$ave Oregon

A Plan for Incentivized Cost Reduction in State
Government

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Why Are We Here?

- Responding as citizens to government funding issues
- Bringing our thoughts to the issues of "doing government" in a more efficient effective manner
- Bringing our experience and expertise together to do something positive
- Our discussion to include
  - B-2 Program Cost Reduction challenges and success
  - Current Oregon fiscal challenges and response
  - Proposed enhanced response for Oregon

David Rudawitz, PMP

Vice President of Antevorte Consulting, LLC and a senior IT management consultant with recognized subject matter expertise in cost reduction, IT management, and enterprise architecture. He was a project manager as well as responsible for metrics tracking for the B-2 Stealth Bomber program Industrial Modernization Improvement Program (IMIP) program office at Northrop Grumman Corporation. This program booked $464 million in cost reductions. He has practiced his craft over 30 years with companies such as IBM, Northrop Grumman, Ameron Corp., General Dynamics and Holmes & Narver, Inc. He is a certified Project Management Professional (PMP) by the Project Management Institute (PMI) as well as certified in the IBM Consultant Profession by the IBM Corporation. He is a member of the Project Management Institute, IEEE, IEEE Computer Society and the Association of Computer Machinery (ACM).

The B-2 Bomber Experience

- **Challenge –** The most expensive weapons system development program
  - Under significant pressure to reduce costs
  - Involved over fifty major subcontractors and hundreds of third tier subcontractors
- **Solution –** Establish a Cost Reduction Program

- The B-2 was over $44B in 1996$. By contrast, the Manhattan Project was about $21B in 1996$ (1942-1945)
- GM cut their IT budget from $5B to $3B by treating cost reduction as a project, driving it from senior management, tracking it very closely and communicating it widely.
- City of Indianapolis successful incentivized cost reduction project
- Recent Oregon experience with incentives (not shown on latest ESAP reports)
  - Oregon Lottery. - $1,093,750 saved on video lottery terminal upgrade
  - Department of Human Services saved over $500,000 with an Oregon Health Plan application checklist

B-2 - How It Worked

- Leveraged new DoD Industrial Modernization Improvement Program (IMIP)
- Created a central Cost Reduction Program Office (CRPO) at the Prime Contractor (Northrop)
  - Staffed the CRPO with skilled project managers and support staff
  - Included the employee suggestion program
- Analyzed the B-2 program and prioritized opportunities for savings
- Proactively worked with employees and subcontractors to create cost reductions
- Carefully tracked and communicated the projects and savings

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B-2 Cost Reduction Results

- Original goal was about 5% of the budget
- Actual results - $464 million - about 4.5% (which was enough to just about pay for the 21st aircraft)

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The original goal was $2.5B based on building 132 aircraft and a $44B program budget. The program was greatly reduced, first to 75 aircraft and then to the final 21 aircraft that have now been built. A number of viable cost reduction projects had their return on investment (ROI) based on more than 21 aircraft so these projects had to be dropped as the program was downsized. The resulting savings of $464M was really only on the much smaller 21 aircraft program. The program was on track to make the original goal of $2.5B had the scope remained at 132 aircraft.

B-2 Cost Reduction Success Factors

- Centralized cost reduction program office
  - Proactive
  - Aggressive
- Sponsorship from the highest levels
- Evangelistic program managers
  - Seek out and create savings projects
- Broad participation
- Authority to make contact changes to realize savings
- Careful tracking of projects and savings
- High visibility of the program

The Oregon Challenge

- Demand for services is increasing
- Unwillingness to pay more for government
- Budgets can not support this

- Where can the money come from?

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Measures 28 and 30 were soundly defeated by the voters which has continued to underline citizen reluctance to pay more for government. No drop off in demand for services has been seen. This leaves only one conclusion – government must do the same or more with the same or less money.

The Present Oregon Response

- Mandated across-the-board budget reductions
- Loosely coordinated efficiency identification efforts
- Pre-existing Employee Suggestion Program and State Productivity Improvement Revolving Fund (1955, 1980)

182.365 Legislative findings; definitions for ORS 182.365 to 182.400. (1) The Legislative Assembly finds that it is in the public interest to encourage and reward government efficiency and that the present state budgeting system has developed inadequate mechanisms to reward efficiency in government agencies and programs. The Legislative Assembly further finds that it is in the public interest to establish a program to reward efficiency and effectiveness in government agencies and programs.

