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Beyond Bureaucracy with Charter Agencies

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Charter Agencies pioneer a new, bureaucracy-busting “deal.” These agencies volunteer to (1) be held accountable for measurable customer benefits and (2) contribute savings/revenues to shore up the budget. In return the state gives charter agency directors more authority and autonomy in how they produce those results, including exemption from many bureaucratic requirements.

A deer and a Department of Corrections car met on a winding southern Iowa road. Neither survived. Corrections would have waited 15 months for a replacement vehicle following the normal procurement procedure. Reclassifying a corrections position through the personnel system usually took a couple of months. But because the Department of Corrections is an Iowa Charter Agency, they picked up a new car in less than two weeks and they turned around a reclassification in a few days.

What’s going on here?

Iowa is testing the hypothesis that state agencies can accomplish more for the people they serve if they can focus more effort on achieving results and less on complying with rules. Put another way, Iowa is exploring the trade-off between getting something done and making sure we do nothing wrong.

A New Deal

Four years of budget cuts sent Iowa through the usual paces: across-the-board cuts, early retirement incentives, top-to-bottom reviews, reorganizations and layoffs. While these moves kept the budget balanced, Gov. Tom Vilsack and Lt. Gov. Sally Pederson realized that they would not solve the structural imbalance. “Government as usual” is simply not sustainable in this fiscal and political climate. In response, the Iowa Reinvention Partnership hatched the idea of charter agencies and asked for volunteers.

How are charter agencies different? Charter agencies are all about achieving results

for Iowans. Easy to say. But agency directors who put results first know they will encounter barriers in the form of the state’s administrative systems. These systems were not designed to achieve results; they exist to minimize risk, at the expense of innovation. Procuring cars and reclassifying positions are but two good examples. Here’s another: seven separate signatures required for a travel authorization ironically means no one actually feels accountable for the decision.

So in addition to putting results front and center, charter agencies take on bureaucracy’s web of rules. Government’s usual “must follow the rules above all else” mentality both frustrates the public and stifles those working in government.

The charter agency invitation was (1) spend less time and money on paperwork and low-value-added rule compliance, so you can (2) redirect that energy into innovation to achieve the results Iowans most value.

Instead of relying on the Governor’s Office and the Department of Management to drive change and improvement, the charter agency deal would kindle ongoing improvement from within each agency. The Governor’s Office and Management change roles, shifting from command and control to become enablers and barrier busters (see text box).

In more detail, here is the Iowa charter agency “deal” that was offered to all Iowa agencies, except Management and Administrative Services. Charter agencies commit to:

- Produce measurable benefits—and improvements in those benefits—for the people they serve.
- Help close the current year’s budget gap, through contributed savings or additional revenues. Additional revenues should be entrepreneurially achieved, not raised through new taxes or fees. Charter agencies must collectively come up with at least \$15 million each year.

In return, charter agency enacting legislation provides:

1. Charter agency directors may stand in the shoes of the director of administrative services to “exercise the authority granted to the department of administrative services” in three areas: “personnel management concerning employees of the charter agency,” “the physical resources of the state,” and “information technology.”
2. Charter agency directors may “waive any personnel rule,” “waive any administrative rule regarding procurement, fleet management, printing and copying, or maintenance of buildings and grounds,” and “waive any administrative rule regarding the acquisition and use of information technology.”
3. Charter agencies are exempted from required Executive Council approval for out-of-state travel, convention attendance, and professional organization memberships.
4. Charter agencies may retain the proceeds of capital asset sales.
5. Charter agencies may retain half of year-end appropriation balances.
6. The governor may authorize a bonus for a charter agency director of up to 50 percent of the director’s salary. Similarly, a charter agency director may authorize employee bonuses of up to 50 percent of the amount of the director’s salary.
7. During FY04 and FY05, charter agencies are exempt from mandatory across-the-board budget cuts.
8. Charter agencies are not subject to FTE caps.
9. Charter agencies are eligible for part of the \$3 million Charter Agency Grant Fund to foster innovation.

