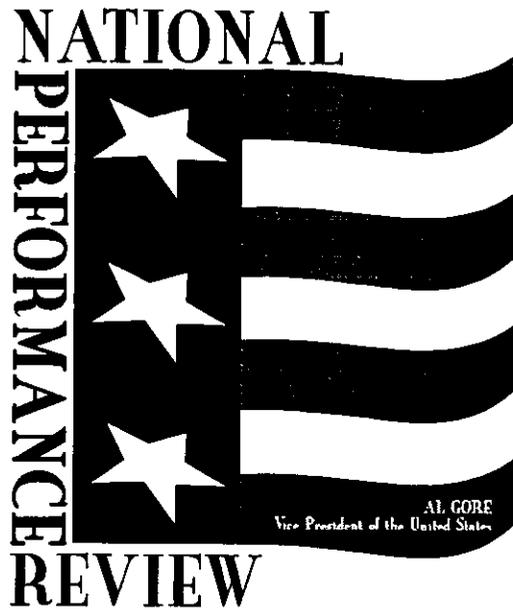


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**Background Materials for Cabinet  
Retreat**



## **Governing In A Balanced Budget World**

**Background Material for Cabinet Retreat  
January 11, 1997**

**Vice President Al Gore**

# **Cabinet Retreat - January 11, 1997**

## **How We Will Govern In A Balanced Budget World**

### **Deliver Great Service**

- 1.1 Identify where your agency contacts the public and manage those contacts like a CEO trying to win over those customers in a competitive marketplace.
- 1.2 To find out how things are going, get out of Washington and get honest feedback from front-line workers and regulators as well as the public and other stakeholders.
- 1.3 Be smart about the use of information technology.

### **Foster Partnerships and Community Solutions**

- 2.1 Make sure regulatory agencies in your department focus on compliance. Enforcement is a means to the end, but the end is compliance — not enforcement.
- 2.2 Let communities solve their own problems; remove federal barriers that prevent state and local governments and NGOs from maximizing their effectiveness.
- 2.3 Create and encourage Labor-Management Partnerships and use Alternative Dispute Resolution as often as possible in place of formal grievance procedures.

### **Use Reinvention To Get The Job Done With Less**

- 3.1 Get the most out of the people who work for you.
- 3.2 Look for reinvention savings when you need resources for new initiatives.
- 3.3 Find opportunities to pool resources with other departments through Memorandums of Understanding (MOUs).
- 3.4 Identify the statutory and regulatory impediments to greater efficiency in your mission and seek changes from Congress.
- 3.5 Evaluate your overhead and headquarters functions and reengineer to increase the span of control and remove unnecessary layers of management. Close obsolete regional and field offices that are not providing front-line service.
- 3.6 Increase front-line service by using some of the money and positions saved in management restructuring.
- 3.7 Use Common Sense procurement polices. Don't allow your bureaucracy to re-create internally the laws we have gotten rid of in Congress.
- 3.8 Wherever possible, expand competition to save costs either by buying services (such as payroll) from some other government agency that can do it better or by privatizing functions.
- 3.9 Identify good candidates and work with the authorizing committees in Congress to create Performance Based Organizations where it makes sense.

1.1 Identify where your agency contacts the public and manage those contacts like a CEO trying to win over those customers in a competitive marketplace.

<u>Agency</u>	<u>A few examples of first term success</u>	<u>Some challenges for the second term</u>
Justice	Returning travelers get through airports and border crossings faster.	Provide instant access to electronic fingerprint records for front-line law enforcement officers.
State	Passport applications are available on the World Wide Web.	Get passports issued fast for all applicants with no long waits in line.
Veterans Affairs	Service is so fast that the NY office turned its waiting room into a museum.	Improve beneficiary satisfaction through greater integration of VA's health system with DoD's.
Treasury	Drug seizures are up while airport delays are down.	Convince Americans they'll get fair treatment from IRS.
Social Security	Business Week rated SSA's 1-800 service as the best in business — better than LL Bean or Disney.	Dramatically cut the multi-year wait and the huge backlog in disability claims
Commerce	Opened Export Assistance Centers with Ex-Im Bank, SBA, and state agencies providing one-stop help for expanding businesses.	Get PTO, Weather Service, and Census to deliver services across the board that American businesses will applaud.

1.2 To find out how things are going, get out of Washington and get honest feedback from front-line workers and regulators as well as the public and other stakeholders.

