

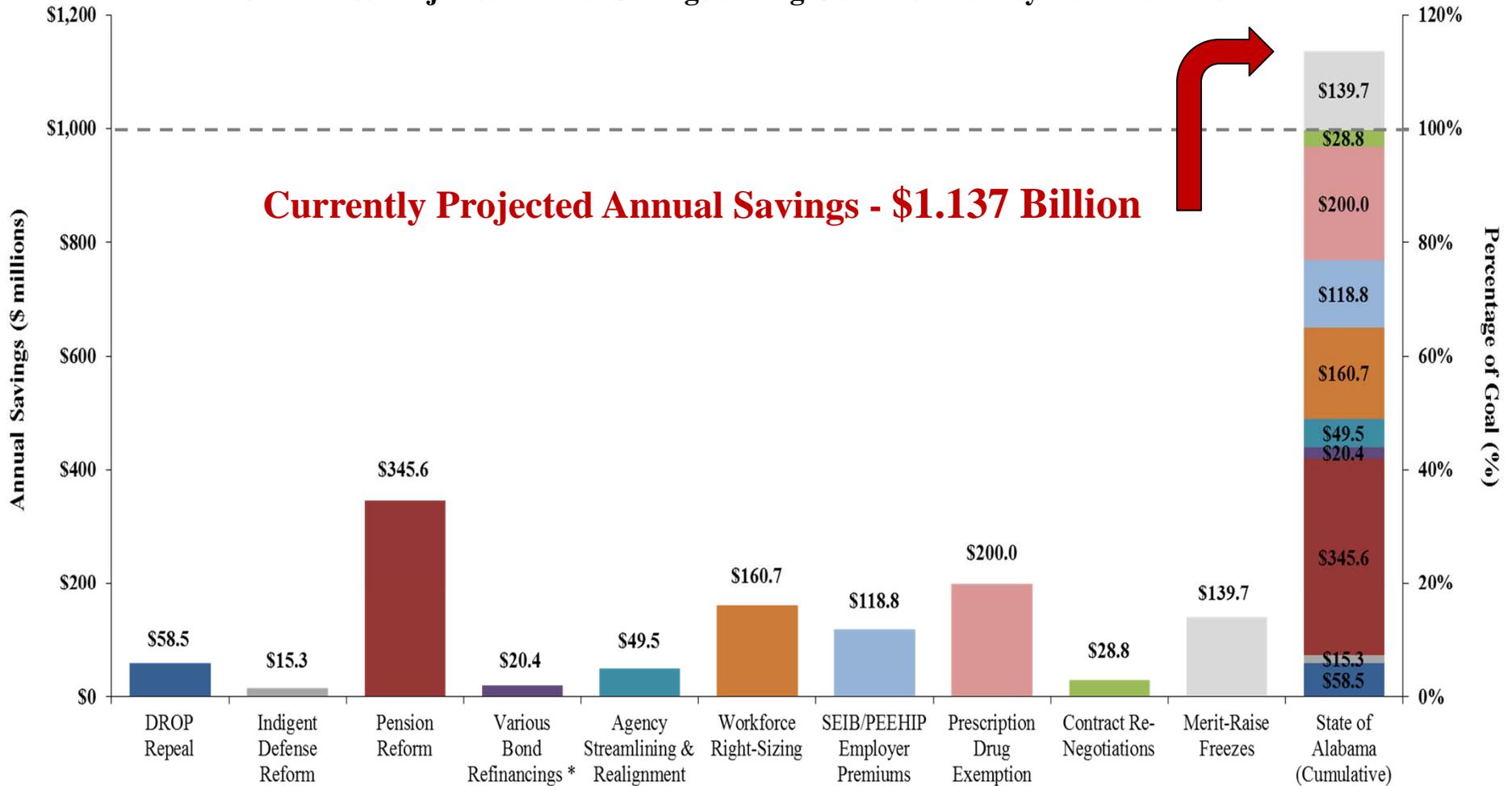
# Office of Governor Robert Bentley

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# Road to a \$Billion in Savings – as of September 30, 2013

Current & Projected Annual Savings during Governor Bentley Administration



\* Includes pending deals. \$245.3 million of total savings. For consistency, average annual savings calculation assumes all bond savings equally spread over remaining life of bonds (range of maturity schedules are 5-17 years).

