FINAL REPORT OF THE COMMISSION TO ASSESS THE OPERATING EFFICIENCY OF STATE GOVERNMENT

DECEMBER 1, 2003

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SECTION I INTRODUCTION

Commission Origins

New Hampshire has not escaped the dramatic social, demographic and economic changes that have shaped the look and feel of life in New England and the Northeast. And yet, New Hampshire has held fast to its governance traditions of independence, frugality and "home rule."

To some, the size, structure and approach of New Hampshire state government may seem anachronistic – especially in light of the ever-increasing volume and complexity of challenges faced by New Hampshire's elected and appointed officials. To others, New Hampshire state government seems uniquely poised to thoughtfully address the state's many challenges and opportunities – given the fact that state government has stayed close to its citizens. One point *is* clear, however. The time is ripe for state political leaders to press for greater efficiencies in state government operations in order for the State of New Hampshire to better and more affordably serve its citizens.

In recent decades the state has witnessed a succession of initiatives intended to improve and advance the efficiency and effectiveness of state government. The March report of the 1982 Governor's management review team provided this chronology of government "efficiency" studies:

- In 1932 and 1950, studies were completed regarding New Hampshire's government structure. These were largely not implemented;
- In 1961, some concepts from the 1950 study were used to simplify the structure of state government including consolidating certain state boards and commissions into the major agencies that are operational today;
- In 1980, a reorganization study was completed by the General Court's Select Committee on Executive Reorganization. The study recommended a cabinet form of government with six major secretariats, with 153 state "agencies" allocated within the proposed structure.

In August of 1981, Governor Hugh Gallen issued an executive order authorizing the Governor's Management Review to proceed with a results-oriented evaluation to identify operational improvements throughout state government. The review began in 1981 and took ten weeks to complete. The 23-member Commission, with significant third-party assistance, published a report in March of 1982 offering 254 recommendations for operational change.

Where possible, the estimated financial impact of each proposed action was quantified. The Commission identified annual cost savings to the state totaling more than $46 million and one-time savings of nearly

$8.5 million. Additional annual federal savings were also identified. Associated costs to state, local and federal government were also itemized. The vast majority of recommendations from the report have not been implemented.

A decade later, the 1991-1992 Task Force on New Hampshire State Government Operations was established under Chapter 355 of the Laws of 1991. The September 1992 report of the Task Force stated that it was charged with reviewing aspects of a range of government operation including:

- Purchasing equipment and supplies;
- Communications;
- Contracting for services;
- Managing capital assets; and
- Organizing human resources.

Given limited resources, the task force focused its efforts on identifying systemic issues found to be impeding the efficiency and effectiveness of state government as a whole. Although some agency specific findings were included, the task force focused largely on identifying broad issues related to organization, policy and statewide management systems.

Finally, a 1995-1996 commission to examine government reorganization was created to identify actions to address greater operational efficiencies in state government.

Despite the significant energy expended in the development of these initiatives, the majority of recommendations from these past study efforts have yet to be implemented – a fact that has not escaped the attention of the current Commission. The state's two-year election cycle may be a major contributing factor to this outcome, because of the challenge facing state political leaders in creating sustained team efforts to drive systemic change in government. Given the track record of past commissions, the 2003 Commission pledged to address fewer issues while maintaining close communication with the state's political leaders.

Current Commission

The 2003 Commission to Assess the Operating Efficiency of State Government (Government Efficiency Commission, GEC, the Commission) was created by passage of HB 171 during the 2003 Session of the New Hampshire General Court. Governor Craig Benson pressed the theme of achieving greater efficiency in state government throughout his primary and general election races. Once elected, the Governor began working with legislative leaders to frame the language that would ultimately result in the creation of the Commission. House and Senate leaders were equally focused on the importance of establishing an efficiency commission and moved HB 171 swiftly through both chambers. The House Executive Departments and Administration Committee, through the leadership of State Representative Ed Moran, took a lead role in advancing the measure. Ultimately, it became the first bill to be signed by Governor Benson during his first term in office. It was signed and passed into law on March 20, 2003.

Organization and Structure

The 2003 Commission has a total membership of eighteen; with equal apportionment by the Governor, Speaker of the House and Senate President. The Commission is comprised largely of individuals with backgrounds in business. Four elected officials serve on the Commission. Some members of the Commission have worked in state government and others have been vendors to the state. In total, the Commission reflects a broad range of subject matter expertise and geographic interests.

The Commission held its organizational meeting on April 22, 2003 at the New Hampshire State House. From that first meeting until its final work session on December 1, 2003, the Commission has met as a whole on more than twenty-five occasions. Meetings were frequently attended by members of the public and employees and officials of state agencies, boards and commissions.

Initially, committees were established to address six systemic issue areas. They included: personnel and human resources; procurement; information technology, the New Hampshire Department of Health and Human Resources, board consolidation, and asset management. Additional work groups were formed to address corrections, fleet management, administrative rulemaking, the New Hampshire Department of Resources and Economic Development, higher education and business office consolidation, among others. Each committee and work group utilized a combination of interviews, agency meetings, field investigation and statistical analysis to complete assignments.

Statutory Requirements

Legislative leaders created the Commission for the purpose of identifying *opportunities* for restructuring state government in order to:

1. Promote efficiency; encourage cost savings;
2. Enhance accountability and control;
3. Improve coordination;
4. Reduce redundancy in state government; and,
5. Provide better government for the taxpayer's dollar.

In its study of the restructuring of state government, the six major objectives assigned to the Commission included:

- Examine the current structure of the executive branch of New Hampshire state government;
- Identify organizational weaknesses within state government that hamper efficiency, quality of service, and cost effectiveness;
- Review recent re-organizational activities occurring in states with demographic and economic conditions similar to those of New Hampshire;
- Develop recommendations and legislative proposals for reorganization and suggestions to implement needed changes;
- Assess the administrative efficiency, public accountability, and effectiveness of state government;
- Examine each executive agency, board, and commission with regard to 3 key areas: 1) the need for and mission of the agency, board, or commission; 2) public accountability and effectiveness of the agency, board, or commission; and, 3) the general administrative efficiency of each agency, board, or commission.

Further, the Commission was assigned the following methodology to help achieve its six objectives:

- First, the Commission shall review the current organization of New Hampshire state government, and shall also review recent reorganization activities in New Hampshire as well as those occurring in states with demographic and economic conditions similar to those of New Hampshire. The review shall include consideration of the recommendations of the 1982 Governor's Management Review; the 1991-1992 Task Force of New Hampshire State Government Operations; and the 1995-96 report of the commission to examine governmental reorganization, established in 1994. In addition, the study shall involve the collection and review of documents and descriptive information regarding the state government's present organizational structure and its budgetary, demographic, and economic conditions.
- Second, the Commission shall conduct a series of structured interviews with the persons in charge of major state departments to discuss the organization, management, operation, and control of state government programs and activities. These interviews may include discussions regarding the priorities of state programs, alternative service delivery mechanisms, and the identification of potential opportunities to streamline government operations and improve responsiveness.
- Third, the Commission shall conduct a series of structured interviews with various interested parties including representatives of business groups, employee groups, local governments, and others. These interviews may include discussions regarding the priorities of state programs, alternative service delivery mechanisms, and the identification of potential opportunities to streamline government operations and improve responsiveness.
- Fourth, the Commission shall present a preliminary list of issues and opportunities for restructuring state government organization in New Hampshire at a public hearing to be held no

later than July 1, 2003, and to allow the Commission to receive public comment regarding the purpose, objectives, scope, and conduct of this study.

- Fifth, the Commission shall hold at least two meetings with state employees to receive comments on general and specific issues and potential improvements relating to New Hampshire state government.

Commission Report "A Starting Point"

This report (paraphrasing Winston Churchill) marks the end of the beginning of what must become a focused, sustained effort to create nothing less than a cultural "sea change" in the way New Hampshire state government agencies operate.

These agencies are generally well regarded. Despite this, however, the Commission found an environment where a bonus system was significantly underutilized for almost two decades, where knowledgeable employees would only share their ideas with Commission members on the condition of anonymity, where capable workers were sometimes discouraged from their best efforts, where career advancement was seen as determined more by politics than merit, and where individuals within bureaucracies have become so unaccountable for a measurable work product that their contribution was not readily ascertainable.

The Commission understands the need for a base level of agency accountability to conform to state and Federal laws, but there needs to be less investment in process and regulations and more in performance and results. Management expert Peter Drucker wrote that most service institutions today are "over-administered, and suffer from a surplus of procedures, organization charts and "management techniques." What now has to be learned, is to manage institutions for performance. This may be the biggest and most important management task of government.

With the 2004 Session of the New Hampshire General Court about to begin its work, great opportunity exists for the State of New Hampshire to achieve meaningful change in state government operations. But it will require an entire team effort that brings together the Governor, Speaker of the House, President of the Senate, and state employees and officials from throughout New Hampshire.

SECTION II EXECUTIVE SUMMARY

The Commission to Assess the Operating Efficiency of State Government makes the following recommendations in its full report on improving the efficiency of New Hampshire state government operations. The GEC separates its recommendations into three sections: those for which the commission has completed various levels of research, makes specific action recommendations, and presents estimated costs and savings; those items which the GEC views as priorities for further study with potential for significant cost savings; and those activities and projects that are ongoing in other agencies or departments, which the GEC endorses and supports as important for improving efficiency and reducing the cost of government.

The GEC believes that the cost and savings estimates predicted as a result of its work will be achieved through fundamental change in how the State of New Hampshire conducts business in several key areas, and through a motivated and incentivized workforce. These significant shifts in how the state operates will result in reductions in expenditure of taxpayer funds and improved quality and quantity of services provided to the citizens of New Hampshire.

QUANTIFIED RECOMMENDATIONS

A. Personnel

The GEC makes the following recommendations for changes to the structure and function of the Division of Personnel.

1. Implementation of a centralized hub and spokes human resource management structure.
2. Implementation of a regular and frequent reporting system through the centralized hub and spokes structure whereby Personnel staff can share information and receive guidance and instruction.
3. Establishment of a centralized training budget to be administered by the Division of Personnel. Current general fund training budgets will be consolidated under the Division of Personnel, and the division shall have a discretionary budget for additional training needs.
4. Implementation of a workforce development system by the Division of Personnel to administer and monitor a structured performance appraisal process at the agency level.
5. Reduction of general fund gross payroll and related benefits by 5% of the FY04 budget through normally occurring attrition and retirements.
6. That all state employees utilizing the state health care coverage pay 10% of the premium for their respective coverage/plan.
7. Elimination of bumping rights for classified employees.

8. Implementation of a new budget-based efficiency incentive program.
9. Active promotion and utilization of an individual/group incentive program for exceptional cost reduction efforts.

   Savings in year one: ***$32,540,000***

   Savings over five years: ***$162,702,000***

B. Business Services

The GEC makes the following endorsements and recommendations for efficiency improvements in the area of business services provision.

1. The GEC endorses the development and implementation of the Department of Administrative Services led Enterprise Resource Planning (ERP) program. Many accounting, payroll, and accounts payable functions should be centralized as the new ERP computer system is implemented.
   - The data entry functions should remain in the agencies.
   - Data processing and report functions should be centralized into the Department of Administrative Services (DAS).
2. The GEC recommends that the Bureau of Graphic Services be used as a marketplace pilot program.
3. The DAS should look to other services where competition can be used to cut costs and increase customer service levels.

   Savings in year one: ***$596,000***

   Savings over five years: ***$2,978,000***

C. Fleet

The GEC makes the following recommendations for improving fleet management in the State of New Hampshire.

1. Implement a comprehensive, agency-wide fleet management software system.
2. Research, design and implement a vehicle-share program.

   Savings over year one: ***$663,000***

   Savings over five years: ***$3,793,000***

D. Facilities

The GEC makes the following recommendations to improve facilities management in New Hampshire.

1. Design and establish a centralized facilities management system that can audit, plan, inventory, manage and maintain the state's facilities.
2. Establish and enforce space utilization criteria to be applied across all agencies by the Division of Property and Plant Management (DPPM.)

3. Authorize the DPPM to manage all lease operations for the state.
4. Staff the DPPM with professionals equipped to negotiate lease contracts, strategically plan for space utilization for the state, etc.
5. Allocate resources to the DPPM sufficient to enable it to achieve these goals.
6. Identify and implement an information technology tool to facilitate the operation of the centralized DPPM.
7. Update the assessment of all state properties. Building assessments should be based on replacement costs and land at fair market value. This will facilitate decisions regarding disposal, upgrading, and highest and best use.
8. Utilize auditors/assessors for this purpose from other agencies as possible or hire contractors for a one-time cost.
9. Periodically establish an advisory board to direct state planning for its future needs and to determine the disposal of land and property deemed unnecessary to the state.

   Savings over one year: $2,391,000

   Savings over five years: $12,345,000

E. Contracting and Purchasing

The GEC makes the following recommendations to improve the New Hampshire procurement process.

1. Expand and enhance the services of the Bureau of Purchase and Property (BPP) to provide not only hard goods procurement, but also protocols, standards and guidance on contract and service procurement.
2. Implement a best value procurement system.
3. Establish a Request for Proposal (RFP) process to be implemented and enforced statewide that includes:
   - How to write bid specifications
   - How to set up the evaluation process, and
   - How to provide an open review of the evaluation process for bidders.
4. Establish a temporary procurement commission to guide change in the New Hampshire procurement system.
5. Invite the National Association of state Procurement Officers (NASPO) to implement its “states helping states” program to review the procurement system in New Hampshire and help to direct the change plan.
6. Ensure that the BPP has sufficient staff and resources to meet its expanded needs.
7. Implement a centralized procurement website where it is required that all RFPs be posted.
8. Require that RFPs and the associated bid history remain on the website for two years after the bid has been awarded.

9. Limit newspaper notification of RFPs to direct readers to the central website or to call the BPP office for details.
10. Review and revise the purchasing dollar limit structure.
11. Implement and encourage the use of a state purchasing card.
12. Increase cooperative purchasing where appropriate.

Savings in year one: ***$13,051,000***

Savings over five years: ***$65,352,000***

F. Boards and Commissions

The GEC makes the following recommendations regarding consolidation of boards and commissions.

1. Consolidate the office space and administrative functions of the smaller licensing Boards within the Department of Health & Human Services.
2. Use the experience of the Department of Health & Human Services process as a model to proceed with consolidating Boards within other New Hampshire Executive branch departments.

Savings in year one: ***$519,000***

Savings over five years: ***$2,595,000***

G. Corrections

The GEC makes the following recommendations to increase efficiency in the Department of Corrections.

1. That the state outsource the management and operation of the entire prison system.
2. That the state supplement the management and operation of the probation and parole functions.

Savings in year one: ***$18,954,000***

Savings over five years: ***$94,769,000***

H. Allow the Liquor Commission to Operate With Greater Independent Authority

The GEC makes the following recommendations for improving the profitability of the Liquor Commission.

1. Allow the Liquor Commission to operate with greater independent authority as an Enterprise Fund of the state.
2. Immediately investigate the feasibility of building a new liquor store on Route 93 in Salem.
3. Conduct an analysis to determine the viability of existing stores and the need for more locations.
4. Determine the best system for warehousing state liquor.

Additional revenue in year one: ***$6,000,000***

Additional revenue over five years:$45,000,000

I. Close the State Nursery

1. The GEC recommends closing the nursery.
2. The GEC recommends that the 888 acres currently operated by the state nursery be brought before the facilities divestiture board established in the facilities management section of this report.
3. The GEC further recommends that the board determine that any non-market services currently provided by the nursery that are deemed necessary to the state be undertaken by another state body such as the University of New Hampshire.

Savings in year one: ***$142,000***

Savings over five years: ***$708,000***

J. Study the Alternatives to Fire Towers

1. The GEC recommends further study of the cost effectiveness of the towers and of any available alternatives.
2. The GEC recommends that further study include a consideration of satellite technology and of the recommendations of the National Forest Service related to the use of fire towers.

Savings in year one: ***$234,000***

Savings over five years: ***$1,168,000***

K. Allow the Sweepstakes Commission to Operate With Greater Independent Authority

The GEC recommends that the lottery be reorganized to operate with greater independent authority as an independent business enterprise unit of state government, not limited by the state bureaucracy, building in some of the following.

1. Incentives.
2. More effective advertising purchases.
3. More efficient delivery system of materials.
4. Evaluation of employee productivity.
5. Separate bingo from the Lottery Commission.

Further study needs to be carried out before the GEC will be able to recommend corrective action to the Legislature.

Additional revenue in year one: ***$3,450,000***

Additional revenue over five years: ***$25,875,000***

SUPPORT AND ENDORSEMENT

The GEC supports and endorses ongoing efficiency improvements currently underway in the Department of Health and Human Services, the Office of Information Technology, the Office of the Attorney General and efforts that are underway to address administrative rulemaking inefficiencies. The GEC believes that these improvement efforts will achieve significant efficiencies and cost savings in the state and should be supported to completion and implementation.

New Hampshire Department of Health and Human Services

The New Hampshire Department of Health and Human Services is the largest state agency with a fiscal 2004 budget of $1.7 billion dollars, 3605 employees and 14 divisions. Its domain ranges from infants to the elderly, providing a broad range of social and health-related services.

The GEC and management of DHHS agree that there should be a continual focus on cost reduction and revenue maximization targeting cost reduction (excluding payroll) at the beginning of each fiscal year. Payroll is excluded, because it might be appropriate to add personnel to attain a much more significant cost reduction and insure the efficiency and effectiveness of programs, while still serving the citizens of New Hampshire.

The GEC endorses and supports the current efforts by DHHS in reducing costs and improving efficiencies.

Office of Information Technology

The GEC supports the concept of consolidation of the state government's information technology (IT) resources including systems procurement and administration. The effort should increase the state's use of information technology and will ultimately improve employee efficiency, employee productivity, reduce operating costs and improve internal and external service levels. The GEC strongly recommends that the OIT consistently report its progress to the legislative oversight committee.

Office of the Attorney General to Consolidate Legal Functions

By request of the New Hampshire Office of Attorney General, the National Association of Attorneys General has reviewed the operations of the New Hampshire office and made several recommendations which the office is currently implementing. In addition, the office is conducting its own internal and inter-departmental analysis regarding the delivery of legal services within and by the state. The office believes there are several potential benefits to be gained from centralization and consolidation of legal function and services within the state. These benefits include:

1. Hiring and retention of better-qualified legal professionals.

2. Standardized expectations from and management of legal staff.
3. Improved accountability, supervision, internal training.
4. Better and consistent advice provided to state offices, staff and officials.
5. Reduction of law suits resulting from poor or inconsistent legal advice from and across the state.

Time and resource constraints on the office will result in gradual completion of the assessment, recommendation and implementation of these efforts. The GEC endorses these efforts and would support their continuation and legislation needed to implement its recommendations.

Address Administrative Rulemaking Inefficiencies

The House Committee on Legislative Administration considered problems with rulemaking at about the same time that the GEC was considering them. The resulting HB 230, a bill approved by that House Committee, would, if enacted, address the need for a quick way to repeal adopted rules and also make two other helpful amendments to RSA 541-A. It also would establish a study committee to attend in more detail to rulemaking problems and their solution.

The rulemaking problems to be considered by the study committee include many, but not all, of the issues presented by agencies to the GEC. The two most important issues not specifically assigned to the study committee are mentioned above. Additional important issues which the GEC recommends be assigned to the study committee are:

1. The possibility of holding the various required voting meetings of groups with rulemaking authority by teleconferencing, so long as there exists a site enabling public participation in the teleconference.
2. The possibility of faxing and e-mailing the required rulemaking notice to municipalities and licensees and the possibility of shortening the content of these notices as well as of newspaper-published notice to: name of agency; summary of proposed rule; agency contact person (including name, phone and fax numbers and e-address) for copy of the proposed rule and accommodation to disability; date, time and place of public comment hearing and last day to submit written comment on proposed rule.
3. The possibility of stapling forms to the proposed rules which refer to them, rather than being required to describe forms in rules text.
4. The possibility of omitting the voting meeting of a group with rulemaking authority now required to adopt an approved rule; the same group will have already approved the rule by a vote.
5. The possibility of making less stringent the definition of "emergency" for the purpose of emergency rulemaking.

INITIATIVES FOR FURTHER STUDY

Effective Implementation of Legislative Budget Assistant Audit Recommendations

Currently the Office of the Legislative Budget Assistant (LBA) is tasked with audit and oversight of New Hampshire state agencies and practices. The LBA has, however, no mechanism or ability to enforce its recommendations. The GEC recommends that further study of various enforcement mechanisms for the LBA be undertaken. One such mechanism would be to task an independent commission comprised of appointees from the Office of the Governor, and from the House and the Senate with study of potential enforcement mechanisms. The commission or other entity charged with study of the LBA enforcement issue should explore appropriate sanctions that could be imposed on department heads, commissioners or others who fail to implement LBA recommended reforms. The study entity must also consider a means for adjudicating disagreements between the LBA recommendations and the views of the agency under review.

Consolidation of the College for Lifelong Learning into the New Hampshire Community Technical College System

The GEC recommends:

1. That the New Hampshire College for Lifelong Learning (currently part of the University System of New Hampshire) be consolidated into the New Hampshire Community Technical College System by September 2005, pending a thorough, independent analysis.
2. That the analysis be concluded by no later than March 31, 2004.
3. That a pilot project be conducted. This project will demonstrate opportunities for enhanced, coordinated programs, strengthened accessibility, cost savings and resource efficiencies by bringing together the program offerings of the New Hampshire College for Lifelong Learning and the New Hampshire Community Technical College System in a specific geographic/service region to be determined.

The GEC further recommends that the New Hampshire Community Technical College System revert to its previous governance model of one president per campus. A few years ago, the System consolidated management of six colleges from six presidents down to three (excluding the New Hampshire Technical Institute). It is questionable whether this has achieved cost savings. In addition, it has created a system that is difficult and cumbersome to manage.

The New Hampshire Community Technical College System also should conduct an assessment of the highest and best use of its current facilities including site analysis, planning and redesign with regard to its future mission.

A Revised Ethics Framework to Govern the Work of NH State Government

The GEC recommends:

1. That the current framework for ethical decision-making by employees and officials of the Legislature and Executive branches be reviewed and revised, where necessary, to ensure that appropriate rules and guidelines are in place to direct ethical decision making by elected and appointed officials and employees serving the State of New Hampshire.
2. That an overarching "Code of Conduct" be designed and implemented to provide the vision and rationale for employees and officials to act with the highest ethical standards and integrity.
3. That an action plan be designed and implemented – one through which employees and officials of state government become better educated and trained regarding the requirements of the state's Code of Conduct and associated ethics rules and guidelines. Such a plan would require employees and officials to annually review and acknowledge the requirements of the state's Code of Conduct. This requirement should be extended to citizens appointed to serve on the full array of state boards and commissions.
4. That this review be undertaken by the ongoing GEC and be completed by March 2004.

Examine the Economic Impact of Establishing English as the Official Language of the State

The State of New Hampshire has no official language for conducting business with the state. The GEC recommends study of the economic impact of establishing English as the official language of the state. Other states have seen that not having an official language can result in loss of lawsuits prosecuted on behalf of the state. Further, should the state not declare an official language, it will be forced to produce and store official forms, signage, etc. in an increasing number of languages at an ever-expanding cost to the state. Twenty-three states, including California, Florida and Colorado, have established English as their official state language.

QUANTIFICATION OF EFFICIENCIES AND SAVINGS

Initiative	One Time Savings (Cost) Estimate	One Year Savings (Cost) Estimate	Five Year Savings (Cost) Estimate *
Personnel			
5% reduction in FY04 budget		$ 13,840,563	$ 69,202,816
Associated benefits at 37%		5,121,008	25,605,042
Health care cost sharing, 10% all employees		11,973,581	59,867,904
Reduced employee turnover		1,705,186	8,525,930
Training budget		(100,000)	(500,000)
Procurement - hard goods & services			
5% reduction in FY02 estimate		13,132,360	65,661,800
Staffing		(56,136)	(280,680)
General training	$ (9,000)	(1,000)	(5,000)
NASPO training	(15,000)	-	-
Facilities			
Lower lease rates		754,089	3,770,445
Centralized space allocation		1,250,567	6,252,835
Elimination of leased storage space		43,523	217,615
Lease preparation		93,160	465,800
Improved preventive maintenance		357,077	1,785,385
Software	(97,000)	(10,000)	(50,000)
Fleet			
Reduction in fleet acquisition cost		656,395	3,281,975
Maintenance savings		136,159	680,795
Maximus software	(120,000)	(10,000)	(50,000)
Corrections - Outsource Entire System			
Outsource entire system		10,074,438	50,372,190
Supplement parole and probation		8,879,408	44,397,040
Sweepstakes Commission - Enterprise Fund			
10% increase in FY04 net profit		3,450,000	25,875,000
Liquor Commission			
5% increase in FY04 net profit moving to 10% increase over 5 years		6,000,000	45,000,000
Board Consolidation			
Centralize admin. functions, HHS		519,000	2,595,000
Fire Towers			
Eliminate		233,505	1,167,525
State Nursery			
Close		141,656	708,280
Business Services			
Consolidate accounting, payables, payroll		595,590	2,977,950
Total	$ (241,000)	$ 78,780,129	$ 417,525,646

Twelve month cash flow improvement	**$ 78,539,129**
Five year cash flow improvement	**$ 417,284,646**

*Savings estimates do not incorporate inflation or volume changes.

Recommendations and Rationale for an Ongoing Commission

The Commission believes that the state will access additional value by extending the life of the Commission. Under present legislation, the Commission will terminate operations on December 1, 2003 upon submission of its Final Report. The rationale for extending the Commission is to: advance the recommendations contained in this report so that cost savings and efficiencies are achieved; coordinate and implement action plans with legislative leaders; identify new initiatives that should be assessed; and serve as an independent resource to the Office of the Governor, legislative leaders and to commissioners and department heads. Because of the magnitude of the recommendations contained in the Final Report and the value to the state of having a volunteer commission overseeing the implementation and direction of these proposed recommendations, the GEC recommends the following.

1. Extend the life of the Commission to December 1, 2004.
2. Have an equal number of members appointed by the Governor, Speaker of the House and Senate President.
3. Provide staff resources and budgetary support to the Commission by the Legislative Budget Assistant Office, or other state agencies as may be appropriate.

Acknowledgements

The GEC wishes to thank those that assisted in the preparation, research, writing and coordination of this Final Report. Specifically, the Office of the Governor and members of the executive branch including agency commissioners and management; the leadership of the New Hampshire Senate and House of Representatives; Rebecca Moryl of the Beacon Hill Institute for Public Policy Research at Suffolk University; The Institute for Community, Business and the New Hampshire Economy at the Business and Industry Association of New Hampshire (BIA); Alyssa Pockell, Legislative Assistant, Finance; Patrick Brennick of the Whittemore School of Business and Economics, University of New Hampshire; Paul Stokes, president of the local Service Employees International Union; and state employees who provided valuable insights and contributions.

We also want to thank those who provided financial underwriting contributions to support the Commission's work. This includes: Benson Committee, NH Charitable Foundation, Verizon Foundation, Holloway Automotive Group, Citizens Bank, Bank North Charitable Foundation, Fleet Bank, Public Service of New Hampshire, State Street Discount, High Point Communications Group, Inc., R.E. PINARD & CO., INC. and the Barker Foundation.

We give special thanks to the late Governor Hugh Gregg who inspired this overall effort.

Section III The Current Commission

The 2003 Commission to Assess the Operating Efficiency of State Government has spent considerable time reviewing and discussing both the 1982 and 1992 reports. Despite the very different approaches taken, much common ground was identified through a number of the recommendations presented. *However, the majority of the recommendations presented have yet to be implemented* – a fact that has not escaped the attention of the Commission. As a result, the challenge of converting "efficiency and effectiveness" recommendations into tangible implementation/action has become a major driver for the Commission.

The Commission is comprised largely of individuals with backgrounds in business. Four elected officials serve on the Commission. Some members of the Commission have worked in state government and others have been vendors to the State of New Hampshire.

The GEC first met on April 22, 2003 at which time it elected Michael Hickey, President, Verizon-NH, as chair. At subsequent meetings Laura Monica, President, High Point Communications Group, Raymond Pinard, President, R.E. PINARD & CO., INC. and Gary Levy, President of State Street Discount were elected vice-chairs.

The Commission has actively reached out to a number of government and agency officials throughout its work. Many representatives of agencies/divisions of the state were interviewed by members of the Commission. In addition, SEA President Paul Stokes has also been interviewed and meetings were held with state employees.

In a quest for balance, care has been taken in assigning Commission members representing the Governor, House and Senate to the work groups that have been formed as outlined in Attachment III. It will be essential to retain this balance to ensure the support necessary to drive the political decisions required to implement the Commission's recommendations. The eventual success (or failure) of the Commission will depend largely on the proactive participation and buy-in of House and Senate leaders and agency heads.

SECTION IV COMPLETED INITIATIVES AND RECOMMENDATIONS

A. PERSONNEL

Section I. Outlining the Concerns, the Challenge and the Lessons
Personnel Challenges in the 21st Century

Human resources management touches the core of civil service in government and has profound impact on the entire executive branch structure. The Government Efficiency Committee has identified a number of areas in which there are inconsistencies in the processes and communication of personnel functions across state agencies. These areas include the interpretation and implementation of rules; the hiring, promotion, discipline, and training of employees; and the most important feature of human resources management, implementation of employee development. The GEC has identified problems resulting from these inconsistencies including low employee morale, inequitable opportunities for employee training and advancement across agencies, excessive and repetitive grievances filed on similar issues, and short tenure and high turnover for newly hired state employees.

The origin of these problems is essentially two-fold. Under the current personnel structure, personnel departments within state agencies are, in effect, left to devise their own solutions with inconsistent and inadequate direction, communication, and support from the Division of Personnel. Furthermore, the personnel employees within state agencies lack a continuous training and skills enhancement program, leaving them under-prepared to serve their customers (employees and managers) in the most effective manner.

According to the State of New Hampshire Bureau of Education and Training "Training Opportunities" catalogue, there is no dedicated training program for human resources personnel as there is for public managers and supervisors. In light of these factors, the personnel professionals have been doing an adequate job, but the future challenges will require a better system.

According to the Division of Personnel Annual Report for 2002, 32 percent of the full-time permanent employees of New Hampshire's executive branch are over 50 years of age and face retirement within the next 15 years, and 15 percent are over 56 years of age and will retire in the next ten or so years. In 2001, retirement represented 21 percent of all separations; current demographics of the New Hampshire state workforce indicate that this figure is likely to grow in the coming years. This aging workforce trend is the beginning of the baby boom retirement wave and will put an enormous stress on the personnel system of New Hampshire state government. Increasing retirements will mean the state loses the skills and experience, especially in positions of leadership, of these retirees. New Hampshire does not face this impending retirement wave alone; all other levels of government and the private sector will be competing to replace these departing employees.

The 2002 annual report also cites a turnover rate of 10.96 percent of all 12,196 full-time permanent and temporary positions in the state. This is certainly a respectable turnover rate and has remained steady over the past ten years with no spikes or dips since 1992, according to the report. While the annual report does not break down employee separations by demographics, we can infer from the list of positions with the highest turnover rates that turnover is generally concentrated in the younger demographic groups. This is a normal situation for most organizations, as younger workers tend to move more quickly in search of opportunities and a career track.

Higher turnover in the younger demographic groups will exacerbate the loss from the pending retirement of the "baby boomers." The state must be able to attract and retain a new batch of talent and train future leaders to step in and fill those positions.

How can the State of New Hampshire recruit and retain these young, talented, technologically skilled, and ambitious workers? New Hampshire can learn from the structures and programs that other forward-thinking states have already put in place to plan for the future. The Government Performance Project (GPP), a partnership between the Maxwell School of Citizenship and Public Affairs at Syracuse University and *Governing* magazine, has a goal to evaluate the management systems of local and state governments. According to their 2000 report, the key process for meeting future human resource needs is workforce planning. Workforce planning is a strategy and set of procedures for assessing an organization's future human resource needs and the availability of the human resources department to meet their objectives. Workforce planning has been also described as an effort to achieve the "the right number of people with the right skills, experiences, and competencies at the right time." According to the 2000 report, 70 percent of states conduct either formal or informal workforce planning. While it is understood that employment levels are subject to budgetary approval, workforce planning can be a vital tool in meeting the human resource needs of New Hampshire.

A Hub and Spokes System of Centralization

Constructive workforce planning depends on the personnel department resting on a sound foundation. The GEC has found weaknesses in the current structure of the personnel department. The root of these weaknesses lies in lack of control and communication among physically and structurally fragmented personnel staff. The human resources management system in New Hampshire needs to correct the current problems in order to move toward addressing its future challenges.

Creating a new structure of human resources management can solve the current problems. The initial goals of the new structure are to eliminate the problems associated with a fragmented human resources system and to increase the effectiveness of human resources services delivery to both employees and managers.

The GEC recommends what we will term a "centralized hub and spokes" structure that is a centralized model for New Hampshire's Division of Personnel, with a focus on communications. The centralized model offers standardization, stability, and predictability and attempts to avoid the pitfalls of fragmented systems. Responsibility and authority for human resources management are determined by a central office and implemented by the agencies. Strategic responsibilities, design, and broad governmental concerns have a central focus, while mission-specific strategies and implementation have an agency focus.

The present structure of New Hampshire's Division of Personnel is very close to achieving this system, but lacks some critical elements: central control and enforcement, communication, information flow mechanisms and management support. Implementation of a true centralized hub and spokes model will facilitate the flow of information between the Division of Personnel (the hub) and the state agencies (the spokes). This free flow of information and centralized decision making and management support will work to eliminate the inconsistencies present in the current insufficiently supported or informed system.

The new structure will be similar to the recent reorganization of the Office of Information Technology. The personnel employees currently housed within the agencies (the spokes) will report directly to the Administrative Services Division of Personnel. The spokes will share regular and consistent communication with the Division of Personnel. Most of the personnel staff will remain physically located at the agencies where they are needed to sustain the close connection to the individual agencies. These spokes provide the eyes and ears of Personnel at the agencies as well as a dedicated resource for the agencies to consult regarding personnel matters. Keeping personnel staff in the agencies where they are needed also creates little disruption from the current system and retains some flexibility for any future changes in the system.

The hub of this structure, the Division of Personnel, will determine standards for the state on hiring, firing, promoting, annual reviews, etc., and will be charged with enforcing these standards through regular communication with the individual agencies through the spokes. The personnel spokes will report current concerns, ideas, and information to the Division of Personnel, the hub of this structure. The Division will work to identify trends, common concerns, new methods, processes, and ideas that work and share this information among the spokes. The hub will use this information to ensure that rules are being interpreted consistently and fairly across all agencies and departments. The spokes will be responsible for the consistent implementation of the standards set by the hub. In the initial stages of implementation, as detailed in Section II of this report, the hub, in concert with the change leadership team, will determine the best system of reporting for efficient communication with the spokes.

