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I'm enclosing this month's State Management Innovations Newsletter for your review. As you can see, many states are responding well to the tight budget cycle through improved planning, performance management and streamlining.

A big welcome to Arnold Schwarzenegger in his first week as Governor of California, who has begun implementing many of the management reforms we outlined in the Citizens' Budget to deal with his state's budget deficit.

If your state government agency has started implementing these kinds of reforms and you want to share the results, please send me an email with some of the details and I'll have my research staff get in touch with you. We need to highlight and share management innovations at all levels.

-Carl DeMaio

November 2003

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Citizens' Budget Update

The Performance Institute released a report earlier this year, titled "Citizens' Budget," to address California's extraordinary budget deficit. It provides recommendations on how the state can balance its deficit using a number of performance-based management reforms. Using California–with by far the nation's largest deficit–as an example, the Citizens' Budget combines reform, restructuring and selected cuts in duplicative programs to propose a $1.5 billion surplus in 2005 - with no tax increases, no cuts in services deemed vital by most Californians, but with improvements in the business climate sufficient to permit the creation of an estimated 600,000 new jobs over two years. The California plan details a set of 16 reforms to overcome the state's $38 billion deficit.

Governor Schwarzenegger, who took office on November 17, has welcomed the Citizens' Budget and is already implementing suggested reforms. Carl DeMaio, the Institute's president, has played a key role in formulating the reforms. He was named by a local Californian paper in a top 10 list of people who offer depth and insight into subjects that are on the governor's priority list. Furthermore, state governments across the country have taken notice and contacted the Institute about this report. They started applying the principles of this budget plan to their own initiatives. A clear example is Washington state, featured in this newsletter as a program innovation.

To view the Citizens' Budget report go to:
http://www.performanceweb.org/pi/research/california/index.htm

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Managing for Results: Strategic Planning and Performance Budgeting

State Governments Project Over $32 Billion Collective Deficit

According to a new report by the Center of Budget and Policy Priorities, state governments are projecting a collective deficit of at least $32 billion next year. This figure is expected to grow as more information becomes available, and it foresees a fourth straight year of program cuts, tax and fee increases, and other budget-balancing maneuvers. Most states are experiencing moderate tax revenue growth, but this is not strong enough to cover state obligations. Next year's budget problems are due mostly to state lawmakers' heavy reliance on one-time fixes to balance their budgets over the past few years. The report includes data from 21 of the nation's largest states. The collective deficit figure is expected to grow by a few billion dollars as more states unveil budget figures for fiscal year 2005. To view this report go to:
http://www.cbpp.org/10-22-03sfp4.htm

South Carolina's Governor Promotes Tax Plan

South Carolina's Governor Mark Sanford announced his new tax plan that proposes lowering the state income tax in order to jump-start a stalled state economy. The expectation is that more money in taxpayers' pockets will facilitate a cycle of small business growth. The governor's plan would raise the tax on cigarettes, apply the state sales tax to lottery tickets, and use the new tax money to lower the income tax rate to 5.9 percent (down from 7 percent) for those who make more than $12,000. To view this article go to:

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http://www.thestate.com/mld/thestate/news/local/7185132.htm

Measuring Performance in Education - AAEA Presents Efficiency-Based Plan to Lawmakers

Faced with a deadline on January 2004 by the state Supreme Court, the Arkansas Association of Educational Administrators (AAEA) presented a plan to ensure that school districts are efficient in providing an adequate education. The Court mandated that schools provide all students with an equal opportunity to get an adequate education. The state responded by submitting a proposal that would sanction districts that do not meet academic standards or fail to reach a certain efficiency level. The plan uses 28 factors to determine the most and least efficient districts. The efficiency index would include 13 student-achievement variables, 14 cost-related variables and one demographic variable. The efficiency standard would be based on an average of three years of data, starting with the 2002-2003 school year. Districts would be required to meet the standard by the 2006-2007 school year. To view this article go to:
http://www.arkansasnews.com/archive/2003/11/05/News/51460.html

2004 Best Practices Forum on Strategic Planning and Change Management in Government (January 23-24, Arlington, VA)

The Performance Institute is hosting an event to help agencies develop an effective strategic plan, linking performance to results. This involves creating clearly defined end outcomes and developing strategies to best link your resources to your agency's GPRA goals. By using a Strategic Issue Landscape Assessment, the Institute can assist you determine what steps must be taken in order to implement your strategic plans and fulfill your agency's mission. An emphasis is given on building stakeholder support to obtain the input of internal and external stakeholders to ensure your plans are fully integrated. Assessing organization culture to ensure readiness for adoption of new performance plans and accountability requirements will also be covered. For more information go to:
http://www.performanceweb.org/performancemanagement/p216/p216.htm

