Join Oregon's Comeback

DUDLEY

Oregon's Comeback: A 26 Point Plan to Control Spending and Reform Government

Slow growth in state spending, control demand for new taxes, strengthen savings for rainy days and rebuild public trust in government

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Oregon's Comeback: A Plan to Control Spending and Reform Government

OVERVIEW

Over the last two decades, Oregon's elected officials failed to effectively budget for our future. As a consequence, we face what outgoing Governor Ted Kulongoski and his Reset Cabinet call "a decade of deficits."

The steady erosion in Oregonians' earning power that began at the start of John Kitzhaber's second term as governor has left the state without sufficient tax revenues to fund state services and schools unless we transform Oregon's budgeting process. This – and Kitzhhaber's eight-year failure to control spending, reinvent state government and rein in public employee compensation – have helped create the problems we are dealing with today.

The May 2010 Revenue Forecast now estimates $796 million less than the state had originally anticipated for the 2009-11 budget.[1] While revenues are expected to increase by $1.8 billion for the 2011-13 biennium, this increase will not be enough to fund the projected $4 billion escalation in state expenses. In other words, state *revenue* growth is forecast at 14 percent for the next biennium while expenditure *growth* is forecast at 26 percent. The difference between the two is the structural deficit or budget shortfall, which for the 2011-13 biennium, is projected to be $2.7 billion.

From a Decade of Surplus to a Decade of Deficits
(Millions of $)

11/2007 Projections	**2009 - 11**	**2011 - 13**	**2013 - 15**	**2015 - 17**	**2017 - 19**
Revenue	17,000.4	19,001.9	21,547.0	24,644.7	28,592.0
Expense	16,989.2	18,822.7	20,925.1	23,037.9	25,352.0
Surplus (Deficit)	11.2	179.2	621.9	1,606.8	3,239.8
06/2010 Projections					
Revenue	13,841.3	15,667.0	18,262.4	20,570.1	23,160.5
Expense	14,433.5	18,337.7	20,680.8	22,967.4	25,461.1
Surplus (Deficit)	(592.3)	(2,670.8)	(2,418.4)	(2,397.3)	(2,300.7)

(Final Report – Governor's Reset Cabinet, June 2010, page. 22)

The gap between projected revenues and projected spending will continue into the next decade unless we slow the rate of spending and create more private sector jobs to support public sector services. The structural deficits for the next eight years are projected to total more than $10 billion if the state tries to sustain the services it now provides.

[1] May 25, 2010 Revenue Forecast, Office of Economic Analysis, Department of Administrative Services, State of Oregon.

Included in that $2.7 billion "shortfall" in the 2011-13 Essential Budget Level (EBL) is the $375 million that the state will pay to cover raises and health benefits for state workers over the next two years.[2] The state will also need to generate an additional $247 million to fully fund new projects started midway through the 2009-11 biennium. Furthermore, the EBL also includes the $1.4 billion in 2009-11 spending that was paid for with federal stimulus dollars. The state is also obligated to pay for the projected increased costs of the Public Employees Retirement System (PERS) totaling $368 million, as well as an estimated $487 million in social services caseload growth.[3]

Components of 2011-13 Expenditure Increases Beyond Replacement of One-Time Funds Millions of Dollars	
Payroll Cost Increases	
Restoration of furloughs and 2011-13 Step Increases	156
Maintain current state employee health benefits in 2011-13	104
Potential Cost of Living Adjustment for State Employees in 2011-13	114
PERS (both state and school district costs)	368
Inflationary Cost Increases	533
Funding for projects started midway through 2009-11	247
Higher number of Oregonians qualifying for safety net services	487
Increase in Debt Service	247
Total Increase 2009-11 to 2011-13	**2,256**

(Final Report – Governor's Reset Cabinet, June 2010, page. 26)

All of this contributes to what *The Oregonian* has correctly described as "a financial chasm as precarious as any in its 151-year history." Oregon's EBL budgets are unsustainable. As Governor Kulongoski's Reset Cabinet said:

