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I'm enclosing this month's *State Management Innovations Newsletter* for your review. We're eager to hear about the management reforms being implemented in your state! Please send me an email with some of the details and I'll have my research staff get in touch with you in order to share your successes and lessons learned with your colleagues in other state capitols.

Happy Holidays!

-Carl DeMaio



December 2004

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If you find this newsletter useful and informative, please forward it to your friends and colleagues!

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Managing for Results: Strategic Planning and Performance Budgeting

New York Legislature to Begin Reform Push

Government reform was a significant issue in recent New York State elections, with legislators returning to Albany intent on enacting significant changes. In the wake of the latest budget release in state history and a report earlier this year that called the New York State Legislature the most dysfunctional legislative body in the country, lawmakers plan to make government reform a top issue in the next legislative session. Some issues that may be immediately addressed include procedural rules and budget reform. For more information, go to:
http://www.rochesterdandc.com/apps/pbcs.dll/article?AID=/20041115/NEWS01/411150315/1002/NEWS

Indiana Streamlining Panel at a Dead End

The Indiana Government Efficiency Commission -- a panel that has been searching for months for ways to streamline the state government -- has found that the impenetrable bureaucracy makes issuing recommendations near impossible. The commission is scheduled to release its full report shortly, but preliminary releases show that basic financial information on state expenditures is too incomplete to allow for any strong conclusions. The report is expected to recommend some money-saving concepts, such as restructuring the entire executive branch, but nothing that will significantly dent the state's $800 million deficit. For more information, go to:
http://www.indystar.com/articles/8/194071-6638-092.html
The report, when released, can be found at: http://www.in.gov/legislative/interim/committee/geff.html

Developing and Using Performance Measures

David Jankofsky, Director of the Arizona Governor's Office of Strategic Planning and Budgeting, recently presented on Arizona's process of developing and implementing performance measures in the state government. This PowerPoint briefing not only provides information on Arizona's process, but also presents a step-by-step method for tailoring specific performance measures for any state government. To view this presentation, go to:
http://www.performanceweb.org/stateandlocal/david_revised.ppt#13

2004 Best Practices Forum: Show Me the Measures! - Developing and Using Performance Measures (January 27-28, Arlington, VA)

As we move closer and closer to a performance-based government, agencies are focusing on establishing measures and performance plans for the myriad programs under their supervision. The increased focus on performance moves hand-in-hand with an important increase in government transparency. One hurdle in this process has been the creation of efficient measures that track and communicate program success and accountability. Through the creation of results-oriented measures, managers can track program success by adhering to a set of measures to drive the outcomes, strategies and outputs of their program. The course is part of the Government Performance Management Certification (GPMC) Program. For more information, go to:
http://www.performanceweb.org/pi/training/courses/developingmeasures.htm

For more information on the Certification Program, go to:
http://www.performanceweb.org/pi/training/perfmgmt_index.htm

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Finance: State Finances and Budgeting

California Fiscal Policy Could Lead to Deeper Crisis

Tapping into the $3.5 billion leftover from the $15 billion borrowed to help close the projected $6.7 billion budget shortfall may lead to an even deeper financial crisis in the coming years, warns a California legislative budget analyst. With pledges of money to education and local governments (as well as bond payments) coming due in 2006 and very few available options for fulfilling these obligations, the analyst urged lawmakers not to tap the leftover bond money to balance the upcoming budget but save it for next year, when it will be needed more. To read more, go to: http://www.latimes.com/news/local/la-me-budget18nov18,0,2223594.story?coll=la-home-local

