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STATE HUMAN RESOURCES DIRECTOR

April 30, 2014

Memorandum

To: The Honorable Representative Thom Tillis, Co-Chairman
Joint Legislative Commission on Governmental Operations
The Honorable Senator Phil Berger, Co-Chairman
Joint Legislative Commission on Governmental Operations

From: C. Neal Alexander, Jr. Director, Office of State Human Resources
Art Pope, Director, Office of State Budget and Management

Handwritten signatures in blue ink. The first signature is "C. Neal Alexander, Jr." and the second is "Art Pope".

Re: Session Law 2013-382/Reorganization Through Reduction Program Report

Session Law 2013-382, Section 8.3 requires the Office of State Human Resources, in conjunction with the Office of State Budget and Management, to report to the Joint Legislative Commission on Governmental Operations on the Reorganization Through Reduction Program (RTR). RTR is an option available for reorganization and restructuring of the departments and offices listed in G.S. 126-5(d)(1), as amended by Section 4.1 of the act. A report to the Joint Legislative Commission on Governmental Operations is required on three occasions during the year of 2014; please accept this report as the requisite submittal for April 30, 2014.

If you have any questions, please contact me, Benjamin Downing, OSHR Legislative Liaison, at (919) 807-4869 or at benjamin.downing@nc.gov.

Benjamin Downing, OSHR Legislative Liaison

State of North Carolina

Reorganization through Reduction (RTR) Program

As Directed by House Bill 834, Session 2013

Status Report as of April 30, 2014



Prepared by

Office of State Human Resources

in conjunction with

Office of State Budget and Management

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I. Reorganization Through Reduction (RTR) Program Overview

A. Background

Part VIII of the House Bill 834, Session 2013 directed the Office of State Human Resources (OSHR), in conjunction with the Office of State Budget and Management (OSBM), to develop the Reorganization Through Reduction Program (RTR).

House Bill 834 states the following:

PART VIII. REORGANIZATION THROUGH REDUCTION PROGRAM

SECTION 8.1. The Office of State Human Resources, in conjunction with the Office of State Budget and Management (OSBM), may develop the Reorganization Through Reduction Program (RTR). The RTR shall be one option available for reorganization and restructuring of the departments and offices listed in G.S. 126-5(d) (1), as amended by Section 4.1 of this act. The RTR is authorized to serve as an employee volunteer separation program to accomplish reorganization and restructuring needs in the specified departments and offices through policies approved by the State Human Resources Commission (SHRC). The SHRC policy shall detail the following:

- (1) The approach to be used in identifying the organizational units.
- (2) The process for identifying employees who may volunteer.
- (3) The availability of severance and other related assistance.

SECTION 8.2. Severance and any other payments made pursuant to the implementation of the RTR program will not exceed funds appropriated for that purpose.

SECTION 8.3. This Part is effective when it becomes law and expires June 30, 2014. The Office of State Human Resources and the Office of State Budget and Management shall report to the Joint Legislative Commission on Governmental Operations on January 31, 2014, April 30, 2014, and September 1, 2014.

The Reorganization Through Reduction Program differs from the Reduction-In-Force (RIF) Program in that the RTR separation is voluntary on the part of the employee and the Agency is allowed to restructure or reorganize to gain financial and/or skill set efficiencies and increase agency effectiveness and achieve agency business needs, objectives, and goals. The Reduction-In-Force Program is a formalized process to enable the separation of employees, through no fault of their own, resulting from shortage of funds, abolishment of a position, or other material change in duties or organization. In a Reduction-In-Force, the employee receives a severance payment and the Agency abolishes the position and the funds. (Note, GS 126-8.5 states that severance must be paid if the RIF results in economies in the state budget, and it is up to the Director of the Budget to determine whether that is the case.)