Here are some examples of things we learned from the front lines:

- Hugh Doran, whose first floor Veterans Affairs administrative office in Kansas City was right below the second floor VA patient clinic, realized that swapping floors would provide better service for sick vets. His good idea has led to floor swaps and better VA service in 17 cities including Little Rock.
- After the headquarters folks came up with a legislative proposal we thought would streamline procurement, we showed it to front-line buyer Michelle Craddock Edwards. She told us, "Too bad, it won't allow widespread use of the VISA card unless *all* the red tape is removed from 'micro-purchases' under \$2,500." Her great idea became a central part of our successful procurement reform legislation and is now saving the nation millions.
- OSHA inspector Joan Hyatt told us that she and her Denver office co-workers spent nearly all their time documenting every case well enough for the lawyers to take it to the Supreme Court. Joan helped rewrite the OSHA Inspector's Handbook so that inspectors now spend most of their time making workers safe; instead of doing paperwork.
- Medical device manufacturers in the Southwest said that FDA could be more effective by taking a new approach with companies that have good track records of compliance. They suggested FDA give advance warning of inspections so companies could have the paperwork ready without a scramble, that FDA allow their inspectors to *talk* with company officials during the inspection rather than just write letters back and forth afterward, and that FDA tell companies what they are doing right as well as what's wrong. The Southwest Region of FDA is testing the new approach now with good results.
- Ask customers what they want or you'll never know. For example, the IRS used to assume that everybody wanted their tax forms in the mail as soon as possible after New Year's Eve. When they surveyed their customers they found that what people want most is little or no contact with the IRS. Now IRS only mails forms to people who usually do their own taxes, not to those who use preparers. That saves money and eliminates unnecessary contact, that the customers want.

### 1.3 Be smart about the use of information technology.

Today's information technology is the great enabler for reinvention. It allows us to rethink, in fundamental ways, how people work and how we serve customers.

In Miami, Customs' compliance officers can use their computers to compare passenger manifests with up-to-the-minute risk lists. Before the planes land, officers identify passengers who will be the focus of their inspections.

On the World Wide Web, the Social Security Administration lets you order your personal benefits estimate by filling out a form on screen. It takes five minutes.

Cities all across the country are using a neat software package from HUD. It draws a city map and, block by block, shows where in the city all the HUD grant monies are being spent. Among other things, cities and interest groups use the software to play "what if" with alternative plans.

Not all technology applications require high-end components. More Americans contact the government by phone than any other way, so the IRS built Telefile to allow 20 million filers to submit their 1040EZ using a touch-tone phone. It takes eight minutes, is paperless, and has an error rate a fraction of that found on paper returns.

The potential payoff from technology is huge, but not automatic. Workable solutions can be had at reasonable costs by following these principles, derived from the best practices of the private and public sectors.

- *Don't Automate The Old Process, Reengineer.* The new technologies bring new possibilities, like putting services on the web and letting customers go get them when they want.
- *Buy a Little, Test a Little, Fix a Little.* A key difference between federal and private sector IT purchases is that the private sector buys things more quickly, and in manageable modules. Feds often try to buy huge systems which take so long to get that the technology and managers have both changed before anything is delivered.
- *Buy Off-The-Shelf.* Commercial products provide big variety and capability, and new products are added every day. It almost always makes sense to give up a few performance features to get something that costs less and has been thoroughly tested.
- *Consolidate and Out Source.* Smaller agencies with today's communications systems can usually find ways to consolidate data centers and other operations. The private sector can often do things at a lower cost.
- *Check On Your Investment.* Track not just costs and schedule, but whether the new technology is paying off as promised — settle this payoff before investing.
- *Integrate Information.* Lots of agencies duplicate data collected by others — 40 agencies gather trade information. Look for chances to share the workload.

## 2.1 Make sure regulatory agencies in your departments focus on compliance. Enforcement is a means to the end, but the end is compliance—not enforcement.

