

Minutes  
Joint Legislative Program Evaluation Oversight Committee Meeting  
October 21, 2015

**Members Present**

Senator Fletcher Hartsell, Chair  
Senator Stan Bingham  
Senator Ben Clark  
Senator Valeria Foushee  
Senator Ralph Hise  
Senator Louis Pate  
Senator Jeff Tarte, Advisory

Representative Becky Carney  
Representative Ted Davis  
Representative Nelson Dollar  
Representative Pat Hurley  
Representative Jason Saine  
Representative Rena Turner

**Call to Order**

Senator Fletcher Hartsell, Chair, called the meeting to order.

Senator Ben Clark moved to approve the October 7, 2015 minutes. Motion carried.

**Presentations and Comments**

Senator Hartsell recognized Senator Rick Gunn, Chair of the JLPEOC Subcommittee on Real Property. Senator Gunn stated that the Subcommittee has asked for modifications to two draft bills and that they should be available for review at the next JLPEOC meeting. One bill directs disposal of several state assets and the other proposes modifications to the operation and management of state property. Senator Bingham asked if copies of the drafts were available. Sean Hamel, Senior Program Evaluator with PED and project lead for the Real Property report replied that after the modifications are made, and at the discretion of the Chair, copies would be distributed to members.

Senator Hartsell recognized Laura Rose and Brenda Erickson from the National Conference of State Legislatures to give a presentation on legislator compensation, session timing and length, and use of technology to improve legislator and public participation.

Member Information Requests Relative to NCSL's Presentation

**Rep. Dollar:**

Q: Has any work been done as far as being able to get a blended real compensation amount, at least maybe for the neighboring states, an actual real-life comparison?

A: We have that data and will provide it to you

**Rep. Hurley:**

Q: In addition to compensation, did you consider any benefits they may receive?

A: We do have information on benefits that I can provide, published in the Council of State Governments Book of the States.

**Sen. Tarte:**

Q: Is there any information that shows where you start changing from a price elasticity or income elasticity standpoint where more people will have an interest in running for elected office because they will be able to have a living wage?

A: There was a study done in Colorado where they made a significant increase and anecdotal evidence was that it increased the numbers running. We are also in the process of collecting demographic data. By end of the year we'll have an idea of how each legislature looks according to various demographic categories.

**Sen. Bingham:**

Q: Do you have information on the cost to get elected?

A: We do have a lot of information on campaign finance.

Q: Do you have information on automatic cost of living adjustments?

A: In Alabama they have automatic COLA.

**Sen. Pate:**

Q: You mentioned Alabama, they have turned over pay considerations to an independent agency?

A: They passed a constitutional amendment that establishes that, we can have that pulled and get that to you, the recent one tied it to the median age, and they do have an agency specified to make the determination

Q: Didn't Washington DC turn over pay considerations to an independent agency that considers those items?

A: I'm not sure, I can check

Senator Hartsell announced that Chairs are considering appointing a subcommittee to examine these three areas. Representatives Carney and Hurley and Senators Bingham and Randleman volunteered to serve on the subcommittee.

Update on PED Report on Supplemental Insurance Benefits

Senator Hartsell announced that the committee would take no votes but hear an update to PED's August 2015 report *North Carolina Should Centralize Management of State Employee Supplemental Insurance Benefits*.

Senator Hartsell recognized Jeff Grimes, Senior Program Evaluator to explain how PED contacted agency committees or representatives for input and to review their responses.

Approach. PED emailed agencies and universities requesting that employee insurance committees respond to the report. For agencies and universities without an employee insurance committee, PED advised the agencies and universities that they could send comments from an agency representative.