While responsibility for ensuring uniform application of state policies and procedures across the state lies with the Division of Personnel, the agencies themselves retain full control over hiring decisions. Agency commissioners retain full autonomy in defining their needs and in evaluating prospective staff. The Division of Personnel will support the agency in these activities.

The Division of Personnel can also function as a central clearinghouse for management ideas born in the agencies. If one agency develops a creative way to motivate its employees, that idea can be shared and implemented among the other spokes via the hub and its new communications structures. If a similar concern or grievance repeatedly arises in the state, the hub will recognize this and share the remedy or resolution with all the spokes, ensuring consistency of implementation across the state. The hub will be able to flag repetitive issues avoiding needless conflict and clarifying issues for all employees. In short, the free flow of information will allow for more consistency and transparency of the rules and procedures across all agencies, avoiding conflicts and future issues before they surface in other agencies, and thus improving employee morale.

Thus, under the centralized hub and spokes system, the Division of Personnel will oversee and direct the systematic implementation of rules, procedures, reviews, and raises across departments. Departments themselves will retain the application of the decisions and standards made within the Division of Personnel over these personnel issues directly affecting their staff. The departments will have personnel staff to guide, advise, and see that the procedures and processes are implemented in the appropriate and timely fashion defined by the Division of Personnel.

Another benefit of the greater consistency and transparency of the centralized hub and spokes structure is that the number of grievances should be reduced through consistent application of the rules and procedures across the agencies. Open communication across agencies will inform personnel staff of issues that are encountered in other agencies. The hub, functioning as an information and communication center, a sort of "central nervous system" for the division will actively share relevant information.

The staff in the personnel spokes will be required to work with the employees and managers to create a solution before the grievance is filed by utilizing the information from the center based on past rulings to solve the issue. The Division of Personnel should construct and maintain a central database of all grievances and personnel appeals. Early in the process, the hub can identify similar cases using the database and offer the information back to the agency so that a solution can be reached. This would reduce the time and steps involved in the process. In no way would the employee be obligated to accept the decision of the previous case. Nor would they be prevented from pursuing the full process under law. The intent of the prior decision information-sharing process is to try and reduce any excessive time and expense of the process, not to undermine employees rights to due process.

In the state of Washington an academy has been set up to give managers and supervisors guidance in difficult personnel issues. Officials believe it has contributed to a 37 percent decline in new employment-related grievance claims. With estimates of grievance costs by the state of Wisconsin of $5,000 and $6,000 each, New Hampshire can expect to realize substantial savings in terms of time, money, and employee-manager acrimony from reducing the number of grievances by implementing such tracking and information-sharing systems.

Also the Division of Personnel will increase its role as an information resource to the Personnel staff and managers in the field. The state of Texas proposed a similar approach by setting up an agency human resources center. The proposal for the center cited a 1991 study by Don Jaegal that found inconsistent personnel policies lead to increased lawsuits in the public sector.[1] The information exchange and communications process established and run by the hub will help to eliminate some of the inconsistencies in administering rules between the agencies and repetitive grievances and potential lawsuits.

To ensure that the New Hampshire initiative is successful by improving the sharing of information, implementation of the centralized hub and spokes system must incorporate a structure for communication. A regular reporting system should be adopted whereby the agency personnel directors *regularly and frequently* (e.g., weekly or biweekly) submit information to the hub (Division of Personnel) pertaining to employee promotions, rules issues, employee issues, hiring, terminations, and open positions, etc. The Division of Personnel will be able to compile and analyze the information and deliver it back to all agencies *regularly and frequently* in a form that identifies trends, grievance decisions, issues with rules, and employee issues and their resolutions.

This reporting system can be implemented in a variety of ways: via in-person meetings, telephone conference calls, frequent newsletters shared amongst the spokes, weekly memos, etc. In order to ensure the success of the transition to this new structure, we recommend that in-person meetings be implemented for the initial phase of transition. Meeting in-person frequently to share ideas and concerns, both about personnel issues and about the functioning of the new system, will establish the important strong foundation that the hub and spokes system requires. The strength of renewed sharing of information will

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[1] Don Jaegal, "Public Personnel Administration by Lawsuit: The Impact of Supreme Court Decisions on Public Employee Litigiousness," Public Administration Review (May/June 1991), p.219.

make this system a success. The establishment of regular and frequent communications in both directions is critical at the outset of this structural shift.

A process for changing the structure of human resources management is outlined herein. As noted earlier, this centralized approach has been taken by the Office of Information Technology and a great deal can be learned from their experience and advice. The benefits of a more centralized structure include economies of scale that can free scarce resources for deployment within the Division of Personnel or elsewhere as needed. Some of these resources can be used to implement a workforce development plan for the future personnel needs of the state. The hub and spokes structure will also retain the flexibility to allow for different levels of centralization to be easily implemented in the future as needs require.

Training and Education

Shifting the structure of the personnel system will require staff to perform new and expanded duties. They must be provided with the training and support necessary to achieve these new challenges successfully. The availability of resources for employee training is another area of concern for the GEC. The GEC has concerns regarding the provision of adequate and appropriate training for state employees as a whole and the availability of training resources across the agencies and commissions.

Training

According to the Department of Administrative Services *Object Analysis Report*, the State of New Hampshire spent $2.3 million on employee training in fiscal year 2003.[2] This figure includes in-house training, tuition reimbursement, employee development training, and information technology development and training. Although no published figure regarding per employee training expenditures was provided, according to the Division of Personnel Annual Report, we estimate a $206 per employee training expenditure based on the published $2.3 million figure.[3]

A direct comparison of spending per employee on training to other states is difficult because, as noted by the Government Performance Project (GPP), twenty-two states are unable to estimate their per employee training expenditure. However, of those states that provided an estimate, the range of spending for employee per year was from $30 in New Mexico to $1,000 in Minnesota; and on management training the range was from $67 in Iowa to $1,650 in Virginia based on 1999 figures. While the GPP does not provide mean or median statistics, it appears that New Hampshire is at the lower half of the scale.

2 Supplied by Peter Yao, Office of the Governor, September 30, 2003.
3 The State of New Hampshire had 11,324 employees in 2002. $2.3 million/11,324 employees = $206 per employee.

Training of managers and supervisors is also a critical step to the success of the centralized hub and spokes structure and to implementation of important employee development plans. Managers cannot be expected to implement performance-based management successfully without the training and skills. The New Hampshire Bureau of Education and Training currently offers a Public Management Certificate Program for supervisors and managers. The program consists of 121 course hours at $400 for supervisors (level I) and 211 course hours for managers (level II) at $1,205. According to New Hampshire Division of Personnel 2002 Annual Report, 70 graduated from level I supervisors and 14 from managers level II. New classes started in Feb. 2002, 74 enrolled in level I, and 41 in level II. The programs appear to be a good start and include classes covering topics such as "Supervising Employee Performance" and "Excellence in Supervision." Follow-up training and progress updates are not mentioned in the program, but are essential for the success of supervisors and managers when they are perfecting the skills learned in the classroom. Follow-up helps to avoid the tendency for people to fall back into old habits. An assessment of the programs in comparison to the goal of performance management should be conducted along with an accounting of who has and has not attended. This will give a clear picture of the training needs for the implementation of a system of performance management.

Another area of concern brought to the GEC is that the training expenditures by the agencies vary widely depending on the source of the agencies funding. Those agencies that have access to funding outside the state budget, such as federal funds, spend significantly more on training than those agencies that depend only on the state budget for their funding. This situation provides employees in the "rich" agencies more opportunity for development through training than those in "poor" agencies. This inequality has resulted in acrimony across agencies and poses a barrier to the recruitment, retention, and development of employees in the "poor" agencies.

A solution to this inequity of training resources across agencies is to have a centralized training budget within the Division of Personnel. The budget would be managed by the Bureau of Education and Training within the Division of Personnel and would be funded directly by the Legislature. The appropriation should be done on a minimum per head basis using the head count for all executive branch agencies and commissions. The training budget would be used to reimburse agencies for training based on the number of employees in the agency. This system would allow for a minimum or floor for the training of all employees in all the agencies of the executive branch. This training budget would be directed to ensure that proper job specific training needs of staff as well as manager and supervisory training needs are met.

After the allocation from the Division of Personnel training budget has been spent by the agency, those agencies with the resources and needs could use their own budget to provide supplemental training as they see fit. While this system will not completely eliminate the inequity of training between the agencies it can ensure that a basic level is available to all state employees.

The Division of Personnel needs to also have a discretionary training budget to address unique needs of agencies from year to year. For example, if the United States Congress passes new environmental regulations, the Environmental Services Department workers may need training to get up to speed on these regulations. The discretionary budget would be used for one time, unusual or emergency needs.

In addition, each agency should continue to maintain their training budgets that are federally funded or mandated and for industry-specific (like bomb-squad) training. Agencies needing training should exhaust their funding sources first before dipping into the discretionary funds.

Education

Another area of weakness identified by the GEC is the lack of educational opportunities for state employees within the New Hampshire state education system. Currently, there is no formal college tuition reimbursement program for state employees, while it does have a program with a 50% discount for vocational and technical schools. New Hampshire should adopt a formal tuition reimbursement system for state employees that would allow them to grow their skills and increase their value to the state. The state should create a partnership with the University of New Hampshire system as it has with vocational technical schools to provide 50% tuition reimbursement for employees who attend classes there related to their work up to and including a masters degree.

The challenges lie in the analysis, implementation, and administration of such a centralized training program, and in arriving at an appropriate amount of resources for employee training. As the centralized hub and spokes system is implemented and refined over the next few years, the Division of Personnel should assess training resources. The training needs of all state employees will evolve as the extent, direction, and timing of the reform process in New Hampshire evolves. Moreover, any new initiatives, such as the realignment of the Division of Personnel described or the introduction of a workforce development system as described in this report, will certainly require training of those affected. Training needs, and thus expenditures, are likely to increase, but the amount of the increase will depend on the extent of the changes adopted.

Employee Development / Performance Management

The GEC has also identified inconsistencies in the delivery of employee performance appraisals. Employees in some agencies receive annual performance appraisals in a consistent and timely manner, while others experience infrequent and inconsistent performance appraisal delivery. One employee interviewed by the GEC indicated that he received a total of four performance appraisals in his nineteen-year career. According to the American Management Association, "Effective performance appraisals can spell the difference between success and failure for the individual and the organization." New Hampshire can ill afford to lapse in the delivery of performance appraisals, especially given the coming demographic crunch and subsequent need to attract and retain young, talented employees.

The new centralized hub and spokes structure will enable the Division of Personnel, through its staff within the agencies, to administer and monitor the performance appraisal process. The hub should work to implement annual performance reviews and development planning sessions across all agencies. Using its spokes, the hub can coordinate and enforce the structure and process of this critical management task.

To prevent the Division of Personnel from being overwhelmed by the process, annual reviews could be done on an anniversary of hire basis across agencies. This will prevent any agency of the Division of Personnel from being bogged-down in reviews during certain months of the year, by distributing reviews throughout the year according to an employee's date of hire. If agencies or the Division of Personnel encounter times of the year where there are an abundance of reviews to be performed, personnel staff could prepare in advance by encouraging the agencies to schedule some reviews in advance of this rush. Alternatively, in case of an unavoidable backlog of reviews, the Division of Personnel should establish a protocol for pro-rated raises based on tardy reviews.

One common critique of performance-based pay systems is that there is a large lag between the performance appraisal and the pay action associated with the appraisal. The lag tends to remove the connection between the performance and reward. To implement this rolling appraisal system some agencies would have reviews that are slightly less or more than one year apart. Keeping this in mind, it is important to make sure that any pay adjustments tied to the appraisals would also need to be moved up or back to avoid any increase in time lag between the performance appraisal delivery and the associated pay action. Pay adjustments moved back because of scheduling issues could be prorated to ensure annual pay raises where appropriate.

Employee reviews are only one piece of the employee development process. Successful employee recruitment and retention is not dependent solely on the Division of Personnel and the personnel departments within the agencies, but rather on collaboration between personnel and the managers and supervisors. While a centralized hub and spokes personnel structure can help administer the employee development process, it is ultimately the managers that deliver performance appraisals and development plans to the employees.

> The typical employee views a career development program as a path to upward mobility, the manager sees it as a retention and motivational tool and upper management views it as a tool for succession planning. From any angle, it is a win-win proposition. - Society for Human Resource Management. [4]

As this quote suggests, employee development programs are essential tools to successful human resource management. Employee development plans are a formal collaboration between an employee and their supervisor to set employee goals and specific actions to reach those goals. The goals must be measurable, attainable, and challenging and they can involve training opportunities, new skills acquisition, performance improvement, and career planning. Development plans are generally reviewed and updated at least quarterly, some organizations review and update them monthly. The development plans usually form a solid foundation for the employee performance appraisal, and under the proposed workforce development system (see below), appraisals will be a central goal of all managers and supervisors.

The adoption of the centralized hub and spokes structure will lay the groundwork for implementing a performance management system. The regular review of employee performance through development plans is a critical investment for the State of New Hampshire. By combining goal setting and tracking with putting employees on a path of growth for themselves within the state, and improved training opportunities, the state will attract and retain the talented and motivated employees it needs. This motivated state workforce will be more productive and innovative toward accomplishing the critical missions of the agencies. Therefore, the need to replace each retiring baby boomer with a new employee may not be as much of a challenge or as much of a need.

Advice from Other States

The implementation of performance management tools like development plans, consistent annual reviews, and a pay for performance system requires some significant initial investment in effort and resources. The process of change is not one that is welcomed by all and often is met with skepticism and fear. Many public organizations that have undertaken change have identified some keys to the successful implementation of reform.

The state of Washington has been on the leading edge of efficiency and provision of service improvements in multiple areas of state government, not the least of which has been human resource management. Some of the common themes echoed in a human resources study by the state of Washington include:

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[4] Society for Human Resource Management, quoted in "Kenexa Career Tracker^{TM} Employee Retention Solutions" brochure, p. 2 (http://www.kenexa.com/download/KCTBrochure.pdf)

- The need for political, managerial, and fiscal support;
- The need for inclusiveness and employee involvement;
- The importance of listening to customers' (employees', managers', HR staff) needs;
- The importance of maintaining communication;
- The importance of providing adequate training.[5]

When developing new systems the report makes the following recommendations.

- Be willing to pilot options;
- Break down the process into stages;
- Make mid-course corrections as needed;
- Structure systems around customers rather than processes or functions.

The U.S. government Office of Personnel Management offers nine steps for driving change efforts.[6]

1. Keep it simple;
2. Focus the change;
3. Define the problem;
4. Describe your vision;
5. Identify barriers to change;
6. Identify low-hanging fruit;
7. Write a communications plan;
8. Organize a specially selected change team to implement strategy;
9. Develop an action plan.

The Change Leadership Team detailed in this report should recognize and study all of these guidelines and suggestions in developing the details of the plan to be implemented in New Hampshire. As indicated above, mid-course corrections may be required that this report cannot see from its current vantage point. New Hampshire need not blaze a trail here, but can heed and learn from the guidance of those who came before.

Evidence from the States

The items stressed most often by other states and public organizations are communication, employee involvement and training. For example, Virginia advises other states to establish a communications

[5] Washington State Department of Personnel, *Washington Human Resources 2005: Building Human Resource Excellence for Tomorrow,* November 2002. p.109-114.
[6] Ibid. p.109-114.

group to screen information and assist in its presentation, to focus on the stakeholder and take care of the information needs of all parties in the reform process.[7]

South Carolina was able to accomplish a major personnel structure reform in a 15-month period. They accomplished this by involving the customer (the state employees) through focus groups and provided education on managing change in the workplace. Agency personnel offices were used in the communication strategy, with the central personnel office providing materials such as draft memos, press releases, information brochures, and a video on the reform efforts. The themes that increasingly come out of the GEC's findings are training and communication. These are the areas that will be the focus of the multi-stage process outlined in the next section of this report.

Section II. A Multi-stage Process

A Multi-Stage Process

Some states such as Georgia have taken a radical "blow it up" approach to civil service reform only to pull back from some of the reforms later. An incremental approach taken by states like Washington, South Carolina, and Wisconsin is suggested for New Hampshire. It is recommended that the process start with personnel, then move to the management teams, and lastly to the general population employees. This multi-stage approach will focus on solving the existing personnel issues through a more organized structure and better communications flow throughout the structure. By shoring up personnel first, that department will be able to act as a resource to the management teams in various agencies when they are going through the process of implementing annual reviews and development plans. It is critical that the personnel foundation structure be solid so that the spokes staff can support the critical changes taking place in the agencies.

Stage I. Inform and Communicate.

In the first stage of this process the mission is to inform key stakeholders of the changes to come, how they will affect them, and to share information, suggestions and concerns.

Stage I. Focus I. Establish a Change Leadership Team

Following the recommendations of the United States Office of Personnel Management a "change leadership team" (CLT) should be formed and charged with directing and overseeing the change process from stage one forward. This team should be made up of individuals who will be able to communicate with all the key stakeholders and who understand the vision of the centralized hub and spokes structure and of the workforce development system. The decisions and procedures developed by the CLT should

[7] Ibid. p. 109-110.

instruct the workings of the resulting strengthened hub. Therefore, individuals who will be instrumental in the increased and improved functioning of the hub should be included in the CLT.

The CLT team representatives should possess an excellent reputation and the clout necessary to shepherd change. They should be involved in the successful completion of steps (1) – (6) as outlined by the United States Office of Personnel Management (see preceding page). Washington State's version of the CLT implemented an interagency concept team comprised of managers, human resource professionals and union representatives. That interagency team was responsible for developing the initial design concept and specifying recommendations for each of the areas of reform. These teams have been able to keep employees informed of the reform process and currently on time for full implementation in 2005.

In addition to their initial change design team, Washington State created project leaders responsible for the implementation of different parts of the change effort. The Director of Labor Relations leads the team focused on reforming the collective bargaining process. The Deputy Director of the Department of Personnel leads the team focused on civil service reform. The Deputy Director of the Department of General Administration leads the team focused on competitive contracting. The Assistant Director of the Office of Financial Management is responsible for ensuring interagency coordination and support of all the efforts.

Stage I. Focus II. Develop Communication Goals and Mechanisms

The CLT should be made responsible for writing the communication and actions plans. In Stage One the communication plan must emphasize to all stakeholders:

1. What is happening;
2. How it will affect them; and
3. What they will be expected to do.

Clearly, communicating the change goals and objectives at each stage is critical to creating transparency, open communication and buy-in from all involved. Participants in the change need to feel that there will be no punishment for their cooperation in the process and that there will not be surprises. If employees feel mislead it will destroy the credibility of the project. Honesty and transparency are keys to upholding the credibility of the process in the eyes of the stakeholders.

The CLT should develop communication mechanisms it will employ to inform various levels of participants about the process throughout the stages of the change. These mechanisms can include memoranda, newsletters, meetings, etc. The CLT as a group should determine the best mechanism to establish honest, transparent change and communication about change.

In Stage I, this communication plan should be shared with all personnel staff and department leaders. In this stage not all questions about precisely what will happen, who will be affected and how will be yet answered or processes clearly developed, yet it is important that initial lines of communication be opened. The CLT should clearly define in Stage I communications:

1. The reasons behind and goals of the changes;
2. The vision of what the final product will look like and how it will function.

Stage I communications should also define the various stages of the process, anticipated timelines and indicate that key stakeholders will be kept abreast of information on these three critical areas as they are developed over the stages of the process.

Stage II. Assessment and Mechanisms

In Stage II of this process the mission is:

1. To assess the current status of staff, resources and structure in order to understand what changes need to be made to achieve a well-functioning centralized hub and spokes structure and to implement a workforce development system; and
2. To develop the mechanisms required to implement initial steps toward change.

Stage II. Focus I. Assess and Empower the Hub

The new centralized hub and spokes structure will require a strengthened and empowered hub. The director of the Division of Personnel must have the tools, authority and staff that will be needed to progress through the change and to manage a hub that will successfully function as the central nervous system of a centralized personnel department.

Assessments should be made of the current central personnel office to determine status and needs of:

1. Technological tools (databases, communications tools, data processing tools);
2. Staff (sufficient to effectively and efficiently communicate with and service the spokes that will be established);
3. Authority (rules and laws empowering the central personnel office to function as the envisioned hub must be established); and
4. Resources (funding and otherwise).

Needs should be documented by the Director and by the CLT and efforts made in the following stages to move toward satisfaction of those needs.

Stage II. Focus II: Assess Spoke Status and Needs

Before anyone can follow any kind of road map they need to know their current position. Thus a comprehensive assessment of the skills, knowledge and actual duties of all human resources employees of the executive branch should be completed. The assessment should include all duties that are currently being performed by the human resource staff members, regardless if they are included in their job descriptions or not. The information should be conducted in an open and transparent way with the intended goals and vision clearly stated, and employee input sought. The process must also be accomplished by emphasizing that there will be no punishment or retribution for employees' input and survey answers: the surveys need facts and not answers that the employees perceive as the "correct" responses. This will help to alleviate any fear employees might have of the process.

The job descriptions of the human resource personnel should be analyzed to make sure they fully reflect the goals and vision of the new personnel system and needed change identified. It must be noted that new duties may be identified that are not currently being completed but will be under the new structure, such as reporting issues and actions to the division of personnel. Those duties that are currently being completed by the employees that fall outside the job descriptions need to be identified.

Stage II. Focus III. Implement Communication Mechanisms

In this stage the communication plans and mechanisms developed by the CLT under Stage I should be implemented. Regular schedules of communications and forums for feedback should be established. The method at this early stage should be weighted toward personal contact, so not all communication should be by paper or e-mail. Again, the focus of communications should be on "what is happening and how it will affect you." The levels of communication regarding depth of information and priority should be: (I) the Personnel Department staff, (II) Department and agency heads, and (III) general employee population.

Stage II. Focus IV. Develop Tracking Mechanisms

One of the new responsibilities of the hub will be to track complaints, concerns and grievances in order to minimize the time spent in the grievance process. This stage is the time to develop and prepare the database or other mechanism that will be implemented to achieve this responsibility. It will be important to track these changes over time and to have a record of resolutions. Institutional memory stored in the minds of staff is not efficient or reliable in the long run. The hub team should work to develop a tool that will achieve their goal here.

Stage III. Train and Prepare

In Stage III of this process the mission is to prepare the groundwork for implementing change. This includes setting structures in place, training staff and communicating plans, feedback, and roles and responsibilities.

Stage III. Focus I. Construct Efficient and Effective Spokes

Using the information garnered from the assessments performed in Stage II, the CLT and Director of Personnel should now direct the implementation of changes identified as necessary to the structure of the spokes and to the responsibilities and roles of staff.

Using the vision of a centralized hub and spokes mechanism and the information gathered in Stage II, the CLT and the key staff in the hub should sketch out the structure they envision for the spokes. Key issues to address include, but are not limited to:

- Which agencies need staff in-house?
- How many staff do they need?
- How will communication between multiple staff at an agency and the hub be streamlined?
- What tools will the spokes need?
- What are the skills and knowledge requirements for the positions in the spokes in light of our goals and vision of the final structure?

Once the structural design, job descriptions, knowledge and skills requirements are deemed satisfactory, they need to be compared with the actual duties, skills, and knowledge of the human resources employees as ascertained in Stage II. Any skills and knowledge gaps between the new job descriptions and current employees need to be identified. These gaps need to be addressed through training and skills practice; in short, the personnel people need to be prepared for their new role.

For duties currently performed by personnel staff that fall outside the newly envisioned job descriptions, those duties must be either reassigned, deemed unnecessary and no longer completed, or identified for automation under the new ERP system.

Once the job duties, skills and knowledge are aligned with job descriptions that reflect the goals and vision, the new centralized hub and spokes structure can be implemented with a high probability of success. By starting reform with the human resources employees, they can act as resources for the supervisors and managers within their departments and become catalysts and proponents for change.

Stage III. Focus II. Clarify and Communicate New Roles, Place Spokes, Train

Decisions, job descriptions and roles defined in Focus I by the CLT and the Director must be clearly communicated to personnel staff. Information must be shared about what changes are being made to responsibilities and requirements, what will be expected of Personnel staff and how the hub and the CLT will aid in their transition. Again, communication, transparency and honesty are critical at all stages of this process. At this point, in addition to answering "What will happen?" and "How will it affect me?" the CLT and Director should be addressing issues including, "What am I expected to do?" and "How will this affect our department/agency?" Communication should not flow in only one direction; a forum for feedback should be established.

Staff and positions should be shifted/reconfigured or eliminated as the spokes vision requires. Individuals not able to perform the new responsibilities should be relocated where they will be a better fit. Personnel staff positioned in the spokes should be made aware of their upcoming responsibility to implement the workforce development system.

Staff training needs resulting from new expectations around roles and responsibilities will have been identified in Focus I. At this point in the change process, it is important to offer support to staff who is being required to perform new duties and take on new roles. Training as required should be provided to the personnel staff. Where possible, hub staff should perform training to increase the cooperative and supporting structures of the new centralized hub and spokes system. Mechanisms should be established for personnel staff to identify training needs. The CLT and director should communicate efforts being made to establish training programs, even if they may be in the future. Personnel staff must feel supported in this change, that they will be assisted in accomplishing their new responsibilities and in excelling in their new roles.

Stage III. Focus III. Develop the Workforce Development Plan

In preparation for moving the change to the next level by employing the centralized hub and spokes structure, the Director of Personnel and the hub should work with the staff in the spokes. All parties need to understand the goals of the workforce development plan to create a system for its implementation and use. Issues discussed above concerning distributing reviews across the year, prorated pay as necessary and issues of training managers for this task should be discussed. Mechanisms (handbooks, review sheets, reviewer review forums, etc.) should be developed by the centralized hub and spokes team and prepared for implementation at the manager and supervisor levels.

Stage IV. Implementation of the Centralized Hub and Spokes Structure

In this stage the spokes bring change to the next level by implementing the workforce development system.

Stage IV. Focus I. Assess Managers and Supervisors

Using an assessment and realignment of roles and responsibilities similar to that implemented to construct efficient and effective spokes, a job inventory of managers and supervisors should be conducted. As above, personnel staff, working here with Department Directors, should assess present status and determine needs to accomplish the vision of the workforce development plan.

Several states, including Washington and Florida, that used an incremental approach to civil service reform started with managers and supervisors before addressing the general employee population. There should be a clear goal of defining the supervisor duties as focused on the employees and their development. Those duties that are not focused on employee development, such as administrative and technical duties, should be identified. As with the redefining of responsibilities for personnel staff, those duties that are outside of that focus should be pushed down or reassigned.

One of the consequences of realigning the duties of the supervisors is that positions may be uncovered that are supervisor in name only. For example, organizational charts in some New Hampshire state agencies indicate a position with a supervisor title which has two employees under it. From a perspective of employee development and performance management, a ratio of one supervisor to two employees is too low; ratios are generally much higher depending on the nature of the positions being supervised.

The low ratio in evidence in New Hampshire and seen elsewhere is often the result of technically skilled, valuable, or senior employees being given the title of supervisor as a retention tool when they run into a classification, grade, or a pay ceiling. In addition, employees who supervise a program as opposed to supervising employees directly have the title supervisor instead of program director or coordinator. These positions need to be stripped of their supervisor title and reclassified without detrimental effects to the employee; a tricky process that should be made easier through communication of the vision and goals.

If the communication process outlined and implemented by the CLT throughout the change process is done correctly, current supervisors will know that the state is moving toward a system of performance management. If they are not interested in providing this new type of management, then a newly defined supervisory position is not for them and they can be reassigned to a position that better fits their function within the organization. If they are not interested in providing development to other employees then resistance against reassignment or receiving a new title should be minimal.

Stage IV. Focus II. Train Managers and Supervisors

As implemented for the personnel staff, managers and supervisors must be trained to support their responsibilities in implementing the workforce development plan as outlined by the Director of Personnel and the hub team in Stage III, Focus III. Training and support should come, when possible, from personnel staff. Handbooks in performing annual reviews and in strategizing for employee development should be provided to managers and staff as compiled by the personnel department. Support from the personnel department is critical at this time of change.

Stage V. Implementation of the Workforce Development Plan

In this stage, managers and supervisors, supported by the personnel department via the agency assigned spokes, implement the first round of reviews and development meetings as designed by the Department of Personnel and the hub.

Similar steps for the implementation of the human resources structure should be used before implementing a performance management system. Some of the differences are that the assessment phase will concentrate more on duties, skills, and training and less on knowledge. The assessment phase should also look to streamline job descriptions using the central communication and authority of the centralized hub and spokes structure.

With the new structure and new workforce development systems, supplemental job descriptions written within the agency should no longer be required. Personnel staff serving the agency via the spoke structure will be able through job audits and annual reviews and development plans to create a comprehensive job description at the personnel level.

Stage VI. Review, Refine, Refocus, Reinforce

In this stage, feedback from participants in the change process and in the new structure and system is reviewed and employed to refine the system as necessary. The importance of transparency, communication and employee development is reinforced.

Stage VI. Focus I. Review and Refine the Process

At this closing stage of the process, the CLT should assess the initial vision and mission of the change and compare it to the current status. Benefits of the new system should be assessed as well as costs/concerns. Refinements should be made to processes and mechanisms as identified by the spokes or hub. All refinements should be implemented through the hub in order to maintain the consistency and clarity that was the vision of this change and that was developed in the process.

Stage VI. Focus II. Refocus and Reinforce

With the change implementation complete, the CLT can be disbanded with its roles of communicating and establishing mechanisms turned over to the now fully empowered and implemented hub. Direction for future improvements and objectives implemented to achieve even greater employee development, retention, satisfaction, and hub and spoke communication and efficiency should be funneled through and distributed by the hub. It is important to reinforce the goals of the centralized hub and spokes design of increased communication and coordination.

Steps for the Future

Finally, once the centralized hub and spokes foundation and workplace development systems are in place, the Department of Personnel and the State of New Hampshire will be ready to adopt a range of reforms that will drive performance, productivity and employees who are satisfied and engaged in their work.

With these structures in place the state can choose from a number of different types of reform to boost productivity and efficiency, accountability, planning and ultimately employee retention. Some states have implemented reforms that give employees more opportunities to increase their responsibilities and pay through collapsing the number of classifications within the system and increasing the range of pay within each classification, also known as broad-banding. High performing employees are given more responsibilities and higher pay within their existing titles, and the larger pay ranges within each job classification make it less likely that long-term employees will hit a pay ceiling within their current position.

This type of structure gives the flexibility to the agency managers to increase the roles, responsibilities, and pay without having to go through the formal process of promotion that can require formal tests and approval from the central personnel office. In addition, pay increases and promotions are increasingly being linked to employee skills, especially for technology and hard to fill jobs. Another benefit of this system is that it builds more flexibility into the operations of government. The general job descriptions allow managers to react swiftly to changes in their businesses by deploying personnel to new job duties without having to create a new job classification that defines those duties. It also eliminates the "that is not in my job description" reaction that managers may get when assigning new duties. Employees benefit from this system because they gain more experience and skills within their current job descriptions making them more marketable to the public and private sectors.

An area for further research is the definition of labor grades and steps in New Hampshire. The current system with numerous steps and grades is cumbersome and efficiencies could be achieved if it was streamlined. The collapsing of labor grades and steps should be a coordinated effort of the state and the Service Employees International Union. (SEIU) This will be a major shift to the labor grade and point factor classification system and will enable more flexibility and rationality for both employees and managers within the state.

Finally, the GEC believes there is a critical need for change in the incentives that New Hampshire state government offers. In conversations with New Hampshire state employees, GEC commissioners discovered a culture where staff are only willing to reveal potential efficiency initiatives on condition of anonymity. Currently, the culture and incentives of New Hampshire state government impede the discovery, suggestion and implementation of forward-thinking ideas. The GEC believes the implementation of workforce development and uniform staff training and support addressed above are critical steps for culture conversion.

Efficiency Incentives

The GEC recommends implementation of individual and group budgetary incentive programs targeted at increasing efficiency and reducing costs in state operations.

Individual/Group Award Program

The individual incentive program would result in awards for <u>efforts of exceptional merit</u> to any one individual or group of individuals responsible for identifying one-time savings or permanent annual savings of greater than $50,000. The GEC recommends the awards be 5% of the amount saved, up to $10,000. The program should be administered by the Division of Personnel, along with the respective state agencies. Unlike prior incentive programs, which capped the expense budget for efficiency awards, this incentive program should have no cap. The GEC does not see why there should be a limit to what is paid in this portion of the incentive program, given that any awards will be paid from a portion of the savings one time.

Agency/Department/Division Award Program

The GEC recommends establishing a benchmark savings goal for each agency, which will trickle down to departments and divisions that are part of the respective agency. This savings goal should be a line item in each budget. Due to the complexity of state budget issues and various sources of funding, the GEC recommends that this program apply only to general fund budget amounts for the time being. Following is an example of how this program could work:

> An agency is allocated $100 million in general funding in the next budget cycle. The agency is tasked with controlling their expenditures so as to spend 2% less than their gross budget, or a $98 million net budget. Achieving savings of this type would require a team effort, and the team should benefit. For this example, let's say that 10% of the savings, or $200,000 ($100 million gross budget less the $98 million net budget = $2 million in savings, times 10% = $200,000 bonus pool) is set aside as a line item bonus expense in the budget being discussed. The $200,000 would be awarded along a formula that fits the agency in question, for instance apportioned as a percentage of an employee's wages vs. total payroll for that agency.

The GEC believes that a program of this type, having savings as a key measurement of success for an agency, provides the focus and the incentive in achieving fundamental change in how government tasks are carried out and the associated costs. Management and staff would be charged with finding these savings in areas that would not adversely effect the quality of services, reduce the population of users of the agency's service, or subvert legislative intent. Over time, a program of this type should result in significant one-time and recurring savings.

The details of this program must be determined and evaluated by department commissioners, the Division of Personnel and the Legislature. The commissioner of each agency and other management levels must be charged with developing performance metrics to track efficiency and other improvements within their agency. Boards and commissions that are charged with bringing profits to the state should base their metrics and their budgeted incentives on generating increased revenue, controlling expenses, thereby increasing profit. The Division of Personnel would be charged with communicating the details of the plan to all state employees through the new hub and spokes communication system. This program should be devised for implementation at the next budget cycle.

Conclusion

The GEC makes the following recommendations for changes to the structure and function of the Division of Personnel.

