Kansas Statewide Efficiency Review

ALVAREZ & MARSAL

Kansas
AD ASTRA PER ASPERA

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EXECUTIVE SUMMARY

Summary of Engagement

Since being retained by the State in early October, Alvarez & Marsal has been engaged in a far-reaching review of State operations and spending. The team included more than 40 professionals, including individuals who have worked with numerous other governmental entities around the United States and who have extensive leadership experience in both government and the corporate sector. Over the past three months, they have been collaborating with State employees at all levels, gaining a detailed understanding of their missions, programs, objectives and challenges.

Approach

The departments and functions on which the A&M team has focused include Transportation, Revenue, Education, Corrections, Commerce, Human Services, Procurement, Real Estate, Insurance, Benefits, Technology, Administration, and Budget Processes. It is important to note that, in several of these areas, the State has already made considerable progress in achieving efficiencies and has staff that is committed to this process. Still, more can be done.

In approaching this work, 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.

Total Potential Benefits to the State

This report includes 105 recommendations which cumulatively would provide $2.04 billion in benefits to the State over the next five years. 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.

Implementation

The recommendations in this report provide a roadmap for the state – a route toward achieving major cost savings, efficiencies and other benefits. But those benefits only become real when the recommendations are implemented. A&M has worked closely with the staff and leadership of the departments it reviewed and the proposals, as well as the dollar amounts associated with them, have been vetted. These proposals are practical and the benefits achievable. Once it has been carefully considered by the Legislature and the Governor, the State will need to begin that implementation process, which is at least partially laid out in each section of the report.

Recommendations

Following is a sampling of a few of the report's highlights:

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.

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.

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.

Children and Families

Proposals for the Department of Children and Families total $19 million over five-years and include:

- A number of measures to improve child support collections, an area where Kansas currently lags behind other states. When non-custodial parents who owe child support don't provide it, taxpayers foot the bill in terms of increased social services. Improving collections through the various recommendations included in this report would save the State $3 million over five years.

- As Kansas' population shifts, the optimal placement of field offices shifts as well. Three offices that no longer serve the population originally envisions could be merged into other nearby offices, continuing to serve those who need them, but reducing taxpayers' costs by approximately $600,000 over a five-year period.

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.

Revenue

The Department of Revenue, as the key collector of tax revenues for the State, must operate as effectively as possible to ensure that all taxpayers are paying their taxes accurately. 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.

Technology

Consolidation of data centers, network services, service desks, security, project management and other functions would produce over $40 million in savings over five-years.

Education

Spending on K-12 education has been a particular focus as it involves considerable expense. Questions have been posed about a number of possibilities, some of which have been discussed for years, including the possible consolidation of school districts as a way of eliminating overhead costs. A&M's focus has been on developing practical recommendations that can be implemented within a relatively short period of time, which requires consensus among key stakeholders.

As a result, 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 hope for, while avoid the fractious and prolonged debate such a proposal would likely engender.

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.

Details on these and other recommendations follow.

Kansas Statewide Efficiency Review

Introduction

The objective of the State of Kansas **Government Efficiency Study (Study)**

The State of Kansas has implemented a number of budgetary measures to address budget deficiencies and drive efficiencies throughout the state government. The Legislative Coordinating Council (Council) sought to engage an independent consulting firm to define and develop an innovative, customized blueprint to reinvent government and drive transformational service delivery and cost efficiencies. In support of the Council's goals to identify opportunities for significant cost savings in the next budget cycle, we conducted an intensive effort informed by our leadership and implementation experience driving cost reductions and increasing taxpayer value.

The Alvarez & Marsal Team (A&M) along with the Government Financial Officers Association (GFOA) applied experience gained from performing similar statewide efficiency assessments, to review the financial and operational challenges and opportunities facing the state lawmakers and the citizens of Kansas. This report reflects Phase I of our proposed effort providing three components addressing the objectives of the Council as expressed in the request for proposal released in August 2015. These objectives include:

- Objective 1 (Budget Analysis) – A comprehensive diagnostic analysis of the state's budget to identify spending trends and outliers.
- Objective 2 (Efficiency and Cost Savings Recommendations) – A set of recommendations that prioritizes target areas with large and substantial expenditures of state general funds and where the state can become more efficient and thereby provide cost savings to the state's taxpayers.
- Objective 3 (Budget Process) – An evaluation of the state's budgeting process and recommendations for improvement opportunities based on leading private sector and government sector practices.

Specific to objective 2 – the Phase I review includes cross-agency recommendations for the following areas and agencies:

- Cross Agency
  - » Insurance
  - » Procurement
  - » Technology
  - » Governor's Grants Office
  - » Governor's Crime Prevention Office
  - » Human Resources
    - – Benefits
    - – Pension
    - – Performance Review
    - – Leave Administration
- Department /Agency Reviews
  - » Department of Administration
    - – Centralized Budgeting, Memo Billing, & Centralized Service Functions
    - – Fleet

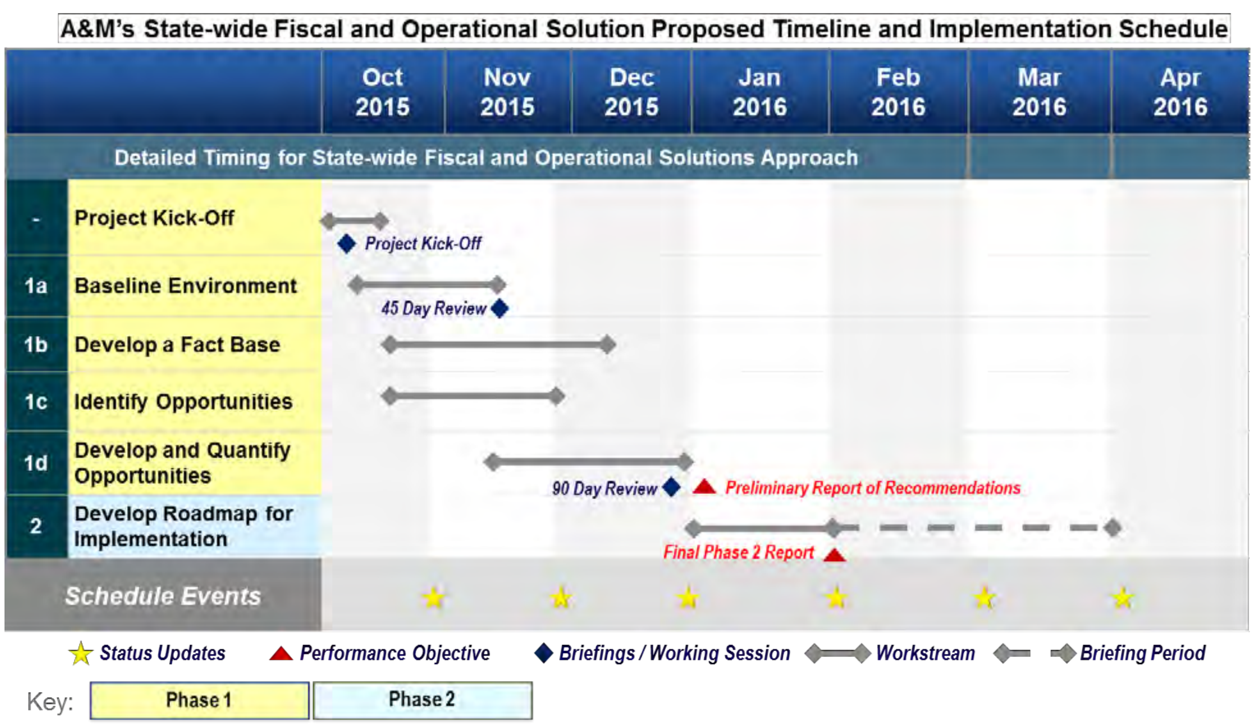
  - Print Services
  - Real Estate
- » Department of Children and Family Services
- » Department of Commerce
- » Department of Corrections
- » Department of Education
- » Departments of Health and Environment and Aging and Disability Services
- » Department of Revenue
- » Department of Transportation

- General Government
  - » Boards and Commissions
  - » Lottery Commission
  - » National Guard

A team of more than 40 professionals from A&M and our subcontractors devoted more than 6,000 hours over the past four months to conduct an in-depth analysis of the operations of the agencies. The A&M team included former senior government officials and corporate executives with extensive expertise implementing efficiency programs in the government and private sector. A&M worked closely with more than 50 state government professionals and stakeholders to develop, refine, and validate over 100 recommendations from across the in-scope agencies.

Milestones Delivery and Delivery Timeline

The graphic below presents the overall timeline associated with this effort. This report represents the draft of the Phase 1 report. This report includes recommendations that will be further vetted and developed into implementation plans in the resulting Phase 2 report.



Project Approach

Our approach to statewide fiscal and operational solutions is data-intensive and driven from the bottom up at each department under review. The length and structure of the approach is based on our successful execution of other statewide reviews and focuses on identifying the greatest impact opportunities while developing implementation-ready plans that are realistic and achievable. Throughout the execution of this methodology, we value collaborative interactions with state staff, which increase the legitimacy of identified opportunities and build the basis for their "buy-in" during eventual implementation.

The graphic below provides an overview of the tasks that the A&M Team complete in each phase during the project timeline and is structured around A&M's proven Statewide Fiscal and Operational Solutions Methodology. This methodology is divided into three broad phases: Assess, Improve, and Transform and was adapted to meet the objectives of this effort. The Transform phase was not included as part of the scope of this effort. Yet, we believe that the Transform or implementation phase is a critical component that must be undertaken so that the efficiency recommendations may be implemented.

THE A&M STATEWIDE FISCAL AND OPERATIONAL SOLUTIONS METHODOLOGY

ASSESS (Phase 1)		IMPROVE (Phase 1 and 2)		TRANSFORM (Optional Future Phase)	
Baseline Environment	Develop Fact Base	Identify Opportunities	Develop, Quantify & Prioritize Opportunities	Implement Sustained Improvements	Transition
• Hold project kickoff, confirm peer states, verify priority areas, and develop the project charter • Review and document the organizational structure, HR management and personnel capacity • Review operational data, document as-is processes, understand audit gaps and identify comparable best practices • Inventory existing contracts, services, infrastructure and technology assets • Review historical budgets and actual costs to identify key cost categories and trends • Understand current budget process	• Determine drivers of future change • Identify organizational, statutory and other implementation barriers • Understand current service delivery models • Define roles and responsibilities associated with key processes and identify non value add processes • Benchmark financials, IT resources, operational processes and governance • Validate and/or develop budget and cost information • Benchmark and evaluate budget processes options	• Explore opportunities for consolidation, shared services, and privatization • Identify improvements and opportunities to realign or automate processes, increase revenues and reduce costs • Define stakeholders and engage through outreach and change mgmt. • Create new organizational model, HR mgmt. approach and identify gaps • Identify opportunities based on asset reviews, service needs and contract reviews • Develop an initial fiscal impact model • Recommend a budget process	• Develop, vet and prioritize improvement Opportunities • Conduct a gap analysis on the future state to determine required investments • Finalize organizational model and assess its impact on personnel and finances • Define to-be processes and identify impacts • Develop business case (i.e., costs and benefits) of each opportunity • Develop roadmap for implementation	• Develop deployment strategies, manage communications, develop dashboards and create monitoring tools • Manage project execution by building internal capacity, realigning resources and executing transition plans • Support process changes through addressing statutory, policy and technology Changes • Unwind and negotiate contract changes • Track and quantify the progress of all changes against the fiscal impact model and identified measures	• Implement communications and change management Strategies • Implement and transition the performance management Framework • Deliver documentation and training materials • Train staff on new processes and transition ownership of ongoing efforts • Transition on-going management and responsibilities

Assess (Phase 1)

The assessment phase was a critical first step to setup the framework and processes for the project. During this phase, A&M created a comprehensive project plan aligned to stakeholder expectations. A&M employed the Statewide Fiscal and Operations Solutions methodology beginning with a diagnostic assessment of the state's budget and current operating environment. A&M leadership developed a comprehensive data collection request, and worked closely with agency leadership and staff, to execute on the data request, develop initial savings ideas, and pursue savings opportunities and new revenue recommendations. The knowledge collected during this phase informed the team's identification and prioritization of opportunities.

Baseline Environment

It was critical to establish a project charter with objectives that align with the needs and expectations of the state. At the start of the project, A&M convened a kick-off meeting with the Legislative Coordinating Council (LCC) personnel to gain history of budgetary process and priorities as well as an understanding of key statutory requirements specific to Kansas. A session was convened with LCC personnel and state leadership, as appropriate, to review the scope of the project, peer states, and to identify priorities and goals for the effort. We used this opportunity to understand the risks and concerns from the state's perspective, identify sources of information for initial budget and process analysis, and highlight additional stakeholders to serve as resources and change agents. A&M then conducted the overall project kick-off with leadership from the LCC, Legislative Research Department, Division of Budget leadership, state leadership and employees, and other interested stakeholders on October 12th, 2015.

Once the project objectives were identified, A&M gained an understanding of each department's baseline environment. In conjunction with Legislative Research, the Division of Budget, and individual agencies, A&M reviewed historical information, roles and functions, critical issues facing and financial trends in terms of spending, regulatory impacts, technology, and personnel management. The team conducted interviews and working sessions with staff to identify and document as-is processes as the basis for process improvement and increased efficiency. We also inventoried IT applications, systems and contracts and met with relevant individuals to understand the IT governance process. Finally, A&M completed a review of the state's budget and financial management, including federal funds management, billing and collections processes, and budget operations.

Objective I, the budget review included a trend analysis examining line item specific and overall spending over a five-year time frame, to identify key expenditure categories, areas of risk, and spending that are directly related to federal mandates and shared federal and state programs. Additionally, as part of the baseline environment effort, a project plan was created to track progress.

Develop a Fact Base

Following the initial information gathering, A&M conducted a deeper dive into current operations to develop a fact base upon which decisions about quick wins and long-term solution implementation plans could be based. The A&M team met with leadership from each department for strategic planning sessions to identify strengths, weaknesses and opportunities for improvement within each organization. These sessions also were helpful in determining change drivers and any barriers to achieving the goals of the effort. An understanding of the drivers of and barriers to change allowed A&M to target its efforts to achieve the desired results of efficiency and cost savings.

Additionally, the teams reviewed the current processed to identify non-value-add processes that can be eliminated or transformed to more effectively meet the needs of the state. As part of this effort, A&M benchmarked existing processes, IT resources and budget and expenditures against both government and commercial best practices and the unique operational and fiscal goals of the project. Early on in the effort, we determined a set of comparable states to serve as peers as a basis of comparisons. To support a more thorough review of the organization's budget and inform a revenue and expense forecast, the teams examined historical budget and spending data to analyze the cost basis for key services.

Improve (Phase 1 and 2)

In the second phase of A&M's Statewide Fiscal and Operational Solutions Methodology, the focus shifts to improving the state's operations and laying a framework for longer-term transformation.

A&M Work Stream	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	Total
	Total Savings and Revenue Estimate [$000s]						
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	$0	$8,713	$8,713	$8,713	$8,713	$8,713	**$43,565**
Governor's Grants Office	$0	$4,086	$5,032	$5,082	$5,131	$5,181	**$24,513**
Governor's Crime Prevention Office	$0	$0	$0	$0	$0	$0	**$0**
Human Resources	$0	$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	$10,550	$6,649	$2,970	$3,054	$4,826	**$29,382**
Children and Family Services	$0	$856	$4,313	$4,280	$4,241	$4,211	**$17,901**
Commerce	$0	$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	$0	$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	$0	$12,850	$16,500	$17,500	$17,500	$17,500	**$81,850**
General Government	$0	$6,147	$9,554	$9,554	$9,554	$9,554	**$44,363**
Budget Process	$0	$0	$0	$0	$0	$0	**$0**
TOTAL Savings and Revenue Estimates	**$19,996**	**$301,751**	**$424,739**	**$426,117**	**$432,244**	**$434,109**	**$2,042,041**
TOTAL Number of Recommendations	**105**						

Identify Opportunities

Following the initial assessment and the development of a fact base, A&M identified areas for potential fiscal and operational improvement and conducted more detailed analyses in order to create specific recommendations. To identify opportunities, A&M conducted interviews, pursued follow-up data collection, conducted budget and spend analysis, and reviewed operational efficiency efforts (current and planned). The teams were also cognizant of typical sources of department inefficiencies—such as over-staffing and incorrect assessment of current resources, which led to reviews of opportunities for consolidation, shared services, and privatization. Additionally, to identify areas for improvement, A&M reviewed available benchmarks such as the average service cost per person or time frame for a specific process to help us to compare the state's baseline with public sector averages and private sector industry-leading examples.

Once opportunities for operational and financial efficiencies were identified, A&M reviewed the effects on the department's operations as well as the state as a whole. All recommendations are designed to balance against the available flexibility to make changes considering charters, personnel agreements, existing contracts, and legislated requirements. As we develop recommendations, we met with the agency teams as part of iterative processes in framing potential recommendations.

Develop, Quantify and Prioritize Opportunities

With opportunities identified, A&M developed, vetted and prioritized operational and fiscal improvement opportunities. Through the process of prioritizing potential opportunities, A&M worked to ensure that:

- The recommendations are realistic and fundable.
- The recommendations reduce costs without sacrificing quality or performance.
- The recommendations improve efficiency—either qualitatively through the adoption of best practices or quantitatively via the adoption of financial, operational or other improvements.
- The recommendations may help agencies reach or improve upon economies of scale.
- The recommendations sought to share services and consolidate functions where possible.
- The recommendations identify areas where the structure and capabilities of the State's workforce and infrastructure may be improved.

With these opportunities identified and categorized, A&M set up review session meetings with each agency to discuss which efficiency solutions to vet, prioritize opportunities and jointly establish preliminary discussions on critical implementation steps. A&M is presenting this Phase 1 preliminary report, which includes the results of A&M's diagnostic analysis of the state's budget, a prioritized list of recommendations, and A&M's analysis of options to make improvements in the state's budget process.

Budget Analysis and Benchmarking

Acknowledgements

This report was made possible thanks to the knowledge, time, and advice of many individuals within the Division of Budget, Legislative Research Department and Office of Chief Financial Officer. Alvarez & Marsal would like to thank everyone who contributed to this endeavor, especially:

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- DeAnn Hill, Chief Financial Officer
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- Dylan Dear, Managing Fiscal Analyst
- Annette Witt, Internal Control and Systems Audit Team
- Lisa Becker, SMART Processing Team
- Nancy Haufler, SMART Processing Team Lead
- Nancy Ruoff, Manager - Statewide Payroll & Accounting
- Roger Basinger, Team Lead - Federal Reporting Team

Introduction

Background and Approach

Kansas Division of Budget is responsible for the state budget process, including, but not limited to, budget execution, financial administration and budget analysis. The Division of Budget annually produces The Governor's Budget Report, which reflects expenditures for both current and upcoming fiscal years and funding sources. The Governor's Budget Report is used by the Legislature as a guide for appropriating the money necessary for operating the state agencies.

Summary Scope of work

A&M utilized the June 30, 2015 Approved Budget to conduct a comprehensive diagnostic analysis of the State's budget and identify spending trends and outliers.

Using the State Expenditure Report (Fiscal 2012-2014) published by the National Association of State Budget Officer's (NASBO), A&M analyzed the State's expenditures against benchmark states. The budget analysis included, but is not limited to, the following:

- Trend analysis – A&M examined the State's spending over a ten-year time frame for all state functions—Elementary and Secondary Education, Transportation, Corrections, Medicaid, etc.

- Analysis of State expenditures and spending trends – A&M analyzed expenditures by funding source, such as general fund, federal funds, bonds, etc., over a ten-year time frame.
- Benchmarking analysis – A&M compared the State's spending levels to peer states and other recognized benchmarks.

Baseline Budget

Governor's FY16 – FY17 Budget

The Governor's Budget Report Fiscal Year 2016 (next page) provided the baseline budget A&M used to perform benchmark comparisons and establish a baseline for comparison.

In 2015, Kansas generated $15.4 billion of revenue and incurred $15.1 billion of expenses. These totals represent a 3% increase in revenue and a 2% increase in expenses. For 2015, the State General Fund accounted for 38% of revenues. The largest driver of expenses was Education, accounting for $7.2 billion in expenditures, or roughly 48% of all expenses. The next largest expense driver was Human Services followed by Transportation. For the Fiscal Year 2015, Kansas held a Net Operating Balance surplus of $352 thousand, a 20% increase from the year prior.

Fiscal Year 2016 and FY17 estimates show Kansas incurring Net Operating deficits of $65 million and $15 million, respectively. Revenues in FY16 are estimated to decrease by $114 million, or roughly 1%, from FY 15. Concurrently, expenses are estimated to increase by $302 million, or 2%, from FY15 to FY16. The projected Net Operating Balance in FY16 is a $65 million deficit. Principal drivers of revenues and expenses remain the same from years prior. Finally, the state projects returning revenue growth for FY17 to $15.84 billion, compared to estimated expenses of $15.86 billion, effectively reaching a balanced budget.

National Association of State Budget Officer's (NASBO) – State Expenditure Report (Fiscal 2012-2014)

NASBO's State Expenditure Report (Fiscal 2012-2014) provided the baseline A&M used to perform benchmark comparisons and to establish a baseline for comparison.

State	FY 2013 Actuals				FY 2014 Actuals				FY 2015 Estimates			
	General Fund	Federal Funds	Other State Funds	Bonds	General Fund	Federal Funds	Other State Funds	Bonds	General Fund	Federal Funds	Other State Funds	Bonds
Arkansas	4,744	6,068	10,433	203	4,909	6,504	11,196	156	5,063	7,131	11,439	171
Idaho	2,691	2,647	1,342	10	2,767	2,614	1,456	28	2,915	2,837	1,861	21
Iowa	6,299	5,727	7,398	107	6,564	5,928	7,747	107	6,994	6,335	8,435	25
Kansas	***6,146***	***3,890***	***3,518***	***415***	***5,983***	***3,900***	***4,474***	***366***	***6,255***	***3,882***	***4,906***	***402***
Missouri	8,022	7,209	7,711	-	8,349	7,201	7,622	-	8,773	7,495	7,853	1
Nebraska	3,589	3,014	3,559	-	3,792	2,911	3,839	-	4,031	2,908	4,043	-
Nevada	3,185	2,796	2,629	41	3,125	2,859	3,405	20	3,369	3,897	3,560	28
New Mexico	5,651	5,799	3,246	-	5,910	6,108	4,180	-	6,151	6,581	4,359	-
Oklahoma	6,630	6,653	7,764	383	6,859	7,404	7,851	267	6,909	7,268	7,873	338
Utah	5,098	3,462	3,529	-	5,383	3,497	3,304	-	5,749	3,642	3,561	-
National Average	13,733	9,975	8,978	729	14,272	10,440	9,342	677	14,974	11,713	10,025	735

Source: National Association of State Budget Officers. This data is proprietary to the National Association of State Budget Officers. This data has been modified by A&M Public Sector Services.

Total Kansas Revenues and Expenditures from FY13 – FY17 (Actuals and Estimated)

	FY 2013 Actual	FY 2014 Actual	FY 2015 Actual	FY 2016 Estimate	FY 2017 Estimate
Revenues					
State General Fund					
Taxes	6,333,197	5,632,080	5,717,353	6,041,800	6,209,900
Other Revenues	7,927	21,118	211,428	124,100	75,800
Total State General Fund	6,341,124	5,653,198	5,928,781	6,165,900	6,285,700
All Other Revenue	7,971,607	9,362,628	9,512,420	9,160,826	9,559,356
Total Revenues	**14,312,731**	**15,015,826**	**15,441,201**	**15,326,726**	**15,845,056**
Expenditures					
Education	**6,321,342**	**6,428,967**	**7,242,248**	**7,336,314**	**7,395,916**
Department of Education	3,741,543	3,808,653	4,533,992	4,614,267	4,643,034
Regents	2,545,863	2,589,523	2,674,328	2,690,764	2,721,137
Other Education	33,937	30,791	33,928	31,284	31,744
Human Services	**4,719,124**	**4,742,775**	**4,875,847**	**5,051,491**	**4,972,039**
Health & Environment--Health	1,939,905	2,183,862	2,299,098	2,380,916	2,391,560
Department for Aging & Disability Services	1,413,980	1,399,068	1,515,113	1,567,357	1,509,293
Department for Children & Families	623,572	585,975	567,989	612,871	619,162
Other Human Services	741,668	573,870	493,647	490,347	452,024
Transportation	**1,004,077**	**1,680,019**	**1,168,939**	**1,114,481**	**1,546,447**
General Government	**1,127,347**	**1,101,702**	**1,060,877**	**1,149,219**	**1,197,768**
Department of Revenue	131,654	113,401	119,224	119,771	101,245
Department of Administration	93,555	82,859	87,701	136,739	170,068
Department of Commerce	164,225	153,421	99,236	113,224	107,204
Other General Government	737,912	752,021	754,716	779,485	819,250
Public Safety	**599,519**	**583,209**	**561,824**	**556,542**	**561,284**
Department of Corrections & Facilities	300,983	366,124	373,416	372,018	378,502
Other Public Safety	298,535	217,085	188,407	184,524	182,782
Agriculture & Natural Resources	**197,823**	**186,713**	**179,319**	**183,679**	**186,602**
Total Expenditures	**13,969,231**	**14,723,385**	**15,089,052**	**15,391,726**	**15,860,056**
Other Adjustments					
Statewide IT Savings				(15,000)	(15,000)
Other Public Safety				(50,000)	
Net Operating Balance	***343,500***	***292,442***	***352,149***	***-***	***-***

Benchmark Comparisons

Benchmark Selection Criteria

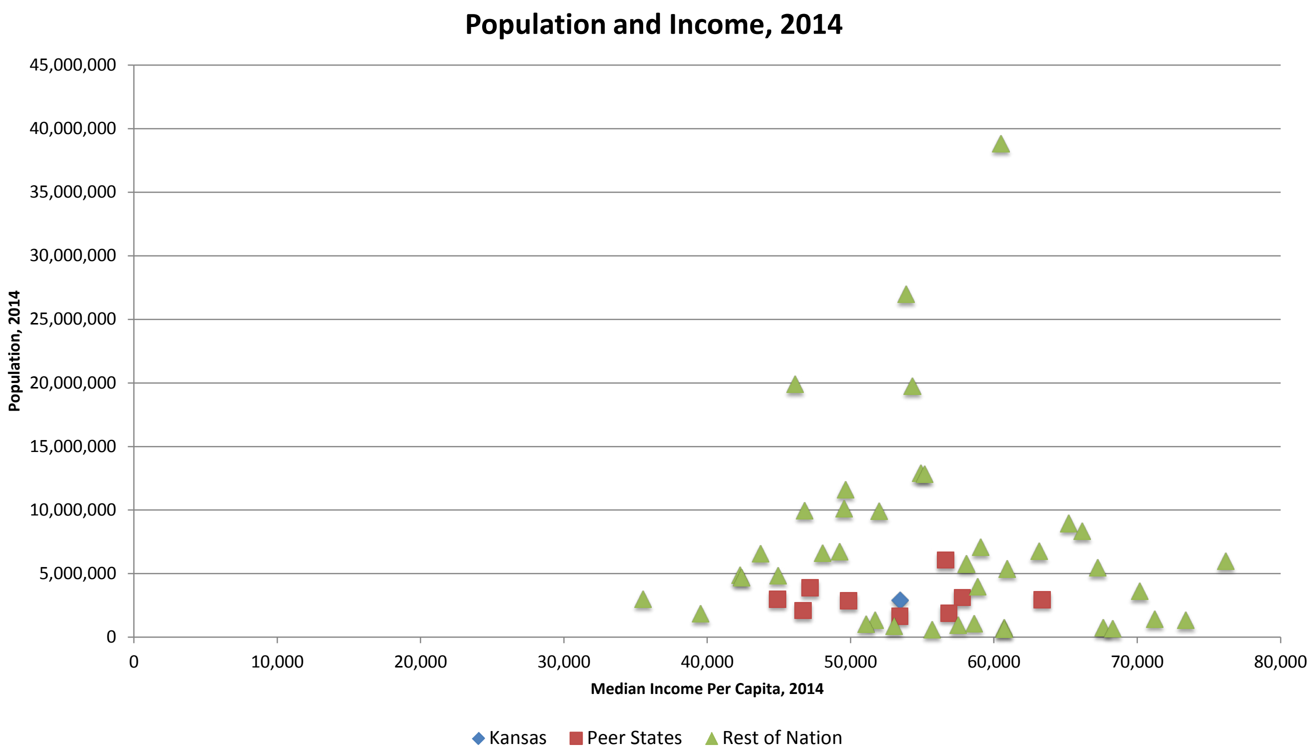
Throughout this report—and the immediately ensuing budget analysis—Kansas will be compared to a number of peer states. The following benchmark states were chosen for their demographic, geographic and economic similarities to the state of Kansas:

- Arkansas
- Idaho
- Iowa
- Missouri
- Nebraska
- Nevada
- New Mexico
- Oklahoma
- Utah

Within certain recommendations, some states not listed above may be included as benchmark states due to other structural similarities with Kansas or their best practice/exemplary status within a given criteria.

For our global benchmark states, however, socioeconomic fundamentals were used to derive an apt collection of peer states in order to contextualize Kansas's present budgetary reality.

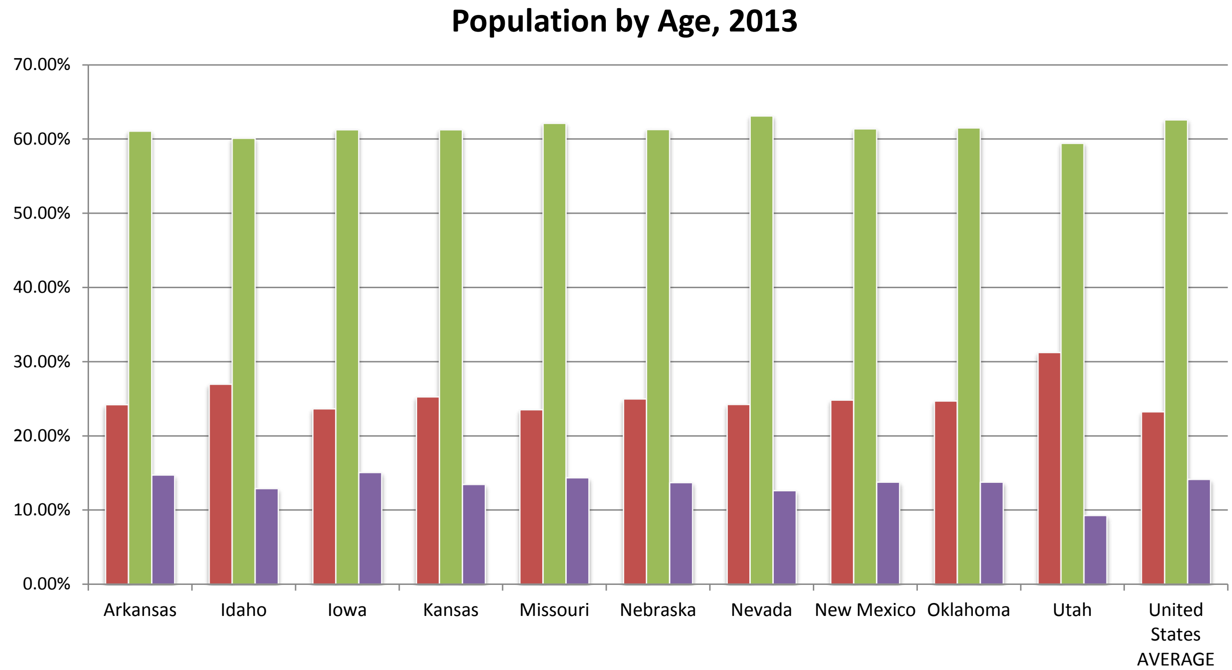
Over the last thirteen years, Kansas has seen a 6.68 percent rise in population—roughly half of the average growth seen by its peer states. Kansas is the sixth most populous state of the comparison group. Similarly, Kansas ranks in the middle of the pack in terms of median family income. The scatter plot visually overlaps these two conditions:



Source: U.S. Census Bureau, Population Division

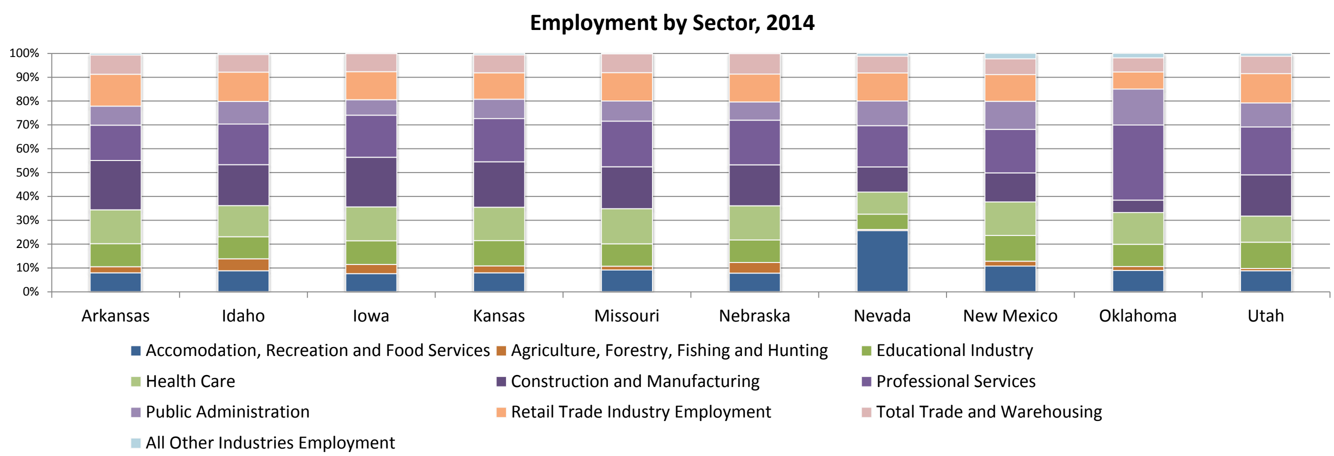
Release Date: December 2014

Kansas' working age population—18 to 64 years old—constitute 61.26 percent of the state's population. This is in line with its peer states, along with the nation as a whole (62.6 percent). These numbers are derived from the Census Bureau's 2013 population estimates:



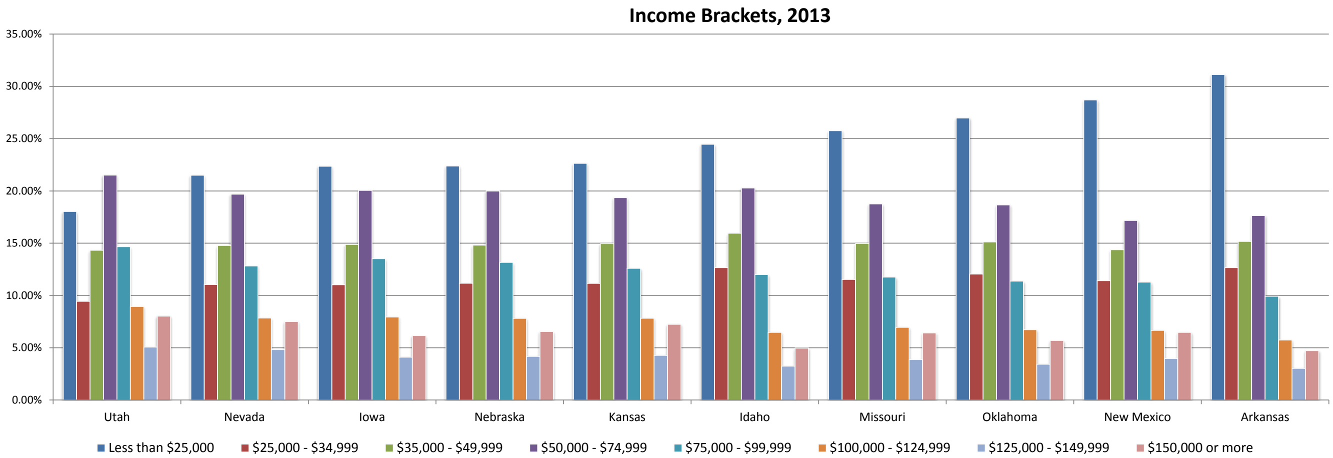
Source: United States Census Bureau, 2014.

Economic activity (in this case, employment), by sector, speaks to the geographic and market realities that underpin the peer states. With the exception of Nevada and its significant tourism industry, Kansas's peer states all share the same top nine industries by level of employment:



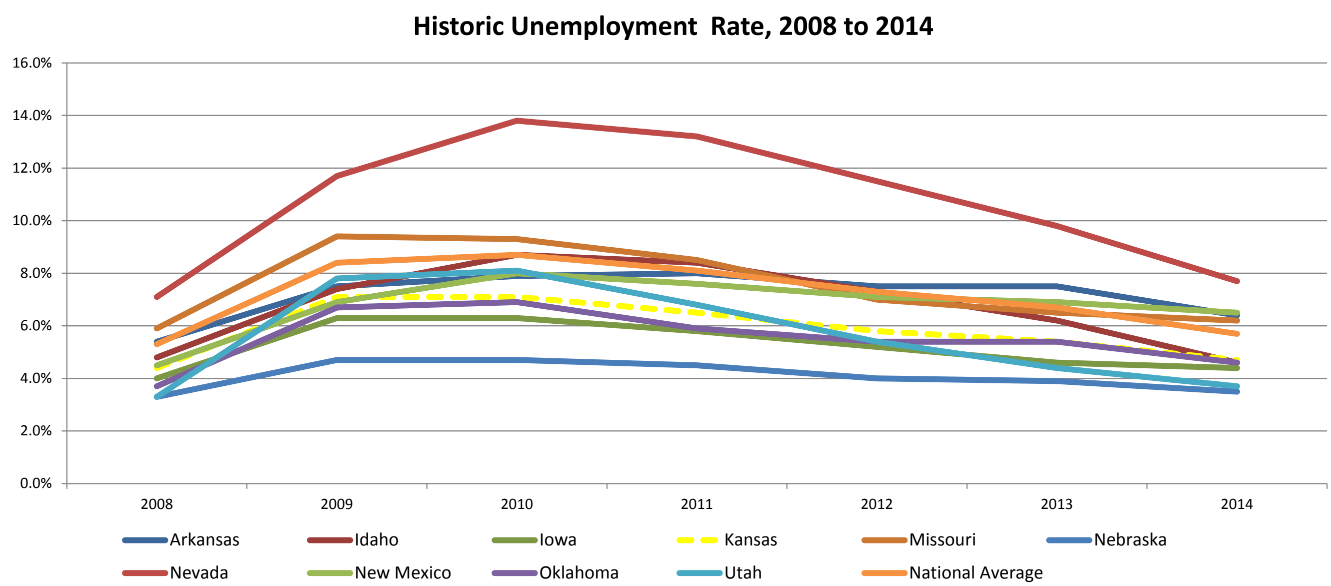
Source: Census Bureau estimates, 2014.

According to the Census Bureau, Kansas ranks near the median when compared to its peer states with the fifth lowest percent of households earning less than $50,000 a year:



Source: Census's American Community Survey estimates, 2013.

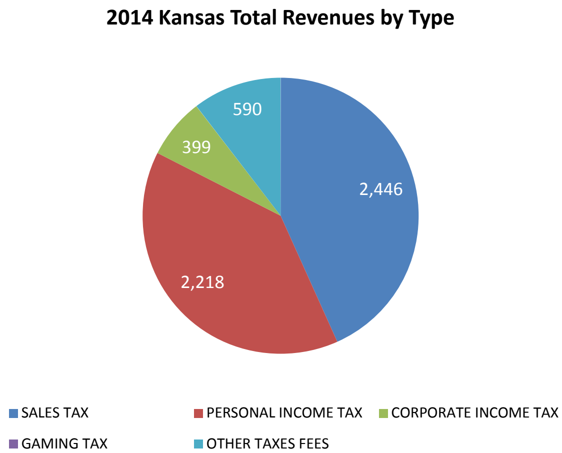
These demographic and economic factors combine with policy to ultimately affect Kansas's unemployment rate. As of 2014, Kansas has the fifth lowest unemployment rate when compared to its peer states, and nearly 2 percent lower than the National Average:



Source: Bureau of Labor Statistics, 2015.

Revenue Analysis

Estimated Revenues FY14



Analysis of State Revenues

The estimated FY15 revenues for the State of Kansas are sourced from:

- 42 percent Sales Tax (2.4 million)
- 38 percent Personal Income Tax (2.2 million)
- 7 percent Corporate Income Tax (0.4 million)
- 13 percent Other Taxes and Fees (0.7 million)

This compares to the nationwide average revenues that are sourced from:

- 30 percent Sales Tax (4.5 million)
- 42 percent Personal Income Tax (6.2 million)
- 6 percent Corporate Income Tax (0.9 million)
- 6 percent Other Taxes and Fees (3.0 million)
- 1 percent Gaming Taxes (0.1 million)

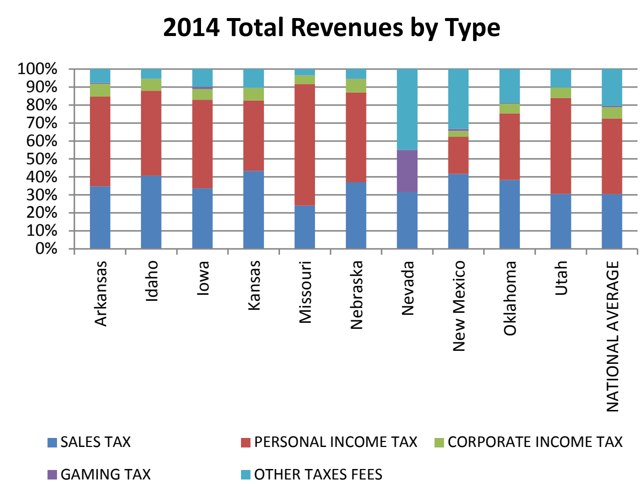
The largest differences, when compared to the nationwide averages are in Sales Tax (11 percent difference) and Other Taxes and Fees (8 percent difference). The state has undertaken significant tax policy changes in 2012, 2013, and 2014, which increased the reliance on sales taxes to fund general operations. It is also important to note that there are likely significant opportunities to increase Other Taxes and Fees, in order to alleviate the tax burden elsewhere.

A comparison of tax rates from peer benchmark states show that Kansas' general sales tax is higher than peer states, while the individual income tax and corporate rates are in line with peer states. Additional detail on the tax rate benchmarks can be found in the Department of Revenue chapter.

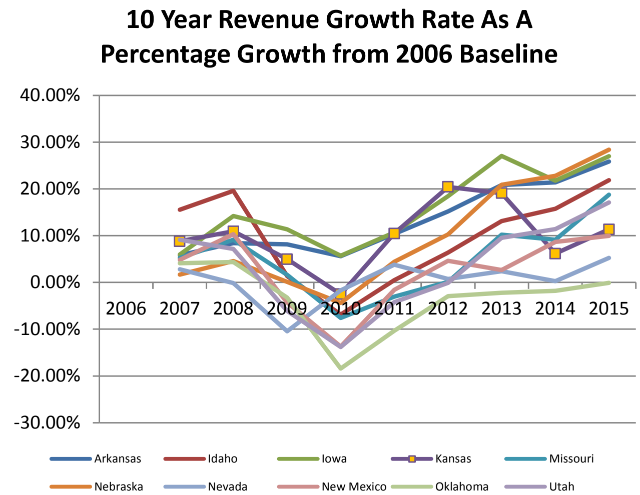
Benchmark Analysis

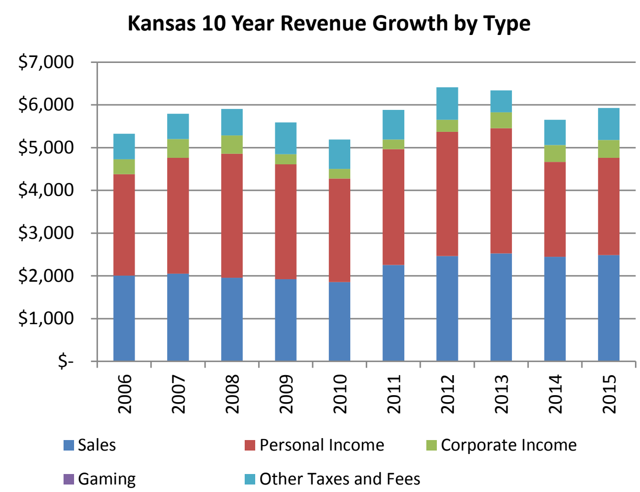
In comparing Kansas to the ten selected state benchmarks, Kansas receives the 43 percent of General Fund Receipts from Sales Tax, which is the highest amongst peer states, and 39 percent from Personal Income Taxes, which is ranked seventh among peer states and just below the national average of 42 percent.

Aside from Nevada and New Mexico, the other eight peer states, including Kansas all collect between five to seven percent of general fund revenues from Corporate Income Tax. Additional detail with regard to the comparisons of tax collections can be found in the Department of Revenue chapter.



The amount that Kansas receives from Other Taxes and Fees is ten percent, which places it in line with Iowa and Utah. Oklahoma, New Mexico, and Nevada collect between 19 percent to 45 percent from Other Taxes and Fees, and the national average is 21 percent, indicating some room for improvement in fee based collections.

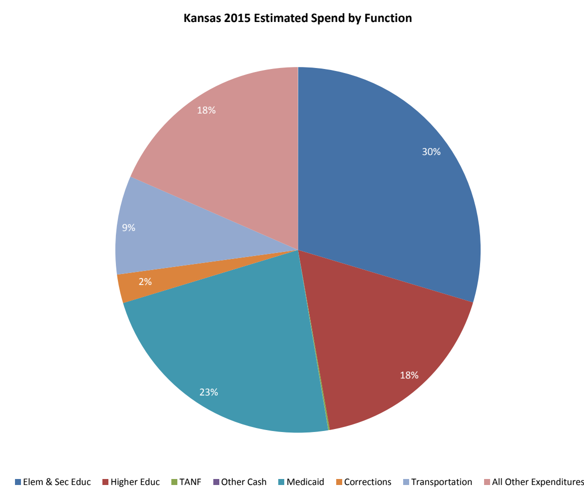




Impact Analysis

Kansas and its peer states (along with most of the country) experienced increasing revenue growth rates stemming from the nadir of the 2010 recession. According to the Rockefeller Insititute of Government, flat revenue growth is predicted to continue through at least 2017.[1] This study predicts Kansas personal income tax revenue growth to decrease to 7.6 percent for the years 2015-2016, and then reduce further to 1.4 percent for the years 2016-2017. Additionally, sales tax revenue growth is predicted to slow from 7.6 percent for 2015-2016 to 3.7 percent for 2016-2017. This reduction in growth may be attributed in part to slower growth in the general economy, but also due to long-term demographic changes, such as an aging population increasingly exiting the workforce.

Expenditure Analysis



Trend Analysis

The estimated revenues for the State of Kansas have grown 11.3 percent since 2006. This compares to the 10 state benchmark growth weighted average growth rate of 16.2 percent since 2006.

Kansas' overall rate of growth exceeds Oklahoma, Nevada, and New Mexico, but falls below the rest of the benchmark states. Aside from the 2009 recessionary impacts, the two largest percentage reductions occurred between 2012 and 2013 when a 32 percent reduction in other taxes and fees occurred and between 2013 and 2014 as a result of a 24 percent reduction in personal income tax occurred.

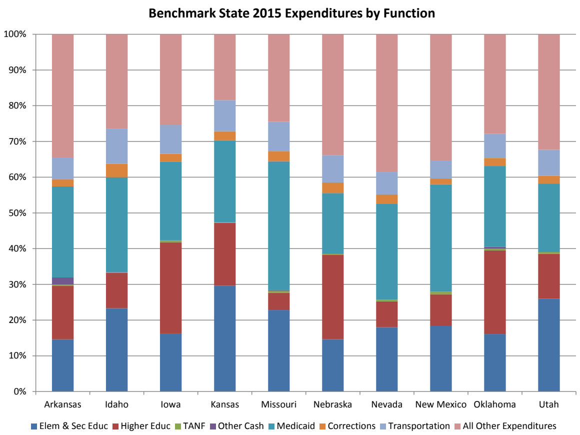
Analysis of State Expenditures

Approximately 70 percent of Kansas' spend goes to three categories: Elementary and Secondary Education (4,578 million), Medicaid (3,548 million), and Higher Education (2,713 million). Kansas devotes an additional 11 percent to Transportation (1,345 million) and Corrections (392 million), and the remaining all other expenditures (2,849 million) constitute the final 18 percent of spend.

This compares to the expenditures across the nine state benchmarks selected of 59 percent for the three

1 http://www.rockinst.org/pdf/government_finance/2015-12-By_Numbers_Brief_No2.pdf

largest categories: Elementary and Secondary Education (18 percent), Higher Education (15 percent), and Medicaid (26 percent). Transportation and Corrections make up 9 percent of the average state benchmark spend, leaving 30 percent for all other expenditures.



Benchmark Analysis

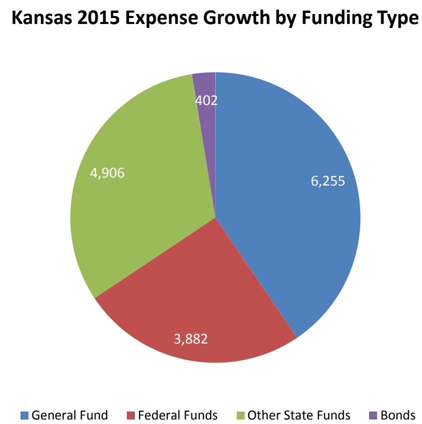
As a percentage of budgets, Kansas spends more than all other states combined for Elementary and Secondary Education at 30 percent of state funds. The next closest is Utah with 26 percent of state spend dedicated toward Elementary and Secondary Education. Kansas spends the fourth most of the benchmark states at 18 percent; behind only Iowa (26 percent), Nebraska (24 percent), and Oklahoma (23 percent). It is important to note that the educational expenditures only consider state spending, although education as a whole, is funded by both state and local funding. A detailed look at funding inclusive of local funding is included in the Functional Analysis section.

Kansas ranks sixth in Medicaid spend at 23 percent with the other states ranging from 17 percent to 36 percent of total state spend. At nine percent, Kansas ranks second behind Idaho (10 percent) for spending on Transportation, and is in the middle of the benchmark states for Corrections spend at 3 percent.

Kansas' spend on All Other expenditures is lowest at 18 percent with the next closest state being Iowa at 25 percent.

Funding Source Analysis

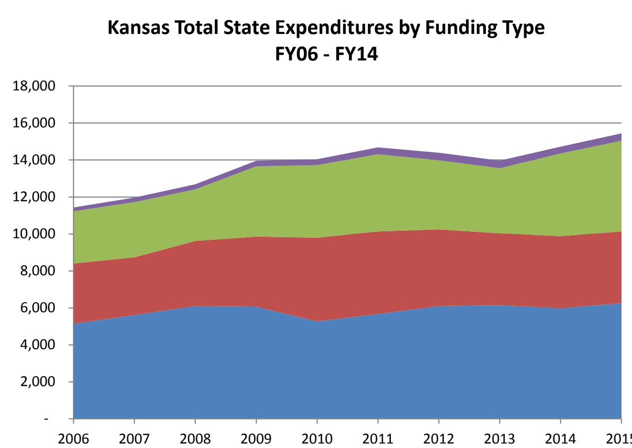
The General Fund covers 40 percent of Kansas's 2015 estimated expenses (for a total over $6.2 billion), followed by Other State Funds (32 percent, $4.9 billion)

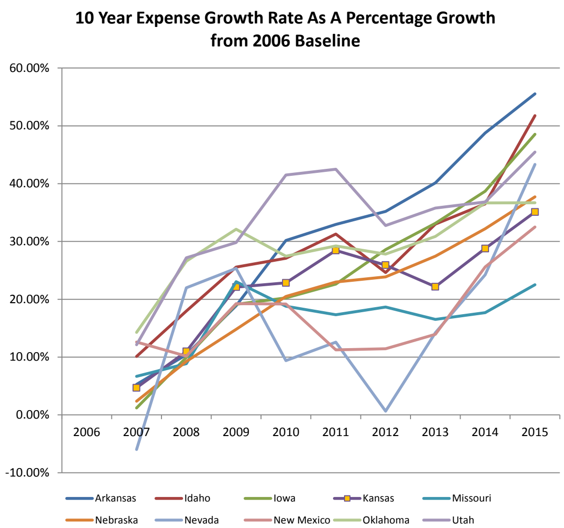


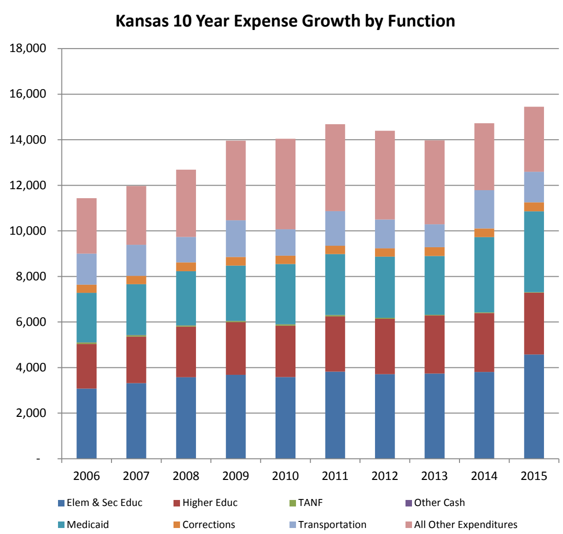
and Federal Funds (25 percent, $3.8 billion). The remaining $402 million, or 3 percent of funds are derived from Bonds.

Kansas ranks as the state with the highest percentage of its funds sourced from the General Fund compared to its peer states. Missouri sources 38 percent of expenditures form the General Fund (second most) while Arkansas sources 8 percent of expenditures from their General Fund (the least among peer states). Most states within Kansas's peer group share similar composition of expenditure funding sources. However, Arkansas and Nevada deviate significantly, as both rely more heavily on Other State Funds. In Nevada's case (63 percent of expenditures sourced from other state funds), gaming revenues explain the dependency on Other State Funds. Of the comparison states, Kansas used the most funds sourced from Bonds, at 5 percent.

Trend Analysis



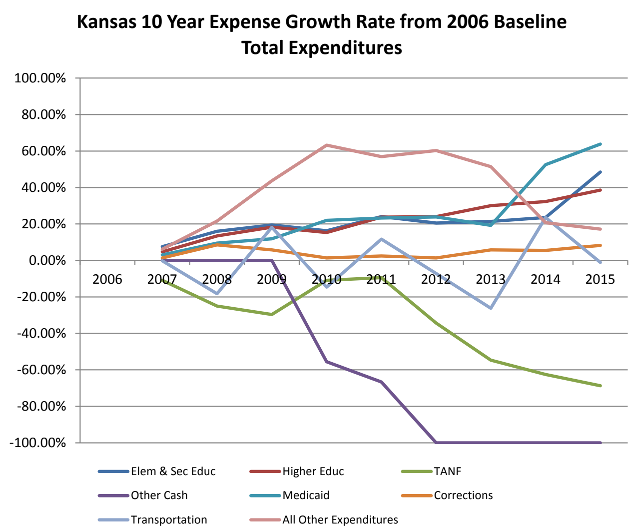




The estimated expenses for the State of Kansas have grown 35.1 percent since 2006. This compares to the 10 state benchmark growth weighted average growth rate of 39.4 percent since 2006. During that same time span, General Fund-sourced expenditures rose by 22 percent, Federal Fund-sourced expenditures rose by 19 percent, Other State Funds-sourced expenditures by 74 percent. From 2006 to 2015, Kansas averaged 43 percent of expenditures covered from the General Fund, 28 percent from Federal Funds, 27 percent from Other State Funds and 2 percent from Bond funds. Deviation from this pattern occurred in the years 2010 to 2012, when expenditures sourced from the General Fund as a percentage dropped while Federal Funds made up a larger percentage of expenditures; this is largely explained by the increase in contribution by the federal government to states through the American Reinvestment and Recovery Act (ARRA) during the recessionary economic conditions.

Kansas' has the third lowest rate of expenditure growth among benchmark states at 35.9 percent and is only higher than Missouri's 22.5 percent and New Mexico's 32.5 percent growth rates. The slower rate of expenditure growth was achieved through cost containment efforts in 2012 and 2013.

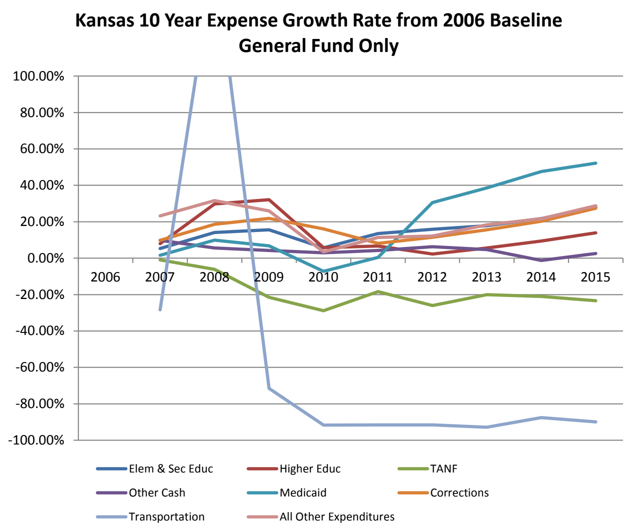
The reductions in expenditures in 2012 were achieved through reductions in Transportation and Elementary and Secondary Education. The expense reductions in 2013 were achieved through cuts in Transportation, Medicaid, and All Other Expenditures. The growth in expenditures resumed in 2014 and 2015. As a result of the cost cutting efforts, the overall rate of growth in expenditures was reduced to 1.3 percent per year between 2011 and 2015. This should also be compared to the forecast in FY16 and F17 in which future growth in expenditures has been reduced to 2 to 3 percent.



Growth Rate Analysis

Kansas's estimated total expense growth rate from 2006 baseline was 35 percent. The largest driver of growth, in terms of spending category, was Medicaid spending which yielded an estimated growth of 64 percent. After Medicaid, Elementary and Secondary Education and Higher Education spending grew 49 percent and 39 percent, respectively. Growth in Medicaid spending is in line with demographic and socioeconomic trends across both Kansas and the country.

The growth rate of General Fund expenditures differ from those of total expenditures, though the number

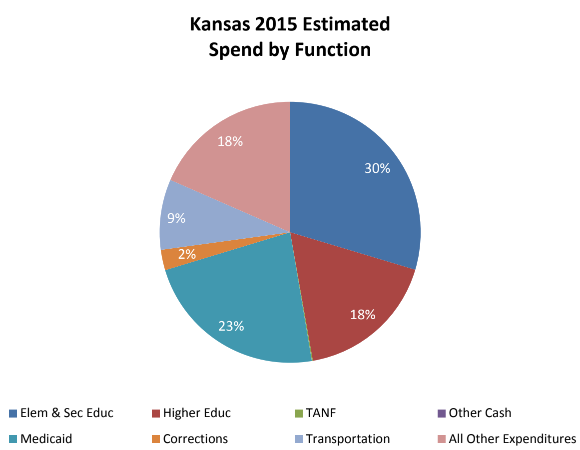


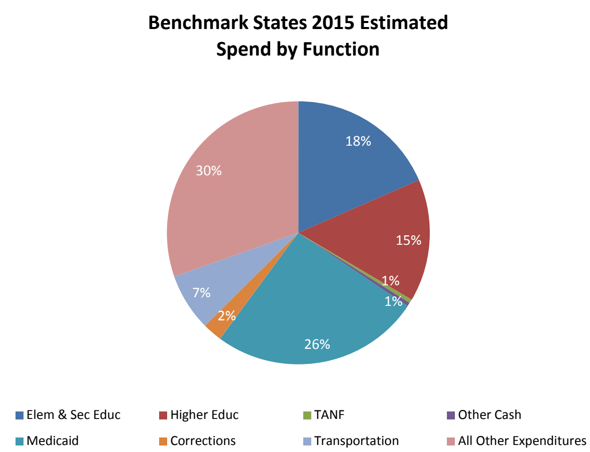
one driver of expenditures by function from General Fund sources remains Medicaid at 52 percent. After Medicaid, Elementary and Secondary Education and Corrections expenditures grew by approximately 28 percent a piece in expenditures that were covered from the State General Fund.

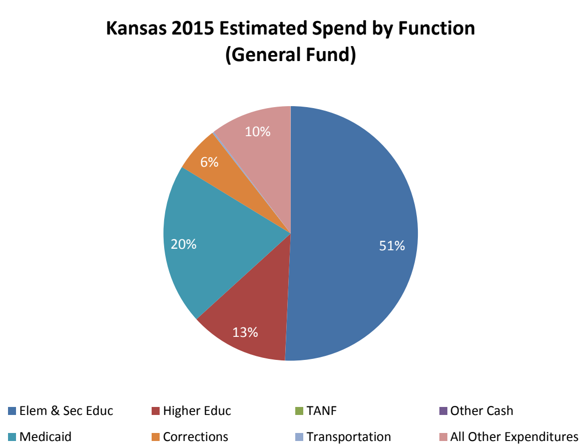
Benchmark Comparison of Total Spend

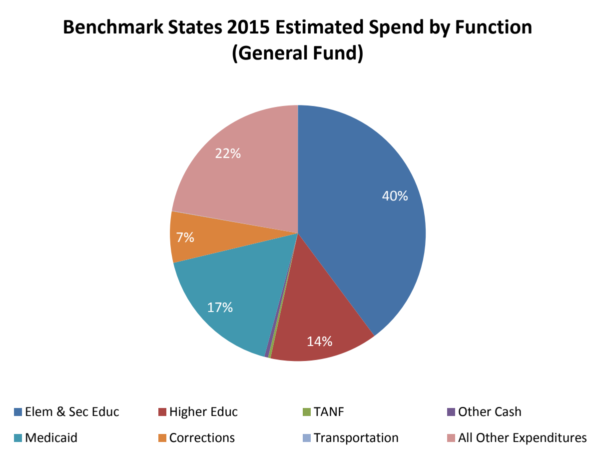
While the blend of expenditures differs, to a degree, between Kansas and its peer states, the four largest spending categories in each state remain: Elementary and Secondary Education, Higher Education, Medicaid and All Other Expenditures.

In Kansas, Elementary and Secondary education makes up 30 percent of spending in 2015. This is sixty percent higher than the weighted average of its peer states, which spend 18 percent of funds on elementary and secondary education. The is the opposite spending mix for All Other Expenditures, which makes up roughly 30 percent of expenses for the peer states and 18 percent of spending for the State of Kansas. For Medicaid, Kansas spends slightly less as a percentage of total spend than peer states at 23 percent when compared to 26 percent. For Higher Education, Kansas spends slightly more as a percentage of total than peer states at 18 percent, when compared to 15 percent for the peer states weighted average spend.







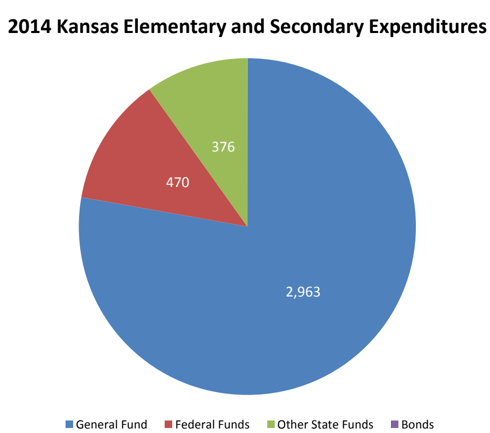


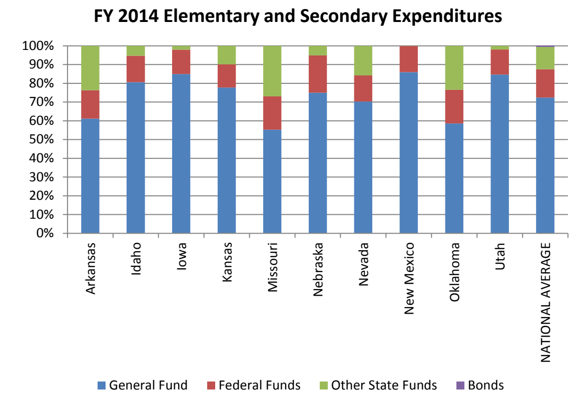
Benchmark Comparison of General Fund Spend

When solely considering the General Fund expenditures, Kansas expends roughly 51 percent of funds on Elementary and Secondary Education, compared to 35 percent for the National Average and 40 percent for the weighted average of its peer states. The large disparity when compared to peer states shows that more could be done to source Elementary and Secondary Education funding from other sources to relieve stress on the General Fund. The next greatest source of expenditures—across all states—is All Other Expenditures, Higher Education and Medicaid. For the state of Kansas, 20 percent of expenditures are on Medicaid, compared to 17 percent for its peer states. Next, Higher Education accounts for 13 percent of spending, which is roughly equivalent to 14 percent for its peer states. The most significant deviation is for All Other Expenditures, where Kansas spends considerably less (10 percent) compared to the National Average (27 percent) and its peer states (22 percent).

Functional Analysis

Elementary and Secondary Education Expenditures by Type





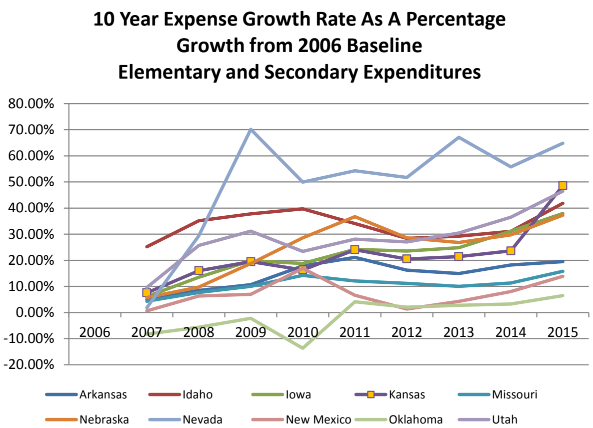
Analysis of Elementary and Secondary Education Expenditures

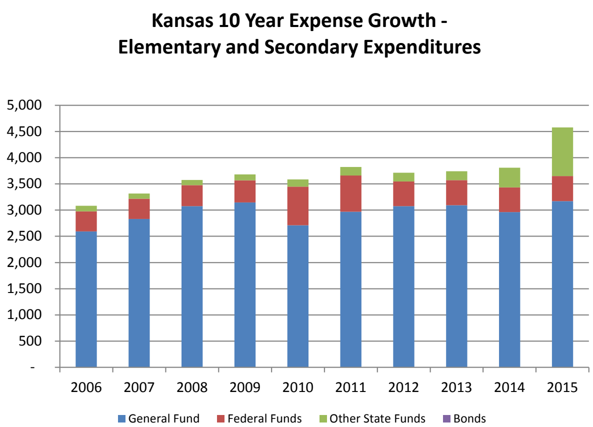
The vast majority of Elementary and Secondary Education Expenditures are sourced from the State General Fund, a total of over $2.9 million, or 78 percent of expenditures. The second largest source of education funds are Federal Funds, at $470 million, or 12 percent. Other State Funds source 10 percent, or $371 million, of education funds.

Kansas sources no significant expenditures from Bond sources.

Elementary and Secondary Education Benchmark Analysis

Patterns throughout Kansas's peer states reflect the education spending of Kansas itself. New Mexico sources the greatest proportion of its education funds from the General Fund—86 percent, or over $2.5 billion—while Missouri sources the least—55 percent. Kansas's 78 percent of expenditures sourced from the General Fund (compared to the National Average of 72 percent) ranks in the middle of the pack, fifth most of the eleven in comparison. Kansas ranks last in the amount of funding generated from federal funding sources with 12 percent of the total funding provided by federal dollars. This compares to the peer and nationwide averages of 15 percent and 20 percent for Nebraska. Kansas is in the middle of the pack when it comes to sourcing funding from other state funds with 10 percent of funding from other state funds. The other states have a wide range of other state funding levels from zero for New Mexico to 27 percent for Missouri. While a small percentage of bond funding has occurred nationwide, no peer state sources significant expenditures from Bond sources.





Elementary and Secondary Education Trend Analysis

Kansas saw roughly a 25 percent increase in growth rate for education expenditures from 2014 to 2015 (an increase of nearly $1 billion). From 2007 to 2015, Kansas saw a steady increase in the growth rate of education expenditures, from approximately 10 percent growth from 2006 to 2007, to almost 25 percent in total growth by 2014. This general increase in spending rates is seen in Kansas's peer states as well. The only state to experience negative growth rates was Oklahoma, from the years 2007 to 2010. Conversely, Nevada experienced a growth in education expenditures of 65 percent from 2006 to 2014.

While expenditures rose steadily from 2006 to 2013, the blend of funding sources remained similar (the exceptions are the years 2010 and 2011, which saw spikes in funding sourced federally in response to recessionary economic conditions). However, spending from 2013 to 2015 saw funding sourced more predominantly from other state funds. The 2015 jump in other state funds correlates to the spike in overall expenditures seen historically in the trend analysis.

Impact Analysis

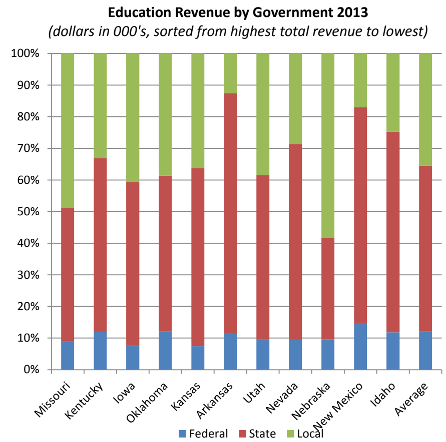
Kansas's total K-12 Education spend has been historically impacted by significant local contributions (according to the Rockefeller Institute, Kansas spends the eleventh highest percentage of Education funds sourced from the state[2]). This trend is likely to continue into the future. The Every Student Succeeds Act (ESSA), which has repealed No Child Left Behind, provides states more flexibility in education standards and accountability. These measures will allow for more budgetary control to be wielded at the state level with less federal intervention. According to the Rockefeller Institute of Government, Kansas spends roughly $11,500 per pupil (from a 2009 study), which places the state squarely on the median for the country as a whole.[3] About 17 percent of Kansas's population consists of those Kansans in K-12 enrollment.

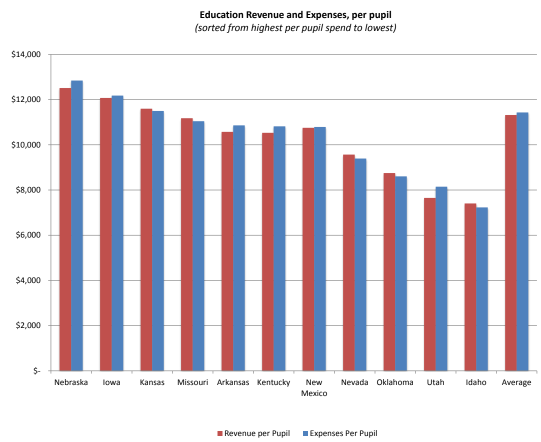
Projected growth stagnation in state revenues and Kansas's significant state-level contribution combine to illustrate a strained K-12 budgetary environment in the future. Buoyed by the additional freedom provided by the ESSA, Kansas will succeed by pursuing increased efficiencies and shared resources within their K-12 education system.

Funding Impact Analysis (including local funding)

Across the country, K-12 Education also receives a significant level of funding from local sources. The chart below shows the funding sources for K-12 education. Based on the 2013 census bureau estimates, Kansas was in line with the peer states in terms of the level of funding from local sources, as Kansas received 36

2 http://www.rockinst.org/pdf/government_finance/2012-05-22-Fed_State_Local_Ed_$.pdf
3 Ibid.



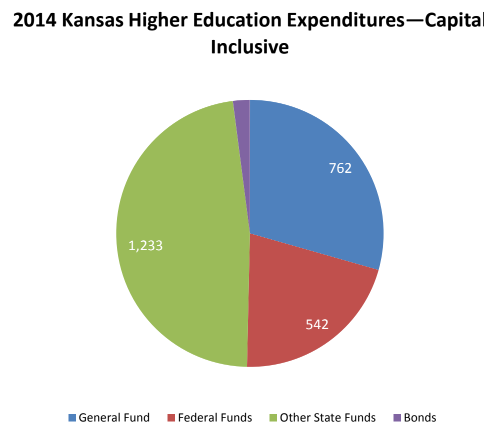


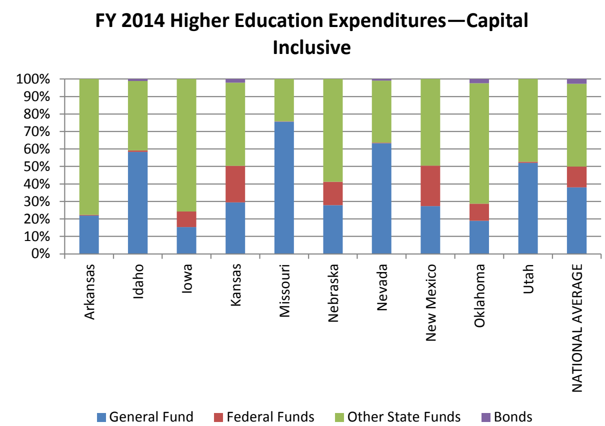
percent of funding from local sources while the peer benchmark states receive 35 percent from local sources. The peer states ranged from 17 percent from local sources for New Mexico to 58 percent of funding from local sources for Nebraska. Kansas received the lowest of peer states from federal funding sources at 7 percent of total funding. The next lowest was Iowa at 8 percent, the average was 12 percent, and the higest was New Mexico at 15 percent.

Kansas' low federal funding levels across the state would require 62% increase in federal funding to get to the average of the 10 benchmark states. Across the state education system that would equate to more than $260 million in new federal funding. This indicates that there is more that can be done to improve Kansas' award of federal dollars to alleviate spending in other areas.

It is also important to look at the cost per pupil to gauge the level of spending per pupil when compared to the benchmark states, as well as the nationwide averages. Using the 2013 census estimates, Kansas is in line with the national average spent per pupil in Education with $11,496 spent per pupil compared to $11,434 spent per pupil nationwide. This places Kansas third among peer states in terms of the total spent per pupil, with Nebraska and Iowa spending $12,844 and $12,177, repectively. The lowest of the peer state expenditures per student is Idaho with $7,232 spent per pupil.

Higher Education Expenditures by Type



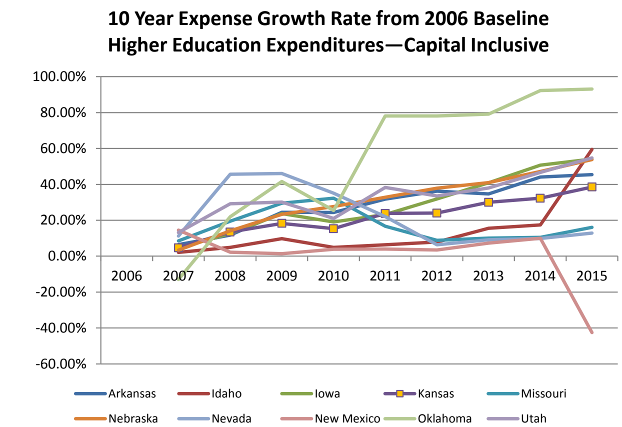


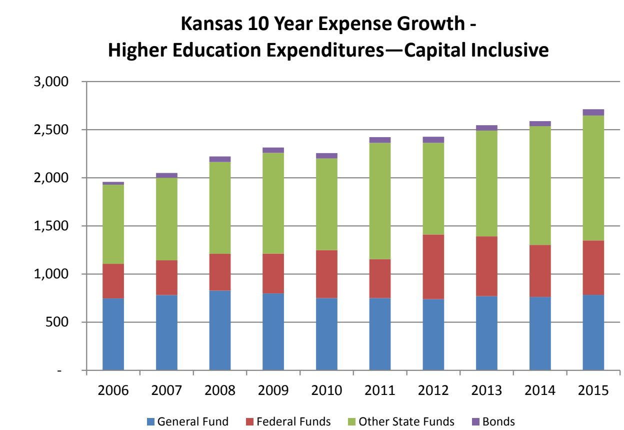
Analysis of Higher Education Expenditures

The vast majority—48 percent or $1.23 billion—of funding for higher education in Kansas is sourced from state funds other than the General Fund. An additional 50 percent of funds are sourced between federal sources and the state General Fund. The state of Kansas only sources 2 percent, or $53 million, of its higher education expenditures from bonds.

Higher Education Benchmark Analysis

Kansas and its peer states differ significantly in terms of where higher education expenditures are sourced. Some states—such as Missouri at 76 percent—source a significantly greater proportion of higher education expenditures from their state General Fund. Meanwhile, states such as Arkansas and Iowa rely considerably more on funds other than the state general fund at 78 and 76 percent, respectively.

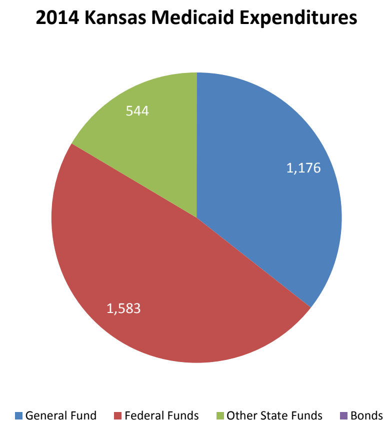


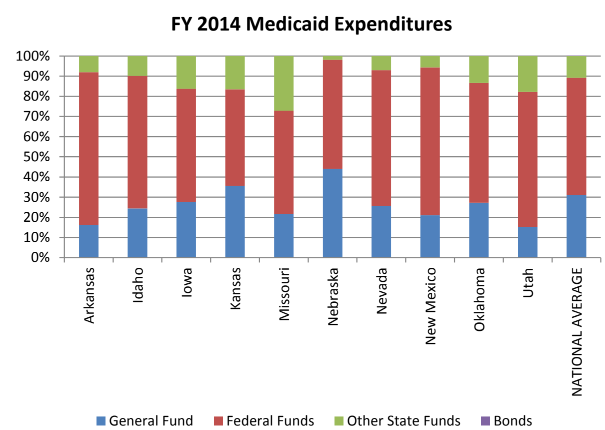


Higher Education Trend Analysis

From 2006 to 2015, Kansas exhibited an average 3.7 percent yearly increase in the growth rate of higher education expenditures. Kansas's growth over this period rose steadily while some of its peer states exhibited much greater variation, such as New Mexico's drop in 2015 and Iowa's much more dramatic increase in 2010. Over that same time period, expenditures sourced from the General Fund averaged $772 million. Expenditures sourced from other state funds accounted for most of the increases in spending, growing from 822 million in 2006 to in $1.3 billion in expenditures in 2015. Similarly, federal funding grew from 360 million in 2006 to 566 million in 2015.

Medicaid Expenditures by Type





Analysis of Medicaid Expenditures

The estimated FY15 Medicaid expenditures for the State of Kansas are sourced from:

- 48 percent Federal Funds (1.7 billion)
- 36 percent General Fund (1.3 billion)
- 16 percent Other State Funds (0.6 billion)

This compares to the nationwide average revenues that are sourced from:

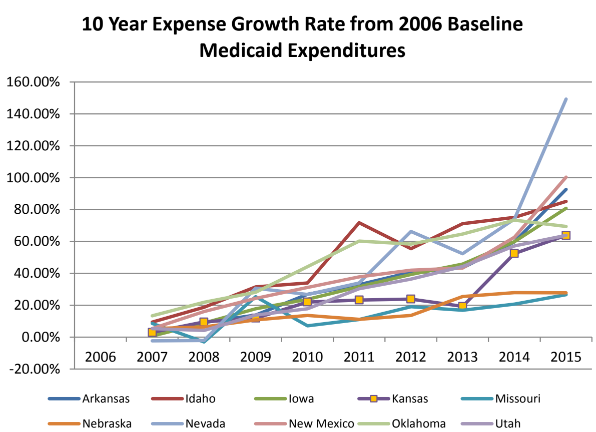
- 62 percent Federal Funds (6.3 billion)
- 28 percent the General Fund (2.9 billion)

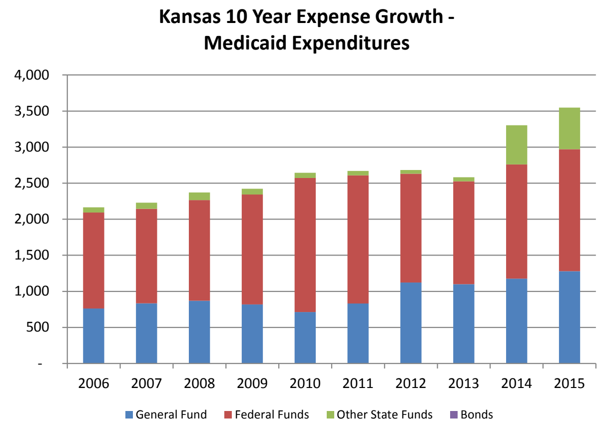
- 10 percent Other State Funds (1.0 billion)

The largest difference when compared to the nationwide averages is in Federal Funds (14 percent difference), indicating that Kansas relies more on the General Funds to pay for Medicaid services. The mix of federal funding is largely driven from the Centers for Medicare and Medicaid Services (CMS) pre-defined Federal Medical Assistance Percentages (FMAP) rates, which are the percentage rates used to determine the matching funds allocated to certain medical and social service programs. The alternative to expand Medicaid would not increase the FMAP for the existing population, but would increase the FMAP rates for the new enrollees, also requiring an additional state match for the expanded population.

Medicaid Benchmark Analysis

Comparing Kansas to the ten state benchmarks selected, Kansas Medicaid expenditure of 36 percent from General Fund is the second highest among peer states, and 48 percent from Federal Funds is the lowest. The other benchmark states average Medicaid expenditure is 65 percent, which is in line with the nationwide average of 62 percent.





Medicaid Trend Analysis

Medicaid expenditures for the State of Kansas have grown 22.3 percent since 2006. This is in line with the benchmark states average growth rate of 24.3 percent since 2006. Kansas' rate of Medicaid expenditure growth is in the middle compared to the benchmark states—higher than Missouri, Nebraska, Nevada and New Mexico, and lower than Arkansas, Idaho, Iowa, Oklahoma and Utah.

Kansas' Federal Funding has steadily declined since 2010, from 70 percent to 48 percent in 2015. While General Fund spending declined between 2013 and 2014, 43 percent and 36 percent respectively, the use of Other State Funds increased dramatically, from 2 percent in 2013 to 16 percent in 2014.

Impact Analysis

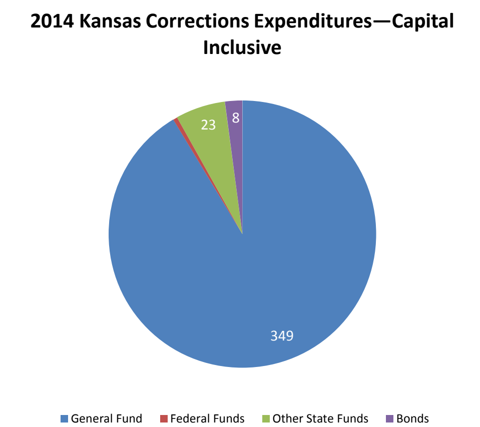
Children and the Elderly are two of the largest recipients of Medicaid funds,[4] according to the Centers for Medicare and Medicaid. This is significant; according to the Kaiser Family Foundation, from 2000 to 2013, Children comprised 25 percent of the total US Population and Elderly Adults was the fastest growing demographic, with a growth rate of 1.9 percent (nearly double that of Working-Age Adults).[5] Additionally, while the growth of health care costs slowed since the Great Recession, the growth rates are expected to outpace national gross domestic product by 1.1 percent

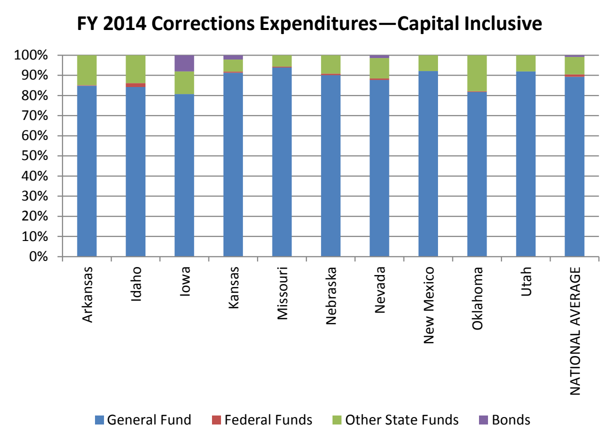
4 https://www.medicaid.gov/medicaid-chip-program-information/by-population/by-population.html

5 http://kff.org/report-section/economic-and-fiscal-trends-in-expansion-and-non-expansion-states-demographics/

over the next ten years. It concludes that Medicaid—and health spending in general—will grow into the future, at minimum, on pace with historical averages. This likely reality testifies to the need for an effective and flexible state Medicaid apparatus.

Corrections Expenditures by Type



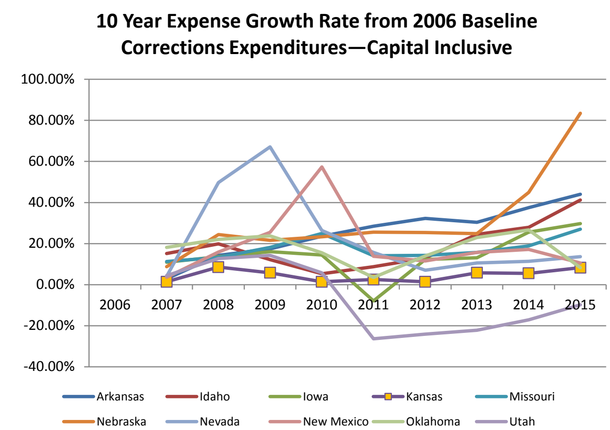


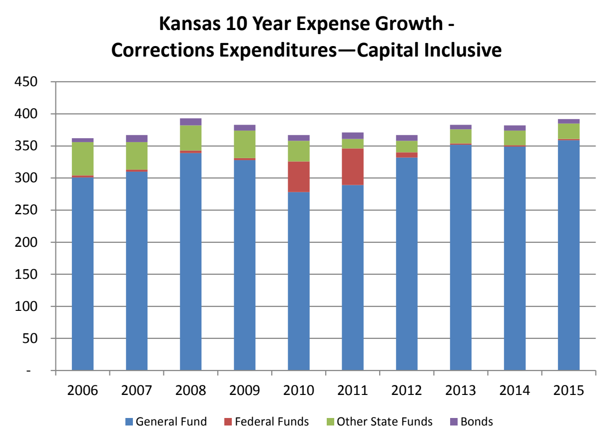
Analysis of Corrections Expenditures

In 2014, expenditures by Kansas Corrections—inclusive of the Department of Corrections and the state's correctional facilities—sources over 90 percent, or $349 million, of its fund from the State General Fund. The state spends an additional $23 million (6 percent) of funds sourced from other state funds in addition to $8 million (2 percent of overall expenditures) of bonded funds and $2 million, or less than 1 percent, of Federal Funds.

Corrections Benchmark Analysis

Kansas corresponds closely with the National Averages; nationwide, roughly 90 percent of all corrections expenditures are sourced from state general funds (within expenditures sourced from state general funds, variance between Kansas and its peer states ranges from 10 percent greater than Iowa versus roughly 3 percent lower than Missouri). Other sources of funds are blended at roughly the same rate as Kansas's peer states. Outliers include Iowa's nearly 9 percent of funds sourced from bonds and Oklahoma's roughly 20 percent of expenditures sourced from other state funds.



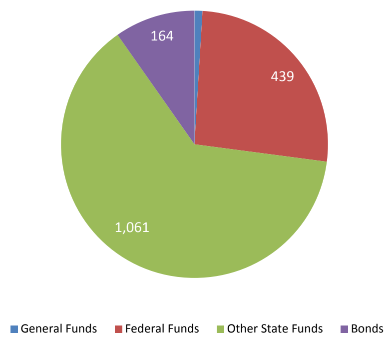


Corrections Trend Analysis

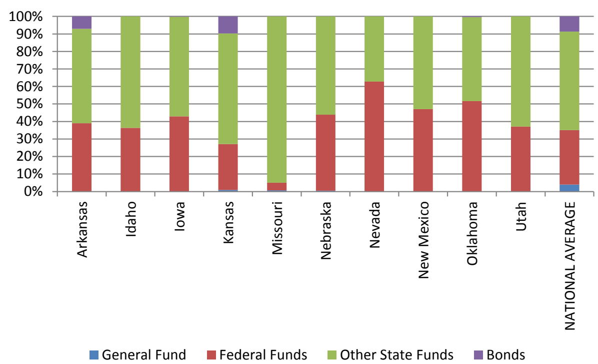
From 2012 to 2015, Kansas averaged a 2.2 percent year-over-year increase in corrections expenditures. This three year period tracks within a margin of 4 percent to 8 percent compared to the years from 2006 to 2015. This low and steady growth rate is more consistent than the variations seen by Kansas peer states. Utah is an exception as the only state that has experienced consistent negative growth in expenditure spending. Expenditures have been increasingly sourced from the General Fund, peaking in 2015. The years 2010 and 2011 saw disproportionately large portions of expenditures being sourced from federal sources (roughly $50 million each year).

