

# GOVERNMENT TECHNOLOGY\*

SOLUTIONS FOR STATE AND LOCAL GOVERNMENT IN THE INFORMATION AGE

## Government Technology, August 21, 2008

*IT Budget Woes: CIOs Plug Fiscal Gap with Consolidation, Innovation*

*By David Rath*

An IT authorization committee usually meets once a month in Arizona to review all state government IT projects valued more than \$1 million. But with legislators still grappling with the housing crisis's impact on next year's budget, planning for major IT projects has been postponed.

"The last several months, we have canceled all those meetings," said Arizona CIO Chris Cumiskey. "We had a \$1 billion shortfall in the current fiscal year, and it just froze most activity. There is trepidation in the agencies about doing any large-scale projects now."

Arizona may be facing the most serious budget reductions of any state government. With a \$10.6 billion budget, it's looking at a \$2 billion hole to fill for its next fiscal year - an 18 percent gap between revenue and expenses.

**State, county and local governments nationwide are feeling the pinch from the economic downturn tied to the housing industry slump. State sales tax revenues in the first quarter of 2008 were the weakest in six years, according to a recent report by the Rockefeller Institute of Government, which also found growth in overall state tax revenues continued to deteriorate.**

Overall, 23 states have reported a collective total of more than \$26 billion in shortfalls for their 2009 budgets, according to a survey by the National Conference of State Legislatures. California, Arizona, Nevada and Florida have been hit especially hard.

In those states, CIOs at all levels, including at public universities, are facing across-the-board bud-

get cuts. Many are dealing with hiring freezes and unfilled positions.

"They may have enhancements to data centers they won't be able to do, and special projects may get cut," said Chris Dixon, manager of state and local government industry analysis for Input, a market research firm in Reston, Va.

How deep the freeze is on new projects may depend on how a state legislature feels about IT. "If there's trust built up there, they may see slashing IT spending as cutting off their nose to spite their face," said Dixon.

"States know they can't balance their budgets on the back of IT. You can only keep deferring capital IT expenditures for so long."

In response to budget challenges, most CIOs say they are putting additional focus on efficiency gains. In a Forrester Research survey of government IT leaders conducted in 2007's fourth quarter, 74 percent said improving IT efficiency was either a critical or high priority for 2008. Their top technology priority was consolidating IT infrastructure, with 58 percent calling it a high or critical priority.

As for reducing IT services spending, 28 percent said it was a priority. In Arizona, Cumiskey said, "We are going to want to see agencies be very cautious about consultant spending; that will be scrutinized much more closely."

### Cutting in Sacramento

There's a Chinese proverb that states: "A crisis is an opportunity riding the dangerous wind."

Some CIOs are treating the current fiscal downturn as an opportunity to make changes they couldn't previously accomplish due to bureaucratic resistance.

Steve Ferguson has noticed much inefficiency in his three and a half years as CIO of Sacramento, Calif., but his ideas about consolidation never got traction in the organization. “There’s been a culture of departmental IT that has evolved over 20 years and has been very hard to change,” he said. “But with the budget crisis, the city manager’s office is definitely more interested. When I showed them an e-mail consolidation idea, they jumped all over it.”

With the city facing serious revenue shortfalls, the IT department is preparing to cope with reduced funding.

Ferguson has penciled out a combination of staff reductions and program eliminations that will meet the 20 percent cuts required of all the city’s non-public-safety agencies. He was forced to eliminate seven of 75 IT positions. He also slashed funding for IT training and consulting. Ferguson’s staff has recognized about \$200,000 savings by speeding up the migration of legacy applications off a main-frame system.

“The problem is we may be looking at 15 to 20 percent cuts for the following fiscal year [FY 09],” he said, “and that’s when it would really start to hurt.”