Table I Iowa Charter Agencies Savings and Revenue Reporting, FY 2004

Department	Expenditure reduction commitment	Actual expenditure reduction	Revenue increase commitment	Actual revenue increase	Total FY 2004 commitments	Actual FY 2004 total	FY 2005 commitments
Human Services	\$1,000,000	\$1,000,000	...	...	\$1,000,000	\$1,000,000	\$1,000,000
Corrections	500,000	500,000	...	...	500,000	500,000	500,000
Natural Resources	50,000	50,000	150,000	154,665	200,000	204,665	300,000
Revenue	...	683,073	1,000,000	633,705	1,000,000	1,316,778	1,500,000
Veterans Home	...	...	1,300,000	1,300,000	1,300,000	1,300,000	1,300,000
Alcoholic Beverages Division	...	...	1,250,000	9,000,000	1,250,000	9,788,598	5,000,000
Uncommitted Grant Funds	1,750,000	...	...	...	1,750,000	...	0
Lottery	...	...	8,000,000	8,400,000	8,000,000	8,400,000	10,900,000
All Departments Total	...	...	...	...	15,000,000	22,510,041	20,500,000

The main “central control” agencies also contributed to the flexibilities, allowing charter agencies to:

- Purchase goods and services outside General Services contracts, provided the charter agency can document the cost benefit, including authority to purchase travel tickets directly instead of using the state’s travel contractor;
- Access technical assistance from experts on innovation and public entrepreneurship at Public Strategies Group, at no charge;
- Retain 80 percent of all new entrepreneurial revenues generated; and
- Utilize streamlined contracting requirements for capital projects.

Also, charter agencies are exempted from many requirements. For example, charter agencies no longer need to:

- File travel claims when expenses are paid by an outside entity;
- Submit pre-contract questionnaires for contracts valued at \$1,000 or less; or
- Submit pre-contract questionnaires for corporate or governmental vendors, provided they obtain the information needed to meet audit requirements.

Finally, Gov. Vilsack, Lt. Gov. Pederson, and Department of Management Director Cynthia Eisenhauer made their support unequivocally clear.

Despite all of the above, many directors and staff remained skeptical. Many did not want to gamble on the new deal because they were unsure it was “real.” Some felt they could not justify the fiscal obligation. Others had not made transformation into a results-based organization a priority.

But six directors, who were running into roadblocks on the road to results, saw enough potential to literally pay for charter status with budget cuts or new revenue contributions. They perceived net value.

Jeff Vonk, director of the Department of Natural Resources (DNR), was already pushing entrepreneurship and change, challenging his department to be a “world class organization.” Charter agencies fit naturally with his vision. In addition to the DNR, five others stepped forward in July of 2003: the Departments of Corrections, Human Services, and Revenue, the Alcoholic Beverages Division of the Department of Commerce, and the Iowa Veterans Home. The Iowa Lottery has its own, similar new deal.

All commitments to the new deal are documented in the charter agency legislation and in annual Charter Agency Agreements for each agency, negotiated and signed by the agency director and governor. Each agreement leads with a list of the agency’s specific and quantified performance goals

and special projects. The agreements also include a list of flexibilities, the fiscal obligation and other terms.

Note that charter agency status does not infringe on collective bargaining agreements. Charter agencies have worked successfully with our unions as they exercised flexibilities that touched union interests. For example, the Department of Revenue used their flexibility to rehire a retiree at a higher salary because the person had recently become a CPA. Union approval was needed, and obtained after a good discussion.

So Far, So Good

If the new deal is ultimately about better results for Iowans and less bureaucracy for agencies, the first round of reporting is positive. Achievements include:

- Reduced turnaround time for air quality construction permits from 62 to six days; for wastewater construction permits from 28 months to 4.5 months, both without sacrificing environmental quality;
- Reduced stays in Child Welfare shelter care by 20 percent, or 10 days;
- Increased the number of children with health coverage by 12 percent this year;
- Improved the rate of income tax returns filed electronically from 55 percent to 63 percent, first nationally;

- Reduced the failure rate for probations by 17 percent;
- Reduced the number of Veterans Home residents who have moderate to severe pain from 18.5 percent to 9 percent;
- Provided good work experiences for 50 percent more women inmates than before charter agencies;
- Saved \$200,000 by developing a new pharmaceutical bidding process and negotiating drug costs;
- Replaced that wrecked car in two weeks, instead of 15 months;
- Saved \$38,281 by bringing contracted work back in;
- Saved money on air tickets, e.g. Des Moines–San Antonio for \$444 instead of \$656;
- Eliminated the M-40 form, speeding intern hiring from 10 days to one day;
- Waived an administrative rule to correct a pay equity mistake; and
- Reduced turnaround times on personnel actions from months to days.

