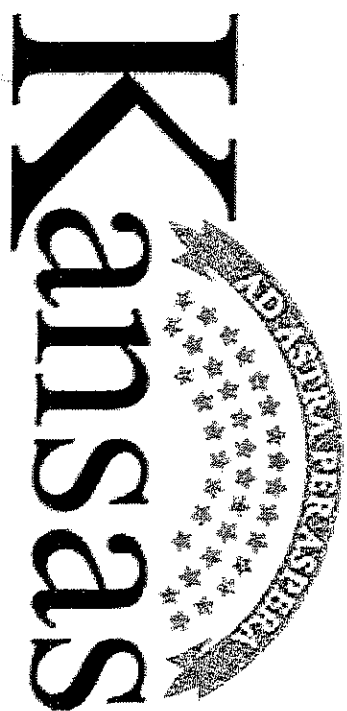


STATE OF KANSAS

EFFICIENCY REPORT

UPDATE REPORT



February 16, 2016

ALVAREZ & MARSAL



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OVERVIEW

Since being retained by the State in early October 2015, Alvarez & Marsal has been engaged in a far-reaching review of State operations and spending. In January, we provided the interim results of the review which resulted in the identification of 105 recommendations. The recommendations reflected an intense three months effort undertaken by our team of more than 40 professionals in collaboration with State employees at all levels, gaining a detailed understanding of their missions, programs, objectives and challenges. The recommendations focused on achieving the following objectives to drive increased efficiency:

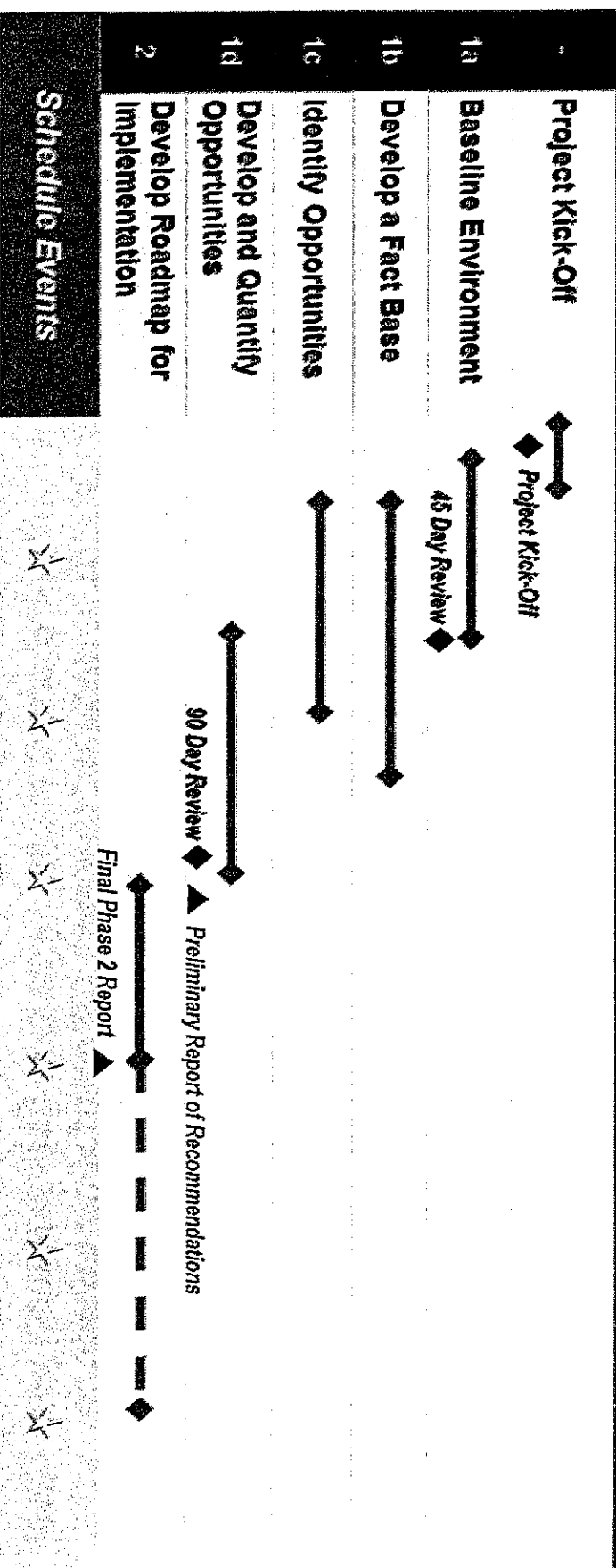
- Service Delivery
- Shared Services – Internal and External
- Consolidation
- Privatization
- Government Role
- Improve Financial Management
- Increase Federal Funds

