



STATE OF KANSAS

INTERIM EFFICIENCY REPORT OVERVIEW



January 12, 2016



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OVERVIEW

Since being retained by the State in early October, Alvarez & Marsal has been engaged in a far-reaching review of State operations and spending.

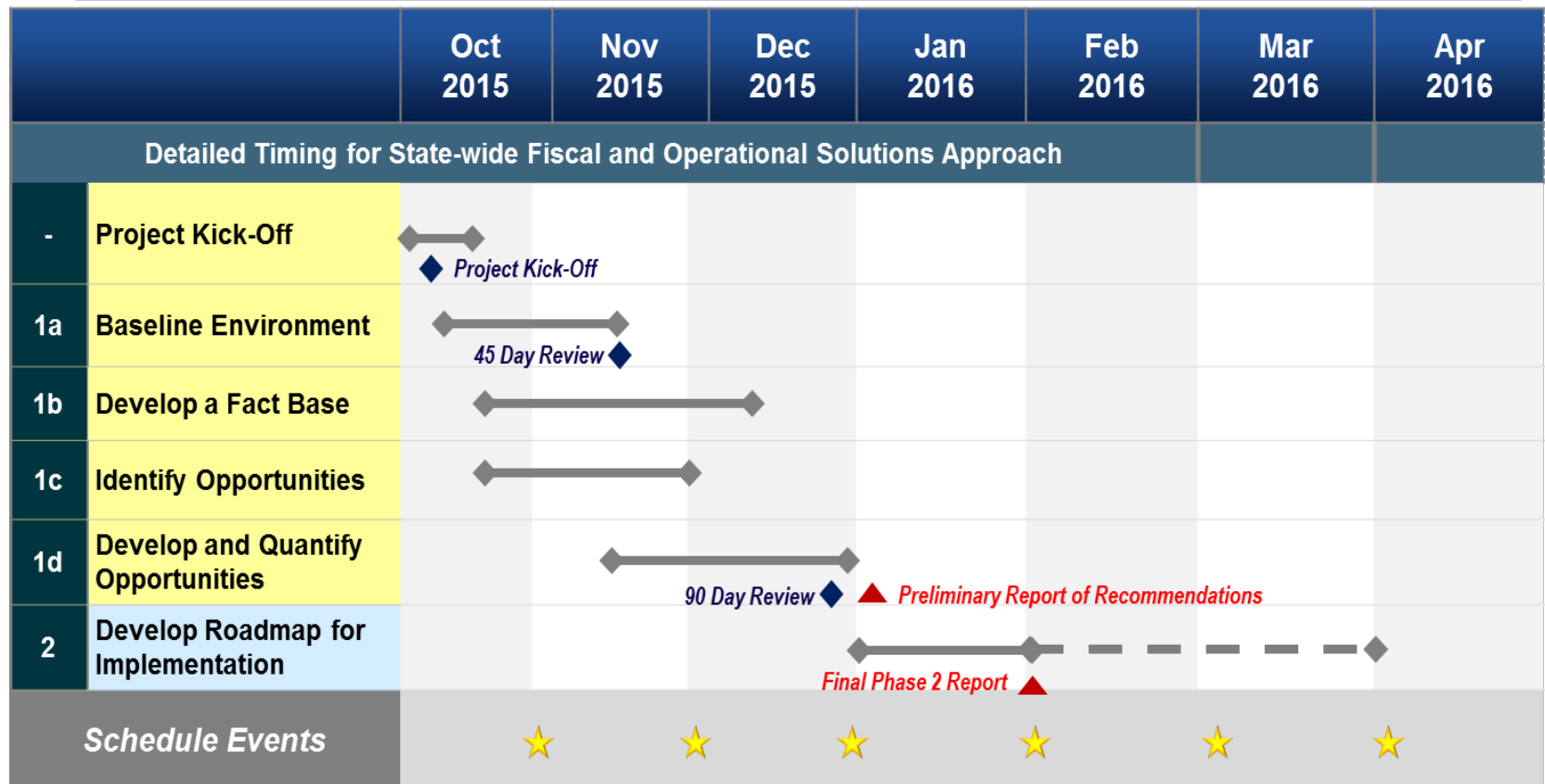
Today, we are releasing the Interim report for review starting the evaluation process by the Legislature leading to implementation planning – the Phase 2 deliverable.

Over the past three months our team of more than 40 professionals has been collaborating closely with State employees at all levels, gaining a detailed understanding of their missions, programs, objectives and challenges. We have focused on opportunities to drive efficiency including to following approaches:

- Service Delivery
- Shared Services – Internal and External
- Consolidation
- Privatization
- Government Role
- Improve Financial Management
- Increase Federal Funds

PROJECT SCHEDULE

A&M's State-wide Fiscal and Operational Solution Proposed Timeline and Implementation Schedule



Status Updates



Performance Objective



Briefings / Working Session



Workstream



Briefing Period

Key:

Phase 1

Phase 2

INTRODUCTION TO THE INTERIM REPORT

The interim report identifies 105 recommendations which cumulatively would provide over \$2 billion in benefits to the State over the next five years. It additionally includes budget analysis and budget process reviews.

