

GOVERNMENT REORGANIZATION AND EFFICIENCY

SENATE FILE 2088 – GOVERNMENT REORGANIZATION AND EFFICIENCY ACT

BACKGROUND. During the 2010 Legislative Session, the General Assembly enacted SF 2088 (State Government Reorganization and Efficiency Act). This Act was approved in response to studies of government reorganization and efficiency the Executive and Legislative Branches completed during 2009. The General Assembly created a State Government Reorganization Commission that met during the 2009 Interim and the Governor contracted with a private company, Public Works LLC, to provide an efficiency report that was completed in December 2009.

APPROPRIATIONS. Final action on SF 2088 resulted in the appropriation of \$1.7 million from the General Fund for FY 2011 and authorization for 23.0 new FTE positions. The majority of these funds were appropriated to the Department of Revenue (\$325,000 and 5.0 FTE positions) to hire additional revenue examiners to generate income tax collections, and to the Office of the State Public Defender (\$1.1 million and 16.0 FTE positions) to expand the Office to handle additional caseload for indigent defendants.

EXPENDITURE SAVINGS AND REVENUE INCREASES. The following table highlights the provisions of SF 2088 that were expected to result in significant savings or additional revenue at the time of enactment.

Significant Estimated Fiscal Impact Provisions of SF 2088 as Enacted

EXPENDITURE SAVINGS				
Description	Fiscal Impact - FY 2011		Fiscal Impact - FY 2012	
	General Fund	Other Funds	General Fund	Other Funds
A) DAS Digital Government	\$ 1,000,000	\$ 0	\$ 1,800,000	\$ 0
B) State Budgeting and Personnel	14,500,000	10,700,000	0	0
C) Span of Control	15,500,000	24,100,000	1,900,000	2,900,000
D) DAS Centralized Purchasing	7,500,000	7,500,000	7,500,000	7,500,000
E) Medicaid Chronic Disease Management	2,700,000	0	6,500,000	0
F) Medicaid HCBS Waiver Review	1,900,000	2,800,000	2,200,000	3,200,000
G) Corrections - Close Farm 1 and 3	1,451,000	0	1,451,000	0
H) Reduction in Indigent Defense	3,753,000	0	3,753,000	0
I) All Other	2,014,500	550,800	1,861,500	530,800
Total Expenditure Savings	\$ 50,318,500	\$ 45,650,800	\$ 26,965,500	\$ 14,130,800
REVENUE INCREASES				
Description	Fiscal Impact - FY 2011		Fiscal Impact - FY 2012	
	General Fund	Other Funds	General Fund	Other Funds
J) DAS Operations - Sale of Real Property	\$ 13,800,000	\$ 0	\$ 0	\$ 0
K) Lower Threshold for Gambling Setoffs	4,600,000	0	4,600,000	0
L) Hire Five New Revenue Examiners	2,700,000	0	2,700,000	0
M) Add an FTE to GEMS	0	10,000,000	0	20,000,000
N) All Other	778,000	90,500	457,500	90,500
Total Revenues	\$ 21,878,000	\$ 10,090,500	\$ 7,757,500	\$ 20,090,500
Total Savings (expenditures plus revenues)	\$ 72,196,500	\$ 55,741,300	\$ 34,723,000	\$ 34,221,300

NOTE: House File 2531 (FY 2011 Standings Appropriations Act) included additional provisions related to reorganization and efficiency, including:

- An appropriation of \$2.3 million from the General Fund to the Department of Administrative Services (DAS) for technology procurement to result in a portion of the estimated savings (\$1.0 million for digital government) in SF 2088.
- An appropriation of \$260,000 from the Cash Reserve Fund to replace the initial savings deducted from the DAS General Fund appropriation in SF 2367 (FY 2011 Administration and Regulation Appropriations Act).
- Appropriation reductions totaling \$83.8 million to department and agency budgets.¹ The purpose of these reductions was to produce the savings for the major items shown in the table above, including state budgeting and personnel (elimination of vacant FTE positions - \$14.5 million), span of control (\$15.5 million), and centralized purchasing (\$7.5 million). The appropriation reductions also included savings for items included in Executive Order #20 issued by Governor Culver. House File 2531 required the Department of Management (DOM) to submit a report to the General Assembly and the LSA by December 1, 2010, regarding the anticipated appropriation and FTE position reductions for FY 2011. The DOM did not submit the report as required by December 1, 2010. However, the DOM did submit a report on January 3, 2011, outlining the allocation of the \$83.8 million of appropriation reductions and providing a transfer from the Cash Reserve Fund of \$5.0 million to backfill some of the reductions.

