

Making Government Work Smarter

Edward G. Rendell
Governor

Mary A. Soderberg
Secretary of the Budget

Naomi Wyatt
Secretary of Administration

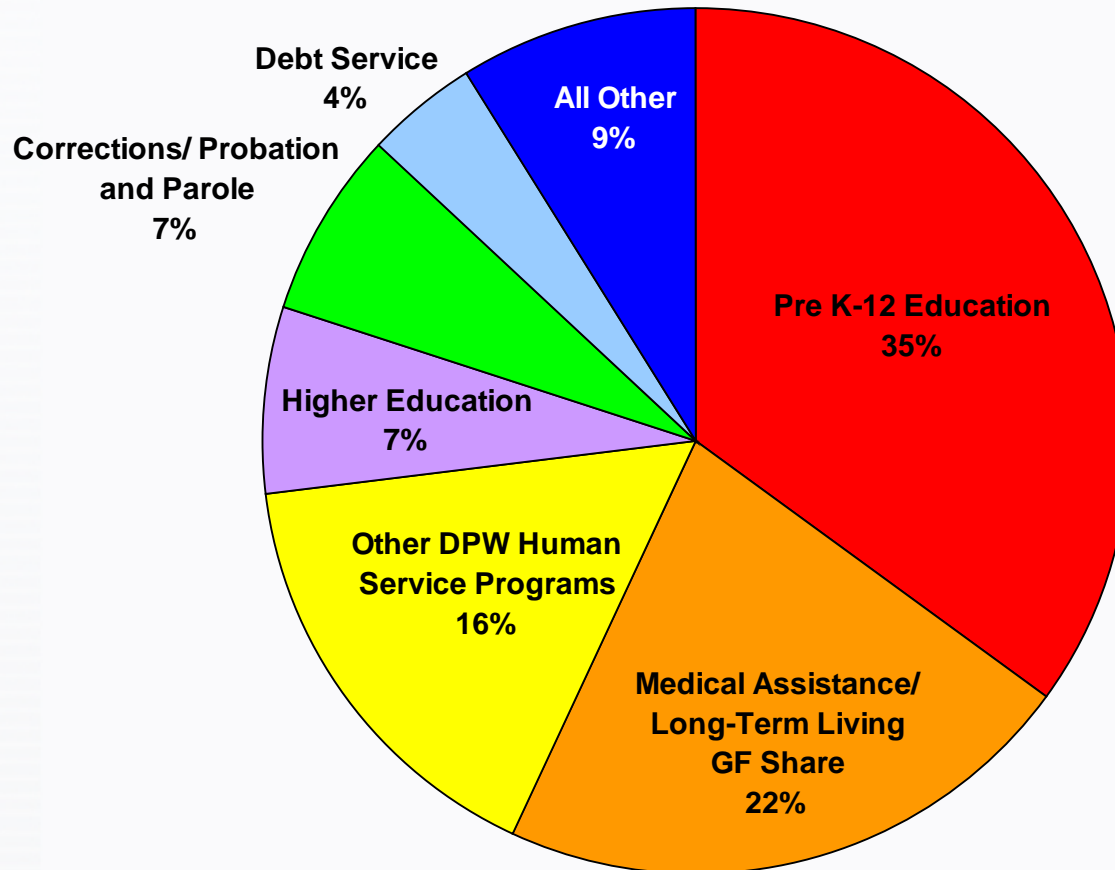
James P. Creedon
Secretary of General Services

March 8, 2010

Edward G. Rendell, Governor

2010-11 State General Fund Expenditures

The 2010-11 General Fund budget is \$29 billion, an increase of 4.1 percent over 2009-10, after accounting for the use of \$2.8 billion in federal ARRA funds in 2010-11.



Spending on Education, Medical Assistance / Long-Term Living, other Human Service programs, Corrections and debt service comprises nearly 91 percent of total General Fund obligations.

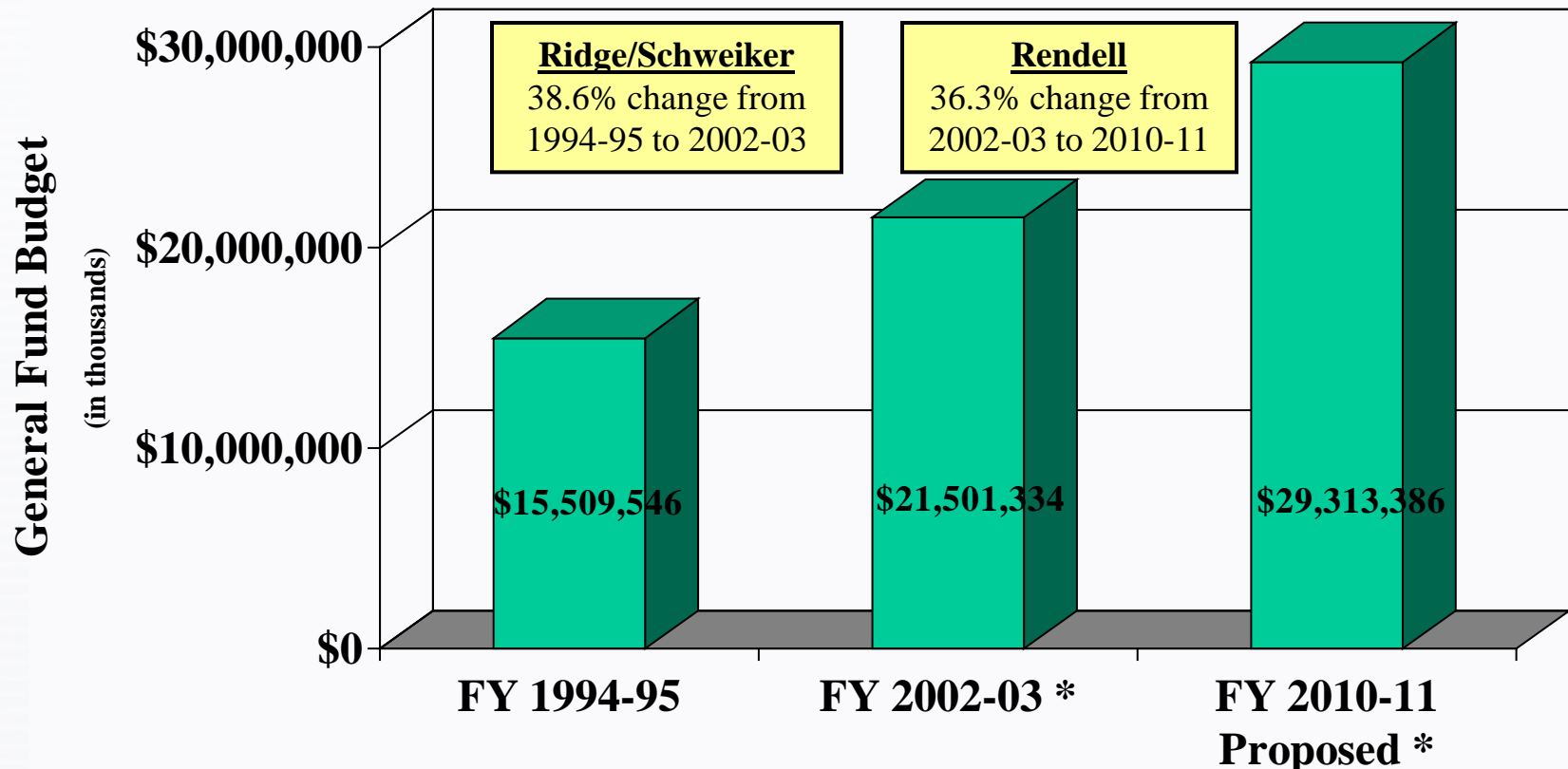
Total General Fund Expenditures:
\$26.27 Billion State
\$ 2.76 Billion ARRA
\$29.03 Billion Total

Edward G. Rendell, Governor

Comparison of General Fund Spending Growth

Ridge/Schweiker and Rendell Administrations

General Fund spending growth during the Rendell administration is about the same as the rate of growth during the Ridge/Schweiker administration.