Managing Program Performance in Texas State Government - Using Effective Performance Management to Overcome Budget and Planning Challenges (December 2, Austin, TX)

Revenue shortages across the nation are taking their toll on state finances. States are facing budget deficits in the range of $70 billion to $85 billion for state FY2004. As a consequence, state governments are struggling through the economic recession. In light of this situation, the Performance Institute is holding a series of conferences targeted at state governments to help them develop accurate performance measures for their agencies and programs. The next event is for Texas. The Institute will help you implement a results-based strategic plan, develop and manage performance-based contracts, establish a framework for effective human capital planning, and acquire proven best practices from throughout the country. For more information go to:
http://www.performanceweb.org/performancemanagement/p198/p198.htm

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Finance: State Finances and Budgeting

Atlanta State Tax Collections Continue Rising

Last month, state tax collections in Atlanta rose 6.1 percent. This is the first time the state has seen three consecutive months of improvement in almost three. For the first four months of the current 2004 fiscal year, revenues have climbed $185 million, or 4.7 percent. Tommy Hills, the governor's Chief Financial Officer, said that the continued revenue growth of 6-7 percent, plus the $500 million grant Georgia received from the federal government, as part of President Bush's tax bill and 2.5 percent spending cuts ordered by Gov. Sonny Perdue in August, could help the state balance its estimated $700m-$1b budget shortfall. Agency proposals to close the gap

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have included closing prisons, freezing college enrollment, and removing thousands of people from the state's public health rolls. To view this article go to:
http://www.ajc.com/metro/content/metro/1103/04revenues.html

Massachusetts State Auditor to Review Finances of Charter Schools

The state auditor's office will review the finances of Massachusetts charter schools, responding to a complaint from a citizens group that accuses the independently run public schools of sitting on $37 million in reserve funds while traditional public schools slash their budgets. Officials will examine the annual financial audits that all charter schools are required to file. The Boston-based group Citizens for Public Schools requested the review after its own analysis found that charter schools have millions in unspent money, while the school systems they draw students from have lost money or laid off staff through budget cuts. To view this article go to:
http://www.boston.com/news/local/massachusetts/articles/2003/11/05/state_auditors_office_to_review_finances_of_charter_schools/

Workforce: Strategic Management of Human Capital

New York State Faces Rush of Early Retirement

In response to a forthcoming wave of early retirees, the New York State Office of General Services (OGS) has become one of the state's first agencies to start planning succession management. This is defined as a systematic approach with plans and action for replenishing, building and sustaining the key talent pool for organizational effectiveness. Dan Cunningham, OGS's HR Director said that 12 percent of the agency workforce took early retirement between January and March of this year, of which a number were senior OGS staff. In addition, 47 percent of the total workforce is age 50 or over. To protect the interests of customers and the public, succession planning ensures programs and services operate smoothly when employees retire. This is achieved by conducting predictive analysis of where key skills will be missing from mission-critical positions. Then identify positions critical to those required functions when doing the annual business planning. Earlier this year, The Performance Institute released a report that highlights the use of succession management and human capital planning in government. To view this article and the Institute's report go to:
http://www.govtech.net/news/news.phtml?docid=2003.10.13-72486
http://www.govworkforce.org/govworkforce/recruitment/index.htm

Arkansas Public Employees Retirement System

State government employees, who are hired after July 1, 2005 and become members of the Arkansas Public Employees Retirement System, would be required to pay 3-6 percent of their salaries into the system under proposals being considered by the Arkansas pension board. In retribution, the system would give slightly higher benefits. The system includes 26,000 state government employees who are paid an average annual salary of $26,912. The 46-year-old system has 18,000 retired members who receive an average benefit of $9,240 a year. The system's nine trustees are scheduled to select one proposal to implement for newly hired members this week. To view this article go to:
http://www.nwanews.com/adg/story_arkansas.php?storyid=46366

Minnesota Implements e-Recruiting

In the past, Minnesota's employee relations department had to process several thousand resumes a year, sort through applicants' education, experience and skills for more than 100 state agencies, and hire qualified workers. Filling a vacancy took nearly four months on average. Since 1995, however, the department has created an automated recruiting and hiring platform that streamlines costs, labor and time so the most qualified applicant is chosen in the most objective manner. With the new system, the state can search for qualified applicants in 20-30

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minutes instead of hours, and it can hire someone within 41 days of getting that person's resume. Although the state still accepts paper resumes, 80 percent of resumes-- or 2,800 to 3,200 a month-- are submitted online. Job seekers can register, post resumes and tailor searches based on the kinds of jobs, agencies or salaries they seek. They can also be alerted via e-mail to potential government openings. As a result, the state has significantly reduced its advertising costs. To view this article go to:
http://www.fcw.com/geb/articles/2003/1013/web-minn-10-13-03.asp

