

IOWA EFFICIENCY REVIEW
REPORT TO
GOVERNOR CHET
CULVER AND LIEUTENANT
GOVERNOR PATTY JUDGE



Public Works LLC

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SUMMARY OF RECOMMENDATIONS

		Year 1* Estimated General Fund Savings/ Revenue	5 Year Estimated Savings/ Revenue
	TOTAL	\$340,962,500	\$1,693,270,500
Report Page #	I. Recommendations for Executive Action	\$128,130,500	\$713,700,500
	Deliver Government Services More Efficiently		
11	Eliminate least efficient print shops	\$200,000	\$1,000,000
12	Consolidate administrative functions at DHS institutions	\$1,400,000	\$7,000,000
13	Modify and simplify entrepreneurial model	\$365,000	\$1,800,000
15	Modify warehouse policies to take advantage of newest techniques to reduce costs	\$600,000	\$3,000,000
16	Consolidate mailrooms and modify mail delivery policies	\$110,000	\$550,000
17	Reduce spending on periodicals and subscriptions	\$230,000	\$1,200,000
18	Reduce architecture, engineering and attorney contracts when cost-benefit indicates state can perform work at reduced cost**	\$7,400,000	\$37,000,000
18	Require employees pay for safety course when required because of driving violation	\$2,500	\$12,500
19	Reduce Human Resource staff in departments	\$425,000	\$2,100,000
20	Expand use of state garages to reduce cost of contracted private garages**	\$115,000	\$1,400,000
20	Conduct energy efficiency retrofits for state buildings	\$460,000	\$6,900,000
24	Require new hires to use payroll direct deposit	\$45,000	\$383,000
25	Conduct audit of state health enrollees to identify ineligible dependents	\$3,000,000	\$3,000,000



		Year 1* Estimated General Fund Savings/ Revenue	5 Year Estimated Savings/ Revenue
25	Improve coordination of law enforcement at state parks	\$0	\$400,000
26	Increase volunteer and intern programs at State parks	\$70,000	\$325,000
27	Accelerate assessments for compliance violations under Iowa's Workers' Compensation Law	\$960,000	\$960,000
28	Expand Iowa Law Enforcement Academy (ILEA) on-line offerings	\$150,000	\$750,000
29	Encourage larger state agencies to support budget, accounting, and pre-audit services for smaller state agencies	\$0	\$0
29	Board of Regent's participation	\$25,000,000	\$150,000,000
	Take Full Advantage of E-Government Solutions		
35	Consolidate IT planning and operations	-\$7,900,000	\$26,800,000
36	Consolidate state e-mail systems	-\$1,000,000	\$830,000
36	Consolidate wireless equipment purchasing and service contracts	\$250,000	\$1,250,000
37	Negotiate statewide Information Technology service contract	\$1,500,000	\$7,500,000
38	Negotiate statewide IT and office equipment maintenance contract	\$2,000,000	\$10,000,000
39	Increase use of new technologies such as thin-client technology	\$100,000	\$4,300,000
	Manage State Assets -- Fleet and Property -- Better		
40	Reduce fleet and change mileage and take-home policies	\$3,500,000	\$17,500,000
42	Consolidate DNR offices Des Moines	\$300,000	\$1,500,000
	Improve Financial Management, Leverage Funding and Position State to Be Smart Purchaser		
43	Require purchasing from master contracts	\$15,000,000	\$60,000,000
44	Improve debt collections	\$22,200,000	\$111,000,000
46	Modernize Iowa's unclaimed property search capabilities	\$40,000,000	\$160,000,000
49	Join multi-state lawsuit on escheat of unclaimed US Bonds	\$0	\$37,500,000



		Year 1* Estimated General Fund Savings/ Revenue	5 Year Estimated Savings/ Revenue
	Manage Health and Human Services		
51	Strengthen Medicaid integrity efforts -- Part One	\$8,100,000	\$35,300,000
52	Ensure Iowa is getting the best purchase price for required medical equipment	\$500,000	\$4,100,000
53	Modify Durable Medical Equipment rental vs purchase policies	\$200,000	\$1,300,000
54	Update Nursing Home Recoverable Cost Regulations	\$800,000	\$7,300,000
54	Claim federal reimbursement for eligible inmate hospital care	\$1,500,000	\$7,200,000
56	Reinstate use of telemedicine services between DOC and UI	\$200,000	\$800,000
57	Modify child support recovery funding	\$228,000	\$1,140,000
58	Increase Juvenile Court Services' claims for Title IV-E reimbursement	\$240,000	\$1,200,000
58	Claim Title IV-E reimbursement for eligible placements and license all relative homes	\$30,000	\$150,000
	II. Recommendations for Legislative Action	\$207,120,000	\$941,810,000
60	Appoint a Chief Information Officer	Included in IT consolidation	Included in IT consolidation
61	Offer retirement incentive	\$59,800,000	\$282,650,000
63	Centralize real estate leasing and property management	Included in audit savings	Included in audit savings
64	Perform a full audit of the state's real estate portfolio to maximize the value of these assets	\$29,900,000	\$29,900,000
65	Perform a full audit of the state's office leases	\$2,500,000	\$12,500,000
66	Pursue sale/leaseback of state office building assets where terms would be most favorable to the state	\$0	\$3,000,000
66	Consolidate legal services for real estate	Included in audit savings	Included in audit savings
67	Require employers to transmit child support payments electronically	\$23,000	\$115,000
67	Lower casino winnings threshold to collect required taxes	\$5,000,000	\$25,000,000



		Year 1* Estimated General Fund Savings/ Revenue	5 Year Estimated Savings/ Revenue
68	Improve state financial management by combining the State Accounting Enterprise with the Department of Management	\$260,000	\$1,300,000
69	Strengthen Medicaid integrity efforts -- Part Two	\$900,000	\$3,900,000
70	Modify Medicaid prescription drug purchasing	\$1,800,000	\$10,200,000
71	Limit initial supply of prescription drugs not on the Preferred Drug List	\$200,000	\$1,000,000
71	Change the way Medicaid pays for unique mental health medications	\$400,000	\$2,500,000
72	Allow eligible <i>hawk-I</i> families to access private insurance when available	\$1,800,000	\$8,200,000
72	Increase and improve Disease Management Programs to control costs of chronic illness	\$2,700,000	\$28,300,000
72	More vigorously review costly medical payments in the Community-Based Waiver Program	\$5,700,000	\$33,000,000
73	Strengthen Department of Inspections and Appeals ability to investigate and recover improperly claimed public benefits	\$800,000	\$7,300,000
74	Reorganize and consolidate some mental health institutes	\$1,900,000	\$26,800,000
75	Eliminate enrollment in the Family Support Subsidy Program	\$161,000	\$805,000
76	Expand use of electronic payments in DHS	\$156,000	\$780,000
76	Modify funding for the child care assistance program	\$465,000	\$2,300,000
77	Reduce funding for the adoption subsidy program	\$1,200,000	\$5,900,000
78	Implement some reductions to the child and family services program	\$4,700,000	\$23,300,000
78	Transfer TANF funding into field operation	\$7,100,000	\$35,000,000
80	Eliminate requirement for Guardian ad litem to be conducted in person	\$112,000	\$500,000
81	Modify distribution of veteran's grants to counties	\$0	\$0
81	Expand Governor's Grants Office to identify and apply for federal and non-profit funding	\$20,000,000	\$100,000,000



		Year 1* Estimated General Fund Savings/ Revenue	5 Year Estimated Savings/ Revenue
82	Consider closing certain correctional facilities and consolidating inmate populations	\$700,000	\$3,500,000
83	Eliminate Underground Storage Tank Board	\$800,000	\$4,000,000
84	Close ABD warehouse on Fridays	\$25,000	\$125,000
85	Allow for direct shipment of wine	\$375,000	\$1,875,000
85	Reform newspaper legal notice requirements for State, County and Local Governments	\$1,000,000	\$5,000,000
87	Modify permit and license reminder notices process	\$200,000	\$1,000,000
88	Allow recycling fees currently collected to offset some Department of Natural Resources General Fund spending	\$200,000	\$1,000,000
89	Expand staff in the State Public Defender's Office to cover more cases and reduce state costs for indigent defense	\$465,000	\$2,320,000
90	Open a new State Public Defender's Office in Wapello County	\$750,000	\$3,750,000
91	Expand Iowa Law Enforcement Academy offerings to include seminar training sessions for private security personnel	\$150,000	\$750,000
91	Support cost of DOT and DNR law enforcement training with non-General Fund dollars	\$8,000	\$40,000
92	Move housing programs currently operated by the Department of Economic Development into Iowa Finance Authority	\$100,000	\$500,000
93	Merge Division of Criminal Investigations and Division of Narcotics Enforcement	\$370,000	\$1,800,000
94	Support the operations of the Iowa State Patrol with the Road Use Tax Fund	\$50,000,000	\$250,000,000
95	Increase auditors to increase collections	\$2,700,000	\$13,400,000
96	Revise policies for state employees' meal reimbursements and eliminate cleaning allowances	\$1,700,000	\$8,500,000
96	Bring Community-Based Corrections districts onto State accounting system	\$0	\$0



		Year 1* Estimated General Fund Savings/ Revenue	5 Year Estimated Savings/ Revenue
	III. Recommendations for Further Analysis and Consideration	\$5,712,000	\$37,760,000
99	Launch employee wellness initiatives	-\$200,000	\$1,000,000
100	Require family enrollment in health insurance when spouses are both employed by the state	\$2,400,000	\$19,200,000
100	Reduce or eliminate deferred compensation contribution for non-contract employees	\$1,400,000	\$7,000,000
101	Evaluate the cost benefit of going to 10-hour, 4-day work week	\$2,000,000	\$10,000,000
101	Pay employees on a semi-monthly basis rather than bi-monthly	\$112,000	\$560,000
<p>*Year 1 savings may be prorated to account for start-up or for full year depending on the issue, timeframe and implementation requirements.</p> <p>Since the ATB plans developed by departments in October 2009 are still under review and approval, they could not be factored into calculations at this time. In addition, the majority of these recommendations will not be affected by the ATBs. For example, savings achieved through consolidation of IT, spending off master contracts and other spending efficiencies will not be changed after the ATB decisions are made. It is expected that after the current ATB process has been completed, some numbers could be reduced by up to 10 percent, however in the vast majority of instances, the numbers will change only by minor amounts.</p> <p>**Savings in these categories include a mix of General Fund and Road Use Tax Fund.</p>			



EXECUTIVE SUMMARY

Public Works is pleased to present the following *Iowa Efficiency Review Report* to Governor Chet Culver and Lieutenant Governor Patty Judge. This report is the product of a collaboration between our consulting team and very dedicated Iowa state employees who worked with us to share ideas and cost-saving proposals under very difficult circumstances caused by the national financial crisis that is affecting state budgets throughout the country. For example, during the course of this review, Iowa departments were also asked to develop across-the-board cuts to achieve immediate reductions in state spending. It is a credit to Iowa state government that departmental staff continued to work on this Efficiency Review Report despite these challenges of also having to develop across-the-board budget cuts to achieve a balanced budget. We hope that these ideas will set the stage for further future budget improvements from achieving efficiencies, eliminating outdated practices, increasing the use of information technology solutions and finding new sources of non-tax funding.

The Efficiency Review Team faced a second challenge. Statewide Efficiency Reviews usually take from nine to 12 months to complete. In Iowa, we worked with dedicated department staff to complete our work in less than 4 months. The Governor challenged all of us to work intensely and to give him our best thinking on efficiency proposals so that he could act as quickly as possible to position state government for success over the next several years.

An Efficiency Review is *not* an audit. We do not look only at generally accepted accounting principles. Rather than just focus on whether an organization is “following accounting rules,” we examine whether organizational structure and services are aligned or if they need to be changed or eliminated. We look at program outcomes and alignment, items that cannot always be measured by accounting numbers.

As **Public Works** has done in other state government Efficiency Reviews, in Iowa we looked at cross-cutting functions such as information technology, fleet management, and purchasing, as well as individual departments, services, programs and management structures. We come

with no preconceived notions, so our examination of the effectiveness of an organizational structure can lead to recommendations for reorganization, consolidation or decentralization. In the end, Efficiency Reviews are mechanisms for government leaders to redesign organizations or programs to focus on results, not on processes.

The result is the following report that identifies 90 recommendations, producing \$340.9 million in savings/revenue in the first year of implementation and \$1.693 billion over five years. We organized the report into three sections:

- I. **Recommendations for Immediate Executive Action.** These are savings that can be achieved through administrative changes or Executive Orders.
- II. **Recommendations for Legislative Action.** This section contains recommendations that will require the Executive and Legislative branches of government to work together to enact legislation to achieve the recommended actions. Some are straightforward changes as to how Iowa manages assets; some are more difficult changes that affect human resource policies.
- III. **Recommendations for Further Analysis and Consideration.** This list of issues tackles some difficult and complex efficiency choices involving human resource practices that will take additional discussion and consideration in order to decide on what gets implemented.

The 90 recommendations in this report cover a wide range of areas:

- Taking full advantage of e-government solutions: consolidating the state's 223 data centers; increasing e-filings and payments; expanding telemedicine opportunities.
- Being smart purchasers: using state master contracts for commonly purchased goods; negotiating Medicaid durable medical equipment prices.



- Managing state assets better: reducing the state fleet; consolidating property management; selling surplus properties no longer critical to a department's mission.
- Delivering government services more efficiently: consolidating facilities and programs; consolidating administrative functions.
- Making commonsense changes: requiring employees to pay for driving safety courses when they are required to take the course because of driving violations; increasing use of volunteers to preserve State parks.
- Leveraging funds and improving financial management: increasing efforts to collect debts; increasing efforts to audit businesses and collect taxes owed.

We conclude the Report with a salute to the state managers and staff who worked in partnership with us and were truly the source of many of the most innovative recommendations in the Report. Again, without their dedication and willingness to take a fresh look at how the business of state government is conducted, we would not have been able to produce such an extensive list of ideas for the Governor's consideration.

I. RECOMMENDATIONS FOR EXECUTIVE ACTION

Forty of the recommended actions in this report, producing \$128.1 million in first-year savings and \$713.7 million in five-year savings, can be implemented by the Executive Branch through a gubernatorial Executive Order or a change in administration policies. Typically, these initiatives involve adoption of best practices in State procurement, equipment, and personnel policies, ones which also maintain (or even improve) public services. One such recommendation here is that all State purchasing be conducted through master contracts with vendors, rather than allowing agencies to make their own purchasing arrangements. This produces savings via the superior purchasing power of State government as a whole, and also facilitates more vigilant oversight of State purchases to reduce waste and prevent fraud.

Other recommendations for the Executive Branch involve a prudent review of State employee benefits, as is appropriate in a period of fiscal austerity. Such issues range from limiting deferred compensation accounts (that provide tax advantages to State employees) to only funds from employee contributions to confining the use of State fleet vehicles to only employees who actually use them in their course of work in the field.

The recommendations found in this section do not require statutory modifications or legislative approval, so executive branch leaders should consider them for immediate action.

DELIVER GOVERNMENT SERVICES MORE EFFICIENTLY

Government operations, just like large organizations in the private sector are dynamic – needing to continuously adapt to new developments in technology, new demands for services, finding new ways to cut costs to

stay relevant and competitive. Taxpayers should demand no less from government.

That is why we looked for ways to improve working conditions and ways to increase efficiency. The recommendations in this section run the gamut from consolidations of some administrative functions, to eliminating non-essential spending, to small changes in how we do business, to initiating energy efficiency ideas to reduce our carbon footprint.

The recommendations are based on common sense principles such as having the U.S. Postal Service deliver mail to State offices (something they are federally required to do) or using State garages to repair and maintain vehicles when it can be done cheaper than contracting with private garages. Implementing these common sense reforms will lower costs without sacrificing the quality of services provided to Iowans.

Some more immediate actions can be taken and are listed below; others will require legislative action and are discussed in Section II.

ELIMINATE LEAST EFFICIENT PRINT SHOPS

Currently, Iowa state government operates eight print shops in four different departments – five in the Department of Administrative Services, one in the Department of Workforce Development, one at the Veterans Home in Marshalltown and one in Ames at the Department of Transportation.

Of the seven print shops that collect enough data to determine their printing costs (DOT does not have sufficient data readily available), it can be determined that costs range from \$0.058 per page at DAS to \$1.09 per page at IWD to \$1.67 per page at the Veterans Home. Using these comparisons, it is easy to see that DAS print costs are significantly below those of the other two agencies. Therefore, it would be cost effective to shift the bulk of printing operations to DAS. Additional information needs to be gathered before a decision can be made about the Department of Transportation costs, as well as DOT's special printing



needs for such items as construction and architectural plans. Once DOT determines its print shop costs, if they are higher than DAS costs, all print jobs that DAS can perform should be completed by the DAS shop.

If DAS were to perform all work now completed at other State shops (not including DOT), the State could save about \$200,000 during the first year and about \$1 million in five years.

	State Funds	Federal Funds	Total
Year 1 Savings/Revenue	\$200,000		\$200,000
5-Year Savings/Revenue	\$1 million		\$1 million

CONSOLIDATE ADMINISTRATIVE FUNCTIONS AT DHS INSTITUTIONS

The Department of Human Services is responsible for the operation of eight institutions: mental health institutes, resource centers and juvenile facilities. Each of these facilities maintains independent purchasing, human resources, meal planning and dietician services.

There are 31 purchasing and human resource FTEs across the eight institutions, with between 3 and 13 FTEs at each facility. Meal planning at the facilities is currently done by food service staff (some of whom are not registered dietitians), clinical dietitians employed at each facility, and through contracts with private consulting dietitians.

Food cost per meal ranges from \$0.87 to \$2.65 per meal. Food storage (days of food on hand) at the eight institutions ranges from seven days to 60 days. Most food purchases are delivered by vendors to the Woodward warehouse where it is stored and delivered to the institutions using State employees and State-owned vehicles. The Woodward warehouse maintains a 14-day supply of food.

DHS should standardize and consolidate administrative functions at the eight institutions, including resident meal planning, food purchasing and storage, and other purchasing and human resources functions. This consolidation should be phased in to eventually reduce the number of

purchasing and human resources positions and storekeeper/canteen clerk positions. Some purchasing and human resource positions should move to central DHS along with dietician positions. In addition, DHS should close the warehouse at the Woodward Resource Center and move the management of leases of residential, storage, and office space at each facility into the DHS central office.