But Ferguson is promoting a multipronged consolidation plan that includes

- using virtualization technology to downsize from 11 city data centers to two or three, and from 400 servers to between 100 and 200;
- combining Sacramento’s several fiber and video networks and adding video surveillance services for public safety;
- changing from departmental desktop support, to support by geographic area to cut down on support staff, transportation and response times; and
- consolidating three e-mail systems into one unified messaging system. Ferguson estimates it will save up to \$1 million over 10 years.

Ferguson is convinced that if he can clearly demonstrate cost savings, city officials will be more receptive to these changes than they have in the past.

### **Making the Budget Case**

Cummiskey said the economic downturn highlights the importance of the agency he leads, Arizona’s Government Information Technology Agency (GITA), which acts as an internal consulting

firm to the state’s 115 agencies, boards and commissions. Established in 1996, it has a staff of about 30 full-time equivalent employees and 20 consultants.

“Our work at GITA has actually spiked because we are looking at enterprisewide projects that lead to efficiency gains and eliminate duplication between agencies,” he said.

GITA works with agency IT departments on making a budget case for their investments and describing how they fit into a larger IT strategy for the state. “I inherited an investment justification framework in which departments make a business case over a five-year timeframe,” he said. “We help them understand the elements they have to look at to be successful.”

But agency-level cuts may have a domino effect on some of GITA’s work too. For instance, a Web portal that would make it easier for businesses to interact with the state may be delayed until agencies have more resources available.

A former lawmaker himself, Cummiskey is spending considerable time with the Legislature, articulating the policy framework behind recommended project priorities. “Having spent 12 years in the Legislature, I have a special interest in keeping a close eye on the budget machinations, even beyond what I would in my role as CIO,” he said.

### **Long- and Short-Term Gains**

Any short-term cost savings to address budget cuts at the University of South Florida (USF) must be part of a longer-term rethinking about how the university prioritizes IT projects, said Michael Pearce, vice president of IT at USF.

Because of declining tax revenue, USF is losing 10.6 percent of its state funding, or about \$35.6 million, according to university officials.

Pearce oversees 375 IT staff members at USF, a research university with an annual budget of \$1.8 billion and 45,000 students on campuses in Tampa, St. Petersburg, Sarasota-Manatee and Lakeland.

Rather than putting projects on hold and freezing staff, Pearce has met the adversity head-on with new governance structures and cross-departmental teams charged with analyzing long-term needs and solutions, and the short-term savings that can be recognized.

“We have begun to streamline processes toward more central services and begun to look at outsourcing where it makes sense,” Pearce said. “For instance, we have outsourced alumni and student e-mail to Google across all our campuses. We expect to see a savings of \$150,000 a year over our current costs.”

Pearce identified savings by creating an IT standards board and consolidating procurement. Technology acquisition now must fall under established standards or it flows through Pearce’s office for any exception. “Through leveraged purchasing, we have already recognized \$200,000 to \$300,000 in savings,” he said.

His project teams are asked to consider both long- and short-term needs. “You could have a longer-term project to consolidate your data center structures, but you might have a short-term hit list of machine rooms that can be consolidated quickly for immediate savings,” he said.

“That’s what our project teams are doing. They understand their charters and their key objectives, but they also can see short-term savings that fit into those longer-term objectives.”

### **Doing More With Less**

Public CIOs have been through down budget cycles before and admit it’s never easy. When trying to decide what to cut, Sacramento CIO Ferguson’s division managers would argue certain services are too important to eliminate or reduce. “I tell them every other department in the city is feeling the same pain,” he said. “We have to make cuts where they have the least impact.”

Besides looking for the efficiencies that can be gained through consolidation of hardware and telecommunications systems, CIOs such as Ferguson and USF’s Pearce have used the budget crisis to push for larger organizational changes.

Input’s Dixon said the year after a budget deficit develops is usually the darkest because state legislatures tend to front-load the pain. He thinks 2009 will be the hardest year for many states unless things get worse economically.

“But even if things do stabilize, the next few years will be fairly lean,” he said. “Many CIOs will be happy to keep all the projects already in the works alive and hold off on anything new.”