

DOCUMENT RESUME

07983 - [C3468583]

State and Local Government Productivity Improvement: What Is the Federal Role? GGD-78-104; B-163762. December 6, 1978. 67 pp. + 3 appendices (7 pp.).

Report to the Congress; by Elmer B. Staats, Comptroller General.

Issue Area: Intergovernmental Relations and Revenue Sharing: Federal, State, Area-wide, and Local Coordination (402); National Productivity: Evaluation of actions of National Center for Productivity and Quality of Working Life under Public Law 94-136 (2903).

Contact: General Government Div.

Budget Function: General Government: Executive Direction and Management (802).

Organization Concerned: Office of Management and Budget; Civil Service Commission.

Congressional Relevance: House Committee on Banking, Finance and Urban Affairs: Economic Stabilization Subcommittee; Senate Committee on Governmental Affairs: Nuclear Proliferation, Science, Planning and Federal Services Subcommittee; Congress.

Authority: National Productivity and Quality of Working Life Act of 1975 (P.L. 94-136). Federal Assistance Paperwork Reduction Act; S. 3267 (95th Cong.). Federal Grant and Cooperative Agreement Act (P.L. 95-224). Intergovernmental Personnel Act. Public Works and Economic Development Act. Executive Order 12089.

Productivity is defined as the relationship between resources used and results achieved. Improvement in productivity means either obtaining more and better program output from a given level of resources or using fewer resources to maintain or improve a certain quality level of output. The Federal Government has a vital stake in improving the productivity of State and local governments for two primary reasons: the national economy is strengthened as a result of improvements in the productivity and fiscal prospects of this key sector; and the effectiveness and efficiency of the multitude of Federal grant and regulatory programs using State and local governments to implement Federal policies are directly related to the management capacity of those governments. Findings/Conclusions: The productivity in State and local governments is lower than it could be, resulting in higher costs and/or lower levels of public services. State and local government operations do not have the profit incentive to improve productivity that exists in the private sector. However, substantial fiscal and performance benefits have been achieved by innovative State and local governments which have initiated productivity improvement programs. Productivity improvement has been used as a strategy to relieve growing fiscal pressures faced by State and local governments, but most State and local governments do not have

significant, comprehensive productivity improvement programs. Major barriers preventing or limiting State and local improvement programs include internal resistance, the large initial investment needed to start a program, and the limited capacity of organizational systems. The most important impact of the Federal Government on State and local government productivity is the Federal grants system, but most Federal grant programs do not reward grantees for productivity performance. Recommendations: The President should establish a focal point at the Federal level with clear authority to oversee and provide stronger leadership for Federal efforts assisting State and local management improvement and productivity. The Congress should institute fundamental changes in the grants system by removing negative barriers and by incorporating positive incentives to reward improved productivity in grant programs. The Director, Office of Management and Budget, with the assistance of the proposed focal point, should lead a Government-wide effort to promote increased concern for productivity in Federal assistance programs. (RRS)

BY THE COMPTROLLER GENERAL

Report To The Congress

OF THE UNITED STATES

8583

State And Local Government Productivity Improvement: What Is The Federal Role?

This report assesses how the Federal Government can best advance productivity in State and local governments, and identifies the most promising Federal approaches available for doing so. Improved State and local productivity would promote the Federal interest by alleviating local fiscal distress, strengthening the national economy, and improving the implementation of Federal grant programs.

The Federal Government can help State and local governments improve their productivity by (1) developing a general management improvement program to assist State and local governments in executing innovative improvement projects and to sponsor needed research and development of national interest, (2) making fundamental changes in the grants system to remove negative barriers and promote positive incentives for productivity improvements, and (3) establishing a strong Federal focal point for State and local productivity improvement to lead the entire Federal effort.

While GAO's recommendations have budgetary implications for the Federal Government, the payoff to the entire public sector from an effective effort would far outweigh these costs.



GGD-78-104

DECEMBER 6, 1978



COMPTROLLER GENERAL OF THE UNITED STATES

WASHINGTON, D.C. 20548

E-163762

To the President of the Senate and the
Speaker of the House of Representatives

This is our report assessing the most effective ways that the Federal Government can promote State and local government productivity improvement. Improving State and local productivity would help promote the Federal interest in strengthening the national economy and in increasing the effectiveness of Federal programs that rely on State and local governments for their implementation.

We concluded that the Federal Government can best promote increased levels of State and local productivity by (1) developing from existing Federal programs a general management improvement program for the benefit of State and local managers, and (2) making changes in the Federal grants system to remove hindrances to State and local productivity and to incorporate positive performance incentives in grant programs, thereby encouraging improved productivity in federally assisted services.

We made our review pursuant to the requirement in the National Productivity and Quality of Working Life Act of 1975 (P.L. 94-136), the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67).

We are sending copies of the report to the Director, Office of Management and Budget, and to the heads of departments and agencies with active programs assisting State and local general managers to improve governmental productivity.

A handwritten signature in cursive script, reading "Thomas A. Staats".

Comptroller General
of the United States

COMPTROLLER GENERAL'S
REPORT TO THE CONGRESS

STATE AND LOCAL GOVERNMENT
PRODUCTIVITY IMPROVEMENT:
WHAT IS THE FEDERAL ROLE?

D I G E S T

State and local government productivity is lower than it could be and therefore results in higher costs and/or lower levels of public services than necessary. Productivity improvement programs have enabled many State and local governments to increase services and reduce costs, thus helping to relieve growing fiscal pressures faced by many jurisdictions. However, productivity improvement strategies are not as widely used by States and localities as is needed.

The Federal Government has a two-fold interest in State and local productivity:

- The national economy is strengthened by improvements in the productivity and fiscal prospects of the State-local sector, which accounted for 15.1 percent of the gross national product in 1976.
- The costs of Federal grant and regulatory programs carried out by State and local governments are affected directly by the efficiency and effectiveness of those governments.

The Federal Government can help State and local governments improve their productivity by

- developing a general management improvement program to assist State and local governments in executing improvement projects and to sponsor research and development that is of national interest;
- making fundamental changes in the grants system to remove negative barriers and promote positive incentives for productivity improvement; and

--establishing a strong Federal focal point for State and local productivity improvement to lead the entire Federal effort.

THE STATE AND LOCAL
PRODUCTIVITY PROBLEM

Studies indicate substantial inefficiencies in State and local delivery of services in comparison with similar private sector operations. Further, there are marked differences among jurisdictions in performance for the same service; e.g., differences of as much as 500 percent have been identified in refuse collection productivity among comparable cities. (See pp. 5-6.)

These differences indicate that productivity in many State and local governments could be increased at least to the levels of more efficient States and localities. Productivity improvement programs have enabled many State and local governments to increase service performance levels without commensurate cost increases.

Productivity improvement has been used as a strategy to relieve growing fiscal pressures faced by State and local governments. While short-term dollar savings resulting from productivity improvement may not be enough to close large budget gaps or rescue cities from the brink of financial bankruptcy, long-term savings may be sufficient to forestall prospective fiscal distress and slow the inflationary expenditure spiral. (See pp. 7-10.)

In spite of these potential benefits, most State and local governments do not have significant, comprehensive productivity improvement programs. Although many have programs to improve the productivity of selected services, comparatively few have systems to measure the efficiency of most services on a regular basis and to use these performance measures to manage public services. (See pp. 12-14.)

THE PROCESS OF STATE AND LOCAL PRODUCTIVITY IMPROVEMENT

Productivity improvement does not come easily to State or local governments. They do not have natural incentives for improving productivity, e.g., profit motive and competition, that are available in the private sector. Benefits derived are not appreciated adequately by the public, while the associated fiscal and organizational costs receive inordinate attention. Major barriers preventing or limiting State and local productivity improvement programs include

- internal resistance,
- large initial investment to start a program, and
- limited capacity of organizational systems such as information systems, budget processes, excessive organizational fragmentation, lack of trained analytic expertise, and inadequate measures available to analyze service output. (See pp. 22-28.)

The internal interest of top management in productivity must be sufficiently compelling to provide the impetus to surmount these obstacles and to sustain an effective ongoing program. Productivity analysis must be integrated into the management and budget process in order to have an ongoing impact on State and local costs and services. (See pp. 17-22.)

FEDERAL GRANTS SYSTEM--THE MAJOR FEDERAL IMPACT

The most important impact of the Federal Government on State and local government productivity is the Federal grants system. The impact on productivity is primarily negative because of the delays and additional costs caused by the myriad of regulations and excessive "red tape"

imposed through the Federal grants system itself. (See pp. 41-46.)

Most major Federal grant programs examined by GAO do not reward grantees for productivity performance either in distribution of funds or evaluation of grantee use of funds. Further, State and local governments have little incentive on their own to be concerned about productivity in using Federal grant funds. (See pp. 46-51.)

ROLE OF EXTERNAL ASSISTANCE FOR PRODUCTIVITY IMPROVEMENT

Federal assistance was not primarily responsible for initiation of State and local productivity improvement programs, but for the most part played a secondary or supportive role. The secondary role was important, however, because the assistance accelerated or supported existing State and local management desires to start or broaden productivity programs. Most State and local governments, because of the limited availability of in-house expertise and information, needed some form of external assistance to support program development. (See pp. 30-36.)

External assistance can help by providing:

- General management and capacity improvement assistance to support productivity efforts including training in-house staff and developing new organizational systems.
- Seed money funds to defer startup costs of productivity improvement projects.
- Information on other jurisdiction programs and comparative performance statistics.
- Provision of well-developed and tested measurement systems and work standards.

Federal funds, in some cases, did serve as a catalyst for program initiation in those governments where top management was unsuccessful in committing local funds because of internal conflicts over the value of productivity improvement programs. In these cases, the Federal grants provided funds for startup costs, enabling State and local governments to begin management innovations having long-term benefits but short-term costs. (See pp. 36-40.)

Federal funds are especially important to fiscally troubled local governments where management analysis is often jettisoned in the competition for shrinking local dollars. These local governments, who are most in need of productivity improvement, are least able to afford the startup costs and are most dependent on Federal funding for financing productivity projects according to the sample survey taken by GAO.

CURRENT FEDERAL PROGRAMS TO IMPROVE STATE AND LOCAL PRODUCTIVITY

Many individual Federal agencies and programs provide technical and financial assistance either for central management or functional area management improvement at the State and local level. (See chart on pp. 53-55.) In dollar terms, Federal assistance for central management is about 0.1 percent of total Federal grant funds available to State and local governments.

Recent Federal attempts to coordinate more effectively Federal financial and technical assistance programs for State and local productivity improvement have met with limited success. Greater potential exists for more interagency cooperation and coordination. (See pp. 58-59 .)

CONCLUSIONS

The Federal Government should encourage and support State and local government efforts to improve their productivity.

Although the Federal Government cannot provide the primary stimulus or impetus for State and local productivity improvement efforts, direct Federal financial and technical assistance can be valuable to State and local governments with sufficient internal management interest.

This assistance must be part of a broader Federal general management improvement program for State and local governments consisting of:

- Funds for a limited seed money grant program for State and local general management improvement.
- Increased funds for national research and development programs in public management, including development of better measurement systems and alternative approaches to public service delivery.
- Improved dissemination of information to State and local governments on management improvement techniques, comparative performance rates, and other productivity-related work.

However, the major Federal impact on State and local productivity itself is achieved through the grants system. At this point, the structure and strictures of the grants system exert a primarily negative impact on productivity. However, due to the growing fiscal importance of Federal grants for State and local governments, the grants system can be harnessed to provide positive incentives for improved productivity in functions aided.

There is a need for a more effective broker in the Federal Government who can articulate the management needs of State and local governments and effectuate needed changes in Federal programs and policies which either directly or indirectly affect State and local productivity. A central broker,

or focal point, could work to institutionalize a concern for productivity in the Federal Government's ongoing relationships with State and local governments.

RECOMMENDATIONS

To the President

The President should establish a focal point at the Federal level with clear authority to oversee and provide stronger leadership for Federal efforts assisting State and local management improvement and productivity. It is important that the President also seek adequate funding for the focal point commensurate with this responsibility. The Civil Service Commission, soon to become the Office of Personnel Management, would be the most appropriate organizational location for this focal point.

To the Congress

The Congress should institute fundamental changes in the grants system by removing negative barriers retarding State and local government productivity and by incorporating positive incentives to reward improved productivity in existing and future grant programs where appropriate.

The Congress should also amend the Intergovernmental Personnel Act to authorize funding for general management improvement projects for State and local governments and provide funding to the Bureau of Labor Statistics needed to measure State and local productivity trends under the general direction of the proposed Federal focal point.

To the Director, Office of Management and Budget

The Director, Office of Management and Budget, with the assistance of the proposed focal point, should lead a Government-wide

effort to promote increased concern for productivity in Federal assistance programs. This Government-wide effort should primarily focus on encouraging the use of positive productivity incentives in grant programs where appropriate and beneficial.

Agency comments

Office of Management and Budget, Civil Service Commission, and public interest group responses are included as appendixes I, II, and III, respectively. The Office of Management and Budget found it difficult to take a position on GAO recommendations at this time. It suggested that the appropriate Federal role in State and local productivity improvement be studied by the new Cabinet-level Productivity Council.

It is regrettable that in the Executive Order outlining a national productivity program to carry on the functions of the National Center, a Federal focal point was not designated to deal with State and local productivity. GAO fears that Federal involvement in this crucial area could dissipate. While the Office of Management and Budget indicated that the National Productivity Council, created by the Executive order, would undertake a study of State and local productivity improvement, a Federal leadership vacuum will be created until the study is completed and the Council considers any future recommendations.

The Civil Service Commission found the report useful and endorsed its recommendation to locate a Federal focal point for State and local productivity within the Commission. Major public interest groups supported GAO's conclusions and recommendations in joint letters to the Assistant to the President for Intergovernmental Affairs,

the Office of Management and Budget, and
the Civil Service Commission.

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While GAO's recommendations have budgetary implications for the Federal Government, the payoff to the entire public sector from an effective effort would far outweigh these costs. In fact, it is somewhat ironic that the Federal effort to enhance State and local productivity has suffered with the funding reductions in relevant research and development efforts at the Federal level at a time when the public's demands for less costly and more efficient government are growing.

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ABBREVIATIONS

APRT	Applied Productivity Research and Technology Division (of NSF)
APWA	American Public Works Association
CETA	Comprehensive Employment and Training Act
CSC	Civil Service Commission
EPA	Environmental Protection Agency
FAUS	Federal Aid Urban Systems Program
FY	Fiscal Year
GAO	General Accounting Office
GSA	General Services Administration
HUD	Department of Housing and Urban Development
ICMA	International City Management Association
IPA	Intergovernmental Personnel Act
ISETAP	Intergovernmental Science, Engineering and Technology Advisory Panel
LEAA	Law Enforcement Assistance Administration
NACO	National Association of Counties
NASBO	National Association of State Budget Officers
NSF	National Science Foundation
OMB	Office of Management and Budget
PTI	Public Technology, Inc.
TPM	Total Performance Measurement
UMTA	Urban Mass Transit Administration

CHAPTER 1

INTRODUCTION

In 1975, the Congress enacted Public Law 94-136 creating the National Center for Productivity and Quality of Working Life. The Center was endowed with a very broad mandate for improving productivity in State and local governments and in the private sectors. Federal agencies were encouraged to assist and support both sectors in their productivity improvement undertakings.

