

Mobilizing Capital Investment to Modernize Government



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2020

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FOREWORD

On behalf of the IBM Center for The Business of Government and the Shared Services Leadership Coalition, we are pleased to present this special report, *Mobilizing Capital Investment to Modernize Government*, by Kenneth Buck, Adjunct Professor, University of Virginia; G. Edward DeSeve, Executive in Residence, Brookings Executive Education; and Steve Redburn, Professorial Lecturer, Trachtenberg School of Public Policy and Public Administration, George Washington University.

Many governments around the world seek ways to serve their constituents and carry out their missions more effectively and with greater efficiency. This imperative takes on even greater import as emerging technology and business paradigms raise expectations from the public and enable new channels of collaboration between government and industry. In an environment of public sector resource constraints, opportunities to leverage private sector investment, technology, and expertise become more critical—as do strategies to ensure that such leverage is done consistent with protections against improper use of Federal funds on behalf of taxpayers.

The U.S. federal government has moved forward in addressing this imperative over the past several decades. The Office of Management and Budget (OMB) has worked with agencies to develop several shared services initiatives that seek to apply commercial best practices across government; numerous innovations in acquisition have been authorized and implemented; and industry has joined in multiple forms of public-private partnerships modeled on similar collaborative efforts in state and local governments. Also recent budget innovations have brought flexible investment approaches for technology, and proposals to do the same for Federal buildings.

This progress has evolved episodically, lacking common frameworks, norms, or incentives that could promote consistency in how government can attract investment to modernize technology and processes. As public sector funding constraints continue to be impacted by rising deficits and debt, agencies can benefit from more systematic paths for the private sector to invest capital in modernizing government operations, and from processes for making the most effective use of public and private investment dollars over time.



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This report, written by three former leaders in government, identifies strategies for Federal agencies on how to mobilize capital investment for government modernization. The authors also discuss options and recommendations for revising budget and acquisition processes that have tended to limit systematic engagement with industry around investment, such as with shared services, and to discourage longer-term capital planning by government. At the same time, the report makes clear how such recommendations can be done consistent with important safeguards in appropriations, budget scoring, and procurement processes—safeguards rooted in longstanding law and policy.

We hope that this report provides helpful context for government leaders to consider in advancing new approaches that enable greater capital investment to benefit the public sector.



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INTRODUCTION AND SUMMARY

The federal government has enormous unfunded needs to modernize administrative processes, workforce skills, and technologies. At the same time, capital markets that enable companies to finance critical needs generally do not address public sector work, while state and municipal bond markets do not have an analog at the national level. Private investment and public-private partnerships can help to supplement government funding sources, and can be a source for innovation and expertise.



Addressing these and other modernization challenges requires a long-term vision for increasing investment in public goals, optimizing current budget and procurement processes to deploy greater engagement with the private sector consistent with sound use of public funds, and a strategy to achieve this change in practical increments over time. Models for effective deployment of private sector capital investment, expertise, and technology to address public goals exist at the state, local, and international levels, as well as in past federal initiatives that provide examples of funding flexibilities for specific purposes.

These and related issues were the focus of a September 2019 Capital Investment Roundtable discussion that addressed how investment, budgeting, and procurement strategies might help government meet its capital challenges. The session was co-hosted by the IBM Center for The Business of Government and the Shared Services Leadership Coalition (SSLC), and attended by current and former senior officials from the Office of Management and Budget (OMB), agencies, congressional staff, academic experts, and industry partners. Participants addressed how to meet these challenges more effectively, exploring ways to improve processes for private investment in public sector capital projects, as well as how to capitalize on current budget and procurement flexibilities—all intended to help expand the federal government’s capacity to deliver effective services and improve performance.

OMB Deputy Director for Management Margaret Weichert challenged Roundtable participants to think anew about the financing of public capital, including federal administrative systems (such as those supporting payment accuracy). She observed that while our country has led the greatest technological advances of the last 200 years, the federal government still operates with outdated systems and manual processes. She noted the potential for profound rewards from making changes that enhance efficiency and improve service delivery to citizens, and stressed the need to think deeply about how to support and accelerate these changes. Responding to her challenge, the Roundtable explored options for adopting “outside-in” solutions—solutions that draw on private sector resources, expertise, and technology to bolster public spending—to help accelerate federal capital investment within the current statutory framework, and do so by following a roadmap with practical increments over time.