The net effect of these recommendations is to bring the ratio of purchasing and human resources staff at the institutions in line with central DHS. Centralizing food purchasing will also result in more uniform food cost per meal across the facilities.

These strategies will save the state \$1.4 million annually and \$7 million over a five-year period. Consolidating administrative functions is also expected to reduce food costs, however, that cost savings could not be estimated at this time. A modest reduction of 2 percent in food costs would result in additional annual savings of \$56,289.

	State Funds	Federal Funds	Total
Year 1 Savings/Revenue	\$1.4 million		\$1.4 million
5-Year Savings/Revenue	\$7 million		\$7 million

MODIFY THE ENTREPRENEURIAL MODEL

The current entrepreneurial model used for certain Department of Administrative Services’ operations was designed to make certain DAS functions, called “marketplace services,” competitive with the private sector. Marketplace services are optional because State agencies can use the DAS service or the private sector.

The design also created other functions called “utilities.” Agencies must use DAS utilities if they need the functions these services provide.

How these functions are tracked and accounted for to determine an agency’s payment to DAS differs with the service. Marketplace services require an intricate pricing and payment system because agencies pay



only for the services used while utility accounting is a simpler system because agencies pay fixed fees for the service.

Marketplace services may work for some functions where economies of scale are not an essential factor in the price of services. However, the Information Technology Enterprise, managed correctly, has high capital outlay costs that require it to be monopolistic in order to keep costs down. In addition, the marketplace model assumes that customers will shop around to obtain the best price and service. Customer buying habits have proven this to be false at least in the case of the Des Moines State garage -- agencies take one-third of their State vehicles in Polk, Warren and Dallas Counties to private garages even though those garages cost the agency 50 percent more than the State garage. For these reasons, the marketplace services of Information Technology Enterprise (ITE) and the State garage should become utilities. The State should examine other marketplace services (printing, motor pool, fueling station, conference planning, and training) to determine if their continuation as marketplace services is beneficial to the State.

The directors of DAS' divisions provided figures concerning the amount of resources their divisions would save if ITE and the State garage became utilities. Savings in one year just for DAS would equal about \$365,000 and over five years would equal \$1.8 million. These estimates do not include other agency cost savings resulting from simplified billings.

	State Funds	Federal Funds	Total
Year 1 Savings/Revenue	\$365,000		\$365,000
5-Year Savings/Revenue	\$1.8 million		\$1.8 million

MODIFY WAREHOUSE POLICIES TO TAKE ADVANTAGE OF NEWEST TECHNIQUES TO REDUCE COSTS

The Department of Transportation (DOT) owns and operates a large warehouse (30,000 square feet) in Ames with \$36 million in inventory passing through it annually. DOT orders all of its goods centrally, has them shipped to Ames, and then distributes the products every other week on eight routes statewide.

The Department of Human Services (DHS) warehouses were established for the purpose of ensuring food is available during emergency situations and saving money by buying in bulk. It has not been determined how much of the product in the DHS warehouses are for emergency situations although 50 percent of the warehouses stockpile more than 14 days of inventory. Kansas, Wisconsin, Illinois, and Minnesota health agencies do not operate warehouses that house more than 7-14 days of inventory.

Central warehouses incur expenses that often result in spending that make them inefficient and costly – Nebraska, South Dakota and Kansas DOTs do not have central warehouses. One cost is inventory loss due to pilferage, damage, and expiration of items. Iowa DOT's warehouse losses equal between 2 to 3 percent (\$720,000 to \$1.1 million) annually. Warehouses also have significant expenses to transport goods from the warehouse to their destinations. These transportation costs are often in addition to vendor delivery charges that are built into the price of a commodity regardless of the commodity's destination. Some vendors charge DOT the same price to deliver to the Ames warehouse as they do to agencies which require the vendor to deliver to multiple sites. The DOT warehouse is important to DOT operations when emergency equipment, parts, and supplies are needed. However, it appears that much of the inventory DOT warehouses is not for emergency situations.



If DOT were to eliminate warehousing inventory that vendors ship regardless of destination, transportation costs and the reduction on lost inventory would result in first year savings of approximately \$600,000, with five year savings of about \$3 million.

	State Funds	Federal Funds	Total
Year 1 Savings/Revenue	\$600,000		\$600,000
5-Year Savings/Revenue	\$3 million		\$3 million

CONSOLIDATE MAILROOMS AND MODIFY MAIL DELIVERY POLICIES

Even though DAS has the capacity to handle all mail generated by State government in Des Moines, the Departments of Human Services, Natural Resources, Workforce Development, and Revenue handle their own mail in their own Des Moines mail rooms.

Eliminating these four mail rooms will save money by reducing personnel, metering equipment, and delivery vehicle expenses. These savings total approximately \$60,000 per year and \$300,000 over five years.

Additionally, DAS delivers intra-office mail to Des Moines facilities twice per day. Eliminating one delivery would save the State approximately \$50,000 per year; \$250,000 over five years.

Further savings that cannot be calculated at this time include:

- Requiring the U.S. Postal Service to deliver mail to all State offices. The U.S. Postal Service must deliver mail to any location that is properly addressed and that meets mailbox requirements. Many State agencies do not take advantage of this service.
- Agencies with mail rooms outside of Des Moines should consider using DAS or the U.S. Postal Service for intra-office mail delivery to replace more expensive agency mail runs.



It is estimated that eliminating mailrooms and reducing DAS deliveries to once per day can save \$110,000 in the first year; \$550,000 over five years. Requiring mail delivery through the U.S. Postal Services to State agencies and changing how mail is delivered outside of Des Moines will produce additional savings not able to be calculated at this time.

	State Funds	Federal Funds	Total
Year 1 Savings/Revenue	\$110,000		\$110,000
5-Year Savings/Revenue	\$550,000		\$550,000

REDUCE SPENDING ON PERIODICALS AND SUBSCRIPTIONS

Iowa state agencies need to be able to buy reference books and periodicals to support professional development and to aid employees in their work. Many agencies, however, also purchase periodicals that are used for more general use such as providing magazines in office waiting rooms. A review of spending indicates that Iowa Executive Branch agencies spent about \$2.3 million in FY 2009 for publications, periodicals and subscriptions.

If the departments target spending to only those reading materials that are necessary for professional development and those needed for work activities, spending could be reduced a minimum of 10 percent for a savings of \$230,000 per year; \$1.2 million over five years.

	State Funds	Federal Funds	Total
Year 1 Savings/Revenue	\$230,000		\$230,000
5-Year Savings/Revenue	\$1.2 million		\$1.2 million

REDUCE ARCHITECTURE, ENGINEERING AND ATTORNEY CONTRACTS WHEN COST-BENEFIT INDICATES STATE CAN PERFORM WORK AT REDUCED COST

On average, from Fiscal Year 2007 to 2009, the Department of Transportation’s (DOT) Highway Division paid about \$24.6 million to private architectural and engineering firms. In all of these instances, it is not clear that contracting for these professional services is less expensive than DOT hiring professional staff. While there are construction projects that require unique expertise that need to be obtained through contracting, there are other architectural and engineering projects that can be completed by State staff at a cost that is less than private contracting.

DOT estimates that it can reduce these professional services contracts by about \$11 million (44 percent), producing a net savings of about \$7.4 million a year. This savings estimate includes the \$6.2 million cost in staff and overhead to employ a core group of architects and engineers.

These same principles should be applied to other professional services such as legal counsel fees which will increase these savings even more.

	State Funds	Federal Funds	Total
Year 1 Savings/Revenue	\$7.4 million		\$7.4 million
5-Year Savings/Revenue	\$37 million		\$37 million

REQUIRE EMPLOYEES PAY FOR SAFETY COURSE WHEN REQUIRED BECAUSE OF DRIVING VIOLATION

Currently when a State employee is at fault for a traffic accident or commits a traffic violation in a State vehicle, the employee must take a driving course in order to be able to continue driving a State vehicle. The State currently pays the costs of these courses.

While this is not a significant cost (about \$2,500 per year), it is not the correct message the State should be sending to traffic violators. By paying for the course, the State eliminates one consequence to committing traffic violations that should be placed on the driver.



	State Funds	Federal Funds	Total
Year 1 Savings/Revenue	\$2,500		\$2,500
5-Year Savings/Revenue	\$12,500		\$12,500

REDUCE HUMAN RESOURCE STAFF IN DEPARTMENTS

In 1986 Iowa centralized its Human Resource (HR) function into one agency and reduced the number of HR professionals in departments. Over the years, however, the number of HR staff in departments has gradually increased while HR staff in DAS has remained fairly constant. The departments (Executive Branch agencies only) have increased HR staff by 18 percent (16 positions) between Fiscal Years 2002 and 2008.

It is recognized that there are situations where HR staff are needed in a department because of the unique requirements of the department. Agency HR staff help central HR understand the business practices of the satellite agency so that correct assessments can be made concerning new and changing employee job responsibilities, to help investigate disciplinary issues, and to bring an agency perspective to central decision-making. Agency HR staff also help central HR communicate rules, benefits, and decisions to employees.

Taking this into consideration, it is still possible for the State to reduce the number of HR professionals in departments. Reducing the number by half would save about \$425,000 in one year and about \$2.1 million over five years.

	State Funds	Federal Funds	Total
Year 1 Savings/Revenue	\$425,000		\$425,000
5-Year Savings/Revenue	\$2.1 million		\$2.1 million

EXPAND USE OF STATE GARAGES TO REDUCE COST OF CONTRACTED PRIVATE GARAGES

Two departments – Administrative Services (DAS) and Transportation (DOT) – are responsible for maintenance and repair of 2,379 cars, wagons, vans and light duty trucks. Many of these vehicles are located in Dallas, Warren and Polk counties. The majority of these vehicles are sent to private garages for maintenance and repair at a higher cost to the State. A recent analysis showed that DAS’ hourly mechanic costs are an average of 34 percent below what the private sector charges for vehicle repairs.

If both DAS and DOT increased the number of mechanics by hiring more for the second shift in the DAS garage and hiring to open a third shift in some DOT garages, they could significantly increase the number of vehicles maintained in State garages.

Assuming DAS repairs all of its passenger vehicles in Dallas, Warren and Polk Counties and DOT repairs 75 percent of its passenger vehicles statewide, the State would save about \$115,000 in the first year; \$1.4 million in five years. Year one savings are lower to account for initial staff and equipment costs for start-up.

	State Funds	Federal Funds	Total
Year 1 Savings/Revenue	\$115,000		\$115,000
5-Year Savings/Revenue	\$1.4 million		\$1.4 million

CONDUCT ENERGY EFFICIENCY RETROFITS OF STATE BUILDINGS

Since January 2007, Iowa has refined and upgraded its methodology for making the offices and buildings in the State of Iowa’s “footprint” more energy- and water-efficient. First, the function of tracking State energy cost savings which was originally established at DNR under Governor Vilsack’s Executive Order 41 has now been transferred to the Office of Energy Independence (OEI). Second, in February 2008, Governor Culver signed Executive Order Six establishing the Green Government Initiative

committing the State of Iowa to “lead by example” in environmental protection through increasing the use of renewable energy, alternative fuels and energy-efficient technology in its office buildings, office equipment and vehicles. Third, OEI has recently added dedicated staff to set up a system to document and track the energy cost savings achieved from current and future building retrofits and retro-commissions as these retrofits pay for themselves over time to save taxpayer dollars. Fourth, OEI has refined and further developed an innovative energy efficiency retrofit financing plan to help all State agencies retrofit their buildings and offices.

Iowa will be launching a new and more focused initiative to speed up the retrofitting and retro-commissioning of all State buildings and offices. OEI should provide technical assistance to all departments and help establish a baseline of Iowa’s electricity, water and heating bills to demonstrate the energy cost savings that will be achieved with State investments in building retrofits and retro-commissions. OEI should also audit all State utility bills to make certain that the State is not paying for any billing errors. This initiative should include the Board of Regents, which is already actively participating in the “lead by example” programs related to Executive Order Six.

Background on Green Buildings

Buildings are one of the heaviest consumers of natural resources and account for a significant portion of greenhouse gas emissions that affect climate change. In the United States, buildings account for approximately 70 percent of electricity consumption, 40 percent of energy use, 30 percent of waste output and 38 percent of all carbon dioxide emissions. Green buildings, retrofitted with energy efficiency improvements can reduce the State’s operating costs and utility bills, improve worker productivity, and provide a new source of job growth in Iowa. Iowa is already adopting green building policies in its implementation of the American Recovery and Reinvestment Act (ARRA), Iowa’s I-JOBS Infrastructure program and the Rebuild Iowa program which coordinates federal disaster relief funds construction projects.

Background on Executive Order Six

Governor Culver signed Executive Order Six establishing the Green Government Initiative on February 21, 2008. This Executive Order commits the State of Iowa to lead in environmental protection through increasing the use of renewable energy, alternative fuels and energy efficient technology. Executive Order Six notes that Iowa will “aggressively green . . . the state’s own office building footprint” creating an impact that is four-fold: Building green business and industry in Iowa; creating green collar jobs; saving taxpayer money; and reducing greenhouse gas emissions.

To implement this “lead by example” initiative, Executive Order Six created the Green Government Steering Committee which is led by the Director of the Office of Energy Independence and includes the chairperson or chairperson’s designee of the Iowa Utilities Board, and the Directors or Directors’ designees of the Department of Administrative Services, the Department of Natural Resources, the Department of Transportation, and the Department of Economic Development. The Steering Committee has established three task forces (Energy Excellent Buildings, Sustainable Materials and Biofuels). The Green Government Steering Committee will be charged with supervising the retrofits and retro-commissions of Iowa’s State office buildings and reporting back to taxpayers the amount of money saved on utility bills. This new “green infrastructure” in State government will help to streamline and better coordinate the process by which retrofits of State office buildings get underway in Iowa.

Background on the Re-launching of the Building Energy Smart (BEST) Program

To fulfill the requirements of Executive Order Six, the Office of Energy Independence is re-launching the Iowa Energy Bank as the BEST program for Iowa’s buildings with a special focus on State office buildings and other State facilities. The BEST program provides financing, technical assistance, and program management to install energy efficient and renewable energy projects.

According to the Office of Energy Independence's website, the BEST program offers a package of financing, consulting, and tracking for building improvements to make Iowa's State office buildings the "BEST" they can be with:

- Financing. A team of experts will find competitive rates and financing to fund energy and renewable technology projects.
- Consulting. A group of engineering professionals and building experts will guide the process of implementing energy efficient improvements and renewable technologies to ensure projects have economic paybacks.
- Tracking. Maintaining data for implemented improvements ensures savings and identifies additional opportunities for energy measures in buildings. A state-wide database will capture project and building information for our clients.

The energy saved by implementing energy efficiency technologies and renewable energy options is used to pay for improvements. Money and energy saved becomes an investment in Iowa's buildings. We know this is true as OEI estimates that Iowa has already saved more than \$1 million in energy costs as a result of energy retrofits of Iowa State office buildings.

OEI should ramp up its efforts to provide technical assistance, expert consulting, financing advice and tracking systems for Iowa State agencies and the Board of Regents to help implement state-of-the-art energy efficiency technologies which will save energy and improve building performance throughout Iowa's State building footprint.

OEI estimates that the resulting energy and water cost savings will amount to as much as 30 percent of current utility costs (or \$6.9 million per year). To be conservative, the estimates for the cost savings below assume total 20 percent energy and water utility cost savings (or \$4.6 million per year). Because the retrofits and retro-commissions will be completed over a five year time frame, the cost savings will increase each year until reaching \$4.6 million each year in fiscal year 2016.



Conservative estimates of savings for year one are 10 percent of the total anticipated in out-years.

State Offices	State Funds	Federal Funds	Total
Year 1 Savings/Revenue	\$460,000		\$460,000
5-Year Savings/Revenue	\$6.9 million		\$6.9 million

REQUIRE NEW HIRES TO USE PAYROLL DIRECT DEPOSIT

The majority of State employees receive their pay through a direct deposit system which also informs employees and board members through e-mail that their pay has been deposited into their bank accounts. This has allowed the State to eliminate the check printing and distribution costs associated with producing paper checks.

Just over 1,600 current employees and board members have not signed up for electronic deposit and receive payment through paper checks at a cost to the state of approximately \$226,000 per year (about \$139 per employee per year). Federal law prohibits an employer from requiring direct deposit unless it is part of the agreement at hiring. These employees cannot, therefore, be required to use direct deposit.

A renewed effort to market direct deposit benefits to these employees could significantly reduce these costs. At a minimum, the State can make receiving pay through direct deposit a condition of employment for future hiring. In addition, the Department of Transportation spends \$26,000 annually on a courier service to ensure that their non-direct deposit employees receive their paychecks on payday. Eliminating this courier service and sending paper checks through regular mail produces additional savings.



By requiring direct deposit for new hires and using regular mail delivery for DOT employees who do not currently use direct deposit, the State can save about \$45,000 in the first year and about \$383,000 over five years.

	State Funds	Federal Funds	Total
Year 1 Savings/Revenue	\$45,000		\$45,000
5-Year Savings/Revenue	\$383,000		\$383,000

CONDUCT AUDIT OF STATE HEALTH CARE ENROLLEES

Some states have been able to reduce health care costs by between two percent and 10 percent by conducting an audit of enrollees and identifying ineligible dependents.

Iowa should consider hiring a firm to conduct such an audit. Even if only one percent savings were realized, this still amounts to \$3 million.

	State Funds	Federal Funds	Total
Year 1 Savings/Revenue	\$3 million		\$3 million
5-Year Savings/Revenue	\$3million		\$3 million

IMPROVE COORDINATION OF LAW ENFORCEMENT AT STATE PARKS

The Department of Natural Resources and local law enforcement agencies share the duties of law enforcement at state parks. DNR should begin a series of negotiations and a strategic planning process to reduce duplication and overlap between DNR and local law enforcement efforts in this regard.

This will pose a complicated problem of negotiation and planning, but should yield cost savings in the long term.



This estimate assumes that savings of \$100,000 per year will begin in FY2012. This is a conservative estimate but negotiations and strategic planning are just getting underway.

	State Funds	Federal Funds	Total
Year 1 Savings/Revenue	\$0		\$0
5-Year Savings/Revenue	\$400,000		\$400,000

INCREASE VOLUNTEER AND INTERN PROGRAMS AT STATE PARKS

Iowa has an invaluable resource in its system of over 52 state parks that are open to use to all the public. Unlike most states, however, Iowa does not charge entrance fees at its state parks. Citizens can use and enjoy state parks for free.

