

Competitive State Government

Saving Taxpayers' Money Without Cutting Services

Preliminary Findings

By: Dana Joel Gattuso
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Thomas Jefferson Institute for Public Policy

February 27, 2001

Thomas Jefferson Institute for Public Policy

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Foreword

The Thomas Jefferson Institute is researching various ways that our state government can save money through using more business-like practices.

This concept is called, "Competitive Government" and the preliminary results of our study show a savings can be realized over two years of \$1.159 billion! Additional work is being done and this figure will be larger when our final report is released in a few weeks.

The issue that the Jefferson Institute is confronting is that our state government can do its job more efficiently and at a significantly less cost to the taxpayers. Services do not need to be reduced. Infrastructure needs do not need to be put on hold.

For instance, the incredible amount of accounts receivable due our state is at least \$720.4 million and may be significantly higher. This is an incredibly large number. It seems reasonable to suggest that the private sector be brought in to collect these receivables. The suggestion is to "sell" these to the private sector, let it collect them and let it write off any "bad debts" once it takes responsibility for collection. This will produce immediate cash to the state and our report shows that this cash could easily be \$170 million to \$200 million. This amount covers the needed \$189 million in this fiscal year's budget. The state should go ahead and do this now.

Other savings outlined in this preliminary report will take some time to realize, but by beginning today some of those savings could be "on the books" by June 30th of this year.

The current budget crisis in Richmond will hopefully open the discussions in the Governor's office and in the General Assembly to find savings through good government practices as are outlined in the attached report.

This report is offered in an effort to bring the idea of "competitive government" to the table of public discussion. It is not meant to influence legislation, but to bring ideas to our elected leaders so they can better serve our citizens.

Michael W. Thompson
Chairman and President
Thomas Jefferson Institute for Public Policy
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List of Potential Savings in 2000-2002 Biennium Budget
(Preliminary List Only. Full report in progress.)

- **Contract out the state's commercial activities. Those activities were listed by the state agencies in a survey conducted by the Commonwealth Competition Council**

Savings of \$675,990,000

These activities come directly from survey responses to Virginia state agencies requesting information on what commercial activities could be outsourced for a savings to the state. It assumes a savings rate of 30 percent and does not include revenues generated by taxes paid by private vendors and operators. The 30% savings is used because the federal government has found over a 10-year period that this is the average savings realized from competitive government practices. See OMB Circular A-76 to confirm this savings rate.

Attached is the listing of commercial Activities in the Virginia Community College System from 1999 as an example of the activities that can be contracted out to the private sector.

- **Outsource state agency collections**

Savings of \$340,000,000

Virginia has at least \$720,390,351 in accounts receivable with 10 state agencies comprising \$1.2 billion in past due accounts, according to the Commonwealth Competition Council. Outsourcing collection to the private sector would achieve an additional annual income to the state of \$170 to \$200 million as estimated by the Commonwealth Competition Council. Assuming the conservative figure of \$170 million, this would amount to \$340 million for the biennium. The private sector can collect these receivables more successfully than the state, and the advantages of using the private sector are many. The General Assembly should pass legislation requiring all receivables collected by the private sector to be deposited into the General Fund.

This outsourcing of accounts receivable by the state can produce the cash needed to "balance" the budget BEFORE June 30th as the Governor and General Assembly are trying to do right now as each prepares for the Special Session in a few weeks.

➤ **Department of Social Services: Contract out following programs:**

Savings of \$71,647,789

- Employment services and daycare operation for the Virginia Initiative for Employment not Welfare (VIEW), the state's welfare program.
-

Savings of \$12,574,449 – assumes a 30% savings rate

Numerous states, including Indiana, Oregon, Texas, and Wisconsin, are turning to the expertise and specialization of private non-profit and for-profit organizations to operate either portions or the entire state welfare system. Furthermore, the 1996 federal welfare law introduced by former President Clinton enables the state, rather than the federal government, to keep any savings generated by privatizing. Virginia should look into outsourcing the full welfare program, as other states are doing. In the interim, Virginia should experiment by outsourcing two of its functions, the VIEW's employment services and daycare operations.

- Collection of Child Support

Savings of \$41,637,000 – assumes a 30% savings rate

Among Virginia's local offices that have had the greatest success in collecting child support from missing fathers have been Hampton and Chesapeake, which contract out collections to private agencies.

- Foster Care operation

Savings of \$17,436,340 – assumes a 15% savings rate

Again, numerous states are outsourcing their foster care operation with better placement results than state operations. Kansas, for example, has completely turned its adoption, foster care, and family preservation programs to private care, placing children in permanent homes at a much faster rate than the state. Based on savings generated from Kansas and other states and localities, this estimate assumes a conservative savings rate of 15 percent.