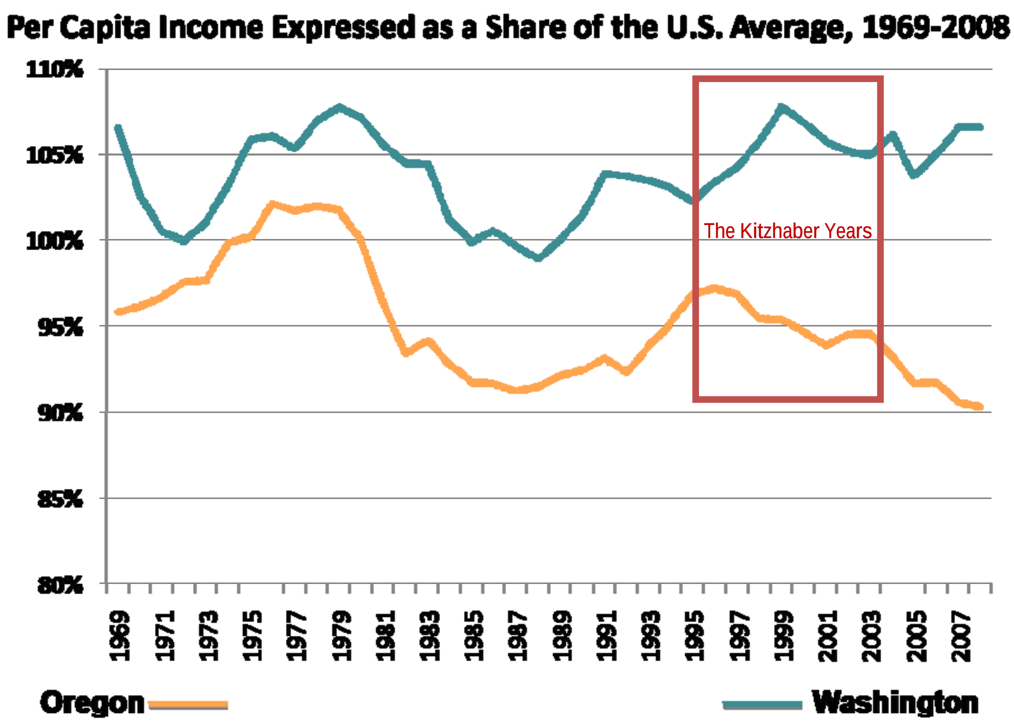
> "With cuts made in the current budget, tax increases in place, federal support on the decline and reserves all but exhausted, there are fewer options for plugging holes and rebalancing budgets in the future."[4]

[2] "Oregon budget stands at precarious crossroads," *The Oregonian*, Saturday, July 24, 2010.
[3] Final Report – Governor's Reset Cabinet, June 2010, page 27.
[4] Final Report – Governor's Reset Cabinet, June 2010, page 28.

THE KITZHABER RECORD: EIGHT YEARS IN SERVICE OF THE STATUS QUO

We are living the future that John Kitzhaber helped to create over his eight years as governor and fourteen years in the legislature. The Reset Cabinet said Oregon faces a crossroads decision that will require hard choices in 2011. John Kitzhaber never made the hard choices.

Take Oregon's per capita wealth relative to the United States. As a whole, Oregon incomes started a steady decline as Kitzhaber's second term as governor began. Meanwhile, Washington State's per-capita income has steadily increased and stayed above the national average during that same time period. Oregonians' per capita earnings went from 97 percent of the U.S. average in 1996 to 94 percent by the end of Kitzhaber's governorship. What's worse, the percentage today stands at 91 percent.[5] This economic decline has cut into the tax revenues that our schools and public services depend on. If Oregon's per capita incomes had kept pace with the United States during 1996-2007 – and state and local revenue remained at 16 percent of total income – state and local governments would have had an additional $1.5 billion in revenue in 2007, according to an analysis by ECONorthwest for the Oregon Business Council.[6]



Despite inheriting a robust economy, Oregon's economy declined during John Kitzhaber's eight years as Governor. The state unemployment rate was 4.7 percent when he came into

