



WHITE PAPER

# Maximizing State and Local Government Budgets During Tough Times



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**STRATEGIES FOR TOUGH TIMES**

*This paper complements a series of discussions CGI is engaging in to help state and local governments address the challenges ahead. Developed from the perspective of how to maximize budgets during tight fiscal times, this paper provides ideas and presents corresponding case studies around several key areas for success.*

**Introduction**

Governing today is far from simple. The pressures caused by ongoing budget constraints, and exacerbated by the subprime mortgage crisis and the resulting rise in foreclosures and contracting credit market, are compounded by the demands of citizens accustomed to a 24/7 information-transparent world. Besides traditional services, today's citizens expect accessibility, visibility and accountability from their governments. In short, at a time of shrinking government resources, citizens now want more than ever, and governments cannot afford to disappoint them.

**Focusing on Core Functions**

In the face of tough times, governments must focus on core competencies and mission critical responsibilities to make the most of limited financial resources. The talent and expertise of government staff gained from years of experience should not be lost, but leveraged to deliver - or even enhance - the core services upon which citizens rely. While the government staff moves forward, other non-core, but essential functions may be effectively managed and delivered by external technology and business process partners.

As more and more governments have discovered, the right partners ensure services are not only delivered, but also supply much-needed budget relief during a funding slowdown. With the help of technology partners, state and local governments are:

- Changing roles and responsibilities, even job re-classification
- Modified service level agreements with other departments
- Skill gaps and a need for training
- Impacts on union agreements
- Organizational changes and funding impacts

Beyond the financial benefits and service improvements, some partner strategies also utilize alternative funding models, which are self-funded and, in some instances, do not require any up-front government investment.

The following provides strategies for how states can succeed in tough times, supported by case study examples of how CGI's state partners have put these strategies to work.

### ***Recovering and Increasing Tax Revenues***

The rate of state tax increases dropped annually between 2000 and 2006<sup>1</sup>, a deceleration that will be intensified by the current economic slowdown. As a

result, tax policy changes that could generate additional revenue will likely face strong public opposition and, if adopted, could actually lead to a decline in local economic activity by creating an untenable tax burden on constituents and local business.

Given the current economic climate, governments would do well to maximize the present revenue base and address the roadblocks preventing them from accessing billions of dollars in uncollected taxes. Governments that tap these resources through IT-based solutions designed to identify, manage, and collect debt, will have a positive impact on the economy without revising current tax policy.

#### **Case Study: The Virginia Tax Partnership Project**

In the mid-1990s, Commonwealth of Virginia tax officials recognized the need to improve customer service and operational efficiency. Complex tax laws, a growing tax base, demand for better customer service, budget cuts, and outmoded technology only added to the agency's challenges.

In 2006, the Commonwealth implemented a modernized tax revenue program through the efforts of The Virginia Tax Partnership Project. Working with CGI to modernize its technology and processes, Virginia's Department of Taxation (VATAX) was able to generate over \$232 million in additional revenue (as of 2006) through a comprehensive reengineering program that included the adoption of electronic tax filing and a state-of-the-art integrated revenue management system along with an organizational change management initiative. VATAX's operational effectiveness dramatically improved - further helping the bottom line - while taxpayers benefited by gaining access to new services and an enhanced service orientation.

Without ever having to draw from the Commonwealth's general operating budget, VATAX's entire technology platform was replaced with the latest in network infrastructure and Web-based technologies, linking individual taxpayers, businesses, and employees to VATAX's services. CGI initially took on the project funding risk and financed the hardware, software, and services; through a benefits-funding arrangement with Virginia, CGI's remuneration for the project came from the incremental revenue stream.

As part of this partnership, CGI also assisted with a TAX Amnesty Campaign, an effort that netted Virginia \$98.3 million, more than double the program's initial goal. With innovative payment features, the program drew participation from one in four of the campaign's targeted 386,000 individuals and businesses.

Today in Virginia, a business is able to register, file its returns, pay its taxes, and obtain account-related assistance without filling out paper forms or speaking with customer service agents. The new electronic capabilities enhance Virginia's position as an appealing place to conduct business.

