

Hard times generate new ideas

BY TRENDS RESEARCH AND RESPONSE GROUP OF THE COUNCIL OF STATE GOVERNMENTS

We all know state budgets are in the doldrums—\$10 million here, \$50 million there, pretty soon you're talking about real money. But there is a bright spot in all of this gloomy fiscal talk. States are making inroads to smarter and leaner government operations, taking a cue from business and citizens – you can't spend what you don't have. As states struggle with the lack of dollars, innovation is taking over in state government

administration and organization. How can we do more with less? What is worth keeping and what is worth giving up?

This month, The Council of State Government's Trends Research and Response Policy staff examines how states are realigning their priorities and reorganizing their operations – all in the name of saving money and providing better service.

Virginia's VDOT reforms

In the midst of the budget shortfalls affecting nearly all the states, many have made tough decisions on how to balance their budgets. Several states have been forced to reorganize and make their various departments and bureaucracies more efficient. One of the most comprehensive reorganizations took place within the Virginia Department of Transportation.

By the time Governor Mark Warner took office in 2002, VDOT, once one of the most respected highway departments in the country, had been brought to the brink of financial ruin by fiscal mismanagement, massive cost overruns on major highway projects and costly construction.

The agency is Virginia's third largest with more than 10,000 employees. VDOT spends more than \$14 million each day and has an annual budget of approximately \$3.4 billion – almost 14 percent of the total state budget.

An attempt to help pay for supplemental transportation projects with a \$12 billion tax increase over 20 years was defeated by voters in a referendum.

The defeat forced Gov. Warner to come up with more innovative measures to reform the department. The result was a revised version of the governor's original six-year transportation plan. The state dropped 166 construction projects, reduc-

ing spending by \$2.8 billion, to nearly one-third less than originally planned.

While this equals a dramatic cut in transportation funds, it also represents a dramatic rethinking of Virginia's transportation policy. Gone are the expansive road and transit construction programs that put VDOT in poor financial shape. The focus has shifted to exploring alternatives to building more roads and seeking new ideas from sources outside the VDOT bureaucracy such as private contractors, local governments and entrepreneurs.

As a result of the reform efforts, VDOT is looking at new ideas that could provide solutions to congestion and traf-

fic management problems throughout the state while avoiding the large highway expenditures of the past. These concepts include "hot lanes" to help alleviate congestion through variable-priced tolls, telecommuting incentives for businesses, carpooling and other congestion-mitigation projects, and public-private partnerships to improve utilization of existing assets.

The reform of VDOT is far from complete, as evidenced by the release in January of the agency's first-ever quarterly performance report, a tool aimed at honestly appraising the challenges facing the department. According to the



report, 70 percent of highway construction projects in the last six months of 2002 were completed late and almost one-third were behind schedule. Forty percent of projects finished between July and September cost more than projected, only 29 percent of the ongoing projects were on track to meet deadlines, and 40 percent were over budget.

While the assessment is grim news,

VDOT Commissioner Philip Shucet considers the report an indication that the state is heading in the right direction because it now has an honest accounting tool to keep VDOT on track to accomplishing reform goals.

With 56,941 miles of roads and the third largest state-maintained highway system in the country, behind North Carolina and Texas, Virginia has taken aggressive steps

toward reforming an agency previously near collapse. Virginia's poor fiscal shape forced it to undertake such dramatic actions with its transportation programs, and the state has strongly embraced the idea of reform and reorganization to accomplish its goals. ★

— Barry Hopkins, lead infrastructure policy analyst – bhopkins@csg.org

Medicaid driving health and human services changes

Several governors have announced major restructuring efforts in their state health and human services agencies because of cost pressures placed on their state budgets by Medicaid.

When Gov. Mitt Romney of Massachusetts announced his restructuring proposal, he said, "Rather than requiring families to navigate the current jungle of red tape, we are consolidating functions to better help those who cannot help themselves," according to a report in *The Boston Globe*. "We believe we'll be able to save a significant degree of time and money for state employees and for taxpayers." The governor's office estimates the changes will save \$90 million.

Other governors and legislatures are also reorganizing their health and human services functions, including Arkansas, Minnesota and Vermont. Arkansas will create a combined health and human services agency. Minnesota wants to eliminate duplication between the education and human services departments. Vermont's efforts focus on improving coordination of services and creating client-centered structures within its already large Agency of Human Services.

For years, critics have complained about the delivery of services to low-income and at-risk families, as well as the elderly and the disabled. Critics charge that clients are required to file multiple applications with different state agencies that have varying and confusing eligibility requirements and processes. Gaps in services and lack of coordination are also widespread.

States have traditionally oriented their health and human services bureaucracies around funding sources, particularly funding from the federal government. Yet, state leaders recognize that there is a mismatch between federal funding and the clientele that states serve. Medicaid, for example, funds health care coverage for the traditional welfare population of women and children eligible for Temporary Assistance for Needy Families. It also provides health care coverage for low-income elderly and disabled individuals.