Each recommendation includes background, analysis and necessary action steps. It includes large recommendations and smaller ones – recommendations that provide immediate benefits as well as some whose benefits will grow over time.

A&M's fundamental considerations have been:

- Finding ways in which government can function more efficiently, so that it can maintain or improve services, while saving taxpayers' money
- Proposing recommendations that are practical, around which consensus can be built and which can be implemented within a relatively short period of time

COST EFFICIENCY RECOMMENDATIONS SUMMARY

A&M Work Stream	Total Savings and Revenue Estimate [\$000s]						
	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	Total
Cross Agency							
Insurance	1	33,883	35,723	35,723	35,723	35,723	176,775
Procurement	750	17,858	27,308	31,433	32,183	32,183	141,714
Technology	-	8,713	8,713	8,713	8,713	8,713	43,565
Governor's Grants Office	-	4,086	5,032	5,082	5,131	5,181	24,513
Governor's Crime Prevention Office	-	-	-	-	-	-	-
Human Resources	-	19,865	39,865	40,801	41,810	45,198	187,539
Cross Agency	751	84,405	116,641	121,751	123,560	126,997	574,106
Administration	1,333	9,956	6,040	2,347	2,416	4,172	26,264
Children and Family Services	-	856	4,313	4,280	4,241	4,211	17,901
Commerce	-	15,939	17,939	12,939	12,939	12,939	72,697
Corrections	38	6,155	8,776	8,496	8,350	8,171	39,985
Education	75	88,724	131,174	131,674	132,174	125,674	609,495
Medicaid - KDHE & KDADS	-	8,525	43,965	45,024	46,242	46,707	190,462
Revenue	17,800	67,600	70,000	72,700	75,400	78,300	381,800
Transportation	-	12,850	16,500	17,500	17,500	17,500	81,850
General Government	-	6,147	9,554	9,554	9,554	9,554	44,363
Budget Process	-	-	-	-	-	-	-
TOTAL Savings and Revenue Estimates	19,996	301,157	424,901	426,265	432,377	434,226	2,038,923
TOTAL Number of Recommendations	105						

CROSS GOVERNMENT - INSURANCE

- Changing the way the State bids out, purchases and administers its insurance policies, will result in a five-year savings to taxpayers of over \$170 million.
- The State should create a centralized Office of Risk Management to create a single point of contact with specific expertise in the insurance market and insurance issues. Among the functions of this office would be to put up for bid insurance policies the state needs in a way that is most likely to encourage the most participation and most vigorous competition.
- Most of the staff that currently handles Workers Compensation claims has limited background in this field. The State should outsource this function to a third party administrator, as many other states do, which will save money and likely improve outcomes.

CROSS GOVERNMENT - PROCUREMENT

Recommendations in the area of procurement – the purchase of goods and services by agencies and other state-funded entities – could save the State over \$100 million over five-years.

- The State currently has many overlapping contracts with different entities for the same products or services at varying prices. It needs to engage in a strategic sourcing initiative though which it focuses on the categories of spending that are the highest and begins to use its buying power to negotiate better deals. For example, simply by negotiating a central wireless contract for all agencies, the State could save \$800,000 over five-years on the 5,000 phone lines it currently pays for.
- The State is currently paying invoices in an average of 10 days even though most supplier contracts have stated payment terms of Net 30 Days (meaning the vendor expects to be paid within 30 days). By increasing the payment cycle to 30 days and not having to finance these 20 days, the State will save approximately \$15 million dollars in interest payments over a five-year period.
- If vendors wish to continue receiving payments in less than 30 days, the State should negotiate early payment discounts, which are standard in most sectors and which most vendors will be accustomed to. Negotiating those types of early payment discounts would likely save the State \$5 million over five years.

CROSS GOVERNMENT - REAL ESTATE/PRINT SERVICES

Significant opportunities for savings and services improvement can be realized through improving real estate management functions including:

- Leasing decisions for all State agencies should be centralized within DOA under the existing State Leasing Coordinator in order to achieve savings on rolling leases.
- Leasing decisions for all State agencies should be centralized within DOA under the existing State Leasing Coordinator in order to achieve savings on personnel costs.
- Hire an external real estate PMO to identify, value, market, and sell surplus State owned building and land.
- Enter into a long-term ground lease agreement for Lot #4, a State-owned piece of property adjacent to the State Judicial Complex in Topeka.
- Hire a third party printing management company to assume for all printing within the State Capitol Complex
- Enter into an agreement with a cell tower leasing company and allow for the potential lease of small State owned land parcels or rooftops.