We're not naïve—we know that not everyone is going to play by the rules. But experience shows that the vast majority of businesses do want to comply—if they can figure out what it is they're supposed to do. If we agree on the goals, allow room for innovation, and help each other all we can, that will increase compliance. And because regulatory time is no longer being wasted on the good guys, agencies can better focus their attention on the few cheaters. For example:

- FDA revamped its performance measurement systems—now inspectors get credit for ensuring on-the-spot compliance, rather than for seizing goods. Industry gets educated, FDA inspectors are rewarded for being helpful, and safe and effective products make their way to market more quickly.
- We get better compliance through partnership. In Maine, OSHA identified the 200 companies with the worst worker safety records and made them an offer: form worker safety committees with your employees to self-identify and fix hazards, and we'll stop writing tickets and start offering compliance assistance. Almost all of the companies signed up and began working in partnership with OSHA. As a result, 14 times more hazards were identified and fixed than OSHA could ever have identified on its own, and worker injury rates dropped 35%. In addition, company productivity went up. And one company that didn't do what it promised was hit with a \$3.6 million fine. Other states are developing similar plans with OSHA, and showing similar success. In Wisconsin, for example, injury rates for the targeted companies dropped 30% in less than two years.
- EPA identified the 17 highest priority toxic chemicals and challenged industry—commit to reduce emissions by 33% in three years, and 50% in five. Then EPA stood aside, asking only for a simple letter from the companies explaining how they would reach their goals. More than 1,300 companies responded to the challenge, and surpassed EPA's expectation: the 50% goal was reached in about four years. That translates to 750 million pounds of toxic chemicals removed from our environment—faster than EPA could have issued a regulation requiring the same thing.
- INS-Dallas decided that it was crazy to surround a factory and arrest and deport immigrants with fraudulent papers, only to have other undocumented workers fill the same spots. So it began meeting with business owners to help arrange for legal replacement workers (many from the welfare rolls) and *then* deported the illegal immigrants. It worked so well that INS is expanding the program into other regions.

## 2.2 Let communities solve their problems; remove federal barriers that prevent state and local governments and NGOs from maximizing their effectiveness.

We face a grant system that is a tangle of good intentions gone awry. There are too many funding categories, suffocating regulations and paperwork, a misdirected emphasis on remediating rather than preventing problems, and no clear focus on measurable outcomes.

More than 600 federal programs are administered by states and localities. The existing top-down, centralized approach is not flexible enough to respond to rapidly changing environments around the country. We are now focusing on results and providing greater flexibility to federal entities, states, and localities on how to achieve those results through empowerment, strengthened partnerships, and grant consolidation and simplification.

Here are some examples of steps we have taken:

- Tilamook County, Oregon had the second highest teen pregnancy rate of any county in Oregon. Working with federal agencies, state and community partners focused on outcomes and now have the lowest rate in the state. In our partnership, called the **Oregon Option**, the people of Oregon sorted out the issues that were most important to them and set performance goals. Together we started to tear down the old fashioned federal, state and local bureaucracies that stood in their way. It's a whole new way of working with state and local governments. These partnerships should be the norm, not the exception.
- Colorado and Utah signed performance partnership agreements with **EPA** allowing the states more flexibility to direct and shift federal funds for improved environmental outcomes. The new one-step grants replaced up to 13 separate agreements that state agencies used to negotiate with EPA. The shift from limited categorical grants to broad "multimedia" grants required Congressional approval and EPA got it.
- The National Partners in Homeownership is an unprecedented public-private partnership formed by **HUD** consisting of 58 national organizations working together to dramatically increase homeownership opportunity in America. As a result of this partnership, the increase in the homeownership rate in 1995 was the sharpest year-to-year increase in over 30 years.

## **2.3 Create and encourage Labor-Management Partnerships and use Alternative Dispute Resolution as often as possible in place of formal grievance procedures.**

Labor-Management Partnerships help create a government that better serves its customers and saves money. Working together toward a common goal, labor and management cooperatively solve problems, implement changes, and jointly resolve worksite issues. Partnerships are generating millions of dollars in savings from direct improvements in productivity and avoiding the high costs of litigation by using Alternative Dispute Resolution (ADR) techniques. Usually involving a neutral third party, ADR techniques have successfully resolved a wide range of workplace and contract disputes. ADR can produce quicker and better settlements with significant savings.

