

Agency: 105 Office of Financial Management
Decision Package Code/Title: C0 Reduce cost of doing business in WA
Budget Period: 2015-17
Budget Level: PL - Performance Level

Recommendation Summary Text:

Businesses operating in Washington state are obligated to comply with various regulations and doing so costs them time and money - this cost is referred to as an administrative burden (AB) and impacts their ability to grow and be competitive. ORIA and several partner agencies piloted an international methodology developed in the Netherlands that will identify excessive AB (costs), provide options to reduce it, and reduce the burden of compliance. The methodology piloted is the International Standard Cost Model (SCM). Three projects were completed, one was cancelled. The three completed projects identified improvement opportunities to regulations impacting 35,000 businesses in Washington state. If all of the identified improvement opportunities are implemented, the total savings to businesses is estimated to be \$240,700 from these pilot projects. ORIA believes if SCM were applied enterprise-wide and focused on regulations that impact businesses the most, it would yield significant reduction opportunities for AB on businesses. Making these improvements will contribute to economic growth and increase the competitiveness for Washington - a cornerstone of ensuring a prosperous economy in Washington state, which is Goal #2 of Results Washington. Combining SCM with lean practices, which has been done successfully in the Netherlands, leads to the understanding of both internal and external costs of a regulation - an added value for Washington state. ORIA recommends, to be most cost effective and impactful for business, the SCM be applied enterprise-wide to those regulations that are most burdensome to businesses across state government. Implementing an enterprise-wide program will yield significant results in reducing industry time, cost and frustration of doing business in Washington state. In order for ORIA to implement a program that assesses and improves administrative burden on those regulations most burdensome to business across state government, program funding is required.

Fiscal Detail

Operating Expenditures	<u>FY 2016</u>	<u>FY 2017</u>	<u>Total</u>
001-1 General Fund - Basic Account-State		452,176	452,176
Total Cost		452,176	452,176
Staffing	<u>FY 2016</u>	<u>FY 2017</u>	<u>Annual Average</u>
FTEs	.0	3.5	1.8

Package Description:

Reducing the cost of doing business in Washington state
 Businesses operating in Washington state are subject to a range of obligations imposed by state laws and rules (i.e., regulations). These regulations exist to regulate business conduct so that overall societal considerations are observed. However, it is important to recognize that to comply with these regulations businesses incur a cost. This cost comes in the form of administrative burden (AB), this includes the time and money businesses spend filling out forms, filing for permits, researching which regulations apply to their line of business, and hiring consultants, accountants, and lawyers to ensure the business is in compliance - all these activities are driven by an obligation to provide information to the state. When the administrative burden goes unchecked, it is not hard to imagine the information

obligation (IO) placed on businesses can become excessive and unnecessarily redundant.

ORIA believes reducing AB is crucial to achieving growth and improving the competitive position of Washington businesses - a cornerstone of ensuring a prosperous economy in Washington state, which is Goal #2 of Results Washington. This requires knowing where in the regulatory process AB comes into play, determining a baseline of current costs and identifying opportunities for improvement. Measuring AB is key to reducing the burden on businesses. Sufficient staffing resources are critical to assist and train subject matter experts within respective agencies in identifying and developing baseline costs and developing process improvement plans to reduce AB for industries.

The International Standard Cost Model (SCM) is the most widely applied standardized methodology for measuring AB world-wide. Developed in the Netherlands and now used throughout the European Union and elsewhere, the SCM is an activity-based measurement of a business' cost and time. The method is used to measure the burden of a single law, selected areas of legislation or to perform a baseline measurement of AB resulting from all regulations in a country. All these approaches have been used in other countries. Experience shows that measuring AB for all regulations is excessive, the most efficient approach is to identify the most burdensome regulations and focus resources on those, typically these represent about 20% of all the state's regulations.

Major steps involved in applying the SCM are:

- Identify the regulatory authority and requirements.
- Investigate the information obligations (IO) involved in compliance.
- Work with agency experts to estimate the time businesses spend for each obligation.
- Interview a small group of businesses to gather data.
- Calculate the administrative burden.
- Use a standard method (an SCM decision tree) to identify process improvements.
- Develop an improvement plan to reduce business time.
- Determine potential AB reduction based on improvements.
- Implement improvements.