Current Oregon Employee Suggestion Award Program

FY	# Of Sugg Received	Adopt	Non-Adopt	Adopt Rate	# of Employees	Verified Savings
1/1/04 – 3/31/04	35	1	40	1%	31,628	$53,641
7/1/02 - 6/30/03	158	30	157	19%	31,612	$289,877
7/1/01 - 6/30/02	159	30	155	19%	31,913	$2,052,703
7/1/00 - 6/30/01	249	35	179	14%	32,016	$142,471

- **Total Savings 1980 to present - $ 18,573,146**
- Managed by a seven-member Employee Suggestion Awards Commission appointed by the Governor

ESAP savings data from most current reports available on the public website
http://egov.oregon.gov/DAS/HR/awards.shtml

The Employee Suggestion Awards Program (ESAP) was originally established in 1955; suspended during the 1967-69 biennium; and re-established in 1980.

Employee Suggestion Award Program

Mission: "To encourage and reward state employees´ creativity and ideas for improved efficiency and effectiveness."
Authority: ORS 182.320 - 182.360, Policies, Requirements and Guidelines.
Eligible Employees: All Oregon state employees, except those classified as temporary, are eligible to submit ideas that will help

state agencies provide better service, more efficient service, and/or increased productivity.

ORS Citations

182.310 – 182.360 – Suggestion Program

182.365 - 182.400 - Productivity Improvement Programs

Some Definitions

Cost avoidance –A project or change that avoids future cost or limits budget growth in the future.

Cost reduction – A project or change affecting a procedure, rule, process, etc. that results in a budget reduction, contract price revision or refund of an expense.
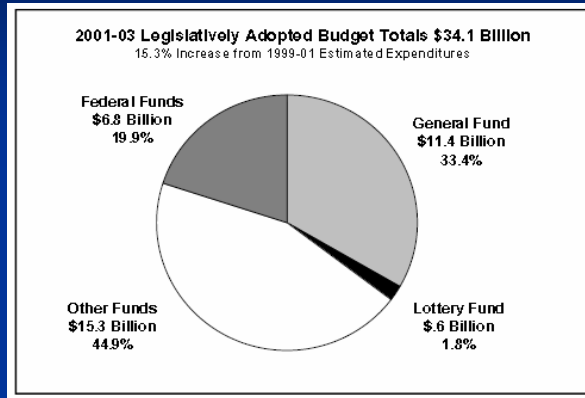
Evaluation – Unbiased objective analysis of a cost reduction idea that includes the analysis of technical feasibility, financial cost/benefit, implementation and other impacts.

Incentive – An award, usually financial that is used to affect behavior (in the case of individuals) or provide an acceptable return on investment for companies or other business entities.

Suggestion – An idea for a process change or improvement, action or cessation of action, specification or standards change

2001-03 Biennium Performance

- General Funds
  - $11,400,000,000
- ESAP verified savings
  - $2,342,580
- Which is 0.021 %
  - Twenty-one one thousandths of one percent

2001-03 Legislatively Adopted Budget Totals $34.1 Billion
15.3% Increase from 1999-01 Estimated Expenditures

Federal Funds
$6.8 Billion
19.9%

General Fund
$11.4 Billion
33.4%

Other Funds
$15.3 Billion
44.9%

Lottery Fund
$.6 Billion
1.8%

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For the entire budget of $34.l1B the percentage would be 0.00687% which is roughly 1/3 of the percentage when only looking at the general fund.

Why Are the Savings So Meager?

- Not enough suggestions being made and being implemented
- This **_could_** be due to:
  - Limited scope – sub-enterprise, lots of exclusions
  - Limited awareness
  - Passive approach
  - Inadequate incentives
  - Unwilling/uninterested evaluators and biased evaluations
  - Incentives to not suggest or not accept suggestions
  - No "teeth" to actually take the reductions
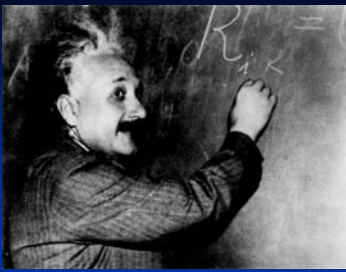
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"*The definition of insanity is doing the same thing over and over and expecting different results.*"
Albert Einstein

A Better Oregon Response

City of Indianapolis → ESAP → Best Practices → B-2 IMIP

Review with new thinking

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- **$ave Oregon Program**
- **Combining**
  - Lessons learned
    - B-2 IMIP Program
    - Other government programs
  - Industry best practices
  - New entrepreneurial thinking

The City of Indianapolis instituted a program about ten years ago that included protection of manager's jobs, union involvement, savings shares with contractors and other new and best practice concepts to produce a very effective cost reduction program which was able to change the culture of their city government.