UPDATE. The following list outlines updated information regarding implementation or fiscal results of the significant items. **NOTE:** The Fiscal Services Division will provide additional updated information regarding actual results at the State Government Efficiency Review Committee meeting on November 16, 2011.

- **(A) DAS Digital Government.** House File 2531 (FY 2011 Standings Appropriations Act) appropriated \$2.3 million to the DAS for technology procurement to result in a portion of estimated savings (\$1.0 million for digital government). Server consolidations on the Capitol Complex are continuing. The DAS is in the process of consolidating email servers to the Enterprise Email Server in the Executive Branch. The Enterprise Email Server increased from 22.0% of Executive Branch mailboxes in December of 2009 to 45.0% through December 31, 2010. As of January 1, 2011, the Department anticipated all mailboxes of participating agencies would be consolidated by June 30, 2011. *Updated information for this item has been requested from the DAS and a response was pending at the time of publication of this document.*
Staff Contact: Dwayne Ferguson (515-281-6561)
- **(B) State Budgeting and Personnel.** The savings estimate of \$14.5 million was expected to occur through elimination of vacant FTE positions. As noted above, this savings was achieved through the appropriation reductions in HF 2531.
Staff Contact: Ron Robinson (515-281-6256)
- **(C) Span of Control.** The reduction of supervisor positions resulting from the span of control requirements in SF 2088 was estimated to reduce personnel costs for FY 2011 by an estimated \$38.1 million compared to FY 2010. This estimate included \$17.0 million from the General Fund and \$21.1 million from other sources. For FY 2012, agencies were expected to comply with the 1 to 15 span of control requirement and an additional reduction of \$6.3 million was estimated, including \$2.7 million

¹ SF 2531 (FY 2011 Standing Appropriations Act), Section 27

from the General Fund and \$3.6 million from other sources. The span of control requirements have not been implemented by the Executive Branch, but the annual savings of \$15.5 million was achieved through appropriation reductions in HF 2531.

Staff Contact: Dave Reynolds (515-281-6934)

- **(D) DAS Centralized Purchasing.** This provision required agencies to purchase goods and services pursuant to a master contract negotiated by the DAS, subject to certain specified exemptions, and was estimated to result in General Fund savings of \$7.5 million in FY 2011 and \$7.5 million in FY 2012. This provision was also estimated to result in other fund savings (Department of Transportation) of \$7.5 million in FY 2011 and \$7.5 million in FY 2012. Savings estimates were revised in the Executive Order 20 Semi-Annual Report issued in January 2011 by the DOM. As of January 1, 2011, revised estimates indicated General Fund savings of \$2.5 million for FY 2011 and \$0.5 million for FY 2012. Other Fund savings were expected to be \$2.5 million for FY 2011 and \$0.5 million for FY 2012. The DAS formed an agency workgroup to review contracting and determine what contracts could be consolidated into master contracts. *Updated information for this item has been requested from the DAS and a response was pending at the time of publication of this document.*
Staff Contact: Dwayne Ferguson (515-281-6561)
- **(E) Medicaid Chronic Disease Management.** This provision required the DHS to design and implement a chronic disease management program for children. Implementing a chronic disease management program would allow Iowa to assure providers are using best practices to treat patients. A number of other states have implemented similar programs and it has been shown to save significant amounts of money. The savings associated with this change were factored into the calculation of the amount appropriated for Medicaid for FY 2011. The DHS has not provided information regarding how this provision is being implemented.
Staff Contact: Jess Benson (515-281-4611)
- **(F) Medicaid Home and Community-Based Services (HCBS) Waiver Review.** This provision required the DHS to set a trigger for review of payments for services provided under the HCBS waivers. After the development of the trigger mechanism, the DHS will require advanced approval for services when the payment is projected to exceed the median. Payments for waiver services tend to vary greatly and the median value of payments for the Intellectual Disability Waiver was \$16,953 (as of January 1, 2011). By evaluating all of the costs above the median for each waiver, the State should be able to identify unnecessary services. The savings associated with this change were factored into the calculation of the amount appropriated for Medicaid for FY 2011. The DHS has not provided information regarding how this provision is being implemented.
Staff Contact: Jess Benson (515-281-4611)
- **(G) Department of Corrections (DOC) – Close Farms One and Three.** Senate File 2088 required the closure of Farm One by July 1, 2010, and Farm Three by January 1, 2011. The DOC decreased designed capacity by 180 beds to reflect the closure of Farms One and Three on July 20, 2010. The FY 2011 appropriation to the DOC for the Fort Madison Correctional Facility included a reduction of \$1,451,000 to reflect the closure of these Farms. As of November 1, 2011, minimum security beds on the prison farms remain closed. Farm One is not expected to reopen – it is the site of the new maximum security prison currently under construction in Fort Madison. No operating funds for the minimum security housing unit at Farm Three were provided in FY 2012 and it remains closed.
Staff Contact: Beth Lenstra (515-281-6301)
- **(H) Reduction in Indigent Defense.** Senate File 2088 appropriated \$1,140,000 and 16.0 FTE positions to expand local public defender offices. The projected savings in the Indigent Defense appropriation was anticipated to be \$3,753,000. The State Public Defender’s Office filled public defender positions in Iowa City, Cedar Rapids, and Davenport (two per office). The Civil Commitment/Special Defense