The assortment of state services needed by families making the transition from welfare versus the elderly and disabled are very different. For example, a low-income elderly person who is also disabled may receive home health care services, senior housing, transportation, and home-based

meal services. Families, on the other hand, may receive employment assistance, food stamps, health care coverage, child care and other services. At-risk families often have another layer of services they need such as the courts, foster care, and substance abuse or mental health programs.

In recent years, some states have pioneered more client-centered services and agency structures. Oregon's Department of Human Services drew together staff from various specialty areas to develop local teams that work together to address client needs in an integrated, coordinated manner. The outcome has been a structure that is more responsive and more efficient. Oregon's approach goes beyond just locating services together or combining similar departments under one super-agency.

Assessment of health and human services reorganization is many months or even years away. However, with the current budget crisis and Medicaid costs soaring, states will continue to look for ways to streamline services and create efficiencies. ★

— Trudi Matthews, chief health policy analyst – tmatthews@csg.org

Environmental regulation shaken up

In 2002, the Michigan Department of Environmental Quality went through a major reorganization. Russ Harding, before leaving as director of DEQ in December, reorganized the agency by reducing the number of divisions from nine to six and overseeing voluntary early retirement of hundreds of agency staff.

In Michigan's case, this change was

driven by the impact the state's economic downturn had on the budget. To reduce costs, the state offered employees early retirement. In 2002, more than 6,500 state employees left their positions with the state, removing thousands of experienced workers from the state work force.

The DEQ was not the hardest hit agency in terms of numbers, but the level

of expertise represented by departing employees will definitely be noticed. Five out of nine division chiefs, one assistant division chief, 15 section chiefs, 26 unit chiefs and 14 level specialists took early retirement. In all, Michigan's DEQ lost more than 240 workers or 16 percent of its work force in the past year.

Michigan environmental groups are

concerned that the reorganization, coupled with a significant decrease in skilled agency staff, could lead to increased environmental problems. They cite examples of supervisors shifted into areas outside of their experience to fill gaps left by the departure of key management staff. They are also concerned that reduced inspections will be inevitable with a smaller staff, resulting in less protection for the public and the environment. To address this concern, the department has made the replacement of inspectors a high priority.

Arkansas


In its reorganization efforts, the state of Arkansas wants to fold 53 state agencies

into 10 newly created departments. In February, the Arkansas House of Representatives approved, as part of a state government reorganization bill, an amendment that would move the Department of Environmental Quality to the Department of Commerce, where other state regulatory agencies are housed.

Originally, the DEQ was to be part of the Department of Natural Resources. However, agricultural and timber interests fought successfully to have DEQ moved from DNR to the Department of Commerce.

Those interests were concerned about having both the environmental agency and the Arkansas Soil and Water Conservation Commission in the same department. They worried that by having

the two together DEQ would subject their interests to more strenuous regulations. Environmental groups also had reservations about placing the two agencies under the same department, but their reservations stemmed from how agricultural interests on the Soil and Water Conservation Commission would affect the DEQ.

To illustrate the difficulty in reorganizing state governments, even this configuration may not make it to the final form of the reorganization bill. A range of interests is suggesting that the Legislature give more thought to where these agencies should be located. 

— Scott Richards, chief environmental policy analyst – srichards@csg.org

Educational change and reform

Fiscal crises, state Supreme Court rulings, and education reforms have been the catalysts for major education restructuring across the nation this spring. Legislators and governors have taken up the thorny issues of school consolidation and local property tax reform. They have also addressed the debates about public education governance in their attempts to mollify taxpayers, parents, educators and fiscal “nay-sayers” in this era of lean economic times.

In California, *The Sacramento Bee* reports that legislators propose shifting management of the state’s public schools from newly elected Superintendent of Public Instruction Jack O’Connell to Gov. Gray Davis’ appointed Secretary of Education Kerry Mazzone. Senate Bill 6 would make the governor’s cabinet-level secretary of education responsible for public school operations and management, overseeing a staff of roughly 1,350 of the current 1,600 Department of Education employees. O’Connell would continue to supervise the remaining 250 employees and oversee student testing programs, school performance rankings and system compliance with special education, civil rights and other laws.

O’Connell cannot set education policies but can only implement policies adopted by the state Board of Education or laws

passed by the Legislature. The state board can set policies but it cannot hire or fire the superintendent, who is charged with implementing policy. O’Connell, who opposes the proposal, says voters want an independent, full-time, elected official overseeing public schools and not someone appointed by the governor. Supporters of SB 6 say the legislation would clarify responsibilities. The California Teachers Association president, Wayne Johnson, says the bill would place too much educa-



tional power in too few hands. “We need philosophical diversity in Sacramento,” he told *The Sacramento Bee*.

