

# **ALASKA DEPARTMENT OF ADMINISTRATION CHARGEBACK RATES, COST DRIVERS AND CENTRALIZATION VS. DECENTRALIZATION**

Presentation to

**House Finance**

**Budget Subcommittee**

**February 3, 2015**

**Commissioner Sheldon Fisher**

**Director Cheri Lowenstein**



# UNDERSTANDING DOA RATES

## What makes DOA a cost center?

- Fourth largest department at 1,123 staff (1,055 PFT, 14 PPT, 54 NP)
- Offices in 33 communities across Alaska
- Second largest state law firm (OPA/PDA)
- Manage the states retirement plans for 47,071 active employees, 67,913 retirees and their dependents
- Procurement and contract assistance for all other executive branch departments and agencies
- Own 18 buildings (with the most recent addition of the Geologic Material Center) and 400+ leases statewide
- Statutorily designated as the states Chief Information Officer in charge of all Executive Branch Information Tech. (IT)





# UNDERSTANDING DOA RATES

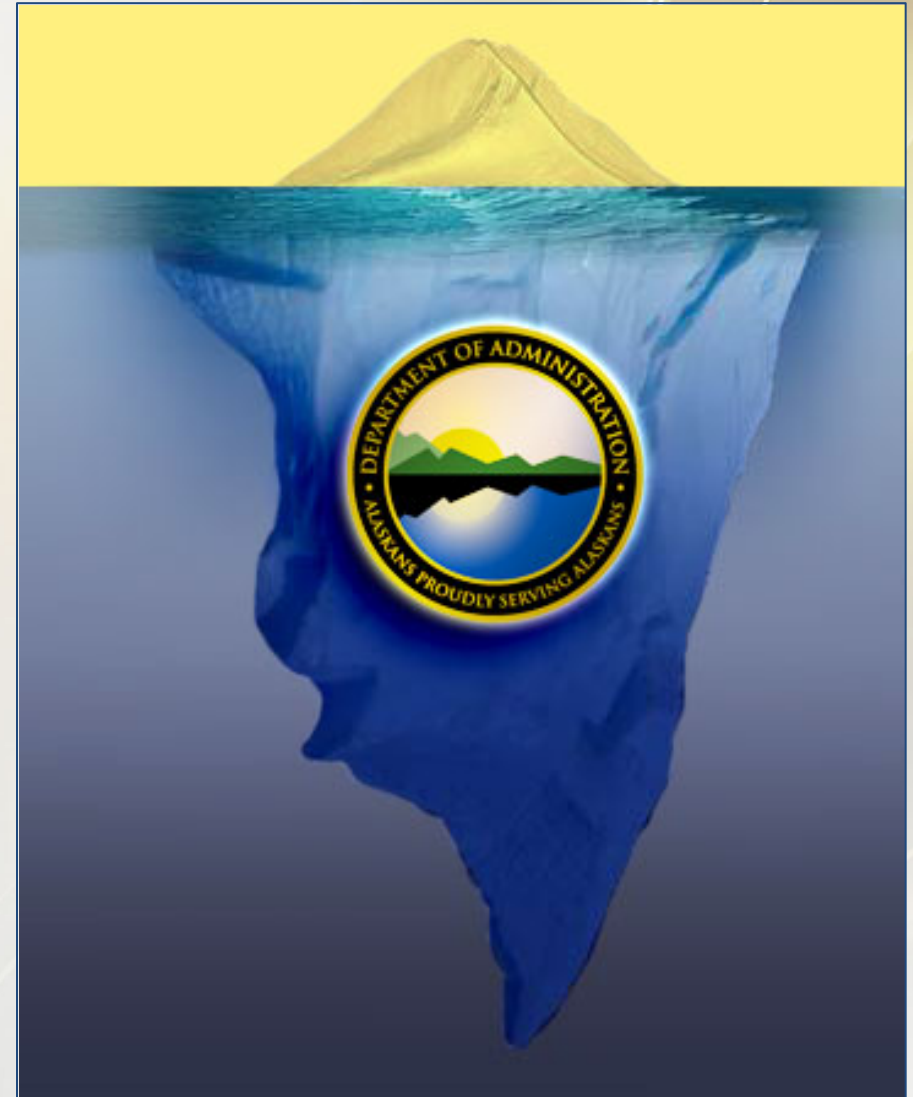
The Department of Administration has a total budget of \$348 M in FY 2015

