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The Charter Agencies Initiative

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POLICY BRIEF

Introduction

Iowa's Charter Agencies Initiative, originally developed by the Public Strategies Group, a Minnesota-based government-consulting firm, is one in a series of programs implemented by Iowa Governor Tom Vilsack to address the ballooning state budget. The program stresses increased efficiency, reduced costs, and greater freedom for state agencies (and the Governor's office) to offer better value to Iowa's citizens.

A Charter Agency is a "state department or division that has been given greater administrative flexibility so it can work to accomplish its public purpose in a more innovative, results-oriented way."[1] Such agencies may bypass many of the paperwork requirements and regulations to which other state agencies must adhere. Charter Agencies are encouraged to experiment with new ways to increase revenue and cut costs without compromising the health or safety of Iowans. In return, they receive a variety of benefits, including exemptions from across-the-board budget cuts, and the ability (in some cases) to retain additional revenue and keep unspent appropriations.[2]

The Problem

In 2002, Iowa was facing a fiscal crisis. Governor Vilsack, then beginning his second term, said, "I've lived in Iowa for 27 years, and we have not faced the kind of fiscal challenges we have faced this last year in that 27-year period."[3] Across the aisle, Republican Representative Jeff Elgin echoed the Governor's sentiments, referring to that year as "hard times" for Iowa state government.[4] The crisis reflected troubling economic trends in Iowa and occurred despite previous measures to balance the state budget. According to a Cato Institute study[5], 80,000 Iowans left the state between

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1980 and 1987. Spending exceeded tax revenue during the 1980s and revenue fell short of expectations. This led to reform acts designed to limit spending to 99 percent of adjusted revenues and to create a reserve fund for economic downturns.[6]

As in other states, Iowa's economic picture brightened in the 1990s and revenue rose. From 1993 to 1997, annual revenue growth for the Iowa General Fund exceeded 5 percent.[7] However, this growth did not last. Faced with cumulative general fund budget gaps of over $3 billion between fiscal 2001 and 2005, the state cut $1.4 billion in services and made $2 billion in transfers from sources outside of the general fund. The Governor's 2005 budget proposal revealed a downward trend in Iowa revenue fund growth from 1972–2006 (projected), with revenue declines in both 2002 and 2003.[7]

The Solution

Governor Vilsack's office approached the Public Strategies Group, seeking to improve the fiscal climate, reduce the deficit, and change the way state government operates. From start to finish, from first proposal to actual implementation, the process took roughly one year. In January 2003, the idea was first pitched to legislators. The bill met some resistance, though no parties actively campaigned against it.[17] It was enacted in May of the same year.

On July 1, 2003, the governor issued Executive Order #28, naming the six agencies that would, for the next five years, drastically change their operations[1,10]. These are:

- Iowa Veterans Home
- Alcoholic Beverages Division of the Department of Commerce
- Department of Corrections
- Department of Human Services
- Department of Natural Resources
- Department of Revenue

According to the Department of Management's overview of Charter Agencies, such Agencies must:

1. Produce measurable benefits—and improvements in those benefits—for the people they serve.
2. Help close the current year's budget gap through contributed savings or additional revenues. Charter Agencies must collectively come up with at least $15 million each year.[2]

The agencies must agree to initial budget cuts. But by accepting cutbacks in their general fund allocations, Charter Agencies are (Iowa Code 7.J.1.3.d)[11] exempt from across-the-board budget cuts that the Governor could be legally bound to order. Such cuts occurred in 2003 and 2005.

Before the beginning of each fiscal year, every Charter Agency is required to meet with the governor and create an "annual performance agreement" that offers "measurable organization and individual goals for the director in key operational areas." (Iowa Code 7J.1)[11] The document is made public and forwarded to the general assembly for review.