This is one of many proposals released in the California Master Plan for Education, designed as a 20-year blueprint for the state’s school system. A committee of 18 lawmakers and hundreds of education officials contributed ideas to the plan. Other changes proposed in legislation this session include Assembly Bill 56 and Senate Bill 7, which would change how the state educates its youngest students, ages three to five. Preschool classes would be offered to every child, and mandatory kindergarten would be at least four hours long.

In Florida last November, voters set major education restructuring in motion when they approved preschool for all 4-year-olds and approved a steady reduction in class sizes. Floridians also overwhelmingly approved the restructuring of higher education governance with the creation of a board of governors to oversee Florida’s 11 public universities.

Hawaii Gov. Linda Lingle would like voters to have a chance to decide if the state should establish local school boards throughout the state, replacing the state Board of Education with seven elected district boards over the next six years. Her plan is currently stalled in the Legislature.

Meanwhile House Democrats have sent the Senate their proposal, to immediately create 15 advisory complex area school councils. Both plans would decentralize the state's education system, but their timing and their methods differ.

In Arkansas, a state Supreme Court ruling last November forced lawmakers and Gov. Mike Huckabee to hammer out a bill that would pare the state's 310 school districts to about 110. The Court ruled that Arkansas' education system is inadequate and inequitable and that the state, not local school districts, is responsible for providing "substantially equal" curriculum, facilities and equipment. In mid-March, Huckabee and 18 legislative sponsors of

Senate Bill 758, called the Public Education Reorganization Act, began working to gain the needed 51 votes in the House and 18 votes in the Senate. Rural lawmakers and educators have objected to the proposal, saying it would mean consolidation of every school district in several legislators' districts and would force the sharing of resources such as teachers.

Rural schools, rural lawmakers, and the state's superintendents offered alternative bills that would require all districts to meet existing curriculum standards rather than the higher standards being considered by the state Board of Education. Teachers in a rural north Arkansas district withdrew their memberships from the state's largest teach-

ers' union in early March after that union announced support for Huckabee's school reorganization plan.

In states like New Hampshire, Texas and Vermont, communities divided by the "sharing pools" of statewide property tax laws struggle to find fair and adequate solutions to reform the taxation plans that fund their schools. Property tax laws in those states pit town against town and citizen against citizen, say property owners and legislators.

It seems money, and even the lack of it, really does talk. ★

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State rural community affairs offices

In 2001, during an era of "no growth government" Texas legislators created a new agency, the Office of Rural Community Affairs, charged with concentrating on rural issues, serving as the focal agency for Texas health, economic and community development programs that target rural development.

The legislation creating ORCA grew out of the recognition that federal and state initiatives addressed rural needs on a case-by-case basis, focusing on directing the development of rural areas through manipulation of agricultural policy. There was also concern that unfunded state and federal mandates placed an unfair and unequal burden on local rural governance.

Support for the legislation was gained by pulling existing rural-focused programs and services from various state agencies, bringing them together under a single administrative umbrella. The legislation merged three existing state-administered programs: the Center for Rural Health Initiatives, Texas Community Development Program (the federal Community Development Block Grant program) and Local Government Services (now known as Outreach and Training Services). The programs provided ORCA with the infrastructure it would need to address its mandates per HB 7, which are to:

- develop a rural policy for the state in consultation with local leaders representing all facets of rural commu-

nity life, academic and industry experts, and state elected and appointed officials with interests in rural communities;

- work with other state agencies and officials to improve the results and the cost-effectiveness of state programs affecting rural communities through coordination of efforts;
- develop programs to improve the leadership capacity of rural community leaders;
- monitor developments that have a substantial effect on rural communities, especially actions of state government; and
- compile an annual report describing and evaluating the condition of rural communities.

Recently, ORCA published an "Outline for Texas' Rural Policy," which according to ORCA Executive Director Robert J. "Sam" Tessen, provides a reference for decision- and policy-makers, stakeholders, state agencies, elected officials and Texas citizens to use to better understand the issues and processes that go into developing or implementing policy.

The challenges of rural policy that ORCA must address include:

- providing basic opportunities and services to rural residents;
- maintaining, creating and expanding an objective rural emphasis in Texas government;

- improving education, health, social services and infrastructure in rural Texas;
- strengthening and diversifying rural economies;
- furthering the development of local problem-solving and leadership capacity, while maximizing human capital;
- facilitating the development and conservation of natural and cultural resources while sustaining the rural landscape.

One of the outreach efforts that ORCA has successfully implemented is a "Directory of State Agency Programs and Services," designed to assist rural citizens and communities in accessing available resources. The Directory (<http://www.orca.state.tx.us/Directory/index.html>), serves as a "one-stop shop" to locate program, service and contact information on everything from leadership training to wildlife and work force development.

According to Rep. Pete Laney, "three million rural Texans deserved a place to call on for information." Rep. Laney wrote the legislation to help those Texans "who want to go back home to their rural community." According to Laney, "those who want to, should be able to ... and be able to make a living." ★

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