- The US Mint in Philadelphia has achieved a 65% reduction in the filing of formal grievances. Nearly \$10 million was saved by eliminating costly litigation in labor-management disputes. Their partnership credo is simple: "If it ain't broke make it better anyway."
- The Department of Education partnership transformed an adversarial labor-management relationship into a collaboration, where both the agency and the union are committed to becoming a high performing customer-focused organization. Through partnership, the Debt Collection Service has increased collections from \$174 million in fiscal year 1993 to more than \$862 million in fiscal year 1996. The Debt Collection Service also reduced busy signals on its toll-free lines from more than 400,000 in January 1994 to the point where 25 unanswered calls is now considered a "bad day."
- The Corps of Engineers used the ADR mini-trial technique to resolve a contract claim on the construction of the Tennessee Tombigbee Waterway. The \$55.6 million claim involved different site conditions, and was filed at the Corps of Engineers Board of Contract Appeals by a joint venture involving several private companies. After only four days of discussions, the principals agreed to settle the claim for \$17.2 million.

### 3.1 Get the most out of the people who work for you.

We've got our people trapped in an industrial age management system. We're burdened by the metaphors of that age. The idea of the machine has convinced us to organize our efforts as if the individuals who work together are parts in a mechanism. We assume they can most usefully be employed doing the same thing over and over and over again, until there is some decision to change made high up in the organizational pyramid, and instructions are conveyed down through the layers of the organization to bring about a change. This approach forfeits the greatest asset of the organization: the unused creativity and brain power of the men and women in those organizations.

Money is becoming increasingly scarce to run government. We can prevail if — and only if — we unlock this unused human potential available to us. Agency heads — personally — need to do two things to unlock this potential:

- Get power to the front line. You can't order headquarters to delegate power to the front line and expect it to happen. You need personally to ask people on the front line what authority they need to do their jobs better and what decisions they should be able to make that are being made for them at headquarters. Then you need to personally see the fixes through. This takes time. There's no other way.
- Raise the spirit of the work force. People want to make a difference. If you give them the chance and let them know you trust them, you'll unleash their untapped human potential, and they'll solve problems and serve customers better than you dreamed possible. Your job is to raise their spirits with a vision of what they can be and what they can do; and to keep the job from grinding them down with red tape and distrust. Symbols of distrust are everywhere: time sheets, multiple approvals of travel requests, systems to track people's activities, checks and limits on people getting the tools they need — like Internet access. Just as the system won't willingly cede power to the front line, it won't stop grinding people down. You need to personally see the fixes through.

But it'll be worth it. Empowering and energizing the front lines has paid off fabulously in both government and business. The US Air Force's readiness to fight had fallen to an all-time low in the late seventies. Way too many fighter planes were sidelined for parts and maintenance and, without planes to fly, fighter pilots couldn't keep their skills sharp. Then Bill Creech took over the Tactical Air Command and made it his full-time job to empower his front line people and build their *pride*, which he calls the "fuel of human accomplishment." In a few short years, TAC's people had doubled their capacity to fly and fight without more money, planes, or pilots.

The same kind of management raised the NUMMI auto plant in Fremont, California, from the dead. GM closed the plant because of crummy quality, anemic production, and hassles with the union. Then, in partnership with Toyota, they brought it back to life with a new management approach that treated the workers as far more than cogs in a machine. Since then, with the same workers as before, quality is the best in the US and profits spectacular.

### 3.2 Look for reinvention savings when you need resources for new initiatives.

#### Some examples of reinvention savings:

- Customs did away with regional offices and increased staffing on the front lines at seaports and airports
- Park Service cut central staff by 25 percent and moved hundreds of employees out to parks serving customers.
- Agriculture is closing 1,200 field offices while maintaining or increasing service to customers by multi-tasking the remaining offices.
- Defense saved the cost of regulation writers and saved money on procurement by buying products that met commercial standards (like Jockey-brand T-shirts) rather than military standards.
- Energy is reducing and restructuring support service contracts to save \$450 million.
- Consumer Product Safety Commission saved rent by letting people work out of their homes.
- VA eliminated its entire medical supply warehousing system by going to just-in-time delivery.
- Social Security is reducing paperwork by accessing birth records electronically in Tennessee. Both SSA and the state are reducing labor-intensive processing of these and other kinds of state records.
- Bureau of Reclamation cut headquarters by 75% and put much of what remained on a fee-for-service basis. Within months the Sacramento office, freed of bureaucratic roadblocks, led a multi-agency intergovernmental public/private task force in resolving the San Francisco Bay water problem that had resisted solution for years. Pete Wilson even praised the Clinton/Gore Administration.