# Road to a \$Billion in Savings



# Annual Savings Calculation - Enacted

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- **DROP Repeal (SB72 - 2011) - \$58.5 million annually**
  - Abolished the Deferred Retirement Option Program (DROP)
  - Employer contributions paid to the Teachers Retirement System (TRS) and Employees Retirement System (ERS) reduced by an estimated \$58.5 million annually beginning in FY 2012

Source: LFO Fiscal Note <http://alisondb.legislature.state.al.us/acas/ACASLoginIE.asp>

- **Indigent Defense Reform (SB440 - 2011) - \$15.3 million annually**
  - Created the Office of Indigent Defense Services to monitor and control excessive billing practices and eliminated the reimbursement of overhead charges to attorneys
    - Created online billing portal to allow for better monitoring and tracking of attorney billings
    - Encouraged greater use of Contract Attorneys and Public Defender offices at a much lower average claim rate than under the previous Appointed Attorney method
    - Reduced fee from \$85-\$95 per hour (including overhead) to a flat rate of \$70 per hour
  - 2011 Actual Expenses - \$65.3mm
  - 2012 Actual Expenses - \$78.0mm
  - 2013 Actual Expenses - \$50.1mm (\$15.3mm annual savings over 2011 actual expenses)

Source: LFO Fiscal Note, Office of Indigent Defense Services estimates <http://oids.alabama.gov/>

# Annual Savings Calculation - Enacted

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- Pension Reform 2011 (HB414 - 2011) - \$181.5 million annually
  - Employee pension contribution increased from 5.0% to 7.5% (6.0% to 8.5% for Fire, Law, Corrections - FLC)
    - Employee contribution increase was optional for local governments participating in RSA
  - Total savings to state agencies of an estimated \$181.5 million beginning in fiscal year 2012
  - *LFO Fiscal Note savings of \$240.0 million includes \$58.5 million savings from DROP Repeal (SB72), resulting in net savings of \$181.5 million (\$240.0 - \$58.5)*
- Pension Reform 2012 (SB388 - 2012) - \$164.1 million annually (projected)
  - Created a new pension plan for all employees hired on or after January 1, 2013
    - Established a minimum retirement age (age 62 for State employees and Teachers, age 56 for FLC)
    - Eliminated pension spiking (adjusts to “high 5-years” from “high 3-years”)
    - Reduced benefit multiplier (to 1.65% from 2.0125% for State employees and Teachers, to 2.375% from 2.875% for FLC)
    - Established lifetime maximum pension (capped percentage of salary at 80%, vs. no max prior)
  - \$5.05 Billion of total savings over 30.75 years (\$164.1mm average annually)

Source: LFO Fiscal Note <http://alisondb.legislature.state.al.us/acas/ACASLoginIE.asp>

Source: LFO Fiscal Note <http://alisondb.legislature.state.al.us/acas/ACASLoginIE.asp>

# Annual Savings Calculation - Enacted

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- Various Bond Refinancings - \$13.6 million (2011 - 2013)
  - Federal Aid Highway Finance Authority (2011) - \$8.9mm over 5 years (\$1.6mm annually)
  - Public School & College Authority (2011) - \$39.5mm over 10-15 years (\$2.8mm annually)
  - 21<sup>st</sup> Century (Tobacco) Refunding (2012) - \$17.9mm savings over 9 years (\$1.9mm annually)
  - Public School & College Authority (2012) - \$26.3mm over 12-17 years (\$1.9mm annually)
  - Alabama Drinking Water Finance Authority (2012) - \$11.8mm over 12 years (\$1.0mm annually)
  - Alabama Mental Health Finance Authority (2012) - \$1.9mm over 10 years (\$0.2mm annually)
  - General Obligation (2013) - \$32.2mm savings over 8 years (\$3.9mm annually)
  - Alabama Drinking Water Finance Authority (2013) - \$2.4mm over 14 years (\$0.2mm annually)

Source: Finance Department <http://finance.alabama.gov/>

- **(Pending)** Various Bond Refinancings - \$6.8 million (2014)
  - Public School & College Authority (2014) - \$95.9mm over 15 years (\$6.4mm annually)
  - Public Healthcare Authority (2014) - \$4.4mm over 23 years (\$0.2mm annually)
  - Alabama Building Renovation Finance Auth. (2014) - \$2.9mm over 19 years (\$0.2mm annually)