State Expenditure Report

The National Association of State Budget Officers (NASBO) has released a report on total state expenditures for 2003. The report finds that state spending totaled $1.1 trillion in fiscal 2003, including both operating and capital expenditures. Compared to the previous year, that figure reflects a total spending increase of 4.5 percent, with state funds rising by 1.4 percent and federal funds by 10.3 percent. Estimates of fiscal 2004 expenditures also indicate 4.5 percent growth in total spending, with state funds growing by 2.4 percent and federal funds by 9.9 percent. The low growth in spending from state funds reflects the exceptionally tight fiscal conditions that states have struggled with recently. To access this report, go to: http://www.nasbo.org/Publications/PDFs/2003ExpendReport.pdf

Facing the Fiscal Crisis in State Government

The Kennedy School of Government has issued its recently revised report on the fiscal crisis being faced by state governments. The report presents the problems faced by states after the 2001 recession and the steps states are taking to improve their financial situations. The original report was completed last year. The revised edition presents additional data for the end of 2003 and is up-to-date with data from 2004. To access this report, go to: http://www.ksg.harvard.edu/taubmancenter/research/FacingTheFiscalCrises.pdf

Mississippi Delays Release of Budget Proposals

Mississippi Governor Haley Barbour has delayed the release of budget proposals designed to bridge the $1.18 billon budget gap until after the state legislature has concluded its economic bond package special session. Preliminary reports point to the partial funding of teacher pay raises, the furloughing of state troopers, and state worker layoffs as some of the governor's budget proposals. Currently, reserve funds are running extremely low and economic growth remains weak. For more information, go to: http://www.clarionledger.com/apps/pbcs.dll/article?AID=/20041115/NEWS010504/411150345/1002/NEWS01

2005 Best Practices Forum on Budget-Performance Integration in Government (February 24-25, Arlington, VA)

Propelled by increased accountability and financial benefits, performance-based budgeting is rapidly gaining appeal throughout the government. PBB is the integration and aligning of an agency’s budget allocations with their performance through the use of predetermined performance measures. Program managers need to know and understand what they are truly trying to achieve - end outcomes - and then budget accordingly. Apply the methodology

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from this training to learn how to utilize performance measures to communicate to your program's stakeholders and appropriators how you are efficiently allocating funds to achieve RESULTS. For more information or to register, go to: http://www.performanceweb.org/pi/training/courses/p435/p435_web.pdf

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Workforce: Strategic Management of Human Capital

Illinois Has Lowest Ratio of Employees-to-Residents

Illinois has had the lowest average number of state employees compared to the state's population than any other state from 1998 to 2003. U.S. Census Bureau data shows that the state had an average of 161,000 employees in the span, which breaks down to 130 employees for every 10,000 Illinois state residents. The national average is 175 employees per 10,000 residents. Illinois' low ratio is a product of souring economic times that forced cutbacks of 4,300 state employees in the same span that the state's population increased by about 541,000 people. For more information, go to:
http://www.suntimes.com/output/news/cst-nws-govt29.html

Succession Planning and Implementation
(December 6-7, 2004 - Arlington, VA)

Succession planning ensures that there are highly qualified people in all positions, not just today, but tomorrow, next year and five years from now. In the past, succession planning typically targeted only key leadership positions, but in today's organizations it is important to
include key positions in a variety of job categories. This means that the kind of behaviors you want to develop and promote may be different than those in the existing culture. This course will begin with an assessment of your current workforce and end with the identification of the culture and the competencies that are required to support an agency of the future. For more information or to register, go to:
http://www.performanceweb.org/humancapital/p268/p268web.pdf

Technology: E-Government and Information Technology

State Homeland Security IT Needs Further Federal Guidance

Senior federal official said that information technology (IT) for state and local homeland security programs can be improved and more effective if the federal government could provide localities with firmer standards and practices. Federal government CIOs do not feel that specific industry standards are necessary, rather federal agencies should develop methods of disseminating information to state governments. Factors crucial for developing these methods include interoperability, complementary functions, and sensitivity to the needs of state governments. To read more, go to:
http://www.gcn.com/vol1_no1/state-local/27632-1.html and
http://www.gcn.com/23_32/statelocal/27783-1.html