## General Funds: \$88,178.3 (FY15)

- Public Defender Agency  
\$25,963.3 M (FY15)
- Office of Public Advocacy  
\$23,803.5 M (FY15)
- That constitutes 56% of total DOA General Funds
- Are more than ¼ of positions at DOA with 297 out of 1,000 PFT

## Driven by Rates: \$130 M in I/A (FY15)

- Payroll \$11.3 M (FY15)
- Insurance \$41.2 M (FY15)
- Leases \$50 M (FY15)



# STATE OF ALASKA COST DRIVERS

Not in our budget, but managed or significantly influenced by the Department of Administration:

– **\$2,561.0 M Personnel Service Cost**

- DOA makes up \$117 M (FY15)
- Legislature and Judiciary make up \$667 M (FY15)
- DOA negotiates labor agreements
- Partially centralized HR for state agencies

– **\$656.9 M Health Care Claims Cost**

- AlaskaCare, Retirees (FY14, paid through 6/30/14)

– **\$301.8 M Purchasing Contracts**

- Using statewide contracts that DGS administers, saved \$58.6 M (FY14) against benchmark cost estimates



# DOA INTERNAL POLICY COST DRIVERS

Not apparent from the DOA budget, but incredibly impactful:

- **Health Care Costs (Other benefits)**
  - RFP design, plan administration, and network utilization
  - Consequence of cost containment
  - We will have a continued focus on bending the health care cost curve in Alaska
- **Personnel and HR**
  - Contract impacts (trends/costs)
  - Improved efficiency and workforce productivity will be a key to managing our budget while continuing to meet citizen's expectations
    - Management tools
    - Process improvement tools
    - Technology tools
- **Agency and Poli-sub Purchasing**
  - WSCA Contracts
  - State Core Communications Contract
  - IRIS Procurement Module





# DOA INTERNAL POLICY COST DRIVERS

Inter Agency Policies that may drive cost savings...

- Facility Rent / Leasing
  - Universal Space Standards
- Finance (Accounting)
  - IRIS efficiencies along with enterprise visibility in replacing 32 year old core payroll and finance system
- Retirement and Benefits
  - AlaskaCare and Aetna TPA
- Enterprise Technology
  - Potential IT consolidation



# DOA EXTERNAL COST DRIVERS

Cost drivers outside our organization...

- **(OPA and PDA)** Court and legislative decisions on criminal justice matters
- **(DGS)** Consumer Price Index (CPI) and utility costs on lease and owned property
- **(DRB)** Health care inflation and changing national stage (ACA)
- **(DRB)** Retiree boom
- **(DOPLR)** Lower 48 work market and available skilled workforce
- **(DRM)** Natural disasters
- **(ETS)** Changes in IT business



*Unknowable and Outside DOA Control*

- DOPLR: Human Resources (HR) and ADA
- DGS: Buildings and centralized mail
- ETS: Telecommunications and computers