Transportation Expenditures by Type

2014 Kansas Transportation Expenditures—Capital Inclusive



FY 2014 Transportation Expenditures—Capital Inclusive



Analysis of Transportation Expenditures

The estimated FY15 Transportation expenditures for the State of Kansas are sourced from:

- 60 percent Other State Funds (0.8 billion)
- 24 percent Federal Funds (0.3 billion)
- 14 percent Bonds (0.2 billion)
- 1.0 percent General Fund (0.01 billion)

This compares to the nationwide average revenues that are sourced from:

- 59 percent Other State Funds (1.7 billion)
- 29 percent Federal Funds (0.8 billion)
- 7.9 percent Bonds (0.2 billion)
- 4.0 percent General Fund (0.1 billion)

The largest difference when compared to the nationwide averages is in Bonds (6 percent difference), indicating that Kansas relied more on the Bonds for funding in 2015. Conversely, Kansas relies less on the General Fund and Federal Funds compared to nationwide average, 3.0 percent less and 5.0 percent less respectively.

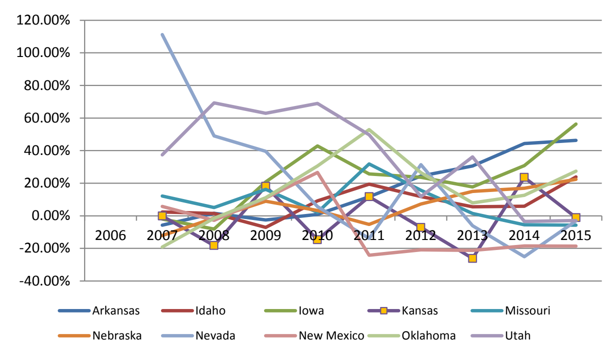
Transportation Benchmark Analysis

Comparing Kansas to the benchmarks selected, Kansas Transportation expenditure of 14 percent from Bonds and 1.0 percent from the General Fund are the highest among peer states. Federal Funds expenditure of 24 percent is only higher than Missouri and Utah, indicating opportunities to increase Federal Funds to alleviate the tax burden on the state.

There are six benchmark states—Idaho, Iowa, Nevada, New Mexico, Oklahoma, and Utah—that did not use the General Fund to fund Transportation expenditures. Except for Utah, these states use of Federal Funds is higher than the nationwide average, 42 percent for the five remaining states.

Only three states utilized Bonds to fund Transportation expenditures: Arkansas, Kansas and Oklahoma, with Kansas having the highest at 14 percent.

10 Year Expense Growth Rate As A Percentage Growth from 2006 Baseline
Transportation Expenditures—Capital Inclusive

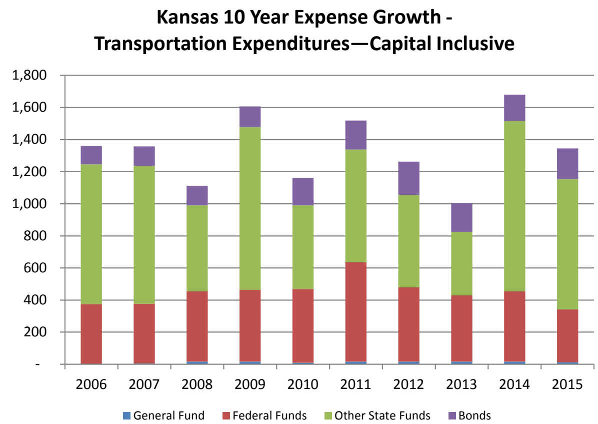


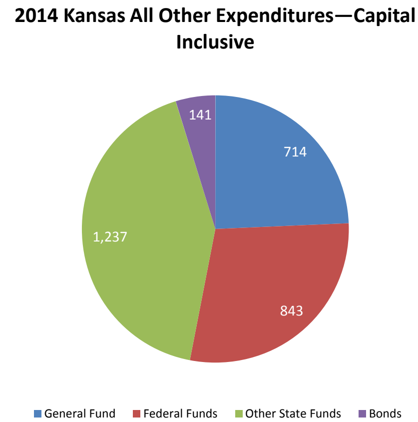
Transportation Trend Analysis

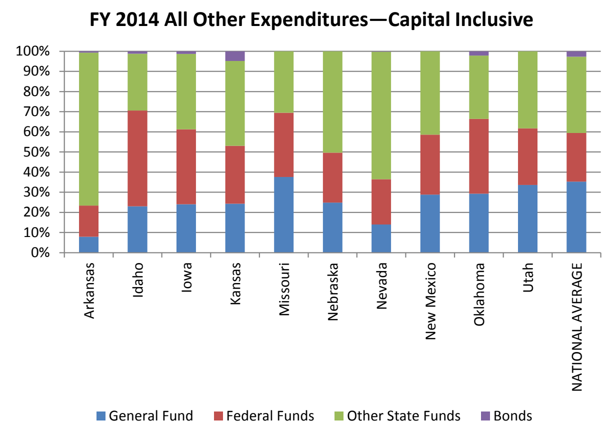
Transportation expenses for the State of Kansas have decreased 1.6 percent since 2006. This compares to the benchmark states average growth rate of 11.6 percent since 2006.

Kansas' rate of expenditure growth is only higher than New Mexico, whose expenditure declined by 7.0 percent since 2006.

The nationwide average for using Bonds as a funding







source for Transportation expenditures is 9.3 percent since 2006. For Kansas, the average is 12 percent since 2006. This is slightly higher than the nationwide average. Conversely, the nationwide average for using the General Fund to fund Transportation expenditures is 4.0 percent since 2006, which is higher than Kansas' average of 1.0 percent since 2006.

Impact Analysis

Federal funding nationwide has been stagnant since 2009. The Fixing America's Surface Transportation Act (FAST Act) of 2015 made in roads toward providing federal funding stability to the states, but does not appreciably increase funding levels.[6] What FAST does provide is stability to the state of Kansas when budgeting infrastructure improvements. While Kansas relies relatively little on Federal Funds for its Transportation spending, this stability may work in conjunction with operational and structural efficiencies to deliver improved services to the state.

All Other Expenditures by Type

Analysis of All Other Expenditures

The estimated FY15 All Other expenditures for the State of Kansas are sourced from:

- 44 percent Other State Funds (1.3 billion)
- 28 percent Federal Funds (0.8 billion)
- 23 percent General Fund (0.6 billion)
- 5.0 percent Bonds (0.1 billion)

This compares to the nationwide average revenues that are sourced from:

- 39 percent Other State Funds (4.9 billion)
- 34 percent Federal Funds (4.0 billion)
- 34 percent General Fund (4.0 billion)
- 3.0 percent Bonds (0.4 billion)

The largest difference when compared to the nationwide averages is in the General Fund (12 percent difference), indicating that Kansas utilizes less of the General Fund for Other Expenditures than the rest of the nation. Kansas uses Federal Funds and Other State Funds more than the nationwide average, 4.0 percent and 6.0 percent higher respectively.

6 http://knowledgecenter.csg.org/kc/content/top-5-issues-2016-transportation

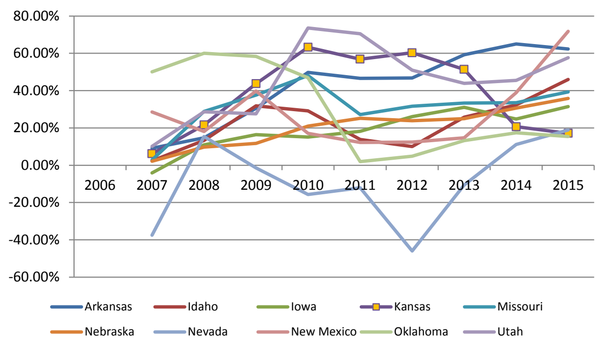
All Other Benchmark Analysis

Comparing Kansas to the benchmarks selected, Kansas All Other expenditures of 5.0 percent from Bonds is the highest among peer states. As for the other funding sources, Kansas falls within the median when compared to the benchmark states.

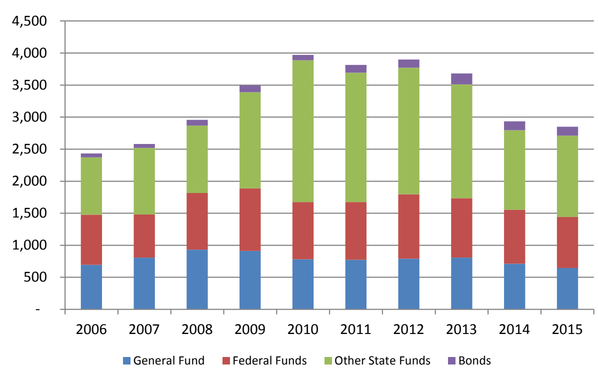
All Other Trend Analysis

All Other Expenses for the State of Kansas have increased by 17.2 percent since 2006. This compares to the benchmark states average growth rate of 39.1 percent since 2006. Kansas has the second lowest growth rate since 2006, just higher than Oklahoma's 15.4 percent. To accomplish Kansas reversed a trend in which

10 Year Expense Growth Rate As A Percentage Growth from 2006 Baseline All Other Expenditures—Capital Inclusive



Kansas 10 Year Expense Growth - All Other Expenditures—Capital Inclusive



All Other Expenses grew by 63.2 percent between 2006 and 2010 from $2.4 billion to $4.0 billion. After small reductions to $3.9 billion in 2012, Kansas cut All Other Expenses to $2.8 billion in 2015. The funding for these expenditures were nearly all derived from increases in funding from other state funds, keeping the impact largely outside of the State General Fund. The use of Bonds as funding for All Other Expenditures has increased since 2010 from 82 million to 139 million.

Risk Management and Insurance

Acknowledgements

This report was made possible thanks to the knowledge, time, and advice of many individuals within the Kansas Department of Health & Environment and Kansas Department of Labor. Alvarez & Marsal would like to thank everyone who contributed to this endeavor, especially:

- Mike Michael, Director - Kansas Department of Health & Environment
- Bradley R. Burke, Deputy Secretary and Chief Attorney - Kansas Department of Labor

Agency Overview

Overview of Property/Casualty Insurance and Risk Management Environment

This report encompasses A&M's Property/Casualty Insurance and Risk Management assessment and includes recommendations covering critical project implementation steps. The implementation strategy contemplates staffing and other resource needs to support the proposed changes.

In creating these recommendations, A&M worked closely with state representatives—specifically with the Kansas Department of Health and Environment as well as the Department of Administration's Procurement Office, in order to develop recommendations that are equitable and efficient. The team examined a wide variety of factors—data provided by the state, interviews with key personnel and benchmarking data from insurance industry sources and state governments around the U.S.

Project Approach

The A&M team used a three-phase process to create these recommendations:

1. Information Gathering – The initial phase focused on data gathering, compilation & analysis, interviews with state personnel (in departments under review), research regarding industry best-practices, and benchmarking with other states. In this process, the A&M team developed a wide-range of potential issue areas that could yield efficiency gains and budgetary savings in individual departments and divisions.
2. Business Case Exploration – In assessing opportunities for further exploration, the A&M team considered a number of factors to weigh the benefits and impacts of each opportunity—evaluating practicality of implementation, revenue/savings potential (both short-term and long-term), investment cost (if any), human capital impact and ease of implementation. The list of recommendations was refined to only include opportunities with favorable and substantive five-year outcomes.
3. Impact Planning – The team identified any cross-department impacts and opportunities through the recommendations to present a comprehensive view of the net impact to the state government as a whole and advise of critical steps required to implement these recommendations.

Recommendations and Observations for Cross Agency Centralization – Each A&M assessment team worked collaboratively with state agency staffs as well as with each other, to generate ideas for efficiency improvements that will positively impact operations across the state.

The recommendations presented are the result of a rigorous process and represent the most promising opportunities available to the State of Kansas for impactful savings.

Summary

The approach to property and casualty (P&C) insurance and risk management focused on the enhancement of current capabilities, cost reduction, and the creation of new ways to improve the state's ability to function more effectively across all agencies, particularly among the Department of Administration (DOA), Department of Labor (KDOL), Department of Education (KSDE), and the Kansas Department of Health and Environment's (KDHE's) Workers' Compensation State Self Insurance Fund (WC SSIF). The team worked with various state agencies to identify cost savings and efficiency improvement opportunities that can generate financial savings over the next five years.

- Short-term opportunities – Two recommendations will achieve cost savings in FY16, and include re-bidding insurance policy procurement and expanding participation of Department of Education K-12 Unified School Districts (USDs) in a new or existing insurance pool program.
- Medium-term opportunities – There are three additional P&C insurance opportunities that will generate efficiencies, savings and revenue over the next three fiscal years. These recommendations are:
  - » Develop a shared service function for P&C insurance procurement, claims management, and coordination of safety & loss control, under a centralized Office of Risk Management (ORM)
  - » KDOL Administrative Fund revenue enhancement and investment
  - » Operational changes to KDHE's WC SSIF claims management
- Long-term opportunities – All opportunities can be implemented in the first three years, and there are no recommendations that extend a start date beyond FY20.

Short and medium-term recommendations are detailed in the chart above.

Recommendations

Recommendation #1 – Establish a Department of Administration (DOA) Office of Risk Management (ORM)

The state should establish a new Office of Risk Management (ORM) within the Department of Administration (DOA) to centralize the state's insurance and risk management functions. The ORM, should be led by staff who have insurance, claims and safety industry expertise, and should be responsible to:

- Act as a single point of contact to provide risk management, safety and loss control support,

Target Savings and Revenue Estimate
(All values in 2015 dollars, in 000s)

Rec #	Recommendation Name	FY16	FY17	FY18	FY19	FY20	FY21	Total
1	Establish a DOA Office of Risk Management (ORM)	($70)	($417)	($417)	($417)	($417)	($417)	($2,155)
2	KDOL Assessment Rate Change	$-	$30,900	$30,900	$30,900	$30,900	$30,900	$154,500
3	Statewide Insurance Procurement Re-Bid	$71	$284	$284	$284	$284	$284	$1,491
4	Replace WC State Self Insurance Fund (SSIF) Claims Staff with an Experienced Third Party Administrator (TPA) Overseen by ORM	$-	$3,116	$4,956	$4,956	$4,956	$4,956	$22,940
Risk and Insurance Management Total		**$1**	**$33,883**	**$35,723**	**$35,723**	**$35,723**	**$35,723**	**$176,776**

and claims handling expertise across state agencies.

- Coordinate with the Department of Procurement to competitively market and leverage insurance procurement.
- Oversee administration of the Workers' Compensation State Self Insurance Fund (WC SSIF) and manage the new Third Party Administrator (TPA) recommended to minimize WC claims costs and improve the overall claims management process.
- Support and coordinate efforts of the Department of Labor's Division of Industrial Safety and Health to develop and implement safety programs and inspections for state agencies and employees.
- Implement formal WC SSIF claims, safety, and loss control process improvement initiatives to reduce claims frequency and severity by preventing and mitigating accidents and injuries. These initiatives include:
  - » Educate agencies on the costs of WC accident reporting lag.
    - – Encourage agencies to report claims within one day of the Date of Accident via the Employer's Report of Accident (KWC 1101-A).
  - » Implement a more robust RTW program to ensure, for example, that:
    - – Agencies make interim work positions available for employees who cannot return to normal duties.
  - » Improve safety training and processes by:
    - – Designing a Fleet Safety Manual/Process for drivers of state owned and rented vehicles.
    - – Working with DOL to coordinate safety training and utilize insurance carrier assessment funds to help generate reductions in claim costs.
  - » Improve data analytics and reporting processes so the ORM can:
    - – Monitor WC claims trends—especially for high-risk departments such as the Department of Transportation—and design and implement specific safety training accordingly.
    - – Provide agencies WC loss statistics and experience data in order to measure and monitor performance improvements.
    - – Compare WC claims data with State Employee Health Plan (SEHP) data to identify any overlaps in claims reporting or payment.
    - – Establish a Fraud Awareness Program and educate agencies on the distinction between fraud and abuse. Expand the Fraud Hotline to 24/7 functionality.
    - – Convert to electronic delivery of checks for bi-weekly Indemnity claim payments.
    - – Develop automated red flags and perform data mining on WC claims to identify repeat claimants.
    - – Advise state employees regarding choices for their WC claims other than hiring an outside WC attorney.
    - – Encourage agencies to take recorded and/or signed statements from employees and witnesses on the day of the accident, in order to secure facts for ORM / WC SSIF.

Background and Findings

- Kansas currently has no centralized insurance procurement and risk management and safety function.
- Interviews with various staff at Kansas state agencies and departments found a desire for a single point of contact on matters regarding risk management, insurance, safety and claims.
- A review of all states found that at least 38 of the 50 states have a centralized insurance and/or risk management office or division to serve state agencies. Most commonly, these offices or divisions are organized under each state's Department of Administration. Specific responsibilities and services of these state ORMs

include but are not limited to:

- » Identify and analyze risk exposures to state agencies, individuals, assets, and third-parties
- » Develop and implement safety and loss control programs to protect life and state assets, as well as reduce the costs and consequences of accidents, either directly or by providing support to state Safety & Health divisions
- » Procure insurance, manage policies, and allocate premiums
- » Administer State Insurance Funds including State Self Insurance Programs and Insurance Trusts
- » Investigate and manage workers' compensation (WC), property, liability and specialty claims, iincluding oversight of Third Party Administrators (TPAs)
- » Develop and manage state employee assistance, workplace safety committee, and other such programs to promote safety and loss control
- » Manage equipment maintenance programs
- » Develop risk management programs and documentation such as Safety Handbooks and Fleet Safety Manuals
- » Conduct safety training and awareness programs for state agencies and employees
- » Assist state agencies in answering questions in matters relating to risk assessment, risk management, and insurance and provide guidance in specialty areas such as OSHA Recordkeeping and Reporting
- » Assist state agencies with contractual risk transfer, including provision of rinsurance and indemnification guidelines for state contracts
- » Work with state agencies to ensure a safe environment for state employees and the general public who come into contact with state employees or property as services are provided, to mitigate third party risk
- » Host 24-hour hotlines for WC claims and fraud reporting

- Claims reporting lag time is a notable issue for WC SSIF, and significant reporting delays can be attributed to various agencies based on reviewed claims data.
  - » Delayed injury reporting can increase WC claim costs up to 51%, according to the study "The Relationship Between Accident Report Lag and Claim Cost in Workers Compensation Insurance," published by the National Council on Compensation Insurance (NCCI) in 2015.
- Kansas' Return-To-Work (RTW) program is not centralized and lacks a robust infrastructure.
  - » The benefit of an efficient RTW program: When safety professionals, adjusters, and medical providers worked together to prevent accidents and quickly treated injured or ill workers—helping them return to work through jobs with restricted or modified duties—lost-time decreased by 73% and medical-only claims decreased by 61%, according to "Ten Years' Experience Utilizing an Integrated Workers' Compensation Management System to Control Workers' Compensation Costs," published in the Journal of Occupational & Environmental Medicine in 2003. In addition, total WC expenses—including all medical, indemnity and administrative costs—fell from $0.81 per $100 payroll in 1992 to $0.37 per $100 of payroll in 2002—a 54% decrease. The study also found that the value of RTW programs does not vary by industry classification.
- Vehicle accident reporting and handling procedure is inconsistent and varies by Agency.
- The state currently maintains no list of employee drivers and does not run Motor Vehicle Record (MVR) checks to verify employee safety records.

Recommendation # 1 - (dollars in 000's)					
FY16	FY17	FY18	FY19	FY20	FY21
($70)	($417)	($417)	($417)	($417)	($417)

Key Assumptions

- Centralizing the P&C Insurance and Risk Management functions by establishing an Office of Risk Management staffed with industry-experienced personnel is the overarching catalyst to drive cost savings and revenue enhancement for the state across Recommendations 2 to 5.
- Projected cost savings generated through the ORM will result in:

- » Enhanced operating efficiency
- » Centralized insurance and risk contracting
- » Alignment of risk with controls
- » Strategic risk transfer
- » Enhanced risk management brought by the new ORM's industry expertise and oversight including claims reduction and insurance cost management

- Savings assume cooperation by the state agencies with the new ORM, Department of Procurement and KDHE initiatives.

- Capital outlay breakdown for ORM includes new salaries and wages of $200,000 for a staff of three, plus an estimated 21% ($42,000) staff overhead cost and $6,276 each employee benefits cost (based on the State's Budget Cost Indices for FY16 and FY17), plus an estimated annual operational overhead expense of $150,000.
  - » The first ORM staff hire, the Director of Risk Management, is completed by the fourth quarter of FY16, with the other two ORM members to be hired in FY17.
  - » Recruiting and hiring the ORM Director may take approximately three months to complete. The FY16 investment cost estimate is discounted accordingly to represent one Director at an estimated $100,000 salary plus 21% staff overhead and $6,276 benefits cost, discounted to 25% of that cost for the fourth quarter of FY16.
  - » ORM implementation and operational overhead costs (other than salaries and benefits—recruiting costs, office space and utilities allocations) are estimated at $150,000 annually, with 25% of that amount allocated to the final quarter of FY16 in conjunction with hiring the new Director of Risk Management.

- The resultant efficiencies and cost savings of centralized risk management will outweigh the initial capital outlay and new salaries and wages costs for ORM creation. The investment costs associated with coordination with the new TPA and elimination of existing WC SSIF claims staff are accounted for in recommendation #4.

Critical Steps to Implement

The critical steps necessary to complete the implementation of recommendation #1 include:

- Prompt recruiting process to hire Director of Risk Management by fourth quarter FY16, and Claims and Safety specialists in early FY17.
- Director of ORM to coordinate with Procurement to develop and expedite an RFP for the new TPA services discussed in recommendation #4.

Recommendation #2 – Adjust the Kansas Department of Labor (KDOL) Administrative Fund Assessment Rate to 1% on a Written Premium Basis

Specifically, the KDOL should:

- Increase revenue by adjusting the KDOL Administrative Fund assessment levied to state Workers' Compensation (WC) carriers to a 1.00% rate using carriers' written premium as the rating base, from the current 2.79% rate that uses prior year losses as the rating base.

Background and Findings

- A review of National Council on Compensation Insurance (NCCI) statistical data found that—states that maintain an Administrative Fund (and finance such fund by levying an assessment surcharge or tax to their state WC insurance carriers), mostly use one of two rating bases—either written premiums or paid losses. A few states take a different approach, such as assessing a flat surcharge amount. Variations exist in each state's assessment methodology and application of the two identified general rating bases. For example, some states calculate assessments on net premiums (gross premiums less any returned premiums due to cancellations) while others use gross premiums including taxes, fees and other assessments; or some states use paid indemnity or total losses for each individual carrier while others use aggregated paid losses for all carriers in the state, with the total assessment amount levied to each carrier on a pro-rated basis. The most standardized methodology identified amongst all 50 states was to calculate assessments using prior year net written premiums as the rating base.

- As its rating base, Kansas currently uses the prior year paid losses for each individual WC carrier. Its current 2.79% Workers' Compensation Administrative Fund rate assessed to Kansas WC insurance carriers is set forth in Kansas Statute, Chapter 74, Article 7, Sections 74-712 through 74-719[1]. The statute specifies a maximum 2015 3% assessment rate levied against calendar year 2014 Paid Losses, to fund FY16. In 2015 the actual 2.79% assessment rate was levied against 466 companies with paid losses totaling $426,557,683, generating a total revenue amount of $11,900,930.

- Using written premium as the assessment base results in significantly greater revenue at a lower assessment rate percentage, because the written premium base is a significantly larger amount and more widely applied than the paid losses base. Specifically, written premium applies to all carriers on a leveled basis, while a paid-loss basis is a smaller funding pool that impacts some carriers more than others depending on their loss experience.

- Kansas' most recent written premium per National Council on Compensation Insurance (NCCI) statistics was $4,841,778,073. The NCCI 2016 rate filing received by the Kansas Insurance Department shows a decrease of 11.6% to the Kansas WC base rate for voluntary market carriers. This decrease is expected to reduce the 2016 written premium base by a commensurate 11.6%, to $4,280,131,817. Therefore, an assessment rate of 1.00% using written premium as the rating base would have generated a total revenue amount of $42,801,318 compared to the $11,900,930 revenue generated by a 2.79% rate based on paid losses. This represents an additional total annual revenue to Kansas of $30,900,388.

- Kansas' current prior-year-loss based rating methodology was initially compared against 15 "peer" states as well as the shared border state of Missouri using NCCI statistical data. Of the states evaluated, five levy a specific Administrative Fund assessment to state WC carriers (in addition to taxes and other surcharges) by utilizing a standardized assessment methodology with written premium as the rating basis. The other evaluated states either have no Administrative Fund, or use varying assessment methodologies (e.g., a flat amount, paid losses for each carrier, paid losses for all carriers on a pro-rated basis, or state-specific calculations).

- The benchmarking evaluation was then expanded to all 50 states in order to obtain a broader comparison. This comparison found that 23 states have no specific Administrative Fund assessment. Of the remainder, 14 states use a standardized written premium-based assessment methodology, with all other states using varying assessment methodologies. The assessment rates for these 14 states range from 0.50% to 6.50%, with 10 having a rate of 2.00% or lower, and five having a rate of 1.01% or lower. The average rate for the 14 states is 1.90%, which reflects the inclusion of Rhode Island's outlying rate of 6.50%. The detailed findings for the above mentioned 14 states are presented in the benchmarking chart at the end of this section.

- Although Missouri is not considered a fiscal or operational comparative state to Kansas, Missouri is presented as one of the benchmarked states because of its shared border with Kansas.

- Missouri's Administrative Fund assessment rate is 1.00%, levied against insurance carriers' written premium.

- Using 1.00% as Kansas' recommended Administrative Fund assessment rate, levied against insurance carriers' written premiums, will be less than the 1.90% average of the 14 benchmarked states, in line with the most conservative one-third of the 14 states evaluated that use this standardized methodology, and commensurate with Missouri's 1.00% rate. This analysis considered the potential risk of employers relocating to Missouri from Kansas due to implementation of this recommendation.

- The revised assessment approach is favorable to the state for the following reasons:
  - » Enhanced revenue stream to the state
  - » Revenue may be recognized sooner using a written premium basis than on a paid loss basis
  - » Simpler rating methodology for the state to calculate and administer

   - » Consistent comparison to other states that use a standard assessment methodology
   - » The 1.00% rate is consistent with neighboring state Missouri and comfortably falls within the conservative rate ranges of the 14 premium-based peer states
   - » A written premium rating basis reduces the incentive for insurance carriers to avoid paying claims in order to avoid paying assessments, as might be the case using a paid-loss rating base

- Use the increased assessment revenue to support the recommended new ORM and the Division of Industrial Safety and Health, and to subsidize risk control and safety improvements across agencies for overall reduction of state claims and total cost of risk.

Recommendation # 2 - (dollars in 000's)				
FY17	FY18	FY19	FY20	FY21
$30,900	**$30,900**	**$30,900**	**$31**	**$31**

Key Assumptions

- Increased revenue will be achieved by changing the KDOL Assessment Rate base to written premium from prior year paid losses, at the same time reducing the rate percentage charged to state WC carriers to 1.00% from 2.79% against paid losses. With this change, Kansas can remain competitive with contiguous state Missouri's 1.00% written premium-based rate and with benchmarked states using the same standardized methodology.
- It is assumed Kansas' Administrative Fund assessment rating base will remain constant over the projected period of FY17 to FY21.
- No savings are projected for FY16 to allow time to effectuate regulatory changes that may be required and to notify state WC insurers of the change.

Critical Steps to Implement

The critical steps necessary to complete the implementation of recommendation #2 include:

- Effectuate any necessary statutory and/or regulatory changes to revise the rating base and percentage amount
- Notify state WC carriers of the changes

State Workers' Compensation Carrier Assessment Rate Benchmarks

Benchmarking was performed to evaluate the assessment rate levied by the Kansas Department of Labor (KDOL) to state Workers' Compensation (WC) carriers, to support its Administration Fund.

The states of Arkansas, Idaho, Illinois, Iowa, Michigan, Mississippi, Missouri, Nebraska, Nevada, New Mexico, Oklahoma, Pennsylvania, Texas, Utah, Washington and Wisconsin were initially identified as benchmark "peer" states to Kansas on a fiscal, operational, educational and/or contiguous-state basis for the purpose of comparing Administrative Fund assessment rates. An evaluation of those states found that five (Arkansas, Idaho, Illinois, Missouri and Oklahoma) levy a specific Administrative Fund assessment to state WC carriers in addition to taxes and other surcharges.

They do so by using a standardized assessment methodology with written premium as the rating basis. The other remaining evaluated states either do not have Administrative Funds, or have Administrative Funds but use varying assessment methodologies (for example, a flat amount, paid losses for each carrier, paid losses for all carriers on a pro-rated basis, or state-specific calculations).
The benchmarking comparison was then expanded to all 50 states for a broader data analysis, which found that 14 states support their Administrative Funds using the standardized methodology of levying an assessment rate against carriers' written premiums, 23 maintain no specific Administrative Fund, and the remaining states use varying assessment methodologies. The 14 comparative states are detailed in the chart below.[1]

Recommendation #3 – Re-bid Statewide Insurance Procurement through a Competitive Request for Proposal (RFP) Process

The state's recommended new Office of Risk Manage-

1 Source: National Council on Compensation Insurance (NCCI)Tax & Assessment History, Section 3-Detailed Tax and Assessment Information - https://www.ncci.com/onlinemanuals

ment (ORM) should work with the Department of Procurement to pursue more competitive insurance procurement practices:

- Assign oversight of all insurance procurement to the new ORM, to work with the Department of Procurement and all state departments, agencies, boards, and commissions to provide a coordinated and cost-effective insurance and risk management program for the state.
- Enhance statewide insurance procurement by utilizing a competitive RFP insurance procurement process and strategic sourcing of policies.
- Explore a mid-term competitive bidding process for the statewide property policy, including options for a multi-year coverage term, and cancel/rewrite the current policy mid-term FY16 if a better program is quoted.
- Competitively bid and leverage insurance policies across all agencies upon their renewals. Administer the RFP process to ensure that no single insurance broker can "block" insurance markets, such that it prevents other brokers from effectively competing on the state's insurance program. If more than one broker wishes to access the same carrier(s), the ORM should fairly assign markets to each interested broker. This truly competitive process will result in more insurers competing for the state's business, enhanced insurance coverage and reduced costs on brokerage commissions and policy premiums.

Background and Findings

- Statewide insurance policies are sourced through the Department of Procurement with the exception that state agencies are permitted to self-procure insurance up to $25,000 in premium.
- The majority of the state's insurance policies are sourced through the Department of Procurement. Exceptions to this include:
    - » Each Kansas Department of Education (KSDE) K-12 Unified School District (USD) procures and manages its own insurance
    - » Each Board of Regents higher education institution (i.e., colleges and universities) procures and manages its own insurance
- The state's FY16 annual P&C insurance premium expenditure, excluding the Department of Education and Board of Regents separate programs, is $2,840,000, based on insurance contract data received.
- Kansas' liability to third parties is capped at $500,000 under the Kansas Tort Claims Act (K.S.A. Chapter 75, State Departments; Public Officers and Employees, Article 61. Kansas Tort Claims Act[2]). The state finances this liability risk by self-insuring its General Liability exposures and insuring its Automobile Liability exposures (i.e., 4,998 state-owned vehicles plus hired [rented] vehicles and Department of Transportation [DOT] ve-

State	Current Administrative Assessment Rate/Tax *(Written Premium Basis)*	Fund Type / Comments
Arizona	2%	Administrative Fund including Occupational Disease
Arkansas	3%	Combined Fund - Administrative, Second Injury, Death & Permanent Total Disability
California	1%	Administrative Revolving Fund
Colorado	1%	Administrative Fund (Cash Fund Surcharge)
Connecticut	1%	Administrative Fund (Cash Fund Surcharge)
Florida	1%	Administrative Trust Fund
Idaho	2%	Industrial Administrative Fund
Illinois	1%	Industrial Commission Operations Fund (Admin)
Maine	2%	Administrative Fund
Missouri	1%	Administrative Tax

hicles) under a statewide Automobile Liability insurance policy and a separate DOT Automobile liability insurance policy, both with $500,000 liability limits.

  » Kansas' statutes permit the purchase of property insurance in limited situations. The state maintains a statewide property policy with a $200 million Loss Limit except $100 million limit for buildings at the State Capital Complex, subject to retentions of $2 million for state capital buildings, and $5 million for all other locations, for perils other than windstorm. The policy has a $5 million windstorm retention for all locations.

- Kansas maintains a self-insured program to provide Workers' Compensation (WC) benefits to its 35,000 state employees (the State Self Insurance Fund, or "WC SSIF"). The WC SSIF is administered by the Kansas Department of Health and Environment (KDHE). Approximately 2,000 new claims are incurred annually, with 1,492 prior open claims on record as of December 2015.

- The current WC SSIF claims group is comprised of 16 staff members including managers, supervisors, and 10 claims adjusters of varying specialties.

- Major WC SSIF service contracts currently in force are with Systema (for claims management software) and CompAlliance for limited Third Party Administration (TPA) services including nurse case management, medical bill re-pricing & payment, and durable medical equipment management. The FY16 contract costs are $136,000 and $1.7 million respectively.

  » Miscellaneous other surety bonds and insurance policies are in force for crime, van pool liability, separate other building and business personal property, equipment breakdown, medical professional liability, watercraft and aviation coverage.

Recommendation # 3 - (dollars in 000's)					
FY16	FY17	FY18	FY19	FY20	FY21
$71	**$284**	**$284**	**$284**	**$284**	**$284**

Key Assumptions

- Significant premium cost savings can be achieved by consolidation and leverage of insurance sourcing with implementation of a competitive insurance marketing process and centralized insurance procurement, overseen by the ORM.

- $284,000 annual cost savings can be achieved through a competitive marketing process among qualified brokers and carriers, projected at 10% of current annual policy premiums totaling $2,840,000.

- Implementation is expected to take at least three months beginning in January 2016, so the FY16 projected savings have been discounted by 75%.

- Premium savings will be derived primarily on the statewide property policy ($762,000 annual premium for the current term 07/01/2015 – 07/01/2016) by competitively re-bidding the existing policy in the current soft insurance market. The objective is to obtain lower premium rates and a multi-year coverage term.

  » Current soft market conditions may provide an opportunity to purchase a two or three year coverage term on the statewide property policy, which is typically a more cost effective solution than an annual policy. Furthermore, a multi-year term would enable the state to lock in the current premium rates for that period.

  » This approach would likely be subject to maximum loss experience criteria stipulated by the insurance carrier.

  » Policy terms should permit the state to remove, by endorsement, any property that is divested during the policy term and receive return premium.

  » No statewide property losses were reported on the loss run received by A&M; however, it was unclear whether claims might exist below the $5 million Self-Insured Retention (SIR) for state capital buildings and catastrophe losses, and $2 million SIR for all other locations. If the state's account is truly loss-free, a greater opportunity for savings exists.

  » If the statewide property policy is cancelled prior to its scheduled expiration date, the insurance carrier might assess a 10% short-rate penalty against the unearned portion of the premium that would otherwise be returned to the state as a premium refund. A short-rate penalty results in a reduction in the insurance premium refund and is intended by carriers to discourage early cancellation of insurance policies by insured's. The applicability of a short-rate penalty is one of the factors to consider when determining the advisability of a mid-term cancel/re-write of the statewide property policy. However, there still could be significant savings available to cancel and re-write the policy prior to its 07/01/2016 scheduled renewal, even if a 10% short-rate penalty does apply.

- In addition to premium cost savings, the improved sourcing and leveraged procurement process is expected to result in enhanced coverage terms, expanded market access and strategic insights.
- Communication and cooperation between state agencies, Department of Procurement, and the ORM (upon its establishment), to achieve coordination and leverage of insurance sourcing.

Critical Steps to Implement

The critical steps necessary to complete the implementation of recommendation #3 include:

- If required, amend the State's Financial Services Negotiated Procurement statute (75-3799) to allow for the execution of these operational recommendations.
- Prompt commencement of a statewide property insurance re-bid RFP and carrier-marketing process, targeting implementation by fourth quarter FY16.

Recommendation #4 – Replace WC SSIF Claims Function with an Experienced Third Party Administrator (TPA) Overseen by the Office of Risk Management (ORM)

Specifically, the state should:

- Reduce WC SSIF claims costs by outsourcing the WC SSIF claims functions for new claims, at the beginning of FY17, to an experienced and knowledgeable TPA, that has expertise and best practices in place to efficiently and effectively manage claims, to drive down overall claims costs for the state.
- Eliminate the existing 16 FTE WC SSIF claims staff (adjusters, supervisors and managers) at FY16 end.
- Transfer open runoff claims to the new TPA at the beginning of FY17. Close out as many of the currently open claims as possible by FY16 year-end to minimize the TPA investment expense to transfer the open runoff claims.
- Assign oversight of the new TPA to the new ORM detailed in recommendation #1.

Background and Findings

- Staff interviews and WC SSIF department review found that the majority of the existing WC SSIF claims staff have limited professional claims handling background or experience.
- Training of current WC SSIF staff is on the job and insufficient for optimal claims outcomes.
- Training the current adjusters and supervisors to an adequate level to effectively manage WC claims and reduce costs would be challenging, expensive and time-consuming.
- Outsourcing WC claims management to a TPA is a substantive step toward maximizing efficiencies and reducing claims costs for the state.
- Best practices identified in WC SSIF's own policies and procedures are not followed on a consistent basis, such as the use of Physical Therapy and Return-to-Work (RTW) Programs.
- Significant WC claims reporting lag time and claim close-out deficiencies were identified. A review of the WC SSIF claims files found that—lag time from the Date of Accident, to date of First Report of Injury, to date of claim setup, can be measured in weeks or months rather than days. This lag is primarily attributed to agencies not being educated on the costs caused by delayed WC reporting, and a lack of WC SSIF claims team aggressiveness in managing these claims.
- The number of WC fraud reports currently identified (two in the last 12 months) is believed to under-represent the actual fraud cases. The 1-800 Fraud Hotline (1-800-332-0353) is currently available only during state business hours and should be made available 24/7.
- Injured employees eligible for Temporary Total Disability (TTD) and WC Lost Time (Indemnity)

benefits are subject to a seven consecutive day waiting period. The effect of this waiting period, meant to encourage a quick return to work and discourage malingering, is diluted by:

» After 21 days out of work, the first week (waiting period) becomes retroactively payable, providing a financial disincentive for an employee's quick return to work.

» Employees continue to earn/accrue vacation/PTO time while receiving Workers' Compensation benefits.

Recommendation # 4 - (dollars in 000's)				
FY17	FY18	FY19	FY20	FY21
$3,116	**$4,956**	**$4,956**	**$4,956**	**$4,956**

Key Assumptions

- ORM Director is hired and operational by fourth quarter FY16.

- Capital outlay investment for outsourcing the WC claims function to a TPA, estimated at $2.24 million annual cost on a go-forward basis:

  » 2,000 total annual new claims, estimated breakdown of 70% (1,400) Medical Only and 30% (600) Indemnity claims.

  » TPA new-claim cost of 70% (1,400 claims) Medical Only at $400 fee per claim file, and 30% (600) Indemnity at $1,300 fee per claim file plus $900,000 additional cost for medical bill repricing, nurse case management, and other costs not included in the TPA's per-claim charge.

- Capital outlay investment for transfer of open runoff claims to the new TPA at the beginning of FY17, estimated at $1,460,500:

  » Open runoff claims to be transferred to the new TPA at the beginning of FY17 estimated at 2,000 based on the 1,492 open claims as of December 2015 advised by KDHE (845 Medical Only and 647 Indemnity claims), new claims which will occur between December 2015 and July 2016, and an initiative to close out as many currently open and new claims as possible by FY16 year-end.

  » TPA transfer cost at the start of FY17 for 2,000 open runoff claims at 70% (1,400), Medical Only claims at $400 fee per claim file, and 30% (600) Indemnity claims at $1,500 fee per claim file, plus $500,000 additional TPA fees not included in the per-claim file charge.

- Projected cost savings achieved by elimination of the current claims-related vendor contracts at FY16 year-end: $136,000/year Systema claims software contract and $1,700,000/year CompAlliance TPA contract, to coincide with the transfer of claims management to the new TPA. In this scenario, CompAlliance's services of medical bill repricing and payment, nurse case management and durable medical equipment (DME) management will be handled by the new full-service TPA going forward at an estimated annual expense of $900,000, and is included in the new TPA investment expense estimate above.

- Projected salary and benefit cost savings achieved by elimination of the existing 16 FTE WC SSIF claims personnel (i.e., adjusters, supervisors and managers) at FY16 year-end is approximately $814,009. This includes total base salaries of $589,746 plus 21% ($123,847) staffing overhead plus an estimated $6,276 ($523* 12 months each employee or $100,416 total) health benefits cost per the State's Budget Cost Indices for FY16 and FY17.

- Projected additional WC SSIF operational overhead cost savings (e.g., IT, subscriptions, equipment expense, etc.) of $586,000 (as per SMART FY15 budget period) can be achieved after elimination of WC SSIF claims staff and designating remaining WC SSIF functions to the new ORM.

- Annual cost savings of $3.96 million (18% on $22 million new annual claim costs for 2,000 claims) will be generated by reduced WC claims costs brought by the outsourced TPA's claims-handling expertise and technology to effectively manage new claims, in conjunction with new safety, loss control, and RTW strategies led by the ORM.

- The $3.96 million total estimated savings is expected to be derived primarily by implementation of WC best practices (via the TPA) and reduction in lag time, RTW, and fraud management (via ORM).

- Priority for the ORM Director (see recommendation #1) for the remainder of FY16 will be to:

  » Work with the Department of Procurement to develop and execute a detailed RFP for a TPA to handle SSIF WC claims on a go-forward basis. The TPA RFP should provide specific detail as to the TPA's process and responsibilities, as well as the expected performance criteria.

» Oversee and assist two assigned adjusters from the existing WC SSIF claims staff with the strongest Medical Only and Indemnity claims experience, to aggressively close out as many open claims as possible by FY16 year-end, as further detailed below.

- The ORM Director and KDHE aggressively work to close as many open claim files as possible to minimize the number of open runoff claims that will be transferred to the new TPA in order to mitigate the claims transfer cost.
  - » Re-assign the WC SSIF's two most experienced claims adjusters (one Medical Only claims specialist and one Indemnity claims specialist) to work with the new ORM Director to close out as many current open claims as possible by FY16 year-end.
  - » Concurrently, retain and utilize under KDHE direction the remainder of the existing WC SSIF claims staff until FY16 year-end to aggressively manage and close as many new claims as possible by FY16 year-end.

Critical Steps to Implement

The critical steps necessary to complete the implementation of recommendation #4 include:

- ORM Director is in place and operational as of fourth quarter FY16.
- ORM Director focuses the remainder of FY16 on (1) developing and executing an RFP process for a new TPA (2) working with two assigned SSIF adjusters to close out as many open runoff claims as possible, as detailed in the Key Assumptions section above.
- WC SSIF claims staff aggressively manages and closes new claims for the remainder of FY16.
- Eliminate WC SSIF claims staff at the end of FY16, assuming the new TPA is operational.
- Change state statute/policy to eliminate the ability for injured employees receiving Workers' Compensation benefits to concurrently accrue vacation/PTO time.

Procurement

Statewide and Cross-Agency

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- Tracy Diel, Director of Procurement and Contracts

PROCUREMENT OVERVIEW

The Office of Procurement and Contracts is the central procurement authority for the State of Kansas. Its primary responsibilities include facilitating the procurement and contracting processes, maintaining and enforcing the statewide procurement policies, and fostering a fair but competitive procurement environment for all suppliers involved in the procurement process.

The Office of Procurement and Contracts oversees the procurement of all products and services where the estimated cost for any given procurement action exceeds $5,000. However, state statutes provide exemptions for the Department of Transportation (KDOT), universities and school districts. KDOT oversees procurement activities for products and services that cost up to $25,000; anything over $25,000 falls under the responsibility of the Office of Procurement and Contracts. All universities and departments—governed by the Board of Regents and unified school districts—follow their own defined process and guidelines for procurement and selection of vendors, independent of the Office of Procurement and Contracts.

The state currently employs various procurement practices and defined procedures to attain the best contract value. The most notable practices are:

- Statewide mandatory contracts for use by all agencies for certain categories of spend
- Statewide optional contracts
- Cooperative agreements
- Agency specific contracts that include clauses permitting purchases by other agencies and political subdivisions

- Monthly conference calls to facilitate collaboration

Background of Recommendations

Alvarez & Marsal (A&M) conducted a thorough analysis of the state's procurement practices, utilizing information acquired by interviews with key personnel, independent review of supplier contracts and analysis of expenditure data from the State of Kansas. A key component of the analysis was the review of FY15 expenditure data to identify addressable spend—the total money allocated to each agency, university or school district that is linked to the procurement process.

The review of FY15 expenditure data for agencies and universities, identified approximately $2 billion in addressable spend (excluding $700 million in highway construction related addressable spend that is managed by KDOT). Since the school districts manage their budgets separately across different systems, the

		Target Savings and Revenue Estimate (All values in 2015 dollars, in 000s)						
Rec #	Recommendation Name	FY16	FY17	FY18	FY19	FY20	FY21	Total
1	Strategically Source Top Categories Statewide (across Agencies and Universities)**	$-	$10,875	$15,000	$15,000	$15,000	$15,000	$70,875
2	Implement a Category Management Capability and Strategically Source Remaining Categories	$-	$-	$4,125	$8,250	$8,250	$8,250	$28,875
3	Free Up Working Capital by Paying Invoices on Day 30***	$750	$3,000	$3,000	$3,000	$3,000	$3,000	$15,750
4	Negotiate Early Pay Discount Terms with Suppliers	$-	$750	$750	$750	$1,500	$1,500	$5,250
5	Ensure Sustainability of Savings by Automating the Procure-to-Pay Process	$-	($1,200)	$-	$-	$-	$-	($1,200)
6	Central Contract Repository	$-	$-	$-	$-	$-	$-	$-
7	Centralize the Management of Wireless Services	$-	$160	$160	$160	$160	$160	$799
8	Implement a Managed Print Services Model at Universities and Evaluate Agencies	$-	$673	$673	$673	$673	$673	$3,367
9	Optimize Facility Operations to Reduce Energy Usage	$-	$3,600	$3,600	$3,600	$3,600	$3,600	$18,000
Procurement Total Procurement Total		**$750**	**$17,858**	**$27,308**	**$31,433**	**$32,183**	**$32,183**	**$141,716**

Notes:
* The savings presented are against State funding sources only. The report excludes savings associated with Federal funding sources.
** An additional $9 million - $23 million (state funding sources only) in cost savings can be gained by including specific school district spend categories in this strategic sourcing exercise, as outlined in Education Recommendation #5.
*** The implementation of Recommendation #3 will reduce the state's working capital requirements by approximately $170 million immediately.

analysis focused on FY15 expenditure data obtained from a sample comprising of the top seven school districts. Data from the sample suggests that an estimated $1.6 billion of the school district spend is addressable (excluding $1.5 billion employee benefits and interest payments).

The information gleaned from interviews, contracts and data, show that the state:

- Is not leveraging the spend to its fullest potential
- Has a vendor base that is extensive and fragmented
- Does not conduct spend analyses to understand its annual volumes
- Has inefficiencies in processes and technologies that limit the state's ability to achieve the greatest cost savings

These considerable factors constitute a need for significant change to Kansas' procurement policies and procedures. Below is a summary of A&M's findings of potential cost savings and process efficiency recommendations identified in the procurement assessment.

RECOMMENDATION #1 - Strategically Source Top Categories Statewide (across Agencies and Universities)

The State of Kansas should conduct a statewide strategic sourcing exercise on a select group of high-value categories. This sourcing event would involve taking each category through a complete strategic sourcing exercise, which would include the followings steps: spend analysis, category assessment, category strategy, sourcing event, negotiation and selection, contracting and supplier transition.

Findings and Rationale

In order to drive significant savings, organizations employ a strategic sourcing approach to maximize the greatest value from procurement activities. The state's Procurement and Contracts group, which is responsible for the majority of procurement activities over $5K, does not follow a strategic sourcing methodology. Below are the key observations identified during this assessment:

- When conducting large, statewide sourcing events, the Procurement and Contracts groups does not use available state spend data to give prospective suppliers an estimate of total potential business volume.
- The state does not leverage its combined spend with suppliers. In most cases, the state obtains a provider primarily to service one agency and includes contract clauses to allow other agencies to use the contract as needed. With this approach, the state loses the benefit of negotiating the full annual volumes with the suppliers to get the lowest unit price(s).
- An internal price benchmark analysis of a sample of contracts across similar categories revealed unit price differences ranging from 7% to as much as 27% for certain categories.
- The state does not utilize optimal sourcing and contracting approaches.
    - » There are instances where using a market-basket approach would offer better pricing but instead the state uses broader product category discounts.
    - » There are a few contracts with index-based pricing. The state would benefit if this practice extended to other contracts where pricing changes are not well defined.
    - » There are some categories (such as IT hardware) in which a total cost of ownership analysis should be conducted to accurately gauge overall costs and ensure that suppliers are not decreasing costs in one area, while increasing costs in another.
- The state's supplier base is large and fragmented. There are over 12,000 unique suppliers providing services across the state's top 20 categories. Based on our experience, a measured approach towards reducing the supplier base will generate supplier management efficiencies and drive lower prices through greater consolidation of spend.
- The state does not utilize spend analyses to understand its overall spend.
- Cooperative purchasing agreements play a significant role in the state's procurement process. These types of agreements can be helpful for categories where the state does not have the annual volume to drive the lowest prices. However, since

the state does not use detailed spend analyses to enable a better understanding of historical spend, it is likely that some contracts may not be delivering the greatest cost savings.

- There is little to no use of early pay discounting in contracts.
- The state primarily utilizes administrative fees (0.5% – 1% of total supplier spend) as a form of rebate on most contracts. Tiered pricing strategies are seldom used since historical spend data has not been used to guide the sourcing process. Without employing strategic sourcing principles, it is likely that the vendors have priced-in the administrative fee into the unit prices.

Analysis of the state's agency and university expenditure data highlighted 20 categories that represent $864 million in addressable spend. Executing the strategic sourcing event in three waves for these categories can yield between $15 million – $38 million in estimated annual savings.

Reccomendation #1 - (dollars in 000's)				
FY 17	FY 18	FY 19	FY 20	FY 21
$10,875	**$15,000**	**$15,000**	**$15,000**	**$15,000**

Key Assumptions

- The procurement categories A&M recommends for sourcing in the first three waves are as follows:
  - » Wave 1
    - – Maintenance, Repair & Operations
    - – Pro Scientific Supply
    - – IT Equipment
    - – IT Services
    - – Telecommunication Services
    - – Food
    - – Electricity (see recommendation #9)
  - » Wave 2
    - – Professional Services
    - – Building Repair and Services
    - – Office Supply
    - – Natural Gas
    - – Building Materials
    - – Travel and Entertainment
    - – IT Software
    - – Lawyers & Attorneys
  - » Wave 3
    - – IT Consulting Services
    - – Pro Scientific Equipment
    - – Fuel
    - – IT Software Fees
    - – IT Repair Services
- The Procurement and Contracts group will require assistance to complete the strategic sourcing event.
- Key stakeholders from agencies and universities will be available to provide information and input as required.
- The state can terminate existing contracts for the target categories without penalty to the state.
- The strategic sourcing events will include university spend.
- The savings associated with some categories are dependent on the state implementing procurement efficiency recommendations.

Critical Steps to Implement

- Finalize the target categories for the strategic sourcing event.
- Identify and assign key stakeholders (agency and university) to assist with the sourcing event.
- Execute strategic sourcing process steps with category management teams.

RECOMMENDATION #2 - Implement a Category Management Capability and Strategically

Source Remaining Categories

Concurrent with recommendation #1—establish a standardized, unified, center-led strategic sourcing and category management capability within the Department of Administration (DOA). The purpose of this function should be to:

- Develop deep expertise in the highest spend categories that state agencies consume
- Track and report spend across the state
- Maintain a list of key local/agency requirements for each category
- Cultivate deep marketplace knowledge
- Be responsible for offering creative, viable solutions for satisfying the state's needs for goods and services

Findings/Rationale

Due to the way state statutes and practices are structured, the state's procurement process is required to primarily focus on the front-end contracting process. This is a common practice in public sector procurement and followed by numerous states. Therefore, it has a strong focus on ensuring a level playing field for suppliers in securing state contracts. However, this limited model of procurement does not take advantage of the state's full buying power. Below are the key insights of the procurement and contracting process that resulted from our interviews.

Process Observations

- The Department of Administration Procurement and Contracts group does a good job of facilitating the Request for Proposal (RFP), Request for Quotation (RFQ) and Invitation for Bid (IFB) processes for state agencies. Their activities are primarily limited to: reviewing the requisition, drafting the RFP/RFQ/IFB, issuing the RFP/RFQ/IFB, consolidating bid responses for the requesting agency to review, and facilitating the negotiation and contracting phase.
- The Procurement and Contracts group does not have an analytic function to conduct spend analyses and therefore is not able to effectively leverage statewide spend.
- This is no evidence of a formal supplier relationship or quality management capability. Each agency is responsible for monitoring the performance of their suppliers. The Procurement and Contracts group engages with suppliers post-award only if there are substantial performance or contract issues.
- Agencies have no insight into the requisitions pipeline to identify collaboration opportunities.
- There is no upfront involvement by the Procurement and Contracts group in major agency projects to help facilitate a faster RFP/RFQ/IFB process as well as to provide valuable procurement-related insight to the agencies.
- All procurement actions over $5,000 (except for universities and KDOT) go through the Procurement and Contracts group. Other states (Missouri, Nevada, Nebraska, etc.) allow agencies to conduct specific sourcing activities for spend up to $25K or even $50K to reduce the workload on the central procurement team.
- The use of mandatory contracts is well defined and known across the state. This process can be further expanded to other spend categories that can benefit from being managed centrally for greater leverage.

People Observations

- The tenure of the current Procurement and Contracts staff is very short due to significant turnover in the department.
- The Procurement and Contracts commodity managers lack the reporting and analytical tools to execute strategic sourcing.
- Most commodity managers do not have deep knowledge in the categories they manage. This is primarily due to the high turnover rate and because the central Procurement and Contracts group focuses mainly on facilitating the contracting process.

Technology Observations

- The data warehouse in the SMART system is rich with spend information that is currently not being utilized by the Procurement and Contracts group for reports and analysis.
- Line item invoice data is not available for review and analysis because purchase order and invoicing processes are paper-based and not electronic.
- Most universities have different systems to manage their individual procurement operations. The use of different systems hinders collaboration and makes it more challenging to conduct spend analyses that drive towards better procurement.
- P-card spend management is fragmented—data is drawn from different systems causing difficulty to best manage and leverage aggregate P-card spend.

In order to generate more value from the procurement and contracting process, the state should embrace a strategic sourcing mindset. The National Association of State Procurement Officials (NASPO) recently conducted a national study indicating that 53% of states interviewed, incorporated a strategic sourcing approach in their procurement process, and that number is said to be growing. A strategic sourcing mindset will allow the state to:

- Utilize spend analyses to obtain greater insight into what is being purchased statewide and how goods and services are consumed.
- Leverage statewide volumes to obtain lower unit pricing and greater discounts.
- Obtain an accurate view of the total cost of ownership of goods/services purchased.
- Utilize market intelligence to negotiate deals that are more favorable.
- Proactively address contract compliance and supplier performance.

A&M recommends that the State of Kansas take a staged approach to implementing a strategic sourcing and category management capability. This will require significant changes to people, process, and technology.

- Stage 1:
  - » Expand and upgrade the skills requirements for Procurement and Contracts.
  - » Train or hire category managers who are capable of executing strategic sourcing activities.
  - » Develop a spend analysis framework and establish standard reports that offer insight into the statewide spend, to aid the strategic sourcing process.
  - » Rationalize procurement categories to determine centrally sourced goods and services.
- Stage 2:
  - » Implement technology improvements to automate the procure-to-pay process.
  - » Enhance sourcing tools and training.
  - » Review and align procurement related statutes to Procurement and Contracts' mission.
- Stage 3:
  - » Enhance contract compliance procedures and tools.
  - » Build/Implement supplier relationship and performance management capability.
  - » Create visibility to school district spend so that they can be better served.

A&M's experience and research indicates that category management and strategic sourcing methods can significantly reduce costs, when properly implemented. Beyond the top 20 categories identified in recommendation #1, there is an additional $440 million of addressable agency and university spend across several categories, that can be targeted by the Procurement and Contracts group. Savings could range from $8 million – $16 million annually, by sustainably enabling category management and strategic sourcing practices.

Recommendation #2 - (dollars in 000's)			
FY 18	FY 19	FY 20	FY 21
$4,125	**$8,250**	**$8,250**	**$8,250**

Key Assumptions

- The categories represented in the above savings projections include: Building, Building Improvement, Vehicles, Contract Labor, Dues & Subscriptions, Advertising and Marketing, Vehicle Parts and Services, etc. These addressable spend categories are supplemental to the savings estimate included in recommendation #1 and do not include school district spend.

- The Procurement and Contracts group will acquire the skills and resources to implement a sustainable category management and strategic sourcing operation.
- The necessary tools and methodology will be available to the sourcing team.

Critical Steps to Implement

- Define the category manager roles and responsibilities.
- Align category manager workload with updated roles and responsibilities.
- Develop/Provide the necessary training to the category managers.
- Identify and implement the tools required for the category managers to execute their work effectively.
- Identify key stakeholders in the affected agencies and implement a transition plan to guide them through the change process.

RECOMMENDATION #3 - Free Up Working Capital by Paying Invoices on Day 30

The State of Kansas should configure the invoice payment process to automatically trigger payments closer to the invoice due date, in order to reduce working capital needs and forego the interest expense that would have been required to borrow the excess working capital.

Findings and Rationale

The State of Kansas' Prompt Payment Act (K.S.A. 75-6403) states that:

Each government agency shall make payment of the full amount due for such goods or services on or before the 30th calendar day after the date of receipt by the government agency of the goods and services or the date of receipt by the government agency of the bill therefor, whichever is later, unless other provisions for payment are agreed to in writing by the vendor and the government agency...

The state currently pays invoices, on average, 10 days after receipt of the invoice. The majority of supplier contracts have payment terms of Net 30 days (which require payment in 30 days of receiving the invoice) and these contracts do not have any established early pay discount terms. In comparison, the government/military sectors pay supplier invoices in 20 days from the receipt of the invoice, according to the 2015 APQC (non-profit business benchmarking organization) Accounts Payable (AP) and Expense Reimbursement Study.

The state should move to a 30-day payment cycle for supplier invoices, eliminating the need to fund up to 20 additional days of working capital. Increasing the payment cycle closer to 30 days will free up approximately $170 million in working capital that will have an immediate impact on the state's cash requirements. Additionally, the state will realize interest expense savings of $3 million annually.

Recommendation #3 - (dollars in 000's)					
FY 16	FY 17	FY 18	FY 19	FY 20	FY 21
$750	$3,000	$3,000	$3,000	$3,000	$3,000

Key Assumptions

- The payment cycle for expenses such as payroll, employee travel and entertainment expenses, welfare-related payments, bond payments, agency-to-agency transfers, payments to localities, utility payments, etc. will remain unchanged and is not subject to this recommendation.
- The reduction in interest expense will start in Q4 FY16.

Critical Steps to Implement

- Update the settings in the SMART system to hold and automatically release approved payments closer to day 30.
- Standardize the state's invoicing procedures to ensure that all agencies consistently enter the 'invoice receipt date' into SMART (provided the

contract calls for the 'invoice receipt date' and not the 'invoice date').

- Verify that SMART contains the correct payment terms for all suppliers.

RECOMMENDATION #4 - Negotiate Early Pay Discount Terms with Suppliers

The state should pursue early pay discount terms with suppliers.

Findings and Rationale

Of the numerous contracts reviewed, only one had early pay discount terms. All other contracts were set up with the default net 30 day terms. Based on our analysis of how quickly the state is able to approve and pay invoices (less than 10 days on average), the state can benefit from offering the industry standard 2% 10, net 30 day terms and/or the 1% 20 net 30 day terms to all suppliers that are willing to accept these terms.

After the initial launch of this program, it is likely that early adoption by suppliers may be low since the state's current practice of paying invoices within 10 days already benefits the suppliers significantly. Therefore, any savings associated with the launch of this early pay discount program is dependent on the state adopting the recommendation to start paying supplier invoices closer to the 30 day period, allowed by the statute. A conservative adoption rate of 2% in the early years of the program will yield $1 million in annual savings.

Recommendation #4 - (dollars in 000's)				
FY 17	FY 18	FY 19	FY 20	FY 21
$750	**$750**	**$750**	**$1,500**	**$1,500**

Key Assumptions

- The state makes the necessary adjustments to pay supplier invoices closer to day 30.
- The state is able to achieve an adoption rate of 2% of the expenditure available for discounting.
- The state launches the program effectively and efficiently.
- Suppliers are willing to renegotiate terms.

Critical Steps to Implement

- Identify the group of suppliers to target in the initial launch of the program.
- Develop an efficient approach to contact suppliers.
- Update contract terms in SMART.

RECOMMENDATION #5 - Ensure Sustainability of Savings by Automating the Procure-to-Pay Process

Define, enable and implement an automated and standardized procure-to-pay process across all agencies. This will bring consistency, transparency and improved efficiency to the procure-to-pay activities that include:

- Requisitioning
- Purchase order generation and issuance
- Goods receipt and matching
- Invoice receipt, approval and payment

Findings and Rationale

Effective strategic sourcing runs in conjunction with an effective procure-to-pay process that accomplishes the following:

- Captures line item invoice detail of the spend
- Utilizes a robust spend classification structure that properly codes spend information
- Employs electronic workflows throughout the process that reduces administrative costs and enables the capture of early pay or dynamic discounts
- Improves reporting capabilities

The State of Kansas' procure-to-pay processes are mostly manual and utilize a diverse set of tools across agencies, universities and school districts. Below are a few observations:

- The University of Kansas has implemented an automated procure-to-pay application via Sciquest. With this application, they are able to capture most of the benefits outlined above.
- The other universities have manual processes from the creation of the requisition to the approval process of the invoices.
- The state agencies all use Oracle's SMART application for the requisitioning and payment processes but lack the automation of the purchase orders, 3-way matching and invoice approval workflow. The lack of these key components drives up administrative costs and the time to approve invoices.
- The school districts have a manual procure-to-pay process.

The Gartner Magic Quadrant rated both Oracle PeopleSoft and Sciquest above average in terms of product functionality and customer satisfaction. Therefore, on the state agency side, there is no need to engage in application selection. The state can move forward immediately to implement a fully automated procure-to-pay process across the state agencies. On the university side, a requirements study should be conducted to decide whether to expand Sciquest or SMART to other universities.

Critical Steps to Implement

- Conduct an agency wide assessment to document the business and technical requirements.
- Conduct a university assessment to document business and technical requirements.
- Contact current application providers to document implementation plan, resources and fees.

Recommendation #5 - (dollars in 000's)				
FY 17	FY 18	FY 19	FY 20	FY 21
($1,200)	$-	$-	$-	$-

RECOMMENDATION #6 - Central Contract Repository

Create a central repository for all state contracts (agencies and universities). The repository should enable any state employee to search and locate all existing contracts easily. The repository should also provide insight and notice to the expiration of contracts.

Findings and Rationale

Across the State of Kansas, agencies store contracts in a decentralized manner. The Office of Procurement and Contracts has an online web portal that lists around 3,400 contracts. The web portal provides the option for end-users to search for contracts; however, searches can be difficult and time consuming due to non-standardized taxonomy. In addition, full contracts are not always stored online, causing lack of visibility for state employees in numerous instances.

Some agency specific contracts are not stored in the DOA contract portal, although the Procurement and Contracts group assisted with the contracting of the product or service. In these cases, the agency maintains those contracts separately. The universities are not required to use the Office of Procurement and Contracts to conduct sourcing events, therefore, all of their contracts are stored individually by each university.

By not making contracts visible to others, the state is:

- Increasing the workload of end-users doing research for contracts
- Losing leverage in situations where another department may benefit from the use of an existing contract
- Limiting collaboration across agencies
- Increasing the workload of the Procurement and Contracts group by conducting multiple sourcing events for the same product or service
- Limiting its ability to effectively monitor and enforce contract compliance

The State of Kansas already has two contract life-cycle management products: one from Oracle (used by state agencies) and the other by Sciquest (used by the University of Kansas and University of Kansas Medical Center). Both products are strong performers in their categories. The state should promptly initiate a project to do the following:

- Update the procurement process to scan and store all contracts electronically
- Determine which contract life-cycle management product(s) to use
- Develop consistent taxonomy to use for the contract storage repository
- Upload full contracts to the data repository
- Train end-users on the new process

There are many benefits to having a contract life cycle management application. The State of Kansas will be able to take advantage of these as its Procurement organization matures. At this time, the key immediate benefits to the state are as follows:

- Ease of use for end-users to search for and locate existing contracts
- Visibility into contract expirations for all contracts
- Better tracking of amendments and extensions to contracts
- Ability to better monitor contract compliance
- Ability to generate meaningful reports and insight to assist with strategic sourcing events

RECOMMENDATION #7 - Centralize the Management of Wireless Services

The state can reduce telecommunication costs by moving to a centrally managed wireless account management model.

Findings and Rationale

Currently, each state agency manages their wireless accounts separately. This decentralized approach has significant disadvantages for the state, which include:

- The inability to optimize rate plans consistently across the state
- Loss of leverage of wireless spend across the organization
- Continuing contract terms that may be out of sync with the current market
- Utilizing excess resources to manage accounts that can be consolidated

The State of Kansas has approximately 5,000 lines with its primary wireless service provider. Each agency with a wireless account is responsible for reviewing and processing invoices for payment, overseeing equipment and plan changes, and helping to resolve end-users issues. To manage these services more efficiently, the state should combine all accounts into one central account structure that will do the following:

- Eliminate the need for agency personnel to oversee the reviewing and processing of the invoice
- Enable better overall management of the data plans and equipment
- Enable the state to better leverage the volume to get lower pricing from wireless providers

A review of detailed usage data on 30% of the wireless lines provided by the state's primary telecom provider, which accounts for 67% of the wireless spend, revealed opportunities to realize approximately $160,000 in net annual savings across all lines, for that particular provider. The state can realize these savings by reducing the number of full time equivalent resources currently managing the accounts, optimizing the voice and data plans and outsourcing the management of the wireless accounts to a Telecom Expense Management company.

Recommendation #7 - (dollars in 000's)				
FY 17	FY 18	FY 19	FY 20	FY 21
$160	**$160**	**$160**	**$160**	**$160**

Key Assumptions

- All wireless accounts can be centralized and combined into one account for each provider.
- The agency resources currently overseeing the wireless accounts spend an average of 20% of their time managing these accounts.
- The state can hire a Telecom Expense Management company to perform the services at a competitive price. Alternatively, the state could opt to

assign a state employee(s) to manage the central accounts.

Critical Steps to Implement:Consolidate all agency accounts into a single account for each provider.

- Issue an RFQ/P for a Telecom Expense Management service provider.
- Develop and effectively communicate the standard operating procedures to the user group.

RECOMMENDATION #8 - Implement a Managed Print Services Model at Universities and Evaluate Agencies

Conduct a statewide assessment to identify which universities/colleges should move to network-based multi-function devices and away from distributed individual printers to reduce procurement and maintenance costs.

Findings/Rationale

There is no university-wide Managed Print Services (MPS) contract setup at Kansas State University and Wichita State University. In both locations, the departments primarily utilize local desk printers and copiers for their needs. Typically, large organizations that take a decentralized approach to managing print services, experience increased costs to the organization to procure printing supplies and equipment, to maintain the equipment, and to run the equipment due to higher energy usage.

Some state agencies have already moved to a networked multi-function device model. Additionally, the University of Kansas has moved to networked-based multi-function devices. They were able to achieve millions in costs savings over four years by prohibiting the use of unauthorized local printers, centralizing IT technicians and setting up an MPS contract. These savings are in line with the 10%-30% savings potential noted by Gartner and various MPS case studies.

A&M recommends that the State of Kansas conduct a statewide printing and copying assessment to identify where to deploy or redeploy an MPS model. The universities spend approximately $7.8 million for print services, supplies and equipment, combined. A&M estimates that they could save approximately $673,000 annually by switching to network-based multi-function devices. This savings estimate does not include the reduction in energy usage or refining existing MPS programs at other agencies or universities to drive higher savings or leveraging the consolidated spend statewide to get more favorable contract pricing from MPS providers.

Reccomendation #8 - (dollars in 000's)				
FY 17	FY 18	FY 19	FY 20	FY 21
$673	**$673**	**$673**	**$673**	**$673**

Key Assumptions

- University departments and colleges will participate in the assessment.
- The University of Kansas and the University of Kansas Medical Center have already implemented an MPS program.
- Some state agencies have implemented networked print services but have not entered into statewide MPS programs.

Critical Steps to Implement

- Initiate a statewide printing and copying assessment to outline all agencies/universities that should be part of the program and gather functional requirements.
- Work with the Office of Information and Technology Services and affected agencies/universities to outline technical requirements, approach, and address challenges.

RECOMMENDATION #9 – Optimize Facility Operations to Reduce Energy Usage

Conduct a comprehensive review of facility operations and control systems at state agency, university and school district buildings, in order to identify and implement control systems and operational changes that will significantly reduce energy usage and cost.

Findings and Rationale

A&M analyzed detailed natural gas and electricity data from a select group of high usage agency and university facilities. The data from these facilities came from meters that accounted for approximately 75% of total energy usage at the agency/university. The following observations are the result of the analysis:

- The comparison of demand versus degree-days shows large swings in the peak demand during the workweek and weekends at some facilities. Reducing peak demands would result in significant savings in demand charges and in usage costs.

- Optimizing control system performance can reduce the variation in demand on warm days.

- Poor synchronization among building energy management systems (EMS) may be causing volatile swings in energy usage observed at some facilities.

Recommendation #9 - (dollars in 000's)				
FY 17	FY 18	FY 19	FY 20	FY 21
$3,600	**$3,600**	**$3,600**	**$3,600**	**$3,600**

By optimizing facility operations, the state can generate between 10%–20% in reduced energy costs across the agency and university buildings, if the state makes the necessary control system changes and implements an ongoing plan to monitor energy usage.

A&M also reviewed energy data from select school districts. Unfortunately, most school districts reviewed did not have smart meters capable of providing detailed energy usage data in 15-minute intervals. Without smart meter data, the school districts lack a key tool to analyze energy usage to the degree performed for state agencies and universities. The school districts should work with energy providers to install smart meters promptly.

Key Assumptions

- The high demand electric and gas meter data (from the high usage agencies and universities) analyzed are representative of the state's energy spend.

- The analysis benchmarked facility's performance against itself—not against an industry standard.

- The detailed analysis utilized assumptions about actual and avoided cost of energy and demand where detailed bill histories were not available.

- Zero capital expenditure expected to drive cost savings—optimize existing systems only.

- The savings assume building controls systems are functioning properly.

- The savings projections are dependent on the state providing smart meter data and adhering to system changes recommended. A&M assumed an adoption rate of 50%.

Critical Steps to Implement

- Discuss detailed facility operations with the facility operators and control system vendors

- Develop and implement energy optimization plans for facilities

- Optimize build equipment

- Establish best practice maintenance methods

- Conduct subsequent reviews to identify and address performance issues in equipment controlled by the EMS

- Perform similar assessment at remaining high consumption state facilities and develop roadmap

- Install temporary smart meters to obtain detailed energy consumption data at non smart-metered facilities (e.g. school districts)

Information Technology

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Agency Overview

In today's technology centric business environment, a robust IT organization is critical for maintaining information and for delivering services—not only to the state government employees but also to the citizens of the state of Kansas. This requires ongoing investment, since effective IT organizations must constantly improve existing systems (such as information security), deploy new technology, and upgrade underlying infrastructure and systems approaching end of useful life. These investments need to be balanced against the need to operate the IT organization cost effectively through a combination of efficient use of people, processes, and tools.

IT services for various state agencies in Kansas are currently delivered by a combination of IT resources within each agency as well as the centralized Office of Information Technology Services (OITS). The Executive Branch Chief Information Technology Officer (CITO) for Kansas initiated a comprehensive effort using a third party consulting firm—Excipio Consulting—to baseline the IT expenditure and identify potential cost reduction opportunities for IT across all cabinet agencies and OITS.

Since the Excipio study was already underway and preceded A&M's engagement with the Legislature, it was determined that the most efficient approach was to coordinate across the two efforts—Excipio focused on the current use of technology resources, and A&M focused on longer term opportunities for improvement. Thus A&M did not conduct interviews with individual agencies nor conduct a separate data analysis. Hence, the data analysis conducted by Excipio has been used to quantify and support A&M's recommendations, where appropriate. As part of the efficiency review, A&M did interview key personnel in the Kansas Office of Information Technology Services (OITS).

Following is a brief summary of historical background on the IT organization, as well as, recent developments and changes in the IT organization.

IT Organization

- Historically, individual state agencies have provided most IT services to their respective employees with few services performed centrally.

- The Division of Information Systems and Communications (DISC), which was originally created in 1972, served as the central IT agency for Kansas until OITS was formed.

- OITS was officially formed on March 26, 2014 in response to Kansas Executive Order 11-46 under the Office of the Governor. This Executive Order brought all non-Regents Executive Branch agency information technology directors and all staff performing information technology functions in all Executive Branch state agencies together reporting to the Executive Chief Information Technology Officer. OITS was historically part of the Department of Administration (DOA).

- The current Executive Branch Chief Information Technology Officer (CITO) was hired on July 23, 2015 and established a new Operating Model for Executive Branch IT and OITS. This new operating model includes a seven member Core Leadership Team (CLT) that is an advisory group to the CITO and acts as a board of directors for Executive Branch IT (EBIT).

- In addition to the CLT, the new CITO has established four working groups: Finance/ Measures; People; Performance/Process/ITIL; and Architecture/Standards.
  - » The Finance/Measures working group is focused on fully understanding the EBIT budget, and defining how the budget can be managed across agencies.
  - » The People working group is focused on the recruitment and retention of qualified IT staff and rightsizing the staff to meet the needs of the agencies.
  - » The Performance/Process/ITIL working group is focused on defining and implementing processes that will allow EBIT to deliver consistent, repeatable and sustainable IT services.
  - » The Architecture/Standards working group is focused on leveraging the recent Excipio study to determine where EBIT has sufficient, sustainable, scalable, and cost effective architecture and develop a path for architecture and standards.

- The CITO Council is a management group consisting of three Chief Information Technology Officers (CITO) representing the Executive, Legislative and Judicial branches of Kansas state government. They meet quarterly to review status for all information technology projects with an estimated cost of $250,000 or more.

- The Board of Regents entities (colleges, universities and medical centers) each have their own autonomous IT departments. There is no meaningful collaboration on IT spending or projects across these entities or between the entities and the Executive Branch IT (including OTIS).

Previous Efficiency Initiatives

OITS conducted a broad study in 2012 with an objective to lower IT costs and improve state IT efficiency. This study identified 25 specific initiatives to achieve cost savings and service improvements. The initiatives are summarized below:

- Strengthen IT shared services model
  - » Re-evaluation of scope of KanWIN and AVPN (AT&T Virtual Private Network) rollout
  - » Re-evaluation of the appropriateness, scope and ROI of state unified communications offerings
  - » Development of a private cloud offering and cloud first strategy
  - » Metering of internet bandwidth utilization
  - » Consolidate email systems and implement uniform approach to mobile device management
  - » Consolidate IT licensing across agencies
  - » Optimize the IT acquisition and procurement process
- Rationalize and consolidate state application portfolios
  - » Develop roadmap for reduction in application variability leading to cost savings
  - » Encourage adoption of more open-source software where appropriate
- Create a transparent and efficient organization
  - » Rationalize and isolate OITS central office rates
  - » Annualized rate assessments for centralized

services

» Development of key performance and customer satisfaction indicators

- Improve access to state systems
  » Simplify and expand wireless access in state facilities
  » Centralize filtering and monitoring of internet traffic
  » Shift to a centralized licensing and registration system
  » Contract for a centralized no cost or low cost payment portal
- Improve portfolio management and governance
  » Formalize enterprise architecture review process
  » Formalize and enforce data sharing standards
- Strengthen the cybersecurity of state systems
  » Develop team of centralized and consistently trained cybersecurity professionals
  » Centralize and standardize IT security and safety awareness training
- Develop an efficient and skilled IT workforce
  » Implement a statewide IT workforce management and service desk ticketing system
  » Accelerate forum creation and develop a forum leadership program
  » Develop a workforce and skills inventory
  » Incentivize staff for cost saving innovations
  » Optimize use of IT staff located outside the Topeka metropolitan area

While the initiatives identified represent a comprehensive set of cost reduction and efficiency improvement ideas, A&M interviews with current OITS leadership indicates very little progress has been made on implementing these initiatives since their publication three years ago. Many of these ideas are still relevant today in improving IT efficiency, such as, consolidation of IT licensing and procurement process across agencies, and hence are also included in current A&M recommendations. The lack of progress on these initiatives is attributable to multiple factors—limited project/program and change management skills within the IT team to execute the projects, need to establish consensus across agencies, and turnover in IT leadership.

The Office of the Chief Information Technology Architect (CITA) prepared an IT Consolidation Feasibility Study in 2010. This study sought input from state agency IT leaders, researched IT consolidation initiatives in other states, and engaged outside IT experts from Forrester and Gartner to recommend consolidating the following IT services and functions to reduce IT spending by approximately $350 million over a 10 year period. Recommendations included:

- Data centers (invest in two new data centers—primary and secondary)
- Physical servers (relocate existing servers to the proposed new data centers)
- Server virtualization
- Storage (invest in two Storage Area Networks for centralized storage service)
- Email (common statewide email solution)
- Unified Communication and Collaboration
- Identity management (centralized Active Directory system for all agencies)
- Middleware applications (e.g. document management, CRM, data warehouse)
- Desktop support (all resources and support staff for computing services)
- Network support (voice and data services and all network support technicians)
- Application development staff (centralized pool of application development resources)

Once again, these were all good recommendations to reduce cost of IT services, many of which are included in A&M's recommendations as part of the current efficiency study. However, with the exception of a few items, such as server virtualization, not much progress has been made to date in consolidating these IT services. The study cited risks and concerns that had to be mitigated for successful consolidation, including proper executive leadership with expanded responsibilities for the state CITO, state's central IT organization's ability to execute, unique security requirements for various agencies, and buy-in from impacted agencies.

More recently, the current Executive Branch CITO hired Excipio in September 2015 to:

- Conduct an IT efficiency study across OITS and the 13 cabinet agencies.
- Identify current fiscal year savings opportunities.
- Document IT budgets across the agencies for the first time as a baseline for future planning activities.
- Gather the initial data required to implement a Configuration Management Database (CMDB).

This initiative is currently in progress. A&M's report leverages the data and content gathered by Excipio and information furnished by OITS.

Baseline Budget

The State of Kansas does not currently have a consolidated IT budget since the IT spending is distributed across OITS and various IT teams within the state agencies. The baseline budget data below is based on the information furnished by OITS and 13 cabinet agencies, in response to the IT spending data gathering survey conducted by Excipio. Due to the lack of a statewide centralized IT budgeting process, IT spending data for previous years is not readily available for conducting a trend analysis across various spend categories. Hence, one of A&M recommendations includes revising the IT budgeting process.

Information Technology Spending*

(All values in 000s)

	FY 2015 Actual	FY 2016 Approved Budget	FY 2016 Revised Budget
Department of Commerce	$1,549	$1,039	$1,474
Department for Children and Families	$25,241	$32,426	$34,160
Department of Administration	$9,929	$7,560	$7,560
Department of Labor	$6,940	$6,940	$6,902
Department of Revenue	$15,641	$12,076	$14,631
Department of Transportation	$18,647	$25,476	$24,832
Department for Aging and Disability Services	$5,120	$5,682	$4,737
Depart of Health and Environment	$18,836	$11,767	$11,819
Department of Corrections	$8,388	$5,880	$5,847
Department of Wildlife Parks and Tourism	$2,116	$1,561	$1,445
Highway Patrol	$3,517	$3,758	$4,382
Department of Agriculture	$2,136	$1,409	$1,490
Office of Information Technology Services	$40,596	$32,827	$44,705
Total	**$158,655**	**$148,401**	**$163,984**

* Excludes KDHE Maximus; KEES/MMIS System and professional services (from Excipio)

Below are some key observations on the IT budget:

- IT budgets are not well defined within the agencies.
  - » Some agencies have IT departments, while others have IT programs. Some agencies have neither an IT department nor an IT program.
  - » The agencies do not use IT account codes consistently.
- OITS operates on a fee for service basis and does not have its own dedicated budget. All of OITS budget is derived from the agencies through a chargeback mechanism. The agencies have not historically had any input into the chargeback mechanism and generally believe that the rates that they are charged by OITS are above market rates.
- The IT spending data survey indicates OITS and 13 cabinet agencies combined spent $159 million in 2015 and budgeted $164 million in 2016. This excludes KDHE related expenses for Maximus ($13 million) and KEES/MMIS System ($34 million) as well as professional services. This spend amount is in contrast to the study published by State of Kansas Office of the Chief Information Technology Architect in 2010, which estimated IT spend across agencies in the three branches of government for Kansas was $192 million in 2002 and $248 million in 2010.
- Of the $164 million FY 2016 Revised Budget, it is estimated that $46 million (28%) is funded by federal sources while the remaining $118 million is funded by the state.
- Of the $164 million FY 2016 Revised Budget, $103.2 million (63%) represents costs associated with 48 IT/OTIS specific account codes; $55.3 million (33%) represents labor costs; and $7.5 million (5%) is categorized as other (i.e., rent, travel).
- Kansas Information Technology Office (KITO) has the responsibility of providing quarterly status reporting for all IT projects with a budget of $250,000 or greater (the latest report published in November 2015 lists 21 separate projects totaling $88,054,892).

Benchmark Comparisons

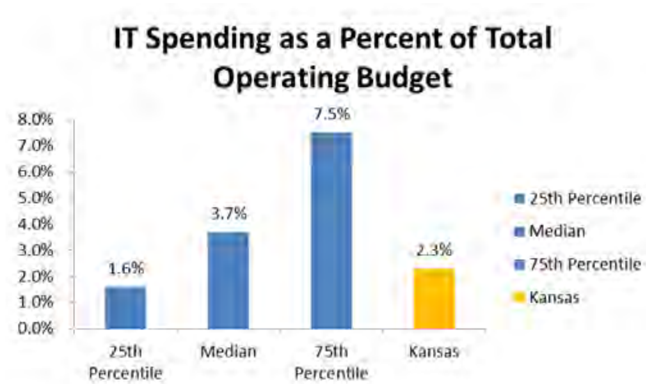
The following benchmark data is based on the IT Staffing and Spending Benchmarks for state, federal, and regional government agencies published by Computer Economics for 2014/2015[1]. These benchmarks are based on the survey data from respondents in this sector including transportation planning agencies, public health agencies, social service agencies, environmental regulatory agencies, civil service commissions, and other federal, state, and regional government units.

According to Computer Economics, IT spending in public sector is generally similar to spending on IT in private sector organizations. Public sector IT organizations place a high emphasis on cost efficiency but typically lag behind private sector organizations in adopting new technologies and investing in new initiatives. Public sector organizations are often focused on e-government applications, asset management, geographic information systems, and specialized accounting systems. Information security, privacy, and disaster recovery are considered important as well.

State of Kansas and EBIT do not currently have a consolidated IT budget, which limits their ability to perform comparisons against other states. The following comparisons utilize the best available estimates from the state's 2016 budget data and compare them to the Computer Economics 2014/2015 report[1].

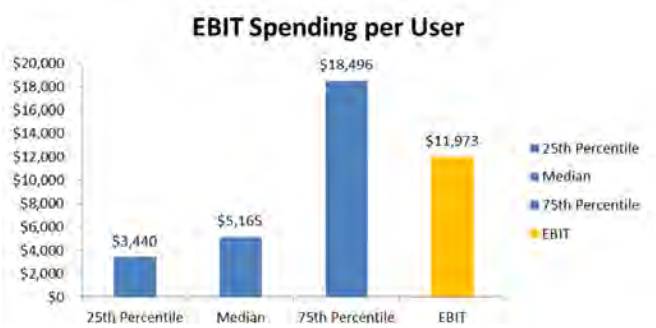
Kansas currently spends 2.3% of its total state budget

1 "IT Spending and Staffing Benchmarks – Government Agency Subsector Metrics 2014/2015," Computer Economics.

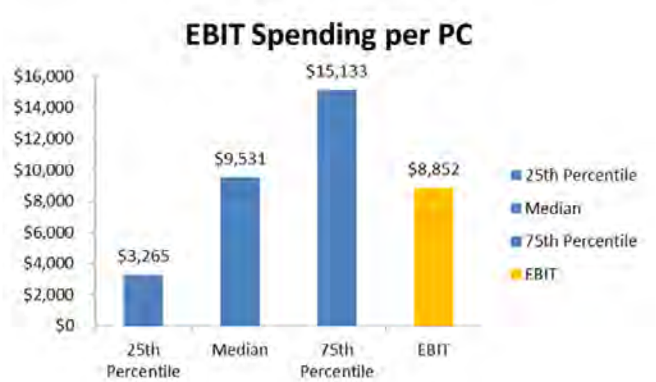


on IT, placing it below the median for public sector entities.

Additional metrics that are helpful in assessing the comparative adequacy of IT spending include IT spending per user and IT spending per PC. These metrics tend to be more stable measures of IT spending.

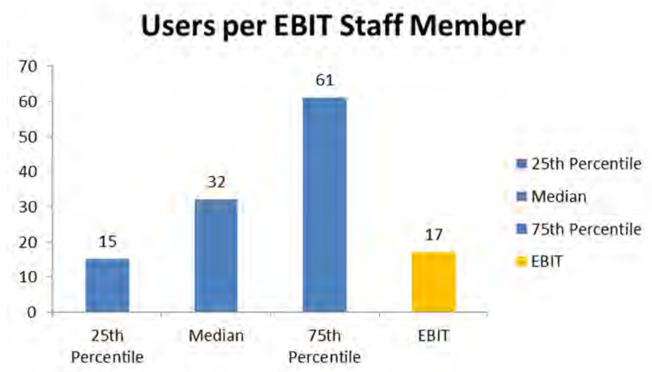


Furthermore, evaluating an organization's IT spending by using several metrics, provides a more complete view of IT budget performance.



EBIT spending per user is above the median and IT spending per PC is slightly below the median, in the public sector comparison group.

EBIT spends a relatively higher amount per user compared to the public sector comparison group. This is indicative of inefficiencies in the cost of delivering IT



services. This is further reflected in the chart below comparing the number of users supported per IT staff. EBIT is just above the bottom quartile in this metric.

Summary

IT is delivered to the agencies and citizens of Kansas primarily through a series of duplicated functions (e.g., data center; network, end use computing; service desk and applications development & support) across the various cabinet agencies. There are limited leveraged services (i.e., mainframe support; and some network services) provided by OTIS. However, these services are not well received by the agencies because of perceived high cost and limited flexibility. Several findings are identified which inhibit effectiveness of IT within the state:

- The state has not maintained IT budget data consistently across the agencies and is unable evaluate the total cost of ownership for the basic building blocks of IT (PCs, servers, storage, labor) or to track trends.
- IT leadership does not have qualitative metrics (i.e., systems availability; incident response and restore times, first call problem resolution; defect rates) to track and manage the effectiveness of IT and communicate with their customers.
- Every IT organization in the state struggles to attract and retain the talent required to deliver high-quality reliable IT services.
- There is limited tracking of quantitative or qualitative metrics associated with IT service delivery.

A prerequisite to implementing sustainable improvements in IT effectiveness and efficiency is to put in place the necessary budgetary controls and qualitative metrics discipline.

A&M has identified opportunities to improve IT efficiencies across Executive Branch IT (cabinet agencies and OITS). These recommendations consist of consolidating common IT functions across various agencies that are expected to result in direct cost reductions. In addition, recommendations have been made for:

- Improving IT project approval process
- Improving IT project management function
- Proactive management of third party IT spend
- Revising the IT budgeting process

Although these types of recommendations do not generate direct cost reductions, over time, they will lead to more effective and efficient IT operations.

In combination, these recommendations will help the state of Kansas achieve:

- Better economies of scale
- Improved levels of service to agencies and citizens
- Greater transparency (costs and quality of service)
- Shift a large amount of fixed costs to variable costs (usage based)
- Support strategic and long range planning
- Capital avoidance

A&M has recommended the state review the opportunity to appropriate funding to OITS directly in support of a centralized technology management function in support of the government operations and citizen services. This action will empower OTIS to increase its ability to apply governance over technology investments and long term planning efforts.

Additionally, in other agency recommendations, A&M has identified opportunities to reduce costs through reallocating their technology resources and establishing service level agreements with OITS to provide support for requirements. Such a shifting of resources will require a broader analysis of cross-agency requirements, development of service level agreements, and a state level workforce analysis of technology personnel from these agencies. Centralization is a significant effort supporting the most efficient use of resources driving service and value across the state enterprise.

Recommendations

A&M recommends consolidating common IT Services currently performed across different state agencies (including Board of Regents entities, where possible).