In the past several years, Iowa’s annual budget for the maintenance of state parks has not covered the costs of mowing grass and basic upkeep like painting and gardening. Instead, Iowa has been able to draw on the generosity of Iowa’s citizens who volunteer and perform these basic services for free. By relying on a limited amount of federal AmeriCorps funding, DNR has been able to provide a minimal level of funding and support for the coordination of volunteer services at state parks.

While volunteers offer their services for free, the coordination, scheduling and supervision of volunteers at state parks cannot be conducted for free. There are two methods by which Iowa can expand its use of volunteer services at state parks and take better advantage of the generosity of volunteers:

1. Through the Governors Grants Office, DNR can seek to secure federal and non-profit foundation dollars to add funding for two FTE’s to coordinate state park maintenance in a pilot program. The new FTEs will be able to greatly expand the use of volunteers at state parks.



2. DNR is already working with the Board of Regents to create Green internships for the state park program for Iowa students that are majoring in natural resources. In addition to the on the job training these interns will receive in managing and protecting the natural resources in state parks, these interns will also form the core network that will report to the volunteer coordinators. The internships will provide students with invaluable experience in natural resource management, help them gain college credits and provide the people of Iowa with free services at the state parks.

Combined, the volunteer coordinators and interns will increase the levels of maintenance and customer service at Iowa’s state parks without drawing on General Fund support.

This estimate includes a conservative estimate of the funding available through Governor’s Grant Office applications to the federal AmeriCorps program. This is an amount that is less than what DNR has been able to obtain from federal sources in the past. This cost estimate does not include the millions of dollars of value of services that state park volunteers provide towards the upkeep and maintenance of the state park system in Iowa.

	State Funds	Federal Funds	Total
Year 1 Savings/Revenue		\$70,000	\$70,000
5-Year Savings/Revenue		\$325,000	\$325,000

ACCELERATE ASSESSMENTS FOR COMPLIANCE VIOLATIONS UNDER IOWA’S WORKERS’ COMPENSATION LAW

The Iowa Workforce Development Division of Workers Compensation is responsible for administering, regulating, and enforcing the Iowa laws that require employers to provide benefits to eligible employees who have injuries arising out of and in the course of employment. Recently the Division began a survey of employers that are out of compliance or in arrears in insurance payments.



If IWD Division of Workers Compensation accelerated its current plan to assess insurance companies, it could more quickly collect the \$960,000 in fines and penalties for workplace compliance violations owed. These fines and penalties should be collected as soon as possible. This is a one-time assessment that will provide revenue for Iowa’s General Fund.

	State Funds	Federal Funds	Total
Year 1 Savings/Revenue	\$960,000		\$960,000
5-Year Savings/Revenue	\$960,000		\$960,000

EXPAND IOWA LAW ENFORCEMENT ACADEMY (ILEA) ON-LINE TRAINING OFFERINGS

The number and sophistication of law enforcement training courses offered throughout the country continues to grow. Two factors have driven this expansion: the rapid advancement of technology capabilities and the need to offer cost-effective training for members of the law enforcement community in tight budget times. Currently, the Iowa Law Enforcement Academy (ILEA) has considered offering on-line training courses that can be accessed by local law enforcement officers as part of their on-going training requirements. It is estimated that ILEA could offer such courses for a fee of \$5 per month per officer to local law enforcement agencies. (This fee would allow each officer access to all available training modules).

ILEA projects a start-up cost of \$48,000 for the needed on-line testing software, but currently has non-General Fund resources available for this cost. ILEA could use current ILEA staff to develop the training as part of their present duties.

ILEA estimates that this type of training offering would generate \$150,000 annually in revenue; \$750,000 over five years. All revenue from this program should be directed to the General Fund.



Expanding on-line training opportunities also brings a valuable service to ILEA’s customers by offering a cost-effective training option for local law enforcement agencies who are dealing with significant budget challenges.

	State Funds	Federal Funds	Total
Year 1 Savings/Revenue	\$150,000		\$150,000
5-Year Savings/Revenue	\$750,000		\$750,000

ENCOURAGE LARGER STATE AGENCIES TO SUPPORT BUDGET, ACCOUNTING, AND PRE-AUDIT SERVICES FOR SMALLER STATE AGENCIES

At present, several large State agencies provide budget, accounting, and pre-audit support free of charge to smaller State agencies. The Department of Corrections does this for the Board of Parole; the Department of Public Health does so for the Civil Rights Commission. This arrangement allows the smaller agencies to save the personnel cost of a full time budget/accounting staffer when the work required may not be a full-time job. At the same time, the larger agencies are able to take on the budget and accounting work of the smaller agencies with minimal effect on their financial staff’s workload.

Executive Branch agencies should evaluate whether this model could be used more extensively in State government. While efficiencies are certain from this recommendation, exact savings will be based on the agencies that take advantage of this opportunity.

BOARD OF REGENTS PARTICIPATION

The State of Iowa Board of Regents, responsible for overseeing the operations of three universities and two specialty schools, is a very large public enterprise with an annual budget of almost \$4 billion and more than 33,000 employees. The state-funded portion of this budget is \$538

million, although according to the Regents, state support has decreased by over \$165 million (almost 25 percent) since the beginning of FY 2009.

Often referred to as the fourth branch of government, the Regents operate largely as an independent and autonomous agency within state government. In fact, the official State of Iowa organization chart, which displays the three branches of government—including all central state government departments and agencies—makes no reference to the Regents. Nonetheless, during these very difficult financial times, the Regents have recognized that they must absorb their fair share of budget and staff reductions and have made progress to that end.

The Regents and their institutions aggressively have pursued and implemented cost-efficient policies, processes and practices in the past five years, the result being millions of dollars in costs saved or avoided, particularly in the areas of cooperative and collaborative purchasing; consolidation of print shops, mailrooms and warehouses; and early retirement incentives. Millions of dollars of cost savings remain to be captured by the Regents, however, in other areas such as IT, consolidation of e-mail systems and wireless carriers, and improved fleet and property management. Additional cost savings also are still attainable in purchasing. Finally, the potential exists to generate revenue through the sale of Regents-owned assets, primarily under-utilized or surplus land and buildings.

Public Works has identified and shared with the Regents 19 such possible cost-saving recommendations. While the Regents have agreed in whole or in part with 17 of these recommendations, they have provided no estimates of the cost-savings that potentially could be achieved or relevant data on operations sufficient for **Public Works** to calculate these estimates. In some cases, such as IT, the Regents have maintained that it is premature to offer cost-saving estimates, in others that more data need to be collected and detailed studies undertaken. Notwithstanding the desirability of more information and further discussions, the State's fiscal situation requires that spending be reduced now. Rather than simply further *cutting* their operations, the Regents can further *improve* them through additional cost savings in such areas

as purchasing, sale of assets, energy efficiency and employee health benefits.

PURCHASING: As noted, in the past few years the Regents have adopted and implemented many practices and processes that have resulted in millions of dollars in cost savings. According to the Regents, moreover, state government could realize immediate cost-savings by joining the Regents' Express Freight Master Agreement and the Dell Computer, Recycled Paper and UIHC Novation GPO contracts. The Regents estimate cost-savings in the range of 10 to 20 percent for just three contracts: Express Freight Master, VMWare and recycled paper. The Regents also report that they have offered DAS the recycled paper, Dell and GPO cost-saving opportunities, but that thus far DAS has not indicated its intent to take advantage of the offers. If there are cost-savings to be realized, DAS should capture them, and the Regents should be credited for making such cost-savings possible.

The search for cost-efficiencies and consequent cost-savings is a continuous pursuit, moreover, not a one-time exercise. Given the current financial climate, the continuing decline in projected state tax revenues, and the ongoing uncertainty concerning additional federal stimulus funds, the need for the Regents to wring every possible dollar out of their purchasing resources will continue for the foreseeable future.

Although, according to the Regents, only seven percent of their "spend" comes from General Fund dollars, that sum still is a significant amount – some \$61.6 million. Given the estimated savings levels for the rest of state government identified throughout this report, a five percent reduction in state-funded purchases would represent a very achievable cost-saving of \$3.1 million in the first year, and \$15.5 million over five years.

SALE of UNDER-UTILIZED and SURPLUS PROPERTY/ASSETS: The Board of Regents and institutions own valuable land and other assets. Following completion of an up-to-date inventory of all land and assets, the Regents should conduct a thorough review, audit and analysis of this property with a goal of selling at least two percent of said assets within the first

year. By conservative estimates, the State of Iowa easily could net \$10 million from such sales in the first year, and a minimum of \$30 million over five years.

ENERGY EFFICIENCY: Working with the Office of Energy Independence (OEI), the Regents should continue their ongoing efforts to increase energy efficiency and reduce energy consumption in their buildings. While the Regents have indicated that there will be no cost savings until years Five to Seven because of the need to “spend money to save money”, OEI estimates first year cost savings of \$1.7 million, which would ramp up to \$6.8 million in the fifth year. Conservatively, then, the Regents can realize a cost-saving in Year One of at least \$1 million, and \$5 million in Year Five.

ELIMINATION of HEALTH BENEFITS for REGENTS EMPLOYEES WORKING LESS THAN 20 HOURS WEEKLY: With few exceptions, the Regents have eliminated health benefits for employees working fewer than 20 hours per week, most recently at Iowa State University as of July 1, 2009. Related to this issue is the payment of full-time equivalent health care premiums to part-time AFSCME employees (working 20 to 30 hours per week) at the three Regent universities. All other Iowa state government employees who work 20 to 30 hours per week receive only 50 percent of full-time health benefits. If the Regents’ AFSCME part-time employees in this category were moved to the 50 percent standard, cost-savings of \$2 million in the first year and \$10 million over five years would result.

ADDITIONAL COST SAVINGS: In sum, the Regents have agreed in full or in part that they could, in fact, benefit by the implementation of 17 cost-saving recommendations advanced in this report for the rest of state government. These 17 areas are as follows:

- Creation of a cabinet-level IT agency, accompanied by the consolidation of IT planning and operations
- Consolidation of all state e-mail systems
- Consolidation of wireless equipment carriers
- Increased use of “thin client” technology

- Adoption of a statewide professional services contract for IT services
- Adoption of a statewide IT and office equipment maintenance contract
- Increased e-filing IT solutions
- Improved fleet management practices
- Centralized real estate leasing and property management; sale of assets
- Consolidation of print shops and mailrooms
- Reduction in purchased periodicals and subscriptions
- Reduction in use of professional consulting services
- Energy-efficient retrofits for all state buildings
- Early retirement incentives
- Required use of direct deposit by all new hires
- Required family enrollment in health insurance when spouses are employed by the state
- Elimination of health benefits for Regents employees working fewer than 20 hours per week

Of these, sufficient information is available to calculate possible savings in four areas—purchasing, sale of assets, energy efficiency and employee health benefits—of \$16.1 million in Year One and \$70.5 million over five years. The remaining 13 areas will yield much more in additional savings; the recommendations related to IT alone should yield significant cost-saving potential. If the Regents are presumed to be at least as adept as the rest of state government in achieving efficiency gains to ease demands on taxpayer funds during this fiscally challenging period, they should be able to achieve annual savings of at least \$30 million on the \$538 million in General Fund expenditures they incur currently. Precisely how these savings are to be achieved must at this point be left

to the Regents. There can be little doubt, however, as to the magnitude of the savings reasonably achievable. This report therefore recommends aggregate savings in Regents spending from the General Fund of \$25 million for Year One and \$150 million over five years.

TAKE FULL ADVANTAGE OF E-GOVERNMENT SOLUTIONS

Technology advances have exploded in recent years and government, just like private business, needs to capitalize on these developments. Technology can help us to better serve individuals applying for drivers' licenses, send child support payments electronically to custodial parents, and make it quick and easy for businesses to pay taxes or apply for permits.

Just as the private sector has shifted rapidly to capture the cost savings associated with e-commerce, Iowa state government needs to identify ways that e-government can be used most effectively. This is an area that needs to be addressed immediately. Iowa can no longer afford a disjointed system of data centers, e-mail systems, payroll systems and multiple telecommunication carriers. IT planning and services must be more centralized and streamlined in order to take full advantage of developing technology.

Because there is considerable costs involved in implementing IT solutions, it is imperative that State government plan carefully and strategically to get the most for the investment. The recommendations in this section begin that process.

Some more immediate actions to consolidate and improve the management of IT systems can be done quickly; others will require legislative action and are discussed in Section II.

CONSOLIDATE IT PLANNING AND OPERATIONS

Iowa's information technology system is a large, decentralized system – the State operates 223 data centers housing 1,944 servers (some centers housing only one server while two have over 100 servers), and employs 864 IT and IT-related staff with 39 “lead personnel.”

These considerable resources, however, do not provide the State with a well planned and managed system that takes advantage of state-of-the-art technology developments; has sufficient capabilities for reporting and tracking functions statewide; provides adequate understanding of disaster recovery plans and levels of security; or what IT needs of agencies are for the future.

In addition, Iowa state government runs several separate payroll systems that, besides overlapping and duplicative administrative costs and increased maintenance costs, does not provide the State with adequate functionality for tracking and reporting one of the biggest cost centers in State government – payroll. Like all IT consolidation efforts, a consolidated payroll system will require an initial investment; however the cost benefit to the State can be substantial.

There are numerous examples of states that have taken the required actions to consolidate IT functions in order to create more cost-effective, integrated business processes and reduce redundancies.

Reports of experiences in other states where consolidation of IT planning and operations have saved millions of dollars include – West Virginia saved 16 percent of its IT spending between 2006 and 2009; Indiana \$14 million; Missouri reports reducing costs \$3.5 million per year including telecommunication consolidation; Georgia is saving approximately \$18 million per year. These are just a few of the more than 20 states planning or already having completed consolidation projects.

Achieving the out-year benefits in an IT consolidation plan requires an initial investment. In Iowa this is estimated to be about \$7.9 million; savings, however, over five years could equal \$26.8 million.

In a broad definition of IT, states have included consolidation of e-mail systems and telecommunications services also. These functions should be considered in Iowa.

CONSOLIDATE STATE E-MAIL SYSTEMS

Like IT in general, consolidation of email systems improves operations and reduces duplication at every level: staff, licensing, equipment, security and disaster recovery.

Iowa currently has 25,000 e-mail users on 23 e-mail systems, each operated by individual agencies. Alabama recently consolidated its 45 systems into one and saved \$3 million; Missouri saved \$2 million by merging its 14 e-mail systems. A recent analysis completed by Iowa Department of Administrative Services estimates that an initial investment of \$1 million in Iowa could eventually save approximately \$830,000 over five years and about \$366,000 each year thereafter.

CONSOLIDATE WIRELESS EQUIPMENT PURCHASING AND SERVICE CONTRACTS

Iowa annually buys almost \$2 million worth of cellular phones, PDAs and Blackberry equipment from seven different vendors; each with different service packages. These different contracts prevent the State from pooling minutes on a statewide basis and being able to negotiate more favorable rates. In addition, there is no uniform policy on who has a wireless device, what type of device is most appropriate for different business needs and what plan is most suitable for each circumstance.

States that have consolidated wireless equipment purchasing and service contracts have saved as much as 30 percent of spending compared to a decentralized system. Not only can equipment and services be obtained more cheaply, managing mobile phone use based on agency business needs significantly reduces costs also.



Iowa could save at least \$250,000 per year (\$1,250,000 in five years) by using a maximum of two wireless equipment carriers and managing its equipment and contract through a Wireless Equipment Coordinator office.

	State Funds	Federal Funds	Total
IT Year 1 Savings/Revenue			-\$7.9 million
IT 5-Year Savings/Revenue			\$26.8 million
E-mail Year 1 Savings/Revenue			-\$1 million
E-mail 5-Year Savings/Revenue			\$830,000
Telecom Year 1 Savings/Revenue			\$250,000
Telecom 5-Year Savings/Revenue			\$1,250,000
Total Year 1 Savings/Revenue			-\$8,650,000
Total 5-Year Savings/Revenue			\$28.9 million

NEGOTIATE STATEWIDE INFORMATION TECHNOLOGY SERVICE CONTRACT

Keeping major information systems such as those used by State government running requires a cadre of professional services resources such as programmers, software experts and IT systems analysts. They work to correct problems as they arise and also are needed to write new programs when rules change or when software updates become available. In Fiscal Year 2010 Iowa is projected to spend \$15 million on multiple professional services contracts with private vendors for these responsibilities.

As in IT consolidation in general, there are numerous examples of states that have consolidated IT professional services contracts. For example, Missouri and Oregon have saved up to 25 percent on their contractual IT service costs by using one IT service contract each.

If Iowa consolidated its projected \$15 million multiple contract spending, the State could negotiate lower prices because it would be buying many more services from the same vendor; taking full advantage of bulk purchasing prices for IT services. Even projecting a 10 percent savings



(much less than the experience in other states) produces \$1.5 million a year in reduced costs for these services.

	State Funds	Federal Funds	Total
Year 1 Savings/Revenue	\$1.5 million		\$1.5 million
5-Year Savings/Revenue	\$7.5 million		\$7.5 million

NEGOTIATE STATEWIDE IT AND OFFICE EQUIPMENT MAINTENANCE CONTRACT

A service/maintenance contract, sometimes referred to as an “extended warranty” is an agreement between the State and a private sector entity (not generally the manufacturer) to keep equipment operating after the manufacturer’s warranty has expired. The contract often combines scheduled maintenance to keep equipment at its peak performance with repair and replacement coverage. Items that are often covered under service/maintenance agreements include office equipment (including computer hardware), lab equipment, wireless equipment such as cell phones and PDAs, building operational equipment such as heating and air conditioning systems, and transportation vehicles such as cars, trucks and aircraft. A state can purchase a service/maintenance contract when it buys an item or it can enter into a central agreement with a limited number of contractors to cover all or most of the State’s equipment. Iowa has many service/maintenance agreements and does not have data to estimate how much is spent on such contracts.

Consolidated service/maintenance agreements save money for contractors because covering all equipment under one agreement allows them to price on an economy of scale. The result is contractor savings, some of which is passed along to the State. Alabama reduced the number of its various service/maintenance contracts and saved about \$7 million during the first year of the contract. Based on Alabama’s savings, Iowa can expect to save about \$2 million the first year it signs a similar agreement.