[5] Breaking Out of a Circle of Scarcity: Oregon Business Plans' Challenges for the 2010s and Beyond, ECONorthwest for the Oregon Business Council, Spring 2010, slide 21.
[6] Breaking Out of a Circle of Scarcity: Oregon Business Plans' Challenges for the 2010s and Beyond, ECONorthwest for the Oregon Business Council, Spring 2010, slide 47.

office, 5.6 percent at the start of his second term, and 7.8 percent when he departed[7]. In fact, Oregon's unemployment rate was above the national average for 80 consecutive months during Kitzhaber's 96 months as Governor and has continued to be higher than the national average to this day.[8] With fewer jobs being created, the Kitzhaber economy generated lower tax revenues for schools and public services. Kitzhaber also failed to limit state spending, reform government to make it more effective and cost-efficient, change state worker salary schedules and benefit packages and ignored the ballooning crisis in the Public Employees Retirement System (PERS). We're now paying a heavy price for Kitzhaber's service of the status quo.

The former governor's failure to control spending can be seen in the growth of the General Fund budget during his eight years in office. The General Fund and Lottery legislatively approved budget was $6.746 billion when Kitzhaber took office. The General Fund and Lottery legislatively approved budget was $10.637 billion[9] when he left office – a 57 percent increase.

[7] BLS, Unemployment Seasonally Adjusted 1/95, 1/99, 1/03
[8] Oregon Employment Department, Qualityinfo.org database
[9] Legislatively Adopted General Fund and Lottery budgets for 1993-95 and 2001-03 including special session 2002 actions, from end of session budget summaries, Legislative Fiscal Office.

Granted, 1990's voter-enacted Ballot Measure 5 required the state to offset schools' loss of property tax funds, but the phase-in of that offset was completed by 1997. Even after accounting for Measure 5, General Fund and Lottery spending during the Kitzhaber years rose 43 percent. This represents a 95 percent growth over inflation for the same period.

One of Kitzhaber's biggest failures as governor was his eight years of inaction in the face of the state's mushrooming PERS crisis. In fact, in his first campaign for governor, Kitzhaber opposed efforts to require state employees to contribute to their own pensions.[10] Governor Kitzhaber left the PERS problem for his successors to solve. According to the Legislative Fiscal Office, $368 million of the estimated $2.7 billion shortfall for the next biennium is attributable to increased PERS costs. That number would be lower today if Kitzhaber had taken action when he had the chance.

On July 23, 2010 the actuary for the PERS board reported, *"System-wide, the payroll rates paid by cities, counties, school districts and state agencies to cover their employees' pension and health care benefits will more than double in 2011, from their current level, 5.2 percent of payroll, to 10.8 percent of payroll… As of Dec 31, the retirement system had 76 cents in assets for every $1 in liabilities, excluding prepaid contributions."*[11]

"These retirement cost increases, combined with rising health benefit costs and projected pay increases, have emerged as a large contributor to the decade of deficits forecast in this report," the Reset Cabinet concluded in its final report.[12] John Kitzhaber spent 22 years inside the State Capitol – including eight years as Senate president and eight years as governor. Oregon's current fiscal crisis is a product of the status quo leadership and failed policies during Kitzhaber's eight years as governor.

John Kitzhaber was also missing-in-action when it came to full-scale efforts to revamp government to make it more efficient and cost-effective. There were no Kitzhaber initiatives to privatize government services where possible, no initiatives to establish private-public partnerships to use taxpayers' dollars more efficiently, and no initiatives to move to performance-based contracts. Under his leadership, Oregon missed the reinventing government movement initiated by governors across America in the 1990s. Instead, Kitzhaber repeatedly supported higher taxes, including a sales tax,[13] as a way to increase state revenue rather than control costs.

[10] "Kitzhaber denounces Measure 8," *The Oregonian*, September 24, 1998.
[11] "PERS rates for state agencies will more than double in 2011," *The Oregonian*, July 23, 2010.
[12] Final Report – Governor's Reset Cabinet, June 2010, page 67.
[13] John Kitzhaber voted three times as a legislator in favor of a sales tax (1985, 86 and 90 sales tax referrals).