- Consolidate common IT functions across agencies, including:
  - » Data Center (mainframe, servers, and related backup and storage systems)
  - » Network Services (Network Operations Center, WAN, LAN, voice and data services)
  - » Service Desk & End User Computing services (EUC) (desktop, laptop, tablets)

Target Savings and Revenue Estimate

(All values in 2015 dollars, in 000s)

Rec #	Recommendation Name	FY17	FY18	FY19	FY20	FY21	Total
1	Consolidate Data Center	$1,820	$1,820	$1,820	$1,820	$1,820	$9,100
2	Consolidate Network Services	$1,625	$1,625	$1,625	$1,625	$1,625	$8,125
3	Consolidate Service Desk and EUC	$2,400	$2,400	$2,400	$2,400	$2,400	$12,000
4	Consolidate ADM	$1,900	$1,900	$1,900	$1,900	$1,900	$9,500
5	Consolidate Project Management, Security, Management and Other	$968	$968	$968	$968	$968	$4,840
Technology Total		**$8,713**	**$8,713**	**$8,713**	**$8,713**	**$8,713**	**$43,565**

   - » Application Development and Maintenance (ADM)
   - » Project Management, Security, Management and Other

- Conduct a "make/build" vs. "buy" decision analysis for each consolidation opportunity listed above, to determine whether to deliver an IT service using internal resources or use outside service providers

Develop a consolidation/outsourcing roadmap for each consolidation opportunity to maximize savings while minimizing risk. Some IT functions can be outsourced prior to consolidation while others are better suited for consolidation prior to outsourcing.

Recommendation #1 – Data Center Consolidation

Background

There have been numerous prior proposals to consolidate data centers in Kansas. In 2013, IBM conducted a comprehensive study of the data center environment for the state of Kansas with the following key findings:

- Kansas data center infrastructure is highly dispersed across agencies leading to added complexity and limited economies of scale.
- Server virtualization is done within agencies silos limiting overall potential for efficiencies (average server utilization at 14%).
- Server and storage hardware is aging and requires update (over 70% are more than four years old).
- Need to drive to higher levels of standardization and automation (over 120 variations of servers in use).
- Lack of service level definitions aligned to business requirements.
- Lack of comprehensive and integrated toolset to support management and monitoring of storage infrastructure.

Following the IBM study, the EBTM project was launched to provide private cloud services to state agencies, in order to resolve the aging server environment and other IBM findings.

Excipio completed a review of the EBTM project and concluded that "the current data center/cloud strategy is not appropriate for the state." Several factors led to that conclusion:

- Project was not properly scoped (e.g., under-provisioned memory and storage configurations but excess server capacity).
- Flawed assumptions led to an overpriced solution (e.g. synchronous replication, limited virtualization, solution complexity).
- Lack of internal skills to design, implement, and manage a private cloud environment.

Existing Data Centers

OITS utilizes two primary data centers. The lager of the two is located in the Landon building and consists of 14,000 ft^2 of floor space with approximately 150 racks. The State Historical Society houses another data center consisting of 1,200 ft^2 and approximately 55 racks. In addition to these data centers, the Department of Transportation (DOT) and other agencies maintain a mix of data centers and server closets. The CITA data center consolidation study conducted in 2010, estimated approximately 50,000 ft^2 of total space was being used by agencies across the state to host computing equipment.

The states computing infrastructure is currently housed in buildings that were not originally designed as data centers and therefore do not conform to industry standards for resiliency and redundancy (e.g., single point of failure).

Mainframe Environment

The state operates a single IBM mainframe with 718 MIPS and 32 GB of memory. The mainframe currently supports applications for DCF, DOT, DOL and DOR. All agencies are currently pursuing strategies to migrate away from the mainframe. The state spends $6.383 million per year to support the mainframe environment. As agencies migrate their application away from the mainframe, most of the state's mainframe costs will not decrease. Given the chargeback structure, the last agency utilizing the mainframe will bear all of the costs associated with the mainframe.

Server Environment

Excipio found that there are 2,183 servers in the Topeka area. While 71% of the Topeka area servers were virtualized the current VM to Host ration of 8.2:1 is significantly below the industry target of 20:1 to 30:1. The Topeka area servers utilize approximately 1.4 PBs of storage.

The agencies have deferred refresh of the server and storage environment. Currently 71% of the servers are older than five years, while 74% of server storage devices are older than four years and in critical need of refresh.

Recommendation

As stated earlier, A&M recommends a "make vs. buy" analysis be conducted for each IT function being consolidated. Given the current condition of the state's data center infrastructure (age, condition and capacity of the existing data centers as well as the significant capital requirement needed to refresh the server and storage environment) A&M believes that Kansas should strongly consider outsourcing all existing state-owned data centers (mainframe, server and storage) to an external IT service provider utilizing consumption based pricing and industry standard service levels.

Data Center consolidation and outsourcing would replace the existing EBTM project and provide all state agencies (including colleges and universities) with access to secure compute utility on commercial terms. This has the potential to lower operating costs, lower the CapEx budget—associated with replacing an aging server environment, increase availability, and provide a means to recoup some of the EBTM hardware investment. Below is a listing of some of the current data centers (in addition, there are several locations with server closets scattered across the state):

Consolidating and outsourcing the data centers represents a relatively low risk solution that can successfully address several of the state's current issues, including:

- Aging servers, storage and need for greater server virtualization
- Allow the state's mainframe costs to ramp down as agencies migrate away from the mainframe

Recommendation #1 - (dollars in 000's)				
FY17	FY18	FY19	FY20	FY21
$1,820	$1,820	$1,820	$1,820	$1,820

- Lack of resilient data center strategy and DR capability
- CapEx requirements over the next 18 months for equipment refresh

Savings Potential

The key components of savings associated with this recommendation include:

- **Mainframe Costs** – There are currently 39.44 FTEs supporting the mainframe environment representing $2.4 million of annual labor costs. Additionally, there are $4 million of annual non-labor costs (HW maintenance and SW) for a total of $6.4 million of mainframe related costs. If bundled with a comprehensive data center outsourcing initiative, the state could generate between 15% and 25% in total savings or $960,000 to $1.6 million in annual savings.
- **Server & Storage Costs** – There are 59.68 FTEs supporting the server, storage and data center environment representing $4.3 million of annual labor costs. The annual non-labor costs (HW maintenance and SW) for the server and storage component of the data centers is not known due to the lack of accurate budget data. Organizations with decentralized data center support generally achieve between 20% and 30% in savings through consolidation and outsourcing data center support. This equates to annual labor savings of $860,000 to $1.3 million.
- **Space Related Costs** – Outsourcing the data centers would free up 50,000 ft^2 of floor space according to the CITA data center consolidation study and result in utility savings as well as support equipment costs for Power Supplies (UPS), Power Distribution Units (PDUs) and chillers.
- **Capital Avoidance** – OITS and the agencies have delayed refresh of the server environment in anticipation of the EBTM project. Currently more than 70% of the server and storage environment is operating beyond the useful asset life (more than five years old). This places the systems running in that environment at increased risk of failure. The Power Distribution Units (PDUs) and Uninterruptible Power Supplies (UPSs) are also significantly past their useful life (15 years old at the Landon data center) and place the data cen-

ters at increased risk for outages.

The state has already spent $18.6 million of the budgeted $33 million on the EBTM project. Excipio estimates that the actual cost to complete the EBTM project will exceed $55 million. The Executive Branch CIO has halted this project.

A conservative estimate of the capital required to refresh the server and storage hardware and the power equipment for the two primary data centers is $10 million. This investment has not been budgeted.

Thus the recommendation is to outsource all existing state-owned data centers (mainframe, server and storage) to a Tier 1 external IT service provider. Utilizing consumption-based pricing and industry standard service levels will eliminate the need to fund the capital necessary to refresh the server and storage environment. This would provide all state agencies (including universities) with access to secure compute utility on commercial terms (consumption-based pricing and committed service levels) and provide a means to recoup some of the EBTM hardware investment.

Recommendation # 2 - Network Services Consolidation

Background

OITS provides the core Wide Area Network (WAN) to most state agencies. OTIS provides centralized voice services to some state agencies and local government entities. Most agencies provide their own Local Area Network (LAN) capability and voice systems. Additionally, the Kansas Department of Transportation (KDOT) manages its own fiber and radio network.

Component	Quantity	Useful Life (years)	% At or Past Useful Life
WAN Devices	675	5	74%
LAN Devices	1,835	6	75%

Most of the state's network and telecommunications hardware is past its useful life and in need of refresh. The cost for the necessary refresh has not been estimated or budgeted for.

Source: Excipio Consulting, LLC

There are currently 144 people supporting network and telecommunications across OTIS and the agencies. Many of the people supporting the network and telecommunications environment do so only as part of their job as evidenced by the fact that 72.46 FTEs support the network and telecommunications environment representing $5.2 million of annual labor costs.

Excipio identified $11.6 million in telecommunications contract spending across the cabinet agencies and OTIS. Of that amount, the state spends $7.2 million on long distance services.

There are 411 small (less than 7 Mbps) data circuits provided through AT&T's Virtual Private Network (AVPN) at a cost of $2.8 million annually ($6,813 per circuit per year).

Many agencies still maintain local private branch exchange (PBX) equipment and phone systems. Of the PBX equipment used by these agencies, 92% of them are past their end of life, and in need of refresh.

Recommendation

A&M recommends consolidating all network services, including Network Operations Center (NOC), Wide Area Network (WAN), Local Area Network (LAN), voice and data services across the state agencies.

Additionally, the state should evaluate alternatives for the expensive AVPN data circuits and the aging PBX phone solutions.

As part of the consolidation planning, the state should consider outsourcing the network and telecommunications support as a way to:

- Further reduce costs
- Accelerate consolidation
- Gain access to skills that are in short supply

Recommendation #2 - (dollars in 000's)				
FY17	FY18	FY19	FY20	FY21
$1,625	**$1,625**	**$1,625**	**$1,625**	**$1,625**

- Convert much of the fixed cost to variable (consumption-based) costs

A&M recommends bundling the Network Services and Data Center outsourcing evaluations together to gain greater leverage and better pricing.

Savings Potential

The key components of savings associated with this recommendation include:

- **Labor Costs** – There are currently 72.46 FTEs providing network and telecommunications support representing $5.2 million of annual labor costs. Consolidation (considering the part-time commitment of these resources) could generate between 10% and 15% in total savings or $525,000 to $786,000 in annual savings.

- **AVPN Costs** – There are 411 AVPN circuits costing the state $2.8 million annually. A mix of AVPN renegotiating and resolutioning (e.g., cable modems; Ethernet alternatives) should achieve between 40% and 60% in savings. This equates to annual savings of $1.1 million to $1.6 million.

- **AT&T Contract Renegotiation** – The AT&T contract is due for renegotiation in June of 2016. The potential savings associated with this event is included in the Procurement chapter as a Strategic Sourcing event.

Recommendation # 3 - Service Desk and End User Computing Services Consolidation

Background

State agencies staff their Service Desk individually with internal resources that are not leveraged across other agencies. Some agencies do not have dedicated service desk staff and use cross-functional IT resources from their internal IT departments.

There is no standardization on the service desk ticketing system (service management tool) used across the agencies.

There are currently 134 FTEs providing Service Desk and End User Computing (EUC) support across OTIS and the cabinet agencies.

More than half of the EUC users are outside of Topeka. They are supported through a mix of Topeka based support staff and a regional dispatch model.

Recommendation

A&M recommends consolidating Service Desk operations (Level 1 support) and EUC support across all of EBIT. EBIT should also develop standardization on a single service desk ticketing system and evaluate opportunities to improve remote user support through a regional depot system with adequate spares. This will lower costs, reduce duplication of effort and can lead to improved service (e.g. coverage hours, answer rate, First Call Resolution).

Recommendation #3 - (dollars in 000's)				
FY17	FY18	FY19	FY20	FY21
$2,400	**$2,400**	**$2,400**	**$2,400**	**$2,400**

As part of the consolidation planning, the state should consider outsourcing the Service Desk and EUC support as a way to further reduce costs; accelerate consolidation; gain access to skills that are in short supply and enhance support for the large number of remote EUC users.

Savings Potential

The key components of savings associated with this recommendation include:

- **Labor Costs** – There are currently 134.24 FTEs providing Service Desk and EUC support representing $8 million of annual labor costs. Consolidation could generate between 30% and 50% in total savings or $2.4 million to $4 million in annual savings.

- **PC Purchasing** – PC purchasing is not leveraged across agencies and there are no standard configurations defined. EBIT should implement a strategic PC purchasing capability and enforce standard configurations to not only lower the purchase price but lower the lifetime support costs as well. The potential savings associated with this recommendation is included in the Procurement chapter as a Strategic Sourcing event.

Recommendation #4 - Application Development and Maintenance Consolidation

Background

There are 248 FTEs currently performing Application Development and Maintenance (ADM) and database administration activities across EBIT. Approximately 20% of these resources are performing database management while the remaining resources are engaged in application development and maintenance tasks.

Historically, each agency managed its own development resources with little sharing across agencies. There is no formal process in place to track skills/capabilities and no attempt to optimize ADM resources across EBIT.

Recommendation

A&M recommends consolidating ADM and database administration across all of EBIT.

A first step in this consolidation effort should include a review of the personnel roles, responsibilities and competencies of the staff associated with this function.

Recommendation #4 - (dollars in 000's)				
FY17	FY18	FY19	FY20	FY21
$1,900	$1,900	$1,900	$1,900	$1,900

As part of the consolidation planning, the state should consider outsourcing ADM and database support as a way to further reduce costs, accelerate consolidation, and gain access to skills that are in short supply.

Savings Potential

The key components of savings associated with this recommendation include:

- **Labor Costs** – There are currently 248.83 FTEs providing ADM and database support services representing $18.9 million of annual labor costs. Consolidation could generate between 10% and 15% in total savings or $1.9 million to $2.8 million in annual savings.

Recommendation #5 – Consolidate Project Management, Security, Management and "Other" activities

Background

In addition to the FTEs addressed in the four previous recommendations, Excipio identified the following FTEs performing IT activities across EBIT:

Total :	230.55	$19.373 million

Recommendation

A&M recommends consolidating these activities across all of EBIT to the extent possible.

As part of the consolidation planning, the state should consider implementing a complete organization redesign for EBIT that addresses organizational structure, span of control and centralized vs. decentralized activities.

The decisions regarding what activities to retain in-house vs. which activities should be performed by external organizations, will be a key driver in the organizational design. ITIL process implementation and contract management requirements will also be significant contributors to the design effort.

Savings Potential

The key components of savings associated with this recommendation include:

- **Labor Costs** – There are currently 230.55 FTEs providing Project Management, Security, Management and "Other" representing $19.4 million of annual labor costs. Consolidation could generate between 5% and 10% in total savings or $968,000 to $1.9 million in annual savings.

Summary

Executive Branch IT (EBIT) has made good progress laying the foundation for consolidating common IT functions under the leadership of the newly appointed Executive Branch CITO. The establishment of the Core Leadership Team (CLT) and the four Working Groups represent a good start down the path of consolidation.

- Finance/Measures
- People
- Performance/Process/ITIL
- Architecture/Standards

However, there have been repeated attempts to tackle consolidation in the past with very few results gained. Consistent focused leadership and good planning are prerequisites for a successful consolidation effort.

EBIT should look to augment the existing staff with external subject matter experts when and where necessary to move the recommendations forward.

Critical Steps to Implement

The critical steps necessary to complete the implementation of the consolidation recommendations include:

- Begin with the end in mind—develop a "future state" operating model and organizational design for EBIT and ensure that EBIT customers understand the model.

- Using the Excipio report as a starting point, gather additional FTE and IT costs data to support a comprehensive and detailed IT budget for each IT function. Understanding the true total cost of IT by functional area will allow for comparative analysis (benchmarking) and is a prerequisite for the "make vs. buy" analysis that A&M recommends for each consolidation recommendation.

- Prioritize and implement key ITIL processes across EBIT with an initial focus on Service Operation processes (i.e., Incident Management; Problem Management; Event Management; Request Fulfillment and Access Management) as the first wave of ITIL process implementation across EBIT.

- Provide ITIL training to all EBIT staff. A&M recommends that ITIL Foundations certification be a requirement for all EBIT staff, with the initial focus on training the infrastructure and network staff. A&M further recommends that EBIT have two or three ITIL Experts within the organization to act as champions for the implementation of common processes across EBIT.

- Implement qualitative metrics and use them to proactively manage the business of IT across the Executive Branch. The metrics should be published regularly (as least monthly) and should be reviewed with stakeholders. Suggested metrics include:

  » **Data Center** - server availability; incident resolution; batch schedule completion; utilization (servers and storage)

  » **Network** - availability (end-to-end; VPN; ISP; Access Link); response times; throughput; security (intrusion detection)

  » **End User Computing** - MAC (moves, add, changes); release deployment; procurement and installation; workstation break fix (time to respond / time to resolve)

  » **Service Desk** - % of call answered in 30 seconds; abandon rate; first call problem resolution; user satisfaction

  » **Applications Development & Maintenance** - milestones on time; estimation accuracy; Severity 1 and 2 Problems in Production; application outages; defect rates

- Develop detailed project plans for each consolidation work stream (ensure a "make vs. buy" analysis for each consolidation work stream is included).

- Develop a detailed business case for each work stream.

- Develop a detailed consolidation roadmap, prioritizing all of the consolidation efforts required to achieve the future state operating model, balancing organizational readiness, risk and reward.

- Ensure that the overall consolidation plan include a change management program and leader.

- Rigorously track progress of each work stream against the business case at regular intervals.

- Celebrate and communicate interim successes.

Recommendation #5 - (dollars in 000's)				
FY17	FY18	FY19	FY20	FY21
$968	**$968**	**$968**	**$968**	**$968**

Governor's Grants Office

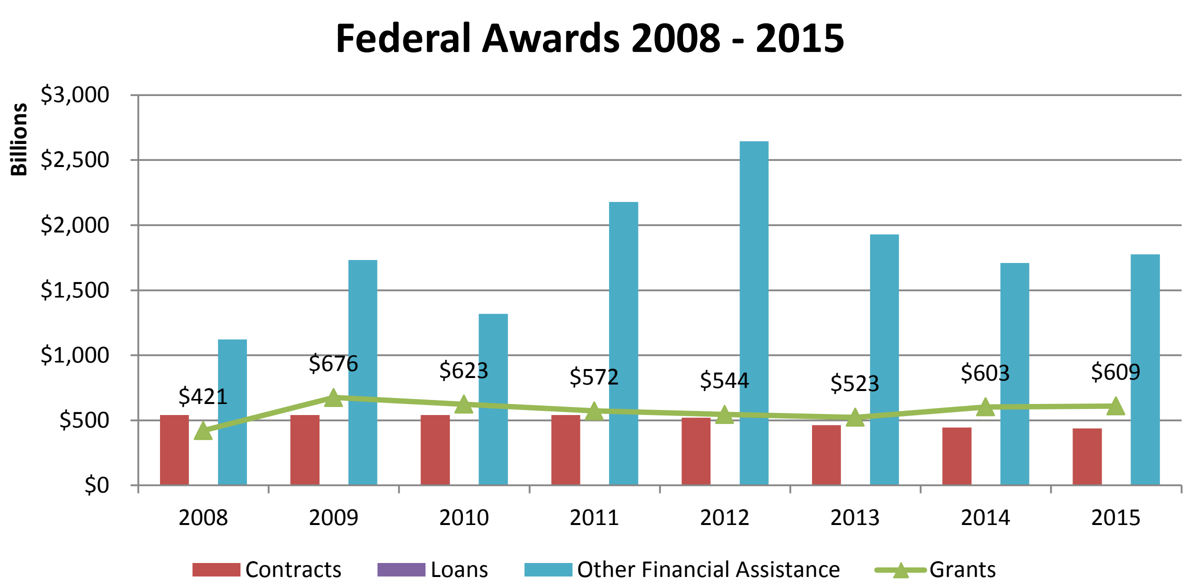
Governor's Grants Office

Introduction

The federal budget provides about 30% of all state revenue, making it the largest single source of funds for many states[1]. Federal agencies distribute funding through federal contracts, grants, loans, and other financial assistance. Federal grants are funds provided to state and local governments, and other entities to implement federal programs.

USA Spending data shows that after years of declining federal grant dollars from 2009 to 2013, when total federal grant award fell from $676 million to $523 million, the trend reversed starting in 2013 and increases to states began to occur again. In 2014, federal agencies awarded $603 billion in grants. In 2015, federal agencies awarded $609 billion in grants. Conversely, there has been a decline in Other Financial Assistance, which includes direct payments to individuals (i.e. Medicare and food stamps), insurance benefits (i.e. unemployment benefits), and other types of assistance payments.

1 http://www.ffis.org/about Federal Funds Information for States/About Us

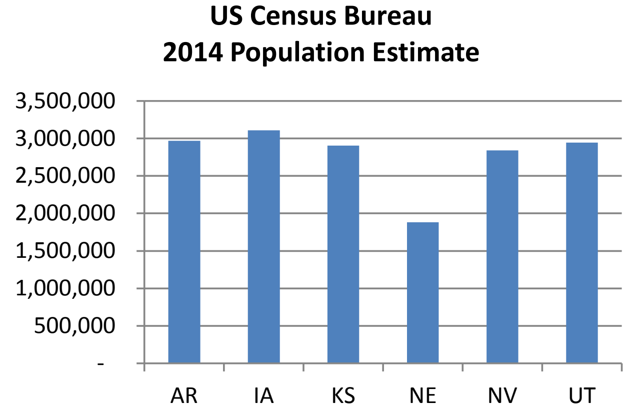


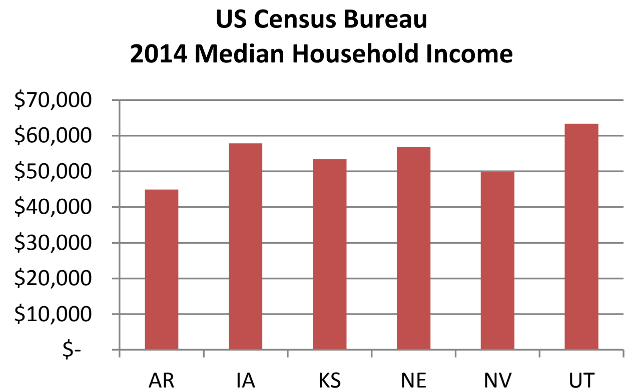
Summary Scope of Work

A&M utilized the Federal Audit Clearinghouse's Single Audit[2] Database to conduct a comprehensive analysis of the State's federal fund, in order to identify funding trends and new opportunities. A&M additionally reviewed other states with consolidated federal funds offices to identify their functions, organization and performance. Specifically reviewed were Maryland's Governor's Grants Office and Nevada's Office of Grant Procurement, Coordination and Management Budget. Maryland's Governor's Grants Office was created in 2004 to help state and local agencies, and nonprofit organizations identify and manage federal funding[3]. Nevada's Office of Grant Procurement, Coordination and Management Budget was created in 2011 through a passage of a senate bill to address the state's grant performance[4] and the office produced their first biennial report in 2015.

Benchmark Comparisons

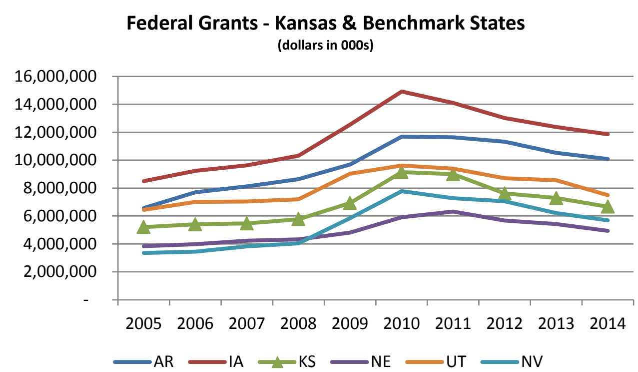
A&M used the US Census Bureau's 2014 population estimate and median household income data in selecting benchmark states for Kansas. A&M identified five states closest in population, income and geography to Kansas—Arkansas, Iowa, Nebraska, Nevada, and Utah. Kansas estimated 2014 population of 2.9 million people and median household income of $53,444 fell in the middle of the range of potential states. Since most federal grant award dollars (driven primarily by Medicaid spending) are driven by per capita and median household income, these are the five most relevant states when comparing total grant award dollars.





Source: census.gov

A comparison of the five benchmark states shows that Kansas' statewide federal funding levels fall in the middle of the five benchmark states. The total funding levels below reflect all state and local awards throughout the state.



Source: Single Audit Database from harvester.census.gov

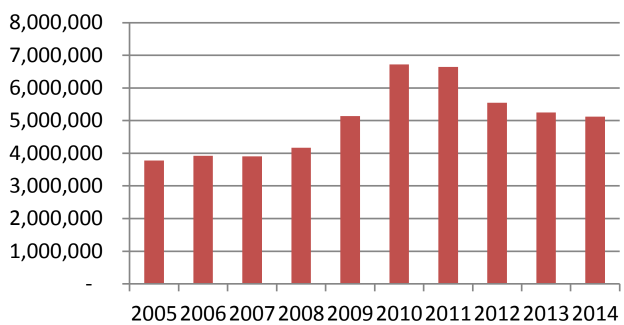
2 The Single Audit is an annual audit conducted on governmental and non-governmental entities that receive a minimum of $750,000 in federal award money. Audits are performed on both financial and compliance components by independent accountants. Noncompliance could have a direct and material effect on the federal programs. The Single Audits are submitted to the Federal Audit Clearinghouse.

3 http://grants.maryland.gov/Pages/AboutUs.aspx

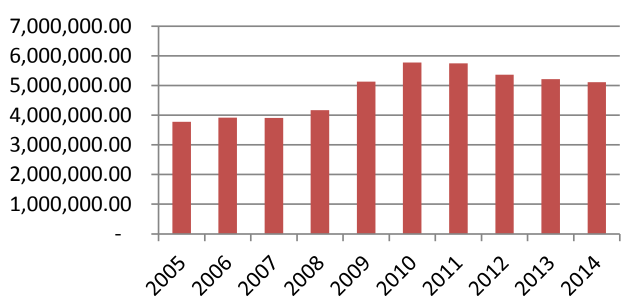
4 Nevada 2015 Biennial Report.pdf

Since 2011, the amount of federal funds received by the State of Kansas and its local entities has declined or stayed at the same funding levels. The level of funding both including and excluding American Reinvestment and Recovery Act (ARRA) funding has declined for Kansas since 2010 on both the state and the local levels. This places an increasing burden on the state and local taxes to fund the same level of services.

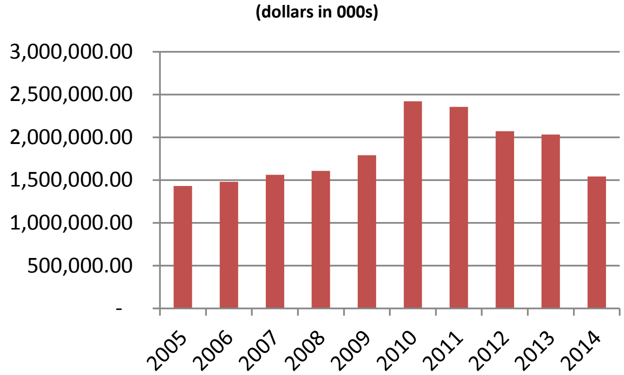
Kansas Federal Grants for 2005 - 2014
(dollars in 000s)



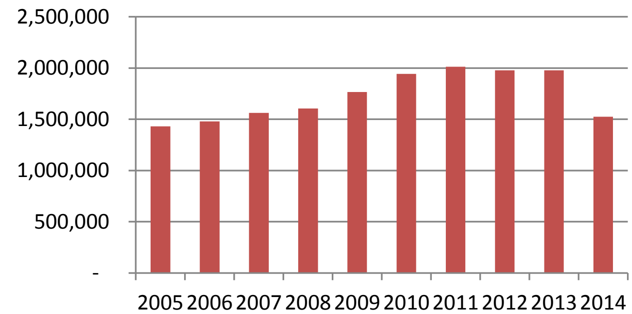
Kansas Federal Grants for 2005 - 2014
Excludes ARRA
(dollars in 000s)



KS Local Entities Federal Grants for 2005 - 2014
(dollars in 000s)



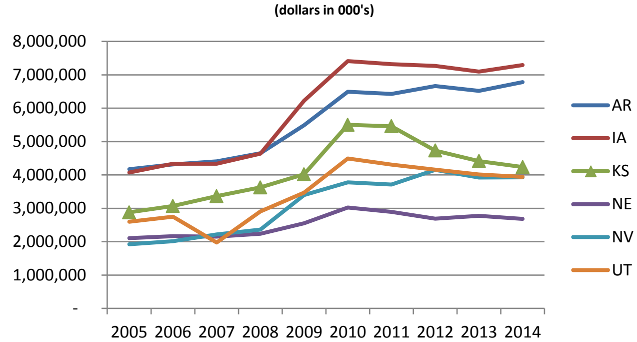
KS Local Entities Federal Grants for 2005 - 2014
Excludes ARRA
(dollars in 000s)



Source: Single Audit Database from harvester.census.gov

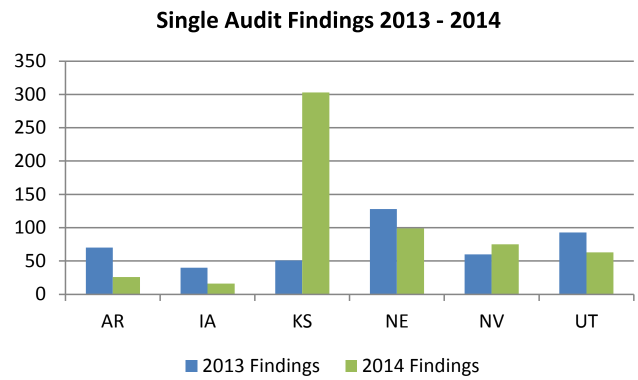
To further assess the federal fund benchmarks, A&M identified 169 common grants that were awarded to Kansas and the five benchmark states. A comparison of the 2014 funding levels for these grants shows that Kansas falls in the middle of the five benchmark states, and has been declining in total funding levels since 2010, with the largest decline occurring at the local level, where the state as a whole received $500 million fewer dollars.

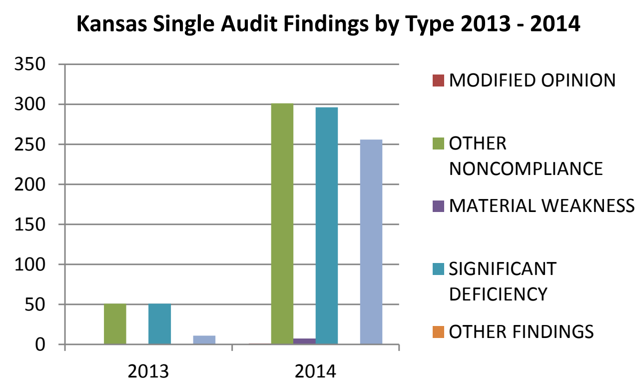
Funding for 169 Common Grants in 2014
(dollars in 000's)



Source: Single Audit Database from harvester.census.gov

In addition to reviewing the number of awards, we reviewed the number of compliance related findings reported in the Single Audit. Through this review, we found that the number of compliance and internal control findings increased significantly between 2013 and 2014 for Kansas, whereas other benchmark states decreased in the same time period. Negative findings may impact project related grant awards as some federal agencies utilize the audit findings to apply risked based discounts to the funding awards to reduce funding to states. This is done based on the justification that states with a high number of compliance and internal control findings are deemed to have shown poor financial management with regard to the execution of federally funded programs. As a result of these risked based discounts, the amount of funds Kansas receives in a competitive grant award process may be negatively impacted.





Source: Single Audit Database from harvester.census.gov

Recommendation #1 – Create a New Governor's Grants Office

A&M recommends that the state create a newly formed Governor's Grants Office (GGO) to enable a coordinated, prioritized, and compliance-driven approach to maximizing the amount and effective use of federal funds in the state's agency budgets and expenditures. Federal government assistance payments to Kansas state and local agencies decreased from $7.2 billion in 2013 to $6.6 billion in 2014[5]. The state would benefit from more coordinated approach in the prioritization, application, compliance, and reallocation of federal funds for use by state agencies, local entities, universities and foundations.

The GGO would provide support to the identification of grant opportunities, prioritizing the state's strategic goals, sharing best practices, and developing a compliance function to ensure proper execution of grant dollars received.

The GGO would coordinate with state agencies' point of contacts to track grant related activities. The GGO would also review reimbursements and cost allocation processes, assess compliance procedures and resolution plans, and monitor and track grant execution.

Background and Findings

- Currently, the State of Kansas does not have a centralized office to manage and coordinate the receipt of federal funds.

Recommendations

		Target Savings and Revenue Estimate (All values in 2015 dollars, in 000s)					
Rec #	Recommendation Name	FY17	FY18	FY19	FY20	FY21	Total
1	Create a new Governor's Grant Office focused on Statewide Federal Funding	$4,086	$5,032	$5,082	$5,131	$5,181	$24,513
2	Retitle the Governor's Grants Office into a Governor's Crime Prevention Office	$-	$-	$-	$-	$-	$-
		$4,086	**$5,032**	**$5,082**	**$5,131**	**$5,181**	**$24,513**

5 Single Audit Database from harvester.census.gov

- The state has a Governor's Grants Program office, which administers state and federal grant programs focused on the criminal justice system, public safety, crime victim services, and drug and violence prevention programs[6]. This office should be refocused around its actual mission as the Governor's Crime Prevention Office.

- Otherwise, stage agencies and local governments are responsible for grant management, including identifying new grant opportunities, fiscal and program management, and audit compliance.

- Audits and compliance efforts are conducted by the agencies, the Legislative Auditor, or outside private firms.

- A&M reviewed Maryland's Governor's Grants Office and Nevada's Office of Grant Procurement, Coordination and Management Budget. Both offices provide three key services for the state:

  » Information Resource – both agencies maintain a website that provides consolidated information relating federal grants—including new grant opportunities listing, grant statistics, training and workshop schedules, and state agencies points of contacts for federal funds. In 2014, Maryland's Governor's Grant Office trained approximately 6,500 people[7].

  » Special Point of Contact (SPOC) for state and local governments, as well as non-profit and non-governmental agencies and foundations. Each state agency appoints a point of contact (POC) that coordinates with the SPOC.

  » Provide grants training and technical assistance.

  » Publications – both agencies create reports on federal grant expenditures and produce grant manuals to promote fiscal and program requirement compliance. Maryland's grants office emailed their electronic newsletters to more than 6,000 subscribers[8].

- Over the decade since the formation of the Governor's Grant Office in the State of Maryland, the number of compliance related issues have been materially reduced both in number and in magnitude of compliance related findings. Correspondingly, Maryland's receipts of federal funds have increased overall as well as in relation to benchmark states.

- In 2013, the State of Maryland received \$9.1 billion. In 2014, the state expended \$9.8 billion[9]. This is a 7% increase in a year.

- Nevada's federal grant awards increased by 10% between 2013 and 2014 from \$3.3 million to \$3.6 million[10].

Recommendation #1 - (dollars in 000's)				
FY17	FY18	FY19	FY20	FY21
$4,086	**$5,032**	**$5,082**	**$5,131**	**$5,181**

Key Assumptions

Savings were identified using the following methodology:

- Five benchmark states were chosen based on region, size of the population and income. The five states are: Arkansas, Iowa, Nebraska, Nevada, and Utah.

- Potential new grants were identified by comparing the grants received by Kansas in 2014 versus grants received by the benchmark states.

- The top 50 grants that Kansas did not receive funding for in 2014, where the benchmark states were awarded funds were identified.

- A&M reviewed eligibility requirements and matching formulas for the 25 potentially eligible non-education and non-Medicaid grants.

- A conservative win rate of 10% was applied to the average amount received by the benchmark states, with a 1 percent increase in win rate per year until 2021.

- Seven of the potentially eligible grants had a matching requirement. Matching was calculated initially at \$120,000 for 2017 and increasing as win rate increases by 1 percent each year. A total additional investment by the state is \$659,000

6 http://www.grants.ks.gov/about-us/mission-values

7 http://grants.maryland.gov/Pages/AboutUs.aspx

8 Maryland GGO Annual Report 2015

9 Maryland GGO Annual Report 2015; Maryland GGO Annual Report 2014 Summary

10 Nevada Office of Grant Procurement, Coordination and Management 2015 BIENNIAL REPORT

over five years.

- Additionally, the analysis identified an average of $1.4 million in grant funding that was returned in 2012-2014. In 2015, $35 million in grant funding was returned.
- Savings associated with grant administration has not been factored into the savings model.
- Grant Management System implementation and website creation costs estimated at $300,000 to $500,000 and a 20% maintenance cost was factored into the savings. An investment in a Grant Management System will provide access to a comprehensive list of federal grants, allow tracking and pursuing new grant opportunities, increase efficiency through workflows, and assist in performance reporting.
- The new Governor's Grants Office will create five new positions for an additional annual investment of $376,000 for 5 FTEs.

<u>Key responsibilities</u>
The Federal Funds Office responsibilities include, but are not limited to:

- Be the single point of contact and subject matter expert on all things related to federal funds, including grant requirements and compliance questions.
- Provide technical assistance advice for all entities, including local, state, private and nonprofit.
- Provide agencies assistance in remediation of audit findings.
- Conduct training on topics such as researching grant opportunities, grant writing, grants management and budgeting.
- Maintain website to share information on federal funds coming into the state.
- Create annual report in tracking federal funds in the state.
- Monitor agency and grant performance through data-driven metrics.

<u>Critical Steps to Implement</u>
The critical steps necessary to complete the implementation of this recommendation include:

- Issuance of an executive order creating the Governor's Grants Office. An executive order may provide the best combination of structure and flexibility, whereas locking in the duties of a grants office via statute may make it harder to shift responsibilities and activities should the need arise[11].
- Create cost allocation plan to determine the overall cost of the program. A&M recommends the staffing of the GGO is five FTEs. Staffing requirements may increase if compliance issues are identified and compliance needs to become a priority for the GGO.
- Issuance of a Request for Proposal (RFP) for the creation of the GGO's website. A&M's recommendation is based on published rates in the OITS 2015 Service Catalog.
- All state and local agencies appoint a Point of Contact (POC) who will liaise with the GGO Director.

Recommendation #2 – Retitle the Governor's Grants Program Office into the Governor's Crime Prevention Office and assign additional pass-through responsibilities

A&M recommends that the state retitle the Office of the Governor Grants Program (KGGP) into a Governor's Crime Prevention Office. The existing Governor's Grants Program office currently administers state and federal grant programs focused on the criminal justice system, public safety, crime victim services, and drug and violence prevention programs[12]. KGGP also provides technical assistance and compliance oversight to sub grantees. As part of the retitling, the governor should look for opportunities to drive additional pass-through related crime prevention grants through the new Governor's Crime Prevention Office. The office is efficient at the process for accepting, distributing and monitoring grants to entities throughout the state and additional funds could be directed to that office for this type of higher administration funding.

11 FFIS Special Analysis 14-04, June 11, 2014 Establishing a Grants Office
12 http://www.grants.ks.gov/about-us

A&M reviewed Maryland's Governor's Office of Crime Control & Prevention, the Illinois Criminal Justice Information Authority, and the Texas Criminal Justice Division. Similar to the Governor Grant Program, these peer offices administers federal and state grants to improve public safety, crime reduction and support victims of crime.

Background and Findings

- A&M compared KGGP against the peer states in total funding and number of resources administering and managing grant programs. KGGP is efficient in administering grant programs compared to other large states with similar programs that should have greater economies of scale.

- A&M also compared the federal grants administered by KGGP against the peer states. A&M identified additional grants that could potentially be administered and monitored by KGGP.

There are several grants listed in the table above that similar agencies in other states manage. Of these programs, several are managed by the Department of Corrections in Kansas. The Juvenile Accountability Block Grants (CFDA 16.523), Juvenile Justice and Delinquency Prevention Allocation to States (CFDA 16.540), Title V Delinquency Prevention Program (CFDA 16.548), and State Criminal Alien Assistance Program (16.606) programs should be managed by the new Governor's Crime Prevention Office.

Recommendation #2 - (dollars in 000's)				
FY17	FY18	FY19	FY20	FY21
$6,147	**$9,554**	**$9,554**	**$9,554**	**$9,554**

Key Assumptions

While there were no savings identified with this recommendation, the existing staff should be able to manage the additional funding and processes. The grants manager in other agencies dedicate less than full time to the grant management and could redirect efforts to other financial management assignments for the Department of Corrections.

Critical Steps to Implement

The critical steps necessary to complete the implementation of the recommendation include:

- Retitling the agency

- Redirecting the grant programs and transitioning grant program management to the office

- Reassign corrections grant manager

State Employee Health Plan

Acknowledgements

This report was made possible thanks to the knowledge, time, and advice of many individuals within the Kansas Department of Health and Environment. Alvarez & Marsal would like to thank everyone who contributed to this endeavor, especially:

- Mike Michael, Director - State Employee Health Benefits Program
- Aon Hewitt, State Employee Health Plan Actuary

State employee health plan Overview

Previous Efficiency Initiatives

- Kansas State Employee Health Plan (SEHP): Evaluating the State's Pharmacy Benefit Management System – The Legislative Division of Post Audit (LPA) provided a report in February 2015 detailing SEHP's use and management of the Pharmacy Benefit Manager (PBM), CVS Caremark. The report made the following findings:
  - » The Kansas Department of Health & Environment (KDHE) does not "adequately monitor Caremark's compliance with negotiated contractual provisions."
  - » The State does not accurately monitor for "spread pricing," though the LPA's audit of the sample claims did not result in finding any spread pricing.
  - » KDHE does not appropriately monitor the PBM's compliance with pharmacy rebating requirements.
  - » There are minimal controls over the mail-order pharmacy program, although the findings indicate that SEHP participants do not heavily use the mail-order program.
    - – SEHP responded to the report by stating that additional controls would be implemented immediately to address the findings.
- SEHP is an extremely lean, efficient organization—the staff appears to effectively manage partnerships with vendors. In addition, the staff is cross-trained, in order to provide additional support throughout the organization, when needed.
- In addition to taking into consideration the recommendations provided by LPA, SEHP executed a three-year contract with Aon Hewitt for pharmacy benefit audit services beginning in January 2015. Aon Hewitt will audit the PBM plan for plan years 2012-2014 and provide insight into any errors in pharmacy rebating and management. Although Aon does not expect this process to provide savings for the SEHP, the audit will review the overall administration and efficiency of the PBM, which could lead to identifying and potentially creating future efficiency opportunities.
- The State has begun to take action to limit the State's liability as it relates to retirees. Beginning in 2016, Medicare-Eligible Retirees who want to participate in the SEHP program must elect and pay the entire cost of fully-insured Medicare Supplement plan, rather than continuing enrollment on the SEHP plan. This initiative will remove SEHP's liability for any unfunded costs realized by Medicare-Eligible Retirees under the self-funded

SEHP plan.

- The SEHP, in conjunction with the Health Care Commission (HCC) and plan actuary, evaluated efficiency and cost saving measures on an annual basis, making annual plan design changes that will further drive participant behavior. In addition, they implemented a wellness program to support member wellbeing and engagement.

Baseline Budget

The State Employee Health Plan is a self-sustaining organization within the Kansas Department of Health & Environment. Fees and self-generated revenues are received from state agencies and non-state employer groups that participate in the group insurance program. Premiums are collected from plan members, employees, and retirees as well as earnings of program funds. Agency and non-state employer group spend is based on the number of individuals enrolled, the plan type and tier enrollment.

State Employee Health Plan *(All values in 000s)*	**FY 2012 Actual**	**FY 2013 Budget**	**FY 2014 Budget**	**FY 2015 Budget**
Regular Pay	$1,674,826	$1,719,032	$1,712,791	$1,671,063
Other Salary	$329,596	$324,243	$341,229	$370,755
State Contribution -- Life and Health	$289,562	$311,880	$302,447	$296,003
State Contribution -- Pensions and Retirement	$178,590	$179,007	$189,319	$188,019
State (Employer) Contribution	$179,590	$184,696	$178,762	$173,131
Overtime Pay	$15,831	$16,433	$17,577	$17,762
Total Salaries and Wages	$2,667,994	$2,735,292	$2,742,123	$2,716,733
Total	$5,335,989	$5,470,585	$5,484,247	$5,433,467

Benchmark Comparisons

A&M researched a number of other state benefits departments and related health plans to generate ideas and best practices around organization structure and benefit design. A&M benchmarked SEHP program against five similar state departments:

- Arkansas Employee Benefits Division
- Colorado Division of Human Resources
- Missouri Consolidated Health Care Plan
- Nebraska Office of Administrative Services: Benefits
- South Dakota State Employee Benefits Program

Organizational Benchmarks

In evaluating the appropriateness of the current position of the SEHP under the Kansas Department of Health & Environment, A&M collected information on the current organizational structure of the benchmark states.

State	Location
Arkansas	Department of Finance & Administration
Colorado	Department of Personnel & Administration
Missouri	Standalone State Entity
Nebraska	Department of Administrative Services
South Dakota	Bureau of Human Resources

Plan Design Benchmarks

The following chart indicates the current medical plans offered by the benchmark states. All states currently offer a Health Savings Account (HSA) plan option, though only two of the states provide employer/state funding to that HSA account on behalf of employees.

State	Carrier	Type	Deductible	ER/State HSA Contribution
Arkansas	Arkansas	HSA	$4,350/$8,500	None
	BCBS	HSA	$2,000/$3,000	None
	Qualchoice	PPO	$1,000/$2,000	N/A
Colorado	UHC	HSA	$1,500/$3,00	None
		HSA	$1,500/$3,00	N/A
	Kaiser	PPO	$1,500/$3,00	None
			$750/$1,500	N/a
Missouri	UMR	HSA	$1,650/$3,300	$300/$600
		PPO	$600/$1,200	N/A
		PPO	$300/$600	N/A
Nebraska	UHC	HSA	$2,600/$5,300	None
		PPO	$1,000/$2,000	N/A
		PPO	$600/$1,200	N/A
South Dakota	Dakota Care	HSA	$1,800/$3,600	$300/$600
		PPO	$1,250/$3,125	N/A
		PPO	$750/$1,875	N/A

Summary

A&M's approach to the SEHP recommendations focused on furthering the Health Care Commission's health plan initiatives, cost reduction, and the alignment of an administrative structure that would allow the SEHP to function more effectively.

All opportunities included within this section are medium to long-term opportunities. The assessment team worked collaboratively with SEHP staff and health plan actuary, Aon Hewitt, to develop these recommendations, which address plan design, administrative efficiency, and leveraged solutions to generate savings in the next five years.

It is expected that most of these recommendations can be executed without statute or regulatory changes; however, we have also included a number of recommendations that may require Governor approval or regulatory changes.

Recommendations

Recommendation #1 – Execute Opportunities for Cost Savings through Plan Design Changes

Over the past several years, the State Employee Health Plan has taken steps to lessen the rising cost of healthcare through plan design changes. However, there are opportunities to further reduce the cost of benefits through strategic plan design changes, and the implementation of a population health management program. Specifically, the SEHP should consider:

- **Total Replacement Consumer Driven Health Plan –** The State can improve overall consumer engagement in healthcare choices and reduce costs by offering "Plan C," the Consumer Driven Health Plan, with Health Savings Account (HSA) or Health Reimbursement Account (HRA), only. Additionally, the State should reduce employer contributions to $500 for single and $1,250 for family, in order to reduce employer cost and move toward similar state benchmark HSA contribution amounts. This change in the employer contribution will bring the actuarial value (or overall value of benefits paid by the plan) to approximately the equivalent of the actuarial value of the current Plan A. The total replacement Consumer Driven Health Plan would result in savings

		Target Savings and Revenue Estimate (All values in 2015 dollars, in 000s)					
Rec #	Recommendation Name	FY17	FY18	FY19	FY20	FY21	Total
1	Execute on opportunities for cost savings through plan design changes	$13,750	$27,500	$27,500	$27,500	$27,500	$123,750
2	Implement Retiree Exchange Platform	$5,750	$12,000	$12,936	$13,945	$15,033	$59,664
3	Increase organizational efficiency of SEHP	$165	$165	$165	$165	$165	$825
SEHP Total		**$19,665**	**$39,665**	**$40,601**	**$41,610**	**$42,698**	**$184,239**

to the SEHP of approximately $12.5 million to $15 million in FY2017.

- **Population Health Management –** The SEHP member population is relatively stable and credible, and as such, long-term savings can be realized through claims management and risk reduction—achieved by the monitoring and management of individual healthcare outcomes, otherwise known as Population Health Management. SEHP has leveraged the Truven Health Analytics technology through partnership with Medicaid. Truven is a powerful population health management analytics tool. Some analytics are being performed; however, it would be beneficial to incorporate a clinical perspective to the data. This can be achieved without additional cost through the current Third Party Administrator (TPA) or for objectivity, through the hiring of a consultant. Although we believe additional savings are achievable, a full review of the SEHP claims is needed to provide an estimate. No savings estimate for this sub-recommendation is included in figures shown.

Background and Findings

- The current deductible for Plan C is $2,750 for single coverage and $5,500 for family coverage.
- The State and participating Non-State Employers provide $1,500 or $2,250 contribution to individuals enrolled in the HSA/HRA plan in employee only or employee family, respectively. This contribution is embedded in the monthly rate charged to each agency.
- State benchmarks indicate that most states sponsor high deductible health plans with HSAs (5 out of 5 benchmark states sponsor these plans). Two states sponsoring these plans provide a small employer contribution to the HSA, while the other three benchmark states provide no contribution at all.
- The current actuarial value of Plan A is approximately 77% while the current actuarial value of Plan C is approximately 89%, when considering all employer contributions. This means that on average, Plan A covers 77% of the cost of covered benefits, while Plan C currently covers 89% of the cost of covered benefits. The recommended change would bring the total replacement plan to an actuarial value similar to that of the current Plan A.
- The State is currently providing a premium discount of $480/year for participation in the wellness program. This will decrease to $240/year in 2016. Participation in the program is satisfied by a participant obtaining 30 credits through activities including:
  - » Biometric Screening
  - » Preventive Exams
  - » Tobacco Cessation Program
  - » Wellness Challenges
  - » Virtual Health Coaching, etc.
- SEHP currently uses the data analytics software from Truven Health Analytics to collect all claims data. However, according to SEHP staff, no population health management program is in place and health data is not being actively monitored.
- Variations to this recommended plan design could also produce similar results. i.e. more than one high deductible plan offering. Additional plan design variations would require additional in-depth actuarial analysis.

Recommendation #1 - (dollars in 000's)				
FY17	FY18	FY19	FY20	FY21
$13,750	**$27,500**	**$27,500**	**$27,500**	**$27,500**

Key Assumptions

- Estimates assume the current contribution structure (employer vs. employee contribution amounts) remains the same as 2016 levels.
- All estimates are derived using 2016 benefit plan design and contribution levels, and do not take into consideration any planned changes for 2017.
- Savings assume that SEHP's membership count and tier enrollment remains relatively consistent with current levels.
- Estimates are based on the average of the high and low range of savings values.
- Since the State currently contracts with Truven, we have assumed there would be no initial capi-

tal required to implement the population health management program. Additionally, the State can leverage on-staff physicians at the carriers to analyze the data and drive the population health programs.

Critical Steps to Implement

The critical steps necessary to complete the implementation of the plan design recommendations include:

- Projections will need to be maintained by SEHP actuary to update strategy for 2017 Plan Year for any deviation in plan claims experience.
- Recommendations will need to follow the Kansas Health Care Commission process for ultimate approval.
- The SEHP should develop a communication campaign regarding plan changes and provide education to all SEHP participants regarding Consumer Driven Health Plans.
- Population Health Management program and internal program managers must be designated by SEHP staff. Clinical expertise should be engaged either through TPA or consultant.

To realize savings as soon as possible, this recommendation should be implemented for the next SEHP plan year, beginning January 1, 2017.

Recommendation #2 – Implement Retiree Exchange Platform

Per Statute, Kansas provides pre-65 and post-65 retirees access to the SEHP. The state has tried to limit the liability for these retirees by requiring all Medicare-Eligible Retirees to join a fully-insured Medicare supplement plan effective January 1, 2016; however, a Governmental Accounting Standards Board (GASB) liability remains. In order to remove the liability for future payments and reduce the current retiree subsidy, Kansas should:

- **Implement Retiree Exchange Platform** – Retiree specific platforms provide pre-65 and post-65 retirees with a choice of healthcare plans and provider networks. These platforms also provide the retiree with additional resources targeted to the specific needs of retirees. Moving the Kansas retirees to an exchange platform would increase retiree choice of plans and networks while removing SEHP's current subsidy and GASB liability for future payments for pre-65 retirees. Savings to the SEHP fund from removing the current retiree liability are estimated at $5.75 million for the last six months of FY2017. The full year of savings will be realized in FY2018, with an estimated savings of $12.0 million.

Background and Findings

- Per 2012 Kansas Statue 12-5040[1], all local governments providing employer sponsored health care must extend the offer of coverage to pre-65 retirees. Employers may require retirees to pay up to 125% of the cost for similarly situated employees.
- The State Employee Health Plan allows retirees, their spouses, and survivors access to the medical and dental plans sponsored by the SEHP.
- Beginning in 2016, SEHP will require all Medicare-Eligible Retirees (post-65) to participate in the fully-insured Medicare plans.
- All pre-65 retirees will continue to have the option to continue participation in the SEHP self-funded plans in FY 2016. Although retirees are required to pay their "full cost of coverage," the SEHP fund is paying for any claims in excess of the premium collected.
- Pre-65 retirees will experience a 22.5% increase in their required contributions beginning in 2016 as an attempt by the SEHP to more accurately charge retirees for their full cost of coverage.
- In 2016, pre-65 retiree contributions for the BCBS KS plans are as follows:
  - » Plan A: $638.08 for single, $1,895.02 for family
  - » Plan C: $471.02 for single, $1,484.80 for family
- Premium amounts for 2016 Aetna pre-65 retirees are slightly higher than BCBS contribution amounts.
- The average employer contribution on retir-

1 http://kslegislature.org/li_2012/m/statute/012_000_0000_chapter/012_050_0000_article/012_050_0040_section/012_050_0040_k.pdf

ee specific exchanges are $100 per retiree per month.

- In 2016, an average participant contribution for single coverage under a "Gold" plan, or a plan with 80% actuarial value, ranged from $500 to $700 per month for a 55 year old in Topeka Kansas. Actual contributions are determined based on the plan elected and participant age, gender and dependents covered.
- GASB requires all governmental entities sponsoring Other Postemployment Benefits (OPEB) to accrue for the obligations under the plan[2].
- Despite moving the Medicare-Eligible Retirees to a fully-insured platform, SEHP continues to have a GASB liability for those current and future pre-65 retirees.
- Approximately 50% of all active employees and 22% of their spouses who retire and meet the eligibility criteria will participate in the plan, according to the 2015 Actuarial Report for GASB OPEB Valuation provided by the SEHP actuary, Aon.

Recommendation #2 - (dollars in 000's)				
FY17	FY18	FY19	FY20	FY21
$5,750	**$12,000**	**$12,936**	**$13,945**	**$15,033**

Key Assumptions

- Estimate of savings do not consider any changes to retiree contributions from the CY2016 levels
- Estimates are based on the average of the high and low range of savings values
- Savings assume current retiree claims experience remains stable and increases with 7.8% trend, as estimated by the 2016 Segal Health Plan Cost Trend Survey[3]
- Savings assume retirees will to an exchange platform for January 1, 2017 and the SEHP will realize savings for the last six months of FY17

2 Other Postemployment Benefits: A Plain-Language Summary of GASB Statements No. 43 and No. 45. (n.d.). Retrieved December 2, 2015, from http://www.gasb.org/cs/ContentServer?c=Document_C&pagename=GASB/Document_C/GASBDocumentPage&cid=1176156714369

3 2016 Segal Health Plan Cost Trend Survey. (2015). Retrieved November 27, 2015, from https://www.segalco.com/media/2139/me-trend-survey-2016.pdf

Critical Steps to Implement

The critical steps necessary to complete the implementation of the plan design recommendations include:

- Issuance of a Request For Proposal (RFP) for the retiree exchange platform
- Oversight and monitoring by SEHP staff of the awarded vendor
- Ample communication plan and timeline for all retirees to successfully understand new options through the exchange
- Transfer all current retiree members to the exchange platform
- Change KS Statue 12-5040 to indicate that employers can make a group health plan available, or a plan of similar design, network, and cost

The expected time to implement this recommendation is 12 months and changes can become effective the beginning of the 2017 plan year (January 1, 2017). In the event that an RFP is needed for the retiree exchange, it can be completed in advance, before the 2017 plan year for a January 1, 2017 effective date.

Recommendation #3 – Increase Organizational Efficiency of the SEHP

The State Employee Health Plan is currently running an efficient organization with the lean staff it employs. However, SEHP can increase administrative efficiencies and reduce duplicative effort through a realignment of the organization and member requirements for State Employers and Non-State Employers.

- **Reposition the SEHP under the Kansas Department of Administration –** The SEHP is currently housed in the Division of Health Care Finance, within the Kansas Department of Health & Environment. The current employment structure of the SEHP staff creates a misalignment of priorities due to the differing role of the Department of Administration (DOA) and the KDHE, within the Kansas Government. It is recommended that the plan transition into an ancillary agency of the DOA responsible for managing the administration of the benefit program available to state employees, retirees, and their dependents, as well as employees of certain other government entities. This structure would allow for better coordination and communication between the DOA and SEHP.

- **Streamline Payroll Deduction File Requirements –** To better utilize SEHP staff, decrease enrollment and deduction errors, and increase administrative efficiency, the State should require all State universities, or "regents," to employ the payroll system used by the DOA. This could provide the SEHP approximately $165,000 in savings annually, for time lost, cash outlays for system updates to accommodate regent changes, and cost for potential payroll errors.

Background and Findings

- Based on state benchmarks, State health plans are typically structured within the Department of Administration (DOA), or another state agency that handles Human Resource functions.
- Effective July 1, 2011, the staff that administers the SEHP became part of the Division of Health Care Finance (DHCF) within the KDHE. The Director of the State Employee Health Benefits Program reports to the Director of the DHCF.
- The Health Care Commission (HCC) was developed by Kansas statute in 1984. The HCC is comprised of five members—the Secretary of Administration, Commissioner of Insurance, and three members appointed by the Governor. The statute requires one member to be a representative of the general public, one a current State employee in classified service, and one a retired State employee from the classified service.
- Per statute, the HCC, headed by the Secretary of the Department of Administration (DOA), has the authority to make any changes to the administration and implementation of the State Employee Health Plan.
- The SEHP produces one payroll deduction file for the DOA and seven other payroll deduction files for the various regents across the State. This results in multiple additional checks and balances working with each of the various regents. Additionally this poses inefficiencies as the SEHP must:
  - » Produce the files earlier than necessary or appropriate.
  - » Work with each regent to reconcile any payroll file issues.
  - » Accommodate limited reporting from the regents—not all reports that are provided by DOA are available with the regents payroll systems.
  - » Reconcile the regent payroll files after the payroll calculation cycle and subsequent payroll file creation cycle are both closed, causing a lag in reporting and increase in potential for error.

Recommendation #3 - (dollars in 000's)				
FY17	FY18	FY19	FY20	FY21
$165	**$165**	**$165**	**$165**	**$165**

Key Assumptions

- The Governor and DOA would grant SEHP the authority to reorganize its structure.
- SEHP staff developed saving estimates from streamlining the payroll deduction files.
- Savings estimates do not account for any investment cost that would be incurred through the purchase of new payroll systems.
- Savings will be realized when the payroll systems are consolidated and the number of payroll deduction files provided reduces to one.

Critical Steps to Implement

The critical steps necessary to complete the administrative recommendations include:

- Request approval from the Governor to realign SEHP under the DOA
- Make appropriate administrative changes to reflect SEHP staff employment by DOA
- Implement standardized payroll system for all regents
- Train regent employees on payroll deduction file requirements

The expected time to implement this recommendation is six to twelve months for the regents to adopt the State payroll system. The recommendation is not expected to require statutory or regulatory changes;

however, it may require newly established statutory requirements to impose the requirement upon the regents.

Public Employee Retirement System

Acknowledgements

The KPERS staff was extremely helpful in providing their knowledge, time, and advice. Alvarez & Marsal would like to thank everyone who contributed to this endeavor, especially:

- Alan Conroy, KPERS Executive Director
- Faith Loretto, KPERS Planning and Research Director
- Mary Beth Green, KPERS Chief Benefits Officer
- Jarod Waltner, KPERS Assistant Planning and Research Officer

KPERS OVERVIEW

Background and Previous Cost Saving Initiatives

The Kansas Public Employees Retirement System (KPERS) provides disability, death, and retirement benefits for most public employees at all levels of government, including the state, school districts, and local units.[1]

Concerns about the long-term funding of retirement benefits have been prevalent since major changes were enacted by the 1993 Legislature and the participating employers' annual funding since 1995 was less than the annual Actuarial Required Contribution (ARC).[2] Consequently, in 2011, a commission formed to examine the issue and develop recommendations for alternative solutions to this long-term problem.

As a result of this commission, a third tier of benefits was established for employees hired after December 31, 2014. This new tier was a "Cash Balance" plan, which in addition to providing somewhat reduced cost to Kansas employers, minimized the risk of reduced future investment return, adding to the unfunded liability and future employer contributions.

Since 2011, that plan was slightly adjusted to specifically define the risk sharing arrangement. In addition, $1 billion in Pension Obligation Bonds have been issued. These shore up the plan funding status and provided the opportunity for KPERS investments to earn a higher return than the cost of debt service.

Most recently, the Governor reduced the KPERS employer contribution by $58 million for Fiscal Year 2015 (FY 15). While this was an effective mechanism to meet budgetary obligations, the result was an increase in the unfunded liability and in future costs.

Its important to note that KPERS itself does not have the authority to make changes in the retirement plan benefits, that is the legislature's responsibility. For the most part, KPERS contribution requirements are dependent on the benefit levels provided. A fundamental equation of cost and plan equilibrium is:

$$C + I = B + E$$

Where:

- C = Contributions made to the KPERS
- I = Investment return earned by KPERS
- B = Benefits provided through KPERS
- E = Expenses of running KPERS

With a goal of reducing employer costs (C), one of the three other variables (I, B, and E) must be modified.

1 KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM (KPERS) STUDY ... (n.d.). Retrieved from http://www.lkm.org/legislative/alerts/final-kpers-committee-report.pdf

2 Ibid.

Baseline Budget

KPERS actuaries make calculations of the recommended contributions from all employers. These are performed annually based on the benefit provisions, demographic information on plan participants, current asset levels, and anticipated future investment return. Below is a summary of the contribution requirements and the current statutory contribution levels for various divisions of KPERS as of December 31, 2014. These are expressed as a percent of payroll.

System	Actuarial Rate	Statutory Rate	Shortfall
State and School	15%	12%	3%
Local	8%	8%	0%
Police & Fire	19%	19%	0%

By statute, the rates are allowed to increase by a maximum of 1.0% in FY15, 1.1% in FY 16, and 1.2% in FY 17 and beyond. The cost of any benefit enhancements is additional. The December 31, 2014 actuarial valuation (shown above) sets the employer contribution rate for FY 18 for the State and School group and FY 17 for the Local group.

The employer contribution is comprised of the Normal Cost plus amortization of unfunded liabilities minus contributions made by employees. For the State and School, the 14.89% cost above is:

- 8.40% Normal Cost Rate (Value of benefit earned in year), plus
- 12.49% to Amortize Unfunded Liability, minus
- 6.00% Contributions made by employees

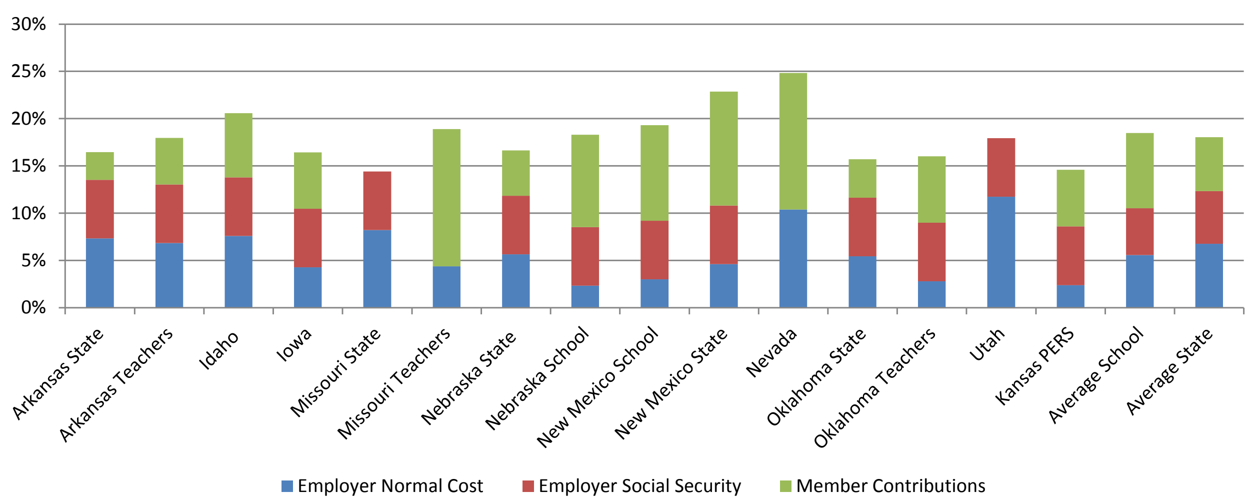
Benchmark Comparisons

Fiscal Benchmarks

Of the components of cost, an important consideration is to determine if the Normal Cost, which can also be considered a proxy for B or benefits paid above is inappropriately high compared to peers. The following chart shows that this is not the case.

Key findings from the chart below:

- The share of Normal Cost paid by the employer for KPERS was 2.4%
  - » This is 3.2% of pay less than the average school system (5.6%)
  - » This is 4.4% of pay less than the average state employee system (6.8%)
  - » This is less than any other employer in the peer group
- When adding in Social Security contributions, KPERS is only marginally stronger
  - » The KPERS total employer cost of 8.6% is nearly 2% less than the average school system (10.54%)
  - » The KPERS total employer cost of 8.3% is 4% less than the average state system (12.35%)
  - » Only Missouri Teachers have lower employer costs (4.39%) than KPERS
- When adding in the member contributions, an idea of the full value of pension benefits can be



ascertained. The KPERS total Normal Cost of 8.4% is much lower than the peers

- » The average for all School employee systems is 13.5%
- » The average for all State employee systems is 12.5%
- » Only Missouri State employees with a total Normal Cost of 8.2% is lower than KPERS

- When considering Social Security contributions by both the employer and employee, Kansas public employees have about 3% of pay lower going toward retirement benefits earned in a year:
    - » Kansas total contribution is 20.8% of pay
    - » The average school employee contribution is 23.5%
    - » The average state employee contribution is 23.6%

Operational Benchmarks

KPERS participated in a benchmarking study conducted by Cost Effective Management (CEM) Benchmarking—a noted advisor to pension systems. This 2014 study gave KPERS very favorable grades in terms of providing high quality service to KPERS members at a low cost.

KPERS total administration cost per member was $39. This is less than half of the $79 of KPERS peers and about one-third of the $119 average of all CEM overall average.

CEM allocated KPERS $41 cost advantage as comprised of:

- $3 for economies of scale
- $5 for fewer transactions per member (workload)
- $5 for more transactions per FTE (productivity)
- $13 for lower costs per FTE for salary, benefits, building, utilities, HR and IT
- $2 for lower third party costs in front-office activities
- $13 for lower back-office costs

C+I = B+E: Analysis of Components

Contributions

KPERS contributions in the short run are based on KPERS costs as determined by the actuary. In the long run they must be governed by the equation above, which can be re-written as C = B+E-I. So to reduce costs in the long run, either benefits or expenses must be reduced or investment income must be increased. In the short run, costs can be reduced either by simply ignoring the actuary's recommendation, or by a reduction in the actuary's cost determination.

The A&M team evaluated the actuarial reports and do not find any material items for which a reduction in the actuarial recommended costs is anticipated. In particular:

- The actuarial assumed rate of investment return is 8.0%. This is somewhat higher than the average utilized by other pension systems. With a continuing low interest rate environment, the 8% rate becomes more of an outlier in terms of peers and conventional wisdom. The A&M team believes that there is some possibility that the actuary will be recommending a decrease in this rate. All other things being equal, this would increase the actuarially recommended contributions. The impact of the assumed rate of return on Tier 3 benefit levels will reduce the impact somewhat in the long term.
- Mortality has been continuing to improve. There is some likelihood that the actuary will be recommending an update to the mortality table. All other things being equal, this would increase the actuarially recommended contributions.
- The actuary will be reviewing other experience and may make other recommendations which could increase or decrease the recommended contributions.
- Some additional contribution will be required to reflect the $58 million reduction in employer contributions for FY15.
- One modification in funding policy, which might mitigate the above or even reduce costs, is the amortization period. The current amortization period is to get KPERS to 100% funded by 2033. Because this is approaching a fifteen year horizon, there is a possibility that the KPERS Board

may modify its funding policy and lengthen that period. While this is not a long term cost savings, it can be somewhat of a short term cost savings.

Although the State could minimize costs in the short run by legislative or gubernatorial fiat, such action would undermine the long-term financial status of KPERS and be negatively viewed by rating agencies.

The long-run permanent way to reduce costs is either to increase investment performance or decrease benefits and expenses.

Investment Return

Investment return is an extremely important driver of long-term costs. The A&M team did not review KPERS investment performance. Investment performance flows through to the C+I=B+E equation fairly slowly, but it is of critical long-term importance. KPERS is an independent fiduciary charged with investing plan assets. Best practice is to authorize an independent retirement system as has been done in Kansas. KPERS has developed a strategic plan which includes strategic initiatives in investing including[3]:

- Continue to proactively monitor and manage investment managers and portfolios.
- Seek to diversify equity risk by evaluating new investment strategies for potential investment.
- Proactively forecast and manage liquidity to meet cash flow needs.
- Ensure that staffing levels are adequate to effectively monitor and manage an increasingly complex investment portfolio.

The A&M team supports this initiative and encourages KPERS to continue its focus on strong investment return.

Expenses

An important albeit small consideration in costs is the expenses borne by KPERS. As shown in the benchmarking, KPERS has extremely low expenses relative to peers. The A&M team encourages continuation of this strong practice.

3 KPERS Strategic Plan for Fiscal Years 2011-2015. (n.d.). Retrieved from http://www.kpers.org/strategicplan.pdf

Benefits

The most powerful factor in reducing costs in the long run is to reduce benefits. However, as shown in the peer comparison, KPERS already provides benefits below the peer average. Additionally, KPERS Tier 3 provides benefits even below those shown above, for the average current workforce.

Nevertheless, there may be benefit features, which can be revisited and considered for modification. One option is to consider the compensation, which may be taken into account in calculation of pension benefits. The types of compensation are (1) sick and annual leave, and (2) certain types of deferred compensation. KPERS analyzed these in the last year and the A&M team reviewed their analysis. The A&M team's comments follow:

Sick and Annual Leave

The Executive Director of KPERS submitted a memorandum[4] to the House Committee on Commerce, Labor and Economic Development regarding House Bill 2426, which considered changes to the treatment of sick and annual leave is used in the calculations of final salary and implementing a cap on the amount of leave that can be accrued by employees of KPERS employers. The memorandum provided background related to the history of the treatment of sick and Annual Leave. "The 1993 legislature changed the definition of final average salary for all members joining KPERS after July 1, 1993." This new definition improved benefits by reducing the averaging period from four years to three years, but did not include "add-on" pay, which is primarily sick leave and annual leave. The memo noted that due to potential legal concerns, they did not eliminate this provision for those hired prior to July 1, 1993, but made calculations on the higher of the pre-1993 rules (4 years with add-on) or the post-1993 rules (3 years, no add-on).

KPERS and their actuary have quantified the potential change. The memo noted that completely "eliminating use of sick and annual leave was projected to reduce the unfunded actuarial liability (UAL) for KPERS by $49 million. In addition, effectively eliminating one of the

4 Active KPERS Members by Membership Date. (n.d.). Retrieved from http://www.kslawenforcementinfo.com/uploads/3/0/3/2/3032106/kpers_-_hb_2426_overview.pdf

final average salary calculations reduces the plan's normal cost, albeit very marginally (0.01%-0.03%). Totally eliminating vacation and sick leave from final average salaries results in a reduction in contribution rates of 0.18% for the State Group, 0.04% for the School Group, and 0.07% for the Local Group." This would result in an estimated annual reduction of $3.2 million for the State and School Group and $1.2 million for the Local Group.

The memo went on to note that "a reduction in actuarial required contribution rates would ultimately result in fewer contributions entering the KPERS Trust Fund. However, because the State/School Group statutory employer contribution rate is below the actuarial required contribution rate, only the Local Group reduction would result in reduced contributions, totaling approximately $1.2 million.

In both cases, the reduced revenue reflects lower employer contributions required to fund benefits for pre-1993 members. However, HB 2426 would not be expected to result in savings of the amount projected by the cost study, and therefore, the contribution rates would not decline to the extent above."

It is important to note that KPERS also cautioned that administrative costs to implement this could be considerable. This is partially due to the difficulty in collecting the data of permissible leave and non-permissible leave.

<u>Deferred Compensation</u>

Certain employees, typically key employees, enter into a contract with their employer to defer compensation under Section 457(f) of the tax code. This provides tax deferral. Currently, such amounts may enter into the pension calculation. KPERS identified several reasons that this is not a substantial cost.

- Only three times in the past twenty years have such amounts entered into the calculation
- The IRS imposes a limit on compensation which can be considered for pension purposes:
  - » $265,000 for those hired after July 1, 1996
  - » $395,000 for those hired prior to July 1, 1996
- There may be contract rights or legal issues which could preclude a change in the program

Based on this, the A&M team estimates that a total elimination of this benefit would save the system less than $200,000 per year. A prospective elimination might save $100,000 per year in the long run.

Summary

The A&M team performed a review of KPERS while keeping in mind their mission "...to deliver [in its fiduciary capacity] retirement, disability and survivor benefits to its members and their beneficiaries."

Many of the recommendations developed align with these goals, including program delivery, organization improvement, workforce and external partnerships.

Recommendations

Recommendation #1 – Make Required Contributions to KPERS as Specified under Current Law

Specifically, all KPERS employers, including the State, should make the required contributions contemplated under current law. Deferral of contributions would result in higher long term costs and put the burden of past public service costs on future Kansans.

Recommendation #2 – Encourage KPERS to Carry out its Strategic Plan with Emphasis on Maximizing Investment Income Consistent with Fiduciary Responsibility

Investment return is the most important driver of long-term costs for the KPERS system. The A&M team reviewed the KPERS strategic plan—which covers investment return—and believe that the plan is reasonable and that KPERS has a strong focus on investment return. The State should support that emphasis and encourage KPERS initiatives, which improve investment performance.

Recommendation #3 – Consider Modest Changes In Compensation Which Can Be Considered In Pension Calculations

Generally, KPERS benefits are below average compared to peers. However, certain individuals are able to increase their benefits based on sick leave, annual leave or deferred compensation.

The A&M team encourages a more thorough analysis of the sick and annual leave provisions, including an estimate of administrative costs. This might include a phase-out of the inclusion of leave after a certain date. Although the anticipated cost savings are modest, such an effort may be worthwhile.

KPERS estimated maximum annual cost savings of $3.2 million for the State/School group once statutory contributions catch up to the actuarially required contribution.

A reasonable estimate for the net cost savings after consideration of administrative costs, phase-ins of the change, and delay until the statutory contribution exceeds the actuarial contribution, is $2 million per year.

The A&M team also encourages at least a closing of the door on future 457(f) deferrals being included in pensionable compensation. Although the cost savings would be small—$100,000 per year, the "headline risk" of high paid individuals being able to "spike" their salary as well as the inequity compared between rank and file public employees, may be enough reason to close this loophole.

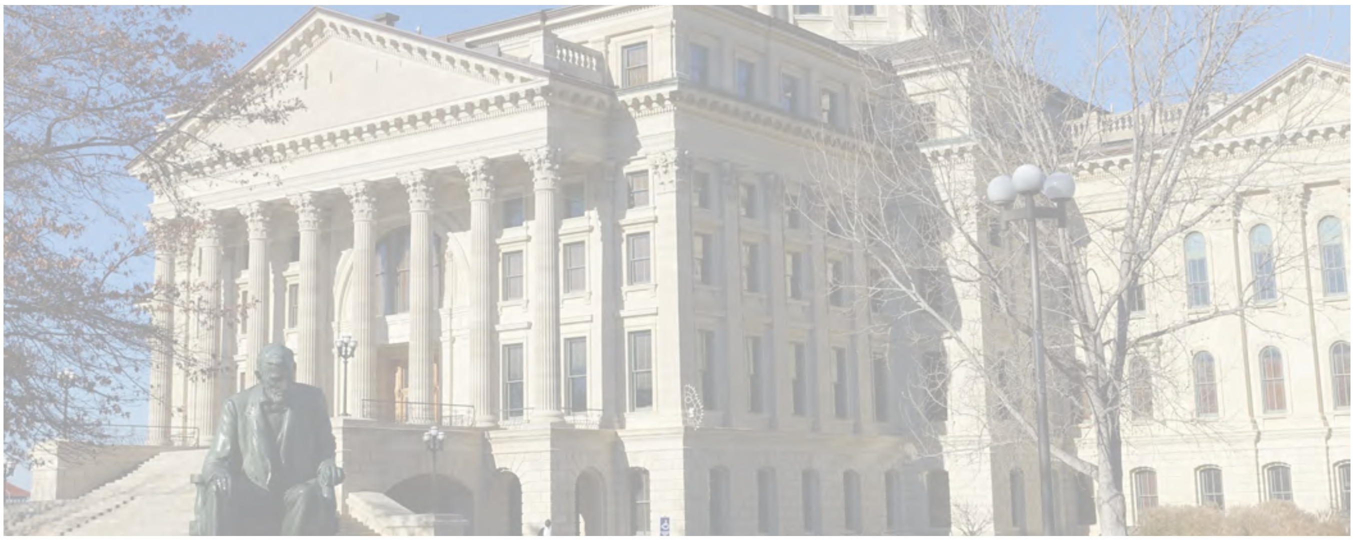
If executives understand this before making the compensation deferral decision, they will be properly informed and can make the best, most tax-efficient, compensation decision for their individual circumstances.

The state is not currently funding the full ARC and is not scheduled to do so until FY21. Consequently, these changes would not result in any short-term cost savings until FY21.

Recommendation #3 - (dollars in 000's)				
FY17	FY18	FY19	FY20	FY21
$0	**$0**	**$0**	**$0**	**$2,300**

Actuarial Statement

This analysis was performed for Alvarez and Marsal (A&M) by William Fornia, FSA of Pension Trustee Advisors, Inc. as part of the A&M team. The analysis was based on publicly available data, including that provided by KPERS. Mr. Fornia is a Member of the American Academy of Actuaries and meets their qualification standards to render this actuarial opinion.



Department of Administration

Real Estate and Lease Management

Acknowledgements

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- Sarah Shipman, Acting Secretary of Administration
- Mark McGivern, Director, Office of Facilities and Property Management
- Colleen Becker, Director, Office of Financial Management
- Linda Thomas, Deputy Director of Real Estate
- George Steele, Deputy Director of Engineering
- Bobby Kosmala, State Lease Administrator
- Jarod Waltner, KPERS Assistant Planning and Research Officer

Agency Overview

Previous Efficiency Initiatives

Established in 1953, the Kansas Department of Administration (DOA) is a multifunctional agency that serves other Kansas agencies as well as Kansas citizens. Its functions include:

- The procurement of goods and services on behalf of state agencies
- The management of government-owned buildings and real estate
- Leasing on behalf of state agencies
- Maintaining the clearinghouse for state government jobs
- Disposing of real and personal property on behalf of state agencies

Part of DOA's mission is to identify and promote efficiencies that will save the taxpayers' money and promote effective governance. In the past 24 months, DOA has implemented several initiatives that are intended to achieve its mission goals:

- Decommissioning of the Docking State Office Building – The 564,138 sq. ft. Docking State Office Building ("Docking" or the "Docking Building") was built in 1955 and sits across SW Harrison

Street from the State Capitol Building. The majority of the building's systems have exceeded their useful life and DOA has conducted comprehensive cost estimates of a complete modernization that peg the price at somewhere between $80 to $100 million. In tandem with the modernization budget, DOA performed comparative studies that contrasted the absolute and Net Present Value (NPV) costs of keeping Docking online versus demolishing it and moving its remaining tenants—primarily the Department of Revenue (DOR)—into leased space in privately-owned office buildings in Topeka. The analysis supports DOA's decision to decommission Docking and save the state approximately $7.2 million per year in additional debt service charged through Docking rent assuming 100% occupancy. In addition to avoiding additional debt, the solution DOA procured for DOR in leasing approximately 176,000 sq. ft. in three private office buildings, will save the state $600,000 annually in leasing costs. A&M staff toured the Docking building and visually confirmed the general state of disrepair.

- Aggressive Lease Management – DOA has signing authority for all leases executed by state agencies. Including the DOR relocation from the Docking Building, DOA has begun to actively monitor leases that come due and is achieving a 3%-5% savings over the previous contract rent (net of expenses) during negotiations with building owners by simply being at the table with the client agency during the process. Out of 171 leases coming due or entering option periods in the next five fiscal years, this translates to $1.18 million in savings.

- Building Efficiency Projects – DOA's facilities and engineering staff are currently identifying opportunities to achieve savings on utility costs through selective renovations such as window and system replacements. A window replacement project currently being performed in the Landon Office Building (stated to be completed in 2016, costing $2.5 million) yields approximately $150,000 in annual savings due to reduced electricity consumption for heating and air conditioning. The simple payback period of 17 years is offset by the 50-year useful life of the windows, producing a 7% internal rate of return and making the project cost-effective over the long term.

- Construction of a new Central Heating and Cooling Plant for the Capitol Complex – As a consequence of demolishing the Docking Building, the Capitol Complex (a series of state-owned buildings surrounding and including the State Capitol Building, comprised of approximately 1.6 million SF in six buildings) will be losing its central heating and cooling plant. DOA has seized this opportunity to construct a new, more efficient plant on state-owned property at the corner of SW Van Buren Street and SW 7th Street, directly across the street from the Eisenhower State Office Building. The total cost of the project is $16 million and it will provide the Capitol Complex with a new, closed system of generation and transmission for heating and cooling services.

- Property Dispositions– DOA has worked to dispose of surplus properties in a timely manner, working within the construct of current regulations regarding the disposition of the net proceeds of these transactions, which dictate that 80% of the revenue goes to the Kansas Public Employees Retirement System (KPERS). In the past 24 months DOA has closed on over $2.6 million in transactions, reducing government overhead and returning properties to the private sector, which helps stimulate the economy and support the local tax base. Before the start of the legislative session in January 2016, DOA will have closed on an additional $1,325,000 in other transactions.

While the broad mission of DOA is to provide all manner of services to other state agencies and to taxpayers, the focus of this report is based on their mission requirement regarding the management of the state's leased and owned real estate portfolio. On their website, DOA has a five-year plan in which the Office of Facilities and Property Management lays out three broad goals:

1. The deconstruction of the Docking Building
2. The construction of the new Capitol Complex power plant
3. Print and mail consolidation

Baseline Budget

In the budget presented graphically below the bulk of DOA's annual budget is comprised of debt service and capital improvements related to the state's ownership of buildings within the Capitol Complex and in Wichita. $22.9 million of the $46 million of debt service in the baseline FY 2016 budget, or approximately 50%, is allocated for improvements to the State Capitol alone. The 17.3% increase in Debt Service and Capital Improvements from the FY 2016 baseline budget to the FY 2016 Governor's recommended budget is primarily due to the inclusion of funding for new debt service to support the construction of the National Bio-Agra Defense Facility. These figures differ from the agency's and are solely the Governor's recommendations. They were provided to A&M by the DOA.

	FY2013 Actual	Fy2014 Actual	*FY2015 Budget*	FY2016 Budget	FY2017 Budget
Department of Administration	$93,554,934	$82,859,460	$89,506,194	$136,738,865	$170,067,732

Areas of Initial Focus

Debt Service

One major area of investigation for efficiency opportunities was the possibility of refinancing portions of the bond portfolio to achieve more cost-effective terms on debt service and reduce the amount required to carry DOA's portion of the state debt. The graphic below summarizes the total debt service for DOA according to the agency. Components of this debt service include repayment of a $500 million bond issuance for KPERS, renovations to the State Capitol and other Capitol Complex buildings, and bonds for the Department of Transportation's Comprehensive Transportation Program.

Debt Service	FY 2015	FY 2016	FY 2017
TOTAL DEBT SERVICE	$89,234,944	$89,760,507	$89,573,837

After further discussions with DOA staff, opportunities to meaningfully lower debt service appear limited. While the State is reviewing opportunities for savings, it may be worthwhile for DOA to consult with several municipal bond financial advisors to thoroughly evaluate the outstanding indebtedness portfolio to consider the cost/benefit of additional refinancing. Assessment of the market should be furthered explored with DOA's financial advisors. Please note, A&M is not a registered "Municipal Advisor" as defined by the Municipal Securities Rulemaking Board and cannot offer specific advice on the issuance of state and municipal bonds.

Capital Improvements

A&M conducted several site tours of state-owned office buildings in the Capitol Complex, as well as the subterranean, connective infrastructure that supplies heating and cooling from the Docking Building to most of the other buildings in the Complex. In addition to a general conditions assessment, A&M viewed several projects that DOA is undertaking to improve energy efficiency and increase savings. The most ambitious capital program DOA is currently undertaking is the construction of the new central plant to meet the heating and cooling needs of the Capitol Complex buildings. This project and the opportunistic system replacements in other state-owned office buildings represent all existing DOA initiatives. The savings generated by these projects will offset rising fuel costs and inflation and create predictability in future budgeting cycles.

Leasing

In addition to viewing portions of all the buildings in the Capitol Complex, A&M also toured several large executed and potential lease sites for state agency use. 555 SW Kansas Avenue, an 86,700 sf private office building located just two blocks from the State Capitol, is the new home for the Kansas Department for Children and Families (DCF). Utilizing market knowledge and capitalizing on the turn of the entire building after the previous tenant had vacated, DOA negotiated a highly competitive, full-service lease rate of $15.25/sf. DCF took possession of the space in April 2015. In addition to approximately $1.5 million in system furnishings, DOA secured DCF's use for free—the new lease saves the state approximately $540,000 per year.

A&M also toured 240 SE Madison Street, a 700,000 sf former Hallmark production plant that was considered as a potential relocation space for DOR's move out of the Docking Building. While the space was cheap, it was essentially delivered in warm shell condition, meaning that the entire space (approximately 150,000 sf) for DOR would have to have been constructed from scratch. DOA estimated the time and cost of these improvements would have been prohibitive in order to meet DOR's needs and instead identified three separate leases in the private Topeka market that accommodated separate DOR functional groups, minimizing internal disruptions and maintaining operational efficiency. The average weighted cost of space for these leases is $15.40/sf compared to $19.40/sf, which the DOR is currently paying at the Docking building. Based on 150,000 sf, this saves the state $600,000 per year.

Dispositions

As described previously, DOA has been able to monetize surplus properties through sales. Continued vigilance in identifying surplus properties and assisting agencies through the disposition process will reduce carrying costs and create more revenue for the state.

Internal Operations

A&M held multiple discussions with senior DOA staff members to ascertain how the real estate functions were executed by the agency. DOA's focus on relying less on contractors and more on in-house staff, to provide labor for maintenance and capital projects, is producing budget savings. DOA's aforementioned, active management of the leasing portfolio will continue to yield savings as well. Building on DOA's already robust disposition program will produce additional revenue. All these initiatives are already underway at DOA. Continuous leadership and direction (as with any organization) is essential to sustaining these types of organizational changes.

Real Estate
Recommendations Overview

		Target Savings and Revenue Estimate (All values in 2015 dollars, in 000s)					
Rec #	Recommendation Name	FY17	FY18	FY19	FY20	FY21	Total
1	Leasing Operations Consolidation – Leasing Savings	$116	$226	$218	$278	$313	$1,151
2	Leasing Operations Consolidation – Personnel Savings	$448	$456	$466	$475	$484	$2,329
3	Disposition of State Owned, Surplus Properties	$3,817	$3,817	$122	$122	$1,834	$9,712
4	Ground Lease of Lot #4	$2,500	$0	$0	$0	$0	$2,500
5	Managed Print Service for the Capitol Complex	$250	$250	$250	$250	$250	$1,250
6	Telecommunications Partnership	$0	$296	$296	$296	$296	$1,184
Real Estate and Leasing Total		**$7,131**	**$5,045**	**$1,352**	**$1,421**	**$3,177**	**$18,126**

A&M's analysis for the state of Kansas focused primarily on methods of enhancing DOAs current initiatives and assessing several additional opportunities for savings and revenue generation. A&M concluded that, in addition to maintaining focus on its primary three objectives, stated in the previous section, DOA could further enhance its real estate capabilities through the following actions:

- Create a robust disposition program for surplus property – Unused or underutilized property that agencies have no reasonable use for, should be reverted back into private ownership for revenue generation, maintenance reduction and economic development purposes. DOA has already begun formulating a regimented approach to implementing this program. With some better interagency cooperation and some changes to the existing laws—regarding the proceeds from such dispositions—the property disposition program can be optimized to return maximum value to the state and the taxpayers.