1. Implementation of a centralized hub and spokes human resource management structure. *(Legislative)*
2. Implementation of a regular and frequent reporting system through the centralized hub and spokes structure whereby Personnel staff can share information and receive guidance and instruction. *(Operational)*
3. Establishment of a centralized training budget to be administered by the Division of Personnel. Current general fund training budgets will be consolidated under the Division of Personnel, and the division shall have a discretionary budget for additional training needs. *(Legislative)*

4. Implementation of a workforce development system by the Division of Personnel to administer and monitor a structured performance appraisal process at the agency level. *(Operational)*
5. Reduction of general fund gross payroll and related benefits by 5% of the FY04 budget through normally occurring attrition and retirements. (*Legislative and operational*)
10. That all state employees utilizing the state health care coverage pay 10% of the premium for their respective coverage/plan. (*Legislative*)
11. Elimination of bumping rights for classified employees. (*Legislative*)
12. Implementation of a new budget-based efficiency incentive program. (*Legislative and operational*)
13. Active promotion and utilization of an individual/group incentive program for exceptional cost reduction efforts. *(Operational)*

B. Business Services

Overview

The New Hampshire Department of Administrative Services (DAS) functions as the central resource for providing a wide variety of services to a number of state agencies. Some of the primary resource management services include: financial services, human resource management, purchasing services, facilities/communications management and printing and graphic services. These services are provided to customers that include the governor, executive branch/state employees, legislative and judicial branches, the general public and local governments.

Over the years the agencies and commissions have developed their own in-house departments to handle financial management, purchasing, human resources and information technology. In addition, agency staff may complete functions such as facilities leasing and maintenance. At one time, in a small agency, these functions could be managed by a multi-skilled business manager. But today, with complex federal and state laws constantly changing, agencies often find a need for experts to ensure the state complies with all regulations.

The Government Efficiency Commission has identified elsewhere in this report areas in human resources management, facilities management, and procurement where the organizational structure and reporting lines of authority have broken down and been diluted by the dispersion of service provision. Agencies are often acting on their own with little coordination from the DAS.

Furthermore, the agencies should be focusing on their core competencies and overseeing the planning for their individual needs. The current structure, where agencies are providing these support services on their own, lends itself to duplication of effort, resources, and personnel. Decentralized operations do not always operate at full capacity and cannot always get the best prices. The result is that each agency makes decisions about its administrative functions based on what is best for the agency and not necessarily on what is best for the state.

The Beacon Hill Institute conducted a survey of the agency employees who perform accounting, accounts payable, and payroll functions. The results of the 288 respondents to the survey indicate that the agencies are expending significant resources in terms of time and wages on these functions. According to the survey results, the executive branch agencies spend between $55,000 and $60,000 per week in wages to complete accounting, payroll, and purchasing functions. This translates into between $2.9 and $3.1 million per year. It is likely that these resources can be better utilized by being consolidated and centralized in professional services, thus allowing the agencies to focus on their core competencies.

In 27 states, a broad range of administrative services are being provided through Departments of Administration which are, in effect, service bureaus for other state agencies. A survey of these states by the Texas Performance Review found that these service bureau agencies are able to develop expertise in specialized areas that can be provided to all other state agencies. This is more cost-effective than having every agency hire experts. It also helps ensure that smaller agencies, which cannot employ as many experts, can still get the support they require.

New Hampshire already has a centralized DAS that provides some services to the other agencies. However, a new organizational structure for the DAS is needed that would allow for the department to rationalize resources and plan for all the agencies and the state as a whole. This will release the agencies from diluting their resources to provide such services. Individual agencies will be supported by the service bureau and empowered to focus on their core competencies.

Efficiencies can be created through not only centralizing service provision, but also ensuring the provision of cost-effective, state-of-the-art services. The best way to achieve the latter type of efficiency is to establish measures for comparing state-provided service to those available in the marketplace. Agencies, as well as state taxpayers and citizens, should be able to determine whether the DAS is providing the best value service to the state. In order to allow this comparison with other service providers in the private sector, DAS should provide unit pricing on services provided to the agencies. This will allow agencies to determine, for example, whether DAS provided printing services are the best value, or whether a better use of state money would be to seek that service in a private firm. Below, the GEC outlines a pilot program to move toward such a model.

Two Principles for Effective and Efficient Service Provision

Current management literature has stressed two principles critical to effective operations in both the private and public sectors. The first principle is a focus on customer service. To be successful, an administrative service agency must strive to bring the best practices and technologies to its customers, in this case to other agencies. The goal must be to meet or exceed customers' quality expectations and their expected time frames.

The second principle is competition. While government can never, and often shouldn't function in a purely competitive environment, competition can and should be an important part to ensure good service. One way to build competition into the state's services is to require the service bureau to recover the costs of its direct services to agencies through fees.

These principles of customer service and competition have been incorporated into the organization and delivery of administrative services in the states of Minnesota and Iowa.

Evidence from Other States

Minnesota's Department of Administration has reduced its reliance on funding from the general fund to less than 20 percent of its total operating budget. It has developed a source for the remaining 80 percent by market-pricing its products and charging state agencies for its services. Where such market-priced services are concerned, agencies have the opportunity to shop around for the best buy and use the central agency only when it is competitive. If a service provided by the Department of Administration cannot compete with other firms in the market and is not used by the state agencies, the central agency stops providing that service and eliminates the division, agency and personnel that were providing it, as appropriate.

Iowa is currently undergoing a major reform of its Administrative Services Bureau to bring its service provision system more in line with the business practices of Minnesota. At the start of its reform, Iowa did not have a unified department of administrative services. Instead they had separate departments of communications, general services (purchasing, printing, and property management), personnel, information technology, and revenue and finance (only accounting staff). Iowa is not simply consolidating these separate entities into one department of administrative services. It has determined to change completely the nature of the relationship between the agencies (internal customers) and their internal service providers. The services provided by the internal providers are divided into two categories, which are handled differently: utility and marketplace.

'Utilities' are services for which it is more efficient to have a single service provider. For example, where there are many mainframe users, it typically is more efficient to have them all use the same mainframe system. Such utility services are often the core competency of government and should not be competing with private sector suppliers. There are, however, opportunities to increase efficiency in the provision of utilities. Under the new system, a utility's rates, the services they provide, and the capital investments they make, are controlled by a council made up of agency customers. Customers have choices over service levels, but not over providers.

The most significant operational change under the new administrative service structure in Iowa affects marketplace services. Marketplace services are those that provide a service which can be easily substituted by a service from the private sector. Under the new system in Iowa, internal marketplace service providers compete with private providers for business from state agencies. For example, the government printing office must compete with the local private printing offices. Customers buy services from any provider they choose, whether public or private, within the parameters of statewide standards. Marketplace services survive based on their ability to attract customers with great service at great prices. The marketplace services are run just like a business and over time they either become financially self-sufficient or go out of business. This allows the government to focus on providing service in those areas where it has a true competitive advantage.

The fundamental basis for this new 'entrepreneurial management system' is the setting and charging of per-unit prices for internal services. By setting per unit prices (or rates in the case of utilities) and charging the customer agencies, the cost of these services becomes transparent to the service user. This allows the service user to see the total cost of the service provided. The user has an incentive to use only that which is necessary in the case of a utility service, and to seek the best provider in terms of price and service for marketplace services.

As a result of these reforms, marketplace service providers have an incentive to reduce costs to win business and utility services. Providers have the customer councils providing pressure to cut costs and provide better service. The service providing agencies no longer depend on the general fund for the vast majority of their funding as they get their funding from the fees they charge for the services they provide. The utility services use rates that are based on an allocation of the direct and indirect costs that make up the ultimate bottom-line cost to the taxpayer. Marketplace services are based on price. Prices will be based on the allocation of costs and additional factors, including the cost of providing the service, trends in the marketplace, development of incentives, and customer's ability to pay.

The methods of financing and legislative accountability for these service agencies are changed to reflect the fact that they are managing themselves as a business. In exchange for producing substantially lower costs and increased *real* accountability (not just accountability for obeying the rules), managers need to have the freedom to run the businesses (control over prices, budgets, personnel, investments, purchasing) to be successful. Utility and marketplace service providers control the resources they use – they make their own personnel, budgeting, accounting, and investment decisions. Legislative accountability mechanisms change from reviewing and approving budgets and the like to reviewing profit and loss statements, quarterly financial reports, and business plans.

The financing of the utility and market services providers was moved from the general fund to service fees over a two-year period. The first year the Department of Administrative Services is funded from the general fund as before. In the second year, the appropriations for DAS is substantially reduced and transferred to the DAS customer agencies with year one used as a basis for the allocation of resources. A source of seed capital is made available to the service agencies. They can also apply for loans and repay them with interest, according to terms set by the seed capital fund administrator.

The system does not completely abandon to market forces the assessment, planning and standards setting functions. The policy, standard setting, and compliance components of these services are separated from the customer service components, so that the customer service provider focuses entirely on meeting customer needs and the policymakers aren't thinking about how to make money. Policy/standard setting/compliance functions are set up as separate boards to do strategic planning and standard setting, focusing on getting the best value for the citizens of the state. They are funded from general appropriations to help keep their interests separate from the enterprise (utility and marketplace) operations.

In successful service agencies, employee morale improves when they know customer agencies buy services from them because they choose to, not because they're required to. In other jurisdictions, the work culture has changed dramatically as employees have the opportunity to innovate and grow.

Similar programs in Minnesota have produced substantial spending reductions for support services. When agencies have control over their consumption patterns and vendor selection, they become more cost conscious. When service agencies must compete with other providers, they quickly find ways to lower their costs and improve service so they can survive and thrive.

The Best Option for New Hampshire

In other sections of its full report the GEC has recommended a centralized organizational structure for the DAS Division of Personnel, and Bureau of Plant and Property Management property. This structure would centralize many functions, authority, and some personnel within the DAS that are currently housed in the agencies. This centralized structure allows for better and more consistent communication across the agencies with DAS acting as the nexus for the flow of information. The centralization of authority for the execution of non-core functions that are common to all agencies gives the department the ability to plan and execute services for the agencies with all the available information so as to maximize efficient use of resources and effective delivery of products and services.

Currently, New Hampshire's DAS is undertaking a centralization of processing functions (payroll, accounts payable, etc.) through development of a software system that will link all agencies. This initiative is called Enterprise Resource Planning (ERP).

Enterprise Resource Planning

The GEC endorses and supports the ERP project currently being undertaken and directed by the DAS. The ERP program is an initiative with the goal of procuring a centralized information technology system that will allow for financial, payroll, and accounts payable functions and data to be compatible across all agencies. The system will replace the many different systems that exist within the agencies today with a single system that will be used across all agencies. It will enable the information to be entered in numerous locations and then processed at a single point and thus allow payroll, accounts payable, and accounting to be handled by a single department for all agencies. Data entry and other functions need to still be kept in the local agency office; significant functions will become redundant with the implementation of the new systems. The systems will largely make the administrative services departments within the large agencies redundant and allow for a single streamlined process to be housed in the DAS.

This development combined with the other centralization plans laid out by the GEC in this report already puts New Hampshire at a level of central service provision sought by Iowa, Minnesota and other states. The next step is to implement the customer service and competition principles outlined above.

Next Steps for New Hampshire

The GEC recommends that some of the reforms toward developing competition and improving customer service that were implemented in Iowa be implemented on a pilot program basis.

Pilot Program

The DAS should adopt the Iowa marketplace model for one specific service that it provides to the agencies. An ideal service for the pilot program would be the Bureau of Graphic Services.

Bureau of Graphic Services

The Bureau of Graphic Services (BGS) is currently housed within the Administrative Service's Division of Plant and Property Management. The mission of BGS is to provide and/or procure high quality, efficient and timely photocopying, printing and print-related services and materials to state agencies at the best value to taxpayers. High quality printing services are widely available in the private sector, and thus, it is a service that is well suited for infusion of competition. The BGS already bills other agencies for the services they provide. Furthermore, BGS already bids out jobs that require an outside vendor and provides quotes to customer agencies for their jobs. The BGS already retains most of the elements necessary for the competitive marketplace services reform.

There are still a few areas of the graphic services process that would need to be changed in order to fully implement the marketplace service reforms. The first would be to allow the agencies to control their own procurement process for the provision of graphic services. In line with the GEC procurement recommendations, a procurement officer in the Bureau of Purchase and Property would provide expert guidance to the agencies regarding the procurement of graphic services.

The organization and funding of the BGS would need to be changed in order to transform it into a marketplace competitive business organization. The BGS needs to be allowed to function as a business by giving the managers the freedom over budgets, personnel, prices, investments and procurement, and most importantly, customer service. To toss the BGS into the competitive waters without providing proper training for managers and a transition period would set them up for failure. Training could be obtained from the state business and technical schools. The BGS appropriations would be gradually reduced over a period of several years as it moves toward being mostly funded by their own revenue generation from services it provides.

The benefits of the reorganization of the BGS would go to the bureau itself, the customer agencies, and the state as a whole. The BGS would benefit by being allowed to innovate and adapt to focus customer needs. The employee morale of the BGS should increase as they realize that customers are using their services because of the quality of the product and the high level of service they provide, and not because customers are forced to do so by law. Customer agencies benefit because they have a choice of service providers and they can seek to get the best service for the best price. The state benefits because costs at the BGS, with the infusion of competition, will be reduced and thus save the state money while increasing the quality of the graphical products they procure.

Oversight and Standards

The pilot program will need monitoring, planning and standard setting mechanisms to assure that the process is working for the benefit of the pilot agencies, the customer agencies, and the State of New Hampshire. To accomplish these goals an internal advisory committee would be established that would set standards for the provision of services, monitor progress, and plan the development and future direction of the programs. The advisory committee could be comprised of representatives from the different agencies served by the BGS, and by one or more representatives of the procurement change commission.

Eventually, the BGS would become a competitive, cost-effective and efficient provider of top quality graphic services, or it would lose all of the agencies as customers and cease to be a necessary entity for the State of New Hampshire.

Conclusion

The GEC makes the following endorsements and recommendations for efficiency improvements in the area of business services provision.

1. The GEC endorses the development and implementation of the Department of Administrative Services led Enterprise Resource Planning (ERP) program. Many accounting, payroll, and accounts payable functions should be centralized as the new ERP computer system is implemented. *(Operational)*
   - The data entry functions should remain in the agencies.
   - Data processing and report functions should be centralized into the Department of Administrative Services (DAS).
2. The GEC recommends that the Bureau of Graphic Services be used as a marketplace pilot program. *(Legislative and operational*)
3. The DAS should look to other services where competition can be used to cut costs and increase customer service levels. *(Operational*)

Business Services Cost Savings

Two separate sources cite a 15% savings estimate in overhead and operational savings achieved by consolidation of two similar agencies or programs.[8] Since accounting, payroll, and accounts payable are similar programs, we use this figure for estimating the savings of their consolidation. Using the lower annual figure from the BHI survey of the salary cost to completing these tasks or $2.9 million and adding 37% for benefit costs, we get a total cost figure of $3,973,000. Then taking 15% of this figure, we are left with a conservatively estimated annual cost savings of $595,950.

- $2,900,000 in salary costs for completing accounting, payroll, accounts payable in the agencies other than Department of Administrative Services.
- Benefits represent 37% of the total gross salary in New Hampshire.
- $2,900,000 * 1.37 = $3,973,000 total gross salary for completion of accounting, payroll and accounts payable.
- 15% expected savings in operating costs.
- $3,973,000 * .15 = $595,950; Total estimated annual savings of $595,950

[8] *Shared Corporate Services*, a report of the Premier's Department for the New South Wales Government in Australia, http://sharedcorporateservices.premiers.nsw.gov.au/csss/ssstrategy.asp. and *Citizens' Budget 2003- 005: A 10-Point Plan to Balance the California Budget and Protect Quality-Of-Life Priorities* , Carl DeMaio, Adrian Moore, Adam Summers, Geoffrey Segal, Lisa Snell, Vincent Badolato, and George Passantino, (2003) p.37, http://www.rppi.org/citizensbudget.pdf.

C. Fleet Management

The Need for Fleet Management in New Hampshire

The 1991-1992 Task Force on New Hampshire State Government Operations, reported in its findings the lack of fleet management operations within New Hampshire state government. The Task Force determined it was necessary to establish efficient statewide policies for the purchase, use, maintenance, transfer and disposal of state property. Cited on page 13 of the report were recommendations that included the need for development and enforcement of a preventative maintenance program. The study also recommended using programs in place at the Department of Transportation (DOT) and/or the Department of Safety as models for statewide fleet management.

The State of New Hampshire's current fleet includes cars and trucks of all types, boats, motorcycles, and other vehicles for total of 4,192 pieces of motorized equipment. In conversations with the Government Efficiency Commission the departments listed in the table below, which have holdings that represent 80% of the New Hampshire fleet, indicated their desire for effective fleet management.

State Agency	Number of Vehicles
DOT and Turnpike	1,570
State Police	493
Department of Safety	476
Fish and Game	525
Department of Correction	100
DRED	368
Liquor Commission	38
Department of Agriculture	25

Based on previous reports, and from its current inquiries, the GEC determined to focus on efforts to establish and improve fleet maintenance and management. The GEC recommends implementation of a comprehensive, fleet management software system and a state motor pool, or vehicle-share system.

Fleet Management Software: the DOT's Current System

Currently the DOT is the only department managing a comprehensive fleet management system. The system in use is a fully-integrated system provided and supported by the software company Maximus. The system focuses on those areas critical to effective fleet management practices, including equipment and part life history from the time the asset is purchase through date the asset is sold. It is a Windows-based client/server system incorporating a portfolio of modules collectively designed to give comprehensive and effective tools on a user-defined basis.

Such a system can easily be expanded and designed to meet the needs of the fleet of motorized vehicles owned by the State of New Hampshire. If necessary, the system can incorporate a firewall between the different departments, protecting confidential information. The Department of Administrative Services is best suited to oversee the implementation of this system.

The Vermont Agency of Transportation, New York Department of Transportation and New Jersey State Police all use the Maximus software system. Due to existing investment in time, resources and training, the GEC believes that it may be most cost efficient to expand the Maximus system to the rest of the state's fleet. The GEC does, however, endorse the use of appropriate state procurement policies for determining whether Maximus is indeed the best product for this purpose. The Department of Safety, Department of Resources and Economic Development, Fish and Game, Liquor Commission, Department of Agriculture and the Department of Corrections have expressed a willingness to implement such a system.

In addition to focusing on reducing the overall fleet capital investment and related maintenance and service costs, the state should re-examine its policy regarding employees using state vehicles to travel to and from work. For many departments, this travel is not related to an employee's job performance, it is purely a perquisite, one that is very expensive for the state.

Estimated Savings and Costs

The current DOT system provider, Maximus, conducts audits and benchmarks on a regular basis to estimate a clients' return on their fleet investment. Maximus reports that on average their clients are able to reduce their investment in inventory by 25%, improve warranty recovery by ten (10) times pre-system levels, improve labor productivity by 10%, and reduce overall maintenance operating budgets by up to 25%.

The GEC estimates that at inception, the implementation of a new statewide fleet management system will cost the State of New Hampshire approximately $120,000. This expense is to expand the Maximus software system. In addition, there will be an annual software support fee of approximately $10,000. Based on the experience of DOT, implementation of the system will not result in a need for additional employees.

Estimated Savings Resulting from Implementing a Fleet Management System

Conservatively, a comprehensive fleet management system would result in a 12.5% reduction in acquisition costs through improved asset allocation, usage, and expected asset life. This 12.5% improvement, an annual savings of about $656,000, is one-half of what others normally experience from utilizing the Maximus system. Also, overall repair and maintenance costs would be reduced by approximately 20% annually, or about $136,000.

Vehicle-Share Program

For smaller departments that do not need a full fleet, the GEC recommends implementation of a vehicle-share program. Smaller agencies reported that managing a small fleet of vehicles was not one of their core competencies. Several agency leaders indicated a preference for a vehicle-share program from which they could utilize vehicles on an as-needed basis. This would significantly reduce acquisition and maintenance costs for smaller agencies.

Several states have vehicle-share programs, or motor pools, including Nevada, Oregon, Montana, Indiana, and Washington. Washington has had a motor pool for more than 28 years. Nevada is currently considering privatizing its vehicle-share program as a means of further reducing its fleet related capital investment.

The GEC recommends further research into the costs and benefits of a vehicle-share program to be administered by the Department of Administrative Services. Research and design of the program should consider the benefits of outsourcing the vehicle-share program. Further, the vehicle-share program should end the practice of many state employees taking vehicles home.

Conclusion

The GEC makes the following recommendations for improving fleet management in the State of New Hampshire.

1. Implement a comprehensive, agency-wide fleet management software system. *(Operational)*
2. Research, design and implement a vehicle-share program. *(Operational)*

Attachment A

State of New Hampshire Master Schedule of Vehicles Reported by Agency as of June 30, 2003[1]

	Number of Vehicles	Cumulative count	Acquisition cost ($)	Repairs ($)	Acquisition cost per unit ($)	Repairs cost per unit ($)
Safety	476		$5,234,399	$8,442	$10,997	$18
State Police	493	969	11,508,491	33,892	23,344	69
Fish & Game	525	1,494	3,892,991	79,859	7,415	152
DRED	368	1,862	5,098,160	96,395	13,854	262
DOT-Heavy Trucks[9]	297	2,159	17,399,599	738,555	58,585	2,487
DOT-Others	1,273	3,432	26,484,877	662,582	20,805	520
Others	760	4,192	11,024,064	466,210	14,505	613
Total	4,192[10]		80,642,582	2,085,935		
Averages					$19,237	$498
Deduct DOT			43,884,476	1,401,137		
Balance			36,758,106	684,798		
Estimated reduction in fleet			12.5%			
Estimated Annual Savings[11]				20 %		
Dollars saved			$4,594,763			
Estimated Life Cycle			7 years			
Annual savings			$656,395	$136,159		

9 The Department of Transportation currently uses a fleet management system. Thus, DOT vehicles are not included in savings estimate calculations.
10 Master Schedule provided by the Department of Administrative Services. There are 1,957 units with no acquisition cost associated including, small trailers, snowmobiles motorcycles and on 1969 Jeep.
11 As detailed in the text of this report, estimated savings are based on one-half of the 25% savings cited from system-implementation presented by Maximus for acquisition and 20% for repairs.

D. FACILITIES MANAGEMENT

Section I: The Need for Centralization of Facilities Management in New Hampshire

As the value of the real estate assets of New Hampshire state government has risen in the preceding decade, so too has their importance to the state. The potential gains or savings from good planning, utilization, maintenance, or disposal of these facilities, have increased with their value. The Governmental Accounting Standards Board (GASB), a private nonprofit group responsible for establishing and improving accounting standards for government units across the U.S., has also realized the importance of these assets.

In 1999, the GASB issued Statement 34, requiring state and local government to provide full accrual and new capital asset accounting. As a result, the assets of all state and local government entities must be taken into account when annual reports are generated. Traditionally, states have had only very general accounting practices of reporting current assets and liabilities, so complying with GASB No. 34 is a challenge that many states are struggling to meet.

The reasons for tightening the management of New Hampshire's real estate assets go beyond the need to comply with GASB No. 34. New Hampshire can save significant expense and resources by properly accounting for and managing state facilities. One illustration of how such proper accounting could have saved the state money can be seen in the case of New Hampshire's Walker Building, located on Fruit Street at the former state mental hospital in Concord.

The Walker Building Case

The Walker Building was built over the period of 1913-1917. The building was used for the care of the mentally ill and other state government purposes until approximately 1990. At that time, the agency responsible for the use and maintenance of the Walker Building, the Department of Health and Human Services, closed the building. This action was taken due to HHS not wanting to carry the expensive burden of maintaining an old building that, through age and inadequate modernization failed to keep up with current building codes. The Walker Building was not properly decommissioned according to facility management standards, resulting in improper care of the structure and inevitable decline. Minimum levels of maintenance were not implemented, such as heating the building at a temperature sufficient to preserve the wall coverings and paint and to prevent pipes from freezing and bursting in winters. The building was merely shuttered and left exposed to the elements for roughly six years.

After six years of neglect, the Legislature approved $1.8 million dollars to demolish the neglected and deteriorating structure. However, the demolition project created controversy and a grassroots movement to save the building grew, citing its historical value. Against the backdrop of a grassroots groundswell, the demolition plan was withdrawn and the building remained vacant for another half dozen years.

Presently, the 120,000 square foot Walker Building is undergoing an extensive $12.6 million renovation and is set to be the future home of several state agencies and boards, including the Insurance Commission, the Public Utilities Commission, and Vocational Rehabilitation. The renovation effort resulted from a cost analysis that showed that renovation of the Walker Building would be cheaper over a 25-year period than leasing the space needed for these state agencies and boards. This $12.6 million renovation expense would have been significantly reduced had a central facilities management structure been charged with determining use of the building as well as its maintenance and planning. Such a central agency would likely have either properly decommissioned the structure preserving it for future use without renovation, or assigned other state agencies to space within the Walker Building over those intervening 12 years. By either decommissioning the building and performing base levels of maintenance, or by reallocating the space to another agency, a central facilities management agency would have saved the state significant funds.

One of the fundamental causes of the Walker Building's neglect was the lack of a central facilities management structure charged with preserving all the facilities and properties of the state. Currently, individual agencies often have the authority over their facilities and leases, regardless of whether they occupy the building or not. The Walker Building remained empty and was deteriorating each year of a 12-year span; meanwhile other state agencies leased space in Concord at additional cost to the state. Had a centralized facilities management agency, rather than the Department of Health and Human Services, been responsible for the building, it could have been maintained and allocated for use by another agency, leased out, or disposed of by sale or demolition. By employing any of these options, rather than allowing the building to remain vacant and exposed to the elements, the state could have saved a very substantial sum of money.

A Centralized Facilities Management Agency in New Hampshire

This need for a centralized facilities management system illustrated by the Walker Building case is echoed by the report from "The New Hampshire State Hospital Campus Design Charette" that studied the State Hospital Campus in 2001.[12] The "Charette" indicates that:

> Allowing 75 agencies to manage 1.8 million square feet of office and other space on an individual basis is neither sound nor prudent…There needs to be a

developed, staffed, and funded system of oversight and total facility management for all state property, starting with those in Concord.

The GEC also sees a clear need for a centralized facilities management agency. This centralization could be achieved through a restructuring, expansion, and empowering of the existing Department of Administrative Services Division of Plant and Property Management (DPPM). Such a revamped DPPM could see the entire chessboard that is the state's assets. It would identify overcrowded or underutilized facilities, as well as determine with a long-term goal of best value for the state, whether space should be purchased, built, or leased from the private sector.

Under the current decentralized system where the individual agencies maintain control over much of New Hampshire's real estate assets, each agency sees only their section of the board and can plan only for their individual needs. A centralized agency dedicated to the acquisition, maintenance, and provision of space for the state's needs could oversee all assets, allocate them efficiently (including divestiture where needed), and maintain them for current and future best use.

Furthermore, employees of individual agencies are focused on achieving the mission and vision of that agency. For instance, the mission of the Department of Health and Human Services (HHS) is "to join communities and families in providing for citizens to achieve health and independence."[13] Yet, under the current system of facilities management, Health and Human Services Department employees also need to find space and negotiate, prepare, and renew leases - all tasks that do not fall within the broadly stated mission of that agency. An understandable result of this conflict between agency mission and facilities management is the lack of attention to maintaining the state's capital assets.

An agency charged with the acquisition, maintenance, and provision of state facilities would have achievement of this mission at the forefront of its actions, just as HHS has the achievement of its mission at the forefront of its actions. A revamped DPPM would most efficiently provide space to the state agencies, allowing them to achieve their strategic goals, while the state achieves efficiency, strategic planning and best use of its real estate assets.

Specifically, the GEC recommends that this revamped DPPM be charged with provision of the following services to the state.

- Allocation of space to state agencies including:

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[12] The New Hampshire Chapter of The American Institute of Architects and Affiliated Professionals and The New Hampshire Office of State Planning and The New Hampshire Department of Administrative Services, *"The New Hampshire State Hospital Campus Design Charette,"* May 4-5 2001.
[13] New Hampshire Department of Health and Human Services, *www.dhhs.state.nh.us/DHHS/DHHS_SITE/ABOUT+DHHS/default.htm,* October 2003.

- Assessing all state facilities and lands;
- Recommending property divestiture to the proper board;
- Coordinating and allocating space and its utilization; and
- Serving as the signatory to property leases;
- Examining the method of acquiring and holding real estate property in the state.

• Oversight of facility upkeep, including:
  - Providing maintenance guidelines to occupying agencies;
  - Tracking maintenance across the state; and
  - Recommending improvements to the provision of maintenance across the state.

Structure for a Revamped DPPM

In order to provide these services to the state, the DPPM will need a revamped structure as well as additional powers and tools. First, we present possible structures for the new DPPM.

A centralized facilities management structure could split the functions (1) facilities maintenance and (2) managing space and land use among separate bodies, as suggested by the Charette, or alternatively, both functions could be incorporated into the workings of a revamped DPPM.

Option 1: Separate Bodies for Separate Functions

The Charette recommends creating a "Space/Land Use Central Advisory Board" (CAB) comprised of appointed members that would receive and review all the agencies land and space use proposals. The CAB would establish space utilization criteria (currently the Bureau of Planning and Management uses an allocation of 200 square feet per person for leases. This includes allocations for board rooms, common areas, etc.), conduct annual space inventories and building evaluations, and set environmental standards. The CAB would also assist agencies in evaluating appropriate space needs, help agencies develop appropriate project budgets for facilities, and recommend the most appropriate project delivery method. Finally, the CAB would, with the aim of reducing urban sprawl, review and recommend land use options to best utilize state lands and facilities. In addition, the Charette calls for establishment of a "Construction Oversight Group" of experts in construction to provide input and technical review of the Advisory Board decisions. The Charette initially sees the board as advisory with increasing responsibility, if periodic reviews indicate the need.

A second body, a newly formed "Facilities Operations Central User Support Group" (CUSG), would be the policy board for facilities maintenance, according to the Charette. The CUSG would establish maintenance criteria and monitor facilities for all environmental codes, OSHA requirements, and operational criteria such as rubbish and snow removal and cleaning. It would maintain an all-building inventory including condition, systems and components, and establish repair and replacement schedules for the components and systems. Finally, the CUSG would advise the CAB on operational and maintenance costs for space allocations that the agencies are considering.

The location of these new entities would best fit into the existing Divisions and Bureaus within the Department of Administrative Services. Some of the existing Bureaus within Administrative Services could, with proper staffing, take on the responsibilities of these groups or be redefined as these new groups. The mandate of the Bureau of Planning and Management could be expanded beyond providing space planning for leases to providing space and land use planning for all state agencies - the responsibilities that were assigned to the CAB in the Charette. The bureau would need to be infused with more staff that has the expertise to meet its expanded role as the CAB. The Construction Oversight Group could be less formal, meeting periodically as decisions of the bureau are considered.

The best group to handle the functions of a CUSG would be the General Services Bureau of Administrative Services. The Bureau, again with proper staffing and the addition of a critical facilities maintenance software tool (detailed below), would act as the central focal point for the maintenance and record keeping for all state owned buildings. Expanded to meet the responsibilities of the CUSG as defined in the Charette, the bureau would plan routine and preventative maintenance for facilities, help agencies with their facilities budgeting, and rationalize the execution of maintenance more efficiently within geographical areas. Initially, the bureau could be given the responsibility for all aspects of facilities maintenance within the immediate Concord metropolitan area where there is a heavy concentration of state facilities. Beginning in Concord, this CUSG would prevent situations where different agencies are responsible for facilities, or as has happened at the State Hospital Campus, where separate agencies are responsible for basic cleaning and maintenance of individual sections of the campus.

Option 2: Alternative Design to Meet the Same Goals

Alternatively, the structure of a revamped DPPM need not follow so closely the design presented in the Charette. Current structures within the DPPM and other Administrative Services Bureaus could be modified and restructured as seen fit to support a centralized function. If the Charette's vision of a CAB and CUSG and other sub-groups is not followed, it is critical that the alternative structure be designed to accomplish the goals defined in the Charette of strategic planning for space utilization, acquisition, divestiture, and maintenance. Specific responsibility for each task must be assigned to an appropriate entity with the talents and resources to meet the challenge.

Section II: Services a Revamped DPPM Must Provide

A centralized facilities agency, whether structured according to the Charette (Option 1) or in a different fashion, must be charged with providing certain services to state agencies. In this section we detail those responsibilities.

New Assessment Services

The GEC has concerns that the current assessment of state properties and facilities is not comprehensive nor reflective of true market values. In its research, the GEC found it initially difficult to obtain a purported comprehensive list of state assets. Once such a list was obtained, in performing independent assessments, the GEC found that list incomplete and inaccurate. Further, it is the opinion of the GEC that state property valuations frequently undervalue the state's assets. Therefore, the GEC recommends that another primary function of the centralized facilities agency be the thorough documentation and assessment of all state properties.

All assessments will need to be updated. The state must be aware of the cost of replacing current facilities, thus state buildings and facilities should be assessed on a replacement basis. State land should be assessed at highest and best use value so that the state is aware of the value it is holding from private use.

A new assessment of state buildings has already begun under the auspices of the Bureau of Risk Management, located within the Department of Administrative Services, to meet the needs of the state's catastrophic insurance policy. Currently, that assessment is proceeding at a rate of ten buildings per year with a focus on the most critical buildings. The full assessment of state buildings and properties can build off of this initial assessment and speed up the process for completion within approximately two to three years.

Information technology will help New Hampshire track its assets during and after the assessment. This identification and assessment should be completed as the state complies with GASB Section 34. In order to make that identification and assessment useful to the state as well as for reporting to the federal government, the new centralized facilities agency must direct a comprehensive restructuring of this function.

The State of New Hampshire currently has numerous auditors/assessors scattered around the state in different agencies including Department of Transportation and Department of Revenue Administration. Several perform functions critical to the proper valuation of state assets. These personnel should be utilized to complete the assessments of state facilities under the direction of this new agency. This agency, charged with the acquisition, maintenance, and provision of state facilities, can best achieve the goal of a full accounting of the state's property and building values. This overall state reassessment will be a one-time cost investment. Where possible, auditors and assessors from other agencies should be utilized for this assessment with the DPPM reimbursing those agencies for the use of their time. As needed, additional assessors/auditors can be hired on a contract basis for this purpose.

Once the state assessment is completed, the DPPM can oversee the ongoing valuation of state property. Values on existing and new buildings can be periodically assessed and updated by the staff of this new DPPM.

Recommending Facilities for Potential Divestiture

Another benefit of a thorough and current assessment of all state properties will be the discovery of properties and facilities from which the state would most benefit by divesting. The State of New Hampshire emphasizes that land should be put to its 'highest and best use,' as indicated in its assessment of property taxes.[14] With this emphasis in mind, the state should divest itself of land that the private sector could put to better use. This will bring revenue to the state from the sale of property and will save the state money in assessment and upkeep of the land.

Included in Section III below is an explanation of a new board to be charged with determining properties for divestiture, which the GEC recommends be established. The revamped DPPM should be responsible for recommending state facilities and land for this board to review and consider for divestiture.

Coordinate and Allocate Space Usage

The primary responsibility of this revamped DPPM will be to coordinate space utilization across the state. As the coordinator of all facilities across the state, the DPPM will be uniquely positioned to meet most efficiently the state's current needs and to plan for its future. Currently, some agencies have under-utilized space, while others are leasing additional space for storage. A revamped DPPM can serve the state by allocating space across the government agencies to best meet its needs.