CHRIS DUDLEY: A NEW DIRECTION IN GOVERNMENT AND BUDGETING

Oregon needs big change, and this change needs to start in the way our state government does business, the way it budgets, and the way it spends taxpayers' hard-earned dollars.

Using the projections of the Reset Cabinet, Oregon's general fund will have $15.667 billion for the 2011-13 general fund budget. This represents a 13.2% increase from the last budget cycle. This is enough money to fund our priorities and enhance services if we budget correctly.

Government needs to start budgeting the way Oregon families and businesses budget. They budget based on anticipated increases in revenue, not on expected increases in spending. Oregon's two-year biennial budgets should be built based upon forecasted revenues, not from the Essential Budget Level or EBL. The reliance on the EBL promotes the kind of higher spending and government growth that Governor Kulongoski now decries. The EBL creates a make believe world where reductions in projected *increases* in spending become budget *cuts*.

We must build our budgets on available revenues. We will not describe reductions in anticipated funding growth as cuts. We will determine what our key priorities are and fund those priorities first. We will make choices – hard choices.

A Chris Dudley administration will practice zero-based budgeting. Gone will be the days when programs continue on with assumed increases each biennium.

Has a program outlived its usefulness? Does it duplicate the work of another program? Is it achieving measurable performance goals? Could the mission be achieved at a lower cost through modernized technology, public-private partnerships or privatization? Chris will ask those questions, and act on the answers. Moreover, he will require a six-year sunset requirement on every new program or old program expansion. This will force legislators to evaluate current programs instead of just creating new ones.

Families put away savings in good times to see them through the bad times. Oregon should, too. In good times – and only in good times – we will put three percent of incoming revenues into the state's rainy day fund to stabilize funding for schools, higher education and state services when the economy turns bad. This savings requirement will be tied to the same criteria that safeguard the Education Stability Fund.

Thinking and acting anew will require that our state government reject business as usual when it comes to delivering vital state services. On day one, Chris will establish a position in the governor's office that will drive his agenda to reinvent the delivery of state services where possible. He will establish public-private partnerships and help draw up performance-based contracts for public and private service providers. He will make up for the last two decades of missed opportunities at the Capitol with an intense focus on innovation in state government. The Reset Cabinet's findings make it clear that the "decade of deficits" requires that the State of Oregon find new ways of delivering vital services at less cost to taxpayers.

Chris values state workers and teachers – his mother was a school teacher – and he will not make them scapegoats for the budget mess we find ourselves in today. But the inescapable fact is our approach to public sector compensation in Oregon is unsustainable. The Governor's Reset Cabinet could not be clearer about this:

> *"Future increases in the costs of pay and benefits for state and school employees should be aligned with the rate of increase in the total compensation of employees in the statewide (public and private) labor market. This alignment will reduce the cost increases that are now expected to be a major contributor to the decade of deficits ahead of us."*[14]

This realignment will involve requiring state employees to pay for their healthcare premiums similar to what most public school teachers' pay for their healthcare.

In addition, Chris will take what steps are legally available to fix PERS by ending the public-employers' pick-up of their workers' PERS contributions, remove new legislators and judges from PERS and establish a 401K or defined contribution retirement program for new hires. A Chris Dudley budget will reflect public sector labor cost increases that are in sync with the statewide labor market, and spending bills that don't reflect this will be vetoed.

Such realignment is not only fair to Oregon's private sector workers who ultimately generate the state revenues to pay these compensation packages, but it will also benefit Oregon public sector workers and the people they serve. The status quo will lead to outsized compensation packages and will mean lay-offs for state workers and teachers with less seniority. Maintaining existing compensation package for senior employees will mean fewer state workers to serve the public and fewer teachers and larger class sizes. Providing parity between public and private sector employee benefits will reduce the number of public-employee layoffs.

Oregon's approach to budgeting and spending must change. Chris' three percent plan to fill the state's rainy day fund in good times will help us safeguard our future. It is important we institutionalize this change so Oregon doesn't again find itself struggling in hard times with too small a savings account.