- Note: \$245.3 million of total future value savings. For consistency, average annual savings calculation assumes equally future savings spread over remaining life of bonds
  - (\$245.3 million divided by average life of 12.0 years = \$20.4 million)

Source: Finance Department <http://finance.alabama.gov/>

# Annual Savings Calculation - Enacted

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- Agency Streamlining & Realignment Efforts (2011–2013) - ~\$49.5 million
  - **Mental Health** – Closure of various stand-alone mental health facilities with subsequent reinvestment into community-based programs – \$20.5 million annually
    - Closed Partlow Development Center (Tuscaloosa, 2011) – annual operating budget of \$40.0 million (\$37.8 million transferred to community programs for continued care), resulting in a net annual savings of \$2.2 million
    - Closed Greil Hospital (Montgomery, August 2012) – annual operating budget of ~\$10.1 million (\$4.6 million reinvested into community programs), projected net annual savings of \$4.5 million
    - Closed Searcy Hospital (Mt. Vernon, October 2012) – annual operating budget of ~\$30 million (\$16.2 million reinvested into community programs), projected net annual savings of \$13.8 million
  - **Finance Department** – Time & Attendance System – \$7.8 million of savings annually
    - State Business Systems implemented project allowing for the electronic processing of employee time and attendance for payroll and leave tracking purposes
    - The new system is expected to save state agencies \$101.5 million through labor cost reductions and efficiency gains (\$77.6 million net of expenses) over the next ten years
    - Substantial other benefits including:
      - Employee Portal – Allows employees to print their own pay stubs and W-2 information

Source: Mental Health <http://www.mh.alabama.gov/>

Source: Finance Department <http://finance.alabama.gov/>

# Annual Savings Calculation - Enacted

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- **Agency Streamlining & Realignment Efforts (2011–2013) - Continued**

- **Department of Human Resources** – \$6.7 million average annual savings (\$25.1 million realized during FY’11-’13)

- Client Service Improvements (\$4.0 million average savings)
      - Transitioned Child Support payments to a debit card system and posted monthly statements online (eliminated 160,000 monthly warrants for each)
      - Implemented a time & attendance swipe card system for Subsidized Child Care (May 2012)
      - TANF work supports reviewed and time limits/amounts revised
      - Developed in-state resource for intensive foster children placements (previously out-of-state)
    - County Flex Fund expenditures reviewed and reduced (\$0.7 million average savings)
    - Administrative Expense Reductions (\$2.0 million average savings)
      - Consolidation of Regional Offices into existing County Office space
      - Reduced expenditures for document imaging & storage, cell phones, security guards, comp time

Source: DHR <http://www.dhr.state.al.us/>

- **Department of Corrections (SB113 – 2011) – \$0.4 million annually**

- Authorized pharmacies operated at county jails to accept and re-dispense unused prescription medications under certain conditions, resulting in estimated annual savings of \$400,000

Source: LFO Fiscal Note <http://alisondb.legislature.state.al.us/acas/ACASLoginIE.asp>

# Annual Savings Calculation - Enacted

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- **Agency Streamlining & Realignment Efforts (2011–2013) - Continued**
  - **Department of Labor (SB300 - 2012) – \$11.4 million annual savings**
    - Changed the waiting period week for Unemployment Compensation (from the 14th week to the 1st week), ultimately decreasing the tax on employers
      - Prior to the bill, the one-week waiting period (for which, UC was not paid) was served after the end of the 13<sup>th</sup> week
      - Any person returning to work prior to the 14<sup>th</sup> week would not serve the waiting period week
    - By shifting the non-paid waiting period week from Week 14 to Week 1, all persons receiving UC participate in the waiting period week at the onset (Week 1)

*Source: LFO Fiscal Note <http://alisondb.legislature.state.al.us/acas/ACASLoginIE.asp>*
  - **Department of Labor (SB450 - 2012) – \$0.26 million annual savings**
    - Merged the Department of Industrial Relations into Labor, reducing administrative expenses, resulting in estimated annual savings of \$260,000

*Source: LFO Fiscal Note <http://alisondb.legislature.state.al.us/acas/ACASLoginIE.asp>*

# Annual Savings Calculation - Enacted

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- **Agency Streamlining & Realignment Efforts (2011–2013) - Continued**
  - **Farmers Market Authority (HB342 – 2013) – \$0.175 million annual savings**
    - Merged the Farmers Market Authority into the Dept. of Agriculture & Industries
    - Results in an estimated savings of \$0.175 million annually, primarily as a result of merging office space and the elimination of redundant positions