2003 Best Practices Forum on Human Capital Planning and Workforce Assessment (December 1-2, Arlington, VA)

Government agencies must recognize that a more strategic approach to human capital management is essential to improve performance. Good management starts with good planning. Human capital plans must be aligned with agencies' missions. The Performance Institute is hosting a forum to help agencies develop a strategic approach to attract qualified employees, conduct a workforce assessment to effectively managed their human capital, and identify the most effective performance measures. For more information go to:
http://www.performanceweb.org/humancapital/p211/p211.htm

Technology: E-Government and Information Technology

Government IT Invests Benefit Constituents

A recent study released by Deloitte Research offers a new approach for evaluating the return on investment (ROI) of government technology investments. According to the study, public sector organizations should evaluate information technology investments, not only by the cost savings they generate for government, but by the financial benefits they create for citizens and businesses. E-government could potentially save individuals and businesses billions of dollars by lessening the effort it takes to do everything from obtaining a building permit to registering a business. The study examines the time and effort it takes to comply with regulatory and reporting requirements -- activities often equated with red tape and extraordinary burdens to businesses and citizens trying to conduct government transactions. To view this report go to:
http://www.dc.com/Insights/Research/Public/citizenadvantage_landing.asp

Testing of State-Local Internet Gateway

State and local governments have increasingly developed intergovernmental information systems that perform only one business function or satisfy one program need. The result is a growing number of individual systems for government to government (G2G) business relationships at the state and local levels. The Center for Technology in Government (CTG) at Albany University will expand field testing of its prototype State-Local Internet gateway. This project seeks to create an Internet gateway to test and evaluate mechanisms for G2G business relationships among state and local government organizations in New York State. To view this article go to:
http://www.govtech.net/news/news.phtml?docid=2003.10.06-71595

Texas Senator Pushes Tech Legislation

Texas Senator Eliot Shapleigh is making the expansion of the state's use of technology a priority. He is a key advocate of a new state requirement that state procurement officials conduct return on investment (ROI) assessments for IT purchases to better assess costs and benefits of state IT purchases. Shapleigh also endorses technology legislation, such as the Texas Laptop Immersion Pilot Project, as this enhances government services. The aim of this project is to put a laptop computer on the desk of every student in Texas. The bill's intention is to provide a wireless mobile computing device to each student in a participating school and implement the use of software, online courses, and other appropriate learning technologies that have shown to improve academic achievement. The bill also states that once the agency establishes the pilot project, the agency must also establish

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a procedure and develop criteria for the administration of it. To view this article go to:
http://www.govtech.net/news/news.php?id=2003.10.22-74064

Performance-Based Contracting and Outsourcing Strategies for Government IT (December 3-5, Arlington, VA)

The Performance Institute is hosting an event to help agencies design and manage competitive outsourcing initiatives related to IT projects. The Institute will guide agencies through a seven-step process to manage contracts for the best results. You will acquire useful tips for forming effective teams to monitor IT performance-based contracts, assess their performance, and provide vendors with feedback. For more information go to:
http://www.performanceweb.org/technology/t154/t154.htm

Procurement: Competitive Sourcing and Contracting

Massachusetts to Enhance Web-Based Procurement System

Massachusetts is planning to launch its enhanced web-based system for purchasing goods and services. The self-funded initiative is expected to cut costs and streamline operations for all levels of government, as well as for companies doing business with state agencies. In addition, the online procurement system will be accessible at no charge to cities, towns, public authorities, and public schools, including the university and state college system. The Enhanced Comm-PASS system is one more milestone in this agency's strategic plan for providing the most effective and efficient purchasing process to the largest number of public purchasers in Massachusetts and to interested bidders around the globe. Massachusetts state agencies alone purchase about $5.2 billion in goods and services, including health and human services, from over 11,000 businesses each year. Billions more may be captured as other public entities join the system's buying community. To view this article go to:
http://www.govtech.net/news/news.phtml?docid=2003.10.06-71597

IT Outsourcing to Reach $23 Billion

According to a recent report, continuing fiscal pressure and the aging government workforce are significant factors driving state and local IT outsourcing. Given the current economic situation, the opportunity to outsource non-core government competencies in information technology is becoming increasingly attractive to state and local governments. The growth will heighten as retirements outpace the ability of governments to staff important technical functional areas. The current figure of approximately $10 billion in FY 2003 will grow to over $23 billion by FY 2008. To view this article go to:
http://www.govtech.net/news/news.php?id=2003.10.22-74211