In our May 1978 report 1/ we evaluated the performance of the National Center in carrying out its overall mandate. This report addresses how the Federal Government can best advance State and local government productivity.

We define productivity as the relationship between resources used and the results achieved. Improvement in productivity means either (1) obtaining more and better program output from a given level of resources or (2) using fewer resources to maintain or improve a certain quality level of program output.

Certain key assumptions are inherent in the act's approach to State and local government productivity. The assumptions are that

- productivity at the State and local government levels is a problem,
- a Federal role in State and local government productivity improvement is both appropriate and necessary, and
- Federal financial and technical assistance are important in stimulating and assisting State and local public officials to initiate or expand their own productivity improvement efforts.

In our opinion, the Federal Government has a vital stake in improving the productivity of State and local governments for two primary reasons:

1/"The Federal Role in Improving Productivity--Is the National Center for Productivity and Quality of Working Life the Proper Mechanism?" (FGMSD-78-26, May 23, 1978), report to the Congress.

--The national economy is strengthened as a result of improvements in the productivity and fiscal prospects of this key sector.

--The effectiveness and efficiency of the multitude of Federal grant and regulatory programs using State and local governments to implement Federal policies are directly related to the management capacity of those governments.

The Federal Government currently influences State and local government productivity through:

--The Federal grants system which has a major effect on State and local program operations and cost by virtue of its sheer fiscal magnitude and regulations imposed.

--Direct financial and technical assistance to help State and local governments establish management improvement programs to improve productivity.

In determining the Federal Government's potential role in support of State and local government productivity improvement, it is necessary first to understand the impetus and barriers surrounding State and local decisions to embark on new productivity efforts. Only after identifying the impetus or barriers--"leverage points"--most amenable to external assistance or intervention can the Federal role be analyzed in its proper perspective. These leverage points are discussed in chapter 3.

SCOPE OF REVIEW

To evaluate the Federal role, we reviewed 18 Federal financial and technical assistance programs which support State and local productivity improvement efforts. In addition, we reviewed 12 major Federal grant programs, which provided \$19 billion to State and local governments, to determine if performance incentives were factors in the allocation of these program dollars.

We visited 46 State and local governments, most of whom had undertaken productivity improvement projects. Many of these projects received Federal financial or technical assistance. The other jurisdictions either had no identifiable effort or had discontinued prior efforts. Interviews were held with top management officials, key department heads, and union leaders.

We contacted three State productivity centers and two university groups involved with public sector productivity and interviewed their officials. We also interviewed officials of State and local government public interest groups, as well as prominent experts and researchers on public productivity and management.

A questionnaire on productivity was sent to all 50 States and to 312 cities and counties to gain a nationwide perspective on the productivity problems and efforts of State and local governments. Because of a 40-percent overall response rate, we used the survey results with considerable caution, for the possibility existed that the responses over-represented those jurisdictions with ongoing interest and programs in productivity improvement.

CHAPTER 2

THE STATE AND LOCAL PRODUCTIVITY PROBLEM

Since the early 1970s, the concept of productivity improvement in State and local government has become a growing national concern. Although concern for State and local governmental performance has existed since the early 1900s, Federal, State, and local officials have shown renewed interest in productivity itself in recent years, spurred in part by the substantial fiscal pressures faced by State and local governments. Productivity has come to be viewed not only as a problem of State and local governments not performing as efficiently as possible, but also as a strategy to promote State and local fiscal solvency by reducing the costs of government.

Another major reason for this growing concern is that State and local expenditures have increased by over 600 percent from 1955 to 1976, to the point where they now represent a major share of the national economy. State and local employment has increased almost 150 percent during this period. The following table illustrates this growth:

<u>Expenditures</u>	<u>1955</u>	<u>1976</u>	<u>Percent increase</u>	<u>Percent of GNP</u>	
				<u>1955</u>	<u>1976</u>
	(billions)				
State-local	\$32.9	\$246.2	648.3	8.6	15.1
Federal	68.5	386	463.5	18.0	22.5
<u>Employment</u>	<u>1956</u>	<u>1976</u>	<u>Percent increase</u>	<u>Percent of employment</u>	
				<u>1955</u>	<u>1976</u>
	(millions)				
State-local	4.7	12.2	159.6	8.2	12.9
Federal	2.2	2.7	22.7	3.8	2.9
Private sector	<u>50.7</u>	<u>79.4</u>	56.6	88.0	84.2
Total	<u>57.6</u>	<u>94.3</u>			

This enormous growth of the State-local sector can be partially explained by the additional governmental responsibilities caused by population increases, rising public demands for new governmental services, and the influence of the expanding Federal involvement in social welfare and regulation of the economy.

A significant part of the increase, however, relates to the rising costs of providing these services. During the period 1957 to 1976, State-local personnel compensation costs rose 204 percent, outstripping comparable increases in the private sector and the Consumer Price Index which rose 102 percent.

During this period, a number of State and local governments have initiated comprehensive, Government-wide productivity improvement programs to measure service performance on a regular basis and to manage governmental operations using this performance data. Since 1970, a number of Federal agencies and private research organizations have developed productivity improvement strategies and efficiency and effectiveness measures for State and local services.

WHY STATE AND LOCAL PRODUCTIVITY IS A PROBLEM

The productivity in State and local governments is lower than it could be. Therefore, higher costs and/or lower levels of public services may result. State and local government operations do not have the "profit" incentive to improve productivity that exists in the private sector.

Although the state-of-the-art of productivity measurement in the State and local sector is still in its infancy, one study suggests that part of the State and local expenditure growth between 1962 and 1967 was due to low productivity. 1/ Other studies indicate marked differences between public and private sector performance in the same service area. For example, a study of refuse collection in New York City by E. S. Savas found that the city paid twice as much as private sector firms operating in the same area to collect a ton of garbage.

Within the State and local sector itself, the differences among jurisdictions in performance for a given service area are often great. 2/ Differences of as much as

1/Robert M. Span, "Rates of Productivity Change and the Growth of State and Local Expenditures," in T. Borcharding (ed.), Budgets and Bureaucrats (Durham, N.C.: Duke Univ. Press, 1977.)

2/Some of the differences can be explained by physical circumstances among cities, but nonetheless, the differences are great enough to merit concern and study.

500 percent have been identified in refuse collection productivity among comparable cities. Similarly, the number of arrests cleared per police employee ranged from 1 to 7 among cities of 100,000 population.

Among the many explanations proffered for subpar State-local productivity growth, the absence of private sector incentives in the public sector is most important. Whereas increased output per worker in the private sector improves profits, increased output per worker in the public sector may not bring commensurate economic gains. Furthermore, the monopoly enjoyed by State and local governments removes the discipline of competition that forces private firms to cut costs or increase services in order to stay in business. As a result, there is little incentive for State or local governments to compare their performance rates with other jurisdictions.

In the public sector, pressures forcing increased costs are often stronger than cost constraints. According to some observers, political pressures forcing cost increases at the State and local level are more compelling than pressures for overall governmental performance improvement and cost reductions.

The benefits of specific program increases are more visible and significant to special groups with intense interests than are benefits from overall performance improvement or cost reductions which are diffused among a wide cross-section of the public. As a result, top governmental officials will not tend to exert leadership and take risks in an area like productivity improvement where the political rewards and recognition are minimal.

Some students of public bureaucracy have argued that the public sector is unusually susceptible to cost increases because increasing budgets bring far more recognition and rewards to individual bureaus than cost reductions. Also, some analysts have noted that an important constraint on demand and costs in the public sector is removed by the absence of a direct relationship between increased program budgets and taxes required to pay for the services in larger general purpose governments.

Another major reason for alleged State-local productivity lag may reside in the nature of public sector goals and services. Often, the effectiveness or efficiency of public services is secondary to policymakers who are primarily concerned with the traditional distributional question of a democratic political society: who gets what,

when, why, how, and where? In the policy process, considerations of equity and the need to develop political consensus may result in less efficient or effective programs but may nevertheless be rational to those concerned with the stability and responsiveness of the political system.

The labor intensive nature of the public sector is often cited as a factor inhibiting State-local productivity growth. While their nature has changed, many State and local government functions, e.g., police patrol, must remain heavily dependent on manpower. This deprives State and local governments of the tremendous opportunities that technological innovation can bring to improving productivity.

A number of other factors have been used to explain slow State-local productivity growth, e.g., civil service systems, inefficient organizational structures, etc. In chapter 3, we will classify these factors as barriers which State and local managers must overcome to mount productivity improvement efforts.

PRODUCTIVITY IMPROVEMENT CONFERS SIGNIFICANT BENEFITS

The vast potential for improvement in the productivity of the State and local sector is highlighted by the substantial fiscal and performance benefits achieved by those innovative State and local governments which have initiated productivity improvement programs. These benefits and the substantial differences in performance among local governments previously noted indicate that productivity in many State and local government services could be increased at least to the levels of the more efficient States and localities.

Productivity improvement efforts have enabled many innovative State and local governments to:

- Increase service performance levels, holding costs constant.
- Decrease costs for current service performance levels.
- Increase performance while reducing costs.

The increasing costs of State and local governments have in many cases outpaced the ability or desire to pay them. Despite a six-fold increase in State and local taxes

between 1956 to 1976, revenue bases in many cities and States can no longer support the increasing costs of services. As a result, widespread State and local fiscal retrenchment has ensued during the past several years, including employee layoffs and other budget reductions.

Tax increases and budget reductions are strategies often used by State and local governments to deal with these fiscal pressures. However, these actions are often politically unpalatable and frequently cause further deterioration of the State-local economy or revenue base.

Fiscal benefits

Productivity programs have been used by State and local governments to help relieve these growing fiscal pressures. Our questionnaire revealed that 19 percent of State and 17 percent of local government respondents used productivity as a primary strategy to control increasing costs. Most State and local governments, however, continue to rely on traditional "budgetary belt tightening" measures as shown in the following table:

Primary Strategies Used by State and Local
Governments To Deal With Increasing Costs

<u>Type of government</u>	<u>Budgetary belt tightening</u>	<u>Reduction or elimination of services</u>	<u>Productivity improvements</u>	<u>Revenue increases</u>	<u>Other</u>	<u>Total</u>
State: Number	10	0	3	0	3	16
Percent	62.4%	0	18.8%	0	18.8%	100%
County: Number	60	1	6	10	3	80
Percent	75.0%	1.3%	7.5%	12.5%	3.7%	100%
City: Number	110	12	38	17	3	180
Percent	61.1%	6.7%	21.1%	9.4%	1.7%	100%
Total: Number	180	13	47	27	9	276
Percent	65.2%	4.7%	17.0%	9.8%	3.3%	100%

Local governments in great fiscal distress have had to rely on traditional budget-cutting measures to realize the large short-term savings that productivity could not yield. As a long-term fiscal strategy, however, productivity may be helpful to forestall prospective fiscal distress and slow the inflationary expenditure spiral. In fact, a leading student of State and local productivity has concluded that productivity programs could be expected to save 1 percent of local annual budgets. The savings, if permanent, would reach 10 percent over 10 years. 1/

Our visits to State and local governments confirmed the fiscal potential offered by productivity programs. For example:

- Los Angeles County's work measurement and methods improvement program has saved \$35 million per year since 1965 by deleting budgeted positions through attrition.
- Niagara Falls, New York, credits its productivity improvement program for helping to save the city from threatened bankruptcy. Annual savings of \$780,000 were realized and additional revenues were generated.

Performance improvements

By increasing program output, State and local productivity programs have enabled improvements in service performance. For example:

- Of the 42 communities using the fire station location model developed by Public Technology, Inc., most realized lower response times for fire calls, although some had to increase their costs as a result.
- San Diego County's improved work methods for Aid to Families with Dependent Children case processing increased the screening efficiency for identifying ineligible recipients while reducing administrative costs by 66 percent.

1/Frederick O'R. Hayes, Productivity in Local Government Lexington, Mass.: D.C. Heath & Co., 1977), p. 257.

NATURE OF STATE AND LOCAL PRODUCTIVITY PROGRAMS

There are many ways that State and local governments can improve their own productivity without embarking on a defined productivity improvement program. A first-line supervisor is likely to increase his work groups' productivity if he manages his employees well. A city that lays off employees without a reduction in services registers productivity gains.

However, some State and local governments seek to improve their productivity through systematic programs. To guide our study, we defined the ideal State and local productivity effort as a comprehensive productivity improvement program. A comprehensive program would consist of the following:

- Direction and support of the program from the central management level.
- Measurement of the efficiency and effectiveness of most services on a regular basis.
- Utilization of these performance measures in key management decision areas, especially in the budget and personnel systems.

In our study, we identified the following approaches used by State and local governments:

- Work measurement systems--measuring the time taken to produce work output and developing standards for desired performance.
- Performance measurement systems--gathering data to measure efficiency as well as effectiveness.
- Methods improvement--changing work processes, staffing patterns, or techniques used to deliver the service to improve productivity.
- Technology transfer--acquiring new technology to improve output at reduced cost.
- Organizational development--improving competence of employees and quality of working life through training labor-management committees.

--Consolidations--consolidating organizations or jurisdictions to improve productivity by reducing duplication and inducing economies of scale.

--Adjustment of staffing patterns--reducing labor costs needed to provide a given service by adjusting staff deployment to better meet the distribution of work, e.g., deploying police patrols in accordance with incidence of crime.

EXTENT OF STATE AND LOCAL EFFORTS

Most State and local governments do not have comprehensive productivity improvement programs covering most of their service areas. Although many governments want to improve the productivity of selected services, comparatively few jurisdictions have systems to measure the efficiency of most services on a regular basis. Where systems exist, the performance measures are not always used in key management decision areas, e.g., budget preparation and personnel evaluations systems.

We surveyed State and local governments on the extent to which they had introduced productivity improvement programs and measurement systems into their governments' operations. The result of our survey follows.

Existence of Self-Identified
Productivity Programs, 1971-76

<u>Level of government</u>	<u>Yes</u>	<u>No</u>	<u>Total</u>
State: Number	14	7	21
Percent	66.7%	33.3%	100%
County: Number	45	52	97
Percent	46.4%	53.6%	100%
City: Number	139	72	211
Percent	65.9%	34.1%	100%
Total: Number	198	131	329
Percent	60.2%	39.8%	100%

State and Local Government Productivity Programs
With Measurement Systems

<u>Level of government</u>	<u>Yes</u>	<u>No</u>	<u>Total</u>
State: Number	11	3	14
Percent	78.6%	21.4%	100%
County: Number	21	24	45
Percent	46.7%	53.3%	100%
City: Number	95	44	139
Percent	68.3%	31.7%	100%
Total: Number	127	71	198
Percent	64.1%	35.9%	100%

As shown by the tables, 60 percent of those governments responding indicated that they had formal productivity programs, and 64 percent of these had measurement systems as part of their programs. The percentages of governments with programs appear impressive, but the incidence of programs may be overstated because of the low response rate to our survey and the possibility that the responses may be over-represented by those governments with productivity programs.