Responses and Declinations. Jeff Grimes explained that the inquiry yielded six responses. The response from the Administrative Office of the Courts was the only response directly from an employee insurance committee. All others were from agency or university officials. In addition to the responses attached, eight agencies/universities and the DHHS employee insurance committee stated that they did not wish to submit comments. East Carolina University and UNC-Chapel Hill

did not submit comments but responded that they support the response included in the report from UNC General Administration. The six responses received by PED were supportive of the report recommendations:

1. Employee Insurance Committee, Administrative Office of the Courts
2. Department of Public Instruction
3. Department of Public Safety
4. Office of the State Controller
5. Wildlife Resources Commission
6. Winston-Salem State University

Colonial Life Response and PED Clarification. Jeff Grimes noted that subsequent to the report release and the October 7, 2015 meeting of the Joint Legislative Program Evaluation Oversight Committee, Colonial Life submitted previously requested documentation disputing information presented on page 18 of the report related to insurance products sold to state employees that were not approved by the Administrative Office of the Courts employee insurance committee. PED received documentation on October 15 from Colonial Life, supporting the position that a large number of policies that were coded in the data PED received as accident policies were, instead, wellness riders attached to disability policies sold by Colonial Life. Had these policies been coded as wellness policies, PED would not have counted these policies in the report. PED is revising the number of accident policies listed as being sold without a contract since the beginning of 2011 to 30 policies. This number is a reduction from the number presented in the report of 268. PED is not revising the number listed in the report related to voluntary whole and universal life policies enrolled at the Administrative Office of the Courts since 2011 without a contract, nor is PED revising the statement that weak oversight of payroll deductions for supplemental insurance has allowed vendors to sell products that were not authorized by the associated employee insurance committee or permitted by state law.

Public Comments. Senator Hartsell recognized the following for comments about the PED report:

- Tom Fetzer, Statewide Benefits, Inc. Fetzer observed that it was interesting who PED did not hear from and that only one employee insurance committee responded. The joint committee has not heard from thousands of employees who for decades have been using the current system to choose with their own money the products that they would like to purchase. He stated that now is not the time to disband the employee insurance committees and to move the function under the Office of Human Resources and the NC Flex plan. He noted that the Previous NC Flex Benefits had been accused of stealing funds.
- Neal Alexander, Director of the Office of State Human Resources (OSHR). OSHR is in support of the report. The report is thorough and points out problems for employees. As to the accusation of stealing funds, the previous benefits manager retired in April. The manger was responsible for overseeing a vendors' fund for all NC Flex publications and education. The vendors' fund was administered by a private third party. OSHR turned the case over to SBI for investigation. This fund problem had nothing to do with overall NC Flex administration

Representative Dollar requested PED to ascertain from SBI facts about the incident and if not when they will be available for the joint committee.

- Fairley Grimes, Sector Area Manager of Colonial Life. (Fairley Grimes and Jeff Grimes of PED are not related.) First, the PED report shows that the majority of employees work in

agencies that do have an active insurance committee. Second, in 2000 the Community College System was given the option for the 58 campuses to eliminate agency insurance committees and use NC Flex instead. Approximately one-half of the campuses chose the NC Flex option, but as of 2015 only 4 campuses remain with NC Flex. All of the others went back to agency insurance committees. He made information relative to his points available for the record.

Senator Bingham stated that he never received the premiums paid in on policies and what the pay-outs were. John Turcotte, PED Director, responded. Loss ratios are policy claim payouts compared to the premium income. With respect to supplemental benefits, North Carolina employee insurance committees if they exist and state agencies are not requiring loss ratios or receiving them voluntarily from supplemental providers. Disclosure is a common contractual requirement in the private sector between companies and insurers of company employees and for state rate regulation. The Affordable Care Act is requiring loss ratio disclosures for health insurance companies. The State Health Plan also requires carriers to disclose loss ratios.

Senator Hise stated that businesses and individuals who have profited from the business do not want the system to change. PED asked all agencies and committees to respond and the fact that most agencies and committees do not exist or meet very infrequently if they do and even those that meet more than once a year do not spend time actually requesting bids, comparing offerings, or checking on vendor compliance with contract terms if the committee or agency even has a contract. This is yet another of multiple examples noted by PED and this committee of gross contracting failures. That is why PED recommended centralization. No one is saying that individual state employees cannot buy any insurance product that they want in the private market. But we are talking about plans that execute through state government that not only create potential financial liabilities, but more egregiously suggest to employees that the supplemental insurance offered them has been scrutinized for value. Finally, we are using the state payroll system to extract premiums from the employees' paychecks—once again creating cost, potential liability and implied sanction.

Representative Hurley reminded the committee that at the last meeting she asked for information on any effect pre-tax benefits would have on retirement. Mr. Grimes responded that work is being done on the request. Pre-tax benefits do not affect retirement. However, pre-tax benefits have some effect on social security benefits. PED's report did not have recommendations related to any advantages of pre- versus post-tax plans.