$ave Oregon is Comprised of

State Employee Suggestion Program

Citizen Suggestion Program

Incentivized Contract Reductions

Cost Reduction Consulting

Proactive Suggestion Development

Incentivized Budget Reduction

Measuring, Reporting and Communicating

Cost Reduction Program Office (CRPO)

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Cost Reduction Program Office

•Enhancement of the current Employee Suggestion Program staff

•Change from reactive to proactively seeking out suggestions and efficiency improvements

•Marketing and evangelizing the program

•Providing cost reduction consulting services to State agencies and other local government agencies around the state

•Managing the evaluations of the cost reductions

•Supporting department coordinators and evaluators

•Documenting and tracking the suggestions

•Insuring that the savings are actually realized and accountable to create savings

State employee suggestion program

•Include all state employees (full time, temporary and contract)

•All employees at all levels are eligible to participate and are encouraged to make suggestions that affect any aspect of state government, not just their own agency.

Incentivized budget reduction

•Agency management would be incentivized to reduce the cost of providing the services of their agency without adversely affecting the services they provide. Incentives would include performance appraisal goals for suggestion development and acceptance.

•Managers would not be penalized by downsizing their departments or budgets.

Incentivized contract reductions

•Reward state contractors that come up with ways to reduce their existing contracts

•Help contractors make capital improvements that would result in immediate and longer term cost reductions for the state.
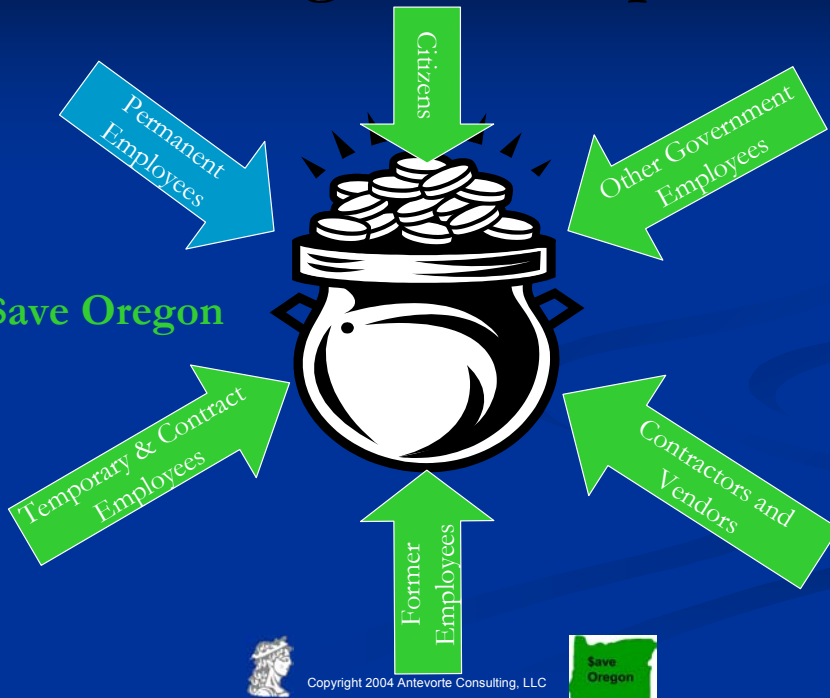
Citizen suggestion program

•A single incentivized statewide program for citizens to make cost saving suggestions and also receive recognition and financial rewards

$ave Oregon Participation

ESAP
With $ave Oregon

Citizens

Permanent Employees

Other Government Employees

Temporary & Contract Employees

Contractors and Vendors

Former Employees

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•An integrated single program combining all department programs along with the state level program

•Includes both cost reductions and cost avoidances

•No constraints on the source or scope of a suggestion The suggestor would be decoupled from the evaluation

$ave Oregon is Proactive

- Aggressively seek out savings opportunities
  - ESAP is passive
  - $ave Oregon is proactive
- Generate cost reduction through
  - Training/Consulting
  - Communications
  - Workshops
  - Reviews

ESAP is passive – it is designed only to encourage and reward.

$ave Oregon is proactive – it is intended to seek out and develop cost reduction suggestions and expedite their adoption and implementation. It is intended to be the change agent to bring about significant cost reduction and keep the effort alive and ongoing.