The fact that only 64 percent of the governments with productivity programs had measurement systems is revealing. We would have expected that for a meaningful productivity effort to exist, some measurement system would likewise have to exist. The lack of a measurement system would suggest that one-third of the reported productivity programs, most of which are in local governments, are in fact, not meaningful programs. If one accepts the thesis that the existence of a measurement system is a truer indication of the number of meaningful State and local government productivity efforts, then 127 of 329, or 39 percent of the respondents, had valid productivity programs.

This lower percentage of State and local government involvement with meaningful productivity programs is confirmed by other studies. A 1975 Urban Institute survey of State budget officers found that the use of performance

measures in the budget process was sparse. Of 32 responding, 16 States did not provide any output information in their budgets and one provided workload data only.

A 1976 Urban Institute study found that only a small number of local governments used either efficiency or effectiveness measures for evaluating public services. Of 247 cities and counties studied, only 25 percent listed effectiveness measures in their budget documents, and only 10 percent listed efficiency measures.

Furthermore, relatively few local governments seem to have comprehensive productivity improvement programs covering most of their service areas. A recent survey by the International City Management Association showed that a majority of cities responding used some type of productivity measure in at least one service area, but for a given service area, only an average of 25 percent of the governments used productivity measurement systems. It appears that in most local governments with productivity programs, measures are typically used for only one of several services.

One other item deserves mention; that is, the measures being used are not as good as they could be. The 1975 Urban Institute survey of State budget officers found a general lack of satisfaction with the adequacy of existing performance measures for State services. The primary findings from the survey were that:

- Fifteen of 32 States, or 47 percent, rated existing efficiency measures as barely adequate or inadequate, while only 10 States, or 31 percent, rated these measures as adequate to quite adequate.
- Twenty-nine of the 32 States, or 91 percent, rated current effectiveness measures as barely adequate or inadequate, while none rated these measures as adequate or quite adequate.

POTENTIAL FEDERAL IMPACT

There are two approaches that the Federal Government does or could use to assist State and local governments in establishing productivity improvement programs:

- Provide incentives for improved productivity for federally aided services through the grants system, and remove restrictive Federal regulations that

retard State and local productivity, as discussed in chapter 5.

--Provide grants to stimulate new State and local productivity programs, as discussed in chapter 4.

In order to analyze the comparative effectiveness of these alternatives, it is essential to understand the impetus and barriers involved in initiating, developing, and/or rejecting productivity programs within State and local governments. An analysis of the impetus and barriers should reveal those factors "leverage points"--that are most amenable to Federal intervention and support. These are discussed in the next chapter.

CHAPTER 3

IMPETUS AND BARRIERS TO STATE AND LOCAL

PRODUCTIVITY IMPROVEMENT

The initiation of State and local government productivity programs is driven primarily by pressures and personnel which are internal to the government itself. The commitment and resolve of key internal governmental officials, usually top managers and elected officials, is needed if a productivity improvement program is to be undertaken and successfully implemented.

A comprehensive productivity program involves major changes in the policies and practices of many elements in the governmental process, from budget preparation to employee evaluations. The impetus, for example of financial pressures, must be very strong to provide the needed incentives and support for management to overcome the strong barriers that exist. The rewards and incentives that accrue to public managers from productivity programs are minor in comparison with the risks that plague such a major effort. The rewards that accrue to private sector organizations from improved productivity, like increased profits and improved competitive position, are not generally realizable in the public sector.

Because productivity improvement programs have a direct impact on the management of the entire government, productivity itself must first become an internal State or local priority before Federal financial or nonfinancial assistance can be useful. Unlike other Federal grant programs, Federal funds for productivity do not stimulate new State and local activity or change management agendas. Rather, externally provided assistance, whether it be Federal or non-Federal, is of only secondary importance in the initiation and development of State and local productivity improvement programs.

Nevertheless, most State and local governments need some kind of externally provided information, technical assistance, or funding to begin and implement productivity programs once the management commitment is made. In this supportive role, external assistance has greater usefulness for State and local officials when it comes from the various ongoing informal networks that link officials of State and local governments together, rather than directly from less credible or less trusted Federal agencies.

IMPETUS FOR PROGRAM INITIATION

The initiation of State and local productivity programs is driven primarily by a combination of the professional motivation of top managers, fiscal pressures, concern for improving performance in programs with high political visibility, and labor-management pressures. Programs were most often initiated by top elected officials and managers, such as mayors, governors, city managers and top departmental officials. Nonmanagerial actors like city councils and citizen groups rarely were the source for new productivity efforts in the jurisdictions visited. Also external public interest groups and Federal agencies were not primarily responsible for any efforts which we observed.

Professional interest of top management

The personal commitment of the manager to use new analytical techniques and technology to improve performance is perhaps the most important factor that motivates productivity undertakings. In our survey, State and local governments cited the interest of top elected or management officials most often as the primary factor leading to the initiation of productivity programs. For example, the city manager of Long Beach, California, is introducing a total performance measurement system in the city after having successively implemented a comprehensive productivity improvement program as city manager of Sunnyvale, California. Similarly, the city manager of Cincinnati, Ohio, stimulated innovative public management in the city as well as in two other cities which he had previously managed--Tacoma, Washington, and Scottsdale, Arizona. In other governments visited, productivity improvements programs faltered when top managers with a commitment to productivity left and no continuing efforts materialized.

Occasionally, political forces do spark top management interest in productivity in two ways:

1. Reactive. Public pressure to improve performance can spark management interest, such as in Kansas City, Missouri, where citizens' complaints about stray animals resulted in new work scheduling for animal control personnel.

2. Proactive. Political leaders, such as a former New York City mayor, used productivity programs as a way to improve their political standing with the public.

On the whole and in comparison to top managers, citizens groups are not an important impetus for initiating programs. Only 7 percent of State and local governments responding to our survey cited citizens groups' activities as a factor in program introduction. The absence of citizen initiatives on behalf of productivity can be explained in several ways:

- Citizens lack the expertise and "inside information" needed to articulate specific management improvements.
- The benefits of productivity improvements are either too vague or too diffuse to warrant citizens' time and effort which are necessary to activate internal management reform.

However, where top management interest in productivity existed, citizens' actions were effective. For example, in Niagara Falls, New York, a group of private sector leaders worked with the mayor to initiate comprehensive productivity improvements.

Fiscal pressures

Fiscal pressures arising from increased costs and demands for public services were identified by a majority of the governments we visited as the underlying factor which stimulated internal interest in productivity. More efficient operations were viewed as a way to increase services without increasing costs or to decrease costs while maintaining service levels which the public has grown accustomed to. For example:

- The city of San Diego, California, became interested in productivity in 1974 when officials realized that projected expenditures would exceed anticipated revenues by nearly \$30 million.
- Niagara Falls, New York, was on the brink of financial bankruptcy when it launched a private sector task force to help improve the productivity of its governmental operations.
- The State of Wisconsin initiated a productivity improvement program in 1972 after a decade of unprecedented expenditure growth in which total State expenses had more than tripled. During this period, four personal income tax increases and a doubling of the property tax burden made top officials fearful of a "taxpayers revolt" and appreciative of a statewide productivity strategy to reduce the increased costs of government.

However, many local governments undergoing fiscal strain did not have productivity programs because (1) interest by top management was lacking, (2) resources were constrained and (3) importantly, major short-term dollar savings were sought, something that productivity improvement usually does not achieve. For example, Buffalo, New York, officials told us that their recent fiscal crisis necessitated large budget cuts to generate dollar savings. The impact on productivity was not considered. In fact, their tight fiscal situation prevented them from hiring sufficient analytic staff to mount a productivity effort.

In our survey, only 5.7 percent of local governments with fiscal problems reported using productivity improvement as their primary approach to dealing with increasing costs. The majority, 73.6 percent, instead relied primarily on "budgetary belt tightening." On the other hand, 24.2 percent of local governments without fiscal problems reported using productivity as their primary approach to controlling increasing costs. The following table shows the results of our survey.

Primary Management Approach Taken by
Local Governments To Deal With Increased Concern
for Costs

	<u>Budgetary belt tightening</u>	<u>Service reduction</u>	<u>Productivity improvement</u>	<u>Resource base increase</u>	<u>Other</u>	<u>Total</u>
Government with financial problems (note a):						
Number	78	11	6	8	3	106
Percent	73.6	10.4	5.7	7.5	2.8	100
Government with no financial problems (note b):						
Number	90	1	36	19	3	149
Percent	60.4	.7	24.2	12.7	2	100
Total						
Number	168	12	42	27	6	255
Percent	65.9	4.7	16.5	10.6	2.3	100

a/Financial problems--governments who responded that their fiscal condition in fiscal year 1976 was either "close to a financial crisis" (requiring extraordinary budget reduction, personnel cuts, etc.); or "financial problems" (requiring more stringent budget and revenue adjustments than normal).

b/No financial problems--governments who characterized their fiscal condition in fiscal year 1976 as "holding our own" (requiring no unusual budget reduction); "good" (permits modest budget increases or tax reduction); or "excellent" (permits substantial budget increases or tax reductions).

Performance problems in key services

A concern for performance in critical services of high political visibility has been responsible for initiating productivity programs in several jurisdictions. Leading organizational theorists, such as Anthony Downs, have posited that the primary pressure for organizational change and innovation is the perception of "performance gaps," that is, differences between expected and actual performance. ^{1/}

Public concern

Where performance-of-service is an impetus, the initiative sometimes is seized by nonmanagerial groups, such as city councils and grand juries. For example:

- San Diego county's analysts were directed by the board of supervisors to analyze the efficiency of administering the Federal food stamp program, in spite of the fact that the major savings accrued to the Federal Government and not to the county.
- Los Angeles county's economy and efficiency commission, in 1967, studied the duplication of criminal justice services at the direction of a grand jury.

Analytic concern

In some cases, concerns for performance emerge when comparisons of local service efficiencies are made with other jurisdictions. In these cases, top management concerns for performance already exist and in fact, motivate the analytic search for more information. Yet, the new data can become a powerful independent force for change, further stimulating additional concern for performance and, finally, action. For example:

- The city of Buffalo, New York, became concerned about the performance of its fire department after obtaining data from the International City Management Association (ICMA) yearbook and a national salary survey that showed the city was exceeding the national per capita cost averages. The city also initiated a refuse collection productivity program after receiving a National Productivity Commission publication which showed Buffalo was inefficient in comparison with other cities.

^{1/}Anthony Downs, Inside Bureaucracy (Boston: Little, Brown & Co., 1967).

--The Dallas, Texas, Water Utilities Department under the direction of a productivity-oriented manager, compared the performance of the city's system with other municipal water systems. The results of the study persuaded the department to embark on a comprehensive management analysis and improvement program, with eventual savings of 4 percent of the department's \$25.9 million annual budget.

Labor-management problems can spur productivity efforts

The existence of labor-management problems can serve as an impetus for adopting productivity efforts. As the State and local sector has become increasingly unionized, public managers search for strategies to deal with employees' wage demands and its cost implications.

In several cities, productivity was introduced, not as an end in itself, but as a way for management to bargain with the unions over wage increases. Management tries to obtain specific, explicit increases in productivity as a trade-off for any wage increases granted. Productivity bargains struck with unions allow both sides to benefit--management gains unions' blessing to changes in work methods and procedures while unions receive either a general salary increase or a specific incentive payment based on performance. As a result, unions accept work rules changes that they may otherwise have resisted.

For example:

- Detroit, Michigan, in 1972 faced strong local union opposition to new high volume refuse collection trucks. To acquire the trucks and realize concomitant savings in overtime, the city agreed to institute an incentive payment to the workers tied to the productivity savings achieved with the new technology. Although there have been some problems with the program, the city had significant savings. In the year ending March 1977, the city realized savings of almost \$570,000, half of which were shared by the workers.
- Flint, Michigan, introduced a productivity incentive program for its refuse collection force as a way to break a labor-management impasse over union salary demands. The incentive scheme included a reduced work day for early work completion as well as shared dollar savings.

--New York City unions, anxious to justify cost-of-living and other wage increases in the face of State-imposed prohibitions on general wage increases, agreed to a formula which limited approved cost-of-living payments to savings achieved through actual productivity gains. In August 1977 the mayor's office announced an additional wage increase program with the sanitation union, allowing for sharing of additional productivity gains with employees.

BARRIERS TO STATE AND LOCAL PRODUCTIVITY IMPROVEMENT PROGRAMS

Productivity improvement does not come easily to State or local governments. The jurisdictions visited attested to the major barriers encountered in beginning or continuing successful productivity improvement efforts. One such barrier was that the benefits derived were not adequately appreciated by the public, while the associated fiscal and organizational costs received inordinate attention. Other barriers included inadequate management capacity, analytic expertise, and measurement techniques.

The main risks and frustrations faced by innovative State and local managers are perhaps best summarized by a budget director of a large Northeastern city:

"* * * half of our operating budget is involved in the police and fire services. The public has very strong notions about those services--that less is bad and more is good. It never occurs to the public that maybe you've got more policemen than you need. Everybody knows crime is going up. Everybody knows you should have more policemen not fewer. The notion that it's legitimate to look at the number of policemen and how to utilize them is something that local politicians have a great deal of difficulty in getting across to the public. [Here is an example of] exactly what happens when you start talking about fire-fighters in the City * * *. Every piece of information that we've been able to come up with suggests that we've got many, too many pieces of equipment.

"* * * when we first got into this we spent more than twice the national average on a per capita basis * * *. So we began to take companies out of service. The first one that we took out * * *

the firefighters union had [handbills] printed up and they went door-to-door in the neighborhood saying your baby is going to burn to death because the mayor took your fire truck away.

"* * * the firemen are always the good guys * * *. The mayor is viewed as the bad guy. It's a tough task."

Primary barriers

The most significant barriers discouraging State and local governments' interest in productivity improvement programs are discussed below. In our opinion, the primary barriers are political, not technical, in nature and relate to the lack of strong incentives necessary for State and local managers to overcome the significant internal barriers to change. Technical problems, such as inadequate measurement systems and lack of trained expertise, constitute important barriers, but are secondary to basic political problems.