### 3.3 Find opportunities to pool resources with other departments through Memorandums of Understanding (MOUs).

For example:

- **Customs and Immigration** both need to inspect travelers entering the US. They've divvied up the job of primary inspection (the first look to determine whether a traveler warrants an intensive inspection) to save labor and ease the burden on the traveling public.
- **Social Security** is purchasing payroll services from Interior, and Interior is purchasing financial management services from Treasury.
- **Commerce, SBA, ExImBank, and Agency for International Development** got together with state agencies to create jointly staffed Export Assistance Centers that provide one-stop service to exporting businesses.
- **Treasury, IRS, Social Security, and Labor** signed an MOU to collaborate on a streamlined wage and income reporting system, aimed at a one-stop electronic filing system for federal and state governments.

### **3.4 Identify the statutory and regulatory impediments to greater efficiency in your mission and seek changes from Congress.**

Many government operations are wasteful because of restrictions placed in authorization or appropriations legislation. For example:

- **Customs** is required to keep an office in Front Royal, VA.
- **Veterans Affairs** is prevented from reducing staff below a statutory floor.
- **Coast Guard** has been required to continue operating obsolete vessels and maintaining unnecessary search and rescue facilities.
- **FAA** has been forced to keep open uneconomical facilities that could be replaced with automation.

Another example of Congressionally-imposed inefficiency is the subdivision of appropriations into dozens of accounts. Several military base commanders estimated that they could do their mission with 10% less money -- and were willing to try -- if they could receive their appropriation in one account with no internal subdivisions.

Given the extreme budget pressure the government is now under, it's time to urge Congress to remove these restrictions so that the limited amount of money can be spent effectively.

**3.5 Evaluate your overhead and headquarters functions and reengineer to increase the span of control and remove unnecessary layers of management. Close obsolete regional and field offices that are not providing front-line service.**

**Streamlining Changes to Date:  
FYs 1993–1996 (in percentages)**

Agency	Percentage Change in the Number of:		
	Supervisors	Headquarters Staff	Management Control Positions
Agency for International Development	-3	-14	+5
Agriculture	-21	-15	-11
Commerce	-18	-20	-16
Defense (total)	-16	-10	-8
Air Force	-13	-8	-8
Army	-14	-17	-8
Navy	-19	-7	-8
Defense Agencies	-19	-3	-8
Education	-24	-12	-11
Energy	-53	-27	-16
Environmental Protection Agency	-38	-10	+4
Federal Emergency Management Agency	-20	-22	+17
General Services Administration	-28	-21	-18
Health and Human Services	-29	-15	-11
Housing and Urban Development	-37	-36	-17
Interior	-29	-27	-32
Justice	+4	-5	+9
Labor	-19	-25	-17
National Aeronautics and Space Administration	-40	-34	-16
National Science Foundation	-24	-18	+8
Office of Personnel Management	-53	-65	-41
Small Business Administration	-28	-28	-30
Social Security Administration	-25	-23	-14
State	-8	-7	-1
Transportation	-22	-25	-17
Treasury	-10	+4	+4
United States Information Agency	-22	-15	-17
Veterans Affairs	-28	-19	-8
Average	-20	-14	-9

Note: OMB Circular No. A-11 (1995), sec. 15.4, pp. 47-48, contains the definitions of the job series included in each of these three categories.

**Ratio of Supervisors to Other Employees:  
FYs 1993, 1996, and 1999**

Agency	Ratio of Supervisors to Other Employees		
	1993	1996 (est)	1999 (planned)
Agency for International Development	1:10	1:8	1:8
Agriculture	1:8	1:10	1:11
Commerce	1:7	1:8	1:12
Defense (total)	1:7	1:8	1:14
Air Force	1:7	1:8	1:14
Army	1:7	1:8	1:14
Navy	1:8	1:9	1:16
Defense Agencies	1:7	1:8	1:14
Education	1:8	1:8	1:10
Energy	1:5	1:11	1:15
Environmental Protection Agency	1:5	1:11	1:11
Federal Emergency Management Agency	1:8	1:13	1:15
General Services Administration	1:5	1:5	1:9
Health and Human Services	1:6	1:8	1:11
Housing and Urban Development	1:6	1:8	1:12
Interior	1:6	1:9	1:14
Justice	1:8	1:8	1:8
Labor	1:5	1:5	1:9
National Aeronautics and Space Administration	1:5	1:8	1:11
National Science Foundation	1:5	1:8	1:9
Office of Personnel Management	1:8	1:12	1:11
Small Business Administration	1:4	1:5	1:7
Social Security Administration	1:7	1:10	1:15
State	1:11	1:10	1:12
Transportation	1:8	1:7	1:11
Treasury	1:8	1:9	1:10
United States Information Agency	1:5	1:8	1:8
Veterans Affairs	1:8	1:11	1:15

### **3.6 Increase front-line service by using some of the money and positions saved in management restructuring.**

The American public's interaction with the government occurs with the "front liners," not with headquarters staff. As we restructure organizations, we need to eliminate layers of management and focus resources at the front line.

