



Office of State Budget and Management
Balancing Needs - Improving Government

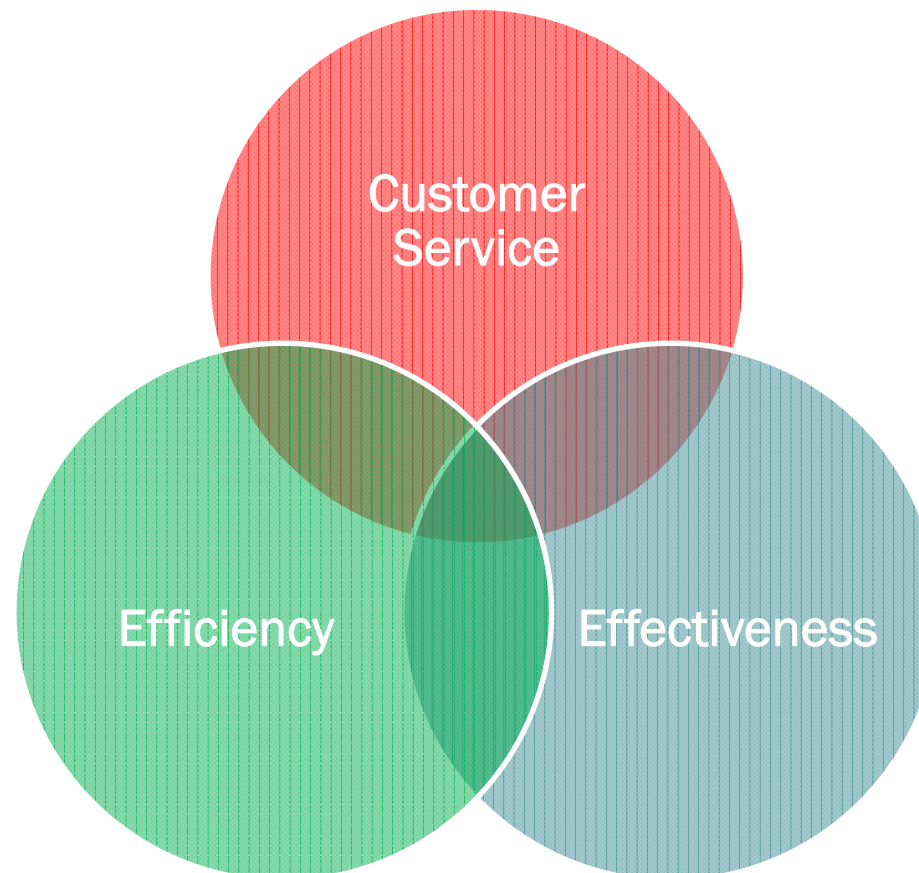
NCGEAR

EFFICIENCY • EFFECTIVENESS • CUSTOMER SERVICE

Presentation to
Program Evaluation Oversight Committee
May 4, 2015



“For all the hopes some may have had for sweeping reforms, the focus of this report is on shoring up the foundation of state government—budgeting, facilities and vehicles—to show that government can excel at the basics and build trust with the people of North Carolina.”





State Facilities

\$3.9B

Needed Repairs and Renovations

Source: State Construction Office Facility Condition Assessment Program

Pensions & Health Benefits

\$28.9B

combined unfunded liability

Source: Comprehensive Annual Financial Report for fiscal year ended June 30, 2014

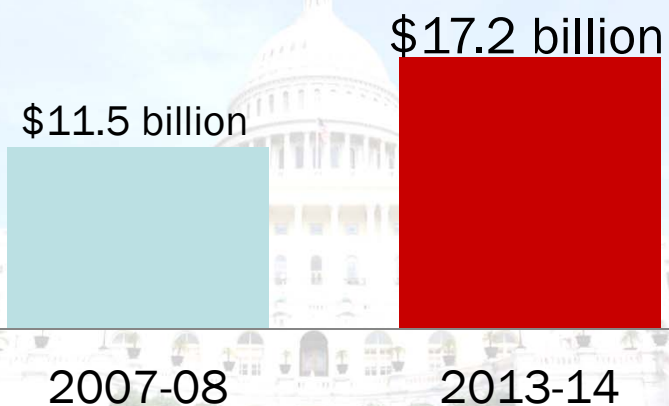
Medicaid & Health Choice

↑ \$2.3B

Combined General Fund and Federal Funds, FY2007-08 to FY2013-14

Sources:
2007-00 Post-Legislative Summary, Appendix Table 3A
2013-15 Post-Legislative Summary, Appendix Table 7A

Federal Receipts



Source: 2013-15 Post-Legislative Summary, Appendix Table 2B



Overview

- The North Carolina Government Efficiency and Reform (NC GEAR) initiative
- The most comprehensive effort to analyze and transform the operations of state government in more than two decades
- Part of an ongoing, sustainable program that makes state government work better for taxpayers
- First phase of recommendations presented to the Governor and General Assembly

Legislative Backing

- The General Assembly included NC GEAR in the final budget (S.L. 2013-260) for the 2013-2105 biennium
- \$2 million non-recurring funding each year
- The 2014-15 budget (S.L. 2014-100) authorized ITS to work with NC GEAR to prepare for an Enterprise Resource Planning (ERP) system

Staffing & Consultants

- A small staff within OSBM (two permanent and four time-limited positions) was dedicated to lead the NC GEAR initiative's work through the biennium
- An advisory group assembled to review proposals from consulting firms and to ensure the work remained on target

Advisory Group

Core Group

- State Auditor, State Budget Director, State CIO, State HR Director, Dept. of Administration, Governor's Office

Later additions

- DENR, Dept. of Cultural Resources, Dept. of Transportation

Results

- The Governor's Budget Proposal includes a number of NC GEAR recommendations with net benefits the first year of \$14 million and total net benefits within 10 years of \$615 million in net present value (NPV) terms



NC GEAR start-up

July – October, 2013

November – December

January- March, 2014

Organize NC GEAR

Hire team / Set direction / Prepare RFP

Review proposals / Select vendor

NC GEAR/Deloitte work

April - June

July - August

September

October - December

Collect
ideas

Identify
ideas for
testing

Test ideas

Identify
opportunities

Prioritize
opportunities

Develop business cases / Develop Findings
and Analysis report

NC GEAR transition to RMO

January – February, 2015

March - June

July -

Prepare final report /
Incorporate into budget

Work on passage and implementation/
Organize for long-term presence in OSBM

Develop business cases for backlogged or
new ideas / Oversee portfolio management /
Evaluate results



The opportunity identification approach followed an eight-step process defined below. We are in the implementation phase for the first round of NC GEAR opportunities. An expedited process of collection and identification is underway for the next round.