Perspectives from the Roundtable inform this report, authored by three experts with significant government and public finance experience; the report's findings and recommendations informed by this discussion reflect views of the authors supported by the IBM Center and SSLC, and do not necessarily indicate consensus among Roundtable participants. The report contains analyses, findings, and recommendations for near-term actions and long-term change that can incentivize capital investment into modernizing government. More specifically, the report focuses on how current federal budgeting, appropriations, and procurement rules and practices might be reformed or repurposed to effectively utilize private sector capital investment in expertise and technology to meet the government's needs for systems modernization, and to spend these funds wisely consistent with law and principles of sound public financial management practice.

Key Findings

Making the federal budget and procurement environment friendlier to the mobilization of capital is important not just for reasons of budget stringency. The private sector will benefit through expanded business opportunities and a chance to contribute to important social objectives. The public sector will benefit by applying private technology and expertise—which in some cases it helped build at an earlier stage through direct investment or with grant or tax credit support—to achieve greater efficiency and deliver improved services.

The Roundtable discussion, and subsequent exploration of these issues in this report, leads to several findings regarding current budgetary and procurement practices that affect the ability of the federal government to attract and deploy capital in support of national policy objectives:

1. Many perceived obstacles to increased use of private capital, technology, and expertise to support federal systems modernization and an array of other public capital needs can be overcome by creative interpretation and application within established rules, in a manner consistent with the intent of those rules.
2. Ample precedents exist as models for future initiatives to bring private capital to bear for public purposes, and these precedents should be systematically evaluated by the federal government to determine how they can be applied and generalized.
3. Significant risks for both public and private partners arise from the vagaries of the budget process and the complexities of federal procurement, which can be addressed by developing a body of evaluated experience and using that evidence to establish consistent budget conventions and replicable contract standards.
4. Near- and longer-term opportunities exist to make the federal government's budget and procurement processes friendlier to investments to help modernize government, and to public-private partnerships for an array of public purposes, by reducing uncertainties and risks for both sectors.
5. Accelerating progress in addressing the government's capital needs by mobilizing private sector resources will require leadership in both the executive and legislative branches.

This report details examples that inform the above findings. The report also outlines a set of actions that could be taken both now and in the future, including ways to incentivize private sector investment and public sector agility as well as reforms in federal budgeting and procurement.

Proposed Actions

Near-Term Opportunities

1. OMB can lead the development of a centralized evidence base for future initiatives to develop, acquire, and deploy private technology, expertise, and capital for government purposes.
2. Using the evidence gathered from this body of practice, OMB and the General Services Administration (GSA) can work with Congress to develop standard budget and procurement models that support private capital investment for federal systems, including shared solutions.
3. For procurement specifically, OMB's Office of Federal Procurement Policy (OFPP) can charter a group, similar to the Section 809 Panel, to review existing procurement laws, regulations, and policies, in both civilian and defense agencies, to identify laws and regulations that could be changed to better accommodate the appropriate use of private investment in the public sector.
4. The administration can expand the range of capital projects eligible for the federal capital revolving fund first proposed in FY 2018.
5. The administration and Congress can evaluate experience gained with the Technology Modernization Fund, to determine the best scale and design for a self-sustaining capital revolving fund to support a specified array of federal agency and cross-agency investments in improved services and efficiency savings.

Longer-Term Possibilities

1. Congress and the administration can review current budget scorekeeping rules for capital projects, to determine the best way to account for expected budget savings from systems investments as a result of operating efficiencies, improved customer service, and offsetting collections or revenues.
2. OMB and the Congressional Budget Office (CBO) can develop models for estimating the present value of future benefits from public capital investments, and for how best to apply this information to budget and procurement decisions.
3. An independent commission whose members are selected by both Congress and the president can review current budget concepts and their application to capital projects and other public investments, perhaps as part of a broader review and updating of budget conventions, and use this review to develop recommendations to improve budget decision making.
4. OFPP can lead a review of current procurement models to determine what changes would facilitate increased private investor participation in public projects, while ensuring the interests of both public and private partners are considered. Among the first initiatives to be considered could be a legislative proposal to permanently authorize Share-in-Savings (SiS) and Other Transaction Authority (OTA) as key components of the innovation toolkit.
5. To encourage private investors across a range of capital needs, GSA, with support from OMB and in cooperation with relevant committees of Congress, can support a multiyear capital planning, budgeting, and investment process for use by executive agencies—and a process for Congress to engage regularly with those multiyear plans.