Unit added two public defenders, a secretary, and an investigator. The six positions for the new Ottumwa office include a supervisor, three public defenders, a secretary, and an investigator. The new office in Ottumwa opened midway through FY 2011 and all positions have been hired. The Department of Inspections and Appeals received an FY 2011 supplemental appropriation of \$18,551,500 for the Indigent Defense Fund (\$16,000,000) and the Office of the State Public Defender (\$2,551,500). The supplemental appropriation was annualized in the FY 2012 appropriation. Because the funding need for this Program continues to grow, cost savings related to expanding local public defender offices cannot be determined. The Office continues to research options for cost containment.

Staff Contact: Beth Lenstra (515-281-6301)

- **(J) DAS Operations – Sale of Real Property.** The DAS was required by SF 2088 to conduct a survey of State-owned land and leases and provided a report to the General Assembly in December 2010. The report suggested not pursuing the sale and leaseback of State office buildings at this time. The report includes a summary of statewide lease renegotiations conducted by the DAS. The DHS identified two small parcels of less than five acres each that could be sold. These parcels are at Independence (old sewer plant) and Glenwood (approximately two acres). Easements would be required on at least one of the parcels. The DOC indicated it has no farm land available for sale. As of November 1, 2011, no land has been sold. For additional information, see the LSA *Issue Review* titled ["Proposed Sale of State Farm Ground."](#)

Staff Contact: Beth Lenstra (515-281-6301)

- **(K) Lower Threshold for Gambling Setoffs.** The Act lowered the gambling winnings threshold for State debt offset from \$10,000 to \$1,200. This allows the State to offset (or deduct) amounts owed to the State from an individual's wagering winnings at State-regulated racetracks, riverboats, and casinos, if the winning amount exceeds \$1,200. During FY 2011, \$2.7 million was collected. In comparison, during FY 2010, \$155,527 was collected. During the FY 2011 period, 120,034 wins were examined for collection and 2,785 matches were found. During the same period in FY 2010, 1,750 wins were examined and 44 matches were found.

Staff Contact: Dave Reynolds (515-281-6934)

- **(L) Hire Five New Revenue Examiners.** The addition of five revenue examiners was estimated to result in \$2.7 million of new revenue for FY 2011 and subsequent fiscal years. The Department of Revenue hired the new positions in September and October of 2010. These examiners produced additional revenue of \$3.4 million. The examiners continue to be employed in FY 2012 and are expected to continue bring in similar additional revenues in FY 2012 and future years.

Staff Contact: Dwayne Ferguson (515-281-6561)

- **(M) Add an FTE to GEM\$.** Adding an FTE position to the Office of Grants Enterprise Management (GEM\$) was expected to generate \$10.0 million in FY 2011 and \$20.0 million for FY 2012 of other funds revenue in the form of federal and other grants. The FTE position was not added to the GEM\$ office. However, as of November 4, 2011, the DOM reported the following federal competitive grant proceeds have been received (as reported by State departments and agencies): \$89.6 million in FY 2010 and \$117.7 million in FY 2011.