Oregon is suffering from a lack of leadership. Our leaders have demonstrated an inability to exercise budgetary restraint, making our financial crisis worse. Chris Dudley's 26-point plan for budget accountability and government reform will address these institutional problems and create a foundation for a more stable future. Chris' plan focuses on five areas moving forward:

- *The Foundation for Reinvention*
- *Total Compensation Approach for State Employees*
- *Accountability and Transparency*
- *Prioritized Government Services*
- *Outcomes and Innovation*

[14] Final Report – Governor's Reset Cabinet, June 2010, page 70.

The Foundation for Reinvention

1. **A Government-Wide Transformation** – Chris Dudley will bring the Office of Budget and Management directly into the Governor's office and appoint a performance management officer to lead a government-wide transformation effort. The effort will focus departments on transformational change that reshapes the culture of agencies and continuous improvement in service delivery. Chris Dudley hopes that this position in the governor's office will extend the work of the Department of Human Services' Transformation Road and the McKinsey and Company's savings recommendations, as well as other continuous improvement initiatives, to other agencies.

2. **A Real Rainy Day Fund** – Chris Dudley will put three percent of incoming revenues into the state's rainy day fund to stabilize funding for schools, higher education and state services when the economy turns bad. Saving for a rainy day will be the first order of budgetary business in a Dudley administration. These savings payments won't take place when the economy is in trouble or the budget stressed. The same trigger that allows legislators to tap the Education Stability Fund will suspend the three percent savings payment.

   Chris Dudley will work with the legislature to forge a bipartisan agreement that weighs and balances the appropriate triggers for spending, what qualifies as an economic downturn, and what priority services will have access to the fund.

3. **A New Way of Budgeting** – Chris Dudley will end the game of EBL budgeting. He will budget the way Oregon families and businesses budget, by determining how much money the state will have and then building a "Priorities First" budget within existing revenues. Chris Dudley's "Priorities First Budget" will not assume roll-up costs for the next budget cycle.

   Chris will put an end to budgetary sleight-of-hand by restoring transparency and accountability to the budget process: cuts will mean cuts, and increases will mean actual funding increases. That is, increases in anticipated growth won't count as "cuts." Increases above the prior budget's spending level will be spending increases.

4. **Program-by-Program, Item-by-Item Cutting** – Chris Dudley and his new team of managers will do something that has not been done in Salem in almost 25 years: bring a fresh set of eyes and policy assumptions about programs and line-items in the state budgets. Chris Dudley will work to eliminate old programs that have outlived their usefulness or are failing to produce measurable results and stop new legislatively passed pet programs that the state cannot afford.

   The Reset Cabinet says that item-by-item cutting will be "unavoidable." Chris Dudley will make the cuts previous governors – John Kitzhaber, in particular – avoided when in office.

5. **A Scalpel, Not a Meat Ax** – Chris Dudley will ask the Legislature to give him the authority to make specific, targeted cuts rather than across-the-board reductions when the Legislature is not in session and revenues come in lower than expected. If the Legislature refuses, he will ask voters to approve a constitutional authority giving the governor more discretion in exercising his "allotment authority" in economic emergencies.

   Currently, the governor can only make across-the-board reductions when declining revenues force budget cuts and the Legislature is not in session.[15] Recently, the loss of the $796 million in expected revenues and this lack of "allotment authority" forced Governor Kulongoski to make a nine percent across-the-board cut in schools and state programs. Not all expenditures are equal. The governor needs the authority to make precise judgments about what should be cut and what should be spared. The Reset Cabinet has recommended enhancing Oregon's governor's "allotment authority," and Chris Dudley will act to implement its recommendation.

6. **Impact Assessments in Finance and Private Sector Development –** The legislature's Fiscal Office and Revenue Office provide an impact of the cost, or revenues, proposed legislation will have on the state's budget. These are important estimates that provide information to policy makers, but they do not address potential impact to the private sector. Legislators lack an independent evaluation of a law's ability to create costs or regulatory burdens on the private sector. Chris Dudley will work to implement Impact Assessments in Finance and Private Sector Development to better inform policy makers.