A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P	Q	R	S	T	U	V	
	<b>Projected FY15</b>				<b>FY14 Payroll</b>					<b>FY14 (AKSAS / AKAPT / ALDER)</b>	<b>FY15 (AKSAS / AKAPT / IRIS)</b>											
	<b>RM FY14 RSA</b>	<b>RSA</b>	<b>Inc / (Dec)</b>		<b>Payroll</b>	<b>Payroll</b>	<b>Inc / (Dec)</b>	<b>PBF FY14</b>	<b>PBF FY15</b>	<b>Inc / (Dec)</b>		<b>Inc / (Dec)</b>	<b>CMS FY14</b>	<b>CMS FY15</b>	<b>Inc / (Dec)</b>	<b>ETS FY14</b>	<b>ETS FY15</b>	<b>Inc / (Dec)</b>	<b>DOP FY14</b>	<b>DOP FY15</b>	<b>Inc / (Dec)</b>	
Office of the Governor	\$,489,53	\$,419,79	(70)		163,350	164,891	1,540	740,923	675,897	(65,026)	11,442	12,171	529	78,951	79,399	448	475,200	445,700	(29,500)		0	0
Administration	387,927.11	360,845.13	(27,082)		1,145,293	1,167,711	22,419	3,244,711	3,879,426	294,715	99,991	93,272	(6,719)	258,857	260,854	1,997	4,112,100	4,276,400	164,300	736,008	699,077	(36,931)
Law	17,722.64	17,499.51	(223)		422,957	429,725	6,768	99,128	908,514	(10,624)	27,219	28,085	866	40,943	41,227	284	1,185,100	1,221,400	36,300	376,159	396,292	(19,147)
Revenue	10,476.74	10,400.64	(76)		306,879	312,704	5,825	2,445,470	2,317,320	(128,150)	51,042	75,790	24,748	221,209	221,992	783	2,833,200	2,905,400	72,200	378,742	359,884	(18,858)
Education & Early Development	103,175.92	97,972.65	(5,203)		246,438	271,900	25,462	555,413	597,542	42,129	28,052	29,047	995	279,616	280,378	762	1,154,500	1,065,100	(89,400)	238,828	228,172	(10,656)
Health and Social Services	730,023.55	694,266.53	(35,757)		7,004,538	7,163,656	159,118	1,712,766	1,655,228	(57,538)	243,227	248,815	5,588	317,805	319,252	1,447	7,481,000	7,907,900	426,900	2,394,142	2,280,411	(113,731)
Labor & Workforce Development	73,417.65	70,243.04	(3,175)		890,026	911,517	21,491	410,839	393,251	(17,588)	52,752	51,601	(1,151)	914,753	916,643	1,890	3,442,600	3,178,600	(265,000)	603,904	560,757	(43,147)
Community and Econ. Dev.	34,925.64	33,103.46	(1,822)		279,085	283,523	4,438	1,552,722	1,588,107	35,385	30,667	32,656	1,989	181,324	182,004	680	1,006,000	1,064,500	58,500	350,108	337,700	(12,408)
Military and Veterans Affairs	222,047.52	208,892.00	(13,155)		688,878	705,041	16,163	0	0	0	18,888	20,799	1,912	15,536	15,633	97	471,800	487,000	15,200	222,560	209,349	(13,211)
Natural Resources	124,132.99	120,669.77	(3,463)		1,916,002	1,959,299	43,297	2,906,727	2,839,606	(67,121)	69,838	71,077	1,239	37,949	37,969	20	1,865,200	1,903,800	38,600	718,035	687,239	(30,796)
Fish and Game	201,940.87	192,499.27	(9,442)		1,110,818	1,135,607	24,789	426,129	401,649	(24,480)	91,948	94,532	2,584	184,870	185,826	1,056	1,983,500	2,046,200	62,700	1,116,554	1,048,415	(68,139)
Public Safety	181,772.38	184,013.40	2,241		2,723,010	2,759,832	31,822	2,117,784	2,229,659	112,875	56,294	57,515	1,221	40,211	40,555	344	2,446,900	2,477,500	30,600	596,698	575,710	(20,988)
Environment, Conservation	35,404.54	33,661.39	(1,743)		385,878	392,805	6,927	0	0	0	35,318	36,239	921	53,111	53,411	300	1,150,300	1,205,600	55,300	363,774	348,915	(14,859)
Corrections	921,935.41	884,173.21	(37,762)		3,708,537	3,764,954	56,417															