Benefits are not apparent

Benefits can be classified as accruing to both the public managers and the public. The rewards or benefits accruing to top officials from productivity improvement programs do not compare favorably to the considerable risks involved. Furthermore, the benefits of service improvements made through productivity efforts are often not immediately apparent to the public. Gains in service output are often long-run in nature, diffused in geographic impact within the jurisdiction, and many times politically invisible. Cost reductions are often just large enough to offset increased costs due to normal inflationary pressures, but usually not dramatic enough to enable the taxpayer to realize fiscal relief or the manager to be appreciated. The absence of short-term benefits hindered the adoption of new or additional productivity programs in many jurisdictions. For example:

--In spite of Dallas' many productivity improvement efforts in recent years, its citizens have shown little, if any, interest in productivity. This citizen indifference has been attributed to the minimal impact on delivery of services resulting from the productivity programs.

--The city manager of Janesville, Wisconsin, told us that his division heads place a low priority on productivity because "it makes no points with the public."

Resistance can be substantial

Substantial resistance is faced by the public manager or elected official embarking on productivity improvement programs. Likely sources of resistance could include public attitudes, unions and other employee groups, departments or other internal organizational elements, and other levels of government.

Because productivity connotes "job speed-up" and "personnel cutbacks," employee resistance and concern was often aroused by proposed changes in work methods or equipment. Employee resistance occurred in both unionized and nonunionized work places. Of the 23 western U.S. jurisdictions we visited, 17 governments experienced employee resistance in the initiation of productivity efforts.

Examples of employee resistance encountered throughout the country include:

- In Kansas City, Missouri, the work measurement program for street repair was abandoned in 1977, in part due to employee resistance. Employee fears of layoffs and transfers and inadequate management communication of goals contributed to this resistance.
- New York City's efforts to institute one-person police cars in certain precincts was followed by a threatened union strike demanding return to the two-person patrol car. The city withdrew its experiment and later agreed to a new union contract which incorporated the two-person car as a requirement.

Productivity improvement also usually changes traditional work practices and organizational patterns which can engender serious internal organizational resistance. For example:

- In Wilmington, Delaware, a patrol vehicle maintenance program proposed by a central productivity staff was "sabotaged" by the police department because the program was perceived as an external staff project and not as a departmental program.
- Buffalo, New York, officials stated that changes in refuse collection operations have been limited due to the opposition of department management.

Costs involved in starting productivity programs

Start-up costs have hindered or deterred program development in many jurisdictions. Initial expenses are incurred through hiring new analytic staff, contracting with consultants, or purchasing new technology or equipment.

While productivity improvement start-up costs are typically recouped by savings, the costs are a significant problem for many State and local governments under fiscal pressure. In our survey, local governments without formal productivity programs indicated that insufficient local funds were a primary reason why they had no programs. This insufficiency of local funds was also reported to be more of a barrier by local governments with fiscal problems than by those in relative fiscal health; 67 percent of local governments in fiscal difficulty indicated lack of funds to be a problem, while only 27 percent of fiscally healthy governments reported this as a problem.

Fiscal pressure seems to be a two-edged sword in explaining State and local productivity programs. On one hand, 11 of 23 western U.S. jurisdictions visited cited fiscal pressure as an impetus for initiating productivity programs. On the other hand, 14 of these same Western governments also indicated that fiscal constraints were a barrier preventing or limiting productivity efforts.

Organizational capacity

Another major factor limiting both the initiation and eventual success of productivity improvement programs is the organizations' general capacity to generate useful productivity information and use it in the decisionmaking process. Productivity programs like those in Sunnyvale and Palo Alto, California, are dependent on the existence of good program data, working management information systems, and other modernized management support systems.

Productivity measurement or incentive programs are limited without Government-wide support systems. For example, San Francisco, whose team of management analysts initiate productivity programs, realizes that it needs a modernized basic financial management data system before the analytic studies can be integrated into the resource allocation process.

In Cleveland, Ohio, the diffusion of authority and decentralization of administration within city government

appears to inhibit broad-scale productivity improvement programs. One department official noted that Cleveland needs a city administrator or deputy mayor to serve as a focal point if a city-wide productivity improvement is to be successful.

New York City's former deputy mayor noted that the city was "in no condition to mount a productivity effort" in 1965 due to excessive fragmentation and proliferation of agencies, low municipal salaries, lack of comprehensive management information systems, and a traditional budget organized by line items. Once needed institutional modernization was completed, the City did embark on a comprehensive productivity program in the 1970s.

Analytic and technical capacity

In developing productivity programs, the use of analytic techniques borrowed from operations research, industrial engineering, cost accounting, and economics is often crucial in any analysis of alternative levels or configurations of resources to be spent for a program. In our survey, State and local governments without formal productivity programs cited inadequate technical staff as a barrier preventing them from initiating productivity improvement programs. State and local governments with comprehensive productivity programs experienced the same problem but used private consultants and other outside experts or recruited new employees with desired analytic backgrounds to develop and implement their programs.

Personnel system incentives are lacking

Several observers note that some State and local civil service systems, originally designed to promote government effectiveness through application of the merit principle, have now become a barrier to more efficient and effective management.

The job security afforded civil servants allegedly deprives them of an incentive to perform more effectively. Managers and supervisors are very limited in their authority to hire, fire, or promote based on job performance due to the excessive reliance on examinations for recruitment and promotion. As a result, State and local efforts to reward productivity through the personnel system may be inhibited by some civil service systems.

Other barriers

Other barriers which inhibit successful implementation of productivity programs once initiated include:

Inadequate measurement systems

The quantitative measurement of governmental outputs is important for productivity programs because it enables comparison with cost inputs, which are already quantified. However, the inherent difficulties involved in quantitatively measuring the output of many public sector functions cause problems in implementing productivity programs. Unlike the private sector, the contribution of most public sector activities is not easily measured or reflected in income statements. Rather, much analytic effort is needed to specify the value of governmental activities. Considerable caution must be exercised to ensure that measures of output don't undesirably skew program performance effectiveness or service quality. For example, measurement of police productivity by total numbers of arrests per officer could result in unacceptable enforcement practices and massive burdens on the local court system.

Conversely, good measurements that are universally accepted can be very persuasive in gaining support for productivity projects. For example, the New York City sanitation department used private garages' flat-rate book work standards to double the department's truck repair productivity.

In many public services, the relationship between alternate levels of inputs or resources and program output levels is more obscure than for production-oriented services such as sanitation garages. In areas like education and public health, the efficient use of resources may have no measurable impact on achieving effective program goals.

Perhaps because of these complexities, most governments seem to manage by inputs, not outputs. Most local budgets do not use efficiency or effectiveness measures, according to an Urban Institute study.

Inadequate information on comparative performance

The differences among jurisdictions in performance for a given service area are often great. For example, differences among cities in solid waste collection productivity of as much as 300 to 500 percent have been identified, even when

service variables and community factors have been taken into account. However, little comparative performance data is available to State and local governments.

Comparative performance data has great potential usefulness to interested management. For example, Buffalo, New York, was spurred to increase its fire service productivity after comparing its fire performance and costs data with that from other jurisdictions.

Information on productivity undertakings of other jurisdictions may be helpful in implementing productivity programs. When we asked officials of western jurisdictions for their opinions on future Federal roles in State and local productivity, 120 of 156 officials expressed a need for synthesis and dissemination of productivity information with emphasis on:

- Experience of other jurisdictions.
- Measurement systems.
- Federal funds available to support productivity programs.

OVERCOMING BARRIERS

Because productivity improvement programs have a great effect on the management of State and local employees and programs, significant internal barriers to the initiation of such programs result. For example, resistance among employees and within the bureaucracy can grow because of the lack of dramatic short-term benefits. Consequently, if change is to occur the impetus for it must be very strong. Productivity improvement must become an internal priority of top management before comprehensive improvement programs can be implemented.

External assistance, financial or otherwise, will generally not stimulate new productivity programs or change internal management agendas. However, this assistance is useful to managers already committed to change.

While external assistance cannot ameliorate major barriers, others can be overcome by external assistance applied in the following ways:

--Reduction in start-up costs.

--Improvements in organizational and technical capacity needed to understand and use productivity analysis.

--Provision of credible measurement systems.

--Dissemination of information on comparative performance and programs of other jurisdictions.

The following chapter will discuss the role played by external assistance.

CHAPTER 4

THE ROLE OF EXTERNAL ASSISTANCE FOR PRODUCTIVITY IMPROVEMENT

As stated previously, external assistance does not provide the primary stimulus or impetus for State and local government productivity efforts, nor does it overcome major barriers faced by State and local managers. However, there are useful ways that outside help can support State and local productivity programs if internal management interest exists.

Most State and local governments need some kind of externally provided technical assistance and information to sustain and support productivity efforts partly because of the lack of inhouse technical staff. Of all sources of external technical assistance, State and local jurisdictions most often used the networks and associations of State and local officials for information and technical assistance, relying least on the Federal Government.

As with technical assistance, the availability of Federal funds for productivity improvement was not the primary factor responsible for program initiation. However, many officials stated that the availability of the funds provided important assistance facilitating more rapid and broader program development and implementation. Federal funds may be particularly significant to those local governments most in need of productivity improvement but least able to afford it, i.e., governments with fiscal problems.

SOURCES OF EXTERNAL TECHNICAL ASSISTANCE

Non-Federal sources of technical assistance and information for productivity improvement efforts are used more often and evaluated more favorably by State and local officials with productivity programs than Federal sources according to the results of our survey, as shown below. State and local officials seem to accord higher credibility and trust to information and assistance received through informal and formal networks of their own counterparts and private consultants of their own choosing.

Technical assistance sources	Frequency of use		
	(percent)		
	Usually	Occasionally	Rarely
<u>Non-Federal:</u>			
Consultants	12.6	53.5	33.8
Colleges and universities	5.3	45.3	49.5
Other municipalities	7.9	39	53.1
Industry	6.5	39.1	54.4
Public interest groups	4.5	30.3	65.2
Other States	5.9	25.9	68.2
<u>Federal:</u>			
Federal agencies	3.6	30.4	66.1
The National Center for Productivity	4.1	15.9	80
<u>Averages:</u>			
Non-Federal	7.2	39.3	53.5
Federal	3.8	23.1	73.1

IMPACT OF NON-FEDERAL TECHNICAL ASSISTANCE

According to our survey, State and local governments reported that they use private consultants, college and university expertise, and other sources most frequently to assist them in developing productivity programs.

Consultant, educational, and business sources

Private consultants, in addition to providing expertise, provide services in other ways. They can recommend resolution of sensitive organizational issues as a somewhat objective third-party with more legitimacy than agents of top management alone. For example, a Plainfield, New Jersey official told us that the city began a new employee incentive productivity program only after it was recommended by a consultant acceptable to both management and labor.

Experts from colleges and universities and private industry also served these dual functions. In our fieldwork, we visited several regional or State productivity centers operating under academic auspices:

- The Georgia Productivity Center performs reimbursable technical assistance and training. At the time of our visit, the center was being considered by DeKalb County for assistance in evaluating its sanitation department routes.
- The Center for Productive Public Management, John Jay College, New York City, sponsors regional seminars for State and local officials, maintains a computerized inventory of relevant literature on various aspects of productivity, and publishes a quarterly review, Public Productivity Review.

Private businesses, concerned about the health of their localities, can often be valuable voluntary sources of assistance for local government productivity programs, transferring their management or engineering expertise to the government. For example, Niagara Falls, New York, received the help of a private business group formed by concerned industrial leaders. The volunteer efforts of this group improved city operations and achieved significant savings for this financially troubled city.

Networks link State and local officials

Informal networks

State and local jurisdictions often use informal personal networks for exchanging productivity information and technical assistance. Visits to other jurisdictions are often important in legitimizing productivity improvement approaches to governments considering initiation of a program. For example:

- West Palm Beach, Florida, faced employee resistance when it tried to introduce a new one-man garbage truck. The city won the employees' support by sending employee representatives to San Diego, California, to see for themselves how the new truck was being used.
- Scottsdale, Arizona, contacted Houston, Texas, when it wanted to institute a new computerized accounting and resource management system being used by Houston. Houston provided the necessary information, technical assistance, and \$150,000 worth of software.

Formal networks

Established national and State associations of State and local officials have increasingly provided information and technical support on productivity. State and local governments frequently cite associations as important information sources for their productivity efforts.

Many associations are involved with productivity projects, including:

- The International City Management Association (ICMA)-- several important publications provide information on productivity. The "Jurisdictional Guide to Productivity Improvement Projects," originally developed under contract with the National Commission on Productivity, is an abstract of over 400 productivity-related projects implemented by various local governments. Under NSF contract, ICMA evaluates innovations and publishes the "Innovations in Management Series" which reviews and reports on evaluated innovated projects. With National Training and Development Service, ICMA is developing a comprehensive productivity improvement training package. Most ICMA conferences include sections on productivity in management.
- National Association of State Budget Officers (NASBO)-- since 1973, NASBO has periodically published a

compilation of management improvement studies done by each State.

--American Public Works Association (APWA)--sponsors sessions and workshops on productivity at APWA conferences. It reports on programs of its members, including productivity, through newsletters and publications.

Public Technology, Inc. (PTI) is a public interest organization established in 1971 by the major associations representing general State and local governments to encourage the use of new technology to solve governmental problems. One hundred and ten cities and counties currently subscribe to its services which include articulation of State and local technology needs, development and testing of new products and systems, and distribution of information and on-site technical assistance needed to help State and local governments implement new technology. Projects include productivity improvement and new management systems. In addition, PTI manages three networks of local technology innovation funded by the National Science Foundation (NSF):

--Urban Consortium--a coalition of representatives of the 28 largest cities and 6 urban counties. The consortium provides a forum in which technology needs are defined, demonstrations are facilitated, and the exchange of ideas is enhanced.

--Urban Technology System--a network of 27 local governments that agree to accept and use a full-time on-site "technology agent" to help the chief executive develop innovative solutions to problems, including productivity. Twenty-three of the 27 original cities will continue funding their transfer agent this year, even though the Federal share dropped from 90 percent to 20 percent.

--Community Technology Initiatives Program--a network of 30 cities and counties under 50,000 in population to function like the Urban Consortium.

Recent NSF-supported research on local innovation adoption concludes that associations of State and local officials have a large potential influence on technology diffusion among their membership. However, the importance of associations varies among service areas. For example, State highway and transportation departments are part of a strong, tightly linked network including organizations such as American Association of State Highway and Transportation

officials. Analogous organizations in the air pollution field are relatively weak by comparison.

State assistance

According to one State-sponsored study, 30 States offer assistance to municipalities on management and organization and 29 States offer training for local government personnel.

In our recent review of technical assistance ^{1/}, local governments reported that they contacted State agencies more often than any other information source for their overall technical assistance needs.

IMPACT OF FEDERAL TECHNICAL ASSISTANCE

The role of Federal technical assistance is secondary or supportive at best. We did not find any case in which the availability of Federal technical assistance provided the major impetus for State and local productivity programs. However, it has proven to be useful to support and sustain program development once the internal management commitment to productivity has been secured.