	State Funds	Federal Funds	Total
Year 1 Savings/Revenue	\$2 million		\$2 million
5-Year Savings/Revenue	\$10 million		\$10 million

INCREASE USE OF NEW TECHNOLOGIES SUCH AS THIN CLIENT TECHNOLOGY

One relatively new technology that the State should investigate is the use of Thin Client Technology (TCT). While PCs require that data storage, memory and processing horsepower be located on each individual PC, TCT allows these function to be located on central servers. TCT saves money by allowing updates, maintenance, and security to be done at a central location during non-working hours thus reducing the amount of staff time needed to travel to individual sites and eliminating employee downtime as they wait for their PCs to be updated or fixed. Because data is centrally located, TCT eliminates current connectivity problems to satellite offices and provides a secure way for employees to access the State system when they are out of their offices. TCT is also an efficient disaster recovery tool, is cheaper than buying PCs, and uses less power than PCs.

Michigan recently migrated over 27,000 employees to its TCT system, saving between \$3 million and \$5 million within its first year of operation. By replacing 33 percent of its PCs every five years with TCT, Iowa can save \$4.3 million in five years. First year savings equal \$100,000 due start-up costs.



	State Funds	Federal Funds	Total
Year 1 Savings/Revenue	\$100,000		\$100,000
5-Year Savings/Revenue	\$4.3 million		\$4.3 million

MANAGE STATE ASSETS – FLEET AND PROPERTY – BETTER

Iowa state government currently maintains one of the largest fleets of vehicles in the state. The State can improve its management of the State vehicles fleet by: 1) cutting back the number of vehicles used; and 2) better managing how vehicles are assigned and used to perform State services.

Likewise, Iowa state government is one of the largest owners of property (both land and office space) and renters of property (mostly office space) in Iowa. Some more immediate actions to improve the management of these assets can be done quickly; others will require legislative action and are discussed in Section II.

REDUCE FLEET AND CHANGE MILEAGE AND TAKE HOME POLICIES

The Department of Administrative Services and the Department of Transportation own and operate the majority of passenger vehicles for State use – 3,511. Each agency sets policy on use of these vehicles, including when vehicles are assigned, circumstances for when employees take cars home and guidelines used for when to sell and purchase new vehicles. Typically, vehicle assignment is based on the number of miles driven per year. Analysis of usage indicates that some vehicles are driven fewer than 14,000 miles per year (a typical standard for yearly mileage). In addition, vehicles are sold at times with less than 100,000 miles when the standard should be set at 120,000 without a negative impact on operations or safety.



Likewise, the Department of Public Safety currently has approximately 50 cars assigned to DPS personnel at headquarters full-time who do not require a vehicle to conduct their daily assignments. Take home policies such as these need to be reviewed for all departments.

A better method for determining whether employees need a vehicle is to know how many trips an employee or unit drives each week. For example, though employees may drive a car 15,000 miles per year, this mileage may be accumulated during one long trip per week; the vehicle stands idle for the remainder of the week. Another group of employees may use a vehicle only 10,000 miles per year but the vehicle is used every day.

States have found that Global Positioning System technology is now a valuable tool for calculating trips and more effectively assigning vehicles based on actual need. According to State of Delaware officials, an internet-based GPS system recently enabled the State to reduce the number of vehicles it owns by over 17 percent. Use of GPS systems have also been shown to reduce non-business trips and speeding.

Vehicle trips can also be reduced by establishing a ride share program at the Department of Transportation’s Ames and Ankeny locations and the Department of Administrative Services’ Des Moines motor pool site. A ride share program lets an employee know when another employee is going to the same meeting so that vehicles can be shared.

Conservatively estimating that the current fleet could be reduced by five percent through use of GPS equipment to better manage trips; that vehicles are replaced at 120,000 miles, and; that take-home policies are more restrictive savings in Iowa will be about \$3.5 million per year.

	State Funds	Federal Funds	Total
Year 1 Savings/Revenue	\$3.5 million		\$3.5 million
5-Year Savings/Revenue	\$17.5 million		\$17.5 million



CONSOLIDATE DEPARTMENT OF NATURAL RESOURCES OFFICES IN DES MOINES

Currently, the DNR leases office space off of the capital complex for the Air Quality Bureau, Water Supply Sections and Field Office #5 at rates three times higher than the rate at the Wallace Building. If these offices are consolidated back into the Wallace Building, significant funds could be saved annually on rent currently paid to private commercial office landlords. DNR has already worked with DAS to identify available space in the Wallace Building. DNR’s program operations would also be more efficient if these offices were co-located.

Consolidating DNR offices into the Wallace Building will save over \$300,000 a year; \$1.5 million over five years.

	State Funds	Federal Funds	Total
Year 1 Savings/Revenue	\$300,000		\$300,000
5-Year Savings/Revenue	\$1.5 million		\$1.5 million

IMPROVE FINANCIAL MANAGEMENT, LEVERAGE FUNDING AND POSITION STATE TO BE SMART PURCHASER

State government is required to be responsible stewards of taxpayers’ money. The State manages assets and spending of over \$16 billion, and by virtue of its many interactions with business and customers, is one of the largest financial managers in Iowa. To be in charge of this large of a portfolio requires State leaders to be vigilant in collecting all taxes and debt owed to the state, drawing down all federal funds to which the state is entitled, and ensuring resources are aligned with priorities.

The recommendations in this section include ways to improve how money is managed and ensures Iowa is drawing down all available federal funds for State services. Some more immediate actions can be taken that are presented below; others will require legislative action and are discussed in Section II.

REQUIRE PURCHASING FROM MASTER CONTRACTS

Iowa state government purchases about \$300 million in goods each year; everything from office supplies to pick-up trucks, from food supplies to asphalt. State government purchases thousands of items required to provide the wide range of services to citizens from collecting taxes to managing parks. Currently, every State agency is able to enter independently into contracts to purchase goods even though master contracts are available; departments are not required to use the master contracts.

Master contracts are agreements negotiated by professional procurement officers for products that at least two or more agencies need to buy. The price that can be negotiated is largely based on the amount of a product the State expects to buy from the vendor. Generally speaking, the more the State expects to buy from a master contract, the lower the price. This means that when one or more agencies do not buy from master contracts but instead, write their own separate contracts, the price the State pays for a product is not as low as if all agencies were to buy from one contract. Within the past three fiscal years, the Department of Administrative Services' (DAS's) master contracts have saved from 1.5 percent to 27 percent due to volume discounts.

Effective master contract negotiations require that procurement officers know how much the State bought in the previous year so that bidders can have some idea of how much product the State will buy from the new master contract. All Executive Branch agencies, except the Department of Transportation (DOT) use a data system called "Ariba" to track spending. DOT's non-participation in Ariba reduces the amount of product the State can claim for volume purchase discounts.

If all agencies, including DOT, participated in State master contracts, Iowa could achieve a net savings of approximately \$15 million per year; \$60 million over five years. These savings include costs DOT will have to move to the Ariba accounting system and the elimination of duplicative contracts. For instance, approximately 62 percent of the agreements completed by DOT duplicate the goods on DAS master contracts.



	State Funds	Federal Funds	Total
Year 1 Savings/Revenue	\$15 million		\$15 million
5-Year Savings/Revenue	\$60 million		\$60 million

IMPROVE DEBT COLLECTIONS

The amount of outstanding debt owed to the Iowa State court system, which includes unpaid fines, fees and other related court costs, has been increasing over the past ten years. The Iowa Judicial Branch reports that in 1998, outstanding court debt was \$143.4 million. By the end of 2007, outstanding court debt had grown to \$453.7 million. The Iowa Department of Management estimates that outstanding court debts have increased an average of more than \$41 million per year over the past three years.

Iowa’s current procedures have not been effective at reducing the amount of debt that is listed on court records, despite legislative changes in 2008. Although a great deal of the outstanding debt will be impossible to collect (as many debtors listed are deceased, bankrupt, in prison or are otherwise unable to pay), a significant portion of the outstanding debt could be collected if current overlapping and counter-productive debt collecting processes are reformed and streamlined.

Some progress has been made in collections since the passage of Senate File 2428 of 2008. According to the Des Moines Register, court collections for fiscal 2008 totaled about \$128 million - up 7 percent from \$119 million in fiscal year 2007.

By taking immediate additional steps to: 1) reorganize and analyze the outstanding debts; 2) restructure the debt collection efforts, including the hiring of private debt collection agencies; 3) improve the identification of debtors; 4) streamline and reform the interrelationship between the State and the counties on unpaid debt collections; and 5) expand the passive collection of debts, including the garnishing of casino and racetrack winnings – a significantly increased amount of the outstanding debt could be collected. The Executive Branch and the

Judicial Branch should work directly with counties to aggressively increase outstanding court debt collections immediately.

Four additional components would also help increase the transparency and effectiveness of the Iowa court debt collection process.

- First, the Executive Branch and the Judicial Branch should work directly with counties to put into place a mechanism by which old and uncollected debt can be reclassified as “uncollectible” – so that State resources can be redeployed more efficiently towards those debts worth pursuing aggressively.
- Second, a greater emphasis should be placed on collecting court debts (or at least partial payments by setting up payment plans) immediately after court proceedings are completed. Debtors are far less likely to pay court fines and costs after leaving the courthouse.
- Third, the Legislature should eliminate the requirement that third party debt collectors should be guaranteed a 25 percent payment for any outstanding debts collected. Third party contracts for debt collection should be competitively bid so that Iowa taxpayers receive the best value.
- Fourth, Iowa should encourage its congressional delegation to support federal legislation that would allow Iowa to intercept federal tax return rebates for Iowans who owe outstanding court debts. This would provide a valuable additional tool to both the Executive and Judicial Branch agencies attempting to identify collectible assets to pay down outstanding court debts.

Estimates include projected collections of: 1) three- to ten-year debt collections; 2) increased collections on currently accumulating debt; 3) implementation of an enhanced racing and casino offset program; 4) implementation of a streamlined state/county collection program; and 5) the expanded use of private debt collection agencies. These estimates recognize that a substantial portion of the outstanding court debt is bad or uncollectible. These estimates also assume that approximately \$30 million of the yearly amount collected will be diverted to victim



restitution and damages, child support payments and a number of other court accounts that have priority over the Iowa General Fund.

	State Funds	Federal Funds	Total
Year 1 Savings/Revenue	\$22.2 million		\$22.2 million
5-Year Savings/Revenue	\$111 million		\$111 million

MODERNIZE IOWA’S UNCLAIMED PROPERTY SEARCH CAPABILITIES

Unclaimed property (sometimes referred to as abandoned) refers to accounts in financial institutions and companies that have had no activity generated or contact with the owner for one year or a longer period. Common forms of unclaimed property include abandoned savings or checking accounts, stocks, un-cashed dividends or payroll checks, traveler's checks, trust distributions, unredeemed money orders or gift certificates (in some states), insurance payments or refunds and life insurance policies, annuities, certificates of deposit, customer overpayments, utility security deposits, mineral royalty payments, and contents of safe deposit boxes.

Hundreds of years ago in England, where modern-day unclaimed property statutes had their origin, lost property “escheated” to the King. Today, lost property escheats to the states who act as custodians of the property until it can be returned to the rightful owner. Every U.S. state has unclaimed property programs that actively find owners of lost and forgotten assets. Unclaimed property laws were first enacted by individual states in the 1940s, but have become much broader and actively enforced in the last 15 years. Model legislation was first developed by the National Conference of Commissioners on Uniform State Laws in 1954. Unclaimed property is one of the original consumer protection programs and according to the National Association of State Treasurers:

- \$1.7 billion in unclaimed property had been returned to the rightful owners in Fiscal Year 2006 from 1.929 million accounts

- A total of at least \$32.8 billion is currently being safeguarded by state treasurers and other agencies for 117 million accounts.

Unclaimed property laws act in the best interest of consumers by regulating funds that revert back to a company when a consumer loses contact with them. In Iowa, these laws require companies to turn forgotten funds over to the State Treasurer who makes a diligent effort to find the consumers who have a right to the unclaimed property. Iowa is a national leader in the implementation of these efforts to return unclaimed property to consumers. Iowa's Great Iowa Treasure Hunt has recovered and returned over \$100 million to more than 280,000 individuals since Treasurer Fitzgerald created the program in 1983. The Great Iowa Treasure Hunt program relies on a variety of effective methods to locate owners including the use of websites, cross-checking public data, staging awareness events at the State Fair and checking routinely with a national database of unclaimed property. Companies and banks in Iowa and from across the nation are required to report millions of dollars in unclaimed property to the State Treasurer each year.

Demutualization and Unclaimed Property

"Demutualization" refers to a reorganization, in which a mutual insurance company becomes a stock company. This is typically accomplished through the payment of stock or cash to policyholders upon the discontinuation of the mutual company. Normally, demutualization has no impact on the underlying insurance policy. After demutualization, shareholders of common stock own the new company. The new shares they hold represent their ownership interests in the company.

Between 1985 and 2003, more than 20 life insurance companies in the U.S. underwent demutualization. Many of the nation's oldest and largest life insurers began as mutual insurance companies, but a growing number - including Prudential, John Hancock, MetLife, Principal, Mutual of New York and dozens of others - have demutualized. As shareholders, demutualized life policyholders are entitled to share in the company's profits via stock dividends, and benefit from its growth in the form of an

appreciated share price. Shares may be sold at any time, without affecting policy benefits.

However, demutualization also impacted a group of missing policyholders (and their heirs) who are not aware that they are entitled to receive compensation. For example, the National Association of State Treasurers reports that John Hancock did not have the current addresses of as many as 400,000 policyholders when it demutualized. Other large insurance companies have had similar experiences during demutualization. The result is that there are many thousands of Iowans (and their heirs) who are entitled to insurance policy payments (some in excess of \$10,000 per claim) but these Iowans are not aware that the money is due to them.

State Statutes on Unclaimed Property and Demutualization

Twenty-five states have enacted statutes to address the problem of unclaimed assets related to demutualization. In those states, unclaimed stocks or other assets are escheated to (or held by) the State, rather than insurance companies. In those states, the demutualization assets are placed into the State's General Fund while their unclaimed property programs set about locating the owners. Iowa is one of the 25 states that has enacted consumer protection legislation that allows unclaimed insurance demutualization proceeds to escheat to the State.

Data and Information Problems Associated with Demutualization Claims

Connecting missing policyholders and their heirs to insurance demutualization proceeds is a very labor intensive process. It requires the performance of a comprehensive audit of all of the outstanding demutualized insurance company policies and a cross check of the identities of missing policyholders to determine if a valid claim may be outstanding and if the policyholder or heir is living in Iowa. Once the validity of outstanding claims is presented to the insurance companies, unclaimed benefits can escheat to the State, and the State can then begin the process of contacting policy holders.



Iowa should take advantage of new computer software and search engine technologies to modernize the manner in which it locates lost assets and missing policy holders as a result of insurance company demutualization. Private companies that have performed similar searches in other states have estimated that there are likely more than \$200 million in unclaimed assets related to Iowa citizens' claims to demutualized insurance company assets. These claims should be identified and escheated to the Iowa General Fund to allow the eventual return of these assets to their owners. The cost of modernizing Iowa's search technologies is small relative to the size of the missing demutualization assets and can be paid for with some of the escheated funds.

	State Funds	Federal Funds	Total
Year 1 Savings/Revenue	\$40 million		\$40 million
5-Year Savings/Revenue	\$160 million		\$160 million

JOIN MULTI-STATE LAWSUIT ON ESCHEAT OF UNCLAIMED U.S. BONDS

Unclaimed property (sometimes referred to as abandoned) refers to accounts in financial institutions and companies that have had no activity generated or contact with the owner for one year or longer period. Common forms of unclaimed property include abandoned savings or checking accounts, stocks, un-cashed dividends or payroll checks, traveler's checks, trust distributions, unredeemed money orders or gift certificates (in some states), insurance payments or refunds and life insurance policies, annuities, certificates of deposit, customer overpayments, utility security deposits, mineral royalty payments, and contents of safe deposit boxes.

In 2004, a lawsuit brought by Kentucky, Missouri, Montana, New Jersey, North Carolina and Oklahoma sought to add another form of unclaimed property – unclaimed World War II Bonds to this list of unclaimed properties that escheat to the state. A trial set to begin in federal court in New Jersey this month will rule on whether states can administer the

return of these unclaimed assets from the U.S. Treasury to their owners (and their heirs) in their states.

In 1941, the United States Treasury began selling Bonds to support the nation's entry into World War II. Although the Bonds paid interest, there was one limitation - the Bonds could not be cashed in for 40 years. After World War II, the U.S. Treasury continued to sell "Series E" Bonds to support the federal government (their maturity was reduced to 30 years in 1965). These Series E Bonds were sold until they were discontinued in 1980.

Today, more than \$16 billion worth of these U.S. Bonds remain unclaimed. The U.S. Treasury maintains a web site to search for uncashed Bonds, but only Series E Bonds issued after 1974 can be searched because Social Security numbers (the method used for the search engine) were not recorded on bonds before that year. Because it is so difficult to search for these unclaimed Bond proceeds, the U.S. Treasury has been slow to return the remaining unclaimed proceeds. States argue that the U.S. Treasury programs to return these unclaimed assets to their citizens are not as effective as state programs such as the Great Iowa Treasure Hunt program.

Iowa should join the multi-state effort to recover lost and unclaimed WW II Bond and Series E Bond proceeds from the U.S. Treasury. According to estimates prepared by the plaintiff states in the New Jersey federal court lawsuit, a state of Iowa's size would stand to gain more than \$150 million in unclaimed Bond proceeds. These Bond proceeds would be escheated to the Iowa General Fund to allow the Great Iowa Treasure Hunt program to locate their owners as soon as possible.

Because the implementation of this recommendation is dependent on a federal court decision which would be subject to appeal, the savings revenue estimate has been discounted by 75 percent and assumed to be unavailable until four years from now. Many legal experts believe that this lawsuit will be resolved sooner than four years from now (Senator Rockefeller of West Virginia has already introduced legislation to return some of these proceeds to the states) and that the chances of the states



prevailing in this lawsuit are greater than the discounted assumption that yields the amount listed below.

	State Funds	Federal Funds	Total
Year 1 Savings/Revenue			
5-Year Savings/Revenue	\$37.5 million		\$37.5 million

MANAGE HEALTH AND HUMAN SERVICES

The Department of Human Services, operating a wide range of health and human service programs for the most vulnerable of Iowa’s citizens, accounts for the largest portion of the state budget – \$5.5 billion.

The recommendations in this section will improve the delivery of services in several areas, cut costs, increase federal revenue, consolidate management to reduce duplication and overlap, and most importantly, reduce Medicaid fraud and abuse. The recommendations will continue the Governor’s commitment to children and families in need while taking steps to control costs.

