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Reducing the State Budget by \$2 Billion – It Can be Done

By Michael W. Thompson

2/5/2010 -- The General Assembly is struggling with how to close another \$2 billion in the next two year budget. Hopefully they are also concerned about how to avoid these huge problems in the future.

Let's look at the personnel side of the equation just as any business - large or small – would when faced with our current financial headache. Two revealing studies ([here](#) and [here](#)) publicized in *USA Today* show that public employees across the country get a very good deal from the taxpayers. Those who did these studies should be asked to do the same here in Virginia. But before that is done, let's look at what we can do now in Virginia to reduce the next two year budget by \$2 billion.

Governor Kaine wanted to lop off 700 VDOT employees. Maybe this is a good idea but it ought to be done only after it is determined how VDOT can reach its ends with fewer people. Keeping those 700 employees doesn't help close the budget deficit, but the following actions can help tremendously.

The following numbers are based on total state employees of between 73,600 and 91,000 depending on whether higher education employees are tossed into the figuring. It seems to this author that everyone receiving a state salary needs to be part of the solution.

First, an across the board five to seven percent reduction in every state employee's salary and benefit package should be instituted. Why put 700 folks out on the street during the worst recession in 25 years to save something like \$46,400,000 a year when every state employee can take a reasonably small "hit" and the state can save between \$244 million and \$422 million? And since Virginia does its budget on a biannual basis, you double these savings to between \$488 million and \$844 million. That's 20 to 40 percent of the reductions required to balance the budget. Nothing else can generate such a large savings, save cutting additional state programs.

Second, in 1999 the Commonwealth Competition Council – a small but important agency that was gutted over the past eight years and which should be reconstituted to help reform, reduce and renew state government – surveyed state agencies and asked each to identify those Full Time Employee (FTE) positions that are tied to commercial activities and might be transferred to the private sector. Such privatization of government jobs, according to the federal government's Office of Management and Budget's Circular A-76, can save the government 30 percent. This survey identified 37,555 state jobs that should be analyzed for possible private

sector transfer. But nothing was done with the study. It sits there waiting to be used to this day. If all 37,555 jobs were privatized, the total savings would be \$2.5 billion each year. If only 20 percent of these jobs could be privatized, that would produce an additional savings of \$500 million a year. That's a savings of \$1 billion in the next two year budget currently being debated by the General Assembly – half of the cuts required at this time.

The new administration could take the 1999 listing of state employees that were identified as qualifying for possible transfer to the private sector, and ask the agency heads to renew the list –improve upon it and make it current. Then the state government needs to have a goal of shedding at least 10 percent of these jobs and quite possibly 20 percent.

The annual turnover of government employees is about 10 percent due to retirements, deaths, transfers to jobs in the private sector, etc. This gives the government the ability to reduce state employees by 7360 to 9100 each year (3700 to 4550 employees every six months) without firing one person or taking a dull hatchet and making across the board cuts that reduce good and lousy programs equally. Such a strategy doesn't make sense to taxpayers yearning for effective, efficient government. Properly managing this natural turnover of employees would allow government to shed less important programs and keep those programs that fulfill the core mission of government fully operational.

With this information as background, the logical next step would be to ask every agency of state government to prioritize its programs. Every manager knows that state government faces a large deficit and every manager is expecting cuts to their department. Every manager also knows what works and what does not in their given area of responsibility. Those managers should be brought into the process of carving down state government. They should provide the Governor with their own listing of programs and activities in priority order of what that agency or department does with public monies.

All of these actions should be overseen by those from the private sector and the public sector who have participated in this kind of reorganization of a large corporation or government. This expertise from the government and from those who have done this in the past will provide Virginia with a reasonable outcome.

The first step should be a five to seven percent across the board reduction in salary and benefits for every person who receives that compensation from the state budget. That would be an impressive first step for sure.

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