- Leasing Operations Consolidation – Separate state agencies currently have 58 positions dedicated either in part or whole to leasing and real estate functions. One of DOA's mission goals is to act as a dispassionate agent for agencies' real estate actions, in order to optimize efficiency and cost effectiveness. Much like the General Services Administration manages the Federal leased and owned real estate portfolio through its Public Buildings Service, DOA's Office of Facilities and Property Management can perform the same function for the state. Savings can be achieved both through a portfolio-centric style of management and through reduced personnel costs.

- Ground Lease of Lot #4 – The state had previously solicited purchasers for a 64,625 sf parcel of state-owned land immediately south of the Docking Building, called Lot #2. It received a winning bid of $2.5 million. The solicitation was subsequently rescinded; however, the same opportunity exists to lease Lot #4, which is south of Lot #2. The state can lease the lot, maintaining long-term control of the site, for a period of time between 50 to 99 years and realize the same value.

- Capitol Complex managed printing services solution – In 2014, DOA initiated a pilot program with Xerox to test the cost-savings benefits of a managed-print services system for the Kansas Department of Health and the Environment (KDHE) at the Landon and Curtis Office Buildings. In the 12 complete reporting months since the rollout of the program, the new system saved an estimated $96,670 in printing costs—a 22% average reduction in previous printing costs. (Xerox performed the original pilot program over a 13-month reporting period; however, A&M only utilized the first 12 months to report findings on an annual basis). This program should be expanded to other Capitol Complex buildings in order to generate more savings and eliminate waste.

- Cell Tower Leasing Program for excess land – A significant portion of state-owned land is unmarketable due to its remote location, lack of access to transportation, additional infrastructure and market factors, which hinder its value in the private market. The continued penetration of the telecommunications companies into previously underserved, rural markets presents an opportunity to place state-owned parcels into a clearinghouse for bidding that may bring the state some additional revenue from previously un-utilized land.

Recommendation #1 – 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

Background and Findings

- The state currently maintains 298 leased office spaces for state agencies.

- There are approximately 170 state leases expiring or entering option periods from the date of this report through the end of FY 2021.

- While DOA has execution authority over all leases in the state's portfolio, it has historically not actively involved itself in agency leasing decisions until last year.

- DOA is well suited to act as the state's agent in these transactions and to identify the most cost-effective solutions on behalf of the taxpayers. It can also identify alternative space solutions such as consolidations that may contribute to cost savings throughout the portfolio. While individual agencies will always seek to enhance ability to serve their particular missions, they may not necessarily make real estate decisions with the long-term cost or value in mind.

- The bulk of the large money leases (primarily the three leases DOA executed on behalf of the Department of Revenue to facilitate its relocation from the Docking building and a new 90,000 sq. ft. lease just executed for DCF in Topeka) have already been executed and the savings have already been realized.
- DOAs past performance suggests that it is reasonable to expect that it can discount expiring contract rents between 3% to 5% to better align with the market, simply based on the position of the state in the market. This discount can also be applied to pre-negotiated option rents.

Key Assumptions

- Based on prior performance of DOA lease evaluation and consolidation, a 4% discount was applied to all of the expiring contract rents (not applied to expenses if broken out separately).
- The savings are contingent upon the implementation of Recommendation #2.

Critical Steps to Implement

- Implement Recommendation #2.
- Maintain vigilance over the following 31 leases, which represent the largest cost leases and 68% of the 5-year expiring portfolio. Pay special attention to fluctuation in market rent rates and vacancies as these leases progress toward expiration (following chart).
- The Department of Social Rehabilitation Services represents approximately 47% of the expiring lease value, and will require special attention by the DOA.

Recommendation #1 - (dollars in 000's)				
FY17	FY18	FY19	FY20	FY21
$116	**$226**	**$218**	**$278**	**$313**

Agency	City	Address	Total Cost	Expiration
SRS	Atchison	410 Commercial St.	$157,600	6/30/2017
SRS	Colby	1135 S Country Club Dr.	$131,928	6/30/2020
SRS	Columbus	215 E Maple	$134,551	6/30/2019
SRS	Emporia	1701 Wheeler	$231,291	8/31/2018
SRS	Great Bend	1305 Patton	$184,135	10/14/2019
SRS	Junction City	1010 W 6th St.	$190,572	8/31/2018
DOCorrections	Kansas City	155 S 18th St.	$105,631	12/31/2015
KU Medical Center	Kansas City	2100 W 36th St.	$884,928	12/31/2016
SRS	Leavenworth	515 Limit St.	$150,476	10/31/2015
SRS	Newton	411 SW Washinton Rd.	$187,114	5/31/2017
DOCorrections	Olathe	804 N Meadowbrook Dr.	$166,355	2/28/2017
IDS	Olathe	115 E Park St. #1	$125,731	2/28/2019
SRS	Ottowa	221 S Elm St.	$171,023	7/31/2018
Wichita St. U.	Park City	1229 E 79th St.	$715,500	TBD
SRS	Parsons	300 N 17th St.	$144,844	12/31/2015
SRS	Phillipsburg	111 E Hgwy 36	$112,430	11/30/2019
SRS	Pittsburg	320 S Broadway	$279,499	11/30/2016
DOHE	Salina	2501 Marketplace	$100,280	6/30/2020
SRS	South Hutchinson	600 Andrew Ave.	$293,683	7/31/2019
Agriculture	Topeka	Forbes Field	$489,142	12/31/2019
DOCorrections	Topeka	1430 SW Topeka Blvd.	$117,915	10/31/2015
Board of Healing Arts	Topeka	800 SW Jackson	$187,745	1/31/2016
IDS	Topeka	700 SW Jackson	$158,280	2/28/2019
Securities Commissioner	Topeka	109 SW 9th St.	$119,968	6/30/2020
SRS	Topeka	2820 SW Fairlawn	$1,035,802	9/30/2017
SRS	Topeka	503 S Kansas Ave.	$556,077	1/31/2018
DOA	Topeka	800 SW Jackson	$241,802	12/31/2016
Aging	Topeka	503 S Kansas Ave.	$456,450	1/31/2018
DOCorrections	Wichita	212 S Market	$289,768	3/31/2017
IDS	Wichita	604 N Main	$123,628	4/30/2016
Wichita St. U.	Wichita	358 N Main	$225,000	5/31/2017

FY Savings Summary	
FY 2016	**$25,700**
FY 2017	**$116,285**
FY 2018	**$225,540**
FY 2019	**$217,903**
FY 2020	**$277,845**
FY 2021	**$313,450**
Total	**$1,176,722**

Recommendation #2 – 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

Background and Findings

- Fifty-eight individuals currently handle leasing operations across all state agencies as part of their responsibilities.
- Titles for these FTEs range widely, from Office Specialist to Executive Director.
- None of the personnel assigned to manage their agency's leasing operations have a real estate title or job description.
- The average FY 2014 salary of all personnel was $62,476.

Key Assumptions

- On average, each FTE spends 5%-10% of his/her time on leasing operations.
- Fully burdened cost per FTE at $84,343 ($62,476 plus 35% mark-up) on average.
- That state can identify positions for reduction across the agencies.
- Assume that the state can identify positions for reduction across the agencies.

Critical Steps to Implement

- Dedicate two of the 58 current FTEs into DOA to create a new leasing operations team, reporting to the state leasing director. This personnel shift will be revenue neutral.
- All personnel will handle multiple agencies; however, the two individuals will come from (and continue to have responsibility for) the Department of Children and Family Services (2), the Department of Revenue, or the Department of Transportation.

Recommendation #2 - (dollars in 000's)				
FY17	FY18	FY19	FY20	FY21
$448	**$456**	**$466**	**$475**	**$484**

Recommendation #3 – Hire an external real estate PMO to identify, value, market, and sell suruplus state owned building and land

Background

- According to the property list provided by the state ("Land-Bldg. List.doc"), the state owns nearly 12,300,000 sq. ft. of building space and nearly 179,000 acres of land.
- Utilizing input from the DOA and the Office of the Budget, A&M identified potential surplus properties across different state agencies and provided estimates of their respective potential, to generate value to the state.
- A&M worked closely with each state agency owning surplus property to first confirm that the properties were indeed surplus and to ascertain the most appropriate path to market.

Findings

- A&M estimates that between surplus building and land inventory within the state's portfolio, there is an estimated $9 million in potential value.
- A&M found that state agencies might be reluctant to sell any excess property given that the agency only keeps 20% of the proceeds. The remaining 80% would be paid to the state pension fund.
- Additionally, the process for obtaining the appropriate state approval to move surplus properties to market can be too long, leading to an increased potential for sales to not to be completed.

Key Assumptions & Methods

- Estimated values of surplus buildings were calculated using a comparable sales approach combined with market inferences from local brokers and key members of the DOA.
- In the analysis of comparable properties, it was assumed that land value is incorporated into the sale of the building; therefore, building values were estimated on a value per sq. ft. of building area basis. For certain properties containing large tracts of land, or properties located in or near high population areas, land value instead of

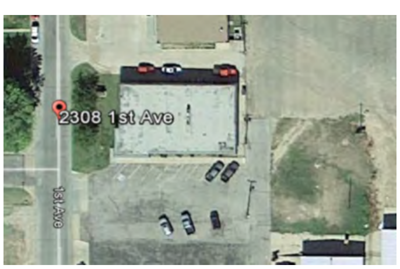
building value was estimated.

- For properties in which market data differed from value estimations of local brokers or real estate experts, a range of estimated value was created.
- A&M also analyzed the state property portfolio to identify properties with abnormally large tracts of land in high value areas. Using the assumption that 10% of these large plots could be sold or leased at market value, A&M calculated the potential value.
- The average Kansas state property tax rate is 1.4% of the appraised property value. Due to the fact the appraised property value will typically be lower than a third party value estimate, property tax income estimates were made based on the lower property value estimates.

Surplus Property Overview

1830 Merchant St, Emporia, KS	
Estimated Value	$140,000 - $144,780

55 NE US 96 Highway, Crestline, KS	
Estimated Value	$32,340

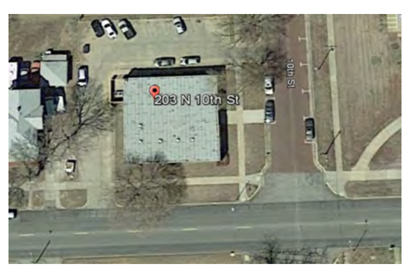


2308 1st Ave, Dodge City, KS	
Estimated Value	$180,508

1430 SW Topeka Blvd, Topeka, KS	
Estimated Value	$1,712,297

107 Spruce Street, Garden City, KS	
Estimated Value	$77,332

332 E 8th St., Hays, KS	
Estimated Value	$300,000 - $498,375



203 N10th St., Salina, KS	
Estimated Value	$80,640 - $125,000

414 & 420 SW Jackson St, Topeka, KS	
Estimated Value	$72,912

620 N Edgemore, Wichita, KS	
Estimated Value	$831,122

Estimated Total Value	$3,427,151 - $3,674,666
Estimated State Tax Revenue	$47,980

Surplus Property Overview

- In addition to the surplus properties identified by the state, A&M analyzed additional state owned properties with high potential to yield excess or unused land.
- While the land parcels recommended to be part of the land disposition program have been reviewed with the DOA, they have not received the approval of the individual state agencies, which currently control them. Additional due diligence would be necessary to determine how each state agency would play a role in the disposition program.
- This particular land surplussing opportunity also represents a chance to align agencies and land, to provide a bulk land sale/lease program.
- During its due diligence of this potential land surplus program, A&M discovered several critical pieces of data:
  - » The Dept. of Corrections has already made attempts to sell surplus land.
  - » In the past, state legislature required an inventory of all state land and the sale of any land determined to be surplus. Land was sold at WCF (Winfield) and the Dept. of Corrections attempted to sell land at LCF (Lansing) and KJCC (Topeka) but had no bidders.
  - » The Department of Corrections currently leases land to farmers at NCF (Norton) and LCMHF (Larned). KCI farms land at LCF and HCF (wild horse program).
  - » Similar inquires have been made with regard to the status of excess land owned by the Adjutant General; however, due to the complexity of funding allocations and mission goals, the Adjutant General demonstrated limited interest in selling any of the identified properties.
- The chart below estimates potential revenue from the sale or lease of 10% of the land listed (> 80 Acres).

State Owned Surplus Land			
Agency	Address	Size	Value
El Dorado Correctional Facility	1737 SE Highway 54, El Dorado, KS	615 Acres	$300,000
Dept. of Labor	6425 SW 6th Ave, Topeka, KS	82 Acres	$1,235,096
Kansas Neurological Institute	3107 W 21st St, Topeka, KS	221 Acres	$3,730,566
Dept. of Veterans Affairs	5181Wildcat Creek Road, Manhattan, KS	90 Acres	$163,212
	Estimated Sales Total:		$5,428,874
	Estimated State Tax Revenue:		$74,004

Findings

- El Dorado Correctional Facility – 1737 SE Highway 54, El Dorado, KS: The Department of Corrections has indicated that it has taken portions of its owned portfolio to market in the past with mixed levels of success. Given that the sale process would be streamlined through creation of a single PMO dedicated solely to property dispositions, and considering the large amount of land, there would be a higher potential for a successful sale if this property were to be taken to market. Additionally, given the fact that there have been previous attempts to sell portions of Lansing Correctional Facility, and Topeka Correctional Facility, which were unsuccessful, A&M anticipates a high probability of a successful solicitation.

- Dept. of Labor - 6425 SW 6th Ave, Topeka, KS: While redevelopment attempts have been made for this land, indicating a state interest in the disposition of the property, there has been limited success. Under a joint solicitation through a single PMO structure, there is a much greater probability of a successful sale.

- Kansas Neurological Institute - 3107 W 21st St, Topeka, KS: Development attempts have been made on this parcel, indicating a state interest in its potential sale. Several market factors such as the properties proximity to a VA hospital and the KNI would need to be considered for the solicitation of this land.

- Dept. of Veterans Affairs – 5181 Wildcat Creek Road, Manhattan, KS: The real estate market in Manhattan has grown considerably over the past decade with increased population of Kansas State, indicating a high potential for sale. A portion of the property is being utilized as a VA graveyard, so additional due diligence will be necessary to verify the viability of the sale.

Critical Steps to Implement

- Attaining the buy-in and cooperation of respective state agencies will be crucial to the disposition process. A&M recommends that the state institute a one-year moratorium on the law requiring 80% of net proceeds from state land dispositions to go to KPERS. This moratorium is also critical for implementing Recommendation #4.

- Additionally, the state would need to grant a temporary credence such that once properties have been identified as surplus, property value can be confirmed in-house (within the DOA) eliminating the necessity of a third party appraiser. This will greatly increase the speed of transaction execution.

- Speed to market will also be a critical component of to the successful disposition of state owned surplus properties. A&M recommends that the state form an external Project Management Office (PMO) to auction or lease identified excess land beginning in February 2016, ending November 2016.

- With regard to excess land parcel in high value areas, the state should finalize which parcels are indeed surplus and move to group and sell/lease these properties.

Recommendation #3 - (dollars in 000's)				
FY17	FY18	FY19	FY20	FY21
$3,817	**$3,817**	**$122**	**$122**	**$1,834**

Recommendation #4 – 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

Background & Strategy

- In 2013, the state issued an RFP for the sale of Lot #2, a 60,000 sq. ft. parcel currently being used as a parking lot, immediately South of the Docking Building.

- The state received a winning bid of $2,500,000; however, concerns about the sale of the property given its adjacency to the State Capitol Building were raised and the solicitation was terminated.

- Lot #4, slightly smaller at around 50,000 sq. ft. is South of Lot #2. While it is adjacent to a parking area servicing the Kansas Judicial Center, it has less of a visual impact on the green space surrounding the state Capitol Building. In all other terms of size, location and access, it is identical to Lot #2.

- The strategy around the disposition of Lot #4 would be to ground lease the property long-term and accelerate the lease payments to one payment at closing—essentially providing all the value up-front to the state.

- Instead of a fee simple sale of a strategic property close to the Capitol core, the state could maintain long-term control over the site and would also have controls and covenants built into the lease to provide approvals over change in use and other pertinent matters.

- The prospective winner for Lot #2 was working with a national drug store chain and was most likely going to use the site for that purpose. Lot #4 should prove to be suitable for that use as well, but the site is also adjacent to Blue Cross/ Blue Shield, which might take an interest in controlling the site, potentially positively impacting the sale.

Key Assumptions

- The market still exists to provide another competitive offer similar to that of Lot #2.
- Multiple potential owners/users become interested in controlling the site.

Critical Steps to Implement

- Repurpose the RFP for Lot #2 and implement the same execution strategy with the ground lease structure instead of the sale structure.
- Obtain verification that the ground lease structure voids the necessity to transfer 80% of the net proceeds to KPERS.

Recommendation #4 - (dollars in 000's)				
FY17	FY18	FY19	FY20	FY21
$2,500	**$0**	**$0**	**$0**	**$0**

Recommendation #5 – Hire a third party office printing management company to assume management for all office printing and copying within the State Capitol Complex

Background

- In 2014, DOA and Xerox initiated a pilot program with KDHE in the Landon and Curtis state office buildings to streamline office printing. The goal of this pilot was to make all office printing more efficient.
- The pilot helped to quantify the benefits of entering into a contract with a print management company (Xerox).
- The chart below illustrates the reduction in printing seen over 13 months. The cost avoidance through reduction in printing was calculated as well.
- Key Assumptions
- Special attention needs to be paid to the method in which the printing management companies perform the baseline printing analysis to ensure accuracy in accounting for savings.
- The state would run an open procurement in accordance with state policy to select a print management company.
- Based on the total FTEs from the Xerox pilot, A&M calculated the potential savings per FTE generated from switching to a print management service to be $116.
- For the purpose of calculating savings to the state from printing reduction, A&M assumed that buildings leased within a 4-block radius from the State Capitol Complex would be eligible to receive printing management services. The number of FTE's used in A&M's analysis is the sum of FTE's from the Xerox pilot program and FTE's in leased buildings (based on state provided leasing data).
- While the initial Xerox study was performed and

recorded over a 13-month period, for the purpose of demonstrating savings on an annual basis, A&M only utilized the first 12 months of the collected data. (Data on opposite side)

Key Benefits to the State

- Decreased energy consumption.
- Decreased solid waste.
- Savings on printing costs.
- Savings monitoring and programmatic feedback.
- Through printer consolidation and the implementation of more effective printing management systems, the cost associated with printing and level of printing activity would be reduced.
- The printing management company would then bill the state for all printing jobs at the end of every month.
- Increased efficiencies would generate significant savings for the state.

Process

- The State of Kansas would contract a third party print management company to replace all.
- Printing systems in the State Capitol Complex buildings.
- The selected print management company would then install more efficient printers a more efficient printing management system.

Recommendation #5 - (dollars in 000's)				
FY17	FY18	FY19	FY20	FY21
$250	**$250**	**$250**	**$250**	**$250**

Cumulative Cost Avoidance & Printed Image Summary		
Baseline Printing Spend (Monthly)	**$36,782**	
	Sep	**Oct**
Cost Avoidance	$7,522	$7,246
% Cost Avoidance	20%	20%
B&W Print Total	456,319	522,494
Color Print Total	111,107	105,777
	Nov	**Dec**
Cost Avoidance	$6,716	$11,228
% Cost Avoidance	18%	31%
B&W Print Total	442,256	206,692
Color Print Total	91,183	41,030
	Jan (2015)	**Feb**
Cost Avoidance	$6,052	$8,382
% Cost Avoidance	16%	23%
B&W Print Total	665,871	428,874
Color Print Total	155,867	110,246
	Mar	**Apr**
Cost Avoidance	$8,257	$8,129
% Cost Avoidance	22%	22%
B&W Print Total	375,239	344,239
Color Print Total	104,531	113,519
	May	**Jun**
Cost Avoidance	$8,710	$9,199
% Cost Avoidance	24%	25%
B&W Print Total	356,728	330,603
Color Print Total	99,960	87,579
	Jul	**Aug**
Cost Avoidance	$8,134	$7,095
% Cost Avoidance	22%	19%
B&W Print Total	363,227	343,424
Color Print Total	108,829	133,001
		Cumulative
Total Annual Cost Avoidance		**$96,670**
Average Percent Cost Avoidance		**22%**
***Data provided by Xerox*		
Total Savings		$96,670
FTEs for intimal survey		827
Savings Per FTE	$117	
Estimated Total FTE Through Active		1,314
Estimated Potential Annual Savings		$153,597

Recommendation #6 – Enter into an agreement with a cell tower leasing company and allow for the potential lease of small state owned land parcels or rooftops

Background

- The State of Kansas should—through an open solicitation process—engage a cell tower leasing company to analyze the portfolio of state owned real estate.
- Large cellular data providers would likely pay a premium for access to strategic land in locations with increasing population and cellular activity.
- Kansas City, Topeka and Wichita as well as areas along transportation corridors would likely be desirable locations in which cellular companies would be interested in leasing space.
- Verizon and T-Mobile are the most active carriers in the market. AT&T has indicated some growth in Kansas for 2016.
- There are needs for more cellular infrastructure around parts of western Kansas along transportation corridors and some continued coverage upgrades. More cellular infrastructure is expected in rural Kansas in the next 3-5 years.
- The growing market for cellular infrastructure represents a considerable market opportunity for the State of Kansas, with regard to surplus real estate assets.

Process

- At no cost to the state, the cell tower leasing company would provide a comprehensive radio frequency (RF) analysis, which the state could consider to include in the wireless master plan.
- At no cost to the state, the cell tower company would provide an analysis of state owned assets and a final list of assets which they would be interested in entering into a long term ground lease.
- The cell tower leasing company would assume management and maintenance of all existing, state owned cell towers.
- The cell tower leasing company would have the opportunity to lease state real estate assets, which could range from a solitary rooftop to larger tracts of land.
- For every land parcel leased by the cell tower leasing company, the state would receive a ground lease payment and an additional payment for every sublease to the cell tower.
- The cell tower leasing would then market the wireless master plan to wireless service providers and gauge interest in collocating on any existing and/or proposed sites within the wireless master plan.
- The cell tower leasing company would own any wireless communication facilities that it constructs on state owned or controlled land.
- Additionally, the state would have the ability to lease any fiber optic communication systems, which may have been previously installed.

Recommendation #6 - (dollars in 000's)				
FY17	FY18	FY19	FY20	FY21
$0	$296	$296	$296	$296

Key Benefits to the State

- No upfront capital payments from the state.
- Opportunity to receive lease payments on small portions of land that would otherwise go unused.
- The cell towers require minimal land (~2,500 sq. ft.) and are minimally invasive.

Critical Steps to Implement

- The state should implement a project management function to analyze the state's current portfolio of wireless facilities as well as produce a list of land and building assets, which would be feasible to lease (to the cell tower leasing company).
- The state should solicit to select the most qualified cell tower leasing company.
- Upon selection of the most qualified company, and after a careful review of legal premises, the state should enter into a MOU with the cell tower

leasing company, which would grant the company exclusive access to particular state owned assets.

- The state would begin to receive ground lease payments upon the execution of each individual ground lease, with additional participation fees paid to the state for each sublease to the cell tower facilities.

Case Study

- For illustrative purposes, A&M created a case study to model potential revenue to the State of Kansas.
- Assumptions
  - » Assumed 0 revenue for the first two years while the leasing company acquires land, constructs towers, and acquires sub lessors.
  - » Assumed 4 towers in Kansas City and the surrounding metropolitan areas.
  - » Assumed 2 towers in Wichita.
  - » Assumes 2 towers in Topeka.
  - » Assumes 2 towers in Lawrence.
  - » Assumes 2 towers in Manhattan.
  - » Assumes 2 Towers along the Kansas Turnpike.
  - » Assumes that each tower will have two cellular providers holding sub-leases.
  - » Assumes that the State will have a 40% participation in all sub-lease revenue. (The state should require a base lease payment as well as a participation payment for each lease and sub-lease, but for the purpose of this analysis, we will assume that the state only receives a 40% participation payment).

Fleet Management and Reduction

Acknowledgements

This report was made possible thanks to the knowledge, time, and advice of many individuals within the Kansas Department of Administration. Alvarez & Marsal would like to thank everyone who contributed to this endeavor, especially:

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- Mark J. McGivern, Director - Office of Facilities and Property Management

Agency Overview

The State of Kansas should institute a two pronged strategy to make better use of its passenger vehicle fleet, garner significant revenue windfalls and enjoy on-going cost savings. The comprehensive fleet strategy will employ both a reduction in vehicles owned and an outsourced centralized fleet management system. In conjunction, these two initiatives will result in fewer assets under management, reduced recurring maintenance and associated costs, as well as efficient use of vehicles for state employees to best serve the state's constituents.

Benchmarks

Kansas ranks in the higher end compared to its peers on the basis of vehicles per full-time employee. The following data are compiled from each state's Comprehensive Annual Financial Report:

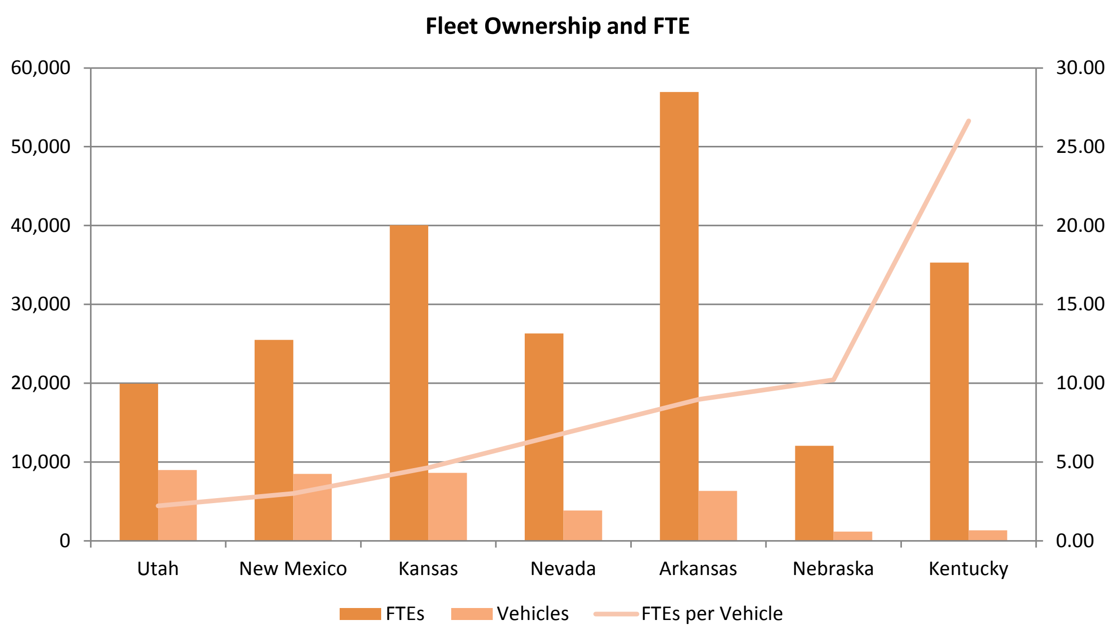


Figure 1 – Shows total number of full-time employees, total vehicles owned and the corresponding ratio. Consider the State Populations, from high to low: Kentucky, Arkansas, Utah, Kansas, Nevada, New Mexico, and Nebraska.

Currently, Kansas ranks with the 3rd highest proportion of vehicles to FTE wielding roughly 22 vehicles per every 100 employees. This calculation considers *all vehicles* throughout the state, inclusive of specialty or heavy vehicles, in order to appropriately compare across peer states. The peer states with fewer vehicles per FTE include Arkansas (11.1 vehicles per 100 FTE), Nebraska (9.8 vehicles per every 100 FTE) and Kentucky (3.75 vehicles per 100 FTE). Based on this analysis, significant precedent exists for fleet reduction within Kansas.

Recommendations

Fleet recommendations are quantified together due to their causal nature, i.e. a centralized and outsourced fleet management allows for a reduction in fleet.

		Target Savings and Revenue Estimate (All values in 2015 dollars, in 000s)						
Rec #	Recommendation Name	FY16	FY17	FY18	FY19	FY20	FY21	Total
1	Combined Fleet Recommendation	$1,333	$2,825	$995	$995	$995	$995	$8,138

Recommendation #1 - Centralized Fleet Management

Kansas should centralize passenger vehicle fleet resources under the Department of Administration and outsource fleet management to a fleet operations vendor. The consolidation of fleet operations under DOA will allow for the implementation of a centralized management solution and ensure resources are properly allocated to those employees who most require them.

- Recommendation
  - » Establish centralized ownership of all passenger vehicles – outside of the Universities and Highway Patrol – under the Department of Administration
  - » Issue an RFP for vendors to bid on the management and optimization of fleet resources, inclusive of the analysis necessary to determine fleet depot locations, on-going rental rates and the implementation of a network based reservation system
  - » Integrate fleet management improvements into management strategy to ensure the proper training of employees and reduction in use of third-party rental vehicles

Rationale and Assumptions

- Lack of interagency cooperation toward the efficient use of fleet management results in disparate systems, record keeping inconsistencies and a lack of transparency
- Current fleet strategy has resulted in not only the inefficient use of owned vehicles (in terms of FTE per vehicle) but also considerable use of rental cars
  - – On average, state employees rent roughly 750 vehicles monthly for an average cost of $35,000 a month
  - – These figures extrapolate to over $425,000 spent yearly on rental vehicles
  - – A modern, networked and more optimized fleet management system would reduce these ad-hoc rentals.
  - » More efficient use of passenger vehicles will allow for the concurrent reduction in fleet, and thus result in additional financial windfalls due to the sale of vehicles
  - » “Combined Fleet Recommendation” annual savings illustrated above are net of fleet management implementation costs ($300 annually per vehicle and upfront cost of roughly $7,000).

Critical Steps to Implement

- Foster buy-in with agency Secretaries and design a management strategy to train agency staff on use of the fleet management systems.
- Open a competitive bidding process for potential fleet operations vendors to perform due diligence and submit proposals to cover pricing, implementation and operations of centralized fleet management.

Recommendation #2 - Fleet Reduction

The State of Kansas should reduce the number of vehicles owned and operated by the state. A reduction in fleet owned will lower costs and reach usage efficiency levels achieved by its highest performing peer states.

- Recommendation
  - » The State should reduce the threshold by which passenger vehicles may be sold to 88,000 miles from the current rule of thumb of 130,000. This mileage target is derived from analyzing the 1,229 state owned passenger vehicles (exclusive of University and Highway Patrol vehicles) by their mileage quartiles, then reducing the oldest vehicles (by mileage) by 50%. The result is a smaller fleet with lower average mileage, thus ensuring the most productive vehicles remain.

Fleet Reduction - Full Year Results

Average Mileage of Vehicle Sold	Quantity Sold	% Sold	Total Opportunity
129,697	437	36%	$1,487,875

  - » Fleet reduction will be obligatory. Both during and after the initial fleet reduction in FY2016 and FY2017, state agencies will replace vehicles at the rate of attrition.
  - » Fleet reduction will result in roughly 650 fewer vehicles by the end of FY2017. This reduction will be made possible by the concurrent adoption of a modern, centralized fleet management system.
  - » Savings in FY2018, FY2019 and FY2020 represent the recurring costs avoided made possible by fleet reduction.
  - » The State will augment its current relationship with contracted auctioneers and others to dispose of the fleet in a timely and efficient manger.

Rationale and Assumptions

- The total eligible fleet for sale (and thus affected by this analysis) is defined as those vehicles located in denser metropolitan areas such as Topeka, Salina, Wichita and Kansas City, associated with all agencies except Universities and Highway Patrol.
- Passenger vehicles are defined as two-door sedans, four-door sedans, vans, pickup trucks and SUVs.
- Projected sale price of vehicles are derived from actual results garnered by DOA and KDOC. Projected price was calculated as:
  - » Projected Sale Price = Actual Realized Sale Price of Similar Vehicle by Type – (Mileage of Vehicle to be Sold * Dollar per Mile Value of Similar Vehicle by Type at Sale)
- Yearly maintenance, insurance, et al., costs are an estimated $1,518 per vehicle. This number was derived from costs realized by KDOC fleet management.
- The savings estimates include the 10% commission paid to the auctioneers.
- No new legislation necessary to implement fleet reductions.
- Savings do not take into account reduction of FTE made possible by fleet reduction and centralized management.
- Savings do not take into account lower wear and tear per-vehicle incurred due to reduced usage through centralized fleet management.

Critical Steps to Implement

- Assess the feasibility of vehicles to be sold with agency Secretaries and staff
- Comprehensively integrate projected vehicle reduction with DOA strategy and fleet management vendor to determine future usage patterns and inform management decisions
- Communicate intentions with auctioneers to prepare for increased sales volume

Print Services

Print Services

Recommendation #1 – Designate OPM as the primary source of print services for the state

The state should designate the Office of Print & Mailing as the primary source of print services for the state. The consolidation of total services of $23.5 million in print services across internal services and use of external vendors should be analyzed by the Department of Administration for the least expensive service delivery model, and to transform the centralized office around the most efficient operating model for the benefit of the state.

Background and Findings

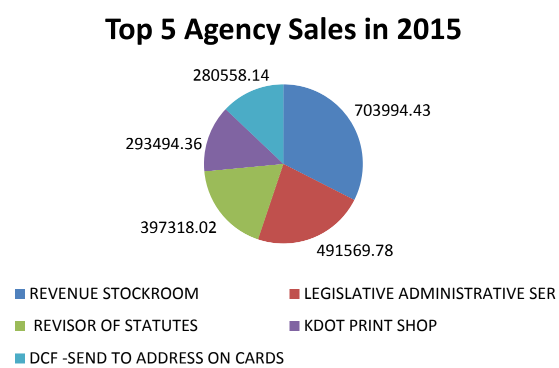
The Kansas Department of Administration's Office of Printing and Mailing (OPM) combines print services and central mail functions and is the state's resource for these services.

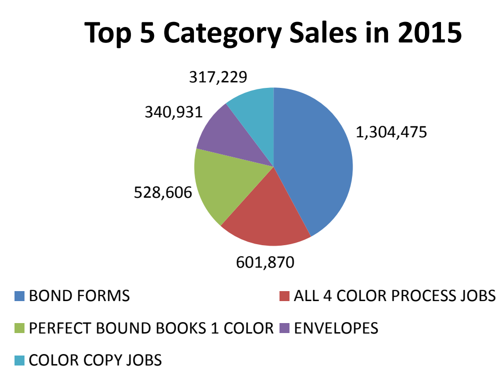
In 2015, Print Services invoiced $4.1 million to state agencies. This is a 37 percent increase from 2014.

	2013	2014	2015
Sales by Agency - Invoice Amount	3,693,755	2,976,416	4,085,539

The top 5 customers in 2015, which constituted 53 percent of total sales, are Revenue Stockroom, Legislative Administrative Services, Revisor of Statutes, KDOT Print Shop and the Department of Children and Family Services. In 2015, 97 customers had total sales amount of $80,000 or less (or 2% of total sales or less).

The top 5 product categories in 2015, which constituted 76% of total sales, are bond forms, 4-color processing, perfect bound books, envelopes, and color copies.





Source: OPM Reports: FY 15 SALES BY AGENCY, FY 15 SALES BY AGENCY, FY 15 SALES BY AGENCY

A&M reviewed the agencies spending on printing and advertising for 2015. Total state expenditures on printing and advertising totaled $23.5 million. State agencies paid third-party vendors $9.0 million for print services, , and directed $6.4 million in work to the state facilities.). There is potential to increase the usage of OPM for these existing customers.

The Regent schools are exempt from utilizing the state's print services. The Regent schools expenditures for other vendor printing was $3.8 million in 2015. A&M recommends the state consider efforts to bring the Regents onto the OPM system to gain further economies of scale for print services. By consolidating all print services across the state agencies and regents, the state will be able to maximize the existing print services capacity utilization, driving down costs, and utilize the best value external vendors for surge support or to replace internal services if the service can be delivered cheaper.

Critical Steps to Implement

- Appoint Office of Printing and Mailing as the central source of print services for the state. OPM will be responsible for all printing decisions, including make & buy decisions for all printed material, establish policies and standards, and review all procurement requests from state agencies related to printing.

- Designate OPM representatives for each agency. The representatives will provide information, answer agency questions and assist with all their printing needs.

- Assess the optimal service delivery model for the state, whether it be an insourced or outsourced model

- Begin to transition the agency to the optimal model to drive costs savings to the front line agencies

- OPM will work with agencies on RFPs with print services requirement. OPM will decide the appropriate vendor for the project.

Children and Family Services

Acknowledgements

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- Amanda Adkins, Chair - Kansas Children's Cabinet and Trust Fund
- Janice Smith, Executive Director - Kansas Children's Cabinet and Trust Fund

Agency Overview

Previous Efficiency Initiatives

In recent years, the Kansas Department for Children and Families (KDCF) has implemented innovative contracting and delivery models to better serve Kansas families, improve program outcomes and increase efficiency.

- Child Support Services – The Child Support Performance and Incentive Act of 1998 established five measures for Child Support Services effectiveness: Paternity Establishment Percentage, Support Order Establishment, Current Collections, Arrearage Collections and the Cost-Effectiveness Ratio (CER) for child support collections efforts. Kansas improved its CER by 20% between 2011 and 2013. Then in 2013, Child Support Services were outsourced and the CER jumped another 43%. The CER remained high in 2015, putting Kansas 8% above the national average.[1]

- **Business Process Management –** Between 2011 and 2013 KDCF's Economic and Employment Services (EES) team shifted from a case management

1 "Office of Child Support Enforcement Preliminary Report FY 2014," US Department of Health and Human Services, 2015; KDCF internal reporting.

approach to a process management approach. Their goals were to improve the speed and quality of service as well as improve efficiency.

» Before process management was implemented, the average eligibility determination took 28-34 days to complete. Now eligibility determinations are generally processed in ten days or less.

» Approximately 70% of service requests are now resolved on first contact, eliminating an estimated 90,000 to 180,000 unnecessary repeat visits per month.

» Due in part to these efficiency improvements, 40 EES positions were eliminated in 2014.[2]

Building on these innovations, A&M recommends two specific efficiency efforts for KDCF:

- **Child Support Collections –** Since KDCF has improved the CER, the agency is now focusing on improving collections—an area in which Kansas lags behind its peers. A&M's recommendations include additional efforts to improve both current and arrearage collections, applying proven practices from other states to increase the effectiveness of wage withholding and other collections mechanisms.

- **Regional Facility Consolidation –** As Kansas' population shifts, the optimal placement of field offices shifts as well. We have identified three field offices which can be closed, with program staff moved to nearby offices.

2 "Introduction to Process Management," Internal Memo, KDCF.

In addition, the Kansas Children's Cabinet and Trust Fund, which oversees the Children's Initiative Fund (CIF), has also driven innovation in children's programs across Kansas in recent years. The Children's Cabinet has the opportunity to facilitate further improvement by working with agencies to improve the targeting and diversification of funding for CIF-supported programs.

- **Children's Initiatives Fund (CIF) Program Evaluation –** The Children's Cabinet has mandated that all CIF-funded programs are evaluated based in part on the extent to which they represent Evidence Based Practice (EBP). As such, they are held to a higher standard for evaluation than many state programs. Multiple CIF-funded programs demonstrated EBP score improvements between 2014 and 2015, and several other programs which did not show improvement were discontinued.

- **Children's Initiatives Fund (CIF) Optimization –** Five CIF-funded programs which consistently received low EBP scores remain in place. A&M recommends that these programs be reviewed, and that each program either provide a plan to improve its EBP or be redesigned or replaced with new programs with a stronger evidence basis. To the extent possible, redesigned and new programs should be designed to retain and/or expand federal and private funding. In addition, A&M recommends the Children's Cabinet facilitate joint planning to further improve the targeting of funding and alignment of priorities among agencies serving children.

Baseline Budget

Department for Children & Families	**FY 2014**	**FY 2015**	**FY 2016**	**FY 2016**	**FY 2017**
(All values in 000s)	**Actual**	**Gov. Estimate**	*Base Budget*	**Gov. Rec.**	**Gov. Rec.**
Total	$585,795	$605,031	$627,026	$603,505	$608,895

Benchmark Comparisons

Fiscal and Operational Benchmarks

Child Support Collections – The federal Office of Child Support Enforcement monitors five measures of fiscal and operational effectiveness for Child Support Services, as outlined in the table[3] below. Definitions for the measures are provided in the appendix.

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3 Source: "Office of Child Support Enforcement Preliminary Report FY 2014," US Department of Health and Human Services, 2015

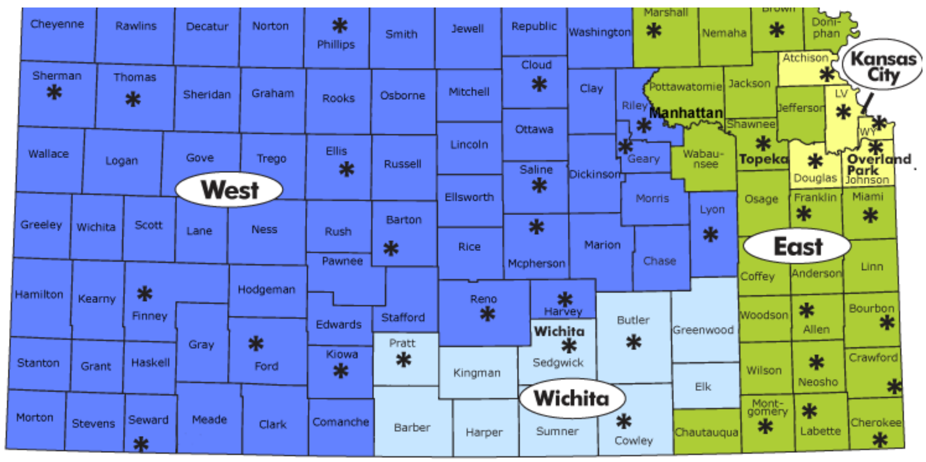
Child Support Collections Incentive Measures, FY 2014

State	IV-D Paternity Establishment Percentage (PEP)	Statewide Paternity Establishment Percentage (PEP)	Cases with Support Orders	Current Collections	Arrearage Cases	Cost Effectiveness Ratio
Kansas	**-**	***91%***	***82%***	***54%***	***60%***	***6***
Oklahoma	-	115%	82%	55%	61%	5
Nebraska	-	98%	87%	71%	69%	5
Iowa	-	104%	90%	74%	71%	6
New Mexico	111%	-	81%	55%	65%	3
Arkansas	99%	-	89%	63%	68%	5
Utah	-	98%	89%	63%	64%	6
Idaho	100%	-	85%	62%	58%	7
Nevada	116%	-	85%	60%	60%	4
Mississippi	90%	-	72%	53%	57%	10
Peer Avg.	103%	101%	84%	61%	63%	6
Nat'l Avg.	100%	96%	85%	64%	63%	5

**Kansas reports Statewide PEP, which considers all out of wedlock births in the State. However, KDCF's caseload is almost entirely made up of children who are IV-E eligible. Therefore, IV-E PEP would be a better measure of KDCF's effectiveness. KDCF plans to shift to reporting the IV-E PEP in future years. Based on preliminary estimates, KDCF predicts that the results for IV-E PEP are at or above peer levels.*

Regional Facilities – KDCF operates in four regions, with service centers throughout the state.

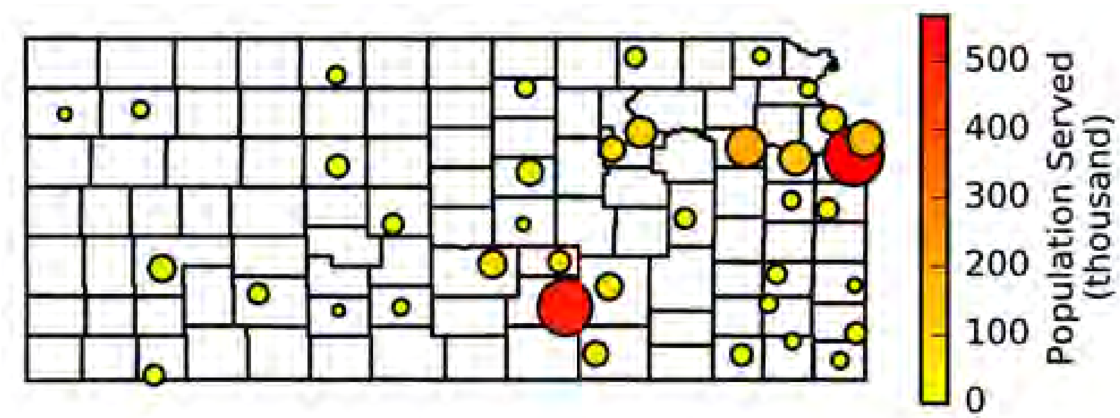
KDCF Service Centers[4]



✱ DCF Service Center

4 Source: http://www.dcf.ks.gov/services/Pages/DCFOfficeLocatorMap.aspx, accessed December 2, 2015

Current Population Served by KDCF Service Centers



Children's Initiatives Fund[5] – The Kansas Children's Cabinet and Trust Fund (known as the Children's Cabinet) advises the Governor on programs funded by the Tobacco Master Settlement agreement through the Children's Initiatives Fund (CIF). As part of the Children's Cabinet's annual Accountability Process, program evaluations for all CIF-funded programs were completed in 2014 and 2015, with the results as shown in the table on the following page.

Evidence Based Practice (EBP) measures, on a 1-3 scale, the extent to which programs and practices are supported by existing empirical evidence. Quality of Evaluation Checklist (QEC) measures, on a 0-100 scale, the degree to which a program complies with best practices in evaluation. Cells in green indicate improvement between 2014 and 2015. Four 2014 programs were not funded in 2015, and are not included. With the exception of the Kansas Reading Initiative, all of the above programs were funded in 2016 and are in the 2017 Governor's Budget.

For the Early Childhood Block Grant, each grantee's program is given an EBP. All grantees received scores of 2 or 3 in 2015.

5 Source: "Annual Investment Impact Report, Children's Initiatives Fund," Report, Kansas Children's Cabinet and Trust Fund, Oct. 16, 2015; and "Children's Initiatives Fund Briefing Binder," Report, Kansas Children's Cabinet and Trust Fund, Nov. 14, 2014.

Children's Initiatives Fund (CIF) Funding and Program Evaluation Results 2014 and 2015							
Program (Agency Managing the Program)	CIF Funding, 2014 (Total Operating Budget)	CIF Funding, 2015 (Total Operating Budget)	Other Funding Sources, 2015	Evidence Based Practice Score, 2014	Evidence Based Practice Score, 2015	Quality of Eval Score, 2014	Quality of Eval Score, 2015
Autism Diagnosis (KCCTF)	$50,000 ($410,561)	$50,000 ($215,000)	SGF, Fed	1	1	85	100
Child Care Assistance (KDCF)	$5,033,679 ($54,858,702)	$5,033,679 ($49,492,553)	SGF, Fed	2	3	83	100
Child Care Quality Initiative (KCCTF)	$500,000 ($518,147)	$500,000 ($500,000)	None	1	1	100	100
Children's Mental Health Waiver (KDADS)	$3,800,000 ($64,817,855)	$3,800,000 ($49,468,441)	SGF, Fed	1	2	98	NA
Early Childhood Block Grant (KCCTF)	$18,129,144 ($18,129,144)	$18,128,305 ($18,128,305)	None	1	2-3*	100	100
Family Preservation Services (KDCF)	$2,154,357 ($9,697,076)	$2,154,357 ($10,078,384)	SGF, Fed	3	3	85	100
Healthy Start Home Visitor (KDHE)	$237,914 ($739,358)	$237,914 ($739,358)	SGF, Fed., Local	1	1	55	60
Infants and Toddlers (KDHE)	$5,700,000 ($27,355,960)	$5,800,000 ($25,056,657)	SGF, Fed, Local, Private	3	3	100	100
Kansas Preschool Program (KDSE)	$4,799,812 ($4,799,812)	$4,799,812 ($4,799,812)	None	1	1	100	100
Kansas Reading Initiative (KDCF)	$5,000,000 ($5,000,000)	$6,000,000 ($6,000,000)	None	2	2	100	100
KIDS Network Grant (KDHE)	$96,374 ($173,166)	$96,374 ($242,988)	Private	1	1	100	100
Newborn Hearing Aid Loan Bank (KDHE)	$47,161 ($47,161)	$48,091 ($48,091)	None	3	3	73	85
Parents as Teachers (KDSE)	$7,237,635 ($12,352,163)	$7,237,635 ($12,370,461)	Local	3	3	95	100
Smoking Prevention Grants (KDHE)	$946,671 ($2,332,960)	$946,671 ($2,332,161)	Federal	3	3	100	100

Summary

A&M's approach to KDCF included a review of the largest areas of SGF spend in the agency's budget: Foster Care (39% of FY15 SGF spend), Adoption Support (9%) and Regional Offices (29%). We also reviewed the largest source of outstanding accounts receivable—Child Support, and the largest non-SGF state funding source—the Children's Initiatives Fund ($55 million).[6]

6 Funding recommendations and oversight of the Children's Initiatives Fund (CIF) are under the authority of the independent Kansas Children's Cabinet and Trust Fund (Children's Cabinet). KDCF acts as the fiscal agent for the Children's Cabinet.

After reviewing Kansas' performance and practices, we determined that Foster Care and Adoption Support, although large areas of spend, did not hold significant opportunities for efficiency.

A&M recommends three efficiency efforts for KDCF and the Children's Cabinet in the short to medium term:

- **Child Support Collections (KDCF):** Raise Kansas' child support collections (current and arrearage) to peer state levels. Increasing collections by 8 percent, through improved wage withholding and other collections mechanisms, will result in approximately $700 thousand a year of increased revenue to the state. Higher collections rates will also help Kansas families by ensuring that children and custodial parents have the financial support they are owed.

- **Regional Facility Consolidation (KDCF):** Close three service centers and move program staff to nearby offices.
- **Children's Initiatives Fund (CIF) Optimization (Children's Cabinet):** Improve the targeting of funding and diversify funding sources.
  - » A&M recommends that CIF-funded programs which consistently received low Evidence Based Practice (EBP) scores develop a plan to improve EBP, or be redesigned or replaced with new programs that have a stronger evidence basis. To the extent possible, redesigned and new programs should be designed to retain and/or expand federal and private funding.
  - » In addition, the Children's Cabinet's should facilitate joint planning to further improve the targeting of funding and alignment of priorities among agencies serving children.

Recommendations

		Target Savings and Revenue Estimate (All values in 2015 dollars, in 000s)					
Rec #	Recommendation Name	FY17	FY18	FY19	FY20	FY21	Total
1	Child Support Collections	$735	$692	$659	$620	$590	$3,297
2	Regional Facility Consolidation	$121	$121	$121	$121	$121	$605
3	Children's Initiatives Fund Optimization	$0	$3,500	$3,500	$3,500	$3,500	$14,000
DCFS Total		**$856**	**$4,313**	**$4,280**	**$4,241**	**$4,211**	**$17,901**

Recommendation #1 – Raise Kansas' Child Support Collections to Peer State Levels

KDCF has improved the Cost-Effectiveness Ratio for the Child Support Services (CSS) program by 60% since 2011, putting Kansas 8% above the national average. Now the department is turning its focus to improving collections. Adopting proven practices from other states can accelerate this effort.

Specifically, Kansas should:

- Coordinate with the Kansas Department of Labor (KDOL) to take further steps to increase the number of employers self-reporting new hires—including imposing a penalty for non-reporting and requiring the reporting of independent contractors—so that additional Employment Withholding Orders (EWOs) can be established to collect court-ordered child support payments.
- Coordinate with the Kansas Department of Revenue to deny issuances or renewal of car, boat, or recreational vehicle registration until an EWO or payment plan is in place.
- Coordinate with the Kansas Department of Revenue to establish an inter-local agreement with neighboring states—many people work in Missouri and owe child support to a child living in Kansas, or vice versa. Kansas can increase collections by using Missouri's Set-Off program and other collections tools.
- Kansas should continue current efforts to optimize the full range of collections measures currently in place.

Background and Findings

KDCF's Child Support Services (CSS) help children receive child support:

- Services include establishing parentage and orders for child and medical support, locating non-custodial parents and their property, enforcing child and medical support orders, and modifying support orders as appropriate.

- CSS automatically serves families receiving Temporary Assistance for Needy Families (TANF), foster care, food assistance, and child care assistance. Assistance from CSS is also available to any family regardless of income or residency. [7]

The federal Office of Child Support Enforcement monitors five measures of effectiveness for CSS programs.

- The measures are:
    - » Establishment of paternity
    - » Establishment of support orders
    - » Collection of current support due
    - » Collection of arrears
    - » Cost effectiveness
- Incentive payments are provided to states based on performance of these five measures.
- CSS has set a goal of being #20 in the nation across all measures.

As outlined in the operational benchmarks above, Kansas is performing below its peers in the collection of current child support owed and arrearage on behalf of custodial parents.

- As of the end of FY15, $980.4 million of child support receivables were outstanding, of which $813.9 million was more than 365 days in arrears. [8]

Increased collections benefit Kansas' children, custodial parents, and the State and Federal governments. When CSS collects child support, the majority of the funds go directly to the custodial parent. However, when the child is receiving TANF in foster care, or in juvenile justice custody, the child support goes to state and federal funds. Of Kansas' total Child Support collections in 2015, 5.79% represented state funds.[9]

In addition, Kansas receives incentive payments from the Federal government based, in part, on collections rates. Higher collections rates, all else being equal, can increase Kansas' incentive payment.

On average, child support represents 45 percent of family income, for poor custodial families that receive it.[10] Therefore, increasing child support collections will improve the financial stability of Kansas' custodial parents, improving children's lives and potentially reducing the rate of children requiring foster care and other services.

Kansas already has a broad range of mechanisms in place for collecting child support. In FY15:

- 75.6% of child support collections came through Employment Withholding Orders (EWOs) (consistent with the national average of 75%)
- 13.7% came from the non-custodial parent sending a check or money order
- 10.4% through the US Treasury Offset Program
- 1.86% through the Kansas Debt Recovery Program

Measures such as placing restrictions on driver's licenses, denying recreational licenses, withholding lottery winnings, obtaining liens on property, and offsetting bank accounts through the Financial Institute Data Match help drive collections.

Employers are legally required to report new hires in order to facilitate the implementation of EWOs. However, Kansas has had challenges in enforcing this requirement.

- Of the nearly 80,000 private employers in Kansas, only approximately 20,000 self-report new hires.
- Kansas does not impose a penalty on employers for non-compliance with the reporting requirement.
- Federal law allows for civil penalties for non-reporting—up to $25 per newly hired employee, or up to $500 per newly hired employee, if the state shows a conspiracy between the employer and employee not to report. States also have the option of imposing non-monetary civil penalties

7 KDCF website

8 KDCF FY2015 Accounts Receivables Report. Note that because the child support is owed to custodial parents, these receivables are not treated in the same way that State receivables are treated.

9 Ibid.

10 "Child Support 2014: More Money for Families," Infographic, Federal Office of Child Support Enforcement.

on employers who fail to report.[11]

- Many other states, including Nebraska, New Mexico and Arkansas, highlight their authority to impose penalties in their employer communications.[12]

KDCF and KDOL recently announced a partnership to increase new-hire reporting. They implemented web-enabled reporting for new hires and gave employers online access to lists of EWOs. In addition, CSS staff members are reaching out to employers who have not reported, educating them about the process and legal requirements.

Building on this effort, Kansas should:

- Impose a penalty for non-reporting at the maximum level allowed by federal statue, and include the potential penalty in employer communications.
- Require reporting of independent contractors.
- Coordinate with the Kansas Department of Revenue to deny issuances or renewal of car, boat, or recreational vehicle registration until an EWO or payment plan is in place.
- Coordinate with the Kansas Department of Revenue to establish inter-local agreements with neighboring states.

In addition, A&M recommends that Kansas monitor and report on operational metrics for the collections program (e.g., rates of employer compliance with new hire reporting, number of EWOs instituted) and for the new web-based employer tools (e.g., site hits, abandonment rates), and adjust CSS's employer outreach program accordingly.

Recommendation #1 - (dollars in 000's)				
FY17	FY18	FY19	FY20	FY21
$121	**$121**	**$121**	**$121**	**$121**

11 US Department of Health and Human Services. http://www.acf.hhs.gov/programs/css/resource/new-hire-reporting-answers-to-employer-questions. Accessed December 8, 2015

12 State new hire reporting websites. Accessed December 8, 2015

Key Assumptions

- An 8 percent increase in revenue from child support collections over the baseline budget.
- KDCF has already budgeted and planned for efforts to improve performance on the five measures of child support services performance. These recommendations will help focus those efforts and will not require significant additional investment.

Critical Steps to Implement

The critical steps necessary to complete the implementation of the child support collections recommendation include:

- Establish a requirement for employers to report independent contractors as part of their new hire reporting.
- Establish penalties for non-reporting of new hires and communicate these potential penalties to employers
- Develop agreements with the Kansas Department of Revenue and neighboring states on the improvements outlined above
- Establish new operational metrics as outlined above

Imposing penalties for employers who do not report new hires on a timely basis and requiring reporting of independent contractors may require statutory or regulatory changes. However, the remaining recommendations can be implemented in parallel with this change. The expected time to implement the recommendation is six months, exlusive of time needed for regulatory or legal changes.

Recommendation #2 – Close Three Service Centers

A&M recommends that Kansas close three service centers and move the direct service staff to nearby facilities:

- Goodland (Sherman County) – move program staff to Colby
- Greensburg (Kiowa County) – move program staff to Dodge City or Pratt
- Iola (Allen County) – redistribute program staff to

Fort Scott, Independence, or Chanute

The lease for the Greensburg office ends in February 2016, and the Goodland and Iola leases end in July 2016. After the leases end, they can be shifted to a month to month basis.

Additional closures may be possible in 2018 based on:

- Additional Business Process Management and technology improvements, resulting in greater efficiency and therefore reduced regional staffing needs.
- Changes in office traffic patterns and staffing needs following the transfer of Medicaid eligibility to KDHE.
- Trends in citizen's choices on how to contact KDCF (shift from office visits to internet based service).

A&M recommends that KDCF establish metrics that enable an annual review of the footprint. KDCF should specifically monitor demand and capacity utilization at the office level, breaking out back office versus front office work (e.g., foot traffic in the office, local work in the community such as court visits).

Background and Findings

KDCF has service centers in the field, serving multiple purposes:

- Citizens can visit to apply for, and ask questions about, KDCF's services.
- In addition to working with visiting citizens, staff members in the service centers perform a range of back office duties, such as processing applications for benefits.
- Many field staff travel regularly to execute their duties. For example, social workers make home visits and travel to court appointments throughout the region.

As Kansas' population and needs change, so do the needs for individual offices in the field.

- Kansas' population and KDCF's client base are both shifting.
- A rising percentage of applications and inquiries that once came in person, at a service center, are now being handled online.
- With the implementation of Business Process Management and technology improvements, many back office duties can be performed in any office, not just in the office where the beneficiary applied.
- As population served declines in many areas of the state, many service centers have (and need) fewer FTE than they were originally designed to hold.

As a result, Kansas has the opportunity to revisit the need for individual offices.

- Current operating metrics do not track demand and capacity utilization at the office level. Therefore, our recommendation used FTE by office and persons served (i.e., KDCF program beneficiaries) by county as proxies for current demand for a local service center.
- Square footage per FTE was used as a proxy for service center capacity utilization and as an indicator of decreasing demand. Empty offices indicate that the office no longer needs as many staff members as they once needed when leases were signed.

Every office with more than 500 square feet of space per FTE was reviewed—fourteen offices fell into this category:

- Six of these offices hold 15 or fewer FTE—of those:
    - » Three are proposed for closure. Program staff positions can be relocated to another office in the next county. All three offices are in counties projected to experience population declines over the next five years.
        - – Goodland was built for 15 staff members, but currently only has three staff members. Program staff can be relocated to Colby.
        - – The Greensburg office was rebuilt after a devastating tornado but the town did not rebuild. The office only has one staff person—a social worker who travels frequently in her role. This position can be relocated to Dodge City or Pratt.
        - – Iola is located within 20 miles of the larger Chanute office, and 40 miles from Fort

Scott. Program staff can be redistributed to one of these two offices, or to Independence.

- » Three offices are proposed to remain open to minimize impact on clients:
  - – Colby and Pratt will absorb FTE and/or clients from the proposed closures above. Once the implications on staff and clients of the closures are clear, these two offices should be reviewed to determine whether additional action, such as reduction of space or additional subleasing is appropriate.
  - – For Concordia, there are no field offices in bordering counties to absorb clients and staff, so closure is not recommended.

- The remaining eight offices hold more than 15 FTE. Given their size, closure may put undue burden on clients.
  - » Fort Scott will take in FTE relocated from Iola.
  - » Conditions in Atchison, El Dorado, Lawrence, Leavenworth, Newton, Ottawa and Phillipsburg should be reviewed to determine whether the square footage can be reduced or additional space can be sublet.

Recommendation #2 - (dollars in 000's)				
FY17	FY18	FY19	FY20	FY21
$735	**$692**	**$659**	**$620**	**$590**

Key Assumptions

- All direct service positions will be transferred to nearby offices, thus consolidating the footprint but not reducing service capacity.
- Administrative and temporary staff positions in the closed offices will be eliminated, with non-temporary incumbents offered comparable vacancies in other offices if available.
- SGF currently funds 60.5% of the facilities costs in the offices planned for closure. The table above represents only the SGF savings, and does not include savings of Federal funds.

Critical Steps to Implement

- Create a staff transfer plan and work with staff on relocation
- Develop and execute an outreach plan for clients and communities near closed offices
- Terminate leases

The expected time to implement the recommendation is six months. This will allow for time to work with staff, clients and communities on the transition. The recommendation is not expected to require statutory or regulatory changes, as the Secretary has the authority to determine the number and locations of field offices.

Recommendation #3 – Improve the targeting of CIF funding and diversify the funding mix

The Children's Initiative Fund (CIF) is overseen by the Kansas Children's Cabinet and Trust Fund. The CIF supports children's health, child care, and early childhood education programs. Such programs, if well designed, can result in significant long term savings for the State. For example, a study of The Opportunity Project (TOP) in Sedgwick County, which provides early education to children living in poverty, showed a savings of $4.5 million just from avoiding K-12 special education placement for students enrolled in the program for two years – an 11 percent annual return on investment.[13]

Every CIF-funded program is evaluated annually based, in part, on the extent to which it is supported by empirical evidence. As such, CIF-funded programs are held to a higher standard of evaluation than many State programs. These evaluations can be used to focus further improvements to the returns on the CIF investments.

A&M recommends that CIF-funded programs which consistently received low Evidence Based Practice (EBP) scores be reviewed, and the agencies executing each program either:

- Establish a plan to improve EBP performance, or
- Redesign or replace the program with new programs that have a stronger evidence basis.

13 "Little Footprints Have a Big Impact," Kansas Children's Cabinet Report, December 3, 2015.

To the extent possible, redesigned and new programs should be designed to retain and/or expand federal and private funding.

In addition, with the expected drop in CIF funding due to the reduction in Tobacco Settlement revenues after 2017 and with new leadership in place in multiple agencies, A&M recommends that the Children's Cabinet facilitate joint planning for 2018 to to further evaluate and align funding priorities and strategies across relevant agencies.

Background and Findings

The Kansas Children's Cabinet and Trust Fund, known as the Children's Cabinet, was created by the Legislature in 1999. It is comprised of voting members appointed by the Governor and Legislature, and non-voting ex-officio members from KDCF, KDSE, KDHE, the Kansas Board of Regents, and the Kansas Supreme Court. These are the statutory responsibilities of the Children's Cabinet[14]:

- Advising the Governor and the legislature regarding the uses of the moneys credited to the Children's Initiatives Fund
- Evaluating programs which utilize Children's Initiatives Fund moneys
- Assisting the Governor in developing and implementing a coordinated, comprehensive delivery system to serve children and families of Kansas
- Supporting the prevention of child abuse and neglect through the Children's Trust Fund

The Children's Initiatives Fund was established by the Legislature in 1999 to support programs promoting the health and welfare of the children of Kansas.

- The CIF is funded by the Tobacco Master Settlement agreement.
- Settlement monies flow into the Kansas Endowment for Youth (KEY) Fund
- The CIF is funded with annual transfers from the KEY Fund.
- The Children's Cabinet then recommends transfers from the CIF to specific programs for children. These include programs managed directly by the Children's Cabinet, as well as multiple programs which are administered by KDCF, KDHE, KDADS, and KSDE.
- In some cases, the CIF funds bring in additional federal funding. A portion of the CIF funds supporting the following programs represents state match and/or Maintenance of Effort (MOE) for federal grants:
    - » KDCF's Family Preservation and Child Care Assistance programs
    - » KDADS' Children's Mental Health Waiver program
    - » KDHE's Healthy Start Home Visitor and KIDS Network Grant programs
    - » The Children's Cabinet's Early Childhood Block Grant program.
- However, the majority of CIF funds are not used as state match to bring in Federal or other grant funds.

Tobacco Settlement Funds are expected to drop by approximately 25 percent after 2017 - States and grantees are beginning to plan for the transition.

- The Children's Cabinet has stressed the importance of diversifying funding to its grantees, given the projected reduction in Tobacco Settlement funds.
- The Children's Cabinet and related agencies should also diversify the funding of early childhood programs by continuing to seek private funding and pursuing a wider range of federal grants.
- Many states are also choosing to take future Tobacco Settlement funds as a lump sum at a discount to allow for more flexibility in the timing of the spend. Alabama, Alaska, South Dakota, and South Carolina took lump sums before 2003, and several other states have since followed suit. [15]

The Children's Cabinet undertakes an annual Accountability Process in which programs are evaluated and priorities set for the coming year. The program evaluation results are published in Annual Investment Impact Report (AIIR) and are included in the benchmarking section above.

14 http://kschildrenscabinet.org/mission/, accessed Dec 2, 2015.

15 "Securitization Of Tobacco Settlement Funds," Report, Connecticut Office of Legislative Research, 2002-R-0736.

- The 2015 Annual Investment Impact Report (AIIR) demonstrates strong program governance.
  - » Funding is clearly tied to strategic objectives outlined in the Children's Cabinet's Blueprint for Early Childhood.
  - » Programs are evaluated based on a clear set of criteria, and several programs improved their evaluation scores from 2014 to 2015.
  - » Four programs that were funded in 2014 were not funded in 2015, representing a willingness to adapt funding as needs change.
- However, five programs received Evidence Based Practice (EBP) scores of "1" (on a scale of 1-3) in both 2014 and 2015 and are still being funded in 2016.
  - » In some cases, a low EBP is the result of innovation – newer approaches have not been in place long enough to build up the evidence required.
  - » In other cases, differences between the existing evaluation method for a long standing program and the EBP evaluation method may result in a delay in accurate EBP scoring.
  - » To account for these factors, and to further measure the quality of programs, every program will be required to report on at least one approved outcome measure in 2016.
- In addition, financial efficiency and agency alignment are not systematically evaluated.
  - » Although select CIF-funded programs have been evaluated for financial return, the Accountability Process does not systematically review financial efficiency.
  - » Although the AIIR demonstrates how the CIF funding priorities align to the Children's Cabinet's Blueprint for Early Childhood, it is not clear that the Blueprint and the individual Department strategies for children's programs are explicitly aligned. Agency leadership input is obtained through ex-officio membership on the Children's Cabinet, but the Agencies strategic planning and the Children's Cabinet's planning process are not formally connected.

A&M recommends that CIF-funded programs which consistently received low Evidence Based Practice (EBP) scores develop a plan to improve EBP or be redesigned or replaced with new programs that have a stronger evidence basis.

To the extent possible, redesigned and new programs should be designed to retain and/or expand federal and private funding.

- Three low-EBP programs (Autism Diagnosis, Healthy Start Home Visitor, KIDS Network Grant) currently receive significant federal and private funding. EBP improvement plans and redesigns should be undertaken in such a way as to retain the outside funding while improving evidence based practice.
- Two low-EBP programs are currently entirely CIF-funded. (Child Care Quality Initiative, Kansas Preschool Program). Redesigned or replacement programs may qualify for federal or private grants.

For example, TANF Block Grant funds can be applied to new or substantially redesigned programs in the following areas:[16]

- Preschool and other early childhood education programs which are means tested or designed to reduce out of wedlock births by reducing dropout rates
- Abuse prevention programs
- Child care programs.[17]

The Kansas TANF Fund[18] includes $3.5 million of uncommitted funds each year from 2017-2020. The TANF Fund is funded by the Federal TANF Block Grant, which is designed to support needy children and their families.

- KDCF administers the TANF fund, as well as administering multiple programs supported by TANF.
- If a new or redesigned program meets the TANF eligibility requirements, it must be included in the state TANF plan and specific Federal reporting requirements must be fulfilled in order to claim the funds.
- With the exception of the Children's Cabinet itself, the agencies which administer the CIF-fund-

16 HHS Program Instruction TANF-ACF-PI-2001.

17 Note: the Child Care Quality Initiative is designed, in part, to improve the identification of child abuse and neglect..

18 "TANF and CCDF Fund Report, FY2016-FY2020 Submitted Budget with Approved Policies, 11/24/2015," report provided by KDCF.

ed programs have extensive expertise in federal funds management and reporting, and therefore should have the capabilities in place to establish the fiscal reporting required for TANF.

Savings resulting from agencies bringing in new Federal or Private funds for redesigned or replacement programs will free up CIF funds, which can then be transferred to core children's programs currently funded by SGF, such as the Infants and Toddlers program or Child Care Assistance.

In addition to addressing low-EBP programs, with the projected reduction in Tobacco Settlement Funds after 2017 and new leadership in place in multiple agencies, an overall review of children's program priorities and funding strategies is in order.

- The above recommendation is a first step, and should be executed jointly by the relevant agencies and the Children's Cabinet, consistent with both Agency strategies and the Children's Cabinet's Blueprint for Early Childhood.
- To further the Children's Cabinet's mandate of "assisting the Governor in developing and implementing a coordinated, comprehensive delivery system to serve children and families of Kansas", A&M recommends that the Children's Cabinet facilitate joint planning for FY18 funding cycle to ensure that priorities are aligned and the impact of funding decisions on both the Blueprint for Early Childhood and Agency objectives are considered and addressed.
- To the extent feasible, the common measures under development by the Children's Cabinet should be expanded to cover additional children's programs so that funding tradeoffs may consider relative impact on child welfare across program types.

Recommendation #3 - (dollars in 000's)				
FY17	FY18	FY19	FY20	FY21
$0	**$3,500**	**$3,500**	**$3,500**	**$3,500**

Key Assumptions

- All existing programs will continue until redesigned or new programs are in place.
- Current KDCF, KDHE, and/or KDSE staff have the capability to execute the recommendations outlined above with minimal additional administrative cost.
- At least one major new or redesigned program will be eligible for TANF funding, and the TANF surplus, which is projected at $3.5 million per year from FY17 through FY20, will also be at least $3.5 million in FY21.
- Savings resulting from the application of TANF funds to redesigned or replacement programs will free up CIF funds, which can then be transferred to core children's programs currently funded by SGF. The table in this section represents the resultant SGF savings.
- Savings may be higher if needs can be met with programs that are less costly than the current set of programs, or if additional Federal or private funding can be obtained.

Critical Steps to Implement

- Determine which programs will implement a plan to improve EBP, which will be redesigned, which replaced.
- Determine whether the proposed new or redesigned programs meet TANF objectives and/or are eligible for other federal grants or private funding.
- Develop the program policies, documentation, and reporting required.
- Communicate changes to key stakeholders, and engage them in the new program designs as appropriate.
- Update the State TANF plan and obtain federal approval.
- Execute fund transfers.
- Implement the program changes.

A preliminary draft of steps one and two above can be completed within one month. However, depending on the extent of the proposed program changes, the remaining steps may take six to twelve months. Program redesigns and replacements will therefore be implemented for the FY18 grant cycle. This recommendation is not expected to require statutory or regulatory changes.

Appendix - KDCF

The Federal Office of Child Support Enforcement monitors five measures of effectiveness for Child Support Services. The definitions of these measures are provided below. For the first measure—Paternity Establishment Percentage, States have two choices. They may consider only those children born out of wedlock who are IV-D eligible, or they may consider all children born out of wedlock in the state.

CSPIA INCENTIVE MEASURE FORMULAS

INCENTIVE MEASURE	FORM AND LINE NUMBERS
PATERNITY ESTABLISHMENT PERCENTAGE (PEP): IV-D	
Number of Children in the Caseload in the FY or as of the End of the FY Who Were Born Out-of-Wedlock with Paternity Established or Acknowledged / Number of Children in the Caseload as of the End of the Preceding FY Who Were Born Out-of-Wedlock	OCSE-157, Line 6 / OCSE-157, Line 5a
PATERNITY ESTABLISHMENT PERCENTAGE (PEP): STATEWIDE	
Number of Minor Children in the State Born Out-of-Wedlock with Paternity Established or Acknowledged During the FY / Number of Children in the State Born Out-of-Wedlock During the Preceding FY	OCSE-157, Line 9 / OCSE-157, Line 8a
SUPPORT ORDER ESTABLISHMENT	
Number of IV-D Cases with Support Orders / Number of IV-D Cases	OCSE-157, Line 2 / OCSE-157, Line 1
CURRENT COLLECTIONS	
Amount Collected for Current Support in IV-D Cases / Amount Owed for Current Support in IV-D Cases	OCSE-157, Line 25 / OCSE-157, Line 24
ARREARAGE COLLECTIONS	
Number of IV-D Cases Paying Toward Arrears / Number of IV-D Cases with Arrears Due	OCSE-157, Line 29 / OCSE-157, Line 28
COST-EFFECTIVENESS	
Total IV-D Dollars Collected / Total IV-D Dollars Expended	OCSE-34A, Lines 4b+ 4c + 8+ 11 of column (G) / OCSE-396A, Line 7 columns (A) + (C) less Line 1(c) columns (A) + (C)
STATE COLLECTION BASE	
2 times (Current Assistance + Former Assistance Collections + Medicaid Assistance) + Never Assistance Collections + Fees Retained by Other States	OCSE-34A: 2 times ((Line 4b,columns A+B+C+D+E) + (Line 8, columns A+B+C+D+E)) + Line 4b, column F + Line 8, column F + Lines 4c + 11 of column G

Source: "Office of Child Support Enforcement Preliminary Report FY 2014," US Department of Health and Human Services, 2015.

Commerce and Economic Development

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- Ben Cleeves, Budget/Fiscal Officer

Department of Commerce

As the state's lead economic development agency, the Kansas Department of Commerce strives to empower individuals, businesses, and communities to achieve prosperity in Kansas. The department comprises a variety of programs and services that create jobs, attract new investment, provide workforce training, encourage community development, and promote the state as a wonderful place to live and work[1]. This is accomplished through the department's two divisions: Business and Community Development and Workforce Services.

The Business and Community Development Division oversees a portfolio of financial incentives for Kansas rural communities and businesses that are looking to locate or expand in Kansas. Programs include:

- Retention of withholding taxes
- Investment tax credits
- Sales tax project exemptions

1 Kansas Department of Commerce website

- Revolving loan funds for local infrastructure projects
- Loans and/or grants—to assist rural communities in improving infrastructure, housing, and urgent needs to maintain and growth

The most widely utilized financial incentives include:

- Certified Development Companies (CDC)
- Community Development Block Grant (CDBG) Program
- Community Service Program (CSP) Tax Credit
- Employer Partner Incentive
- Energy Incentives
- High Performance Incentive Program (HPIP)
- Individual Development Account (IDA) Tax Credit Program
- Kansas Industrial Retraining (KIR)
- Kansas Industrial Training (KIT)
- Kansas Partnership Fund
- Private Activity Bonds (PABs)
- Promoting Employment Across Kansas (PEAK) Program
- Property Tax Abatement Assistance
- Rural Opportunity Zones (ROZ)
- Sales Tax Revenue (STAR) Bonds
- Small Communities Improve Program (SCIP)
- State Small Business Credit Initiative (SSBCI)
- Work Opportunity Tax Credit (WOTC)

Kansas Workforce Services provide a wide variety of services that are available through the Kansas Workforce Centers, located in 22 regional offices across Kansas. Services that are offered to both Kansas employers and residents at no charge include:

- Job listings for local, statewide, and national employment opportunities
- Applicant pre-screening and application acceptance
- Facility location to conduct interviews as well as staff to assist in scheduling
- Space for job fairs
- Employment applicant assessment services and testing
- Veteran services
- General labor market information

The department's Administrative Division consists of the Office of the Secretary, Human Resources, Public Affairs and Marketing, Information Technology, Fiscal Services, Building Services, the Governor's Economic Council of Advisors, and Legal and Regulatory Compliance. The department also includes two commissions: the Kansas Athletic Commission and the Creative Arts Industries Commission.

The Kansas Athletic Commission administers regulated sports and wrestling within the state. The Commission strives to provide authorized control and direction for professional boxing, kickboxing, mixed martial arts, and wrestling while encouraging the promotion of such sporting events in the state of Kansas. The Commission continues to facilitate the health and safety of contestants and fair and competitive bouts. The Kansas Creative Arts Industries Commission merged the former Kansas Film Commission and Kansas Arts Commission into a new designated state arts agency, designed to capitalize on the potential for the creative sector to drive economic growth in Kansas.

Additionally, the department provides support to the Governor's Council of Economic Advisors. The mission of this Council is to "serve the citizens of Kansas by providing economic insights directly to the Governor through assessing local, national, and global business conditions and trends, evaluating the significance of those conditions as related to Kansas towards an economic development strategy, and research related topics of importance to Kansas and report directly to the Governor."[2]

The day to day operations of the department are funded primarily from the Kansas Economic Development Initiatives Fund (EDIF). The EDIF is a grant allocation

2 Kansas Department of Commerce website

from the State Gaming Revenues Fund (SGRF) and is funded through monthly transfers from the Kansas Lottery. Transfers are made from the Gaming Fund to funds dedicated to economic development initiatives, prison construction and maintenance projects, local juvenile detention facilities, problem gambling assistance, and the State General Fund. The first $50 million is divided by a formula, which first transfers $80,000 to the Problem Gambling and Addictions Grant Fund, and then 85 percent of the balance is transferred to the Economic Development Initiatives Fund, 10 percent to the Correctional Institutions Building Fund, and 5 percent to the Juvenile Detention Facilities Fund. Any receipts in excess of $50 million must be transferred to the State General Fund.[3]

Gaming Revenues Fund Fiscal Year 2014

- Economic Development Initiatives Fund - $42,432,000
- Juvenile Detention Facilities Fund - $2,496,000
- Correctional Institutions Building Fund - $4,992,000
- Problem Gambling Grant Fund - $80,000
- State General Fund - $ 24,300,000

The Department of Commerce received an allocation of $13.8 million in FY15, compared to $16.4 million in FY14 for the following programs and services[4]:

Department of Commerce EDIF Allocations:		
Program or Project:	FY2014	FY2015
Operating Grant	$ 8,648,981	$ 9,192,279
Older Kansans Employment Program	261,702	253,139
Rural Opportunity Zones Program	3,991,818	1,831,012
Senior Community Service Employment Program	12,617	8,100
Strong Military Bases Program	179,122	100,000
Governor's Council of Economic Advisors	222,841	186,205
Airport Incentive Fund	15,000	-
Innovation Growth Program	1,827,318	1,568,648
Kansas Creative Arts Industries Commission	765,127	200,000
Medicaid Reform Employment Incentive	450,000	450,000
Total - Commerce	$ 16,374,526	$ 13,789,383

Operational Efficiencies

The department has been successful over the past several years in the implementation of major operational and efficiency initiatives. Their efforts have included collaboration with other state agencies, including the alignment of programs and services within other departments for improved delivery to Kansans.

Since FY08, the Department of Commerce has reduced its budget in the Economic Development Incentive Fund from $18.1 million to $13.7 million in FY16. The department currently has no State General Fund allocation. State General Fund support was eliminated in FY14. The department has experienced a 14.5 percent cost reduction from $17.9 million in FY11 to $15.3 million in FY15. This has resulted in the reduction of 72 filled positions from a headcount of 312 in FY11 to 240 in FY15.

The Department of Commerce has successfully implemented the following efficiencies over the past several years:

- Merged the Rural Development Division and the Trade Division into the Business Development Division to become the Business and Community Development Division
- Eliminated the Kansas Main Street program
- Realigned services and programs
  - » Travel and Tourism Division moved to the former Wildlife and Parks Department to become the Wildlife, Parks, and Tourism Department
  - » Consolidated the Kansas Technology Enterprise Corporation (K-TEC) into the Innovative Growth Program with substantial cost savings
  - » Moved the Disabilities Commission to the Governor's Office
  - » Moved Agriculture Marketing program to the Department of Agriculture
- Eliminated land line phones for business development field staff in favor of cell phones
- Administered new and expanded programs are managed by existing staff rather than hiring new staff, including SSBCI, PEAK, Kansas Creative Arts Industries Commission, Minority and Women Disadvantaged Certification program, and a variety of "pass-through" assistance programs
- Reduced square footage of the agency by moving the IT Department from the basement of the Curtis Building to an existing space on the first floor that had been created by downsiz-

3 Kansas Department of Lottery website
4 Kansas Department of Lottery website

ing, which saved 3,660 square-feet of space and $59,475 annually in rent

- Deployed virtual services savings resulting in approximately $300,000 in reduced staff travel costs
- Eliminated the Curtis Building parking subsidy (the agency paid for half the employees' parking)
- Created central printing hubs by reducing the number of individual printers used by employees, saving on printing and maintenance costs
- Employees are routinely overseeing multiple programs versus single programs
- Operational efficiency measures within Workforce Services including:
    - » Closure of Atchison, Liberal, and Colby offices
    - » Selling of state owned facilities in Emporia, Pittsburg, Hutchinson, and Chanute, and a parking lot in Hays
- Revamped the administration of KIT and KIR programs to have more money available for use by companies for training
- Reduced administrative overhead for Workforce Investment Act administration from 15 percent to 5 percent

Since the appointment of the new Acting Secretary on December 1, 2015, the department has taken on major accountability process improvements including:

- Review and analysis of all existing tax incentive programs to measure the comprehensive impact to the state in addition to the capital investment
- Development of Strategic Market Entity Analysis for each major development opportunity that will be used as a leads tool
- Combination of the electronic data bases for customer management reporting and supplier database into an integrated marketing tool for improved mailings to future and existing businesses in the state
- Enhanced business-to-business strategies with use on social media, commercials, business friendly website, and improved messaging in its press releases

Benchmarking Analysis

In the annual CNBC 2015 Survey in the Cost of Doing Business, 50 states are rated on more than 60 measures of competitiveness, developed with input from a broad and diverse array of business and policy experts, official government sources, the CNBC Global CFO Council, and the states themselves. CNBC indicated states receive points based on their rankings in each metric which are then made into separate metrics grouped into 10 broad categories, weighted based on how frequently each is used as a selling point in state economic development marketing materials.[5]

As shown below, from the data in the CNBC 2015 survey, the state of Kansas ranks 24th in overall competitiveness in the cost of doing business. Factors in the top ten include: infrastructure, cost of living, education systems for training of workforce, and available workforce. The competiveness factors Kansas has in the bottom 10 included Access to Capital and the Economy.

2015 Cost of Doing Business Peer Analysis

State	Texas	Colorado	Nebraska	Iowa	Kansas	Missouri	Oklahoma	Arkansas
Overall Competitiveness	2	4	7	10	24	26	31	32
Workforce	20	16	11	44	10	38	41	12
Cost of Doing Business	21	36	15	8	30	11	9	4
Infrastructure	1	14	21	28	7	18	17	35
Economy	2	3	20	10	44	33	14	16
Quality of Life	33	9	15	9	35	47	49	44
Technology	11	5	32	24	30	23	43	46
Education	28	24	16	18	10	20	44	35
Business	14	18	5	19	16	15	21	37
Cost of Living	15	31	8	14	8	17	5	11
Access to Capital	6	8	36	39	46	24	33	38

Source: CNBC, Cost of Doing Business 2015

5 http://www.cnbc.com/2015/06/24/americas-top-states-for-business.html

Recommendations – a summary of the State General Fund and Economic Development Initiatives Fund Savings

		Target Savings and Revenue Estimate (All values in 2015 dollars, in 000s)					
Rec #	Recommendation Name	FY17	FY18	FY19	FY20	FY21	Total
1	Enhance Commerce's Business to Business Strategies with increased financial modeling, research analysis, project auditing, and marketing/sales service support efforts	$6,400	$6,400	$6,400	$6,400	$6,400	$32,000
3	Revise Primary Tax Incentive Programs	$5,000	$5,000	$0	$0	$0	$10,000
4	Eliminate Community Service Tax Credit Program	$2,000	$4,000	$4,000	$4,000	$4,000	$18,000
	State General Fund Subtotal	$13,400	$15,400	$10,400	$10,400	$10,400	$60,000
1	Enhance Commerce's Business to Business Strategies with increased financial modeling, research analysis, project auditing, and marketing/sales service support efforts (EDIF)	($530)	($530)	($530)	($530)	($530)	($2,650)
2	Implement a Community Finance Administrative Fee, Tax Incentive Application Fee, and Administrative Cost Recovery on Grants (EDIF)	$3,018	$3,018	$3,018	$3,018	$3,018	$15,090
5	Ensure no program subsidy for Athletic Commission fee for service operation (Athletic Fee Fund)	$26	$26	$26	$26	$26	$130
6	Centralize Commerce's Human Resources and Information Technology Infrastructure Operations within the Department of Administration (EDIF)	$25.4	$25.4	$25.4	$25.4	$25.4	$127
	Non-General Fund Total	$2,539	$2,539	$2,539	$2,539	$2,539	$12,697
Department of Commerce Total		**$15,939**	**$17,939**	**$12,939**	**$12,939**	**$12,939**	**$72,697**

Recommendation #1 – Enhance Commerce's Business to Business Strategies with increased financial modeling, research analysis, project auditing, and marketing/sales service support efforts

Various state agencies, including the Department of Commerce, the Kansas BioSciences Authority, and the Department of Revenue, administer the state's economic development programs. The state's incentive programs are also combined with community finance or local government incentives to form development incentives for new and expanding businesses.

In December 2014, a Legislative Post Audit (LPA) Report analyzed whether the major Kansas economic development programs have been successful. The report highlights the major economic programs, which created significant returns on investment for Kansas through business activities of the associated state and local tax revenue generations.[6]

The Report also highlighted several High Performance Incentive Program (HPIP) limitations in reporting the

6 2014 Legislative Post Audit Report Highlights – Economic Development: Determining Which Economic Development Tools are Most Important and Effective in Promoting Job Creation and Economic Growth in Kansas, Part 3

benefits of the program. Per the LPA report[7]:

- HPIP is more like an economic development entitlement program—its incentives may be given to companies for investments that would have been made without the incentives
- LPA was not able to analyze projects that had only HPIP incentives due to the programs' structures and lack of documentation

The department identified a requirement for six new staffing resources to address the need for improved financial analysis, project forecasting, monitoring, and enhanced business to business sales and marketing strategies. Any new positions would be funded from the dedicated Economic Development Initiative Fund and not the State General Fund. These positions could allow the department to improve the total financial impact of development projects including the direct, indirect, and induced impacts that new proposed developments would bring into the state.

Since mid-December 2015, the department is now creating strategic roadmaps, or Strategic Market Entity Analysis (SMEA), on all new development projects to measure the true economic impact and value of the state's portfolio of economic development incentives. However, added resources are needed within the Incentive and Marketing Units to support the enhanced business-to-business proactive marketing efforts.

The department indicated that the existing Business Incentive sales and marketing staff actively pursue 175 to 200 new projects each year with 80 projects closing, all of which generate 8,000 to 10,000 new jobs each year. The four new positions in the marketing and sales business incentive unit would provide return on investment to the state. Currently, each existing sales and marketing representative has an annual net return on bringing in 1,000 per jobs annually to the State. Each new job, based on annual salary between $56,000 and $65,000, generates $1,600 to $2,000 in new Kansas state income tax withholdings annually.

The state should undertake a more comprehensive incentive analysis and should analyze more than just the initial capital investment to the state-provided incentives. The direct, indirect, and induced impacts of projects provide a significant economic value to the state and should be considered.

Program enhancements recommended include:

- Fiscal Modeling, Research Support, and Audit/Compliance – Two positions for increased accountability of Investment Projects
    - Currently, only one Research/Fiscal Support modeling expert position exists within the Department of Commerce
    - The two additional positions would allow the department to increase its financial forecasting and Return on Investment Analysis on proposed development projects
    - New staffing resources would also allow the department to place added effort upfront in the marketing of the state and creating Strategic Market Entity Analysis roadmaps that highlight the competiveness of the state's assets (e.g., infrastructure, education, quality of life,) as an introduction to what the state has to offer
    - The state should be leading its development discussions on the Strategic Quality of the state and not highlighting its incentive tools
    - While most of the department's incentive programs are performance based, the department does not always claw back incentives from developments for sustaining the job creation or capital investment measures for a variety of reasons
    - The department should coordinate project reviews with the Department of Revenue of existing and new incentives to ensure the state is receiving sufficient financial and compliance information for accountability of the provided tax incentives
- Marketing & Sales Support – Four positions for Marketing, Branding, and Imaging
    - Retool marketing and sales departments to support efforts for a more positive and direct marketing business to business targeted campaigns
    - Proactively recruit new and expanding business in the state using the new business to business SE
    - Texas, North Carolina, and South Carolina have all experienced significant success in their state economic growth due to strong marketing efforts to align new development efforts with existing workforce skills and

7 Ibid

supplier locations

» Expand its business-to-business social media and advertising efforts

As shown below, the proposed expansion of the department's business-to-business strategy will result in increased revenues to the state. The EDIF funded staff proposal is estimated to generate $6.0 million in new tax revenue for a net return of investment, resulting from new state income tax withholding revenues to Kansas of $5.87 million annually or $26.7 million over the next five years. While it requires an initial outlay of funds, the return on investment is significant if Commerce is successful in its revitalized business-to-business strategy.