$ave Oregon is Comprehensive

- Extends and enhances ESAP

- Fewer limitations than ESAP

- Has the "teeth" to implement suggestions and capture savings

- Leverages all groups together

- Measured on the amount of net savings generated

Incentives Change The Culture

- Facilitates cost reductions by
  - Increasing the generation of ideas
  - Improving/expediting evaluations
  - Easing implementation
- Is the catalyst for *sub-cultural change* to create a cooperative aggressive cost reduction environment

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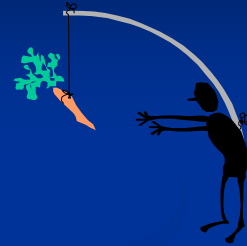
Incentive Benefits

- Expand the feedstock by encouraging suggestions from all sources
- Facilitates the unbiased evaluation and implementation of ideas
- Facilitates cross-organizational cooperative cost reductions
- Makes supplier reductions financially viable
- *Change the current culture that inhibits cost reduction*

Incentives include various forms (although typically financial) of incentives to **all** the participants of the program

- Suggestors would receive incentives for making suggestions and financial awards for suggestions that are implemented. Out year savings incentive payouts would be provided.
- Evaluating agencies will be compensated for their evaluation efforts so that they can perform rigorous objective evaluations.
- Managers making suggestions that reduce their department budget and/or staff would be rewarded and not penalized.
- Managers of agencies being reduced by cost reduction suggestion that they are asked to evaluate would not be penalized for a favorable evaluation.
- Managers would have cost reduction suggestion generation, acceptance and savings included in their performance reviews
- Implementation costs and awards would be funded from the savings
- Suppliers and contractors that needed to make capital investments to reduce agency cost would receive a financial award to make their investment financially viable (achieve their hurdle rate)

Who Pays For All These Incentives?

- **$ave Oregon, once established, would be self-sufficient**
  - Incentives are implementation costs for savings projects
- **It should remain viable as long as there are savings to be realized**
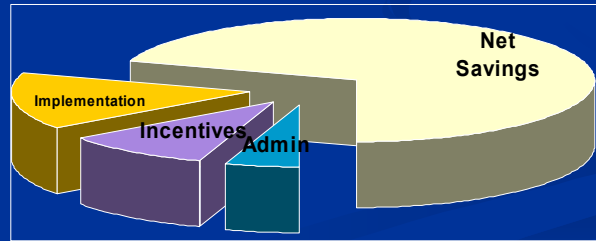
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•Analysis, administration, incentives and implementation funding would be generated out of the savings captured by the program

•Eliminates issues associated with who has to spend their budget to obtain the savings for the enterprise

$ave Oregon Life Cycle
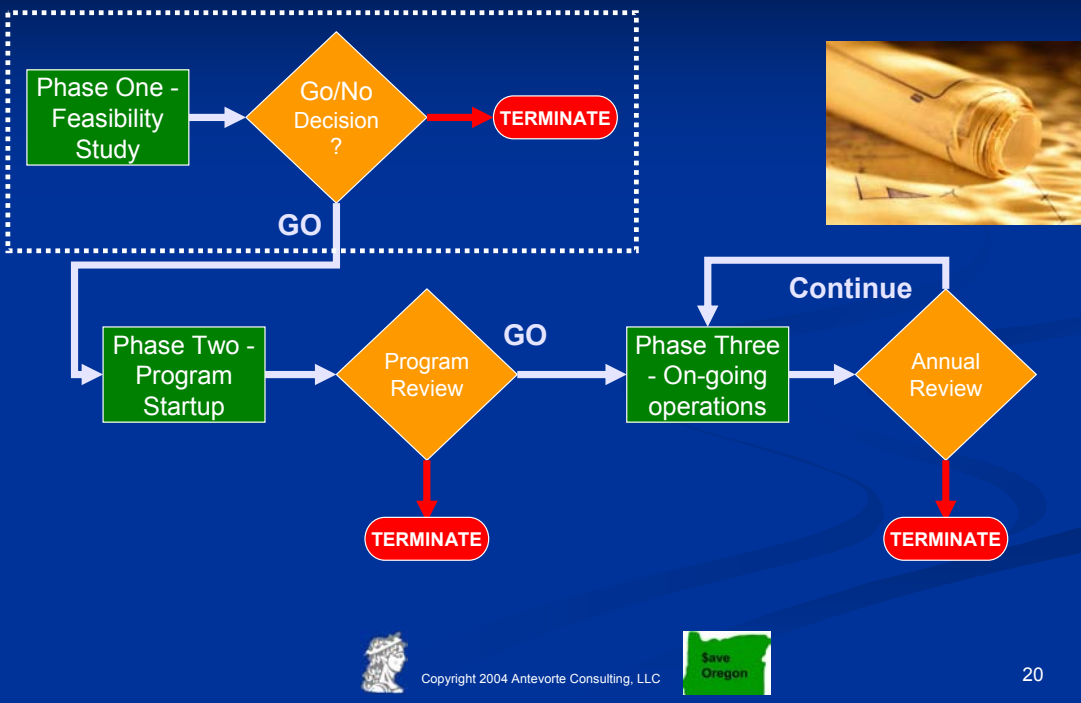
•To be a success, such a program must be carefully designed using system design methodologies and implemented following a well defined plan.