Idea

A thought or suggestion as to a possible course of action that could be taken by NC GEAR which could potentially improve effectiveness and/or efficiency.

Opportunity

An idea that has been tested and selected due to the value it could provide, as defined by NC GEAR's mission, which could be realized, if implemented.



1 Collect ideas

Ideas were submitted from the following sources: Citizens, NC GEAR, legislative and other briefing documents, agencies, Deloitte and other external sources. Ideas were sorted to remove duplicates and infeasible items. Traceability of all ideas is recorded in the **Idea Repository**.



2 Identify ideas for testing

Ideas were selected for further investigation and analysis based on an initial assessment by NC GEAR and limited by available time for the first assessment phase. Those not selected were "backlogged" for further review at a later time.



3 Collect Data / Test ideas

A Statewide Assessment was deployed to collect additional information from agencies necessary to test selected ideas. Data from follow-up interviews, ideation sessions and other sources (e.g. benchmarks) was also used as part of the testing process.



4 Identify opportunities

Ideas that were supported by the analysis of the data and research proceeded to form an initial list of opportunities.



5 Prioritize opportunities

The NC GEAR Team prioritized opportunities that the Advisory Group validated; lower priority opportunities were stored in the **Opportunity Backlog**.



6 Develop business cases

Business cases were developed for prioritized opportunities and were intended to provide detail for approval by OSBM, outside bodies or other stakeholders as required.



7 Final Report

The **Final Report** includes background on the state of state government and recommendations based on Deloitte's analysis and reviews within state government.



8 Implement initiatives

Initiatives confirmed for implementation planning or execution will be monitored against predetermined performance targets throughout the implementation.



- More than \$14 million of savings in year one
- More than \$57 million of savings in year two of the biennium
- Savings over ten years conservatively estimated at more than \$615 million IN NET PRESENT VALUE