* Spending is normalized for one-time expenditure adjustments, programs shifted to dedicated funding streams and revenue sources no longer available.

- **Areas of Growth**

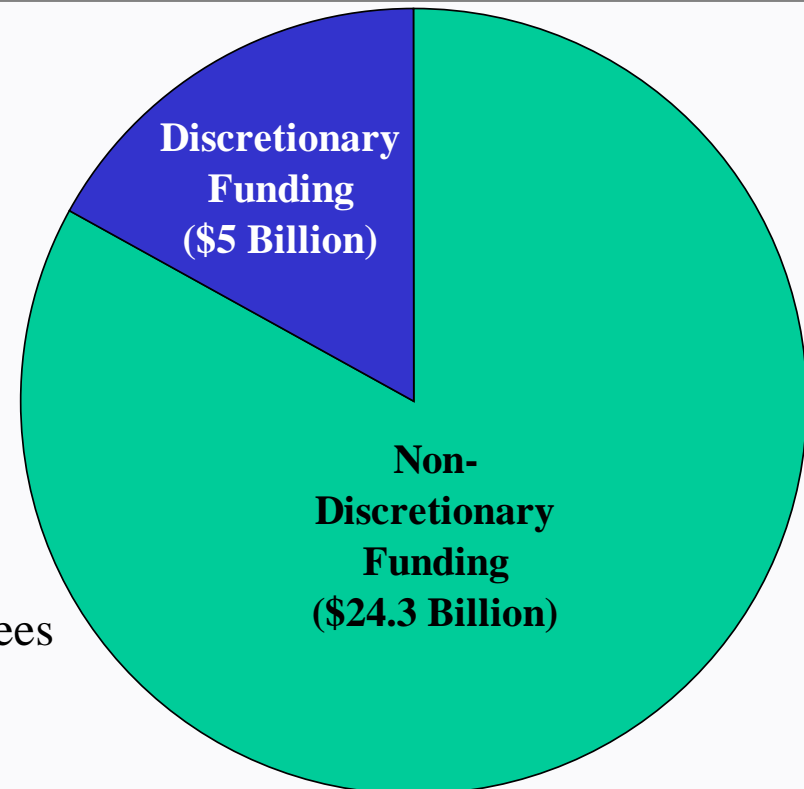
- *Education, Public Welfare, Aging/Long Term Living, Corrections/Probation and Parole, and Debt have grown by 44 percent since FY 2002-03.*
- *All other areas of the budget have been reduced by almost 11 percent.*

Discretionary Funding in the General Fund

Of the commonwealth's \$29.3 billion General Fund budget, only \$5 billion supports programs that are discretionary in nature. The remainder of the budget supports K-12 education or programs that have federal, state or judicial mandates. Without state funding, school districts would be forced to increase local property taxes to make up the difference.

Examples of Discretionary Spending:

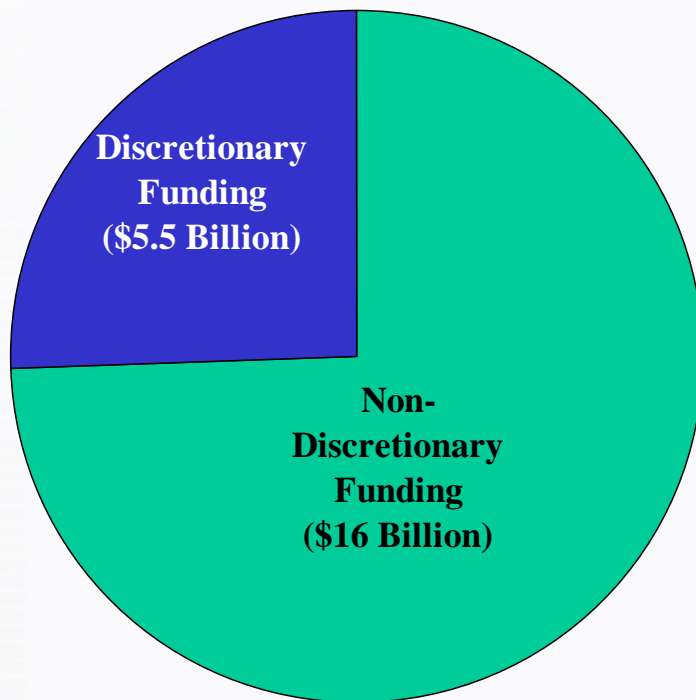
- Public library subsidy
- Job training programs
- Agricultural programs
- Environmental programs
- Economic development programs
- Salaries and benefits of many state employees



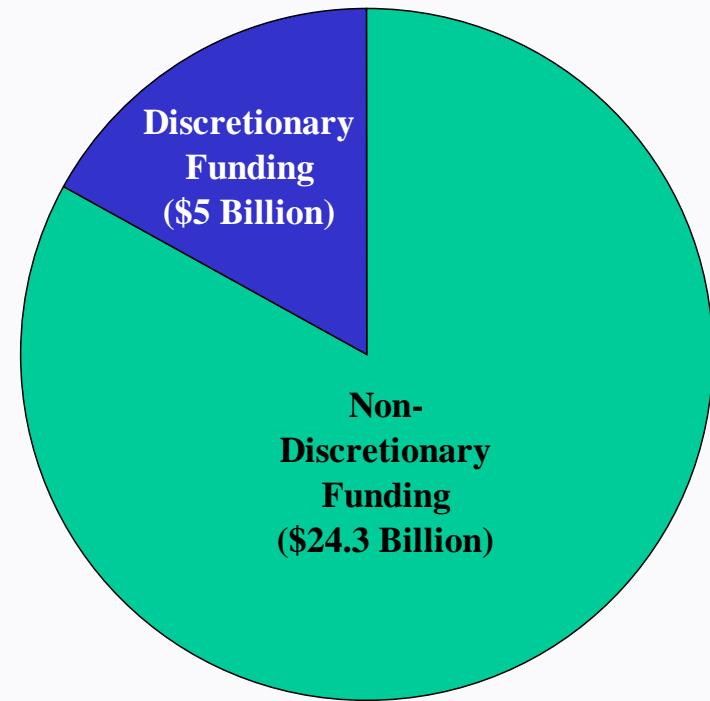
FY 2010-11 Proposed Budget

Discretionary Funding in the General Fund

In 2002-03, discretionary spending comprised 26 percent of the General Fund budget. In 2010-11, discretionary spending represents 17 percent of the budget, a decrease of a half billion dollars in the amount of discretionary spending.



