Commission on Streamlining Government

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ADVISORY GROUP ON EFFICIENCY AND BENCHMARKING

MINUTES
MEETING OF AUGUST 24, 2009

I. CALL TO ORDER

A meeting of the Advisory Group on Efficiency and Benchmarking was held on Monday, August 24, 2009, in Senate Committee Room A at the State Capitol in Baton Rouge, Louisiana. The Chairman, John Kennedy, called the meeting to order at 10:00 AM.

II. ROLL CALL

The secretary called the roll and the following was noted:

MEMBERS PRESENT	MEMBERS ABSENT
John Kennedy, Chairman	
Leonal Hardman, Member	
Jim Napper, Member	

STAFF PRESENT
Greg Waddell, Coordinator
Chris Adams, Attorney
Tammy Cormier, Secretary

III. WITNESSES PRESENT

Governor Charles E. "Buddy" Roemer, III
Bob Keaton

IV. APPROVAL OF MINUTES

Mr. Jim Napper made a motion to approve the minutes from the last meeting of August 18, 2009. Mr. Leonal Hardman second the motion. Hearing no objection, the minutes were approved.

V. DISCUSSION

Chairman Kennedy stated there were two very distinguished guests present. He asked them both to give testimony. At the end of the meeting, he would open up the floor for motions on recommendations to streamline government. The committee had until December to complete the work. He wanted a full and robust debate and discussion. He wanted to start making recommendations to downsize government without impacting quality of service or product. The first guest was former Governor Roemer. He was a product of the public schools in Bossier Parish. He had an undergrad degree from Harvard University. He had a MBA degree from Harvard University. He was a politician, business man, farmer and banker. He served 4 terms with distinction in the United States Congress. He was governor of the state of Louisiana from 1988-1992. Gov. Roemer increased teacher pay and strengthened the Louisiana Department of Environmental Quality. He was an education governor in terms of elementary, secondary and higher education. Most of the campaign finance laws were the product of his efforts as well. He was currently president and CEO of Business First Bank (a bank he founded). He was the former president and CEO of Business Bank of Baton Rouge (another bank he formed and sold). Mr. Kennedy asked Gov. Roemer what would he do to reduce the cost of state government without impacting the quality of service or product that was offered and about governance for higher education.

Gov. Roemer stated governance of higher education was an example of where structure could impact not only the expenditure of money but the quality of those expenditures. It was a tough business to maintain critical services and to afford it. It was tough to take the most productive part of society (who paid the taxes) and show them what was being done and then have them feel good about helping those who needed help. He had not read the state budget in a number of years. He was (for better or worst) a hands-on budget governor. He remembered the countless hours he spent with the quality assistance legislative auditors and others to look at every line of the budget.

Mr. John Kennedy stated he remembered the governor going through the budget line by line.

Gov. Roemer stated it was the only way to do it. He was a junior member of congress, a democrat who had trouble with the democratic leadership in Washington. The speaker told him one day that he would put Mr. Roemer on the banking committee. He did and Gov. Roemer loved it. He submitted his own budget every year in the United States Congress. Ronald Reagan was the president and he liked Mr. Reagan but Mr. Reagan didn't know the first thing about budgeting. The democrats had no clue. Tip O'Neal had his budget, Ronald Reagan had his budget and Gov. Roemer had his budget. In three of those seven years, Gov. Roemer submitted a budget. He got more votes than either one of them got for their budget. He didn't have all the answers but he had a quick outline of things he would look at. He would look at the process of funding government before he looked at any expenditure. He would recommend a two year budget. He would give each governor 2 budgets. One after one year in office when he/she knew what he/she was doing. It would last for two years (his second and third year). Then again, beginning of his fourth year, a budget that would last for 2 years (his last year and the first year of the next administration. Not only would he have a 2 year budget but he would stagger it. Currently, a new governor walked in and they started over. He was lucky when he was governor. Edwin Edwards treated Gov. Roemer well. He went in to see Edwin Edwards the day after the election. Edwin Edwards announced he wouldn't have a run-off. Mr. Edwards told Gov. Roemer he had good news and bad news. The bad news was that the deficit was not $100 million like it was debated. It was $1 billion so there was a bigger problem. The good news was that Mr. Edwards was about to leave it to Gov. Roemer. He didn't take office for five more months but he appointed the Commission of Administration the next day. For five months before he was governor, he scrubbed the budget. He terminated people, re-organized programs and saved maybe $210 million dollars.

Mr. John Kennedy stated the budget was $8 million.

Gov. Roemer stated the budget was not quite $8 million. He didn't know the current budget but he did know the process. His first recommendation would be to go to a two-year cycle. He would recommend it to begin not at election of the new governor but one year later to give him a chance to work with the old governor on the current budget so there would be some continuity and then he could formulate his budget when he was on stronger ground. There were particular budget schemes that worked in the rest of America and he thought they could work in Louisiana. He knew Louisiana liked to pride itself on being different. Things could be learned from others. Budget process was a place to begin. He would identify those five or six states that had similar needs of government and had done better at keeping their budget under control. It was long overdue for zero-based budgeting. The state agencies generally expected an increase in their budget every year. They built in 3,4, 5, 6 or 7% and they called it a stand-still budget. How big was the budget, $30 billion dollars?

Mr. John Kennedy stated $29 billion dollars.