**Manage cultural and
natural attractions
together**



**Improve integrity and
timing of vital record
registry**



**Recover debts through
the State Reciprocal
Treasury Offset
Program**



**Rationalize state
vehicles**



**Reduce state
employees workers'
compensation expense**



**Leverage buying power
for school districts**

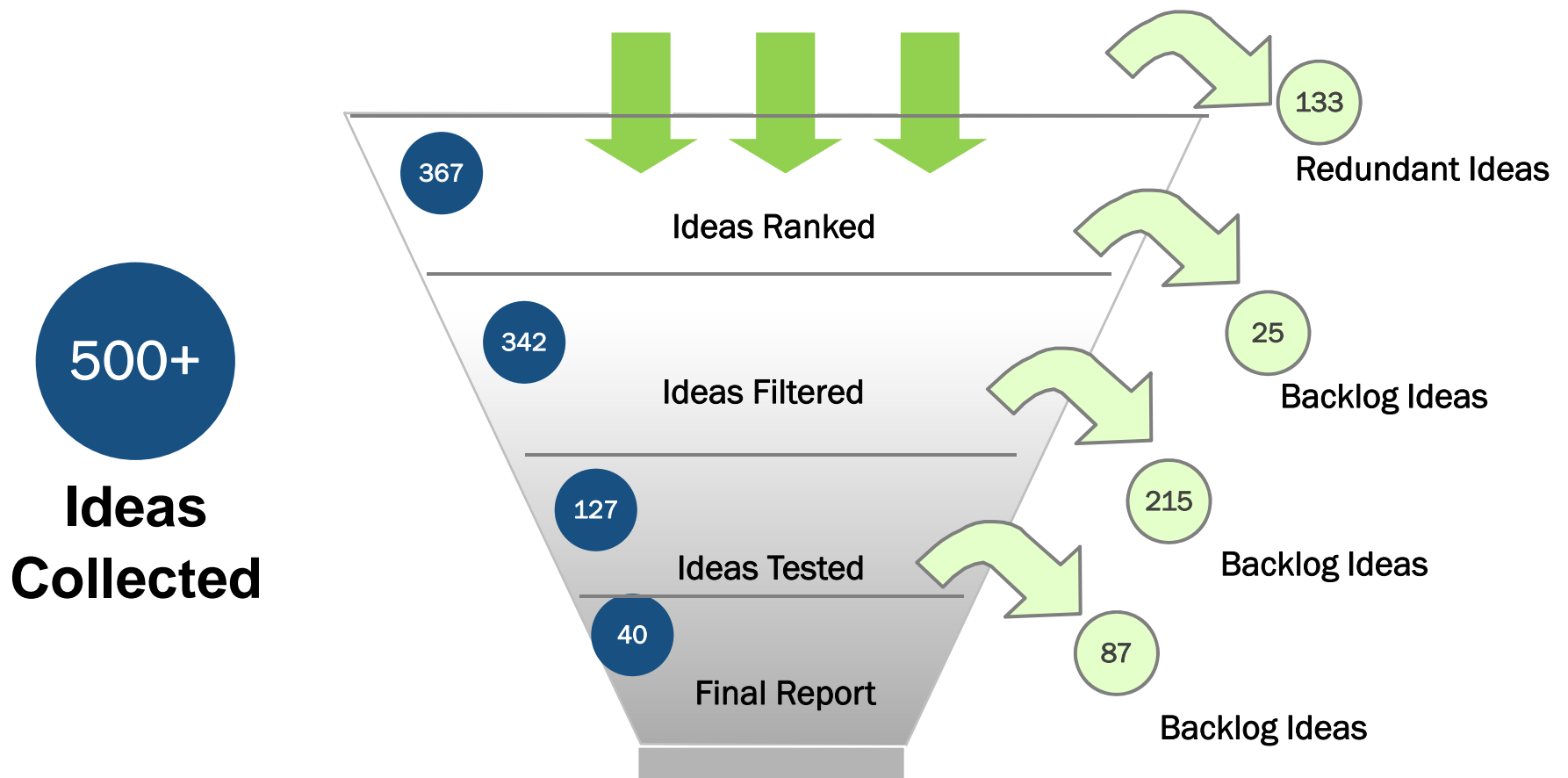


- One-on-one discussions with more than 30 legislators
- Met with and presented to more than 40 outside groups, including presentations to NCTA, NC Chamber, Government Finance Officers and Senior Tarheel Legislature
- Multiple discussions with every Cabinet and Council of State member, plus discussions with cross-agency groups of Chief Deputies, CFOs and Cabinet CIOs
- More than 500 suggestions from state employees and the general public through website: ncgear.nc.gov/yourideas
- Regular feedback from an advisory team consisting of OSBM, OITS, OSHR, State Auditor, Department of Administration, Governor's Office and later Cultural Resources, DENR, and Transportation



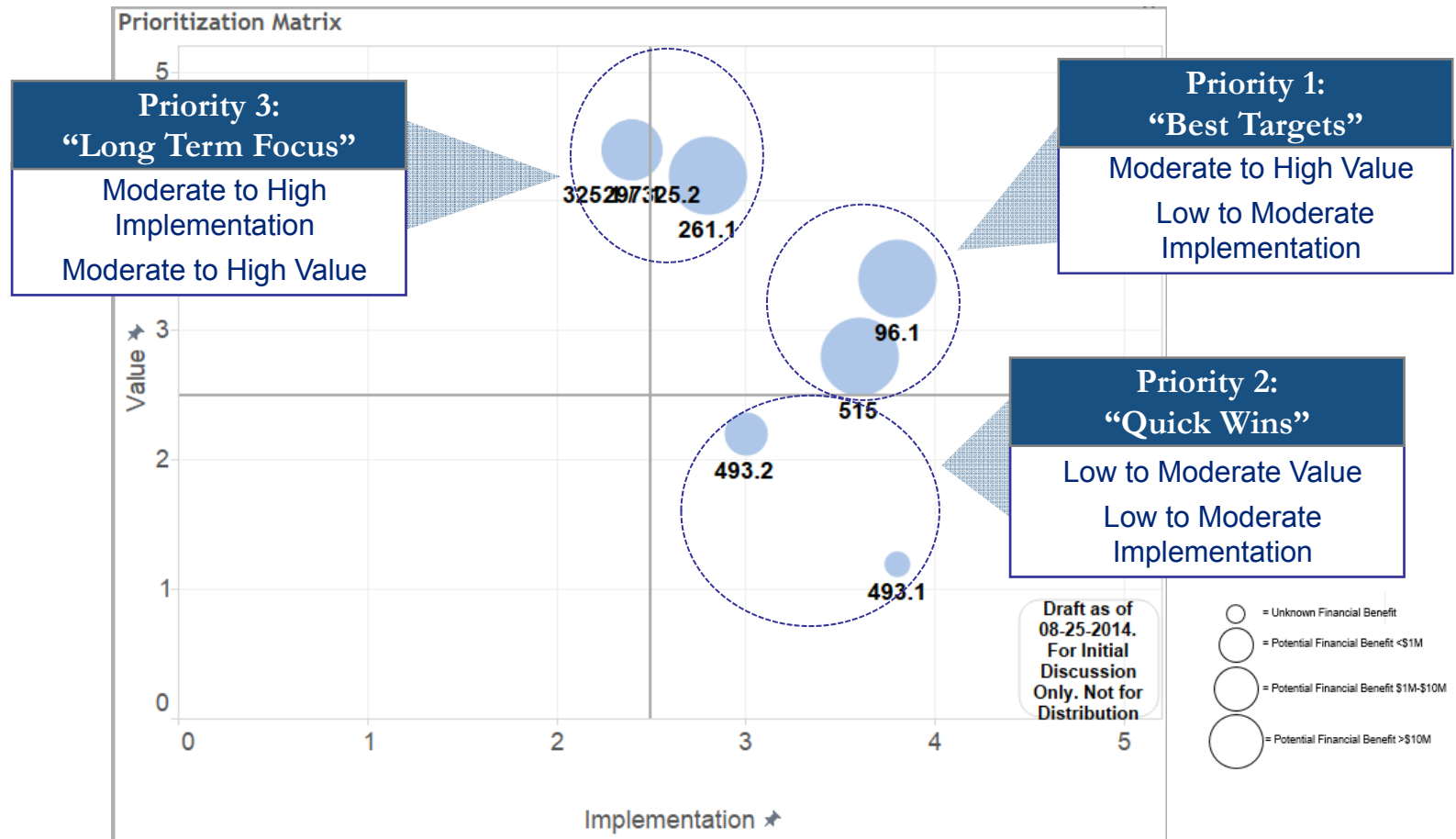
500 ideas were collected and put through a filtration process, resulting in 127 ideas that were tested

Ideas that didn't make it through the filtration process were backlogged to be used at a later stage





Prioritized opportunities were identified by placement on the Prioritization Matrix



Prioritization Diagonal

To balance the Value and Implementation Complexity criteria and potential trade-offs between the two, prioritization is being driven by a 45 degree diagonal line that bisects the matrix from the top-left corner to the bottom right corner. Items above the diagonal are being considered the highest priority for proceeding to business cases.