As part of a centralized facilities planning and management system, the DPPM should look to under-utilized or empty state owned property to fulfill agency needs. In order to understand the current holdings and future needs of state agencies, the DPPM should conduct annual or biannual physical inspections of agency space. This visual inspection can provide the DPPM with an understanding of the needs unique to each agency and assist in the planning to meet future needs. This centralized planning process would not

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[14] New Hampshire General Court, Cub 301.07., Available from Internet http://www.gencourt.state.nh.us/rules/cub100-300.html, Accessed October 27, 2003.

only realize economies of scale through lower price and fewer leases, but also would increase communications between those agencies that share space and make service provision geographically easier for the citizens of New Hampshire to obtain.

In addition to planning to meet the space needs of state agencies, the DPPM should set and enforce space utilization standards. The DPPM can establish useful guidelines for allocation of space per staff person, standard office and cubicle space, meeting room needs, etc. The DPPM can also provide assistance in utilization of current space by making recommendations for improving filing and storing practices and other space-consuming tasks.

New Provision of Leasing Services

As part of the strategic planning for space usage, the DPPM will need to manage leases for the state where leasing is deemed the best option. The benefit to the state agencies of the revamped DPPM should be that obtaining or renewing a lease on property would require from them only a phone call placed to the experts at the DPPM. The agency or commission director would then have minimal involvement. The DPPM would manage all the details.

The State of New Hampshire currently holds 121 leases which cover 670,000 square feet of space at an annual cost of just over $8 million. Currently, the obtaining, drafting, and signing of these leases are, in large part, the responsibility of the agencies and commissions. They advertise for space, find the space, inspect the space, prepare the lease documents, request approval from the Barrier Free Design Committee, and obtain written approval from the Director of Public Health Services that the requested space passes the state's clean air standards, and send copies to the current DPPM. The current DPPM, a one-person department, assists agencies with interior space design and with preparation of lease documents when time permits.

According to the DPPM and to our survey of those in the agencies who complete leases, this can be a frustrating experience. Often lease documents must be redrafted by the DPPM or the agencies because of errors made by those in the agencies who complete them, especially if the lease is a renewal and only completed every few years. Moreover, the process takes precious time away from employees in the agencies, often managers and directors, keeping them from their core responsibilities and, therefore, incurring an opportunity cost to that agency.

Further, property leases are completed in isolation by the individual agencies and in the absence of a facilities plan for the state government. Individual agencies, and thus the state as a whole, could be missing out on opportunities for cost efficiencies and for providing efficiency to their customers, the citizens of New Hampshire, by co-locating, sharing space, etc. A centralized agency would further improve operational efficiencies of the agencies by providing this service.

The GEC recommends a lease process that is part of, and managed by, the revamped DPPM. The DPPM will be responsible for the lease process: from working with the agencies to assess their needs, to signing the lease for the agency, and all steps in between. A properly staffed DPPM will be able to keep abreast of the office space market and bring expertise into the whole process, including negotiating with the landlord. The DPPM would be able to coordinate the sharing of lease space between several agencies especially those that have related missions.

In order to execute this mission, the lease process would need to be altered so that the new centralized DPPM would be the entity that signs lease agreements on behalf of the state. The DPPM would then enter into a sublease with the occupying agency or commission. Another benefit of this arrangement would be that the DPPM would become a one-stop shop for all state leases and thus make it easier for lessors to do business with the state. The DPPM would be able to monitor the various lease markets in New Hampshire and negotiate better deals in the process.

Evidence from the States Supporting a Centralized Leasing Structure

The centralized process has been used successfully by other states. Utah, Maryland and Minnesota have centralized systems for leasing properties where one leasing division handles most or virtually all requests for state agencies. Minnesota uses a mixed system that functions by having the central state leasing agency work collaboratively with the requesting agencies in a system that often uses competitive bids. By statute in Minnesota, the commissioner of the Department of Administration is responsible for finding space for state agencies. When seeking leases, agencies send requests to the Real Estate Management Division of the Department of Administration. This agency leads the entire leasing process, but collaborates with the requesting agency. It relies heavily on its staff to identify appropriate space for state agencies. The staff has expertise from real estate negotiations to space planning.

In Utah, the Office of Real Estate and Debt Collection in the Division of Facilities Construction and Management manages leasing for almost all state agencies. Utah's lease system works by having the office work with the requesting agency to develop a request for proposal (RFP) for the needed space. The office works with the requesting agency to identify space needs, complies with a space standards book, and then develops the RFP around the program that will be delivered in the requested leased space. The winning bid is chosen, not on lowest bid, but rather on the best property available within the allotted budget. Utah officials believe their consolidated system of leasing may lower the state's costs, but said it is hard to quantify since it has been in effect for many years.[15] Officials estimate, however, that based on current market and advertised rates, the state is saving approximately 50 to 70 cents per square foot on its 1.6 million square feet of leased office space.

Acquiring and Holding Real Estate

The DPPM should re-examine the state's method of acquiring and holding property. Currently, New Hampshire state government holds nearly 6% of state land and continues to acquire land to meet various social needs. Often, more property is acquired than is needed to complete a given project. This excess property is often retained by the state for years. The DPPM should examine this practice for opportunities to avoid such excess acquisition. The DPPM should also encourage a rapid turnover of this land through the facilities divestiture board.

Oversight of Facility Upkeep

Building maintenance covers a wide range of activities from replacing light bulbs to replacing roofs. The differences between daily maintenance and preventative maintenance can often be blurry. Currently in New Hampshire, either the agency or the DPPM perform facilities maintenance. We propose that basic custodial and upkeep maintenance, such as changing of light bulbs, minor repairs, and cleaning of offices, stay at the local agency level.

The GEC recommends that the revamped DPPM, charged with a mission to provide services of acquisition, maintenance, and provision of state facilities, be responsible for the oversight of facility upkeep. This would leave day-to-day maintenance to be managed by the tenant agencies of each facility. This allows agencies to respond quickly to their needs without having to process requests for minor repairs through another agency.

The DPPM should, however, be charged with presenting agencies with maintenance guidelines and benchmarks they must meet. This will ensure a basic level of preventative maintenance be maintained across all state facilities.

Tracking State Maintenance Usage and Needs

With the responsibility for provision and overall upkeep of state facilities as its mission, the DPPM needs a tool to be able to track maintenance needs at the facility level. Currently, records are kept in a paper fashion or in “institutional memory” of the state staff. This type of record keeping is insufficient to allow for assessment of state purchases and services or for planning for future needs of state facilities. The

[15] U.S. General Services Administration, “Best Practices in Real Property Management in State Governments,” March 2003, p. 12.

overall facilities information should be tracked by the DPPM who can use the information to track and plan for maintenance schedules, preventative maintenance systems, identify future inspection and maintenance dates, and budgeting. Detailed information on repairs needs to be fed into a central maintenance software system. Section III of this report section outlines the maintenance tracking needs of the state and presents potential solutions.

Recommending Efficiency Improvements to Maintenance Provision

With an overall view of the state's facilities, the DPPM will be well positioned to identify opportunities for improved efficiencies in the provision of maintenance to the state facilities. Furthermore, with a maintenance tracking system in place, the DPPM will be able to plan maintenance geographically for better utilization of resources. For example, if several facilities in certain regions of the state require certain maintenance services, then the DPPM could recommend regional provision of certain maintenance services to cut down on travel time from centrally located agencies.

Further, the DPPM will be in a position to identify better ways to contract for and obtain services for the state. For example, the DPPM might find it more efficient to contract for certain construction services, roofing services for example, in units of service rather than to put out to bid the repair of numerous individual buildings. Such a method of service could improve efficiency in state facilities, such as state parks, where numerous small buildings are located, all needing repair. Contracting out units of roof repair for such a facility could reduce processing time for allocation of funds and identification of a service provider. It could also provide flexibility to the facility to ensure the work is done at a time least likely to interfere with citizen usage and to the service provider to work around their other contracts and provide a lower price.

Evidence from the States: Additional Strategies for Efficiency

Another area where some states have made changes to save money is in their strategy for advertising for leases. In the state of Washington, the agency previously advertised its space needs in newspapers. In an effort to reduce expenses and increase efficiency, the agency now advertises in newspapers, but limits the space purchased by referring readers to the office website rather than placing an advertisement detailing the state's needs. The General Services Administration of Washington reports the state has saved $40,000 a year by modifying their advertising strategy in this fashion.

Washington and Arizona have developed innovative methods to save money on construction of new facilities by partnering with the private sector. Washington's Lease Development Proposal implements a new method in which developers can respond to an RFP by submitting a proposal to build on state-owned land. The state would lease the land to the developer, and would eventually own the entire property.

With the Lease Development Proposal, the private sector will take on the financing, the state will pay lease rates, and it won't require any initial capital appropriations from the state. Arizona's Privatized Lease-to-Own system is very similar with private developers designing facilities to state specifications, providing all the financing without state backing, and eventual ownership of the building after a period of 25 years. The largest benefit of these programs is that the state requires no up-front capital expenditure. This type of system could work for New Hampshire in building new facilities, especially at the former state hospital campus in Concord.

Section III: Tools Required for DPPM to Achieve Its Mission

In Sections I and II, the GEC calls on the DPPM to expand, restructure, and provide additional services. Section III outlines the tools that the GEC has identified as being necessary for the DPPM to provide those services.

Funding Resources

In order to meet the challenges of its expanded mission outlined here, the DPPM will require the allocation of more funds to its budget. Some of the necessary funds can come from reallocation of funds from agencies currently managing their own space and leases, etc. The base budget for the DPPM can be established by setting a per square foot dollar allocation for the provision of services by the DPPM to state facilities. A complete reassessment of state facilities will make this budgeting easier and more accurate.

Qualified Staff

In order to manage the space allocation and utilization of all state facilities, the DPPM will require an expansion of its current staff. These new personnel need to be professionals equipped to negotiate leases and to strategically plan for space needs and space utilization. Some qualified staff are already employed by the state in other agencies. For example, the Department of Health and Human Services has staff dedicated to lease preparation and negotiation for that agency. With a DPPM responsible for all space allocation and management, Health and Human Services will no longer need those staff members. They could be reassigned to the expanded DPPM and provide the state with highly qualified staff, familiar with the needs of the state, at no additional cost. Additional staff that might be reassigned are presently located in the Division of Public Works and Transportation in the Department of Transportation and in the Design, Development and Maintenance Section of the Department of Resources and Economic Development. The DPPM should assess its staff needs and the qualifications of these staff in the light of a centralized function to determine whether they should be relocated. Staff position funding, whether from federal or general funds, must be considered in this assessment of potential reassignment. Under the recommended centralized format, there should be no staff charged with design or maintenance of state buildings in any agencies other than the DPPM. The DPPM can then assess its needs for additional staff as reorganization proceeds.

A Software Tool to Enable a Revamped DPPM to Achieve Its Mission

A critical step to achieving the goals of a revamped DPPM rests on an ability to obtain, process and understand trends in facilities data. In order to achieve this, the DPPM will need a software tool that will enable them to record, process, track, and trend their observations and the activities of state facilities. The State of New Hampshire is currently engaged in the assessment of its needs for a central processing tool. The needs of this revamped DPPM should be included in this assessment and in the selection of the proper tool to meet the state's needs.

Lessons in the need for and selection of such a software tool are available from several states that have incorporated software systems to aid them in managing their facilities maintenance needs. Washington, Michigan, Texas, and Missouri use different systems, but have seen similar functionality and efficiency gains.

Software Tools: Michigan

The first software system is part of Michigan's Maintenance Excellence Program and is based on a sophisticated software program, MAXIMO, which has coordinated nine project teams into a proactive maintenance program. Michigan has been undergoing a five-year program (currently they are around year three of the implementation) to enhance preventative maintenance and improve its customer service. The software system requires significant expenses up-front in terms of training and data entry of facility information. Officials feel that in the long run it will create a more efficient work force and reduce doubling up of worker responsibility, reduce materials, and extend asset life by maintaining the facilities.

According to MRO Software's website, who develops MAXIMO, the software can help public sector agencies to: optimize maintenance, supply chain, and procurement processes; achieve compliance with requirements (Section 508, GASB 34 & 35, etc.); improve facility management, real property tracking, and asset utilization; control spending through strategic sourcing and supplier rationalization initiatives; increase budget projection accuracy through detailed expenditure tracking; improve readiness decisions through total asset visibility; and provide lower total cost of ownership for system development and upkeep. Some of its users on the state level other than Michigan: California Department of Health and Human Services, Delaware Department of Transportation, state of Alaska, state of Hawaii.

Software Tools: Missouri

The second software program is part of Missouri's Maintenance Software and Evaluation System. They use a software program, MS 2000, to coordinate numerous maintenance functions. The system includes modules for equipment and parts, maintenance schedules, preventative maintenance systems and manuals, and also tracks and reminds workers of future inspection and maintenance dates. According to the GSA study, this has cut down on work orders falling through the cracks.

Also, according to the GSA study, MS 2000 was identified as one of the best management tools in the maintenance of state buildings. The state purchased the software five years ago and it took two years to gather and enter information into the system.

Software Tools: Texas

Texas' Facility Assessment program creates a baseline of the agency's needs and facilities to utilize all its other software programs for maintenance and construction. Texas' FacilityCenter™ uses a single software system to order materials, handle lease management, manage maintenance and operations, and produce work orders. Another feature is that the software can be used with Personal Digital Assistants (PDAs), therefore, the information can be input on site during an audit. The Texas Department of Mental Health and Retardation says it has eliminated 50-60 percent of its data entry time.

Software Tools: Washington

Washington's Building on a Disk gathers all operations and maintenance information for a facility on a single CD-ROM (which could also be available on an Intranet), providing a snapshot of all maintenance materials for the building. This system obviously requires less up-front expense in software procurement and training.

Software Tools in New Hampshire

The acquisition of any software tool would need to be part of New Hampshire's ongoing software processing needs assessment being conducted for the state by the software consulting firm Maximus, and be able to integrate with the financial and budgeting systems as indicated by the ongoing assessment. Implementation of any software tool, including the previously mentioned systems used in other states, is resource hungry at the beginning of the process with the costs realized after a substantial initial investment. Resources will be required for software system acquisition, training of users, completion of an initial facilities audit, and finally, entry of the audit data into the system. Inquiries about the cost of a software system made by the DPPM prior to this work by the GEC resulted in an estimate of $35,000. This estimate was based on only the properties managed by the DPPM at that time. With all state facilities under its management, this price will certainly increase. The data entry into this software could be minimized by employing inmates from the Department of Corrections and through the use of PDAs that could upload audit data directly into the system.

Planning for Future Facility Needs: A Board of Advisors

The GEC calls on the DPPM to make recommendations about and plan for the future facility needs of New Hampshire. The GEC believes that the DPPM requires advice and guidance in this process from an independent body that can make recommendations and decisions in the best interest of the state. The GEC calls for establishment of a board of advisors to the DPPM. The board should be made up of experts in the field who can advise the DPPM on the future of current state facilities, as well as on the need for and construction or acquisition of additional facilities. This board should provide reports and recommendations for the DPPM to follow.

The board of advisors should be modeled after the Federal Base Closure Board. This board should be an independent entity with representation from the governor's office and both houses of the Legislature. The board should be comprised of individuals who meet specific functional skill sets including real estate appraisal, historian, architect, environmental impact assessment and engineering. It should establish a process that includes hearings that provide an opportunity for interested parties to share their concerns. Decisions of this board should be determined independently, with the best interest of the state in mind. This board can also function to meet the needs for disposal of state land and facilities as detailed below.

The board should not be convened until the new assessment of state facilities and properties is completed so that the board has a firm foundation from which to begin. The board should function under a 'sunset' provision that will disband once it has completed its work on determining facility disposal and facilities planning.

Disposal of State Land and Facilities

The GEC also calls on the DPPM to recommend facilities for potential divestiture. The GEC believes that there is a need for a stronger, independent body to review these recommendations and make decisions in the best interest of the state.

Currently, the New Hampshire Council on Resources and Development (CORD) is charged with the disposal or leasing of state owned property in New Hampshire. In addition, CORD provides a forum for interagency cooperation in assuring consistency with established policies on environmental, natural resources, growth management issues, and oversees the statewide public water access program. Members include the directors or commissioners of all the major state agencies. The process of land disposal by law starts with the "recommendation of the head of any state department that has jurisdiction."[16] The requests need to be approved by the CORD and the Long Range Capital Planning and Utilization Committee of the Legislature and then submitted to the Governor and Executive Council for their approval. The real estate is then offered at no cost to the town, city, or county in which it is located. If the town, city, or county refuses the land, the Governor and Executive Council may act to sell, convey, transfer, or lease the property.

The weakness with this system is that the CORD or the Long Range Capital Planning and Utilization Committee cannot intercede until the agency head having jurisdiction over the property makes the recommendation for disposal of the property. The Walker Building is an example of a situation where action was not taken and the property deteriorated to the detriment of the state and its citizens.

Responsibility for making decisions regarding the disposal of state land and property deemed unnecessary to the state should fall to the same advisory board that plans for the state's future. Such a board should be empowered to direct the process to rid the state of unnecessary holdings.

Unnecessary holdings by the state create several detrimental effects for its citizens:

1. The property is not put to its 'highest and best use,' a measure valued in New Hampshire as evidenced by its inclusion in state RSA 79, defining terms for property tax purpose;
2. The property is not on the tax rolls, thus depriving the cities, towns and the state of revenue;
3. The property is a potential cost to the state in assessment and maintenance costs. By divesting such properties the state will lower costs and increase revenues, as well as adding to the marketable land in the state, clearly a win-win proposition.

In its research, the GEC has identified several properties that it believes to be prime candidates for review and potential divestiture by this new board. For further holdings to consider, this board should look to the required new and thorough assessment of all state properties, which is proposed in this report.

Section IV. Assessing Potential Savings

Assessing Savings from Lowered Opportunity Cost

Implementation of a centralized facilities management structure would create additional efficiencies by reducing the opportunity cost of agency staff completing leases when they could be doing work for which they are better suited.

[16] *Title 1, Chapter 4, Section 4:40 New Hampshire Revised Statutes Annotated,* available from Internet http://www.gencourt.state.nh.us/rsa/html/I/4/4-40.htm., accessed October 17, 2003.

The Beacon Hill Institute sent out surveys to the employees who handle the leases for the agencies. The usable responses cover about 500,000 of the 670,000 square feet of lease space or 75% of the total. Each employee reported their title, salary and the number of hours they spent preparing leases. The titles reported ranged from Administrative Assistant II to Executive Director and Director, and the pay ranged from $14.42 per hour to almost $41 per hour based on a 40-hour workweek. The total dollar cost per year of these employees in preparing leases, based on their best estimate of the time, is from $79,000 to $83,000 per year. Since we received responses from very small commissions to very large agencies, and responses were not available for a similar range of agencies, it is reasonable to extrapolate this number out to the total, projecting that the total cost of these employees preparing leases is between $105,000 and $110,000 per year. These state employees are spending almost 4,000 hours per year on a job function that, as described by one respondent: "Management staff…[does] not have strong experience in building lease contracts. Contract management (including leases) are not a primary function of our duties…[it] would be more efficient to have someone from the state with lease experience…to help develop…space needs and then take over the process (with continued staff input)." Another lease respondent adds, "Have leases all prepared by one department." We agree.

There are further savings opportunities to be realized in redeployment of staff efforts. First, there is an opportunity cost of these employees, especially executive directors, spending an estimated total of 4,000 hours a year across the state processing leases when they could be performing core functions for their departments. Also, if experts who have knowledge of the real estate lease market negotiate all leases, they can potentially secure better lease rates than inexperienced agency personnel. Based on the Utah estimate of 50 to 70 cents savings per square foot due to centralizing their leasing system, New Hampshire could save between $337,000 and $470,000 per year by using a centralized lease system. Finally, by better utilizing the current state facilities, the state could potentially save an additional $70,500 by eliminating leases that are solely for storage space. Thus, in total, we estimate that the centralization of the lease process in New Hampshire could save nearly $700,000 per year.

Conclusion

The GEC makes the following recommendations to improve facilities management in New Hampshire.

1. Design and establish a centralized facilities management system that can audit, plan, inventory, manage and maintain the state's facilities. (*Legislation)*
2. Establish and enforce space utilization criteria to be applied across all agencies by the Division of Property and Plant Management (DPPM.) *(Legislation as to enforcement authority)*
3. Authorize the DPPM to manage all lease operations for the state. *(Legislative*)
4. Staff the DPPM with professionals equipped to negotiate lease contracts, strategically plan for space utilization for the state, etc. (*Operational as to staffing, Legislative as to enforcement of space utilization requirements)*
5. Allocate resources to the DPPM sufficient to enable it to achieve these goals. *(Legislative fiscal committee to reallocate funds)*
6. Identify and implement an information technology tool to facilitate the operation of the centralized DPPM. *(Operational)*
7. Update the assessment of all state properties. Building assessments should be based on replacement costs and land at fair market value. This will facilitate decisions regarding disposal, upgrading, and highest and best use. *(Operational)*
8. Utilize auditors/assessors for this purpose from other agencies as possible or hire contractors for a one-time cost. *(Operational as to utilization of staff from other agencies, Legislative as to authorization of funding)*
9. Periodically establish an advisory board to direct state planning for its future needs and to determine the disposal of land and property deemed unnecessary to the state. (*Legislative)*

Savings Due to Implementation of the Facilities Recommendations

Lower Lease Rates

Under a centralized facilities management system, the State of New Hampshire will realize cost savings from authorizing one agency to identify available space for leasing and to negotiate the resulting leases. The centralized lease process should be able to reduce the high cost leases to within 5% to 10% of the current average lease rate paid by the State of New Hampshire on all leases, which is $12.11 per square foot.[17] Using the less-restrictive cap of 10% above the current average, we estimate that New Hampshire will save $754,089.

- The current average lease rate is $12.11 per square foot per year.
- Conservatively estimating that higher cost leases can be reduced to within 10% of the current average lease cost.

[17] Weighted average of cost per square foot on all current state leases as of November 12, 2003.

- $12.11 * 1.10 (ten percent above average) = $13.32 per square foot
- Cap all current leases at $13.32 per square foot, i.e. any higher-cost leases are brought down to $13.32 per square foot.
- $754,089 estimated annual savings

Enforced Space Utilization Guidelines/Centralized Space Allocation Applied to Leases

Currently the DPPM uses a guideline of 200 square feet per person when determining space needs for agency office space. The majority of current leases exceed that space utilization guideline, in fact current leases have an average allocation of 415 square feet per person for all leases and 304 square feet per person on typical office space leases. Under a centralized facilities management system, the State of New Hampshire will realize cost savings from enforcing the 200 square feet per person guideline for office leases. The DPPM estimates that the average per square foot per person could be reduced to 225 for all leases under the proposed system.

In addition, a centralized facilities management system will have the ability to allocate space for the best usage with an understanding of all the state facilities that are available and of all the space needs that exist. This overall coordination will allow the state to realize savings from co-location and from having agencies use existing vacant space rather than rent additional space.

Together, these two benefits of a centralized system will save the state an estimated $1,250,567.

- Determine the ratio of square feet per person for all current leased office-type space (exempting training facilities, special use facilities, etc).
- For each leased facility under consideration, actual allocation of square feet per person – 225 square feet per person guideline = excess current space.
- Excess current space per facility [2] cost per square foot for that facility = potential savings from enforcing space utilization guideline at that facility
- Sum potential savings from all facilities under consideration = $1,667,423
- Acknowledge that not all savings can be realized due to limitations from some legitimate need for additional space and the scarcity of appropriately sized space estimate capturing savings of 75% of potential.
- $1,667,423 * .75 = $1,250,567
- $1,250,567 annual estimated savings

Elimination of Leased Storage Space

A reduction in the amount of storage and warehouse space leased by the state from the private sector by 50% could save approximately $43,532 annually. The reduction would result from utilizing state owned buildings that are currently empty for storage and warehouse space. If the currently occupied space within state-owned buildings were better utilized there would be more room for state needs and no need to rent storage space. Finally, leases for storage space shared between agencies resulting in few leases of larger facilities at lower rates.

- The state currently spends $87,064.26 per year to lease storage and warehouse space. (14,682 square feet per year at an average price of $5.93 per square foot).
- A 50% reduction is a reasonable estimate that is currently being confirmed with the Bureau of Planning and Management.
- $87,064.26 * .50 = $43,523.13.
- **$43,523 annual estimated savings.**

Lease Preparation

The GEC calls for all lease preparation to be handled by the DPPM. This will result in a savings by freeing up other non-DPPM personnel from working on lease preparation. Based on our survey we conservatively estimate efficiency savings of $93,160.

- Based on the completed lease surveys, we calculated that personnel within the agencies spend approximately $80,000 in salary per year preparing leases.
- Benefit costs for employees in the State of New Hampshire are estimated at 37% of the employees' annual gross salary.
- Estimated total salary and benefits cost $80,000 * 1.37 = $109,600.
- We estimate that these non-DPPM personnel will be freed from 85% of their lease administration responsibilities. (They will still be called upon to provide site specifications and to evaluate potential sites, an estimated 15% of current time spent.)
- $109,600 * .85 = $93,160
- **$93,160 estimated annual savings.**

Walker Building Case Study

The Walker Building case stands as an example of the inefficiencies that result from the lack of a centralized facilities management system. We estimate the potential savings that could have been realized had the Walker Building at the State Hospital Campus not been shuttered and left without basic maintenance for over a decade using two possible alternative scenarios:

- First, if the Walker Building had been brought up to code and remodeled in 1990 and then used by state agencies for the intervening 13 years the state would have saved approximately $12,588,000;
- Alternatively, if the building had been left empty for 13 years, but maintenance at a minimum level for the intervening years the state would have saved between $4,642,000 and $5,471,000.

Thus, using the Walker Building as an illustration of the potential savings from proper planning and maintenance of New Hampshire's real estate assets, the GEC estimates a conservative average annual savings of at least $357,000 per year ($4,642,000/13 = $357,077).
$357,000 estimated annual savings.

<u>Estimation One</u>

Savings calculation: (Actual state expenditures for alternate space and to renovate in 2003) – (costs to renovate in 1990 and operate in intervening years)

- The usable square feet (SF) of the Walker Building is 85,475 SF.
- The BPP estimates the cost to lease alternative space in Concord at $15.00 per square foot.
- Using an inflation rate of 3% per year, the cost of renting the equivalent space of the Walker building over the past 13 years was approximately $14,044,402.
- We assume that had the current remodeling been completed in 1988 the renovations required would have been half the current requirements due to the fact that the building would not have been abandoned for 13 years.
- Current renovation is estimated to cost $12,600,000.
- $12,600,000 * .50 = $6.3 million.
- Had the building been occupied for those 13 years, the state would have had to pay operating costs on the building. The current estimated operating costs for an occupied Walker Building in 2003 is $5.00 per square foot.
- Again using a 3% inflation rate, the operating cost for the 85,475 square feet over 13 years is $4.6 million.
- Savings calculation:

($14,044,402 + $12,600,000) – ($6,300,000 + $4,600,000) = $12,588,000.

Estimation Two

Savings calculation: (Estimated lesser renovation in 2003) – (Minimum maintenance costs)

- Current renovation is estimated to cost $12,600,000. Had the building received minimum maintenance over the intervening 13 years we estimate that the renovation requirements in 2003 would be half the current requirements.

- $12,600,000 * .50 = $6.3 million.
- The usable square feet (SF) of the Walker Building is 85,475 SF.
- The BPP estimates basic maintenance cost at between $.75 and $1.50 per square foot.
- 85,475 * $.75 inflation adjusted over 13 years = $702,220
- 85, 475 * $1.50 inflation adjusted over 13 years = $1,404,440.
- Savings calculation

$6,300,000 - $702,220 = $5,471,000

$6,300,000 - $1,404,440 = $4,642,000

E. Contracting and Purchasing

Section I. Concerns, Challenges and Lessons in the Procurement Process Introduction

Currently, the New Hampshire Bureau of Purchase and Property (BPP), located within the Division of Plant and Property, provides procurement services to the various state agencies for only hard goods. Purchases of contracts and services must be handled within each individual agency, which is provided little guidance on process or procedure. The Government Efficiency Commission recognizes the inefficiencies and inconsistencies that arise from this current system. Thus, the GEC calls for the BPP to establish contract and service procurement protocols and to enforce the consistent implementation of these protocols at the agency level. The GEC also calls on the BPP to provide advice and guidance in the execution of those protocols.

Further, the GEC believes that the state would benefit from a streamlined, coordinated, full-service procurement office that would serve state agencies in the procurement of hard goods and services. Under the current structure of the Department of Administrative Services, the proposed changes would call for an expansion of the Bureau of Purchase and Property to provide two branches of service: hard goods purchasing, and contract and service purchasing.

Potential benefits of such a centralized structure are evident in New Hampshire. Recently, the BPP worked to combine and consolidate the contracts of eight different agencies for software systems. By identifying this shared need across agencies, the BPP reduced the total contract cost from $110,000 to $65,000, a reduction of more than half the cost. By centralizing all purchases through one office, the BPP can seek out opportunities for such savings.

In the following report section, the GEC details how the contracts and services side of the expanded BPP should function. Section I details the need for change in the New Hampshire procurement system. Section II outlines steps for implementing that change. Section III details the tools and resources that will be required for successful change.

A Need for Centralized Contract and Services Procurement Structure

Currently, with no central provision of or guidance on contract and service procurement, each agency or commission in the State of New Hampshire is working to fulfill its contract and service needs itself. This fragmented structure provides a suboptimal result for the state. Lack of coordination and standardization causes duplication and inefficiencies at the agency level as staff who are often specialized to best achieve the agency's mission are forced to solicit bids and evaluate bidders for services in which they are not trained and are not experts.

For example, social work experts working for the Department of Health and Human Services are currently required to write any Request for Proposal (RFP) for contract services the department requires, including, for example, campaigns to advertise their services. This staff is expert in the provision of care, not in marketing. In conversations with the GEC, these staff members expressed a desire for support in their RFP work in order to be able to focus on their core functions, and to provide the best results for the state's advertising needs. A BPP that offered contract and services procurement guidance would meet this need. Further, it would increase efficiency at the agencies as they will focus on their core mission and spend more time providing services to the citizens of New Hampshire.

Streamlining the RFP process will benefit both the state and private enterprise that contracts with the state. The current fragmented RFP process is costly and inefficient for the state and vendors. Businesses that bid for state contracts must undertake a process that is disjointed, cumbersome, and arbitrary from agency to agency. The potential bidder must register as a vendor with the BPP. Separately, the potential bidder needs to have a current certificate of good standing from the Secretary of State's Office which may involve several steps, depending if the bidder is already registered with the state or not. Once potential bidders are registered with the state, they can view some current RFPs for goods and some services online at the existing BPP website. However, for other services, the bidder must contact the agency directly; for some agencies RFPs are listed on their websites, for others they are not. For vendors wanting to work for the state, there is no one place to look to determine the needs of the state. One-stop shopping for both vendor registration and bidding on services would make the process much easier and cheaper for vendors to do business with the state, thus likely increasing the number of vendors interested in working for the state.

Currently, with no central service and contract office to turn to, state agencies develop and write RFPs largely on their own. Agency personnel must accomplish this task without any special training for RFP preparation. There is no mechanism for smaller or busier agencies to have the RFP prepared by the BPP, which currently provides purchasing for only hard goods. As a result, state RFPs and bid evaluation processes often do not provide the state with the product or service that provides the best economic value.
Centralization of the RFP process can help streamline the process for vendors and provide for better RFPs that deliver the best product or service for the state. The vendors will be able to access one-stop shopping for registration and bidding, potentially saving time and money. The vendors will also have more consistent RFP presentation and standards across all agencies. The agencies will be able to utilize professionals at the BPP to guide the RFP process and provide them expertise in writing RFPs and selecting a best bid.

The BPP should encourage and facilitate the use of the less complex and time-consuming competitive bid process wherever it is appropriate. Like the RFP process, the competitive bid process solicits bids from vendors based on specifications about the needed item. Bids are evaluated and awarded according to the bid prices offered by suppliers and pertinent factors affecting contract performance. The competitive bid process can be structured to require agencies to obtain fewer bids, typically three, on lower-value contracts or items, or more bids, typically five, on higher-value contracts or items. The competitive bid process can also be structured to require phone quotations for lower-value contracts and written bids on higher-value items. By thoughtfully constructing the competitive bid process, the BPP can serve the state and state agencies by achieving a more streamlined process and more cost-efficient results.

The BPP should provide consistent advice and guidelines for all procurement processes to all agencies. The office should draft and provide procurement manuals, such as an RFP manual, to guide employees who are new at writing RFPs. The office should also answer questions that arise in the process and ensure that agencies are following their developed state guidelines.

The BPP should also, on an as-needed and as-available basis, serve agency bid evaluation teams in one of two methods, either as an advisor to an evaluation team or as an evaluator on that team. The BPP and the contracting agency should work together to determine the proper function for the BPP, whether advisor or evaluator, on a case by case basis.

Finally, over the course of a year and on selected RFP processes, the BPP could work with the agency to review the process and look for improvements for future RFPs. Under such direction through manuals and direct assistance from the BPP, agencies would develop the skills to facilitate the procurement process. They would need to rely less for operating assistance on the BPP and more for advice and guidance.

Centralized Contract and Service Procurement: Evidence from the States

The benefits of implementation of a centralized procurement process have been seen in other states; strong examples are the states of Texas, Washington, Utah, and Massachusetts.

Centralized Procurement: Texas

In Texas, the RFP process is the responsibility of the Buildings and Procurement Commission (TBPC) within the General Services Commission. Its mission is to employ cost-effective and innovative methods to provide quality goods, services, and facilities to meet the demands of the state of Texas. The TBPC's philosophy is to foster competition and business opportunities while delivering faster services in a more timely manner. A seven-member citizen commission sets policy and oversees the operation of the TBPC.

The executive director manages the daily operations of the agency. Two deputy executive directors assist with the oversight of six divisions: Property Management, Facilities Construction, and Space Management, Support Services, Leasing, Procurement, and Administration. In accordance with Texas government code, the TBPC is authorized to determine whether to delegate sole oversight of the use of the RFP method of procurement to a state agency or to retain oversight of such procurement.[18] In Texas, unique features of the RFP include an opportunity for the requesting agency to request a best and final offer of as many or as few bidders as the team selects.

RFPs are generally used for purchases of highly technical supplies and services. This method may also be used when contracting for highly specialized or professional services such as medical, social, architectural, engineering and similar professional services. The state uses a minimum value of $100,000 as a general rule of thumb for determining the use of an RFP process. Whenever possible, in order to streamline the procurement process, the Texas TBPC encourages the use of the less-complicated, competitive bidding process.