States Worry About Contracting Out IT Jobs

States are wrestling over whether they should contract out their information technology projects to private companies, including those located overseas. While this option may be cheaper and more efficient, state officials worry that this can upset people who would see outsourcing as losing state jobs to foreign companies. The trend in private business is to outsource IT jobs to firms located both on and offshore. However, lawmakers in nearly a dozen states have introduced legislation that would restrict state agencies from using foreign companies for IT. New Jersey has learned that contracting out IT work can create a political firestorm. The state came under fire for suggesting the relocation abroad of some of its call centers, as this would take jobs out of the state. New Jersey would probably spend $1 million to bring the call centers back onshore. Another example is Virginia, where legislation restricting IT outsourcing is causing the state to forfeit savings of $100 million of the $900 million it spends on IT by outsourcing and better management. The issue is important both politically and financially. State government IT market amounts to about $50 billion a year. To view this article go to:
http://www.stateline.org/stateline/?pa=story&sa=showStoryInfo&id=324770

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2004 Government Contracting Summit – Increasing Cost-Efficiency, Transparency and Accountability through Competitive Sourcing and Performance-Based Contracting (January 27-29, 2004, Washington, DC)

Government contracting is increasingly becoming more results-oriented. Recently released rules are designed to make the process of managing public-private competitions and direct conversion outsourcing more streamlined, cost-efficient and performance-based. The cutting-edge, seven-step process developed by leading government procurement officials and leading government procurement officials has simplified the implementation of performance-based contracting (PBC) and illustrates the most efficient ways to achieve goals. To assist your agency in implementing these changes, you are invited to join administrative officials, competitive sourcing managers and national performance-based competitive sourcing experts on January 27 - 29, 2004, at the 2004 Government Contracting Summit in Washington, D.C. For more information go to: http://www.competitive-government.org/competitive-government

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Program Innovation

The Priorities of Government (POG) – A New Budget Model Based on No-New-Taxes

Washington Governor Gary Locke has come up with an innovative approach to balance the state's budget in a "results-oriented" manner. This process was used to develop the 2003-05 budget proposal, which departed from the traditional approach of cutting or adding to an existing budget. It began with a government-wide assessment of state services that had two primary purposes: Establish a clear set of results that citizens expect from state government, and reprioritize state spending to focus on services that matter most in achieving those goals.

The Governor's budgeting process starts with the results citizens want from government, and spends resources on those services and programs that clearly contribute most to the results. He called this process a Priorities of Government (POG) review, where priorities were set, desired outcomes were identified, and agencies were held responsible for meeting objectives, questioning the appropriateness of whole categories of public spending.

Work on this budget began last summer with an unprecedented request that agencies rate their activities as high, medium or lower priority. Agencies were required to list at least one-third of their individual budgets as lower priority. The next step was to identify for state government 10 primary goals against which all spending recommendations would be measured. The third step prioritized all services and programs by function rather than by agency, and after close scrutiny, funded only those services that helped reach the goals.

In working through this process, Locke answered four basic questions: How much money does the state have, what does the state want to accomplish, how will the state measure its progress in meeting those goals, and what is the most effective way to accomplish the state's goals with the money available. After answering these questions, the governor prioritized agency activities and purchased the most important ones within existing revenue. The result was a balanced budget.

The goal for the budget was to have no new general tax increases and keep the promise to Washington's taxpayers that the state could and should live within its means. Despite facing a $2.6 billion revenue shortfall, the budget protects the most vulnerable citizens, keeps $300 million in reserve, provides beginning teachers and home health care workers with a wage increase, increases funding to reduce K-12 class size, and keeps state parks open.

This budget's merits can be seen in that it is the slowest growing budget on record – 2 percent growth. It is sustainable with no forced spending increases in the next two-year budget cycle, and the size of the state bureaucracy is reduced. Further, funding is preserved for the state's most vulnerable – the developmentally disabled, mentally ill, elderly in nursing homes and at-risk children. At a time when the state's unemployment rate is higher

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than the national average, and the recession has not abated, Washington state has found a “better way” to fix its budget problems than by raising taxes.

For more information go to:
http://www.ofm.wa.gov/budget03/highlights/highlights.pdf

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The Performance Institute is a private think tank that serves as the nation’s leading authority and repository on performance-based management practices for government organizations. Its mission is to identify, study and disseminate the leading management innovations pioneered by “best-in-class” government programs at federal, state and local levels. Through its national conferences on pressing issues, interactive executive training programs, and best practice research projects, the Institute provides cutting-edge expertise in the design, implementation and evaluation of strategies to solve operational challenges and enhance government performance.