Some immediate actions can be taken now; others will require legislative action and are discussed in Section II.

STRENGTHEN MEDICAID INTEGRITY EFFORTS – PART ONE

The federal government estimates that between 3 and 10 percent of Medicaid payments to providers are paid in fraudulent or incorrect billings. At a minimum, that translates into at least \$85 million in overpayments and potentially fraudulent billings in Iowa’s Medicaid program. Advanced technology and more investigators to track down improper payments will give the Iowa Department of Human Services the right tools to tackle this issue. New, state-of-the-art technology allows states to conduct a closer examination of medical bills to catch many irregularities in billings even before they are paid out. The new



systems can detect previously unknown fraudulent schemes, summarize findings, and support investigations and recovery of improper payments.

Two additional recommendations will require legislative action and are discussed in Section II: Recommendations Requiring Action from the Iowa Legislature.

Assuming that about 30 percent of improper payments can be prevented and/or recovered (calculated at the lowest end of potential fraud of 3 percent), new fraud detection and deterrence techniques could save \$8.1 million in the first year of enactment; \$35.3 million over five years.

	State Funds	Federal Funds	Total
Year 1 Savings/Revenue	\$8.1 million	\$14.6 million	\$\$22.7 million
5-Year Savings/Revenue	\$35.3 million	\$61.3 million	\$96.6 million

ENSURE IOWA IS GETTING THE BEST PURCHASE PRICE FOR REQUIRED MEDICAL EQUIPMENT

The Iowa Medicaid program spends about \$49 million a year to purchase medical equipment such as hospital beds, wheelchairs, oxygen and other “durable” equipment needed by Medicaid consumers. Just as large companies seek out volume discounts when purchasing goods, State government can use its buying clout to get better deals when purchasing frequently-used supplies like these. Other states use competitive bids and have cut costs; the federal government conducted two demonstration projects to see if savings could be achieved by bidding for medical equipment. The projects produced savings of 19 percent in the Florida and Texas demonstration sites.

A competitive bid for these types of frequently-used medical supplies will ensure that Iowa consistently gets the best deal for its Medicaid dollars. Assuming about half of the current spending could be done through bids, and that it will take several months in the first year for DHS to issue bid requirements, competitive bids for selected medical supplies can save an estimated \$500,000 in the first year, and \$4.1 million over five years.



Competitively bidding certain types of medical supplies will ensure that Iowa consistently gets the best deal for its Medicaid dollars. First-dollar savings can come from the types of medical supplies easily delivered by mail to individual Medicaid recipients. Additional savings can also be obtained for the remainder of supplies that require more complicated delivery mechanisms. Competitively bidding these medical supplies can save an estimated \$500,000 in State funds the first year and \$4.1 million over five years. In the first year, \$1.1 million in federal funding will be saved and \$7.3 million in federal funds will be saved over five years.

	State Funds	Federal Funds	Total
Year 1 Savings/Revenue	\$500,000	\$1.1 million	\$1.6 million
5-Year Savings/Revenue	\$4.1 million	\$7.3 million	\$11.4 million

MODIFY DURABLE MEDICAL EQUIPMENT RENTAL VERSUS PURCHASE POLICIES

Iowa DHS currently allows payments for renting durable medical equipment, such as hospital beds or wheelchairs, to be paid up to 150 percent of what it would cost to buy the equipment outright. Thus, rental payments can exceed purchase prices by 50 percent.

Iowa DHS can align its policy with federal Medicare policy on equipment rentals and reduce the cost of rentals to 100 percent of the purchase price.

This policy change is estimated to save \$200,000 in State funds the first year of implementation and \$1.3 million over five years. Additional federal funds savings total \$500,000 the first year and \$2.3 million over five years.

	State Funds	Federal Funds	Total
Year 1 Savings/Revenue	\$200,000	\$500,000	\$700,000
5-Year Savings/Revenue	\$1.3 million	\$2.3 million	\$3.6 million



UPDATE NURSING HOME RECOVERABLE COST REGULATIONS

It is illegal for individuals to transfer assets to another person for the sole purpose of qualifying for Medicaid benefits. The Department of Inspections and Appeals (DIA) does not currently have enough staff to properly investigate improper asset transfers or “divestiture of assets.”

Increasing staffing by seven Full Time Equivalents (FTEs) for divestiture activities can increase recoveries of improperly claimed Medicaid benefits and prevent ineligible individuals from receiving these benefits. The Department could investigate more complex issues with multiple debtors and increase the amounts recovered from individual cases.

Another program subject to abuse by individuals is the Electronic Benefit Transfers (EBT) program. EBT benefits may be fraudulently used by people in jails or by people residing out of the state. Two additional staff for the DIA’s EBT Unit would help to expedite terminating illegally obtained benefits and imposing administrative and criminal sanctions against violators. The deterrent effect of strict enforcement would warn potential violators and avoid potential losses.

Overall, Iowa could save \$800,000 in State funds the first year and \$7.3 million over five years. Federal fund savings would total \$2.3 million the first year and \$14.9 million over five years.

	State Funds	Federal Funds	Total
Year 1 Savings/Revenue	\$800,000	\$2.3 million	\$3.1 million
5-Year Savings/Revenue	\$7.3 million	\$14.9 million	\$22.2 million

CLAIM FEDERAL REIMBURSEMENT FOR ELIGIBLE INMATE HOSPITAL CARE

The federal government usually bars states from claiming Medicaid dollars on behalf of inmates of correctional facilities. An exception to this rule is made when inmates are hospitalized for treatment for more than 24 hours. Inmates must meet other categorical eligibility criteria – generally, they must be under age 18 or over 65, disabled, or be pregnant women.

Other states, most notably Nebraska, Wisconsin and Illinois, file Medicaid claims on behalf of inmates in hospitals for more than 24 hours. Current Iowa DHS policy is to allow Medicaid reimbursement for this situation, but no claims have been filed.

The University of Iowa reported spending \$7.7 million on inmate health care in 2008. An estimated 49 percent, or about \$3.4 million, of this spending is attributed to inpatient care, and is potentially eligible for Medicaid claims, depending on inmate eligibility. Since 2004, Nebraska, with a smaller prison population than Iowa at about 4,400 inmates, has claimed \$8.3 million in Medicaid funding under this provision for 114 inmates. Nebraska reports that most of the inmates qualify because they are considered disabled, meeting Social Security disability standards. Iowa’s disability determination process would be similar.

It is estimated that Iowa could claim Medicaid funds for inpatient hospital care for prisoners and replace \$1.5 million in State general revenue with federal dollars in the first year and \$7.2 million over 5 years.

	State Funds	Federal Funds	Total
Year 1 Savings/Revenue	\$1.5 million		\$1.5 million
5-Year Savings/Revenue	\$7.2 million		\$7.2 million

MODIFY MEDICAID PRESCRIPTION DRUG PURCHASING

Medicaid and other health care systems typically used a Preferred Drug List (PDL) as a mechanism to control utilization of certain high-cost pharmaceuticals. PDLs promote clinically-appropriate use of pharmaceuticals in the most cost-effective manner.

The Iowa Department of Human Services uses a PDL for such purposes. DHS has recognized that there is more that can be done to reduce the costs of prescription drug purchasing.

The department eliminated brand name drug costs that are currently combined with generic drug costs in calculating how much Iowa

Medicaid should pay for generic drugs under the State Maximum Allowable Cost (SMAC) program.

There are two additional initiatives DHS could undertake in order to do even more to reduce drug costs. First, Iowa DHS requires that a drug have two therapeutic equivalent products before it can be added to the SMAC program. Dropping the requirement to one therapeutic equivalent would add more generic drugs to the program, thus reducing pharmaceutical costs.

Secondly, Iowa DHS applies a markup factor of 40 percent to the average drug cost in the SMAC program. The factor is higher than that used by most states that use the SMAC purchasing strategy, and may be reduced by 10 percent without losing access to drugs for Medicaid recipients.

Annualized savings from the change already made by Medicaid plus the two additional changes proposed here is estimated to save State general revenue of \$1.8 million in the first full year, and savings of \$10.2 million over 5 years. Additional federal funds savings of \$3.9 million will occur in the first year and savings of \$18.4 million over five years.

	State Funds	Federal Funds	Total
Year 1 Savings/Revenue	\$1.8 million	\$3.9 million	\$5.7 million
5-Year Savings/Revenue	\$10.2 million	\$18.4 million	\$28.6 million

REINSTATE USE OF TELEMEDICINE SERVICES BETWEEN THE DEPARTMENT OF CORRECTIONS AND THE UNIVERSITY OF IOWA

Most routine medical care for correctional facility inmates takes place in the prison, provided by DOC physicians. University of Iowa physicians provide specialty care. In past years, telemedicine links between the Department and the University provided experts in orthopedics, HIV, internal medicine, urology, cardiology, psychiatry, dermatology and other specialties. However, the University of Iowa provided its last telemedicine consultation in August 2009.

In 2009 before the telemedicine consultations ended, the Department of Corrections transported an average of 113 prisoners each week to visit a University of Iowa physician for these types of specialty consultations.

Transporting prisoners to the University of Iowa for specialty medical treatment costs Iowa taxpayers additional money that could be saved if telemedicine consultation services were used. A number of states rely on telemedicine to provide inmate healthcare, especially for specialty care.

The Department of Corrections estimates that transportation costs and overtime pay for prison guards transporting inmates to the University of Iowa medical facilities is \$393,000 a year. About 38 percent of these costs could be saved by using telemedicine. If additional visits could be avoided by using telemedicine, even more savings would accrue.

Iowa would save \$200,000 in the first year and \$800,000 over five years.

	State Funds	Federal Funds	Total
Year 1 Savings/Revenue	\$200,000		\$200,000
5-Year Savings/Revenue	\$800,000		\$800,000

MODIFY CHILD SUPPORT RECOVERY FUNDING

Last year, Iowa collected a record \$351 million in child support from non-custodial parents, a 2 percent increase over the previous year. The average child support payment to custodial parents is \$216 a month. Approximately 70 percent of child support payments are made on time, which ranks Iowa among the best in the country. More than 95,000 custodial parents receive on-time support payments.

The collection and distribution of these millions of dollars is a massive fiduciary responsibility handled by the Department of Human Services. DHS' review of their operations identified eight detailed tasks currently performed that could be modified to save on the administrative costs to manage the child support program.



DHS can: manage the 915 fund (the clearing account through which payments are disbursed) to gain more interest income, eliminate redundant storage of records, renegotiate contracts for genetic testing, reduce multiple mailings that saves on the production of notices and postage, reduce costs at the call center, and implement efficiencies in Information Technology services.

These reduction strategies will save the State approximately \$228,000 annually and \$1,140,000 over a five-year period.

	State Funds	Federal Funds	Total
Year 1 Savings/Revenue	\$228,000		\$228,000
5-Year Savings/Revenue	\$1,140,000		\$1,140,000

INCREASE JUVENILE COURT SERVICES' CLAIMS FOR TITLE IV-E REIMBURSEMENT

Case management provided by Juvenile Court Services (JCS) staff can be claimed for federal match under a part of the federal law called Title IV-E. Iowa is not currently claiming for these services. For the \$3,000,000 in annual Title IV-E expenditures related to JCS case management, the federal government would reimburse Iowa \$240,000 annually or \$1,200,000 over a five-year period.

In order to claim this federal funding, JCS must conduct a federally-approved time study methodology to allocate costs. Once such a time study is complete, DHS can begin claiming this additional federal revenue.

	State Funds	Federal Funds	Total
Year 1 Savings/Revenue		\$240,000	\$240,000
5-Year Savings/Revenue		\$1.2 million	\$1.2 million

CLAIM TITLE IV-E REIMBURSEMENT FOR CERTAIN ELIGIBLE PLACEMENTS AND LICENSE ALL RELATIVE HOMES

The Deficit Reduction Act of 2005 allows states to claim Federal Financial Participation (FFP) for the costs of providing case management services for the month before an otherwise “Title IV-E eligible” child transitions from an unlicensed or unapproved facility (i.e. detention, psychiatric) to a licensed or approved foster family home or group care. DHS can claim reimbursement for these allowable services. In the last 12-month period, DHS estimates that 44 children moved from an ineligible facility to an eligible placement; therefore DHS could have claimed Title IV-E reimbursement for the month prior to the transfer to the eligible placement for each of these children.

The additional federal revenue would amount to \$30,000 annually or \$150,000 for a five-year period.

Related to this eligible placement issue is the fact that many foster care homes in Iowa are unlicensed relative homes. Many states are moving to license all homes in which children are placed, not only as a protection for the children, but also to create the opportunity to draw down federal match for these placements. DHS should conduct a thorough cost benefit analysis of licensing relatives’ homes and how much it will generate in new federal funding.

	State Funds	Federal Funds	Total
Year 1 Savings/Revenue		\$30,000	\$30,000
5-Year Savings/Revenue		\$150,000	\$150,000

II. RECOMMENDATIONS FOR LEGISLATIVE ACTION

This section of recommendations involves initiatives requiring changes in state law, and thus action by the legislature. Some recommendations are similar to those in the first section of the report (Recommendations for Immediate Executive Action), aimed at adopting best practices in administration of State programs and services. However, the recommendations in this section will require statutory modifications or substantial policy changes beyond the scope of the Executive Branch alone. For example, consolidating State IT services and operations under an Information Technology Department Director or authorizing an incentive for an early retirement program that will reduce State personnel costs.

Other recommendations in this section involve opportunities to save money while improving services. An example is the recommendation to expand chronic disease management programs under Medicaid, which will help maximize use of federal funds while enhancing health outcomes for many thousands of Iowans suffering from chronic diseases like diabetes.

In general, the recommendations for legislative consideration call on lawmakers to make a serious and immediate effort to consider specific, targeted, high-value savings initiatives that improve or do not degrade State services, as an alternative or supplement to broad-brush budget reductions or revenue enhancement measures.

APPOINT A CHIEF INFORMATION OFFICER

As noted earlier, Iowa has a wealth of IT resources that are spread throughout many departments. The Governor can take immediate action to consolidate the 233 data centers, 1,944 servers, and seven telecommunication carriers. Longer term, however, these planning and operational tasks need to be organizationally structured to achieve the

best results. There are two basic structural requirements that are common among all states – the appointment of a Cabinet-level CIO with authority to implement a consolidation plan and creation of an agency users group available to advise the CIO to ensure plans meet the needs of each individual department.

Iowa leaders should consider establishing the CIO position as a Cabinet-level appointment in order to ensure the authority and responsibility are properly situated within state government. Other states that are known for their success in consolidating major systems such as is needed in Iowa report that the key element of success was the positioning of a CIO who had the authority and responsibility to make difficult and complex decisions and to carry out a comprehensive plan.

Costs and savings associated with this recommendation are including in the IT consolidation recommendations.

OFFER RETIREMENT INCENTIVE

Iowa state government, with over 20,000 employees in the Executive Branch (not counting Regents), is one of the largest employers in Iowa; making payroll one of the largest cost centers in the state budget. Several states (Tennessee, Maine, South Carolina, New Jersey, Colorado, Utah) have used incentive programs to encourage certain groups of employees to retire – usually employees who have been in government for a certain number of years and who are at least near retirement age.

The Iowa Departments of Administrative Services and Management produced an analysis of a retirement incentive that would best fit Iowa's situation. They found a total of 2,261 employees in the following categories: 540 employees over age 65 and not eligible for SLIP; 345 employees under age 65 who meet the rules for retirement and have enough sick leave for SLIP; and, 1,376 employees who meet the rules of retirement but do not have enough hours for SLIP.

Because of the uniqueness of these groups, a different set of incentives needs to be applied in order to establish the best approach for the state and the employee. Recommendations include:

- Those not eligible for or able to participate in SLIP:
 - Pay out \$2,000 from sick leave bank
 - Pay out entire vacation balance
 - Pay \$1,000 for every year of service – minimum 10, maximum 25
 - Aggregate and pay above amounts in equal installments over 5 years
 - Contribute towards health and dental plans for 5 years
- Those under 65 eligible for SLIP:
 - Pay out \$2,000 from sick leave bank
 - Pay out entire vacation balance
 - Pay \$1,000 for every year of service – minimum 10, maximum 25
 - Aggregate and pay above amounts in equal installments over 5 years
 - Contribute towards health and dental through the SLIP program

For each of these options, the state will introduce a low cost retiree only plan and allow health coverage and contributions to transfer to a spouse if the employee passes away during the 5-year or SLIP coverage.

Cost Considerations

The most critical assumption to be made in evaluating the cost of a retirement incentive program is the number of people who will take advantage of the incentive and the number of positions that will require “back filling” because they are critical to the mission of an agency. Neither of these can be absolutely known until the program is offered.



If all 2,261 eligible employees took advantage of this offer, the savings (cost avoided in having to pay salaries and benefits) would be approximately \$119.5 million in year one; \$565.3 million over five years. This is calculated as:

- \$798.3 million – “cost” of 2,261 employees over 5 years if they remain employed
- \$233 million – “cost” of offering retirement incentive over 5 years
- \$565.3 million – cost avoided if all 2,261 take advantage of incentive and no positions are backfilled

Not all employees will opt to take the incentive package and some positions will need to be filled because they are critical to the mission of an agency. Based on the experience of other states (many of which exceeded expectations on the number of employees who took incentive offers), it is reasonable to calculate that a combination of employees eligible for the incentive and vacancies that will require filling will amount to 50 percent or 1,130 employees taking the incentive and the position remaining vacant.

Based on this assumption, Iowa could save \$59.8 million in year one; \$399.2 million over five years.

	State Funds	Federal Funds	Total
Year 1 Savings/Revenue	\$59.8 million		\$59.8 million
5-Year Savings/Revenue	\$282.6 million		\$282.6 million

CENTRALIZE REAL ESTATE LEASING AND PROPERTY MANAGEMENT

The Vertical Infrastructure Advisory Committee, the Capitol Planning Commission, and the State of Iowa Facilities Improvement Corporation have overlapping responsibilities and reporting requirements that have complicated the oversight of state building projects. There is no central real estate management entity in Iowa state government that has the

authority and ability to manage the state’s real estate assets in a manner consistent with private real estate holdings.