Centralized Procurement: Massachusetts

The procurement system in Massachusetts is designed to be flexible in meeting the Commonwealth's need for commodities and services. Under their current system, the Operational Services Division (OSD) and individual departments work as partners through the Procurement Management Teams (PMTs) to develop contract needs.

These PMTs are formed around broad procurement groups and they decide how a specific procurement will be accomplished. They develop the procurement scope and specification, conduct the solicitation, develop evaluation criteria and negotiate the contract. All departments are encouraged to rely upon the OSD and PMTs for technical assistance and procedural advice in the procurement process. Through this structure the central procurement office of Massachusetts, the OSD, streamlines the service procurement process to the benefit of the state.

Centralized Contract and Service Procurement in New Hampshire

The GEC believes that service procurement should be centralized in New Hampshire. A properly staffed BPP would be the logical choice as the central procurement office. Agencies will work with the BPP to decide which method of procurement best serves the state. The BPP should set policies and procedures for the state to be followed in the procurement process. These should be clearly set out in handbooks provided to all agencies. The BPP should work with agencies in the procurement process to provide

[18] Title 10, Subtitle D, Section 2156.121

guidance and advice and to assist the agencies in complying with set protocols. The BPP must be empowered to enforce compliance with its procurement policies and procedures among the agencies.

With streamlined procurement as a goal, the BPP should encourage competitive bidding rather than the lengthy RFP process where appropriate. If a decision is made that the RFP process should be implemented, there should be collaboration between the agency and the BPP with each bringing their unique expertise to the process. The agency will provide the technical expertise and specifications, while the BPP will assign a procurement officer to the RFP and they will provide generalized procurement knowledge. By leveraging the strengths of both partners, the resulting RFP will be the best possible to fulfill the needs of the requesting agency.

The completed RFP would then move to the announcement and distribution stage. The RFP should be listed on the BPP website including all the necessary information for a vendor to make a proposal.

In summary, this office in New Hampshire should be charged with streamlining, facilitating, and evaluating the RFP process using its authority, expertise and technology. In all its policies and procedures, the BPP should seek to increase efficiency and efficacy in procurement.

With efficiency in procurement as a goal, the GEC advocates that the State of New Hampshire adopt value-based purchasing, described below.

The Need for Achieving Best Value in New Hampshire State Purchasing

Another concern of the GEC is that the current evaluation techniques employed by the agencies in the RFP process are not providing the best value for the state. Some bids are evaluated only on price. This often results in the state getting the best price, but not the best value. Often the cost of selecting the lowest priced bid is realized in time as the lowest priced hard goods and services are often of the least quality.

At the same time, evaluating contract bids only on qualifications and ignoring price in the evaluation process does not result in the best value for the state either. In bids for provision of technically skilled labor, for instance, the state often evaluates contracts based first on qualifications and then works with the selected bidder to negotiate a good price. Price negotiations in such a procedure operate in a vacuum of knowledge about competitor prices. In both such instances, the state is not using a process to obtain the best quality for the best price.

Many state purchasing offices across the country have been faced with these same issues. It is a challenge to fashion a better system because “lowest price” and “best qualifications” are fixed, easily evaluated terms. Still, some states have developed a process designed to achieve the best value.

Considering a Best Value System

Using a selection process designed to achieve best value for the state is a more involved process, yet creates substantial gains over other systems implemented for procurement. Because best value is a more complex form of bidding, it's not well understood and has been often overlooked by agencies as a form of procurement. Part of the problem is that the term "best value" is relative, whereas "low price" is fixed. Under a best-value system, departments are encouraged to consider the “investment” aspect and potential future gains associated with procurement. For example, replacement, operational, maintenance and repair costs that may add to the overall cost of an item in the long run are taken into account when drawing up specifications and when evaluating resulting bids. Many procurement offices now look to life-cycle analysis, which determines the long-run cost of implementing a product or contract, so that offices and agencies have the information to evaluate which bid makes more sense and will be most efficient in the long run.

Benefits of Best Value Based Evaluation: Evidence from the States

Many states now use a best value system for selection of procurement contracts. In all of the states that have implemented a best value RFP method, similar issues were confronted that led to the development of the system.

- Accepting bids based on price was creating long-run efficiency problems.
- Accepting bids on price was preventing the state from investing in products or services for the long-term.
- How could a process be created that would include multiple variables other than price to result in the best outcome?
- How could different agencies with various areas of expertise work together to select the best product or service?
- How could such a process be created that would be fair and balanced and that would stand up to court review?

The states with overall best-value systems include: Washington, Utah, Massachusetts, and Missouri. Other jurisdictions, such as Texas, North Carolina and New York City, have revamped their procurement procedures to include a best value system for dealing with IT purchases. We focus here on Washington and Massachusetts as examples.

Best-Value Procurement in Massachusetts

The Commonwealth of Massachusetts recently reformed its procurement policies and procedures to empower departments to procure goods and services at best value. Their handbook states: "...higher quality may be more cost effective over time when compared to a lower quality, less costly procurement. Long-term investments, as appropriate and necessary, and long-term value are also important considerations beyond cost...."[19]

Massachusetts departments engaged in the RFP process are charged with addressing the issues of desired outcome and the best methods to achieve the desired outcome. The Massachusetts Operational Services Division uses that information to design a procurement process that obtains the desired outcome in the most efficient and effective manner.

Under Massachusetts' law, departments pursue procurements that achieve a balance of interests and offer the best "deal" or "value" by developing criteria that measure factors beyond cost. Within these criteria "best value" is defined as:

> The result of common sense Procurement decision-making consistent with the State's Procurement Principles, which are to balance and support the achievement of: required outcomes, best quality economic value, timely performance, minimizing the burdens on administrative resources, expediting simple or routine purchases, flexibility in developing alternative Procurement and business relationships, encouraging competition, encouraging the continuing participation of quality Contractors and supporting State and Department Procurement planning and implementation.[20]

Massachusetts uses best value as its goal in all procurements. The procurement office acknowledges that with some items, the best price is the same as the best value.

Best-Value Procurement in Washington

Washington's purchasing requirements and strategies are based on the "value for money principle." The objectives of obtaining value for money are to achieve the best possible return from state spending on goods and services; and to recognize that this may not necessarily amount to purchasing at the lowest price.[21]

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[19] Massachusetts Procurement, Policies and Procedures Handbook, July 2000.
[20] Code of Massachusetts Regulations Title 80: Executive Office for Administration and Finance, Chapter 21.00: Procurement of Commodities or Services, Including Human and Social Services.
[21] Washington State, Department of General Administration Purchasing Manual. The manual can be viewed at www.ga.gov.pca/Manual.htm.

Washington State's value for money principle embraces:

- The "total costs of ownership" or "whole-of-the-life-costs" perspective;
- The fitness for purpose of the goods or services;
- Timely delivery;
- Proper planning and scope of procurements; and
- Considering all relevant price and non-price factors before a final procurement decision is made.[22]

Implementing a Best Value Procurement Structure in New Hampshire

In the best-value procurement systems detailed here, emphasis is placed on the judgment of the procurement office staff and the staff of the agencies who require the product or service. A central procurement office aimed at achieving best value must define the questions to be asked in writing an RFP or competitive bid specification aimed at achieving a best value result. Using the questions framed in Massachusetts and the principles outlined in Washington, a new procurement office will be able to outline a structure for New Hampshire agencies to follow under the guidance of this BPP. Agencies that must follow federal guidelines to ensure federal grants should work to implement best value where it is appropriate and will not interfere with funding opportunities.

As in Massachusetts, the BPP should present a handbook on the best value RFP process to all agencies. It could work with those agencies to draft the specifications of the RFP and to tailor the best value criteria specific to that RFP.

Section II. Implementing Change to the Procurement Process

It is the view of the GEC that New Hampshire has much to gain from increased efficiency, streamlining and innovation in the procurement process. With this in mind, the GEC outlines the following two to three year plan for change in the procurement process.

Step One: Establish a New Hampshire Procurement Commission

The GEC looks to the example of the Texas Building and Purchasing Commission (TBPC) for its model of change. The TBPC consists of members appointed by the Governor, the Speaker of the House and the Lieutenant Governor. It is charged with improving the business practices and reputation of the state of Texas with regards to buildings and purchasing. The TBPC also looks to identify and implement innovative procurement methods with an eye to removing barriers to cost-effectiveness, and to improve

[22] Washington State, Department of General Administration Purchasing Manual. The Manual can be viewed at www.ga.gov/pca/Manual.htm.

delivery of services. Finally, the TBPC looks to improve the internal culture and communications of the procurement department.

TBPC commissioners may not be appointed if that individual or the individual's spouse:

1. Is employed by, or participates in, the management of a business entity or other organization that contracts with the commission;
2. Owns or controls, directly or indirectly, more than 10 percent interest in a business entity or other organization that contracts with the state; or
3. Uses or receives a substantial amount of tangible goods, services or money from the commission.[23]

The TBPC meets at least once per month and all members attend a training program provided by the Texas government so they are familiar with procurement procedures.

Establish a Procurement Commission in New Hampshire

The GEC believes that New Hampshire would benefit from such a commission to oversee change in the procurement process. This Procurement Commission should be made up of equal numbers of appointees from the House, the Senate and the Governor. Each appointee should meet eligibility criteria similar to those outlined in Texas precluding appointees who do significant business with the procurement office.[24] Further, appointees should be precluded from contracting with the state for at least 12 months following their participation on the commission. Appointees should sign an affidavit testifying that they meet and understand those criteria. Appointees should have experience in the purchasing process, negotiating contracts or in advertising. The Commission should be appointed for a term of two years, with a review by the Legislature at the end of those two years to determine whether a third year is needed to achieve the change envisioned by the commission.

This procurement commission should work to improve the efficiency, innovation and streamlining of the procurement office in New Hampshire. It should advise the procurement office and state agencies on the policies and procedures of procurement. It should be empowered to talk to the agencies which the procurement office serves to determine what better service that office could provide.

The procurement commission should not, however, be empowered to in any way effect the evaluation, determination or award of any contracts with the state for hard goods or for services. The commission is

[23] State of Texas, Title 10, Chapter 2155, Subchapter A.

[24] It is the intent of the GEC that individuals whose businesses may provide goods or services to the state through lesser-valued procurement means, such as purchase orders, not be excluded from appointment to the Commission.

to focus on policy and procedure, not on the day to day procurement decisions of the procurement office or the various state agencies.

Step Two: Seek Advice from States Helping States

The procurement commission should seek advice from independent procurement experts to guide their change process. The GEC recommends that the commission retain the services of the National Association of State Procurement Officers (NASPO). NASPO is a non-profit association made up of the directors of the central purchasing offices in each of the 50 states, the District of Columbia and the territories of the United States. NASPO is an organization through which the member purchasing officials provide leadership in professional public purchasing, improve the quality of purchasing and procurement, exchange information and cooperate to attain greater efficiency and economy.

NASPO's States Helping States program is an ideal vehicle from which the Procurement Commission can seek advice. It is an Interstate Consulting Service through which NASPO members and other government officials provide consulting services for an in-depth review of public procurement operations in a state or state agency.

The consultants are experienced state government officials. They are able to identify problems quickly and recommend practical solutions that have a good chance of success. NASPO will present the agency or state under review with a final report generally in no more than two months from the beginning of their review.

Costs for the States Helping States projects are low. For example, a few years ago Maryland asked NASPO to do a study on the complete procurement system in the state with a special focus on e-procurement. This project took NASPO four weeks to complete and cost the state of Maryland $10,000 - $15,000.

Once the procurement commission is established, it should request a review by NASPO's States Helping States Program of current procurement service delivery, system automation, and operational issues.

NASPO's team members should report their findings to the procurement office and the procurement commission.

Step Three: Implementing Change

With the advice of NASPO in hand, the procurement commission should work with the procurement office to outline a plan to implement the suggested change over the following 18 to 24 months. Implementation should include:

1. Determining the need for supplemental staff to facilitate the expanded responsibilities of the BPP to provide procurement policy, procedure and guidance for both hard goods and service contracts;
2. Training of procurement office staff as required;
3. Implementation of the best value evaluation system of procurement; and
4. Design and launching of a new centralized website, as detailed in Section III of this report.

The plan developed by the procurement commission and the procurement office should set timelines for achievement of change goals outlined by NASPO. The plan should also set measurable benchmarks, which the procurement commission can use to measure its achievement. The commission should meet with key procurement office staff on a monthly basis to drive this change over the period of the commission's existence.

Step Four: Measuring Performance

The procurement commission should measure its performance against the timelines and goals laid out in its plan at six months, twelve months, eighteen months and twenty-four month marks. The procurement office should also measure its performance against the plan and share that review with the commission. In addition, the commission should report to the House, Senate and Governor periodically on its success in driving change and improved efficiency in procurement.

Step Five: Closing the Change Process and Planning for the Future

Once the two years of the commission and the change process have passed, the Legislature should review the effects of the commission and determine whether it should be continued.

Items to Address in Implementing a Revised Procurement Process in New Hampshire.

In its review of the RFP and procurement process in New Hampshire and its research of best practices outside the state, the GEC noted several areas it considers in need of attention as change is implemented. The Procurement Commission and the BPP must work together to address and improve these following issues.

Writing the Best Specifications

Beyond laying out a solid, efficient and fair procedure, states and agencies face the challenge of properly specifying their needs in an RFP. A well-written RFP will help to ensure that accurate bids are received by the requesting agency. Within the RFP, the more clear and specific the information stated is the more precise will be the received responses.

All states involved in the RFP process face the obstacle of writing specifications to obtain the best bids and the best product or service to meet their needs. In many cases, neither the central procurement office nor the agencies themselves have expertise in the service or product desired. In these cases, agencies need to develop methods for gathering advice on the RFP writing and evaluation processes.

Many states make use of Requests for Information (RFIs) to achieve this goal. An RFI, as defined by the state of Washington,

> Is not a formal solicitation, but rather an information-gathering tool. No contract will be awarded as the result of this RFI. Release of this RFI does not obligate the state of Washington or the Office of State Procurement to take further steps including, but not limited to, issuing a formal solicitation document.

Other states invite outside advisors to participate in drafting the RFP specifications or in the evaluation process or both. One specific example of outside advisors offering input on the award of a contract comes from the state of Missouri. During the development of an RFP for information technology products and services, considerable vendor input was solicited to ensure that the state of Missouri's expectations were reasonable and in line with standard industry practice. Such a process also ensures that the state is able to acquire the state-of-the-art equipment or services that will ensure it receives the most value from the product or service in the subsequent years.

It is the recommendation of the GEC that if an advisor is retained to assist in the writing of bid specifications, that advisor should also play a role in evaluating the resulting bids.

The Benefits of a Pre-Bid Meeting

Some states and some agencies within states require attendance at all or selected pre-bid meetings where all vendor questions can be addressed in an open format, and all vendors receive the same answers and are privy to all information.

Other states hold pre-bid meetings that are recommended, but not required. When this is the case, the best practice comes from the state of Washington where follow up to the pre-bid meeting, and any changes to the specifications or any part of the RFP, are noted on the website in a clearly separate and dated amendment. Washington also notes in its *Standard Instructions to Bidders* that,

> All questions related to RFQ or RFP shall be directed to the Office of State Procurement. Inquiries shall be in writing and shall reference the appropriate section and paragraph number. Questions received less than ten (10) calendar days prior to bid opening may not be considered. Only questions answered by written amendment are binding. Oral interpretations have no legal effect.[25]

The BPP should consider the value of requiring pre-bid meetings on all RFPs.

The Bid Evaluation Process

Bids must be evaluated in exact compliance with stated criteria in order to determine which represents the best possible value. Any criteria, other than price, to be used in evaluating solicitations must be stated when requesting bids with sufficient clarity and exactness to inform each bidder of the factors, which will be used in evaluating a bid in relation to others. Factors such as award price, life-cycle value, estimated quantities, and delivery time when the need is urgent, together with damages in case of delay and any other circumstances which may cause the award to be made in an "unusual" manner, must be set forth in the invitation for bids.

Evaluation criteria should be individually tailored to each RFP. Further, evaluation criteria should reflect the agency's minimum needs, and should not be so restrictive as to limit competition. The agency and the BPP should work together in developing the evaluation criteria to ensure that the needs of the agency and the needs of fairness and the process are met.

Again, if the agency has hired an expert to assist in writing the RFP specifications, that expert should be included in the evaluation process. This is an opportunity for the state to benefit from the knowledge and background of that expert in evaluating the bids that resulted from the RFP he or she assisted in drafting.

Open Review of the Evaluation Process

In order for vendors to improve their products and their opportunities to work with the state, the results of the RFP bid evaluation process are open for their review. This also increases the transparency of the process ensuring perceptions of fairness. Currently, many offices require that bidders visit their office to view these results. The BPP should make reviews of closed bidding processes more available by mailing or faxing results upon request. Some states even post bid evaluations online for bidders to review, which New Hampshire should consider. Detail of this online posting is presented below.

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[25] Washington State Department of General Administration, Competitive Procurement Standards, Standard Instructions to Bidders, Revised 6/2/2003.

Working to Obtain the Best Price: Using Best and Final Offer

Currently, New Hampshire procurement procedures provide little opportunity for contracting agencies to work to obtain a better price on a service or hard good for which they have requested bids or for which they are completing the RFP process. Several other states, including Massachusetts and Texas cited above, implement an additional round of bidding called the request for best and final offer (BAFO). The BAFO procurement strategy permits buyers to obtain revised proposals from vendors. Typically, in a BAFO process, they identify those proposals received that they view as capable of delivering the required results cited in the original RFP or solicitation of competitive bids. This evaluation is the same as would normally be done to develop the short list of finalists. The finalist(s) are then provided detailed questions related to their proposals, or informed of those parts of the proposals that are deficient.

The vendors invited to participate in BAFO are given the opportunity to redo their proposals. Vendors will be apprised which areas of their proposal are insufficient to meet the agency's needs. Vendors are then provided the opportunity to improve their offering and to eliminate unacceptable conditions contained in their original proposal. The amended bids are then re-evaluated and re-scored according to the evaluation process defined in the original solicitation of bids. To be clear, the RFP or bid specifications must contain language that properly defines the rules of the procurement process and that the BAFO may be required of some or all vendors as the contracting agency sees fit.

A BAFO Example

As an illustration, suppose an agency has received bids in response to an RFP for data entry services. It has received seven bids and from its initial evaluation the agency believes that five of the seven vendors would be able to meet its specific needs. However, two of these five agencies have presented their budgets in terms of hourly payment, and the other three have presented their budgets in terms of payment per unit of data entry. The agency will request a BAFO from these five agencies specifying the presentation of budget that the agency would prefer. This BAFO provides an opportunity for the vendors to revise their proposals with regard to budget, proposed costs or other amendments. The agency will then review these BAFO proposals and re-evaluate all proposals based on the revised portions of their proposals.

In completing the BAFO section of the procurement process, all of the revised portions of the proposals must be re-evaluated and points re-assigned accordingly for the particular vendor(s) who are asked to go through this final process. The BAFO is the final opportunity for the vendor to improve the proposal by submitting revised proposed costs as well as other amendments.

Massachusetts uses the BAFO in a number of circumstances including when:

1. The pricing was too high;
2. The prices offered by bidders were difficult to compare and therefore wanted a different price presentation;
3. To clarify confusing proposals; and
4. To assist the decision making process by providing more information to differentiate between bidders.

According to deputy purchasing agent, Ellen Bickleman, of the Massachusetts procurement office, whenever the BAFO option is used in that state, the state obtains a better price for its procurement item.[26]

Many states find it useful to include a BAFO stage in their procurement process when no single response addresses all the specifications, when the costs submitted by all bidders are too high, when two or more bidders are virtually tied after the evaluation process, or when all bidders submitted responses that are unclear or deficient in one or more areas.

The GEC recommends the implementation of a BAFO structure to the procurement process in New Hampshire. BAFO would enable the State of New Hampshire to negotiate any aspect of proposals that seem questionable, incomplete or too expensive. If the BAFO procedure contains meaningful revisions to the original proposal, then this is the process where the most qualified vendor can be selected to perform the contracted service but with additional changes, including price.

This would allow for New Hampshire to be in a position to ask for additional savings beyond that of a static, one-round RFP process. BAFO is a valuable resource for all procurements as it is the only step in the process where the vendor is given an opportunity to amend the proposal, including offering the state a better price.

Increasing Accountability at the Agency Level

In its survey of the procurement process in New Hampshire, the GEC developed concern that agency commissioners were not always aware of unusual or suspect RFP procedure. The GEC would like to see a process developed that increases accountability at the agency level, but does not introduce more bureaucracy and more steps in the RFP process. This should be among the top issues to be addressed by the Procurement Commission and advised by a review by NASPO.

[26] Phone interview October 31, 2003.

Additional Recommendations for Increasing Efficiency in Procurement

In addition to the recommendations above, the GEC has identified other, less comprehensive change-based items where the BPP could gain efficiencies in its practices.

Purchasing Structure Limits

In assessing the procurement structure in New Hampshire that dictates purchases at certain dollar amounts be transacted in specific ways, the GEC considered that the procurement process might benefit from a reassessment of those dollar limits.

	Dollar Limit	**Purchasing Method Required**
New Hampshire		
	Less than $500	Field purchase order
	$500 - $2000	Purchase order
	$2,000 and above	Three competitive bids
	$35,000 and above	RFP or bid awarding criteria*
*Requires the objective criteria by which each submission will be reviewed, including requirements that will receive more weight in the review of the submission, and the standards upon which any award will be based.		

With that in mind, and since many states have cutoff amounts that dictate when a purchase will be open to competitive bidding, or other levels of purchasing structure, the Beacon Hill Institute undertook a survey of several states' dollar limit structure.

Purchasing Structure/Dollar Limit Structure

	Dollar Limit	**Purchasing Method Required**
Massachusetts		
	Less than $5,000	Purchase order/purchasing card
	$5,000 - $25,000	Three competitive bids
	$25,000 and above	RFP
Maine Limits apply to hard goods purchasing only. In all cases emergency procurements may be exempted from the stated method. All contractual services (except standard maintenance and custodial services) are procured through the RFP process.		
	Less than $2,500	Purchase order/purchasing card
	$2,500 - $50,000	Three competitive bids
	$50,000 and above	RFP process
Connecticut		
	Less than $2,500	Open market purchases at agency level, no quotes needed
	$2,501 - $10,000	Three (3) written quotations must be solicited
	$10,001 - $50,000	Competitive bid process delegated to agency to obtain written quotes
	$50,001 and above	Publicly advertised sealed bid/RFP must be administered by procurement office.

These states have a limit of $50,000, or at least $25,000 and above, before the RFP process is required for hard goods. The new centralized procurement office should look to increase the FPO and competitive bid limits to streamline the process for small purchases. Also, in New Hampshire there is no specific dollar guideline for using the RFP process as opposed to simple competitive bidding. The determination of what method to use resides with the agencies. Without a central approval process the RFP process can be used when it is unnecessary. This can lead to wasted time and resources. The use of the Request for Proposal, as opposed to competitive bidding, should be determined by a central procurement office within administrative services. The requesting agency should have to make the case for the longer, more complex, and costlier RFP process.

State Purchasing Cards

Currently, the State of New Hampshire does not employ a state purchasing card. This is an impediment to efficiency as agencies need to use the complex purchase order process to purchase any and all items. This purchase order process often creates inefficiency and added costs for agencies. For example, a state park worker who needs a rake to clear brush at the start of the season cannot simply purchase one at a local hardware store. That park worker needs to fill out a purchase order request and have it authorized. The worker then needs to bring the provided purchase order number to a vendor who accepts purchase orders and purchase the rake. Many stores and vendors do not accept purchase orders, which are essentially a promise by the state to pay for the item upon receiving a bill from the vendor.

If agencies were afforded the use of state purchasing cards, that state park worker could go to the local garden shop or hardware store, purchase a rake and be at work clearing brush the same day. Further, agencies could take advantage of sales in their area, purchasing items when a local vendor offers a discount and saving the state money.

The use of state purchasing cards serves not only to streamline the purchasing process, but also provides much of the tracking services that the procurement office needs for accounting and budgeting purchases. Several different credit card companies are used across the country, each with the ability to provide the guidance and support in tracking, proper use and accounting that the state will require.

The state of Washington is at the forefront of streamlining its purchasing process by implementing and encouraging the use of state purchasing cards. Not all agencies in the state choose to have credit cards. Those who do establish guidelines or follow those set by the procurement office for the use of the credit cards, set credit limits, determine who will have cards and how the card will be used.

In Washington State the procurement office provides some guidelines and holds agencies to limitations with regard to the amount they can spend before bidding must occur. In many cases, including Washington and North Dakota, even when bidding is required according to the purchasing structure, payment by a state purchasing card is still encouraged.

As the agency charged by the GEC to streamline the procurement process, the expanded office of procurement should look to implement a state purchasing card in a timely manner. They can look to experiences in Washington and in North Dakota as starting research into how to implement guidelines to improve state processes and protect the state's interests. New Hampshire should also consider additional purchasing card benefits that may be available, including cards that allow the users to accrue points that can be redeemed toward travel. If multiple state agencies were using the same card to purchase items, the state could accrue numerous points toward travel savings, etc. Such card features can be described in the specifications when the bid for service on purchasing cards is posted by the BPP.

Cooperative Purchasing

Cooperation among states in purchasing or contracting collectively has become a new way for states to effectively find the best possible deal for a particular service or product. There are many reasons why cooperative purchasing can succeed, including if one of the states has better resources for contract negotiation, or other experts, and a more positive working relationship with vendors. Further, cooperative purchasing among states helps to maximize the benefit of funding dollars. Increasing bid volumes can result in better pricing, more contract choices, less use of staff time, greater customer satisfaction, and a strong relationship between the two states involved. Cooperative purchasing agreements can be formed for the purchase of technology products, paper goods, vehicles, or any item where a volume discount would apply.

One example is the purchasing cooperative agreement between Washington and Oregon. It eliminated duplicate procurement costs and increased the participation in cooperative purchasing among political subdivisions (county, city, school district, etc.) in both states. Under the agreement, when a qualified political subdivision joins the state purchasing cooperative of either state, it is automatically allowed, but not required, to purchase through the other state's contracts.

Another cooperative purchasing agreement exists between the states of Vermont and Massachusetts, which have established a cooperative purchase contract for software equipment. These two states in this particular instance found that these cooperative agreements can work when the other state(s) actively participate in the administration of the contract and see immediate return of the contract's cost/benefit as well as reduced administration effort.

The establishment of a multi-state software contract that maintains the same cost-plus rate structure is an attractive way to use the existing cooperative agreements to make better and more efficient purchases. New Hampshire has recently entered into a cooperative purchasing agreement with 32 other states to acquire technology products. New Hampshire should look for more such opportunities to join existing states or develop new cooperative purchasing contracts when it is feasible and would result in cost efficiencies.

Section III. Tools and Resources Needed for Successful Change

In order to successfully achieve the best procurement structure for New Hampshire, the BPP will require certain resources and tools, which are outlined in this section.

Qualified Staff

A centralized procurement office and the implementation of best value based procurement requires that New Hampshire have a staff qualified to meet the needs of this expanded BPP. The BPP will be called upon to provide structure, guidelines and assistance in the writing and possible evaluation of RFPs. Thus, it will need a staff qualified for this task. Current staff may require additional training and more staff may be required. Additional staff who have had a primary responsibility to provide service procurement may be identified in other agencies and repositioned to the DPPM, since the need for agencies to provide procurement services will be lessened through expansion of the DPPM.

The GEC recommends that the BPP call upon the National Association of State Procurement Officials to help them assess their needs and improve their resources. NASPO provides an assessment program of state procurement offices and procedures called the "states helping states" program. This program brings experts in the field of procurement in from other states to evaluate the policies, practices and staff of a procurement office. Assessment by the NASPO will help New Hampshire to assess its processes and what resources it needs to implement change.

NASPO also works with the Universal Public Procurement Certification Council to award certification to public purchasing officers and to public purchasing buyers. Obtaining these or similar certifications should be encouraged among the BPP staff.

It is important that as BPP staff is called upon to provide more services, they are equipped with the skills necessary to meet these challenges.

A Centralized Website

Another important feature of a streamlined RFP bureau and procurement office is a centralized website. In its best practice research into the general operating of procurement, the GEC discovered that New Hampshire is woefully lacking in the use of technology, specifically the Internet as a resource for publication of RFPs. GEC research into the current status of contract procurement in New Hampshire revealed a less than desired number of bidders and a complex process which vendors found difficult. One important step toward resolving both of these issues is to create a centralized website for vendors interested in contracting with the state.

It is in the best interest of both the State of New Hampshire and the vendors wishing to do business with the state, that there be a central clearinghouse where needs and offers of service can be exchanged. The best framework for this clearinghouse is a centralized website designed to achieve the goals of streamlining the process, acquiring more bidders and facilitating the RFP process.

Centralized Website Evidence from the States

In our research, two states, Maine and Washington, stood out as examples of the best presentation of and access to procurement and vendor information.[27] Each site has individual features of note, which should be incorporated into the design of the New Hampshire website. The primary features of each site, which a newly developed New Hampshire site should contain, include:

- Streamlined point of access;
- Current goods and services bidding opportunities;
- Specialized/unique process bidding opportunities.

Centralized Website: Streamlined Point of Access

The websites of both Maine and Washington offer vendors the opportunity to register to work with the state online. Both states also present their procedures, protocol and notes for bidding for vendors to review. Washington, which is making great strides in streamlining all of its purchasing practices, also allows and encourages vendors to register for the statewide vendor payment program, and also encourages vendors to sign up for payment by direct deposit which they can also do online.

Maine's website is equipped such that all transfers of data between bidders and the procurement office can be done electronically by registered vendor. Thus, vendors can become certified, submit bids, and receive confirmation of receipt of bids all online. Bidders can also see bid results the day after the bids are closed via the website. This eliminates the mail system or vendors trying to reach the Division of

[27] The sites can be viewed at: http://www.maine.gov/portal/business/vendors.html (Maine) http://access.wa.gov/business/awdoingbusiness.aspx (Washington)

Purchases in person for the bid opening on time. Bid/quote opening time has been set at 5:00 p.m. local time. By 8:00 a.m. the following business day, registered vendors are able to log into the system via the website and view the bid/quote responses. This makes working with the state more efficient for vendors, as they no longer need to attend bid openings or call the office for the results.

Maine also offers opportunities for vendors of hard goods to work with the state via its website. For hard good purchases, vendors can submit their available prices and specifications online in response to state needs and receive automatic confirmation that the Division of Purchases has indeed received their submission.

Maine does not guarantee that all of its RFPs are posted online and advises vendors to contact the office for a complete list. Washington requires by state rule that all technology procurements above $250,000 in value be posted online. Other RFPs are not required to be posted online. Washington also cautions bidders of the responsibility that comes with using their website as a tool. Washington's website states: "If you received a copy of this bid through the Internet…it is the bidder's responsibility to check the Internet page for amendment, or modifications prior to submitting a bid or proposal. The state accepts no liability and will provide no accommodation to bidders who fail to check for amendment and submit inadequate or incorrect responses."

Centralized Website: Current Bidding Opportunities

The full text of RFPs is available for download on the state of Washington's website. Washington's site also provides all bid amendments made as a result of pre-bid meetings or other review. These amendments are presented separate from the RFP itself and dated so that visitors to the site can determine whether they have obtained all the most recent information for a specific RFP. The Washington site also provides a detailed search function so that potential bidders can search current RFPs by keyword, by RFP number, by agency, etc. The site also presents recently expired contracts, information about awarded contracts, including how many were awarded to minorities, women, non-profit agencies, etc. This presentation of historical information on RFPs works to increase the transparency of the system, and thus, to enhance the credibility of the state procurement process.

In Maine only the RFP title and summary are presented, bidders are invited to call to have the full RFP sent via mail or fax.

Centralized Website: Obtaining Information About Potential Bidders

Washington State asks vendors to submit detailed information (federal identification number, etc.) before viewing RFPs online. This is not required, but requested and suggested. This allows the procurement office to track visitors to the site, who is viewing the RFPs and who submits bids. It also provides the state with a list of potential bidders whom the state could contact to request bids on future projects. Washington also allows vendors to register with its online Procurement Announcements List, which sends e-mail notification to potential vendors when new RFPs or bid notices are posted on the site.

Centralized Website: Current Bidding Opportunities for Specialized Bids

Maine Department of Transportation has a bidding process that is different from that followed by the rest of the state. Despite this, information about RFPs and contracting with the Department of Transportation is provided on the state's central website, but in a separate section. The state is, thus, keeping to its understanding that a central location for all contracting opportunities is important.

Implementing a Centralized Website in New Hampshire

Implementation of a centralized website for RFP posting for hard goods and for contracts and services is a critical step for the BPP to take. Development of the website can be facilitated through the new Office of Information Technology and should take the best practice evidence presented above. New Hampshire should learn from the developments other states have made to achieve the highest quality, best service web system possible. Posting of RFPs on the BPP's central website should be required. Further, results of the RFPs process should remain on the website through the term of the contract, and at least twelve months after for public reference and to increase transparency.

Notification and Announcement of RFPs

Several states, including Maine, do still require that notification of RFPs and (Request for Bids) RFBs be posted in newspapers across the state. Some states have taken steps toward electronic notification by posting the RFP website in the newspaper, saving newspaper column inches, and thus, money.

Others are moving toward heavily web-based notification through the use of e-mail announcement services and centralized websites. Most states still provide mailed or faxed copies of procurement documents upon request. The State of New Hampshire should include in its steps toward efficiency. New Hampshire can still, however, move more toward a model where information is readily available online and in certain state locations in hard copy, such as libraries or post offices.

We propose the following for consideration in New Hampshire. On a weekly or biweekly basis the new Office of State Procurement posts a legal notice in the newspaper listing all new RFPs that were posted during the preceding period along with the website and phone number where additional information can be acquired. Based on an average legal notice cost of $300 (preliminary estimate from FY2003 data), a weekly practice would cost the state $15,600 annually and a biweekly practice $7,800 annually, compared to the estimate of $524,000 for FY2003 provided by Stephen Mosher of administrative services.[*] This would result in annual savings of as much as $516,200 in advertising costs alone. Estimates of efficiency increases and cost savings due to centralized and streamlined advertising from one office on a biweekly basis would add to this saving.

Conclusion

Implementation of all the recommendations included in this report section will result in a substantially streamlined and standardized procurement process. All procedures and protocols for procurement of hard goods and of services will be provided and enforced by the DPPM. The DPPM will serve to advise, support and guide agencies through the service procurement procedure. The DPPM will streamline the procurement process for the agencies by limiting the use of the RFP process where appropriate to higher value, more complex contracts, by providing state purchasing cards, by revising the purchasing structure dollar limits and by providing a handbook for policies and procedures. The DPPM will assist agencies to achieve better procurement outcomes by developing a centralized website for vendor access and outreach, by seeking opportunities for cooperative purchasing and by implementing the best value guidelines for all procurement.