In our fieldwork, several State and local governments reported receiving reimbursable technical assistance from several Federal agencies:

- Chicago, Illinois--the General Services Administration (GSA) helped the city to institute records management reforms.
- DeKalb County, Georgia--received GSA advice on energy conservation and fleet management.
- San Diego County--the Navy helped establish a departmental work measurement and scheduling program.

We found that federally sponsored research and information on productivity can be helpful to those State and local governments with central management already interested in productivity improvement. Federally generated comparative performance statistics were particularly helpful to Buffalo, New York. City officials told us that a National Center for Productivity publication containing comparative performance data on cities' refuse collection productivity indicated that Buffalo was inefficient relative to other cities. The city's management

^{1/}"State and Local Governments' Views on Technical Assistance" (GGD-78-58, July 12, 1978), staff study.

analysts used this data, along with comparative cost data from the ICMA yearbook, to launch a measurement and productivity improvement effort for Buffalo's refuse collection service, resulting in a \$1 million savings. Currently, the National Fire Prevention and Control Administration is collecting comparative data on local fire departments, and the Urban Mass Transit Administration (UMTA) plans to collect data on all public transit systems that will allow productivity comparisons and identification by UMTA of inefficient transit operators for purposes of targeting technical assistance.

Nevertheless, the impact of Federal technical assistance is primarily dependent on internal management support. For example, the National Productivity Center directed a project to improve State and local productivity measurement techniques at three jurisdictions by "Total Performance Measurement (TPM)," introducing an advanced measurement system combining performance evaluations with employee and consumer surveys. The success of this Center-sponsored effort has varied, depending primarily on the nature of internal support:

- In Washington State, a change in governors and department directors decreased the enthusiasm of participants in the TPM study and as a result all project activity has ceased.
- Los Angeles County made progress on the TPM study and prepared action plans for performance improvement. However, the county was forced to delay further action due to fiscal difficulties and more pressing priorities.
- Sunnyvale, California, completed its TPM study and developed over 100 specified action plans to improve productivity. However, a change in city managers has cast doubt over prospects for project continuation. The former city manager of Sunnyvale is now instituting TPM within his new city--Long Beach, California.

IMPACT OF FEDERAL FUNDS FOR PRODUCTIVITY IMPROVEMENT

Generally, we found that the impact of Federal funds for productivity improvement has been to support locally originated efforts, not to initiate new productivity efforts. However, we noted two significant exceptions where Federal funds play a more vital, catalytic role:

- Risk reduction--Federal funds reduced the risks of innovation when internal management within the

jurisdiction was divided over the wisdom of using local funds for new untested management ventures.

--Fiscally troubled governments--Federal funds were relied on more heavily by local governments with fiscal problems when management analysis lost in the competition for shrinking local dollars.

Federal funds are primarily supportive

In our survey, State and local governments reported using their own funds more often than any other source to support their productivity improvement programs. Over 71 percent of State and local governments reported using their own funds to support the productivity programs, whereas 43 percent reported using Federal funds. Only 12.7 percent of the governments responding reported using Federal funds to support more than half of their programs' costs, while using their own funds for such support in 65 percent of the cases.

In our fieldwork, State and local officials indicated that the primary contribution of Federal funds was to reduce the start-up costs faced by those local governments already committed to a program, not to create demand within those jurisdictions with no interest. For example:

- Tacoma, Washington, sought Federal funds from several agencies to support a number of technology innovation and organizational development projects under a city manager who had an intense commitment to managerial change.
- Lakewood, Colorado, used Department of Housing and Urban Development (HUD) "701" planning grants to help design their performance budgeting system with strong prior commitment from top management.
- Phoenix, Arizona, began a productivity program with its own funds in 1969, but later used Comprehensive Employment and Training Act (CETA) funds to hire operations analysts and HUD "701" funds to assist in developing a program budget.

Federal funds can reduce the risks of innovation

However, in some cases, Federal funds play an important catalytic role. Sometimes the commitment of top management is a necessary but not sufficient condition for the initiation of a productivity program.

Because productivity or management improvement projects do not deliver immediate, visible results and because innovation itself is often risky in nature, selected officials may be reluctant to use scarce local resources for these kinds of ventures. In these situations, Federal funds can reduce the risks to local decisionmakers, enabling them to agree to management innovations that they would never approve with local funds. Indeed, an evaluation of the Federal Intergovernmental Personnel Act found that about 80 percent of State and local project activities would not have been undertaken without IPA funding.

In our fieldwork, we noted several cases in which fiscal pressures and local resistance to innovation prevented interested managers from gaining the necessary local funds to begin projects. In these cases, the local productivity effort may not have been started without Federal funds. For example:

--San Francisco was able to begin its Work Standards Measurement Program as early as 1972 because the IPA program provided \$42,000 to train operations analysts. In the opinion of a top city official, the city may not have started any management analysis program at all without the IPA funding.

--Plainfield, New Jersey, initiated an employee incentive productivity program with IPA funds. In the opinion of a high city official, the council would have not funded the needed consultant work with city money, in spite of strong management support.

Federal funds are especially important to fiscally troubled jurisdictions

As noted in chapter 3, start-up costs for productivity programs in State and local governments with fiscal problems can be a significant problem. In our survey, 67 percent of local governments with fiscal problems reported insufficient funds as a major barrier. In an environment of shrinking local budgetary resources, management analysis and improvement efforts must compete with basic services for shares of a smaller pie. Due to its long-range, low visibility nature, management analysis and productivity improvement programs can be viewed as a luxury by local officials anxious to cut programs and preserve services most important to public safety and health.

Thus, it is not surprising that Federal funds seem to be most important to those local governments most in need of

productivity improvement, i.e., governments with financial problems. As indicated by our survey, those local governments with fiscal problems report a greater reliance on Federal funding than local governments without fiscal problems, as shown below.

	<u>Productivity programs financed with</u>	
	<u>Over 50% from own funds</u>	<u>Over 50% from Federal funds</u>
	(percent)	
Local governments with fiscal problems	55.5	19.6
Local governments without fiscal problems	71.6	7.7

In our fieldwork, we noted an important example in which Federal funds played a catalytic role for a city in fiscal distress: Fiscal constraints that aroused the interest of Jamestown, New York, officials in labor-management committees for productivity also prevented the city from raising sufficient local money to procure necessary expertise. After a lengthy search, the mayor finally obtained Federal funds for implementation of public and private sector labor-management committees to improve productivity.

Federal funds do not guarantee long-term continuation of State and local productivity programs

Even when Federal funds stimulate productivity efforts that the jurisdiction would not otherwise have begun, local adoption of the new productivity program as part of the on-going governmental process remains doubtful and is contingent on internal management commitment to the program.

The concept of the traditional "seed money" approach used in Federal grant programs is that the presence of Federal funds will convince the grantee over the duration of the grant that the program is sufficiently valuable to be continued with non-Federal funds over the longrun. The NSF-funded technology transfer agent program has been a relative success--3 years ago 27 cities were selected for participation; now, 23 of the the cities have agreed to continue funding their agents with primarily local funds as NSF's share has dropped from 90 percent to 20 percent of costs.

However, State or local acceptance of federally spawned productivity improvement programs is an uncertain proposition. Indeed, in the case of San Francisco, the management analyst program started with IPA training funds has been hampered due to a hiring freeze imposed by the Board of Supervisors on the replacement of analysts.

Recent NSF-supported research supports the conclusion that internal governmental characteristics, including chief executive interest, are the key factors influencing local decisions to adopt innovations. A major study of 150 innovations concluded that there was no relationship between successful State and local adoptions of new technology and Federal funding or technical assistance. In fact, Federal support for innovations was found to be negatively related to successful State and local incorporation of technological innovations.^{1/}

^{1/}Robert K. Yin, et al., A Review of Case Studies of Technological Innovations in State and Local Services (Santa Monica, Cal.: RAND Corporation, 1976).

CHAPTER 5

IMPACT OF THE FEDERAL GRANTS SYSTEM

ON STATE AND LOCAL PRODUCTIVITY

As discussed in the prior chapters, the Federal Government directly provides only minor support for State and local productivity improvement programs. But a major impact on State and local productivity itself could be achieved through the Federal grants system which provides \$85 billion to State and local governments for service programs. The productivity implications of Federal grants, comprising over 26 percent of aggregate State and local spending in fiscal year 1979, could be far-reaching compared with the small direct Federal investment in productivity improvement programs. Considering the State and local matching funds required by many Federal programs, one observer notes that at least 33 percent of State and local budgets are potentially subject to Federal grant program regulations.

The Federal grants system has a major negative effect on State and local productivity because of the various program structures and strictures imposed. This heavy Federal fiscal influence, however, can be harnessed and restructured to offer positive incentives to State and local governments for productivity improvement.

NEGATIVE IMPACTS OF THE GRANTS SYSTEM

Many Federal grants system components are a fiscal and administrative burden for participating State and local governments. Such factors as the paperwork burden, compliance with costly Federal standards, excessive delays involved in launching programs, matching and maintenance of effort requirements, Federal funding formulas, and the excessive categorization of Federal assistance impose excessive costs on State and local governments. As such, the grants system retards State and local productivity levels and poses additional barriers to public managers intent on launching productivity improvement efforts. Indeed, it is ironic that many Federal grant requirements, e.g., merit standards, originally enacted to modernize and improve State and local administration of programs, had come to be viewed by some grantees as obstacles to effective and efficient State and local management. (Recent Civil Service Commission revisions of these merit standards to make them more performance oriented and give greater flexibility to State and local officials may change this judgment.)

Effects of Federal grant administrative requirements

Many studies including those sponsored by the National Governors' Association, the Commission on Federal Paperwork, and the U.S. Department of Health, Education, and Welfare (Region X), have addressed the negative impact of Federal grant administrative requirements on State and local productivity. The studies have found a lack of program coordination among Federal departments or agencies that limits program effectiveness, increases administrative burdens, requires excessive reporting and paperwork, and delays funding and program implementation due to lengthy approval procedures, absences of program guidelines, and other administrative practices.

A recent Commission on Federal Paperwork study found that a needless paperwork burden was imposed on State and local governments through Federal grants. The report, Impact of Federal Paperwork on State and Local Governments: An Assessment, concluded that paperwork costs for Federal assistance programs range from 1 to 10 percent of grant amounts. If these paperwork costs were at the bottom end of the range and accounted for 2 percent of total program costs, the paperwork costs would exceed \$2 billion a year. They believed, however, that the figure is closer to 5 percent of program costs, or \$5 billion annually.

The Office of Management and Budget (OMB) and the Federal agencies have made progress during the last decade to simplify grant administrative requirements, but most evaluations of the Federal Government's management initiatives have concluded that OMB and the agencies have been lax in their enforcement of the OMB management circulars. Regulations and requirements have profused further saddling the Federal grants process and reducing the effectiveness of grant programs.

Increased costs and delays due to Federal grant requirements

In many cases, the costs and delays involved in adhering to the myriad of Federal requirements and standards are prohibitive.

According to an analysis by the National Association of Counties (NACO), highway projects funded with the Federal Aid Urban Systems Program (FAUS) were significantly higher than similar projects funded by the counties mainly because

of Federal requirements. In Jefferson County, Alabama, the FAUS project was estimated to cost \$4.5 million over a 6.5-year period, while a comparable county project was estimated at \$1 million for a 1.75-year time frame. In another instance, reconstruction of two bridges by the State of Oregon was delayed up to 8 months due to Coast Guard insistence on an environmental impact statement even though the Federal Highway Administration had ruled earlier that such a statement was not required.

Federal citizens participation requirements compelled New York City to hold a second set of public hearings on a highway project that had already been the subject of separate hearings as required in the City's capital budget process. Additional costs and delays resulted.

We found instances in which governments elected not to apply for Federal funds because the Federal requirements would only serve to increase the total project costs. For example, Montgomery County, Maryland, chose not to use Federal funds to construct a library. Even with a large Federal match, the county's costs would have been greater with Federal participation because of the enlarged total project costs required to meet the additional Federal Davis-Bacon Act prevailing wage standards.

The impact of Federal maintenance of effort requirements

Maintenance-of-effort requirements are a potential problem for State and local governments. Many Federal grant programs require that State or local governments maintain their prior levels of effort as a condition for receiving Federal funds, so that the Federal money is used to supplement existing State and local program activity. For State and localities with a high level of prior fiscal involvement, Federal funds can create an excessively large program. In some cases, this could lead to inefficient or wasteful program operations. For example:

- Fairfax County, Virginia--budget officers were interested in trimming local funds for air pollution control, but felt constrained because the Federal Environmental Protection Agency (EPA) requires grantees to maintain their air pollution spending at last year's levels.
- State of Wisconsin--for sometime, the State had been providing free public education for handicapped children. With increasing Federal funds becoming

available under the Education for All Handicapped Children Program (P.L. 94-230), some officials in the State are apprehensive that the new influx of Federal funds will create a total program with unit costs in excess of State standards if the State must also maintain its current level of effort.

Funding formulas

Most formula grant programs do not use productivity as a factor to determine distribution of funds among the States. Also, the formulas themselves can create inefficiencies by using factors diametrically opposed to efficient program operations.

In some of the larger grant programs, such as the Social Security Act's title XX Social Services program, the Law Enforcement Assistance Administration's (LEAA's) program, and the Food Stamps program, formulas do not take productivity into account when funds are distributed. The title XX program distributes funds based on the number of needy persons in the State, LEAA based on State population, and Food Stamp funds are based on the number of low-income persons. Because State and local governments received fixed allotments of funds by formula, irrespective of their efficiency, there is no incentive for States to economize with Federal dollars.

Specific formulas may inadvertently encourage grantee inefficiency. Of the 93 Federal grant programs which distribute money by formula, 30 reward State and local governments for increased expenditures in the program area. Federal assistance under these 30 program may be affected if the grantee reduces expenditures due to productivity improvement. For example, the Department of Labor's Unemployment Insurance is a 100-percent federally funded program which distributes money to States to operate unemployment insurance programs. Under the current funding formula, States are given funds based on pre-established base levels of time to be spent per client. If less time is spent per client than the base level, say as a result of increased efficiency, the State receives less money for staffing purposes even though its workload is not necessarily reduced. Conversely, if more time is spent per client, the State receives more money even though its workload is not necessarily increased.

The categorical grant system
can inhibit productivity

Most studies of the grant system conclude that the categorical nature of the Federal grant system is a major factor contributing to unnecessary paperwork requirements and administrative inefficiency at the State and local level. The typical finding is that the myriad of programs supported by Federal grants to States and local governments generates paperwork to fulfill the Federal Government's desire to assure accountability and that these requirements adversely impact on State and locals. Both the National Governors' Association's studies and the Federal Paperwork Commission's reports state that categorical programs should be consolidated to reduce the costs of intergovernmental management.

One of our reports ^{1/} also pointed out the problems in meeting needs with the categorical grant system. The report found multiple programs for similar needs, such as 7 Federal programs providing funds for outpatient health services, and 11 Federal programs providing funds for child care activities. Program consolidation was cited as a means to achieve a more comprehensive and efficient system to deliver services.