B. Policy and Program Development

The RTR Policy and the Program details were developed by the North Carolina Office of State Human Resources (OSHR) and the RTR Work Group. The RTR Work Group is comprised of representatives from: North Carolina Department of Health & Human Services, North Carolina Department of Cultural Resources, North Carolina Department of Administration, North Carolina Office of Information Technology Services, NC Department of Commerce, North Carolina Department of Revenue and North Carolina Office of State Human Resources. The RTR Policy and the Program details were reviewed by the RTR Core Group from NCOSHR. The RTR Policy was originally approved by the State Human Resource Commission on October 17, 2013. Subsequently the Commission approved the revisions at the December 12, 2013 meeting and then again at the February 13, 2014 meeting.

C. Program Description

The RTR program is a voluntary employee separation program created by the General Assembly and established under the direction of the Office of State Human Resources to enable an agency to restructure or reorganize to gain financial and/or skill set efficiencies and therefore increase agency effectiveness and achieve agency business needs, objectives and goals. During RTR, an agency is not required to eliminate a position if the agency needs to re-purpose the position to meet agency business needs, objectives and goals.

If an agency chooses to utilize the RTR program, the Agency Head and Agency Human Resources Director draft the agency's RTR plan based on the agency business needs, objectives, goals and critical skills, which are sent to OSHR to ensure compliance with the RTR policy. If the agency plan is approved, the agency then implements RTR using a defined and specific process in the following order.

- The agency sends the RTR announcement to the affected organizational units.
- Employees in these units will have twenty-one (21) calendar days to decide to participate by signing an RTR Volunteer Separation Request Form which is submitted to the RTR Control Center.
- The agency selects participants and notifies volunteers of acceptance or denial, based on the agency's need for the critical skills identified in the plan. A separation date is set for the employee's last day of work. Employees may be excluded from participation in RTR if they are considered to have work skills critical to the agency's mission ("critical skills employees").
- If selected for participation, the employee receives and signs a Settlement Agreement and Waiver of Claims and receives a separation payment based on the RIF's state policy formula, which is the standard state severance salary formula. In addition, a payment of \$5500 will be added to the separation payment that may be used by the employee after resignation to purchase health insurance.
- If the agency receives more volunteers than needed for the RTR, management may elect to accept additional volunteers if the budget permits.

- If the agency is limited for budgetary reasons to a certain number of volunteers, the agency shall use length of service (greater total state service) as the determining factor in selecting participants.
- If there are fewer volunteers than needed to achieve the goals of the RTR plan (minimum of five required), the agency must implement a Reduction in Force (RIF) to proceed with the restructuring and reorganization plans to achieve the approved minimum reductions. The agency may select employees for RIF to meet the goals and notify affected employees.
- OSBM notifies OSHR of fund availability, and OSHR communicates the plan/fund approval/denial to the agency.

D. Role of NCOSC, NCOSBM, DST/RSD

The North Carolina Office of State Controller (NCOSC) provides the agency data needed for the RTR plan, along with information for OSHR to determine the separation payment for eligible employees.

The North Carolina Office of State Budget and Management (OSBM) notify OSHR of fund availability needed for the Agency's RTR implementation. OSBM provides approval of funds disbursement.

The North Carolina Department of State Treasurer/Retirement Systems Division (DST/RSD) addresses questions that eligible employees may have related to retirement planning.

E. RTR Control Center

The RTR Control Center serves as a single point of contact for Agency HR Personnel, Agency RTR Coordinator, RTR Employee Volunteers, NCOSBM, NCOSC and NC State Treasurer/Retirement. Employees that wish to participate in the RTR Program submit their completed Volunteer Separation Request to the RTR Control Center. The RTR Control Center delivers these Agreements to the Agency for approval/denial. Within forty-five days of separation from employment with the State, the employees submit the completed Settlement Agreement/Waiver of Claims to the RTR Control Center. The RTR Control Center then communicates with NCOSBM and NCOSC to process the separation payment during the next payroll cycle.