Process and Methodology

Prioritization Matrix

Value ★

Implementation ★

Team Name

- Administration & GenGov
- Budget & Finance
- DENR
- DHHS
- DOT
- DPI
- Grants & Open Government
- Higher Ed
- HR & Benefits
- IT
- NER
- Procurement & Contract Management
- Regulations

○ = Unknown Financial Benefit
 ○ = Potential Financial Benefit <\$1M
 ○ = Potential Financial Benefit \$1M-\$10M
 ○ = Potential Financial Benefit >\$10M

Draft as of 08-25-2014. For Initial Discussion Only. Not for Distribution

¹ Please refer to handout table for title, description and testing summary per opportunity



Applied conservative estimates to opportunities, with business cases and quantitative cost-benefit calculations

Considerations to limit downside risk

1. Implementing the opportunities in a public sector environment with an operating model similar to North Carolina's
2. Including as many of the costs as possible
3. Using data driven analysis for decisions and prioritization of opportunities
4. Not overstating benefits and applying the lower end of benchmarks or results achieved by other states when implementing similar efforts
5. Net Present Value calculations for five years of benefits, or ten years total, applying a 4% discount rate



Section 1. Introduction and “Quick Fixes”

Section 2. Current Operating Model of State Government

Section 3. History of Previous Government Reform Efforts

Section 4. Specific Recommendations

Section 5. Ideation Sessions

Section 6. Supplemental Work

Section 7. Initiatives Underway in Agencies

Section 8. Lessons Learned

Section 9. Future Considerations



Map the process

Create checklists and timelines

Cross-train staff for multiple roles

Learn the tools

Evaluate positions when they become vacant

Ask questions



Information and Organization

Infrastructure

Organizational Structure and Mission

Source of Funds

Spending by Agency

State and Local Government Employees

Pension and Other Post-Employment Benefit (OPEB) Obligation

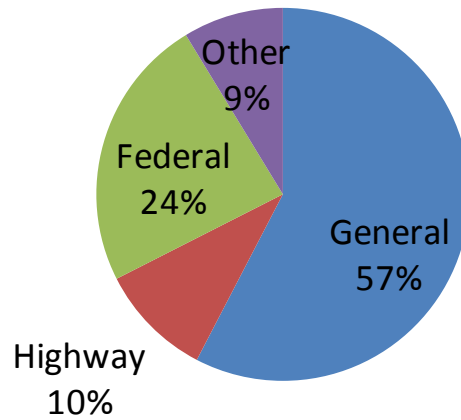
Case for Change



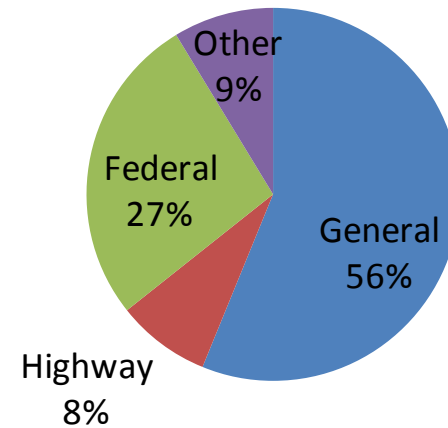
DO NOT TURN OFF!
THIS CONTROLS 2 LIGHTS IN ROOM [REDACTED]
LIGHTS IN ROOMS [REDACTED], [REDACTED] AND
1 LIGHT IN ROOM [REDACTED] AND SEVERAL LIGHTS
IN THE THIS ROOM (TRAINING ROOM)