#### Member Information Requests Relative to Supplemental Insurance

**Representative Dollar** requested clarification of Rep. Hurley's request. Is it fair to say that the IRS does not allow certain other products to be on a pre-tax basis? An example offered by Mr. Grimes would be a pre-paid legal services plan that would not qualify. Please furnish the committee specific types of policies that may be offered pre-tax and those that IRS does not allow.

**Senator Hartsell** requested PED to make another request to the employee insurance committees to again respond in writing or in person. Senator Hartsell directed that PED post on the web site the email he received from the State Employees Association of NC.

#### Follow Up PED Report on State Motor Fleet Management

Senator Hartsell recognized John Turcotte, Director of PED, for a follow-up report on State Motor Fleet Management. PED has done six reports on this topic. State law directed the CIO to develop and report to IT Oversight an implementation plan for a statewide motor fleet management system and in addition report on the feasibility of state fleet tracking system using telematics. The CIO did not submit these reports as required. As a result there has been no independent feasibility study of telematics. PED recommended that DOA start collecting better baseline data on every vehicle with or without telematics for use in the future to evaluate effectiveness of any improved vehicle management system and to use for evaluating results of any comprehensive or partial outsourcing solution such as may be available from a national car rental company. Other states are implementing telematics and achieving savings. We are continuing to follow up to see if anything is done. The Enterprise Resources Planning (ERP) system proposed by CIO would implement multiple, disparate financial and administrative management systems provided that there was a budget of \$301 million and would include adding vehicle tracking within the seven-year project period. The CIO noted that vehicle tracking would be completed in out years following implementation of solutions for core financial functions of state government.

Turcotte noted that DOA had issued an RFP for a vendor to manage the 7,000 vehicle fleet controlled directly by DOA. The RFP overall and the statement of work in particular were comprehensive and should address the tracking and accumulation of baseline cost data that the follow up report recommended. The deadline for submitting proposals is October 23, 2015. DOA efforts were responsive to needs as well as timely.

Senator Hise noted that a budget provision this year did allow savings resulting from the consolidation of IT to be allocated towards the ERP system. However, there would have to be state funding allocated towards ERP if that is the direction the state wants to pursue. If not properly executed and fully-financed, ERP could suffer problems such as the State has experienced with similar large-scale IT projects such as BEACON, NC TRACKS and NC FAST.

Representative Dollar noted that the largest agencies that had vehicles are DOT and DPS. He observed that instead of a new statewide system, that DOT could share their system with DPS and lower costs. If so, these two agencies with the bulk of state vehicles would be running their operations more efficiently and for the balance of the vehicles managed by DOA or agencies, the State might consider contracting with a rental car company for management.

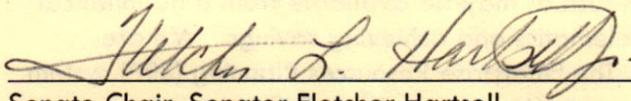
Turcotte noted that DOT used an SAP stem to track its vehicles effectively. DPS after merger of several law enforcement agencies has had some difficulty with fleet management because DPS had to integrate previously independent fleets (ALE, Highway Patrol, Capitol Police and cars in the DOA fleet used by SBI and Corrections.) As of PED's most recent information, DOT and DPS had not been able to develop a coordinated solution using SAP. These agencies do have specialized fleets that are not primarily for employee transport, but for law enforcement or road and bridge construction and maintenance and should be given some independence. SAP is itself considered an ERP system and could potentially be plugged into the proposed broader ERP solution. Senator Hartsell's request Turcotte defined the acronyms used in his presentation.

Senator Bingham inquired as to next steps for PED and the joint committee on fleet management.

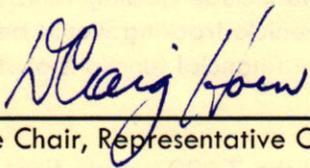
Turcotte noted that PED would continue its monitoring of fleet management developments as well as the DOA vendor management contract coming out of the recent RFP and may ask DOA to provide periodic status reports.

**Adjournment**

With no further business, the committee adjourned.



Senate Chair, Senator Fletcher Hartsell



House Chair, Representative Craig Horn