EPA Offers Grants to Join Central Data Exchange

The Environmental Protection Agency (EPA) is offering state and tribal governments between $75,000

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and $300,000 to join the 13 others already on the Central Data Exchange. The Central Data Exchange is a nationwide information systems network that facilitates the electronic reporting and exchange of environmental information among EPA and state and tribal partners. State and tribal governments can apply for funding in one of three categories: Readiness, Implementation, and Challenge. For more information, go to:
http://www.gcn.com/23_32/statelocal/27785-1.html

Virginia's IT Reform Moves Forward

The Virginia Information Technologies Agency (VITA) has begun to launch several new projects in the second stage of a reform program that began after 2003 legislation. So far this year, VITA has consolidated and integrated small and medium-sized IT programs in state agencies and is currently working on integrating the larger ones. This merger will bring 91 agency IT operations under VITA's umbrella, totaling 1,497 locations with more than 60,000 users and 3,000 servers. The consolidation plan also calls for the development of a statewide customer care center. To read more, go to:
http://www.gcn.com/23_30/state-local/27553-1.html

Maine Continues to Improve Online Services and Increases Users

Maine has put many services, such as license renewals, e-tax filing, document ordering, and payment options, online at www.SOSonline.org. While most other states have done this as well, Maine is set apart due to the extensive use of these services by citizens. For example, 99 percent of driver record searches and 95 percent of all searches of the Uniform Commercial Code have been completed online. More importantly, the state has managed to bring in an average of more than $1.3 million per month in revenue from its online operations. Maine attributes the high user levels to business surveys, market studies and direct marketing to citizens, including the new slogan for SOSonline: "Get online, not in line." For more information, go to: http://www.gcn.com/23_30/state-local/27538-1.html

West Virginia to Launch Grid

West Virginia will launch its Global Grid Exchange, an open public infrastructure that will bring together idle or unused computer processing power throughout the state. Participants hope that using the Internet to bring unused computing resources together will create a grid that provides an inexpensive and common infrastructure for government, academia and industry. When completed, this grid will be the largest of its type in the world. For more information, go to:
http://www.fcw.com/geb/articles/2004/1011/web-grid-10-14-04.asp

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Procurement: Competitive Sourcing and Contracting

Florida Cancels Two Outsourcing Projects

Florida has canceled two significant outsourcing projects that will severely set back the groundbreaking outsourcing project known as MyFlorida Alliance. The contracts are with BearingPoint Inc. for data center services and with Accenture Ltd. for applications management. The State Technology Office also has asked the Department of Law Enforcement to investigate improprieties that may have occurred during bidding for MyFlorida Alliance contracts. The office plans to turn over communications that occurred between the agency and one of the bidders before the state issued a solicitation for the program. For

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more information, go to: http://www.gcn.com/vol1_no1/outsourcing/27494-1.html

Strategic Sourcing Gives States More Options

In this time of severe budget shortfalls, states are looking toward a proven commercial cost-cutting approach that is known as strategic sourcing. States are learning how to generate savings by streamlining their procurement activities with the assistance of private firms. Once data is gathered and analyzed on what and how a state purchases services, states are able to consolidate contracts and adopt innovative purchasing methods. These changes are expected to save $200 million over two years in Pennsylvania alone. For more information, go to: http://www.washingtontechnology.com/news/19_10/state/24260-1.html

Virginia Advances IT Outsourcing Initiative

The Virginia Information Technologies Agency has selected three finalists to advance to the next stage of review for its statewide information technology outsourcing initiative. The Agency would award the contracts under the Public-Private Education and Infrastructure Act of 2002. The act, which was designed to encourage creative financing of education facilities and infrastructure, allows the private sector more flexibility and creativity when proposing solutions than is possible in a traditional request for proposal process. Whether the state will ultimately award the contracts depends on the outcome of detailed proposal reviews. For more information, go to:
http://www.washingtontechnology.com/news/1_1/outsourcing/25030-1.html