These results benefit Iowans. They also lift morale inside government. “It’s exciting to be part of an effort that focuses on results and enables us to report those results to a legislative oversight committee that wants to hear from us,” reports Jim Elliott, the charter agency staff lead at the Veterans Home. DNR Deputy Director Liz Christiansen adds, “We have been able to eliminate paperwork and undertake entrepreneurial efforts. And I feel like we’re just getting started.”

Bill Gardam of the Department of Human Services points to employees’ ability to make their own travel reservations as not only resulting in lower costs, but also enabling “employees to have a personal life because now they can better fit their work travel into the rest of their lives.” The bottom line, as the Department of Revenue’s Cindy Morton puts it, is that charter agencies “show that this administration is committed to results for Iowans.”

State budget savings and revenue contributions for FY04 totaled more than \$22 million, \$7 million more than the \$15 million target. Most of the \$22 million came from increased revenues, especially from the Alcoholic Beverages Division. Charter flexibilities sparked their entrepreneurial spirit. One of their first and most productive moves was to switch from a uniform mark-up on their products to variable pricing, which increased revenues without significantly increasing alcohol consumption. The Division’s leader,

Lynn Walding, says charter agencies “helped us be creative. It also helped me implement ideas I’ve had for a long time, especially to pursue the business side of our organization. It prompted us to go the extra mile.”

Charter Agencies are also helping agencies absorb budget cuts, in addition to benefiting the General Fund. “Cost savings ideas are percolating up now; these will save us money,” observes Corrections’ Deputy Director John Baldwin.

Revenue’s Morton put it this way, “As a charter agency, we are able to promote out-of-the-box thinking and then act on it.” Baldwin also appreciates that his agency now has “more control over what we do, especially purchasing and classifications. Our agency works more smoothly when we don’t have to go through the bureaucratic process. We now have choice.” DNR’s Christiansen echoed this benefit, appreciating “more of a sense of control over our day-to-day activities.”

The achievements above were expected, at least hoped for. But charter agency staff also described the unexpected. They reported a liberating and energizing effect beyond specific flexibilities. For example:

- Corrections is in discussions with a local casino/racetrack and the Animal Rescue League to create two thoroughbred retirement farms to provide excellent work opportunities and rehabilitation for inmates and more humane treatment for the horses.
- The Veterans Home and Corrections are partnering to turn an old kitchen area into an outpatient clinic.

Neither of these actions was impossible pre-charter, but charter spark and momentum are making them happen.

In interviews for this article, many of the agencies focused on the connection between creativity and charter agency status. “We want to use charter agencies to tap into the creativity of our people,” asserts Liz Christiansen. “Charter agency status has given us an opportunity to try new ideas, share planning and strategies with other charter agencies, and to promote innovation. It has also given us recognition, that we are a proactive department that seeks ways to improve,” according to Jim Elliott of the Veterans Home. Lynn Walding also noted the impact of the spotlight on charter agencies, “Encouragement breeds enthusiasm and improvement.”

The charter agency grant fund has also fostered improvements. Walding notes that

“in the past, we would have to go to the legislature to get improvement money. This freedom [through the grant fund] will allow us to provide better service to customers: a new licensing system, automated order entry, and tax payments, all on-line. So we can redirect staff, reduce operating expenses, and provide better services.”

Grant money enabled DNR to create an internal revolving fund to be a self-lender for future improvements. Liz Christiansen also reports “many new suggestions to save money” that the revolving fund can enable.