Gov. Roemer stated what was 4% of $30 billion. A $1.2 billion dollar automatic increase. Zero-base the budget and then decide to give Agency A an increase because the food stamp program expanded in recession times and they needed more money. Social services should go up in a recession. It didn't happen like that because every agency from A to Z had an automatic increase built in. Zero based budgeting let those who were going to take the hits and had the responsibility choose the priorities. He would price commodities in the budget differently. Commodities were dependant on demand and supply and not need. In the Montana budget, one would find a different application of the price of wheat. It couldn't be predicted. It had wide swings. Commodity states isolated their commodity pricing so that it wouldn't be the tail wagging the dog. In a 2 year budget, one could do that a lot better than in a 1year. It was how a 2 year budget cycle made sense as it was planned ahead. Budget was guess work, nothing was guaranteed. Quit anchoring to the price of oil and gas. Isolate that part of the budget and have that money for long-term reserves or one-time expenditures (nothing more). If the committee wanted a small task force to give a specific recommendation, he would do it in 2 weeks. America had a strong central government but 50 other governments that marched along with it. There were rights and opportunities that the 50 governments had that the central government did not have. One was the fact that the budget was a state function. It changed over the years. When he was governor, the federal role was about 15-20%. Currently he hated to know what the figure was. It was getting larger.

Mr. John Kennedy stated it was right at 50.

Gov. Roemer stated that had an impact on the state. Programs started by the federal government, ran by the state government and matched with state government money became part of the citizenry expectation. When the federal government pulled away, the state was left holding the bag. Federal money should be accounted for differently in the budget. The cost of that money to the state treasury ought to be put in a different category. That was easier said than done. He knew the budget office acknowledged federal spending and the matching state money but they didn't do it well. They didn't identify it for public consumption. He never heard the current governor say he had a $29 billion dollar budget and $16 billion of it came from the federal government and it was going away in the next five years. The governor should say that. The people should be told that. He would highlight every facet of the budget that had an automatic increase or a cost of living increase. He recommended to the United

States Congress (and almost passed it), of doing away with the cost of living increases for the federal budget. It would have been in balance of the federal level within 3 years. He noticed the president's Committee on Social Security said for 2 years there would be no cost-of-living increases. Every budget had a priority to it. It came from legislative wisdom and gubernatorial leadership. They needed to work together on the budget. He should be able to read the budget and get a sense of what the priorities were. His plea would be education. It was more important than healthcare and social welfare. It was the top priority for every person in the state. It determined who held the jobs of the 21st century. Louisiana ought to be a state of job holders. He wouldn't ignore healthcare. The need for reform was enormous. To have the flagship university bogged down with running healthcare meant something was wrong. The nation had about half of the children born without fathers. He looked for a government that spoke to his children about education. He didn't think the state did that. They did in Minnesota, North Carolina and Texas. Their budget was connected to quality of education, jobs, the cost of welfare and the cost of healthcare. A single board would be a good place to start. The great states had a board of citizens in charge of their higher education system. They hadn't diminished the number of their universities. He heard the argument that Louisiana had too many universities. He disagreed. They just weren't used well. They weren't coordinated at all. LSU should be designated as the flagship school (and he was not a LSU graduate). He looked at the budget and looked at the results. When he was elected governor, the unemployment rate was 13.8%. The day he was defeated by David Duke, it was 4.8%. He was not a lawyer. He created jobs, it was why he had a bank. He lent $1 billion dollars to Louisiana citizens. He was owned by 250 Louisianans. He didn't do business in Texas, Alabama or Mississippi. He knew what unemployment was and what it did to the heart of society. It was why he would put education first. He got a lot of criticism when he was governor of not passing anything easily. He thought Louisiana had a chance to be a great state and still did. He supported the current governor. He thought the current governor was trying to push Louisiana down that road. He recommended a single board 20 years ago. North Carolina did it and they were beating Louisiana so badly in higher education and spending less money per citizen. A single board got priorities straight. It kept the colleges and made them stronger. Louisiana Tech was stronger under a single board. Nicholls was stronger under a single board because they had a purpose as decided by the single board. Other colleges weren't stepping on their purpose. They were working together. He thought one of the best plans in the Obama healthcare plan was the recent development of cooperatives. The best way to compete was to cooperate. The college and university systems did not cooperate. Single boardd with budget authority forced one system. He started a little program when he was governor called TOPS. (Pat Taylor in New Orleans got all the credit). It started and look how many kids it has helped.

Mr. Jim Napper stated the idea on price commodities and the oil and gas budgeting process, please expand on that a little more.

Gov. Roemer stated the nature of a commodity was that one could hedge against price movement but it was unpredictable. He had no idea what the range for oil and gas prices would be in the next 2 years much less the next 20. Some of the expenditures were 20 year programs. He wanted to identify the revenues in the budget that came from commodities-prices that could be hedged and were unpredictable. He wanted to temporize the pricing-1/3 certain, 1/3 probable (but not certain) and 1/3 your guess was as good as mine and price it at the lowest 3rd for the annual expenditures. Take the next 3rd and hedge that price. The money could be expended for a longer term. It was a more sophisticated look at a commodity price. Every governor looked at the price of oil. Oil swung from $8 dollars a barrel to $40 when he was governor (in four years). It was a 500% swing. This governor (in a year and a half) had gone from $30 to $140 plus and back to $31 the other day. Now it was at $73. Where did one put that in the budget? He wanted to recognize the difficulty of commodities.

Mr. John Kennedy stated he looked at hedging several years ago.

Mr. Jim Napper stated he believed they had a big internal operation in Texas. It helped them hedge a lot of their oil and gas revenue. It was something that would help the budgeting process in more than a year or two.

Gov. Roemer stated Gov. Jindal was having a problem with the budget but it was his own budget that he was having a problem with. It wasn't a budget that Edwin Edwards left him or Kathleen Blanco left him, it was his budget. Maybe he would be sensitive to the need to segregate commodities, look at them carefully and look at other states who did it in a more sophisticated and successful way. He knew states that did it and he could give the committee a list.

Mr. Jim Napper stated it came up twice since he had been working for Mr. Kennedy. Both time they just couldn't get it going.