- **Eliminate layers of management and decrease headquarters staff:** Agencies are reducing layers of management by reducing headquarters staff, eliminating regional offices, and increasing the span of control. OPM has reduced its headquarters by 65 percent and NASA by 34 percent. HUD has eliminated its regional offices. USDA's Natural Resources Conservation Service is beginning to restructure itself which will result in the elimination of half their headquarters positions and the relocation of some staff to new regional offices; state offices will remain, but support functions will be transferred to new regional offices; four national technical centers will close and staff will be relocated to regional and field offices. Overall the number of employees will drop from about 14,000 to just over 12,000 by 1999.
- **Management restructuring to meet the needs of customers:** The Department of Transportation restructured itself to put front-line service as its top priority. Federal Highway, Transit, and Railroad Administrations and the National Highway Traffic Safety Administration – which have many functions in common – are streamlining their field offices to provide one-stop shopping for their customers and are moving towards seamless systems in which the different forms of transportation are fully integrated. The Coast Guard is streamlining its organization by eliminating layers and better aligning programs and command structure. Shifting headquarters staff to the field, decommissioning inefficient older ships and aircraft, and consolidating unneeded offices will not only improve performance but also will save \$400 million between 1994 to 1998. At the same time, it will free hundreds of millions of dollars in property for other uses.
- **Shift positions from headquarters to the field:** As agencies are eliminating headquarters staff, they are shifting resources to the front line. Customs did away with its regional offices and increased staffing on the front lines at seaports and airports. The Park Service cut central staff by 25 percent and moved hundreds of employees out to parks to serve customers.
- **Create one-stop shops across agency lines:** Commerce's 19 Export Assistance Centers working with Small Business Administration, the Export-Import Bank, and state agencies are providing business people information on how to export. They provide technical and financial assistance to the customers at one location while reducing the costs of multiple offices and administrative staffs.

### **3.7 Use Common Sense procurement policies. Don't allow your bureaucracy to re-create internally the laws we have gotten rid of in Congress.**

We expect our new procurement reforms will save billions. But we've found in many agencies, internal reg writers are snatching back the savings. Take credit cards for instance. It used to cost \$50 to process paperwork for each small purchase. Credit cards should eliminate the paperwork, and give us rebates for purchases made. But some internal agency reg writers are requiring 40 hours of training for card users and more documentation than before.

The Army has made credit cards work. They accounted for 30 percent of the government purchases last year, and expect savings of more than \$25 million this year. Their aim is convenience. They told us, "You wouldn't use your personal credit card if it wasn't more convenient than cash or check and it's no different with a government card." Ironically, the Defense Finance and Accounting Service started charging \$23 per line item to process Army's credit card payments.

Here are five ways to tell if your department's using common sense procurement:

- 1. Ask a few front line managers, "Do you have a Visa card and is it easier to make a small purchase using it?"** If they say no, call the Army for help.
- 2. Ask to see your internal procurement regs. Check the dates on a few.** If they are pre '94 you've got a problem. It means your department isn't even trying to take advantage of the changes we've made. One way to keep current is by using the Acquisition Reform web site ([www.ARNET.gov](http://www.ARNET.gov)).
- 3. Ask if you're routinely using Performance Based Service Contracting:** We spend \$100 billion a year for contracted services. PBSC moves the government toward fixed prices instead of cost reimbursement contracts and measures results instead of process. Pilot projects (Defense and Treasury) are generating satisfied customers and savings of more than 15 percent.
- 4. Ask if you're taking advantage of GSA's Federal Supply Service changes:** GSA has simplified FSS purchases, so you can pick a contractor, select goods and services that are "best value" not lowest price, use *teams* of contractors to meet your needs, have orders expedited, and negotiate for additional price reductions. Use the new GSA "DESKTOP" contract for office supplies. You'll get guaranteed 24-hour delivery and prices 25 percent lower than retail.
- 5. Ask if you're basing contractor selection on past performance:** By looking at past performance rather than just current price, agencies can get better quality. A Navy installation in Seattle reports that they've cut defect rates in shipments of ordnance from 30 percent to five percent in 18 months.