Summary Recommendations

The GEC makes the following recommendations to improve the New Hampshire procurement process.

1. Expand and enhance the services of the Bureau of Purchase and Property (BPP) to provide not only hard goods procurement, but also protocols, standards and guidance on contract and service procurement. *(Legislative and operational*)
2. Implement a best value procurement system. *(Legislative and operational)*
3. Establish a Request for Proposal (RFP) process to be implemented and enforced statewide that includes: *(Legislative and operational*)
   - How to write bid specifications
   - How to set up the evaluation process, and
   - How to provide an open review of the evaluation process for bidders.
4. Establish a temporary procurement commission to guide change in the New Hampshire procurement system. *(Legislative*)
5. Invite the National Association of state Procurement Officers (NASPO) to implement its "states helping states" program to review the procurement system in New Hampshire and help to direct the change plan. *(Operational*)
6. Ensure that the BPP has sufficient staff and resources to meet its expanded needs. (*Legislative and operational*)

[*] Mr. Mosher proposed a similar change to the RFP and job posting process in a memo dated November 2, 2001.

7. Implement a centralized procurement website where it is required that all RFPs be posted. (*Legislative and operational*)
8. Require that RFPs and the associated bid history remain on the website for two years after the bid has been awarded. (*Legislative and operational*)
9. Limit newspaper notification of RFPs to direct readers to the central website or to call the BPP office for details. *(Legislative and operational*)
10. Review and revise the purchasing dollar limit structure. *(Legislative*)
11. Implement and encourage the use of a state purchasing card. *(Legislative*)
12. Increase cooperative purchasing where appropriate. *(Operational*)

Cost Savings Due to Implementation of the Procurement Recommendations

Savings From Centralization, Best Value and Best and Final Offer

We estimate that implementation of these three recommendations will save the State of New Hampshire a conservative 5% on all procurement. Therefore, we estimate savings of $13,032,360.

- Total hard goods procurement expenditure in FY 2002: estimated $98,000,000[28]
- Estimated total service procurement in FY 2002: $162,647,205
- Total estimated procurement in FY 2002: $98,000,000 + $162,647,205 = 260,647,205
- $260,647,205 * .05 = $13,132,360
- ***Estimated savings of $13,132,360***

Costs

Review and Recommendations from NASPO

We estimate the cost of a review of the procurement process in New Hampshire with an emphasis on moving to e-procurement will cost between $10,000 and $15,000.

Estimated cost of $15,000

Additional Staff for the BPP

We believe there may be sufficient staff located within state agencies that could be repositioned under the BPP with the reduction of procurement responsibility at the agencies. Should *additional* staff be required, the cost for an additional staff procurement officer (including equipment, benefits, etc.) at the BPP is estimated to be $56,136.[29] ***Estimated cost of $56,136.***

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[28] The 2002 total hard goods procurement estimate is reported by the Division of Purchase and Property Management at $100,000,000, which includes $2 million of information technology purchases. In order not to count savings from IT which are discussed elsewhere in that report, we use $98,000,000 to calculate our estimate.

[29] Form 7D request for new full-time permanent position purchasing agent (contracting officer) submitted by the BPP in FY2002, but never approved.

Training

We recommend that all procurement personnel be certified by NASPO and the National Institute of Governmental Purchasing.

- Attendance at the NASPO conference and training estimated cost per staff member: $500
- Total current BPP staff: 15
- Estimated new BPP staff [30]: 3
- Estimated total cost: 18 * $500 = $9,000
- ***Estimated cost of $9,000***

[30] Based on additional staff note above plus repositioning two staff from other agencies.

F. Boards and Commissions

Introduction

The GEC has identified the numerous boards and commissions of the State of New Hampshire as an opportunity to realize efficiency, increased service levels, and achieve cost savings through consolidating the overhead expenses of boards with similar objectives and areas of administration. The first task of the GEC was to identify the boards and commissions that have been established in the State of New Hampshire. The GEC compiled a final list that identifies 249 Boards and Commissions in the executive branch of the New Hampshire state government comprised of 2282 appointed members.

The GEC believes that some of the boards could be consolidated, such as all of the boards dealing with water in DES, but realizes that the resulting cost savings would likely be small and that the political will to reduce the number of boards may not be present at this time. The GEC recommends that any process of board and commission consolidation should be transparent and proceed with a very high level of citizen involvement.

The GEC does believe there are significant savings to be realized by bringing the boards together in central locations and sharing the administrative functions of the boards. An example is the boards and commissions within the Department of Health and Human Services (DHHS). DHHS has 21 professional licensing boards/commissions administratively attached to it and the business administration of these boards is fragmented. The following is an example of how the process could be streamlined and save money.

Pilot Program: The Department of Health & Human Services Licensing Boards

Of the 21 boards at DHHS, the larger ones handle the licensing of several thousand professionals, and have budgets sufficient to support offices, which perform all accounting, licensing, clerical and, in some cases, investigations. At the other end of the spectrum are the smaller boards which have no full-time staff and less than 2,500 licensees. Many of these have arrangements with DHHS to perform the administrative functions. The boards of optometry, podiatry, and nursing home examiners have arrangements with the board of medicine to perform their administrative functions. The allied and dental boards share space with the larger board of medicine; and mental health shares space in a DHHS facility. There are two advantages of jointly administering the smaller boards: efficiency and quality of service provided to the boards.

Efficiency

It is difficult to estimate how much can be saved by jointly administering the boards without determining which boards will participate, and what the staffing and space requirement will be. Two indications of potential savings are:

- Number of licensees per full time employee (FTE), and
- Cost per licensee for operation of the board

	No. Licensees	F03 Budget Adj. Auth	Admin. Staff	Licensees Per FTE	Cost Per Licensee
Largest Four Boards	58,296	$2,282,412	23	2,557	$ 39.18
Other 17 Boards	8,363	$ 869,840	12	703	$103.99

From a purely statistical perspective, if the cost of operating the 17 smallest could be reduced to $39.18 per licensee the combined operating costs could be reduced by $541,000.

Quality of Service

The GEC proposes to operate one jointly funded location and administrative staff for the smaller boards. The advantages of this arrangement over the present arrangement of having administrative services performed out of the DHHS Office of Program Support is that the smallest boards will have a permanent home and staff to manage their administrative functions. A board room located in the facility would provide a meeting place for the boards in a location easily accessible to the records and staff. Additionally, as new licensing boards are established, they would be directed to this office for assistance on getting organized.

Preliminary Concept

The GEC proposes that an office of approximately 2,000 square feet be leased at an estimated annual cost of $22,000. This facility will house administration for the small boards. The boards of allied health and dental currently share space with medicine. While they have expressed interest in the concept, it has been assumed that their existing arrangement will remain intact. Some of the larger boards also expressed interest in the concept, but their participation has not been covered in this proposal. However, the sharing of administrative and offices expenses by the larger boards would provide additional significant synergies and should be considered by these boards in the future.

Cost Sharing

Personnel

Boards which have budgeted for part-time personnel will have the option to continue to pay the full cost of their part-time staff person. They will share in the cost of the full-time administrative person and related expenses.

The proposed formula for sharing the costs associated with full-time support, oversight, recruitment support, coverage when any existing board-staff is away, is as follows. Boards with their own staff will contribute $4.00 per licensee; other boards will contribute approximately $40.00 per licensee.

Occupancy

It is proposed that an office be leased in the Industrial Drive area where several of the boards have rented space. An area of 2,000 square feet, which includes a room to accommodate meeting space for the various boards will cost approximately $11.00 per square foot, which includes all taxes and utilities. Cost sharing would be allocated according to distribution of the boards' approximate total of 4,100 licensees. As a base estimate, each board would contribute $5.50 per licensee.

Some modification to the per licensee billing rates may be warranted to establish a minimum charge since some functions such as budget preparation are not variable with the number of licensees. Another adjustment may be that newly created boards should pay a surcharge in the first year or two of existence. It takes a disproportionate amount of time and effort to establish a board and go through the first round of licensing. The other boards should not have to subsidize these efforts.

This approach could be expanded to other departments, saving money and improving service and efficiency. Admittedly, there would be disruption and a test of the aforementioned political will to make the necessary changes. However, by using the DHHS boards as a model, other departments can learn from their experience if and when they move forward with consolidating the location and administration of their licensing boards.

The GEC makes the following recommendations regarding consolidation of boards and commissions.

1. Consolidate the office space and administrative functions of the smaller licensing Boards within the Department of Health & Human Services. *(Operational)*
2. Use the experience of the Department of Health & Human Services process as a model to proceed with consolidating boards within other New Hampshire executive branch departments. *(Operational and legislative*)

G. Department of Corrections

Introduction

The prison population of New Hampshire is growing at a faster rate than the growth in population. If the trend continues, New Hampshire will have no choice but to build more, costly prisons. The GEC has found several opportunities for the state to gain efficiencies in operation of the Department of Corrections. The state can leverage technological advances, centralized facilities and outsourcing opportunities to increase efficiencies and decrease costs.

Section I of this report will discuss the current structure of the New Hampshire Department of Corrections (DOC) and its facilities and inmates. Section II describes the various functions of the DOC their roles and recommendations for improvement.

Structure of the Department of Corrections

The New Hampshire Department of Corrections oversees the operations of all corrections entities in the state. This includes approximately 10,000 offenders in four state prisons, three halfway houses, the Secure Psychiatric Unit, and in the Division of Field Services. The prison system accounts for over $79 million of the expenditures in the FY 2004-2005 budget. The DOC brings revenue to the state through field services and prison industries programs.

Inmates are categorized by a classification system used to determine security risk, and housing requirements for inmates. The classification goes from C-5, the highest classification, to C-1, where inmates are in halfway houses, also know as Community Correction Centers or home confinement.

Incarceration

Persons are incarcerated in the New Hampshire state system if the sentence is one year or greater. Otherwise, they are housed in the county prison system. The prison system also houses inmates from other New Hampshire counties, federal agencies and other states. In return, the other entities house New Hampshire inmates under an interstate compact if there is a conflict in maintaining a safe environment for correction officers and inmates within the New Hampshire prison system. The inmate population is broken down by crime committed in Tables 1 and 2 below. Table 1 describes crimes committed by incarcerated inmates and Table 2 describes new admissions to the prison system. These data suggest that parole and probation violations account for a major portion of the inmate population.

Table 1

Description of crime	# Incarcerated	% of Total	Cost at $24,866 each[31]
Sex Offenses	534	21.5%	$13.278M
Violation of Parole	373	15.0%	9.275M
Probation Violation	337	13.6%	8.379M
Homicide	224	9.0%	5.569M
Drug-mfg., Sale, Possession	207	8.3%	5.147M
Aggravated Assault	164	6.6%	4.078M
Traffic Offenses	130	5.2%	3.232M
Burglary	108	4.4%	2.685M
Stolen Property	100	4.0%	2.486M
Robbery	91	3.7%	2.262M
Other	214	8.7%	5.321M

$$ in millions

Table 2

Description	# Incarcerated	% of Total	Cost at $24,866 each
New Prisoners	568	36.76%	$14.123M
Parole Violators	405	26.21%	10.070M
Probation Violators	193	12.49%	4.799M
Transfers – Other Jurisdictions	379	24.53%	9.424M

$$ in millions

Prison Facilities

GEC commissioners visited several of the prison facilities across the state. The Northern New Hampshire Correctional Facility located in Berlin, New Hampshire is the state's newest prison facility. Charged with the mission to support 1,000 medium security inmates, the facility currently supports 525 inmates. An additional $12 - $15 million will be needed to add the dormitory space to support the full 1,000 inmates.

[31] Department of Corrections, Annual Report for the Fiscal Year Ending June 30,2002, page 22.

The New Hampshire State Prison for Women, located in Goffstown, New Hampshire, can support a maximum of 110 female prisoners. This prison is rented from Hillsbourgh County for $175,000 per year plus maintenance. The building and land area are too small to accommodate expansion and the facility also has outdated security equipment, which is currently malfunctioning and cannot be readily upgraded. The food service equipment is long past its useful life and may require expensive upgrades. At this location there is very little in the way of vocational services or industries for women to take part in. Most of these industries have been transferred to the men's prison.

The Lakes Region Facility located on the shores of Lake Winnisquam, houses C-3 security level male inmates and C-2 level male and female inmates. The condition of the facilities range from a status of fair to poor. The men's C-3 dorms are over crowded due to condemnation of one of the campus' buildings. At this site there is the potential to repair/rejuvenate some of the buildings to house additional prisoners.

In Concord, the New Hampshire State Prison for Men is the state's oldest prison dating back to the early 1800s. In addition to housing more than 1,300 inmates, the Concord prison is also used for the processing of new inmates into the state prison system, and is home to core operations for the entire prison system.

The Concord facility also houses the Special Housing Unit (SHU) for inmates who are classified as C-5, or maximum-security inmates, as well as the Close Custody Unit (CCU) for inmates who are classified as C-4 medium-maximum-security inmates. The Secure Psychiatric Unit (SPU), also located in Concord, is a separate unit for mentally ill prison inmates, mentally ill jail inmates, as well as criminal and civil committees.

Halfway Houses

There are currently three halfway house, also known as Community Correction Centers, in the New Hampshire correction system, two located in Concord and one in Manchester. Community Corrections Centers are a college dorm arrangement with a correction official acting like a dorm monitor. To be cost effective, halfway houses should house at least 100 inmates. Halfway house residents pay for their room and board. In FY 2002, halfway houses residents paid a total of $345,078 for room and board. This saved the state approximately $464,065 in traditional incarceration costs.

Inmates in the halfway house setting are those who may have a better chance of not violating parole in a more closely supervised environment.

Prison Industries

Prison industries are a way of providing vocational experiences to the inmates and revenue generation to the state. It can be a method for recouping part of the cost of the New Hampshire correctional system. It also provides a low cost work force for state and local governments. Prison industries teaches inmates vocational trades that they may use once they are released from the system. In Berlin, prison industries is now underway, while Goffstown and Laconia do not have any programs.

Prison industries is heavily dependent upon trained staff to supervise the inmates. Inmates who work in prison industries are allowed to earn money. There is an incentive for good behavior to gain the privilege of working for the various prison industries shops.

Prison industries is involved in many industries that may not be competitive in the private market due to labor costs. The moneys received by prison industries are turned in to the general fund. Officials from prison industries indicated that some of the profits could be used to expand the industries and return additional moneys to the general fund. Some activities of prison industries are “make-work” situations such as wood splitting by hand. However, they do keep the inmates busy and out of trouble.

Warehouse

The Department of Corrections operates a warehouse to house supplies within the correction system to ensure operations are not disrupted due to supply train interruption such as weather, strikes, etc. The current warehouse is a new modern replacement to replace a warehouse that burned during the 1990s. Inmates working in the warehouse log over 1,960 hours monthly. The staff at the warehouse has made performance improvements in material handling and has undertaken efforts to measure product efficiencies and recommending product replacement to save costs. There currently is no incentive program for rewarding efforts in this area.

Maintenance

An estimated 600 repair slips for corrections facilities maintenance are submitted each month with some 7,000 inmate work hours being performed to fulfill these repairs. This saves the state over $80,000 in state maintenance employee costs.

Education

The prison system operates its own school for inmates to complete their high school diploma or GED. English as a second language courses are also provided to those inmates who do not speak English at a functional level. In addition to these courses, there are lessons in vocational education that equip inmates to work in the prison industries and to earn a living once they are released from prison.

Staff Training

All staff members and correction officers are trained by the New Hampshire Police Standards and Training facility in Concord. Generally, staff would not be trained for the job until the person passed all the requirements. Upon the opening of the Berlin facility, however, many waivers were granted to delay the requirements of the physical testing phase for one year. The result of this was that a lot of valuable on-the-job training was invested into people who were later dismissed because they could not complete the physical requirements.

Information Technology

The lack of automation and productivity tools that are common in today's business environment are lacking in the DOC. The core function of inmate tracking is on a DOS-based computer system and in general, the prison system relies on a paper-based method, which leads to inefficient use of time and resources.

Reception and Diagnostics

Reception and diagnostics is where a new inmate entering the New Hampshire prison system is processed. Currently new-inmate processing takes 45 minutes.

Investigations

The role of investigations is to look into all inmate complaints, and to recommend further action. There is currently no automation or computer-based program to assist in gathering of data, tracking of complaints or trend analysis. Some investigations are terminated because they take too long to resolve due to the backlog of investigations.

Offender Records

The records section for the New Hampshire Department of Corrections is principally paper based.

Administrative Home Confinement

Field services oversees individuals who are on administrative home confinement, which are inmates transitioning back to the community. Although the Department of Corrections had a contract for 100 home confinement units, only 24 are in use, resulting in fewer inmates being housed outside the traditional, costly prison system.

Field Services Division

The Field Services Division is responsible for parole and probation. The parole officers currently use a paper-based system in the administration of paroles. The current caseload is approximately 98 parolees to every field officer.

Findings

Outsourcing Parole and Probation Monitoring.

There are services that can be obtained that increase compliance of parolees. One such system is by Next Step Inc. It offers the Automated Management Services (AMS), which is used in Illinois and has saved significant amount of dollars. Next Step estimates that AMS can save the State of New Hampshire $7 million annually. The system works by keeping constant track of parolees using a call system that has live operations 24 hours a day. Next Step does any follow ups, verifying appointments, meetings, etc. This frees up the parole officer's time for spot-checking. Cost is approximately $0.60 per day per inmate. Again, the inmate pays for this service as a condition of and for the privilege of parole.

Outsourcing Prison Operations

Building, maintaining and operating prisons is an expensive venture. An approach that is gaining favor among many states and the federal government is the use of private, contracted prisons. The per diem cost for an inmate in the New Hampshire prison system is about $68.00 across all institutions. By using contracted prisons, the inmate cost can be brought down to $57.00 per inmate with a 1,024 inmate minimum. Further, the privatized approach allows the state to relieve overcrowding immediately. Private prisons offer a variety of rehabilitation and education programs, including adult basic education, life skills, employment training and substance abuse treatment.

Private prisons meet all the requirements of certification by the American Correctional Association. Further, the economies of scale realized by such companies as Corrections Corporation of America (CCA) allow for thorough training of all staff member in a timely and professional manner. CCA can also manage prison facilities using state-of-the-art tools. To relieve overcrowding of the New Hampshire state prison, the correction system in New Hampshire can be outsourced to realize significant savings. Inmates can be transferred to a private system through a variety of options including, relocating inmates to an existing private facility, building a new private facility in-state, or having a private firm rehabilitate and use the existing state facilities.

The current cost for incarceration of 1,024 inmates in the state prison system is $25.460 million. To incarcerate the same 1,024 inmates in a contracted private prison is $21.304 million for a savings of $4.156 million. At the close of FY 2002, there was an average total population of 2,433 inmates at a cost of $60.493 million. Had the same inmates been placed with a private prison the total population of 2,433 inmates should have been at a cost of $50.618 million.

Tracking System

Implementing a tracking system can significantly help to insure that a parolee is conditioned to know that any violation will put them back in prison. By reducing parolee violations, New Hampshire can reduce incarceration costs. By proper monitoring of the inmates, Next Step with its AMS system has shows a 15% decrease in incarceration of inmates in the first year.

Truth in Sentencing

In conversations with representatives from the GEC, numerous correction officials expressed how New Hampshire's "Truth in Sentencing" law restricts their ability to help motivate inmates. Officials expressed that since the 1980s when the law went into effect, the prison population has increased. They stated that although some prisoners work to rehabilitate themselves under Truth in Sentencing, there is less ability to offer time off for good behavior. Under truth in sentencing, the minimum time served must be half of the maximum time sentenced. The GEC recommends that a study committee review the intent and effects of truth in sentencing.

Conclusions

Given the current condition of the state prison system as described in this report, the poor condition of most of its facilities, its current inability to operate in an environment dominated by technology, and the significant expenditures the state faces in upgrading the entire system, the GEC makes the following recommendations to increase efficiency in the Department of Corrections.

1. That the state outsource the management and operation of the entire prison system. *(Legislative*)
2. That the state supplement the management and operation of the probation and parole functions. *(Legislative and operational*)

H. NEW HAMPSHIRE LIQUOR COMMISSION

Introduction

Having completed preliminary research into the operations of the New Hampshire Liquor Commission including visits to the state liquor commission, their warehouse, stores and a review of previous state audits, the GEC submits the following report which summarizes the current structure of the State Liquor Commission and summarizes the associated recommendations of the GEC.

Current Structure

The State Liquor Commission is primarily a wholesale/retail sales agency. The Commission is operated within the structure and related constraints of state government concerning budget, personnel, administration, support operations and capital expenditures. This status significantly interferes with the efficient management of a business enterprise. Two examples of this lack of effective management procedures follow.

- A new American Express credit card contract with lower charge fees was negotiated by the Liquor Commission. The agreement with American Express had to be processed following the standard state contract approval process. As a result of this bureaucratic process, implementation of the lower fee contract was delayed for over three months, costing the state approximately $1,000 per day in excessive fees, or $90,000 over the three months.
- Damage to the Portsmouth liquor store caused by an automobile accident was not repaired for over a year due to the process for administering insurance claims and appropriating funds. The appearance of any facility is of prime concern for most businesses, especially retail businesses. In this case, that concern was subverted for over one year by the bureaucratic process.

The management structure of the commission currently consists of three full-time commissioners whose responsibilities include certain regulatory, tax collection and law enforcement functions. These functions are unrelated to and, in some ways, inconsistent with its primary mission as a quasi-business enterprise.

The State Liquor Commission, for the fiscal year ending June 30, 2003, has shown a gross profit of $109,000,000. Currently, the state owns a 50,000 square foot warehouse in Concord, New Hampshire where up to 220,000 cases of spirits are stored. The liquor commission also utilizes privately-owned warehouse in Nashua, New Hampshire, which has 270,000 square feet of storage space and 20,000-25,000 square feet of trailer storage space.

Allow the Liquor Commission to Operate With Greater Independent Authority

An independent commission should conduct a thorough top to bottom study of all aspects of the retail sale of liquor in the State of New Hampshire, including but not limited to: sales, marketing, demand, product mix, general operations, warehouse operations, inventory control, hours of operation, personnel, incentives, facilities, location of facilities, store profitability, etc., with the goal of determining how much additional profit the Liquor Commission could earn if it operated as an enterprise fund. The GEC contends that if the Liquor Commission operated as a true retail business, it could easily earn at least 5-10% greater net profit over the next five years, earning an additional $6,000,000 in year one, growing to about $12,000,000 in year five.

Build a New Liquor Store on Route 93 in Salem

The GEC recommends building a new state liquor store at the rest area located in Salem, New Hampshire on Route 93 North. This location will allow the store to take advantage of the interstate traffic and the strength of sales in the southern part of the state. Nine of the top 10 revenue producing stores are located in southern New Hampshire. New Hampshire's top four selling liquor stores in sales for fiscal year 2003 are as follows:

Store Location	**Revenue FY03** [32]
Hampton – North (Rt. 95)	$21,580,000
Hampton – South (Rt. 95)	18,694,000
Portsmouth	16,780,000
Salem	14,083,000

A preliminary analysis by the GEC found that the infrastructure capabilities for Route 93/Salem location are available, such as water, septic and highway on/off ramps. Existing parking lots would need to be expanded. The cost of a new building could be funded by the profits generated by the new store or from proceeds resulting from the sale of other state-owned properties which are not being utilized or are under utilized.

[32] Rounded to the nearest thousand

Conduct an Analysis to Determine the Viability of Existing Stores and the Opportunity for Strategic Additions

A gross and net profit analysis must be conducted for each of the Liquor Commission's 72 stores in order to determine their contribution to the Liquor Commission's overall income objective, and how they each fit into a strategic plan for significantly increasing the net profit of the Liquor Commission as a whole. Some stores may need to be closed, some combined, and new stores will be needed as well. As an enterprise fund the Liquor Commission could be free to staff and manage operations with a focus on profitability, rather than staying within a budget that inhibits growth and creativity.

Determine the Best System for Warehousing Liquor

The independent commission mentioned above also should determine whether the Liquor Commission is better served by the current warehouse arrangements or whether these arrangements should be modified.

Conclusions

The GEC makes the following recommendations for improving the profitability of the Liquor Commission.

1. Allow the Liquor Commission to operate with greater independent authority as an Enterprise Fund of the state. *(Legislative and operational*)
2. Immediately investigate the feasibility of building a new liquor store on Route 93 in Salem. *(Operational*)
3. Conduct an analysis to determine the viability of existing stores and the need for more locations. *(Operational*)
4. Determine the best system for warehousing state liquor. *(Operational*)

I. CLOSE THE STATE NURSERY

Overview

The 1982 Governor's Management Review also known as the "Gallen Report" recommended closing of the State Nursery in Boscawen (*p.99 item no.231*). The operation has not been profitable in the last two decades. The FY 2003 budget projects revenue of $42,190 and expenditures of $183,846. Current documentation from the Division of Forests and Lands indicates that the State Nursery will not be profitable for at least three years, if ever. The GEC recommends closing the nursery and selling off the land and buildings. The GEC considers that with current attrition in the state employee pool, the three full time employees can be repositioned elsewhere in the state.

The GEC recommends that the 888 acres currently operated by the State Nursery be brought before the facilities divestiture board established in the Facilities Management section of this report. That board should determine the best use of the land for the state. Some possible suggestions presented by the GEC include leasing the facility to a private-sector entity, offering the land to the town, selling the entire plot, or retaining some of the land for other state uses.

The GEC recognizes that some functions of the State Nursery may be important to the State of New Hampshire. Thus, the GEC further recommends that the board determine that any non-market services currently provided by the nursery that are deemed necessary to the state be undertaken by another state body such as the University of New Hampshire.

The GEC recommends:

1. Closing the nursery. *(Legislative)*
2. That the 888 acres currently operated by the state nursery be brought before the facilities divestiture board established in the facilities management section of this report. *(Legislative)*
3. That the board determine that any non-market services currently provided by the nursery that are deemed necessary to the state be undertaken by another state body such as the University of New Hampshire. *(Operational)*

I. Study Alternatives to Fire Towers In NH

Overview

The 1982 Governor's Management Review also recommended elimination of the state fire towers (*p.99 item no.233*). Had this program been terminated in 1982, the GEC estimates that over $4,000,000 would have been saved. While the GEC does not have sufficient information to make a recommendation for elimination of the state fire towers, it recommends further study of the cost effectiveness of the towers and of any available alternatives. Evidence from 1982 and now indicate that the fire towers may no longer be as cost effective as they once were.

When fire towers were built in the early 1900s technology and infrastructure in the state were not as able as they are today to support fire detection and suppression. Many towns did not have fire departments and in many areas low population-density made detection of fires less likely than today. Current prevalence of cell phones, enhanced 911 technology and rapid communication abilities of emergency personnel make fire towers a less critical part of fire detection in the state.

Fire tower use in New Hampshire has been on the decline in the past few decades. Further, preliminary research by the GEC reveals that many states have eliminated or are in the process of limiting or eliminating their fire towers.

The GEC recommends:

1. Further study of the cost effectiveness of the towers and of any available alternatives. *(Legislative*)
2. The GEC recommends that further study include a consideration of satellite technology and of the recommendations of the National Forest Service related to the use of fire towers. *(Legislative and operational*)

J. THE NEW HAMPSHIRE SWEEPSTAKES COMMISSION

Overview

New Hampshire has the oldest, legal lottery in the United States, and still operates under legislation passed in 1964. Since New Hampshire initiated the lottery, thirty-seven states, the District of Columbia, Puerto Rico, the Virgin Islands, and five Canadian provinces have put lotteries into operation. The Lottery Commission's mission statement is to maximize revenues and to be an industry leader. The lottery is a marketing effort that is required to operate under an outdated business model.

The GEC recommends that the lottery be reorganized to operate with greater independent authority as an independent business enterprise unit of state government, not limited by the state bureaucracy, building in some of the following.

1. Incentives.
2. More effective advertising purchases.
3. More efficient delivery system of materials.
4. Evaluation of employee productivity.
5. Separate bingo from the Lottery Commission.

Further study needs to be carried out before the GEC will be able to recommend corrective action to the Legislature.

SECTION V SUPPORT AND ENDORSEMENT

A. NEW HAMPSHIRE DEPARTMENT OF HEALTH AND HUMAN SERVICES

The New Hampshire Department of Health and Human Services (DHHS) is the largest state agency with a fiscal 2004 budget of $1.7 billion dollars, 3,605 employees and 14 divisions. It's domain ranges from infants to the elderly, providing a broad range of social and health related services.

DHHS Capacity for Efficiency and Cost Reduction Management

DHHS has the people and systems in place to step up to a *Continuous Efficiency Improvement* and *Cost Reduction System.* All personnel that the GEC has worked with have gone out of their way to meet our every request. They prepare well for meetings, make excellent presentations, and openly answer questions specific to their agency. The DHHS Cost Summary Report prepared for budget deliberations shows that DHHS has a cost management system in place and people who know how to manage it.

A current copy of the Cost Summary report shows that DHHS is working on approximately 49 cost reduction projects that should yield $42.5 million in savings that are currently built into the SFY 2004 budget. A summary of these initiatives is included in Attachment VI.

DHHS Needs To Step Up A Level To Change Cost Reduction Dynamics

At present, the budget process drives cost reduction strategies within DHHS, although the Department has always looked at ways of maximizing federal dollars within its budget. An inordinate amount of management and staff time is spent looking for cost reductions to meet budget constraints, and no senior management has had the time to drive actual efficiency improvements and cost reductions.

To change these dynamics, we recommend that DHHS create a new senior management position, *Continuous Improvement Director*, from within. This position would drive the process, coordinating all cost and efficiency efforts within DHHS. The Continuous Improvement Director and the commissioner should meet quarterly with the House, Senate, and Governor's Office to present plans, milestones, time-lines and reconcile actual performance against these milestones since the last meeting. Several quarters of success against aggressive milestones will go a long way to ease tensions that now exist between DHHS and various government branches. From there, DHHS should earn the trust to solicit more support in future efficiency and cost reduction initiatives.

The *Continuous Improvement Director* should be the point person for DHHS in information technology planning to identify the systems changes that will generate the highest savings, and get them on the top of the system change list within the department and be a key interface with the new Office of Information

Technology to review the changes and progress made against them within the information technology organization.

Specific Cost Reduction Recommendations

Management Oversight Of Contracts

Over 90% of DHHS budget is spent on contracted services through traditional contracts and enrolled providers, but no central report is available to senior management to strategize contract improvement opportunities on a regular basis.

We recommend that a central DHHS Contract Summary Report be prepared, at least quarterly, for senior management review. That report should indicate contractors name, beginning date, expiration date, and explanation of service contracted. Management should review that report for immediate termination or renegotiation possibilities, and initiate creative strategies well in advance of expiration to renew at a lower cost or replace with an alternate service. This process may include aiding contractors to achieve their own operating efficiency improvements.

We believe the Division of Behavioral Health is currently engaged in an extremely productive endeavor. It has rolled back unnecessary rules and regulations governing services provided by ten regional mental health service contractors and is instituting performance benchmarks that are already dramatically improving productivity. An outstanding example of this model can be found in Attachment IX.

County Billing

The Legislature has adopted a number of laws over the years that established and modified cost sharing between the state and the counties for services provided to low-income children and adults by the state. The processes have undergone many revisions and adjustments, culminating in the present system where DHHS bills the ten counties for some 25,000 individuals monthly across five division programs. Each division's programs have differences that make the processes complicated for both the state workers determining financial liability of the various counties as well as the county workers reviewing both the liability and the actual amounts for which they are determined financially liable and are expected to pay.

The county billing has four distinct components:

1. The actual processes used by field staff to assign county liability,
2. The computer systems and manual processes used to generate the bills, and
3. The processes used by each county to determine what to pay.

A fourth component of this process is dispute resolution as to who should pay for a particular client or the services received by the client.

We recommend that the county billing process be eliminated or modified and state law changes enacted so that counties are individually assessed a flat aggregate amount monthly to eliminate unnecessary administrative expenses at DHHS, and at the individual counties

Elimination of county billing s would result in a $350,000 annual savings at DHHS and $500,000 at the county level.

Third Party Contingency Audits

DHHS has proposed that a vendor on a contingency contract basis, work with the Department in order to determine potential cost reductions in several areas. The areas to be audited are identified in Attachment VII.

Other Non-DHHS Specific Cost Reduction Recommendations

In addition to the cost reduction strategies being pursued as part of SFY 2004 budget listed in Attachment VI, we have also included a set of non-DHHS specific cost saving initiatives which could have a dramatic impact on the cost and efficiencies of several state processes. These are included in Attachment VIII.

DHHS Continuity of Leadership

The present leadership of DHHS has begun the process of "sorting out" this important agency by benchmarking the performance of all divisions. This process is the foundation for all future progress at DHHS and needs to be continued. The GEC recommends that benchmarking be completed and that the process continue in this sequence:

First, all benchmarks and performance measures should be developed for all divisions within DHHS. Benchmarking and performance measurement will be an iterative process as both the commissioner and the division heads work with the information to determine if the initial data set is meeting their needs.

Second, DHHS requires a robust Internal Audit Division, which reports directly to the commissioner, and conducts specified audits at the direction of the commissioner and/or based upon anomalies in the performance data.

Third, once benchmarks have been established and staffing plans developed, DHHS should undertake a re-organization, which eliminates unnecessary functions, works with other agencies to centralize administrative functions and provides the Commissioner's Office with a reasonable span of control for managing the department.

Commissioner's Span of Control

At present, the commissioner has 19 persons reporting directly to him. The GEC recommends that the commissioner restructure his top management organization to reduce direct reports to a manageable five or six direct reports, and insure a correct management balance between program delivery and operations.

Employee Communications

The GEC has received some excellent suggestions directly from DHHS employees through meetings, unsolicited phone calls, and unsolicited written recommendations. Some written recommendations were several pages in length, extremely well thought out, professionally written and objective. Many of these recommendations were given on the condition of anonymity.

The GEC believes that DHHS management would welcome these positive suggestions and recognize the extremely professional way they were presented by their employees. Barriers exist between senior management and its employees and/or some employees may presently lack the confidence to approach senior management. In any event, it is incumbent upon management to remove barriers that inhibit individual and agency success.

The GEC recommends that the commissioner initiate a quarterly communication plan that engages all employees and briefly states the agency's plans, goals, and performance against those goals and make senior and middle management more accessible to answer employee questions and remove barriers that impede those employees.

Continuous Improvement Institutionalized

The GEC believes that the continuous improvement program should be carried forward with aggressive goals. In this instance, a 3% target translating into $51 million in savings in the FY04 budget could be managed without sacrificing the quality of programs. Setting specific, ambitious goals and risking falling short will result in both increased savings and better quality services than would result from the present practice of setting no performance goals.