Total Compensation Approach for State Employees

Historically the public and private sector have had reasons for differences in compensation levels. Private sector employees have generally been paid more than public sector employees; the trade-off is the stability and regular hours that come with public sector jobs. This is not the situation we find ourselves in now.

Unfortunately our system for compensation is convoluted and disconnected. Retirement benefits are managed through PERS; health care benefits system is managed through the Public Employees' Benefit Board, and salaries are managed though a system of seniority and classification – not outcomes. This means that the total cost of employment is anything but transparent. This is bad for state employees, policy makers and taxpayers.

State employees are the most valuable component of our service delivery system. While we need to reset the size of government to ensure we are getting the best return on our investment, we must first start to build transparency into the system. This starts with a total compensation approach to budgeting for employee costs. With 75 percent of our state's costs going to employment, it is disingenuous to say this is not part of the conversation. State

[15] HB 2148 § 12(2)(a), 2003 Session.

employees need to be partners in finding solutions to our state's financial problems. The following are areas where we should start the conversation:

7. **Fairness Between Teachers and State Workers in Contributions to Healthcare** – Chris Dudley will move to require state employees to pay the average that Oregon's public school teachers now contribute to their healthcare premiums. And his budgets will align benefits for state employees and educators with comparable jobs in the private sector. The reset cabinet projected this move alone could save $400 million in the next biennium.[16]

   For example, the average percentage of premiums paid by all covered U.S. workers is 17 percent for single coverage. The average for state and local government workers across the United States is 10 percent for single coverage. The average percentage for Oregon school employees equals 16.5 percent (16 percent for licensed employees, 17 percent for classified employees).[17] State of Oregon workers pay 0 percent. Making this change will save the state and school districts hundreds of millions of dollars and ultimately mean fewer layoffs for state workers and teachers.

8. **PERS Reform** – Chris Dudley will end the state's pick-up of new state employee's contribution to their retirement. He will push to have the governor, new legislators and judges taken out of the PERS – ending this long-standing conflict of interest – and establish a 401K or defined contribution retirement program for all new hires. Chris Dudley will work with the Legislature to find legal ways to address the PERS pickup issue for all employees. The Reset Cabinet estimated that simply cutting the state's contribution to employees' retirement accounts from six percent to three percent could save $132 million in the state's general fund budget in the next biennium for state and school employees combined.

9. **A Cafeteria-Style Benefits Plan for State Employees** – Chris Dudley will create a task force of public and private experts to explore converting the state's health, dental, vision and other benefits such as deferred compensation and paid time off, to a cafeteria plan model. The task force will report back by May 1, 2011 to inform the Legislature's spending decisions and the governor's signing decisions. Private companies have turned to cafeteria-style benefits plan years ago, and Chris Dudley will put his private sector experience to work in changing Salem's old ways of doing business.

10. **Equalization of Benefits for School Districts** – Chris Dudley will work to equalize benefits packages for school district employees. The average employee pick-up for health benefits for Oregon school employees is 16.5 percent (16 percent for licensed employees, 17 percent for classified employees). Providing consistency in benefits packages across school districts will provide greater accountability at the state level for funding K-12 and is a matter for fairness for school employees.

[16] Final Report – Governor's Reset Cabinet, June 2010, page 71.
[17] Oregon School Board Association, 2008-09 Survey of Oregon Schools.

Accountability and Transparency

11. **Creation of Inspector General for Department of Health and Human Services** – Chris Dudley will establish an Inspector General within DHS to investigate waste, fraud and abuse, as well as identify process, administrative and programmatic improvements. Governor Kitzhaber vetoed legislation in 1995 that would have created such a position.[18]

12. **Reset to Reform Committee** – Chris Dudley will establish a "Reset to Reform Committee" within the governor's office to periodically report on progress in achieving the Reset Cabinet recommendations he has embraced. This committee will also evaluate all state agency programs and services for relevancy, redundancy and alternate service delivery. It will coordinate with the director of privatization/public private partnership opportunities within the governor's office.