Mr. John Kennedy stated some of the elected officials felt that with hedging, it locked in a price.

Gov. Roemer stated yes.

Mr. John Kennedy stated there was some concern that if they locked in a price and the price of gasoline or oil rose, they would get bad headlines. Every company today depended on commodity hedges.

Gov. Roemer stated if a better job was done on the market in credit, there wouldn't be a credit paralysis. The credit paralysis of the last year and a half was caused by excessive credit and no hedging. Banks lent money to people who couldn't pay them back. People were encouraged to buy a home. Some 3 million home buyers took out a Freddie Mac or Fannie Mae mortgage and didn't make their first month repayment. The average house was $240,000. 3 million times 240 was $720 billion. How much was the bailout? It was with good intentions. Votes were important. He didn't use to think that but when he lost an election he realized, they were. He wanted to do the right thing and then report to the people early and often. A legitimate area was zero-based budgeting, commodity budgeting and differentiating among federal expenditures.

Mr. Leonal Hardman stated it was said the state ought to be a state of job holders. What was meant about that?

Gov. Roemer stated a certain percentage of the population was lost each year. Usually they were the strongest and the youngest who went elsewhere for work. He wanted to bring them back. Going into the 21st century, the independence and freedom that came with a job was a more precious thing than it used to be. People tended to get lost in the large crowd. When he grew up in America, it was 108 million. Currently it was 300 million. The thing that differentiated most Americans was the small business they started, the job they held or the effort in their work. The citizen who wanted that freedom and independence and couldn't find it was often frustrated, angry, didn't participate in the next election and felt they were on the fringes of society. It was why he worked so hard and so long for opportunity, freedom and fair play. It was why people like John Kennedy (his favorite politician) started his movement down the road of civil rights. It was what Martin Luther King stood far. Martin Luther King said it every day, a job was what he was after. When there was an equal number of jobs, it meant there was a level playing field. He did not mean that those who were too old, too young or those who were out the benefit of job skills should be forgotten. They needed a strong wagon on which to temporarily ride. That wagon was provided by the job holders of the state.

Mr. Leonal Hardman stated he valued the state employees/civil service employees of Louisiana. They were always on the front line but never got recognized. He was looking at streamlining government but he also felt like it was targeting state/civil service employees. What about the outsourcing/privatization of jobs? In the past, the service was being provided by state and civil service employees. It should be a state of jobs holders. He remembered the state felt very strongly about attracting qualified employees to run state services. He realized at one time, they felt like they should be offered something to keep them here because they were being lost to the private sector.

Gov. Roemer stated teachers particularly.

Mr. Leonal Hardman stated if the state wanted to invest in jobs and be job holders, first invest in those that currently provided services (state/civil service employees) for the state of Louisiana. He asked Gov. Roemer how he felt about that?

Gov. Roemer stated he thought government ought to cost the least amount. A government couldn't be supported that was too big, too fat, too lazy and inefficient. The state was over-governed. To much resources were spent on government. Much of that inefficiency was at the top and not at the bottom (where the work got done). He revised the drivers license bureau. It was embarrassing. It wasn't the people that worked there, it was their structure, organization and management. He wasn't for bigger government, he was for better government. Where government was needed, it ought to be as big as required to get the job done. If that was in preparation for a hurricane, get on it. If that was fighting a disease like the Swine Flu, get on it. He had no problem with that. In general, he thought government was inherently inefficient. A big dose of politics ran it. Things got duplicated over and over again. He went to Harvard Business School. Before he graduated, he had to take an exam with all of the professors in the room. In his session, there were 100 students from 30 different countries and from almost every state. Each one got 30 minutes to make their master's thesis case and the professor's would vote. He got a nice grade. He gave a case on doing a automated car-wash using new German equipment. He would start it in Philadelphia and go across the country. It was 1967 and there were no automated car-washes in America. That same day that he presented, one if his classmates presented an idea of leasing a portion of an airport in St. Louis. He would fly packages overnight by airplanes from the East Coast to the West Coast. One of the professors laughed at him. They told him (Fred) the United States Post Office already did that. Fred Smith got a C. He started a company called FedEx. That was one idea from one man. It was what was needed in society. Government needed to be strong and adequate. In general, government suppressed those who were different and those with new ideas. If someone in the private sector could offer the same service at a lower cost, it should be welcomed.

Mr. Leonal Hardman stated it was about getting the most for the money. It was what the commission was all about. When he looked at government, he saw it was top heavy. It shouldn't take five layers of supervision to get anything done. The people who were actually being streamlined and cut were the people at the bottom. Those were the ones not making the money but they were the ones providing the services.

Gov. Roemer stated looking at the single board for higher education. That cut was at the top and not the bottom. They wouldn't close a single university. They would be forced to work together. All that money could be reinvested back into higher education. It was at the top where it was paralyzed and overburdened. It was at the top where the legislators found it difficult to fire anyone because they all had a political cadre.

Mr. Leonal Hardman stated if the commission would take what it had been charged with seriously, then they shouldn't care about offening anyone or what political system they would have to address. It should be about doing the right thing. If he had to take a look at those areas where government was too top-heavy and get down to the meat and potatoes where government services were provided to the tax payers of Louisiana, then he was for that. It was where the responsibilities were. He took pride in 27 years of service as a state employee. It bothered him to see those at the bottom being punished and everything at the top hadn't changed but the salaries had gotten larger. At the bottom, there wasn't enough individuals on the workforce to provide the services. They couldn't do two things at one time. They were put in a position to work but they were not able to provide the services that were needed. The services needed to be provided, so they looked at another source. Privatizing was not fair. It was not the individuals in civil service or state employees who were saying they didn't want to do the job, it was beyond their control. The employees could provide the service just as well as anyone else. Government (had a larger voice at the top) was being heard, and those at the bottom were not being heard. The commission had to look at how business was being done and do it better. It was what the taxpayers of Louisiana intrusted the commission to do.