Iowa should centralize its real estate and property management functions for all leased and state-owned property in order to ensure space is used most effectively and to take advantage of the state’s ability to negotiate favorable leasing terms. The state should create a State Building and Land Management Authority to centralize and better coordinate the oversight of real estate holdings and capital projects. The Authority will supervise and provide guidance to all Departments and Agencies including the Board of Regents on cost savings goals and methodologies. The Authority’s most important function will be to collect and analyze information on state leases, land holdings and facility management.

PERFORM A FULL AUDIT OF THE STATE’S REAL ESTATE PORTFOLIO TO MAXIMIZE THE VALUE OF THESE ASSETS

Many Iowa State Agencies own real estate assets that are no longer necessary for the fulfillment of the mission of those agencies. Some state agencies do not have a complete inventory of all of their real estate holdings including buildings, landholdings, right of ways and historical structures. All Iowa state agencies should be required to complete a full inventory of their real estate holdings and the State Building and Land Management Authority should hire a private real estate portfolio manager to advise it on the potential sale of surplus properties.

Two Iowa State Agencies provide good examples of the underutilization of the state’s real estate portfolio. The Iowa Departments of Human Services and Department of Corrections have conducted an inventory of their surplus land holdings and these two Departments currently hold almost 8,000 acres of unused land in 16 counties throughout Iowa. The total value of this land, as determined by Fair Market Value in each of the 16 counties where the land is located is \$598.4 million. About half of this land – almost 4,000 acres – is considered available for sale since it is

farm or other surrounding land that is not part of the facilities or institutions operated by the departments.

If Iowa sold off some of this surplus land in order to put this land to productive use by the private sector, the state could realize one-time revenue in the millions of dollars. By selling just 5 percent of the already identified surplus land, state Departments and Agencies could realize a gain of \$14.9 million; by selling 10 percent of this surplus land, the state could realize could realize a gain of \$29.9 million. Performing an inventory of surplus land owned by other state agencies will likely identify other valuable properties for sale or re-use.

The State Building and Land Management Authority should hire a private sector real estate manager to help it complete the inventory of surplus an unused state properties and recommend which assets could be sold at a premium price. All state historic buildings would not be eligible for sale, only those assets that Iowa State Agencies identify as being surplus and no longer related to their mission would be eligible for sale.

	State Funds	Federal Funds	Total
Year 1 Savings/Revenue	\$29.9 million		\$29.9 million
5-Year Savings/Revenue	\$29.9 million		\$29.9 million

PERFORM A FULL AUDIT OF THE STATE’S OFFICE LEASES

Iowa state government is one of the largest renters of property (mostly office space) in Iowa. The State Building and Land Management Authority should immediately begin a thorough review of all state office leases and wherever possible, require state Agencies to consolidate office spaces that are rented from private sector landlords. In addition, the State Building and Land Management Authority should work directly with all Iowa State Agencies to begin re-negotiating office leases to obtain more favorable lease terms for Iowa. Some agencies have already taken advantage of the low market demand for office space to re-negotiate lower lease rates. All state Agencies should be required to do so during these market conditions.



	State Funds	Federal Funds	Total
Year 1 Savings/Revenue			\$2.5 million
5-Year Savings/Revenue	\$12.5 million		\$12.5 million

PURSUE SALE AND LEASEBACK OF STATE OFFICE BUILDING ASSETS WHERE TERMS WOULD BE MOST FAVORABLE TO THE STATE

Several states have found that they are better able to maximize the value of their real estate assets by selling some properties to a private sector owner and then leasing them back. Currently, there is no office or entity in Iowa state government that has the authority to pursue these office building sales and lease backs. The State Building and Land Management Authority should be charged with exploring these potential opportunities for Iowa Departments and Agencies and the Board of Regents.

	State Funds	Federal Funds	Total
Year 1 Savings/Revenue	\$0		\$0
5-Year Savings/Revenue	\$3 million		\$3 million

CONSOLIDATE LEGAL SERVICES FOR REAL ESTATE

Iowa State Agencies acquire and dispose of interests in real estate to conduct their operations and implement their programs. In many instances, these transactions require the services of private sector legal experts. In other instances, state agency personnel who are conducting these transactions for state Agencies do not have the experience or expertise to negotiate the best price or deal. The State Building and Land Management Authority will serve as a central legal resource for state real estate transactions and will save costs by cutting down on the need to hire private legal assistance. Estimated savings are included other managing assets recommendations.

REQUIRE EMPLOYERS TO TRANSMIT CHILD SUPPORT PAYMENTS ELECTRONICALLY

Businesses that collect child support payments from employees and transmit them to the state are not required to do so through electronic means. Yet the vast majority of businesses (97 percent) pay their Iowa taxes electronically; only 56 percent of child support payments are electronically transmitted. This is despite the fact that the Department of Human Services (DHS) has been very innovative in encouraging various forms of electronic payment through Electronic Funds Transfer options and a user-friendly web site.

If employers who transmit taxes electronically were required to also transmit child support payments, DHS would be able to reduce the staff-intensive handling of paper financial instruments and reduce the number of staff needed to process the paper.

In order to ensure there is not a negative impact on child support collections, DHS can implement a planned phase-in to accommodate employers. The department would also need to assist employers as they adapt to the new system. This change could achieve an annual savings of almost \$67,000 total; about \$23,000 in state funds.

	State Funds	Federal Funds	Total
Year 1 Savings/Revenue	\$23,000	\$44,000	\$67,000
5-Year Savings/Revenue	\$115,000	\$220,000	\$335,000

LOWER CASINO WINNINGS THRESHOLD TO COLLECT REQUIRED TAXES

Currently, when someone wins \$10,000 or more at a casino, the casino checks to see if the winner owes money to the State in back taxes. If the gambler does, then the casino deducts the taxes owed to the State before distributing the money to the gambler. This has netted the state about \$200,000 a year in taxes owed.



If casinos were required to check for unpaid state debts when gamblers won \$1,200 or more instead of \$10,000, the State would collect about \$5 million dollars more per year than it does now. In five years, the State would collect an additional \$25 million in delinquent debts.

	State Funds	Federal Funds	Total
Year 1 Savings/Revenue	\$5 million		\$5 million
5-Year Savings/Revenue	\$25 million		\$25 million

IMPROVE FINANCIAL MANAGEMENT BY COMBINING THE STATE ACCOUNTING ENTERPRISE WITH THE DEPARTMENT OF MANAGEMENT

Currently, the State’s accounting and budgeting functions are housed in two departments – the Department of Management which is responsible for the State budget and financial planning and the Department of Administrative Services’ State Accounting Enterprise responsible for State accounting.

Combining these functions into one department – the Department of Management – will result in a more efficient and effective structure for all budgeting and accounting functions. It will also result in savings by the elimination of some duplicative administrative and overhead costs.

	State Funds	Federal Funds	Total
Year 1 Savings/Revenue	\$260,000		\$260,000
5-Year Savings/Revenue	\$1.3 million		\$1.3 million

STRENGTHEN MEDICAID INTEGRITY EFFORTS – PART TWO

As noted previously, the federal government estimates between 3 and 10 percent of Medicaid payments to providers are paid fraudulently or incorrectly – translating to a minimum of \$85 million in overpayments in Iowa.

Two approaches that have proved effective in detecting and recovering overpayments require changes in legislation: enacting a Medicaid False Claims Act and enacting a law that will allow administrative penalties in certain circumstances. Both of these types of laws have been effective mechanisms used to protect State tax dollars and deter fraud. In fact, the Federal government encourages states to enact a False Claims Act by allowing for enhanced return (an additional 10 percent) to the state resulting from successful prosecution under a False Claims Act. In the past several years, Iowa has lost out on almost \$2 million in enhanced claims because the state does not have a False Claims Act.

Enacting a False Claims Act and establishing legislation that will allow for administrative penalties could increase fraud detection recoveries by another three percent or \$900,000 in year one in General Funds; \$3.9 million over five years.

	State Funds	Federal Funds	Total
Year 1 Savings/Revenue	\$900,000	\$1.6 million	\$2.5 million
5-Year Savings/Revenue	\$3.9 million	\$6.8 million	\$10.7 million

LIMIT INITIAL SUPPLY OF PRESCRIPTION DRUGS NOT ON THE PREFERRED DRUG LIST

Physicians can prescribe drugs not on the PDL in emergencies or when a certain drug is needed for treatment. In these instances, physicians must submit a request for prior approval

Iowa DHS currently allows physicians to prescribe a one-time 30-day supply of prescription drugs that are not on the preferred drug list. During this time, a physician must submit a request for approval to continue prescribing the medication. In instances such as this, federal law requires only an emergency 72-hour/3 day supply while approval is being sought. If Iowa DHS modified its current practice of allowing a one-time 30-day supply and adopted the federal standard patients would still have access to necessary prescriptions in an emergency,



however, costs could be more closely controlled for these high-cost medications.

State General Fund savings attributed to this change are \$200,000 the first year and \$1 million over 5 years. Federal funds savings are \$400,000 the first year and \$1.8 million over 5 years.

	State Funds	Federal Funds	Total
Year 1 Savings/Revenue	\$200,000	\$400,000	\$600,000
5-Year Savings/Revenue	\$1 million	\$1.8 million	\$2.8 million

CHANGE THE WAY MEDICAID PAYS FOR UNIQUE MENTAL HEALTH MEDICATIONS

The Iowa Department of Human Services currently places all chemically unique mental health prescription drugs on its preferred drug list (PDL) for Medicaid recipients. Some of these medications are very costly and states have used contracting mechanisms to obtain rebates on high-cost medications from manufacturers. Iowa DHS proposes to require the makers of these medications, who wish to sell drugs to the Iowa Medicaid program, to enter into a contract for supplemental drug rebates to the State. If a drug manufacturer does not enter into a contract, DHS could place the mental health medication on the non-preferred list of drugs, thus requiring physicians to obtain prior authorization before the Medicaid recipient can obtain the drug.

Iowa will save an estimated \$400,000 the first year and \$2.5 million over five years. Additional federal funds savings of \$900,000 the first year and \$4.2 million over five years would occur.

	State Funds	Federal Funds	Total
Year 1 Savings/Revenue	\$400,000	\$900,000	\$1.3 million
5-Year Savings/Revenue	\$2.5 million	\$4.2 million	\$6.7 million

ALLOW ELIGIBLE *HAWK-I* FAMILIES TO ACCESS PRIVATE INSURANCE WHEN AVAILABLE

Some families who qualify for the State Children’s Health Insurance Program (SCHIP), called *hawk-i*, have access to employers’ health benefit programs. Purchasing such coverage with SCHIP funds saves taxpayer money when the private plans can be purchased at a cheaper rate than monthly SCHIP premiums. Federal changes to SCHIP effective April 2009 made it easier for states to purchase private insurance for SCHIP families. Currently, Iowa has a similar program to purchase insurance for individuals who are eligible for Medicaid.

Iowa has a higher rate of privately insured children than the U.S. – 75.1 percent for Iowa, compared to 63.5 percent for the U.S. – so Iowa will have a higher rate of SCHIP families with access to private insurance. This estimate is based on 2008 U.S. Census Bureau statistics and includes current Iowa DHS estimates of children eligible, SCHIP premiums and administrative costs.

By implementing a program for *hawk-i* enrolled children that pays for employer-funded health coverage premiums, the State can save about \$1.8 million in the first year and about \$8.2 million over 5 years. Additional savings of \$5.3 million in federal funds would accrue in the first year and \$23.8 million over five years.

	State Funds	Federal Funds	Total
Year 1 Savings/Revenue	\$1.8 million	\$5.3 million	\$7.1 million
5-Year Savings/Revenue	\$8.2 million	\$23.8 million	\$32 million

INCREASE AND IMPROVE DISEASE MANAGEMENT PROGRAMS TO CONTROL COSTS OF CHRONIC ILLNESS

Medical advances are constantly showing us how to improve health care for the most vulnerable populations – like children with chronic diseases such as asthma or childhood diabetes. Iowa can take advantage of these advances and design better ways to care for these children and save money at the same time. Childhood asthma, diabetes and other chronic

conditions can be closely monitored and treated before episodes become so dangerous that the child must be hospitalized.

Other states successfully use disease management services to prevent or reduce the need for hospital or emergency room visits – at least 21 states now offer such programs. One study of managed diabetes care produced savings of 21.5 percent in the program overall. Another study produced savings of \$2.94 for every dollar spent on disease management.

Hospital costs can be reduced by an average of 30 percent by properly managing the costs of chronic illnesses. Improving the quality of health care for Iowa’s children with serious medical conditions, not only significantly improves the lives of these children, but also it can save an estimated \$2.7 million in State funds the first year and \$28.3 million over five years. Federal funds savings amount to \$6 million the first year and \$49.7 million over five years.

	State Funds	Federal Funds	Total
Year 1 Savings/Revenue	\$2.7 million	\$6 million	\$8.7 million
5-Year Savings/Revenue	\$28.3 million	\$49.7 million	\$78 million

MORE VIGOROUSLY REVIEW COSTLY MEDICAL PAYMENTS IN THE COMMUNITY BASED WAIVER PROGRAM

Iowa DHS payments on behalf of Home and Community Based Waiver recipients span a wide range of values. For example, in 2009, payments in the Intellectual Disability (MR) Waiver ranged from \$1 to over \$308,000. The median value of the payments was \$16,953, meaning there are an equal number of payments above \$16,953 as there are below.

Requiring advance approval for high-cost services could identify unnecessary services or other problems. Scrutinizing the higher cost payments in Home and Community Based Waivers would allow Iowa to validate expenses before expenditures occurred. Iowa DHS could



evaluate its payment records and assess the proper mechanisms to trigger a review. The intent is to focus on the higher payments above the median because savings are more likely with the larger amounts.

Based on saving five percent of the payments above the median value in all waivers, Iowa will save \$5.7 million in the first year, and \$33 million over five years. Federal funds savings will amount to \$12.7 million the first year and \$59.1 million over five years.

	State Funds	Federal Funds	Total
Year 1 Savings/Revenue	\$5.7 million	\$12.7 million	\$18.4 million
5-Year Savings/Revenue	\$33 million	\$59.1 million	\$92.1 million

STRENGTHEN DEPARTMENT OF INSPECTIONS AND APPEALS ABILITY TO INVESTIGATE AND RECOVER IMPROPERLY-CLAIMED PUBLIC BENEFITS

Unfortunately, there are instances when people commit fraud in order to gain benefits from the state and federal governments. For instance, it is illegal for individuals to transfer assets to another person for the sole purpose of qualifying for Medicaid benefits. Another program subject to abuse by individuals is the Electronic Benefit Transfers (EBT) program. EBT benefits may be fraudulently used by people in jails or by people residing out of the state.

While new and improved technologies are available to detect such fraud, states also need staff resources to investigate financial records to determine improper transfers of assets, to expedite terminating illegally obtained benefits, and to prepare documentation to be able to impose administrative and criminal sanctions through a court of law. Strict enforcement efforts have also proven to have a deterrent effect.

Increasing staffing by seven Full Time Equivalent (FTEs) for divestiture activities can increase recoveries of improperly-claimed Medicaid benefits and prevent ineligible individuals from receiving these benefits. DIA could investigate more complex issues with multiple debtors and increase the amounts recovered from individual cases.



Netting out the cost of additional staff, Iowa could save \$800,000 the first year and \$7.3 million over 5 years. Federal fund savings would total \$2.3 million the first year and \$14.9 million over five years.

	State Funds	Federal Funds	Total
Year 1 Savings/Revenue	\$800,000	\$2.3 million	\$3.1 million
5-Year Savings/Revenue	\$7.3 million	\$14.9 million	\$22.2 million

REORGANIZE AND CONSOLIDATE SOME MENTAL HEALTH INSTITUTES

The Iowa Department of Human Services operates four Mental Health Institutes (MHIs) located in Cherokee, Clarinda, Independence, and Mount Pleasant. These facilities provide specialized mental health care services as well as critical access to quality acute psychiatric care for Iowa’s adults and children needing mental health treatment. The specialized services include substance abuse treatment, dual diagnosis treatment for persons with mental illness and substance addiction, psychiatric medical institution for children (PMIC), and long-term psychiatric care for the elderly (gero-psychiatric).

Initially these MHIs operated as duplicate regional resource centers. However, in FY 1992, gero-psychiatric services were consolidated into a single program at Clarinda and substance abuse services to a single program at Mount Pleasant. Similarly, adult psychiatric services and child and adolescent psychiatric services were realigned to account for the change in operational capacities at the MHIs.

Based on the underlying principles that residents can be served better in the community and that closing old, high-cost institutions should be done, DHS can: move Clarinda adult psychiatric units to Cherokee, Mt. Pleasant adult and dual diagnosis to Independence, Cherokee child and adolescent units to Independence, Clarinda gero-psychiatric to nursing facilities, and substance abuse treatment to community providers. Reorganizing these services will allow DHS to close the Cherokee child and adolescent units, the Clarinda adult psychiatric and gero-psychiatric



units, the Mt. Pleasant adult and dual diagnosis psychiatric units, and the Mt. Pleasant substance abuse treatment units.

Because funds will be needed to develop appropriate alternative or community placements, the savings in the first year will be \$1.9 million; it is expected to be \$5.4 million annually thereafter. This will result in a savings of \$26,785,950 over a five-year period.

	State Funds	Federal Funds	Total
Year 1 Savings/Revenue	\$1.9 million		\$1.9 million
5-Year Savings/Revenue	\$26.8 million		\$26.8 million

ELIMINATE ENROLLMENT IN THE FAMILY SUPPORT SUBSIDY PROGRAM

Iowa has two programs to help low-income families who have a child with serious emotional disturbance, mental retardation, developmental disabilities, or brain injury – the Family Support Subsidy Program and the Home and Community Based Services waiver program. Both programs provide monthly cash payments to families with incomes below \$40,000 to help them with the financial costs of caring for an ill or disabled child. Currently, 71 percent of FSS families are also receiving assistance from the federal waiver program.

DHS can discontinue enrollment in the FSS program through attrition so that there is no harm to the family or child and enroll future families in the waiver program to the maximum extent possible.

An average annual reduction of 38 participants would result in a cost savings of \$161,082 annually and \$805,410 over five years.

	State Funds	Federal Funds	Total
Year 1 Savings/Revenue	\$161,000		\$161,000
5-Year Savings/Revenue	\$805,000		\$805,000

EXPAND THE USE OF ELECTRONIC PAYMENTS IN DHS

Electronic payments are widely used in the Department of Human Services (DHS), but not in the children and family services division. Additionally, all Health Insurance Premium Payment (HIPP) payments and most payments to Medicaid providers are made by paper warrants. Only 25 percent of DHS payments are made electronically through an Electronic Funds Transfer (EFT).