CROSS GOVERNMENT – HUMAN RESOURCES

Significant opportunities for savings and services improvement resulting in over \$187 million over five years can be realized through improving human resources functions including:

- **State Health Plan: Total Replacement - Offer High Deductible Health Plans (Plan C) and remove the current Plan A option. Tie employer Health Savings Account and Health Reimbursement Account contribution to wellness participation**
- **State Health Plan: Implement OneExchange platform for retirees to remove all retirees from self-funded SEHP onto fully insured plans removing risk and lowering GASB liabilities**
- **State Health Plan: Move SEHP from under KDHE to DOA for improved direct reporting, require universities to consolidate payroll systems to participate on SEHP or require payment terms similar to non-state employers**
- **KPERS: Make required contributions to KPERS as specified under current law**
- **KPERS: Encourage KPERS to Carry out its Strategic Plan with Emphasis on Maximizing Investment Income Consistent with Fiduciary Responsibility**
- **KPERS: Consider Modest Changes In Compensation Which Can Be Considered In Pension Calculations.**
- **Absence management: The state should review current policies and processes for leave administration, FMLA and workers compensation/disability approval and administration to reduce unnecessary employee absences and increase cost savings to the state.**
- **Allow for and Design Non-Discretionary Performance Bonus System**
- **Establish and host an annual Ideas Festival for submission of efficiency savings ideas**

TRANSPORTATION

The Department of Transportation could produce savings or additional revenue totaling over \$80 million over five years through several initiatives, including:

- Consolidating or co-locating offices that are nearby could save \$28 million.
- Instituting or increasing sponsorships for rest stops, travel assist hotlines, a roadside logo sign program and motorist assist program would generate a five-year total of \$8.5 million.
- Leasing or selling underutilized, non-essential equipment could produce one-time revenue of \$3 million.

EDUCATION

Our recommendations focus on the major cost-drivers of education - proposing consolidations of services that total \$600 million over five-years, comprise a significant percentage of total education spending and that are likely to have support among many local school districts. By following this path, the State can achieve much of the savings advocates of district consolidation desire.

For example, over a five-year period:

- Health insurance and benefits is a fast-growing part of school district's budget and is presenting them with an enormous burden. If districts statewide were to become participants in the State's health insurance and benefits plan, it would save taxpayers a five-year total of \$360 million.
- By consolidating procurement under a statewide initiative, districts could save more than \$40 million.
- Consolidating the purchasing of property and casualty insurance so that districts could purchase insurance under a "pool" insurance program could save \$9 million.

MEDICAID – KDHE AND KDADS

Healthcare services under the State's Medicaid programs can increase efficiency and produce savings of over \$190 million over five years through several initiatives, including:

- The agencies should institute broad operational improvements to lower the State's Medicaid eligibility error rate
- Improved oversight and training of the Managed Care Organizations program integrity (PI) units will increase fraud, waste and abuse recoveries
- The state should pursue additional Medicaid and healthcare Federal grant funding that it could be eligible for
- KDADS should move to consolidate operations of certain regions thereby reducing its field footprint and reduce operational costs
- Explore Implement healthy birth outcome initiatives to improve women and child health care outcomes and manage costs
- Consolidate all Medicaid support services under one unit to improve operating efficiency and potentially reduce administrative costs

CORRECTIONS

Several changes at the Department of Corrections could provide \$40 million in benefits over a five-year period. For example:

Kansas Correctional Industry, which employs inmates to manufacture various products that are purchased by State agencies, is not operating at full capacity and its production facilities are underutilized. According to the KCI Director, if KCI were to operate at 85% capacity and expand its customer base to include non-state agencies, even in a limited capacity, it could increase revenues by 11%, or \$7.5 million over the next five years.

REVENUE

Several recommendations for the department will result in increased revenue of \$381 million, without raising taxes or asking taxpayers to bear any additional burden. For example:

- The State should fill 54 revenue officer positions and 14 auditor positions that are currently vacant. An insufficient number of auditors and revenue officers has resulted in a backlog of taxpayers whose taxes need to be reviewed. This is an area where spending the money necessary to fill the vacant positions will be a good investment for the state, likely producing \$321 million in new revenue.
- Reorganizing the audit and collections staff so that teams work together rather than in silos will make the agency operate more efficiently and will produce better results of as much as \$50 million over a five-year period.

NEXT STEPS

- Refine recommendations with input from the Legislative Coordinating Council, and Legislative committees, and review with the Division of Budget and Agencies.
- Work with State and Agency leaders to review the developed business cases and make a final recommendation on the initiatives to pursue.
- Update the fiscal impact model and develop a realistic, achievable implementation roadmap. The developed roadmap will include the following key elements:
 - Established metrics to measure the success of each initiative displayed in a project metrics dashboard during implementation
 - A project work plan that details the Work Breakdown Structure (WBS) tasks for each initiative, including dependences, dates, task owners, and current status
 - Estimated project budgets and resource management plans that highlights both the impact to agency costs, projected savings, and resources required
- Deliver Phase 2 final report with a detailed roadmap for the implementation of identified opportunities

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