Gov. Roemer stated it was the only reason why he was present. He told Mr. Hardman that they could look at a list of 1,000 agencies and points of service. They could agree on 800 of those (as to what should happen). Some of them needed to be eliminated, some of them needed to be downsized, some of them needed to be strengthened, some of them needed to be refocused and some of them needed new leadership. 20% of government would need a harder look at to find some common ground. He didn't hesitate to talk about different kind of budget things and specific action that he would take. His recommendation to the commission was to take what he had to say and give it some thought. Hear what others had to say and then look at the budget process. He didn't mean to offend state workers or state taxpayers. He was a taxpayer and he did emphasize that he thought government was often wasteful. As a diabetic who gave himself 4-5 insulin shots a day and had been doing so for 40 years, healthcare was important to him. Louisiana ought to be a state of clinics and not large charity hospital systems. He was not trying to do away with government. he was trying to make it affordable. The government was no longer affordable.

Mr. Jim Napper stated when the commission runs into that paralysis and push-back, what were the best thoughts on how to overcome that.

Gov. Roemer stated to talk about welfare reform, one would immediately have a certain welfare element that would just be all over them. It would take a while to convince them that things would be done together. He got Bill Clinton and he did it. There wasn't one way to do it. He learned (he was 65 years old) to be open, honest, tell them what the problem was, show how the solution might help it and try to get their assistance. At the end of the day, there was a vote. It was either at the ballot box or on the floor of the legislature. That settled the question in a free country.

Mr. John Kennedy stated Bob Keaton worked in public finance since 1967. He was a revenue auditor, an accountant, budget analyst, deputy budget director, chief budget analysis, financial consultant, director of the bond commission, chief financial officer and currently worked for LSU as a special assistant to the president. He was on more national committees and held national offices on those committees. He taught government finance at LSU.

Mr. Bob Keaton stated he was present as Bob Keaton. He was not present to represent LSU. He was a retired guy who spent 42 years around public finance policy.

Mr. John Kennedy stated he did not invite Bob as his capacity at the university.

Mr. Bob Keaton stated if he could do things the way he thought they needed to be done, the first thing he would do was to do away with term limits. He would also eliminate all constitutional and statutory dedications. He would eliminate all taxes. He would build an expenditure budget based on what the citizens demand for services were. He would then levy the taxes it took to fund that budget. Louisiana did it backwards. There was a tax structure that dictated what level of service that would be provided. Enough services could never be provided. One would assume automatically that the tax structure was correct but that was probably an erroneous assumption. He would do that if he could make a perfect budget situation. The realities of the world, politics and everything else prevented that from being done. He didn't have a long list of recommendations for the commission. In the 42 years of service, he had been through a lot of activities. There was the Economies and Efficiencies Committee (Eddie D. Gerolimo). There was the Senate Action Committee (Sammie Nunez). There was serious budget problems in those two situations (mostly created by the changing of the price of oil). There was Secure Louisiana for the Future and now there was Streamlining. In between those three was Cut the Fat (Jay Dardenne). When New York was having all of its financial problems in the 1960s, they came up with a system called PPBS. When he was working for the city, they sent him to Atlanta, GA for a week to learn PPBS. He interviewed for a job in state government and he knew all the buzz words. He could do PPBS when they were doing line-item and incremental budgeting. (Reagan's budget guy) David Stockman did another budget technique called zero-based budgeting. Jimmy Carter had a budget director in Georgia and he was a zero based budget guy. They did zero based budgeting in Louisiana. Rep. Ron Foche passed a bill. Zero-based budgeting was done until they couldn't stand it anymore. Legislation was repealed to not do it anymore. Then there was reinventing government (Al Gore). Now there was BFO (budgeting for outcomes). There were many committees, commissions and processes come and go. Can one really change government by changing the processes? Was the problem much more fundamental and systemic? Government worked on a time continuum. People were coming in and out of that process based on the way the pubic officials were elected. Policies of government worked on a much longer basis than one could understand. There had to be things that were done fundamentally that allowed the people that came into and out of that process to do so that whatever they did in office, they worked with the fundamentals. It took him 12 years of working in government before he began to develop a sense of how everything fit together. Of how the policies with respect to dedicated funds, the policies in the constitution that restricted local governments ability to raise money and the policies in government with respect to taxation and the money. He was still learning how all that fit together. His expectations were that when people came into government, that they understood all that. The expectations were that the people (who ran government), understood all of that. The truth was that they understood some of it but they didn't understand how they all worked together. During Gov. Roemer's term, the TIMED Program was enacted and created the TTF. Then all the gasoline tax was dedicated to the TTF. Before that, when there was a fiscal problem, the TTF was robbed. They thought that was prioritizing. The last time the gasoline tax was raised, was during Gov. Roemer's administration. That was done for a clearly defined program. The time before that was in 1984 with the other budget crisis. It was doubled from 8 cents to 16 cents. Tax policy was important because when the gasoline tax was raised in 1984, it was a volume based tax. It increased by 1.5% a year. Inflation and highway construction increased about 6% a year. Currently there was a $14 billion dollar backlog in the highway program. In an effort to do something about that, another tax was dedicated. All the sales tax on motor vehicle sales in the state would be given to highways. When that was done, money was taken away from higher education in K-12, healthcare and all the other programs in government. He was using that to make a point that government was a lot of moving parts. When one part was moved around, it affected something else. One had to know when a part was moved, that it was going to have that impact. One had to have the ability to see those things in advance of doing them. One had to understand the consequences. One of his favorite quotes was by a french painter (Eugene Delacroix). Eugene said that history taught us two things: one must change a great deal. The other was that one must not change too much. In terms of the situation that the country was currently in that had the economy on its knees put people in a situation where the state couldn't sell bonds, the local governments couldn't sell bonds and people couldn't borrow money for a mortgage. The banking laws needed to be changed. The mortgage laws needed to be changed because people couldn't buy houses and banks didn't have enough latitude to put together the kind of deals they needed. A lot more would be regulated because people realized they thought they needed to change a great deal. He was trying to put things into perspective. When change was talked about, think about some of the fundamentals. There must be better information to make decisions. Business worked tirelessly to make sure the information they had was better than their competitors. They spent lots of their budgets gathering information. They knew more about him at Wal-mart than he knew about himself. It was their business. It was how they became successful. One could bring the credit slip to them and they could scan it and could tell him if he bought a can of apples on a certain date. They kept track of that. Government made decisions based on a lot of hearsay. Government didn't compare favorably with other states. He suspected if someone did a real study and had a system gathering information on a regular basis and if there was a way to report that information and make it available to all public officials and all citizens in a format they understood and had confidence in, it would be better to make decisions. The highway department's website, he didn't know if one could find the number of miles of state highways Louisiana had. He looked for it the other day, but he didn't know if it was there. One could go onto the executive budget and probably find it or the performance system and find it. The everyday citizen was not technologically advanced enough to do that. Commodity pricing was talked about. Louisiana had one of the best systems for generating data and making public decisions in the country in the Revenue Estimating Conference. It was a lot easier for a politician to go before the House and say they thought oil would be about $3 a barrel higher. Back in the day, $3 a barrel oil would mean $300 million dollars more. The bill would move to the Senate and the Senate needed money to spend. The Revenue Estimating Conference was composed of 4 folks. When they said the budget forecast, that was what it was. That was what had to be budgeted. That was what had to be fulfilled as to the constitutional responsibility as a governor and a legislature for presenting a balance. That same law that created the Revenue Estimating Conference created a whole bunch of other conferences that one never heard about. They never met. He didn't mean to put them all in that category. One of them, the Education Estimating Conference, met on a regular basis. There was a conference that did demographics, one did social services and healthcare and one did corrections. The whole purpose of the conferences was to create official data that would be used in the budget. If one looked at the dollar amount in the budget today to keep prisoners in private jails, that number would be off from what it should actually be. There was a tendency to make the budget work. He underbudgeted those things that he felt like he could get away with and then had to come back and find money later on to do it. It was always thinking it would be better on down the road. It's not better, it's much worst. When it's time to pay, it must be done. On the issue of hedging, oil prices were hedged in the budget. The Revenue Estimating Conference had a conservative bent when it came to oil prices. It went 2 ways with that. One was that he didn't get in a lot of trouble over the pricing of oil but if it was done better than the forecast presumed in the official forecast, then the money came in anyway and it got to be used for capitol outlay. The problem with going to some artificial way of doing that was that one had to go into the market and had to buy a hedge. He thought there was a law on the books (Nobel Ellington). The problem was that nobody wanted to put on the goat suit. In that particular situation, one could buy the price of oil that they wanted. If they wanted $50 a barrel of oil, they could go buy that. The problem was that if oil was higher than that and one hedged wrong, they didn't get the money. What if they would have done that when oil went to $147 dollars a barrel. They were attractive and they were tools and they should be thought about.