13. **Oregon Transparency Website** – Chris Dudley will enhance Oregon's Transparency Website. Additions will include an easy to use database that provides facts regarding each state program, who it serves, why it was created and its stated goals. The database will also include the number of staff dedicated to each program and its funding source.

Prioritized Government Services

14. **Privatization, Public-Private Partnerships and Re-inventing State Government** – Chris Dudley will establish a position in the governor's office to lead a government-wide drive to privatize state services where possible, to establish public-private partnerships to make taxpayer dollars go further, to promote performance-based contracts for public and private service providers and to explore further e-government opportunities. This director of privatization/public-private partnership opportunities and new agency heads will identify projects and possible savings.

    As important as it is to examine opportunities to establish public-private partnerships to make taxpayer dollars go further, there are some functions of government that should continue to be provided by the state such as public safety and corrections.

15. **Privatizing State Liquor Sales: Oregon Liquor Control Commission** – Chris Dudley will end the state's monopoly on liquor sales without sacrificing existing revenue streams or alcohol safety measures and liquor control functions. The Oregon Liquor Control Commission is a post-Prohibition Era monument to the state's failure to change with the times. Selling liquor is no more a state business than selling beer or wine. Getting out of this business quickly will demonstrate Chris Dudley's larger commitment to returning state government to its core concerns and eliminating agencies and programs that have outlived their usefulness.

[18] HB 2902, 1995 session.

16. **A Six-Year Sunset on New and Expanded Programs** – Chris Dudley will force the Legislature to evaluate a program's mission and effectiveness on a regular basis. He will support legislation to require all state programs to be renewed or ended after six years. Bills establishing new programs or expanding existing programs will have to include a six-year sunset provision or they will face a governor's veto. The program will be re-evaluated every half-dozen years to determine if they're meeting measurable goals, have outlived their usefulness, or if their goals can be achieved in a new and less expensive way.

17. **Find It To Fund It** – Chris Dudley will insist that the Legislature not add new state programs unless it eliminates an existing program of equal value or demonstrates cost savings. Oregon cannot continue to pile new programs atop old ones. Our current state government is already unsustainable. The Legislature and governor need to spend time determining what state government should and should not do, as well as what it can and cannot afford to do, within existing resources before taking on new responsibilities. Governing is choosing. This will force our leaders to make choices they have failed to make for the last quarter century.

18. **An End to Unfunded Mandates, Hidden Taxes and Empty Promises** – Chris Dudley will veto any legislation that imposes unfunded mandates on local governments. Oregon's counties, cities and small towns are struggling, too. They are being hit by the same economic forces and labor cost increases that are impacting state government. In fact, some are experiencing a double-whammy because of the ailing timber economy and the phasing out of federal timber payments. Chris Dudley will not let the Legislature place new burdens on local governments without providing them the funds needed to carry out these new responsibilities.[19]

19. **Eliminate Taxpayer-Funded Lobbyists** – Chris Dudley will eliminate all lobbying positions in state agencies and departments as well as contracts with outside lobby firms. When he was governor, John Kitzhaber vetoed a bill that would have accomplished this.[20] Agency heads will have to make the case for their departments' programs before the Legislature and answer legislators' inquiries. The idea of public agencies using taxpayer dollars for lobbyists to advocate for more taxpayer dollars is a conflict of interest. The money for these positions will go instead to providing front-line services.

20. **Operation "Second Look"** – Chris Dudley will ask his budget manager and agency heads to re-examine all programs and positions added in the 2009 Legislature.

[19] HB 2346 (2009) a bill to meet Oregon's housing needs, increased a document recording fee by $15. However, HB 2436 specifically excluded providing for any administrative costs for County Clerks to collect the fee.

[20] SB 485, 1997 Session, Staff Measure Summary "Of the approximately 850 lobbyists registered with the Oregon Government and Standards Practices Commission, 169 are state employees from 52 different agencies." – Legislation Vetoed by Governor Kitzhaber.