*Source: Dept. of Agriculture & Industries <http://www.agi.alabama.gov/>*
  - **ALL Departments (SB376 - 2012) – \$0.264 million annual savings**
    - Sick Leave & Donated Leave limited to 1,200 hours, remainder becomes “use-or-lose”
    - Limitations on donated leave received (480 hrs), further restrictions on donated leave to higher pay grade classifications

*Source: LFO Fiscal Note, State Personnel Department estimates <http://personnel.alabama.gov/Default.aspx>*

# Annual Savings Calculation - Enacted

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- **Agency Streamlining & Realignment Efforts (2011–2013) - Continued**
  - **Legislative (HB276 - 2012) – \$1.0 million annual savings**
    - Reduced average legislator compensation by \$7,032 per legislator (\$7,418 for House Speaker and Lieutenant Governor)
      - Prior to the bill, Legislators received a salary and expense allowance of \$60/day (while in session) plus an annual expense allowance of \$50,088 (**\$53,388 average total compensation**)
      - New compensation guidelines are \$40,474 annual salary plus \$75/day per diem and mileage (**\$45,980 average total compensation**)
    - Results in an estimated savings of \$1.0 million per year (\$7,208 per legislator x 140 legislators, plus \$7,418 each for House Speaker and Lieutenant Governor), although savings will slowly erode as future inflation adjustments take effect

Source: LFO Fiscal Note <http://alisondb.legislature.state.al.us/acas/ACASLoginIE.asp>

- **Legislative (HB425 - 2011) – \$0.975 million annual savings**
  - Changed the date of the Presidential and regular primary elections to the 2nd Tuesday in March, resulting in one less election every fourth year
  - Results in an estimated savings of \$3.9 million every fourth year (\$975,000 annually)

Source: LFO Fiscal Note <http://alisondb.legislature.state.al.us/acas/ACASLoginIE.asp>

# Annual Savings Calculation - Enacted

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- Workforce-Rightsizing (2011–2013) - \$160.7 million annually
  - State employees as of Dec. 31, 2010 – 39,577; State employees as of September 30, 2013 – 35,068
    - Net decrease of -4,509 (11.4% of total workforce), including 469 Mental Health positions
    - Savings total excludes savings resulting from the reduction of 469 Mental Health employees included in Agency Realignment (\$19.8 million)
  - Total compensation (gross pay only, excluding fringe benefits) as of 12/31/10 – \$1.728 Billion
  - Total compensation (gross pay only, excluding fringe benefits) as of 9/30/13 – \$1.547 Billion
  - \$160.7 million savings (\$180.5 million less \$19.8 million from Mental Health)
    - Net headcount reduction of -4,040 (4,509 – 469) x \$39,787 average gross pay
  - *State employment savings totals include Legislative and Judicial employees and exclude contract employees, Board members and daily employees*

Source: State Comptroller's Office via State Business Systems <http://www.sbs.alabama.gov/>

# Annual Savings Calculation - Enacted

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- **SEIB/PEEHIP Employer Rates (HB123, SB133 - 2011) - \$36.2 million annual**
  - Reduced the SEIB employer rate from \$805 per month/employee (FY11) to \$765 per month/employee (FY12). PEEHIP reduced from \$752/month/employee to \$714 per month
  - *Note: SEIB rates increased to \$825/month for FY14, PEEHIP remained unchanged. However, savings still remain as the rate increase was due to enrollment declines (lower numerator)*
  
- **SEIB/PEEHIP Enrollment Decline (FY2011–2014) - \$82.6 million annually**
  - Primarily as a result of the decrease in number of state employees, total health insurance premiums at SEIB (state employees) and PEEHIP (teachers) have decreased substantially since 2011
  - SEIB historical premiums – FY11 - \$356.3 million vs. FY14 - \$299.9 million (\$56.4 million savings)
  - PEEHIP premiums – FY11 - \$891.3 million vs. FY14 - \$828.8 million (\$62.4 million savings)
  - *Note: Savings calculation reduces enrollment savings to account for employer rates above*
  
