THE JEFFERSON JOURNAL

…a commentary from

THE THOMAS JEFFERSON INSTITUTE FOR PUBLIC POLICY

Laissez Les Bon Reforms Roulez
Government reform, Louisiana-style

By Leonard C. Gilroy, AICP

12/23/2009 -- Anytime you see a multi-billion dollar budget deficit materialize in a state—like the nearly $3 billion gap or more projected in Virginia over the next two fiscal years—it's generally a good sign that it's time for a major government downsizing.

To be sure, righting the fiscal ship will not be as difficult in Virginia—where the budget deficit stands at roughly 10 percent of general fund spending—as it will be in states like Arizona, where revenues are down a whopping 40 percent over pre-recession levels. Still, state policymakers should not aim low by setting their sights on merely rebalancing the budget, leaving the bulk of "government as usual" in place. Rather, they should take this opportunity to put into place major budget and fiscal reforms to help put the state on sustainable financial footing for the long term.

That's easier said than done, of course. Sprawl in government tends to occur slowly over time—incrementally, in myriads of ways—so there's no one "silver bullet" solution. Any short term progress at unwinding government sprawl would require a comprehensive, broad based approach that fires on many different pistons.

As the state taking perhaps the most aggressive approach to solving its own fiscal crisis, Louisiana offers a reform model Virginia officials should consider replicating. Louisiana is in a similar boat, facing its own $3 billion deficit over the next two fiscal years (representing roughly 12 percent of the general fund budget in FY2011 and rising upwards of 24 percent in FY2012). Accordingly, Pelican State policymakers—led by Governor Bobby Jindal—have embarked on a proactive, wide-ranging package of reforms to reduce the size and cost of state government.

In the spring they created a Commission on Streamlining Government that presented the governor and legislature 238 recommendations this week to save over $1 billion through privatization, streamlining, consolidation, and elimination of government activities. Recommendations include a number of large-scale government overhauls, including adopting a statewide spending limit, shifting all of the state's retirement funds to 401-k style defined contribution plans for all new hires, and revamping state education finance to promote a student-based budgeting approach where education dollars directly follow children into the classroom. Similarly, policymakers created a parallel commission to review the state's postsecondary education system to find potential savings, cuts and service improvements.

Louisiana policymakers are also embracing privatization. The Streamlining Commission recommended over a dozen privatization initiatives estimated to save the state at least $88 million, including recommendations to create a statewide competitive sourcing program, privatize state inpatient psychiatric services and outsource the administration of state employee group medical benefits, correctional food and pharmaceutical services, road maintenance and most highway design engineering.

The state has also recently issued requests for proposals from private bidders for the potential privatization of state risk management functions (claims management and loss prevention), the maintenance of dozens of state buildings and a variety of IT support services. In addition, the state has already adjusted its rental car contract to facilitate more downsizing in its vehicle fleet, and it is undertaking an inventory and analysis of all state-owned buildings and lands to find underused property to return to private commerce.

Louisiana policymakers also passed legislation granting more flexibility in cutting spending in protected "silos" to ensure maximum discretion in where future cuts occur. Gov. Jindal has also eliminated over 3,300 job positions from the executive branch, saving over $216 million, and he's eliminated more than 70 unnecessary or inactive state boards and commissions. And this year, policymakers took the first significant steps to begin a long-overdue overhaul to the civil service, passing legislation that ties pay, merit raises and promotions to an employee's performance at work, rather than just the amount of time on the job.

The state is also upgrading its budgeting process and expanding its use of performance measurement to ensure tax dollars are spent on "first things first." The Louisiana Division of Administration is piloting a new outcome-based budgeting approach designed to fund the highest performing, highest priority programs. This approach shifts the budget's focus away from the usual additions or subtractions from last year's baseline—budgeting on autopilot, if you will—and towards identifying those outcomes that matter most to taxpayers and realigning the spending in the budget to best achieve them.

The Pelican State's government downsizing efforts are already paying off. Ratings agency Fitch upgraded Louisiana's bond rating in October—at a time when most states are seeing downgrades given their shaky fiscal health—and it specifically cited the state's focus on spending control and streamlining as influencing factors. This move alone will save taxpayers millions in avoided interest costs over time.

With most states resorting to California-style accounting gimmicks, borrowing and tax and fee hikes to close their budget deficits—strategies that will inevitably hurt taxpayers and stifle economic development—Louisiana stands out as a notable exception where policymakers are taking seriously the need to reduce the size and cost of government.

Virginia policymakers should follow suit, and they have a tremendous opportunity to do so with the incoming administration of Governor-Elect Bob McDonnell, who will bring an extensive government reform agenda into office with him. Failing to embrace this opportunity to streamline government would be a disservice to taxpayers and would make the next fiscal crisis that much more difficult to solve.

-30-

Leonard Gilroy is the director of government reform at Reason Foundation (reason.org) and a senior fellow at the Thomas Jefferson Institute for Public Policy.