F. Program Timeline

Utilization of RTR is permitted by current legislation through June 30, 2014. Under this legislation, OSHR has determined that participating employees must be separated by June 30, 2014.

Participating Agency	Timeline	Status
Pilot Group 1: DOA, Purchasing and Contract	11/12/2013 – 12/31/2013	Complete
Pilot Group 2: DOA, Purchasing and Contract	12/13/2013 – 02/10/2014	Complete
Phase 1 Agencies: DOA, DCR, OSHR	01/09/2014 – 06/30/2014	In Progress
Phase 2 Agencies: ITS	03/03/2014 – 06/30/2014	In Progress
RTR Program ends	06/30/2014	Pending

II. RTR Pilot Summary

- The DOA, Purchasing and Contract pilot project plan was developed, and then approved by OSHR on 11/6/14.
- The DOA RTR pilot project was conducted 11/12/13 to 2/10/14.
- The Total Cost of the Pilot Project was \$570,682.99. Breakdown is as follows:

Agency	Participants	RTR Expenditures	RTR-RIF Expenditures	Total Expenditures
DOA Pilot Group 1	RTR: 8 RTR-RIF: 3	\$323,608.18	\$131,572.31	\$455,180.49
DOA Pilot Group 2	RTR: 3 RTR-RIF: 0	\$115,502.50	\$0	\$115,502.50
Total Cost of Pilot Project				\$570,682.99

- The Department of Administration is actively recruiting for 14 repurposed positions under RTR. The Division of Purchasing and Contract has been impacted at the State level by the mandatory implementation of a new SAP ERP application requiring an improved project management cycle, contract management, analytical decision-making and a new customer service perspective. New work functions have been created by these changes; older work functions are no longer needed. These business needs, objectives and goals are mandated by 2013 legislative requirements.

III. RTR Phase 1

A. Phase 1 Agency Timeline

Participating Agency	Timeline	Status
NC Department of Cultural Resources (DCR) – 19 participants eligible to participate		
RTR Announcement within the Division	01/15/2014	Complete
Volunteers from IT & HR division submitted RTR Separation Agreements	02/03/2014	Complete
Volunteers from Art Museum submitted RTR Separation Agreements	02/04/2014	Complete
Volunteers from Transportation Museum submitted RTR Separation Agreements	02/05/2014	Complete
Finalize RTR participants	02/21/2014	Complete
Notify RIF employees	03/03 – 03/10	Complete
RTR-RIF separation	04/14/2014	Pending
RTR Volunteer separation	04/30/2014	Pending
NC Department of Administration (DOA) – Fiscal Management – 23 participants eligible to participate		
RTR Announcement within the Division	01/14/2014	Complete
Volunteers submitted RTR Separation Agreements	02/10/2014	Complete
Finalize RTR participants	02/12/2014	Complete
Notify RIF employees	02/21/2014	Complete
RTR Volunteer separation	02/28/2014	Complete
RTR-RIF separation	03/24/2014	Complete
NC Office of State Human Resources (OSHR) – 65 participants eligible to participate		
RTR Announcement within the Division	01/15/2014	Complete
Volunteers submitted RTR Separation Agreements	02/12/2014	Complete
Finalize RTR participants	02/21/2014	Complete
RTR Volunteer separation	06/30/2014	Pending

B. Phase 1 Results/Findings

Implementation Results	DCR	DOA	OSHR
Participants eligible to volunteer	18	21	64
Participants volunteered	4	3	14
Participants approved for RTR	4 (3 Retirees, 1 regular RTR)	3 (2 Retirees, 1 regular RTR)	14 (10 Retirees, 4 regular RTR)
Participants denied for RTR	0	0	0
Participants selected for RTR-RIF	2	5	0

C. RTR Phase 1 Summary

- The DOA, Purchasing and Contract pilot project plan was developed, and then approved by OSHR on 11/6/14.
- The DOA RTR pilot project was conducted 11/12/13 to 2/10/14.
- All settlement agreements are being returned in a timely manner.
- The Total Cost of the Phase 1 Agencies RTR Program was \$1,035,769.93.
Breakdown is as follows:

Agency	Participants	RTR Expenditures	RTR-RIF Expenditures	Total Expenditures
DCR – IT & HR, Art Museum, Transportation Museum	RTR: 4 RTR-RIF: 2	\$157,933.71	\$35,321.51	\$193,255.22
DOA – Fiscal Management	RTR: 3 RTR-RIF: 5	\$96,380.68	\$95,130.01	\$191,510.69
OSHR	RTR: 14 RTR-RIF: 0	\$651,004.02	0.00	\$651,004.02
Total Cost of Phase 1 Agencies RTR Program				\$1,035,769.93

IV. RTR Phase 2

A. Phase 2 Agency Timeline

Participating Agency	Timeline	Status
NC Information Technology Services (ITS) – 18 participants eligible to participate		
RTR Announcement within the Division	03/04/2014	Complete
Volunteers submitted RTR Separation Agreements	03/25/2014	Complete
Finalize RTR participants	03/27/2014	Complete
Notify RIF employees	04/28 – 04/30	Pending
RTR Volunteer separation	04/30/2014	Pending
RTR-RIF separation, if needed	05/30/2014	Pending

B. Phase 2 Results/Findings

Implementation Results	ITS
Participants eligible to volunteer	18
Participants volunteered	4
Participants approved for RTR	4 (4 Retirees)
Participants denied for RTR	0
Participants selected for RTR-RIF	1

C. RTR Phase 2 Summary

- The NC Information Technology Services (ITS) RTR plan was developed, and then approved by OSHR on 2/17/14.
- The NC Information Technology Services (ITS) RTR project was conducted 3/4/14 to 5/30/14.
- The Total Cost of the Phase 2 Agency RTR Program was \$173,171.07. Breakdown is as follows:

Agency	Participants	RTR Expenditures	RTR-RIF Expenditures	Total Expenditures
ITS	RTR: 4 RTR-RIF: 1	\$173,171.07	PENDING	PENDING
Total Cost of Phase 1 Agencies RTR Program				PENDING

V. **Benchmarking With Other Government Entities**

- **Connecticut** – The State of Connecticut was mandated by the General Assembly and the Governor to offer an Early Retirement Incentive Program as part of the deficit management plan for Fiscal Year 2003. The employees were paid their average salary for the three highest years of earnings.
- **Florida** – The State of Florida does not currently offer any monetary incentives for voluntary separations.
- **Georgia** – The State of Georgia does not currently offer any monetary incentives for voluntary separations.
- **South Carolina** – Voluntary Separation Program (VSP) allows state agencies to implement a plan to provide separation payments not to exceed one year's salary in order to realign resources and/or permanently downsize based on the ability to demonstrate recurring cost savings. The second program allows state agencies to implement a Retirement Incentive Program (RIP); the agency purchases service credit for employees who are currently eligible to retire or purchase the amount of time necessary to make employees eligible to retire. Both separation programs are funded through the state agency's existing funds.
- **Tennessee** – Unable to contact.
- **US Office of Personnel Management** – The US Government has a program called the Voluntary Separation Incentive Payment (VSIP) that is similar to the RTR Program.
- **Virginia** – The State had early retirement initiatives in 1991 and 1995; the first was not made available because of cost. The intent of the second program was to reduce government, not restructure it.

VI. **Overall Program Observations**

The participating agencies have been able to reorganize and repurpose existing funds to establish positions with new competencies to meet new agency strategic business needs. This will enable the agencies to put the right people with the right skills and competencies into positions needed to meet current and future changes. OSHR recommends that the RTR program continue to enable successful restructuring of the agencies reorganizations and functions. OSHR also recommends that the end date of June 30, 2014 be removed from House Bill 834, Part VIII, Section 8.3.