FY 2002-03



FY 2010-11 Proposed Budget

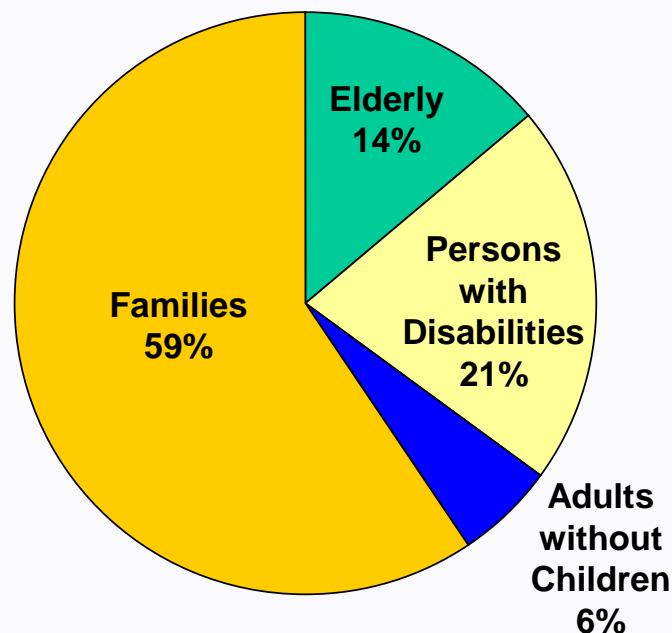
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Cost Drivers

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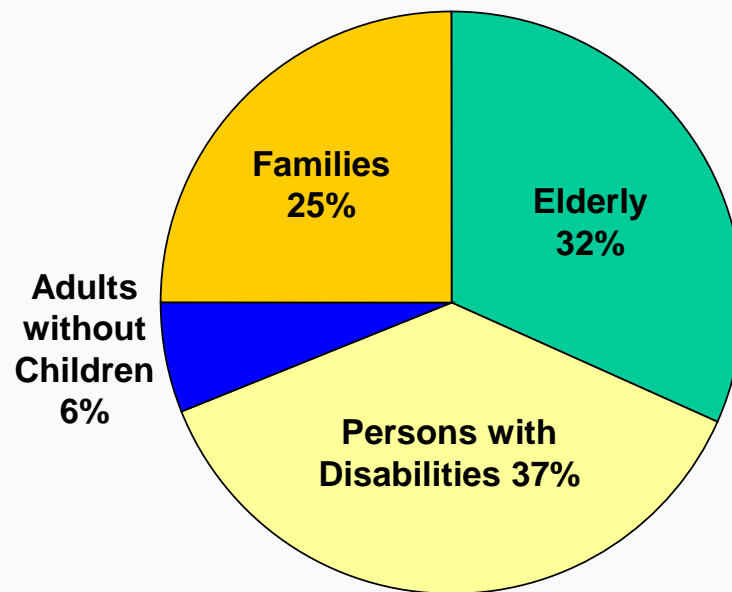
Seniors and Persons with Disabilities Use the Greatest Share of Medical Assistance Resources

Older Pennsylvanians and people with disabilities are 35 percent of the total Medical Assistance population, but they account for 69 percent of the Medical Assistance expenditures. Families comprise 59 percent of the Medical Assistance population but account for just 25 percent of spending.