According to the Legislative Fiscal Office, $247 million of the projected 2011-13 shortfall is the result of programs and positions added by the 2009 Legislature. Chris Dudley believes that state government should have put its fiscal house in order before building additions. As governor, he will take a second look at these 2009 add-ons and recommend not moving forward on these new enterprises or eliminating older ones to offset the costs.

For example, the "Go Oregon" package borrowed $172 million to create, as *The Oregonian* reported earlier this year, only 600 temporary jobs. That is more than a quarter million dollars in public debt per job. With Oregon already in a recession, prioritizing our tax dollars should have come first. Wasteful spending will become a thing of the past.

21. **Accelerate Implementation of the McKinsey Group's Recommendations for DHS** – Chris Dudley will accelerate implementation of savings recommendations that the McKinsey and Company consultants made for Department of Human Services Transformation Roadmap. McKinsey and Company identified potential savings between $294 million and $558[21] million that could be made over time at the Department of Human Services. Savings of this magnitude will be an important way to address "decade of deficits" challenges at a department facing increasing caseloads and costs. Chris Dudley will request an immediate report on the department's Transformation Roadmap and McKinsey's savings recommendations. He'll also ask for six-month progress reports on implementation and for lessons-learned that might be applied to other agencies.

22. **Department of Human Services Appraisal** – Chris Dudley will commission a comparative analysis of all 50 states' human services departments to determine best practices and how Oregon's systems and programs line up on select key indicators of success (goals) such as drop-out rates, number of youth in foster care, teen pregnancies, per-client costs. He will also task a working group of department heads to examine the opportunities and costs of providing a common management information system that allows tracking of clients across systems of care.

23. **A Single Entry Point for Oregon Seniors Seeking Long-term Care Information** – Chris Dudley will move ahead on the Lewin Group's recommendation that the state implement a single-entry point for all Oregon seniors information on long-term care options. The Lewin Group estimated that a $4.2 million offset by long-term care savings of $11.4[22] million. Chris Dudley seconds this Reset Cabinet recommendation.

Outcomes and Innovation

24. **"Charter Agency" Demonstration** – Chris Dudley will allow small public agencies to demonstrate their ability to deliver services and achieve their mission without legislative

[21] 2008 DHS Transformation Roadmap, page 23.
[22] Governor's Reset Cabinet Final Report, page 59.

and administrative micromanagement. Emphasis will be placed funding outcomes not programs and will empower small-agency heads the flexibility to cut their costs and improve their outcomes.

25. **Oregon University System Restructuring** – Chris Dudley will give Oregon's public university system more flexibility to manage its revenue and costs in the context of multi-year plans in which the system and its universities meet clear performance goals.

    This proposal will be specifically stated in the Education Plan, but the goal is to provide the Oregon University System and its member institutions both predictability in funding and the ability to manage their own affairs without legislative micromanagement and unnecessary administrative impediments.

26. **Commission to Slow Spending Growth in Medicaid (Oregon Health Plan) and Corrections Department** – Chris Dudley will establish a commission to examine ways to slow growth in Medicaid and Corrections program costs. This commission will report back by May 1 so that recommendations can inform the 2011 funding decisions. The commission will report on other states' efforts to reduce their per-client Medicaid spending as well as other states' efforts in corrections cost control.

    Oregon's prison costs, for example, are significantly higher than other states. Oregon spends $84 dollars per prisoner per day, exclusive of debt service. By contrast, Florida spends $52 dollars per day and Idaho spends $58 per day. This suggests we have a spending problem, one that Governor Kitzhaber failed to address in his eight years as governor or his time in the Oregon Senate. We can no longer afford failure. We need to understand why we spend far more to incarcerate far fewer inmates and we need to change. Quickly. This commission will help Chris Dudley do this.

CONCLUSION

As he outlined in March in his *Jobs First, Oregon's Recovery Plan*, Chris Dudley's plan to *Control Spending and Reform Government* represents common sense solutions that will help to slow growth in state spending, control demand for new taxes, strengthen savings for rainy days and rebuild public trust in government.

Out of crisis comes opportunity. Oregon cannot afford the status quo. It's time for fresh ideas and a new direction. With your help we can lay the foundation for Oregon's Comeback!