

Preparing for hard times

BY KEON S. CHI

In times of fiscal constraint, state policy-makers need to consider retrenchment strategies.

A glance at governors' state of the state addresses delivered in January and February leads us to conclude that fiscal conditions in many, if not all, states are likely to worsen this year. If so, state leaders might face challenges that they have not experienced in the past several years.

California Gov. Gray Davis, for example, said that the state's economy is "re-stabilizing" and that "fiscal restraint is more important than ever." Ohio Gov. Bob Taft said, "Our economy is slowing and revenues are down. Many agencies will receive less in the coming fiscal year than in the current one." Washington Gov. Gary Locke told legislators that this year's budget was the "toughest" he has ever submitted.

These governors' words are backed by findings of a recent survey of state budget officials. "The Fiscal Survey of the States," released in December by the National Association of State Budget Directors, indicated that about one-half of the states assume the growth rate for general-fund revenue will slow down in fiscal 2002.

As a result, state policy-makers might want to carefully assess fiscal conditions and consider management strategies before there is a serious economic downturn. The big question is, "How can we manage state business and provide public services more effectively and efficiently without raising taxes?"

A popular approach used in the 1980s was to establish special commissions and task forces to improve cost efficiency and productivity. State leaders might consider empanelling experts from the private sector, academic community and consulting arena to generate ideas on how to do more with less.

Traditionally, states have controlled costs through hiring freezes, limits on employee travel, less training and development for managers, better cash management, regulatory reviews and reduction or elimination of programs.

States also have linked cost-control efforts to strategic planning and benchmarking, restructuring, quality management, performance measurement and outsourcing.

Strategic planning and benchmarking. This approach, used both statewide and by agencies, helps attain goals, measure performance and determine best practices.

Examples of benchmarking reports include Connecticut's "Goals and Benchmarks for the Year 2000 and Beyond" (1995), "The Florida Benchmark Report" (1996), "Minnesota Milestone" (1996) and "Oregon Shines" (1997).

Restructuring. States also have restructured agencies as a way to manage cutbacks. In the late 1980s, for example, Iowa saved more than \$60 million in operating expenses through comprehensive government reorganization. Partial restructuring of government can be cost effective, as has been shown when several states established work-force development agencies. Restructuring can result in more shifting of costs than savings, however.

Quality management. Traditional management approaches often are characterized by hierarchical structures and control-oriented, top-down decision-making. That is not the case with quality management, which has had various labels such as Total Quality Management in Missouri and Quality through Participation in Ohio. Quality management emphasizes inter-

agency collaboration, active employee participation and teamwork, customer-defined quality and continued improvement in operations. Rigid operational practices impede quality management.

Performance measurement. Some states have a demonstrated record in using performance-measurement indicators to determine whether programs are achieving intended purposes. Every state agency in Virginia recently measured its performance. Virginia officials have reported that performance measurement makes government more effective and cost efficient. They emphasized less micro-management from outside the agencies and more attention to results, awareness of long-term goals in balance with day-to-day operations, and better information on allocating resources and setting priorities.

Outsourcing. Some state agencies have outsourced, or contracted with outside vendors, for selected programs and saved money as a result. Outsourcing can save money when a state agency lacks expertise, necessary equipment or appropriate facilities for the task and when able contractors are available in the competitive marketplace. State agencies would do well to use performance contracts when they hire such providers to manage state programs and deliver services. State policy-makers should not overestimate savings through outsourcing, however.



States should consider how they would handle a financial crunch.

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