Number of People

2.1 Million

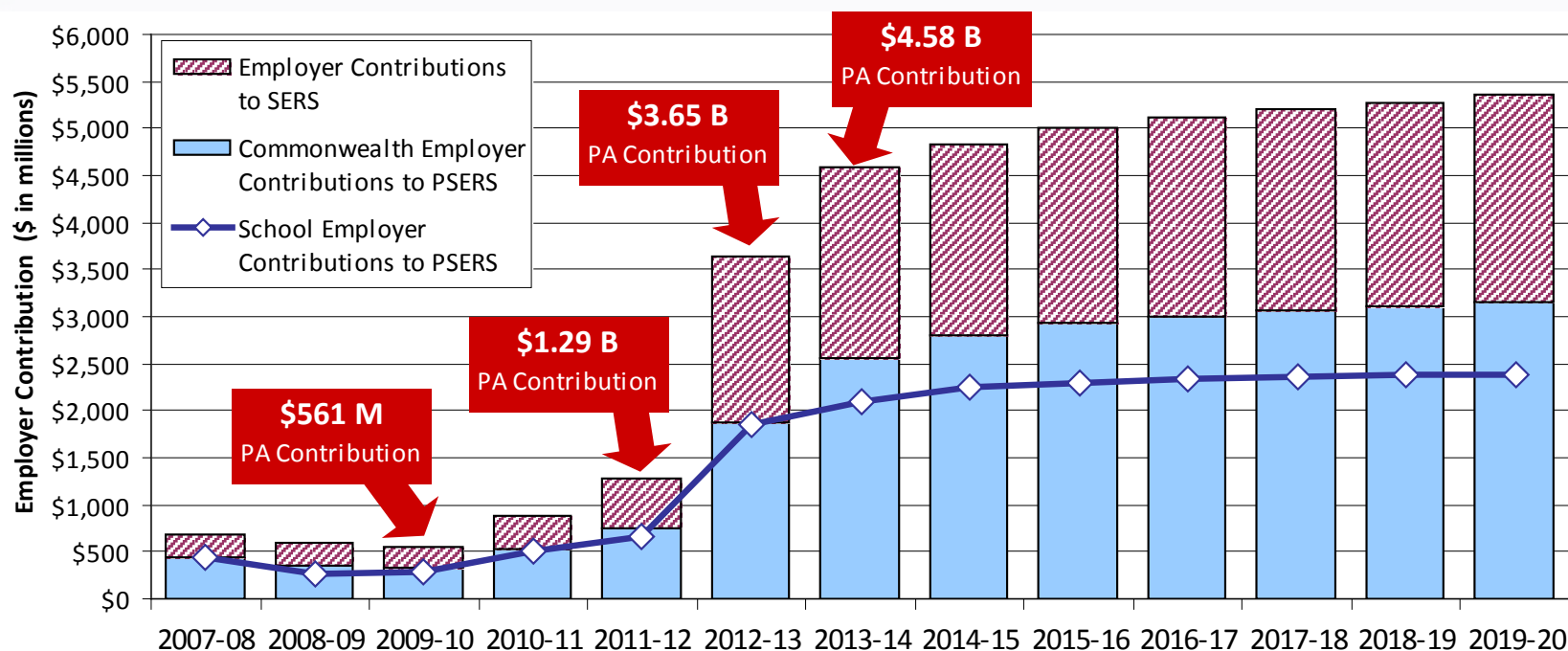


Total Expenditures

\$15.4 Billion

2012-13 Pension Spike

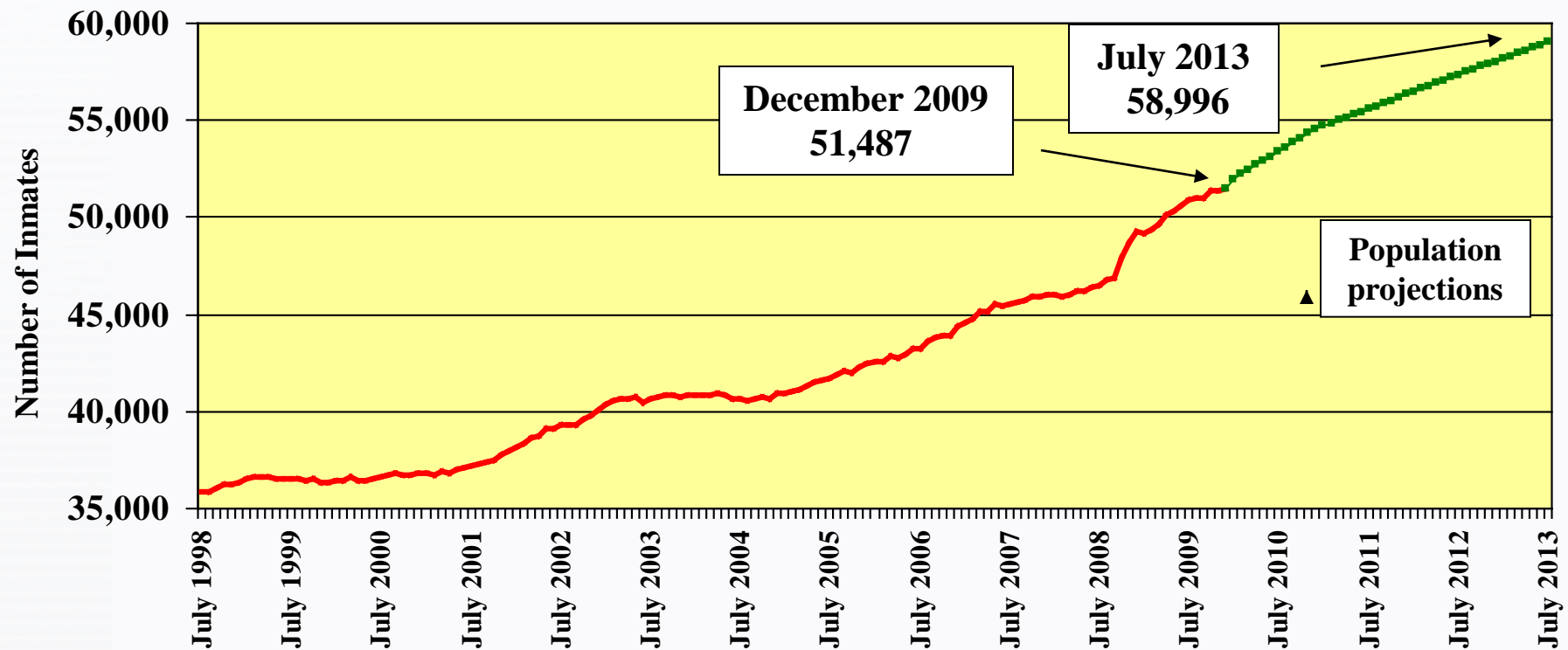
In 2012-13, the commonwealth budget and school district budgets will be hit by significant increases in pension contribution costs. Projections indicate that by 2012-13 the commonwealth's contribution to SERS and PSERS will reach \$3.7 billion – representing a \$2.4 billion single-year increase over 2011-12.



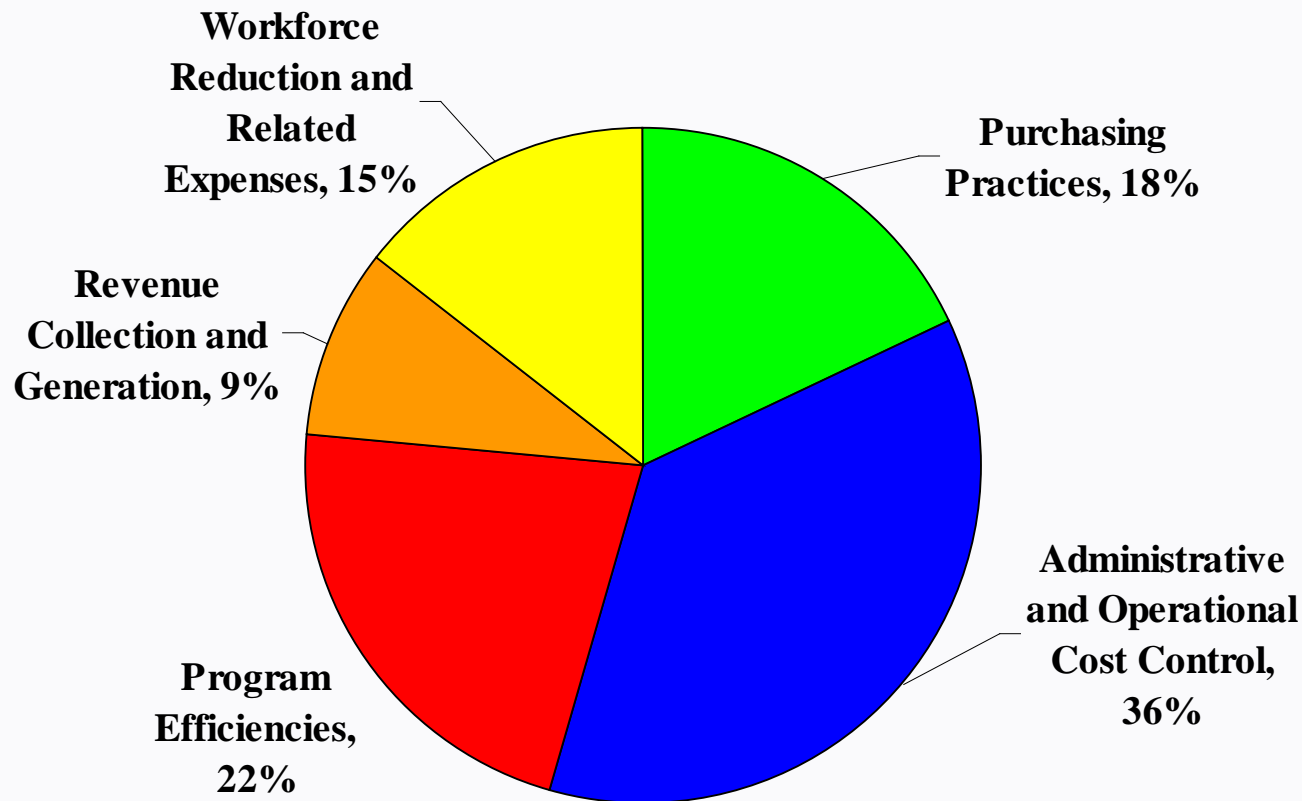
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Department of Corrections Inmate Population

The number of offenders incarcerated in the state prison system is projected to increase by more than 14 percent, from more than 51,000 inmates in December 2009 to nearly 59,000 inmates by July 2013. Since 1998, the inmate population has grown by more than 15,000 or 44 percent. The 2010-11 recommended budget provides new funding for an additional 2,018 prison beds.