Today, we are presenting the results of the second phase of our work, an implementation plan to support the realization of the recommendations.

OVERALL EFFICIENCY PROJECT SCHEDULE

A&M's State-wide Fiscal and Operational Solution Proposed Timeline and Implementation Schedule

	Oct 2015	Nov 2015	Dec 2015	Jan 2016	Feb 2016	Mar 2016	Apr 2016
Detailed Timing for State-wide Fiscal and Operational Solutions Approach							



☆ Status Updates ▲ Performance Objective ◆ Briefings / Working Session ◆ Workstream ◆ Briefing Period
 Key: Phase 1 Phase 2

INTRODUCTION TO THE IMPLEMENTATION PLAN

The implementation plan is designed to promote the realization of the recommendations identified through focusing the highest impact activities, defining necessary support and oversight to achieve objectives and identify the necessary courses of action. The plan supports the Legislature's and the Administration's analysis of the 105 recommendations identified with a cumulatively benefit of over \$2 billion in benefits to the State over the next five years and includes budget analysis and budget process reviews.

These recommendations are organized by agency or cross agency work stream and establish the groundwork for the state to implement the 105 recommendations. Agency and cross agency project management plans include:

Revenue	Information Technology	Procurement	Risk Management and Insurance	State Employee Health Plan
Children and Family Services	Print Services	Fleet	Real Estate	Budget Process
Governor's Grants Office	Transportation	Commerce	National Guard	Boards and Commissions
Medicaid	Corrections	Lottery	Kansas Public Employees Retirement System	

INTRODUCTION TO THE IMPLEMENTATION PLAN (CONTINUED)

The recommendations were segmented into three categories:

