

# Government restructuring: A fiscal fix?

*States have explored government reorganization as a way to save money, with mixed success*

**BY KELLEY ARNOLD  
AND HEATHER PERKINS**

**F**aced with one of the worst fiscal crises in history, most states cut their budgets and initiated various cutback-management strategies in 2002 and 2003.

Some states found themselves forced to institute hiring freezes, travel freezes and even layoffs. Others used early retirement plans to try to lower personnel costs. Agencies pinched every penny, trying to reduce administrative costs, and explored measures such as privatization in hopes of saving money.

One of the most popular strategies has been government reorganization, or restructuring. Governors and agency heads have proposed changes ranging from agency-specific consolidations or decentralization to comprehensive statewide reforms.

But recent restructuring proposals have met with mixed success in state legislatures.

## **Reforming state executive branches**

Restructuring was the most-often cited topical area in governors' 2003 state of the state addresses, with 20 governors initiating reorganization plans. Some states, such as Arkansas and Massachusetts, proposed comprehensive reorganizations, while oth-



ers initiated partial reorganizations. Most of these restructuring initiatives take the form of agency consolidations and streamlined government services.

A recent CSG survey found that budget directors in 12 states said their state was considering restructuring the executive branch in order to reduce expenditures (Arizona, Arkansas, Idaho, Iowa, Michigan, Minnesota, Missouri, Oklahoma, South Carolina, Virginia, Washington and West Virginia).

Historically, restructuring has been a typical approach to dealing with budget crises in the states, as in the other levels of government. Traditional reasons for restructuring include increasing effectiveness and efficiency in management and service delivery, minimizing wasteful duplication of services, improving administrative coordination, shifting money from low- to high-priority areas, and slowdown in the growth of government.

Other rationales for reorganization relate to improving productivity, business-like management, accountability, streamlining agencies, better interagency communication or modernization of state government. Comprehensive statewide restructuring has been proposed in few states, while partial restructuring, mostly on an agency-wide basis, has been a routine occurrence in many states.

### Arkansas

In early 2003, Arkansas Gov. Mike Huckabee announced a plan to overhaul the state executive branch that would involve “reducing the number of state level agencies from more than 50 to 10 basic departments.” These 10 departments would include education; health and



Gov. Bob Wise of West Virginia

human services; commerce; labor, employment and workforce; corrections; natural resources; finance and administration; interior; homeland security and agriculture. Each department would have a secretary to oversee its operations, in addition to a number of bureaus and bureau directors.

In his State of the State Address, Gov. Huckabee proclaimed, “We’ll reduce duplication, save money for far more important things than the machinery of government and make our system uniform and understandable not only to newly elected, term-limited legislators but even more importantly to our bosses, the taxpayers of Arkansas.”

Gov. Huckabee contended that these consolidations would better serve the state’s citizens, in addition to placing more emphasis on the programs themselves. He also issued an executive order encouraging state executive agencies to find ways to consolidate physical space. By centralizing locations, the governor hoped to save money by reducing office equipment and building maintenance.

However, when Huckabee’s plan, Senate Bill 45, went before the Arkansas House of Representatives, the House amended it to include an efficiency study that had not been authorized. The study had to be completed by October 31, 2003. In addition, the amendment required that the 10 secretary positions created by the reorganization would be temporary appointments. When the Legislature recessed for the session, the bill died in committee.

### West Virginia

Gov. Bob Wise of West Virginia proposed reducing cabinet positions, combining overlapping programs and merging technological services during his 2003 State of the State Address. For example, he proposed eliminating the position of commerce commissioner and combining the position of secretary of tax and revenue with the secretary of administration.

However, the governor’s reorganization bills did not meet with much success in the Legislature. Although the proposals passed the Senate, none of them made it out of the House. The state’s lawmak-

ers recommended studying some of the proposals during the interim, including a plan to create a single gaming commission to oversee the lottery, racetracks and charitable games and raffles.

In late April, Gov. Wise announced his plans to move budget and accounting functions from the Department of Administration to the Department of Tax and Revenue. Despite the failure in the House of a proposal to merge these two departments, the governor used a Memorandum of Understanding between the departments to execute the move.

### Massachusetts

Like Governors Wise and Huckabee, Massachusetts Gov. Mitt Romney unveiled his new plan, “Common Sense for the Commonwealth” during his 2003 State of the State Address. Romney’s plan called for combining agencies in order to reduce duplication, especially in higher education. Unlike many other state reorganization plans, Romney’s plan included streamlining the state court system by consolidating trial courts.