➤ **Department of Health: Contract out following services:**

Savings of \$20,000,000

- Child Development Center
- Community health promotion services and public awareness campaigns

- Public health education, including surveys, graphics, and specified education campaigns
- Home health services
- Development of computer software

The Virginia Department of Health has reduced costs by at least \$6 million by privatizing various functions throughout the agency. But there are still many functions and services that should also be outsourced, including these mentioned.

- **Office of Education: Merge the VA School for the Deaf, Blind and Multi-Disabled at Hampton with the VA School for the Deaf and the Blind at Staunton**

Savings of \$18,766,924

With falling admissions and rising costs, Virginia would do better to merge the two schools together and pool resources.

- **Department of Corrections: Contract out the operation and management of low-secure prison facilities**

Savings of \$12,845,327

- Private operation and management of VA Correctional Center for Women

Savings of \$3,445,327 – 15% of \$22,968,850

This savings figure is based on the average nationwide savings achieved by private prison managers.

- Private operation and management of Corrections' prison reentry facilities

Savings of \$9,400,000, as estimated by the Commonwealth Competition Council

- **Department of Information Technology: Outsource the agency's commercial activities.**

Savings of \$12,000,000

About 44 percent of DIT's workload is commercial activity which could be performed by the private sector at a much lower cost. For example, computer repairs runs between \$40 and \$90 an hour with bills for simple tasks running \$500 to \$1,000. By comparison, costs for private service for these same tasks are typically under \$100. The above-suggested savings assumes a very conservative savings rate of 15 percent.

- **Replace privately produced capital outlay preplanning studies with privately produced architectural studies.**

Savings of \$4,500,000

According to the Commonwealth Competition Council, current preplanning studies are costly, and many projects go unfounded. Data shows approximately 150 preplanning studies conducted per biennium at an average cost of \$43,000 per study and a total cost of \$6.5 million. By comparison, an architectural study would cost approximately \$15,000 per study, generating a savings of \$4.5 million per biennium.

- **VA Distribution Center: Transfer functions to the Department of Corrections**

Savings of \$3,200,000

Corrections is the Distribution Center's largest customer. The Center, therefore, should be transferred to Corrections where procurement is already staffed to achieve economies of scale. Contract out food delivery service for the Department of Mental Health, Mental Retardation and Substance Abuse Services, and the Department of Corrections, which negates the need for the Richmond-based warehouse. For savings on sale of warehouse, see below. Further ongoing savings can be achieved by contracting out food delivery service for additional state agencies.

Preliminary Report Total Savings for FY 2000-2002: \$1.159 Billion

Additional savings to be outlined in the Thomas Jefferson Institute's final report on Competitive Government.

The sale of various state assets will be outlined in the final report on Competitive Government.

Commercial Activities Conducted by Virginia State Government

These commercial activities were provided to the Commonwealth Competition Council in a survey of government agencies. These are the commercial activities as of 1999.

To determine the savings that the Virginia State Government could realize from bidding out these activities, the FTE hours (37,555) were multiplied by an average state salary of \$30,000 (including benefits); this number was then multiplied by a savings of 30% that the Office of Management and Budget's Circular A-76 states is the average savings when such services are offered for competitive bid to the private sector and allowing the state agency to compete in the process.

Using this reasonable formula, the state would save \$337, 995, 000 annually by using a competitive bidding process. Even if the OMB Circular A-76 savings were to be discounted by one-third, the savings to the state would be 20% and the total annual savings would be \$225,330,000.