Handling of paper warrants involves production and handling of the warrant, as well as mailing and postage costs. DHS could save about \$156,000 in the first year of full implementation if 75 percent of these payments were made electronically. This takes into account the cost of about \$149,000 for systems changes that will be required. Total savings over five years would be \$780,000.

	State Funds	Federal Funds	Total
Year 1 Savings/Revenue	\$156,000		\$156,000
5-Year Savings/Revenue	\$780,000		\$780,000

MODIFY FUNDING FOR THE CHILD CARE ASSISTANCE PROGRAM

The Department of Human Services receives an appropriation that is passed on to Community Empowerment and combined with funding from the Department of Education. The combined funds are used for professional development to support early childhood education. In addition, DHS receives specially-marked funds for programs in Polk County for services for exceptional children and for low-income housing at Homes of Oakridge.

While these programs are meritorious, DHS proposes to review priority funding areas and eliminate this funding. The programs are not statewide and have other sources of funding.

Eliminating these special appropriations will save the State approximately \$465,000 annually and \$2.3 million over a five-year period.

	State Funds	Federal Funds	Total
Year 1 Savings/Revenue	\$465,000		\$465,000
5-Year Savings/Revenue	\$2.3 million		\$2.3 million

REDUCE FUNDING FOR THE ADOPTION SUBSIDY PROGRAM

Adoption subsidies are available if: 1) a child adopted through the state a) has a special need (including physical, mental, or emotional disability), b) is older, or c) is a member of a sibling group of three or more children; and 2) the State is unable to place the child for adoption without the subsidy. The minimum daily subsidy rate is \$16.36; however, families are able to negotiate a subsidy up to the rate that would have been paid to foster parents if the child had not been adopted. More than 90 percent of adoptions arranged by DHS involve a subsidy; as of July 1, 2009, the adoptive parents of 8,387 children were receiving subsidies.

DHS believes that maintaining the adoption subsidy rate at the level that was in effect June 20, 2009 will save money and not adversely affect the program.

DHS also pays fees to lawyers who represent children in adoption cases. Currently this fee is a maximum of \$700 and includes both attorney's fees and non-recurring expenses that may be incurred. DHS can reduce the maximum payment for lawyer fees from \$700 to \$500; limiting the reimbursement of the non-recurring expenses for court costs and other related legal expenses.



DHS estimates that these changes will result in an annual savings of approximately \$1.2 million and \$5.9 million over five years.

	State Funds	Federal Funds	Total
Year 1 Savings/Revenue	\$1.2 million		\$1.2 million
5-Year Savings/Revenue	\$5.9 million		\$5.9 million

IMPLEMENT SOME REDUCTIONS TO THE CHILD AND FAMILY SERVICES PROGRAM

The Department of Human Services receives appropriations to fund child and family services; some funding is based on specific county or program designations and some based on use (such as payment for group home foster care beds or detention beds funded through revenue generated when suspended drivers’ licenses are reinstated).

DHS proposes reducing this funding based on two principles: 1) group home beds and detention beds use are down; and 2) funding should be targeted to priority statewide programs.

These changes in funding will save the State approximately \$4.7 million annually and \$23.3 million over a five-year period.

	State Funds	Federal Funds	Total
Year 1 Savings/Revenue	\$4.7 million		\$4.7 million
5-Year Savings/Revenue	\$23.3 million		\$23.3 million

TRANSFER TANF FUNDING INTO FIELD OPERATIONS

Through the Temporary Assistance for Needy Families (TANF) block grant, states receive flexible funding that can be used at the state’s discretion to: 1) assist needy families so that children can be cared for in their own homes; 2) reduce the dependency of needy parents by promoting job preparation, work, and marriage; 3) prevent out-of-wedlock pregnancies; and 4) encourage the formation and maintenance



of two-parent families. In Iowa, the Department of Human Services administers these funds.

DHS can better target the use of TANF funding by shifting funds from various programs into field operations to reduce the use of general funds for eligibility determination. Because of the flexibility associated with TANF funds, the state will continue to receive the federal funds and, at the same time, will alleviate the state’s financial responsibility by redirecting federal dollars to eligibility determination.

The impacts include: reducing TANF funding for Early Childhood Development as well as funding for Diversion, reducing the TANF share of and State dollars for Promise Jobs (PJ), reducing TANF Family Development and Self-Sufficiency (FaDSS), eliminating TANF funding for Child Abuse Prevention, reducing TANF funding for Pregnancy Prevention, eliminating TANF funding for Health Opportunities for Parents to Experience Success (HOPES), eliminating Earned Income Tax Credit (EITC) outreach contract, reducing the PJ mileage rate and the TANF funding for Family Self-Sufficiency grant, eliminating TANF funding for Local Administrative Expense (LAE), and redirecting the TANF funds that are appropriated to the Social Services Block Grant (SSBG) for LAE purposes.

Redirecting TANF funds from these programs to field operations allows for a reduction in general fund dollars to DHS without substantially affecting the overall delivery of TANF services, which will increase Iowa’s general funds by \$7.1 million annually and by more than \$35 million over five years.

	State Funds	Federal Funds	Total
Year 1 Savings/Revenue	\$7.1 million		\$7.1 million
5-Year Savings/Revenue	\$35 million		\$35 million



ELIMINATE REQUIREMENT FOR GUARDIAN AD LITEMS TO BE CONDUCTED IN PERSON

A Guardian ad litem is a person appointed by the court to represent the interests of a child in any judicial proceeding to which the child is a party. Current Iowa law (Iowa Code Section 232.2 subsection 22) requires all court-appointed Guardian ad litem to conduct in-person interviews with all children they are asked to serve. The Code further stipulates that Guardian ad litem must pay in-person visits each time the child is put in a new residential placement (even if the placement is out of state).

Members of the State Public Defender’s Office are often given Guardian ad litem appointments by the courts. Children receiving Guardian ad litem appointments also often receive in-person visits by human services professionals who can assess their welfare and the suitability of the placement. Guardian ad litem are appointed to represent the legal needs of the child and therefore an in-person visit may not be necessary.

While only a small percentage (2.5 percent or 112) of the 4,481 Guardian ad litem cases are out-of-state, the State Public Defender’s Office could reduce costs without jeopardizing the safety of children if staff members receiving Guardian ad litem appointments were not required to conduct in-person visits and interviews for out-of-state cases.

To ensure the safety and welfare of the children in question, it is recommended that in-person visits still be conducted by human service professionals who are qualified to assess these issues. Reciprocity agreements can also be set up with other states so that human services professionals located closer to the placement can conduct the visit.

	State Funds	Federal Funds	Total
Year 1 Savings/Revenue	\$112,000		\$112,000
5-Year Savings/Revenue	\$500,000		\$500,000

MODIFY DISTRIBUTION OF VETERANS GRANTS TO COUNTIES

FY 2010 is the third year that the Iowa Legislature has appropriated \$1 million for grants to counties and the Department of Veterans Affairs. Funds were originally distributed through county application requests; in 2009 the funds were automatically allocated to each county. Experience has shown, however, that last year only 82 counties requested funds and only two-thirds of the requested funds were actually spent.

DHS should reinstate the requirement that counties request funding for grants to county veterans offices. Additionally, grant requests should specify allowable use of the funds. This method will more accurately target funding to communities in need who have a clear purpose and plan for spending it.

No reduction in funding is recommended; this is merely targeting funds more appropriately.

EXPAND THE GOVERNOR'S GRANTS OFFICE TO IDENTIFY AND APPLY FOR FEDERAL AND NON-PROFIT FUNDING

Iowa has only one full-time staff person dedicated to the identification and processing of competitive grant applications for State agencies. During interviews, several departments observed that they may have missed opportunities to access additional funds for Iowa in ARRA and other federal competitive grant funding programs. In addition, several department directors believe that they do not have a sufficient number of trained grant writing staff to access available non-profit foundation funding.

IDOM recently completed a pilot program in which one FTE was dedicated to the full time coordination of the identification and processing of competitive grant applications for State agencies. With only one FTE, and with limited ability to provide grant writing training, this pilot program helped identify and secure \$32 million in federal



grants for Iowa state agencies. There is an additional \$35 million in grant applications pending.

Iowa should increase the number of FTEs dedicated to identifying potential federal and non-profit competitive grant application opportunities in order to increase the amount of grants received from these sources. The most efficient way to accomplish this is to expand a centralized Governor’s Grants Office to provide training and technical assistance to Department staff on how to draft and submit successful applications.

The cost of these additional FTEs will pay for themselves many times over and could be paid for using the following sources: 1) a portion of the indirect costs available from the administration of federal grant programs (particularly Rebuild Iowa); 2) a partnership with a consortium of non-profit foundations; and 3) a small portion of the administrative expenses allowed under any federal grants received.

Based on the IDOM pilot program that was able to draw down more than \$32 million in additional federal funds, a conservative estimate of \$20 million in additional potential draw down of federal funds is used here. The additional FTE would be used to assist with grant writing training and increase the amount of grants recovered from federal and non-profit foundation sources.

	State Funds	Federal and Other Funds	Total
Year 1 Savings/Revenue		\$20 million	\$20 million
5-Year Savings/Revenue		\$100 million	\$100 million

CONSIDER CLOSING CERTAIN CORRECTIONAL FACILITIES AND CONSOLIDATING INMATE POPULATIONS

Across the country, prison operations costs consume the vast majority of State correctional budgets. Estimates from the Bureau of Justice Statistics (BJS) have shown that over 75 percent of State correctional budgets are dedicated to prison operations, leaving the residual funds to



cover all spending related to juvenile justice, probation and parole, community-based corrections, and central office administration. According to the Pew Charitable Trust’s Public Safety Performance Project, national spending on corrections has jumped from \$11 billion to more than \$50 billion over the last two decades, the second fastest growing state budget category behind Medicaid.

To deal with the soaring costs of prison operations, states throughout the country are closing correctional facilities and consolidating their inmate populations. While the Iowa Department of Corrections (DOC) is a recognized leader in cost-effective prison management, the State’s current revenue projections will again force the Department to look at ways to reduce costs. The Department’s budget situation will become even more challenging as it loses another \$14 million next year in ARRA funding.

The Department has estimated that it could save over \$700,000 if it closes either Farm 1 or Farm 3 and consolidated the inmates from those facilities into other institutions. DOC estimates that closing the facility at Luster Heights would save over \$900,000 in operational overhead costs and some personnel costs. It should be noted that closing a correctional facility would not equate with an elimination of all associated personnel since DOC would still have to maintain a safe staff-to-inmate ratio at the facilities where the inmate populations would be transferred.

	State Funds	Federal Funds	Total
Year 1 Savings/Revenue	\$700,000		\$700,000
5-Year Savings/Revenue	\$3.5 million		\$3.5 million

ELIMINATE UNDERGROUND STORAGE TANK BOARD

The Underground Storage Tank Program has a separate Board of Directors that adds a layer of administrative expenses to the Storage Tank program. The Board does not provide program services which are carried out by DNR. No bordering state has the same type of complex and redundant system in place to supervise the administration of their

underground storage tank programs. There is no indication that the Board provides any additional environmental protections to businesses and consumers.

The UST Board and the UST Fund Administrator charge the State of Iowa \$1.4 million per year to administer the Underground Storage Tank program. Existing and new DNR staff could be assigned to administer the program for 60 percent less than the current costs.

Iowa should redirect \$600,000 of existing funding to DNR to administer the Underground Storage Tank program to achieve costs savings of \$800,000 per year.

	State Funds	Federal Funds	Total
Year 1 Savings/Revenue	\$800,000		\$800,000
5-Year Savings/Revenue	\$4 million		\$4 million

CLOSE ALCOHOLIC BEVERAGES DIVISION WAREHOUSE ON FRIDAYS

ABD provides warehousing services for the sale of alcoholic beverages. ABD has observed that most vendors pick up their supplies for weekends before Friday. Currently, however, ABD keeps the facility open on Fridays, including having warehouse staff on site even though business is much slower.

Efficiencies can be achieved if the warehouse is closed on Fridays when business demand is low. Holiday weekends when sales volumes are higher would be an exception to this schedule so that customer service will not be affected.

Closing the main ABD warehouse on Fridays will save more than \$25,000 per year. ABD bases this estimate on previous experience.

	State Funds	Federal Funds	Total
Year 1 Savings/Revenue	\$25,000		
5-Year Savings/Revenue	\$125,000		

ALLOW FOR THE DIRECT SHIPMENT OF WINE

In general, Iowa does not allow for the direct sale of wine to consumers. According to the California Wine Institute, 35 states allow for the direct shipment of wine to consumers, including all of Iowa’s neighboring states except South Dakota. Direct sales of wine would allow consumers vastly increased choices for their personal use and consumption of wines.

If direct wine sales were allowed in Iowa, out-of-state wineries would be required to pay a \$1.75 per gallon sales tax. This per gallon Iowa sales tax would be comparable to the sales tax charged by the 35 other states that allow for direct shipment of wine. Estimates are that wineries would pay \$375,000 in per gallon sales taxes per year, generating almost \$1.9 million in revenues over five years.

	State Funds	Federal Funds	Total
Year 1 Savings/Revenue	\$375,000		
5-Year Savings/Revenue	\$1.9 million		

REFORM NEWSPAPER LEGAL NOTICE REQUIREMENTS FOR STATE, COUNTY AND LOCAL GOVERNMENTS

In order to provide the public with information about various government activities, Iowa traditionally has required that legal notices be posted in newspapers. This requirement allows the public to keep abreast of various government actions and items of interest. However, as a result, state and local governments are forced to spend a significant amount of money on newspaper advertisements to publish information on a wide variety of activities ranging from annual budgeting and financial reports, bids for supplies and equipment, government contracts, adoption of ordinances and resolutions, and public meetings and hearings.

With the growth of so many different communication technologies, printed media is not the only vehicle that government can use to post information. Some governments at the state and local levels are providing information electronically via websites. At least 12 states have moved forward with legislation that seeks to modernize the requirement that all state, local and county activities be published in newspapers. Legislation passed in New Jersey in 2004 mandating state and county governments post certain legal notices on state web sites has produced and estimated \$6-8 million per year in cost savings. A pending bill in Pennsylvania is estimated to be able to save \$23 million in legal costs for state, county and local governments.

In the time since Iowa established requirements that state, county and local governments publish legal notices in newspapers, society has experienced a multitude of technological advancements, most importantly the creation of the World Wide Web and the Internet. According to the website, www.internetworldstats.com, 68 percent of households in the United States have access to the Internet and the growth rate of households that have access to the Internet was 113 percent from 2000 to 2005.

Iowa should consider taking advantage of these technological changes to better inform its citizens of the content of legal notices by allowing governmental entities to publish some legal notices on the Internet rather than in newspapers. Search engines on the Internet would allow citizens greater access to information and reduce advertising costs, while those interested in such information would no longer have to purchase newspapers for access to the information contained in legal notices.

To address concerns about the 32 percent of households without access to the internet, Iowa should follow the example of other states that have enacted reforms and modernize the content of what must be printed in newspapers. In those states, reforms have focused on: 1) better targeting the instances and frequency with which legal notices must be published; and 2) simplifying and shortening the content of legal notices in newspapers. In all instances, when shortened legal notices are used, government entities should be required to include a web link and a local

address (such as a library or government office) where free internet access is available.

This estimate represents a minimum amount of State savings based on a review of achieved savings in other states. County and local government savings are not included in this estimate. Actual savings should be higher than this estimate; however, the State will incur some start-up costs to modify websites as needed. No additional costs have been factored in to provide additional internet access to the public as more than 543 Iowa public libraries already provide free internet access.

	State Funds	Federal Funds	Total
Year 1 Savings/Revenue	\$1 million		\$1 million
5-Year Savings/Revenue	\$5 million		\$5 million

MODIFY PERMIT AND LICENSE REMINDER NOTICES PROCESS

Currently, several departments send two printed notices in the mail to remind holders of licenses and permits that it is time to renew them. Printed notices are far more expensive to send than e-mail notices. Iowa should adopt rules to require State agencies to: 1) use e-mail notices wherever feasible; and 2) only provide one hard copy mailing for reminders where e-mail notices are not the preferred method of notification. Holders of such permits and licenses should be required to “opt in” to receive hard copy notices. E-mail notices should be the default method of notification.



One Division in the Department of Commerce switched from two hard copy notices to one hard copy notice last year and saved \$22,000. Additional savings could be achieved if all departments required to send such notices did so through electronic means or at the very least reduced notices to one.

	State Funds	Federal Funds	Total
Year 1 Savings/Revenue	\$200,000		\$200,000
5-Year Savings/Revenue	\$1 million		\$1 million

ALLOW RECYCLING FEES CURRENTLY COLLECTED TO OFFSET SOME DEPARTMENT OF NATURAL RESOURCES GENERAL FUND SPENDING

Iowa’s recycling fees were established before the market was mature for recycled products. Those markets are now mature and the private sector businesses in the recycling industry no longer require subsidies. These fees should be used instead to leverage additional federal funds that require state matching funds.

DNR collects recycling fees that were established more than 20 years ago. DNR is constrained in the method by which they can spend these recycling funds. Some of those restrictions force DNR to spend those funds in a manner that is no longer the most highly effective manner for taxpayers because the private market for recycled materials has evolved and matured over the past 20 years. As DNR’s budget has been adjusted to meet 2009 Across the Board budget goals, it has been more difficult to identify state General Fund money that can be used to draw down federal matching funds for other effective programs. This recommendation would allow DNR to use recycling fee funds to draw down additional federal matching funds.

	State Funds	Federal Funds	Total
Year 1 Savings/Revenue	\$200,000		\$200,000
5-Year Savings/Revenue	\$1 million		\$1 million

EXPAND STAFF IN THE STATE PUBLIC DEFENDER'S OFFICE TO COVER MORE CASES AND REDUCE STATE COSTS FOR INDIGENT DEFENSE

In Iowa, all court defendants are guaranteed legal representation. Defendants who cannot afford an attorney are either represented by the State Public Defender's Office, or referred to a private attorney with the cost of legal representation paid for by State Indigent Defense funds. The Iowa State Public Defender's Office typically handles cases at a rate of \$246 less than those referred to the private bar.

At present, many indigent cases are referred to private attorneys because the Public Defender's Office does not have enough staff to manage the caseload. Several Public Defender offices have the capacity to support more attorneys, but need to hire more legal staff. The cost to hire more attorneys in the Public Defender's Office would be offset by the savings to State Indigent Defense funds. (All of these costs are borne by the General Fund.)