Gov. Roemer stated if they hedged when it went to $150 dollars a barrel, there would be $19 billion dollars in the treasury.

Mr. Bob Keaton stated they always got the money if the hedge wasn't bought.

Gov. Roemer stated it was only hedging psychologically.

Mr. John Kennedy stated most businesses (whose business dealt with substantially commodities), may not do a complete hedge but they hedged.

Mr. Bob Keaton stated that was available under the law now.

Mr. John Kennedy stated American Mutual Funds invested in the far east, they hedged on the currency so they didn't make 20% in the eastern markets.

Gov. Roemer stated he had been on the board of the Shaw group for years. That company had a nice growth. They hedged every year.

Mr. John Kennedy stated he remembered meeting with Noble. The problem was that people were scared of the goat suit.

Mr. Bob Keaton stated if one was in the private sector, they had to worry about their bottom line profit and their stock holders. As long as they made those decisions in context of the bottom line profit, it was alright. When one was a politician/legislator and had to approve the hedge, it got complicated. It was done through the Revenue Estimating Conference.

Gov. Roemer stated it was a real improvement.

Mr. Bob Keaton stated one of the things that was done to solve a problem was to narrowly define the problem. He was afraid to make the problem bigger than what he could solve. When the public hears talk about they problem, they thought it was the size of the problem. Assuming the commission were to be wildly successful and somehow could solve the $1.9 billion dollar problem facing the state, what wasn't solved was the $14 billion dollar backlog in transportation, the $12 billion dollar accrued unfunded liability in group benefits, the $1 billion dollar unfunded accrued liability in risk management, $1.8 billion dollar estimate for higher education, deferred maintenance on state buildings of $2.5 billion dollars or other things that created a liability. It wasn't showing the true picture of the problem. All the things had to be put on the table. It created false expectations. When something like this was started, all issues needed to be put on the table so there were no expectations of the problem being smaller than what it was or bigger than it was.

Mr. John Kennedy stated that needed to be done. The benchmark was to reduce cost but not sacrifice quality and service. Some thought that couldn't be done. Businesses had a great run over the past 10 years up until September/October of last year. They didn't do it by raising prices. They had to do it through productivity and efficiencies. They did it by keeping the quality of that service good but cutting cost. What 3 things should be looked at?