Agency directors are empowered to choose procurement techniques, general services, and information technology. These agencies' freedom to waive administrative rules helps them cut costs and maximize revenue. This results-based initiative uses free market principles to foster a competitive, entrepreneurial spirit within state agencies. The Department of Management's overview of Charter Agencies boldly proclaims, "Getting things done is more important than not doing anything wrong."[2]

Charter Agencies can reap the rewards of innovation and long-term planning. Where not prohibited by statute, agencies are allowed to retain all proceeds from asset sales and leases,[11] an "agreed-upon percentage" of new revenues generated,[1] and half their general fund balance at the fiscal year's end.[11] In addition, Charter Agency directors can receive bonuses directly from the governor and dole out bonuses to exceptional employees within their department. [11]

Without money, even the best ideas can be delayed or not acted upon. To address this, Charter Agencies legislation put aside $3 million in the form of a grant fund as seed money for expenses the agencies may incur while experimenting with cost-cutting techniques.[11, 18]

Most Charter Agency directors did not immediately exercise their newfound power. This tentativeness was attributed to deeply ingrained bureaucratic patterns. As evidence of the slow adoption of reform, the first administrative rule wasn't waived until October 2004, 15 months after the charter agencies were created.[4,12]

To combat agency hesitation, the Department of Management, along with the Public Strategies Group, undertook a program to educate all parties involved about what the legislation allows and what actions are appropriate.[2] The effort is intended to assuage the anxiety of Charter Agency directors, administrative agencies, and state legislators.

Iowa has seen concrete results from the Charter Agencies program. The Department of Management cites numerous improvements in state services since the inception of Charter Agencies. DNR reduced turnaround times for permits, DHS increased health coverage for children, Corrections increased the number of probationers successfully completing their probation periods, the Department of Revenue raised the rate of income tax returns filed electronically and tax refunds issued, and the Veterans Home now admits 90 percent of patients within 30 days, up from 69 percent.[16]

As for closing Iowa's budget gap, Charter Agencies are required by law to collectively meet or exceed a $15 million target each year in savings or entrepreneurial revenues. In FY 2004, Charter Agencies far exceeded the target goal, contributing over $22 million to Iowa's General Fund.[16] As this is being written, charter agencies are projected to collect at least $20 million for the General Fund in FY 2005.[16]

Kevin Concannon, director of the Iowa Department of Human Services, noted that Charter Agency status enabled his department to gain greater authority over personnel decisions, and also expedited contracts. Concannon said that this flexibility helped DHS institute Iowa's electronic benefits transfer program months ahead of schedule.[20]

Lynn Walding, administrator of the Iowa Alcoholic Beverages Division of the Department of Commerce, noted that the flexibility granted by Charter Agency status enabled him to successfully reduce costs even as gas prices rose, to compete effectively with the private sector as a provider of services, and more effectively manage personnel.[13]

In spite of this success, practitioners do see the potential for future setbacks. Walding said expectations for agencies might be based on the anticipation of annual revenue growth from an atypical base year. Subsequent goals could become unrealistic, punishing agencies for falling short of an unreachable standard.[13] This risk makes clear that any sweeping reform program requires a commitment to constant evaluation and active management.

Relevance to Massachusetts

Massachusetts, like Iowa, relies on state agencies to provide many vital services. While such agencies may once have been able to count on steady funding increases, the Commonwealth has consistently elected anti-tax governors. In 2000, an initiative to roll the state's income tax back from 5.95 to 5 percent was supported by 59 percent of voters. In 2002, more than 45 percent voted for ballot question 1, a referendum to eliminate the income tax altogether.[19] The message was clear: proposing tax increases is a political risk for the Commonwealth's elected officials.

However, Massachusetts faces a number of challenges that will require investments to maintain and enhance economic competitiveness. Lawmakers are currently wrestling with bills that would dramatically increase investment in public higher education and in K-12 schools that have consistently performed poorly. The multi-year cost of these programs could be around $1 billion. An early childhood education initiative would cost another $1 billion over the next several years.

The Commonwealth's roads, bridges and transit systems also require investments that could be on the order of $1 billion over the next few years. Finally, tentative agreement has been reached on a plan to extend health insurance to thousands of uninsured Massachusetts residents. Even a stripped down plan will cost $250 million in the coming years. Though Massachusetts has emerged from past fiscal crises, long-term challenges require the Commonwealth to seek savings wherever possible.

Conclusion

This program introduced flexibility and market incentives to Iowa's agencies. By enabling agencies to act more like private organizations, Charter Agencies saved more than $20 million while improving service quality. The program specifically prohibits agency rule waivers that violate existing collective bargaining agreements, due process, and health and safety standards. Similar reforms could be a politically palatable way to help Massachusetts'seek increased efficiency and superior results.[11]

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