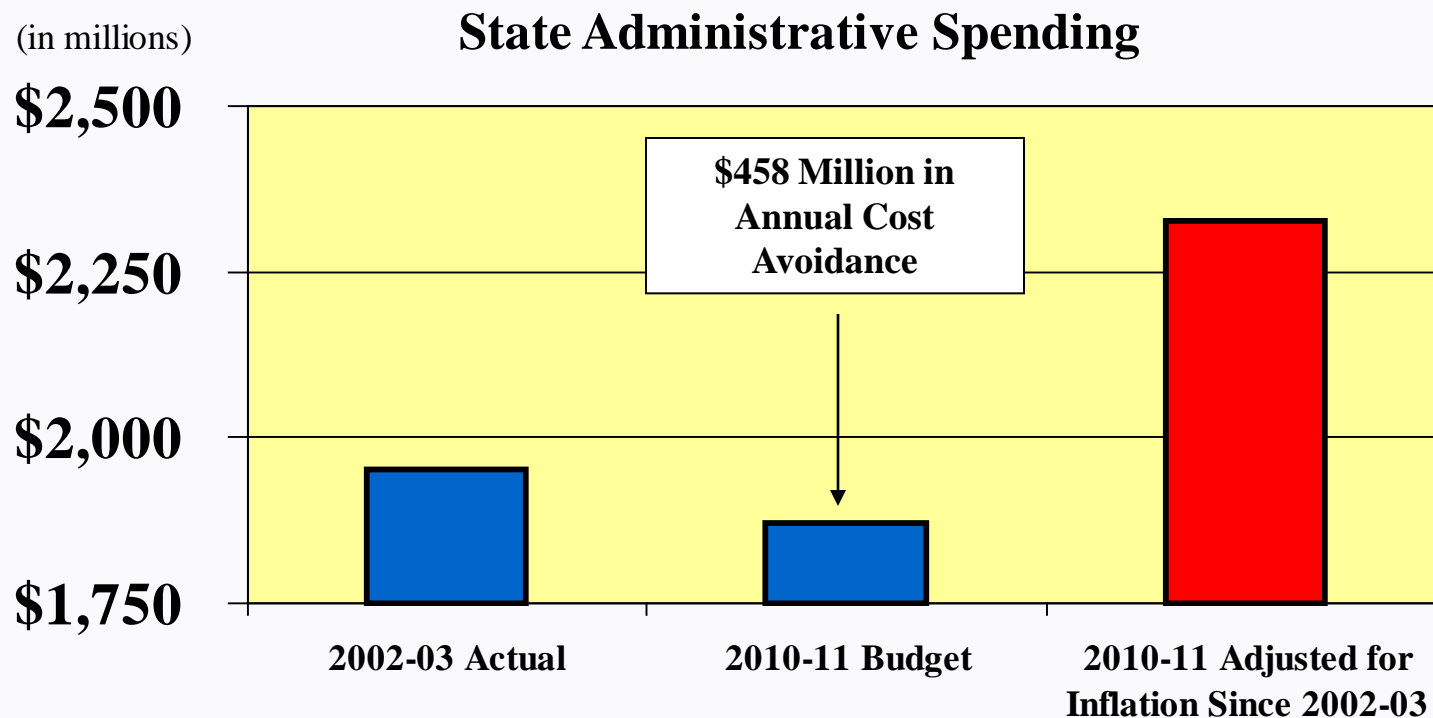


Components of the \$1.75 Billion in Management and Productivity Savings



Holding the Line on Administrative Spending

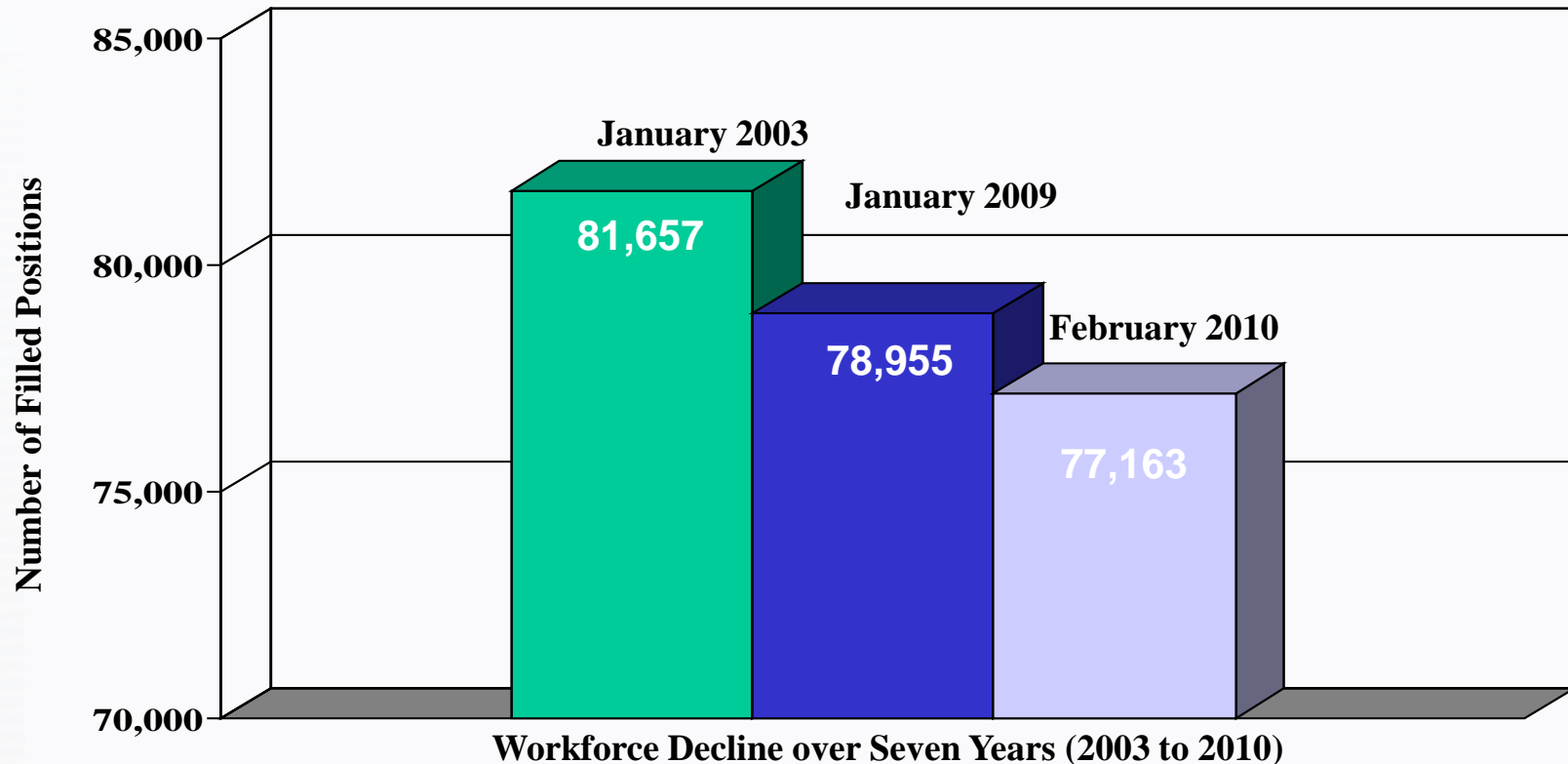
*If state administrative spending had been allowed to grow at the rate of inflation since 2002-03, **commonwealth agencies would be spending \$458 million – or nearly 25 percent – more in this budget to operate state government.***



Source on Inflation: U.S. Department of Labor, Bureau of Labor Statistics CPI Inflation Calculator.