**1999 Commercial Activities
as reported by Virginia agencies and institutions**

	Commercial Activity	FTE	Annual Hours	# Agencies Reporting
1	Accounting Services	987.44	1,753,693.43	95
2	Accounts Receivable	145.75	258,850.58	83
3	Adaptive & Assistive Technology Programs	28.00	49,728.00	6
4	Advertising & Public Relations	299.19	531,361.44	68
5	Advertising Review & Enforcement	0.75	1,332.00	1
6	Aerial Photography Services	6.00	10,656.00	2
7	Air Ambulance Services	14.00	24,864.00	1
8	Air Charter Services	6.00	10,656.00	2
9	Air Emission Program Services	16.00	28,416.00	1
10	Air Quality Services	5.00	8,880.00	1
11	Aircraft Maintenance	1.00	1,776.00	1
12	Apprenticeship Training	14.94	26,533.44	16
13	Architectural Services	46.10	81,873.60	17
14	Art & Graphics Services	72.41	128,600.16	53
15	Auction Services	5.60	9,945.60	7
16	Audit & EDP Audit Services	436.11	774,531.36	55
17	Billing Services	119.47	212,178.72	65
18	Boiler Inspections	14.32	25,432.32	21
19	Bookstore Operations	92.46	164,208.96	14
20	Bridge Operations	9.00	15,984.00	1
21	Bridge Safety Inspections	79.00	140,304.00	1
22	Building Code Compliance Reviews	23.25	41,293.78	24
23	Building Construction Inspections	49.48	87,883.58	42
24	Building Construction Management	88.94	157,962.77	42
25	Building Inspections (general)	32.83	58,306.08	48
26	Bus Transportation	63.80	113,308.80	7
27	Case Management Services	53.30	94,660.80	6
28	Centers for Independent Living	2.70	4,795.20	1
29	Central Stores Operations	130.80	232,300.80	38
30	Check Indexing & Retrieval	4.52	8,029.30	17
31	Check Processing & Distribution	115.56	205,234.56	70
32	Check Reconciliation	47.55	84,450.58	69
33	Child Care Programs	20.25	35,964.00	2
34	Child Support Enforcement Services	912.00	1,619,712.00	1
35	Child Welfare Services	17.00	30,192.00	1
36	Civil Service Arbitration & Mediation	2.62	4,653.12	5
37	Client Assessment & Evaluation Services	112.12	199,125.12	2
38	Clinics & Dispensaries	234.06	415,690.56	9
39	Community Living Support Centers	23.20	41,203.20	3
40	Conference Management	19.85	35,258.93	24
41	Consumer Services & Complaints	1.25	2,220.00	1
42	Correctional Education Services	750.00	1,332,000.00	1
43	Counseling Services	368.22	653,950.55	49
44	Courier Services (bank)	9.55	16,951.92	33
45	Courier Services (other)	34.23	60,792.48	39
46	Court Reporting	10.20	18,115.20	4
47	Crime Detection Investigations	461.27	819,215.52	41
48	Cultural Resources Surveying	9.00	15,984.00	1
49	Custodial Services	1,269.00	2,253,735.12	52
50	Debit Card Services	28.80	51,148.80	9

**1999 Commercial Activities
as reported by Virginia agencies and institutions**

	Commercial Activity	FTE	Annual Hours	# Agencies Reporting
51	Debt Collection	213.70	379,531.20	59
52	Dental Services	92.58	164,422.08	9
53	Developmentally Disabled Services	2,048.75	3,638,580.00	5
54	Domestic Violence Services	3.26	5,789.76	2
55	Dormitory Management	244.82	434,800.32	13
56	Driver Improvement Programs	222.50	395,160.00	1
57	Drug/Substance Abuse Treatment	16.50	29,304.00	2
58	Education & Enforcement	13.00	23,088.00	1
59	Education Conference Management	58.70	104,260.08	19
60	Education Services for Patients	53.23	94,536.48	11
61	Educational Services	151.96	269,880.97	3
62	Electronic & Communications Equipment Maintenance	1.00	1,776.00	2
63	Electronic Creation of Records	1,265.23	2,247,048.48	69
64	Electronic Payment Processing	81.04	143,933.26	61
65	Employee Arbitration Services	18.74	33,278.69	21
66	Employee Assistance Services	0.68	1,207.68	1
67	Employee Benefits Administration	199.88	354,990.43	93
68	Engineering Services	329.61	585,387.36	15
69	Environmental & Pollution Inspections	92.44	164,182.32	32
70	Environmental Engineering Services	275.50	489,288.00	4
71	Environmental Health & Pollution Inspections	163.00	289,488.00	3
72	Environmental Health Services	299.61	532,107.33	1
73	Environmental Pollution Inspections	2.50	4,440.00	3
74	Environmental Samples Testing	43.76	77,717.76	11
75	Equipping Patrol Vehicles	16.00	28,416.00	1
76	Erosion Advisory Services	28.80	51,148.80	22
77	Facility Maintenance (including stadiums, etc.)	1,160.02	2,060,195.52	66
78	Facility Management (including stadiums, etc.)	48.10	85,425.60	15
79	Facility Reservations	9.00	15,984.00	2
80	Family Assistance Services	13.90	24,686.40	2
81	Family Planning Services	105.16	186,764.17	2
82	Financial Services	509.28	904,472.40	35
83	Fire Prevention & Protection Services	80.37	142,737.12	37
84	Fire Tower Maintenance	0.17	301.92	1
85	Fisheries Management	22.00	39,072.00	1
86	Fleet Operations	57.92	102,865.92	33
87	Fleet Operations & Maintenance	411.74	731,250.24	31
88	Food Service Operations	1,277.72	2,269,227.16	20
89	Food Stamp Assistance	12.00	21,312.00	1
90	Foster Care & Adoption Programs	18.00	31,968.00	1
91	Geographic Information Network Services	10.00	17,760.00	3
92	Geological Surveys	33.00	58,608.00	1
93	Grass Cutting	0.00	0.00	1
94	Grounds Maintenance	499.08	886,366.08	55
95	Health Screening of Employees	43.75	77,696.45	17
96	Highway Design Services	423.00	751,248.00	1
97	Highway Inspections	1,238.00	2,198,688.00	1
98	Highway Maintenance	3,917.00	6,956,592.00	1
99	Highway Signs Manufacturing	36.00	63,936.00	1
100	Home Health Services	46.00	81,696.00	2

