

# Less money, more service

*NASTD members asked to do more, save more*

BY WAYNE HALL

State IT budget cutbacks are difficult to measure since the vast majority of states do not use any general funds to subsidize their operations. Instead, IT spending may be measured in staff furloughs, fewer capital expenditures and reduced demand for goods and services provided by National Association of State Telecommunications Directors (NASTD) members to client agencies.

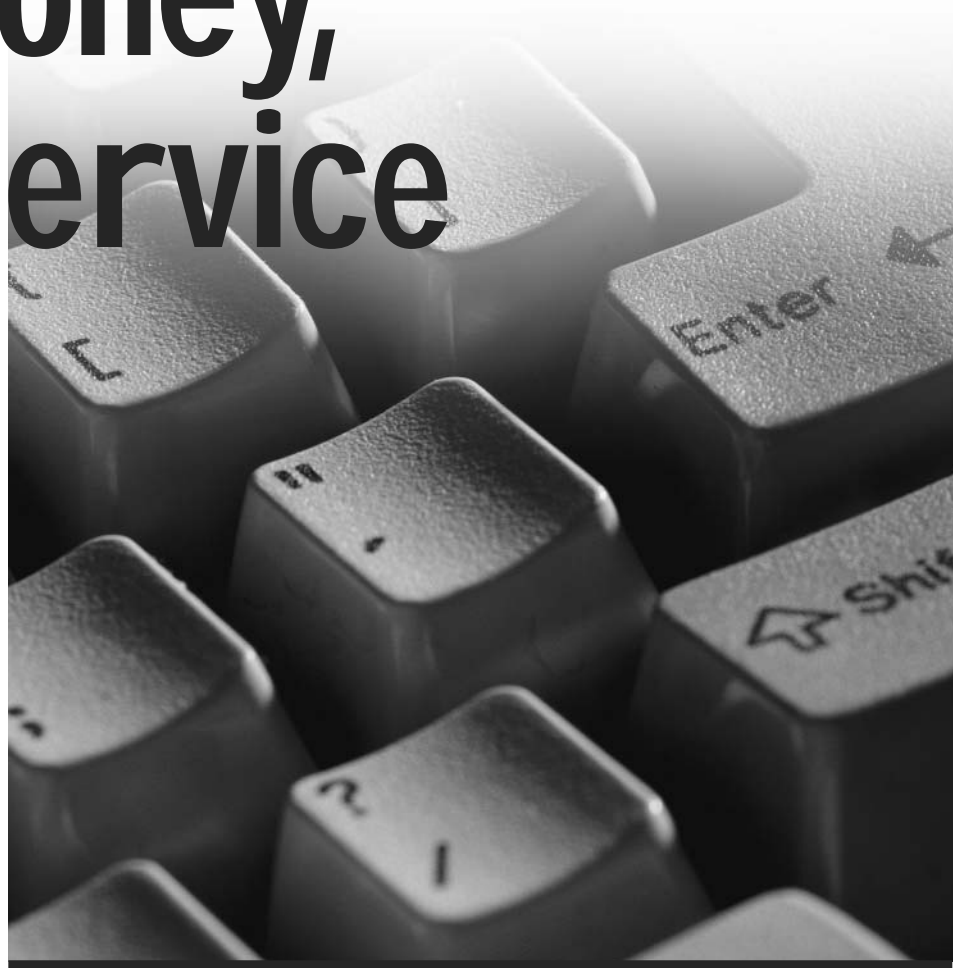
Last fall a survey by NASTD revealed that a majority of states were not looking to trim IT spending at that time. A majority of state IT agencies were, in addition, not anticipating reductions in client agency demand for services.

State information technology managers were recently asked to answer the same questions. Were their IT budgets being affected by the economic downturn? Did they foresee slackening demand for their services among client agencies? In general, the answers were “yes” and “yes.”

## Making the trains run on time

*Governing Magazine* columnist Thomas R. Davis suggested in February, among other concerns, that real-time government, commonly referred to as e-government, secure mission-critical infrastructure and wireless applications are driving IT investment now. Anecdotal evidence from recent NASTD meetings in Seattle, Washington and Portland, Maine supports that view.

NASTD members, who are responsible for managing critical communications



*A majority of respondents to an NASTD survey regarding IT spending identified reduced or deferred equipment purchases as a way to achieve savings.*

infrastructure for the states, are particularly concerned about making that infrastructure as safe and secure as possible while citizens demand anytime, anywhere government access.

## State budgets: More debt, more taxes

States have been playing budget catch-up since the fall of 2000. According to the National Association of Budget Officers (NASBO), the states passed FY 2001 budgets, cut nearly \$2 billion from them later that fiscal year, budgeted much more modest increases for FY 2002 and have watched revenue fail to meet even those expectations.

According to a December 9, 2001 survey by Dibya Sarker of NASBO, 35 states faced a total budget shortfall of more than \$25 billion for the 2002 fiscal year — the

worst since 1992. Since then, revised projections show 42 states facing a combined \$40 billion in revenue shortfalls for FY '02.