Staff Contact: Dwayne Ferguson (515-281-6561)

SENATE FILE 2062 – STATE EARLY RETIREMENT INCENTIVE PROGRAM ACT

BACKGROUND. [Senate File 2062](#) established a State Employee Retirement Incentive Program (SERIP) for eligible employees of the Executive Branch of the State. The Program was optional for the Legislative and Judicial Branches, and the Board of Regents institutions. Elected officials and employees eligible for an enhanced Sick Leave Conversion Program under Iowa Code Section 70A.23(4) (Sworn Peace Officers) were excluded from participation in the Program. The Program is administered by the Department of Administrative Services (DAS). To receive incentive benefits under SERIP, eligible employees were required to submit an application to participate in the Program by April 15, 2010, be accepted to participate in the Program by the DAS, separate from State employment by June 24, 2010, and acknowledge the employee's ineligibility to return to employment with the State.

The Act provided two incentives to eligible employees that participated in the Program:

- A) Employees with at least 10 years of State employment were eligible to receive \$1,000 for each year of State employment up to 25 years. The payments are to be made in five equal installments each year during September beginning in 2010.
- Participants in the Program (or the surviving spouse) receive a health insurance contribution benefit to pay the premium cost for eligible State group health insurance for five years following termination from State employment. Participants receive the health insurance contribution benefit only when no longer eligible for, or they have exhausted, the available remaining value of sick leave used to pay the State share for the participant's continuation of State group health insurance coverage as provided in Code Section 70A.23(3).

There were 6,092 IPERS employees of participating agencies age 55 or older qualified to participate. Of those employees, 2,151 were eligible for full retirement benefits by meeting at least one of the following:

- Age and years of service equal at least 88.
- At least age 62 with 20 years of service.
- At least 65 years of age.

A total of 2,067 of the 6,092 eligible employees participated in the current Program resulting in a participation rate of 33.9%.

The Act prohibited Executive Branch agencies, excluding the Board of Regents, from filling vacancies created by employees participating in the Program unless approved by the Department of Management (DOM). As of June 23, 2011, 764 positions (37.0%) have been refilled. In addition, the Act prohibits early retirement participants under this Program from resuming State employment in any capacity.

ESTIMATED BUDGET IMPACT. **Table 1** reflects only the incentives added by the Program, including the payment for years of service and the additional contribution for health insurance. **Table 2** reflects all of the payments for the retirees including the Sick Leave Incentive Plan (SLIP) and vacation payout. The Program was projected to result in the following cost savings (reflected as positive numbers):

Table 1 – Cost Savings Net of SERIP Incentives
(Dollars in millions)

	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>	<u>Total</u>
General Fund	\$ 35.7	\$ 30.6	\$ 26.0	\$ 21.7	\$ 18.2	\$ 132.2
Road Use Tax Fund	1.4	1.3	1.2	1.1	1.0	6.0
Primary Road Fund	10.3	9.8	9.2	8.2	7.2	44.7
Federal Funds	11.9	10.6	9.0	7.7	6.6	45.8
Other Funds	11.9	10.6	9.4	8.4	7.3	47.6
Total	\$ 71.2	\$ 62.9	\$ 54.8	\$ 47.1	\$ 40.3	\$ 276.3

Table 2 – Cost Savings Net of SERIP and Other Retirement Costs

(Dollars in millions)

	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>	<u>Total</u>
General Fund	\$ 25.0	\$ 23.4	\$ 21.5	\$ 19.1	\$ 16.3	\$ 105.3
Road Use Tax Fund	1.3	1.2	1.1	1.0	0.9	5.5
Primary Road Fund	8.9	8.4	7.8	7.2	6.6	38.9
Federal Funds	8.4	8.0	7.5	6.8	6.0	36.7
Other Funds	9.1	8.5	7.8	7.1	6.3	38.8
Total	\$ 52.7	\$ 49.5	\$ 45.7	\$ 41.2	\$ 36.1	\$ 225.2

The preceding tables provide information on the estimated impact of the Program. The actual impact could be different due to changes in the number of positions refilled, changes in health insurance rates, and changes in the costs for the positions refilled. Additional information regarding actual results for FY 2011 may be available at the Committee meeting on November 16.

Staff Contact: Ron Robinson (515-281-6256)

Overall staff contacts for this document:

Mary Shipman (515-281-4617) mary.shipman@legis.state.ia.us

Dave Reynolds (515-281-6934) david.reynolds@legis.state.ia.us