# CENTRALIZATION VS. DECENTRALIZATION

## Division of Personnel and Labor Relations - HR Decentralization (recently partial decentralized)

- After a centralization initiative around 2004 under Governor Murkowski, agencies expressed frustration that various core HR functions lacked agency expertise.
- HR Decentralization began in November 2011 and was completed in April 2012.
- Benefits include HR staff becoming more knowledgeable of agency business
- Payroll, Classification and Labor Relations functions retained in DOA for consistency across State agencies
- Management Consultants and Recruitment Services were placed back in the agencies to perform the following functions:
  - Advise and assist supervisors and management in handling the full range of performance and discipline matters
  - Conduct fact-finding investigations on the full range of performance issues, alleged misconduct, complaints and grievances
  - Assist hiring managers, approve and post recruitments
- DOP&LR oversees statewide recruitment as well as consults directly with agency HR staff to ensure consistency within the State in all HR fields, including the following functions:
  - Provides professional reviews, analyses, recommendations, and final actions on substantive classification and compensation matters
  - Maintains accurate employee and time and attendance information in the Alaska Statewide Payroll System (AKPAY) in order to process pay for approximately 15,850 executive branch employees in 14 agencies.
  - Provides professional supervisory, management, leadership, EEO compliance, and interpersonal skills training development and delivery

# CENTRALIZATION VS. DECENTRALIZATION

## Office of Administrative Hearings – Medicaid cases from DHSS (recently centralization)

- Prior to July 1, 2012, public assistance and Medicaid appeals were handled by an in-house unit at DHSS.
- The hearing unit had four hearing officers and one staff member – this was reduced by one hearing officer when it was consolidated at OAH.
- In the distant past, the annual intake of Medicaid Services cases was 600-1100 cases per year. In early 2008, this caseload began to be artificially depressed by a series of court injunctions against DHSS.
- After assuming the cases from DHSS, one area of increase in OAH's caseload, the Medicaid Services area, has not been driven by program expansion, but rather by benefit cutbacks.
  - Program changes that reduce benefits available to recipients can produce significant program savings, but there is an accompanying cost (presumably smaller than the program savings) in increased rates of appeal.

- Medicaid Services Case Intake, Selected Years:

2007	2009	2012	2014
1091	314	453	1493



# CENTRALIZATION VS. DECENTRALIZATION

## Enterprise Procurement – Small Commodity Pooling *(future partial centralization)*

- Due to the amount of data that IRIS will be collecting on a statewide basis, DOA will be able to monitor and enforce enterprise-wide public procurement principles to ensure that like items are being combined into single orders and that mandatory contracts are used. Additionally, analysis of the data may show industries and commodities being purchased in individual agencies that would benefit from a single statewide contract.
- Automated workflows in IRIS should increase the efficiency of the procurement process by automatically moving a purchase request – or requisition process (RQS) in IRIS - through the various approval levels, reducing the per-transaction cost by an amount to be determined. Historically, a paper-based purchase request can cost up to \$200 to process.
- Over time, protests related to bids or proposals received after the deadline may be reduced due to the nature of submitting online. Because IRIS simply disallows a late bid or proposal from being uploaded, this should mitigate questions regarding timestamps, whether a bid or proposal was mishandled by the state, and so on.
- **FOR EXAMPLE:** Small payments under \$50,000 outnumber large payments by nearly 1,000 to 1 and make up over 40% of the dollar amount spent by the state (in 2013 that was just over \$200 million annually). The accounting codes indicate that about 80% of these payments are for office needs and industrial hardware.



# CENTRALIZATION VS. DECENTRALIZATION

## Information Technology (IT) – Collocating Data Centers (*future centralization*)

- DOA is currently crafting a 5-Year Statewide IT Plan requested by legislative intent language in HB 266 during the 2014 legislative session.
- Centralize
  - Commodity services while keeping expertise in the business units.
  - Drive efficiencies in planning and implementation (no need to re-invent the wheel in each department), purchasing and service delivery.
  - Keep critical knowledge base in the business unit to ensure service delivery is efficiently maintained.
- **FOR EXAMPLE:** Enterprise Technology Services (ETS) has identified 180+ servers “closets” or isolated, small scale data centers in silos around the state.
- Each of these locations require their own utilities (cooling and electric), hardware refresh on an annual cycle, disaster recovery, backup power, ongoing maintenance, and staffing.
- Collocating and centralizing state servers to common data centers, were appropriate in urban and rural centers, can save agencies and the state through economy of scale.
- The challenge will be reasonable agency access and service level agreements that provide for joint coordination, communication and successful program delivery.