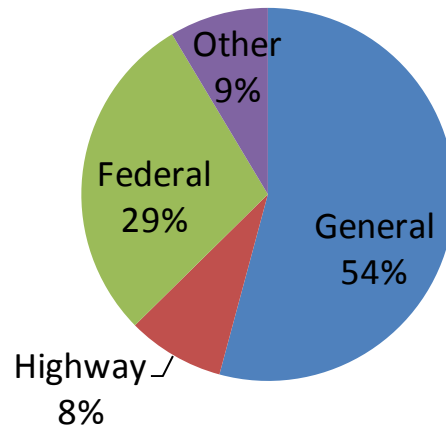
1983-84



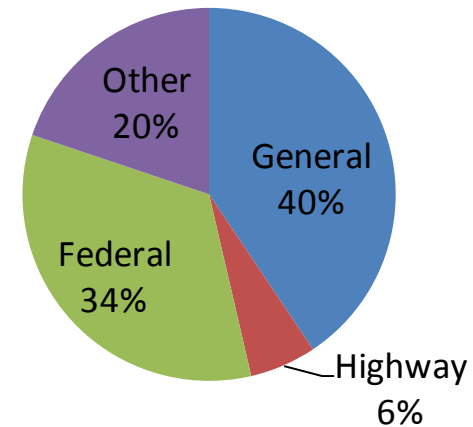
1993-94



2003-04

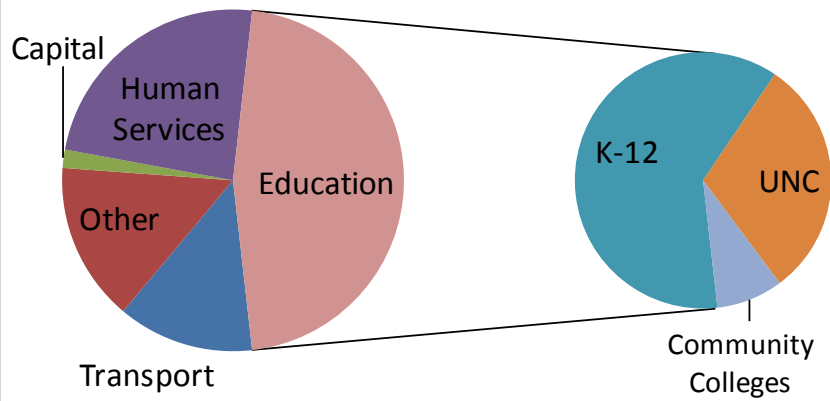


2013-14

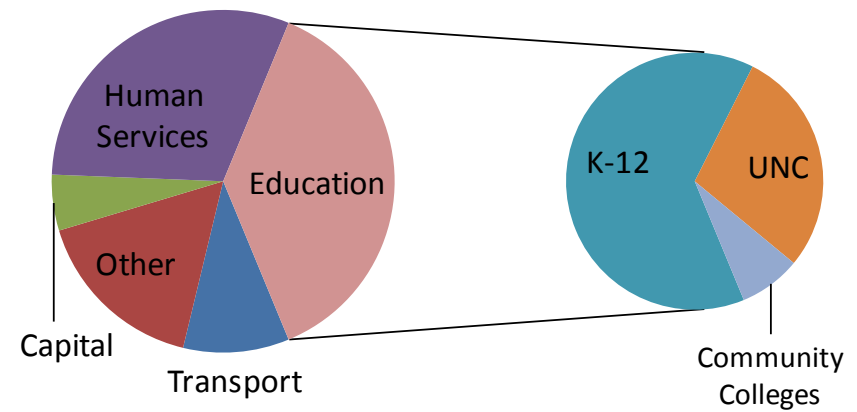




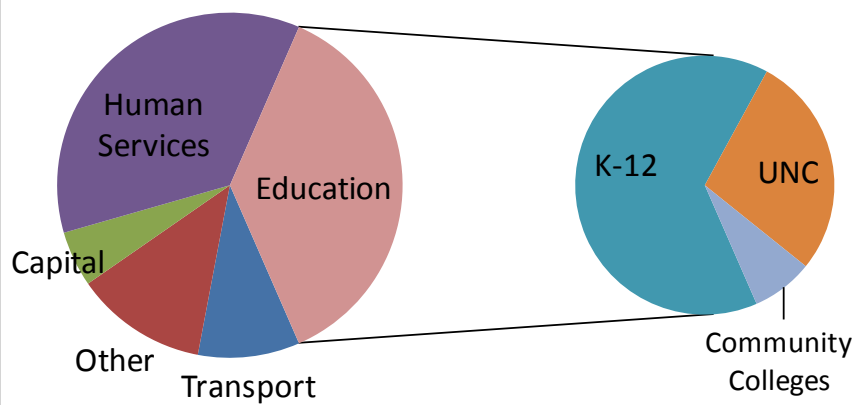
1983-84



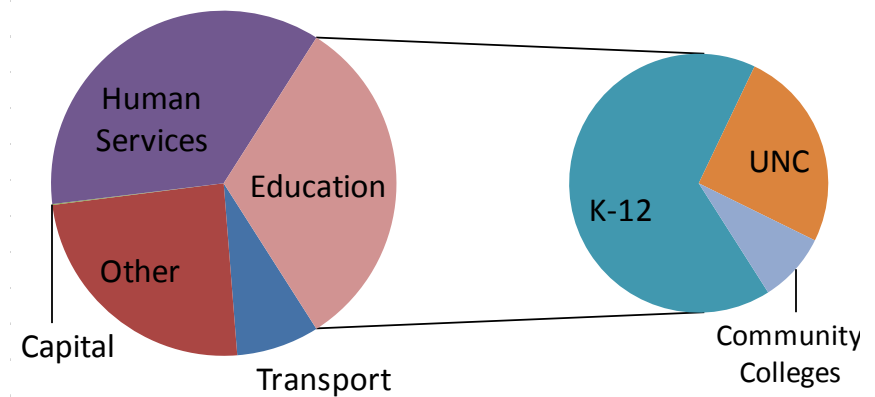
1993-94



2003-04



2013-14





Only three states with smaller state and local governments than NC in 1997 had larger governments than NC in 2013

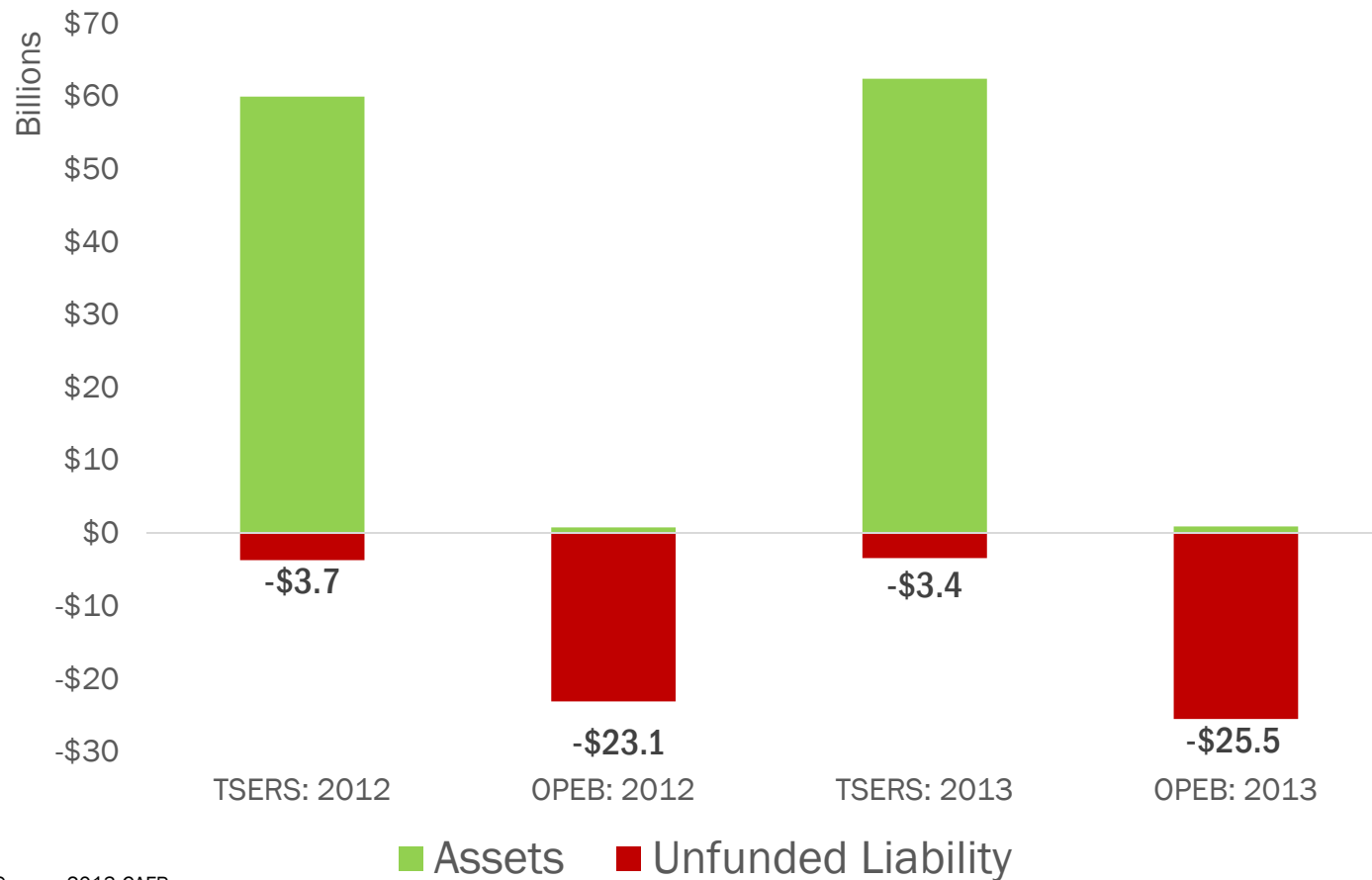
Seven states had the opposite trend, including Georgia, South Carolina, and Texas