In 2014, the Results Washington Goal #2 Council agreed to pilot the SCM methodology on a handful of regulatory processes. The pilot was intended to test the feasibility of developing the measure in a decentralized way through having regulatory agency staff apply the model to calculate the administrative burden associated with their regulatory processes.

Table 1 attached summarizes the four pilot projects initiated in the fall of 2014. Three projects were completed, one was cancelled. The three completed projects identified improvement opportunities to regulations affecting 35,000 businesses in Washington state. If all of the identified improvement opportunities are implemented, the total savings to businesses is estimated to be \$240,700.

Overall, the SCM pilot implementation was a success. Every pilot project completed resulted in identifying improvement opportunities that could potentially reduce AB. ORIA learned valuable lessons that can be used to improve the success of applying SCM in Washington state. The pilot program confirmed that identifying the most burdensome regulations and focusing on those that will yield the highest cost savings would provide better results for the state. ORIA believes if the SCM were applied to those regulations that are most burdensome to businesses across state government, it would be possible to yield significant opportunities for reduction of AB on businesses.

Another opportunity we have is to apply SCM in conjunction with lean practices; this has also been done in the Netherlands with success. Applying the SCM in conjunction with a lean project can lead to understanding internal and external costs of a regulation. The model helps identify the administrative burden for businesses and ways to reduce industry costs, while lean identifies waste and reduces lead time within agencies.

ORIA is recommending that the SCM, to be most effective, be applied to those regulations that are most burdensome to businesses across state government in order to provide significant results in reducing industry time, cost and frustration of doing business in our state. In order for ORIA to pursue an enterprise-wide SCM effort, funding is required. Critical to the success, is sufficient staff levels to implement the models on a statewide level.

Narrative Justification and Impact Statement

What specific performance outcomes does the agency expect?

The goal of this project is to reduce time, cost and frustration by decreasing the administrative burden on businesses in Washington state.

Performance Measure Detail

Activity:

Incremental Changes

No measures submitted for package

Is this decision package essential to implement a strategy identified in the agency's strategic plan?

Yes.

Does this DP provide essential support to one or more of the Governor's Results Washington priorities?

Yes, goal #2 - Prosperous Economy

What are the other important connections or impacts related to this proposal?

This program builds on the existing lean practices used by state agencies. It also supports many recent Regulatory Reform performance audit findings, including to develop a long-term strategy for identifying and prioritizing multi-agency regulatory processes that can be streamlined through better coordination based on industry needs and potential savings to businesses and agencies.

What alternatives were explored by the agency, and why was this alternative chosen?

Staff conducted an extensive review of potential tools and models that could be used to measure administrative burden of regulations. Other methodologies were explored but the SCM is the best developed, the most widely used by other countries, and the only one with a significant amount of documentation to assist in implementing.

What are the consequences of adopting or not adopting this package?

Without funding, ORIA will not be able to implement a program to reduce time, cost, and frustration for businesses in Washington state.

What is the relationship, if any, to the state's capital budget?

Funding for this is proposal would come from the General Fund.

What changes would be required to existing statutes, rules, or contracts, in order to implement the change?

To implement the Standard Cost Model would not require statute or rule changes, however, some identified improvement recommendations to regulations could require legislative action.

Expenditure and revenue calculations and assumptions

ORIA projects it will need three and a half (3.5) additional FTE's to implement a program to assess and improve regulations that are most burdensome to businesses across state government. Also, it is assumed agencies involved in this work will provide staffing resources to support ORIA staff. The proposed ORIA staff will lead the majority of activities, participating agencies will be providing less than one (1) FTE that can likely be accessed through existing lean practioners.

Which costs and functions are one-time? Which are ongoing? What are the budget impacts in future biennia?

ORIA expects that 100% of this funding will support an on-going effort with an appropriate escalation rate to accommodate regular state staff salary increases resulting from cost of living increases as approved by the legislature.