# COST DRIVERS AND SAVINGS

## AlaskaCare Health Care Plan – Cost Drivers

Cost drivers outside the direct control of the Division of Retirement and Benefits:

- Alaska's high health care costs
  - 2011 AK Health Care Commission: Alaska has highest annual average cost for employee health benefits in US
  - Alaska medical care inflation increasing at a greater rate than overall Alaska inflation.  
(<http://laborstats.alaska.gov/col/col.pdf>)
- Anticipated 36% growth in retiree population between 2012 and 2023, peaking at near 60,000 retirees (not including dependents)
- Providers unwilling to join the AlaskaCare network
- New, expensive pharmaceuticals
- Federal Health Care Reform
  - Patient-Centered Outcomes Research Institute (PCORI) effective 2014
  - Shared Responsibility (Pay-or-Play) effective January 1, 2015
  - High Cost Plan Excise Tax (Cadillac tax) effective January 1, 2018

## Opportunity for Savings - Third Party Administrator (TPA) Aetna/Moda

- By splitting the TPA contract for state employee health care into several areas the “best in class, best in value” approach allowed the state to reach agreement with multiple TPAs.
- As a result of switching to Aetna/Moda, **the state has saved close to \$45 million** in the first year of cost claims – primarily attributed to utilization of the discount provider networks.



# COST DRIVERS AND SAVINGS

## Universal Space Standards – Opportunities for Savings

Space planners, in conjunction with industry standard principles on use of space, can help large organizations like the state to better utilize available space. This allows for potential savings in the following areas:

- Enhanced employee productivity in areas where implementation of space standards allows teams to work more collaboratively (referred to “neighborhoods” in the current standards)
- Leverage the state’s purchasing power by contracting with a system’s furniture provider that allows agencies to:
  - Find cost savings from the master contract established by the State of Utah under the cooperative purchasing organization Western State’s Contracting Alliance - National Association of State Procurement Officials (WSCA-NASPO).
  - Quickly order, change and surplus similar workstation components
- Departments with offices spread out across several locations/leases can consolidate agency operations, gaining further efficiency by collocating staff, into a layout designed with the operations of the agency in mind while ensuring best utilization of the space



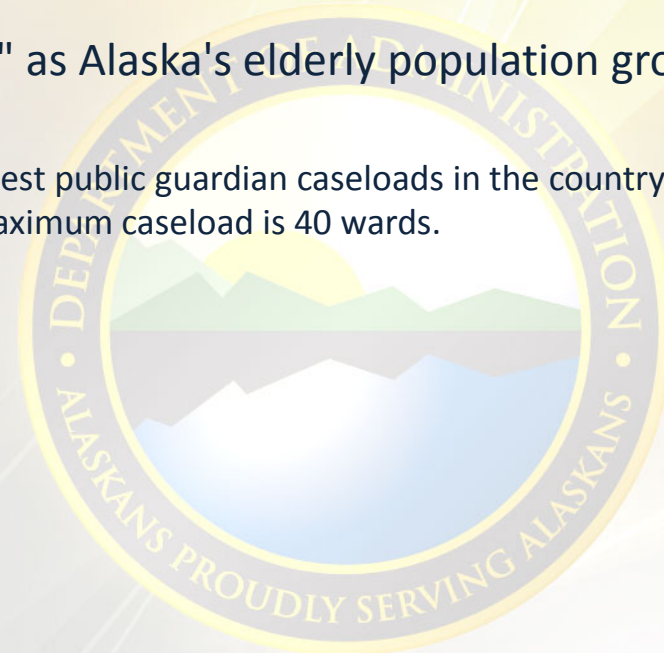


# COST DRIVERS AND SAVINGS

## Office of Public Advocacy – Cost Drivers

Additionally OPA has external factors that drive costs in their agency:

- **GAL caseloads** - As the number of children entering the Child in Need of Aid System continues to rise dramatically as does caseloads for GALs, CINA parents attorneys, attorneys for children and appellate attorneys.
  - ...
- **Public Guardian** - Alaska faces a "silver tsunami" as Alaska's elderly population grows quickly.
  - The public guardian unit at OPA currently faces the highest public guardian caseloads in the country at nearly 100 wards per guardian. The national recommended maximum caseload is 40 wards.



# COST DRIVERS AND SAVINGS

## Office of Public Advocacy – Opportunities for Savings

In the past two months the Office of Public Advocacy (OPA) has implemented two major reforms that will help stabilize growth while providing better service to Alaskans:

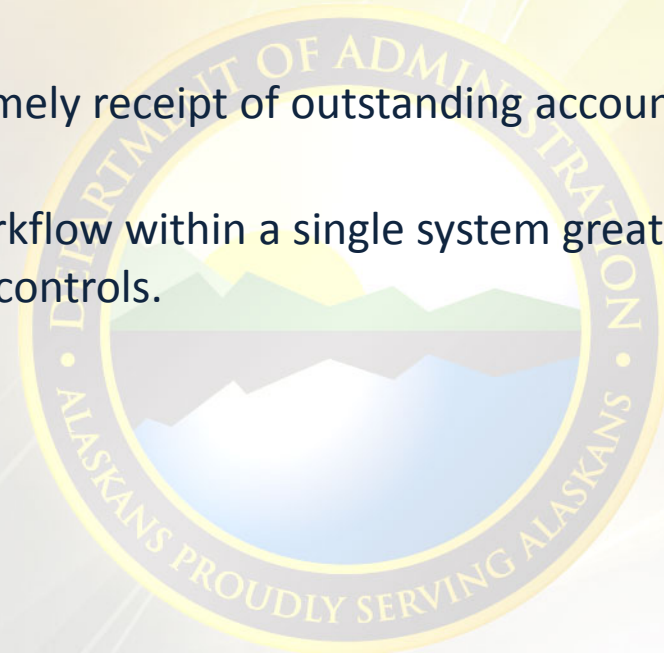
- **OPA Kenai** - Last month OPA opened its first ever office on the Kenai Peninsula.
  - The office consists of one attorney and one support staff. Both PCNs were transferred from Anchorage.
  - OPA acquired the small office by assuming the lease of a sister agency. Additionally, the office was completely furnished with the surplus office supplies of other state agencies.
  - Staff attorneys are more cost effective than using contractors.
  - OPA hopes to realize some savings while also providing local representation to the people of the Kenai Peninsula.
- **Bethel Guardian Ad Litem (GAL)** - Last week OPA agreed to terms with the Association of Village Council Presidents (AVCP) to provide two GALs for children in the YK Delta.
  - The new contract will save OPA some money over the next four years.
  - More importantly, the partnership will provide better, more culturally competent representation to Yupik children navigating the Child in Need of Aid (CINA) system.



# COST DRIVERS AND SAVINGS

## Integrated Resource Information System (IRIS) – Opportunities for Savings

- **Warehouse Inventory** – Provides the ability to acquire, disperse, and restock commodity items in a controlled and consistent manner that allows for annual reconciliation.
- **Vendor Self-Service** – Allows vendors to manage their account information, initiate invoices, research payment history, and review business opportunities with the State.
- **Electronic Funds Transfer** – Secure program for transfer of funds and eliminates warrant printing and handling.
- **Accounts Receivable** – Monitor and facilitate timely receipt of outstanding accounts receivable.
- **Accounts Payable** – Requisition to payment workflow within a single system greatly improves accuracy, accountability, and internal controls.





**Thank you!**

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for more information about our department.

**Questions?**