Performance-Based Contracting in State Government

Performance-Based Contracting (PBC) gives state governments the ability to achieve citizen expectations while creating crucial cost savings through direct competition. The Performance Institute offers state specific PBC courses where attendees will learn how to draft effective performance work statements, manage and monitor contract performance, and simplify the selection of performance measures. Attendees will also learn to use the seven-step method for building an effective performance-based contract. See the links below for more information on these events or to register.
For Missouri: http://www.performanceweb.org/pi/training/courses/p442/p442_web.pdf
For Florida: http://www.performanceweb.org/pi/training/courses/p359/p359-web.pdf
For New York: http://www.performanceweb.org/pi/training/courses/p324/p324_web.pdf

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State Government Spotlight: Illinois

The Illinois State Government has embarked on a series of transformation efforts that have seen vast improvements in cost -saving business processes. Confirmed results for FY04 have reached over $350 million. The following are some highlights of the transformation and results that have been instituted in the Illinois State Government.

>> **Centralized Procurement**

Illinois has completely overhauled how it spends taxpayer dollars to buy the goods and services that make the government function. The State of Illinois procurement transformation recently received the 2004 Cronin Gold award from the National Association of State Procurement Officials (NASPO) and was cited as a model for others

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to follow. As the result of a 1-1/2 year old transformation, a new CMS Bureau of Strategic Sourcing and Procurement (BOSSAP) operates under professional standards and uses best business practices and innovative techniques to administer State of Illinois centralized procurement. The documented savings from these efforts in FY04 were $108 million. The state is on track to achieve a target of saving $200 million in FY05. Two significant new procurement processes and practices include an on-line Procurement Business Case process and an effective new Knowledge Management system that integrates current data and lessons learned into planning and executing future procurements.

>> **Information Technology (IT)/Telecommunication Restructuring**

An effort underway to replace a silo design and management approach to State of Illinois IT systems and official telecom networks (three in total), overlapping State agency projects and unnecessarily duplicated IT functions that inflated costs and made upgrades and wholesale changes complex. For example, 20 separate State e-mail systems and 80 accounting systems often could not even talk to each other. Reform, restructuring and process improvements by the CMS Bureau of Communications and Computer Services (BCCS) yielded $100 million of savings and cost reductions in FY04. Tens of millions of dollars in added savings is currently viewed as achievable in FY05. In telecommunications, going to market-based prices for state cellular services cut per-minute cell phone charges in half -- from 14 cents to 6.8 cents a minute. One state-of-the-art telecommunications network has replaced three separate networks. Redundant and incompatible agency-specific IT projects, staffs and systems are being merged and managed under uniform standards and a new, strong governance process.

>> **Internal Auditing Model**

The State of Illinois adopted an innovative internal auditing model to drive improved program implementation, compliance with federal and state laws, internal audit governance, and proactive risk assessment and management. The changes included an expanded role for internal auditing based on a business counseling and process improvement model. Illinois completed an internal auditing consolidation to provide statewide oversight and more effective multi-agency internal auditing. The internal audit functions for 46 State of Illinois agencies, boards and commissions were combined into a single statewide function. In the process, internal auditing was extended to 20 smaller State of Illinois entities that were never covered. The staff of managers and chief internal auditors was cut from 30 to 7, while the number of staff/line auditors increased. Organizational and fiscal complexity were reduced as the internal audit staff was housed in one agency instead of 26 and one centrally managed budget replaced 26 individual audit budgets. As a result, overhead costs were reduced by more than $2,500,000 (25%) in FY2004.

For more information on these initiatives and other transformation efforts at the State of Illinois, go to the Illinois Department of Central Management Services at: http://www.state.il.us/cms/

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The State Management Innovations Newsletter is provided as a free informational newsletter to all state employees about the latest news from the state government and independent news media on performance management.

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.

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