The report also pointed out that the corresponding multiple funding sources created administrative problems for grantees when several funding sources must be tapped to obtain sufficient funds to operate a project. In addition to increased costs and delays, the problem of multiple funding sources can lead to service inefficiencies and even absurdities at the local level. For example, Chicago, Illinois, officials could not serve a USDA-funded lunch to youths hired under the CETA program because the age eligibility of the two programs differed and could not be reconciled.

The categorical system tends to weaken the control of general managers (e.g., city or county managers, state budget offices) by establishing special relationships and separate lines of accountability with functional specialists responsible for administering the grant. Many Federal programs prescribe the organization structure to be

^{1/}"Fundamental Changes Are Needed in Federal Assistance to State and Local Governments" (GGD-75-75, Aug. 19, 1975), report to the Congress.

used by State and local governments in some detail. At times, special office or planning districts dedicated to the particular Federal program must be established in order to receive Federal funds irrespective of local management plans or structures.

Needless duplication and overlap result from the excessive organizational fragmentation fostered by Federal grants. Our recent report on Federal planning assistance ^{1/} concluded that the fragmentation spawned by Federal planning requirements needlessly complicates State and local comprehensive planning and frustrates efforts to coordinate programs. Excessive fragmentation may also prevent State and local general managers from consolidating operations to increase their efficiency.

The 1960s and particularly the 1970s saw the Federal Government begin new approaches to providing assistance to State and local governments. The pattern of increasing assistance through narrowly defined categorical programs was somewhat altered with the enactment of broader purpose block grants and general revenue sharing. However, the block grant approach was never well defined with the result that, at the delivery level, a number of them appear to be reverting back to the narrow, categorical approach. Seventy-five percent of Federal assistance dollars in fiscal year 1978 will be spent on categorical grant programs.

POSITIVE PRODUCTIVITY INCENTIVES IN THE GRANT SYSTEM ARE LACKING

Although some Federal requirements, e.g., planning and merit standards, are ostensibly designed to improve State and local managerial competence, the Federal grant system seldom rewards grantees for efficient and effective performance in the aided function. In fact, in most programs with a high Federal "match," productive grantee performance may be discouraged because cost savings achieved by State and local grantees accrue primarily to the Federal Government. In some cases, insufficient Federal program concern for performance and inadequate grantee incentives may cause overall program performance to suffer in comparison with other State-funded operations.

^{1/}"Federally Assisted Areawide Planning: Need to Simplify Policies and Practices" (GGD-77-24, Mar. 28, 1977), report to the Congress.

Federal programs are not sufficiently concerned with grantee productivity

Federal grant programs have substantive policy objectives that are of primary importance, e.g., promote more day care opportunities for the needy. However, in pursuit of these program objectives, Federal agencies often are seldom concerned with grantee productivity. Thus, many Federal programs distribute funds among the States based on consideration of socio-economic equity or program need, irrespective of comparative performance levels among grantees. Also, through General Revenue Sharing, block grants, and other grant reform efforts, the "new federalism" has placed a premium on grantee flexibility in the use of Federal funds which may conflict with efforts to increase grantee accountability for performance.

When it comes to distributing money among grantees, most Federal funding formulas do not take grantee performance levels into account. As a result, grantees receive no Federal recognition or benefit for achieving cost savings with Federal funds and savings generally accrue to the Federal Government.

Among the 12 programs that we examined, we found that Federal agency evaluations of State and local use of grant funds do not systematically review efficiency of grantee performance. Instead, most Federal program reviews are designed to test grantee compliance with existing statutes and regulations. For example:

--Title XX, Social Services program--Officials responsible for the social services block grant program to the States (title XX, Social Security Act) report that they monitor State agencies for compliance with title XX regulations. Because the program funds States through a needs-based formula, the officials can't dictate performance levels and don't address questions of efficiency and effectiveness as a regular part of their management review of States.

--Food Stamps--Even though recent legislative amendments required the Secretary of Agriculture to evaluate the "efficiency and effectiveness" of State food stamp administration, Agriculture officials indicate their "Efficiency and Effectiveness Program" consists entirely of reviews of States' compliance with agency regulations. The relative efficiency and effectiveness of States to increase measured output with given Federal funds is not addressed.

Lack of incentives to improve productivity among grantees

Since the level of Federal funds received is usually not related to performance, State and local grantees themselves have very little financial incentive to use Federal funds in the most efficient and effective manner. In fact, with few exceptions, grantees must return Federal funds if the costs of operating the grant program are reduced for efficiency or other reasons.

To encourage more effective grantee management of Federal funds, the Federal Government often requires matching as a condition for participation in Federal grant programs. According to the Advisory Commission on Intergovernmental Relations, 60 percent of Federal grant programs for State and local governments require a non-Federal match. An important reason behind congressional or administrative formulation of matching requirements has been to ensure a grantee financial stake in the management and effectiveness of the grant program.

Our current review of Federal matching requirements has found that, in most cases, match does not elicit greater grantee fiscal or management concern or control over the grant project because most non-Federal match is low and can be provided from existing in-kind resources. State budget directors told us that grant programs requiring less than 25 percent grantee contributions were not reviewed as closely as their own programs. In addition, many State legislatures do not concern themselves with Federal grant programs as witnessed by the fact that many legislatures do not appropriate Federal funds at all as part of the State budget.

Matching requirements may not be an effective Federal tool to encourage more rigorous State and local management of Federal grant programs when the non-Federal match is low because the low match does not call forth the kind of fiscal effort needed to give grantees a natural stake in the operations of Federal grant programs. On the other hand, when non-Federal match required is high (approximately 50 percent) or is hard cash, serious distortion of State and local priorities and nonparticipation by fiscally troubled grantees can occur. Additionally, if the non-Federal match is high, the burden for grants performance is shifted away from the Federal Government on to the grantee. This may be inappropriate in programs in which the grantee is helping the Federal Government to implement national policy.

For programs funded entirely with Federal funds, we were told that these programs can escape any review, especially when the extent of Federal or non-Federal responsibility for program performance is ambiguous and even disputed. For example, Federal officials view the administration of the State unemployment insurance program as a State responsibility, but some State Budget and Legislative officials view it as beyond the reach of their own control because it is 100 percent federally funded.

In some instances, Federal grant programs operations were not subjected to the grantee's productivity or management improvement program. In Wisconsin, for example, the State's productivity program has generally excluded Federal funds from its purview. On the other hand, we found one case in which San Diego County, California, through its productivity improvement program, reduced its food stamp administrative costs by 43 percent, its eligibility error rate by 24 percent, and average client waiting time by 40 minutes. Because most food stamp administrative costs and all benefit payments are borne by the Federal Government, the primary savings from San Diego's program accrued to the Federal Government. Yet, one county official stated that the U.S. Department of Agriculture had to be persuaded to help pay for the study.

POSITIVE INCENTIVES TO REWARD IMPROVED PRODUCTIVITY

Although most programs we examined had no explicit rewards for improved grantee productivity, we looked at four programs which included positive incentives. By offering financial rewards to grantees who improve their productivity, these programs seek to encourage more efficient management of Federal funds.

The inclusion of positive incentives attests to the feasibility of introducing productivity measures into the Federal grants system. But the widespread adoption of positive incentives has been hampered by (1) the difficulty in establishing credible measures of grantee productivity, and (2) the lack of central management evaluation and direction over the grants system.

Ongoing Federal grant programs that reward productivity

The four programs which include positive incentives for increasing grantee productivity are discussed below.

- State Employment Services, Department of Labor-- program funds are distributed to States based, in part, on State performance as measured by comparing each State's job placement performance per staff-year with its "expected" performance. This performance factor accounts for 15 percent of the allocation formula.
- Food Stamp Program, Department of Agriculture-- agricultural amendments enacted in 1977 provide for a 10 percent increase in Federal reimbursement of administrative costs for those States reducing error rates below 5 percent.
- Child Support Enforcement Program, Department of Health, Education, and Welfare--local governments can retain a certain percentage of Federal welfare savings accruing from increased child support payments collected as an incentive for improved performance.
- Work Incentives Program, Department of Labor--this program provides money to train or employ welfare recipients. Twenty percent of new funds allocated among the States is based on their comparative performance in achieving program goals most efficiently, as measured by cost-benefit ratios for welfare grant reductions and recipient wages earned. Another 10 percent is allocated based on the extent to which each State achieves its own potential performance goals measured against its own past performance.

The initiatives to improve grantee productivity discussed above were individually undertaken by the Federal agencies. The Federal Government as a whole, however, has not centrally evaluated existing efforts nor promoted new efforts to incorporate positive productivity incentives into the grants system.

Development of performance measures--a necessary first step

Before incentives to encourage greater productivity can be incorporated into grant programs, it will be necessary for Federal agencies to develop credible measures of performance to enable comparisons of inputs with program outputs.

Federal efforts to develop credible measurement systems to evaluate grantee performance encounter problems in defining program outputs and specifying their relationship to inputs. Additionally, measures used to allocate Federal funds

must be sensitive to comparative performance and environmental and structural differences among the States; e.g., cost of living differences and population density, that affect performance in ways not controllable by governmental officials. While the development of measures is a challenging task, it is an important step that should be undertaken more widely by Federal agencies either administratively or pursuant to legislative direction.

CHAPTER 6

DIRECTION OF FEDERAL PROGRAMS ASSISTING STATE AND LOCAL PRODUCTIVITY IMPROVEMENT

The Federal efforts to provide financial and technical assistance for State and local productivity improvements are varied and fragmented and the activities are not fully coordinated or centrally directed. Furthermore, most assistance is directed toward functional program activities and very little toward central management activities. As a result, there is no recognized focal point at the Federal level for State and local management improvement that is sensitive to the needs of all State and local managers and is able to direct assistance to that level of State and local government that can best initiate and implement productivity improvement programs.

SCOPE AND NATURE OF FEDERAL ASSISTANCE

The Federal programs assisting State and local productivity are varied and fragmented and not well coordinated. Each program appears to have its own agenda, sometimes formulated without the benefit of extensive formal contact with other interested agencies' programs. Central management direction for Federal programs assisting State and local productivity is lacking.

A listing of the most prominent Federal programs providing both financial and technical assistance for State and local government productivity improvement follows.

Prominent Federal Assistance Efforts
for State and Local Productivity Improvement

<u>Agency</u>	<u>Dates of involvement</u>	<u>Primary objectives(s)</u>	<u>Estimated funding</u>	<u>Examples of activities</u>
Department of Housing and Urban Development and Policy Development and Research	1969--Present	To aid community officials at the policy level in addressing productivity improvement across functional areas on a community-wide basis.	FY 78 - \$2.5 million (Est. 15% for program)	Development of a productivity handbook for managers and analysts. Development of a handbook to help public officials compare cost saving methods for intergovernmental service delivery. Fund a series of local innovation projects demonstrating new methods of achieving productivity in service delivery.
Civil Service Commission--Bureau of Intergovernmental Personnel Programs (Intergovernmental Personnel Act)	1970--Present	To improve personnel management systems in State and local government through grants, technical assistance, and temporary mobility assignments between Federal, State, and local governments as well as universities.	FY 78 - \$20 million (Est. 15% for productivity)	Projects funded include: Union County, NJ--a personnel analysis unit was established at an annual cost of \$40,000. California - 7 jurisdictions established a cooperative job testing program. Indiana - a \$500 per auditor in training returned \$4500 additional per auditor 6 months after the program. Baltimore - an absentee control project resulted in significant reductions in city absenteeism.
National Science Foundation--Applied Productivity Research and Technology Division (reorganized in 1978 into a new Division of Applied Research)	1974--1978	To sponsor research to improve the productivity and cost effectiveness of the delivery of government services.	FY 78 - \$3.0 million (GAO estimates)	Development of a handbook to assist local officials in deciding the most effective resource recovery technology. Development of a productivity measurement system for purchasing departments. Research in determining the most effective service delivery mechanism for fire and solid waste collection.
National Science Foundation--Intergovernmental Science & Technology Division	1967--Present	To sponsor applied research and fund development projects to encourage the integration of science and technology into policy planning and program execution activities of State and local governments.	FY 78 - \$5.5 million (GAO estimates)	Fund the Urban Technology System involving placement of 27 technology transfer agents in local governments. One year savings estimated to be \$6 million. Sponsor networks of regional "Innovation Groups" to foster interchange of public science and technology among interested State and local officials. Fund State executive and legislative branches to develop plans for integration of science and technology into policy process.

Prominent Federal Assistance Efforts
for State and Local Productivity Improvement

<u>Agency</u>	<u>Dates of Involvement</u>	<u>Primary Objective(s)</u>	<u>Estimated funding</u>	<u>Examples of activities</u>
Department of Justice-- National Institute of Law Enforcement and Criminal Justice	1968--Present	To encourage research and development in criminal justice. Evaluation of innovations, provision of "model programs" suitable for transfer, dissemination of information on law enforcement innovation.	FY 78 - \$21 million (estimate). (Percent for productivity-related work is uncertain).	Refine, test, and evaluate police program performance measures. Develop a practitioners guide to measurement of court agencies, prosecution, and defense. Publish "Policing by Objectives," compilation of effective approaches to police management. Support a clearinghouse with 28,000 items in data base; 40,000 people on mailing list.
Environmental Protection Agency--Office of Solid Waste Management	1971--Present	To improve the efficiency and effectiveness of solid waste collection through the development of new management techniques and technical assistance to local jurisdictions.	FY 78 - \$300,000 (estimate)	Development of management tools to help local governments increase their solid waste collection department's productivity. Development of a collection management information system (COLMIS). Publication of a 5 stage improvement manual to assist municipalities in improving their overall collection operation. Establishment of a heuristic routing technique to help managers make the most efficient routing decisions.
Department of Commerce-- National Fire Prevention and Control Administration	1974--Present	To reduce the Nation's fire losses and improve the cost effectiveness of fire services by providing information and funding research & development and demonstration efforts.	FY 78 - \$14.2 million (estimate). (Percent for productivity-related work uncertain).	Development of a master planning guide for community fire protection and testing in 10 communities. Sponsorship of National Fire Data Center. Assistance to States for management and executive training.
Department of Commerce-- Economic Development Administration--Section 301(a), Public Works & A Economic Development Act	1973--Present	To give technical assistance and funding for economically distressed areas in human resource productivity.	\$2.2 million over a 4-year period (small part for the public sector).	Grant (\$500,000) to help Jamestown, NY, develop labor-management committees in public and private sectors. Funds to establish the Utah Center for Productivity. Funds to Cincinnati for public works productivity. Funds for the Massachusetts Quality of Work-Ind Life Center.
Department of Transportation--Federal Highway Administration; Urban Mass Transportation Administration	1966--Present 1968--Present	To perform research and development and provide technical assistance to apply research results.	(Productivity is not a separate activity; therefore funding levels are not easily determined).	Urban consortium (NSF, Dept. of Transportation, HUD) through Public Technology, Inc. consists of the nation's 33 largest cities and counties and through them an R&D agenda is put together to communicate with the Federal Government and industry. UMTA is starting to collect financial and non-financial information on public transit systems which could be used for productivity analysis.