Mr. Bob Keaton stated in his first car was a 1948 Chevrolet. He bought it in 1960 for $165.00. When it was new, it cost $1,490.00. His current vehicle cost $41,000.00. It still got him from point A to point B. Prices had gone up but the marketplace was what determined the prices. People would pay more. People would pay $4 a gallon for gasoline because that was what it cost them at the pump. If someone tried to add 4 cents of a gasoline tax, people didn't want to pay that. Government had a real challenge. The marketplace did different things in the private sector than it could do for the public sector. The state can't generate the money it took to run the budget any more. The state had to become more efficient. To become more efficient, one had to work smarter. By working smarter, the productivity was limitless. To go forward and make sure that government was doing the best it could was to make sure there was a process where people were allowed to work smarter. In a book called <u>The 12 Steps of Success Through Service</u>, they found that high performing businesses had 8.9 training days with their employees per year. Low performers had only 2.8 days of training. The training budgets of the high performing companies had increased 25% in 5 years while those of the low performers had cut their budgets by 20%. For government to withstand the trails brought on by time, one had to invest in the workers and make them more productive. The more one knew about the process, the better the process would be.

Mr. John Kennedy asked if the Budgeting for Objectives was the division's new thing.

Mr. Bob Keaton answered yes.

Gov. Roemer asked what did that mean.

Mr. Bob Keaton answered it meant that he would budget to a particular objective. It was almost like performance budgeting but it had a different name.

Mr. John Kennedy stated it was invented by David Osborne (wrote Reinventing Government). David Osborne was the chief advisor to Al Gore.

Mr. Bob Keaton stated all the processes were good. It made one think. The people doing the thinking needed to be smarter.

Mr. John Kennedy stated in 2003, they had a budget problem in Washington that was about $2 billion dollars on a $24 billion dollar budget. Gary Hawke convinced the legislature to throw out the budget and start over. He wanted to go in and inventory every service in state government. They ended up with a list of 12-1,500 services. They voted on what the priorities were and ranked them. Once they ran out of money, everything below that was the lower priority. Louisiana didn't do that very well.

Mr. Bob Keaton stated Louisiana established priorities where the money was placed.

Mr. John Kennedy stated in government, how they spent the money was what the priorities were.

Mr. Bob Keaton stated the priorities were established in the policies. They were established incrementally. The thing that shouldn't be done with the budget was done with the policies. He got to the point where almost 60% of the budget was spoken for before the governor got the chance to put his/her stamp of approval on the priority system. It was pre-established. It was why there was no flexibility and $1.9 billion dollars had to be cut out of the budget. Higher education had to be cut $623 million dollars out of a $1.1 billion dollar budget. It was the system of policies that had been enacted over many years, over generations of Louisianans.

Mr. John Kennedy stated he thought it happened it part because legislators reflected their constituents feelings. Constituents were cynical about government. They encouraged their legislators to dedicate funds. Jim Napper made the suggestion earlier today to sunset every one of the dedications. If the dedication was wanted, return and it would be considered.

Mr. Bob Keaton stated he could talk all day long about the budget. There was a tax exemption budget, he called it a tax expenditure budget. It was 394 pages long. That budget wouldn't be found sitting on anyone's desk. Many of the tax exemptions were enacted in 1940s, over 60 years ago. They were never revisited. Once they were enacted, they were golden and they were never revisited. The tax structure did not move at the speed of business.

Mr. John Kennedy stated that was a very good point.

Mr. Bob Keaton stated looking for efficiencies, one couldn't just look at the expenditure side of the equation. One had to look at the revenue side. There could be things there that one could do to attract business by rearranging the tax exemptions. One had to talk about all the problems and put everything on the table.

Mr. Jim Napper stated there was procedures to sunset constitutionally mandated agencies. They were always recreated. To sunset all of them would force everyone of them to be examined. They would be lined up to get them recreated.

Mr. Bob Keaton stated he probably would resign his current job and become a lobbyist.

Mr. Jim Napper stated it would be a good exercise.

Mr. Bob Keaton stated he didn't know that it needed to be done all at one time. It could be done over time. He looked at the tax exemption budget and the question was if the tax exemption effective. Was it doing what it was intended to do when it was enacted? Had the ground moved and did it need to be changed?

Mr. John Kennedy stated it was the purpose of an exemption or an exclusion. It was to influence behavior.

Mr. Bob Keaton stated some were equity issues and some were intended to influence behavior. He wanted to compare Louisiana to other states. Georgia was a fair comparison because it's racial/ethic profile was about the same. In Georgia, 24.3% of the population (over 25) had a four-year degree or higher. Their median personal income was $49,080.00/year. In Louisiana with the same ethnic balance, the four-year graduation rate (over 25) was 18.7%. The median personal income was $40,866.00. In Georgia, they had the Carl Vincent Institute of Public Policy. They taught local officials, state agencies, legislators, educators, students and media how to better govern. Louisiana should create a venue where people had the opportunity to learn. A professor used to say at the end of every class, the better it was, the better it was. If one did things right, they would feed upon themselves and success would come a lot quicker and a lot easier. If things were done right, things could move ahead.

Gov. Roemer stated he wanted everyone to read a book. It's called The Starfish and the Spider. It's about the power that structure had on performance. Who was president of the Internet? No one was. The best organizations had no leaders. It was driven by the people. There were many state services that didn't require an agency. They required knowledge.

Mr. Bob Keaton stated the Macintosh people said it best, Think different.