Secondly, the added Research Analyst positions will reduce the future spending requirements for outside consulting services for development of Strategic Market Entity Analysis documents (SMEAs). The new SMEA analytical tools would cost $25,000 to $50,000 each, if the department had to acquire from outside resources. Currently, the department's budget does not include monies for SMEAs. The marketing analysis will be a primary tool for the entire department for both inbound and outbound business opportunities.

- Based on historical data from the past four years, it is estimated that each new sales and marketing position will recruit 1,000 new jobs annually to the State, with an annual salary of between $56,000 and $65,000. Each new job is estimated to generate between $1,600 to $2,000 in new Kansas state income tax withholdings annually.

- The $6.4 million in new State General Fund Income Tax Withholdings assumes each new Business Incentive Sales/Marketing position would generate $1.6 million in new revenue to the state. This does not take into account any other direct, indirect or induced impacts generated by the increase in jobs and related business investments these indirect and induced impacts will add to the direct ROI.

Critical Steps to Implement

- Commerce needs to deploy modeling applications to supplement its tax incentive projections including estimating the direct, indirect, and induced revenues and local spending related to proposed new development projects. Commerce is investigating the potential use of the Department of Revenue's modeling application to mitigate any added cost increase.

- Commerce needs to finalize its internal market branding and imaging campaigns to roll out a revamped business-to-business strategy plan.

- The department will have increased marketing and research operating costs including printing, publications, and travel and modeling application tools.

Financial Impact of Enhanced Department of Commerce Business to Business Strategies

	FY17	FY18	FY19	FY20	FY21	Total
EDIF - Six New Positions & Support Costs	$ (530,000)	$ (530,000)	$ (530,000)	$ (530,000)	$ (530,000)	$ (2,650,000)
Total EDIF Increase	**$ (530,000)**	**$ (530,000)**	**$ (530,000)**	**$ (530,000)**	**$ (530,000)**	**$ (2,650,000)**
SGF - Increased State Income Tax Withholding	**$ 6,400,000**	**$ 6,400,000**	**$ 6,400,000**	**$ 6,400,000**	**$ 6,400,000**	**$ 32,000,000**
Return on Investment	**$ 5,870,000**	**$ 5,870,000**	**$ 5,870,000**	**$ 5,870,000**	**$ 5,870,000**	**$ 26,700,000**

Recommendation #1 - (dollars in 000's)

	FY17	FY18	FY19	FY20	FY21
Economic Development Initiative Funds	($530)	($530)	($530)	($530)	($530)
State General Fund	**$6,400**	**$6,400**	**$6,400**	**$6,400**	**$6,400**

Key Assumptions:

- New position cost estimated at $80,000 per position (salary and benefits) paid from the EDIF.

- Increased marketing and research support costs of $50,000 annually paid from the EDIF.

Recommendation #2 – Implement Community Finance Administrative Fee and Tax Incentive Application Fees to Recover Program Oversight Costs

The department does not assess any administrative fee for its major economic development incentive programs or any of the community finance incentive projects. Commerce staff spends significant time each year in review, analysis, and negotiation of new proposed projects. The limited audit and project review that does occur is also not covered by any application or administrative fee.

Department of Commerce Allocation of Staffing and Overhead Costs to Major Incentive Programs	FY 2013	FY 2014	FY 2015	Three Year Average
HPIP	$ 77,659	$ 79,484	$ 72,234	$ 76,459
PEAK	44,391	86,366	112,451	81,069
KIT/KIR	95,831	101,976	146,339	114,715
IMPACT	23,512	-	-	7,837
JCF	45,489	127,537	8,759	60,595
TOTAL	**$ 286,881**	**$ 395,362**	**$ 339,783**	**$ 340,675**

Source: Kansas Department of Commerce Fiscal Office - December 2015

While the department does not have a time allocation/ project tracking system, they did provide an estimate of personnel costs and direct administrative overhead costs that could be attributed to the major economic incentive projects. The estimate reflects staffing costs for ten positions in the Business Incentive unit including an allocation for time spent by the department's executive leadership.

Note: The IMPACT program technically ceased to exist other than spending down of final tax incentives. The department allocated any administrative overhead to the JCF program which was the replacement program.

Comparison Summary of Kansas Primary Tax Incentive Programs	PEAK	HPIP	JCF	KIT/KIR
Applications Processed				
FY13	44	303	18	113
FY14	53	299	8	90
FY15	33	285	25	108
Three Yr Avg	*43*	*296*	*17*	*104*
Active Projects/Agreements	* 227	** 311	*** 4	**** 50

Notes Related to Project Values and Tax Incentives:

* As of December 2015, the 227 active agreements had an estimated incentive value $380.5 million of which $80.6 million has been actualized.

** As of December 30, 2015, the active HPIP projects represents approx. $3.1 billion in new anticipated capital investment which may potentially qualify for income tax credits and sales tax exemptions

*** The four active JCF projects total $3.65 million

**** The KIT/KIR 50 active projects totaling $911,120

Commerce reported the following tax incentive program activity over the past three years:

It should be noted, that the Department of Commerce certifies projects as eligible for HPIP with the Department of Revenue being responsible for oversight of the businesses claiming the tax credit.

The above staffing allocation does not include time and effort the department staff spent on Community Finance Projects (like STAR Bond Projects), which take significant review and discussions with the local communities and developers. Even after the project financing is issued, Commerce has continued monitoring responsibilities on an annual basis for STAR Bond projects. As shown in the accompanying table, in calendar year 2015, the department completed the following STAR Bond Community Finance Initiatives. In most cases, the community finance projects (like STAR Bonds, e.g.) are complex development proposals with the work spanning several years before the project financing is issued.

Department of Commerce - 2015 STAR Bond Issues STAR Bond Projects	Total Project Costs (in millions)	STAR Bonds (in millions)
Wichita K-96	$ 427	$ 33
Goddard	155	25
Dodge City	43	13
Schlitterbahn(UG)	300	97
National Training Center	150	63
Wichita West Bank	31	5
Total	$ 1,106	$ 236.15

Source: Department of Commerce - Chief Attorney's Office

Commerce also indicated that during calendar year 2015, the state allocated $301.5 million in Private Activity Bonds (PAB) to six issuers. As of December 31, 2015, $17.3 million was actually issued. The department does collect application fees for all PAB projects but issuance fees apply only to the housing and qualified small issue projects.

The Beginning Farmers Program administered by Kansas Development Finance Authority (KDFA) is provided allocations that Commerce then reallocates to multiple, typically small users. Any issuance fees resulting from housing-related activities are remitted to the Kansas Housing Resource Corporation but Commerce retains the application fees.

The department indicated the demand for PAB allocation is very low at this time because of other financing options that exist. The First Time Homebuyer Program, which is where the vast majority of allocation goes, is as a holding mechanism for unused PAB authority. This is because housing has carry forward capability which allows the PAB allocation to be viable for a period of time into the future.

It is also our understanding the Kansas Development Finance Authority requires the state agency, which issues bonds through KDAF, to recover costs their ongoing monitoring costs.

Application fees for development projects can be viewed as a hindrance for promoting new development. However, significant time and resources are spent by the Commerce staff in the research, analysis, and negotiation of the development projects, which often does not move forward. The department currently requires an Application Fee for all Private Activity Bonds. The current fee schedule is:

- $250 Allocation per request up to $5,000,000
- $500 Allocation per request from $5,000,001 to $10,000,000
- $1,000 Allocation per request from $10,000,001 and above

Another example of project application fees is from a local unit of government. The Unified Government of Wyandotte County/Kansas City, Kansas in conjunction with the State of Kansas for the development of a Casino Project, required each developer to submit a non-refundable application fee of $25,000 to cover the costs of the development review process.

A&M recommends Commerce propose legislation that would require any Community Finance Initiative—including Private Activity Bonds (PABs) and Sales Tax Revenue (STAR) Bonds—to include a one percent administrative fee for STAR Bonds and an application fee of up to five percent of the issuance amount for Private Activity Bonds.

Secondly, Commerce should develop an application fee for its major tax incentive projects where the department is not recovering any administrative processing or monitoring fees. We recommend an application fee of $750 per application processed for the PEAK, HPIP, JCF, and KIT/KIR programs. The application fee would cover the costs of administration for the tax incentive applications.

Additionally, the department is not allocating all administrative overhead costs to its various grants and pass-through funding programs. Based on the FY15 Budget, two grant programs that are not being assessed for any administrative overhead include:

- Kan-Grow Engineering Fund $ 10,500,000
- State Affordability Airfare Fund $ 5,005,000

The department should have the availability to assess any operational overhead program expenses against these program funds.

- State Affordability Airfare Fund: Currently Commerce has a contract agreement with Sedgwick County for the Affordable Airfare funds to use $10,000 for the independent review by the University of Kansas. The department would need to clarify this provision which would also allow Commerce to assess an administrative fee. The state could request clarification in KSA 74-50,150(a), or language could be added to the appropriations bill to allow for administrative overhead recoupment.
- Kan-Grow Engineering Fund: Similarly, KSA 76-7,141 would have to be amended to make the provision for Commerce to recoup any overhead expenses in the authorization of the appropriation bill.

In both instances, the appropriation language could include the citation: "Secretary is authorized to deduct from amounts transferred under this act an annual administrative fee not to exceed two percent of annual grant appropriation."

Recommendation #2 - (dollars in 000's)				
FY17	FY18	FY19	FY20	FY21
$3,018	**$3,018**	**$3,018**	**$3,018**	**$3,018**

Key Assumptions:

- An application fee of $750 per filed tax incentive application (PEAK, HPIP, JCF, KIT/KIR Programs) based on a three-year average of 460 applications would generate $340,000 in administrative fees to recover Commerce direct and indirect costs.

- Proposed 100 basis points or one percent of cost of issuance for Department of Commence administrative fee for STAR and PAB Bond issuances.
  - » STAR Bonds - $ 2,361,500
  - » Private Activity Bonds - $ 157,275
  - » Total Community Finance Admin Fee - $ 2,518,775
  - » Based on FY15 PAB Bond issuances of - $17.3 million
  - » Based on FY15 STAR Bond issuances of - $236.15 million

  Note: The Private Activity Bond projections are net of the existing $3,500 in PAB application fees and $12,225 in Business Expansion Qualified Small Issue bond financing issuance fees.

- Annual administrative fee not exceeding one percent of the annual grant amount for the existing operating grants where administrative costs are not assessed or $155,050. This amount is one percent of the above two grants Kan-Grow Engineering Fund, $10,500,000 and State Affordability Airfare Fund, $5,005,000 where Commerce is not recovering any administrative overhead or programming costs for the two pass through grants.
- Any monies generated should be credited back to the department.

<u>Critical Steps to Implement</u>

- Revise appropriate statutes and KAR's to allow the Department of Commerce to assess the administrative fee on any STAR Bond and Private Activity Bond financings
- Revise appropriate statutes and KAR's to allow the Department of Commerce to assess the tax incentive administrative fee on any approved tax incentive projects
- Communicate administrative fee provisions to the local governments issuing the STAR Bond or PAB financings
- Create an application process for the tax incentive programs to recover an administrative application fee
- Clarify the existing contract language related to administrative costs for the Affordability Airfund Grant with Sedgwick County
- Clarify either the budget appropriation bill and/or statute allowing the Secretary of Commerce to assess the administration fee
- Communication to the grantee agencies of the administrative fee offset

Recommendation #3 – Revise Primary Tax Incentive Program Caps

As shown in the accompanying tables, the December 2014 Legislative Post Audit Report analyzed whether the major Kansas economic development programs have been successful. The report highlights the major economic programs that did create significant returns on investment for Kansas, with regard to business activities and of the associated state and local tax revenue generations.[8]

The December 2014 Legislative Post Audit also reported the existing economic development programs generate a return on investment of $56.20 for each dollar HPIP dollar awarded, and $57 of economic activity generated by every dollar of foregone revenue through PEAK.

State and Local Tax Revenue Created by the Six Major Kansas Economic Development Programs and Local Incentives (in millions) (a)

Program	Incentives Contributed	Measures of Success			
		State Tax Net Present Value	Local Tax Net Present Value	Total Tax Net Present Value	Return on Investment (b)
IMPACT	$13.2	$287.4	$71.9	$359.3	**$27.2**
JCF	$2.8	$14.2	$3.5	$17.7	**$6.3**
PEAK	$29.4	$102.2	$25.5	$127.7	**$4.4**
KIT/KIR	$0.4	$1.1	$0.3	$1.4	**$3.9**
HPIP	$49.4	$135.9	$34.0	$169.9	**$3.4**
KEOIF	$6.8	$7.4	$1.8	$9.2	**$1.4**
Local	$71.9	$83.6	$20.9	$104.6	**$1.5**

(a) The values above are based on 19 projects from our full sample of 42 projects. The values reflect the midpoint of our estimates. The high and low estimates are +/- 12% of the midpoint.
(b) Values are per $1 of investment.
Source: LPA analysis of unaudited Kansas Department of Commerce and Kansas Department of Revenue economic development data.

High Performance Incentive Program[9]

8 2014 Legislative Post Audit Report Highlights – Economic Development: Determining Which Economic Development Tools are Most Important and Effective in Promoting Job Creation and Economic Growth in Kansas, Part 3

9 Kansas Department of Commerce, Testimony to the

The High Performance Incentive Program (HPIP) provides tax incentives to employers that pay above-average wages and have a strong commitment to skills development for their workers. This program recognizes the need for Kansas companies to remain competitive, and encourages capital investment in facilities, technology, and continued employee training and education. A substantial investment tax credit for new capital investment in Kansas and a related sales tax exemption are the primary benefits of this program.

HPIP offers employers four potential benefits:

- A 10 percent income tax credit for eligible capital investment in a company's facility with a carry-forward that can be used in any of the next 16 years in which the qualified facility re-qualifies for HPIP.
- A sales tax exemption to use in conjunction with the company's eligible capital investment at its qualified facility.
- A training tax credit of up to $50,000.
- Priority consideration for access to other business assistance programs.

Eligibility criteria for HPIP include:

- The capital investment must exceed $1 million in Douglas, Johnson, Sedgwick, Shawnee, or Wyandotte counties, and $50,000 in all other counties.
- Businesses must meet certain wage standards that depend upon their NAICS code.

The Department of Commerce certifies projects as eligible for HPIP with the Department of Revenue being responsible for oversight of the businesses claiming the tax credit. The Department processed 303 applications in FY13, 299 in FY14, and 285 in FY15. As of December 31, 2015, there were currently 311 active projects totaling approximately $3.1 billion in new anticipated capital investment, which may potentially qualify for income tax credits and sales tax exemptions.

Job Creation Fund[10]

The Job Creation Fund (JCF) helps attract new companies to Kansas. Payments to companies from the JCF are typically made over three years as the companies meet certain benchmarks, such as creating jobs, making capital investments, equipment purchases, or facilities improvements.

Eligible projects include:

- Major expansion of an existing Kansas commercial enterprise
- Potential location in Kansas of the operations of a major employer
- Award of a significant federal or private sector grant that has a financial matching requirement
- Potential departure from Kansas or the substantial reduction of the operations of a major Kansas employer
- Training or retraining activities for employees in Kansas companies
- Potential closure or substantial reduction of the operations of a major state or federal institution
- Projects in counties with at least a 10 percent population decline during the period from 2000 to 2010
- Other unique economic development opportunities

Economic Benefits[11]

	FY2013	FY2014	FY2015	Three Year Total
Leads	436	416	370	1,222
Successes	201	164	174	539
New Jobs	12,063	8,239	8,150	28,452
Retained Jobs	8,026	4,789	4,219	17,034
Payroll (in millions)	$1,049	$697	$770	$2,516
Capital Investment (in billions)	$1.76	$1.01	$1.35	$4.12

Source: Department of Commerce Testimony to the Special Committee on Taxation November 6, 2015

Special Committee on Taxation, November 6, 2015

10 Kansas Department of Commerce, Testimony to the Special Committee on Taxation, November 6, 2015

11 Kansas Department of Commerce, Testimony to the Special Committee on Taxation, November 6, 2015

Commerce reported to the Kansas Legislature in September 2015 that existing incentive programs are the most effective tool to support job growth and investment in the state. During the past three fiscal years, Commerce indicated it has worked with more than 500 successful projects, which had 28,452 new employment opportunities resulting in direct payroll increase of $2.5 billion and $4.12 billion in capital investment.

Fiscal Year	Number of Agreements	Annual Payroll	New State Income tax (based on three percent rate)
2015	1	$ 2,215,200	$ 66,456
2016	7	20,007,635	600,229
2017	28	89,618,640	2,688,559
2018	45	242,545,895	7,276,377
2019	51	230,586,435	6,917,593
2020	47	342,038,172	10,261,145
2021	23	183,202,674	5,496,080
2022	19	321,130,964	9,633,929
2023	6	149,540,217	4,486,207
2024	4	138,180,881	4,145,426
2025	1	14,158,394	424,752
Total	*232*	*$ 1,733,225,107*	*$ 51,996,753*

Source: Department of Commerce Testimony to the Special Committee on Taxation - November 6, 2015

LPA's performance audit findings were consistent with the results of another independent study of the PEAK program, conducted by the Docking Institute of Public Affairs at Fort Hays State University, which concluded that PEAK has had a $7.5 billion economic impact on the state.[12]

Fiscal Year	Number of Agreements	Annual Payroll	New State Income tax (based on three percent rate)
2015	1	$ 2,215,200	$ 66,456
2016	7	20,007,635	600,229
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2022	19	321,130,964	9,633,929
2023	6	149,540,217	4,486,207
2024	4	138,180,881	4,145,426
2025	1	14,158,394	424,752
Total	*232*	*$ 1,733,225,107*	*$ 51,996,753*

Source: Department of Commerce Testimony to the Special Committee on Taxation - November 6, 2015

Tax Benefits

Commerce testified in November 2015 to the Special Committee on Taxation "as businesses exit the program, these new jobs will begin to contribute income taxes to state revenues for the first time. Based upon current projects and estimated payroll, 232 PEAK agreements will end and bring $52 million in new annual income tax revenue to the state by the year 2025."[13]

12 Kansas Department of Commerce, Testimony to the Special Committee on Taxation, November 6, 2015

Promoting Employment across Kansas (PEAK)

PEAK was created by 2009 Legislature with the Secretary of Commerce having the discretion to approve applications of qualified companies and determine the benefit period. Qualifying PEAK companies may retain 95 percent of the payroll withholding tax of PEAK eligible employees/jobs that pay at or above the county median wage. The Department of Commerce can approve benefits for up to 10 years.

We also compared the state's primary tax programs with surrounding states and found most other surrounding states had similar tax incentive programs to Kansas.

Commerce indicated that the HPIP, Promoting Employment Across Kansas (PEAK), and Jobs Creation Fund (JCF) incentive programs were deemed to be mission critical, to assist and incent development, job growth, and capital investment. The primary direct beneficiaries of these programs are recipient businesses that use these programs to grow and expand in Kansas. Indirect beneficiaries are their employees, their families, the communities in which they reside; and ultimately the state whose economy is strengthened when companies are successful and growing.

The department stated that any elimination or scaling back of these programs will have a negative impact on the state's ability to grow business and to compete with other states and countries that are vying with Kansas for new and existing business opportunities. As discussed previously, we recommend the department needs to not only quantify the cost of the investment compared to actual incentive payment, but the offset should also be considering the direct, indirect and induced impact of all tax incentives and reporting the full economic contribution to the state.

When assessing the fiscal impact to the state's budget we found:

13 Kansas Department of Commerce, Testimony to the Special Committee on Taxation, November 6, 2015

Peer Analysis of Tax Incentives (2013 Data)	Arkansas	Colorado	Iowa	Kansas	Missouri	Nebraska	Oklahoma
Job Creation Tax Credits	X	X	X	X	X	X	X
Job Training Tax Credits	X	X	X	X	X		X
Agriculture/Rural Investment Tax Credits	X	X	X	X	X	X	X
Angel Investment/Small Business/Venture Capital Tax Credits	X		X	X	X	X	X
Research & Development Investment Tax Credit	X	X	X	X		X	
Quality of Life Investment Tax Credits	X	X	X	X	X		X
General Investment Tax Credits	X	X	X	X	X	X	X
Film Investment Tax Credits				X		X	
Tourism Investment Tax Credits	X		X			X	
Closing Fund	X	X		X			X

Source: 2013 State of Nebraska Legislative Audit Office Audit Report, Comparison of Tax Incentive Report

- The first annual impact will be in FY17 (in tax year 2016) with the HPIP tax credits totaling $25 million.
- Annual revenue increases in future years from $15 million to $20 million in HPIP tax credits are claimed each year as earned in previous tax years.
- HPIP is an entitlement program. If the recipient company reaches minimum qualifications, they will be awarded the tax credit. Legislation will be required to limit the amount of tax credits or allow discretion for the Secretary of Commerce to determine if projects receive the tax credit.
- The State Budget Office reported between $450 million and $550 million in outstanding HPIP credits have been approved, but not yet claimed. Budget officials indicated that a large portion will never be claimed, but companies tend to list these credits as assets, which makes them appear more profitable.
- Any changes to HPIP tax credit program for tax year 2016 will have strong opposition from industries and large employers in the state.
- The state is committed to approximately $48 million in FY15, FY16, and FY17 before PEAK benefits start to expire.
- PEAK program benefits are at the discretion of the Secretary of Commerce and are not an entitlement program with $24 million available for approval in FY16, and $30 million in FY17.

In discussions with the department and the State Budget Office, we identified that the 2009 Legislature enacted a 10 percent reduction to most tax credits for tax years 2009 and 2010 including the HPIP tax credit. Companies were allowed to claim 90 percent of the credits. The 10 percent reduction or "haircut" was not allowed to be carried forward on newly earned tax credits.

We recommend that the state follow the 2009 legislation initiative and enact a 10 percent reduction to the existing tax credits for FY 2017 (2016 tax year) and FY 2018 (2017 tax year). The fiscal impact to the state would be a savings of approximately $5 million to $6 million in FY17 and FY18, but companies would be able to use the carry forward starting in tax year 2018.

Secondly, due to the statutory requirement that companies seeking HPIP benefits must participate in a training program, many KIT/KIR users access the program solely as a path to HPIP benefits. This puts pressure on KIT/KIR that otherwise wouldn't exist. Commerce reported they completed 108 projects in 2015 with approximately 85 percent to 90 percent of KIT/KIR companies also accessing HPIP.

The department indicated that there are a "relatively large number of companies who access HPIP using KIT/KIR which don't really need the training." Most project awards are relatively small (e.g., under

Recommendation #3 - (dollars in 000's)				
FY17	FY18	FY19	FY20	FY21
$5,000	**$5,000**	**$0**	**$0**	**$0**

$20,000). Potential changes to disconnect the training requirement for HPIP should be further reviewed. Further analysis is needed to determine the fiscal and operational efficiency impacts; however, we recommend the department continue the review and potential program modifications.

Key Assumptions

- The fiscal impact to the state would be a savings of approximately $5 million to $6 million in FY17 and FY18, but companies would be able to use the carry forward starting in tax year 2018.
- The above cost saving estimates are based on the 2009 and 2010 tax incentive reduction that resulted in the following cost saving actions:
  - » Any reduction in the investment credit claimed in tax years 2009 and 2010 may be carried forward and claimed in tax year 2011, for any taxpayer that has received a letter from the Department of Commerce that is dated prior to June 1, 2009 certifying the taxpayer as qualifying under the High Performance Incentive Program. The carry forward period for the amount of credit reduced will be extended for two years.
  - » If however the letter certifying the taxpayer is dated on or after June 1, 2009 and the investment becomes operational during tax year 2009 or tax year 2010, credits claimed in tax year 2009 or tax year 2010 will be reduced, and the reduction cannot be carried forward. The carry forward period is not extended in this situation. In order to use any remaining carry forwards, a taxpayer must be certified for the majority of the tax year.
- To address the changes to the HPIP training requirement, K.S.A. 71-50,131, and amendments there to would need to be amended. It is suggested that the statutory language that "and that has received written approval from the secretary of commerce for participation and has participated, during the tax year for which the exemption is claimed, in the Kansas industrial training, Kansas industrial retraining or the state of Kansas investments in lifelong learning program or is eligible for the tax credit established in K.S.A. 74-50,132," be removed.

Critical Steps to Implement

- Any changes to the major tax incentives would require changes to existing Kansas statutes
- Communication and coordination with the Department of Revenue and existing HPIP qualifying taxpayers
- Commerce would have to revise strategic marketing and promotional material

Recommendation #4 – Eliminate Community Service Tax Credit Program

Kansas Department of Commerce oversees the Kansas Community Service Program, as authorized under K.S.A. 79-32,194, 197 et seq. and Schedule K-60, allows business firms which contribute to an approved community service organization engaged in providing community service to potentially be eligible to receive a tax credit of at least 50 percent of the total contribution made. The Community Service Program (CSP) allows for tax credits against the state income tax, premium tax, and privilege tax for businesses that make contributions toward state-approved community service capital projects.

To receive the credit, awarded organizations must engage in activities that meet demonstrated needs in the state in the areas of community service, health care, and/or crime prevention. Contributions toward approved projects are eligible for up to a 50 percent credit. Contributions toward approved projects in designated rural areas are eligible for up to a 70 percent credit. The credit represents a tax credit donation and must be no less than $250. It also represents a tax credit made by business firms or individuals subject to Kansas taxes.

The eligible uses of the existing Kansas Community Service Tax Program include:

- Community Service: Meet demonstrated community needs—which are designed to achieve improved educational and social services for Kansas's children and their families. These activities include but are not limited to: social and human services that address causes of poverty through programs and services that assist low-income persons in areas of employment, food, housing, emergency assistance, and health care.

- Health Care Services: Health care services provided by local health department, city, and county nursing homes, and other residential institutions. Non- profit or community service organizations that offer immunizations, prenatal care, and home health care services, which may enable the postponement of entry into a nursing home.
- Community Services: Assistance for the disabled, mental health services, indigent health care, physician or healthcare worker recruitment, health education, medical services, and equipment.
- Crime Prevention: Any non-governmental activity that aids in the prevention of crime.

The department indicated that recent award recipients including: Hospitals, Boy Scouts of America, Historic Theatres, Museums, Public Libraries, Humane Societies, Child Advocacy Centers, Community Colleges, Foundations, have recently utilized the CSP program.

The department reported $4.13 million is annually allocated for the CSP program from the Tax Credits. Records from the Department of Revenue for tax year 2012 indicated 899 tax credit filers submitted tax credits of $4,006,556.

Our findings include:

- Commerce received approximately $10.7 million in requests for CSP tax credits during the last fiscal year and awarded 22 applications out of 50 submitted.
- The length of the term to use tax credits is 18 months—July 1st through December 31st of the next year (Example-July 1, 2015 through Dec 31, 2016).
- The average request is $250,000.
- The department indicated that to stretch this allocation, an average reduction of award of approximately 20 percent to 30 percent is applied. Commerce indicated the reduction helped them expand the awards to more community organizations. This practice has been in place for approximately three years.

In 2015, the department indicated they had eight community organizations on a waiting list requesting any unused tax credits, for a cumulative total of approximately $700,000 or greater to be reallocated to them to use by December 31, 2015.

Based on analysis of credit programs in other states, not all states offer a similar tax credit program. Yet, the department identified some states to have programs with a type of incentive that has similarities to Kansas' program. State programs that were highlighted include:

- Connecticut: 60 percent tax credits generally, but 100 percent for certain energy conservation projects, limiting businesses to $150,000 in credits annually, and limiting nonprofit recipients to receiving $150,000 in program support through the credits.
- Delaware: Tax credits for business or individual taxpayer donors to nonprofits delivering community services, crime prevention, economic development, education, and affordable housing services in low or moderate income communities, capping the benefit to any taxpayer at $100,000, and with a statewide cap of $500,000.
- Indiana: Tax credits for business and individual taxpayers, capped statewide at $2.5 million, for donations to approved nonprofit projects in affordable housing, counseling, child care, educational assistance, emergency assistance, job training, medical care, recreational facilities, downtown rehabilitation, and neighborhood commercial revitalization benefiting low and moderate income communities.
- Missouri: 50 percent or 70 percent tax credits, the latter for projects in designated low-income urban or rural areas, for business donations to approved Neighborhood Assistance Projects—$10 million cap for 50 percent credits, $6 million for 70 percent credits.

Although the program has provided a benefit to state nonprofits, many of the program efforts funded with the annual allocation could be funded with other potential federal grant funds and private foundations.

The efficiency recommendation suggests the state seek external funding for the program or eliminate the annual allocation process. Staffing resources dedicated to the program for both the Departments of Commerce and Revenue could be redirected to internal review and audit functions of each department.

A&M also reviewed the other primary tax incentive programs including PEAK, JDF, and the HPIP Tax Incentive programs. These three incentive programs are mission critical to the state to assist and incent development, job growth, and capital investment. The primary direct beneficiaries of these programs are those businesses that use these programs to grow and expand in Kansas. Indirect beneficiaries are their employees, their families, and the communities in which they reside, and ultimately the state whose economy is strengthened when companies are successful and growing.

Any elimination or scaling back of these programs would have a negative impact on the state's ability to grow business and compete with other states and countries vying with Kansas for new and existing business opportunities.

Recommendation #4 - (dollars in 000's)				
FY17	FY18	FY19	FY20	FY21
$2,000	**$4,000**	**$4,000**	**$4,000**	**$4,000**

Key Assumptions

- Elimination of the Community Service Program Tax Credits could result in an additional $4.0 million in taxable income from the almost 900 Kansas taxpayers who filed for the exemption in state tax year 2012.
- Kansas would realize a first year impact after January 1, 2017 due based upon implementation at the beginning of a state tax year.
- The staff resource savings in the Department of Commerce and Department of Revenue for the monitoring efforts are assumed to be redirected to other program activities within each department's tax incentive program functions.
- Staff efficiency savings from Department of Commerce personnel would not be a savings to the State General Fund but from the Economic Development Initiative Fund which is funded from the Kansas Lottery Fund appropriation.

Critical Steps to Implement

- Create a working committee to determine if the Community Service Tax Credit program allocations could be funded with private resources and foundations instead of directing the business tax contribution.
- If the decision is made to eliminate the Community Service Tax Credit Program, legislation would be needed to amend the K.S.A. 79-32,194 and 197 et seq. and Schedule K-60, which allows business firms contributing to an approved community service organization to participate.

Recommendation 5 – Ensure no program subsidy for Athletic Commission fee for service operation

As noted in the introduction of this Chapter, the department oversees the operations of the Kansas Athletic Commission. This includes inspection of the health and safety of the contestants and the revenue facilities. The programs cover authorized control and direction for professional boxing, kickboxing, mixed martial arts, and wrestling, while encouraging the promotion of such sporting events in the State of Kansas. The Commission continues to facilitate the health and safety of contestants and fair and competitive bouts, in addition to protecting the public.

Department of Commerce - Athletic Commission Comparison

	FY 2013 Actuals	FY 2014 Actuals	FY 2015 Actuals
Revenues	$ 106,691	$ 100,738	$ 78,682
Expenses	$ 142,777	$ 32,681	$ 104,218
Difference	$ (36,086)	$ 68,057	$ (25,536)

Source: Department of Commerce Fiscal Office - November 2015

We found over the past several years, the revenues from 5 percent of the gross receipts fee from gate fees, event application, and promoter license/fees were not fully covering the costs of the department's oversight. While not significant today, if boxing, wrestling, and related Athletic Commission events are expanded across Kansas, the state should not be subsidizing the cost of the events from its state coffers.

It is recommended that the licenses and gross receipt fees should fully recover the costs for the Athletic Commission to regulate the commissioned events. The state assesses a 5 percent athletic fee upon the gross receipts calculated for Boxing, Mixed Martial Arts, Kickboxing, and Wrestling events. K.A.R. 128-3-1-defines gross receipts "as the total amount of all ticket sales, including complimentary tickets and passes, after sales tax is deducted."

In addition to various professional license and application fees, the event promoters shall obtain a surety bond or irrevocable letter of credit in the amount of $10,000 to guarantee payment of all fees and taxes due the Athletic Commission. The Commission may adjust the required amount to assure sufficient protection to the state.

The department should adjust the gross receipt fee for each event to ensure its costs in providing the statutory defined regulatory and compliance functions are fully recovered.

Recommendation #5 - (dollars in 000's)				
FY17	FY18	FY19	FY20	FY21
$26	**$26**	**$26**	**$26**	**$26**

Key Assumptions

- No growth in sporting events over the planning period
- Increased license fees and/or increase in gross receipt fee to ensure the Athletic Commissions costs are recouped with each event
- Ability of the Athletic Commission to recover any costs not recovered by the license fee or gross receipt fee to be recovered by the $10,000 posted event surety bond
- All monies received are credited back to the Athletic Commission budget

Critical Steps to Implement

- Amendments to KAR 128 allowing the Athletic Commission to fully recover its regulatory and enforcement costs from applicant license fees, gross receipt fees, or the surety bond
- Communication to promoters of the cost recovery changes including any administrative overhead costs

Recommendation 6 – Centralize Commerce's Human Resources and Information Technology Infrastructure Operations within the Department of Administration

Human Resources

The Department of Commerce currently has 1.5 FTE assigned to support Human Resource functions. The department is also not currently using the state's timekeeping application resulting in manual processing of leave approval time.

The consolidation would transfer the Human Resource related workload of the 235 full-time positions to the Department of Administration including position requisition requests, desk audits, and other payroll related tasks.

Secondly, the department should also automate its payroll processing procedures to eliminate the manual paper sign-off of vacation and other personal leave requests. Any functions not assumed by the Department of Administration should be assumed by the Office of the Chief Finance Officer and the fiscal staff.

- Information Technology and Infrastructure Operations
  - » The Information Technology and Infrastructure Team consists of six full-time employees that support the 223 full-time and nine part-time staff members throughout the 29 Commerce work sites. Three sites utilize the KanWin network including the Curtis State Office Buildings, the 1430 SW Topeka Workforce Center, and the Manhattan Workforce Center. The rest of the Commerce field offices utilize the local ISP's to gain access to the network.

The department indicated their infrastructure sits behind a pair of Cisco ASA 5520 firewalls (except what resides in the DMZ and operates a Microsoft Hyper V Host environment) currently consisting of:

- Various physical boxes located in the LSOB data center that include seven host servers, two Domain Controllers, four boxes for Polycom (server, bridge, video boarder proxy, and five port recording servers)
- Two database servers
- Two file servers
- One mail server
- One App server
- One O365 mail hybrid server

The current use of virtual server images includes various applications including:

- Two for MS CRM production and test
- Two SQL data base production and test
- Two SharePoint production and test
- Four Application
- One Domain Controller
- One SQL server, four File servers
- One Cert Server
- One SC Comfit Manager
- One SC Service Manager
- One C Virtual Machine Manager
- One Windows Update Server

Commerce IT is currently in the process of virtualizing the majority of their physical environment. They utilize Microsoft System Center Suite for protection and deployment and industry appliances to deploy third party patches. Microsoft Exchange 2010 is Commerce's mail system and is currently slated to move into the state consolidated O365 mail system approximately in January of 2016.

There are two main business applications utilized by Commerce associates for business functionality: MS Dynamics 2011 (which is configured as an internal facing application) and SharePoint 2007. They are currently in the process of migrating and rebuilding their SharePoint 2007 sites to SharePoint 2013 while migrating off older 2003 and 2008 servers to a virtual environment.

As such, with the current configuration of older and non-virtual server applications and migration of Commerce's mail system to the state's O365 mail system in January 2016, A&M recommends that the IT Operations of the department be merged within the Department of Administration Office of Technology Information Support (OTIS) program. The merger would result in a consolidated IT system platform for delivery of services across the state and potential IT savings with consolidation of servers within the Commerce platform.

Further review is needed to examine the current server infrastructure design and to evaluate if further refinements can be made to provide a more efficient operating structure.

Recommendation #6 - (dollars in 000's)				
FY17	FY18	FY19	FY20	FY21
$25	**$25**	**$25**	**$25**	**$25**

Key Assumptions

- The above cost savings include only the personnel costs for the department's Human Resource operations or $127,707.
- There is assumed to be a Service Level Agreement (SLA) that will be structured between DOA and Commerce at 80 percent of the staff salaries.
- Personnel costs of $646,265 for the department's Information Technology and Infrastructure Operations are included in cost savings under the Technology efficiency review chapter of this report and are not included in the Commerce cost savings projections.
- Cost savings excludes any training, system licenses, applications, and system maintenance due to these costs having to be assumed by the Department of Administration.
- The existing budgeted positions within the Department of Commerce would be eliminated with the workload being assumed within existing FTEs of the Department of Administration.

- No reductions in operating costs were included in the cost savings, except for the administrative overhead tax on the current space allocation at the Curtis and Landon Buildings.
- The Department of Administration OTIS would enter into a Service Level Agreement with the Department of Commerce for the delivery of IT support services.
- The Department of Administration Human Resources office would enter into a Service Level Agreement with the Department of Commerce for the delivery of Human Resource support services.

Critical Steps to Implement

- Commerce and Administration would need to develop Service Level Standards to address their requirements.
- Department of Administration OTIS should review the technology infrastructure inventory and define the best plan and needs for Commerce.
- Any purchases of IT equipment funded with Federal Grant funds would have to be reviewed and evaluated if there was a transfer of assets for the Department of Administration.
- All closed Human Resource files of former Department of Commerce employees would be transferred to the Department of Administration.

Other Areas for Further Efficiency

A&M also reviewed and have under consideration several efficiency measures that we recommend for continued study and analysis. Due to the close-out of the study period, we were unable to complete this final analysis. Other efficiency focus areas for continued operating efficiency within the Department of Commerce include:

- Centralize building leases and property management. All departmental leases and assets should be maintained by a central agency within the state (Department of Administration) to pursue enhanced facility lease pricing, payment review, and potential consolidation of buildings and facilities across the state. Commerce has a number of leased facilities for its Workforce Center operations, which should be managed by a central asset manager for all state agencies. A state-wide centralized asset manager would be able review the location of existing building and facilities (both owned by the state and leased property) to determine if cost savings could be achieved through consolidation of buildings and improved lease negotiation and management.
- Review of vacant positions. The department had 57 positions, or 53.55 FTE that have remained vacant on an average of 289.47 days. The 57 positions total $1,545,812 in various funding commitments of which $281,526 were Economic Development Incentive Fund funded positions.

The department is completing a review of the positions to determine which are critical to the operations of the state. As of January 8, 2016, the analysis was not complete so no cost savings are included in our recommendations at this time. We recommend the department review the existing inventory focusing on positions that have been vacant for a significant period of time to potentially achieve additional cost savings.

Corrections
Programs and Facilities

Acknowledgements

This report was made possible thanks to the knowledge, time, and advice of many individuals within the Kansas Department of Corrections. Alvarez & Marsal would like to thank everyone who contributed to this endeavor, especially:

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- Johnnie Goddard, Deputy Secretary for Facilities Management
- Kathleen Graves, Deputy Secretary for Community & Field Services
- Terri Williams, Deputy Secretary for Juvenile Services
- Adam Phannenstiel, Special Assitant/Commuications Director

Agency Overview

The Kansas Department of Corrections (KDOC) is a leader in reducing recidivism and cost per inmate in comparison to its peer states (based on population, demographics and other key criteria). KDOC has also made strides in lowering the rate of adult incarceration while also reducing its juvenile population. The state struggles with a high number of violent and juvenile offenders as well as high turnover in prison staff. The purpose of this study was to identify, qualify and quantify opportunities to improve the efficacy of programs, increase revenue, lower costs, consolidate certain functions and improve operational efficiency.

The following recommendations either address a specific need or identify an opportunity for operational, organizational or fiscal efficiency. In creating our recommendations, we used the criteria below to determine inclusion—all of A&M's recommendations meet both criteria 1 and 2 as well as touch on a combination of criteria 3 through 6.

Criteria for Inclusion

1. The recommendation adheres to the department's values and serves its many stakeholders—the community, corrections staff, victims and offenders who seek peaceful reentry into the general population.

2. The recommendation is realistic and fundable.
3. The recommendation reduces costs without sacrificing quality or performance.
4. The recommendation improves efficiency—either qualitatively through the adoption of best practices or quantitatively via the adoption of financial, operational or other improvements.
5. The recommendation addresses KDOC's stated key challenges:
   vi. Growing prison population
   vii. Greater concentration of violent and recalcitrant offenders in prison
   viii. Managing offenders with behavioral health needs
   ix. Increasing number of juvenile offenders that recidivate/continue to struggle
   x. Staff retention, recruitment, and training
   xi. The recommendation helps further the helps further the KDOC vision, mission statement and strategic goals[1]:

Vision: A safer Kansas through effective correctional services.

Mission: "The Department of Corrections, as part of the criminal justice system, contributes to public safety and supports victims of crime by exercising safe and effective containment and supervision of inmates, by managing offenders in the community and by actively encouraging and assisting offenders to become law-abiding citizens."

KDOC Strategic Goals:

– Protect public safety through reduced recidivism, offender success and sound security practices

– Identify the driving cost of corrections and develop efficient management strategies

– Continue to develop strategies to manage a growing prison population

– Promote collaborative relationships

– Ensure implementation of federally mandated Prison Rape Elimination Act (PREA) standards

– Increase the KDOC's ability to analyze and provide data for the juvenile and adult populations

– Ensure programs and interventions are based on evidence and focus on those offenders identified as most at risk and most violent

– Ensure the smooth transition of juvenile services through the implementation of improved safety and security measures and efficiencies that allow for the continuation of evidence-based programs and quality assurance measures to enhance public safety and rehabilitative outcomes for youth and the families served by juvenile services

1 FY2015 KDOC Annual Report

Baseline Budget

Benchmarks[2]

Prison Population

Of the eleven comparison states, Kansas has the sixth highest prison population (9,663)[3]. Missouri and Oklahoma both have roughly three times as many people in prisons as Kansas. A variance of only 4,200 or fewer people separate Kansas and the five states below it, whereas a variance of up to 22,300 separate Kansas from the five states above it. In terms of proportion of men and women, Kansas is consistent with the comparison states, at roughly 90-92% men and 8-10% women.

2 For further detail on benchmarks, refer to the Benchmark section at the beginning of this document.

3 Notes: Prisoners under jurisdiction of state or federal correctional authorities. Source: http://www.bjs.gov/content/pub/pdf/p14.pdf

Corrections - Total Budget
(values in 000s)

	FY2014 Actuals	FY2015 Gov. Estimate	FY2016 Base Budget	FY2016 Gov. Rec.	FY2017 Gov. Rec.
Department of Corrections	$185,039	$196,739	$199,065	$200,722	$205,502
Total Facilities	$197,328	$194,893	$193,758	$191,550	$197,946
El Dorado Correctional Facility	*$28,270*	*$28,624*	*$28,350*	*$28,054*	*$28,971*
Ellsworth Correctional Facility	*$14,621*	*$14,609*	*$14,496*	*$14,321*	*$14,711*
Hutchinson Correctional Facility	*$30,887*	*$31,127*	*$31,207*	*$30,836*	*$31,925*
Lansing Correctional Facility	*$42,597*	*$41,052*	*$41,045*	*$40,598*	*$41,965*
Larned Correctional Mental Health Facility	*$10,590*	*$10,840*	*$10,682*	*$10,548*	*$10,871*
Norton Correctional Facility	*$16,423*	*$15,873*	*$15,747*	*$15,547*	*$16,118*
Topeka Correctional Facility	*$14,749*	*$15,364*	*$15,233*	*$15,043*	*$15,760*
Winfield Correctional Facility	*$13,930*	*$13,278*	*$13,288*	*$13,147*	*$13,568*
Kansas Juvenile Corrctional Complex	*$16,244*	*$15,062*	*$15,120*	*$14,964*	*$15,342*
Larned Juvenile Correctional Facility	*$9,017*	*$9,064*	*$8,590*	*$8,492*	*$8,715*
Total	**$382,367**	**$391,632**	**$392,823**	**$392,272**	**$403,448**

Imprisonment Rate

Imprisonment rate is most frequently measured per 100,000 people. Of the eleven comparison states, Kansas has the fourth lowest imprisonment rate for all ages (322 per 100,000).[4] As with the prison population, Kansas was closer in scale to those in the bottom five, which ranged from 237 to 329 per 100,000, than to the top six, which ranged from 434 to 700 per 100,000. Kansas also has the fourth lowest imprisonment rate for men of all ages, women of all ages, and all adults. Compared to both its peer states and the national average, Kansas commits and detains juveniles at the highest rate.[5]

4 Notes: Imprisonment rate per 100,000 residents. US Total includes state and federal prisoners. Source: http://www.bjs.gov/content/pub/pdf/p14.pdf

5 Notes: Imprisonment rate per 100,000 residents. US Total includes state and federal prisoners. Source: http://www.ojjdp.gov/ojstatbb/special_topics/stateprofile.asp

Imprisonment Rate (2014)				
	All Ages	Men All Ages	Women All Ages	Adults
Oklahoma	700	1,269	142	928
Arkansas	599	1,125	92	786
Missouri	526	967	100	682
Idaho	489	852	125	663
National Average	471	890	65	612
Nevada	434	789	76	566
New Mexico	329	601	63	433
Kansas	***322***	***596***	***49***	***428***
Nebraska	283	523	45	376
Iowa	282	520	47	368
Utah	237	427	45	342

Notes Imprisonment rate per 100,000 residents. US Total includes state and federal prisoners

Source http://www.bjs.gov/content/pub/pdf/p14.pdf

Juvenile Justice (2013)		
	Commitment Rate	Detention Rate
Kansas	***186***	***89***
Idaho	170	64
Iowa	168	53
Missouri	146	38
Arkansas	142	70
Nebraska	136	67
Nevada	134	33
New Mexico	127	52
National Avg.	114	57
Utah	108	53
Oklahoma	68	57

Notes Per 100,000 juveniles (age 10 to upper age)

Source http://www.ojjdp.gov/ojstatbb/special_topics/stateprofile.asp

Community Supervision

Community supervision refers to the numbers of people on probation and parole. Oklahoma does not have readily available probation numbers, but the ten remaining comparison states (including Kansas) showed significant variations in the size of their supervised populations. Of those ten, Kansas has the sixth highest total supervised population (22,147) but the numbers ranged from 14,460 up to 76,379.[6] Kansas also has the sixth highest probation population (17,021), ranging from 11,321 on the low end to 55,700 on the high end. The largest variances are found in the parole population. Kansas had the sixth highest (5,126), but the values ranged from as low as 1,383 up to 23,227.

Based upon from analysis of prison populations, imprisonment rate, and community supervision statistics is that among the comparison states, Kansas is on the lower end of the continuum when it comes to both sheer numbers and comparative rates of people under justice supervision. In no measure was Kansas at the extreme high end, which might have been a "red flag" indicative of a need for a policy change related to numbers of people in prison or under community supervision.

6 The Sentencing Project, http://www.sentencingproject.org/map/map.cfm

Community Supervision			
	Total	Probation	Parole
Oklahoma	N/A	N/A	**2,310**
National Avg.	95,707	78,916	16,791
Missouri	76,379	55,700	**20,679**
Arkansas	53,173	29,946	**23,227**
Idaho	34,826	30,978	**3,848**
Iowa	34,484	29,333	**5,151**
Kansas	***22,147***	***17,021***	***5,126***
New Mexico	19,393	16,925	**2,468**
Nevada	16,700	11,321	**5,379**
Nebraska	14,460	13,077	**1,383**
Utah	14,365	11,379	**2,986**

Source http://www.sentencingproject.org/map/map.cfm

3-Year Recidivism

3-Year Recidivism is the benchmark recidivism measure for prison releases, and indicates numbers of people who are "reincarcerated," and not just re-arrested. As such, it is an important driver of prison population and therefore prison expense. The last comprehensive cross-state comparison of recidivism was published by Pew in 2011 for offenders released in 2004.[7] In that report, Kansas was slightly below the national average of 43.3% returning to prison within three years, and at 42.9% was average among the eight other comparison states included in the study, ranging from 26.4% to 53.7%. Where Kansas stood out among the comparison states was in the reason for recidivism. Kansas' 12% new crime recidivism rate was tied for lowest among the comparison states, and its 31% technical violation was third highest only to Missouri's 40% and Utah's 32%. Of all the comparison states, Missouri's 14%/40% and Kansas' 12%/31% were by far the most heavily skewed in favor of technical violations versus new crimes.

The inference to be drawn from these recidivism statistics is that at the time they were measured, Kansas had a very low rate of recidivism based on new crimes, which is a good indicator. However, Kansas also had a disproportionately high rate of technical violations, which accounted for 72% of all individuals returning to prison. On its face, this data suggests that an assessment of technical violation practices and policies is in order. However, the timeliness of the data must also be considered, as practices are likely to have changed in the past 10 years. The 12% new crime / 31% technical violation ratio should serve as a benchmark by which current recidivism statistics are evaluated.

Note that the increase in technical violations is one reason for the growing population, despite a decrease in crime rates. As each state uses different methods for calculating recidivism, interstate assessments require further analysis of each state's unique environmental variables.

A more recent study by the Association of State Correctional Administrators estimates Kansas's recidivism rate within three years of the year 2010. Note, study was not nationally comprehensive and thus does not include all of Kansas's peer states as per this report. However, it is instructive in that it shows Kansas's performance.

7 Pew State of Recidivism 2011

Recidivism Metrics

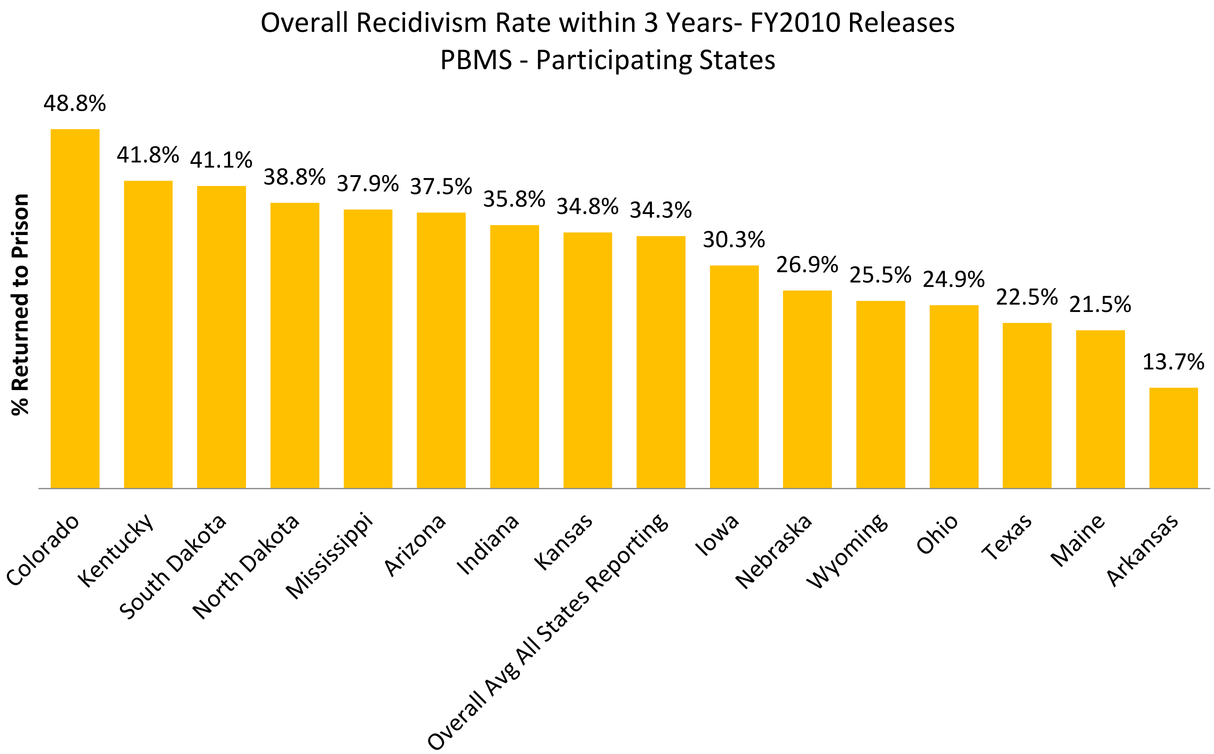
	3-Year Recidivism Rate 2004-2007	**Reason (New Crime / Tech Vio)**	**Self-Report Rate**	**Self-Report Year**
Nevada	N/A	N/A	**28%**	2012
Missouri	54%	14% / 40%	**41%**	2014
Utah	54%	21% / 32%	**46%**	2014
Arkansas	44%	44% / 0%	42%	2014
New Mexico	44%	21% / 23%	**45%**	2008
National Avg.	43%	-	**50%**	2010
Kansas	***43%***	***12% / 31%***	***33%***	***2013***
Iowa	34%	23% / 11%	**30%**	2013
Idaho	34%	12% / 22%	**35%**	2013
Nebraska	32%	21% / 12%	**N/A**	N/A
Oklahoma	26%	15% / 11%	**N/A**	N/A

Notes *"Self Report Year" If reported more recently than 2007*

Costs of State Prisons

In 2010, Vera attempted to derive a more accurate taxpayer cost of prisons across different states.[8] It looked only at the cost of prison operations - i.e. not probation, parole, or juvenile systems - but also included costs that may not have appeared directly in the DOC budget, such as administrative costs, inmate hospital care, and others. Some states include these items in their DOC budget, and some do not. Only eight of the comparison states were part of this study alongside Kansas. Among these states, Kansas had the second lowest total cost for its prisons, the second lowest cost in both the DOC and non-DOC cost centers, the second lowest percent of costs not in the DOC budget (a factor of 3-9 times less than higher states), and ultimately the lowest cost per inmate. Kansas' cost per inmate of $18,207 was almost half that of the highest comparison state, Nebraska, at $35,950. Beyond just the comparison states, of all 40 states participating in the Vera study, Kansas' $18,207 was fifth lowest, and well below the national average of $31,286.

8 Note: Only 40 states provided data. Vera Institute: The Price of Prisons (2014)



As Vera notes in its study, prison cost should not be the only factor when comparing states, as costs obviously don't take into account reductions in recidivism (effectiveness) or the collateral costs of policies intended reduce prison costs (cost-shifting). For example, a policy that sees inmates released more quickly may reduce prison expenditures but may increase costs for supervision or public safety operations. However, with a below-average recidivism rate, a well-below-average new crime recidivism rate and a well-below-average cost per inmate, it does appear that Kansas' prison system is more effective at keeping costs down while also maintaining a low recidivism rate as compared to the other ten states.

Note that according to Vera Institute, this spend is "for prisons only", which is defined as "residential facilities that hold sentenced adult defenders". These costs, whether in the DOC budget or otherwise, are associated with prisons only, i.e. not probation, parole, juvenile, or anything else.

2015 Situation Analysis

Kansas faces a challenge occurring frequently nationwide—a rising adult prison population. Despite a considerable focus on reform over the past decade, the Kansas Sentencing Commission—the body responsible for prison population estimates—predicts a deficit of over 600 beds for the male prison population by FY2018 and general prison population growth of 7.7% over the next ten years. This predicted growth in prison populations contrasts with both the state's observed and projected decrease in crime rates. One

Costs of State Prisons (2010) - in thousands

	Cost Per Inmate	Total	DOC	Non-DOC	% Non-DOC
New Mexico	**N/A**	N/A	N/A	N/A	N/A
Nebraska	**$35,950**	$163,284	$158,190	$5,094	3%
Iowa	**$32,925**	$276,039	$265,409	$10,630	4%
Utah	**$29,349**	$186,013	$178,095	$7,918	4%
Arkansas	**$24,391**	$326,081	$288,609	$37,472	11%
Missouri	**$22,350**	$680,487	$503,987	$176,500	26%
Nevada	**$20,656**	$282,903	$267,890	$15,013	5%
Idaho	**$19,545**	$144,669	$143,211	$1,458	1%
Oklahoma	**$18,467**	$453,356	$441,772	$11,584	3%
Kansas	**$18,207**	***$158,198***	***$156,141***	**$2,057**	***1%***

Notes Only 40 states provided data

reason for this relates to the high number of technical parole and probation violations. Even worse, the growing demand for prison beds is made logistically more difficult by the challenge of managing a sprawling and aging correctional infrastructure.

KDOC's demanding budgetary reality and its effective use of taxpayers' dollars are ultimately most impacted by these rising adult prison populations. The leading population drivers include:

- A large number of probation condition revocations – a group highly susceptible to recidivism
- A significant proportion of violent inmates with lengthy sentences, many of which pose a long-term strain on bed space and resources as they age through their sentences[9]
- Persistent challenges related to unmet behavioral health needs for offenders throughout their exposure to correctional services

As of 2015, KDOC has reduced the overall three-year adult recidivism rate to 35.1%. Yet, its greatest challenge is the reduction of probation condition violators. These violators account for an estimated 25% of annual prison admissions. In recent years, a comprehensive Justice Reinvestment Initiative (JRI), led by the Council on State Governments, constructed a reform package including increased behavioral health investments in communities. In conjunction, these programs have proven successful at reducing probation revocation among participants. However, Kansas probation revocations have remained high, and an unanticipated application of a provision allowing local courts to use short prison stays as a form of graduated sanction[10] has undermined Kansas's adoption of JRI.

Additional challenges include the state's trifurcated probation/parole system. Probationer management across the state's three discrete systems lacks cohesion. Duplicative administrative costs draw limited resources away from effective reentry programs and clinical services. These effects combine to increase the risk of revocation.

The Kansas correctional system is structured as a "confederation,"—the Department of Corrections and the disparate correctional facilities are statutorily defined as independent agencies. While each facility reports to the KDOC Deputy Secretary, the structure inhibits realization of potential cost savings and operational efficiencies intrinsic to increased centralization and the use certain shared services.

In recent years, Juvenile Corrections has successfully reduced both populations and costs. Yet, a recent study by the Pew Charitable Trusts notes that, despite these improvements, Kansas has fallen behind its peers. On average, other states have reduced juvenile populations at a rate 10% greater than Kansas. This challenge appears related to costly over-reliance on residential placements and a lack of performance accountability. In addition, Kansas has yet to make a significant dent in juvenile recidivism. A Pew-led coalition of stakeholders is currently working to outline solutions to address these concerns.

A final key metric and major cost driver is the mentally ill population. According to the FY15 KDOC Annual Report, 35% (3,470) of adult inmates are either mentally ill or exhibit a serious substance abuse issue (score of 4+). To address this, 150 specialized mental health beds have been added to the Lansing facility and additional treatment units with 34 additional behavioral health FTEs have been added across all targeted KDOC facilities.

Overall, KDOC was found to be operating at relatively low staffing levels due to high turnover and program cuts, but still able to achieve a reduction in recidivism.

Below are self-reported population figures from the 2015 KDOC Annual Report.[11] These figures show a compounding problem related to exceeding prison capacity and an increase of required funding if no action is taken. Many of the recommendations included in this report focus on reducing prison populations or operating costs over time in order to help KDOC realize its goals and achieve cost savings.

Adult Male Inmate Bed Space Needs

- In 2015, the KDOC male inmate capacity of 8,799

9 75% of inmates are incarcerated for person or violent crimes in Kansas.

10 Graduated sanctions are a form of intervention within the criminal justice system by which offenders receive increasingly harsher punishment with each offence. This accountability based system of adjudication is focused on rehabilitation and reducing recidivism. It is more commonly used with juvenile offenders.

11 Population and cost data provided by KDOC FY15 KDOC Annual Report.

was exceeded.

- By 2018, the Kansas Sentencing Commission estimates that the KDOC will exceed current capacity by 609 male beds.
- The overall adult inmate population is estimated to gfrow by 7% within 5 years, with women growing by 22% and men by 6%.

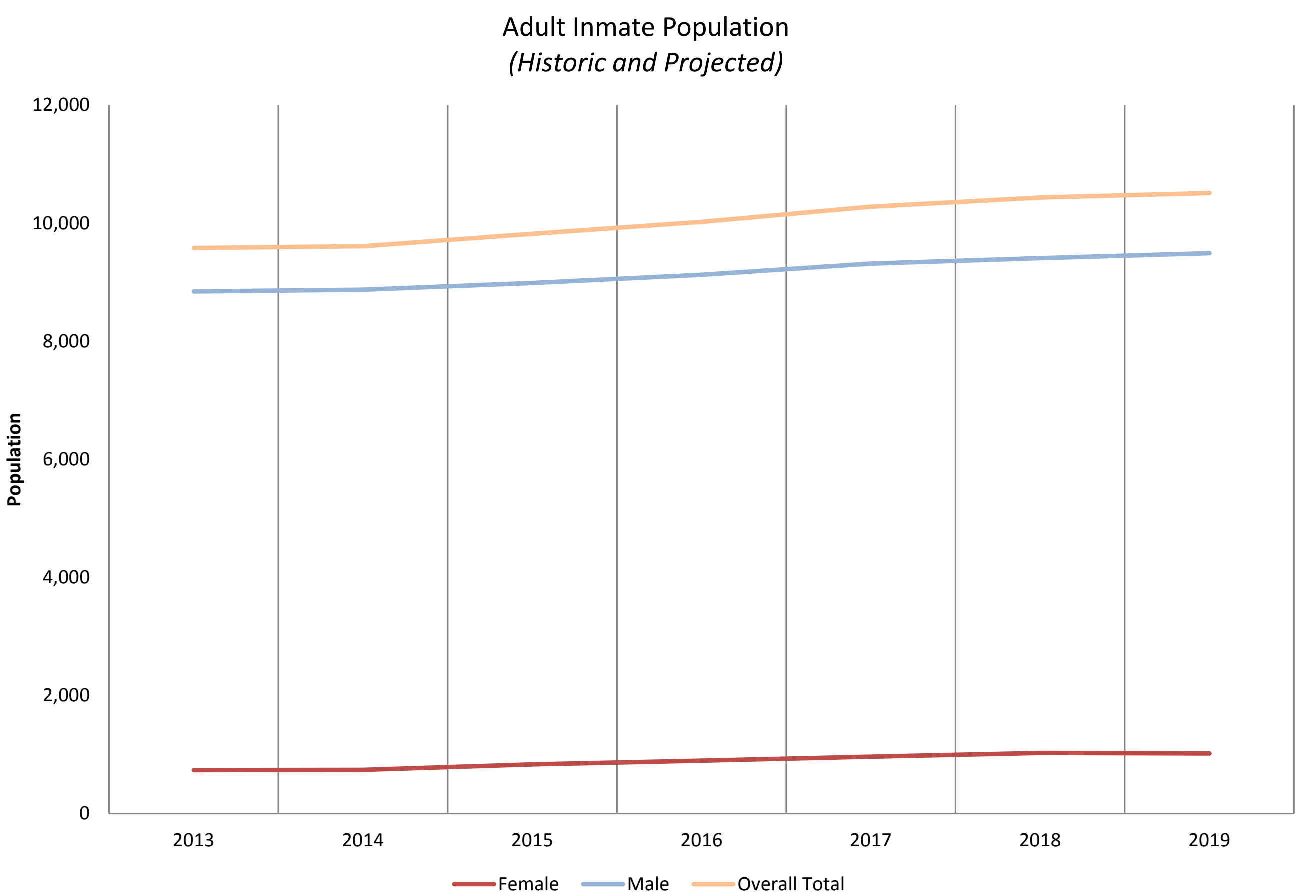
Recommendations

The following recommendations are grouped into two types, based on their complexity and expected time of completion:

- Phase 1 recommendations can begin or be implemented within a 12-month period, once approved
- Phase 2 recommendations are expected to be implemented within 12-18 months due to increased complexity or possible legislative action required

Due to increased complexity, Phase 2 recommendations are not quantified.

The marginal cost used in our savings calculations was



based on a 2015 daily marginal cost of $24.98,[12] inclusive of medical cost. This figure was provided by the KDOC and is used as the baseline for estimating cost savings by implementing recommendations resulting in a prison population reduction. Individual recommendations will outline the methodology and specific assumptions used in calculating savings.

12 The adult daily marginal cost of $24.98 includes daily average medical costs of $15.53 and $9.45 worth of clothing, bedding, supplies, food, incentive pay, gratuity, postage and utilities.

Phase 1 Recommendations

Recommendation #1 - Program & Credit Expansion

- Increase the amount of credit inmates can earn from 90 to 120 days.[13] Credits are awarded for successful participation in prison-based programs, which reduces the risk of recidivism and improve the likelihood of their reentry into society as crime and drug-free citizens that enjoy stable employment.

- Strategically increase overall access to prison-

13 If an increase to 120 days is successful, a Phase 2 recommendation would be to increase available credits to 150 days.

		Target Revenue and Savings Estimates (All values in 2015 dollars, in 000s)						
Rec #	Phase 1 Recommendations	FY16	FY17	FY18	FY19	FY20	FY21	Total
1	Prison-based Program and Credit Expansion	$-	$1,189	$3,247	$2,925	$2,783	$2,583	$12,727
2	Expand Correctional Industries	$-	1512	1512	1512	1512	1512	$7,562
3	Work Release Expansion and Stockton Consolidation	$-	$1,037	$1,137	$1,137	$1,137	$1,137	$5,585
4	Community Corrections Transformation	$-	$1,469	$1,937	$1,960	$1,972	$1,972	$9,310
5	Expand Access to Substance Abuse Treatment Program	$-	$759	$759	$783	$771	$795	$3,866
6	Strategic Overtime Reduction	$38	$93	$85	$77	$70	$64	$426
7	Centralize Good Time Forfieture and Revocation Process	$-	$49	$49	$49	$49	$49	$245
8	Reduce Utilities Cost through Alternative Energy Distributed Grid at EDCF	$-	$47	$50	$53	$56	$59	$265
	Phase 2 Recommendations							
9	Expand On-Site Medical Services and Telehealth agreements	$-	$-	$-	$-	$-	$-	$-
10	Leverage Medicaid & Private Health Insurance for Parole & Community Corrections	$-	$-	$-	$-	$-	$-	$-
11	Consolidate Shared Services	$-	$-	$-	$-	$-	$-	$-
12	Key Performance Indicator Framework	$-	$-	$-	$-	$-	$-	$-

based programming.

- Implement a pilot program that allows inmates or their families to purchase electronic tablets to access cost effective educational programming and reentry resources that contribute to their program credit accretion. These programs also improve prison safety and culture.

Background & Findings

Kansas state law imposes a 90-day cap on the amount of days that an eligible inmate may earn against their length of stay in prison. This is referred to as "program credits" or "earned time" and is considered a valuable release incentive designed to not only trim time inmates serve in prison and lower costs of incarceration, but to provide programs that improve offender success in the community and reduce recidivism.

- Thirty seven states offer earned time credits for certain inmates who participate in, or complete educational courses, vocational training, treatment, work or other developmental programs, according to the National Council on State Legislatures (NCSL) August 2011 report "Principles of Effective State Sentencing & Corrections Policy."

- Other studies indicate that each state has a range of credits with varying criteria, but many provide inmates with access to a higher amount of days than Kansas—Iowa offers 365 days for what it defines as "service," Arkansas has a cap at 270 days, and New Mexico offers varying levels of credit for programs, including 90-150 days for completion of an education program. This indicates that Kansas is missing an opportunity to achieve cost savings and reduce recidivism.

- According to the KDOC 2015 Annual Report, education programming coupled with quality employment (viable wage) has reduced recidivism among their population by over 5%. When inmates were assessed as higher risk to reoffend gainful employment brought their recidivism rates down rate from 38% to 13%.

- In FY 2015, out of 4532 releasing offenders, 1919 were eligible for program credit, and 1454 earned credit, which was 75.77%. In the first 5 months of FY 2016, 853 eligible offenders were released, of whom 737 earned credit, for 86.4%. Increasing the participation rate to 90% would add an additional 73 offenders receiving credit, which at the rate of 120 days would free 24 more beds.

- Challenges to increasing eligibility and participation include lack sufficient time for offenders to complete a program. For example, some offenders are out on court writ pending legal matters or in segregation.

- Tablets
    - » KDOC currently has a contract with a firm called JPAY to manage kiosks throughout their facilities where inmates can pay to download music and send approved messages to their family.
    - » JPAY has produced a tablet that was specifically designed to allow inmates to participate in educational and other specialized programs in a prison-based setting. The tablet can be purchased by an inmate or their family and the content can be supported by the existing kiosks.
    - » This program would offer KDOC the opportunity to build a program credit incentive system to expand access to constructive, meaningful activities throughout the system in a cost effective manner.

Recommendation #1 - (dollars in 000's)				
FY17	FY18	FY19	FY20	FY21
$1,189	**$3,247**	**$2,925**	**$2,783**	**$2,583**

Key Assumptions

Based on projections provided by the Kansas Sentencing Commission. If KDOC increased the maximum program credit cap from 90 days to 120 days, the Department would save a minimum of 142 beds and a maximum of 316 beds annually from FY17 to FY21. If this recommendation is successful in achieving the projected savings during a 2 year period beginning

Fiscal Year	Estimated Beds Saved
2017	142
2018	316
2019	289
2020	277
2021	260

made to increase the program credit cap to 150 days.

- In order to achieve these goals, it is assumed that KDOC will earn credits appropriately among the most eligible current inmates.
- Savings estimates were calculated based on year-end, average bed counts provided by the Kansas Sentencing Commission.
- The tablet program is self-funded through fees and costs avoided.
- The tablet program is intended for low to medium-risk inmates and is not intended to replace programming requiring person-to-person behavioral counseling and interaction.

Critical Steps to Implement

- Legislation is required in 2016 to support the cap increase from 90 days to 120 days
- KDOC will have to quantify the necessary appropriations to target needed program expansion areas by FY17
- KDOC will have to develop a pilot program to make the tablet education program accessible and assign credits to tablet program offerings by FY17

Recommendation #2 - Kansas Correctional Industries (KCI) Expansion

- Increase KCI's customer base to include non-state agencies and increase production at underutilized production facilities.
- Enforce mandate for Kansas State Agencies to purchase from KCI.
- Improve KCI marketing and business development strategy.

Background & Findings

Kansas Correctional Industry (KCI) is a program that employs prisoners at manufacturing facilities run by DOC and through private corporations who partner with DOC. These companies provide training and employment to program participants either at in-prison production facilities or at offsite manufacturing facilities, under supervision.

- As of 2014, KCI employs 1,264 inmates—324 traditional (in-prison) and 940 private (577 prison-based, 363 non-prison-based).
- KCI participants exhibit an 18% recidivism rate, which compares favorably to the 35% observed for non-participants.
- In addition to reducing recidivism, KCI participants learn valuable technical skills and earn wages, which are used to offset the cost of their incarceration and pay restitution to victims.
- Kansas state agencies are required to purchase available products from KCI but this mandate is currently not enforced.
- KCI generates $3,991 of net benefit per participant.
- Products currently produced through KCI include:
  - Textiles
  - Metal products
  - Furniture
  - Chemicals (paint, janitorial, etc.)
  - Farm products (corn, soybeans, cattle, etc.)
  - Dental products (dentures, bridges, etc.)
  - Additional products
- KCI is not operating at full capacity and its production facilities are underutilized.
- The following production space within KDOC is currently vacant:
  - EDCF – 29,344 square feet of manufacturing space;
  - EDCF South (Oswego) – 2,440 square feet
  - NCF – 5,000 square feet of manufacturing space.
- 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, an increase of 11% ($1.5 million/annually) in revenue is estimated.*

Recommendation #2 - (dollars in 000's)				
FY17	FY18	FY19	FY20	FY21
$1,512	**$1,512**	**$1,512**	**$1,512**	**$1,512**

Critical Steps to Implement

- Enforce state mandate for other state agencies to purchase available products from KCI.
- Executive and all other Agency Leadership to convey the message and set the tone of support for KCI through patronage. This would apply to agencies with a need for products or services provided by KCI.

Location, Category, Item	**2015 Revenue**	**Additional Revenue @ 85% Production Capacity (Est.)***	**Total**
Lansing	$9,576,969	$637,134	$10,214,102
Private Industries	$4,245,302		$4,245,302
Chemical	$3,682,470	$561,841	$4,244,311
Farm	$899,287	$6,109	$905,395
Metal Products	$517,703	$61,001	$578,703
Data Entry	$144,735		$144,735
Warehouse	$86,166	$8,183	$94,349
Administration	$1,306		$1,306
Hutchinson	$4,335,462	$782,769	$5,118,231
Textiles	$1,817,912	$323,934	$2,141,846
Canteen	$1,303,375	$195,477	$1,498,851
Wild Horse Program	$503,284		$503,284
Print	$467,667	$116,917	$584,583
Furniture	$225,310	$146,442	$371,752
Leasing Division	$17,862		$17,862
Warehouse	$53		$53
Topeka	$162,250	$40,872	$203,122
Dental	$150,116	$40,872	$190,988
Marketing	$12,135		$12,135
Norton	$82,916	$51,618	$134,535
Microfilm	$82,916	$51,618	$134,535

- Build business partnership with other state agencies and position KCI as a strategic supplier of services and manufactured products. KCI is poised to work with partners on new product development.
- Expand KCI customer base (would likely require statutory amendment.) to :
    - » Sell to contractors that have state contracts;
    - » Sell KCI products through the commissary to inmates
    - » Sell to businesses and residents of the state of Kansas.
- Promote and expand the Prison Industries Enhancement Certification Program (PIECP) partnerships to include Textiles, Furniture, etc.
- The expansion of the KCI program will require additional long-term capital investment to maintain and upgrade equipment, to provide better training and to enhance quality.
- Review and improve marketing strategy and refresh KCI website.
- Review Procurement Section of this report for recommendations on incorporated sourcing

Recommendation #3 - Work Release Expansion

Repurpose or close and divest minimum security housing units, such as the 120 bed Stockton Minimum Security Prison. This can be achieved through the expansion of low cost Work Release slots statewide, including the 50-75 beds in the Wichita Work Release Center, full utilization of the 15 slots at Johnson County Jail, and the use of others offered in limited capacity throughout the state.

Background & Findings

- Work Release programs in Kansas (and across the nation) provide value to prison systems for numerous reasons, including:
    - » Work Release programs offer inmates the opportunity to work and earn wages that help refund taxpayers for a portion of the costs of their incarceration

- » Work Release programs provide valuable work experience that will help prepare them to secure honest work upon release from prison
- » Work Release programs result in lower recidivism rates

- According to recent figures provided by KDOC, the Wichita Work Release Center currently houses 254 inmates that pay 25% of their wages back to state taxpayers for room/board and court-ordered restitution. In FY2014, KDOC reported that inmates earned $3,370,004 in gross wages, of which $847,948 was paid back to the state general revenue fund to support the costs of incarceration—an average contribution of $3,316 per participating inmate.
- There are opportunities for the program to grow:
  - » The KDOC operations team believes that 50-75 beds can be added to the Wichita Work Release Center
  - » Johnson County Jail offers 15 beds (at no cost) to the KDOC for Work Release Offenders
  - » Other jails offer scattered beds for Work Release placements
- Assuming achieved reductions in populations, considerable savings could be achieved by the closure of the Stockton Minimum Security Unit. The Stockton facility has an operating budget of $1.8 million. Remaining offenders may then be redistributed throughout the system, as well as into open Work Release slots. Stockton's marginal inmate cost is over $40 per day. In comparison, work release facilities are estimated to have marginal costs of $24.98 per day. These costs are not inclusive of garnered wages that further benefit the state and would be retained when prisoners are relocated.

Recommendation #3 - (dollars in 000's)				
FY17	FY18	FY19	FY20	FY21
$1,037	**$1,137**	**$1,137**	**$1,137**	**$1,137**

Key Assumptions

- It is assumed that KDOC will build the programmatic capacity to expand the Wichita Work Release Center and the Work Release beds at Johnson County Jail through the thoughtful expansion of current Department screening and referral systems.
- Consideration: In some cases, KCI and Private Industries compete for participants with Work Release. It has been noted that inmates favor work opportunities through KCI over Work Release. There are challenges in identifying eligible participants.
- Consideration: There is sensitivity around closure of the Stockton facility from the community. Closure would impact 2 private industries, 3 cities and other State Agencies due to existing Private Industry and Work Release beds.
- Note: This recommendation should be implemented alongside other population reduction measures that project to reduce minimum security populations, such as the program credit expansion.

Critical Steps to Implement

- Limited structural enhancements and furnishings must be funded in the FY17 budget to support the increased population at Wichita Work Release Center. Referrals to Johnson County Jail and other county locations could begin immediately.
- Redirect a percentage of work release revenue dollars back to support KDOC operations, rather than the State General Fund.
- KDOC should:
  - » Conduct review of protocols for referral procedures and formalize a plan for early identification and referral.
  - » Illustrate an operations plan for the movement of inmates from Stockton.
  - » Perform detailed cost-benefit analysis of closure, including feasibility and social impact assessment.

Recommendation #4 - Expand Access to Substance Abuse Treatment Programs

- Expand access to court diversion and sentence reduction programs for substance abuse offenders by:
  - » Allow KDOC to selectively allow probation condition violators who have had their probation revoked for substance-abuse related issues to access a four-month drug treatment program in prison. Upon successful completion, they can return to Community Corrections supervision
  - » Allow KDOC to selectively allow for nonviolent offenders who previously failed, refused or were discharged from treatment to participate in the four-month prison-based drug treatment program and earn a reduced sentence upon completion
  - » Permit KDOC to selectively allow for offenders convicted of Small Sales Drug Level-4 felonies to participate in the SB123 18-month drug treatment diversion program that serves as an alternative to incarceration
  - » Build small unit demonstrations of best practice therapeutic communities and/or program treatment units in prisons of each security level to ensure additional allocations of substance abuse resources are centralized, leveraged and targeted in a manner that also promotes culture change.

Background & Findings

- In FY15, KDOC had 5,876 prison admissions of which 45.7% were diagnosed as requiring substance abuse treatment and 15.9% for co-occurring disorders. Among them, there were 1,489 probation violators. KDOC staff illustrated the impact of substance abuse was so great among a subset of that group, the 1,321 probation condition violators, that one randomized (yet unscientific) snapshot of them revealed that upwards of 73% had been revoked due to a substance-abuse related compliance issue.

- Currently, Kansas has two key substance abuse laws that either allow for the diversion of substance abuse offenders from prison entirely, or a reduction of their length of stay:
  - » The Alternative Sentencing Policy for Non-violent Drug Offenders Law (K.S.A. 21-6824), commonly known as SB123, authorizes the diversion from prison of 1st and 2nd time nonviolent drug possession offenders to an 18-month intensive community-based treatment program.
  - » "Special Rule #26" (K.S.A. 21-6805), which offers 3rd and subsequent drug possession offenders that have not previously refused, failed or been discharged from treatment the opportunity to have their sentence reduced by completing a prison-based drug treatment program.

- SB123 is managed by The Kansas State Sentencing Commission. The program has maintained a fairly consistent budget and enrollment level over the years—most recently touting the diversion of more than 1,600 drug offenders from prison last year. However, reports indicate that "Special Rule #26" may have been insufficiently funded by KDOC due to either unavailability of funding or lack of eligible offenders.

- According to the Bureau of Justice Statistics, most drug-involved offenders do not necessarily serve time in prison for drug possession, and other reports indicate that property crimes and small sales are often committed to finance one's addiction. Furthermore, the National Institute on Drug Abuse reports that 40%-60% of all drug addicts will relapse from their plan of treatment. Translating those statistics into policies will help expand the reach and impact the state's two most effective substance abuse laws.

Recommendation #4 - (dollars in 000's)				
FY17	FY18	FY19	FY20	FY21
$1,469	**$1,937**	**$1,960**	**$1,972**	**$1,972**

Key Assumptions

- Many of the potential cost savings highlighted in this report are based on projected prison population reductions and made possible by relevant previous recommendations.

- KDOC has reported the increase of beds contracted to local jails at a rate of $40/day to satiate overflowing demand.

- The marginal cost of incarceration at a state prison is $24.98/day.

- Significant cost savings would be realized by reducing the time probation revocations serve, from 11.5 months to approximately 6 months, for violators identified by the KDOC. Savings for this exercise were determined based on the average of the two rates to achieve $30.99/day—this estimate is conservative.
- KDOC has illustrated other, more costly possibilities such as contracting with private prisons (marginal costs upwards of $55/day) or building new facilities (at a cost of $55.37/day, exclusive of capital outlays).
- Substance Abuse
  - » Based on projections provided by the Kansas Sentencing Commission and the KDOC, if all four substance abuse expansion recommendations were implemented, the state prison system would save a minimum of 162 beds and a maximum of 214 beds annually from FY17 to FY21.
  - » In addition, it is assumed that an investment of $452,588 would have to be made in FY 2017 and sustained at approximately $577,500 annually thereafter to ensure impact. The investment would build the capacity of KDOC staff to deliver cognitive/substance abuse treatment, as well as ensure the reach of the Kansas Sentencing Commission's community-based network.
  - » A recent evaluation of the Substance Abuse Program shows high risk offenders have a decreased recidivism rate of 15.8% less than the control group, and all risk levels combined are at 7.8% less.[14]
  - » Estimated bed savings is averaged over the fiscal year.

Fiscal Year	Estimated Beds Saved
2017	162
2018	212
2019	213
2020	214
2021	214

14 Data provided by DOC Communications Director, Jan 2016.

Recommendation #5 - Community Corrections Transformation

Reducing probation violations has proven to be difficult in Kansas for many reasons. Challenges include the state's two distinct probation systems:

- Court Services probation is funded and managed by the Office of Judicial Administration and was designed to provide supervision for lower risk offenders
- Community Corrections is funded by KDOC, but managed by 31 different Community Corrections Agencies consisting of various counties or Judicial Districts of all sizes, and was designed to provide intensive supervision for moderate and high risk offenders.

These two probation systems result in entities operating side-by-side, serving the same courts, yet spending duplicative administrative costs and possibly even missing caseload processing opportunities due to the lack of shared services among them. When combined with the nature of having separate Community Corrections Agencies (which may contain more than one per Judicial District), these types of investments regularly drain funding away from the very kinds of services and interventions needed (and proven) to reduce probation revocations and improve public safety.

The recommendation follows:

- Develop a performance-based contracting agreement by putting the three lowest performing Community Corrections Agencies on Corrective Action Status with Revocation Review for a period of two years.
- Create partnership incentivizing grants to encourage more counties and Judicial Districts to band together as unified Community Corrections Agencies and reduce administrative costs in the long-term.
- Redirect unspent funding to more localized prison "stop gap" graduated sanctions, particularly community-based interventions,[15] in the neediest regions.

15 Community-based intervention programs similar to halfway-back program.

- Review administrative costs of counties with less than 100 in their caseloads for opportunities to consolidate shared services.

Background & Findings

- Kansas has made great strides toward promoting evidence-based practices and has dramatically reduced recidivism to a three-year rate of 35%. However, despite numerous interventions, nearly 25% of all prison admissions each year are probation violators.

- Even though KDOC invests more than $22 million annually into the Community Corrections system, nearly 40% of the Community Corrections Agencies it funds, fail to achieve the minimum performance requirements established in their contracts.[16]

- KDOC has demonstrated successful investments into direct services with programs that have shown reductions in recidivism, such as the $3 million Behavioral Health Program. However, dollars that are unallocated at the end of each fiscal year have been reallocated to make payments for additional jail cells to house overflow inmates or for administrative incentives, such as funding vehicle mileage, for local Community Corrections Agencies. In fact, at least $300,000 remains unallocated at the close of each fiscal year.

- Community Corrections Agencies have reported that courts often send probation violators to state prisons when there is no other option within the community.

Recommendation #5 - (dollars in 000's)				
FY17	FY18	FY19	FY20	FY21
$759	**$759**	**$783**	**$771**	**$795**

Key Assumptions

- Based on projections provided by the Kansas Sentencing Commission, if the recommended reforms result in a 5% reduction in probation condition violations, the state prison system would save approximately 64 beds per year. If it were to achieve a 10% reduction in probation condition violations, it would save an average of 130 beds per year.

16 This figure is based on an update FY15 number provided by KDOC staff.

- In addition, it is assumed that Community Corrections would redirect $1 million of their budget toward the following:

  » At least three one-time challenge incentive grants of $20,000 each for Community Corrections Agencies that agree to band together with larger agencies for a period no less than three years. The amount proposed is approximately double the current bonus incentive grants and would be considered more attractive.

  » Funding to provide technical assistance or additional staff to support the revocation review process at three Corrective Action Agencies ($150,000 total).

  » Issue an RFI to fund a minimum of two (2) community-based intervention programs , from 60-90 days, as the last opportunity before revocation.

Critical Steps to Implement

- Before the close of FY16, KDOC will have to identify the top three worst performing Community Corrections Agencies (considered pilots) with the highest impact on admissions, and define the terms of a two-year Corrective Action process (including monthly revocation reviews, at a minimum frequency) to be established for kickoff in FY17

- KDOC will have to reassess its Community Corrections budget performance monitoring to inform an RFI and subsequent RFP by May 2016. The RFI will call for evidence-based models to deliver impactful community-based interventions, which directly slows the flow of probation violators into state prisons

- Legislation must be passed in 2016 to expand access to both community-based and prison-based substance abuse programs, and additional resources must be allocated to support increased services for FY17

- Perform cost-benefit analysis of maintaining multiple probation systems.

- Redirect discretionary funds to performance based community interventions that are proven to reduce probation revocation in targeted high need regions.

- Conduct performance review of Community Corrections contracts and rationalize programs. This involves redirecting funds from underperforming programs to those with proven success based on defined criteria. See recommendation #12 for further detail on Key Performance Indicators and their use in evaluating program and contract performance.

Recommendation #6 - Improve Staff Recruitment and Overtime Reduction

- The Department of Corrections faces a staffing challenge due to constrained resources and high turnover. Competition for labor stems from other correctional systems, both federal and private, as well as public safety and private industries.
- The Kansas Department of Corrections currently lacks the ability to make the commensurate investment in wages necessary to match market rates. This creates an undesirable side effect of an over-reliance on overtime as a short-term staffing solution.
- However, overtime labor is often the most expensive option to meet staffing needs. Fortunately, there is precedent within the Kansas corrections environment—in addition to industry best practice literature—that inspires optimism for a statewide implementation of operational efficiencies meant to minimize overtime (and thus reduce a major cost driver for the Department and correctional facilities).

Background & Findings

- Overtime staffing costs increased by over $480,000, or 23%, across the Department of Corrections and all facilities from 2014 to 2015. The greatest contributors to this increase were the Ellsworth Correctional Facility, Lansing Correctional Facility and Topeka Correctional Facility. The DOC and facilities portfolio saw a 17% increase of overtime spend from $2.1 million in 2012 to $2.5 million in 2015.
- Over this same period from 2012 to 2015, the Kansas Juvenile Correctional Complex (KJCC) averaged an annual reduction of 8.9% in overtime spend that culminated in an absolute reduction of more than $565,000 in just three years. This major gain in operational efficiency was achieved not through wage hikes or a hiring boon but through strong leadership and proficient staffing analyses. Without significant capital investment, the KJCC was able to realize vast operational improvements through increased staffing efficiencies.
- Juvenile facilities face their own challenges when compared to adult female or male facilities, mental health facilities, etc. For this reason, in addition to codifying and replicating KJCC's historical success, it is important to embody and propagate best practices as put forth by industry standard bearers in the federal U.S. Department of Justice and the National Governors Association. A nominal investment will be required to explore the research and implementation details of a corrections-wide overtime reduction strategy but, importantly, the strategy exists and has seen success in the State of Kansas. (To be cited: https://s3.amazonaws.com/static.nicic.gov/Library/022667.pdf) Facilities across Kansas corrections have initiated staffing analysis and
- Facilities across Kansas corrections have initiated recruiting strategies, staffing analysis and overtime reduction efforts in the past. Understandably, recruiting and keeping labor talent is critical to any overtime reduction efforts; this difficult reality should contextualize any success metric used in overtime reduction. However, strong leadership and effective organizational management are traits that may always be improved and shared institution-wide.

Recommendation #6 - (dollars in 000's)					
FY16	FY17	FY18	FY19	FY20	FY21
$38	**$93**	**$85**	**$77**	**$70**	**$64**

Key Assumptions

- Assumptions based on 4.5% annual savings estimate derived from conservative reduction in actual overtime spend reduction realized of 5%-20% at Kansas Juvenile Correctional Facility
- No assumed significant costs to implement Department of Justice staffing analysis strategy

within codified overtime reduction strategy

- Assumed projection of prison population in accordance with historic actuals and Sentencing Commission predictions

Critical Steps to Implement

- Task an internal KDOC team member and process expert from KJCC to collaborate on how to codify KJCC's best practices
- Incorporate input from wardens that serve adult populations and synthesize their input with Department of Justice staffing analysis
- Establish new staffing guidelines as a KDOC strategic mission for the second half of FY16 and beyond

Recommendation #7 - Centralize Good Time Forfeiture and Revocation Process

KDOC adult prisons should centralize the good time forfeiture/restoration monitoring process and consolidate the Records Office staff (whose primary function involves creation of 120-day good time reports).