### ***Containing Medicaid Costs***

In 2007, healthcare costs accounted for nearly one-third of total state spending - the states' largest expenditure. Medicaid alone accounted for approximately 22 percent of total state spending and has a projected growth rate of 8 percent annually for the next decade<sup>2</sup>.

#### **Case Study Highlights**

##### **Case Highlights: Indiana Medicaid Cost Containment**

Facing expanding Medicaid costs, complex vendor negotiations, and upcoming procurements for new, high-profile initiatives, the Indiana Family and Social Services Administration turned to CGI's spend management practice for assistance.

In addition to assisting with important contract negotiations and strategic sourcing efforts for Indiana's new initiatives, the CGI team reviewed FSSA's durable medical equipment policies, procedures, and pricing, and assessed the overall contracting function. Identifying key improvement opportunities and high-priority contracts for management attention, the team engaged in further vendor negotiations, process support, and strategic sourcing. Integral to this effort was a focus on vendor competition, transparent pricing, and improved performance measurement, executed with an understanding of the Medicaid space. To date the program has achieved contract-length savings in excess of \$50M, while maintaining or enhancing service quality and improving control over key contracts.

##### **Case Highlights: Colorado HIPAA Web Portal and Medicaid Claims Auditing**

In 2003, Colorado required Medicaid providers to use a HIPAA-compliant portal to file claims. The state selected CGI to replace non-HIPAA compliant software with a readily accessible, compliant portal. This application serves more than 20,000 Medicaid providers and other billing agents, and is used to complete HIPAA-compliant transactions and requests. The portal also enables providers to customize claims information and has been expanded to provide secure access to other departments that have Medicaid-related responsibilities.

##### **Case Highlights: Commonwealth of Pennsylvania, Department of Public Welfare**

CGI is currently conducting claims auditing and recouping for Pennsylvania's Department of Public Welfare. To date, CGI has identified more than \$20 million in overpayments for recovery. The bureau also has used CGI's Customized Audit System (CAS) to help recover millions of dollars in Medicaid claims - providing an efficient and effective method of identifying overpaid claims. These services are benefits-funded, with CGI receiving a percent of the overpayments collected.

During tough economic times, Medicaid cost containment represents a path to great budget relief. Governments are successfully saving millions of tax dollars by relying on a three part strategy of:

- Controlling spending through the use of marketplace competition, transparent pricing, and improved performance measurement
- Streamlining federal reporting and reimbursement monitoring
- Tracking and auditing vendor claims to ensure they do not overpay their share of Medicaid

This three-part approach has allowed states to generate savings, while continuing to maintain or even enhance service delivery.

***Partnering to Leverage the Power of Strategic Sourcing***

According to the Department of Commerce's Bureau of Economic Analysis, U.S. state and local governments spent approximately \$1.8 trillion on goods

and services in 2006. This level of spending creates enormous opportunities for government to use strategic sourcing, leveraging its bargaining power to drive down costs and improve the overall quality of services. Best practices of successful government strategic sourcing programs include: deep analysis of current spending, industry benchmarking, leadership by a central project authority, input from government agency stakeholder groups, ongoing staff training, and tools and processes to monitor supplier pricing and contract compliance.

The ideal private partner offers resources and experience to contribute specialized tools and technology, supplier industry expertise, and rigorous measurements and analytics.

**Case Study: The California Strategic Sourcing Initiative**

As a result of Governor Schwarzenegger's California Performance Review initiative, an effort to create the first true 21st century government in America, California's Department of General Services (DGS) and participating departments formed a public-private partnership with CGI in 2004 to carry out the California Strategic Sourcing Initiative (CSSI). CSSI was undertaken to develop new statewide contracts to consolidate the state's purchases and reduce the cost of items and services purchased by the state. As of December 2007, CSSI had yielded tangible, independently audited savings of more than \$175 million.

The project consisted of spend analysis, environmental assessment and strategic sourcing. CGI analyzed over \$4 billion of purchase order and accounts payable data, worked closely with cross-agency category teams and conducted comprehensive strategic sourcing.

CGI covered 10 major spend categories - ranging from IT hardware to office equipment to pharmaceuticals - and recommended opportunities for additional savings. This project was entirely benefits funded, with CGI assuming the project funding risk and receiving a percentage of the savings achieved for the new contracts. Apart from staff resources committed to the project, no additional costs were incurred by the state, which retained nearly 90 percent of the savings during the project and the full amount of savings after CGI completed the project.