Reduction in Filled Staffing Levels *2002-03 versus 2009-10*

Between January 2003 and February 2010, the size of the workforce declined by 5.5 percent – or nearly 4,500 positions.



Ongoing Cost Containment

In addition to directing agencies to contain their spending growth, Governor Rendell has taken decisive action to reduce administrative spending. These initiatives were put into place in the fall of 2008 and remain in effect today.

- **A general hiring freeze, followed by employee layoffs in August and December of 2009.**
 - These actions, along with other actions taken before 2008-09, reduced the workforce by 5.5 percent between January 2003 and January 2010.
 - As of December 2009, there have been 721 layoffs in 2009-10.
- **Out-of-state travel restrictions: Trips must be pre-approved by the Governor's Office.**
 - Reducing out-of-state travel saved the commonwealth \$14.1 million since the restriction on out-of-state travel was put into place – a 27 percent reduction in out-of-state travel costs in one year.
- **A ban on the purchase of new vehicles. Today there are 500 fewer vehicles in the commonwealth's fleet than last year.**
- **A freeze on cabinet and non-union employees' salaries, saving a total of \$87.3 million from January 2009 to June 2010.**

- **Areas of Management Focus**

- *Centralization*

- Procurement
 - Vehicle Management
 - Human Resource Services
 - Comptroller Operations
 - Warehouses

- *More Effective Use of Technology*

- Electronic Filing
 - Reverse Auctions
 - Electronic Payments

- **Areas of Management Focus**
 - *More Efficient Asset Management*
 - Consolidations
 - Facility Closures
 - *Performance Measures*
 - Mission-focused
 - Outcomes-based

- **“Performance Measurement” Was Counting Widgets**
 - *What We Inherited*
 - Late 1960s approach based upon the Planning-Programming Budgeting System
 - “Activity measures” provided raw data without context
 - Claims investigated, inspections completed, tests administered, grants awarded
 - Measures received little scrutiny, played no role in program management
 - *Examples of FY 2002-03 Measures (Education):*
 - Graduates enrolling in business, technical, or college programs (#)
 - Vocational Education: Enrollment (#)

- **Our Goal Is Performance Improvement**

- *What We've Built*

- Meaningful measures assess programmatic impact, effectiveness
 - New process integrates performance measurement and budget plans
 - Annual Governor's Report on State Performance informs the public on state priorities, programs, and outcomes
 - Performance Improvement Advisory Committee enables agencies to share best practices

- *Examples of FY 2010-11 Measures (Education):*

- Advanced Placement tests with scores of "3" or higher, demonstrating mastery of the course (%)
 - Vocational Education: 11th graders proficient/advanced in math (%)

- **“Finance Transformation” – Comptroller Operations**
 - *What We Inherited*
 - Six comptroller offices spread across 9 locations.
 - State-of- the-art integrated financial system within a paper oriented system for processing 1.5 million invoices annually.
 - *Today*
 - Reorganized by function in one location with a chief accounting officer.
 - Re-engineered our business processes to take greater advantage of technology.
 - First state with a paperless procure-to-pay system.
 - Greater efficiency, improved accuracy and reduced costs.
 - Since 2003, a 30 percent reduction in staff, reduced overtime, reduced travel, and reduced processing costs.

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Enterprise-Wide Savings Initiatives

- **Management & Productivity Program**

Governor Rendell launched this initiative by Executive Order in April 2003.

- *\$1.75 Billion in Annual Recurring Savings*

- Mix of enterprise-wide and program-specific items
- Workforce and procurement savings are major drivers
- All agencies contributing

- *Broad Range of Projects*

- Restructuring Revenue field offices: \$4,830,000
- Extending the life of traffic signs by changing materials: \$768,000
- Receiving federal incentives for DPW data quality: \$700,000
- Issuing Insurance Department licenses online: \$153,000
- Canceling cell phones and pooling minutes at DEP: \$22,000
- Distributing DCNR documents on CD to cut print costs: \$12,750

- **Improved Information Technology Management**

Governor Rendell launched these initiatives by Executive Order in April 2004.

- *Shared Infrastructure*
 - Eliminated excess capacity
 - E-mail, servers, and phones
- *Collaborative Project Prioritization and Management*
 - Improved integration and outcomes
 - “Communities of Practice”, IT Governance Board
- *Consolidated IT Services*
 - Let agencies focus on their missions
 - Quality assured through Service Level Agreements (SLAs)
- *Decision-Supporting Information*
 - Business intelligence software for decision-making, transparency

- **Major IT Savings Examples**

- *Renegotiating Key Contracts*

- Data Power House: \$240M (7 years)
 - Telecommunications: \$60M (7 years)
 - Note: Savings mostly accrue in the next administration

- *Maximizing Existing Assets*

- Enterprise-Wide Contracts & Standards: \$40M+
 - Microsoft tools, security packages, learning management systems
 - IT Consolidation: \$15M+ in hardware, software, and staffing
 - Sharing servers reduces the physical and environmental footprint

- **Modern Approach to Employee Travel**
 - *Office of Travel Operations*
 - Assigned responsibility for administering employee travel program
 - Invested with authority to update decades-old policies
 - *Improved Management, Smarter Buying*
 - Replaced hotel voucher forms with rebate-generating credit cards
 - Introduced competitively-bid “preferred vendor agreements” to control costs by maximizing our purchasing power
 - *The Bottom Line*
 - Reduced personal mileage reimbursements by \$3,400,000
 - Cut average nightly hotel costs by \$13 – that’s \$960,000 per year
 - Lowered management and systems fees by \$70,000 annually
 - State share of out-of-state travel costs = 0.0042% of the budget

- **Workforce Savings**

- *Steps Taken to Control Costs*

- Instituted a hiring freeze and reduced complement through attrition
 - Froze wages for cabinet officers and managers
 - Furloughed 721 employees

- *Options Unavailable Due to Statute or Contract*

- Cannot impose pay cuts for any employees
 - Cannot reduce/cancel union raises without negotiating
 - Cannot unilaterally re-open arbitrated contracts
 - Cannot control layoff impact because of “bumping”

- **Employee Benefits Changes**

- *2003 & 2007 Contracts*

- Employee contributions rise to 3% in October 2010
 - 1.5% waived for “Get Healthy” participants
 - Post-2003 employees pay surcharge for costlier plans (PPO)
 - Diminished benefits in first 6 months:
 - No prescription, dental, vision, or hearing coverage
 - Additional fee for family coverage