All neighboring states plus Florida have smaller governments than NC

	1997		2002		2007		2013	
	FTE/10,000 Residents		FTE/10,000 Residents		FTE/10,000 Residents		FTE/10,000 Residents	
US Total	531	51%	546	53%	546	54%	508	55%
Vermont	514	61%	618	66%	638	63%	632	64%
Arkansas	552	55%	557	57%	582	58%	570	57%
West Virginia	508	59%	530	56%	551	56%	564	57%
North Carolina	560	52%	569	52%	595	54%	558	53%
Louisiana	608	50%	621	49%	605	49%	555	49%
Iowa	590	59%	604	59%	608	59%	552	58%
Oklahoma	608	54%	589	56%	594	57%	541	58%
South Carolina	585	50%	586	53%	572	53%	539	52%
Texas	575	56%	577	59%	564	60%	538	61%
Virginia	533	55%	566	56%	570	57%	532	58%
Georgia	582	50%	558	55%	556	57%	513	58%
Tennessee	513	50%	529	51%	525	50%	505	53%
Idaho	566	54%	578	54%	535	53%	496	55%
Florida	498	46%	473	46%	485	47%	441	62%
State and local government FTE per 10,000 residents								
Education employees share of total								
Source: Census of Governments								



Net unfunded liabilities for pensions and other retiree benefits surpassed \$28 billion in FY2013



Source: 2013 CAFR



Budget & Finance

Pay for Success / Social Impact Bonds

Economic Dynamism

CyberSecurity

State Property

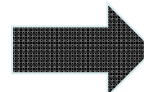
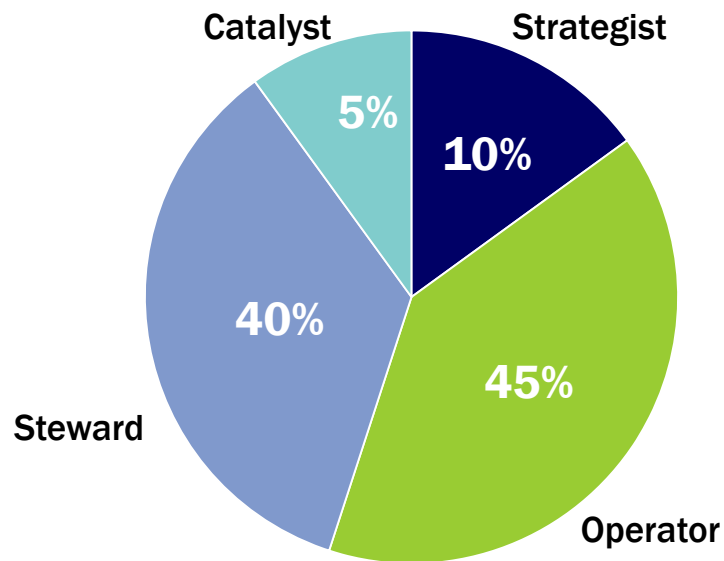
Human Resources

Employee Benefits – Total Rewards

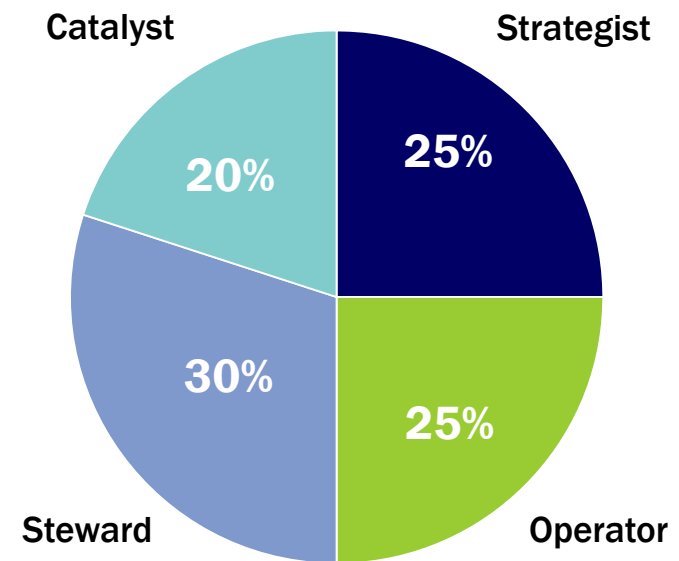


Budget and finance staff see a need to be more strategic and future-focused
They see their current role as more transactional and present-focused