The Public Defender's Office has proposed adding two FTEs in each of the following offices to provide more cost-effective case management: Scott County, Cedar Rapids (juvenile), Iowa City, and Des Moines (adult). The Public Defender estimates a cost of approximately \$160,000 per office for the additional FTEs. Estimated savings in indigent defense funds for each 2.0 FTEs added is approximately \$625,000, for a net savings of \$465,000 annually. If staff were added to each of the four offices recommended by the State Public Defender, annual General Fund savings could be as much as \$1.86 million. The savings shown below are based on a single office's expansion of 2.0 FTEs.



To maximize the savings from this recommendation, the Legislature should approve the additional FTEs during the 2010 session and allow the State Public Defender to make hiring decisions during FY10 so that the new attorneys can begin on the first day of fiscal year 2011.

	State Funds	Federal Funds	Total
Year 1 Savings/Revenue	\$465,000		\$465,000
5-Year Savings/Revenue	\$2.32 million		\$2.32 million

OPEN A NEW STATE PUBLIC DEFENDER’S OFFICE IN WAPELLO COUNTY

As noted above, indigent defense cases in Iowa are often referred to private attorneys when the State Public Defender does not have adequate staff to manage the caseload. Referrals to the private bar are also made when there is no State Public Defender’s Office located close enough to provide services. Currently, there is no Public Defender’s Office to serve Wapello County and surrounding areas.

The Public Defender’s Office estimates that the cost of acquiring office space in Wapello County would be less than \$53,000. If a new office were opened there, the same per case savings articulated above would apply. The on-going personnel and operational cost of the new office would similarly be offset by the savings to State Indigent Defense funds.

Beginning in FY2011, the State Public Defender’s Office estimates that the cost of additional staff for the Wapello County office would be approximately \$500,000. The expected savings in indigent defense funds is estimated at approximately \$1.2 million, for an estimated net savings of \$750,000 annually.

	State Funds	Federal Funds	Total
Year 1 Savings/Revenue	\$750,000		\$750,000
5-Year Savings/Revenue	\$3.75 million		\$3.75 million

EXPAND IOWA LAW ENFORCEMENT ACADEMY OFFERINGS TO INCLUDE TRAINING SEMINARS FOR PRIVATE SECURITY PERSONNEL

The Iowa Law Enforcement Academy (ILEA) has been approached by private security companies with a request to offer training seminars for their personnel. Such companies typically provide security for facilities such as private businesses or shopping facilities. Currently, ILEA trains only law enforcement officers, but has the capacity to offer this type of private sector training. ILEA should consider piloting this type of seminar training and, if it is successful, broaden the offering. (Note: the ILEA Council would have to approve this type of training before it could be implemented.)

It is recommended that ILEA pilot 50 hours of training seminars with 10 security personnel. Similar training is offered by the private sector at a rate of \$50-60/hour. If ILEA were to charge \$50 per seminar hour for 50 hours of training, just the pilot program would produce \$25,000 annually, with much greater revenue if the program is expanded. (All such revenue should be directed specifically to the General Fund.) No start-up costs are anticipated to pilot this project as instructors would simply modify their current curriculum for this type of training.

	State Funds	Federal Funds	Total
Year 1 Savings/Revenue	\$25,000		\$25,000
5-Year Savings/Revenue	\$125,000		\$125,000

SUPPORT COST OF DEPARTMENT OF TRANSPORTATION AND DEPARTMENT OF NATURAL RESOURCES LAW ENFORCEMENT TRAINING WITH NON-GENERAL FUND DOLLARS

The Iowa Law Enforcement Academy (ILEA) provides training not only for members of local law enforcement, but also enforcement officers in the Departments of Transportation and Natural Resources. ILEA currently charges sponsoring agencies only about 60 percent of the cost



associated with training their employees. The State General Fund, through ILEA’s budget, covers the remaining 40 percent.

Given the significant budget challenges currently facing the State, all General Fund expenditures should be re-evaluated to determine whether other funding sources are more appropriate. If the full training cost of DOT and DNR enforcement officers is borne by sponsoring agencies’ funding sources (the Road Use Tax Fund and Fish & Game Fund, respectively), General Fund savings could be created. While this recommendation will not create substantial General Fund savings, ILEA should charge DOT and DNR 100 percent of training costs for their academy participants rather than subsidizing the costs with General Fund dollars.

Beyond this recommendation, State leaders should also re-evaluate the extent to which the state General Fund should subsidize 40 percent of the cost of ILEA training for local law enforcement.

	State General Fund	Federal Funds	Total
Year 1 Savings/Revenue	\$8,000		\$8,000
5-Year Savings/Revenue	\$40,000		\$40,000

MOVE HOUSING PROGRAMS CURRENTLY OPERATED BY THE DEPARTMENT OF ECONOMIC DEVELOPMENT INTO THE IOWA FINANCE AUTHORITY

Most states supervise their housing programs through one consolidated agency. Merging all of Iowa’s housing programs into one department would increase operational efficiencies, allow “one stop shopping” for housing agencies and developers, and lead to improved coordination of housing-related services and financing. Some administrative efficiencies would also be realized.

Iowa’s housing programs are currently administered by two entities: the Iowa Department of Economic Development (IDED) and the Iowa Finance Authority (IFA). Although both entities work well together



according to the housing community, services and operational efficiencies could be improved by merging housing programs into one entity. By placing all of Iowa’s housing programs under the control and supervision of the Iowa Finance Authority, some administrative costs could be cut producing savings to the state.

IFA should be charged with developing a strategic plan to outline how such a merger could take place without jeopardizing current programs.

	State General Fund	Federal Funds	Total
Year 1 Savings/Revenue	\$100,000		\$100,000
5-Year Savings/Revenue	\$500,000		\$500,000

MERGE THE DEPARTMENT OF PUBLIC SAFETY’S DIVISIONS OF CRIMINAL INVESTIGATION AND NARCOTICS ENFORCEMENT

Within the Department of Public Safety, the Division of Criminal Investigations (DCI) provides investigative support and expertise to local and state law enforcement agencies. In 1987, the Division of Narcotics Enforcement (DNE) was created to conduct similar investigative work focusing specifically on narcotics and other controlled substances. Across the country, many states have chosen to house all of their investigatory personnel in a single division or unit to maintain a common mission focus and maximize budget resources.



Merging the DCI and DNE in Iowa would produce General Fund savings and also allow investigators to help manage cases across division lines when workloads are higher or lower in each area. Given the current caseloads of DCI and DNE, it is recommended that no investigator positions be eliminated as part of the merger. However, savings can be achieved with the elimination of duplicate management personnel. The Department of Public Safety estimates savings of \$370,000 annually if one Division Administrator, one Deputy Division Administrator, and one Confidential Secretary position are eliminated as a result of a DCI-DNE merger.

	State Funds	Federal Funds	Total
Year 1 Savings/Revenue	\$370,000		\$370,000
5-Year Savings/Revenue	\$1.8 million		\$1.8 million

SUPPORT THE OPERATIONS OF THE IOWA STATE PATROL WITH THE ROAD USE TAX FUND

Until FY1996, the operations of the Iowa State Patrol (ISP) were supported by the Road Use Tax Fund (RUTF). Beginning in FY1997, the percentage of ISP operations supported by the RUTF was decreased by 25 percent each year to 75 percent, then 50 percent, then 25 percent. Beginning in FY2000, the Iowa State Patrol was fully supported by the State General Fund.

In Iowa, certain revenues deposited into the Road Use Tax Fund are constitutionally restricted for highway-related expenditures. Section 8, Article VII, of the Iowa Constitution states that these dollars shall be used exclusively for the “construction, maintenance and supervision of the public highways.” Historically, Iowa policymakers have justified using the RUTF to support the State Patrol because troopers play a significant role in the “supervision of the public highways.” Given the current shortage of State General Fund dollars, Iowa leaders should consider once again supporting the State Patrol with alternative funding sources.

It should be noted that after RUFT dollars were no longer used to support the State Patrol, legislation was passed prohibiting use of the RUTF for personnel costs. Thus, to implement this recommendation and again allow RUFT dollars to support the ISP, a Code change will be required. For FY2010, the total budget for the State Patrol was over \$50 million. If these costs could again be supported with RUTF dollars, a direct savings of equal General Fund dollars could be achieved – approximately \$50 million annually; \$250 million over five years.

	State Funds (General Fund)	Federal Funds	Total
Year 1 Savings/Revenue	\$50 million		\$50 million
5-Year Savings/Revenue	\$250 million		\$250 million

INCREASE AUDITORS TO INCREASE COLLECTIONS

State governments frequently use auditors to review and collect taxes due to the State. A review of other states' experience indicates that at least 11 states have increased the number of auditors available to enhance their collections. Studies show a new auditor (with less than three years experience) can collect about \$725,000 annually. The Iowa Department of Revenue estimates about \$600,000 in collections for an office examiner. Collections increase to just over \$1 million for auditors with four or more years of experience.

Netting out the cost of an auditor (at about \$65,000), and using the lower figure of \$600,000, if five auditors were hired, collections could be increased by \$2.7 million during the first year; \$13.4 million over five years.

	State Funds	Federal Funds	Total
Year 1 Savings/Revenue	\$2.7 million		\$2.7 million
5-Year Savings/Revenue	\$13.4 million		\$13.4 million

REVISE POLICIES FOR STATE EMPLOYEES’ MEAL REIMBURSEMENTS AND ELIMINATE CLEANING ALLOWANCES

Iowa reimburses State employees for meals eaten during work hours when these meals are outside the employees’ “official domicile,” as determined by each department head. These meal reimbursement costs reached just over \$2 million in Fiscal Year 2009 for all departments, including the Iowa State Patrol (ISP).

In addition, ISP provides a cleaning reimbursement for peace officers, including for supervisors who work at desk jobs in district offices or headquarter and are not required to travel as part of their duties. In Fiscal Year 2009, these costs amounted to: \$42,351 for supervisors’ reimbursements and \$179,375 for Peace Officers’ reimbursements.

These policies should be changed to reflect acceptable common practice in business in general. Meals should be reimbursed only for out-of-state travel and when eaten as part of an in-state conference; cleaning allowances should be eliminated in total. Assuming 66 percent of Fiscal Year 2009 in-State meal reimbursements are for non-conference meals and all cleaning reimbursements are eliminated, savings from these policy changes are estimated at \$1.7 million the first year; \$8.5 million over five years.

	State Funds	Federal Funds	Total
Year 1 Savings/Revenue	\$1.7 million		\$1.7 million
5-Year Savings/Revenue	\$8.5 million		\$8.5 million

BRING COMMUNITY-BASED CORRECTIONS DISTRICTS ONTO THE STATE ACCOUNTING SYSTEM

Currently, Iowa’s Community-Based Corrections (CBC) district budgets are operated independently from the State’s accounting system. This means that the State cannot adequately track CBC spending or allocations once the funds have been appropriated to each district. If the CBC districts and State budget staff could share data, they could



more easily analyze spending and determine potential savings through better purchasing, procurement, and budgeting practices. A common system would also make all parties more accountable for budget and spending decisions.

This recommendation would require minimal start-up costs to bring the CBC districts onto the State's accounting system, but should be pursued given its potential to create savings and promote greater budget accountability in the future.

III. RECOMMENDATIONS FOR FURTHER ANALYSIS AND CONSIDERATION

The fourth month process to conduct the Efficiency Review in Iowa could not possibly tackle all of the ideas that surfaced during interviews and other research. Sometimes data is not collected in a way that is easily retrievable or data is not available at all for a credible analysis. In these instances, ideas are captured and a preliminary estimate is done, sometimes based on other states' experiences. The issues need to be captured, however require further research and analysis in order to assess the final affect on savings.

Some of these issues also will require more public dialogue. They are often issues that affect human resources – meaning affecting employees' work and compensation – neither of which can be taken lightly. At the same time, they cannot be ignored given that payroll and benefits are such a large (and in the case of health benefits, growing) expenditure in state budgets.

Additional savings can undoubtedly be generated by a more thorough review conducted by individual agencies or a more extensive evaluation of interagency services and enterprises. Some states like Texas, California, Washington and West Virginia have made efficiency reviews a permanent part of their state structures, either creating entire offices or appointing a Governor's Office level staff person to oversee ongoing efforts by the departments. The key is for State policymakers to make budget-conscious improvements in services and management practices a habit for all State agencies and employees.

The recommendations in this section should be further analyzed and evaluated for potential savings and revenue generation opportunities. There are undoubtedly other ideas that Iowa state government may wish to pursue. The ongoing dialogue will only benefit the citizens of the state.

LAUNCH EMPLOYEE WELLNESS INITIATIVES

The Department of Administrative Services operates an Employee Wellness program in conjunction with Wellmark, the State's health insurance provider. Employees have access to web sites for health information and health assessments, discounts at fitness centers, smoking cessation help, and disease management support through trained professionals.

Essentially, employee wellness programs encourage people to take measures to prevent the onset or worsening of a disease or illness and to adopt lifestyles that are healthier. Private industry has been leading the way in championing wellness programs as good for employees and good for business.

In addition to enhanced productivity, employee wellness programs have been shown to be effective tools in reducing the growth of health care costs. Choosing healthier options may lower an employee's chances of suffering from disease and in turn lower medical plan use and costs.

According to a February, 2008 article by the *Journal of Occupational and Environmental Medicine*, employers can save \$1.65 in health care expenses for every \$1.00 they spend on a comprehensive employee wellness program. This savings is due partially to the increased use of medical screenings and medications among employees. Wellness programs also improve employee productivity, reduce absenteeism, reduce injuries, and improve employee morale.

Iowa currently spends \$350,000 for its employee wellness program. In Fiscal Year 2010, Iowa will spend approximately \$ 333.9 million on employee health care premiums. Increasing funding for an Employee Wellness Initiative would be a prudent investment with a proven Return on Investment. An investment of just \$200,000 in year one could generate \$1 million savings in reduced health care costs, absenteeism and injuries to employees in five years.

Iowa DAS should be charged with the task to create a wellness plan that includes an analysis of Iowa's claims data. The data could then be used

to tailor a strategy for an expanded wellness program that could match industry standards and provide a \$1.65 return for every \$1.00 spent.

REQUIRE FAMILY ENROLLMENT IN HEALTH INSURANCE WHEN SPOUSES ARE BOTH EMPLOYED BY THE STATE

Iowa state government has generous health insurance coverage costing the State over \$300 million per year and for which the majority of employees pay no premium. One policy that should be considered for change is that which allows two married people who both are employed by the State to obtain health insurance as a single member rather than a family. This essentially requires the State to pay 100 percent of the premium for two single policies rather than the employees paying a portion of the family premium.

Additional data is needed to determine a more precise estimate of savings; however assuming 50 percent of couples change enrollment to a family policy in year one, and 100 percent change thereafter, the State could save \$2.4 million in year one; \$4.8 million each year thereafter or \$19.2 million.

REDUCE OR ELIMINATE DEFERRED COMPENSATION CONTRIBUTION FOR NON-CONTRACT EMPLOYEES

Iowa currently matches employee deferred compensation contributions on a dollar per dollar basis up to \$75 per month. Most recent data from the Department of Management shows that 14,463 employees participate, 2,838 of whom are non-contract Executive Branch employees.

Of the \$7.7 million annual State contribution to deferred compensation, \$1.4 million is for non-contract Executive Branch employees.

Iowa workers who are union members recently accepted a cessation of State contributions through June 30, 2010. The State, however, should consider permanently ceasing contributions for non-contract employees to save \$1.4 million per year; \$7 million over five years.

EVALUATE THE COST BENEFIT OF GOING TO A 10-HOUR, 4-DAY WORK WEEK

In order to reduce costs of overhead, some private sector employers have implemented 10-hour, 4-day work weeks. Savings are realized because of reduced utilities, maintenance and other overhead costs.

The State of Utah switched to this type of schedule in August 2008. A recent report published by the State indicates that Utah is savings approximately \$4.8 million a year. Not entirely expected was the largest savings (\$4.1 million of the \$4.8 million) achieved through the reduction in overtime expenses. Employees working longer days seemed to complete work during the 10-hour day and were less likely to need overtime. Other savings accrued from reduced energy consumption (\$200,000) and reduced janitorial costs (\$200,000).

A preliminary analysis indicates that Iowa state government employs fewer people than Utah (about 80 percent of Utah). If Iowa experienced the same savings as Utah based on this 80 percent, Iowa could realize savings of about \$3.8 million. A more conservative estimate might be to consider half of those savings in Iowa which still achieves almost \$2 million per year.

PAY EMPLOYEES ON A SEMI-MONTHLY BASIS RATHER THAN BI-WEEKLY

Currently Iowa pays its employees every-other-week, resulting in 26 paychecks per year. Paying employees twice per month would result in 24 paychecks per year. Fewer paychecks allow the State to collect

interest on its payroll for an additional 10 to 14 days per year without adversely affecting employee pay levels. Assuming that the State can earn 2 percent interest on payroll balances, savings would equal \$112,000 the first year and about \$560,000 in five years. There would also be a small savings in reduced processing time.

CONCLUSION

The 90 recommendations, totaling \$340.9 million in savings/revenue in the first year of implementation (almost \$1.7 billion over five years) included in this report run the gamut of small, common-sense items, like requiring employees who have traffic violations pay for the cost of safety training to major changes in the way the State does business. Many practices are taken from successful experiences of other states around the country, as well as private sector lessons that can be applied to the management of public services. Most importantly, they come from the hundreds of ideas developed through the course of conversations and research supported by the many agency professionals who participated in this initiative with us. In that way, we have recommendations particularly suited to Iowa and the unique history and organization of the State and how it is organized to provide services to its citizens.

Iowa has a wealth of resources, not the least of which are the dedicated people in all of its Executive Branch agencies with whom we worked. That is why it is important to note that this initiative is, and should be, only a first step in establishing an efficiency “mindset” that challenges every agency to continuously look at ways to save money without jeopardizing services. Organizations are dynamic and require continued vigilance to assess new ways to do business, identify new technologies available to support operations, determine how changes in laws and regulations affect how services are delivered, and how demand for services change.

The implementation of these recommendations will not be easy. Some will require changing the way business has been conducted for a long time; some will require doing entirely new things. And change is not



easy. It will be important for the Governor and State managers to put implementation plans in place to make sure recommendations achieve desired results. We are confident that the Department professionals we met during the course of this work are up for it; Iowa citizens require it.



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