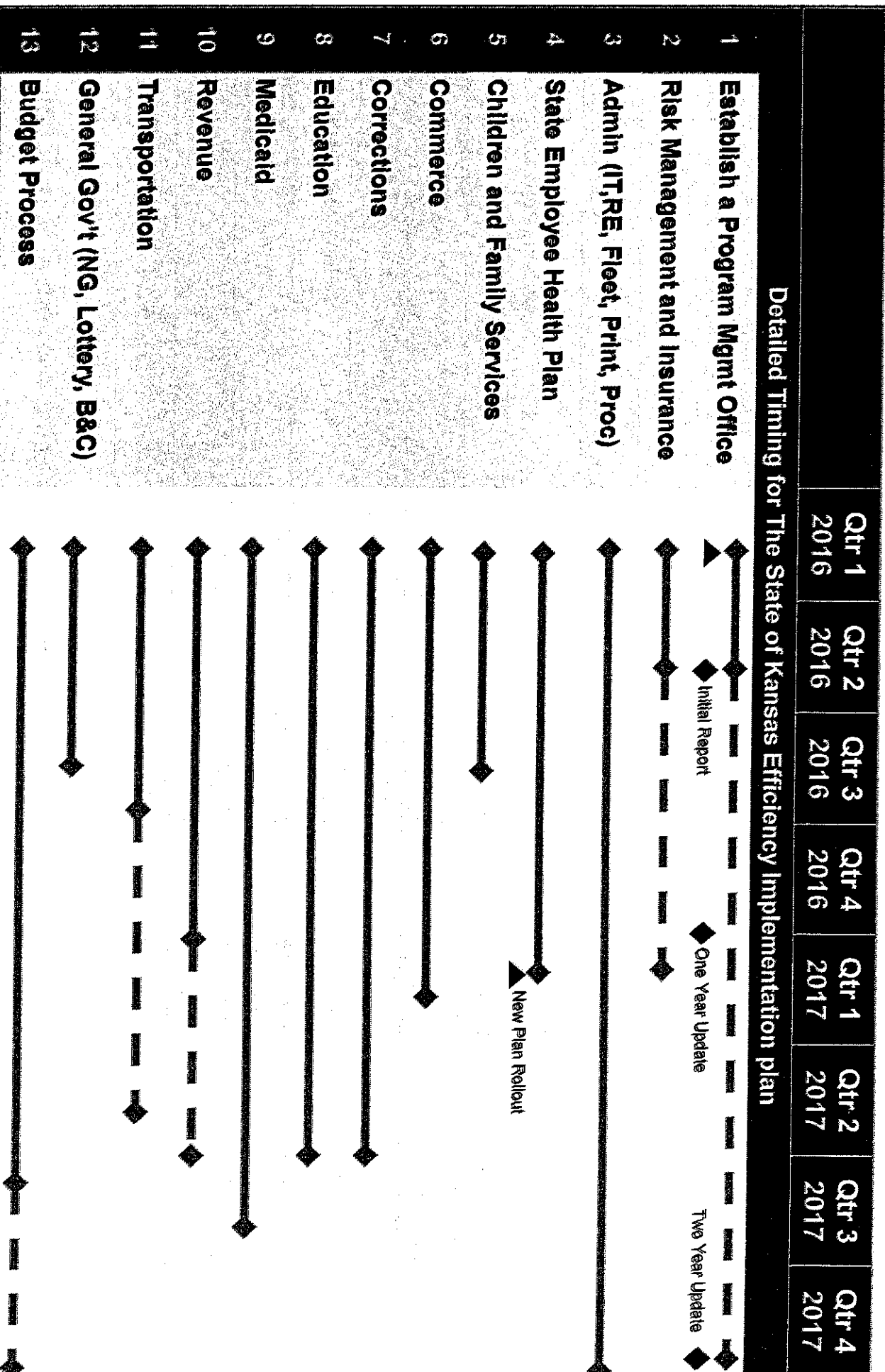
- **Highest Value – Category A recommendations**
- **Transformational – Category B recommendations**
- **Long Term Impact – Category C recommendations**

Recommendations were further divided into recommendations for program management office (PMO) oversight. A small team will form the PMO and will:

- **Work across the state agencies to oversee project status, manage the reporting cycle, and host weekly round table calls with the project managers from each agency and cross-agency work stream.**
- **Coordinate with each involved agency should assign a project manager to oversee the agency specific projects and report to the PMO on progress of the implementation.**
- **For high value, category A projects, with larger implementation efforts, the responsible agency should identify an additional project specialist to ensure that the goals of these high priority recommendations are met alongside the PMO**