Mr. John Kennedy stated he wanted to open the floor up for motions/specific recommendations. They would be placed on the agenda for the consideration of the full streamlining commission. Some times the only way to get started was to just do it. He had a number of suggestions. He encouraged anyone to make their own motions as well. (#1) The healthcare services division of the LSU Health System recently contracted with Alvarez and Marsal Holdings, LLC to perform a financial and operational assessment of the interim Charity Hospital in New Orleans. The recommendations of Alvarez and Marsal would save taxpayers of Louisiana over $72 million per year. The Louisiana Streamlining Government Commission congratulates and thanks the LSU Health System for this initiative. The Commission further recommends to the Louisiana Legislature that it authorize and direct the LSU Health System to adopt the recommendations of Alvarez and Marsal for the operation of the interim Charity Hospital in New Orleans. The Commission further recommends to the legislature that it direct each other Charity Hospital in Louisiana to contract for a similar financial and operational assessment with a third party private sector consulting firm, such as but not necessarily Alvarez and Marsal, that specializes and has a proven track record in turnaround management, corporate restructuring and performance improvement for institutions and their stakeholders.

Mr. Napper stated he would make one possible change. When saying the commission further recommends to the legislature, that it said to the legislature and the executive branch.

Mr. John Kennedy stated consider that made.

Mr. Hardman asked if it were all charity hospitals.

Mr. John Kennedy stated all charity hospitals would contract with (they would do it through the RFP) a healthcare consulting firm to do the same kind of financial and operational audit that they did for the interim charity hospital at LSU. Hearing no objection, the motion was approved. (#2) The Louisiana Streamlining Government Commission recommends to the Louisiana Legislature that it pass and propose a constitutional amendment abolishing the University of Louisiana System, the Southern University System, the Louisiana State University System, and the boards of supervisors for each of these systems; that the colleges and universities in these systems be placed under the jurisdiction of the Louisiana Board of Regents; that the authority and responsibilities of the board of supervisors for each of these systems be transferred to the Louisiana Board of Regents; and that future gubernatorial appointments to the Board of Regents be subject to confirmation by both the House of Representatives and the Senate of the State of Louisiana. It would create a single board of higher education. It would place all the universities under a single board for higher education. It would have complete authority and control over those universities with no layers of management in between. Given the heightened importance of the appointments to the new single board, he suggested the gubernatorial appointments be subject to confirmation both by the Senate and the House. Traditionally, the confirmation process was done by the Senate.

Mr. Jim Napper made a motion to adopt the suggestion.

Mr. Leonal Hardman stated the appointees of the Board of Regents would be subject to confirmation by the House and Senate.

Mr. John Kennedy stated yes.

Greg Waddell stated the higher education was outside of the streamlining commission.

Mr. John Kennedy stated the governor said everything was on the table. He looked at the legislation that authorized the streamlining commission as well as the legislation that authorized the education committee, there was nothing that prevented the commission from considering it. He would rule that it was in order. (#3) The state of Louisiana, Mississippi and Arkansas enjoy many similarities, including commonalities in government programs and the provision of state government services. All three states anticipate large future budget shortfalls and face similar challenges meeting demands for state services with declining revenues, as well. The Louisiana Streamlining Government Commission recommends to the Louisiana Legislature that Louisiana invite Mississippi and Arkansas to join with Louisiana in identifying and exploring creative opportunities to make the operation of our state governments and the provision of state government services cheaper and more efficient. The Commission believes that cooperative arrangements between and among similar agencies in each state could result in significant improvements to the delivery and cost effectiveness of state services. Under these cooperative arrangements, the department head of each department of Louisiana state government would meet with his counterpart in Mississippi and Arkansas state government to identify specific activities, programs and services within each department for potential cooperative service arrangements through which states could save money and improve services by working together across state lines. Areas that could offer significant efficiencies and savings through cooperative efforts include but not limited to:

1. Joint Procurement: the states may be able to pool their purchasing power to save money on purchased goods or services, such as pharmaceutical products, heavy equipment, institutional food and software.
2. Cross Border Collaboration: sharing common borders, Louisiana, Mississippi and Arkansas may be able to identify numerous opportunities to be more effective and more efficient by working together and sharing resources along their common borders. Potential activities for cross border collaboration could include invasive pest control, coordination of rail needs, water quality protection and improvement and the promotion of tourism.

3. Information and Technology Systems: the states may be able to share, develop and leverage IT resources to improve government and lower costs. Potential areas of collaboration include tax collections, child support enforcement and licensing services.
4. Shared Resources: by sharing resources, the states may be able to improve their utilization or unit cost. Potential areas of collaboration would include sharing aircraft, patrol boats, warehouse space, call centers, collection operations, licensing functions and communications power sites.
5. Reciprocity: there may be opportunities for the states to improve government and save money by making borders permeable by citizens of the three states in some instances, and by making regulatory issues related to the border more efficient, such as oversized truck permitting, dairy inspections and cooperative agreements for child welfare.

The idea was modeled on a program that was already in affect between the states of Wisconsin and Minnesota. Within the past year, those two governments joined together to see what sort of services they could share and what sort of bulk purchasing they could do to save money. Given that Arkansas and Mississippi face some of the challenges as Louisiana, some economies of scaling savings could be achieved by cooperating together.

Mr. Leonal Hardman stated each agency would meet with their counterpart in those various states. Who would they bring that data to?