When asked now “what’s the first word that comes to mind when you think of Charter Agencies?” the lead charter agency staffers replied with: proactive, innovation, opportunity, flexibility and potential.

Overcoming Inertia

For all the promising results, the charter agency concept still faces barriers. A few in Iowa government are still wondering whether the new deal will last. Most are believers now, however. The big conversion happened in October 2003, when a reduced revenue forecast triggered a 2.5 percent across-the-board cut—part of the charter arrangement was that these agencies would be exempt from any across-the-board cuts. Agencies held their breaths, assuming that the governor—or later the legislature—might ask them to take their share of the cut anyway. They did not, which meant that all the other agencies took a larger hit than they would have if the cut had been shared among all agencies. From then on, charter agencies knew the new deal was real.

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health messages. Faculty from the COPH are working with ADH staff to further define the program and have applied for extramural grant funding to evaluate the Healthy Arkansas Initiative.

Summary and Lessons Learned

Innovative health initiatives are developing through collaborations between elected officials (the governor, members of the Arkansas General Assembly, ADH and other state agency staffs, and county and local officials), academic programs (particularly the new College of Public Health), and other partners in Arkansas to improve the health of our citizens. Thanks to the support of the governor and members of the Arkansas General Assembly, collaboration, the essence of public health, is being practiced in our state. Keys to continued success and important lessons learned for other states include:

1. Solicit input from and keep public officials informed and involved in public health initiatives;

2. Continue forming partnerships whenever possible to more effectively and efficiently utilize available resources;

3. Address both policy initiatives (legislative and non-legislative) as well as lifestyle change methods; and

4. Structure the participation from public health academic and practice partners to shape a clear vision of the health priorities and methods to promote health and well-being.

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Although the law gives charter agencies sweeping authority, agency staff approached this opportunity gingerly. They have seen prior experiments fail. They learned their craft in government's "above all, do not make a mistake" culture. As one deputy put it, "you're wondering about how far you're allowed to go and what the consequences may be for testing the boundaries." Charter agency staff are also genuinely concerned about potentially causing harm to their agency and themselves by rashly acting in an area without much experience. But as they try on their new powers, they are appreciating the results. Walding reports that his people "were initially resistant but are now excited." And so far at least, there have been no pitfalls. This fact encourages everyone to take the next step.

The Department of Human Service's Bill Gardam suggests that charter authority and flexibilities would be better utilized if agencies had "more clarity on abilities and expectations." Jim Elliott also noted, "a challenge for us was educating the staff on the benefits that would offset the portion of the appropriation that was given back. We needed to develop strategies to deal with the loss of

funds." Baldwin concurred, "We need to spend more time educating staff as to the power, flexibilities, and possibilities."

Iowa's Department of Administrative Services "owns" many of the rules and policies being tested by charter agencies. DAS staff have been cooperative and supportive, while also cautioning charter agencies about possible problems. Charter agencies present an opportunity for DAS to transform part of its role from "control" mode to "support and guide."

Where Next?

Ultimately, this experiment poses the question of whether all agencies should become charter agencies. Should this form of doing business be adopted across state government? Iowa is not yet ready to answer. These changes are big and new enough that it will take some time for all involved to reach a comfort level. "Slowly, people are accepting charter agencies for what they are. With time, charter agency status will be even more useful," Baldwin predicts.

Legislators' reactions have been positive. When told by the Department of Corrections

about replacing the car in two weeks instead of 15 months, one representative's first question was about the price paid. The answer was that the price was the same, because either way it was purchased off the same high-volume contract. The legislator's next comment was, "maybe all agencies should be purchasing their cars this way."

For now, Management is working with charter agencies to explore the potential and limits of the current pilot. All agree that there is more potential than is being realized. Gardam reports that DHS is continuing to work to "get everybody on board, get our people to think creatively, and then implement their ideas."

"The more trust they are willing to put into the hands of the employees, the greater the potential for success and the better the results for Iowans," the Veterans Home's Jim Elliott concluded.

The new deal is changing minds in charter agencies. As the cynicism fades and staff realize that the new deal is real, they are becoming more creative, assertive, entrepreneurial, and even excited. Iowans benefit.