Background & Findings

- 328,911 days of earned good time has been forfeited from inmates for disciplinary infractions committed within a 10-year period, which resulted in net increase on the average daily prison population of 90 beds and a cost of $820,593 per year (based on marginal costs per inmate). While it is unreasonable to assume that all of these forfeited days should be restored, it was found that tens of thousands were for nonviolent offenses, including 24,258 for tobacco use and 17,284 for disobeying orders.
- The process for managing good time is decentralized. Each facility's leadership employs varying levels of tolerance for infractions, and forfeitures/restorations are granted inconsistently. In addition, each facility has its own manner of fulfilling a required 120-day report to each inmate regarding the status of their good time. KDOC Operations staff noted gross inefficiencies in record keeping. For example, one facility reported that the records office spends 100 hours per month developing the 120-day report and the counselors spend another 200 hours on the process.

Recommendation #7 - (dollars in 000's)				
FY17	FY18	FY19	FY20	FY21
$49	$49	$49	$49	$49

Key Assumptions

- By establishing a formal, centralized operation for the monitoring and approval of good time forfeitures/ restorations and reporting process, KDOC has the potential to save 10%-15% off the estimated average or 32,890 good time forfeitures annually.
- Further analysis is needed from KDOC—it is estimated that some positions within the eight adult prisons would be consolidated into two positions within Central Operations to maintain this program. This would not only save funding, but also improve the operations of the facilities by allowing counselors to spend more time with inmates to prepare them for a successful reentry to society (see shared services recommendation below).

Critical Steps to Implement

- Issue a statewide directive to all prison wardens with a clear, standardized protocol for the reporting and approval of all good time forfeitures/restorations.
- Review all current good time forfeitures to determine where opportunities exist to return 10-15% of good time to prisoners.
- Conduct an audit of the earned good time 120-day reporting process at all eight adult prisons and develop a consolidation plan.

Recommendation #8 - Reduce Utilities Cost through Alternative Distributed Energy Pilot at El Dorado

A renewable energy power purchase agreement pilot program could help reduce costs to the state over a long period of time—12 years to 20 years. It could also ensure operational security and prove a replicable pilot to be implemented at other correctional facilities or state-owned buildings. Prison facilities are ideal candidates for supplemental renewable energy due to their consistent and predictable electricity needs.

Background & Findings

- After funds allocated for salaries, electricity utility costs are the number one cost driver across all correctional facilities—at Larned Juvenile Correctional Facility, electricity costs are even greater than Classified Regular salaries). El Dorado Correctional Facility is the number two user of electricity of all corrections facilities in Kansas and has the requisite amount of space needed for a solar array. El Dorado allocated more than $870,000 to electric utility costs in 2015. Fortunately, over the last four fiscal years, electricity costs as a percentage of total budget allocations have remained relatively stagnant at 2.5%-3%. This is due to a flat energy market that has resulted in depressed prices, which are unlikely to remain similarly low for the duration of a proposed PPA.

- Fortunately for the State of Kansas and the El Dorado Correctional Facility, by some measures Kansas has the seventh highest potential for solar energy generation in the country.(For citation: http://www.nrel.gov/docs/fy12osti/51946.pdf)

- Solar power purchase agreements are financial contracts enacted between a given facility (in this case, EDCF) and a vendor (or vendors). They allow the customer to lock-in a guaranteed savings over the course of many years—up to 20. On average, a solar PPA will net the customer a savings of $0.01 or $0.02 per kilowatt-hour of electricity used on site (in FY2015, EDCF used 4,172,110 KWH which would result in $41,000-$82,000 in savings annually). (For citation: http://www3.epa.gov/greenpower/buygp/solarpower.htm)

- There are a number of case studies nation-wide that have proven the model for solar arrays at correctional facilities, such as Santa Clara County, California or the (less sunny) Southern State Correctional Facility in Vermont. The details of the arrangement would require on-site due diligence and engineering (paid for and conducted by a vendor), but the crucial component of solar PPAs is that all risk is taken on by the PPA vendor, not the client (El Dorado Correctional Facility). EDCF would incur no upfront or ongoing capital investment, nor would the facility own or maintain any hardware. In return, EDCF would receive a savings on its utility spend allocations, stable baseline electricity generation ensuring safety standards during potential grid outages and a more sustainable energy portfolio statewide.[17]

Recommendation #8 - (dollars in 000's)				
FY17	FY18	FY19	FY20	FY21
$47	**$50**	**$53**	**$56**	**$59**

Key Assumptions

- Assumptions based on $0.012/KWH savings estimate derived from comparative valuations of solar PPA implementations at other state correctional facilities

- Electricity utility usage was linearly projected from 5 years of historic actuals

- Assumptions do not assume any rise in the price of energy in the future. If the price of energy returns to historic averages savings realized through the PPA would increase

- There are no significant legal hurdles given the grid-connected nature of the project

Critical Steps to Implement

- Initiate an RFP for solar PPA vendor to begin due diligence process

Phase 2 Recommendations - Long-Term Performance Improvement

Recommendation #9 - Expand On-Site Medical Services & Telemedicine Agreements

Strive to reduce off-site medical transports 10%-15% by strategically sourcing and consolidating affordable medical equipment prison medical units. Addition-

17 http://governor.vermont.gov/node/2581

ally, cooperation with the Kansas State Department of Administration will be required to clear hurdles for medical professionals seeking licensure to provide telemedicine services throughout KDOC facilities.

Background & Findings

- KDOC ranks 25th nationally on capitated health care spending, according to the 2014 Pew & MacArthur Report on State Prison Health Care Spending
- Kansas had 2,756 off-site medical care transports in 2014, compared to Iowa's 3,500 off-site medical care transports
- Despite KDOC's progress, the strain of low staffing and overtime remains a challenge and off-site medical visits impose an additional cost on the system
- Topeka Correctional Facility, the state's only women's prison, reported that the high number of off-site visits for mammograms was a significant cost driver and taxing on their staff
- The state should explore the business case behind either a mobile unit arrangement with an area hospital or purchase of a unit for the facility

Key Assumptions

- The department is seeking to reduce medical transports by an additional 120 transports in the next year and projects it could save as much as $120,000 as a result
- The staff expressed challenges with onboarding out-of-state providers to offer telemedicine services as a potential challenge
- Developing an inter-agency support team to help facilitate these agreements will help advance this effort

Critical Steps to Implement

- By February 2016, KDOC should conduct a thorough statewide impact assessment of off-site medical transports on overtime, staffing and resources in order to project savings
- By February 2016, KDOC should coordinate with the Department of Administration and present anticipated challenges to onboarding providers, as well as establish a plan for overcoming them in an efficient way moving forward

Recommendation #10 - Leverage Medicaid & Private Health Insurance for Parole & Community Corrections

Ensure that the state incentivizes Parole and Community Corrections contractors to become qualified to bill Medicaid and private health insurance, when possible, in order to maximize savings potential for health and behavioral health care. Create a task force to examine the feasibility of shifting the older, frailer inmate populations that are either Medicare or Medicaid eligible into a specialized, more secure nursing home setting on a form of any medical parole status.

Background & Findings

- Medicaid & Health Care Enrollment
  - » KDOC is a national leader at identifying Medicare and Medicaid eligible prisoners. While states are prohibited from accessing Medicaid for inmates receiving health care services within a prison facility, they may be reimbursed for off-site medical services. By developing an efficient process, KDOC has achieved significant savings on behalf of prisoners by identifying nearly 10% of the adult prison population (over 900 inmates) as eligible for Medicaid, and saving an average of $1.2 million annually. While this has been a great success, more savings opportunities present themselves.
  - » The benefits of Medicaid or any form of health care enrollment should not begin and end at the prison gate. However, there is little effort made to ensure that community-based providers serving Parole and Community Corrections programs obtain the necessary certifications to bill Medicaid, Medicare or even private health care plans. In fact, one official suggested that the process could begin as early as an offender's admission to local jails, where they can be screened for eligibility and enrolled soon

enough to begin accessing outpatient benefits that would then carry into a probation sentence.

- Exploration of Nursing Home Medical Parole Model
  - » With such a high number of Medicaid eligible inmates, as well as more than 1,000 inmates 55 and older, the costs imposed by a growing aged and long-term care population within KDOC are significant. In response to similar conditions, other states, have developed an innovative solution: they reclassify segments of their population to serve the remainder of their sentence in specialized nursing home care that is outside of prison walls and, therefore, reimbursable by Medicare and Medicaid.

Key Assumptions

- Medicaid & Healthcare Enrollment
  - » Sufficient data to conduct a thorough cost savings estimate does not exist. However, it is clear that investments in behavioral health services will reduce recidivism and ultimately reduce the impact on the state prison population. At least 900 state prison inmates are eligible for Medicaid and 97% of all inmates will be released back to Kansas communities. This evidence suggests that considerable costs may be shifted away from the state budget.
  - » Furthermore, with an estimated 25,000 inmates incarcerated in county jails and thousands more on probation, there is potential for even greater savings to be achieved for both health and behavioral health care services at the local level.
- Exploration of Nursing Home Medical Parole Model
  - » A detailed analysis must be conducted to determine the target population. However, it has been reported by KDOC that at least 14% of the prison population requires assistance with daily living, including more than 1,000 inmates aged 55 and older (a threshold provided by DOC)
  - » The challenge will be to determine the risk level to society and the level of security that inmates may require in a nursing home setting
  - » Furthermore, it is assumed that an analysis of the current law will have to be conducted to determine if legislation will be required to make this recommendation possible

Critical Steps to Implement

- By February 2016, KDOC should evaluate its aging and frail populations to determine how many inmates could be reasonably housed in a specialized nursing home setting. Based on the population profile, the department would need to craft legislation by March 2016 establishing the appropriate criteria for medical parole status for those inmates to be permanently housed in such a facility. Should the legislation pass, then an RFI would be issued to seek nursing home providers willing to establish specialized care facilities in Kansas dedicated to housing this population.
- By May 2016, KDOC should evaluate all of its community-based contractors and determine how many are certified to bill Medicaid or private health insurance for services. In addition, the department should require all Community Corrections contractors to do the same. Based on the findings, a plan should be established to require or incentivize more providers to become certified.

Recommendation #11 - Consolidate Shared Services

Review and rationalize shared service functions at each prison facility. Shared service functions can include, but are not limited to, Accounting (AP/AR), HR, and IT. If shared service FTE utilization is found to be greater than demand, or is a function which can be consolidated under the Central Office, then reduce or reallocate FTEs as needed. Security staffing was found to be adequate at each location examined and a reduction or reallocation of security related staff is not in scope for this recommended assessment.

Background & Findings

- At each prison facility there exist a number of resources that perform shared service functions such as HR, accounting or IT.
- Shared service related functions are also located

at the Central Office and may be candidates for consolidation.

- The potential for savings will vary based on the outcome of the assessment. An example of potential savings could be in the form of a headcount reduction of 10 FTEs totaling: 10 FTEs x $60,000/yr. = $600,000/yr. savings. Note: This savings example is for illustration purposes only and requires additional analysis. It is therefore excluded from savings estimate calculations above.
- Even if a reduction is not found to be viable, this assessment would allow the department and individual facilities to reallocate resources as needed. This would improve operational efficiency.
- Savings calculation assumes an average of $60K/yr. for one Full Time Employee (FTE).

Critical Steps to Implement

- Perform a resource utilization assessment to understand utilization by prison facility and employee position.
- Review or develop optimized future state organization chart with clearly defined roles and responsibilities by employee grade, group, position, type, title, etc.
- Rationalize shared service staff and consolidate FTEs under the DOC Central Office (as applicable).

Recommendation #12 - Implement a Key Performance Indicator (KPI) Framework

Create a unified and scalable KPI Framework with the people, process, and tools to empower KDOC with transparency and fact based decision-making ability.

- Define additional KPIs for performance based (quantitative) evaluation of program funding versus recidivism, vendor performance, staff performance, shared service performance, juvenile population, community corrections and others.
- Expand the set of programs included in the KDOC Results First cost benefit model. This includes defining KPIs used to track the cost-benefit of key KDOC programs, in addition to collecting and analyzing results, identifying trends and synthesizing findings.

Background & Findings

- KDOC currently performs cost benefit analyses on three programs with the help of Results First (Pew Foundation):
  - » Cognitive Behavior Therapy
  - » Drug Treatment (Prison)
  - » Sex Offender Treatment Program (Prison)
- The information gathered through Results First is currently used for informational purposes and is not used in budgeting or the decision making process.
- KDOC currently gathers and publishes a number of operational and financial metrics in its annual report. The metrics contain multi-year trend graphs but lack synthesis and analysis of reported data. This makes it difficult to use when budgeting or when addressing systemic problems.
- From interviews with KDOC stakeholders and the review of available KDOC operational and fiscal data, it is uncertain whether true performance metrics are being gathered, analyzed and used to drive transparency and help with the budgeting and the decision making process.
- A report from the Pew Charitable Trusts revealed considerable challenges within the community corrections system, including an over reliance on costly, high end residential placements and rising recidivism rates among the state's juvenile population.

Key Assumptions

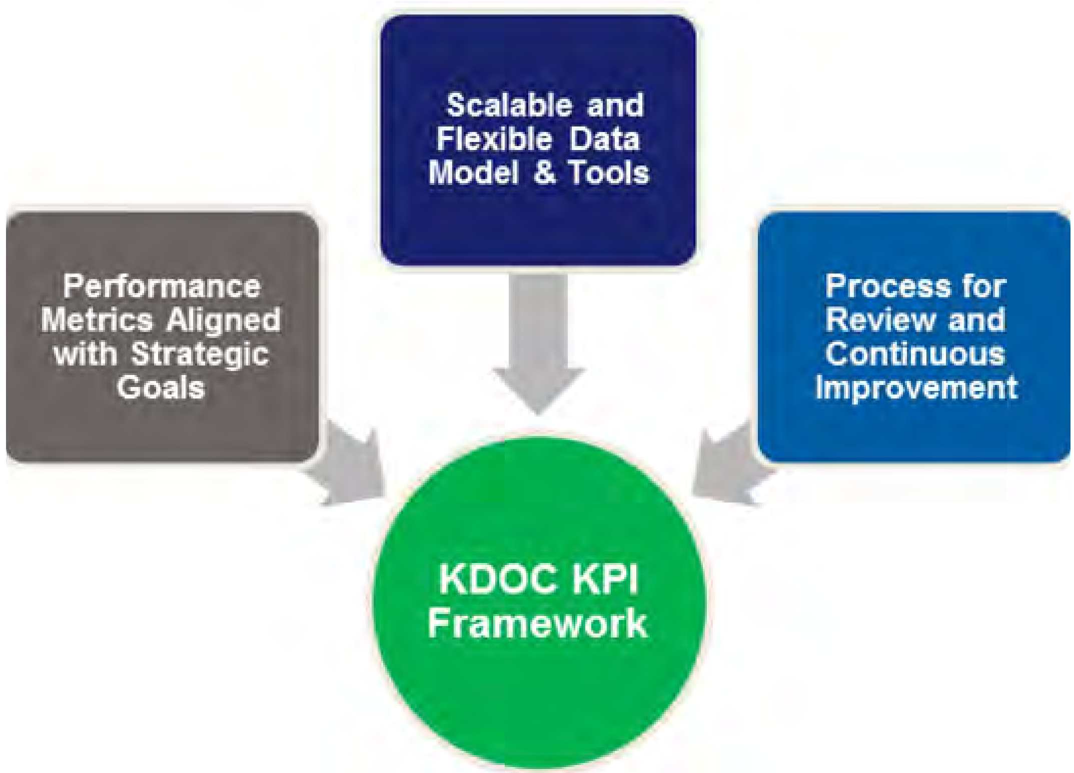
- A robust KPI Framework provides transparency into the cost, quality and effectiveness of the program, group or individual being measured.
- The cost-benefit of implementing a KPI Framework is difficult to quantify but considered a strategic business capability focused on improving operational efficiency and driving down cost in

the long term.

- Once implemented, data necessary to begin trend analysis will typically become available after two or more business cycles.
- Benchmark analysis should be used to compare KDOC against its cohorts and gauge relative performance in key operational, fiscal and programmatic areas.

Critical Steps to Implement

- Perform a current state assessment of the existing KDOC performance indicator data, tools and process. This assessment should outline an ideal future state KPI Framework, identify gaps and provide a roadmap to achieve the recommended future state.
- Additional background on KPI Framework:
- A successful organization will use a KPI Framework to drive operational efficiency and realize long-term cost savings. Benefits include:
  - » Ability to measure organizational and programmatic cost, quality and performance
  - » Driving transparency and accountability
  - » Enabling leadership with data-driven decision making ability
  - » Providing a process for continuous improvement
- Key Point: In order to realize the benefits of a KPI Framework, Executive sponsorship and organizational adoption is required.
- The components of an effective KPI Framework are:
  - » Clearly defined critical success factors (CSF) and performance indicator metrics, which accurately measure cost, quality and performance of a service, process, group or individual responsible for executing a specific action (customer centric or operational). These metrics should align to one or more KDOC strategic goals.
  - » A scalable data model, process and tools for collecting, analyzing, reporting and synthesis of KPI metric data for identification of trends, risks, issues, as well as for general reporting.
  - » A process and cadence for review of findings to drive transparency and empower leadership and stakeholders with fact based decision-making ability.



Education

K-12 and Higher Ed

Acknowledgements

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- Aon Hewitt, State Employee Health Plan Actuary

Agency Overview

Previous Efficiency Initiatives

As part of the efficiency review, A&M researched previous education studies and initiatives in Kansas' education. The following is a summary of the findings from these previous initiatives:

- Legislative Post Audit (LPA) Efficiency Studies – The LPA is required to complete three school district efficiency studies per year. These studies evaluate if the district can "…achieve significant cost savings by improving resource management…" Efficiency studies take a broad look at district operations and provide recommendations to many areas including food service, facility maintenance, course/curriculum planning, transportation, cash management, compliance and risk controls. Since district expenditures are controlled at the local level, efficiency reviews are one of the few ways the state can encourage fiscal responsibility and narrow differences between state funding and district spending.
- District Health Insurance Costs – In 2010, the state reevaluated how its public school districts acquired healthcare. Health insurance is a major cost for school districts; however, most districts do not have the expertise to negotiate an affordable plan. Although there are five health insurance pools in the state that a district could

join—including the statewide health insurance pool—the requirements for joining can be prohibitive. The study established that a lack of safeguards on past health insurance pools caused them to fail or become prohibitively expensive. Therefore, it recommended that any pools created in the future have controls in place to prevent adverse selection and rising costs. The study did not specifically recommend an overhaul or any action to the current health insurance system. Recent discussions with superintendents established that health insurance remains a deteriorating issue in their districts.

- Higher Education Efforts – Kansas' community colleges and universities have conducted efficiency reviews on multiple occasions. In 2008, the community college system evaluated if colleges in close proximity to one another could save money through shared services or group purchasing. It was determined that most shared services would not be possible due to issues such as strong school rivalry, non-standardized processes, and a desire to differentiate to compete for students. The study did determine that group purchasing of utilities, common supplies and insurance could lead to savings if barriers such as conflict resolution and non-standard procedures could be mitigated.
- The public universities completed a study in 2009 to answer questions including:
    - » What actions could the universities take to reduce academic spending?
    - » What actions could universities take to reduce their institutional spending?
    - » How do costs per student and staffing levels compare across the six major universities?
- The 2009 study recommended consolidating or eliminating low enrollment classes, eliminating certain degree programs, collaborating across universities, increasing faculty workloads, and administrative consolidation, as ways to become more efficient.
- District Consolidation Recommendations – School district consolidations have been recommended repeatedly to the Kansas State Department of Education (KSDE) from a variety of sources including sitting superintendents, former state Board of Education members, policy groups, and the Kansas Legislative Post Audit Committee's 2010 report. Historically these consolidation efforts have been focused on consolidating districts to eliminate smaller, less efficient school districts. Gaining legislative and local support for these recommendations are difficult for several reasons:
    - » Concern for diminished student experience and negative impact on achievement
    - » Impacts on local communities
    - » Post consolidation funding cuts can mean financial benefit for the state at the expense of districts
- Funding Formula Validation – In addition to standard efficiency reviews of the K-12 public education system, the LPA conducts occasional studies to validate source data used in determining the amount of funding schools received. Specifically these audits were conducted to validate free and reduced lunch eligible students and special needs students. While these measures were not directly "efficiency" studies, they were intended to ensure the state was appropriately allocating its resources. The funding formula is currently under review.

Baseline Budget

For the state of Kansas, spending on education can be segmented into two categories: K-12 education system and the higher education system. Approximately 60% of the state's annual education spend is on K-12 education and the remaining spend is distributed across multiple higher education universities and other smaller entities. In 2014, spending on K-12 education was at 59% (of total education spend) and it can increase up to 63% by 2017. Hence, A&M focused its efficiency study primarily on the K-12 education system.

Education *(All values in 000s)*	**FY 2014 Actual**	**FY 2015 Budget**	**FY 2016 Budget**	**FY 2017 Budget**
Department of Education	$3,808,653	$4,532,761	$4,614,267	$4,643,034
University of Kansas	$716,923	$725,884	$714,345	$725,811
Kansas State University	$552,498	$591,892	$575,810	$585,236
University of Kansas Medical Center	$327,593	$346,656	$336,591	$349,017
Wichita State University	$279,384	$305,025	$291,191	$298,192
Board of Regents	$213,049	$218,405	$245,455	$248,459
Fort Hays State University	$129,776	$137,645	$150,899	$135,846
Kansas State University--ESARP	$133,378	$132,650	$131,806	$132,591
Pittsburg State University	$106,092	$111,066	$108,671	$110,161
Emporia State University	$86,759	$93,486	$87,413	$88,913
Other 5	$74,861	$83,433	$79,867	$78,655
Total	$6,428,967	$7,278,901	$7,336,314	$7,395,916

Benchmark Comparisons

Fiscal Benchmarks

Kansas spends 26% of its total annual expenditures on K-12 education. This is tied with Utah for the highest percentage in its peer group. Kansas also increased its education expenditures in fiscal year 2014 by 23%, the highest in its peer group.

Among the benchmark states, federal funding comprises of about 10% the state's K-12 expenditures, less than half that of Arkansas and Oklahoma, yet substantially higher than other states in the peer group.

State	**FY14 K-12 Expenditures in $ Millions**			
	State General Fund	Other State Funds	Federal Funds	% of State Expenditures
Nebraska	$1,142	$303	$77	14%
Arkansas	$2,103	$520	$816	15%
Oklahoma	$2,046	$628	$817	16%
Iowa	$2,864	$439	$67	17%
New Mexico	$2,556	$414	$2	18%
Nevada	$1,298	$257	$291	20%
Idaho	$1,327	$232	$86	24%
Utah	$2,654	$419	$60	26%
Kansas	**$2,963**	**$470**	**$376**	**26%**

State	**FY14 K-12 Fund Source % Mix**		
	State General Fund	Other State Funds	Federal Funds
Arkansas	61%	15%	24%
Oklahoma	59%	18%	23%
Nevada	70%	14%	16%
Kansas	**78%**	**12%**	**10%**
Idaho	81%	14%	5%
Nebraska	75%	20%	5%
Iowa	85%	13%	2%
Utah	85%	13%	2%
New Mexico	86%	14%	0%

Kansas spends 18% of its total annual expenditures on higher education. This ranks in the top half of its peers.

State	FY14 Higher Ed Expenditures in $ Millions			% of State Expenditures
	State General Fund	Other State Funds	Federal Funds	
Kansas	**$762**	**$1,233**	**$542**	**18%**
Idaho	$323	$220	$5	8%
Nevada	$484	$271	$3	8%
Utah	$803	$730	$10	13%
Arkansas	$778	$2,750	$13	16%
New Mexico	$796	$1,442	$673	18%
Oklahoma	$989	$3,598	$510	23%
Nebraska	$690	$1,455	$332	24%
Iowa	$835	$4,122	$485	27%

Health Insurance Benchmarks

As health insurance costs continue to rise and administrative requirements on plan sponsors become more complex, states around the country are evaluating the opportunity to develop consolidated health plan programs for their teacher populations. A number of states have implemented this approach with much success.

Nebraska - Educators Health Alliance (EHA), the largest insurance pool in the State of Nebraska, was developed over 45 years ago to provide health care for Nebraska teachers. The group was formed in partnership with the Nebraska State Education Association (NSEA), Nebraska Association of School Boards (NASB), and the Nebraska Council of School Administrators (NCSA), and is led by a 12-member board. All but three of the school districts in Nebraska participate in this program and the plan currently covers approximately 77,000 participants.

The EHA program consistently provides participants with seven plan design options and competitive plan pricing. The EHA reported that 2015 was the 13^{th} year in which the rate increases within the plan were less than 10%, with the most recent rate renewal requiring only 1.9% increase. This is much more favorable than could be achieved for many of the districts on their own.[1]

1 Educators Health Alliance. www.ehaplan.org

Oregon – Due to unsustainable increases in healthcare costs, the Oregon Educators Benefit Board (OEBB) was created in 2008 to provide health coverage for Oregon's school district employees. Legislation requires all districts to participate in the OEBB program, though Oregon has allowed for a few exceptions since inception. The program provided benefits for approximately 61,000 employees and their dependents for the 2014-2015 plan year. The 10-member OEBB oversees the program, providing participating districts with nine plan design options and allows the districts to implement their own contribution structure.[2]

Texas – Texas's statewide program for education employees, TRS-ActiveCare, was established in 2002, after years of contemplation by the Texas Legislature. Districts with fewer than 500 employees are required to participate in the program while larger districts have the option of participation. However, the program currently covers 90 percent of the eligible districts in Texas with a total population of approximately 460,000 including covered members and their dependents. Despite the positive participation, the Texas Legislature is currently conducting a study to determine the impact of the current practice that allows for districts to opt out of the program.[3]

The Texas ActiveCare program provides participants with a choice between six health plans and allows for school districts to determine their own contribution structure.

Washington – In 2012, the Governor of Washington state signed The Public School Employees' Insurance Benefits Bill, ESSB 5940. This directed the Washington Health Care Authority (HCA) to provide an analysis to the Legislature regarding the K-12 health benefit programs at the districts, in order to assess the advantages/disadvantages of consolidating K-12 health benefit programs. The HCA provided its final analysis to the Governor and Legislature on June 1, 2015, which details the different purchasing program options and structures. It is set to be discussed during the next Legislature session.

2 www.oregon.gov/oha/OEBB/Pages/About-Us.aspx

3 "Summary of 2015 TRS-Related Legislation." www.trs.state.tx.us/info.jsp?submenu=legislation&page_id=/about/legislative_update

Summary

A&M has identified opportunities to improve efficiencies within local K-12 school districts, the Kansas Department of Education as well as within higher education.

The largest component of education spending in Kansas is at the K-12 level, which is determined at the local school district level and is not within the decision making authority of the state. Therefore, A&M took the approach to focus on opportunities that align the interests of the school districts and the state but maintain respect for local control. A&M is not making recommendations that would impact collective bargaining (except with respect to health benefits), curriculum or instructional methods or challenge the sanctity of local control, with one exception—health benefits.

The funding of K-12 spending is largely the responsibility of the state and the current funding formula has been the subject of change via legislative and litigious action and remains under review by legislature for another change. In its assessment, A&M has not evaluated the funding formula or participated in re-crafting its components.

The recommendations were developed with an understanding of the uncertain future of the funding formula as well as the desire of K-12 districts to maintain local control. These opportunities, for both K-12 and higher education, consist of cost reductions resulting from centralized procurement of materials and services. Also included are potential savings from centralized procurement of property and casualty insurance and health benefits. The specifics of these recommendations that aggregate more than $600 million over the next five years. To capture these savings, it is critical to have cooperation and acceptance at the local school district level and higher education institutions, in order to implement these recommendations.

Furthermore, establishing a standardized guideline for carrying general fund cash balances across the school districts can release excess cash to be used more effectively. Kansas can also seek additional educational grant and foundation opportunities to access new funding sources.

Finally, analysis of KSDE's organizational design suggests that it has evolved in reaction to funding challenges rather than aligned to support stated strategic education goals. As Commissioner Watson is new to his position, we expect that he will present a fresh strategic vision to the State Board of Education in 2016; it would be appropriate to reconsider the organizational design of the department to support that vision.

- Short-term opportunities – Savings opportunities in both excess cash carryover balances and some elements of KSDE organizational design could be captured as early as FY 2017.
- Medium-term opportunities – Procurement and health benefits opportunities might be captured as early as FY 2018 but may take longer depending on local K-12 and higher education institutions acceptance.

A final note about KSDE's organizational design: Historically, state education agencies (SEAs) have been organized around programs or funding sources in order to maintain a focus on oversight and compliance. Over the last decade, SEAs have become increasingly responsible for ensuring academic performance and necessitating that SEAs adopt an internal organizational structure that is driven by performance management. SEA's should consider shifting focus away from data collection and towards use of data to drive improvement, at the school and district levels. Additionally, SEAs should strive to break down silos and create opportunities for SEA personnel to collaborate. KSDE may wish to consider the following guidelines if it chooses to refocus towards a newly articulated strategic vision:

- Define the roles and responsibilities for each department within KSDE, based on the agency's goals and desired academic outcomes.
- Clarify the specific roles and responsibilities for each position within each department and increase emphasis on academic support functions.
- Compare the roles and responsibilities of employees in individual departments to ensure there is no overlap of functions.
- Develop a personnel coding system that makes it possible to link the specific role and function of every employee to a specific academic program or academic outcome.

Recommendations

		Target Savings and Revenue Estimate (All values in 2015 dollars, in 000s)						
Rec #	Recommendation Name	FY16	FY17	FY18	FY19	FY20	FY21	Total
1	Excess Cash Carryover Balances Reduction	S-	$40,000	$40,000	$40,000	$40,000	$33,000	$193,000
2	New Grant and Foundation Opportunities	S-	$299	$299	$299	$299	$299	$1,495
3	Reorganization of KSDE IT Functions	S-	$500	$500	$500	$500	$500	$2,500
4	K-12 Benefit Program Consolidation	S-	$40,000	$80,000	$80,000	$80,000	$80,000	$360,000
5	Collaboratively Source Select Categories on a Statewide Basis	$-	$7,200	$9,000	$9,000	$9,000	$9,000	$43,200
6	Expand participation of the K-12 Unified School Districts (USDs) in Insurance Pool Program(s)	$75	$725	$1,375	$1,875	$2,375	$2,875	$9,300
Department of Education Total		**$75**	**$88,724**	**$131,174**	**$131,674**	**$132,174**	**$125,674**	**$609,495**

Department Of Education

Recommendation #1 – Reduce Excess Cash Carryover Balances

The state of Kansas currently has 286 school districts. Each school district carries a cash balance within more than 30 different funds, such as general funds and reserve funds, to pay various operating and capital expenses. The combined cash balance carried within these funds has continued to increase disproportionately in relation to the increase in annual expenditure. To reduce excess cash carried over by school districts, the state should establish a recommended guideline for carrying an Adjusted Cash Balance (ACB), as defined below, within each fund as follows:

- Minimum Adjusted Cash Balance of 10% of its annual operating expenditure
- Maximum Adjusted Cash Balance not to exceed 15% of its annual operating expenditure
- The Adjusted Cash Balance should preferably be retained within the Reserve funds, where possible, instead of being retained across 30+ different funds
- Any Adjusted Cash Balance in excess of the maximum allowed per the state guideline, can be deducted from future funding from state based on a three, five, or seven year amortization of the excess funds

Background and Findings

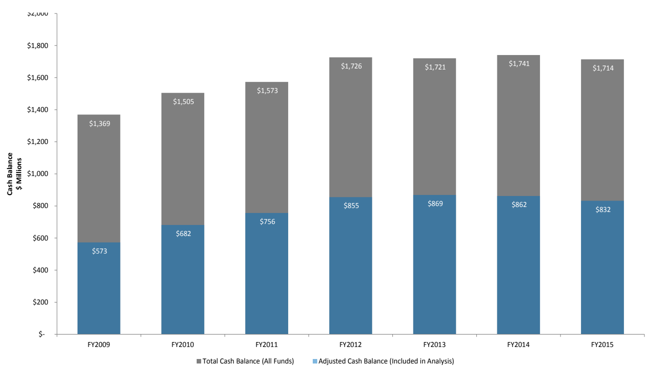
A&M compared the Total Cash Balance for each school district at the beginning of the fiscal year (July 1st) to the operating expenditure during the fiscal year from FY2009 to FY2015[4]. All 286 school districts were grouped into three groups based on 2015 student enrollment to form comparison peer groups as follows:

- Group 1: Enrollment less than 1,000
- Group 2: Enrollment between 1,000–5,000
- Group 3: Enrollment greater than 5,000

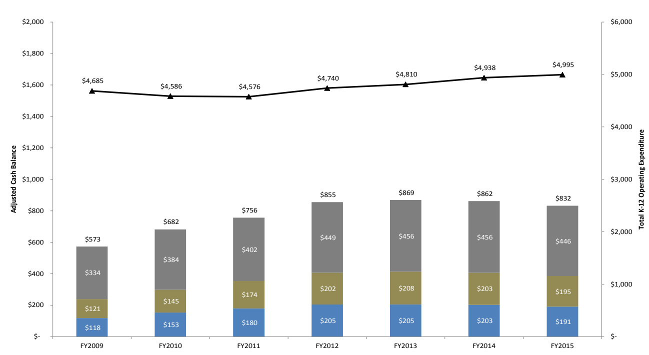
4 Cash balance, student enrollment, and annual expenditure data for school districts sourced from Kansas State Department of Education

District Group	No. of Districts	Adjusted Cash Balance	FY15 Operating Expenditure
Group 1	207	$190,817,929	$1,106,820,857
Group 2	59	$194,982,550	$1,231,019,503
Group 3	20	$446,428,403	$2,657,625,912
Total	286	$832,228,882	$4,995,466,272

Furthermore, A&M reduced Total Cash Balances by cash balance retained within Federal Funds, Capital Outlay, Gifts/Grants, and Bond & Interest Funds to focus on unencumbered funds, to yield Adjusted Cash Balance (ACB). The chart below compares cash balance in all funds versus the cash balance for the funds included in the analysis.

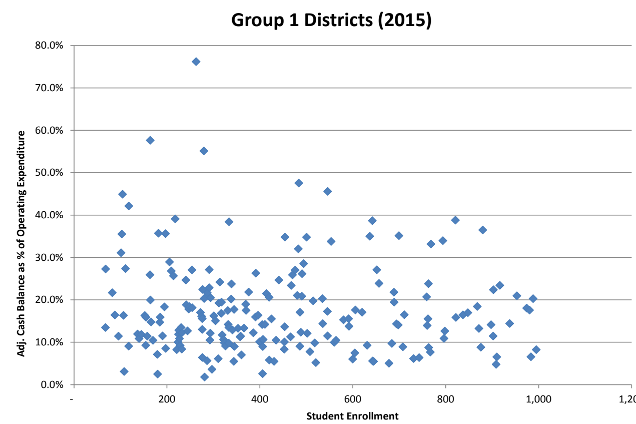


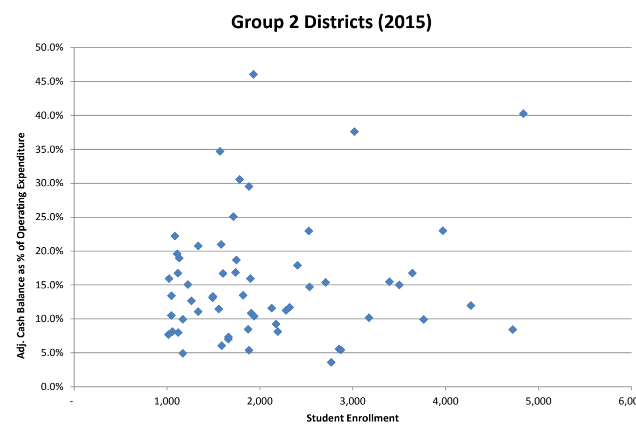
Analysis of the ACB carried over by school districts (see chart below) indicates the total year-end ACB has increased by 45% from 2009 to 2015 while operating expenditure has only increased by 7%. Also, the ACB has increased more significantly for Group 1 and 2 districts by 61% compared to 34% increase for Group 3 districts.

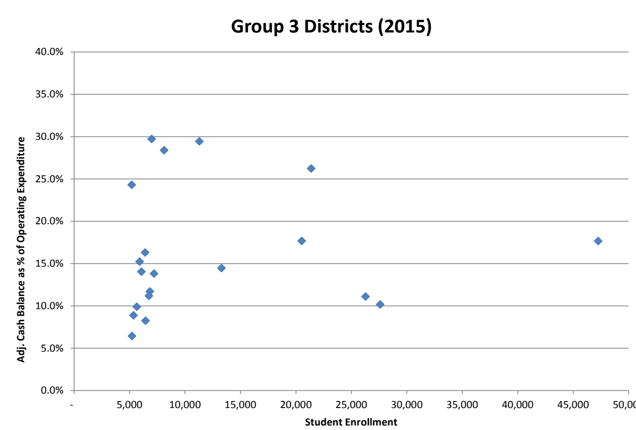


Additionally, the ACB carry over analysis shows (reference the following three scatter charts):

- There is a lot of variation on the ACB maintained by the school districts relative to their peer group
- The smaller school districts have greater variation in ACBs
- The variation in ACB across school districts has increased progressively from 2009 to 2015





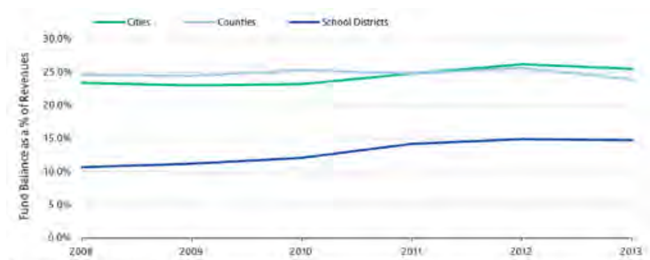


Given the findings from the ACB analysis, A&M reviewed the cash balance best practices recommended by the Government Finance Officers Association (GFOA). According to GFOA [5]:

- *School districts should establish a formal policy on the level of unrestricted fund balance that should be maintained in the general fund as a reserve to hedge against risk. The policy should address, at a minimum:*
  - » *the target level of fund balance to maintain;*
  - » *the appropriate uses of fund balance;*
  - » *who can authorize the use of fund balance;*
  - » *and guidance on how fund balance will be replenished to target levels after it has been used.*
- *With respect to the target level of fund balance to maintain, the adequacy of unrestricted fund balance in the general fund should be assessed based upon a district's own specific circumstances. GFOA recommends, at a minimum, that school districts, maintain unrestricted fund balance in their general fund of no less than 10 percent of regular general fund operating revenues or regular general fund operating expenditures and operating transfers out (if applicable). The choice of revenues or expenditures as a basis for the reserve amount may be dictated by what is more predictable in a district's particular circumstances.*
- *In determining the right level of unrestricted fund balance for its precise circumstances, a district should analyze the risks that it faces and establish reserve levels commensurate with those risks [6]:*
  - » *<u>Minimal risk to retain through reserves</u>: Consider a target equal to the GFOA minimum recommended reserve of 10% of revenues/expenditures.*
  - » *<u>Low to moderate level of risk to retain through reserves</u>: Consider adopting a reserve target somewhat higher than the GFOA minimum (e.g. 11%-15% of revenues/expenditures).*
  - » *<u>Moderate to high level of risk to retain through reserves</u>: Consider adopting a target amount of reserves significantly higher than the GFOA recommended minimum (e.g., 15% - 25%).*
  - » *<u>High level of risk to retain through reserves</u>: Consider adopting a much higher target than the GFOA minimum (e.g., greater than 25%).*

A&M also referenced the fund balance data from Moody's Investor Service that compares median fund balances across a large sample of local government sub-sectors (reference chart below)[7]. This data indicates:

- The median fund balance for school districts ranges between 10% - 15%
- According to Moody's, *"While the median for school districts is notably lower than that of cities and counties, this is consistent with our observation that school districts need less fund balance to operate consistently given generally more predictable revenues and expenditures."*



Source: Moody's Investors Service

	Cities	Counties	School Districts
2013 Fund Balance as % of Revenues	25.4%	23.9%	14.6%
2012 Fund Balance as % of Revenues	26.2%	25.6%	14.8%

Source: Moody's Investors Service

The following tables summarize the aggregate ACB for districts carrying an ACB below 10%, between 10%-15%, between 15%-25%, and above 25%:

District Group	Districts with Cash Balance < 10%			
	No. of Districts	7/1/2014 Adj. Cash Bal.	*Cash Balance at Ceiling Rate*	*Under-funded Cash Reserve*
Group 1	47	$19,435,832	*$40,715,996*	*$(7,708,165)*
Group 2	17	$26,081,140	*$54,294,765*	*$(10,115,370)*
Group 3	4	$16,924,818	*$30,438,598*	*$(3,367,581)*
Total	68	$62,441,790	*$125,449,359*	*$(21,191,116)*

5 Source: GFOA Best Practices in School Budgeting, www.gfoa.org

6 Source: GFOA_PK12_GFReserveCalculationWorksheet

7 "2013 US Local Government Medians Demonstrate Stability of Sector," Moody's Investor Service, August 21, 2014

District Group	Districts with Cash Balance 10% - 15%			
	No. of Districts	7/1/2014 Adj. Cash Bal.	*Cash Balance at Ceiling Rate*	*Excess Cash*
Group 1	54	$33,501,401	*$40,405,602*	$-
Group 2	16	$37,243,540	*$46,796,247*	$-
Group 3	7	$115,457,971	*$146,029,123*	$-
Total	77	$186,202,912	*$233,230,972*	$-

District Group	Districts with Cash Balance 15% - 25%			
	No. of Districts	7/1/2014 Adj. Cash Bal.	*Cash Balance at Ceiling Rate*	*Excess Cash*
Group 1	68	$72,899,791	*$57,224,101*	*$15,675,690*
Group 2	19	$70,198,131	*$58,061,866*	*$12,136,265*
Group 3	5	$174,472,529	*$147,140,885*	*$27,331,644*
Total	92	$317,570,451	*$262,426,853*	*$55,143,598*

District Group	Districts with Cash Balance > 25%			
	No. of Districts	7/1/2014 Adj. Cash Bal.	*Cash Balance at Ceiling Rate*	*Excess Cash*
Group 1	38	$64,980,905	*$27,677,429*	*$37,303,476*
Group 2	7	$61,459,739	*$25,500,047*	*$35,959,692*
Group 3	4	$139,573,085	*$75,035,280*	*$64,537,805*
Total	49	$266,013,729	*$128,212,756*	*$137,800,973*

School districts with ACB below 10% are potentially under-funded and may require intervention and remediation by the State to maintain 10% minimum ACB. School districts with ACB between 10%-15% are at the appropriate level and do not require any change. The excess cash carried over by all remaining school districts ($193 million) could be used to offset future education funding. This ACB drawdown can be accomplished evenly over a 5-year period to allow smoother transition for districts to the adequate level of ACB.

Recommendation #1 - (dollars in 000's)				
FY17	FY18	FY19	FY20	FY21
$40,000	**$40,000**	**$40,000**	**$40,000**	**$33,000**

Key Assumptions

- Stability of funding for the school districts by the state during the school fiscal year would be prerequisite to local school boards accepting the targeted ACB in the 10%-15% range. High level of uncertainty in the level and timing of funding will result in the need to maintain higher ACBs.
- Low exposure for school districts to unexpected spikes in expenditures (e.g. from extreme events, law suits, etc.).
- No conflicting restrictions from credit rating agencies to maintain a target level of general reserve fund.

Critical Steps to Implement

The critical steps necessary to complete the implementation of the excess cash carryover reduction recommendation include:

- Development of a comprehensive policy on the target level of ACB that should be maintained by the school districts including: the appropriate uses of cash balance; who can authorize the use of cash balance; and guidance on how cash balance will be brought back to target levels if it falls out of range.
- Establish quarterly reporting of cash balances for each school district.
- Establish a committee made up of representatives from KSDE and school districts to review quarterly cash balance reports and identify quarter-to-quarter material variations and underlying reasons for such material change. The magnitude of "material change" should be a subject of further study.
- At the end of each school fiscal year, compare the lowest monthly cash balance for the four reported quarters with the annual expenditure for each district. If the cash balance exceeds the target level, calculate the excess cash carried over by the district.
- Estimate the adjustment in funding required for districts with excess cash. Reduce the following years funding by 20% of the excess cash balance upon the committee's approval, while taking any exceptions into consideration.

The expected time to implement the recommendation is six to nine months but could take longer if statutory or regulatory changes are required.

Recommendation #2 – Apply for Additional Funds from Public and Private Sources

Recommendation #2 - (dollars in 000's)				
FY17	FY18	FY19	FY20	FY21
$299	$299	$299	$299	$299

KSDE should centralize ownership and management of applying for grant funds. Centralizing the grants management process will improve access to additional funds by increasing internal capacity to develop strong grant applications. It will also likely result in the creation of strong portfolios of grants that are organized with clear goals and outcomes for education in Kansas. Finally, centralizing grant management will make it easier to ensure effective, efficient and compliant grants management practices:

- Review the list of identified federal grant programs for which KSDE is eligible to apply, to determine the degree to which these opportunities advance KSDE's educational goals and desired outcomes and prepare applicable application(s) .
- Apply for new federal funds expected to be available this fiscal year and pursue discretionary grant opportunities that align with KSDE's policy goals. Particular attention should be given to the US Department of Education's priority focus areas including:
  - » A new Equity and Outcomes Pilot with Title I Funds
  - » $11.7 billion for the IDEA Grants to States
  - » $750 million for the Preschool Development Grants
  - » $504 million for the IDEA Grants for Infants and Families program
  - » $2.3 billion for Improving Teacher Quality State Grants
  - » $1 billion in 2016 for Teaching for Tomorrow (TFT)
  - » $350 million for Excellent Educators Grants
  - » $200 million for improved Educational Technology State Grants
- Develop an outreach and communications strategy to create effective working relationships with a prioritized set of foundations within Kansas, who may be interested in providing fiscal support to advance KSDE's programmatic goals.

Key Assumptions

- The estimated increase in federal funding levels is based on the identification of four example education related grants that peer states have received that Kansas did not receive.
- The estimated value for those grants was based on the average award received for the peer states that received funding, which totaled $3.3 million in average awards.
- A probability of award of 10 percent was applied to the grants to create a net potential value.
- One of the four grants identified required the negotiation of matching funds in the award, which was assumed to require a 50 percent match to obtain funds.
- The value of the priority focus areas have not been estimated, and represent potential for increased federal funding above the current estimate provided
- Anticipated federal funding opportunities will materialize.
- KSDE will have the resources necessary to prepare and submit high quality grant applications that clearly express Kansas' goals and desired outcomes for public education.
- KSDE's goals and objectives can be articulated in such a way that policy goals can be easily aligned with foundations' interest areas.

Critical Steps to Implement

The critical steps necessary to complete the implementation of the recommendation include:

- Develop a consolidated statement of KSDE's education policy goals.
- Develop a strategy for using federal education programs to advance KSDE's strategic goals and objectives.
- Align KSDE's education policy and outcome goals

with the goals of federal grant programs and interest areas among foundations with a focus on public education.

- Identify qualified grant writers.
- Host a workshop with key grants management personnel to discuss best practices and approaches utilized in other states. Maryland and Minnesota have reorganized and centralized grants management in recent years using this type of workshop approach.

Recommendation #3 – Pursue Cost Savings Opportunities through Centralization and Shared Services Agreements

Centralizing IT functions can improve standardization, improve internal communication, facilitate best practice sharing, and reduce duplication of effort. Development and implementation of a support system for centralized IT personnel can help ensure that agencies are able to access timely technical support. Coordinating similar functions across state agencies can also reduce duplication of effort and improve the quality and efficiency of service provided to constituents. In addition, it can facilitate the creation of policies, programs and guidelines that integrate the perspectives of both agencies.

- Shift a portion of the IT positions currently housed within the KSDE to a centralized IT Division.
- Identify additional opportunities where costs for FTEs that focus on data collection can be shared across state agencies.

Background and Findings

- The IT Department represents nearly 25% of KSDE's personnel costs.
- Many of these positions are "split-funded" across state and federal sources. Redeployment of resources should be done to maximize utility of non-state funded sources.
- The KSDE IT staff created a series of customized applications to collect program data and comply with federal reporting requirements.
- KSDE IT staff supports internal KSDE employees and approximately 40,000 external school district staff and partner users across more than 100 web-based applications.
- Descriptions of the roles and responsibilities for different departments within the KSDE include similar functions related to data collection and reporting.

Recommendation #3 - (dollars in 000's)				
FY17	FY18	FY19	FY20	FY21
$500	$500	$500	$500	$500

Key Assumptions

- The custom-developed IT applications can be combined or integrated so that all required data collection activities take place.

Critical Steps to Implement

- Conduct in-depth analysis of the IT Department functions as well as the roles and responsibilities of each IT staff member and the applications they manage.
- Explore alternative staffing models drawing on practices used by other states.
- Explore alternative data collection applications to consolidate the current data collection processes.

Recommendation #4 – K-12 Benefit Program Consolidation

- Currently, K-12 school districts have the opportunity to participate in the State Employee Health Plan (SEHP), though few of the 286 districts are participating because of the current state contribution structure.
- Due to the current purchasing and administration structure, there is significant opportunity for cost savings and efficiency through the development of a consolidated health insurance plan for K-12 district employees and their dependents. This consolidated program will provide greater plan choice offerings and improved contribution structure for members, while reducing the administrative cost and burden of providing healthcare across the districts. The State Employ-

ee Health Plan currently covers approximately 44,000 members and their dependents. The K-12 employee base is significantly larger, with approximately 69,000 full-time employees.

- Statewide Health Program for K-12 School Districts – The State should consolidate the health plans offered by K-12 school districts to reduce costs, increase administrative efficiencies, and standardize offerings to attract and retain Kansas State teachers. This program will offer participants a choice between multiple health plans ranging in benefit levels. To achieve the greatest savings, the consolidated program would leverage the current State Employee Health Plan contracts and organizational structure. Assuming the districts' current contribution structure, the districts can save an estimated 20%-25% of total health care spend. Assuming the plan begins January 1, 2017, savings for the last six months of FY 2017 are estimated at $40 million.

Background and Findings

- The K-12 school districts have the opportunity to participate in the State Employee Health Plan, though a relatively small number of districts currently participate.
- A strong deterrent from participating in the SEHP is that the employer contribution requirements do not align with the current contribution structure in many of the districts. Typically, the districts pay a significant portion for the employee only coverage, but little for any dependents.
- Although a few districts participate in health trust programs or associations, the school districts are generally sourcing and managing health care individually—a very expensive and inefficient approach.
- Many small districts are facing unsustainable, large increases in cost each year.
- Based on the sample of collected data, most districts provide a choice of one to three plans for employees.
- Based on the sample census files provided by the K-12 districts, the active population has an average age of 44 and is 77% female, while the SEHP has an average age of 46 and is 52% female. Therefore, it is recommended the two populations remain in separate risk pools, with health plans and benefit levels reflecting the covered group.
- Based on the premium information provided by the sample size of approximately 15,500 employees, total district healthcare spending is estimated to be $300 million - $350 million annually.

Recommendation #4 - (dollars in 000's)				
FY17	FY18	FY19	FY20	FY21
$40,000	**$80,000**	**$80,000**	**$80,000**	**$80,000**

Key Assumptions

- The sample census size appropriately reflects the current population of K-12 full-time employees.
- The information collected from the sample districts is representative of current plan costs, designs and contribution structures.
- Estimates are determined assuming each district continues with their current contribution structure. However, it is recommended the final program have a consistent contribution structure across all districts.
- All K-12 school districts are required to participate in the consolidated health program. Unless local control on health insurance choice is legislatively abated, the capture of the estimated savings will vary significantly if local school districts choose not to participate.
- Cost savings will be achieved by spreading the health risk across the entire K-12 population.
- The K-12 program can leverage all current SEHP relationships.
- The SEHP would require 10-15 additional staff members to administer the K-12 program, which would be a cost of approximately $500,000 to $750,000 per year.
- Fees for actuarial assistance with the program design and implementation are estimated at approximately $500,000, annually.

Critical Steps to Implement

The estimated savings provided is based on broad, conservative assumptions of the overall risk pool, current plan options and costs at the districts, indicating that there is opportunity for savings through a consolidated program. In order to develop refined cost and savings figures, the State must take a number of critical steps, including:

- Establish a project management team and healthcare committee (similar to SEHP) for detailed assessment of 286 districts in order to determine actual recommended program with actual premiums for consolidated program.
- Expand current actuarial services contract scope to conduct the assessment or issue a RFP for new actuarial service provider for the detailed assessment of all 286 district programs.
- Collect complete health plan information from each district including:
  - » Detailed census data for all K-12 employees and retirees
  - » Current plan detail and plan design
  - » Current and historical cost/contribution
  - » Historical claims
  - » Benefit eligibility and district administrative structure
- Provide analysis for potential program designs and cost impacts addressing plan options including, but not limited to:
  - » Number of plan options and specific plan designs
  - » Cost and contribution structure
  - » Administrative structure (i.e district opt-in/opt-out)
- Gain key stakeholder consensus and support to encourage local district participation in this new approach. Key stakeholders include: Kansas Association of School Boards (KASB), Kansas National Education Association (KNEA), Kansas School Superintendents Association (KSSA), and the United School Administrators of Kansas. This could be achieved through participation in the proposed healthcare committee.
- Establish health plan with current SEHP third party administrator—Blue Cross Blue Shield of Kansas.
- Increase SEHP staff by 10-15 employees to administer the K-12 program.

Assuming district participation, it is anticipated K-12 consolidation of health benefits can be completed for a January 1, 2017 effective date. The implementation will take significant time and manpower. In the event the program does not utilize the current SEHP actuary or third party administrator and an RFP is needed, the effective date of the program may be delayed. The recommendation would require a change in statute that would require all districts to purchase health insurance through the newly founded program.

Recommendation #5 – Collaboratively Source Select Categories on a Statewide Basis

- The school districts should join the Department of Administration (DOA) and strategically source specific spend categories to drive greater cost savings for the school districts.

Background and Findings

School districts execute their procurement activities in a decentralized manner and independent of the state's Procurement and Contracts group. At their discretion, each school district can utilize state contracts negotiated by the Procurement and Contracts group, utilize cooperative agreements or negotiate contracts individually. This level of autonomy makes it difficult for the school districts to truly leverage their collective volumes fully with each other and the state, since contracting phases are not synchronized, spend data is not consolidated or analyzed and requirements are not standardized.

Despite these challenges, there are some categories of spend that are still suitable for collective sourcing with the state. A&M analyzed FY15 expenditure data from seven school districts (Blue Valley, Kansas City Kansas, Lawrence, Olathe, Shawnee Mission, Topeka and Wichita). This expenditure data represents approximately $443 million or 30% of the overall addressable school district spend. The evaluation identified seven categories that should be included in the first three waves of a statewide strategic sourcing event outlined in Procurement Recommendation #1. In these cases, either the school districts are utilizing the state's contract or they are using some of the same suppliers that the state agencies and universities currently utilize. The sourcing of these categories collaboratively with the Procurement and Contracts group could yield between $9 million - $23 million (includes federal and state funds) in additional annual savings to school districts.

Recommendation #5 - (dollars in 000's)				
FY17	FY18	FY19	FY20	FY21
$7,200	$9,000	$9,000	$9,000	$9,000

Key Assumptions

- The projected savings are dependent on combining the school district and state spend in the strategic sourcing event outlined in Procurement Recommendation #1.
- The procurement categories A&M recommends for sourcing are as follows:
  - » Maintenance, Repair & Operations
  - » IT Equipment
  - » IT Services
  - » Food
  - » Electricity (see Procurement Recommendation #9)
  - » IT Software
  - » Fuel
- The Procurement and Contracts group will lead the strategic sourcing exercise.
- Key stakeholders representing the school districts will be available to provide information and input as required.
- School districts can terminate existing contracts for the target categories without penalty.
- The savings associated with some categories are dependent on the state implementing procurement efficiency recommendations.

Critical Steps to Implement

- Identify and assign key stakeholders to assist with the sourcing event.
- Finalize the target categories for the strategic sourcing event.
- Execute strategic sourcing process steps with DOA category management teams.
- Local districts must be willing to collaborate and participate with this process in order to capture the proposed savings.

Recommendation #6 – Expand participation of the K-12 Unified School Districts (USDs) in Insurance Pool Program(s)

Specifically, the Department of Education (KSDE) should:

- Increase participation of K-12 Unified School Districts (USDs) in an existing group-purchased P&C "pool" insurance program, designed for school districts such as the currently established Kansas Education Risk Management Insurance Pool (KERMIP) program administered by Arthur J. Gallagher Risk Management Services Inc. (AJG), or alternatively form new pool(s).
- Form a separate pool ("Large USD" pool program) for six of the ten largest districts that have unique risk profiles and fall outside the parameters of a pool program designed for small to mid-size USDs.

Background and Findings

- The purpose of a pool program is to share risk, leverage purchasing power, and maximize insurance coverage terms for Kansas USDs.
- From inquiries to a representative 24 USDs and to the KERMIP program administrator, AJG found that only 10 of the total 286 Kansas USDs currently participate in a pool program. The first pool program was approved in Kansas only about a year ago, affording significant opportunity for participation expansion.
- Ten USDs are estimated as eligible for a separate "Large USD" pool program.
- A benchmarking interview was conducted with pool program administrator and industry expert, Arthur J. Gallagher, Risk Management Services Inc. (AJGRMS) to evaluate the potential savings to be achieved by K-12 USD pool program participation. Currently, ten K-12 USDs participate

in the Kansas Educational Risk Management Insurance Pool (KERMIP) program administered by AJGRMS. This program is non-assessable—meaning the pool program cannot assess additional cost to its members in the event of adverse loss experience. Furthermore, there is a potential for surplus to be returned to members at the end of the year if the program's success continues. USDs entering the program, received increased property and liability insurance coverage limits, while decreasing their annual premium amounts. Of the 10 USDs that are currently KERMIP members, premium savings ranging from 15.47% to 49.53% were achieved by moving from their traditional property/casualty insurance programs to the pool program. The average premium savings for these 10 USDs was 25.85%.

USD	Premium Cost Savings by Pool Participation
District 1	-36%
District 2	-28%
District 3	-27%
District 4	-50%
District 5	-32%
District 6	-23%
District 7	-20%
District 8	-18%
District 9	-15%
District 10	-43%
Average	**-26%**

(excludes 10 largest districts) [8]

- A separate pool program is recommended for the 10 largest USDs due to their unique risk exposures and coverage terms that fall outside the parameters of a pool program designed for small to mid-size USDs. Based on its industry expertise, AJGRMS estimated that Large USDs could achieve average premium savings of 10% by participation in a pool program.

Recommendation #6 - (dollars in 000's)					
FY16	FY17	FY18	FY19	FY20	FY21
$75	**$725**	**$1,375**	**$1,875**	**$2,375**	**$2,875**

Key Assumptions

- KSDE and Attorney General approval of KERMIP pool program expansion (anticipated by January 2016), allowing time for communication to USDs, gathering of underwriting data, and enrollment of the estimated number of USDs for FY16.
- Of the 286 USDs eligible for pool participation (excluding the 10 largest USDs for which a separate pool program is recommended), ultimate total participation in a pool program is estimated at about half, or 132-140 USDs, with the expectation that participation will be phased in from FY16 initial implementation through to FY21.
- FY16 pool participation is estimated at 15 USDs, in addition to the 10 already in the existing KERMIP program.
- Estimated 25 USDs will become pool members during each of the next five years.
- Total participation in the recommended separate "Large USD" pool program is estimated at six of the ten largest USDs, phased in over three years.
- Premium cost savings for each pool participant is conservatively estimated at 20% (or $20,000 annually) of an average annual $100,000 P&C premium for the majority of USDs; and 10% of an average annual $500,000 P&C premium for each of the 10 largest USDs, based on the current USD pool participation savings identified in the benchmarking section below.
- A pool program should be "non-assessable" or include aggregate stop loss protection to avoid the potential for additional assessments being charged to members in the event of adverse pool loss experience.

Critical Steps to Implement

The critical steps necessary to complete the implementation of recommendation #6 include:

- KSDE and Attorney General approval of existing insurance pool program participation by January

8 Kansas Educational Risk Management Insurance Pool (KERMIP) Property/Casualty District Savings - program administered by Arthur J. Gallagher Risk Management Services, Inc.

2016.

- Recommended new Office Risk Management (to be established established in fourth quarter FY16) works with USDs and pool market(s) to coordinate and facilitate an efficient communication, underwriting, and program enrollment process.
- New pool program for the largest 10 USDs is created and enrollment commences in FY17.
- Local districts must be willing to collaborate and participate with this process in order to capture the proposed savings.

Medicaid and Health Services

Acknowledgements

This report was made possible thanks to the insight, time and information provided by many people within the Department of Health and Environment and Department for Aging and Disability Services. A&M is appreciative of the time and effort that many took out of their schedules to meet with us and who provided the Medicaid and healthcare team with information and reports, especially:

- JerrSusan Mosier, MD, Secretary - KDHE
- Kari Bruffett, Secretary - KDADS
- Mike Randol, Director - Division of Health Care Finance - KDHE
- Aaron Dunkel, Deputy Secretary Policy & Budget - KDHE
- Brad Ridley, Commissioner - KDADS
- Amy Penrod, Director of Finance and Budget - KDADS
- Rachel Sisson, Director of Family Health - KDHE
- Keith Bradshaw, Director - Fiscal and Asset Management
- Ben Cleeves, Budget/Fiscal Officer

Agency Overview

Department of Health and Environment (KDHE)

KDHE has three primary divisions: Public Health, Environment and Health Care Finance.

- Division of Public Health:
  - » This division's primary mission is to promote healthy outcomes, provide a variety of community health services, and prevent disease and injury.
- Division of Environment:
  - » This division is responsible for the protection of the state's public health and environment.
- Division of Health Care Finance:
  - » This division is responsible for developing and maintaining a coordinated health policy agenda that combines effective purchasing and administration of health care, with health promotion oriented public health strategies. This Division oversees the state's

Medicaid program, the Children Health Insurance Program (CHIP), the State Employee Health Plan (SEHP) and the State Self-Insurance Fund (SSIF) workers' compensation program.

- Department for Aging and Disability Services (KDADS)
  - » The mission of Kansas Department for Aging and Disability Services (KDADS) is to foster an environment that promotes security, dignity, and independence for all Kansans.

The combined agencies oversee KanCare—KDHE provides financial management and contract oversight and KDADS administers the Medicaid waiver programs for disability services, mental health and substance abuse. Moreover, KDADS operates the state hospitals and state institutions.

Due to the joint involvement and oversight of KanCare and the state's Medicaid program, this chapter reflects the recommendations for both agencies.

Previous Efficiency Initiatives

Both agencies have undertaken various initiatives to streamline operations, reduce operating costs and slow down the rising cost of Medicaid, while also ensuring quality of care is provided to all Kansans in need of services. Recent heath care initiatives include:

- Partnering with the Department for Children and Families (KDCF) for the implementation of the Kansas Eligibility Enforcement System (KEES), which will simplify eligibility enrollment and improve the state's Payment Error Rate Measurement (PERM).
- Review of KDHE's organizational structure and resource needs, to effectively administer Medicaid in a managed care environment. KDHE contracted with Navigant Consulting in August 2015 to conduct an operational review, in order to identify potential areas of coordination and intersection in the administration of KanCare. The results are expected in early 2016.
- Encouraged process review through Continuous Quality Improvement projects at all levels of the agency.
- KDHE is currently in discussions with the state's three Managed Care Organizations (MCOs) to reduce drug costs by utilizing and leveraging their respective national contracts for pharmacy, Durable Medical Equipment (DME) and dialysis.
- Implementing a plan to support the development of transitional housing options and other community supports for individuals coming out of the state hospitals.
- KDHE has a number of 1915(c) waiver programs (ex: developmentally disabled, physically aged, etc.) operating under Centers for Medicare and Medicaid Services (CMS). For each specific waiver program, there are specific services that waiver participants are entitled to. KDHE is seeking to merge all possible waiver services for any participant based on their needs thereby increasing more home based and community based services, with the goal of improving care and lowering administrative costs associated with tracking and reporting of each waiver.

In addition to the health care initiatives, the Division of Environment of KDHE has also undertaken other efficiency measures including, i) privatization of underground storage tanks, ii) reorganization of district offices, iii) contracting of environmental lab services, iv) outsourcing of the surface mining section, and v) eliminating the waste tire grant program.

Baseline Budget

Outlined below: A summary of the 2014 actuals and budget for 2015 - 2017 as published in the Governor's budget submission dated January 15, 2015.

Agency *(values in 000's)*	FY 2014 Actual	FY 2015 Gov. Estimate	FY 2016 Base Budget	FY 2016 Gov. Rec.	FY 2017 Gov. Rec.
KDADS	$1,399,068	$1,544,626	$1,477,313	$1,573,351	$1,578,155
KDHE – Health Only	$2,183,862	$2,378,713	$2,325,074	$2,493,414	$2,455,931
Total:	**$3,582,930**	**$3,923,339**	**$3,802,387**	**$4,066,765**	**$4,034,086**

Benchmark Comparisons

For 2012 and 2013 (the most recent data available), Kansas' average expenditure per enrollee is on par with its peer group and national averages. While the effectiveness of each state's program extends beyond average enrollee expenditures and includes other factors such as health outcomes, eligibility requirements and program structure, it is a proxy for comparison.

2012	Medicaid Only Expenditures *(values in millions)*	Dec. 2012 Enrollment	Avg. Expenditure / Enrollee
Kansas	***$2,633***	***$343,200***	***$7,672***
Missouri	$8,621	$805,600	$10,701
Nebraska	$1,676	$207,900	$8,062
Iowa	$3,400	$463,200	$7,340
Oklahoma	$4,400	$668,900	$6,578
Utah	$1,871	$282,000	$6,634
Arkansas	$4,100	$548,100	$7,480
Nevada	$1,731	$305,700	$5,661
New Mexico	$3,420	$510,200	$6,704
Idaho	$1,421	$228,800	$6,208
Peer Group Average	$3,404	$446,711	$7,621
Peer Group Median	$3,400	$463,200	$7,340

2013	Medicaid Only Expenditures *(values in millions)*	Dec. 2013 Enrollment	Avg. Expenditure / Enrollee
Kansas	***$2,545***	***$350,300***	***$7,265***
Missouri	$8,863	$775,700	$11,426
Nebraska	$1,790	$201,200	$8,897
Iowa	$3,623	$461,800	$7,845
Oklahoma	$4,482	$679,700	$6,594
Utah	$2,087	$283,400	$7,365
Arkansas	$4,156	$553,900	$7,503
Nevada	$1,797	$331,300	$5,425
New Mexico	$3,281	$501,100	$6,547
Idaho	$1,642	$234,600	$6,999
Peer Group Average	$3,525	$446,967	$7,885
Peer Group Median	$3,281	$461,800	$7,104
National	$433,100	$55,413,000	$7,816

Sources: Total Expenditure - CMS 64 Reports - Medicaid only,

Summary

Building on the positive momentum, initiated by the leaderships of KDHE and KDADS, A&M took additional steps in identifying operational improvements that will benefit the agencies in the short and long-term. Our work included meetings and discussions with agency officials, review of internal documents, procedures and policies, and public documents approved by CMS, Kansas and other states. Based on our review and analyses, A&M recommends the following additional measures to improve the operational effectiveness and efficiency of how Medicaid and healthcare are delivered throughout the state:

1. Reduction of the Payment Error Rate Measurement (PERM) – Leadership of both agencies has recognized that it has the highest PERM rate in the nation, which is costing taxpayers hundreds of millions of dollars. The implementation of the Kansas Eligibility Enforcement System (KEES) and scheduled transfer of KDCF responsibility of eligibility determination to KDHE effective January 1, 2016, are expected to reduce the PERM rate. A&M recommends implementing stronger policies and procedures, and investing in training and tighter controls that will provide further improvements thereby reducing the PERM rate (to be more in line with the national average), which will provide significant savings to taxpayers.

2. Increased Oversight of Managed Care Organizations' (MCOs) Program Integrity Units – A&M recommends the state implement tighter oversight and control of the MCOs to improve the overall effectiveness of their program integrity units. The aim would focus on increasing recovery rates that are more in line with its peer group and national average and reducing Medicaid fraud, waste and abuse.

3. Expansion of Federal Grants – A&M identified six federal grants that KDHE and KDADS currently do not participate in, that could potentially be

available to the state.

4. Reduction of CDDO Facilities – Based on recent audit findings and projected census changes—the general shift to larger populated cities and counties—A&M recommends the state consider eliminating seven Community Developmental Disability Organizations thereby reducing administration costs.

5. Review opportunities to implement Healthy Birth Outcome Initiatives – Through partnerships with state health care providers, A&M recommends the state implement healthy birth outcome initiatives, to improve women and child health care outcomes and manage costs.

6. Centralize all Medicaid Support Functions within KDHE – A&M recommends that state officials consider consolidating all Medicaid support services with Health Care Finance, thereby improving overall operating efficiency, and potentially reducing administrative costs.

Recommendations – state general fund savings / revenue

		Target Savings and Revenue Estimate (All values in 2014 dollars, in 000s)					
Rec #	Recommendation Name	FY17	FY18	FY19	FY20	FY21	Total
1	Reduction of PERM Rate	$-	$34,084	$34,084	$34,084	$34,084	$136,336
2	Increase Oversight of MCO Program Integrity Units	$4,000	$4,000	$4,000	$4,000	$4,000	$20,000
3	Expansion of Federal Grants	$1,462	$1,462	$1,181	$1,091	$1,091	$6,287
4	Reduction of CDDO facilities	$1,011	$1,011	$1,011	$1,011	$1,011	$5,055
5	Implement Healthy Birth Outcome Initiatives	$2,052	$3,408	$4,748	$6,056	$6,521	$22,785
6	Centralize all Medicaid Support Functions within KDHE	$-	$-	$-	$-	$-	$-
KDHE & KDADS Totals		**$8,525**	**$43,965**	**$45,024**	**$46,242**	**$46,707**	**$190,463**

Recommendation #1 – The agencies should institute broad operational improvements to lower the state's Medicaid eligibility error rate

The Improper Payments Information Act (IPIA) of 2002 (amended in 2010 by the Improper Payments Elimination and Recovery Act or IPERA) requires the heads of federal agencies to annually review programs they administer, and identify those that may be susceptible to significant improper payments. They are expected to then estimate the amount of improper payments, to submit those estimates to Congress as well as a report on actions the agency is taking to reduce the improper payments. The Federal Office of Management and Budget (OMB) has identified Medicaid and the Children's Health Insurance Program (CHIP) as programs at risk for significant improper payments. As a result, the Centers for Medicare and Medicaid Services (CMS) developed the Payment Error Rate Measurement (PERM) program to comply with the IPIA and related guidance issued by OMB.

The PERM program measures improper payments in Medicaid and the Children's Health Insurance Program (CHIP) and produces error rates for each program. The error rates are based on reviews of the Fee-For-Service (FFS), managed care, and eligibility components of Medicaid and CHIP in the fiscal year under review. CMS conducts PERM reviews in 3-year cycles consisting of 17 states (including the District of Columbia) in each cycle. In the most recent 2012 review, Kansas' PERM error rates were the highest in the country with an overall error rate of 17.8 percent, which was 5.8 percentage points, or 48 percent, higher than the next highest state. Moreover, Kansas' eligibility error rate of 12.8 percent was nearly four times the national average eligibility error rate of 3.3 percent. An eligibility error occurs when a potential beneficiary is not eligible for the program or for a specific service and a payment for the service, or a capitation payment covering the date of the service, has been made.

The state's 2012 error rates deteriorated when compared to the 2009 PERM report, which cited an overall error rate of 10.35 percent and an eligibility error rate of 9.59 percent. At that time, the national overall and eligibility averages were 8.98 percent and 7.60 percent, respectively, indicating a wider divide and worsening between the state's performance and the national average.

The Governor and KDHE have recently taken several important steps to improve the error rate especially with respect to eligibility. The Governor issued Executive Reorganization Order (ERO) No. 43, which transfers oversight responsibility of Medicaid eligibility from KDCF to KDHE effective January 1, 2016. The ERO, when combined with KDHE's implementation of the Kansas Eligibility and Enforcement System (KEES), is expected to reduce eligibility error rates and the overall PERM error rate by 2 percent in FY17. The 2 percent reduction is budgeted to reduce KanCare costs by $59 million (based on 2 percent of total Medicaid spend of $2.95B), including $26 million from the State General Fund in FY17.

Kansas' 2012 17.8% overall error rate by category as measured by CMS follows:

Fee-For-Service: 7.7%

Managed Care: 0.0%

Eligibility: 12.8%

As Kansas has migrated to a managed care delivery model, the eligibility error rate is the most concerning, since the managed care entities are potentially being paid a monthly capitation rate for beneficiaries that may not be eligible for Medicaid benefits. A&M's review of the 2012 PERM report found that of the 112 findings that resulted in payment errors (from a sample size of 972 active cases) the majority (73) involved potential resources—Veteran Administration (VA) benefits, income errors, application processing, excess resources, program specific and general eligibility errors. While all eligibility errors could potentially result in Medicaid waste that is funded by taxpayers, A&M considers application errors to be clerical processing mistakes that still would have resulted in a beneficiary being eligible for Medicaid benefits. After accounting for the application errors, the eligibility error rate was reduced by a third to 8.3%—still significantly above the national average.

It is KDHE's position, that the VA benefit errors would have still resulted in applicants being eligible for Medicaid. However, CMS specifically cited that "the agency failed to require elderly and disabled applicants to apply for potential Veteran Administration (VA) benefits as required by KEESM 2124-2124.2. This requirement is a condition of eligibility in Kansas." It is uncertain whether potential applicants would have been eligible for Medicaid if VA benefits were considered, but absent a detailed file review, KDHE's position, while considered, is not incorporated in our analysis. Moreover, as Medicaid is a payer of last resort, even if the applicants were still eligible for Medicaid, certain VA benefits would be applied towards medical care prior to Medicaid. It is therefore incumbent upon the state that under the current MCO structure, that the MCOs aggressively pursue any potential VA benefits available to these enrollees.

While the 2.0 percent 2017 budgeted decrease in the eligibility error rate will be beneficial to the state, it will still result in Kansas' adjusted (8.3% - 2.0%) eligibility error rate being more than three percentage points higher than the national average. Through more aggressive actions and commitment to driving down eligibility errors, the state can reduce the error rate by an additional three percent beginning in FY18. Reducing the eligibility error rate by three additional percentage points (from 6.3 to 3.3 percent)—which is in line with the national average—will result in approximately $33.3 million in savings per year to the State General Fund. Although the ERO and KEES initiatives will provide critical benefits to improve eligibility management, we recommend that the state consider taking the following additional measures to improve eligibility accuracy:

- The state currently outsources certain eligibility functions to PSI/Maximus who's performance exceeds that of the state, based on the 2012 PERM report. In order to improve controls associated with payment error rates, consideration should be given to outsourcing all eligibility responsibilities to a third-party vendor whose portion of compensation is directly linked to improving the PERM eligibility error rate.
- If the state elects not to outsource the eligibility function, the state should review opportunities to implement the following:
  - » Maximize the use of state and federal databases to obtain eligibility verification with-

out client contact.

» Review and potentially enhance existing workflows, case workloads and procedures to increase edibility verification accuracy.

» Review practices from other states with low eligibility PERM rates, obtain best practices and implement in Kansas.

» Increase the state's investment in training to ensure accurate and timely completion of eligibility forms.

» Consider establishing career ladders for eligibility personnel, managers and examiners based on performance.

» Establish standardized performance protocols and internal controls for managers and train managers to establish and use operating metrics to measure performance.

» Exam communication mechanisms between supervisors and staff to improve frequency and clarity of communication.

» Implement a standard supervisory control for supervisory review of eligibility files prior to approval.

» Leverage existing agency or state audit departments to conduct timely reviews of eligibility files, records, policies and procedures.

Recommendation #1 - (dollars in 000's)				
FY17	FY18	FY19	FY20	FY21
$0	**$34,084**	**$34,084**	**$34,084**	**$34,084**

Recommendation #2 – Improved oversight and training of the MCO program integrity (PI) units will increase fraud, waste and abuse recoveries

According to the U.S. Government Accountability Office, in federal fiscal year 2014, CMS reported an estimated improper payment rate of 6.7 percent or $17.5 billion of the federal government's total Medicaid spend. As Medicaid spending at the state level is partially funded by the federal government, Section 1936(d) of the Social Security Act directs the Secretary of Health and Human Services to establish a comprehensive plan for ensuring the integrity of the Medicaid program by combatting Fraud, Waste and Abuse (FW&A). All states are therefore required to maintain a PI function and federal regulations further require that managed care organizations (MCOs) have similar administrative and management arrangements and procedures that are designed to safeguard against FW&A.

Moreover, traditional PI efforts emphasized a "pay and chase" model that required states to recover overpayments after the fact. Operational experience shows that collecting funds that are incorrectly paid to providers is very difficult to recover. Further, with managed care approaches like KanCare, the state has little or no relationship with the MCO provider network, further exacerbating PI efforts at the state level. CMS and states have begun migrating to a PI model that emphasizes keeping unscrupulous providers out of Medicaid through the use of risk-based provider screening, periodic revalidation of provider enrollment and temporary suspension of payments before FW&A occurs. Moreover, PI efforts are increasingly relying on "cost avoidance" techniques through the use of sophisticated data analysis models and software applications to minimize FW&A.

In Kansas, the contracted MCOs are required to submit quarterly reports on their FW&A efforts and attest to the accuracy and completeness of the reports. Based on a summary provided by KDHE personnel, the three MCOs reported total FW&A recoveries of $0.2 million and $1.7 million for FY14 and FY15, respectively. In addition, the MCOs reported total costs avoided from their prepayment review efforts (excluding Medicare and third-party liability) of $1.2 million and $1.0 million for FY14 and FY15, respectively. For the two years prior to the implementation of KanCare (2011 and 2012), KDHE's Surveillance and Utilization Review (SUR) unit within PI averaged $2.9 million per year in FW&A recoveries.

To encourage the MCOs to improve overall recoveries, A&M recommends that KDHE take the following measures to improve its oversight and effectiveness of the MCO PI units:

- Develop reports with standardized Key Performance Indicators (KPIs) to measure the effectiveness of the PI units.

- Perform periodic audits and reviews of the MCOs to ensure compliance with state and federal guidelines and the overall effectiveness of the PI units.

2012	Total Expenditures	PI Collections	% Collected
Kansas	***$2,667***	***$34***	***1%***
Missouri	$8,727	$106	1%
Nebraska	$1,722	$46	3%
Iowa	$3,478	$78	2%
Oklahoma	$4,644	$244	5%
Utah	$1,903	$33	2%
Arkansas	$4,155	$55	1%
Nevada	$1,739	$8	0%
New Mexico	$3,430	$10	0%
Idaho	$1,452	$31	2%
Peer Group Average	$3,472	$68	2%
Peer Group Median	$3,430	$46	1%
National	$416,898	$8,048	2%

2013	Total Expenditures	PI Collections	% Collected
Kansas	***$2,578***	***$33***	***1%***
Missouri	$8,951	$88	1%
Nebraska	$1,834	$43	2%
Iowa	$3,709	$86	2%
Oklahoma	$4,796	$314	7%
Utah	$2,130	$43	2%
Arkansas	$4,207	$50	1%
Nevada	$1,823	$26	1%
New Mexico	$3,295	$14	0%
Idaho	$1,672	$30	2%
Peer Group Average	$3,602	$77	2%
Peer Group Median	$3,295	$43	1%
National	$440,213	$7,103	2%

- Establish uniform measurements across all three MCOs to quantify cost avoidance prepayment efforts. One potential measure is reviewing provider claim submissions six months prior to the MCOs putting providers on prepay review and claim submissions one year after prepay review. The difference, if any, would be considered cost avoidance savings, that would be reported to the state.

- Review the effectiveness of MCO data analytic technologies and techniques for identifying and mitigating improper claim payments.

Recommendation #2 - (dollars in 000's)				
FY17	FY18	FY19	FY20	FY21
$4,000	**$4,000**	**$4,000**	**$4,000**	**$4,000**

- Require that the MCOs properly document fraud recoveries in future rate setting determinations to ensure that the state is properly credited for such recoveries by the MCOs.

- Increase training of KDHE personnel in state-of-the-art FW&A techniques and encourage active participation in the National Association for Medicaid Program Integrity annual conference to obtain FW&A best practices of other states.

Benchmarking Comparison

A&M reviewed PI collection efforts of comparable states and overall national efforts for FY12 and FY13 (the most recent public information available). The collections outlined below, represent a broader swath of recoveries and includes third-party liability recoveries from insurance carriers and Medicare A&B in addition to FW&A.

Based on our review, Kansas is lower than the peer group average, peer group median and overall national collection rates. While the percentage point differential is not material, when applied to total expenditures, the benefit to the state in dollar terms is significant. Each additional 10 basis point (0.1 percent) improvement in the collection rate, would result in approximately $2.95 million in additional recoveries, which gets shared between the state and federal government—assuming total Medicaid expenditures of $2.95 billion per year. Increasing total collections to the overall national average of 1.61 percent, the KanCare and State General Fund benefit would be in excess of $9 million and $4 million per year, respectively.

In addition, as Oklahoma has achieved significantly higher recovery rates than the peer group in 2012 and 2013, the state should consult with Oklahoma officials to gain an understanding of the practices the state employs to achieve such high collection rates.

Other Considerations for Oversight of MCOs

Based on A&M's review of the MCO contracts and discussions with KDHE personnel, A&M recommends the state consider amending the existing contracts and/or implementing the following oversight measures that will derive additional benefits to the state:

- Program Integrity Recoveries – As outlined in the above table, Kansas recovered $33.5 million in PI collections in FY13. The contracts with the MCOs stipulate that the MCO retains any recoveries, but adjusts the subsequent years' capitation rates based on the amounts collected. Kansas should consider amending its MCO contracts so that it has immediate access to the funds when received. Based on our review of other state MCO agreements, Tennessee has such a provision in its MCO contract.

- State Audits of MCOs – In June 2015, citing states' increased use of MCOs—CMS proposed that states audit their MCOs at least every three years. Based on A&M's discussions with Medicaid personnel, Kansas currently does not audit its MCOs. A&M recommends that Kansas audit the MCOs on a three-year rotating basis resulting in one MCO being audited every year. Such audits will ensure compliance of contract requirements, federal and state statutes, and accuracy and completeness of the encounter and financial data submitted to the state.

- Minimum Medical Loss Ratio (MLR) – Kansas' current contract with the MCOs does not impose a minimum MLR. Instead, Kansas uses an MLR for risk sharing purposes only. While the MLR helps ensure that appropriate measures are enforced for its MCO risk corridors, it does not impact excess profits that an MCO may make. CMS proposed to include a minimum MLR of 85 percent in its proposed rules. Kansas should amend its contracts to impose a minimum MLR. Doing so would ensure that the Kansas MCOs continue to provide appropriate services, and quality performance activities, at a level (85 percent) commensurate with what they are being paid. If an MCO furnishes less than 85 percent of its payments for services to its enrollees, the MCO would pay back to the state and federal governments the difference between what it expended for services and quality activities and the 85 percent level (based on its Medicaid premiums).

Recommendation #3 – The state should pursue additional Medicaid and healthcare Federal grant funding that it could be eligible for

The United States Department of Health and Human Services (DHHS) is the largest grant-making agency in the nation, with most grants being provided to states, territories, and education and community organizations. Both KDHE and KDADS oversee various federal grants that enhance the services that are provided to Kansans. All federal grants are listed with the Catalog of Federal Domestic Assistance (CFDA), which contains financial and nonfinancial assistance programs

CFDA Code	Program Title	# of Benchmark States Receiving Grant	Avg Grant Awarded	Assume 30% Probability of Obtaining
93	Occupational Safety and Health Program	9	$1,511	$453
94	PPHF - Community Transfromation Grants and National Dissemination and Support for Community Transformation Grants	6	$1,357	$407
94	The Affordable Care Act - Medicaid Adult Quality Grants	3	$939	$282
93	Teenage Pregnancy Prevention Program	8	$537	$161

Sources: Catalog of Federal Domestic Assistance, 2013 and 2014 Kansas Single Audits that are administered by departments and establishments of the federal government.

A&M reviewed the grants and awards provided by the DHHS and determined that Kansas is potentially eligible for certain awards that it currently does not receive funding for. A&M also received confirmation from both KDADS and KDHE personnel that the agencies have not applied for the grants.

A&M's analysis was performed by comparing the CFDA as outlined in Kansas' 2013 and 2014 Single Audits, against the CFDAs of various benchmark states (Arkansas, Iowa, Indiana, Missouri, Nebraska, New Mexico, Nevada, Oklahoma and Utah). A&M then calculated the average size of each grant received by the benchmark states. As there is no assurance that DHHS will approve a grant when submitted and the size of grants vary by state, A&M applied a conservative 30 percent probability factor to determine the potential amount Kansas can receive. Based on our review, Kansas is potentially eligible to receive additional federal grant funds (which do not have any state matching requirement) for the following six programs:

- Occupational and Health Program – The purpose of this grant is to increase worker safety and health as well as to "help develop specialized professional and paraprofessional personnel in the occupational safety and health field with training in occupational medicine, occupational health nursing, industrial hygiene, occupational safety, and other priority training areas." Of the nine benchmark states reviewed, all nine receive this grant with the average size award of $1.5 million.

- PPHF – Community Transformation Grants and National Dissemination and Support for Community Transformation Grants – The purpose of this grant is to "reduce death and disability from the five leading causes of death through the prevention and control of the conditions and their risk factors. Recipients will select from a menu of interventions across the health and wellness spectrum, each of which can prevent or control chronic conditions." Of the nine benchmark states reviewed, six receive this grant with the average size award of $1.36 million.

- The Affordable Care Act – Medicaid Adult Quality Grants – the purpose of this grant is to "support State Medicaid agencies in testing, collecting, and reporting the Initial Core Set of Health Care Quality Measures for Adults Enrolled in Medicaid to CMS. Additionally, the grant funding will also support States' efforts to use this data for improving the quality of care for adults covered by Medicaid." Of the nine benchmark states reviewed, five receive this grant with the average size award of $.94 million. This grant can only be renewed for one year.

- Teenage Pregnancy Prevention Program - the purpose of this grant is to (1) replicate evidence-based teen pregnancy prevention program models that have been shown to be effective through rigorous evaluation and (2) research and demonstration projects to develop and test additional models and innovative strategies to prevent teen pregnancy. Of the nine benchmark states reviewed, five receive this grant with the average size award of $.54 million.

- Birth Defects and Developmental Disabilities – Prevention and Surveillance – the purpose of this grant is to assist in "planning, implementing, coordinating or evaluating programs, research or surveillance activities related to improved birth outcomes, prevention of birth defects, and the improvement of infant and child health and developmental outcomes." Of the nine benchmark states reviewed, six receive this grant with the average size award of $.23 million.

- Empowering Older Adults and Adults with Disabilities through Chronic Disease Self-Management Education Programs – the purpose of this grant is to "help ensure that evidence-based self-management education programs are embedded into the nation's health and long-term services and supports systems." Of the nine benchmark states reviewed, four receive this grant with the average size award of $.3 million. This grant can only be renewed for two additional years.

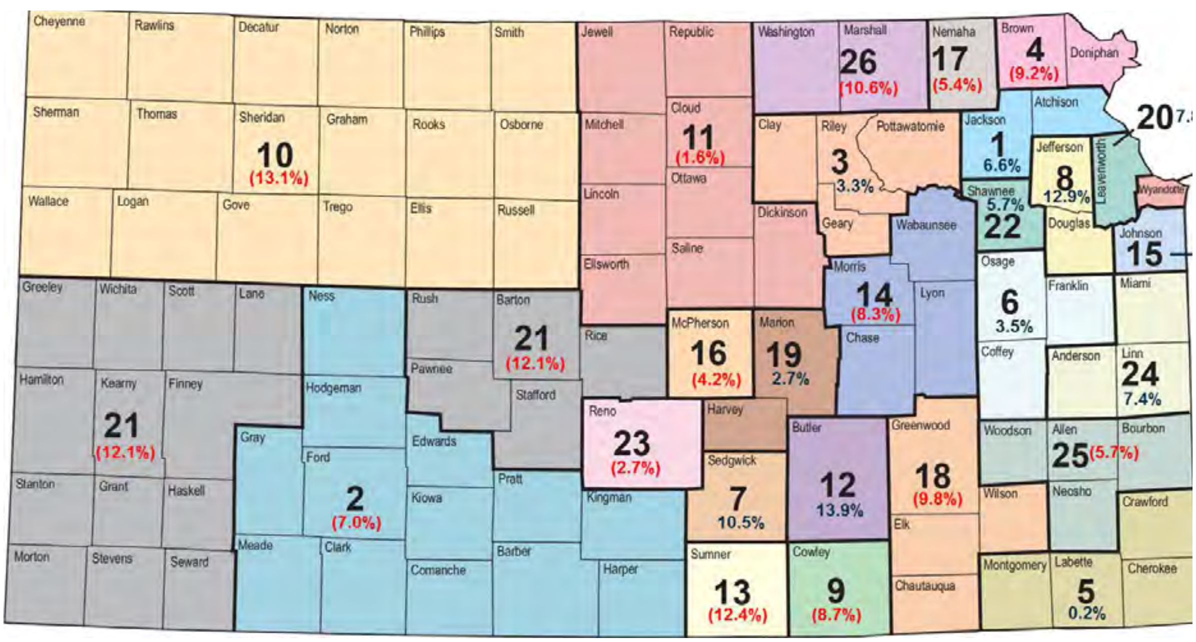
The financial benefit for FY17 to FY21 is outlined below:

Recommendation #3 - (dollars in 000's)				
FY17	FY18	FY19	FY20	FY21
$1,462	**$1,462**	**$1,181**	**$1,091**	**$1,091**

Recommendation #4 – KDADS should move to consolidate operations of certain regions thereby reducing its field footprint and operational costs

KDADS has a network of 27 CDDOs throughout the state that are responsible for i) determining whether an indivdual qualifies for services, ii) working with indivduals or families in choosing service options, and iii) referring the potential beneficiary or family member to other agencies, if necessary. CDDOs serve a critical role by providing a single point of entry, eligibility determination, and referral for potential beneficiaries and their families. Moreover, CDDOs provide a wide aray of developmental disability services including residential, employment, targeted case management, and family supports for indivduals. For FY14, the 27 CDDO regions were projected to receive $360 million in funding with a signficant portion being matched with federal Medicaid funding.