Mr. John Kennedy stated suppose the head of DOTD meet with the head of DOTD in Arkansas and the head of DOTD in Mississippi and the 3 secretaries decided that they all used gravel in their states. Those three would enter into an agreement to purchase gravel in bulk to get a better unit cost. That arrangement would have to be approved by their legislators and governor so there would be a check and balance. Suppose the states could decide to share aircraft. Suppose they decided to establish reciprocity in hunting and fishing licenses. He was looking at ways to pool the populations of those 3 three states to be able to purchase goods and produce services cheaper. Hearing no objection, that motion was adopted. (#4) The state of Louisiana Receivables Report is published quarterly by the Division of Administration. The most recent report is for the quarter ending June 30, 2008, over a year ago. It showed gross receivables of $1,729,557,954. Of this amount, $1,118,088,484, or 65% was over 180 days past due. The Louisiana Streamlining Government Commission recommends to the Louisiana Legislature that jurisdiction over all receivables by all departments in Louisiana state government be given to the Cash Management Review Board (comprised of the Commissioner of Administration, the Legislative Auditor and the State Treasurer) and that the Cash Management Review Board be directed to take all steps necessary to mange and collect these receivables on an ongoing basis. The Louisiana Streamlining Government Commission also recommends to the Louisiana Legislature that the Division of Administration be directed to complete and publish the State of Louisiana Receivables Report for each calendar quarter no later than 60 days after the end of the quarter. He stated he was not getting the information timely. It was over a year old. When he did get the information, it was not pretty. There was about $1.7 billion dollars in money out there that was not collected. Over 65% of it was over 180 days past due. He was asking the legislature to give the Cash Management Review Board the authority to work with the agencies to ask them what was their collections policy to see if they couldn't collect some of the money. The purpose wasn't to criticize anyone. For example, DOTD's priority and admission was to build roads, airports and bridges. His guess was that collections was not one of its higher priorities. It was the purpose of the resolution.

Mr. Jim Napper asked if it would include authority to engage professionals to help collect the monies.

Mr. John Kennedy answered yes it would. He thought everything would be on the table. The first preference would be to use the attorney general. Some agencies contracted with him but others haven't. Hearing no objections, the recommendation was approved.

Mr. John Kennedy stated (#5) According to the United States Bureau of Labor Statistics, in 2008 Louisiana had 275 state government employees per 10,000 population, ranking Louisiana 8th in the country. Louisiana ranked 1st among southern states. The national average was 223 state government employees per 10,000 population. Assuming a population of 4.3 million people, Louisiana has 22,000 more state government employees per 10,000 population than the national average. The Louisiana Government Streamlining Commission recommends to the legislature of the State of Louisiana that all departments of Louisiana state government be directed to reduce the number of state government positions by 5,000 positions for each year for the next 3 years. The reductions should be pro-rata by department; that is, the number of positions to be reduced each year by each department should be derived by multiplying the percentage of total state government positions located in that particular department by 5,000. This number should be considered the minimum number of reductions for a department. Vacancies, rather than layoffs, should be used to achieve the elimination of positions. Department heads should be directed to manage the assimilation of the reduction of positions through reorganization efforts, which will require more than simplistic across-the-board cuts. In order to maximize productivity and streamline costs, department heads are directed in their reorganization efforts to study and take into account layers of management, spans of control, clerical staffing levels, unit consolidation, process re-engineering restructuring, retaining for enhanced skills and headquarters staffing reductions. More specifically, department heads should limit layers of management, with no more than six for large departments. One manager should supervise no less than 10 staff, and more if possible. Highly technical, policy or non-repetitive functions may require a span of control as low as 1 manager per 5 staff. A reasonable level of clerical staff is 15% or less of total staff. Units with 2 to 5 employees should be consolidated into larger, more efficient units, and regional administration should be consolidated where possible. Restructuring should include an analysis of the number of tasks performed by each departmental employee and, through process re-engineering, the number of tasks should be reduced by 25%. Department heads should also seek to increase productivity by providing training opportunities for employees who wish to learn new skills or improve old skills. Additionally, the largest percentage reductions in staffing should be at central and regional headquarters. These staff reductions should not be allowed to reduce the quality of services or products provided by each department. If a department head does not believe he can achieve the staff reductions without reducing quality, he should notify the governor as soon as possible so that the governor can replace him with a department head who can achieve the staff reductions without quality. The Commission also recommends that 20% of the savings achieved from these staff reductions be used to increase the salaries of employees who assume new and additional responsibilities as a result of the staff reductions and reorganizations.

Mr. Leonal Hardman stated the reductions was a challenge. He did not want to hamper public service. He wanted to start at the top. He wanted to target those areas where public service was needed. It shouldn't take 5 or 6 layers of management to get something done. It was about getting the most for the money. The employees didn't care about if they had more responsibilities put on them. They took pride in doing that. They didn't want to be left out also. They wanted to be compensated for taking on more responsibilities.

Mr. John Kennedy stated Louisiana was #1 in the south per 10,000 people. It was not a statement on the quality of those employees. He worked through the years with many dedicated state employees who did an extraordinary job. It was very difficult to downsize institutions. One way of doing it, (he objected with this way) was just to arbitrary cut across the board. It was not what the resolution called for. The resolution called for reduction with reorganization. It started at the top. It would reduce layers of management. It would expand spans of control. The largest percentage of those cuts should be at central and regional headquarters. It would be done through a re-organization. 20% of the savings should be placed in a pool. It would be done through vacancies. No one would be fired or laid off. It would be done gradually over time. If an employee were asked to take on new responsibilities for a position that was not filled, that employee deserved more money. It had to be done through reorganization so the services weren't impacted.

Mr. Leonal Hardman stated when he left state services, his position was not filled. Never a day that he went to work that he complained about the fact of the cause of things beyond his control that he would not give 150%. Based on the revamping of purchasing, he incurred more responsibility. State employees didn't mind working. They would not complain too much about the added responsibilities. They would rather have the job.

Mr. John Kennedy stated that was what he was trying to do. Hearing no objection, the motion was approved. He would encourage others to bring resolutions to adopt. He had a couple of request for people to be on the streamlining commission. He would pass the resolutions onto the chairman and ask him to place it on the agenda to have a full and robust debate at the streamlining commission.

V. ADJOURNMENT

Mr. John Kennedy stated the committee would adjourn.

______________________ ______09.08.09___

John Kennedy, Chairman Date