On May 14, Gov. Romney filed two reorganization plans with the Legislature. One plan provided for the restructuring of various executive branch agencies, while the other focused on restructuring higher education. Most notably, it called for abolishing the Office of the President of the University of Massachusetts. Gov. Romney submitted these plans under Article 87 of the state’s constitution, which gives the governor the power to consolidate agencies and reorganize functions in the executive branch. If the Legislature does not vote down the bills within 60 days after their submission, they become law.

However, the Senate resoundingly voted down both of Romney’s proposals on June 5. The broad reorganization bill was defeated 32-7, while the higher education bill was killed with a 33-6 vote. Because amendments cannot be made to bills filed under Article 87, the Senate had to either approve or reject the proposals as written.

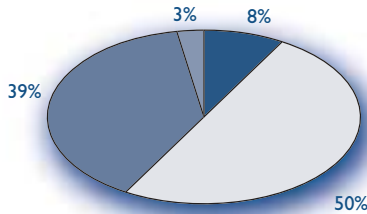
### Virginia

Also this year, Virginia Gov. Mark Warner proposed legislation that would

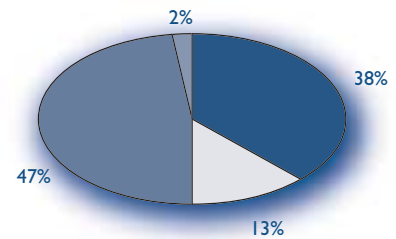
## Responses from agencies when asked whether the agency had become more centralized, more decentralized or had stayed the same over the past five years.

More Centralized
  More Decentralized
  Stayed the Same
  Other

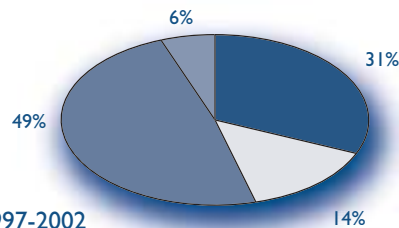
**Figure 1: Restructuring Trends:**  
Departments of Personnel, 1997-2002



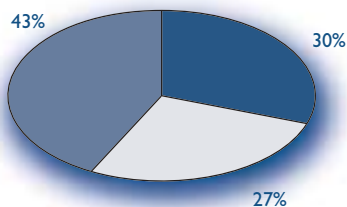
**Figure 4: Restructuring Trends:**  
Departments of Corrections, 1997-2002



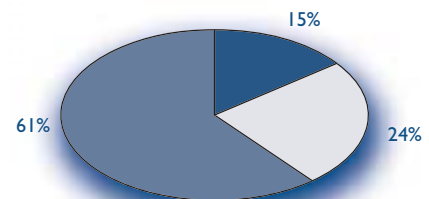
**Figure 3: Restructuring Trends:**  
Departments of Health & Human Services, 1997-2002



**Figure 2: Restructuring Trends:**  
Departments of Education, 1997-2002



**Figure 5: Restructuring Trends:**  
Departments of Transportation, 1997-2002



eliminate “unnecessary and duplicative” boards and commissions, as well as restructure and consolidate various state services. During his 2003 State of the Commonwealth Address, Gov. Warner remarked, “My proposals represent the most sweeping reform of state government since the cabinet system was created a generation ago.”

Unlike the other governors, Warner was quite successful during this year’s legislative session in getting his reorganization initiatives passed. The Virginia General Assembly approved many of his proposals, leading to changes effective July 1. The restructuring legislation signed into law included:

- the elimination of certain duplicative and inactive collegial bodies;
- a requirement that all advisory boards, councils, etc., created after January 1, 2003 must contain a provision calling for the body’s expiration three years after its creation;
- consolidated services for veterans, workforce training, mental health and water policy.

The most impressive reform, though,

may be the initiative to restructure the state’s information technology services. The governor signed two bills in May to begin the first steps in the most comprehensive reform of state government information technology in the country. Under the new plan, three existing state agencies and two boards will be eliminated. These eliminated bodies, along with a majority of the 94 state agency IT departments, will be consolidated to form a single streamlined agency, the Virginia Information Technologies Agency. Warner believes that these technology reforms have the potential to save the state millions of dollars each year.

### State agency reorganization

As the examples above show, comprehensive statewide reorganization is often politically difficult to achieve. Far more common are proposals to restructure individual executive branch agencies, usually by making them either more centralized or more decentralized.

CSG recently surveyed key agency heads to learn about how their

man-agement structures have changed in recent years.

### Personnel and education

At the agency level, personnel department directors in 18 states reported that their agency has become more decentralized in the past five years (see Figure 1). Several education departments also reported a trend toward decentralization, although slightly more reported a trend toward centralization (see Figure 2).