IMPLEMENTATION PROJECT SCHEDULE

Detailed Timing for The State of Kansas Efficiency Implementation plan



▲ Milestone ◆ Event ◆ Workstream ◆ Operations

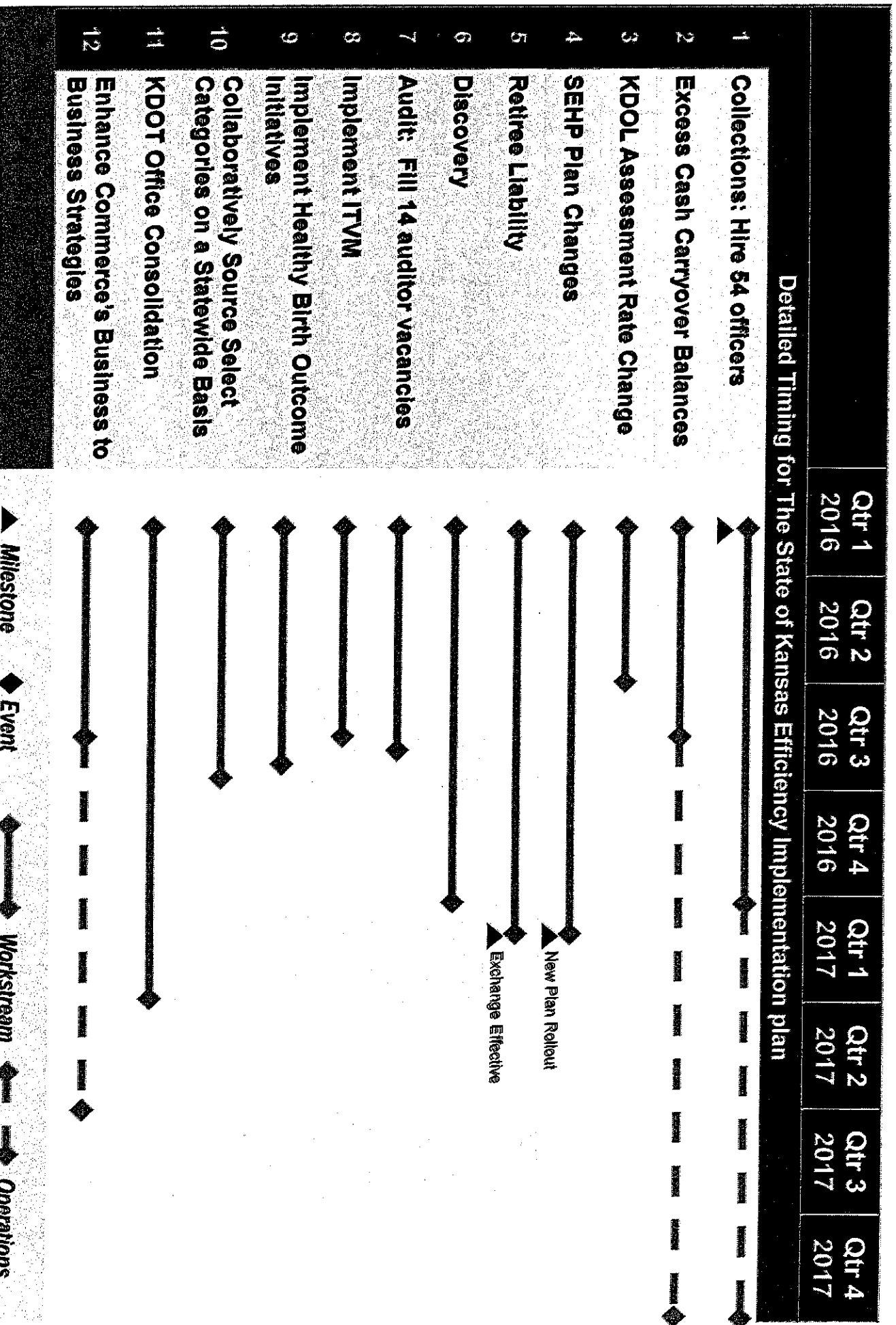
TOP PRIORITY RECOMMENDATIONS

The top 20% of the recommendations represent 87.1% of the total efficiency opportunities

		Total Savings and Revenue Estimate [\$000s]								Percent
ASIM Work Stream	# Recs	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	Total	Of the Total	
Category A										
PMO Oversight	15	7,800	190,969	227,632	232,608	237,625	235,077	1,131,711	55.5%	
Implementation Support	6	-	58,077	143,197	147,372	147,421	147,471	643,539	31.6%	
Total Category A	21	7,800	249,046	370,829	379,979	385,047	382,548	1,775,250	87.1%	
Category B										
PMO Oversight	53	12,229	46,056	47,727	40,226	41,364	45,715	233,316	11.4%	
Implementation Support	5	(70)	4,944	4,944	4,663	4,573	4,573	23,626	1.2%	
Total Category B	58	12,159	50,999	52,671	44,888	45,937	50,288	256,942	12.6%	
Category C										
PMO Oversight	25	38	1,111	1,402	1,397	1,393	1,390	6,731	0.3%	
TOTAL Savings and Revenue Estimates	105	19,996	301,157	424,901	426,265	432,377	434,226	2,038,923	100%	