Current State



Future State





Investors fund external org

External org offers return to investors if outcome achieved

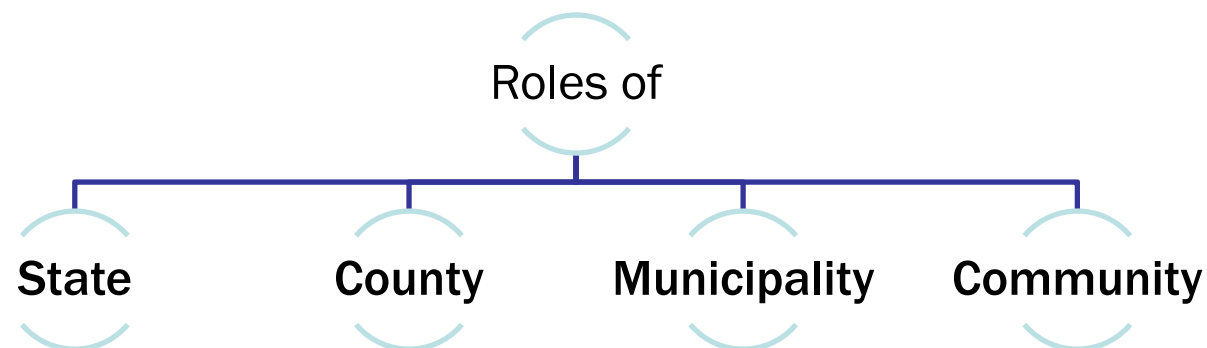




What does it take to get a job?

What does it take to start a business?

How long does it take to start a business?





Lessons from Prior Efforts

- communicate early and often
- get the legislature on board
- focus on implementation

Organization and Timing

- have the Governor involved
- do not compete with the legislative session
- start early

Approach and Consultants

- consultants need a map
- evidence needs to be interpreted
- knowing the policy objectives is key
- innovation happens in places that are not mapped

Knowledge and Data

- sometimes the best thing to do is to stop doing things

“Blocking and Tackling”

Federal Grants and Regulations

Structural Questions



- Continue NC GEAR effort
- Ensure grants are strategic
- Manage attractions together*
- Elevate military and veterans' programs*
- Enforce standards for pet breeders
- Enhance debt collection efforts
- Budget funds clearly and strategically
- Motor pool and motor fleet*
- Electronic Death Registry
- Human Resources management
- Make state government easier to navigate
- Leverage buying power for school districts
- Maximize efficiency of state property
- Require agencies to pay rent and utilities
- Reduce barriers to work from licensing*
- Evaluate economic development incentives
- Improve unemployment insurance integrity
- Prioritize child support payments to the most vulnerable*
- Ensure strategic value of boards and commissions
- Assess value of certain assets

* Program Evaluation Division has done related work



- Move parks, zoo, aquariums, and science museum to Department of Cultural Resources
- Leverages best practices across all state attractions
- Enhances education, preservation, conservation, tourism, and economic development benefits of attractions
- Provides opportunity for marketing benefits of bundled pricing and discounts
- Expected net revenue increase in first year of \$3.3 million; with \$7.1 million in second year
- Park pass would give car owners an opportunity to support the parks with a sticker and a modest donation



- Location of state buildings not considered in a centralized fashion
 - Each agency makes decisions about location of infrastructure
 - Agencies following individual missions will not develop enterprise system
 - Central coordination needed to achieve efficiencies
 - Example: Jacksonville Vocational Rehabilitation office 2.5 miles away from Employment Security office location
 - Example: Division of Motor Vehicles offices are located in a different pattern than Division of Employment Security offices
- Charging agencies rent and utilities
 - Realign facility management costs to agencies
 - Move to market pricing over time
- State property efficiency
 - Evaluate lifecycle cost of state-owned facilities
 - Set fixed annual cost for facility maintenance



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State Human Resources

Temp Solutions

Workers' Compensation

Service Delivery Model

Benefit Committees



Enterprise Resource Planning (ERP) System

- Agencies and policy makers cannot easily access comprehensive information to manage operations efficiently
- “Fixing the roof”
- Projected cost
 - Deloitte projected implementation cost of \$300 million over seven years
 - \$200 million
 - Business process improvement, staff and facilities
 - \$100 million
 - Implement technology solutions to support the ERP
- RFI Issued April 17



IT Restructuring

- Less than 25 percent of the state's 2,600 IT professionals work for the Office of Information Technology Services
- Scattered across more than two dozen agencies
- 74 percent of the state's IT projects came in over budget and behind schedule
- Limited effort to aggregate buying power or identify shared technology solutions
- Deloitte estimated a unified structure can save 10 to 20 percent of initial operating budget over five years



- Privatize short-term vehicle rental
 - Good time to review contracts
 - New vehicle options in marketplace being used by universities
- Ensure long-term vehicle assignment is financially viable
 - Focus on dollars, not miles
 - Provide flexibility for agencies