**1999 Commercial Activities
as reported by Virginia agencies and institutions**

	Commercial Activity	FTE	Annual Hours	# Agencies Reporting
101	Housekeeping & Residential Services	483.33	858,394.08	14
102	Information Retrieval Services	19.00	33,744.00	1
103	Injury Prevention Services	11.15	19,802.40	9
104	Insurance Monitoring	49.25	87,468.00	2
105	Investment Operations	25.82	45,847.44	29
106	Job Placement Services	413.92	735,121.92	21
107	Laboratory Services	413.82	734,944.32	16
108	Landscape Maintenance & Management	198.80	353,068.80	38
109	Laundry & Linen Services	122.90	218,270.40	12
110	Legal Services	205.00	364,080.00	50
111	Mail Room Services	169.63	301,262.88	81
112	Maintenance of Aeronautical Equipment	1.00	1,776.00	1
113	Managed Care Programs	17.10	30,369.60	2
114	Map Sales	1.00	1,776.00	1
115	Mapping & Charting Services	5.00	8,880.00	1
116	Mediation Services	0.50	888.00	1
117	Mediation Training	42.37	75,249.12	8
118	Medicaid Claims Processing	18.89	33,548.64	9
119	Medicaid Fraud Investigations	17.00	30,192.00	1
120	Medical & Medicaid Audits	7.75	13,764.00	4
121	Medical Claims Processing & Payments	72.89	129,452.64	10
122	Medical Recordkeeping	194.37	345,201.12	16
123	Medical Services	158.74	281,929.35	15
124	Microfilming Services	52.20	92,707.20	10
125	Motor Vehicle Registry	984.00	1,747,584.00	1
126	Moving Services	34.69	61,609.44	22
127	Museums and/or Museum Gift Shops	55.25	98,124.00	7
128	Nursing Services	2,851.30	5,063,908.79	16
129	Nutritional Care Services	224.01	397,845.30	13
130	Occupational Health Services	38.34	68,098.94	7
131	On-Site Vehicle Inspections	0.10	177.60	1
132	Organic & Pesticide Analysis	1.45	2,575.20	3
133	Orthopedic Health Services	3.80	6,748.80	2
134	Outreach Services	117.96	209,496.96	8
135	Parent Support & Advocacy	3.00	5,328.00	2
136	Parking Management Services	147.15	261,329.52	31
137	Parks & Camps Management	153.50	272,616.00	1
138	Pavement Analysis Management	23.00	40,848.00	1
139	Payroll Processing Services	248.89	442,028.64	87
140	Pediatric Care Services	68.50	121,656.00	2
141	Personnel/Contractor Background Investigations & Security Clearances	30.15	53,551.73	37
142	Pest Control Services	7.49	13,302.24	12
143	Pharmacy Services	107.06	190,138.56	11
144	Photography Services	31.50	55,936.90	34
145	Physical Therapy Services	64.70	114,903.65	8
146	Power Plant Management	110.89	196,940.64	23
147	Prescription Drug Rebate Processing	1.34	2,379.84	3
148	Printing & Copy Center Services	191.34	339,819.84	68
149	Professional Development Training	119.07	211,470.10	78
150	Professional Examinations & Licensing	50.25	89,244.00	13