B. OFFICE OF INFORMATION TECHNOLOGY

The Case for Change

Prior to creation of the Office of Information Technology (OIT) each agency of the State of New Hampshire utilized its own network, email system, web site, computer room and Information Technology (IT) staff. There were several different types of networks, network software and email systems in place which in many cases did not communicate very well with each other, if at all. In addition, each agency's IT staff were responsible for administering the systems and purchasing hardware and software. The level of implementation of technology varied considerably across agencies and was related to the agency size and its IT budget. This fragmentation resulted in missed bulk purchasing opportunities in the procurement process, as well as failure to leverage the talent and other resources that was scattered throughout various agencies.

New Structure

The Office of Information Technology was created on July 1, 2003 when Governor Benson signed legislation which became Chapter 4-D:3 of the NHRSA. Robert Anderson then became the first Chief Information Officer (CIO) of the new OIT.

The CIO, by statute, structured the new OIT after studying similar agencies in Virginia, Texas, Massachusetts and other states. An early presentation to the Government Efficiency Commission laid out the proposed organization chart for OIT. The goal was to create a virtual agency with over 300 IT personnel physically remaining at their home agency while reporting to the new OIT. The budget for IT also has remained within the agencies but is now administered by OIT. The following departments of state government are included by the OIT: Department of Education, Department of Health and Human Services, Department of Resources and Economic Development, Department of Transportation, among others.

The Drivers and Automated Functions of the New OIT

The OIT is charged with proceeding according to certain technology drivers with the goal being to streamline, automate, and to otherwise render more efficient numerous functions within state government. The technology drivers for the OIT[33] are:

- Centralize common services and solutions
- Consistent deployment of IT solutions
- Consistent IT procurement and contracts
- Deliver innovative IT solutions
- Enhance service delivery
- Ensure all agency IT needs are satisfied

[33] OIT Strategic Plan Oct 2003

- Leverage technology knowledge
- Maximize technology to drive efficiency
- Remove unnecessary redundancies
- Manage IT costs
- Protect privacy
- Security
- Flexibility
- Survivability

One of the goals of OIT is to streamline and simplify routine functions. Specific agency solutions are[34]:

- Business registration portal
- Electronic vendor claims
- Legislative records on-line
- Partners, Smart Cards
- Unemployment claims
- Vital records on-line
- MAAP on-line
- EZ-Pass
- HIPAA
- Septic design on-line
- Union catalogue on-line
- Water quality web-site
- Electronic vendor payments
- HAVA
- J-One
- Tax filings on-line
- Utility filings and hearings

The Tools and Progress Reporting for OIT

The tools needed to achieve the structure of OIT are the leadership, management and frontline staff from all affected agencies. Hardware and software from the various agencies make up the remaining assets of OIT. The CIO now is responsible for training and communications needs of the staff. The statute specifically calls for the creation of an Information Technology Council, Technical Committees, and Agency Satisfaction Metrics. It also calls for transfer of all books, payroll, records, equipment and unexpended appropriations for personnel and all information technology projects to OIT. Although the transition of personnel and IT assets to OIT is progressing well, to date the GEC cannot identify whether all of the above mentioned transfers are in place.

The statute also calls for the CIO to submit a report to the fiscal committee of the general court every 60 days. The report should include cost saving ($11,000,000 in savings are required) and information on the reorganization until such time as the savings are realized and the reorganization is complete. To-date this report has not taken place and a detailed budget outlining the realized savings has not been received by the GEC. Legislative leadership has expressed concern as to the likelihood that OIT will be able to

[34] ibid

deliver the savings mandated by the Legislature. The GEC strongly recommends OIT maintain regular communications with the legislative oversight committee.

Conclusion

The GEC supports the concept of consolidation of the state government IT resources including systems procurement and administration. The effort should increase the state's use of information technology and will ultimately improve employee efficiency, employee productivity, reduce operating costs and improve internal and external service levels. The GEC strongly recommends that the OIT consistently report its progress to the legislative oversight committee.

C. Office Of The Attorney General

By request of the New Hampshire Office of Attorney General, the National Association of Attorneys General has reviewed the operations of the New Hampshire office and made several recommendations which the office is currently implementing. In addition, the office is conducting its own internal and inter-departmental analysis regarding the delivery of legal services within and by the state. The office believes there are several potential benefits to be gained from centralization and consolidation of legal function and services within the state. These benefits include:

- Hiring and retention of better-qualified legal professionals;
- Standardized expectations from and management of legal staff;
- Improved accountability, supervision, internal training;
- Better and consistent advice provided to state offices, staff and officials;
- Reduction of law suits resulting from poor or inconsistent legal advice from and across the state.

Time and resource constraints on the office will result in gradual completion of the assessment, recommendation and implementation of these efforts. The GEC endorses these efforts and supports its continuation and legislation needed to implement its recommendations.

D. Administrative Rulemaking

Individuals involved in the administrative rulemaking process have reported to the GEC a variety of concerns with the burden of both the drafting of administrative rules and the process for obtaining Joint Legislative Committee on Administrative Rulemaking (JLCAR) approval for the adoption of the drafted rules.

The GEC is concerned with the burden of rulemaking and the resulting expenditure of paid employee time. Although the dollar figure can not be readily computed, those familiar with rulemaking indicate that the greatest expenditure of paid employee time is in the rules drafting process and the completion of the multiple steps of the rules approval and adoption process, which steps require the revision and annotation of rules texts, the completion of forms and the drafting of cover letters.

- The rules drafting process can be made significantly less onerous and expensive by changing the status of the drafting requirements in the New Hampshire Drafting and Procedure Manual for Administrative Rules (i.e., the Rulemaking Manual) from mandatory requirements to "guidelines". This change would require amendment to RSA 541-A:8.
- Proposed rules are approved only if they are within the statutory authority of the agency. The approval and adoption process can be made significantly less onerous and less expensive by amending RSA 541-A to specify the "reasonable construction" of the statutory language which furnishes the rulemaking agency's authority to act and to make rules. Such an amendment would reduce the number of revisions and multiple filings of draft rules which are now required.

The House Committee on Legislative Administration considered problems with rulemaking at about the same time that the GEC was considering them. The resulting HB 230, a bill approved by that House Committee, would, if enacted, address the need for a quick way to repeal adopted rules and also make two other helpful amendments to RSA 541-A. It also would establish a study committee to attend in more detail to rulemaking problems and their solution.

The rulemaking problems to be considered by the study committee include many, but not all, of the issues presented by agencies to the GEC. The two most important issues not specifically assigned to the study committee are as mentioned above. Additional important issues which the GEC recommends be assigned to the study committee are:

- The possibility of holding the various required voting meetings of groups with rulemaking authority by teleconferencing, so long as there exists a site enabling public participation in the teleconference;
- The possibility of faxing and e-mailing the required rulemaking notice to municipalities and licensees and the possibility of shortening the content of these notices as well as of newspaper-

published notice to: name of agency; summary of proposed rule; agency contact person (including name, phone and fax numbers and e-address) for copy of the proposed rule and accommodation to disability; date, time and place of public comment hearing and last day to submit written comment on proposed rule.

- The possibility of stapling forms to the proposed rules which refer to them, rather than being required to describe forms in rules text;
- The possibility of omitting the voting meeting of a group with rulemaking authority now required to adopt an approved rule; the same group will have already approved the rule by a vote.
- The possibility of making less stringent the definition of "emergency" for the purpose of emergency rulemaking.

The GEC recommends that the Legislative study committee address the items discussed above.

SECTION VI INITIATIVES FOR FURTHER STUDY

Due to resource and time limitations, the GEC has been unable to thoroughly study and consider many items that came to its attention as areas for potential efficiency improvements in the state. While unable to make clear recommendations on many of these items, the GEC is unwilling to ignore the potential for efficiency improvements that exist in these items. Thus, the GEC recommends further study of the following items be implemented by a continued GEC or other entity charged with driving change and efficiency in the state.

A. Effective Implementation of Legislative Budget Assistant Audit Recommendations

Currently, the Office of Legislative Budget Assistant (LBA) is tasked with audit and oversight of New Hampshire state agencies and practices. The LBA has, however, no mechanism or ability to enforce its recommendations. The GEC recommends that further study of various enforcement mechanisms for the LBA be undertaken. One such mechanism would be to task an independent commission comprised of appointees from the Office of the Governor, and from the House and the Senate with study of potential enforcement mechanisms. The commission or other entity charged with study of the LBA enforcement issue should explore appropriate sanctions that could be imposed on department heads, commissioners or others who fail to implement LBA recommended reforms. The study entity must also consider a means for adjudicating disagreements between the LBA recommendations and the views of the agency under review.

B. Consolidation of the College for Lifelong Learning into the New Hampshire Community Technical College System

New Hampshire's two higher education systems stand at an important crossroad. Together, they must play a central role in assuring the health and vitality of the state. Collectively, their nine institutions provide students of all ages with an education that helps them realize their full intellectual potential as well as acquire necessary employment skills. But, until recently, the two systems have generally pursued their individual missions and agendas independently. Two years ago, the University System of New Hampshire (USNH) and the New Hampshire Community Technical College System (NHCTCS) signed a Memorandum of Agreement that provided for the transfer of lower-division, college-level credit between the two systems. Since then, more than seventy articulation agreements, joint degrees, and dual admission programs have been established. While these clearly represent important advances, much more is needed and needed more quickly.

Even conservative economic and demographic projections show that all states, including New Hampshire, need to increase the number and percent of citizens who participate in post-high school education. The changing economy depends on it. Good public policy also requires the state to provide affordable access and multiple pathways to an education that will lead to meaningful and productive lives and employment. Finally, immediate shortages in certain occupations (e.g., nursing, computer-related occupations, engineering, math and science education, and health and social services) as well as the projected impact on the labor market of the impending retirement of the so-called "baby boomers," demand that there be a better match between state needs and the programs offered and graduates produced by the state's two public systems. All of this leads to a clear conclusion: the two systems must act in concert if they are to truly to serve New Hampshire.

The USNH Board of Trustees (including the Chancellor and the four Presidents) are currently engaged in a strategic initiative whose purpose is to ensure that the University System, in the aggregate, is offering the right programs to the right students, in the right locations, at the right times, in the right format, at the right price, and with the right partners, in order to provide better access and to meet the workforce and economic development needs of the state. This process includes a gap and efficiency analysis by region of the state of current and needed programs and services; an analysis of the capacity of USNH institutions to meet identified "gap" needs; an inventory and evaluation of existing resources including programs, faculty expertise, support services and personnel, and facilities available across the University System, an analysis of the potential for greater use of mediated instruction and distance learning using the technology platforms of NHPTV and USNH Computing and Information Services; a determination of areas of collaboration with the NHCTCS that would allow both systems to meet identified "gap" needs; and the development of a collaborative pilot project to demonstrate the capacity of the two systems to partner in the delivery of programs and services.

The GEC recommends:

- That the New Hampshire College for Lifelong Learning (currently part of the University System of New Hampshire) be consolidated into the New Hampshire Community Technical College System by September 2005, pending a thorough, independent analysis.
- That the analysis be concluded by no later than March 31, 2004.
- That a pilot project be conducted. This project will demonstrate opportunities for enhanced, coordinated programs, strengthened accessibility, cost savings and resource efficiencies by bringing together the program offerings of the New Hampshire College for Lifelong Learning and the New Hampshire Community Technical College System in a specific geographic/service region to be determined.

The recommended independent analysis must be accomplished in close coordination with USNH and NHCTCS officials and staff to ensure: that the resulting September '05 consolidation is appropriate and that it is implemented in a manner that best meets the academic requirements of New Hampshire students;

that it enhances the state's environment for future economic development; and that it maximizes the state's existing higher education resources.

The GEC further recommends that the New Hampshire Community Technical College System revert to its previous governance model of one president per campus. A few years ago, the System consolidated management of six colleges from six presidents down to three (excluding the New Hampshire Technical Institute.) It is questionable whether this has achieved cost savings. In addition, it has created a system that is difficult and cumbersome to manage.

The New Hampshire Community Technical College System also should conduct an assessment of the highest and best use of its current facilities including site analysis, planning and redesign with regard to its future mission.

C. A Revised Ethics Framework to Govern the Work of New Hampshire State Government

The State of New Hampshire relies on a long-standing tradition of citizen participation in state government. Through its 424-member citizen Legislature, its 249 boards and commissions and its thousands of citizens who provide part-time volunteer support, the state's personnel and financial resources are augmented in significant fashion by those who are called upon to serve. The state has another time-honored tradition of leveraging private sector involvement and support to advance important programs initiatives that serve its citizenry. This public-private sector approach has brought creativity and value to the work of state government.

While these traditional approaches may not be highly efficient in nature, they have helped keep government close to the people and have allowed the state to advance and manage its financial affairs in very frugal fashion.

State government officials must endeavor to ensure the sanctity of this approach – not only to safeguard ethical management practice and to ensure that the obligations of state government continue to be addressed – but to ensure that the citizen-based approach to state government is preserved for future generations.

Legislative Branch Framework

A statutory framework exists to safeguard and advance ethical compliance for members of the General Court. Chapter 14-B of the New Hampshire Revised Statutes Annotated governs the Legislative Ethics Committee. This committee was established by Chapter 105 of the New Hampshire Laws of 1991 to develop "ethical standards for members, officers and employees of the New Hampshire General Court."

The Ethics Committee is empowered to resolve issues, questions and complaints, and to investigate allegations of improper conduct involving legislators, legislative officers and legislative employees.

A booklet, published by the Office of Legislative Services, contains the laws, rules, guidelines, opinions, and rulings related to the work of the Legislative Ethics Committee. It also contains ethics guidelines which were issued by the committee and approved by the General Court in accordance with the provisions of RSA 14-B:3. Finally, it contains procedural rules to guide the work of the committee.

Executive Branch Framework

In 1998, Governor Shaheen signed and issued Executive Order 98-1, enacting a code of ethics for public officials and employees of the executive branch of state government in the performance of their special duties. The Executive Order includes a Code of Ethics, the Attorney General's opinion concerning gifts, a Statement of Campaign Contributions and the Statement of Financial Disclosure.

The Code of Conduct covers all executive branch agencies, departments, divisions, boards, commissions, or entities of the executive branch and all classified, unclassified and commissioned employees of the executive branch.

Next Steps

Today's environment is one of intense public scrutiny for the work of government, for-profit and not-for-profit organizations and officials. As a result, the time is right for state officials to re-examine the ethical framework within which employees and volunteers work in New Hampshire.

It is insufficient to have rules and requirements designed to maintain and nurture the public trust - merely sitting on the shelf. Rather, it is crucial that such rules be designed and maintained to reflect current thinking and practice; that they operate within an overarching framework which reminds all employees and volunteers of their common commitment to ethics, honesty and fairness; and, that all employees and volunteers renew their understanding of and commitment to such rules on an annual basis.

A sound, working ethical framework to guide the actions of employees and officials of New Hampshire will help ensure state government's long-term value, integrity and effectiveness for those served by it.

The GEC recommends:

- That the current framework for ethical decision-making by employees and officials of the Legislature and Executive branches be reviewed and revised, where necessary, to ensure that appropriate rules and guidelines are in place to direct ethical decision making by elected and appointed officials and employees serving the State of New Hampshire.

- That an overarching "Code of Conduct" be designed and implemented to provide the vision and rationale for employees and officials to act with the highest ethical standards and integrity.
- That an action plan be designed and implemented – one through which employees and officials of state government become better educated and trained regarding the requirements of the state's Code of Conduct and associated ethics rules and guidelines. Such a plan would require employees and officials to annually review and acknowledgement the requirements of the state's Code of Conduct. This requirement should be extended to citizens appointed to serve on the full array of state boards and commissions.
- That this review be undertaken by the ongoing GEC and be completed by March 2004.

D. Examine the Economic Impact of Establishing English as the Official Language of the State

The State of New Hampshire has no official language for conducting business with the state. The GEC recommends study of the economic impact of establishing English as the official language of the state. Other states have seen that not having an official language can result in loss of law suits prosecuted on behalf of the state. Further, should the state not declare an official language, it will be forced to produce and store official forms, signage, etc. in an increasing number of languages at an ever-expanding cost to the state. Twenty-three states, including California, Florida and Colorado, have established English as their official state language.

SECTION VII QUANTIFICATION OF EFFICIENCIES/COST SAVINGS

Initiative	One Time Savings (Cost) Estimate	One Year Savings (Cost) Estimate	Five Year Savings (Cost) Estimate
Personnel			
5% reduction in FY04 budget		$ 13,840,563	$ 69,202,816
Associated benefits at 37%		5,121,008	25,605,042
Health care cost sharing, 10% all employees		11,973,581	59,867,904
Reduced employee turnover		1,705,186	8,525,930
Training budget		(100,000)	(500,000)
Procurement - hard goods & services			
5% reduction in FY02 estimate		13,132,360	65,661,800
Staffing		(56,136)	(280,680)
General training	(9,000)	(1,000)	(5,000)
NASPO training	(15,000)	-	-
Facilities			
Lower lease rates		754,089	3,770,445
Centralized space allocation		1,250,567	6,252,835
Elimination of leased storage space		43,523	217,615
Lease preparation		93,160	465,800
Improved preventive maintenance		357,077	1,785,385
Software	(97,000)	(10,000)	(50,000)
Fleet			
Reduction in fleet acquisition cost		656,395	3,281,975
Maintenance savings		136,159	680,795
Maximus software	(120,000)	(10,000)	(50,000)
Corrections - Outsource Entire System			
Outsource entire system		10,074,438	50,372,190
Outsource parole and probation system		8,879,408	44,397,040
Sweepstakes Commission - Enterprise Fund			
10% increase in FY04 net profit		3,450,000	25,875,000
Liquor Commission			
5% increase in FY04 net profit moving to 10% increase over 5 years		6,000,000	45,000,000
Board Consolidation			
Centralize admin. functions, HHS		519,000	2,595,000
Fire Towers			
Eliminate		233,505	1,167,525
State Nursery			
Close		141,656	708,280
Business Services			
Consolidate accounting, payables, payroll		595,590	2,977,950
Total	$ (241,000)	$ 78,780,129	$ 417,525,646

Twelve month cash flow improvement	**$ 78,539,129**
Five year cash flow improvement	**$ 417,284,646**

SECTION VIII RECOMMENDATIONS AND RATIONALE FOR AN ONGOING COMMISSION

Recommendations and Rationale for an Ongoing Commission

The GEC believes that the state will access additional value by extending the life of the GEC. Under present legislation, the Commission will terminate operations on December 1, 2003 upon submission of its Final Report. The rationale for extending the Commission is to: advance the recommendations contained in this report so that cost savings and efficiencies are achieved; coordinate and implement action plans with legislative leaders; identify new initiatives that should be assessed; and serve as an independent resource to the Office of the Governor, legislative leaders and to commissioners and department heads. Because of the magnitude of the recommendations contained in the Final Report and the value to the state of having a volunteer commission overseeing the implementation and direction of these proposed recommendations, the GEC recommends the following.

1. Extend the life of the Commission to December 1, 2004.
2. Have an equal number of members appointed by the Governor, Speaker of the House and Senate President.
3. Provide staff resources and budgetary support to the Commission by the Legislative Budget Assistant Office, or other state agencies as may be appropriate.

ATTACHMENT I

HB 171

CHAPTER 1
HB 171 - FINAL VERSION
30jan03... 0031h
2003 SESSION
03-0556

05/09

HOUSE BILL ***171***

AN ACT establishing a commission to assess the operating efficiency of state government.

SPONSORS: Rep. Moran, Hills 57; Rep. Kurk, Hills 48; Rep. Weyler, Rock 79; Rep. Leber, Merr 35; Rep. Alger, Graf 14; Sen. Peterson, Dist 11; Sen. Sapareto, Dist 19; Sen. Roberge, Dist 9; Sen. Clegg, Dist 14

COMMITTEE: Executive Departments and Administration

ANALYSIS

This bill establishes a commission to assess the operating efficiency of state government.

- -

Explanation: Matter added to current law appears in ***bold italics.***

Matter removed from current law appears [~~in brackets and struckthrough.~~]

Matter which is either (a) all new or (b) repealed and reenacted appears in regular type.

30jan03... 0031h

03-0556

05/09
STATE OF NEW HAMPSHIRE
In the Year of Our Lord Two Thousand Three

AN ACT establishing a commission to assess the operating efficiency of state government.
Be it Enacted by the Senate and House of Representatives in General Court convened:

1:1 Commission Established. There is established a commission to assess the operating efficiency of state government. The purpose of the commission is to identify opportunities for restructuring state government that will:

I. Promote efficiency.
II. Encourage cost savings.
III. Enhance accountability and control.
IV. Improve coordination.
V. Reduce redundancy in state government.
VI. Provide better government for the taxpayer's dollar.

1:2 Commission Membership; Authority to Contract with Consulting Firm; Acceptance of Gifts.

I. The commission shall consist of:

(a) One member of the governor's office, appointed by the governor.
(b) One member of the house of representatives, appointed by the speaker of the house of representatives.
(c) One member of the senate, appointed by the senate president.
(d) Fifteen representatives of the private or public sector community, 5 of whom shall be appointed by the governor, 5 of whom shall be appointed by the speaker of the house of representatives, and 5 of whom shall be appointed by the senate president.

II. The commission may contract with a professional consulting firm with expertise in the business management industry to achieve the commission's goals and objectives.

III. The commission may accept gifts, donations, or grants from any public or private source, provided that such gifts, donations, or grants shall be used exclusively to advance the commission's purpose and duties.

1:3 Objectives, Scope, and Methodology of Commission.

I. In its study of the restructuring of state government, the 6 major objectives of the commission shall be to:

(a) Examine the current structure of the executive branch of New Hampshire state government.
(b) Identify organizational weaknesses within state government that hamper efficiency, quality of service, and cost effectiveness.
(c) Review recent reorganizational activities occurring in states with demographic and economic conditions similar to those of New Hampshire.
(d) Develop recommendations and legislative proposals for reorganization and suggestions to implement needed changes.
(e) Assess the administrative efficiency, public accountability, and effectiveness of state government.
(f) Examine each executive agency, board, and commission with regard to 3 key areas:
    (1) The need for and mission of the agency, board, or commission.
    (2) Public accountability and effectiveness of the agency, board, or commission.
    (3) The general administrative efficiency of each agency, board, or commission.

II. The commission shall adopt the following methodology in order to achieve its 6 objectives:

(a) First, the commission shall review the current organization of New Hampshire state government, and shall also review recent reorganizational activities in New Hampshire as well as those occurring in states with demographic and economic conditions similar to those of New Hampshire. The review shall include consideration of the recommendations of the 1982 Governor's Management Review; the 1991-1992 Task Force of New Hampshire State Government Operations; and the 1995-96 report of the commission to examine governmental reorganization, established in 1994, 245. In addition, the study shall involve the collection and review of documents and descriptive information regarding the state government's present organizational structure and its budgetary, demographic, and economic conditions.

(b) Second, the commission shall conduct a series of structured interviews with the persons in charge of major state departments to discuss the organization, management, operation, and control of state government programs and activities. These interviews may include discussions regarding the priorities of state programs, alternative service delivery mechanisms, and the identification of potential opportunities to streamline government operations and improve responsiveness.

(c) Third, the commission shall conduct a series of structured interviews with various interested parties including representatives of business groups, employee groups, local governments, and others. These interviews may include discussions regarding the priorities of state programs, alternative service delivery mechanisms, and the identification of potential opportunities to streamline government operations and improve responsiveness.

(d) Fourth, the commission shall present a preliminary list of issues and opportunities for restructuring state government organization in New Hampshire at a public hearing to be held no later than July 1, 2003, and to allow the commission to receive public comment regarding the purpose, objectives, scope, and conduct of this study.

(e) Fifth, the commission shall hold at least 2 meetings with state employees to receive comments on general and specific issues and potential improvements relating to New Hampshire state government.

III. The commission may request from the several departments, agencies, and officials such information and assistance as it deems necessary. The full cooperation and support of the departments, agencies, and officials is expected.

1:4 Chairperson. The first meeting of the commission shall be held within 30 days of the effective date of this act. The members of the commission shall elect a chairperson from among its members.

1:5 Reports.

I. The commission shall submit quarterly progress reports on its activities and findings to the speaker of the house of representatives, the senate president, the governor, the house clerk, the senate clerk, and the state library. The first progress report shall be submitted 3 months from the date of the first commission meeting; the remainder of the progress reports shall be submitted every 3 months thereafter.

II. The commission shall report the final results of its study, including its findings, recommendations, and any proposed legislation, to the speaker of the house of representatives, the senate president, the governor, the house clerk, the senate clerk, and the state library no later than December 1, 2003.

1:6 Effective Date. This act shall take effect upon its passage.

(Approved: March 20, 2003)

(Effective Date: March 20, 2003)

ATTACHMENT II

COMMISSION MEMBERS

John Babiarz, Governor's Appointee

Edmund Bergeron, House Appointee

Jesse Devitte, Governor's Appointee

Bill Gabler, House Appointee

Sen. Richard Green, Senate Appointee

Keith Herman, Governor's Appointee

J. Michael Hickey, Governor's Appointee

Frank Hodgman, House Appointee

Paul Holloway, Governor's Appointee

Brian Law, Senate Appointee

Gary Levy, House Appointee

Laura Monica, Senate Appointee

Rep. Ed Moran, House Appointee

Marc Morin, Senate Appointee

Charles Paquette, Senate Appointee

Raymond Pinard, House Appointee

Rep. Stella Scamman, Senate Appointee

Rick Wickson, Governor's Appointee

The Honorable Frank Torr, Senate Appointee

Executive Councilor Raymond Wieczorek, Governor's Appointee

ATTACHMENT III

COMMITTEE ASSIGNMENTS

ASSET MANAGEMENT (LAND/BUILDINGS)

Bill Gabler, Chair

John Babiarz

Brian Law

Rick Wickson

BOARD CONSOLIDATION

Marc Morin, Chair

Paul Holloway

Mike Hickey

PERSONNEL/HUMAN RESOURCES

Charles Paquette

Ray Pinard

PURCHASING/CONTRACTING

Gary Levy, Chair

Laura Monica

Ray Wieczorek

LIQUOR COMMISSION

Mike Hickey

Paul Holloway

Gary Levy

John Babiarz

Rick Wickson, Chair

SWEEPSTAKES COMMISSION

Paul Holloway

STATE NURSERY

John Babiarz

INFORMATION TECHNOLOGY

Ed Bergeron, Chair

Jesse Devitte

Sen. Richard Green

NH DEPARTMENT OF HEALTH AND HUMAN SERVICES

Rep. Ed Moran, Chair

Rep. Stella Scamman

Frank Hodgman

Keith Herman

CORRECTIONS

John Babiarz

Rick Wickson

FIRE TOWERS

John Babiarz

FLEET

Rick Wickson, Chair

John Babiarz

ATTACHMENT IV

UNDERWRITIERS

Benson Committee	$20,000
NH Charitable Foundation	10,000
Verizon Foundation	7,500
Holloway Automotive Group	5,000
Citizens Bank	5,000
Bank North Charitable Foundation	5,000
Fleet Bank	5,000
Public Service of New Hampshire	5,000
State Street Discount	2,500
High Point Communications Group, Inc.	2,500
R.E. PINARD & Co.	2,500
Barker Foundation	4,000
Comcast	5,000

Attachment V

About the Beacon Hill Institute

Founded in 1991, BHI is an independent, nonpartisan economic research organization, located within Suffolk University in Boston, that applies a market-clearing approach to the analysis of tax, fiscal and regulatory issues. In addition to analyzing tax policy, we study issues including education spending, charitable tax incentives, universal health care, tort reform and economic competitiveness. BHI develops innovative solutions and applies economic analysis to public-policy issues affecting the states and the nation.

About the Authors

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Rebecca L. Moryl is Director of Operations at the Beacon Hill Institute. She holds a MS in Economic Policy from Suffolk University.

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ATTACHMENT VI

BUDGETED DHHS COST REDUCTION INITIATIVES

1	DBH	O			
2	DBH	P	Mark Chittum	DBH-WP 1	Energy Savings (net pmt to vendor)
3	DJJS	R	Marie Lang	DBH-WP 1	Worker's Compensation
4	DJJS	A	Jenson	DJJS-WP 1	PNMI for Tobey Students
5	DJJS	A	Jenson	DJJS-WP 1	Settlement - Brattleboro, Vt.
6	DJJS	R	Jenson	DJJS-WP 1	ISO Caseload Reduction
7	DJJS	O	Goldberg	N/A	Class 50 Hiring Freeze @ Tobey School
8	DJJS	O	Jenson	N/A	Cancel 15 Bed Shelter Care Facility
9	DJJS	O	Various	N/A	Operating Expense Reductions
10	DCYF	R	Jenson	N/A	Cancel Enhanced New Shelter Care
11	DCYF	R	Margaret Copeland	DCYF-WP1	Increase in Fed funding for CC
12	DCYF	R	Maggie Bishop	DCYF-WP1	Alternative work hours
13	DCYF	R	Marci Morris	DCYF-WP1	Decrease out-of-state placements
14	DCYF	R	Margaret Copeland	DCYF-WP1	Web billing & Improved CC billing
15	DCYF	R	Erica Ungarelli	DCYF-WP1	Dev. new service (HBTIS)
16	DCYF	R	Erica Ungarelli/Timothy Mcavoy	DCYF-WP1	Enroll providers under Medicaid
17	DCYF	R	Simone Roy	DCYF-WP1	PA for PNMI
18	DFA	E	Simone Roy	DCYF-WP1	Auths in non-child name
19	DFA	E	M. Grimes	DFA-WP1	Increase Monitoring of Adult SSI Income
20	DFA	E	M. Maio	DFA-WP1	Shift Training $ to Workforce Invest Fun
21	DFA	E	M. Maio	DFA-WP1	Use State Office to oversee NHEP teams
22	DFA	E	L. Snow	DFA-WP1	Reduce notice period from 11 to 10 days
23	DFA	E	L. Beckwith	DFA-WP1	Reduce EBT contract services
24	DFA	E	L. Snow	DFA-WP1	Use web version of NADA vehicle valuat
25	OHPM	A, S	J.Kaplan	DFA-WP1	Monitor of Adult cases W/ 0 income
				OHPM-WP1	PBM Initiatives (74% OHPM, 26% DEA
			LOTZ		Preferred Drug List
			CLIFFORD		Quantity Limits
			CLIFFORD		Increase Co-Pays to $2/$2 or $1/$3
			REAL		Decrease pharmacy reimbursement
26	OHPM	A	CLIFFORD		Reduce OTC coverage
27	OHPM	A	BOZOAIN	OHPM-WP1	Enhanced Surveillance\Review of Provid
28	OHPM	A, S	BOZOAIN	OHPM-WP1	Enhanced Surveillance & Utilization Rev
29	OHPM	A, S, I	DELISLE	OHPM-WP1	Correct coding (97% OHPM, 3% DEAS)
30	OHPM	A, S	LOTZ	OHPM-WP1	Disease State Mgmt
31	OHPM	A	SPITZ	OHPM-WP1	Managed Care Self funded
32	OHPM		SNOW	OHPM-WP1	Reduce Orthodontic Benefit
33	OHPM			n/a	Managed care revised assumptions
34	DEAS (OHPM 25)	n/a		n/a	Revised Assumptions
35	DEAS (OHPM 28)		A	WP-OHPM1	PBM initiatives
36	DEAS BT	R	Diane Delisle	WP-OHPM1	Provider Payments correct coding
37	DEAS	O	Doug McNutt	WP-DEAS1	Medicaid Quality Incentive Payment
38	DEAS CM	A-P	David Siress	WP-DEAS 1	Eliminate New Case Management
39	DEAS SL	O	David Siress	WP-DEAS1	Eliminate Outsourcing Case Management
40	DDS	O	Grace Ryan	WP-DEAS1	Create statewide ServiceLink
41	OCPH	O	Deidre Precott	DDS -WP1	Increase eligibility for early intervention
42	OIS	IS	Niki Ryder	OCPH -WP1	Radiological Health
43	OIS	IS	Sally Gallerani	OIS-WP1	Increase Users Per Printer

44	OIS	IS	Sally Gallerani	OIS-WP1	Hazen to SOPS T3 to Wireless
45	OPS	A	Sally Gallerani	OIS-WP1	Centralize PC replacement
46	OPS	A	John Wallace	OPS-WP1	Bureau of Health Facilities
47	OPS	A			Child Care Licensing
48	OPS	A			Legal Services
49	OPS	A			Bureau of Health Facilities

ATTACHMENT VII

THIRD-PARTY CONTINGENCY AUDITS

Optimizing FFP Claiming for Skilled Medical Professional Costs

Federal Medicaid law provides for Federal Financial Participation (FFP) to be paid at an enhanced matching rate of 75 percent (rather than the usual 50% matching rate) for compensation and training costs of skilled medical professionals employed by the Medicaid agency -- and under certain circumstances those employed by other public agencies -- as well as for the compensation costs of support staff directly assisting and supervised by such skilled medical professionals. DHHS and its contractor will conduct a review of current practices to determine if the optimal amount of FFP is being drawn down for on behalf of skilled medical professionals.

Optimizing FFP Claiming for Systems Costs

Federal law provides enhanced matching rates for certain costs associated with two types of systems utilized by Medicaid agencies: Medicaid claims processing and information retrieval systems (usually referred to as MMIS systems) and immigrant status verification systems. Development costs related to MMIS systems are federally matched at a rate of 90 percent and operating costs for MMIS systems are federally matched at 75 percent. Both implementation and operation costs associated with immigrant status verification systems are federally reimbursed at 100 percent. DHHS and its contractor will conduct a review of the pertinent cost allocation plans, advanced planning documents, and other systems related cost reports to determine if the maximum amount of federal funding is being drawn down for systems related costs

Drawing Down FFP at Enhanced Rates for Various Administrative Costs

The Social Security Act requires that all state Medicaid programs provide effective and comprehensive methods and procedures to safeguard against unnecessary utilization of medical care, the substandard provision of medical services and fraudulent receipt or provision of Medicaid services and reimbursements. Enhanced Federal Financial Participation at the rate of 75 percent is made available to states to carry out these activities. The opportunity may exist to adjust current cost accounting procedures to secure the enhanced FFP rate for additional agency administrative costs. DHHS and its contractor will conduct a review of cost reports, cost allocation plans, federal claiming procedures, and accounting processes to determine if optimal draw down of FFP is occurring.

Increasing Recoveries for Service and Administrative Costs Under Medicaid

Federal law establishes full reimbursement for medical assistance costs related to certain refugees. Refugees who settle in the state of New Hampshire may be entitled to participate in the Medicaid and Refugee Medical Assistance (RMA) program. For refugees who qualify for RMA, the federal government will pay 100 percent of the cost of providing health care services to the refugee. If the refugee qualifies for both Medicaid and RMA, Medicaid will pay for the federal match and RMA will pay for the state match of health service costs. DHHS and its contractor will review the current processes for tracking and tabulating such costs, and of the eligibility determination processes relating to refugees to determine if federal funding is being optimized.

