currently resides in San Francisco.



"...a wise and frugal government, which shall restrain men from injuring one another, shall leave them otherwise free to regulate their own pursuits of industry and improvement, and shall not take from the mouth of labor the bread it has earned. This is the sum of good government, and this is necessary to close the circle of our felicities."

Thomas Jefferson -- 1801

"I know no safe depository of the ultimate powers of the society but the people themselves and if we think them not enlightened enough to exercise their control with a wholesome discretion, the remedy is not to take it from them, but to inform their discretion by education. This is the true corrective of abuses of constitutional power."

Thomas Jefferson -- 1820

Thomas Jefferson Institute for Public Policy
8107 Long Shadows Drive
Fairfax Station, Virginia 22039
703/690-9447