Prominent Federal Assistance Efforts
for State and Local Productivity Improvement

<u>Agency</u>	<u>Dates of involvement</u>	<u>Primary objective(s)</u>	<u>Estimated funding</u>	<u>Examples of activities</u>
General Services Administration	1968-Present	To provide reimbursable technical assistance for records management, motor fleet management, construction management, and energy conservation.	(No estimate available from the agency)	Technical assistance to Chicago for forms control and records management project. Technical assistance to DeKalb County, GA, to improve motor fleet management.
Department of Health, Education, and Welfare--Intergovernmental Systems (Partnership Program)	1974-1978	To develop a nationwide network and associations to develop and test innovative approaches for improving planning and management of human services.	FY 77 - \$1.5 million (Program funded through FY 78).	Grant for the development of 3 community pilot projects for the design and test of an integrated human service delivery system. Grants for the New Mexico State Planning Office to test out a program development and evaluation system.
Department of Health, Education, and Welfare--National Institute of Education, Finance and Productivity Group	1972-Present	To assist educational decision-making in developing solutions to current finance and resource allocation problems in order to improve the relevance, efficiency, and distribution of educational services.	FY 78 - \$14.5 million	Continued study and development of productivity indicators at all levels of education. Support for development of technical assistance strategies that can be used by State and local agencies to help schools improve their problem solving capacity.
National Aeronautic and Space Administration (NASA)--Office of Space and Terrestrial Applications	1970-Present	To fund technical assistance and demonstration projects to aid State and local governments' use of space and terrestrial information obtained from NASA satellites.	(Productivity is not a separate activity; therefore, funding levels are not easily determined).	Provide satellite pictures for zoning purposes. Use NASA satellite to estimate timber reserves, water planning.
National Aeronautic and Space Administration--Office of Technology Utilization	1962-Present	To develop uses for NASA technology in the non-Federal sector.	(Productivity is not a separate activity; therefore, funding levels are not easily determined).	Develop fireman's breathing system. Develop computer-based information retrieval centers on the application of NASA technology.
National Center for Productivity and Quality of Working Life--State & Local Programs	1970-1978	To assist State and local governments improve their productivity.	FY 78 - \$500,000 (approximately)	Publish several volumes on aspects of State and local productivity. Fund various non-Federal organizations to disseminate information on State and local productivity to their membership. Sponsor and co-sponsor State and local productivity seminars. Sponsor research on measurement for State and local public services.

In addition to the above programs, several Federal agencies potentially could assist State and local productivity efforts, but they are not currently active or have unfocused efforts. For example:

- The Bureau of Labor Statistics' Office of Productivity and Technology spends \$1.7 million annually for measuring private and public sector productivity. Yet there is no work being done specifically on measuring State and local productivity.
- The Federal Mediation and Conciliation Service could provide technical assistance in labor relations to State and local governments, but its services have not been extensively used. According to a recent study, \$500,000 of potential assistance could be made available to State and local governments, some of it for support of labor-management committees on productivity.
- GSA provides reimbursable technical assistance to State and local governments for management areas such as records management, fleet management, construction management, and energy conservation. This effort, however, is not centrally coordinated within the agency, and therefore not highly visible.

Most Federal assistance for State and local management improvement is oriented towards the needs of functional program specialists in such areas as environmental protection or law enforcement rather than general or central managers, e.g., city managers, state budget officers. Yet, we have found central managers to be vitally important in the initiation and implementation of any comprehensive productivity improvement program that covers many services and is integrated into ongoing budgeting and personnel management systems.

Previous studies of Federal management assistance have concluded that most Federal assistance for State and local management improvement is not oriented to the needs of general managers responsible for overall policy development and resource management. A 1975 OMB study found that of \$512 million of Federal management assistance available to State and local governments in fiscal year 1974, less than \$79 million was available for central or general management. A 1977 staff study by the President's Federal Personnel Management Reorganization Project identified 8 Federal programs supporting State and local general management "development"

or capacity building amounting to \$46.5 million or less than 0.1 percent of total projected 1978 Federal aid to State and local governments.

We identified the most significant Federal programs which provide research and demonstration grants, and direct funding for State and local general managers interested in productivity. The information follows.

- The Civil Service Commission's (CSC's) Intergovernmental Personnel Program (IPA), authorized in 1970, is the broadest program currently available to State and local general managers for management improvement. While training grants are available for general management purposes, grants for management systems are limited to personnel administration improvements. Nevertheless, CSC estimates that 15 percent of all grants are awarded for productivity projects, or \$3 million of its \$20 million fiscal year 1978 budget. Although most funds go to the States by formula, CSC awards discretionary grants to public interest groups and State and local governments for training and demonstration projects.
- HUD's Office of Policy Development and Research develops projects to increase the capacity of State and local management in order to promote the effectiveness of Federal urban policy programs. Under this program, HUD provided \$1 million for a number of innovative productivity projects in local governments and for developing curricula for productivity courses in schools of public administration. In recent months, the Department has reoriented its capacity building program away from productivity projects to a State and local financial management improvement program. (Fiscal year 1978 budget--\$2.5 million for capacity building.)
- NSF's Applied Productivity Research and Technology (APRT) Division supported research and development aimed at measuring the effectiveness, efficiency, and equity of public service delivery systems. The estimated fiscal year 1978 funding for State and local productivity was at least \$3 million. APRT developed a handbook to assist local officials to select effective resource recovery technology. It also developed a productivity measurement system for purchasing departments. Recently, APRT was reorganized into a new Division of Applied Research and charged with funding applied research of all kinds.

Because of this, NSF officials feel that significantly less funding will be available to support public sector productivity research.

--NSF's Intergovernmental Science and Research Utilization Division funds a series of programs to integrate science and technology research into State and local policymaking. Two major efforts are the Urban Consortium which links staffs of the largest cities together to formulate common technology needs, and the Urban Technology System, which places technically trained experts in 27 middle-range local governments to help top officials utilize applicable technology in government. The estimated fiscal year 1978 funding was \$5.5 million.

--The National Center for Productivity and Quality of Working Life, directed to stimulate productivity improvement efforts in all sectors, allocated about \$500,000 to the improvement of State and local productivity. Its activities included sponsoring research on measurement systems, developing projects to demonstrate different approaches to productivity improvement, sponsoring conferences and seminars for State and local officials, and disseminating information on productivity through a number of publications to State and local officials. An in-depth evaluation of its efforts is presented in the GAO report discussed on page 1.

CENTRAL FOCUS FOR FEDERAL PRODUCTIVITY ASSISTANCE EFFORTS IS NEEDED

Several limited attempts have been made to provide leadership and coordination for the various Federal programs supporting State and local productivity. The National Center for Productivity was charged by the Congress to coordinate all Federal programs to improve national productivity. However, the Center's coordination efforts have been minimal in scope and ineffective due to its insufficient staff, lack of top management support and lack of leverage over Federal agencies as noted in our prior report.

HUD's Office of Policy Development and Research and CSC's Bureau of Intergovernmental Personnel Programs signed an interagency agreement to encourage more cooperation and coordination in their State and local management assistance programs. For example, HUD and CSC officials have worked closely on HUD's new Financial Management Capacity Sharing Program. Since the IPA program already supports many training programs in financial management, it is possible that State

and local officials will direct a larger proportion of available IPA funds to financial management training. This agreement, however, was made between the agencies without involving the National Center.

Within the President's Office of Science and Technology, an Intergovernmental Science, Engineering, and Technology Advisory Panel (ISETAP) was established to make existing Federal research and development efforts more relevant to State and local needs. ISETAP is beginning to review the technology transfer activities of Federal agencies in an effort to coordinate them and make them relevant to State and local governments' needs. However, its efforts are focused primarily on "hard" technology transfer programs as opposed to management and productivity improvement programs.

Great potential exists for more interagency cooperation over the myriad Federal efforts to improve State and local productivity. The Federal effort needs central management direction so that:

- Information on Federal assistance available to State and local governments for management improvement and productivity can be centrally available and disseminated. In our survey, 92 percent of State and local governments responding indicated that a periodic listing of Federal assistance would be useful.
- Priorities for allocating Federal funds can be established. A comprehensive list of priorities for the Federal role in State and local productivity was developed by the Public Sector Committee of the National Center on Productivity and the Quality of Working Life. However, this list was not a significant factor for other involved Federal agencies in setting their own program agendas.
- A central broker can emerge that is both sensitive to State and local management problems and is able to secure appropriate Federal actions.
- Duplication among the Federal agencies can be minimized or eliminated and contact among relevant programs' officials be increased.

CHAPTER 7

CONCLUSIONS AND RECOMMENDATIONS

CONCLUSIONS

The Federal Government should be concerned about State and local productivity because of its interest in strengthening the national economy as well as its increasing role in providing funds to State and local governments for service delivery. Thus, the Federal Government should encourage and support State and local government efforts to improve their productivity.

Although the Federal Government cannot provide the primary stimulus or impetus for State or local productivity improvement efforts, Federal financial and technical assistance can be valuable to State and local governments once sufficient internal management interest has been initiated. State and local governments generally need some kind of externally provided information, technical assistance, and/or funding to sustain and support their own productivity efforts.

Federal assistance for general management improvement is needed

The development of a more effective Federal role in helping interested States and localities improve their productivity must be part of a broader program to improve the general managerial capacity of these governments. Our review indicates that there is a continuing need for better quantitative measures and performance data. In addition, there is also a need for State and local managers and management systems that have the capacity to utilize productivity analysis in the ongoing administration of public services. While the Federal Government has a large array of small technical assistance programs available to improve State and local management of specific programs, there is currently no single recognized Federal program charged with improving State and local government management on a government-wide basis.

As part of a State and local management improvement program, the Federal Government should pursue the following strategies:

- Fund a limited seed money grant program for general management improvement. Since management innovation projects are often too risky or politically unrewarding to gain full initial local support, Federal grant funds can help initiate these projects, especially in jurisdictions with fiscal problems.

Maximum local discretion over use of these funds should be allowed in support of specific productivity improvement projects by jurisdictions with sufficient interest and in support of other kinds of general management system innovations or training programs that could indirectly improve productivity among jurisdictions not yet in a position to embark on specific productivity ventures.

- Increase funding for national research and demonstration programs in public management. This would help satisfy the continuing need for development of better measurement systems, comparative performance statistics, and alternate approaches to the delivery and management of public services. This is especially important due to the recent reduction in NSF's funding for this purpose.
- Improve information available to State and local governments on management improvement and productivity through a clearinghouse as recommended in our prior report. Working through networks of State and local officials, the Federal Government can foster more effective dissemination of information on measurement systems, new management approaches, comparative performance data, and the productivity programs and problems of other jurisdictions.

In our opinion, a general management improvement program could be developed by strengthening existing programs. For example, the Civil Service Commission's Intergovernmental Personnel Program already provides both seed money grants and research and development funding to State and local governments for personnel management improvements, including productivity. The program could be changed to include general management improvement by broadening its legislative authority.

Changes needed in the Federal grant system

Congressional and administrative officials responsible for formulating and implementing Federal grant programs should be more concerned over the impact of grant policies and procedures on State and local management and productivity. In spite of administrative efforts made over the last decade to simplify and streamline Federal grant procedures, fundamental changes in the structure of the Federal assistance system are still needed to remove the substantial disincentives to grantee productivity.

Major grant system changes which should be considered to remove some of the negative impacts on State and local productivity include:

- Reduction of Federal reporting and paperwork requests and requirements, along the lines recommended by the Federal Paperwork Commission.
- Standardization of Federal employment, nondiscrimination, environmental review, planning, and other "cross-cutting" requirements among all Federal programs, with designation of an appropriate Federal cognizant agency for certification of grantee compliance with each requirement. Legislation was introduced in the 95th Congress, 2nd Session, to streamline and simplify "cross-cutting" requirements. (Federal Assistance Paperwork Reduction Act, S. 3267.)
- Consolidation of categorical grant programs into broader-purpose block grants whenever feasible. Legislation introduced in the 95th Congress, 2nd Session, would help facilitate consideration of this approach. (Small Communities Act of 1978, S. 3277.)
- Elimination of many detailed procedural requirements and controls over grants administration--e.g., personnel qualifications, structure of grantee operating agency, citizens participation--if accountability for program results based on quantitative performance standards is established.

There is a need to more widely incorporate performance measures and criteria in Federal allocation formulas and standards used to evaluate grantee performance. The concept of incentives and performance standards needs to be considered when grant programs are either created or reauthorized.

The sorting out of Federal assistance programs along the lines contemplated by the recently enacted Federal Grant and Cooperative Agreement Act (P.L. 95-224) may identify the circumstances as to which programs should appropriately include performance incentives in addition to other factors for distributing funds. Applying performance incentives may be most appropriate, for example, in those Federal programs whose main purpose is to enlist State and local participation in achieving certain national priorities and objectives, e.g., provision of drug abuse services and water pollution control. In these cases, the intergovernmental relationship is somewhat contractual in nature. Conversely, performance incentives may not be appropriate for those Federal programs

whose primary purpose is to financially help State and local governments meet their own priorities, e.g., fiscal relief and crime reduction. In these cases, the assistance is more of a grant than a contract.

Federal focal point

A Federal focal point for State and local management improvement and productivity is needed to provide leadership for the proposed management improvement programs and to assist in promoting increased concern for State and local productivity throughout the Federal grants system. Its mission would be to set policy and provide leadership for Federal research, demonstration, and capacity building efforts aimed at improving State and local general management and productivity. The focal point would also serve as a broker, reflecting the needs of State and local managers through periodic needs assessments and attempting to change Federal programs and policies accordingly.

Also, the focal point would be responsible for more closely coordinating Federal research and development programs relating to State and local productivity to ensure more effective use of limited Federal funds to meet State and local needs. Assessment of State and local needs should be periodically performed by the focal point, as well as establishment of a basic annual plan for Federal research and development programs in this area.

Recent Federal attempts to more effectively coordinate existing Federal financial and technical assistance programs for State and local productivity improvement have met with only limited success. In our earlier report, we concluded that the National Center for Productivity and Quality of Working Life had insufficient resources and leverage needed to effectively lead or coordinate other Federal agency activities. Now that the Center has been terminated, the emergence of a stronger focal point for State and local productivity is even more critical.

RECOMMENDATIONS

To the President

The Federal effort to encourage and support State and local government productivity undertakings is varied and fragmented. We therefore recommend that the President establish a focal point at the Federal level with clear authority to oversee and provide stronger leadership for

Federal efforts assisting State and local management improvement and productivity. It is important that the President seek adequate funding for the focal point commensurate with this responsibility.