In 2012, the Wichita State University Center for Economic Development and Business Research projected population trends for the state. Based on the study, A&M developed an analysis and visualization that shows the expected population for 2025 and compared the results to current census data for each of the 27 regions. Of the 27 CDDO regions, 15 are projected to have lower populations over the next ten years with the reductions ranging from 1.6 percent to 13.1 percent. The growth rates of the remaining 12 regions range from 0.2 percent to 21.6 percent. A map of the 27 regions and projected population change from 2014 to 2025 is outlined below:



The findings are consistent with national trends that show similar urban population growth trends. Based on A&M's review, we recommend the state consider consolidating the 27 facilities down to 20, thereby reducing annual operating costs by $1.0 million per year. The operating costs are based on cost allocations provided by KDADS personnel. A&M recommends the state consider closing the following seven facilities. which would be the least disruptive to potential beneficaires by minimizing the increase in travel times associated with the consolidation:

Region #	CDDO Facility
4	Brown County Developmental Services, Inc.
9	Cowley County Community Dev. Disability Organization in Cowley County
13	Future Unlimited, Inc
14	Helinger Developmental Services, Inc
23	Training & Evaluation Center of Hutchinson, Inc.
25	Tri-Valley Developmental Services, Inc.
26	Twin Valley Developmental Services, Inc.

Moreover, although three regions with the western most facilities (Southwest Developmental Services, Inc., Arrowhead West, Inc., and Developmental Services of Nothwest Kansas, Inc.) are projected to experience higher population declines, A&M does not recommend consolidating the offices due to the large territories the facilities already serve.

Our analysis relied solely on census data and population trends as operating metrics and key performance indicators are not traacked or produced by KDADS. To more accurately determine which regions to consolidate, A&M recommends that KDADS develop reports and analyses that will track key operational metrics and performance data of the 27 CDDOs. Utilizing performance and activity-based reports will augment A&M's analysis, thereby pinpointing which facilities to potentially consolidate. Examples of operating metrics to measure effectiveness and efficiency include:

- Staffing ratios – computing a ratio of staffing to a particular function such as customer volume or case workloads.
- Response time – the amount of time to respond to a request for service.
- Backlog – Measure the amount of time work is waiting to be processed.
- Quality measurements – error rates, complaints to total services provided, staff turnover and customer satisfaction.

While development and utilization of operating reports will impact the timing of implementation, it will allow the agency to make a more detailed and informed decision.

Oversight of CDDOs

The state does not own the CDDOs. Instead, KDADS contracts with the CDDOs, which are responsible for gatekeeping functions and oversight of service providers. However, KDADS is ultimately responsbile for adminstering the overall development disability system, so it is critical that KDADS have the staff, tools, and controls in place to monitor the CDDOs. Based on a March 2014 Legislative Division of Post Performance Audit, KDADS was cited for failure to provide proper oversight in four distinct areas:

- Not reviewing or approving extraordinary funding requests from the CDDOs
- Inconsistent peer review teams and a process to follow up on deficincies
- Lack of a formal complaint tracking system
- The inability to verify whether an indivduals assessment of receving developmenmtal disability services is accurate

The report further cited that KDADS's oversight of the CDDOs is hindered by a "cumbersome and ambiguous" contracting process whereby KDADS negotaites individual contracts with each of the CDDOs each year. This process stretches KDADS's staff and adds extra oversight and adminstration requirements. The process is made worse by the fact that 50 to 70 representatives from the CDDOs and their respective service providers, participate in contract negotiations thereby making it impossible to reach a consensus on oversight and monitoring controls. A&M recommends that the state consider consolidating all the CDDOs under one master agreement with measurable operating and performance targets which will provide clear, consistent controls across all regions.

Lastly, the CDDOs provide services to approximately 8,700 indivduals a year. The audit report also cites that of the 8,700 indivduals, 1,750 were receiving some, but not all of the services. and an additional 3,250 indivduals were not receiving any servcies. In comparison, the state's 11 Aging and Disability Resource Centers provide assessment and eligibility services for 13,000 Kansans for the frail elderly, physical disability and traumatic brain injury waivers. While a direct comparison of the two programs is difficult to measure, the fact that the ADRC's adminster a larger population with less than half the number of facilities, further warrants the development and implementation of operating metrics and key performance indicators as outlined above to measure the efficacy of the CD-

Table 1

Kansas Live Birth Statistics	CY 2013	CY 2014	CY 2015 YTD *
All Kansas Live Births	38,805	39,193	NA
Medicaid Total Live Births	11,938	13,363	7,832
Percent of Medicaid Live Births	31%	34%	NA
All Medicaid Delivery Costs (000's)	$50,670	$59,840	$35,500
Average Medicaid Delivery Costs Per Member	$4,244	$4,478	$4,533
Medicaid Hospital Live Births	11,791	13,154	7,711
Medicaid Hospital Costs (000's)	$50,546	$59,643	$35,371
Average Medicaid Hospital Costs per Member	$4,287	$4,534	$4,587
Percent of Medicaid Hospital Births	99%	98%	98%

Source: Kansas Department of Health & Environment - as of September 2015*

Table 2

Kansas Live Birth Statistics	Total Births (2010):	% of Medicaid Births (2010):
Kansas	40,439	33%
Missouri	76,718	42%
Nebraska	25,916	31%
Iowa	38,514	41%
Arkansas	38,224	67%
Colorado	66,349	37%
Oklahoma	51,798	64%
National	4,018,554	45%

Source: Kaiser Foundation

Table 3

Live Births and Costs by Delivery Type	CY 2013	CY 2014	CY 2015 YTD *
Medicaid C-Section Delivery Counts	3,738	4,029	2,292
Medicaid C-Section Delivery Costs (000's)	$20,098	$22,950	$12,905
Average Medicaid C-Section Costs Per Member	$5,377	$5,696	$5,630
Medicaid Vaginal Delivery Counts	8,200	9,334	5,540
Medicaid Vaginal Delivery Costs (000's)	$30,546	$36,889	$22,595
Average Medicaid Vaginal Delivery Costs	$3,725	$3,952	$4,079
Percent of C-Sections Deliveries	31%	30%	29%
Percent of C-Sections Deliveries	69%	70%	71%

Source: Kansas Department of Health & Environment - As of September 2015*

Table 4

Method of Delivery	CY 2014 Kansas - Weeks Gestation				
	< 36	36-38	39 & over	Not Stated	Grand Total
Vaginal	1,013	7,486	19,009	13	27,521
C-Section, not elective	186	936	2,583	1	3,706
C-Section, elective	893	2,420	4,652	-	7,965
Not Stated	-	-	1	-	1
Grand Total	2,092	10,842	26,245	14	39,193

Note: per definitions given by KDHE epidemiologists, C-sections are considered elective if there if there was no trial of labor residence data

DOs footprint. The combination of census projections and operating performance will provide the state with the necessary tools and data to determine the optimal CDDO structure.

Recommendation #4 - (dollars in 000's)				
FY17	FY18	FY19	FY20	FY21
$1,011	**$1,011**	**$1,011**	**$1,011**	**$1,011**

Recommendation #5 – Implement healthy birth outcome initiatives to improve women and child health care outcomes and manage costs

Background and Findings

Together, maternal and newborn care represent the largest single category of hospital expenditures for Kansas Medicaid, and the hospitalization phase of childbirth accounts for the vast majority of all maternal and newborn care costs. In 2014, Kansans spent more than a half billion dollars in birth related costs including more than $160 million in birth related costs through Kansas Medicaid and state employee healthcare.[1]

In 2014, there were 39,193 births recorded in Kansas for which Medicaid paid approximately 34 percent of the birth costs (See Table 1). In comparison, based on 2010 data, 32.5 percent of the births in Kansas were Medicaid funded compared to a national average of 44.9 percent.[2] (See Table 2)

In Kansas, hospital and facility costs for a vaginal birth is on average $11,180 per birth, and hospital and facility costs for cesarean births is on average $17,391 per birth (preterm birth rates are calculated as the number of preterm births divided by the number of live births with known gestational age multiplied by 100).[3]

In review of live births by delivery type, the Kansas Department of Health and Environment reported the statistics seen in Table 3.

Percentage of Induced Deliveries or C-Sections Before 39 Weeks	
National Average	7%
Kansas	28%
Oklahoma	16%
Missouri	5%
Iowa	7%
Colorado	2%
Arkansas	6%
Mississippi	34%

Our research also found that more than 25 percent of Kansas births fewer than 39 weeks in gestation were elective C-sections. (See Table 4).

Part I: Managing Early Birth Costs and Risks for Pre-Term Births

The National Institute of Health states that "almost one of every ten infants born in the United States are premature, and a premature birth is defined as a baby being born before 37 completed weeks of pregnancy (a full-term pregnancy is 40 weeks)."[4] Infants born preterm are at greater risk than infants born at term for mortality, health, and developmental problems, therefore, a multitude of health complications can arise. Complications can include "behavioral, social-emotional, health and growth problems (examples include: increased Neonatal Intensive Care Unit admissions, and increased ventilator support)."[5] Additionally, the "birth of a preterm infant brings economic costs to families and has implications for public-sector services (i.e. health insurance, education, and other social support systems)."[6] Among the main recommendations that the National Institute of Health offers to reduce and improve preterm birth in the United States, is for the study and informing of public policy.

The US preterm birth rate ranks among the worst in

1 Childbirth Connection. Average Facility Labor and Birth Change by Site and Method of Birth, United States, 2009-2011. Retrieved from: transform.childbirthconnection.org.

2 Kaiser Foundation - http://kff.org/medicaid/state-indicator/births-financed-by-medicaid/

3 Behrman RE, Butler AS. (2007). Preterm Birth: Causes, Consequences, and Prevention. Retrieved from: http://www.ncbi.nlm.nih.gov/pubmed/20669423

4 National Institute of Health. Retrieved from: https://www.nlm.nih.gov/medlineplus/prematurebabies.html

5 Behrman RE, Butler AS. (2007). Preterm Birth: Causes, Consequences, and Prevention. Retrieved from: http://www.ncbi.nlm.nih.gov/pubmed/20669423

6 Behrman RE, Butler AS. (2007). Preterm Birth: Causes, Consequences, and Prevention. Retrieved from: http://www.ncbi.nlm.nih.gov/pubmed/20669423

high-resource countries, ranking a "C" on the report card assigned and distributed by the March of Dimes, with a birth rate of 9.6 percent in 2014, according to the National Center of Health Statistics ("C" rating is preterm birth rate of 9.3 percent to 10.3 percent). The state of Kansas earned a "B" in 2015.

According to the Institute of Medicine, the annual social economic burden and cost of premature births nationally is $26.2 billion a year. The breakdown is as follows:

- $16.9 billion in medical costs for the baby
  - » $611 million for early intervention services, birth to age three
  - » $1.1 billion for special education services, ages three to twenty one
  - » $5.7 billion in lost work and pay for people born prematurely
- NICU admissions—average payments for babies in NICU exceed average payments for all newborns and both types of birth (vaginal and cesarean)[7]
- Increased average payment levels for NICU care: Medicaid paid $13,875 for newborns with vaginal births and NICU care and $19,971 for newborns with cesarean births and NICU care [8]

According to the Medicare Economic Index (MEI), "In 2015 commercial insurers are incurring costs of $18,961 for vaginal births and $28,826 for cesarean births, while Medicaid programs are paying $9,446 and $14,058 respectively."[9] To offer perspective—if there were "472,000 fewer cesareans, Medicaid and Commercial insurers would have saved nearly $3.5 billion in 2013."[10]

A March 2014 study by the Commonwealth Fund and Whynotthebest.org—an organization providing a full spectrum of healthcare assessment and improvement services—reported that early scheduled deliveries could cause serious complications for newborn babies. As shown below (study indicated 2013 data reported), Kansas was one of the highest states with early term deliveries for both private pay and state Medicaid funded births.[11]

Many states across the US have implemented Healthy Birth Outcome initiatives and formed partnerships between the state hospital associations, the March of Dimes, managed care providers, insurance companies and stakeholders, in order to improve the health outcomes for newborns not only in the Medicaid program but throughout the state's population. One of the early implementers of state Medicaid Early Birth Initiatives has been the State of South Carolina.

South Carolina Department of Health and Human Services (SCDHHS)

In July 2011, South Carolina Department of Health and Human Services (SCDHHS) launched its partnership program called South Carolina Birth Outcomes Initiative (SCBOI). The program had three interconnected goals to work together in order to improve birth outcomes throughout the state, including:

- Reducing the number of low birth weight babies
- Reducing NICU admissions
- Reducing racial disparities in birth outcomes

The members of the SCBOI worked to achieve the three core objectives through various initiatives while serving on a series of workgroups. Examples of initiatives include:

- Eliminating elective inductions for non-medically indicated deliveries prior to 39 weeks gestation.
- Reducing the number of admissions and the average length of stay in neonatal intensive care units.
- Reducing health disparities.
- Making 17 Alpha-hydroxyprogesterone caproate (17P)—a compound that helps prevent pre-term births—available to all at-risk pregnant women with a no "hassle factor."
- Implementing a universal screening and referral tools like, Screening, Brief Intervention, and Re-

7 Perelman, Nicole. Using Education, Collaboration, and Payment Reform to Reduce Early Elective Deliveries: A Case Study of South Carolina's Birth Outcomes Initiative. Retrieved from: www.milbank.org/uploads/documents/reports/South_Carolina_Birth_Outcomes_Case_Study.pdf.

8 Childbirth Connection. Average Facility Labor and Birth Change by Site and Method of Birth, United States, 2009-2011. Retrieved from: transform.childbirthconnection.org.

9 7. American College of Nurse-Midwives (2015, November). The Midwifery Model of Care-A Value Proposition [PowerPoint slides].

10 7. American College of Nurse-Midwives (2015, November). The Midwifery Model of Care-A Value Proposition [PowerPoint slides].

11 WhyNotTheBest.org, March 2014

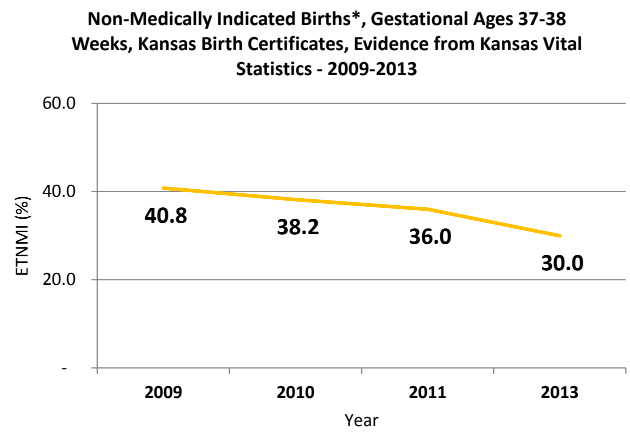
ferral to Treatment (SBIRT)—an evidence-based practice used to identify, reduce, and prevent problematic use, abuse, and dependence on alcohol and illicit drugs. The SBIRT model was incited by an Institute of Medicine recommendation that called for community-based screening for health risk behaviors, including substance use.[12] In SC, the physician's office screens pregnant women and 12 months post-delivery for tobacco use, substance abuse, alcohol, depression, and domestic violence.

- Promoting Baby Friendly Certified Hospitals and Breast Feeding.

- The concept of this initiative is to reduce the number of elective early births. Babies born before 39 weeks of pregnancy have much higher rates of low birth weight and infant mortality. SCHHS—which administers Medicaid in the state—asked South Carolina's hospitals to reduce early induction births except for medical reasons. All of the state's hospitals complied and signed agreements to do so in 2011. HHS and BlueCross—which together pay for nearly 85 percent of births in the state—also stopped paying for voluntary early births.[13]

The Catalyst Payment Reform Study entitled "Using Education, Collaboration, and Payment Reform to Reduce Early Elective Deliveries: A Case Study of South Carolina's Birth Outcomes Initiative" reported in 2013 that the number of unwarranted early inductions in the state had been cut by 50 percent and the number of babies in neonatal intensive care units had dropped. Babies born before 39 weeks of pregnancy generally have lower birth weights and higher rates of infant mortality.[14]

Prior to the SCBOI program start, the state had the fourth highest percentage of babies born prematurely



in the nation. Data gathered over several years show that approximately one in every ten babies born in South Carolina will be admitted to a NICU. South Carolina's rate of early elective delivery was 9.62 percent or more than annual 6,000 births. Researchers estimate that eliminating the practice of early elective deliveries in South Carolina will generate more than $1 million a year in delivery costs and an additional $7 million in reduced hospitalizations for babies. In the first quarter of 2013, the SCDHHS reported saving over $6 million through the initiative. This savings was attributed to decreased NICU admissions and Average Length of Stay (ALOS) in the NICU among babies born at 37 and 38 weeks to mothers with Medicaid coverage.[15]

Other states have voluntary programs, and some other state health agencies have stopped paying for non-emergency early deliveries but South Carolina is the first Medicaid agency and its major insurer and hospitals have collaborated on this type of program. Governor Haley indicated that the "Birth Outcomes Initiative is a wonderful example of leaders in the health community working together as a team in South Carolina's fight against premature birth."[16]

SCDHHS has been able to significantly reduce these non-medically necessary inductions over a two-year period. With the mindset that infant mortality and low birth weight babies are two of the state's most pressing health problems, SCDHHS, SC Hospital Association and the South Carolina Chapter of the March of Dimes joined with other community partners to create the

12 http://www.integration.samhsa.gov/clinical-practice/SBIRT (Note - Substance Abuse and Mental Health Services Administration (SAMHSA) is the agency within the U.S. Department of Health and Human Services that leads public health efforts to advance the behavioral health of the nation. SAMHSA's mission is to reduce the impact of substance abuse and mental illness on America's communities.

13 2013 Catalyst Payment Reform Study "Using Education, Collaboration, and Payment Reform to Reduce Early Elective Deliveries: A Case Study of South Carolina's Birth Outcomes Initiative

14 2013 Catalyst Payment Reform Study "Using Education, Collaboration, and Payment Reform to Reduce Early Elective Deliveries: A Case Study of South Carolina's Birth Outcomes Initiative

15 2013 Catalyst Payment Reform Study "Using Education, Collaboration, and Payment Reform to Reduce Early Elective Deliveries: A Case Study of South Carolina's Birth Outcomes Initiative

16 http://www.thestate.com/news/business/health-care/article13828319.html

now nationally recognized SCBOI.

In August 2011, SCBOI successfully secured a BOI-sponsored commitment from all 43 birthing hospitals in the state to end non-medically necessary inductions by 39 weeks with a specific focus on preventing early term births, delivered at 37 and 38 weeks. In 2013, SCDHHS and BlueCross BlueShield of South Carolina (BCBSSC) strengthened the effort by stopping reimbursement to hospitals and physicians for elective inductions or non-medically indicated deliveries prior to 39 weeks gestational age.

In 2013, SCDHHS implemented Centering Pregnancy, a group model of prenatal care shown to decrease pre-term birth, and "Race to the Date," a program providing financial incentive payments to hospitals who achieved the certification of "Baby Friendly" by September 2013.

As a second phase of the early elective delivery initiative, SCDHHS is also working with SCBOI stakeholders to reduce the number of C-sections performed on first-time, low risk moms in South Carolina through a signed commitment from all birthing hospitals in the state, simulation education training, webinars and provider education materials.[17] The March of Dimes reports that progress in the US preterm birth rate comes through the implementation of programs and policies by state and local health departments, hospitals, and health care providers.

As shown in the below graph, the State of Kansas has made progress over the past seven years to address the importance of full term births for the mother and newborn health and addressing early non-medically induced births.[18]

Kansas Healthy Birth Outcome Initiatives[19]

KDHE Bureau of Family Health is responsible for administering the federally funded Title V Maternal and Child Health (MCH) Services Block Grant for the State of Kansas [Maternal and Child Health Bureau (MCHB), Health Resources and Services Administration (HRSA), U.S. Department of Human and Health Services (HHS)]. The Title V MCH Block Grant plays a key role in the provision of maternal and child health services in Kansas. The State has implemented a number of family health initiatives and activities underway for a comprehensive approach, focusing on the life course, crosscutting efforts (through collaboration), and service/systems integration. Some of the initiatives include:

- Baby Friendly Hospitals
  - » KDHE reported that in July 2015, Wesley Medical Center in Wichita achieved Baby Friendly hospital status (6,300 or 14.7 percent of Kansas births are now served by a Baby Friendly hospital). The Kansas Breastfeeding Coalition, Inc. (KBC) Continuity of Care Project assisted Wesley in developing a resource list for breastfeeding follow up assistance to distribute to mothers. The Continuity of Care model is being used by other communities to develop resources for follow up care. A total of five Kansas hospitals are now involved in the CDC EmPower project and are working on becoming Baby Friendly by 2017.
- High 5 for Mom & Baby
  - » KDHE has implemented a program called "High 5 for Mom & Baby." Under this initiative, hospital policies and procedures are pivotal to mothers successfully initiating breastfeeding and continuing to breastfeed after leaving the facility. The High 5 steps are based on the most crucial of the 10 steps to successful breastfeeding specified for the Baby Friendly Hospital program. Since initiation of High 5 in 2012, twenty hospitals have completed the required education and the policies necessary to implement the five High 5 steps.
  - » KDHE indicated that there were 69 eligible hospitals/birthing facilities, excluding Wesley Medical Center—which is already designated as Baby Friendly—and 83 percent of those are enrolled or recognized in the High 5 program. Based on 2013 statistics, High 5 impacts 96 percent of Kansas births (excluding Wesley's 6,300 births).
- Communities Supporting Breastfeeding
  - » KDHE in partnership with Kansas Breastfeeding Coalition (KBC), called the Communities Supporting Breastfeeding (CSB) project, is collectively improving breastfeeding rates for infants at three and six months of age in Kansas. The objective of this project is to assist communities with achieving the CSB designation by the Kansas Breastfeed-

17 www.scdhhs.gov/boi.

18 Kansas HealthCare Collaborative - American Hospital Association 2015 Quality and Effectiveness Roadmap 2015 Quality and Equity Roadmap

19 December 31, 2015 Briefing Report from KDHE Division of Public Health-Bureau of Family Health

ing Coalition (KBC) as defined by six criteria needed to provide multifaceted breastfeeding support across several sectors. With support from KDHE and KBC, six communities reached the CSB designation in 2015: Liberal, Winfield, Salina, Lawrence, Great Bend and Hays. An additional five communities are receiving support to achieve the CSB designation in 2016: Wichita, Abilene, Emporia, Garden City and Gove County.

- Early Elective Delivery Programs
  - » KDHE has indicated that they have worked collectively with the March of Dimes in Kansas to address the reduction of early elective delivery. In 2008, the March of Dimes introduced the 39-week toolkit and the issues related to early elective deliveries as part of the fall Prematurity Conference. More than 250 health care professionals received toolkits and participated in this professional development opportunity. Over the next two years, hospitals in the bi-state Kansas City area examined their policies and procedures related to inductions and elective deliveries and implemented a variety of internal programs to reduce the occurrence with varying results.
  - » In 2011, the March of Dimes awarded a grant to the seven hospitals in the Saint Luke's Health System to pilot the 39-week toolkit system in collaboration with their obstetric providers and develop an evaluation system for continuous quality improvement. This pilot was expanded to include the Health Corporation of America (HCA) and Shawnee Mission Medical Center systems in 2012 with the goal of sharing best practices and data. Collectively, these three hospital systems delivered the majority of babies in Kansas City and represented the greatest opportunity to reduce the preterm birth and infant mortality rates associated with early elective deliveries.
  - » March of Dimes is currently partnering with the Kansas Hospital Association and the Kansas Health Collaborative (KHC) to support their work launching a statewide EED reduction initiative as part of the Health Engagement Network (HEN) funded through a three-year grant from the Center for Medicare and Medicaid Services.
- Early Elective Delivery QI Collaborative (Kansas Healthcare Collaborative)
  - » KDHE indicated that in July 2012, the Kansas Healthcare Collaborative (KHC) initiated a quality improvement collaborative in 49 birthing hospitals (later expanded to 52 birthing hospitals) with the goal of reducing early elective delivery (EED) to less than 3 percent. Collaborative work included measurement of clinical process interventions designed to reduce EED (standardized scheduling tools, documentation of indication for EED and record review of scheduled C-sections), and promotion of "hard stop" policies in hospitals (a policy intervention endorsed by the American Congress of Obstetricians and Gynecologists, to administratively prevent early elective deliveries from being scheduled).
  - » After 18 months, the collaborative demonstrated widespread adoption of scheduling and clinical review processes to reduce early elective delivery. One hundred percent of participating hospitals reported through an online survey administered by KHC that they had a "hard stop" policy in place—most were adopted since the start of the project in 2012. Along with these clinical process and policy changes, participating hospitals reported a 73 percent reduction in EED rates from the baseline.
- Infant Mortality Collaborative Improvement & Innovation Network (CoIIN)
  - » KDHE, along with several partners and organizations including the March of Dimes (MOD), the Kansas Infant Death and SIDS Network, and American Academy of Pediatrics, is actively engaged in the Infant Mortality Collaborative Improvement & Innovation Network (CoIIN) initiative, launched by the U.S. Department of Health & Human Services in 2012 and expanded in 2014 to include Kansas and other Region VII states. The National Institute for Children's Health Quality (NICHQ) is hosting the national project and facilitating cross-state and region collaborative work involving learning networks/sessions for six identified CoIIN strategies.

Each participating state selected strategies to focus on as part of the national platform. Kansas' selections include:

- Reducing pre and early term birth rates through improved risk identification, increased and appropriate utilization of progesterone, and eliminating EED.

- Reducing smoking rates before, during, and after pregnancy. KDHE is approaching the CoIIN work through a collaborative model bringing together providers, payers, and public health professionals. Evidence-based interventions, practice change, data analysis, and quality improvement are key components.

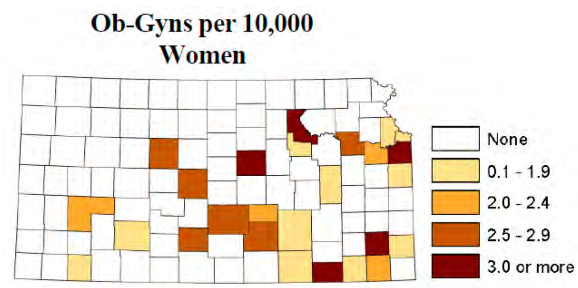
- Becoming a Mom/Comenzando bien® Program
  - » In 2010, following the release of the Kansas Blue Ribbon Panel on Infant Mortality recommendations, the March of Dimes Kansas Chapter began the development of a community collaborative bringing prenatal education and clinical prenatal care together to create the comprehensive Becoming a Mom (BAM) program.
  - » The program is components of the March of Dimes Healthy Babies are Worth the Wait model, which focuses on the 39 weeks initiative and eliminating EED. The Kansas BAM program is targeted to communities with demonstrated birth outcome and infant mortality disparities, both racial/ethnic and socioeconomic.
  - » KDHE indicated that this model is driven by private and public partnerships across the state and local levels including: Title V MCH (public health), Medicaid, private foundations, local health departments, federally qualified health centers, clinical providers, local hospitals, and community-based organizations. The community collaborative model brings:
    - – Permanent Maternal and Child Health infrastructure
    - – Leveraged and shared resources
    - – Change in the prenatal care delivery system
    - – A vehicle to identify community needs
    - – A standardized evaluation system
    - – New funding opportunities for achieving community collective impact and improved birth outcomes

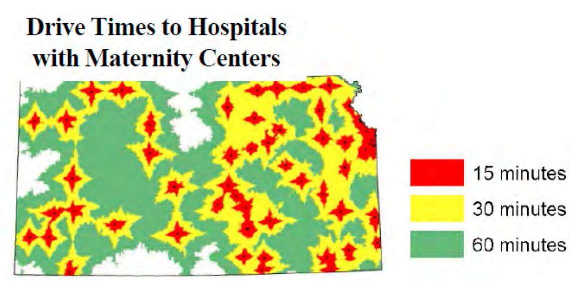
The work of KDHE and its health partners has been successful in addressing the needs of woman and children Healthily Birth outcomes. A&M recommends that the State move forward with its planned efforts to reduce Pre and Early Term Birth Plan including its Early Elective Deliveries across the State. The strategies are currently being piloted in a private Wichita OBGYN clinic. Officials indicated that expansion is planned for early 2016.

Part II: Enhance options for delivery venues of low risk births

A&M found that the state has a shortage of current practicing obstetrical physicians for women's health care services. The American Congress of Obstetricians and Gynecologists (ACOG) reported that in 2014, 77 of the 105 Kansas counties lacked an OB-GYN provider.[20]

Comparison of Kansas OB-GYN Providers and Hospital Maturity Centers





Kansas has portions of the state that currently do not have available obstetric services or significant drive times to hospitals with maturity centers. (See Table 1)

One solution to address the shortage of physicians is to expand the use of certified nurse midwives to address the shortages of available trained birth professionals and alternatives to managing the cost of in-hospital births.

Our research found that in Kansas only one percent of

20 American Congress of Obstetricians and Gynecologists, 2014 ACOF Workforce Fact Sheet: Kansas.

Table 1

Analysis Available OB-GYN Physicians and Medicaid Costs:	US Average	*Kansas*	Iowa	Nebraska	Colorado	Missouri	Oklahoma	Arkansas
Number of OB-GYN Physicians		***273***	239	190	645	596	286	244
Woman Population		***1,149,898***	1,251,057	739,146	2,045,728	2,480,157	1,530,437	1,205,102
Physicians per 10,000 women	3	***2***	2	3	3	2	2	2
Physicians per 10,000 women added 15 to 45	5	***5***	4	5	4	5	4	4
% of Counties that do not have OB-GYNS		***73%***	67%	90%	50%	57%	62%	61%
% of Female Population to Increase by 2030	18%	***4%***	2%	3%	19%	9%	8%	13%
Number of Residency Programs		***2***	1	2	2	5	2	1
Number of Graduating OB-GYN physicians per year		***9***	5	8	15	34	11	4
Percent of Births Financed through Medicaid	45%	***33%***	40%	31%	37%	42%	64%	67%

Source: The Amercian Congress of Obstetricians and Gunccologists 2014 Workforce Fact Sheets

Table 2

Kansas Medicaid Birthing Centers to Hospital Births	CY 2013	CY 2014	CY 2015 YTD *
Medicaid Total Live Births	11,938	13,363	7,832
Percent of Medicaid Live Births	31%	34%	NA
Average Medicaid Delivery Costs Per Member	4,244	4,478	4,533
Medicaid Hospital Live Births	11,791	13,154	7,711
Medicaid Hospital Costs	$50,545,596	$59,642,794	$35,371,010
Average Medicaid Hospital Costs per Member	$4,287	$4,534	$4,587
Percent of Medicaid Hospital Births	99%	98%	98%
Medicaid Birthing Center Births	147	209	121
Medicaid Birthing Center Costs	$124,755	$196,507	$128,681
Average Medicaid Birthing Center Costs Per Member	$849	$940	$1,063

*As of September 2015

the births took place in non-hospital settings in2012. Of that amount, 65 percent occurred in home settings and 28 percent occurred in licensed birth centers. The cost for a low-risk birth at a birthing center ranges between $5,000 and $8,000 (including birth education and risk screening) versus the average vaginal birth cost of $11,180 per birth.

Our research found that slightly less than 2 percent of Kansas births in 2012 were performed in non-hospital settings, primarily for low risk births.

KDHE further reported that Medicaid costs for a hospital birth totals $4,587 during the first nine months in 2015 compared to birthing center Medicaid birth costs of $1,063. (See Table 2)

The U.S. Department of Health and Human Services Centers for Disease Control and Prevention National Center for Health Statistics reported the following birth in out-of-hospital settings in 2012:[21]

21 CDC - http://www.cdc.gov/nchs/data/databriefs/db144_table.pdf

Live Births by Place of Birth, Kansas Residents, 2012-2014				
Place of Birth	**2012**	**2013**	**2014**	**Grand Total**
Hospital	39,562	37,936	38,396	115,894
Free-standing Birthing Center	309	466	356	1,131
Home Birth	421	393	431	1,245
Other	12	10	10	32
Grand Total	40,304	38,805	39,193	118,302

Source: Kansas Department of Health and Environment, Bureau of

Kansas	2%	Arkansas	1%
Missouri	2%	Colorado	2%
Nebraska	1%	Oklahoma	1%
Iowa	1%	National Average	1%

Note: Out-of-hospital births include those occurring in a home, birthing center, clinic or doctor's office, or other location.

The U.S. Centers for Disease Control and Prevention (CDC) reported that in 2013 there were 3,932,181 births in the US of which 3,553,581 were Physician Assisted and 320,983 were Certified Nurse Midwife Assisted (8.8 percent). If you exclude the 1,284,339 births that were performed through a C-Section, the percent of Midwife vaginal assisted births increased to 12.1 percent due to Midwifes performing only vaginal deliveries. [22]

The American College of Nurse Midwives reported that in 2013, majority of CNM/CM-attended births occurred in hospitals (94.6 percent), while 2.8 percent occurred in freestanding birth centers, and 2.6 percent occurred in homes.[23]

KDHE reported in the Annual Summary of Vital Statistics, there were 38,805 live births to residents of Kansas. Vaginal delivery was the most common final route of delivery for most Kansas resident live births in 2013 (27,064 live births, or 69.8 percent of all live births for which the final route of delivery was known). "Most vaginal deliveries were 'spontaneous,' meaning no mechanical procedures like forceps or vacuum extraction were required (25,804 deliveries, or 66.5% of live births for which the final route was stated). Other vaginal deliveries (forceps assisted or vacuum extraction) accounted for 1,260 live births (3.2 percent). Cesarean deliveries accounted for 11,735 live births (30.2 percent)." [24]

The 2012 Kansas Journal of Medicine reported that in 2012 there were 63 licensed CNMs in Kansas. These CNMs practice in a variety of settings including hospitals, freestanding birth centers, homes, and military bases. CNM's are able to prescribe medications, having obtained prescription writing privileges. It was reported that in 2009, CNMs attended 1,902 births, approximately 4.5 percent of all births in Kansas.[25]

In comparison, our research found that Georgia, midwives deliver about 18 percent of all vaginal births and New Mexico has the county's highest rate, at 24 percent or all births. [26]

Approximately 11 percent of all spontaneous vaginal births and 7 percent of all births are attended by certified nurse-midwives, according to the National Center for Health Statistics, 2007. Approximately 97 percent of CNM-attended births occur in hospitals, 2 percent in freestanding birth centers and 1 percent at home (ACNM, 2008).[27]

According to the American Association of Birth Center, and the U.S. Agency for Healthcare Research and Quality, the National Average Charge for varying births in 2011 for a birth center vaginal birth is $2,277, a hospital vaginal birth with no complications $10,657, a hospital vaginal birth with complications $13,749, a hospital cesarean birth with no complications $17,859, and a hospital cesarean birth with complications was

22 National Vital Statistics http://www.cdc.gov/nchs/data/nvsr/nvsr64/nvsr64_01.pdf

23 http://www.midwife.org/acnm/files/ccLibraryFiles/Filename/000000005464/CNM-CMAttendedBirthStatisticsJune2015.pdf

24 http://www.kdheks.gov/hci/as/2013/AS_2013.pdf

25 Kansas Journal on Medicine 2012. Midwifery in Kansas Astrid McDaniel, B.A. , Lynette R. Goldberg, Ph.D. , Nancy G. Powers, M.D.

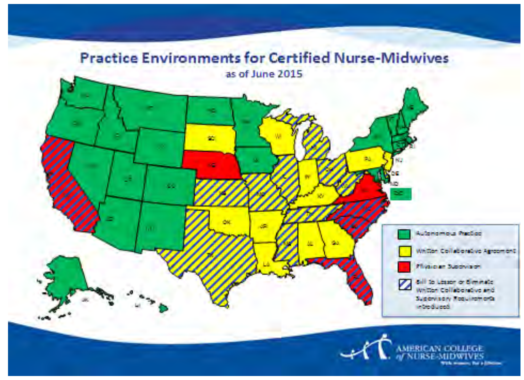
26 http://healthland.time.com/2012/06/25/midwife-mania-more-u-s-babies-than-ever-are-delivered-by-midwives

27 http://nursing.kumc.edu/nurse-midwifery-education-program.html

$23,923.[28]

Washington State gives Medicaid clients the option of receiving prenatal care from a CNM and delivering at home or in a free-standing birth center. In a 2005-2006 analysis of over 1,000 women participating in the Washington Medicaid home birth program, it was found that even though 36 percent ended up delivering in a hospital, per-delivery costs were reduced by an average of $1,341 (2014 dollars) over what they would have been had hospital births been planned.[29]

One of the hurdles for enhanced use of Certified Nurse Midwives to increase outcomes for Healthy Birth Outcomes is the current licensing requirement for a signed physician collaborative agreement. Many States have removed the requirement for a signed physician collaborative practice agreement as a condition of licensure. As shown below, many States have already removed the requirement or are in process of removing requirements for a signed physician collaborative practice agreement as a condition of licensure.[30]



Recommendation #6 - Kansas should review the opportunities to implement the following measures to enhance its efforts to achieve greater outcomes to manage lower state-wide costs for Healthy Birth Outcomes

Part I: Manage costs and risks for pre-term births

- Eliminate elective inductions for non-medically indicated deliveries prior to 39 weeks gestation.
- Reduce the number of admissions and the average length of stay in neonatal intensive care units and number of low birth weight babies.
- Implement a universal screening and referral tool (SBIRT) in the physician's office to screen pregnant women and 12 months post-delivery for tobacco use, substance abuse, alcohol, depression, and domestic violence.
- Continue to promote Baby Friendly Certified Hospitals and Breast Feeding.

Part II: Enhance options for delivery venues of low risk births

A&M also recommends that the State improve the licensing and authorization legislation to allow for increased utilization of non-hospital settings for low risk pregnancy births and address the shortage of OB-GYNs. Receiving pre-natal care from Certified Nurse Midwives (CNM) is a cost-effective option for low-risk mothers that have been shown to produce birth outcomes at least as favorable as those of hospital delivery.

28 Childbirth Connection. Average Facility Labor and Birth Change by Site and Method of Birth, United States, 2009-2011. Retrieved from: transform.childbirthconnection.org.

29 Research using the state of Washington's Medicaid database revealed that providing maternity care to Medicaid patients through certified nurse midwives saved the state $473,000 in averted C-sections and $3.1 million in overall maternity costs. Cost savings from Medicaid fee for service for averted caesareans exceeded the cost of the program by 180 percent and savings to Washington state's healthcare system overall exceeded the cost of the program by over ten fold.

Midwifery Licensure and Discipline Program in Washington State: Economic Costs and Benefits. Health Management Associates. October 31, 2007 http://www.illinoismidwifery.org/blog/wp-content/uploads/2012/04/Washington-State-Midwifery_Cost_Study_10-31-07.pdf

30 American College of Nurse Midwives Presentation on Practice Environments for Certified Nurse-Midwives (June 2015)

	FY 17	FY 18	FY 19	FY 20	FY 21	Total
Eliminate Medicaid Funded Elective Per 39 week Induced Births						
Costs of Pre-39 Week Elective Induced Birth Costs ($ 000's)	$34,657	$34,657	$34,657	$34,657	$34,657	$173,284
% Medicaid Funded	33%	33%	33%	33%	33%	
Estimated Reduction in Payments	30%	50%	75%	90%	90%	
Reduced Medicaid Payments for Level II to IV NIC-B Births						
Level II- III- IV NIC-U Births (2014 Costs)	$36,965	$36,965	$36,965	$36,965	$36,965	$184,824
% Medicaid Funded	33%	33%	33%	33%	33%	
Estimated Savings from BOI	5%	10%	10%	15%	20%	
Increase % of Out-of-Hospital Births	2%	3%	4%	5%	5%	

CNM's are Advance Practice Registered Nurses with specialized training in normal pregnancy and childbirth that provides women's health care through the lifespans.

In July 2014, The American Congress of Obstetricians and Gynecologists reported that "Ob-Gyns and CNMs are experts in their respective fields of practice and are educated, trained, and licensed, independent providers who may collaborate with each other based on the needs of their patients...to provide highest quality and seamless care, ob-gyns and CNMs should have access to a system of care that fosters collaboration among licensed, independent providers."[31]

Kansas should allow CNMs to provide a written plan that describes how they collaborate, manage, refer, and consult with local physicians in the community. CNM's already carry malpractice insurance as determined by the Health Care Stabilization Fund.

Kansas can increase utilization alternative care to increase Healthy Birth Outcomes to lower cost birthing options in Medicaid by:

- Encouraging the expansion of use of Certified Nurse Midwives in proliferation of all birthing centers (both in and out of hospital settings).
- Conducting outreach and education to Medicaid maternity care clients.
- Educating mothers about their birthing options and dispelling misinformation about the risks, both physical and legal, of a normal delivery by a CNM.

31 Joint Statement of Practice Relations between Obstetrical Gynecologists and Certified Nurse-Midwives

Critical to the success of these initiatives is the continued partnership between KDHE and the health care provider partners across the State.

Recommendation #6 - (dollars in 000's)					
Fund Impact	FY17	FY18	FY19	FY20	FY21
Part I	**$1,751**	**$3,007**	**$4,246**	**$5,253**	**$5,518**
Part II	**$301**	**$401**	**$502**	**$803**	**$1,003**
Total	**$2,052**	**$3,408**	**$4,748**	**$6,056**	**$6,521**

Key Assumptions

Part I: Manage costs and risks for pre-term births

- Cost savings initiative includes two cost components (a) reduced elective inductions for non-medically indicated deliveries prior to 39 weeks gestation and (b) reduced neonatal costs from reduced pre-gestation period births.
- Gradual reduction in Medicaid paid elective non-medically necessary induced births to 90 percent by 2021.
- All data is based on medical claims data. Medical claims data uses national standardized coding to describe a medical event. Therefore, newborns are categorized as full term infants (gestational age of 37 weeks and over) and premature infants (less than 36 weeks of gestational age).

- Assumes 32.5 percent of claims are Medicaid births.
- Kansas FMAP for Federal CMS funding at 56 percent compared to State General Fund costs of 44 percent.
- Assumes NIC-U Level II to Level IV birth costs.
- Gradual increase in reduced NIC-U days and related costs due to Healthy Birth Outcome Initiatives.

Part II: Enhance options for delivery venues of low risk births

Part II of this recommendation promotes the enhanced use of Certified Nurse Midwives including legislative changes modifying the existing full practice requirement, public education, and partnerships with Kansas health care community. The cost savings target over the five years is based on the following assumptions:

- Annual growth in the number of non-hospital settings from current 1.0 percent to 5.0 percent by FY 2021. The growth is factored from the current number of Medicaid funded births of 13,142.
- Cost savings differential of $3,470 between the current Medicaid In-Hospital costs of $4,533 to the Birthing Center Medicaid cost of $1,063 or an averaged $3,470 cost different per birth. We noted however that the minimum Kansas Medicaid reimbursement for a birthing center facility delivery is actually $1,295.
- Kansas FMAP for Federal CMS funding at 56 percent compared to State General Fund costs of 44 percent.

Critical Steps to Implement

Kansas should—like other states that have been successful in the implementation of healthy birth outcome initiatives—strategically develop an implementation plan that partners with key stakeholders to lower measures and in turn lower state-wide costs.

Part I. Managing costs and risks for pre-term births

Critical steps in the implementation of Medicaid funding for early elective non-medically induced births would include:

- Create costing structure and policy and procedures for early birth outcome initiative program initiatives including the elimination of State Medicaid funding for elective, non-medically non-medically indicated deliveries prior to 39 weeks gestation.
- Create incentives for evidence-based delivery of health care, including labor and delivery services.
- Create costing structure and policy and procedures for early birth outcome initiative program initiatives.
- Continued collaboration between all agencies and stakeholders—Hospital Associations, March of Dimes, Kansas Medicaid Managed Care Organizations, etc.

Part II. Enhance options for delivery venues of low risk births

For Kansas to be effective in changing its maturity and birth model, the state would have to adopt new regulatory policies and changes in statutes that modify the licensing requirements for NMs. The state would also need to expand the availability of mid-wives in Kansas with targeted attention and/or incentive to areas where obstetric services are not being provided or there are significant drive times to birthing locations.

Kansas should define the role of CNM's and protect public safety by defining the scope of midwifery while recognizing and enabling full practice authority for CNM's. Kansas could allow CNMs to provide a written plan that describes how they collaborate, manage, refer, and consult with local physicians in the community. Other implementation tasks should include:

- Adopt policies and statutes that would remove barriers to CNMs indecently practicing within their full scope.
- Encourage physicians and CNM to collaborate to increase the provider workforce in the inner city and rural health care shortage areas.
- Encourage more CNM centers to practice in Kansas with targeted incentives to obstetric-deserts within the state.
- Create public education on opportunities for normal, low-risk births to be performed by licensed CNM's.

Recommendation #7 – Have all Medicaid support services under one unit to improve operating efficiency and potentially reduce adminstrative costs

Since the beginning of 2013, Medicaid has primarily been administered through KanCare to over 400,000 Kansans. Both KDHE and KDADS oversee KanCare with KDHE providing financial management and contract oversight and KDADS administering the Medicaid waiver programs for disability services, mental health and substance abuse. In addition, KDADS operates the Larned State Hospital and Osawatomie State Hospital and Parsons State Hospital and Training Center and Kansas Neurological Institute for individuals with intellectual and learning disabilities.

The shift from a fee-for-service model to a managed care structure has provided new opportunities and challenges. Kansas, similar to other states that have transitioned to a managed care structure, is faced with retooling and redefining itself, just as private corporations do when entering new markets. This paradigm shift has resulted in Kansas being a purchaser of health care through the MCOs with an emphasis on enrolling and educating beneficiaries, overseeing health plans, and contract management. The shift also involves moving from a provider-centric environment to one that is beneficiary-centric and requires a staff with contract management and strong analytical skills. For KDHE and KDADS, the shift to a delivery model that's more than 95 percent provided by the MCOs, offers an opportunity to consider combining all Medicaid support services and administration under one umbrella, while combining Medicaid related functions under a single budget structure.

A&M recommends combining the strengths and resources of both agencies to improve operational effectiveness and efficiency, eliminate redundancy and promote cross-agency communication and cooperation. The existing dual structure is fragmented and the ever-increasing—regulations, program changes, reporting and compliance requirements—warrant centralizing all Medicaid support services under one agency. Moreover, as the Federal government continues its efforts of supporting and encouraging the use of data analytics, quality measurement, performance improvement, payment modeling and financial simulations, a greater emphasis is required to hire and train employees with the requisite skills.

A&M recommends transferring all support functions to Health Care Finance within KDHE. Having the core support services such as finance, budgeting, data analytics, legal, HR and IT under one umbrella will improve operating efficiency. This will eliminate certain overlapping tasks (ex. budget and rate setting) while strengthening areas that share common skill requirements (ex. Data, analytics, and legal).

To properly determine the optimal organizational structure would require an in-depth review of process flows, employee workloads, job descriptions, skill sets, and interviews with staff. In August 2015, KDHE contracted with Navigant Consulting to perform a more detailed review, in order to identify the organizational structure and resource requirements in a managed care environment. A&M views KDHE's effort to perform a detailed review as an important step in determining the optimal organizational structure in the new MCO environment.

In connection with centralizing support services, A&M also recommends the state invest in a training program that will allow for employees to meet the skill requirements associated with a managed care environment. As transition to a managed care structure is primarily driven by cost-containment and budgetary pressures, allocating resources to a well-trained staff is not a priority. The typical outcome is that management staff has extensive Medicaid experience, but relatively little training in the skills necessary to oversee managed care, namely; managing contracts or analyzing MCO performance. Absent an investment in MCO training, Kansas will have to import managed care specialists with the contract oversight and analytic qualifications to effectively manage the MCOs. Investing in a robust training program will ensure that the combined Medicaid agency is adequately staffed to meet the necessary contract and analytical demands.

Department of Revenue

Acknowledgements

This report was made possible thanks to the knowledge, time, and advice of many individuals within the Kansas Department of Revenue. Alvarez & Marsal would like to thank everyone who contributed to this endeavor, especially:

- Nick Jordan, Secretary of Revenue
- Steve Stotts, Director - Division of Tax Operations
- George Gross, Special Assistant to the Secretary

Agency Overview

Previous Efficiency Initiatives

The Kansas Department of Revenue (DOR) is continually evaluating the agency to identify ways to reduce cost and increase efficiency, in order to make the best use of its resources. Recent initiatives include:

- Releasing a mobile app to allow for information, web, and online capabilities to be delivered more directly to Kansans. It also reduces load on many of the phone information and support lines.
- Improving the collection dialer to allow KDOR to make more outgoing calls more effectively.
- Implementing debt and payment matching with the Bureau of Fiscal Service—matching their non-tax payments with any eligible Kansas debts.
- Increasing and replacing the document scanners in the Channel Management area to allow KDOR to scan more documents using fewer employees and process paper forms more efficiently.

Baseline Budget

Revenue *(All values in 000s)*	FY 2014 Actual	FY 2015 Gov. Estimate	FY 2016 *Base Budget*	FY2017 Gov. Rec.
Department of Revenue	$113,400	$124,567	$119,771	$101,245

Benchmark Comparisons

The benchmark comparisons section will provide a high level overview of both tax rate and rate change comparisons of Kansas and surrounding states, that can be found in the COST Report on state and local business taxes and the Kansas Annual Report for FY15. Business taxes include business property taxes, sales and excise taxes, paid by businesses on their input purchases and capital expenditures, gross receipts taxes, corporate income and franchise taxes, business and corporate license taxes, unemployment insurance taxes, individual income taxes paid by owners of non-corporate (pass-through) businesses, and other state and local taxes that are the statutory liability of business taxpayers.

Change in state and local business taxes by state	
State	FY2013-2014
Kansas*	***-0%***
Arkansas	3%
Colorado	2%
Iowa	-1%
Missouri	2%
Nebraska	1%
New Mexico	6%
Oklahoma	1%
Texas**	7%
Wyoming	1%

*Kansas enacted an exemption on the taxation of pass-through business income midway through FY2013, which is reflected in its tax receipts.

A review of the general sales tax and individual income tax rates for Kansas shows that sales taxes are higher than peer states, while individual income tax rates are in line with other peer state tax rates. Specifically, the range of individual income tax rates show that Kansas' lowest individual income tax rate of 3.5 percent compares to low end tax rates of between 0.5 percent and 4.63 percent for peer states. Similarly, Kansas' highest individual income tax rate of 6.45 percent compares to peer state income tax rates of 4.63 percent to 8.98 percent.

State	**Tax Rates** General Sales Tax (07/2013)	Individual Income Tax (2012)
Kansas	***6%***	***3.5%-6.45%***
Colorado	3%	5%
Iowa	6%	0.36%-8.98%
Missouri	4%	1.5%-6%
Nebraska	6%	2.56%-6.84%
Oklahoma	5%	0.5%-5.25%
Texas	6%	N/A
Wyoming	4%	N/A

A review of the state and local business taxes by type, from 2014, shows that Kansas' $5.9 billion in total tax burden is in line with most other peer state tax burdens of between 2.7 billion and 11.3 billion. Furthermore, Kansas' tax burden is even more closely comparable to states with closer estimated populations such as Arkansas (4.5 billion), Iowa (6.8 billion), Nebraska (4.2 billion), New Mexico (4.9 billion), and Oklahoma (7.2 billion).

Summary

State and Local Business Taxes by Type, FY2014 ($ billions)							
State	Property tax	Sales tax	Excise tax	Corp Income tax and individual income tax on business income	Unemployment insurance tax	License and other taxes*	Total
Kansas	***250%***	***2***	***0***	***30%***	***0***	***0***	***590%***
Arkansas	110%	150%	**0**	70%	40%	**0**	450%
Colorado	490%	3	**1**	130%	0	**0**	1130%
Iowa	290%	2	**0**	90%	0	**0**	680%
Missouri	330%	2	**0**	100%	0	**0**	870%
Nebraska	190%	1	**0**	70%	0	**0**	420%

A&M's approach to DOR focused on enhancement of current capabilities, cost reduction, and the creation of new capabilities to enhance DOR's ability to function more effectively.

- Short-term opportunities – There are three recommendations made by A&M designed to increase revenue starting in the current budget cycle. These recommendations focus on resuming hiring and thus resolving the backlog of outstanding return reviews and cases.
- Medium-term opportunities – The creation of an interdisciplinary Discovery Team will allow the DOR to increase collaboration and communication, thereby enhancing DOR efficiency for the coming years.

Recommendations

Recommendation #1 – Fill Audit Vacancies

The state should fill the 14 current vacancies in the Audit department, bringing the total number up to meet the staffing profile of 37 full-time employees. Filling these positions would allow Audit to process more cases and thus generate additional revenue while enabling Audit to work efficiently moving forward. Specifically Kansas should:

- Hire and train 14 new or recently retired revenue agents.
- Create a central audit plan with industry or issue focus.
- Set benchmark goals.

					Target Savings and Revenue Estimate (All values in 2015 dollars, in 000s)			
Rec #	Recommendation Name	FY16	FY17	FY18	FY19	FY20	FY21	Total
1	Audit: Fill 14 Auditor Vacancies	$0	$9,600	$9,800	$9,800	$9,900	$10,000	$49,100
2	Collections: Hire 54 Officers	$7,800	$48,000	$50,200	$52,900	$55,500	$58,300	$272,700
3	Discovery	$-	$10,000	$10,000	$10,000	$10,000	$10,000	$50,000
4	Appeals	$10,000	$-	$-	$-	$-	$-	$10,000
Division of Revenue total			**$67,600**	**$70,000**	**$72,700**	**$75,400**	**$78,300**	**$364,000**

- In the near-term, focus on areas there the auditors can complete audits most quickly (i.e., sales and use tax) and train all auditors in these areas.

Background and Findings

- There are currently 23 full-time employees and 14 vacancies.
- To allow time for the new hires to enter the system and receive training, A&M assumes audit vacancies will not be filled until the last quarter of FY 2016.
- The additional audits will not produce revenue until FY 2017.
- If auditors cannot be recruited, outsourcing must be considered.

Recommendation #1 - (dollars in 000's)				
FY17	FY18	FY19	FY20	FY21
$9,600	$9,800	$9,800	$9,900	$10,000

Critical Steps to Implement

The critical steps necessary to complete the implementation of the Audit hiring recommendation include:

- Hire 14 new revenue agents
- Train the new agents
- Create a long term recruiting plan
- Set audit benchmarks goals

Recommendation #2 – Fill Collections Vacancies

The state should fill the 54 current vacancies in the Collections department, bringing the total number up to meet the staffing profile of 262 full-time employees. Due to attrition, retirement, and budget cuts, Collections staffing levels sank to an inefficient level. Filling these positions will allow Collections to quickly generate additional revenue and to work efficiently moving forward.

Background and Findings

The Collections department is focused and uses its resources effectively. However, it is well understaffed. The departments believe that it can fill about 20 of the open vacancies in this fiscal year and the remaining vacancies in the next fiscal year.

- The average Collection Officer currently produces approximately $1 million in collections annually.
- The collections rate is net of staff salaries.

Recommendation #2 - (dollars in 000's)				
FY17	FY18	FY19	FY20	FY21
$48,000	$50,200	$52,900	$55,500	$58,300

Critical Steps to Implement

The critical steps necessary to complete the implementation of the Collections Hiring recommendation include:

- Hire 54 new or recently retired Collection Agents
- Train these agents
- Hire up to staffing profile

Recommendation #3 – Establish Discovery Team

The state should establish a cross-functional Discovery Team comprised of representatives from Business Intelligence, Customer Service, Audit, Collection, General Counsel and Policy Research. The Discovery Team will facilitate communication and collaboration between departments. These members should meet quarterly to develop and execute an integrated audit plan that efficiently utilizes all departments' resources in pursuit of increased revenue and a more efficient tax administration.

Specifically Kansas should:

- Launch a Discovery Team campaign, eliciting applicants or recommendations from each of the six departments. Team members should be clear communicators.
- Select one or two full-time employees from each department to comprise the Discovery Team.
- Train Discovery Team members.

- Implement quarterly meetings for the Discovery Team.
- Set benchmark goals for the future of the Discovery Team as a whole and for contributions of each department.
- Set results-focused goals that focus on enhancing efficiencies.

Background and Findings

- A&M assumes Discovery will not result in collections until FY 2017.
- A&M found that little communication currently occurs between departments and that this lack of communication results in redundancies and inefficiencies throughout the process.
- In particular, Audit and Collections currently overlap on collections cases.
- Since the departments will be moving into separate buildings in the near future, coordination may become more difficult.

Recommendation #3 - (dollars in 000's)				
FY17	FY18	FY19	FY20	FY21
$10,000	$10,000	$10,000	$10,000	$10,000

Critical Steps to Implement

The critical steps necessary to complete the implementation of the Discovery Team recommendation include:

- Establish a Discovery Team comprised of representatives from each of the six departments.
- Set results-focused goals.
- Establish a close loop audit process including a reporting on audit findings.

Recommendation #4 – Eliminate Appeals Backlog

The state should seek to eliminate the current backlog of cases in appeals. Eliminating the backlog will rapidly generate additional revenue. This will decrease the number of cases in future years and help prevent future backlog. Specifically Kansas should:

- Implement a restructured evaluation and ranking process based on the potential revenue to be received and ease of resolution.
- Dedicate resources to the process.

Background and Findings

- There is a backlog of appeals case estimated at approximately $24 million.
- Due to resource constraints, there has not been a focused effort to resolve these cases.
- A&M conservatively assumes $10 million can be collected in FY16.

Critical Steps to Implement

The critical steps necessary to complete the implementation of the appeals backlog elimination recommendation include:

- Develop a restructured evaluation and ranking process.
- Dedicate resources to resolve these cases.

Transportation and Turnpike

Acknowledgements

This report was made possible thanks to the knowledge, time, and advice of many individuals within the Kansas Department of Transportation. Alvarez & Marsal would like to thank everyone who contributed to this endeavor, especially:

- Jerry Younger, Secretary of Transportation
- Keith Bradshaw, Director Division of Fiscal and Asset Management
- Ben Cleeves, Budget/Fiscal Officer

Agency Overview

Previous Efficiency Initiatives and Additional Areas for Future Evaluation

The Kansas Department of Transportation (KDOT) is continually evaluating the agency to identify ways to reduce cost and increase efficiency, in order to deliver the best transportation system possible for the state of Kansas. Recent initiatives include:

- *Headcount Reduction* – KDOT has reduced its overall headcount by 18% since 2011, primarily through eliminating positions once they become open.
- *KTA and KDOT Partnership* – In 2013, the State passed legislation to formalize a partnership between the Kansas Toll Authority (KTA) and the Department of Transportation (KDOT). The legislation provides the opportunity to identify and implement additional operational efficiencies and cost reductions across the two systems. They have already identified facilities that can be co-located with KTA locations in Emporia.
- *Privatize District Parts Stores* – The DOT began working with a private company to manage the vehicle and equipment parts stores in order to gain efficiencies for shop employees and reduce costs for unneeded inventory. The pilot is planned to begin in 2016.
- *Design-Build Projects* – KDOT has begun to use

design-build project methodology for large projects. The design-build approach combines the engineering design and construction under a single contract in order to encourage innovative approaches to lower cost and shorten project times. They are currently using this approach on the Johnson County Gateway Project in the Kansas City Metro area.

- *Public-Private Partnership Projects* – KDOT supports enabling legislation for using Public-Private Partnerships (PPP) that would enable the use of arrangements with private sector developers to help construct, finance and manage additional projects where appropriate.

- *Facility Consolidation* – KDOT has begun to selectively consolidate locations across areas and subareas as well as with local municipalities including a shared location in Lawrence.

- *Property and Equipment Disposal* – In 2011, KDOT went through an asset utilization evaluation and disposed of excess property through the State Surplus Office. They also utilize a central equipment management system to track vehicle utilization to identify excess equipment for surplus on an ongoing basis.

- *Local Road Transfer* – KDOT has been systematically transferring ownership and maintenance of local roads to city and county authorities. DOT focuses on moving roads after state development is complete and other roads where local management would be more effective.

- *Economic Development* – KDOT has an economic development fund that sets aside $10 million a year to support infrastructure needs for various commercial projects accessing state roads.

- *Federal Funds Management* – KDOT is successfully managing and using all their federal funds such that they are eligible for redistribution of excess federal funds at the end of the year.

- DOT is vacating the 12th floor of the Eisenhower building on December 31st 2015, reducing its rent expense by $138,414 for FY16 and $278,088 in FY 17.

There are additional areas that may promote greater efficiency and effectiveness within the Department of Transportation that should be explored further.

- *Increase Contracting Flexibility* – In addition to financial budget constraints, the DOT is constrained by a headcount limitation. Leadership should have the option to staff functions and projects based only on what makes the most economic sense, even if that means hiring more staff.

- *Materials Labs and Testing* – KDOT should consider outsourcing some, or all, of this function like other states—Florida has done this to reduce costs and assets. An attempt to quantify the savings was made but further analysis by KDOT should be done in order to validate the potential of this opportunity. As a result of this review, discussions with Florida's DOT have been initiated.

- *Snow Removal Shifts* – Rather than provide the same level of service for all state roads based on class of roads, Kansas should evaluate the snow removal policy for 2nd and 3rd tier roads based on traffic volume and time of day (such as reduced coverage at night). Other states with similar weather patterns limit snow removal coverage for the least traveled roads.

- *Project Partnerships* – KDOT should partner with KTA to introduce High Occupancy Toll (HOT) lanes on congested interstates where appropriate in the future. KDOT should also partner with KTA on any new expansion projects like the South Lawrence Traffic way, Centennial Bridge, Wichita NW Bypass, and other projects in the pipeline.

- *Alignment with Department of Motor Vehicles (DMV)* – While already underway, DOT and DMV should continue to work in a more coordinated fashion to improve the accuracy and timeliness of driver's license data to support video tolling, and to support driver safety programs across the state. There may also be opportunities for co-location of offices, such as commercial driver's license (CDL) centers.

- *Facility Sharing* – DOT should explore where feasible co-locating field offices with existing city and county road facility office locations.

- *IT* – DOT should continue to coordinate with the state Office of Information Technology (OTIS) to implement changes from the Excipio study. These include exploring increasing IT outsourcing and consolidating the state GIS group with the DOT GIS team.

- *Performance Bonuses* – DOT should work with the state on this statewide initiative to provide greater flexibility for departments to award incentive compensation to staff for various reasons, such as bringing new ideas that are adopted to improve service or save money, reward dedicated service or exceeded performance expectations.

Baseline Budget

Each year, significant funds are transferred out of the State Highway Fund (SHF) to support other state priorities including transportation expenses for public and special education students, and for the operation of the DMV within the Department of Revenue. Moving forward, KDOT and state budget officials should work together to ensure no highway construction or preservation priorities are unduly delayed due to transfers out of the SHF.

Department of Transportation	FY 2014	FY 2015	FY 2016	FY 2016	FY 2017
(All values in 000s)	Actual	Gov. Estimate	Base Budget	Gov. Rec.	Gov. Rec.
Total	$1,663,871	$1,330,098	$1,612,625	$1,104,046	$1,537,010

Benchmark Comparisons

Fiscal Benchmarks

KDOT benefits from strong gasoline fuel tax funding

State	Gasoline Fuel Tax - Cents Per Gallon[1]	% to DOT	Net Cents Per Gallon to DOT
Arkansas	***22%***	***63%***	***~13.5***
Iowa	21%	47%	~9.8
Kansas	24%	66%	~16.0
Kentucky	20%	66%	~12.9
Nebraska	23%	41%	~9.3
Nevada	25%	71%	1770%
New Mexico	19%	65%*	~12.0
Oklahoma	17%	59%	~10.0
Utah	25%	70%	~17.2

[1] FHWA - Motor Fuel Data and the Highway Trust Fund

compared to its peer states.

*Less $4.48 million to the Qualified Tribe Sharing Agreement

Operational Benchmarks

The State of Kansas has more than 140,000 miles of public roads and highways, which equates to 287,100 total lane miles. Of those miles, approximately 10,000 are maintained by the Department of Transportation, which makes Kansas the 27th largest state system in the nation, 238 by the Kansas Turnpike Authority, and approximately 130,000 by local governments. Of the miles of highways maintained by the state, 635 are on the interstate highway system.[1] Statewide, the total number of bridges is 25,085, with 5,081 maintained by the DOT.

Kansas ranks 5th in the nation for highway performance and cost-effectiveness, according to the 2014 Annual Highway Report by Reason Foundation. Kansas ranks 15th in deficient bridges, 1st in rural Interstate pavement condition, 11th in urban Interstate pavement condition and 3rd in urban Interstate congestion. On spending, Kansas ranks 27th in total disbursements per mile and 17th in administrative disbursements per mile.

Kansas's Complete Results Performance by Category in 2012	Ranking
Total Disbursements per Mile	27
Capital and Bridge Disbursements per Mile	27
Maintenance Disbursements per Mile	14
Administrative Disbursements per Mile	17
Rural Interstate Pavement Condition	1
Rural Arterial Pavement Condition	5
Urban Interstate Pavement Condition	11
Urban Interstate Congestion	3
Deficient Bridges	15
Fatality Rate	33
Narrow Rural Arterial Lanes	10

Source: www.reason.org/news/show/21st-annual-highway-report-states#KS

1 Kansas Department of Transportation FY2017 Budget Book.

As the tables below show, Kansas has an extremely high percentage of interstate highways in good condition as well as a high percentage of highway projects on schedule.

State	Interstate Miles in Good Condition
Iowa	53%
Kansas	***98%***
Kentucky	49%
Nebraska	88%
Nevada	41%
New Mexico	94%
Oklahoma	72%
Utah	84%

Source: Self reported performance measures on agency websites: Kansas DOT, Kentucky DOT, Nebraska DOT, New Mexico DOT, Oklahoma DOT, Utah DOT

State	% of Projects on Schedule
Nebraska	91%
Kansas	***95%***
Iowa	85%
Nevada	76%

Source: Self reported performance measures on agency websites: Kansas DOT, Nebraska DOT, Nevada DOT, Utah DOT

Efficiency Review Summary

The A&M team performed an evaluation across the Department of Transportation, while keeping in mind its mission "to provide a statewide transportation system to meet the needs of Kansas," as well as their six strategic goals.

1. Program Delivery - KDOT will successfully complete the 10-year, $8 billion Transportation Works for Kansas Program (T-Works) on time and within budget.

2. Organizational Improvement - KDOT will continually improve as an organization.

3. External Relationships - KDOT will build relationships with all of its nongovernmental external customers and partners.

4. Workforce - KDOT will successfully maximize the effectiveness of its workforce.

5. Technology - KDOT will optimize its use of technology to improve the efficiency and effectiveness of the department's operations.

6. Intergovernmental Relationships - KDOT will build on its relationships with all of its intergovernmental customers and partners.

Many of the recommendations that A&M developed align with these goals—including program delivery, organization improvement, workforce, and external partnerships.

Recommendations

		Target Savings and Revenue Estimate (All values in 2015 dollars, in 000s)					
Rec #	Recommendation Name	FY17	FY18	FY19	FY20	FY21	Total
1	Maximize KTA and KDOT Partnership	$2,500	$5,000	$5,000	$5,000	$5,000	$22,500
2	Eliminate area offices, moving administration to Districts and operations to sub-area offices	$3,200	$6,400	$6,400	$6,400	$6,400	$28,800
3	Replace use of some external contractors for design engineering with in house staff	$500	$1,000	$2,000	$2,000	$2,000	$7,500
4	Sell underutilized non-passenger equipment	$3,000	$-	$-	$-	$-	$3,000
5	Institute right of way, access permits, driveway permit fees	$1,500	$1,500	$1,500	$1,500	$1,500	$7,500
6	Institute or increase sponsorship for rest stops, traveler assist hotline, roadside logo sign program, and motorist assist program	$1,700	$1,700	$1,700	$1,700	$1,700	$8,500
7	Centralize DOT HR staff at HQ with DOA	$450	$900	$900	$900	$900	$4,050
8	Sell or lease state radio system operation	$-	$-	$-	$-	$-	$0
DOT Total		**$12,850**	**$16,500**	**$17,500**	**$17,500**	**$17,500**	**$81,850**

Recommendation #1 – The agencies should move to more aggressively consolidate operations and adopt best practices where possible.

Specifically KDOT should:

- Utilize state and not Federal Highway Administration (FHWA) procurement practices for state funded projects that are not on the National Highway System.
- Co-locate or merge offices and dispatch centers that are in the same vicinity.
- Consolidate engineering and project management staff given the responsibilities and experience required is essentially the same in both agencies.
- Continually evaluate opportunities for further savings and efficiencies, such as maintenance crews, procurement, etc.

Background and Findings

- In 2012, the Legislature passed legislation HB 2234, which formalized the partnership between KDOT and KTA.
- The KDOT budget was reduced by $15 million in 2014 and in 2015 for various partnership savings.
- DOT has already implemented co-location of facilities with KTA's Emporia location.
- Other leading states have also moved to merge toll and highway operations in order to achieve savings:
  - » Massachusetts integrated their tolling authority with their DOT in 2009 and saw over $30 million in savings the first year.
  - » North Carolina merged their turnpike authority and DOT in 2010.
- All projects on the National Highway System, regardless of funding source, must follow: FHWA standards[2] for Quality Based Selection (i.e. Brooks Act), Davis Bacon prevailing wage considerations, specific design standards, environmental standards, etc.
- State statute mandates that KDOT follow Brooks and Davis Bacon Acts for all projects.
- Iowa, Nevada, New Mexico, Kentucky and Texas

2 FHWA – Design Standards https://www.fhwa.dot.gov/design/standards/qa.cfm#a03

are among the states that do not adhere to the Brooks Act for state funded highway projects.

- Iowa, Kentucky, Oklahoma, and Texas are examples of states that do not follow the Davis Bacon regulation for state funded highway projects.
- States that do not use federal contract evaluation methods would not be able to use federal funding for road construction.
- KDOT state funded project budget is $126 million for FY2016 and approximately $340 million for FY2017.
- KTA has a dispatch center for one troop—the rest of the state uses the dispatch center in Salina that is run by Highway Patrol.
  - » KTA dispatch is located in KTA headquarters in Wichita and has a staff of 13 people.
  - » KTA handles dispatching requests for highway patrol, motorist assist, maintenance, safety and wreckers.
- Kansas Highway Patrol Dispatch currently has the capacity to handle the KTA call volume for highway patrol and motorist assist dispatch.
  - » The capacity can handle Capital Police dispatch night shift.
- KTA currently employs 537 full and part time employees across 18 locations.
- KTA and KDOT facilities are located in El Dorado, Wichita, Lawrence, Topeka and Bonner Springs.
  - » The Topeka location is available for consolidation as part of the partnership.
- Engineering teams can be consolidated to provide greater project coordination and utilization of available staff including:
  - » Material testing
  - » Bridge inspections
  - » Traditional engineering design
  - » Engineering project leadership
- Intelligent Transportation Systems (ITS) teams can also be consolidated by combining the KDOT ITS team with the current KTA team. NOTE in one or the other.
- As it is important to maintain separate financial structures given the different sources of capital for each agency, KTA and KDOT can continue to cross-charge for services rendered to the other agency.

Recommendation #1 - (dollars in 000's)				
FY17	FY18	FY19	FY20	FY21
$2,500	$5,000	$5,000	$5,000	$5,000

Key Assumptions

- Based on estimates from KDOT staff, DOT can save approximately 10% of total project cost by using non-federal contract evaluation methods. KDOT estimated that there are $50 million in addressable projects each year, equating to $5 million in annual savings.
- Consolidating the Topeka KDOT facility into KTA facilities will have additional one-time and recurring savings that require additional quantification.
- Consolidating engineering and dispatch functions will provide additional savings that require additional evaluation to value precisely.

Critical Steps to Implement

The critical steps necessary to complete the implementation of the KTA Partnership recommendation include:

- Implement changes to design standards as well as procurement process and specifications in order to see savings in projects starting next year.
- Assign teams to evaluate additional facilities and engineering. Dispatch team consolidations and develop plans to implement as soon as possible.
- Given that the pay structure is different for each agency, care should be taken in the organizational design to minimize disruption, using cross-charging for services whenever possible.

The expected time to implement this recommendation is 12 months—six months to relocate Topeka KDOT crew to KTA facilities and 12 months to update project design changes. Removing the Davis Bacon and Brooks Act mandates, would likely require action by the state legislature.

Recommendation #2 – Eliminate area offices, moving administration to Districts and maintenance to sub-area offices

There are opportunities to achieve efficiencies and cost savings from the following:

- Consolidate area offices into existing sub-areas and districts. Sub-areas would now report directly to the district engineer.
- Establish updated roles and responsibilities for each bureau and level of field office to minimize redundancy and promote cooperation.
- Proactively identify DOT facilities (buildings, equipment and maintenance yards) that could be co-located with existing state as well as local city and county facilities.

Background and Findings

- Kansas is split into six districts and 25 areas within the six districts.
- Under the 25 areas are 111 sub areas, one stand-alone construction office, and eight materials labs maintained in 112 facility locations.
- The Operations team is comprised of 1,840 total filled positions, including 1,712 positions in the district, area, and sub-area offices.
- Operations has three bureaus at headquarters–Construction, Maintenance and Research.
- As shown on the table below, KDOT is less efficient than several peer states, especially regarding DOT maintained lane miles per office.

State	FTE Count	Total Lane Miles	Lane Miles Maintained by DOT	DOT Maintained Lane Miles/FTE	Field Offices	DOT Maintained Lane Miles / Office
Kentucky	4,735	166,000	63,500	13	108	588
Oklahoma	***2,387***	***234,000***	***31,000***	***13***	***69***	***449***
New Mexico	2,448	147,000	30,000	12	27	1,111
Nebraska	2,148	191,000	22,634	11	36	629
Kansas	***2,305***	***287,000***	***23,988***	***10***	***112***	***214***
Utah	1,730	98,000	15,000	9	29	517
Iowa	***2,818***	***235,000***	***24,122***	***9***	***119***	***203***

- Based on high-level utilization analysis, it appears the sub-areas have sufficient capacity available to cover the area crew utilization.
- Removing the areas will, over time, reduce DOT headcount by 87 people. This includes 25 area engineers, 25 area maintenance engineers, and 37 area crew. Area crew would be reduced to have equal size teams across all areas to assist with winter storm coverage.
    - » Salary savings are $3.9 million or $6.4 million when 65% burden rate is included.

For facilities closed, DOT will see one-time revenue for the sale of the property and recurring savings for operating expenses. Further evaluation is needed to quantify the value of the savings.

The team also reviewed a summary of the roles and responsibilities within the Operations division. Below are the observations of possible redundancy and potential for consolidation:

- Districts and the Bureau of Maintenance both list creating policies and highway maintenance as their responsibility.
- Districts and the Bureau of Construction both list maintaining construction programs as their responsibility.
- Areas and sub-areas are both responsible for executing day-to-day operations.
- Districts and the Bureau of Research both list di-

rect research activities.

- Facilities management is listed under the Bureau of Maintenance as well as the Division of Partner Relations.
- Bureau of Maintenance is responsible for procurement of all equipment instead of DOT procurement and State procurement.
- Bureau of Maintenance and IT in the Division of Partner Relations, both list system administration for Operations as their responsibility.

Recommendation #2 - (dollars in 000's)				
FY17	FY18	FY19	FY20	FY21
$3,200	**$6,400**	**$6,400**	**$6,400**	**$6,400**

Key Assumptions

- Sub-areas and Districts will have the capacity to absorb remaining area staff for the four offices consolidated.

Critical Steps to Implement

The critical steps necessary to complete the implementation of the Consolidation recommendation include:

- Plans need to be developed for the specific facilities affected and absorption of the area staff responsibilities into the districts and sub-areas and associated timely headcount reductions.

The expected time to implement the recommendation is 18 months—12 months to reduce headcount and relocate area teams and six months to sell the consolidated locations. The recommendation is not expected to require statutory or regulatory changes.

Recommendation #3 – Replace some outside design engineering contractors with in-house staff

Given the heavy usage of expensive outside contractors, the department should hire more in-house design engineers to reduce overall costs.

Specifically KDOT should:

- Hire approximately 20 Engineering Tech III level engineers (in-house) and reduce consultant engineers.
- Continually evaluate standard workload and keep in-house engineering level high enough to meet steady state needs. Use outside contractors for peak demand and specialized needs.

Background and Findings

- In recent years, KDOT has reduced engineering staff via attrition to help meet approved state staffing levels.
- Based on input from the Director of the Division of Engineering, the Engineering Tech III is the greatest level needed for KDOT.
- Based on FY2015 consultant engineer costs, KDOT paid enough for consultant engineers to hire 99 Engineering Tech III FTEs.

Recommendation #3 - (dollars in 000's)				
FY17	FY18	FY19	FY20	FY21
$500	**$1,000**	**$2,000**	**$2,000**	**$2,000**

Key Assumptions

- Most consultant engineers are utilized for certain projects or specialties, and should not be considered for bringing in-house. However, approximately 20% are assumed to be essentially utilized full-time on core engineering that could be performed by full-time employees.
- KDOT will be able to hire 20 qualified engineers with the costs and productivity assumed in the table above (i.e. 25% of a full-time employee's time is associated with training, vacation and other non-project hours).

	Base Annual	Burden	Facility Charge	Profit 15%	Contract Admin 7%	Productive Time 25%	Total Cost per FTE
Pre-Professional Consultant	$70,000	$114,828	N/A	$27,724	$12,938	N/A	$225,490
In-house EIT Hire	$56,926	$37,002	$6,703	N/A	N/A	$25,000	$125,631

- KDOT will be able to hire 25% of the engineers in year one, increase to 50% in year two and hire and staff all 20 in year three.

Critical Steps to Implement

The critical steps necessary to complete the implementation of the Engineering Consultant recommendation include:

- Request approval to increase the in-house engineering headcount
- Begin recruiting engineers to fill open positions

The expected time to implement the recommendation is 18 months—four months to gain approvals, and 14 months to recruit, hire, and onboard additional engineers.

Recommendation #4 – Sell underutilized non-passenger equipment

Some non-passenger equipment is underutilized and should be sold. Specifically KDOT should:

- Eliminate an estimated 185 pieces of equipment—Chippers, Crack Sealer, Compressors, Derrick Truck, Core Drills, Asphalt Distribution, Loaders, Graders, Pothole Patchers, Rollers, and Sweepers.

Background and Findings

- KDOT has 2,802 pieces of equipment across 24 different categories ranging from fleet sedans to graders.
- KDOT uses an equipment management system to track miles and hours for every piece of equipment.
- The state must keep necessary snow and ice removal equipment to meet the needs of the winter storm season.
- Based on input from DOT leadership, the following guidelines were used for utilization:
    - » Chippers: For each full 8-hour day of cutting brush, the actual run time on the chipper is probably 2-4 hours. Equipment with usage less than 40-50 hours is a candidate for selling. Chippers are widely available for rental.
    - » Crack sealers: Most DOT crack sealing will be done during the colder months when the cracks are at their widest. Any piece that has relatively small usage during those months (November-April) would be a candidate.
    - » Air compressor: These are easy to rent. At the very least, they should have one for each district to share. Any unit with <50hrs is a candidate to surplus.
    - » Derrick Truck: Could reduce to two per district.
    - » Core Drill: Reduce to 10 units and share if needed.
    - » Asphalt Distributor: Could reduce to three and share amongst districts.
    - » Loaders: This group includes a wide spectrum from skid steers to large track loaders. Selectively reduce this number by 25%.
    - » Motor graders: Listing includes a number that were procured with a "buyback" contract. All the other units have some age on them. DOT should remove them from service (and either share, lease or rent) when their maintenance becomes cost prohibitive.
    - » Pothole patchers: Those with <100hrs would be candidates to reduce the number and share. Patchers are specialized pieces of equipment, with no rental option available.
    - » Roller: Includes different types of rollers used for different purposes. Based on hours, could reduce numbers by 25%.
    - » Sweepers: Roller brush sweepers could be reduced by 25%.
- Based on this criteria, DOT should eliminate 185 pieces of equipment with sale proceeds estimated at $3 million.

Recommendation #4 - (dollars in 000's)				
FY17	FY18	FY19	FY20	FY21
$3,000	$0	$0	$0	$0

Key Assumptions

- There is a sufficient market for the identified items to realize the estimated savings.
- The utilization guidelines used by DOT are appropriate.
- Center Stripper and Rock Cutter will reduce with natural attrition.

Critical Steps to Implement

The critical steps necessary to complete the implementation of the Equipment recommendation include:

- Finalize list of equipment to surplus
- Conduct sale through State Surplus

The expected time to implement the recommendation is six months—one month to identify and prepare specific equipment, five months to sell through State Surplus. The recommendation is not expected to require statutory or regulatory changes.

Recommendation #5 – Institute right-of-way, access permits, driveway permit fees

The department should implement fee collection for their right-of-way and access permit activities. Specifically KDOT should:

- Based on other state access permit costs Kansas should institute access permits fees of:
  - » Type 1 - $75
  - » Type 2 - $200
  - » Type 3 - $300
  - » Type 4 - $400
  - » Type 5 - $500
  - » Type 6 - $750
- KDOT should add a fee of $800 for right-of-way permits.

Background and Findings

- State benchmarking shows that most states do charge for access permits.
- KDOT issued 204 access permits across the six types and 1,774 right-of-way permits in FY2015.
- Operations team estimate is $732.51 per permit for a total of $1.44 million a year.
- Access Permit Types
  - » Type I: Non-commercial: Residential, field, Duplex, or small apartment complex
  - » Type II: Special-use: Treatment plant, microwave station, utility stations and dike roads
  - » Type III: Fire-station and/or Paramedic emergency facility
  - » Type IV: LOW VOLUME Commercial: Farm or Home-Based Business
  - » Type V: MEDIUM VOLUME: 50-499 VPD (Industrial, Commercial, Local Road)
  - » Type VI: HIGH VOLUME: 500 VPD and over (Industrial, Commercial, Local Road)

Recommendation #5 - (dollars in 000's)				
FY17	FY18	FY19	FY20	FY21
$1,500	$1,500	$1,500	$1,500	$1,500

Key Assumptions

- The infrastructure used to collect other fees will be able to be used to collect access and right-of-way fees.

Critical Steps to Implement

The critical steps necessary to complete the implementation of the Permit Fee recommendation include:

- Request legislative approval to charge permit fees
- Communicate change to field offices and general public
- Institute procedures for collecting fees

The expected time to implement the recommendation is eight months—four months for legislature approval and four months to communicate and put the change in place.

Recommendation #6 – Institute or increase sponsorship for rest stops, traveler assist hotline, roadside logo sign program, and motorist assist program

The department should implement sponsorship programs for traveler assist hotline, motorist assist program, and rest stops.

Background and Findings

- Many states sell sponsorship rights to private companies for many items including traveler assist hotline, roadside logo sign program, motorist assist program, and rest stops.
- KTA is already utilizing sponsorship for their

motorist assist program—State Farm pays KTA $73,800 per year to cover the contractually stipulated costs. KTA recently signed a three-year extension to their contract with State Farm and Traveler's Marketing (which administers the sponsorship).

- Customers frequently complete surveys and KTA receives 100% positive feedback from customers assisted by State Farm Safety Assist patrol drivers.
- Eleven states have State Farm sponsorship for their roadside assistance program with an average of $262,519 a year.
- FHWA rules and State of Kansas regulations have been reviewed by DOT staff and determined that it is possible to institute sponsorships from reputable companies.
- KDOT paid $288,504 in state funds and $1,154,018 in federal funds for FY2016 to the Kansas Highway Patrol for the Motorist Assist Program.
- KDOT has 37 rest stops that cost approximately $2 million a year to maintain.
- Seven states currently have rest area sponsorships with an average income of $28,570 per stop.
- The 511 program costs $181,000 a year for the telephony charges.
- At least five states have sponsorship for their 511 program. There are multiple sponsor levels including 511 sign advertising, phone ads, website ads and phone app ads. Example sign rate is $160,000 for 100 signs, or ad package rate is $68,000 for three months.
- Kansas collects $1.5 million a year for the logo sign program, however KDOT receives only $25,000 of that total amount. The remaining amount going to the Department of Wildlife, Parks, and Tourism. Average expenditures historically averaged approximately $250,000 and the same is budgeted for FY16 and FY17.

Recommendation #6 - (dollars in 000's)				
FY17	FY18	FY19	FY20	FY21
$1,700	**$1,700**	**$1,700**	**$1,700**	**$1,700**

Key Assumptions

- Kansas will be able to generate sponsorships that will generate income on average with other states.
- Will receive approval to retain expenditure costs for logo sign program.

Critical Steps to Implement

The critical steps necessary to complete the implementation of the Sponsorship recommendation include:

- Release an RFP for sponsorship opportunities
- Request expense coverage for logo signs
- The expected time to implement the recommendation is eight months—five months for the RFP process to final selection and three months to begin the contracts. This recommendation is not expected to require statutory or regulatory changes.

Recommendation #7 – Centralize DOT HR staff at HQ with DOA

The department should complete the centralization of HQ HR staff, effectively reducing staff supporting DOA by 12 FTE.

Background and Findings

- HR was centralized to DOA statewide
- DOT has 20 staff in the HR organization located in DOT HQ offices
  - » These roles include benefits, recruiting, data research budget, compensation, FMLA and drug screening, and training and development
- DOT has eight HR resources in the district offices responsible for hiring and other personnel administration
- HR staff has an average salary of $45,524 and burden rate of 65%
- State average is 211 staff per HR resource
  - » DOT has 104 staff per HR resource
  - » Average does not include 30 other state organizations that do not have any HR resources

Recommendation #7 - (dollars in 000's)				
FY17	FY18	FY19	FY20	FY21
$450	$900	$900	$900	$900

Key Assumptions

- DOT will have access to HR team as needed
- Retain five training and development staff in DOT
- Retain three HR staff at DOT HQ and reduce by 12 HR positions to align with state agency average

Critical Steps to Implement

The critical steps necessary to complete the implementation of the HR recommendation include:

- Identify standard work to transition to DOA team
- Transition ownership to DOA
- Institute mutually agreeable service level agreement (SLA) to ensure ongoing performance expectations are met and monitored.

The expected time to implement the recommendation is five months—two months to identify work to transition and three months to transition and reduce headcount. This recommendation is not expected to require statutory or regulatory changes.

Recommendation #8 – Sell or lease state radio system

The department should look at options to sell or lease it to commercial users. Specifically KDOT should:

- Outsource the management of the radio to another company and allow them to lease the extra bandwidth.
- Further evaluate the potential value and annual savings for the arrangement based on actual proposals from the private sector.

Background and Findings

- 800 MHz wireless communications systems with multiple towers.
- Cost $100 million to build.
- DOT has six people on staff to maintain the system and a budget of $7 million annually.
- State is required by federal law to have use of the radio system.
- DOT and highway patrol use is estimated at 60%-70% of the radio resources.
- Possible bandwidth available to lease out to other companies is up to 30%.
- The state is required to provide the radio service to other city and county agencies. The state does not know how much bandwidth they use.

Key Assumptions

- Kansas will be able to setup a partnership to maintain the system and lower the state's cost to use it.

Critical Steps to Implement

The critical steps necessary to complete the implementation of the Radio recommendation include:

- Conduct an in-depth review of current assets and evaluate the potential market value based on actual proposals from the private sector via an RFP process.
- Evaluate the use of the radio to determine available bandwidth for lease.

The expected time to implement the recommendation is seven months—one month to determine available bandwidth, three months to perform the RFP process, and three months to fully implement. This recommendation is not expected to require statutory or regulatory changes.