As a follow up to the project, the state wanted to make strategic sourcing best practices a part of the standard procurement division procedures. CGI won the contract to provide training to state employees in strategic sourcing techniques.



***Realizing Procurement Savings While Enhancing the Quality of Services and Goods***

In addition to strategic sourcing partnerships, leveraging available e-

procurement technology is still another way to improve efficiencies and to minimize operational expenses. Governments often operate as decentralized, complex organizations, and this can be particularly true for the procurement function, through which most of a state's expenses are funneled, and where efficiencies can benefit every purchase.

An effective solution helps government bring down fixed and variable operating expenses, while providing a framework for innovative spend management programs. Strategic sourcing and e-procurement can work together to help governments service their constituents with more efficiency and speed, while ensuring a higher return on the government's procurement investment.

**Case Study: The Commonwealth of Virginia – eVA**

Prior to 2001, the Commonwealth of Virginia's procurement was decentralized across more than 180 state agencies, institutions and other public bodies. The autonomous buying entities relied on outdated, inefficient and redundant systems, which added to the cost of doing business and prevented the Commonwealth from leveraging its purchasing power. Seeking to adopt the practices of a well-run Fortune 500 business, Virginia partnered with CGI to develop electronic Virginia (eVA), a statewide e-procurement application.

eVA is an end-to-end, government-to-business network that streamlines Virginia's purchasing processes. As of February 2008, eVA had connected more than 170 agencies and 490 localities to 32,000 vendors, sold 5 million items, and processed 1.6 million orders. Hosted by CGI, eVA is the largest state e-procurement application in use today.

The eVA application generates up to a 70 percent reduction in processing time from solicitation to award and up to a 50 percent reduction in processing costs. Founded on the 'best-of-breed principle', eVA is able to leverage industry-leading products, tools and technologies, integrating them to create a scalable, reliable and accessible platform.

The entire bid evaluation process can be conducted electronically, from posting submitted bids on the Internet, to submitting, capturing, tabulating, and compiling team evaluations. eVA also supports the creation, modification, and distribution of contracts, master agreements, and purchase orders to vendors. Management of the total procurement lifecycle is available to all state agencies, universities and colleges, and local governments that are part of the procurement community.

eVA creates greater internal efficiencies for both buyers and sellers - and the improved efficiencies are secured at no cost to the Commonwealth. Under the revenue-sharing initial five-year contract, CGI received payment based on eVA registration fees for vendors and agency non-use fees. This allowed eVA to be developed and implemented at a time of budgetary constraints much like the ones facing governments today.

***Reducing Operating Costs and Increasing Efficiency through Shared Services and ERP***

When budgets are tight, eliminating IT redundancies across agencies translates into substantial savings.

**Case Study: ERP Shared Services, Externally Managed State Government**

This state client uses CGI's AMS Advantage® Financial Management and Human Resources Management solutions to manage daily operations and its large annual budget.

One of the state's objectives was to enhance service for its employees and vendors using the modern technology and self-service functionality available with the Web-based AMS Advantage solution. In 2002, recognizing that its internal technical infrastructure was not prepared to support these new technologies, the state turned to CGI and its Managed Advantage program, which featured browser-based access and advanced financial and human resources processing. Managed Advantage delivers full-scope technology and day-to-day operations management to help organizations derive maximum value from its AMS Advantage investment an audited, state-of-the-art data center that meets industry level standards.

With defined service levels based on usage, the state gained predictable costs and therefore, improved control of its technology investments, maximizing its investment in Advantage. Moreover, the state avoids the ongoing costs of in-house staff and benefits from widespread access to specialized CGI staff on an as-needed basis.

Strategic IT acquisitions streamline processes, create economies of scale and reduce operating expenses. Similar to efforts at the federal level, a consolidated technological infrastructure and enterprise architecture support financial, human resource and other resource management processes common across government agencies.

Further, migrating to a shared services platform and partnering with a private entity to manage shared services generates added efficiencies.

Shared services help governments accelerate the exchange of information between programs and agencies, reduce the cost of business processes, and improve citizens' experiences with government. Additionally, through an alternative funding model, the savings can be used to pay for the development and implementation of the systems.