Claiming FFP for Health Services and Administrative Costs Under Programs Funded with 100% State and Local

Currently, DHHS administers several programs that do not qualify for FFP. The State of New Hampshire currently operates several programs to fund medical services for citizens who are not Medicaid eligible. These programs include the State and Local Hospitalization (SLH), Indigent Health Care Trust Fund and Involuntary Mental Commitments. The SLH and Indigent Health Care Trust Fund were designed to help fund the cost of providing medical services to people who are not eligible, have no health insurance, and are unable to pay for the hospitalization and treatment required. To the degree that the state or local communities incorrectly determined that an individual was not eligible for Medicaid, and thus funds from these programs were expended, the state has not claimed FFP to which it is entitled. DHHS and its contractor will determine how such program costs are identified and will examine the eligibility determination practices under such programs to determine the optimal federal funding.

Minimizing Deductions from FFP Claims Due to Eligibility Determination Errors

The Social Security Act, Section 1902, requires that all state Medicaid programs operate a Medicaid Eligibility Quality Control (MEQC) program having the capability to accurately determine the extent of erroneous service expenditures made to recipients found to have been incorrectly determined eligible for Medicaid. Section 1903 of the Act authorizes reductions in Federal Financial Participation rates for states whose rate of erroneous expenditures exceeds the national standard of three percent of total service expenditures. Apart from the potential costs of eligibility errors in excess of the federal tolerance level, eligibility errors inevitably produce unnecessary, erroneous services expenditures for which the state must pay the non-federal share. Erroneous payments of just one percent can produce millions of dollars in unnecessary state expense. Many demonstrated effective strategies exist to control eligibility determination errors and their resultant erroneous program expenditures. DHHS and its contractor will conduct a review of the eligibility determination policies and processes and current eligibility errors.

Maximizing Recoveries for Child Welfare Costs Under Medicaid

Significant federal funding can be obtained under Medicaid for therapeutic interventions provided to children in foster care to facilitate their return home, as well as for interventions provided to families so that a child who would otherwise be removed to out-of-home care, or returned to out-of-home care, can remain in the home. DHHS and its contractor will examine the child welfare program to determine if Medicaid funding is optimized.

Recovering Residential and Other Community-Based Juvenile Justice Services Under Medicaid

It is possible to increase federal recoveries for the various community-based residential and other treatment services funded through juvenile justice services. The primary federal funding source would be Medicaid. DHHS and its contractor will examine the funding of juvenile justice services in terms of Medicaid eligibility processes, rate setting, and provider enrollment to assess the extent to which Medicaid funding is optimized.

Recovering Juvenile Probation and Case Management Services Under Medicaid

The state can use Medicaid to recover the cost of probation and related casework services provided by staff as an alternative to administrative claiming via a cost allocation plan or to recover for such services provided by private agencies or individuals under contract to the state. DHHS and its contractor will conduct a review of probation and casework services in terms of rate setting, cost allocation methodologies, and service delivery to determine whether Medicaid funding is at optimal levels.

Increasing Recoveries of Program Agency Administrative Costs Under Medicaid

DHHS is an umbrella agency with many component agencies. Just a few of the agencies account for most federal administrative funds. However, there are federal funds for administrative costs for other program agencies because of their support roles in administering the state Medicaid program. In addition, there may be agencies outside of DHHS that support DHHS work, and therefore, are eligible for some federal funding for administrative costs. DHHS and its contractor will review the cost allocation plans for each relevant agency to determine if federal funding is optimized.

Shifting Selected Administrative Costs from TANF to Medicaid

Opportunities often exist to shift at least some costs currently billed to the TANF program to the Medicaid program as one way to reduce administrative costs under the TANF cap. This provides an overall fiscal benefit to a state as it results in uncapped federal funds (Medicaid funds) being substituted for capped federal funds (TANF). DHHS and its contractor will review the TANF expenditures to determine which costs may be shifted to Medicaid.

Increasing Recoveries for Early Intervention Services Under Medicaid

DHHS and its contractor will conduct a review of the current funding for early intervention in New Hampshire to determine if Medicaid funding is optimized.

Increasing Recoveries for Institutional Facility

New Hampshire currently recovers Medicaid funds for psychiatric hospitals and ICF/MRs operated by DHHS. There may be an opportunity to increase the current level of Medicaid recoveries. In addition, there may be an opportunity to increase recoveries under Medicare, particularly at the state-operated psychiatric hospitals through increased Part B billings covering physician and ancillary services not covered under the Medicare Part A institutional rates for these facilities. This could provide a financial benefit because the federal government pays a greater share of the service cost under Medicare than under Medicaid, and because Medicare may cover certain state-only funded services not now covered by Medicaid and perhaps being covered under the SLH program. Thus, this is a multi-faceted initiative that will examine current practices with respect to Medicaid and Medicare eligibility identification, service coverage, and billing. This review also will look at the rates and rate-setting methodologies that have been established for Medicare and Medicaid reimbursement purposes.

Increasing Recoveries for Community-Based Mental Health, Substance Abuse and Developmental Disabilities Under Medicaid

Although the State of New Hampshire has had significant success in securing Medicaid reimbursement for community-based mental health, substance abuse, and certain developmental disability services, it may be possible for DHHS to increase recoveries for such services through less traditional uses of Medicaid. DHHS and its contractor will conduct a review of Medicaid eligibility issues, provider issues, rate setting, and Medicaid policies to ensure optimal draw down of federal funding.

Increasing Recoveries for Adult Protective Services Under Medicaid

Opportunities may exist to expand recovery for direct service costs associated with individuals receiving adult protective services. DHHS does claim some services to the elderly under Medicaid, but there may be additional opportunities for additional funding. DHHS and its contractor will conduct a review of services provided to elderly clients to determine which services may be Medicaid eligible, as well as a review of the Medicaid eligibility and rate setting processes.

Increasing FFP Under the Upper Payment Limit/Intergovernmental Transfer Provisions

New Hampshire currently draws down millions of dollars of federal funds for payments to publicly operated hospitals and nursing facilities. There are a number of financing mechanisms available which may enable DHHS to increase its federal funding. One such mechanism is to reimburse facilities up to the Medicare “upper payment limit” and then arrange for intergovernmental transfers to transfer the new FFP from the facility to the state. DHHS and its contractor will conduct a review of funding for publicly operated facilities and will determine if federal funds are being maximized.

Increase Recoveries/Cost Avoidances for Nursing Homes

DHHS and its contractor will conduct a review with respect to the Medicaid expenditures for nursing facilities to identify potential opportunities to increase FFP recoveries through rate adjustments and to avoid Medicaid costs by increasing use of Medicare as a payment source. Long-term care represents the largest category of expenditures in the New Hampshire Medicaid Program.

Reducing Medicaid Overpayments and Fraud and Abuse

Although the State of New Hampshire has long performed overpayment audits and fraud and abuse discovery and recovery activities, there may be opportunities to enhance current efforts and to implement overpayment and fraud and abuse detection and recovery strategies that will increase recoveries and cost avoidance. DHHS and its contractor will conduct a review of fraud and abuse based on a comprehensive approach to identifying and implementing steps to reduce fraud and abuse, and to recover dollars associated with such activities.

ATTACHMENT VIII

GENERAL ADMINISTRATIVE COST SAVINGS
DHHS RECOMMENDATIONS

Governor & Council Process

A bureau or unit within the division prepares each item submitted to governor and council. Once completed the submissions are reviewed at the division level, the department level, on both a financial and programmatic basis. They also are reviewed by the Department of Administrative Services and the attorney general's office prior to consideration by the governor and council. The staff of the governor's office and the governor will also review them prior to the meeting. In the case of individual consultants, the Division of Personnel also reviews those agreements.

The process is both time-consuming and expensive. For major contracts and actions, this may be appropriate. However, some of the items requiring governor and council submittal are no longer as relevant as they might have been at one time. Governor and council submissions often delay a simple or inexpensive process. For example:

- Governor and council approval is required for educational tuition of any dollar value, but no approval is required for conference and training session fees. Department commissioners have power of attorney and authority to spend up to hundreds of thousands of dollars bi-weekly on payroll, but cannot authorize a $100 tuition expense without governor and council approval. We recommend that this practice should be discontinued or a threshold limit set.
- Governor and council approval is required for travel cash advances, travel by automobile in a more than 300 mile radius and payment of personal travel vouchers submitted later than thirty days after the close of the state fiscal year. We recommend that these items should be an administrative action, and not require governor and council approval.
- All donations of goods and services need to be accepted by governor and council. All donations of cash need to be accepted by both the fiscal committee of the Legislature and Governor and Council. Examples of required submissions include the following donations:
  - Ten pizzas at the Youth Development Center;
  - A few two-by-fours and a sheet of plywood at the Youth Development Center;
  - $10 for the Nursing Fund at Behavioral Health/New Hampshire Hospital;
  - $5 to the Sudden Infant Death Syndrome Program in Public Health.

Each of these cash donations required fiscal committee and governor and council submissions and subsequent approval. In addition to writing the thank you letter on behalf of the governor and council, it seems excessive to also write a governor and council letter, and wait for the meeting for the action to be approved before depositing or using the donation. We recommend that there be a dollar threshold below which approval is not necessary.

- With few exceptions, every contract this department has forwarded to governor and council has been approved as submitted. We recommend that agencies should be encouraged to implement two-year contracts with its providers, whenever possible. This suggestion requires no specific action, but could be shared as an example of an improvement. There are a number of firms with whom we do business every year and never had any difficulties. In addition, they are usually the only provider of their type or in that particular geographic area.
- Likewise, we recommend that contract amendments of less than ten percent of the total annual contract value require only agency approval, not attorney general or governor and council. Again, a dollar threshold could be established for very large contracts.
- We recommend that contract certificates of registration or good standing should be available over the telephone from the secretary of state and noted as on file in the governor and council cover letter. Presently, we require the contractor to obtain it or obtain it ourselves and pay for it from contract funds or from agency funds. While only a few dollars in expense each time, it is an unnecessary step in the process. The number of contracts requiring certificates exceeds six hundred per year.
- When preparing contracts with personal services, not only does the division of personnel approve the contracts, they see it a second time when the formal governor and council item package is sent to the Department of Administrative Services for the governor and council meeting agenda. The business supervisor reviews the item, and if correct, forwards it down to personnel for a re-review to be sure the cover letter and contract are the same as the first one they saw, and so that personnel will know it is coming forward on a governor and council agenda shortly. We recommend the elimination of the duplicative review.

Duration of Leases

The Department of Administrative Services' Manual of Procedure and Administrative Rules at Adm. 604.03, Lease as a Service Contract specifies, "A lease shall extend for no more than five years with one option to renew for five years." The Department of Health and Human Services has thirteen district offices across the state in Berlin, Claremont, Concord, Conway, Dover, Keene, Laconia, Littleton, Manchester, Nashua, Portsmouth, Rochester, and Salem. These offices have been located here for a number of years and it is reasonable to expect they will remain.

With the administrative rule the department is, on average, negotiating with four landlords for office space each year. In actuality, this has not occurred as frequently since some leases were negotiated for more than five years with automatic renewals at small increases. Recently, however, the five-year rule has been enforced and created much additional work. The primary issue is workload and the likelihood that pricing for a five-year lease is higher per year than a ten-year or longer lease. We obtain pricing for both options, negotiate the best price for each option and then seek a waiver to the five-year rule.

We recommend the rule be changed to allow a five-year minimum with an option to renew for another five-year term or ten-year term, or the purchase of space for permanent locations in these communities.

Capital Budget

The capital budget statute was enacted in 1957 and most recently amended in 1995 with only grammatical change. The definitions of what constitutes a capital budget request are established by the Department of Administrative Services as follows: new construction with at least a twenty year life and costs in excess of $50,000; an addition to an existing facility with at least a twenty year life and costs in excess of $50,000; an improvement or repair to a facility which exceeds routine maintenance has at least a twenty year life and costs in excess of $50,000; and, equipment not related to a specific construction project with an expected life of at least fifteen years and costs in excess of $25,000.

These guidelines and thresholds were developed prior to the significant deployment of computer and computer-related equipment such that costs of software development and equipment, that in the aggregate will exceed $50,000, are considered capital expenditures and bonded, rather than expensed. For example, the purchase of 300 personal computers that cost less than one thousand dollars each and cost $250,000 in total are usually a capital budget expense, even though the expected lifeline is three to four years based on the speed of innovation technology. The state is still paying the amortization of the bonds for the purchase after personal computers have outlived their useful life and been replaced.

In 2001, the Legislature moved $8.6 million of information technology and computer expenses from the operating budget to the capital budget, amortizing the costs with five-year bonds. $1.7 million of the total was Department of Health and Human Services-related items, such that items as small as a $250 printer were paid over five years, rather than being expensed.

We recommend that the definitions of capital budget items need to be updated to reflect the purchase of software labor, software product and computers, and computer-related equipment as operating expenses, rather than capital expenses.

Approval of Computer Equipment by the Office of Information Technology

In the past, the department has been able to buy computer related supplies and equipment without Division of Information Technology approval when the expense was less than $5,000. This threshold has recently been lowered to $250, which will create an extraordinary amount of staff time, delays and paperwork for all agencies requesting purchases and the new office of information technology that has to review each and every purchase. We recommend that the $5,000 threshold be reinstated.

Administrative Manual Updates

A great deal of time is spent within DHHS and other branches of state government administering outdated rules. For instance, a $100 purchase of expendable office equipment requires redundant approval steps within DHHS and, in some instances, governor and council approval. DHHS then has to maintain equipment records for the life of that $100 piece of equipment. A threshold of $1,000 would be more reasonable.

We recommend that the state amend its administrative manual(s) to increase threshold dollar spending control limits on all expenditures to reflect the times, to reduce unnecessary administration costs, and allow more time for each branch of government to come up with more creative ways to reduce spending on them or complicated expense items in the budget. Minor contract limits are presently $2,500 for personal services and organized meetings, and $5,000 for other contract services. These limits should be increased significantly, perhaps to $10,000 for personal services and organized meetings, and $25,000 for other contracts.

Personnel Change Process

This narrative describes the process to change a full-time permanent (class 010) or full-time temporary (class 059) position based on a change in work requirements or job duties.

Example: Steps to re-classify a classified position Total time: 90-210 days

- Duties and responsibilities are reviewed by the incumbent and supervisor.
- Changes are written on the current Supplemental Job Description.
- Changes are reviewed by the division for appropriateness.
- Revised Supplemental Job Description and Position Study Questionnaire are completed.
- Revised Supplemental Job Description, Position Study Questionnaire and organizational chart are submitted to the Bureau of Human Resources with a detailed written explanation requesting a change in classification and/or labor grade.
- Documents are reviewed for accuracy and demonstrated changes in duties, responsibilities and/or organizational structure.
- Changes that have resulted in the elimination of duties are examined for changes in procedure and/or tasks which may have been assigned to another position.
- Clarification of duty assignment, if needed, is obtained.

- Proposed changes and suggested classification are compared to similar positions in the department.
- The organizational structure of the work unit, bureau, and division are reviewed for appropriateness of request in view of overall classification plan for the work section as well as the department.
- The documents are compared with the Classification Series for Basic Purpose, Characteristic Duties and Responsibilities, Distinguishing Factors, Minimum Qualifications and Recommended Work Traits.
- Position Study Questionnaire and Supplemental Job Description are compared with the Class Evaluation Plan to assess the accuracy of proposed labor grade.
- Position recommendation is compared to similar positions in the department
- Position purpose, duties, etc. are compared to other positions in the Classification Plan to determine the most representative classification and labor grade.
- A recommendation of appropriate classification and labor grade is made and communicated to all interested parties.
- If it is determined that a change of classification may be warranted, position review audit meetings are scheduled with the incumbent, the supervisor and the administrator of the work unit.
- Each interview consists of a detailed review of the incumbent's duties and responsibilities and the changes in the work unit which have resulted in the revised job description.
- The interview information is reviewed and compared with the written application and any discrepancies addressed.
- Information on other employees in the work unit may be requested and reviewed.
- A suggested response to the re-classification request is discussed among classification analysts.
- A written classification decision is prepared.
- The decision is communicated to the interested parties.
- A request for reconsideration can be made in writing within fifteen calendar days of the date of the decision letter.
- Reconsideration requests are reviewed by Human Resources.
- Appropriate requests are forwarded to Division of Personnel.
- Division of Personnel considers the request based upon new information submitted.
- Reconsideration decisions are reviewed by classification analysts.
- Recommendations are made to the Director, Division of Personnel.
- The decision is communicated in writing to the Department of Human Resources administrator.
- Further appeal can be made to the Personnel Appeals Board.
- If a re-classification is authorized outside of the former classification series, approval of governor and council is required.

- A request for approval of re-classification out of class series is prepared by Human Resources.
- Governor and council request is approved by commissioner.
- Request is submitted to administrative services.
- Item is scheduled for next available governor and council meeting.
- Item may be approved, denied or held for review.

Re-classification of unclassified positions follows a similar process in that the department commissioner sends a completed position questionnaire to the Commissioner of Administrative Services. S/he sends the request to a consulting firm under contract with the state to review the request and determine the appropriate salary grade. If a change is recommended, the change then needs legislation to change the salary grade and position in state law. Creation of new unclassified positions by the Legislature requires a similar process for the consulting firm to approve the proposed salary grade.

We recommend that this process be streamlined to allow for a more expeditious re-classification of positions.

Budget Process - Permanent Positions

Existing full-time permanent positions, which are fully supported by federal funds, require a new Form 7D, Request for New Full Time Permanent Position, when there is a change in the source of funds mix even though they are already in the state budget system and filled by agency personnel. This is a Department of Administrative Services practice and not contained in rule or policy. The rationale is that the Legislature and governor approved the position at some point based upon the funds mix. They believe the Legislature needs to make a similar decision about the position when the sources of funds change. We recommend that agency heads be empowered to make changes in subsequent budgets.

Budget Process – New Permanent Positions

The Department of Administrative Services has changed the Form 7D, Request for New Full Time Permanent Position, development process several biennium's ago and more completely the following biennium. Previously, requesting agencies prepared a Form 7D with a general description of the position duties, forwarded it to the Division of Personnel, who reviewed the requested position and, based upon little information, either conditionally approved the requested title or negotiated a change with the requesting agency. Upon approval by the Legislature and the governor, the Division of Personnel conducted a more comprehensive review of each individual request before the agency was given permission to fill the position in the new biennium.

Now the process is for the requesting agency to prepare a Form 7D, attach both a formal supplemental job description and unit/agency organizational chart to the Form 7D, and forward the package to the Division of Personnel. Division of Personnel then completes a substantially full review and approves the proposed classification or negotiates a change with the requesting agency. Later, after the Legislature and governor approve the position, another review is performed by the Division of Personnel to affirm the original determination. We recommend that one of the reviews be eliminated. The first review is expanded new work and costs departments additional time and money. The subsequent review, under the now current process, is essentially "re-work."

Analysis of Maintenance; Form 6, Analysis of Change; or Form 12

If the above process for permanent positions requiring a new Form D remains, this analysis practice constitutes "re-work" in that a Form 7D is prepared for an already existing and previously approved filled position. Additional re-work occurs when the new position is approved and the incumbent is then transferred to the new position from his or her existing position at the beginning of the new budget biennium. We recommend that this duplication be eliminated by requiring only the initial 7D and a corrected source of funds in budget submissions.

7AX Position Listings

The Form 7AX is a listing of permanent classified and unclassified positions included in the Operating Budget. Changes made by the fiscal committee and the Legislature are the only adjustments input by the Department of Administrative Services (DAS) to the Government Human Resources System (GHRS) during the 2-year interim between Operating Budgets. This process is not in law or rules, but is according to the internal procedures directives for the GHRS.

Because of this, when the agency phase of the budget begins in August of odd numbered years, the majority of the information on full-time positions, classified and unclassified is two years old. The 7AX does not reflect re-classifications, upgrades and transfers made since the last budget.

Keeping in mind that DHHS has about a third of the total state positions, during the agency phase and the governor's phase of the budget process, the Department of Health and Human Services financial managers, a senior financial analyst and the business supervisor for the DAS spend several weeks verifying and making changes to the 2-year-old 7AX.

The department is now required to send a letter of notification to DAS of any personnel changes, including internal transfers. We recommend that DASI input changes when they are received, rather than tying up senior personnel during the budget process in a rush to correct the 7AX to reflect current organization prior to submission to the Legislature,

Minor Contracts

All minor contracts, those under $2,500, for personnel services still require the Division of Personnel approval, and are separately reported monthly or quarterly to the governor and council by the Department of Administrative Services. State agencies are familiar with the reasonable hourly rates for employees and consultants, and further review of the proposed contracts at the unit level, bureau level, division level, and the commissioner level has already occurred. Personnel's review is unnecessary, adds work to personnel and delays work start dates. We recommend that the review by personnel be eliminated.

Health Insurance Benefits

Some couples and families carry two family medical and dental insurance policies in the belief that they gain "better" coverage. For example, a state employee may have a fully paid family plan and his/her spouse is employed by a municipality and also has a fully paid family plan. Effectively, the two separate employers are paying for two family plans when one would be adequate.

At an estimated cost of ten thousand dollars each, two family plans are an unnecessary expense. State employees should be given the opportunity to be "bought out" for dropping the state plan. We recommend that if the employee drops his family plan, and the spouse retains his or hers, then the state would pay the employee three thousand dollars, thereby saving seven thousand dollars each year.

Request for Proposals Process

The department spends $300-$400 thousand per year on newspaper ads, seeking responses to Requests for Proposals for the purchase of many different services. Other state agencies probably spend in aggregate a similar amount each year for the same purpose. Ads have to be in the newspaper for three days per administrative rule by the Department of Administrative Services and the governor and council. The traditional rationale is how do you know this is the best bidder if you didn't advertise.

Requests for proposals are also sent by electronic and traditional mail to individuals and businesses that have expressed interest. Many Requests for Proposals generate only one response. In some instances, the provider was set up by the state to do the business and is the only one that can provide the service. And yet, the three-day newspaper ad is still required.

We recommend that a state centralized website should contain all solicitations for goods and services, arranged by a primary sort using the six-digit IRS business codes/Standard Industrial Classifications (SIC) and a secondary sort by a one or two word description of the service.

The only advertising expense the state would then incur is a regular ad reminding those interested in doing business with the state to check its website regularly. And this could perhaps be a public service-type message at little or no cost.

ATTACHMENT IX

THE MENTAL HEALTH CENTER OF GREATER MANCHESTER

The ability of The Mental Health Center of Greater Manchester to implement this model is predicated on the proposed contract budget numbers from the Department of Health and Human Services prior to November 19, 2003. Budget reductions would negatively impact the premises in this budgetary model.

The Mental Health Center
OF GREATER MANCHESTER

SUCCESS ORIENTED SERVICES (SOS)

1. What Is the Mission of the Organization?

Our mission statement reads:

"The Mental Health Center of Greater Manchester provides accessible and comprehensive services for persons of Greater Manchester to achieve optimum behavioral health in a community-based setting."

The mission is reviewed annually and revised or re-approved at the board/senior management strategic planning retreat.

2. Organization Overview:

MHC-GM is a 43-year old private, non-profit community mental health program. We offer the full range of community-based behavioral healthcare services including: inpatient; 24-hour emergency response; multiple outpatient programs; and consultation/education. As a regional provider of services for the NH Division of Behavioral Health (NHDBH), our core mission is to provide comprehensive, recovery oriented case management and clinical care for persons with severe and/or persistent mental illness.

Our long-term goal is to continue to be recognized as a leader in providing quality "cutting edge" behavioral healthcare and to be responsive to the needs of our community.

3. Program Description:

Success Oriented Services (SOS) is an acronym we selected to identify a long-term initiative MHC-GM embarked on three years ago. We chose the name because it emphasizes two very different but equally important goals:

- Success Oriented Services reflects our emphasis on recovery-based care that promotes illness self-management, resiliency and independence. It views consumers as "customers" who must be satisfied with their care and the outcomes it produces.
- Success Oriented Services also describes initiatives to reconfigure the entire system of care and how it is managed so it can flourish and grow in a changing health care environment.

It was three years ago, after more than five years of level (decreased) funding from the state, a poor economy and increasingly complex regulatory demands for accountability, that we realized that the "band-aid" approach of struggling through "this fiscal year" was not the answer. It had been a downward spiral and we, along with our fellow providers, were sinking. We needed to find a whole new approach and SOS emerged as our lifeline to a more secure future.

Success Oriented Services was conceived as a strategy with these components:

- A comprehensive Corporate Compliance Plan to assure that we adhered to all the regulations regarding the provision and financing of behavioral health services. We needed to assure that the multiple demands for documentation and accurate billing are effectively carried out and monitored to avoid even the appearance of fraud or abuse.
- Other than being a United Way agency, MHC-GM had not engaged in any significant fundraising efforts in the community since its inception. We recognized a need to establish The Center as a worthy recipient of donated and grant dollars. We needed to develop the infrastructure to realize this goal.
- A model to reconfigure our entire system of care to make it more effective. In early 2002, we selected Accountable Care, a system promoted by the National Council of Community Behavioral Healthcare. It is designed to achieve the following:
    - Increase expectations for billable services by clinicians and set performance standards for all staff.
    - Reduce time spent in meetings, doing paperwork and other non-revenue producing activities.
    - Set standards for quality of care, consumer satisfaction and accountability (record keeping) and build it into all performance appraisals.
    - Establish a data-driven decision-making process.
    - Offer clear incentives to achieve expectations.

4. Program Results:

As we initiated Success Oriented Services, we faced:

- Five years of decreasing resources and increasing expenses, even during the "boom" times of the mid 90s.
- A state budget crisis, compounded by an unfunded New Hampshire Supreme Court ruling demanding equity in education funding. The ongoing "crisis" with health insurance, managed care and the rising costs of providing health care services combined with an increasing number of uninsured persons seeking care.
- HIPAA and other regulatory demands had increased the "paperwork burden." Time studies showed that clinical staff were averaging only 31% of their time actually delivering clinical care.
- Our waiting lists for services were often several weeks in length.
- Staff morale was poor after no meaningful increases in pay for several years.
- We had aging accounts receivables (over 180 days) that exceeded $2 million.
- We were into our line of credit regularly for up to $921,000 generating high interest charges.
- We had combined budget deficits of $400,000 in the years just prior to SOS.

The SOS initiative has been fully implemented and we continue to "fine tune." The results are:

- We are among the first agencies to have a fully implemented, comprehensive corporate compliance plan that regularly monitors medical records, billing procedures and regulatory adherence. We have trained all staff and have agreements with all vendors and collaborating providers to extend these protections.
- We have a fully staffed Development Office with software supports to manage a variety of fundraising and resource development efforts. We have established "signature" fundraising events and have increased our recognition as a "charitable" entity.
- The Accountable Care model has become fully implemented. We have accomplished the following:
  - We have established performance standards for all staff.
  - We have streamlined documentation/record keeping procedures and set standards.
  - We have examined and reduced meeting times and promulgated guidelines for the efficient use of meeting time.
- We have developed and implemented staff performance appraisals that evaluate productivity, quality of care, supervision/training, regulatory compliance and consumer satisfaction.

- We have implemented strategies to share data and other information with staff to support their efforts to effectively implement the model, along with celebratory events to recognize the achievement of interim goals.
- We have established a plan to provide bonuses to staff who successfully attained their productivity, quality and compliance goals at the end of the first six months.
- We have re-evaluated salaries and positions and are finalizing a plan for merit-based salary adjustments based on performance.

Everyone involved was impressed by the results which certainly produced a "new dimension of performance." Some indicators are:

- The corporate compliance plan has served to promote a greater sense of confidence and trust by insurers, consumers, regulators and vendors.
- We created an endowment and raised over $200,000, exceeding all projected goals for this initial phase.
- Our financial performance moved from a deficit position in FY01 to a positive fund balance in FY02 and FY03.
- From April 30, 2002 through July 31, 2003, we reduced our aged accounts receivables over 180 days by 78%.
- We were not into our line of credit during the last fiscal year. (We had been as high as $921,000 during the previous year.) Our cash position is up 231% since last year.
- Our wait time for initial appointments was reduced from up to six weeks to a few days with frequent same/next day availability.
- Staff meeting time was reduced by 20% and documentation time by 11%.
- Client satisfaction surveys overall have averaged over 90% favorability.
- We were able to give all staff a long overdue 4% pay increase.
- We are properly reserved for all contingencies, including the September performance bonuses and the start-up of a merit pay system.
- The percent of time staff spent delivering billable client services increased by 26%.

It is clear that we did not expect to experience such dramatic improvements this quickly. In June of 2002, when we introduced the Accountable Care model as a significant phase of the SOS initiative and began involving several staff at all levels in a planning effort, we surprisingly began to see improvements right away. This trend continued through the three-month ramp-up and throughout the first six months of full implementation.

The implementation of the Corporate Compliance Plan and the resulting examination of documentation, accounting and billing procedures led to a large-scale assault on aging accounts receivable. The success of this effort was not anticipated. We have seen a reduction in "pay backs" due to billing errors or lack of authorization for services.

We were very pleased to find that the increased focus on productivity did not diminish quality of care, consumer satisfaction and outcomes. All the indicators seem to point to the fact that these important measures have improved. It also made resources available to implement a comprehensive cultural competence initiative in response to our increasingly diverse consumer population.

We were impressed by the level of support, both internally and from the community-at-large, for our initial forays into development and fundraising. We appear to be emerging as an agency with a good reputation who will be a good steward of donated dollars.

5. Program Impact

At a time when other mental health centers are eliminating programs, reducing services, laying off staff, reducing benefits and/or salaries, it comes as no surprise that their staffs, their consumers and families, as well as their communities have great concerns about the future of community-based behavioral healthcare. One mental health center in New Hampshire actually failed and the state had to step in to reconstitute that system of care under another provider.

On the other hand, our consumers and their families are experiencing a renewed sense of confidence in our system of care and the changes Success Oriented Services has engendered. The reduced waiting period for initial appointments is clearly appreciated and valued. The high consumer satisfaction ratings seem to indicate a sense of comfort about the services and the future of the agency. This positive outlook serves to enhance the likelihood of successful consumer outcomes.

The extent to which the entire MHC-GM staff got behind this initiative and supported it can only be described as an amazing effort. As staff from throughout The Center became involved in the planning and implementation phases of this effort, it was clear that they felt empowered. They no longer felt like helpless victims of conditions they could not change or control. As they began to experience positive results, they felt encouraged to push harder to make it succeed. They adopted the motto "Together We Can…" That says it all.

6. Potential as a Model

One of the things that surprised us was the amount of interest expressed by government officials, regulators and other providers. The NH-DBH, which has been very supportive in this effort, has proposed changes to the contracts it offers to regional providers by including outcome measures that encourage other providers to adopt many of the same protocols, particularly the Accountable Care model.

Enhancing the potential of SOS as a model for broader implementation is the ease with which it can be modified or adjusted to meet the unique, individualized needs of different agencies (i.e. rural vs. urban, small vs. large, comprehensive vs. focused systems). There are guidebooks, consultation and software readily available that are easily adapted. Corporate compliance plans are required by more and more organizations and all behavioral health providers should have at least begun the process. Models, like ours, are available.

It is very clear that, at least in New Hampshire, much of the SOS model will be replicated in other community mental health centers. Some have already begun to implement segments of the model.

7. Additional Background

The Corporate Compliance Plan became a priority for our Board of Directors as a response to the HIPAA driven safeguards. Initially, we paid for consulting attorneys to work with us, but shortly thereafter the NH-DBH decided to underwrite the cost of much of the consultation in order to encourage the entire state funded system to move in that direction.

The implementation of the development effort was supported by the Bean Foundation. It funded the purchase of computer hardware and software, technical assistance and other equipment.

The Accountable Care model was one of several approaches we explored to reconfigure our system of care. This model, promoted by the National Council of Community Behavioral Healthcare, almost sounded "too good to be true." We attended workshops conducted by David Lloyd, the creator of Accountable Care and we consulted with him. We then made a very difficult and well-considered decision. We reluctantly elected to forego re-accreditation by the Joint Commission on Accreditation of Healthcare Organizations (JCAHO) and apply the $35,000 budgeted for re-accreditation to moving ahead with Accountable Care as the critical final ingredient of Success Oriented Services. We were supported by NH-DBH, which was also working with David Lloyd and, as a result, it underwrote the cost of much of our consultation.

8. Statement by the Program Leadership

The Management Team and the Board of Directors feel this initiative has exceeded our expectations and demonstrated these results much earlier than expected. Other organizations may expect similar results if they really commit themselves to fully implementing the model. Some observations that might be helpful:

- It is important to work closely with the state regulatory/contracting agency in this process. In our case, they became a very valuable partner who supported our efforts very strongly. It is a model that clearly addresses the differing goals and objectives of both parties. It is a "win-win" arrangement. Despite all the tension around the uncertain state budget, the NH-DBH never wavered in its support for this initiative.
- It is very important to fully commit to every dimension of this initiative. This is particularly true for the Accountable Care model. If you don't implement the entire package, the results will be disappointing, as other mental health centers have experienced. If all you do is escalate the productivity standards for clinicians and you fail to streamline other activities (e.g. meetings, documentation) to expand available time for billable services, you will not get the same result.
- It is critical that you involve staff from every level very early in the process. This "buy-in" is critical to avoid having it interpreted as another scheme by management to get "blood out of a stone." It should be presented as a pro-active step that they are in control of that will "work" and benefit everyone.
- There need to be ample opportunities to communicate with staff to keep them updated on progress. Meetings, e-mail, newsletters, small group discussions, etc. serve to keep "the ball rolling" and to maximize involvement. Celebratory events, like pizza lunches, coffee and donuts, balloons, thank you-grams, tee shirts with the "Together We Can…" motto printed on the back demonstrate that staff efforts are valued and also serve to reduce what Lloyd calls the "oooh" factor among staff as the new expectations unfold.
- The performance appraisal system must be revised to accommodate the data driven system. It must measure productivity, quality, customer satisfaction, regulatory compliance and support for the agency's mission. This appraisal needs to differentiate superior performers from competent performers, as well as identifying those who need to improve their performance.
- Including merit-based bonuses based on overall performance is a key ingredient to the success of the model. We hope to transition to a merit-based pay system within a year.
- Finally, the Management Team needs to enter the SOS initiative with the understanding that they must lead this campaign. It requires planning, effort, a lot of "cheerleading"

and, above all, an absolute commitment to the success of every strategy by each team member. They also need to understand that their performance as leaders will be judged by the degree of success the model achieves.

9. Budget and Demographics

The Mental Health Center of Greater Manchester served 8,144 individuals, including 1,768 children and adolescents and 1,023 seniors during fiscal year 2003. Included in this total are 2,709 people (33%) with severe and/or persistent mental illness. The Center has a staff of 330. Our total projected operating budget for fiscal year 2004 is $20,800,000 with over 80% of our revenue generated through insurance payments (including Medicare and Medicaid) and client fees based on a sliding scale. Manchester is the state's largest city and we serve a population area of 200,000 persons.