Budget Process and Review

Acknowledgements

This budget process review was researched and authored by the Governornment Finance Officers Associate in conjunction with Alvarez & Marsal and key support from the State of Kansas, especially:

- JG Scott, Assistant Director for Fiscal Affairs
- Dylan Dear, Managing Fiscal Analyst

State of Kansas Budget Process Review

Kansas

Alvarez & Marsal

Summary of Recommendations

As part of the Statewide Efficiency Study undertaken by the Legislature, Alvarez & Marsal (A&M), in conjunction with the Government Finance Officers Association (GFOA), evaluated Kansas' current budget practices against other state budget practices with a particular focus on:

- Fiscal Stability
- Improved Accountability
- Budget Transparency

Kansas' financial and budgetary issues have been reflected in its bond rating. At AA, with a negative outlook, Kansas' bond rating is one of the least favorable for state governments in the United States. As the State continues to address its fiscal issues, budgetary practices should also receive priority.

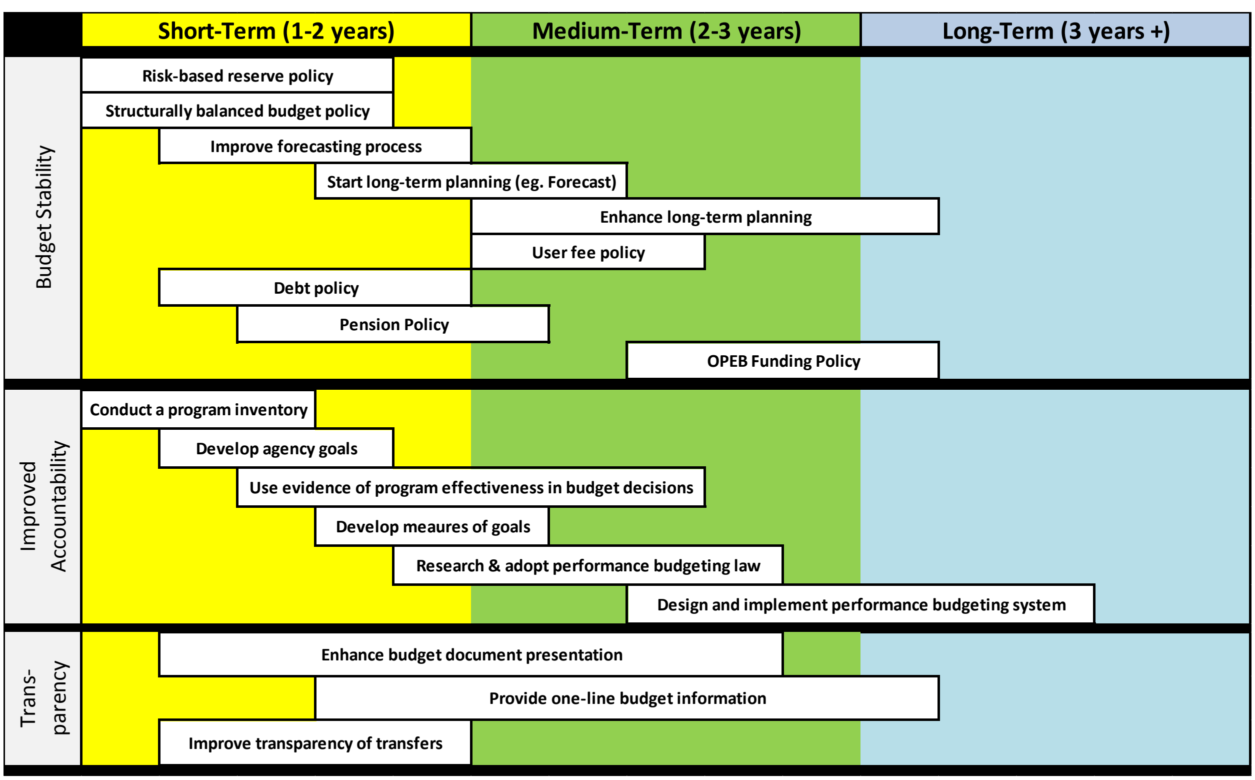
The chapter identifies 15 "smart practices" that will help to improve its budgetary processes and execution. Implementing these recommendations will result in improved financial and operating outcomes and, ultimately, better and more reliable long-term fiscal health.

They fall into three areas: Fiscal Stability, Improved Accountability and Transparency.

Part I: Fiscal Stability Smart Practices *(Basic & Long Term Financial Health)*	
Smart Practice	*Rationale*
Establish a Risk-Based Reserve Fund Policy	Ensure Kansas can withstand the next economic downturn
Develop a Structurally Balanced Budget Policy	Encourage a budget that contributes to long-term financial health
Improve Accuracy and Adaptiveness of Revenue Forecasts	Provide better revenue information and cost/economic drivers for budget decision-makers
Develop Long Term Financial Plans	Develop a long term financial plan that addresses the multi-year fiscal impact of operating and capital improvement spending requirements
Develop User Fee Policy	Ensure those who use public services pay the appropriate costs to use services
Develop Debt Management Policies	Adopt policies to govern the use of debt and the amount of debt Kansas will incur
Adopt Policy for Addressing Pension Liabilities	Pension policies define the state's intent to fully fund its pension obligations and follow other practices necessary to maintaining a health position in its pension funds.
Maintain a Policy for Funding of Other **Postemployment Benefits (OPEB) Obligations**	The State of Kansas currently succeeds with keeping OPEB risk low, and should adopt policies to build on this success
Part II: Improved Accountability Smart Practices	

Smart Practice	*Rationale*
Conduct a Program / Service Inventory Assessment	Help decision-makers understand the services the budget funds detail
Develop Goals to Guide Budget Decision-Making	Goals provide a basis for making resource allocation decisions during the budget process
Include Evidence of Program Effectiveness in Budget Decisions	Kansas receives the highest return for its dollars when program effectiveness is embedded in budget decisions
Implement Performance Budgeting	Create a statewide approach to introducing into the budget process consideration of the results a given program or service will achieve with the money it receives
Part III: Budget Transparency Smart Practices	
Smart Practice	*Rationale*
Provide Online Access to Budget Documents and Supplemental Data	Help decision-makers understand the services the budget funds in detail
Optimize transparency and accessibility of the budget document	Use the best techniques from the GFOA Distinguished Budget Presentation Award program to improve transparency
Be Transparent About the Role of Transfers in the Budget.	Improved transparency can help lead to improved decision-making about transfers

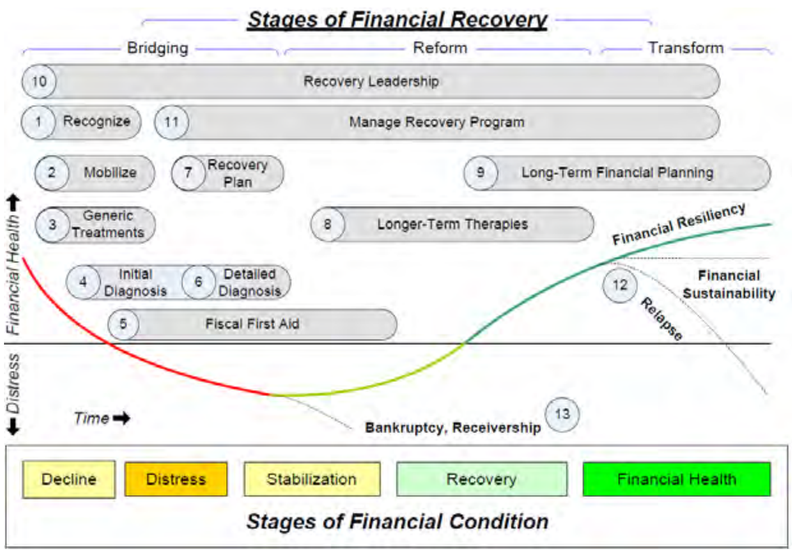
These are essential measures that the state should take on in the next several years. Below is a recommended timeline for implementation that aligns to the critical implementation steps discussed with each recommendation.



The Legislative Budget Committee and the governor's cabinet agencies should provide input into the specific design choices of the budget reforms so that they strike the right balance between—flexibility for policy-makers to develop a budget that satisfies their needs, and accountability for long-term financial health that the reforms intend to promote. The Legislative Budget Committee likely will provide guidance on how the State should report on its compliance with the goals they set.

INTRODUCTION

Smart practices are based on the work of GFOA and other advocates of state budget reform including the Pew Charitable Trusts, the National Association of State Budget Officers, the National Advisory Council on State and Local Budgeting, the Volcker Alliance and various university researchers who focus on this issue.[1] The diagram below shows GFOA's 12-Step Process to Financial Recovery. On the left-hand side, a government is in a state of decline and distress, moving to the right, financial condition improves. In order to move to the right, a government must complete the steps on the chart. This report is part of a diagnosis and recovery plan, as shown in steps 6 and 7, and the recommendations fit in the later steps.



RECOMMENDATIONS

Part I: Fiscal Stability Smart Practices

Budget stability smart practices address basic and long term financial health and policy needs of the state to assess financial stability

The budget stability smart practices could help Kansas initiate a move towards healthier and more resilient budgets immediately. For example, a rainy day fund could be used to buffer the state against shocks, while a structurally balanced budget policy would encourage budget decisions that put Kansas on the track to a healthier financial position. These smart practices might not have the immediate impact of those in the basic financial health category, but are important for the state to ultimately reach a condition of financial health and resiliency. For example, creating transparency around the status of non-current liabilities—like pensions and infrastructure maintenance—would provide insight into the state's long-term financial position.

Recommendation 1. Establish a Risk-based Reserve Fund Policy

State government revenues, like income, sales and severance taxes, often have a strong cyclical character—they increase when the economy goes up, and decrease when the economy goes down. However, unlike a private firm, the demand for service from states is counter-cyclical—demand goes up when the economy

1 The recommended "smart practices" are a set of practices that use advocates of state budget practices and the GFOA official "Best Practices" that provide more general guidance on good budgeting methods for state and local governments and schools in the US and Canada, and are tailored to provide guidance for state budgeting practices. Additionally, the determination on whether a practice is "best" can vary with the specific conditions faced by a given unit of government, and as such, our work has been tailored for the needs of Kansas.

goes down and vice versa. As a result, it is prudent to establish a policy that calls for a reserve fund that can be built up when the economy is expanding and used temporarily to close budget gaps when the economy is contracting.

Kansas is one of only four states that do not have a rainy day fund,[2] and the state general fund balance has decreased from a beginning balance of $709 million to an ending balance of $87.7 million in FY16. Furthermore, in a recent analysis by Standard and Poor's, the low general fund balances were characterized as an offsetting factor against a state's financial strengths.[3] Many of the states that have rainy day funds place caps on the size of the rainy day fund equaling 5 percent to 10 percent of appropriations or revenues.[4] However, the National Conference of State Legislatures has recognized that arbitrary standards for the maximum size of a reserve are often not applicable to the circumstances faced by individual states.[5] Taking the aforementioned facts into consideration, Kansas should adopt risk-based reserve practices, where the size of the reserve is calibrated specifically to the magnitude of the risks Kansas faces.[6] This practice makes the reserve more technically sound and helps citizens and lawmakers better understand the reasons for reserves.

Critical Implementation Steps:

1. Determine the target level of reserves. The state needs to determine the level of risk it faces due to the potential volatility of its revenue portfolio. This is often done by looking at the sharpest declines in revenue that have been experienced during past recessions and multiplying that by 1.5 to determine how much of a buffer might be necessary in the future.

   For example, the largest single year declines in general fund revenue for Kansas occurred in 2002 and 2010, and both were around 7 percent.[7] This suggests a reserve should be around 10 percent to 11 percent of revenues, which is equal to about 1.5 times the largest single annual decline.

2. Account for potential to make orderly cuts in the budget. It would be entirely unrealistic for a state to maintain a reserve large enough to provide a dollar-for-dollar replacement for lost revenue during a recession. Rather, the role of a reserve is essentially to "soften the blow" and allow the state government to make an orderly transition for a new cost structure that is affordable under the then-current financial realities. For example, during a long term downturn when the state's revenues decline by 10 percent, the state would presumably start cutting back its budget so the state government becomes more economical and would, therefore, not use the entire reserve. Ideally, an agency-by-agency plan for responding to a financial crisis would be used to determine a state government's ability to cut back, but rougher approximations could also be used.

   » Determine acceptable use of reserves and authority to use reserves. The state should establish a policy for reserve use including the legislative authorization for its use. The policy should state that reserves cannot be used to fund recurring expenditures, unless the reserves are being used in the context of a plan to respond to financial emergency and transition to a new, more affordable cost structure. This means rainy day funds should not be used to cover funding gaps created by routine over-projections of revenue. For example, Missouri requires a two-thirds majority of each house in its legislature in order to use the reserve.

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2 The State of Kansas does have a statute that requires fund balances equal to 7.5% of expenditures, but this is not considered a "rainy day fund" because the fund does not change in response to changing economic conditions. See: "Building State Rainy Day Funds: Policies to Harness Revenue Volatility, Stabilize Budgets, and Strengthen Reserves." Pew Charitable Trusts. July 2014.

3 "Kansas Development Finance Authority; Appropriations; General Obligation." Standard and Poor's Rating Service. August 3, 2015.

4 Daniel Thatcher, "State Budget Stabilization Funds," National Conference of State Legislatures (September 2008), http://www.ncsl.org/research/fiscal-policy/state-budget-stabilization-funds-spring-2008.aspx.

5 National Conference of State Legislatures, "NCSL Fiscal Brief: State Balanced Budget Provisions" (October 2010), 7, http://www.ncsl.org/documents/fiscal/statebalancedbudgetprovisions2010.pdf.

6 "Building State Rainy Day Funds: Policies to Harness Revenue Volatility, Stabilize Budgets, and Strengthen Reserves." Pew Charitable Trusts. July 2014.

7 Note that this percentage has not been adjusted for any changes in tax rates. It is provided just as an illustrative example.

3. Determine processes for reaching the reserve levels. A policy should provide guidance on how the state will reach its desired level of reserves. Further, the policy should link deposits to financial conditions such that the state makes deposits into the rainy day funds when there is financial stability so that the resources are available when there is a downturn. Twelve states have a policy of this sort.[8]

4. Adopt and document a policy. A rainy day fund should be formalized as a state policy.[9] Since Kansas' current requirements for maintaining a minimum level of fund balance exists as a statutory provision, the existing statute needs to be strengthened.

Recommendation 2: Develop a Structurally Balanced Budget Policy

A truly structurally balanced budget is one that supports financial health for multiple years into the future, defines what it means to achieve structural balance and allows the decision-makers and the public to judge the financial health of the state's budget decisions.

Critical Implementation Steps:

1. Define recurring expenditures and recurring revenue. Balancing recurring revenue with recurring expenditures is the foundation of a structurally balanced budget.

2. Define the relationship between recurring revenues and recurring expenditures. The next step is to define the acceptable relationship between recurring revenues and expenditures. The strongest interpretation of structural balance would require recurring revenues to equal recurring expenditures. A weaker definition might allow for some use of non-recurring revenues to fund recurring expenditures, as long as the state reserves (i.e., rainy day fund) remain within targeted ranges.

3. Report on policy compliance. To improve transparency, the state should develop a mechanism to self-report compliance with the policy. For example, the state budget document could address how structural balance has or has not been achieved.

Recommendation 3: Improve Accuracy and Adaptability of Revenue Forecasts

The budget is built on projections of revenue. A review of Kansas' actual revenues compared to the original forecast suggests that Kansas' historic forecasts have generally been reasonably accurate, but the most recent two years have shown deviations from the historic level of accuracy at a time when room for error has been constrained. The state's history of making mid-year adjustments in response to changing conditions was characterized as one of Kansas' notable strengths by Standard in Poor's in a recent rating analysis.[10] Still, there may be room for improvement.

Critical Implementation Steps:

Most of the concern identified with the state's revenue forecasts revolved around the adaptability of the state's forecasts to changing conditions.

1. Establish reserves to absorb normal variation from forecasts. As noted in the section above, Kansas should actively build a reserve fund.

2. Continue to use short-term forecasts to adjust. Kansas was recognized by S&P for its effective use of short-term forecasts to adjust its budget and can continue this practice.[11]

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8 "Building State Rainy Day Funds." Pew. 2014.

9 See "Best Practice: Appropriate Level of Unrestricted Fund Balance in the General Fund," Government Finance Officers Association. September 2015.

10 "Kansas Development Finance Authority; Appropriations; General Obligation" Standard and Poor's Rating Service. August 3, 2015.

11 "Kansas Development Finance Authority; Appropriations; General Obligation" Standard and Poor's Rating Service. August 3, 2015.

3. Identify items in the budget that can easily be deferred if revenues don't come in as expected.

4. Better track and report on revenue volatility. Kansas should establish processes to better track and maintain a database on actual revenues by discrete revenue categories and key factors of revenue growth. In addition to the tracking, the state should analyze and report on the volatility overall and by revenue class to help inform the revenue estimating process.

5. Improve consensus revenue estimating process. Consensus revenue forecasting is a best practice for states. Kansas should improve its current consensus revenue estimating process (suggestions include formalizing some practices that have been part of Kansas' process at points in the past).

- Develop a new structure for the reports on the major tax revenues. Analogous to the way airplane pilots go through a detailed checklist before flying the plane, Kansas' revenue process should describe the list of the factors that are thought to be indicative of state revenue performance. An explicit model helps reveal any differences in assumptions between the forecasters. Secondly, the overall economic outlook should provide for an improved correlation of the impact of the major sectors, like aviation, oil and gas, etc. have on the total Kansas economy and what percentage they represent of the overall revenue mix.
- Reach consensus through "Delphi" method or by averaging. Currently, the state's forecasters come to a consensus through group deliberation. There is some evidence that group deliberation leads to sub-optimal forecasting results because groups have a hard time making objective decisions about highly uncertain issues. Evidence suggests that better results can be obtained in one of two ways:The Delphi method, which has forecasters exchange their estimates and give feedback anonymously using a structured method of communication (e.g., like a special form or closed survey).[12]
- Take the simple average of all of the forecasts from the participants in the process.[13]
- Contract for external, independent expertise to supplement the existing process. Kansas should contract with external experts in revenue forecasting that have experience forecasting state government revenues to provide added insights into the forecasting process.
- Conduct formal analysis of the economy. In the past, the state produced detailed studies of the economic and demographic environment, but these studies were de-funded a number of years ago. This kind of analysis is essential to good forecasting because knowledge of economic environment is necessary for building strong quantitative forecasting models and for exercising informed judgment about what future revenues will be.

Recommendation 4: Deploy a Long-Term Financial Plan

The Kansas current annual budget does not fully demonstrate long-term impacts of the decisions made today. The primary focus is on the biennial budgeting process, and the state does not generate and manage to a five year strategic plan and budget forecast. There is always an incentive, not only in Kansas, for public officials to solve today's fiscal problems by pushing costs into the future. Examples of long-term obligations that are either difficult or impossible to locate in an annual budget include: the obligations associated with building and maintaining capital assets, the effect of tax expenditures, and shifting revenues from local governments to the state's coffers.

Kansas' has had issues with the pension funding since the early 1990's. This historic lack of long-term planning on its pension funding has led up to the state's current challenges with pensions.[14] The state has begun to take action to address its pension challenges, but it will be a long road to recovery. The state should continue to focus on long-term strategies to address this and other challenges.

12 The Delphi method is a well-known technique in forecasting science and, for the sake of brevity, has not been described in great detail here. Many publications exist that describe the details of a strong Delphi process.

13 Taking the simple average of multiple forecasts is also a well-known technique for improving accuracy and many researchers have written on how to conduct averages of forecasts.

14 S&P described the states "significant" unfunded pension liabilities as an offset against the States financial strengths. See: "Kansas Development Finance Authority; Appropriations; General Obligation" Standard and Poor's Rating Service. August 3, 2015.

Other than just avoiding future financial challenges, long-term planning offers the following benefits:[15]

- Facilitates decision-making over a more relevant time-horizon. Impacts of decisions made about public services and finances are rarely realized within a single year.
- Promotes better financial health. A program staffed by junior employees will grow in cost over time as wages and benefit costs increase. In an annual budget, the program may be affordable, but the financial outlook might be less rosy when looking out over multiple years.
- Encourages officials to set priorities. When presented with information on the long-term affordability of programs and services, officials will be in a better position to set longer-term priorities.
- Allows for course corrections. Long-term financial planning provides advanced warning of future budget challenges—this allows officials to make gradual adjustments to avoid future crises. Improved stability should also help improve the public's perception of the government's financial management acumen.

Critical Implementation Steps:

1. Prepare long-term revenue forecasts. Long-term forecasts provide insight into the resources that will be available to fund expenditures. Currently, 11 states forecast four or more years beyond the upcoming fiscal year and 11 additional states forecast three years beyond the upcoming fiscal years.[16]

2. Prepare long-term expenditure forecasts for existing services. Long term financial forecasting includes both revenues and expenditure estimates although expenditure forecasts are less common than revenue forecasts: only six states forecast at least three years in the future.[17] Long-term revenue forecasts and long-term expenditure forecasts can be used together to predict long-term structural imbalances.[18]

Prepare fiscal notes with multi-year projections. In many cases, the financial impact of a given piece of legislation is minimal at first, with the real impacts being felt only years later. A fiscal note provides an official estimate of the financial impact of proposed legislation. Kansas currently prepares multi-year fiscal notes only for legislative proposals with tax or spending implications. Twelve states have a well-developed process for preparing multi-year fiscal notes.

3. Disclose the impact of state fiscal actions on local governments.[19] Kansas should show the fiscal impact of state policy decisions on units of local government. Since local governments are "entities of the state," the financial problems of local government will ultimately impact state government. More transparency in how the state government and local governments share the tax base would help everyone understand the full burden that governments are placing on citizens, and how changes in policy shift tax burden. The State of Minnesota has a price of government report that shows the cost to citizens of all state and local governments, including changes in annual revenues collected by local government versus changes in aid they get from the state.[20]

4. Prepare a list of funded and unfunded capital projects. The state should have a capital improvement plan that describes the capital projects it will undertake five or more years into the future. Importantly, this capital improvement plan should differentiate between projects that have a confirmed funding source and those that do not. This type of plan would allow the state to conduct a forward-looking analysis of the affordability of likely future debt.

5. Prepare financial estimates of long-term maintenance costs of physical assets. Kansas should prepare an inventory of its assets, identify the minimum acceptable condition of those assets, and then prepare multi-year cost estimates for keeping those assets at that condition. This inventory would show any backlog of deferred maintenance on assets. The state follow the smart

15 Adapted from: Elizabeth C. McNichol, Vincent Palacios, Nicholas Johnson. "Budgeting for the Future: Fiscal Planning Tools Can Show the Way." Center on Budget and Policy Priorities. February 2014.

16 Elizabeth McNichol, Iris Lav, and Michael Leachman. "Better State Budget Planning Can Help Build Healthier Economies." Center on Budget and Policy Priorities. October 2015.

17 McNichol, et al. "Better State Budget Planning Can Help Build Healthier Economies" 2015.

18 "Beyond the Basics: Best Practices in State Budget Transparency." The Volcker Alliance. December 2015.

19 "Beyond the Basics: Best Practices in State Budget Transparency." The Volcker Alliance. December 2015.

20 "Beyond the Basics: Best Practices in State Budget Transparency." The Volcker Alliance. December 2015.

practice of California and their approach to disclosing the cost of deferred maintenance in a five year infrastructure plan, which was part of the governor's proposed 2016 budget.[21]

Recommendation 5: Develop User Fee Policies

User fees are for services where specific entities or individuals benefit from a public service more than the general public, for example in the granting of licenses, permits and rights-of-way. Without these fees, these businesses and individuals are being subsidized by the rest of the public. While such fees are a relatively small percent of Kansas' total revenue budget, making sure these fees are aligned with the cost of providing the service are an important part of an overall system of good financial management.

Critical Implementation Steps:

1. Identify the factors that suggest a higher or lower level of cost recovery. Not every service that charges a user fee should charge the full cost of the service. For example, a service that creates a substantial benefit for the general public, in addition to the benefit provided to the recipient of the service, might be deserving of subsidization. Appendix 1-G provides examples of factors that the state should consider.

2. Define the cost basis. The state must define what it means to recover some portion of the "cost" of a service. GFOA recommends using "full cost" as the basis for cost recovery. Full cost includes both the direct cost of providing the service, plus indirect costs like administrative overhead.

3. Provide for regular review and update of fees. In order to ensure that fee levels remain consistent with the cost of providing the service, fees should be reviewed and updated on a regular cycle. An annual comprehensive review of the cost of service versus the fee levels may be too burdensome, so a longer cycle (e.g., every three years) should be considered.

Recommendation 6: Adopted Debt Management Policy

Debt is an essential tool of public finance for making long-term investments in infrastructure. However, debt can become a burden if a government takes on more than it can afford. The State of Kansas has an amount of debt that is described as "moderate" by Standard and Poor's, and a credit rating of AA/Negative. This is the lowest of the states in Kansas' comparable group (see bond rating comparison chart located to the side).[22] It is important that Kansas maintain this rating, as the negative outlook implies there is a risk of the rating slipping.

Bond Rating Comparisons	
Arkansas	AA/Stable
Idaho	AA+/Stable
Iowa	AAA/Stable
Kansas	AA/Negative
Missouri	AAA/Stable
Nebraska	AAA/Stable
Nevada	AA/Stable
New Mexico	AA+/Negative
Oklahoma	AA+/Stable
Utah	AAA/Stable

21 "Beyond the Basics: Best Practices in State Budget Transparency." The Volcker Alliance. December 2015.

22 Ratings taken from: "US State Ratings and Outlooks: Current List" Standard and Poor's. October 22, 2015. AAA is the best rating. Negative or Positive means S&P believes there is a one-third or greater likelihood that the rating will move up or down within the one-to-two year timeframe. Stable means that S&P believes the likelihood the rating will stay the same for the upcoming one-to-two years is at least two-thirds.

It would benefit the state to adopt a policy to govern the use of debt and the amount of debt it will take on. In fact, the state already has such a limit in place for Kansas of Department of Transportation (KDOT) debt financings. KDOT has the authority to issue additional bonds provided that at the time of issuance the projected debt service on State Highway Fund (SHF) debt in the current or any future year is estimated to not exceed 18 percent of the expected SHF revenues in any future year. Kansas can build upon the sort of provisions it has in place for KDOT by adopting a similar debt policy that is applicable to the entire state.

Steps to develop a Debt Management Policy

1. Review the fundamentals. A debt policy should always address certain fundamental points about how debt should be used. Kansas should design its policies to make sure the following points are clear:
    a. Debt should not be used to fund operations.
    b. The life of a debt should not exceed the useful life of the asset the debt was used to purchase.
    x. Avoid back-loaded repayment schedules.
2. Define "debt." Kansas has not issued general obligation bonds since 1919.[23] Rather, appropriation debt, capital leases, and highway revenue bonds, make up the majority of tax supported debt. Hence, when making a policy that describes how the state will use debt and how much debt will Kansas will incur, Kansas should be sure to have a broad definition that includes not just debt that it is legally obligated to repay (like a general obligation debt), but also debt that it is morally obligated to be repaid, like appropriation debt.

3. Define how debt affordability will be measured. There are two important perspectives on the affordability of debt. First is the burden on the taxpayers, and second is the burden on the state's budget. To measure the burden on taxpayers, the best measure is total debt as a percent of personal income as this combines both the total population with the economic capacity of the population. To measure burden on the state's budget, the best measure is debt service as a percent of total governmental fund expenditures. This ratio is helpful because it encompasses any debt service expenditures that are made across all funds. The ratio could also be expressed as debt service as a percent of revenues.

4. Define ceilings on indebtedness. Using the ratios described above, Kansas should set a ceiling on the total amount of debt it is willing to incur. The exact ceiling for Kansas should be a product of benchmark studies with comparable states, consideration of the State of Kansas's own economic capacity and service-provision responsibilities, and political negotiation. Generally, for states that have adopted ceilings, the ceilings for debt-to-personal income range from 2.5 percent to 6 percent and from 5 percent to 8 percent for debt service-to-revenue ceilings.[24]

5. Document the policy. The state should adopt and document statutes or non-binding guidelines to allow for more flexible provisions that give future generations of elected officials the ability to change the guidelines in light of then-current conditions, while still maintaining transparency on the standards definitions. It should be noted that a debt policy does not necessarily have to be a one-size-fits-all proposition for state agencies. For example, the state's two largest issuers, perhaps the Department of Transportation, and the Development Finance Authority, require different guidelines underneath an overarching statewide debt limit.

6. Conduct periodic debt affordability studies. The state should publish periodic reports on the debt limits, detailing if the state's tax base and economic conditions can support existing and likely future debt levels, and if the existing limits are still appropriate given the analysis of the tax base and economic conditions.For example, the State of Maryland publishes an annual report through a committee that is composed of members from across the state government. Georgia publishes reports that compare debt service against its self-imposed indebtedness caps across a ten-year period of time, including projections

23 According to Standard and Poor's.

24 Jennifer Weiner. "Assessing the Affordability of State Debt." New England Public Policy Center. 2013.

TWO YEARS IN THE FUTURE.[25]

Recommendation 7: Adopt Policy for Addressing Pension Liabilities

The State of Kansas still has significant state unfunded pension liabilities, even after the most recent issuance of pension bonds. Contributions are projected to remain below the actuarial Annual Required Contribution (ARC) until 2020, adding to Kansas' moderate tax-supported debt burden—in fact, these pension challenges were cited by Standard and Poor's as a counterweight to Kansas' financial strengths.[26] It must be recognized that reaching a healthy funding level is a long-term proposition, which will take multiple years of consistent effort. Hence, the items contained in this section are oriented primarily towards putting in place the enablers of a long-term approach.

Critical Implementation Steps:

1. ADOPT A FUNDING POLICY TARGETING A 100 PERCENT FUNDED RATIO (FULL FUNDING). DISCUSS THE FUNDING AND AMORTIZATION METHODS WITH AN ACTUARY, AND SELECT THE ONE THAT MOST CLOSELY ALIGNS WITH THE FUNDING POLICY. A 100 PERCENT FUNDING RATIO MEANS THAT A GOVERNMENT PAYS FULLY FOR THE EMPLOYEE COMPENSATION COSTS THAT IT INCURS EACH YEAR. THE POLICY SHOULD ESTABLISH THE STRATEGIC INTENT TO EVENTUALLY REACH A 100 PERCENT FUNDED LEVEL.

2. COMMIT TO FUND THE FULL AMOUNT OF ARC FOR EACH PERIOD. EVERY GOVERNMENT EMPLOYER THAT OFFERS DEFINED BENEFIT PENSIONS SHOULD MAKE A COMMITMENT TO FUND THE FULL AMOUNT OF THE ARC EACH PERIOD. FOR SOME GOVERNMENT EMPLOYERS, A REASONABLE TRANSITION PERIOD WILL BE NECESSARY BEFORE THIS OBJECTIVE CAN BE ACCOMPLISHED.[27]

3. PERFORM AND DISCLOSE STRESS TEST ANALYSIS. POLICYMAKERS AND THE PUBLIC NEED TO UNDERSTAND THE INHERENT UNCERTAINTY IN ACTUARIAL AND INVESTMENT RETURN ASSUMPTIONS AND HELP PLAN FOR FUNDING PENSIONS UNDER DIFFERENT ECONOMIC CONDITIONS. EMPLOYERS WITH WELL-FUNDED PENSION PLANS TAKE A LONG-TERM APPROACH TO ESTIMATING INVESTMENT RETURNS, ADJUST THEIR DEMOGRAPHIC AND OTHER ASSUMPTIONS AS NEEDED, AND CONSISTENTLY PAY THEIR ANNUAL REQUIRED CONTRIBUTION IN FULL.[28]

   Memorializing these commitments in a policy will signal the intent to participants in the budget process that paying down accumulated pension liabilities is a priority for the state.

Recommendation 8: Maintain Policy for Funding of Other Postemployment Benefits (OPEB) Obligations

The State of Kansas currently is keeping OPEB risk low. Standard and Poor's view the state's OPEB risk to be 'low' since the state has comparatively "limited benefits provided, Kansas' discretion to change benefits, and an ARC that is relatively low in relation to the state budget, compared with that of other states."[29] The plans that are provided by the state include a death and disability plan administered by the State of Kansas Retirement System for Public Employees (KPERS), and a postemployment health insurance benefit plan administered by Kansas Health Policy Authority (KHPA). The UAAL for the health care plan was $249.5 million, or about $86 per capita as of June 30, 2012—the last valuation date. Health insurance is funded on a pay-as-you-go basis. The state funded about 68 percent of its OPEB ARC in 2014.[30]

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25 "Beyond the Basics: Best Practices in State Budget Transparency." The Volcker Alliance. December 2015.

26 See: "Kansas Development Finance Authority; Appropriations; General Obligation" Standard and Poor's Rating Service. August 3, 2015.

27 With the deference to short-term obligations over long-term obligations in funding patters, best practice would identify the need to formalize funding targets. http://www.gfoa.org/funding-defined-benefit-pensions

28 Long-term investment return approaches are necessary when combined with adjustments to underlying assumptions. See: http://www.naco.org/sites/default/files/documents/PensionFundingGuide.pdf

29 "Kansas Development Finance Authority; Appropriations; General Obligation" Standard and Poor's Rating Service. August 3, 2015.

30 Ibid.

Since Kansas is already managing its OPEB obligations, offered is the following adaptation from the California Actuarial Advisory Panel with the objective of helping governing bodies in determining a funding policy.[31] Kansas should consider developing its own formal policy to ensure that its strong OPEB funding practices continue into the future.

Critical Implementation Steps:

1. Recognize cost of benefits as they are earned. Employers are required to recognize the cost of pension benefits as employees earn them, according to the Governmental Accounting Standards Board (GASB).[32] Future contributions should include the cost of current service plus a series of amortization payments or credits to fully fund or recognize any funding discrepancies from past service costs.

2. Develop an actuarial funding policy with the goal of providing benefits to all members. State pension funds are always pre-funded, which means that the government puts money into the plans before the money is needed in order to pay the retiree (even if states don't always put enough money into the plan to fully cover the liability). Conversely, many states fund OPEB using a pay-as-you-go strategy, which means that the state only pays for the health care services used by retirees when they use them (i.e., after they have retired from public service). Ideally, similar to pensions, a state would fund OPEB costs as it incurs the liability (i.e., when the employee is still active in the public service). Elements of a funding policy include the following:

- An actuarial cost method allocates the total present value of future benefits to each year including all past years. In other words, amount contributed to fund OPEB liabilities should be sufficient to pay for the actual cost of the benefit when the bill comes due.
- An asset smoothing method reduces the effect of short term market volatility while still tracking the overall movement of the market value of plan assets. Market volatility should not cause the state to experience large, short-term swings in its contribution.
- An amortization policy determines the length of time and the structure of the change in required annual contributions. The length of time the state allows itself to pay down liabilities will have a big impact on the budget, so there should be an explicit policy on how this issue will be handled.

3. Consider governance issues with policy implementation.

During implementation of the policy, there is a need for consistent budgeting commitment from policy-makers. The form of the policy needs to be authoritative enough to encourage compliance as well as transparent enough to determine if Kansas maintains compliance with its own policy.

Part II. Improved Accountability

Improved Accountability smart practices focus on improving the value Kansas's taxpayers get for their money and the processes used to evaluate how funds are spent.

Recommendation 9: Conduct a Program/Service Inventory

A program or service inventory is a catalogue of all of the existing services that a given agency or department provides. Currently, the state budget is organized around functional units (e.g., departments and divisions) and objects of expenditure, which makes it difficult for stakeholders (legislators, governor's budget office, and special interest groups) to understand the services that the budget is funding. The major benefits of a program inventory:

- Address gaps in services. An inventory reveals the breadth of services an agency provides in the pursuit of its mission. This enables state officials to better compare the needs of the agency's clientele against the services that are being provided.
- Identify and eliminate duplication. An inventory makes it easier to see where services are being duplicated within an

31 "California has a framework to provide for Pension and OPEB funding policy development. See: Actuarial Funding Policies and Practices for Public Pension and OPEB Plans and Level Cost Allocation Model, California Actuarial Advisory Panel. 2013. http://www.sco.ca.gov/Files-ARD/BudLeg/CAAP_Funding_Policies_w_letter.pdf

32 See GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

agency or across agencies.

- Verify "mandates" that are used to justify spending. An inventory can be used to identify and verify the mandates that are often used to justify expenditures. Any program that is thought to be mandated can be indicated as such, and the mandate then investigated to see if the letter of the law calls for the level of activity the program provides.
- Create true transparency in spending. An inventory puts state spending in a language, which citizens can understand without "insider" knowledge of state government.
- Basis for evidence-based policy making. After the development of an inventory, performance measures can be associated with programs in order to help determine if the state is receiving an acceptable return on its investment for that program.
- Basis for more advanced budgeting methods. A strong programmatic structure is a prerequisite to forms of budgeting like priority budgeting, zero-based budgeting, and performance budgeting. This is because these budgeting methods are used to compare the relative value of different services—a program inventory reveals the services that are under consideration.

Our experience has shown that the outcomes of a service inventory sometimes lead to potential changes in how services are provided as well as their costs. It also results in:

- Challenging agencies to think in terms of financial, operational, economic cost drivers, and strategic priorities.
- Comparing current services to activities needed to support the department's core mission and priorities.
- Validating all current programs, services, and activities, and related "service" spending requirements.
- Allowing for new funding proposals to be made based on the necessity of a service.

Critical Implementation Steps:

1. Establish commitment. Thinking programmatically is a significant shift from only considering traditional objects of expenditures when developing a budget. The highest levels of state government should signal their support for developing program inventories in the agencies.

2. Identify coordinating authority. An authority, like the executive budget office, should be established to coordinate the development of inventories. The authority should develop templates to guide the agencies as they construct the inventory, ensure consistent data collection standards, and manage schedules and deadlines.

3. Establish goals for the inventory. Before starting an inventory, the state should decide which of the aforementioned benefits of a program inventory it wishes to focus on obtaining. This will set the expectations of the agencies and will inform the design of the inventory.

4. Establish definitions. There are a wide range of definitions for "program" in public budgeting. Some initial guidelines to assist in defining the programs include:
    a. Size. Any program that costs more than 5 percent of an agency budget is likely too big and should be divided into smaller programs. Any program that costs less than $10,000 is likely too small and should be consolidated with other programs.
    b. Visibility. If a service is advertised on the agency's website, brochures, or other materials it should be considered a program.
    c. Mandated. If an activity is mandated it should be distinguishable as a program. Departments should identify the legislative authority that makes the service or program mandated.
    d. Has supporting revenue source. If a service is supported by grant money or user fees, it should be listed as a program.
    e. Targeted clientele. If a service is provided to specific constituency (e.g., residents, businesses, visitors) or population (e.g., youth, adults, seniors, non-residents) it should be listed as a program.
    f. Non-traditional services. For services where there are clear options for providing services through non-traditional means (e.g., public-private partnerships, outsourcing, etc.) the service should be listed as a program so better conversations can occur about these options.

g. Include the maintenance of capital assets. Maintaining capital assets is an important activity, but is often tempting to put it into overly broad categories like "infrastructure repair" or "fleet maintenance." A program inventory should be more specific about the types of asset being maintained.
h. Prevention vs. remediation. It can often be useful to differentiate between services that are intended to prevent a problem from occurring and services that respond to and remediate a problem after it has occurred.

The inventory should include other data elements that help users of the inventory understand what the program does. These elements should be defined before starting the inventory. Examples of information commonly included in an inventory are: program goals, a brief description of the service provided, desired outcomes, target populations, capacity, number of clients served (often including the duration and frequency of client interactions),[33] and the cost of the program.

Appendix 1-A provides an example of a preliminary program inventory from the Results First initiative for the State of Wisconsin in order to illustrate what a program inventory might look like.[34]

Recommendation 10: Develop Goals to Guide Budget Decision-Making

Goals provide a basis for making resource allocation decisions during the budget process. For example, after an agency's programs have been identified, the goals could be used to prioritize the programs. In this way, Kansas can begin to shift the fundamental question of budgeting from "how much do we spend," to "how can we spend the money we have in the most effective way?" Making this shift enables the state to move beyond incremental budgeting to the strategic allocation of resources to the most cost effective programs.

Critical Implementation Steps:

Goals should be set for the entire state and agency goals would then link to the statewide goals. This is more easily said than done as it requires aligning the many parts of state government. For this reason, we will focus on goal setting for agencies only.

Agency Goal Setting

1. Decide on the participants. Agency goals should be set by a wider circle than just the executive management of the agency. The goal setting process should include agency staff with a direct connection to front-line service provision as well as other stakeholders outside of the agency whose support will be needed to achieve the goal.

2. Define the characteristics of a good goal. In the public sector, there is a strong pressure to make goals vague because this makes it easier to arrive at a set of goals on which everyone can agree. However, vague goals are not helpful for managing the direction of the agency. The proposed goal framework provides a set of goal characteristics for which agencies can strive.

- Specific. The goal should precisely describe the outcome or result the agency wishes to achieve.
- Measurable. The goal should be measurable, verifiable and, ideally, quantifiable.
- Achievable. The goal should be rooted in an understanding of the agency's current strategic environment, including factors such as current performance, capacity of the agency's staff, and other relevant factors.
- Relevant. The goal should focus on results or outcomes that matter most to the lives of constituents, rather than the efficiency of the agency, the number of people it serves, or how quickly it provides services.
- Time-bound. The goal should identify a time period for achieving the goal as well as interim milestones where incremental progress will occur.
- Ambitious. The goal reaches for significant, ambitious improvement for the lives of constituents.
- Resourced. The state government has the capacity to achieve its goals and has aligned and coordinated resources accordingly. This is where goals ultimately connect to the budget process.

Recommendation 11. Include Evidence of Program Effectiveness in Budget Decisions

33 Based on Results First program's experience in working with other states.
34 Provided courtesy of the Results First initiative.

A state can demonstrate it gets the highest return for its available dollars when program effectiveness is embedded in budget decisions. Funding can be directed to those programs proven to work and away from those that do not.

According to the National Association of State Budget Officers, only five states currently have a budget process where program performance is the primary determinant of spending.[35] However, the situation is changing. For example, the Pew Trust identified over 100 state laws across 42 states passed between 2004 and 2014 that support the use of evidence-based programs and practices. Pew also found that the number of states using evidence of program effectiveness to inform budget decisions has increased by 48 percent between 2008 and 2011, so that 29 states now use evidence in some fashion, even if program performance is not the primary determinant of all state spending.[36]

Kansas has already started going down this road in a small way. The Department of Corrections has started a Results First program under its own initiative. Results First is a program that is sponsored by the Pew Charitable Trust and MacArthur Foundation and is working with 21 states to build capacity for evidence based decision-making.[37]

Results First may not be systematic performance budgeting method that applies to every program in the state. Kansas should look at an evidence-based program evaluation method as a sort of "stepping stone" to a wider system of performance budgeting.

Critical Implementation Steps:

The following steps are adapted from the Results First Initiative.[38]

1. Identify a sponsor for evidence-based decision-making. Results First has found states that are successful with evidence-based policy making need a clear sponsor and coordinating authority that has direct access to the policy-making and budget process. Results First has found there must be joint sponsorship by both branches, even if day-to-day coordination happens in the executive branch.

2. Categorize programs by their evidence of effectiveness. The long-term goal is to use the budget process to decrease the use of programs with little or no program effectiveness and increase spending on programs with proven effectiveness.

The state can initially phase in results across a limited number of agencies, enabling sponsors in the executive and legislative branches to keep up with the pace of change, catalogue lessons-learned from each agency's implementation and transfer that knowledge to other agencies. Their existing database of research on program effectiveness already includes the following areas: criminal and juvenile justice, child welfare, mental health, substance abuse, public health and pre-K through 12th-grade education. The state should begin with agencies within these policy areas.

3. Identify a program's potential return on investment. Once the state has a program inventory, it can build on that inventory by analyzing the cost-benefit of programs. A return on investment (ROI) calcu-

35 According to NASBO, most states have an incremental budget process. However, many states do take program performance into account during the budget process, even if it is not the primary determinant of spending. See: "Budget Processes in the States." National Association of State Budget Officers. Spring 2015.

36 "Evidence-based Policymaking: A Guide for Effective Government." Pew Charitable Trusts.

37 http://www.pewtrusts.org/en/projects/pew-macarthur-results-first-initiative

38 Compiled through a series of personal conversations with Results First staff and through publicly available documents from Results First.

lation is made by comparing a given unit of benefit to the cost required to produce that benefit.

It is important to note here that the benchmark data on effect size is not generated directly by the agency. Instead, it is taken from a database of rigorously conducted studies of the effectiveness of programs of that type (such as databases maintained by Results First).

4. Present information to policymakers in user-friendly formats that facilitate decision-making. An accessible format should increase the likelihood of performance information being inducted into decision-making. Appendix 2-H provides an example of a prototype of such a presentation from the Kansas Department of Corrections through its work with Results First.

5. Include relevant studies in budget hearings and committee meetings. Performance information should be included in forums where budget decisions are made, such as before Legislative committees.

Establish incentives for implementing evidence-based programs and practices. The budget process should include a formal system for encouraging the use of evidence. For example, grants made to local governments could be weighted towards applicants that can demonstrate the use of evidence-based programs. It might be possible to also incentivize state agencies though a reinvestment or share-in-savings approach, wherein agencies can keep some portion of the savings they generate by going to more cost effective interventions.

Recommendation 12. Implement Performance Budgeting

Traditionally, in the public sector, the overriding determinant of an agency's budget for the next year is what it received last year, with some adjustments made at the margin based to how much more (or less) revenue is available. The premise of performance budgeting is to change the way elected officials and state agencies request and allocate resources by introducing consideration of the results that a given program or service will achieve with the money it receives.

Forty states have adopted laws that support performance budgeting as of 2012.[39] In addition to asking about what was spent last year or how much a program costs, policy makers can use performance information to ask questions like:[40]

- Is your agency/program meeting performance targets?
- How does performance compare to national and other state performance?
- How does agency performance and strategic plan inform your budget request?

Key for performance based budgeting is the alignment of programs and services to state and department goals and strategic priorities. This should align with performance measures. The development of useful measures takes time and resources, so implementation of performance budgeting will take time to provide benefits up to its full potential.[41]

The GFOA did explore other budgeting methods, but came to the conclusion that Kansas should consider performance budgeting over such other methods as priority budgeting and zero-based budgeting approaches. Major factors include:

- Zero Based Budgeting's benefits are uncertain. Research has shown the theoretical promise of ZBB has largely gone

39 Yi Lu and Katherine Willoughby. "Performance Budgeting in the States: An Assessment." IBM Center for the Business of Government. Fall/Winter 2012

40 Questions are from: "Legislating for Results" a whitepaper from the New Mexico Legislative Finance Committee

41 Both points in this paragraph are from: Yilin Hou, Robin S. Lunsford, Katy C. Sides, and Kelsey A. Jones. State Performance-Based Budgeting in Boom and Bust Years: An Analytical Framework and Survey of the States. *Public Administration Review*. May/June 2011

unrealized. Although a number of states use ZBB derivations and ZBB-like tools on a limited basis, the efforts of past government efficiency efforts and the proposed Kansas Government Efficiency Review measure will likely duplicate many, if not most, of the benefits that a detailed review of agency budgets under a ZBB-like method would produce.

- Performance budgeting moves the focus off of line-items and inputs. One of the primary attractions of ZBB is that it moves the focus of budgeting to service levels, while priority budgeting's attraction is a shift in focus to the results produced by government services. Both of these represent a change from the traditional budget's focus on inputs. Performance budgeting also moves the emphasis away from inputs towards measures of service performance, but without the need for as radical a change to the budget process.

- Performance budgeting lends itself to an incremental approach. Governments often fare better with incremental change than with large-scale, sudden change. Performance budgeting can be implemented incrementally and does not ask that the state comprehensively reconsider all of its resource allocation precedents, unlike ZBB and priority budgeting.

Critical Implementation Steps:

1. Adopt legislation supporting performance budgeting. Research shows that when there is a law supporting performance budgeting, there is stronger support and smoother implementation. Such legislation should include:
- State agencies are directed to develop strategic plans for their agency.
- Agency strategic plans should be included in the budget process. For example, the strategic plan should describe an agency's goals and how proposed resource allocations contribute to the accomplishment of those goals.
- The agency strategic plans are linked with performance measures that provide insight into the performance of the agency relative to its strategic goals.
- Guidance should be provided on the types of measures that should be produced ensuring that measures address outcomes, or the difference made in the lives of constituents as result of government service, as opposed to only addressing the level of effort made by the agency or the efficiency of the agency.
- Responsibility is assigned for developing the measures. Laws almost always give a primary role to agencies in developing measures, but might also assign a role to the executive budget office (e.g., provide technical assistance to the agencies).
- The frequency with which the measures will be updated is specified. Typically, laws call for updates at least annually.
- Responsibility for evaluation or audit of performance measurement or results is defined. Laws almost always define a clear role of the legislative branch, but might also define a role for the executive budget office.

It does not appear any single state has an ideally constructed law, but different states do have certain strengths that could serve as a statutory model for Kansas. Iowa and Oregon are particularly strong on how they address coordination between state and agency strategic plans. Iowa and New Mexico's laws are strong regarding oversight and checks-and-balances, including use of performance information to evaluate agencies and taking citizen input. Louisiana and Oklahoma's laws efficiently address the types of measures that should be used and frequency of performance reporting.[42]

1. Develop stakeholder support for performance budgeting. Stakeholder support for performance budgeting from the executive leadership, legislative branch and professional management of the state government is important for it to succeed.[43] The State should explore methods for building support, such as providing training and education to participants on how to develop and use performance information.
2. Deploy department and agency performance measures. The quality of the measures produced have an important impact on whether performance budgeting works.[44] If the state develops a program inventory, it can begin to develop measures for its

42 Lu, Y., Willoughby, K., and Arnett, S. (2011). "Performance Budgeting in the American States: What's Law Got to Do With It?" *State and Local Government Review*, 43(2), 79–94.

43 From meta-study conducted by: Elaine Yi Lu, Zachary Mohr, and Alfred Tat-Kei Ho. "Taking Stock: Assessing and Improving Performance Budgeting Theory and Practice." *Public Performance & Management Review*, 38, 426–458, 2015.

44 From meta-study conducted by: Elaine Yi Lu, Zachary Mohr, and Alfred Tat-Kei Ho. "Taking Stock: Assessing and Improving Performance Budgeting Theory and Practice." *Public Performance & Management Review*, 38, 426–458, 2015.

programs. An executive order could be used to define a measurement system needed to support a performance budgeting approach while the state takes the time to develop a thorough and thoughtful law supporting performance budgeting.

3. Develop implementation plan for performance budgeting system. The legislative statute shouldn't define the precise details of a performance budgeting process, so those details will need to be designed by administrators. The development of a performance measurement statute will help define some of the features that Kansas budget process should incorporate, and the points above provide guidelines on the major steps what would need to be addressed.
4. Consider developing statewide goals and priorities. It is more practical to set goals and plans for each agency than it is for the state government as a whole. However, the absence of statewide goals limits the potential benefit of a performance budgeting system. This is because if there are no statewide goals, there is no context to judge the relative merit of one program versus another across state agencies. Very few states have a strong set of statewide goals because of the difficulty of coordinating the interests of the many stakeholders of a state government. There is a danger in setting goals so broad that they do not provide meaningful guidance. Kansas should prioritize efforts to set statewide goals due to the complexity of the issue. Mississippi is an example of a state that has recently done work to develop joint legislative and executive vision for the state's service priorities.

Part III. Budget Transparency

The final set of smart practices involves transparency. These smart practices optimize the transparency and accessibility of the budget document and provide on-line access to budget information. The budget document should communicate key fiscal and policy decisions, issues, and tradeoffs. The materials should be prepared in a format that is clear and comprehensible, and be structured in such a way it can be comparable between fiscal years.

Recommendation 13: Provide Online Access to Budget Documents and Supplemental Data

Most states, including Kansas, post the budget document online for citizens and other observers to see. However, the typical government budget document is not sufficient to give laypersons a good understanding of government spending and revenue generation. Providing hyperlinks to information is a good start, but in today's world citizens demand more transparency to financial information of governments. The next step after making the budget available online is disseminating the information within the document in an accessible way and providing open access to data, allowing citizens and stakeholders to create their own reports to simplify complex financial data.

Critical Implementation Steps:

1. All supplemental data should be provided in one place. Information should be furnished on a website with items that are readily available—such as budget instructions, reader's guides, introductory letters, and any other information that may not be included in the main budget document. Kansas has a good deal of information on line, which is great start. However, it is not necessarily obvious to the layperson how to access it all and which documents might present the most relevant information for their particular needs. For example Utah has transparent.utah.gov. Some of the features of this site are similar to Kansas's Kanview, but Kansas might be able to build upon the work it has already done to make its financial information even more accessible.

2. Provide a reader's guide to all available resources outside of the budget document. Give an overview of supplemental reports supporting the main budget document and provide links to citizen portals, budget dashboards, performance reports, and other supplemental resources along with general user instructions to aid in resource retrieval. Kansas's budget site has a large amount of information available, though it could be restructured to help the layperson determine the best place to start. For example, the most citizen-friendly portion of the budget is probably the budget overview that appears in volume one of the governor's budget report, but it is not readily apparent that a high level summary is available in this document.

3. HIGHLIGHT MAJOR POINTS IN A BUDGET-IN-BRIEF. THERE SHOULD BE HIGH LEVEL OVERVIEWS OF PROGRAMS AND SPENDING LOCATED IN THE BUDGET DOCUMENT. A BUDGET-IN-BRIEF CAN BE PRESENTED FOR ELECTED OFFICIALS AND CITIZENS THAT HIGHLIGHT MAJOR POINTS FROM THE BUDGET DOCUMENT. GOVERNMENTS FREQUENTLY USE BUDGET-IN-BRIEFS AS A SUPPLEMENT TO THE MAIN BUDGET DOCUMENT AND PROVIDE A ROADMAP TO SOME OF THE MORE TECHNICAL ELEMENTS OF THE BUDGET DOCUMENT. THE OVERVIEW OF THE BUDGET IN VOLUME 1 OF THE GOVERNOR'S BUDGET REPORT ADDRESSES MANY OF THESE POINTS, BUT AS DISCUSSED ABOVE, IT MIGHT NOT BE EASY FOR THE LAYPERSON TO FIND.

4. INCLUDE REFERENCE POINTS FOR ACHIEVING FINANCIAL GOALS. THE STATE SHOULD DISCLOSE WHERE IT STANDS RELATIVE TO FINANCIAL GOALS, SUCH AS ITS TARGET LEVEL OF RAINY DAY FUNDS. TOOLS LIKE A CITIZEN PORTAL ON A WEB PAGE CAN ALLOW A USER TO SEARCH REPORTS AND ANALYZE GOVERNMENT DATA IN AN INTERACTIVE MANNER TO AID IN UNDERSTANDING.[45] THE STATE OF MICHIGAN HAS AN ONLINE DASHBOARD THAT GIVES VARIOUS MEASURES OF FINANCIAL HEALTH, INCLUDING RESERVE LEVELS.

5. LIMIT THE AMOUNT OF SUPPLEMENTAL DATA. DISCRETION SHOULD BE GIVEN TO THE IMPORTANCE OF INCLUDED INFORMATION TO BE SURE IT IS RELEVANT AND COMMUNICATED IN A WAY EASILY DISCERNIBLE TO THE AVERAGE CITIZEN. APPLICABLE SUPPLEMENTAL DATA CAN BE DIRECTLY LINKED TO THE REPORT.[46] A LINK TO ARCHIVED MATERIAL CAN ALLOW FOR ACCESS TO HISTORICAL DOCUMENTS WITHOUT OVERWHELMING THE READER.

Recommendation 14: Optimize Transparency and Accessibility of the Budget Document

We found the state has maintained a consistent presentation, though some functions occasionally move due to routine reorganizations. Kansas currently provides fund structure and descriptions, basis of budgeting, budget process, and capital budget presentations. While the state does provide financial policies, the state should also work to provide summaries by fund and the next evolution in Kansas' budgeting processes should be to develop program based budgeting process and report on the program level budgeting. The state should consider the guidelines of the GFOA Distinguished Budget Presentation Award program to produce a budget document that excels in explaining the policy, financial, and operational choices. [47] Currently, only five or six states receive the award annually.

Critical Implementation Steps:

The GFOA Distinguished Budget Presentation Award program sets forth a comprehensive set of criteria for how to present a budget document. Appendix 1-E provides illustrative examples of effective presentation methods from budget documents in other states.

Recommendation 15: Be Transparent about the Roles of Transfers in the Budget

Transfers are often an important part of a state government's budget. Kansas, like many states, uses transfers between funds to balance the budget. In some cases, there are quite legitimate reasons to make such transfers, however, in other cases transfers can contribute to long-term financial challenges. For example, a transfer made to cover recurring expenditures is not maintainable if the transfer comes from a fund that will not be able to replenish the money taken. The budget process and reader documents should make it easy for users of the budget to understand the purpose of any revenue transfers.

Critical Implementation Steps:

Kansas should publish charts in its budget document that show transfers in and out of the general fund and other special revenues funds.

45 See "Presenting Official Financial Documents on Your Government's Website," Government Finance Officers Association. February 2009.

46 See "Making the Budget Document Easier to Understand," Government Finance Officers Association. February 2014.

47 It is important to note that the GFOA budget award does not address the quality of the budget decisions made or the process used to make them. It only addresses how the adopted budget is presented to public.

Kansas currently has practices in place in its Kansas Budget Comparison Report to show transfers in and out of the general fund. However, we recommend Kansas improve its sources and uses of fund transfers to:

- Include the chart as part of an improved budget presentation. The disclosure should be conspicuous and easy for non-experts to find and understand.
- Categorize transfers according to whether they are expected to be one-time or on-going.
- Show trends and projections for transfers in both categories. This would show any reliance on transfers that were expected to be temporary. It would also show if the amounts of on-going transfers are changing over time.
- Briefly describe the use of each transfer so the reader can put the numbers in context.
- Briefly describe the source of each transfer. For example, sweeping idle cash from other funds might be an entirely justified action. However, diverting money that is needed to meet the purpose of another fund might not be.
- Kansas should also make the role of transfers in balancing the budget more transparent. Kansas does report net transfers. However, reporting net transfers alone does not give a true picture of the level of transfer activity. As an alternative, state budget reports could take the following form
    - Starting balance (the accumulated result of surpluses and deficits over the years)
    - Resources going into a fund
        - Taxes, fees, grants, etc. generated by that fund in that fiscal year
        - Transfers into the fund from other State of Kansas accounting funds in that fiscal year
    - Uses of resources by that fund
        - Expenditures for state staff, contractors, etc. organized by relevant units of decision (agencies, divisions, etc.) in that fiscal year
        - Transfers to other State of Kansas accounting funds (in that fiscal year)
    - Ending balance

Besides making the role of transfers transparent, this form clearly differentiates the role of starting and end balance from current revenues and current expenditures.

Appendix 1A - State of Wisconsin Program Inventory

Below is an excerpt from a prototype inventory compiled for the Wisconsin adult criminal justice programs. The full document is available on the Pew-MacArthur Results First Website.

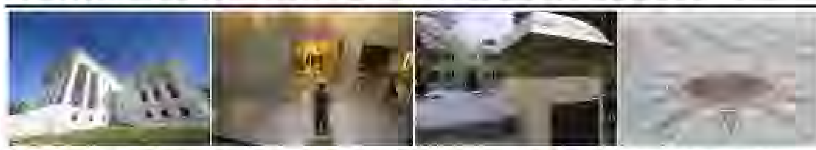
Program Category	Program Description	Program Types	Oversight Agency	Intended Outcomes	Average Duration of Program	Primary Participant Population	Criminogenic Needs Addressed
Cognitive Behavioral Therapy - Prison	Central programs involving cognitive behavioral intervention for prison inmates in Wisconsin	Anger Management / Impulse Control; Cognitive Intervention Program (CGIP); Thinking for a Change	DOC	Anger reduction. Alleviating criminogenic thinking patterns.	15 weeks	Moderate- to High-Risk Offenders	Antisocial cognition
Cognitive Behavioral Therapy - Community	Central programs involving cognitive behavioral intervention for offenders under community supervision in Wisconsin	Anger Management / Impulse Control; Cognitive Intervention Program (CGIP); Thinking for a Change	DOC	Anger reduction. Alleviating criminogenic thinking patterns.	13 weeks	Moderate- to High-Risk Offenders	Antisocial cognition
Correctional Education (basic or post-secondary) in Prison	Basic prison educational practices	Adult Basic Education (ABE); HSED Preparation and Testing, Special Education (SPED); Title I; English as a Second Language (ESL)	DOC	Enhance inmate educational attainment	Variable	General Offenders	School
Correctional Industries in Prison	Work and employment training opportunities provided to inmates	Prison Correctional Industries; Badger State Industries; Correctional Farms	DOC	Improving inmate employment skills.	Variable	General Offenders	Employment
Domestic Violence (DV) Perpetrator Treatment	Programs designed to address precursors of DV behavior to reduce likelihood future engagement.	Prison DV Treatment; Community DV Treatment	DOC	Reduce likelihood of future DV perpetration.	25 weeks	General Offenders	Antisocial cognition, family/marital problems

Appendix 1-E1 Create a Reader's Guide

WITHIN THE READER'S GUIDE, SEVERAL PRACTICES AID IN GUIDING THE READER IN UTILIZING THEIR DOCUMENT:

- DOCUMENT NAVIGATION. THE MORE TECHNICAL SECTIONS ARE BROKEN DOWN USING LABELS AND ARROWS TO DESCRIBE ELEMENTS LIKE THE FUND STRUCTURE TO HELP STAKEHOLDERS IN UNDERSTANDING WHAT THEY ARE READING.
- GRAPHICS. GRAPHICS ARE USED TO ILLUSTRATE A COMPLEX PROCESS.
- SHORT PAGE LENGTHS. EACH TOPIC SHOULD BE COVERED IN A SUCCINCT MANNER CONFINED TO A PAGE.

READER'S GUIDE TO VIRGINIA'S BUDGET DOCUMENT



This publication describes Governor McAuliffe's proposed budget for the Commonwealth of Virginia's 2016-2018 biennial budget. Additional information regarding studies and evaluations, agency strategic plans and performance management, including detailed service area budget tables may be access via the following Web sites: www.vaperforms.virginia.gov and www.dpb.virginia.gov/

PART A: INTRODUCTION

This section contains a summary of how Virginia's budget process works, an economic forecast outlining the status of Virginia's economy, and a revenue forecast reviewing the Commonwealth's fiscal outlook, including projected revenues on which the preceding budget amendments are based.

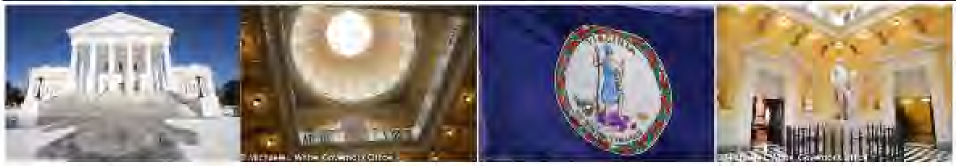
PART B: OPERATING BUDGET

Part B presents the Governor's proposed amendments for the operating budget. This section is organized by the three branches of government: Legislative, Judicial, and Executive. The Executive Department section is also organized by secretarial area.

For each branch of government or secretarial area you will find:	
Overview	The branch's major functions of government or secretarial area.
Agency Listing	A listing of each agency within the branch of government or secretarial area.
Summary Graphs	Depict the financing of secretarial areas by funding source and the general fund and nongeneral fund operating budget history for the secretarial areas.

For each individual agency you will find:	
Agency Name	Agency's official name.
Mission Statement/Description	The organization-wide strategic direction and the organization's purpose as stated by the agency.
Agency Operating Budget Summary	The Governor's operating budget amendments for the 2016-2018 biennium, including agency historical funding data and capital outlay amendments. The categories relating to funding are general fund and nongeneral fund. Also, there is a category indicating an agency's personnel costs. Table notes: All figures represent dollars rounded to millions; due to rounding, figures may not add exactly; figures in parenthesis are negative amounts; agencies appear in the same order as in the budget bill; and the values in the personnel costs category may exceed the sum of the general fund and nongeneral fund categories for addenda items. Personnel cost totals do not reflect any adjustments to any other budget category.

HOW VIRGINIA'S BUDGET IS DEVELOPED AND ADOPTED



Virginia has a biennial (two-year) budget system. The biennial budget is enacted into law in even-numbered years, and amendments to it are enacted in off-numbered years. For example, the current budget for the 2014-2016 biennium was adopted by the 2014 General Assembly. Amendments to this two year budget were considered by the General Assembly during its 2015 session.

Governor McAuliffe will present the 2016-2018 biennial budget and amendments to the FY 2016 budget (referred to as the Caboose) in the following pages. The General Assembly will adopt the budget during the 2016 session.

Developing the Commonwealth's budget is a process that takes many months, involving participation from state agencies, the legislature, and the public. The process includes five distinct phases: agency budget preparation, budget development, Governor's and secretarial review, legislative action, and budget implementation.

Key Budget Dates	
August 21, 2015	Instructions issued to agencies on preparing and submitting their proposed budget amendments
September 18, 2015	Agencies submitted their proposed budget amendments to the Department of Planning and Budget
December 17, 2015	Governor submits recommended budget to the General Assembly
January 13, 2016	General Assembly convenes
February 14, 2016*	Budget bill crossover occurs
March 12, 2016*	General Assembly adjourns
April 20, 2016*	Reconvened General Assembly session occurs

*indicates tentative dates

Appendix 1-E2 Include both Summary by Fund and Program Budget Summaries

Including both Program and Fund summaries allows stakeholders different views of how the government spends taxpayer funds. The Fund perspective shows how an agency spends money for different categories, such as Services or Operations. The Program Summary shows how much money is spent on any given program and the sources of the funds, such as state or Federal funds, and can provide a description of the program itself as an overview of the activities and agencies involved in the implementation of the program.

Education

Summary by Fund and Appropriation

	2013-14 ACTUAL	2014-15 AVAILABLE	2015-16 BUDGET
	(Dollar Amounts in Thousands)		
GENERAL FUND:			
General Government:			
General Government Operations	**$ 23,808**	**$ 23,634**	**$ 23,606**
(F)Adult Basic Education - Administration	945	945	1,000
(F)Education of Exceptional Children	10,000	10,000	10,000
(F)Special Education - State Personnel Development	2,394	2,394	2,394
(F)ESEA - Title I - Administration	12,000	12,000	12,000
(F)State Approving Agency (VA)	1,400	1,660	1,660
(F)Food and Nutrition Service	11,429	14,504	15,954
(F)Migrant Education - Administration	600	625	625
(F)Vocational Education - Administration	3,910	3,910	3,910
(F)Improving Teacher Quality - Title II - Administration/State	5,400	5,400	5,400
(F)Homeless Assistance	4,275	4,275	4,275
(F)Preschool Grant	750	750	750
(F)School Health Education Programs	450	450	450
(F)Charter Schools Initiatives	8,000	0	0
(F)Advanced Placement Testing	1,017	1,222	600
(F)Medical Assistance - Nurses' Aide Training	300	300	300
(F)State and Community Highway Safety	987	987	987
(F)Title IV - 21st Century Community Learning Centers - Admin.	4,000	4,000	4,000
(F)National Assessment of Educational Progress (NAEP)	188	148	148
(F)Striving Readers	50,156	50,156	50,156
(F)Refugee School Impact Development (EA)	566	834	721
(F)Migrant Education Coordination Program	130	130	130
(F)College Access Challenge Grant Program	3,935	7,870	3,700
(F)School Improvement Grants	60,000	60,000	60,000
(F)School Climate Transformation Grant	0	328	0
(F)Refugee School Assistance Program	200	0	0
(F)WIA - Dislocated Workers Incentive Grant (EA)	325	325	0
(F)Live Healthy PA (EA)	90	129	0
(F)School Emergency Management Program	0	990	352
(F)Pennsylvania Project AWARE	0	1,950	1,950
(F)Preventative Health and Health Services (EA)	0	250	0
(F)WIA Incentive Grant - Workforce Systems (EA)	0	1,434	1,434
(F)Preschool Development Grants	0	0	30,000
(F)Child Nutrition - Administration (EA)	0	138	0
(F)WIA - PA STEM Competition (EA)	0	75	0
(A)Management Services	27	21	21
(A)Approved Private Schools	462	446	456
(A)National Center for Educational Statistics	6	11	11
(A)Teenage Parenting	1,947	1,947	1,947
(A)EPSDT Administration	2,047	2,141	2,141
(A)Services to Nonpublic Schools - Administration	863	864	863
(A)National Assn. of State Boards of Education	12	11	11
(A)Teacher Certification Fees	69	844	490
(A)Nonpublic Textbook Administration	566	651	964
(A)Improving Early Learning Outcomes	25	12	12
(A)Alternative Education	0	47	47
Subtotal	$ 213,079	$ 218,708	$ 243,464
Office of Safe Schools Advocate	**384** a	**388** a	**388**
Information and Technology Improvement	**4,181**	**4,000**	**4,000**
(F)Statewide Data Systems	628	0	0
(F)ARRA - Statewide Longitudinal Data Systems	9,049	3,746	0
PA Assessment	**53,691**	**58,291**	**58,291**
(F)Title VI - Part A State Assessments	16,000	16,000	16,000
Subtotal	$ 83,933	$ 82,425	$ 78,679
State Library	**1,777**	**1,867**	**1,866**
(F)LSTA - Library Development	8,500	8,500	8,500
(F)National Endowment for the Humanities	176	0	0
(A)Penalties and Reimbursements	2	1	1
(A)Photocopy Service	3	4	4

Program Budget Summary

Education

The goal of this commonwealth program is to provide a system of learning experiences and opportunities that will permit each individual to achieve his or her full potential intellectual development through high-quality basic education and special education programs, and through high-quality career and technical education and higher education. This commonwealth program supports the administration's goals to support an agenda for excellence, a world-class education that enables all Pennsylvania children to achieve their full potential, and to expand educational opportunities and alternative pathways to teaching and leadership. The Schools that Teach and the Jobs that Pay themes in the Overview and Summaries section highlight the administration's priorities in advancing the commonwealth's educational system.

This commonwealth program is financed primarily through the Department of Education. Other agencies providing support are the departments of Human Services, Revenue and Labor and Industry, and the Higher Education Assistance Agency and the Tax Equalization Board.

Contribution by Category and Subcategory

General Fund and Special Funds

(Dollar Amounts in Thousands)

	2013-14 Actual	2014-15 Available	2015-16 Budget	2016-17 Estimated	2017-18 Estimated	2018-19 Estimated	2019-20 Estimated
Educational Support Services	$ 27,789	$ 27,534	$ 27,605	$ 28,431	$ 29,042	$ 29,668	$ 30,310
Education Support Services	27,789	27,534	27,605	28,431	29,042	29,668	30,310
Basic Education	$ 9,837,468	$ 10,279,137	$ 9,783,739	$ 10,368,835	$ 10,843,984	$ 11,318,595	$ 11,338,311
PreK-12 Education	9,820,140	10,260,943	9,764,959	10,349,116	10,823,279	11,296,855	11,315,484
Public Utility Realty Payments	17,328	18,194	18,780	19,719	20,705	21,740	22,827
Higher Education	$ 1,593,161	$ 1,606,861	$ 1,765,861	$ 1,914,995	$ 1,914,995	$ 1,914,995	$ 1,914,995
Higher Education	1,206,686	1,215,386	1,358,795	1,507,929	1,507,929	1,507,929	1,507,929
Financial Assistance to Students	362,086	367,086	377,677	377,677	377,677	377,677	377,677
Financial Assistance to Institutions	24,389	24,389	29,389	29,389	29,389	29,389	29,389
PROGRAM TOTAL	$ 11,458,418	$ 11,913,532	$ 11,577,205	$ 12,312,261	$ 12,788,021	$ 13,263,258	$ 13,283,616

Appendix 1-E3 Provide Links to Supplemental Documents, Websites and Supplemental Data.

The budget document for the State of Oregon provides hyperlinks to other reports that may be of interest, such as economic and revenue forecast, tax expenditures, different websites for the budget office, economic analysis, and more. Several states include the hyperlinks to different agencies operating in the state.

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PUBLICATIONS AVAILABLE ONLINE

2015-17 Governor's Budget:	http://oregon.gov/DAS/CFO/docs/budget_policy/2015-17_gb.pdf
Tax Expenditure Report:	http://oregon.gov/DOR/STATS/Pages/statistics.aspx
Economic and Revenue Forecast (Quarterly):	http://oregon.gov/DAS/OEA/pages/economic.aspx
Prison Population Forecast (Twice Yearly):	http://oregon.gov/DAS/OEA/Pages/corrections.aspx

WEBSITES OF INTEREST

Governor's Budget homepage:	http://budget.oregon.gov
Governor's homepage:	http://governor.oregon.gov
State of Oregon homepage:	http://oregon.gov
Chief Financial Office homepage:	http://oregon.gov/das/cfo/pages/index.aspx
Office of Economic Analysis homepage:	http://oregon.gov/das/oea/pages/index.aspx
Oregon Department of Revenue Statistics:	http://oregon.gov/DOR/STATS/Pages/statistics.aspx

Appendix 1-G User Fee Factors

Below are factors that suggest a program should recover a higher proportion of its cost through fees:

- The service is similar to services available in the private sector or through another agency. Government should probably not subsidize a service the private sector also provides. Besides displacing private economic activity, this kind of subsidization could create unrealistically high demand on the service as consumers opt for the cheaper government-provided service.
- There is a strong nexus between the amount paid and benefit received. In this case, equity concerns would often demand those receiving the benefit pay the costs. Many types of recreation services and utilities fall into this category.
- The goal is to discourage use of a service or at least limit demand. For example, alarm fees are used to discourage police calls for false alarms.
- The service is regulatory and can be monitored by government. Those engaging in the regulated activity are causing the government to incur costs. Examples of this are building permits and plan checks.

Below are factors that suggest a program should recover a lower proportion of its cost through fees:

- There is a community-wide benefit to the service.
- For example, bus service reduces traffic for everyone, suggesting that full-cost recovery from fees is not appropriate.
- The fee will discourage compliance with regulatory requirements. If the fee is too high, people may decide it is better to skirt the regulation. This is especially germane where the jurisdiction relies primarily on self-reporting for regulation, as is the case with smaller licenses and fees. In another example, excessive fees for certain types of garbage collection might motivate some residents to dispose of waste illegally.
- There a weak nexus between the amount paid and benefit received. In some cases (like social services), a fee might be intended to govern demand rather than recover the cost of the program.
- Collecting the fee is not cost effective.
- An emergency service whose need customers do not anticipate in advance, yet might depend upon with virtually no notice. Many types of public safety services fall into this category.

Appendix 2-H Kansas Department of Corrections Results First Example

Overview

Kansas is one of 14 states taking part in the Pew-MacArthur Results First Initiative, a project of The Pew Charitable Trusts and the John D. and Catherine T. MacArthur Foundation.

Results First works with states to implement an innovative cost-benefit analysis approach that helps policymakers identify policies and programs that rigorous research has proven to work. States have used their Results First models to identify and eliminate ineffective programs and target funds to alternatives that produce high long-term returns on the investment of tax dollars.

Cost of Recidivism in Kansas

- Kansas' citizens incur high costs when offenders commit new crimes and return to prison, due to both criminal justice system expenses and the costs suffered by crime victims.
- Currently, 97% of Kansas' incarcerated offenders will be released back into the community; of that number, 35.1% will return to prison within 36 months.
- At current recidivism rates, the offenders returned in CY 2015 will cost taxpayers an estimated $16,494,431.87 in corrections costs during the given year.
- **Investing in programs that are effective can result in long-term cost avoidance.**

EXHIBIT 1: Kansas Correctional Program Consumer Report Analysis

FY14 ACTUAL BUDGET			
PROGRAM	Cost per Participant	**Benefits per Participant**	**Cost-Benefit Ratio**
Cognitive Behavioral Therapy	$768	$9,806	$13.77
Drug Treatment (Prison)	$3,111	$13,657	$5.39
Sex Offender Treatment Program (Prison)	$2,795	$11,001	$4.94

- The information contained in the "consumer report" analysis can be used by decision makers as investment advice to compare programs on a dollar-for-dollar basis for return on investment.
- While other key policy aspects such as population served and societal needs should be considered, incorporating information related to return on investment into the decision making process will help leaders make more fiscally prudent decisions.

Preventing Reconviction

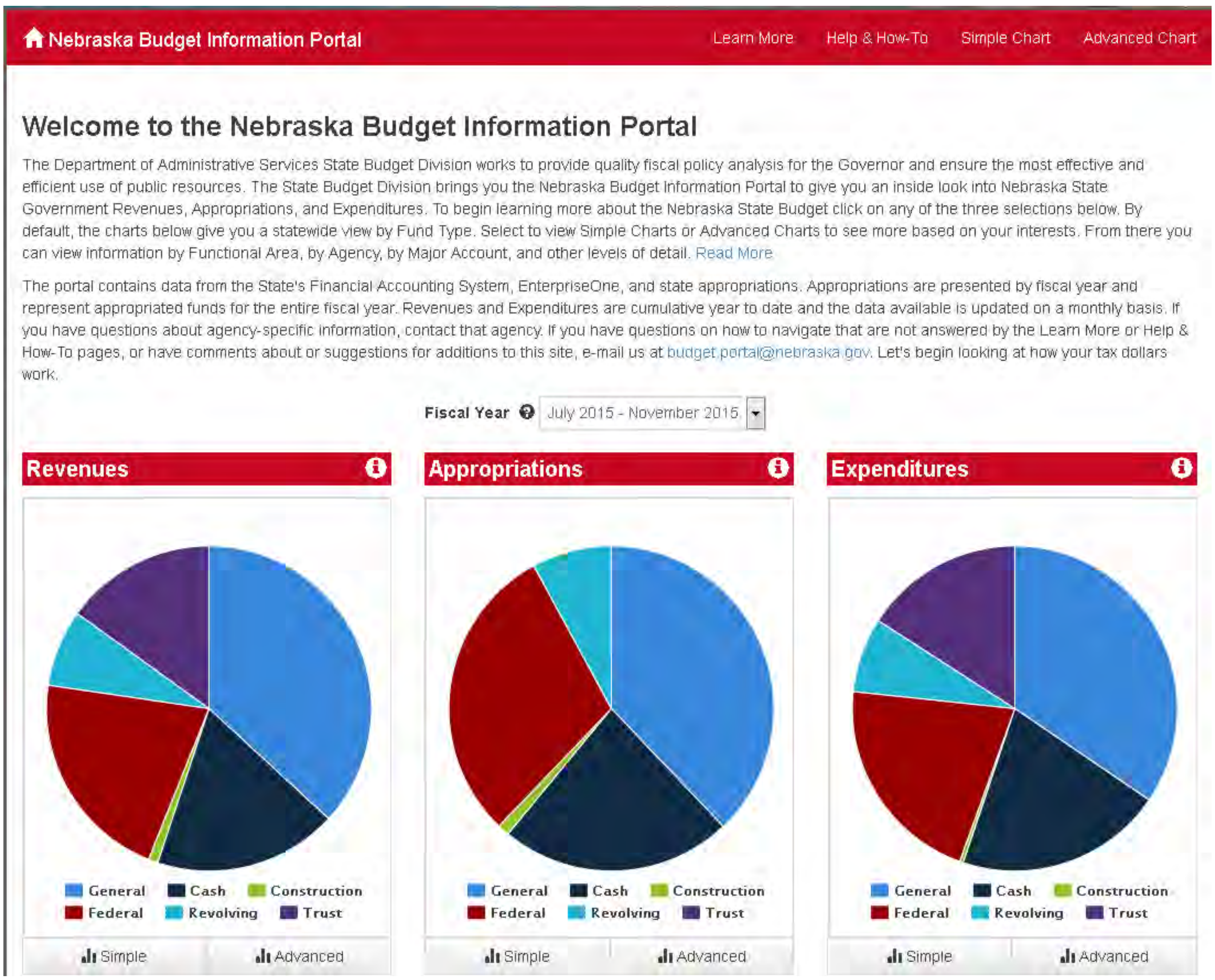
- The Kansas Results First model predicts the cost of recidivism, which includes both the direct cost associated with prosecuting and housing offenders, and the indirect impact on victims and other societal costs.
- Avoiding each recidivating event averts $95,861.86 in costs, which includes:
  - $17,146.27 in direct costs avoided by taxpayers; and
  - $78,716.66 in avoided victimization costs.

Effective Programs are Key

- Cost beneficial programs that reduce recidivism are a key to a fiscally prudent and socially responsible corrections system.
  - **Exhibit 1** provides a "consumer reports" style analysis of programs that are currently in the Kansas Results First model. This list will be expanded over time as we work with the model.

Appendix 2-L1 Nebraska Online Access to Supplemental Data and Tools Example

The detail and diversity of data offered by the State of Pennsylvania helps reader's find exactly the level of detail for which they are searching. If a reader wants an overview of the budget, they can view the charts and graphs that provide a summary. States can provide different level of details and reporting to their citizens from drilling down budget data to the agency or program level, and other data such as government performance reports, economic forecasts, and workforce statistics. Providing citizens with multiple modes of data and analyses highlight a commitment to transparency and accountability.



Appendix 3-GFOA Review of other Common Approaches to Budgeting

GFOA looked at other common approaches in budgeting including Incremental, Zero-base, and Priority-based Budgeting applications.

Incremental Budgeting. This approach is a traditional method of budgeting where the prior year's budget is the starting point for next year's budget planning and changes to agency budgets change incrementally according to changes in available revenue. For example, if a state has a three percent rise in revenues, most if not all of its component agencies get around a three percent increase in their budget. If revenues decline three percent, typically all agencies are asked to cut their budgets by three percent, across the board. The traditional budget also is built around objects of expenditures like salaries, benefit costs, commodities, and contractual service, which then aggregate up to functional units like divisions and departments.

As of 2014, 32 states described their primary budget approach as incremental/traditional. An additional 14 states indicated that incremental budgeting was a secondary consideration in how they budget.

The weaknesses of incremental or traditional budget include:

- Incremental character of allocations means that historical decisions are perpetuated indefinitely into the future—perhaps past the point where those decisions are still relevant or affordable under current conditions.
- Fragmented decisions because decision-makers are focused on individual line-items and functional units, rather than big-picture policy questions.
- Traditional budget focuses decision-makers on the inputs that agencies consume and away from the outcomes that the agencies produce.

Zero-Based Budgetin

Zero-base budgeting (ZBB) was introduced to the common tool in public budgeting in the 1970s when U.S. President Jimmy Carter proposed its use to balance the federal budget in his first term as president. Under the ZBB, an agency's budget requests would be evaluated from a base of zero—historical precedent is not a justification. Each agency must start budgeting with a blank sheet of paper and build a budget from the ground up. Key attribute to ZBB is the use of "decision-packages" that present different levels of service.

As of 2014, only the State of Oregon identified ZBB as its primary method of budgeting. However, a review of Oregon's budget instructions for 2015 reveal the state is not actually using ZBB—rather its budgeting method uses a few devices derived from ZBB, but appears to be largely incremental. Since Zero Base Budgeting communicates that the government is holding the line on spending, ZBB lives on mostly in name only, where the label of "Zero-Based Budgeting" is applied to budgeting techniques that might borrow some techniques from

ZBB, but do not represent a true zero-based budgeting process.

For example, California, Florida, Georgia, Maine, Missouri, Montana, North Dakota, Ohio, Oklahoma, South Carolina, Texas, and Wyoming all report using some elements of ZBB as secondary considerations in their budget process. In many of these cases, the states have reviews that follow a modified version of ZBB process focusing on specific agencies on a cyclical or as needed basis. For example, Oregon appears to use a derivation of ZBB that is referred to as "target-based budgeting" in budgeting theory, where agencies are granted a certain baseline of spending that is largely consistent with their allocation in the last budget (instead of a base of zero) and then must submit decision-packages for spending above that baseline.

There are a number of common criticisms of ZBB:Excessive amount of administrative work required to perform ZBB, especially with departments needing to submit multiple decision packages for increased spending.

- Reluctance of agencies to reveal the level of spending that is the bare minimum necessary for them to survive.
- Decision-packages presented under ZBB are driven by managerial decisions.

Priority-based Budgetin

Priority-based budgeting is a generic term for budgeting methods known by various labels such as "budgeting for results" or "budgeting for outcomes," where the government first determines how much revenue it has available, then identifies the its most important service priorities and allocates out to services based on how closely those services align with the priorities. Priority budgeting typically includes six broad steps:

1. Identify available resources. This determines how much revenue is available this year to help the government achieve its priorities. Putting a focus on available revenues is intended to take the focus away from how money was spent last year.
2. Identify priorities for state government. The state government identifies a limited number of priorities for the state government to achieve. The State of Washington is the leading example of a state-level implementation of priority budgeting Some of the priorities Washington has articulated in the past include: improve health and support of Washingtonians, provide for public safety, and protect natural resources and cultural/recreational opportunities. It is important to define how progress towards these priorities will be measured. For example, Washington's public safety priority includes measures such as: incidence of property and violent crimes per 1,000 people and highway fatalities per 100 million vehicle miles traveled.
3. Evaluate programs and projects. Programs and services are then compared against these priorities to determine which ones would best help the state achieve its goals. For example, Washington would be looking for programs that would help reduce crime or highway fatalities.
4. Compare Scores Between Programs. Programs and services are compared against each other with an eye towards determining which programs will be most effective.
5. Allocate resources. Based on the relative effectiveness of the programs for achieving the goals, resources are allocated to the programs.

6. Create Accountability for Results. Since resources are allocated based on a program's promise to achieve a certain result, it is important to have follow-up after the budget process to ensure the promised results were achieved.

Our research found that four states have used priority budgeting in the past or currently are as part of their budget process—Washington, Illinois, Nevada and Iowa. The State of Washington was one of the first states to implement priority based budgeting, using as their primary budget process a number of years ago. Today, Washington uses it in a scaled-back form, where it is a secondary consideration in the budget process. Washington reports that, as of 2014, the incremental method is its primary budgeting technique and the State of Washington's website states that its "priorities of government" assessment (today's derivation of budgeting for outcomes) is "considered in the development of the Governor's budget recommendation.

Illinois has been working on developing their priority budgeting system for the last five years. According to the Illinois' official site for this initiative, it appears that Illinois has made progress in building the infrastructure for priority budgeting (e.g., defines priorities and measures for the state, identify the programs within agencies). However, it does not appear that Illinois has fully connected this infrastructure with actual resource allocation decision-making yet

References

A variety of resources were used to identify the smart practices in state budgeting for Kansas. This section describes those resources. Please note that an organization's appearance in this section does not necessarily represent an endorsement of any of the conclusions reached in this review. In addition to the documents shown here, A&M and GFOA conducted a number of personal interviews with the experts that were involved with the publication of many of these documents and other expert observers of state budgeting practices.

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Next Steps

Next Steps

After delivery of the Phase I draft report, it will be presented to members of the Legislative Coordinating Council, multiple legislative committees, including but limited to, Ways and Means and Appropriations, and review with the Division of Budget and the involved agencies. A&M will then work with state and agency leaders to review the developed business cases and make a final recommendation on the initiatives to pursue. With decisions made, A&M will update its fiscal impact model and begin developing a realistic, achievable implementation roadmap. In developing the implementation roadmap, A&M personnel will be cognizant of the impact on ongoing operations and will work closely with agency staff to ensure that changes are properly integrated to minimize day-to-day impact. The developed roadmap will include the following key elements:

- Established metrics to measure the success of each initiative—these metrics will be displayed in a **project metrics dashboard** during implementation.**A Project work plan** in Microsoft Project 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 highlight the impact to agency costs, projected savings as well as the resources required to complete each initiative.

At the conclusion of this Phase, A&M will deliver the Phase 2 final report, which will include detailed roadmaps for the implementation of identified opportunities. These roadmaps will identify required activities, statutory and regulatory changes, an estimate of the financial and personnel resources required, and an estimate of the time frame for implementation.

- At the conclusion of the project, A&M will deliver the final Phase 2 report to the State of Kansas and will conduct presentations as necessary to LCC leadership, legislative committees, and other state personnel. These final presentations will cover the work completed to date and reveal more prioritized recommendations for the state to implement beyond the conclusion of the initial contract period.

- We will have tracked the cost savings of any quick-win improvements that have already been implemented and will provide the state a cumulative cost savings estimate. Prior to delivering the report, draft versions of the recommendations in the report will have been reviewed and developed alongside leadership and staff.

- Our goal is not only to help Kansas identify and enact the efficiency opportunities but also to set up the structure for sustaining future change. We will strive for the final report and the complete repository of recommendations to be a living document—one that begins a conversation with the general public and serves as a blueprint for the state to continue aligning priorities with limited resources. By improving the performance of existing programs, the state can enhance and spur innovation by freeing up funding sources to be used for other priorities or new programs.

Implementation of Efficiency Recommendations

A&M will convert accepted recommendations and solutions into long-term sustainable processes for a state or agency to operate and maintain internally. The recommendations identified in the Phase 1 report are wide reaching across multiple agencies and many are interdependent. Thus, successful implementation is contingent upon a coordinated effort focused on driving change in a highly accountable and transparent manner. A&M's Phase 2 efforts will establish the baseline structure for an executive project management (EPMO) office that will provide the necessary resources to drive the implementation of recommendations in the immediate term with short and long-range efficiency impacts. Given the realization of these recommendations will require statutory and policy changes, systems updates, staffing changes and interactions with vendors and other vendors, the EPMO will need to deal with a multidisciplinary environment and very complex efforts. A&M will design the EPMO function as part of the Phase 2 report and will review the concept with the LCC.

January 12, 2016