### ***Improving Accessibility to Information and Lowering Costs Through Enterprise Content Management (ECM)***

Like many other institutions, governments are often challenged with managing

#### **Case Study: State of Ohio Department of Job and Family Services**

In the past, the Ohio Health Plans processed disability cases in a paper-intensive, manual effort that required clerks to ship files between floors in the building where documents were routinely lost and delays were frequent. To address this outdated, inefficient system, the Ohio Department of Job and Family Services (ODJFS) partnered with CGI. The result was eQuIL (Electronic Quality Information Link), an ECM system that coordinates FileNet Workplace and eForms to facilitate case creation procedures.

The application automates and standardizes business processes, reducing the Disability applications processing time from periods reaching six months or greater to a maximum of 90 days. It is easily administered and offers functionality to support instant case creation, an automated HIPAA-compliant case processing system, multiple data entry points for case documents, data integrity checks, statistical reporting, and integration with legacy mainframe applications. It also coordinates additional documentation in real time with the correct case through automatic workflow policies. The application extends functionality to roughly 50 state workers and further connects nearly 8,000 users across 135 worksites in Ohio's 88 counties.

In addition to reengineering the central case review process, the system was designed to allow all counties to maintain or enhance their internal processing practices. This means that counties with existing ECM systems may continue to use their current systems, but no longer need to submit hard copy files to the state as was previously required. An open infrastructure integration point was extended through web service technology to each county via the State network. This saves the counties \$5 to \$20 or more per case.

large amounts of unregulated information. From web pages to file systems to text documents and/or paper files, information is literally everywhere. And, without an effective strategy to manage all of these organizational assets, governments often operate at less than peak efficiency levels and unintentionally cause delays for constituents requesting or relying on the government information.

Enter ECM, which helps organizations effectively and efficiently manage its content and provides a common platform to provide access to that content. A proven way to reduce operating costs, ECM can provide users with information from any location, systematically define content driven processes and reduce the risk of compliance infractions by regulating those processes.

## About CGI

At CGI, we're in the business of satisfying clients. For 30 years, we've operated upon the principles of sharing in clients' challenges and delivering quality services to solve them. A leading IT and business process services provider, CGI has approximately 27,000 professionals operating in 100+ offices worldwide.

Within the state and local government market, CGI has partnered with 44 states and more than 300 local governments. Clients count on CGI for our full-service offerings and built-for-government solutions to better meet their citizen promises. This results in reduced and contained costs, increased operational efficiency and effectiveness, improved accountability and transformed service delivery.

Learn more at [www.cgi.com/stateandlocal](http://www.cgi.com/stateandlocal) or contact us at [info@cgi.com](mailto:info@cgi.com).

## Identifying New Sources of Funding

Through collaboration with private partners and the use of alternative funding models, governments are implementing solutions to improve productivity and services, driving innovation despite budgetary constraints. Such collaborative approaches are yielding short- and long-term benefits with no up front investment.

While each public-private partnership is unique, there are several successful alternative-funding models:

- **Benefits-funding:** The private partner is paid as the technology solution and process investments yield revenue benefits beyond an established baseline.
- **Share-in-savings:** The private partner is paid as technology and process efficiencies drive down costs relative to an established baseline.
- **Revenue sharing, transaction based:** The private partner is paid for performing a unit of work either through a fixed-fee or fixed percentage based on the transaction amount or from transaction fees.
- **Managed services, flat rate:** The private partner bundles all the services into a single, flat rate (per month / year) payment. This payment remains the same for the entire contract, offering the client a manageable and predictable total cost of ownership.
- **Capital investment:** The private partner is paid through operating fees in managed services or external user payments.

## Summary

Governments must become and remain responsive to changing times and changing constraints. Revenues need to be maximized, fixed and variable operating expenses minimized, and service delivery offerings enhanced. Through a wide variety of innovative public-private partnerships and alternative funding models, governments can bring critical IT solutions and cutting-edge business processes to bear on redefining what governments can do, delivering greater service and results to their citizens.

## Footnotes:

1. National Conference of State Legislatures. *State Budget & Tax Actions 2007*.
2. National Governors Association. *States Beginning to Experience Tighter Fiscal Conditions According to Latest Report (December 5, 2007)*