**1999 Commercial Activities
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	Commercial Activity	FTE	Annual Hours	# Agencies Reporting
151	Programs for the Elderly	29.00	51,504.00	3
152	Protection & Advocacy Programs	20.05	35,608.80	10
153	Psychiatric Services	89.37	158,728.22	11
154	Psychologist Services	160.25	284,600.45	15
155	Publications & Design	134.36	238,623.36	61
156	Radiology Services	13.02	23,123.52	5
157	Real Property Management & Disposal	40.85	72,549.60	54
158	Records Transcription	33.89	60,188.64	22
159	Recreational Services	196.70	349,339.20	16
160	Regulatory Review & Support Services	662.17	1,176,013.88	29
161	Remodeling & Small Construction	162.07	287,845.20	45
162	Research & Development	162.71	288,972.96	31
163	Risk Management Administration & Claims Processing	37.38	66,386.88	54
164	Road Striping	101.00	179,376.00	1
165	Safety Training	58.53	103,949.28	55
166	Security Services	499.50	887,120.88	53
167	Services for the Disabled	92.75	164,724.00	3
168	Snow Removal	38.30	68,020.80	54
169	Sound Wall Design & Analysis	0.00	0.00	1
170	Specialized Schools	13.00	23,088.00	3
171	Specialized Skills Training	458.85	814,917.60	52
172	Speech Pathology & Therapy	46.48	82,548.48	8
173	Storage Tank Reimbursement Programs	8.00	14,208.00	1
174	Store Operations	2.00	3,552.00	2
175	Student Health Services	251.80	447,196.80	11
176	Student Loan Processing	56.21	99,828.96	24
177	Surveying Services	180.00	319,680.00	1
178	Surveying, Mapping & Aerial Photography Services	18.40	32,678.40	3
179	Tax Collection Data Entry	21.20	37,651.20	3
180	Technical Consulting Services	166.78	296,201.28	22
181	Temporary Employment Services	10.05	17,848.80	12
182	Tire Management Programs	0.00	0.00	1
183	Title Searches	0.50	896.88	2
184	Toll Collections	144.00	255,744.00	1
185	Transaction Recovery Fund	0.75	1,332.00	1
186	Transportation & Ambulance Services	29.84	52,995.84	8
187	Transportation Planning Studies	80.00	142,080.00	2
188	Trash Removal	32.30	57,364.80	12
189	Travel Management Services	11.27	20,015.52	15
190	Tree Nursery Management	2.00	3,552.00	1
191	Trustee Services	6.20	11,011.20	1
192	Value Engineering Services	9.50	16,872.00	5
193	Veterinary Services	67.99	120,750.24	3
194	Vocational Rehabilitation Services	334.78	594,569.28	6
195	Warehouse Operations-Central Stores	1,071.45	1,902,898.75	35
196	Warehouse Operations-Food Services	25.92	46,033.92	14
197	Warehouse Operations-Trucking & Delivery	87.42	155,256.14	24
198	Waste Tire Management Programs	2.00	3,552.00	1
199	Water & Wastewater Analytical Services	29.87	53,049.12	6
200	Web Application Development/Web Site Maintenance	7.00	12,432.00	1

**1999 Commercial Activities
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	Commercial Activity	FTE	Annual Hours	# Agencies Reporting
201	Weigh Station Management	132.00	234,432.00	1
202	Welfare to Work Programs	3.00	5,328.00	1
203	Wetland Design Services	12.00	21,312.00	1
204	Workers' Compensation Administration & Claims Processing	50.62	89,894.02	68
205	X-Ray Services	78.09	138,687.83	9
		37,555.23	66,698,095.66	

Dana Joel Gattuso

Dana Joel Gattuso is a public policy consultant and freelance writer, and also serves as Senior Fellow of Government Reform for the Thomas Jefferson Institute. The author of the Thomas Jefferson Institute's 1997 report, *Downsizing State Government: Doing Better with Less*. Her background includes extensive work on state and local tax and budget issues, including privatization and outsourcing. She also is an analyst and frequent writer on environmental issues.

Previously, she was Director of Projects and Issue Management for Environment and Regulatory Affairs with the U.S. Chamber of Commerce. Before working at the Chamber, Ms. Gattuso was Director of Research with the San Francisco-based research group Pacific Research Institute. Ms. Gattuso also previously worked with Citizens for a Sound Economy, as Deputy Director of Regulatory Affairs, and at The Heritage Foundation.

Ms. Gattuso has written numerous studies and articles for newspapers, magazines, and journals which have appeared or been cited in *The New York Times*, *The Washington Post*, the *Washington Times*, *USA Today*, the *Baltimore Sun*, the *Detroit News*, *Fortune Magazine*, and *Regulation Magazine*. She is also a contributor to the book, *Privatizing Correctional Institutions*, by Transaction Publishers. Ms. Gattuso received her education at Butler University in Indianapolis and George Mason University in Fairfax, Virginia. She currently resides in Alexandria, Virginia.



“... 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