To meet declining revenue, states collectively have enacted the first tax increase in seven years. According to NASBO, the states combined “enacted net tax and fee changes [increases in] fiscal 2002 revenues by \$303.8 million,” meaning “Fiscal 2002 ended seven consecutive years of net tax reductions that began during the surge in economic growth during the ‘90s.”

## Competing priorities

State budget obligations put a heavy burden on discretionary spending. Health care and Medicaid obligations, for example, account for roughly one quarter of all state expenditures, second only to education funding, according to NASBO.

Federal tax cutting efforts also hurt state treasuries. For example, in 2001 Congress phased out the federal portion of the estate tax over 10 years, but the legislation eliminated the states' share more quickly. The loss to state treasuries is estimated to be about \$1.8 billion in fiscal 2003. The loss over the next 10 years is projected to be \$50 billion or more, said NASBO in a fiscal report.

Since a state "revenue recovery" lagged the 1991 recession by more than a year, NASBO believes state revenue is likely to suffer well into 2003, particularly as obligated spending continues to increase.

### Corporate IT flat

Data from early 2001 was comparatively bullish regarding business IT investment, according to Carolyn Marsan in an article in *Network World Fusion* in July, 2001. In 2002, however, analysts are predicting businesses will hold the line on spending in favor of maximizing the usefulness of existing hardware and infrastructure.

CNET says "Businesses plan to spend less on e-business technology this year and make the most of what they've got before they resume shopping, according to a sur-

## Just the facts

NASTD members have embarked on an effort to catalog, describe and report on the information technology infrastructure in all state governments. The organization developed a searchable Web-based database of state technology, services and IT management to which state members of NASTD contribute data at any time. That data is available 24/7 in the form of customizable reports answering questions that begin, "What states...?" Initial testing of that database has begun. More critical answers to questions of budget, infrastructure and the management of state IT resources will be forthcoming.

vey of 900 companies released by Forrester Research.... Forrester defines e-business technology as hardware and software used for facilitating communication and commerce among a company and its trading partners (*source: Companies on IT Diet in 2002 by Alorie Gilbert, CNET News*).

### State IT spending?

Since most central state IT agencies are completely funded by user fees, they must rely on that business to generate revenue. Instead of cutting appropriated funds, legislatures ask state information technology agencies to freeze hiring, cut or fire employees, defer or reduce IT purchases or put off new contracts.

Indeed, when asked if state budget cuts were affecting the IT agency, a substantial majority of respondents answering "yes" also identified "reduced or deferred equipment purchases" as a way to achieve savings.

One could infer that general economic weakness would affect general fund receipts, which in turn might impact that portion of state budgets appropriated to client agencies. One way to measure IT investment would be to ask the providers of information technology, NASTD members, his or her impression of demand.

Since the 2001 survey, state information technology "consumer sentiment" has deteriorated. While five of 23 states expected client agencies to spend less on NASTD member services in 2001, the updated survey shows that 11 of 23 states now actually do spend less.

The Center for Digital Government suggests state and local IT spending will increase slightly - in contrast to state budgets as a whole. The emphasis on homeland security issues, public safety and wireless communications may help sustain state IT spending.


NASTD data casts some doubt on that assessment. Since NASTD members largely operate on a fee-for-service basis, a reduction in demand for those services could harm future investment in IT infrastructure and services vital to electronic government. National priorities such as homeland defense could alter that picture, particularly if a substantial portion of that money comes from the federal government.

### On the front lines

Gail Wekenborg, Deputy Director, Missouri Division of Information Services, offers this view: "Most agencies are experiencing a 25-to-40 percent reduction in [general revenue] appropriations. Needless to say, that means their ability to pay our bill is being reduced. Nothing has been taken out of the revolving fund spending authority, however. My response to the situation is to review the Data Center budget. We have paid off hardware this year to reduce expenses next year. The Commissioner of Administration has asked that we develop a "Hints" brochure for agencies which might help them reduce or at least control telecommunications costs. We are doing that. Not rocket science but things like [making sure] the lines you pay for are really in service, [using] an 800 number for remote staff to call in rather than have them use cell phones.... Many agencies have had a FTE reduction. We have not."

In Nebraska, Brenda Decker, Director of the Division of Communications, said, "the Nebraska Legislature just cut \$265 million from total state spending over the past nine months. We don't anticipate any huge cuts from our agencies in the IT area other than in areas where facilities were closed. However, agencies have some discretion on how they distribute their spending cuts. If they decide to eliminate additional programs or functions, there is no way that we won't see a decrease in our operations."

### Conclusions

State telecommunications and technology managers may experience shortfalls in their agency revenue because of general fund cuts faced by their clients. Those being asked to save money are often deferring equipment purchases. NASBO suggests that a state "fiscal recovery" may lag the national economy by 12-18 months. State IT spending may similarly lag the national economic recovery. 

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— Wayne Hall has spent the past 14 years working with NASTD - the Association for Telecommunications and Technology Professionals in State Government. The full NASTD survey may be viewed at [www.nastd.org/library/documents/bg2002mayjune.pdf](http://www.nastd.org/library/documents/bg2002mayjune.pdf)