In our prior report on productivity, we suggested that the Civil Service Commission, soon to become the Office of Personnel Management, would be the most appropriate location for the State and local productivity focal point. CSC offers the advantages of organizational stability, familiarity, and experience with State and local management improvement through the Intergovernmental Personnel Program, and an overview perspective that would enable it to better handle State and local government productivity problems that cut across existing line agency boundaries.

To the Congress

Because the Federal assistance system is not sufficiently concerned with State and local government productivity, we recommend that the Congress institute fundamental changes in the assistance system by removing barriers retarding State and local government productivity and by incorporating positive incentives to reward improved productivity in existing and future assistance programs where appropriate. Legislation has been introduced in the Senate that would remove some of the barriers by streamlining and simplifying the assistance system. Legislation is also needed to incorporate positive incentives into the assistance system.

Federal funding for general management improvement at the State and local government levels and for information on comparative performance among the governments is needed. We therefore recommend that the Congress (1) amend the Intergovernmental Personnel Act to authorize funding for general management improvement projects for State and local governments and (2) provide needed funding to the Bureau of Labor Statistics to measure State and local productivity trends under the general direction of the proposed Federal focal point for productivity.

Furthermore, we recommend that the Congress provide sufficient funding for the proposed Federal focal point to enable it to effectively perform the tasks discussed above.

AGENCY COMMENTS

A draft of this report was distributed to OMB, the Civil Service Commission, the White House Office of Intergovernmental Relations, and the public interest groups representing State

and local governments. The OMB, Civil Service Commission and public interest groups responses are included as appendixes I, II, and III, respectively.

OMB, in commenting on the report, found it difficult to take a position on our recommendations at this time. On our recommendations for a general management improvement program and a Federal focal point for State and local productivity, OMB stated that

"* * * we have been working during the past several months to develop a framework for a new Administration effort in productivity improvement, including the establishment of a Productivity Council to study productivity issues and to coordinate productivity improvement programs. Based on this work we feel that there are a number of questions concerning the appropriate scope of Federal support of State and local productivity improvement, and the cost of such support. Therefore, if the Council is approved by the President, we plan to make State and local productivity improvement one of the first study issues. The GAO report will provide excellent background for the Council's study."

On our recommendation concerning funding for the Bureau of Labor Statistics to measure State and local productivity trends, OMB stated that the value, practicability, and costs of such a program should be considered in the general study of Federal support for State and local productivity improvement.

Executive Order 12089 and an accompanying memorandum, signed by the President on October 23, 1978, outlined a national productivity program to carry on the functions of the National Center. Provision was made to establish a Cabinet-level Productivity Council and to delegate responsibilities for productivity improvement for various sectors of the economy to designated Federal lead agencies. However, a focal point for State and local productivity was not designated, but rather deferred for later study by the Council. We find it regrettable that a focal point was not designated to deal with State and local productivity and fear that, with the Center's termination, Federal involvement in this crucial area could dissipate. While OMB indicated that the Productivity Council would undertake a study of State and local productivity improvement, a Federal leadership vacuum will be created until the study is completed and the Council considers any future recommendations.

The Civil Service Commission found the report to be useful and supported our recommended general management improvement program, noting that its current Intergovernmental Personnel Program uses this strategy for personnel management. CSC specifically supported our recommendation that a Federal focal point for State and local productivity be designated with appropriate funding and expressed the belief that the Commission would be a logical agency to perform this role.

The major public interest groups supported our conclusions and recommendations. In joint letters to the Assistant to the President for Intergovernmental Affairs, OMB, and the Commission, they expressed concern that a Federal focal point for State and local productivity be designated to continue and expand upon the work of the expired National Productivity Center.

In a draft of this report, we suggested that responsibility for removing barriers to productivity and incorporating positive incentives in the grants system should rest with the proposed focal point. Both CSC and the major public interest groups commented that the responsibility should rest with OMB, which has oversight responsibility of Federal management efforts and the authority to develop and enforce systemic procedures. While the proposed focal point must play a key role in grants system changes, we agree that overall guidance and leadership from OMB is needed, and therefore are making the following recommendation to OMB.

RECOMMENDATION TO THE DIRECTOR, OFFICE
OF MANAGEMENT AND BUDGET

We recommend that the Director, Office of Management and Budget, with the assistance of the focal point and with the support of the Productivity Council, lead a governmentwide effort to promote increased concern for productivity in Federal assistance programs. We recognize that OMB has and continues to play an active leadership role in attempting to ameliorate many of the administrative problems which plague the intergovernmental fiscal system and impact adversely on State and local productivity. While we encourage additional grant system reform efforts to ease its productivity barriers, the effort we are recommending moves in the direction of using positive productivity incentives--a relatively unexplored approach. Such an effort would include an examination of the existing Federal programs which currently use positive productivity incentives and an identification of additional programs where positive incentives would be most appropriate and beneficial.

- - - -

While our recommendations may have budgetary implications for the Federal Government, the payoff to the entire public sector from an effective effort would far outweigh these costs. In fact, it is somewhat ironic that the Federal effort to enhance State and local productivity has suffered with the funding reductions in relevant research and development efforts at the Federal level at a time when the public's demands for less costly and more efficient government are growing.

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

OCT 10 1978

Mr. Allen R. Voss
Director, General Government Division
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Voss:

I am providing Office of Management and Budget comments on the draft GAO report entitled "State and Local Government Productivity Improvement: What is the Federal Role?"

I was very interested in the findings of this report, especially the conclusion that the Federal Government impacts most heavily on State and local government productivity through the Federal grants system. The Federal grants system is a subject which is of particular interest to OMB, and over the past few years we have initiated several projects to effect improvements. I believe that some of our on-going efforts address specific problems discussed in the report. For example:

- o The Planning Requirements Reform Project has the objective to simplify planning requirements, eliminate duplicative or contradictory requirements in Federal programs, and promote consistency and integration of requirements across program lines.
- o Selected grant consolidations are being promoted as an alternative to fragmented categorical grant programs.
- o The President's recently announced Urban Policy made a major commitment to improve the effectiveness of urban programs, including grant programs of about \$30 billion per year. Improvement efforts will focus on better coordination of urban programs, simplification of planning requirements, and reduction of paperwork.
- o An examination is being made of the feasibility of further standardizing eligibility requirements in selected human resources programs.

OMB staff will be happy to discuss these and related efforts if you wish to reference them in your final report.

It is difficult for me to comment at this time on the recommendations to amend the Intergovernmental Personnel Act by authorizing funds for general management improvement projects for State and local governments. The report also recommends that the Civil Service Commission be designated as the focal point for Federal support to State and local productivity improvement efforts. As you are aware, we have been working during the past several months to develop a framework for a new Administration effort in productivity improvement, including the establishment of a Productivity Council to study productivity issues and to coordinate productivity improvement programs. Based on this work we feel that there are a number of questions concerning the appropriate scope of Federal support of State and local productivity improvement, and the cost of such support. Therefore, if the Council is approved by the President, we plan to make State and local productivity improvement one of the first study issues. The GAO report will provide excellent background for the Council's study.

The last recommendation in the report concerns funding for the Bureau of Labor Statistics to measure State and local productivity trends. The value, practicability, and costs of such a program should be considered in the general study of Federal support for State and local productivity improvement.

OMB appreciates the opportunity to comment on this draft, and I look forward to seeing the final report.

Sincerely,



Wayne G. Granquist
Associate Director for Management
and Regulatory Policy



UNITED STATES CIVIL SERVICE COMMISSION
WASHINGTON, D.C. 20415

CHAIRMAN

Mr. Victor L. Lowe
Director, General Government
Division
U.S. General Accounting Office
Washington, D.C. 20548

SEP 13 1978

Dear Mr. Lowe:

Thank you for the opportunity to review your draft report entitled "State and Local Government Productivity: What Is the Federal Role?"

We think the report is most useful as a foundation for further discussion of possible approaches to encouraging greater State and local productivity. We support your three-part strategy for a Federal program of State and local management improvement, i.e., limited seed money grant assistance, research and demonstration, and information sharing. This model is similar to the approach which we are using in administering the Intergovernmental Personnel Act (IPA) and which has been viewed as an effective approach by both recipients and evaluators. As your report indicates, however, the IPA does not include specific authority for general management assistance, nor does it speak directly to the support of research.

The U.S. Civil Service Commission, over the past several years, has recommended some changes in the IPA to provide a more sufficient statutory base for management improvement assistance. This still remains, however, an unresolved issue.

The basic recommendation of interest to us in your report is that the Commission (Office of Personnel Management) be designated as the "Federal focal point" for State and local productivity. We believe this would be a logical Commission role and, as you point out, would be determined by the amount of resources we would have available for productivity assistance, research, and leadership. We suggest that in this regard the report make some specific comments or recommendations concerning the level of resources needed for an effective State and local productivity assistance program.

The report also calls for action to improve the overall Federal grant assistance effort in order to increase the incentives for productivity. While the "Federal focal point" for productivity could aid in identifying areas for improving grant delivery systems, the responsibility for "harnessing the grant system" would rest primarily with the proper program agency; i.e., the Office of Management and Budget. Perhaps the overriding role of OMB is an aspect that should be made more clear in the conclusions and recommendations section of the report.

Finally, we would like to comment on several specific statements in the report:

- On page 79, the report states that HUD's "new initiative in financial management capacity building will be followed by a CSC commitment of more training funds for State and local financial management."

Since priorities for the use of IPA grant funds depend on the needs of State and local governments, the commitment as stated is not factual. We suggest the second paragraph on page 79 be reworded along the following lines: "HUD's Office of Policy Development and Research and CSC's Bureau of Intergovernmental Personnel Programs signed an inter-agency agreement to encourage more cooperation and coordination in their State and local management assistance programs. For example, HUD and CSC officials have worked closely on HUD's new Financial Management Capacity Sharing Program. Since the IPA grant program already supports many training programs in financial management, the IPA and the HUD financial management assistance programs will be mutually supportive. It is possible that State and local officials will direct a larger proportion of available IPA funds to financial management training."

- Chapter 5, which deals with the impact of the Federal grants system, comments that the system for administering these grants has a negative effect on State and local productivity. The statement on page 56 that the Merit Standards have come to be viewed as obstacles to effective, efficient State and local management is inaccurate and should be deleted. Over the past 18 months, we have had extensive consultation with State and local officials as we have reviewed the current Standards and sought their assistance in developing improved Standards. There was virtually no indication that they feel the modernized Standards we have developed represent inappropriate Federal intervention in their personnel administration. We know of no responsible commentator who believes that it would enhance State and local productivity to abandon the Federal commitment to Merit Principles in the affected grant programs. It is universally agreed among responsible persons that a merit policy is essential to effective, productive programs in such areas as public welfare, public health, and employment security.

It would be appropriate for the GAO report to reflect that a significant body of opinion has held that the current Merit Standards need to be updated to make them more performance oriented, to limit mandatory provisions to key areas, and to provide for the cooperative involvement of chief executives, for the Standards to achieve their full potential as an instrument to promote effective and efficient State and local management. The proposed revised Standards have the full

GAO note: Page references in this appendix refer to the draft report and may not correspond to this final report.

concurrence of the public interest groups representing the affected State and local jurisdictions. The Commission believes that the Standards in their modernized form will greatly enhance productivity while assuring continuation of personnel administration based on Merit Principles. We recommend that the GAO report be modified to take account of these factors.

- The section on page 36, discussing personnel system incentives, repeats stereotyped observations as though they were appropriate to all of the hundreds of State and local civil service systems in the United States. They undoubtedly are true of some such systems, but the sweeping nature of the statements can be misleading to the uninitiated, and they would be a disservice to those merit based systems which contribute substantially to improved productivity and the proper, efficient, effective administration of government programs.

We look forward to working with you further in the important mission of improving State and local productivity.

Sincerely yours,


Alan K. Campbell

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International
City
Management
Association

September 14, 1978

Mr. Jack Watson
Assistant for Intergovernmental
Relations
The White House
Washington, D.C. 20500

Dear Mr. Watson:

The importance of increased governmental productivity and effectiveness is more apparent than ever in the face of declining citizen confidence in government, taxpayer revolts, inflation, and continuing demands for public services. Our memberships are continually innovating to improve governmental performance but we are all aware of the need to do more as rapidly as possible.

The public interest groups have been asked to provide comments on the draft GAO report "State and Local Government Productivity Improvement: What is the Federal Role?" While each organization does not concur completely with all points raised in this report, we heartily support the major recommendations including:

- a. A strong federal focal point to lead and coordinate federal efforts toward state and local productivity improvement.
- b. A general management improvement program to support state and local initiatives and sponsor needed research and development.
- c. Fundamental changes in the grants system to remove negative barriers and promote positive incentives for productivity improvement.

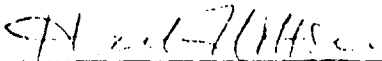
We further concur with the GAO conclusion in this report and the earlier report, "The Federal Role in Improving Productivity: Is the National Center for Productivity and Quality of Working Life the Proper Mechanism," that the focal point for state and local productivity improvement ought to be located in the U.S. Civil Service Commission (or Office of Personnel Management) as an office reporting directly to the Chairman (or Director).

Through a coordinated focal point, state and local relationships with all existing Federal Agency programs supporting productivity improvement could be enhanced. Policy issues related to governmental productivity improvement that require Administration attention could be developed and presented more expeditiously. And lastly, the commitment to improved productivity throughout the intergovernmental system would be reinforced.

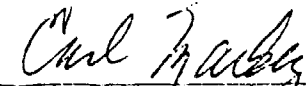
As the responsibilities of the National Center for Productivity and Quality of Working Life, with whom we have worked closely over the past five years, are distributed pursuant to the President's decision of last April, we hope that you will insure that the Center's state and local program is continued and that there be an uninterrupted continuation of a federal focus in this area.

In many areas we are partners in delivering services to the public. The challenges we face, jointly and independently, require that we maintain and enhance our commitment to improved governmental efficiency and effectiveness.

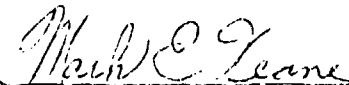
Respectfully,



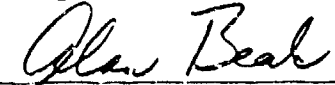
 Herbert L. Wiltsee, Executive Director
 Council of State Governments



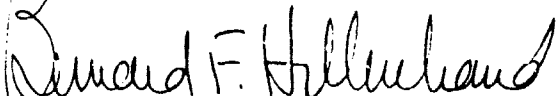
 Earl Mackey, Executive Director
 National Conference of State
 Legislatures




 Mark E. Keane, Executive Director
 International City Management Association




 Alan Beals, Executive Director
 National League of Cities



 Bernard F. Hillenbrand, Executive Director
 National Association of Counties



 John J. Gunther, Executive Director
 U.S. Conference of Mayors



 Stephen B. Farber, Executive Director
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