•Move ahead to fund a feasibility study so that an informed decision can be made on whether and how to proceed to affect fiscal change in Oregon State government

•**Phase One - Feasibility Study**
- •Review existing programs
- •Estimate potential savings
- •Define proposed revitalized program
- •Prepare a plan and estimate the costs to implement

•**Phase Two - Program Startup**
- •Transform the current program to the revitalized program
- •Create and implement new processes, communication plan, etc.
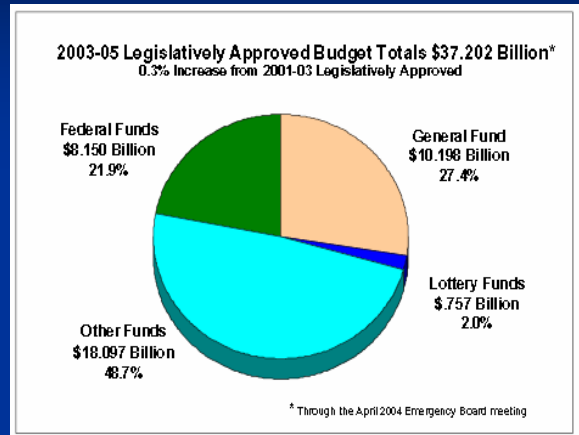
•**Phase Three - On-going operations**

Risks

- **Blazing new trails**
  - It has been done before (B-2 IMIP, City of Indianapolis and the current ESAP) and we have the expertise to guide you through the process
- **State Employees support**
  - Experiences in other programs shows that employees will be supportive when they are active participants in crafting the program. Obviously there is support for ESAP.
- **Realization of savings**
  - The CRPO with the support of the Governor and Legislature.
- **Existing suggestion program**
  - $ave Oregon is much more than just a suggestion program.
- **Will it work?**
  - The feasibility study will address this risk
- **Perception of "double dipping"**
  - Communication of the program to all stakeholders is critical.
  - Legislative oversight necessary to insure value to taxpayers.
  - CRPO vigilance to protect against "schemers"

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What about 2003-05 Biennium?

- Total Budget $37,202,000,000

- 0.1% savings would be $37,202,000

- 4.5% would be $1.67B
  - Three times the amount of Measure 30

2003-05 Legislatively Approved Budget Totals $37.202 Billion*
0.3% Increase from 2001-03 Legislatively Approved

Federal Funds
$8.150 Billion
21.9%

General Fund
$10.198 Billion
27.4%

Lottery Funds
$.757 Billion
2.0%

Other Funds
$18.097 Billion
48.7%

*Through the April 2004 Emergency Board meeting

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Graph from the Updated Budget Highlights 2003-05 Legislatively Approved Budget, LEGISLATIVE FISCAL OFFICE, MAY 2004

Questions

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Backup Slides

Phase One - Feasibility Study

- Public and government staff briefings to explain the proposed program
- Inventory of existing suggestion and cost reduction programs in the State
- Proposed cost reduction advisory and facilitating committees, their makeup and proposed agency advocates
- A review to determine the enabling legislation that may be required including potential legal and cultural roadblocks
- Functional features requirements document for the IT services that would be needed to support the CRPO and related efforts
- Recommended communications plan to evangelize and market the program
- Proposed metrics and analysis items to be used to assess program success
- Quantified estimates by category of possible cost reduction opportunities to provide some data to determine program value
- Documentation for the establishment of a CRPO including sample charter, staffing, organization chart and reporting structure
- Project plan and documented budget request for Phase Two to support Phase Two funding.
- Phase One can be expected to take approximately 8 months with a team of consultants and State employees.

Phase Two - Program Startup

- Funding release, CRPO is staffed and initiates operations
- CRPO
    - Communicates program
    - Solicits suggestions and ideas
    - Processes suggestions and ideas
    - Implements IT services identified
- CRPO issue first annual report after year of operations
- Comprehensive review will be performed to determine how well the program is meeting the proposed expectations
- Successful review of the program viewed as an approval point for continuation of the program.

Phase Three - On-going operations

- Upon successful completion of the first year review, the $ave Oregon would be off and running as a self-funding comprehensive program and would:
  - provide constant status and metric visibility through its website and published annual reports.
  - subject to an annual review to insure continued goal achievement.
- Once it has paid off all seed money, it will be a no cost line item in the budget.