- *Revisions to Retiree Healthcare Program*

- Shifted Medicare-eligible retirees to Medicare Advantage plans

- **Lessons Learned**

- *Short-term savings can be expensive in the long run*
 - Cuts to training and associated travel have a price
 - Deferred maintenance shortens life of capital investments
- *Cost-cutting must not devolve into a “race to the bottom”*
 - Government operations are not glamorous
 - Disproportionate attention paid to fleet and travel costs
- *Navigating through this crisis will require a genuine partnership between the executive and legislative branches*
 - Shared sacrifice in the common interest

Department of General Services

- **Procurement**
- **Energy**
- **Construction Cost Control**
- **Print**
- **Vehicles**

Procurement: Unprecedented Reform

- **\$360 million saved through strategic sourcing & centralization**
- **95% of all contracts competitively bid**
 - *Unprecedented # of suppliers competing
- **Other efficiencies**
 - *Reduction in transaction and inventory cost
 - *Consolidated 14 warehouses to 3 - \$4M in annual savings
 - *CO-STARS
 - *Legislative Budget and Finance Committee's 2008 Report on Strategic Sourcing

Costs: 2002 & Now under Strategic Sourcing

- Post-It Notes

2002: \$2.28

Now: \$0.48

- Copiers

2002: \$525/month

Now: \$235/month

- Desktop Computers

2002: \$1,277

Now: \$714

Outcomes: \$360 Million in Savings So Far

- Pharmaceuticals **\$ 6 million** in savings
- Furniture **\$ 7 million** in savings
- Asphalt **\$15 million** in savings
- Natural Gas **\$19 million** in savings
- Copiers **\$20 million** in savings
- IT Contractors **\$24 million** in savings
- IT Hardware **\$30 million** in savings

Competition Driving Procurement On average, 5 proposers per RFP

Examples:

- Audit Services **7 proposals**
- WIC Nutritional **2 proposals**
- E-File System **6 proposals**
- Conv Center Planning **7 proposals**
- Parole Violator **5 proposals**
- Print **4 proposals**
- Insurance Verification **2 proposals**
- Teacher Info Systems **9 proposals**
- Investment Services **4 proposals**
- SOSKB Application **6 proposals**
- SURE Maintenance **5 proposals**

Energy Savings

- **\$125M in Guaranteed Energy Savings:** DGS has awarded 15 Guaranteed Energy Savings projects that includes \$114 million in energy upgrades
- **\$2.4M in Savings through Reduced Consumption and 20% Reduction in Electric Demand**
- **\$8.5M in Savings By Bidding Electricity:** DGS successfully bid the commonwealth's electricity requirement for 2010, covering PPL territories and 1200 accounts

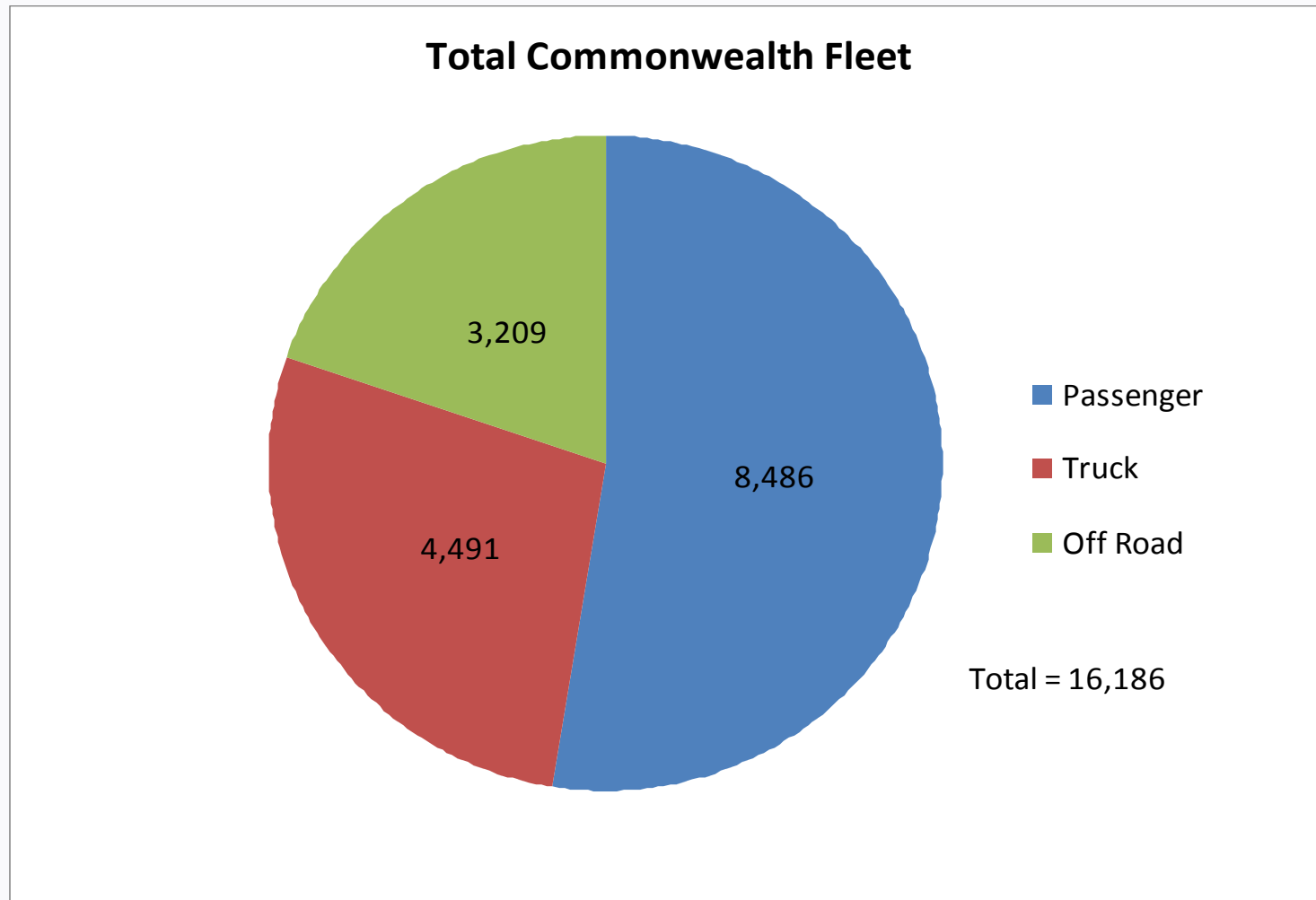
Construction

- **Change Orders Reduced from 20% to 4%**
- **Reduced claims by 84%**
- **Introduced Best Value contracting**
- **Judicial Center- \$117,000,000 - state of the art judicial facility finished ahead of schedule and under budget**
- **Developed first-ever 5 year capitol planning process**
 - *A reduction by nearly half the original project requests
 - *The elimination of more than 13,000 outdated projects