The New Jersey Department of Education offers an example of recent decentralization. It was reorganized in April 2002 into a central operation in Trenton and a field operation composed of three regional divisions. Previously centralized functions were decentralized to the regional divisions in order to provide more support to local school districts. The central division serves as the administrative nerve center for the agency, while the regional divisions reach out to local schools. The reorganization also helps to monitor local districts’ fiscal practices to ensure that all education funds are properly spent.

**Health and human services**

Meanwhile, 11 health and human service department directors reported that their agency has become more centralized in the past five years (see Figure 3). Recently, Alaska officials announced a reorganization that involves internal consolidations that changed the names and functions of multiple divisions. Five programs were moved from the Department of Administration and the Department of Education and Early Development to the Health and Social Services Department. The reorganization was initiated to make the department more citizen-friendly, coordinate multiple programs with increased efficiency, and maximize Medicaid funding for Alaska programs.

Gov. James Douglas of Vermont called for a major restructuring of the Agency of Human Services in his 2003 budget address. His priority is to streamline the agency in order to create more coordinated services for Vermont's families. The Agency of Human Services is the state's largest agency, with nearly 3,000 employees in nine departments and offices.

**Corrections**

State corrections departments have also turned to restructuring in order to better serve citizens. The South Carolina Department of Corrections was restructured in 2001 to "create more effective and efficient reporting and a direct line of accountability." Before restructuring, the department had four deputy directors to oversee programs and operations. After reorganization, the deputy directors became institution division leaders who reported to one central director. Having one director who controls operations has

created a streamlined, more effective department.

South Carolina is not the only example of centralization. Eighteen corrections department directors reported that their agency has become more centralized in the past five years (see Figure 4).

**Transportation**

Conversely, 10 transportation department directors reported that their agencies have become more decentralized over the past five years, while only six reported becoming more centralized (see Figure 5). Among those becoming more decentralized is the Alaska Department of Transportation. Gov. Frank Murkowski's plan to reorganize the department would create three new divisions: the Air Division, Highways Division and Marine Highway Division. Murkowski said that adding the three new agencies will help to better serve specific needs of Alaskan citizens.

In Missouri, Gov. Bob Holden said the state's economic future rests in part on the Department of Transportation. In order to secure this future and meet citizen demands for accountability, Holden proposed a constitutional amendment that would transfer responsibility for managing the department to the governor effective in January 2005.

**Restructuring in summary**

Restructuring is taking place almost exclusively in the executive branch of state government. A survey of state legislative agency directors showed that neither legislative nor judicial branches have changed their structural organizations much in the past five years.

Although more than 20 states have initiated restructuring plans in response to budget shortfalls, most have avoided comprehensive statewide reorganization in favor of agency-specific, partial restructuring.

Traditionally, the question of centralization and decentralization has been a focal point in analyzing restructuring in state agencies. Based on CSG's survey and an analysis of gubernatorial plans, it is difficult to identify a clear trend in agency restructuring throughout executive branches.

Some agencies, such as departments of health and human services and corrections, have moved more toward centralization, while others, such as departments of personnel and transportation, have headed more toward decentralization.

**Does restructuring save money?**

Restructuring, despite its popularity, might not provide state agencies with promised cost savings, unless policy-makers include long-term efficiency measures in structural reorganization. Past restructuring experiences in state agencies have raised lingering questions about reorganization's effectiveness as a cost-saving tool.

For example, principles for restructuring involve several objectives other than cost savings. These include enhancing the control and accountability of the chief executive or legislature, delineating single lines of authority to the top, and improving service delivery by curtailing the use of boards and commissions to perform administrative functions.

Even if saving money is the primary reason for agency restructuring, merely shifting organizational boxes does not guarantee savings; initial savings from reorganization, if any, might be reinvested. Also, inflation and cost-of-living adjustments for state workers tend to cancel out most of the savings resulting from the initial reorganization.

And although states may save some money by restructuring, they will continue to face difficult questions about how to meet citizens' needs in a rapidly changing world. For example, can states provide essential services to a growing and more diversified population with a smaller workforce and fewer resources? Do states need radical changes in their revenue sources and tax structures to meet future challenges? Would the cutback management measures states adopted in 2002 and 2003 be sufficient to deal with future budget shortfalls?

Even if the economy recovers soon, state policy-makers will feel the effects of the current fiscal crisis for several years. ★

— Kelley Arnold is a communications associate and Heather Perkins is an editorial associate at *The Council of State Governments*.

**More Resources**

For more information, see "Trends in State Government Management: Budget Reduction, Restructuring, Privatization and Performance Management" in CSG's *The Book of the States 2003*.