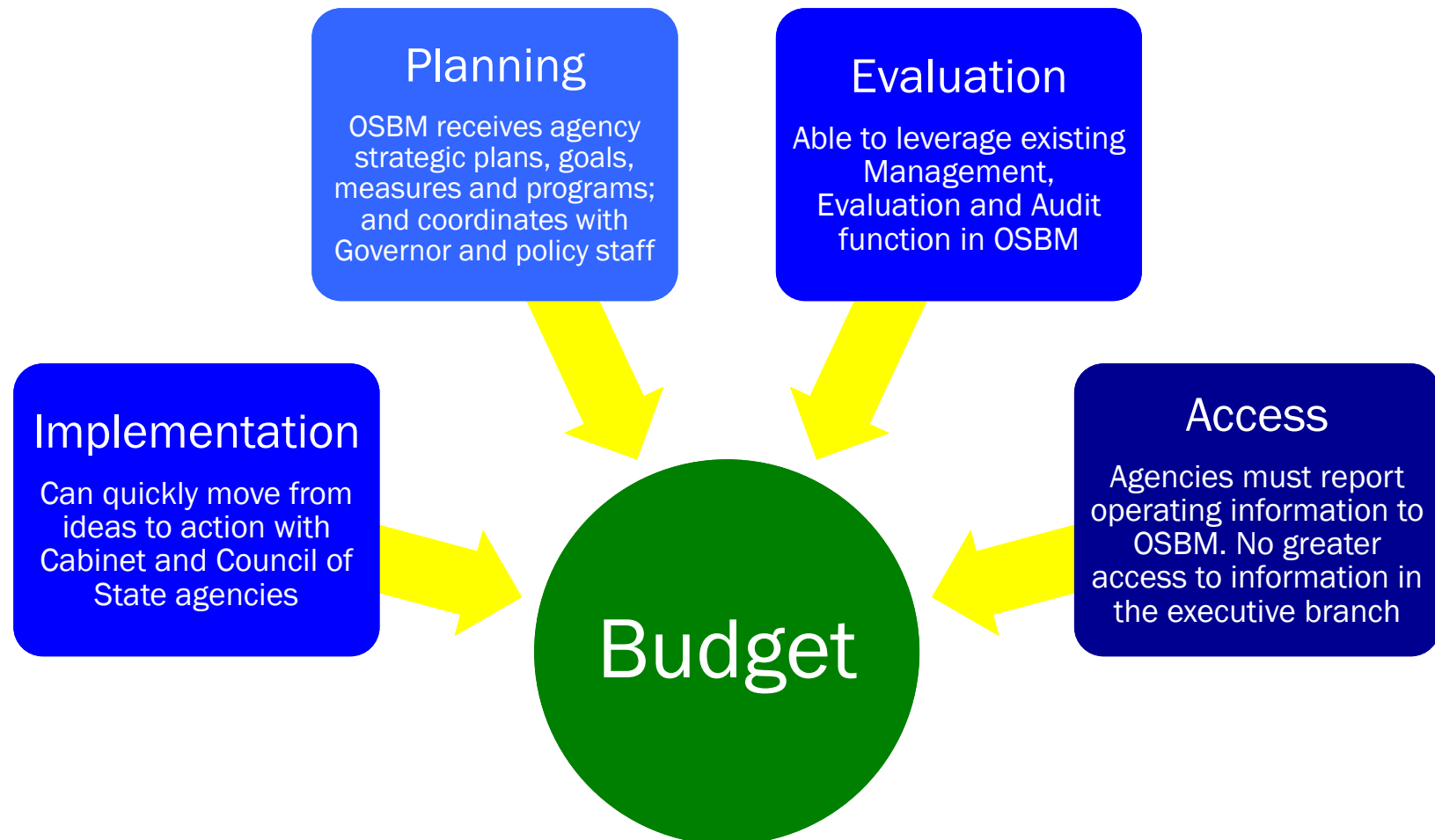


NOGEAR

Need for Continued Effort

"Now, here, you see, it takes all the running you can do, to keep in the same place. If you want to get somewhere else, you must run at least twice as fast as that!"







Item	FY 15-16 R	FY 15-16 NR	FY 15-16 Total	FY 16-17 R	FY 16-17 NR	FY 16-17 Total
OSBM - Implement and Monitor Reforms	872,000	-	872,000	872,000	-	872,000
OSBM - Ensure Grants are Strategic	71,000	-	71,000	71,000	-	71,000
OSBM - Budget Funds Strategically	-	150,000	150,000	-	-	-
DPI - Leverage Buying Power for School Districts	-	2,000,000	2,000,000	124,000	4,000,000	4,124,000
Administration – Transfer Advocacy Programs	-11,070,324	-	-11,070,324	-11,070,324	-	-11,070,324
Governor - Transfer Advocacy Programs	11,070,324	-	11,070,324	11,070,324	-	11,070,324
DENR – Consolidate State Attractions	-73,664,734	-	-73,664,734	-73,664,734	-	-73,664,734
DCR – Consolidate State Attractions	73,664,734	-	73,664,734	73,664,734	-	73,664,734
DCR –Manage Attractions Together	-3,321,500	-	-3,321,500	-7,140,900	-	-7,140,900
Governor - Unite Military and Veterans Programs	-61,894	-	-61,894	-61,894	-	-61,894
Administration – Unite Military and Veterans Programs	-6,776,393	-	-6,776,393	-6,776,393	-	-6,776,393
DMVA – Unite Military and Veterans Programs	6,838,287	-	6,838,287	6,838,287	-	6,838,287
DHHS – Develop an Electronic Death Registration System	106,587	368,000	474,587	138,531	1,331,500	1,470,031
DENR – Transfer Animal Welfare	758,892	-	758,892	928,642	40,000	968,642
DACS – Transfer Animal Welfare	-658,892	-	-658,892	-658,892	-	-658,892
Reserve – Budget Funds Clearly and Transparently	-14,200,000	-	-14,200,000	-14,200,000	-	-14,200,000
Reserve – Privatize State Motor Pool	-	-389,000	-389,000	111,750	-	111,750
Reserve – Charge Appropriately for Motor Fleet	-	-	-	-3,993,750	-1,425,000	-5,418,750
Reserve – Increase Efficiency of Human Resources Management	75,000	6,000,000	6,075,000	-34,042,333	10,000,000	-24,042,333
Reserve – Make State Government Easier to Navigate	319,500	1,878,500	2,198,000	1,586,500	9,490,500	11,077,000
Reserve – Maximize Efficiency of State Property	-	600,000	600,000	-	1,500,000	1,500,000
In Budget, not in NC GEAR total						
IT Restructuring Savings	-4,824,119	-4,279,891	-9,104,010	-15,824,119	-4,279,891	-20,104,010
IT Restructuring	-	5,322,000	5,322,000	-	5,099,900	5,099,900
Improve Government ... Through Technology	-	2,609,094	2,609,094	-	22,614,490	22,614,490
In NC GEAR total, not in Budget						
Improve Debt Collection with Treasury Offset Program	-9,453,499	-	-9,453,499	-17,016,299	-	-17,016,299
Reduce Unemployment Fraud and Abuse	-	818,750	818,750	-11,202,000	2,461,406	-8,740,594
Budget Total	-20,801,532	14,258,703	-6,542,829	-72,027,571	48,371,499	-23,656,072
NC GEAR Total	-25,430,912	11,426,250	-14,004,662	-84,421,751	27,398,406	-57,023,345
Grand Total	-30,255,031	15,077,453	-15,177,578	-100,245,870	50,832,905	-49,412,965