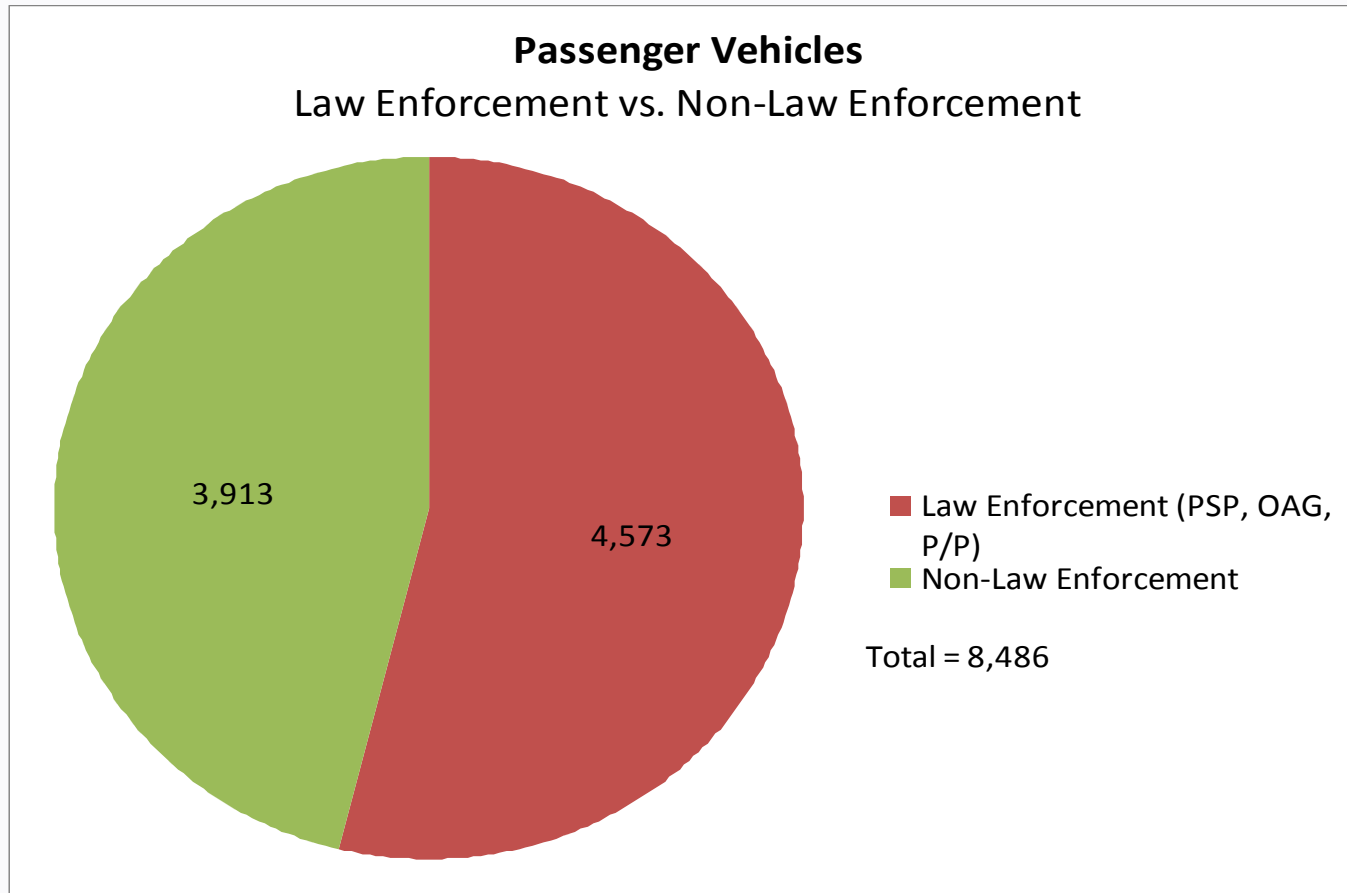
Print Savings through Centralization

- **\$10M Could be Saved by Centralizing:** Based on a study DGS completed in 2006, we are finding opportunities to consolidate print operations into DGS' Bureau of Publications and reduce costs for the Commonwealth. The potential savings are significant – perhaps as much as \$10 million a year.
- **Progress to Date:** In the past two years, we've centralized four print and mail operations into DGS – Departments of Agriculture, Department of Public Welfare, Fish and Boat, and Office of Administration.
- **More to Centralize:** The Commonwealth's current print operation is highly decentralized and therefore inefficient and expensive. There are 35 production Agency facilities scattered throughout the Commonwealth, none of which are operating at maximum capacity and most equipped beyond their needs.

Vehicle Reforms



Vehicle Reforms



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Commonwealth of Pennsylvania Vehicle Fleet			
<u>Entity</u>	<u># of Vehicles</u>		<u>Entity</u>
State Police	3450		Community & Economic Dev
Conservation & Natural Resources	2863		Gaming Control Board
Corrections	1447		Treasury
Game Commission	1337		Senate
Environmental Protection	1090		Education
Public Welfare	1035		PSERS
Fish & Boat Commission	784		SERS
Probation & Parole	629		Governor's Office
Attorney General	494		Milk Marketing Board
General Services	404		Admin Office of PA Courts
Agriculture	401		Philadelphia Reg Port Authority
Auditor General	323		Insurance
Revenue	261		State Ethics Commission
Military Affairs	236		Tax Equalization Board
Executive Offices	202		Aging
Liquor Control Board	184		PENNVEST
Labor & Industry	152		Commonwealth Court
State System of Higher Education	106		Judicial Conduct Board
Health	104		Banking
Public Utility Commission	92		PA Municipal Retirement System
House of Representative	81		Patient Safety Authority
Historical & Museum Commission	80		Civil Service Commission
State Department	63		Independent Reg Review Comm
Emergency Management Agency	58		Leg Budget & Fin Committee

Vehicle Reforms

Cost of Passenger Vehicles

Law Enforcement -	4,573 x \$4,500	\$20,578,500
Non-Law Enforcement -	3,913 x \$4,500	<u>\$17,608,500</u>
TOTAL COST PASSENGER VEHICLES:		\$38,187,000

\$4,500 - annual amortized purchase price, fuel, maintenance (estimated)

Vehicle Reforms

- **\$2.5M in revenue by selling 1,285 vehicles in 2009**
- **Increased turn-in threshold for vehicles from 65,000 to 100,000 or more miles**
 - **59% of fleet vehicles at or over 100,000**
 - **33% of fleet vehicles are 10 years or older**
- **Centralized agency vehicle operations under DGS**
 - **New Customer Service Center: 33,000 calls answered in calendar year 2009**
 - **Misuse/Abuse Hotline: 149 complaints received**
- **Competitive Commercial Vendor Program for maintenance and repairs**

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Conclusion

- **Governor Rendell: Committed to Cutting Costs**
 - *An Early and Ongoing Priority*
 - Dedicated transition team for Management & Productivity
 - M&P program established by Executive Order in 2003
 - \$1.75 Billion in annual recurring savings
 - *A New Approach to Service Delivery*
 - Shared services in finance, human resources, information technology, and procurement are cutting costs and yielding results
 - Thorough review of key operations: construction, fleet, print, travel
 - Improved technology to give managers better information
 - *A Shared Responsibility*
 - We look forward to working with you for all Pennsylvanians

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