Need help? Call Steve Kelman, our procurement czar, at 395-5802.

**3.8 Wherever possible, expand competition to save costs either by buying services (such as payroll) from some other government agency that can do better or by privatizing functions.**

Competition spurs efficiency. Agencies that provide administrative and other commercial or industrial products or services to "captive customers" – be they other agencies or individuals or businesses – lack the stimulus of competition to sharpen their performance and control their costs. This Administration's efforts to expand competition, including its support of expanded "cross-servicing" where appropriate, encourages agencies to compete with one another and the private sector to provide common administrative support services. The expanded use of competition will bring new technologies, capital, management techniques, and opportunity to federal employees and their customers.

- **Accelerate and expand the use of competition:** Agencies are using competition to purchase support services from their own employees, from "franchise funds" in other agencies and from the private sector. Competition allows agencies to focus on their core mission requirements while permitting them access to the best service providers, both public and private, and it encourages employees to organize themselves to cut costs and meet performance standards. SSA, for example, recently chose to purchase payroll services from the Interior Department at reduced annual operating costs. DOT, through its innovative task order contracts, can provide other federal agencies with procurement services to buy computer software and technical services at lower overhead costs in half the time.
- **Spin off or privatize functions:** Agencies are spinning off or otherwise converting to the private sector a range of assets and activities that the government no longer needs to own or perform, including the Alaska Power Administration, the Interior Department's helium processing, the Naval Petroleum Reserve (Elk Hills), and the US Enrichment Corporation. VA relies on "just in time" deliveries to buying medical supplies, eliminating its internal warehousing system and saving about \$100 million a year. OPM is converting its background investigation staff into an Employee Stock Ownership (ESOP) corporation which saves money and permits those former government employees to expand services into state, local, and private markets.
- **Consolidate and out source:** The government can close more than half of its larger computer centers and eliminate duplicative communications links. NASA cut its costs by 30 percent in its first year of consolidation, and expects to save another 35 - 40 percent next year. GSA will close nine data centers, outsourcing all of its data center requirements to the private sector.

### 3.9 Identify good candidates and work with the authorizing committees in Congress to create Performance Based Organizations where it makes sense.

Performance-Based Organizations (PBOs), which the President has termed a priority in his second term, are discrete units of a department that commit to clear management objectives, measurable goals, customer service standards, and specific targets for improved performance. Once designated, they would have greater personnel and procurement flexibilities and a competitively-hired CEO, who would sign an annual performance agreement with the Secretary and have a share of his or her pay depend on the organization's performance. The British, who have extensive experience with this concept, find that such agencies improve performance and cut administrative costs.

Policy-making operations and regulatory functions are split from their program operations. The PBO focuses on programmatic operations. Not all government agencies are suited to become a Performance-Based Organization. Operations that do not have clear, measurable results should be excluded. For example, the foreign policy and planning offices in the State Department or basic scientific research offices at the National Institutes for Health may be inappropriate candidates.

- **Prerequisites for Becoming a PBO Candidate:** Organizations which are good PBO candidates:
  - Have a clear mission, measurable services, and a performance measurement system in place or in development.
  - Are focused on external, rather than internal, customers.
  - Are responsible to an agency head who has policy accountability for the functions.
  - Have congressional support/interest in authorizing and appropriating committees.
  - Have funding stability/predictability. Self-sustaining functions are desirable candidates.
  
- **Proposed PBOs in the President's FY 1998 Budget:** The NPR, OMB, OPM, and the Departments' conversion teams are working on legislative/administrative waiver packages for the potential PBOs listed below.

DOC Technical Information Dissemination (National Technical Information Service)

DOC Intellectual Property Rights (Patent and Trademark Office)

DOD Defense Commissary Services (Defense Commissary Agency)

DOT St. Lawrence Seaway Corporation (St. Lawrence Seaway Development Corporation)

HUD Mortgage Insurance Services (Government National Mortgage Association)

HUD Mortgage Insurance Services (Federal Housing Administration)

OPM Retirement Benefit Management Services (Federal Retirement and Insurance Service)