



Management Brief

NGA Office of Management Consulting & Training

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Budget Savings & Improving Government Efficiency

A Summary of State Strategies

Budget Management & Streamlining

States used a variety of strategies to balance their budgets in fiscal 2004. According to the April 2004 *Fiscal Survey of the States* by the National Association of State Budget Officers, some of the most commonly used strategies included: targeted cuts, across-the-board cuts, reduced aid to local government, layoffs, offering early retirement, and reorganizing programs. Other methods included fund shifts, loans, transfers, allotment rescissions, debt service restructuring, closing tax loopholes, delaying a scheduled personal income tax rate reduction, and hiring freezes.

It is clear that fiscal conditions of recent years has led many states to reexamine state spending and government operations to determine priority areas and ways to improve efficiency and effectiveness. When going through such an exercise, **states have two goals to consider: lowering spending and saving money in the short term, as well as improving performance to yield additional savings in the long term.** When looking for budget savings, the key focus should be to determine core services (by reviewing which programs to maintain, cut, or eliminate), and then identify budget limits and reduction options for each service. This short-term review can clarify greater changes that can be made in a given state organization or process in order to improve efficiency in the long-term. When focusing on ways to improve government efficiency, the key focus should be to determine the most effective organizational structure to deliver core services and then developing effective performance measures.

State Strategies to Find Savings & Improve Performance

In order to lower spending and improve government operations, states have found numerous ways to target expenditures and examine organizational structure as it relates to common government-wide functions as well as state programs (in such agencies as education, health, and corrections). Since the fiscal situation in states varies dramatically, this document does not intend to identify specific recommendations for states to follow. Instead, the following list summarizes some common strategies recently used by states in 2002 and 2004:

Reorganize and Consolidate IT, Property, and Purchasing Systems

- Reorganize information technology (IT) systems (consolidating services and employees) across state agencies to streamline and minimize duplication.
- Consolidate state purchasing systems to yield greater savings.
- Develop smarter customer service using technology and the Internet to improve customer satisfaction and increase the savings of operations.

- Review contractual services for cost savings or deferment possibilities (such as negotiating a reduction in fees).
- Increase the use of performance-based contracting.
- Use reverse auctions for many state contracts.
- Material cutbacks on supplies, equipment (including computer system upgrades), and energy.
- Sell or do a sale-leaseback on certain state property.

Institutionalize Reform & Review Processes

- Conduct ongoing strategic reviews outside the budget process.
- Reexamine business practices and operations to ensure efficiency (focusing on areas such as payroll, travel reimbursements, and purchasing strategies).
- Institute a system to identify and reward saving so as to encourage departments and employees to focus on increasing productivity and efficiency.

Introduce Competition to More Government Services

- Privatize and contract out for public services.
- Buy services competitively.

Examine Workforce & Department Areas

- Assess existing layers of management and plan human capital needs to develop the right structure and lean format for efficiency.
- Analyze administrative policies to eliminate redundancy and streamline the system (particularly focus on addressing overlapping jurisdictions, management inefficiencies, and costly administrative overhead).
- Investigate freezing cost-of-living adjustments for programs and freezing state employee annual cost-of-living adjustments.
- Consider keeping job vacancies unfilled.
- Look into reducing the number of state boards and commissions.

Examine Tax, Budgeting & Fiscal Policy Areas

- Reexamine any existing corporate income and individual income tax loopholes.
- Consider certain taxes (such as sin taxes) and additional high income tax brackets.
- Explore the development of amnesty programs to collect overdue taxes.
- Investigate the timing and collection methods for existing taxes to increase the opportunity to earn investment income.
- Inspect end of year spending practices to reduce end of year spending by state agencies.
- Look into suspending tax credits and deductions (either scale back or temporarily suspend).
- Consider deferring tax refunds until the beginning of the next fiscal year.
- Research how to improve tracking of citizens eligible for federal government programs in order to secure the maximum amount of available federal funds.
- Think about consolidating tax collecting powers and licensing authority.
- Look into delaying program expansions (such as to extend Medicaid).
- Medicaid: Consider changes to provider payments, pharmaceutical access, benefits, cost-sharing, and eligibility.

Programmatic Changes for Long-Term Cost Containment

- Criminal Justice: Explore amending sentencing guidelines, implementing parole reforms and early release programs, expanding drug treatment as an alternative to incarceration for non-violent drug offenders.
- Welfare Program: Appraise the effectiveness of services to focus TANF (Temporary Assistance for Needy Families) funds on essential and critical needs versus soft services.
- Food Stamp Program: Investigate options to reduce administrative costs such as changes to income reporting intervals or recertification requirements.
- Unemployment Insurance: Examine strategies to increase unemployment funds or reduce the costs due to administration, fraud, and abuse.

Additional Information

The information in this management brief is based on ideas discussed in the additional resources listed below and summarizes various NGA in-house resources, as well as strategies from the publication *Budget Shortfalls* by the National Association of State Budget Officers. Special thanks to John Thomasian in the NGA Center for Best Practices for his extensive work and guidance on this subject.

For more information about management and streamlining of state government and to obtain specific state examples, please contact Barry Van Lare, Director of NGA's Office of Management Consulting & Training (202/624-7895; bvanlare@nga.org). More information on specific agency programs and policy strategies is available by contacting John Thomasian, Director of the NGA Center for Best Practices (202/624-7881; jthomasian@nga.org).

Additional Resources

Eggers, William D. *Show Me the Money: Budget-Cutting Strategies for Cash-Strapped States*. American Legislative Exchange Council and The Manhattan Institute for Policy Research, July 2002.

National Association of State Budget Officers. *Budget Shortfalls: Strategies for Closing Spending and Revenue Gaps*. Compiled by Greg Von Behren and Scott Pattison. Washington D.C.: National Association of State Budget Officers, December 2002.

National Association of State Budget Officers. *The Fiscal Survey of the States: April 2004*. Compiled by Nick Samuels and Greg Von Behren. Washington D.C.: National Association of State Budget Officers, 2004.

<http://www.nasbo.org/Publications/fiscsurv/2004/fsapril2004.pdf>

Osborne, David and Peter Hutchinson. Introduction to *The Price of Government: Getting the Results We Need in an Age of Permanent Fiscal Crisis*. Basic Books, 2004.