- **SEIB Retiree Coverage (SB309 - 2011) – \$ savings amount undetermined**
  - Limited retiree health insurance coverage to only those retirees with at least 10 years of service
  - Retiree health insurance premium subject to a sliding scale
    - Premiums decreased by 4% per year of service less than 25 years and increased by 2% per year of service for those years over 25 years (Disabled retiree exemption)
    - Premiums increased by 1% per year of age at retirement prior to Medicare eligibility (age 65)
  - Increased the low-income financial assistance threshold to 300% of poverty level (formerly 200%)

Source: LFO Fiscal Note <http://alisondb.legislature.state.al.us/acas/ACASLoginIE.asp>

Source: Executive Budget Office <http://budget.alabama.gov/Default.aspx>

# Annual Savings Calculation - Enacted

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- PEEHIP exemption from Third Party Prescription Act (SB571 – 2012) - \$200.0 million annual savings
  - Under AL Code Section 34-23-115 (Third Party Prescription Program Act)
    - No agreement between a program administrator and a pharmacy shall establish reimbursement rates or procedures that result in reimbursement rates for services rendered to persons covered by the plan which are less than the “usual and customary” rates paid by consumers not covered by a third party plan for the same or similar services
    - PEEHIP was facing a potential lawsuit challenging PEEHIP’s ability to apply the network discount rate, which allows PEEHIP to reimburse pharmacies at a rate less than the usual and customary rate charged to regular “non-PEEHIP” customers
  - SB571 exempts the Public Education Employees’ Insurance Board (PEEHIB) from the TPPA
    - According to the Legislative Fiscal Office, “this act could prevent PEEHIB from being required to pay substantially more (in the range of \$200-\$300 million annually) for prescription drug coverage than PEEHIB currently pays

Source: PEEHIP estimates <http://www.rsa-al.gov/PEEHIP/peehip.html>

Source: LFO Fiscal Note <http://alisondb.legislature.state.al.us/acas/ACASLoginIE.asp>

# Annual Savings Calculation - Enacted

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- Various Contract Re-Negotiations (2011–2013) - ~\$28.8 million annually
  - **Department of Corrections** – \$16.5 million – Consolidation of two contracts for healthcare and mental health services, cutting total expenses from \$114.7 million to \$98.2 million
  - **Department of Human Resources** – \$5.1 million – Contract revisions to providers for TANF job training, Child Welfare continuum and Child Care eligibility, existing software licensing agreements
  - **Mental Health** – \$3.7 million – Consolidation of multiple hospital environmental services contracts (\$1.5 million savings) and generic medications (\$2.2 million savings)
  - **Finance Department** – ~\$3.0 million – Cancellation of professional services contracts (energy rate consulting, skilled nursing), with all work performed in-house (savings net of internal costs)
  - **Finance Department** – ~\$0.5 million – Renegotiation and rebid of equipment maintenance program covering all State agencies and departments (office, mailroom, communications, financial, IT, security, medical and research/laboratory equipment)

Sources: Department of Corrections <http://www.doc.state.al.us/>

Mental Health <http://www.mh.alabama.gov/>

DHR <http://www.dhr.state.al.us/>

Finance Department <http://finance.alabama.gov/>

# Annual Savings Calculation - Enacted

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- Freeze on Merit-Raises (2011–2013) - ~\$139.7 million annually
  - “Freeze” on all Merit-Raises during the FY11-FY13 fiscal years (subsequently lifted for FY14, but savings were realized for those fiscal years in full effect)
    - Traditionally, merit system employees with good performance evaluations (80.2% of all State employees in 2013) are eligible for as much as a 5% annual salary increase
    - Since 2011, all merit-raises have been frozen with average salaries actually decreasing (\$43,414 in 2011 vs. \$43,235 in 2013) as a result of senior employee retirements
    - Merit-Raise freeze resulted in estimated annual savings:
      - FY2013 – \$45.7 million – 23,356 employees (80.2%) eligible for average raise of 3.63%
      - FY2012 – \$46.9 million – 24,243 employees (78.1%) eligible for average raise of 3.49%
      - FY2011 – \$47.1 million – 24,523 employees (76.3%) eligible for average raise of 3.37%
      - Excludes AOC, Legislature, Postsecondary and Higher Ed
    - *Merit-Raise freeze savings estimates exclude totals from non-Executive branches (AOC and Legislative)*

Source: State Personnel Department estimates <http://personnel.alabama.gov/Default.aspx>