IMPLEMENTATION PROJECT SCHEDULE

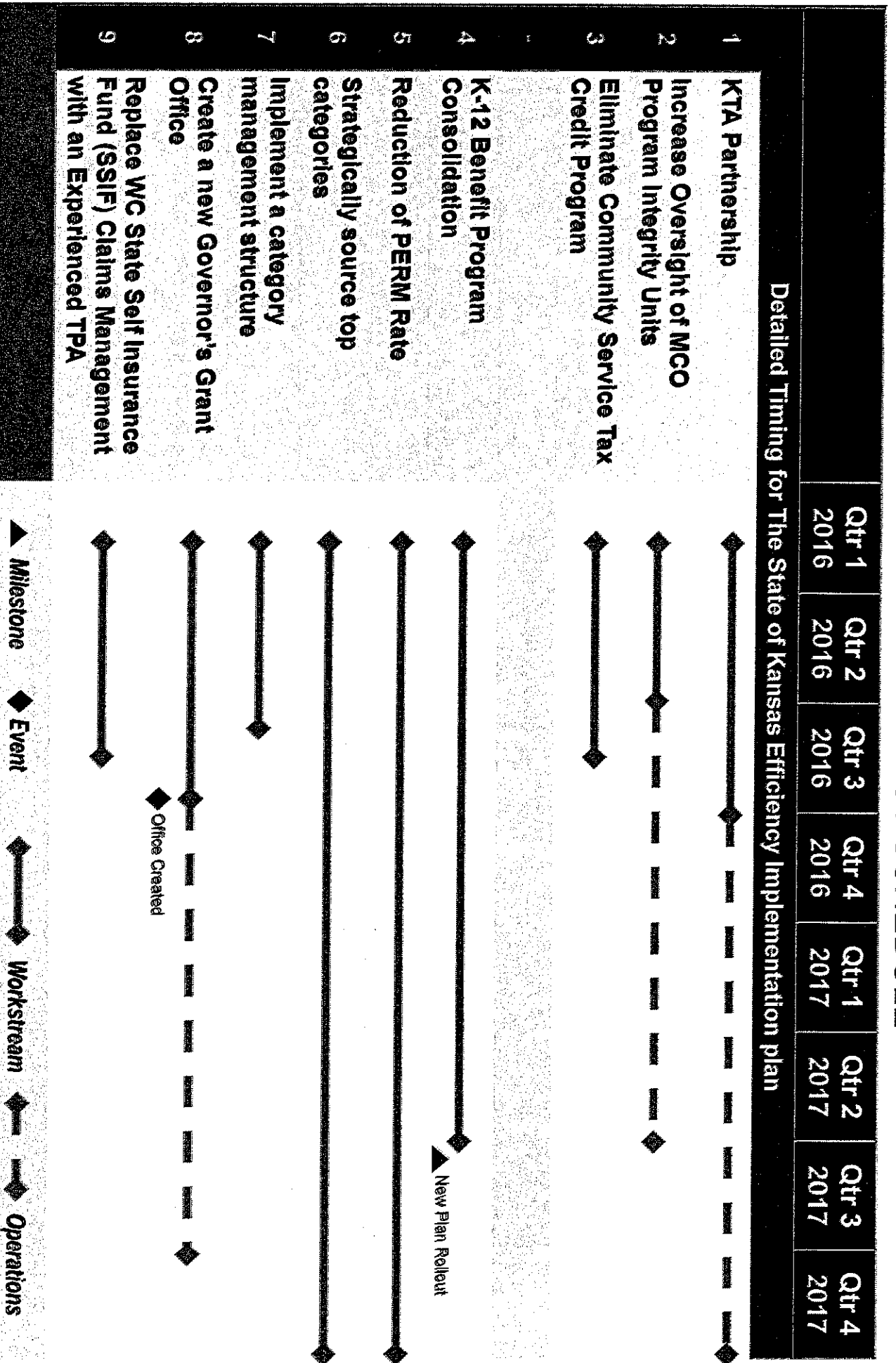
Detailed Timing for The State of Kansas Efficiency Implementation plan



Milestone
 Event
 Workstream
 Operations



IMPLEMENTATION PROJECT SCHEDULE



TOP 21 RECOMMENDATIONS

Unique Identifier	Recommendation Name	Recommendation Description
KDOR.02	Collections: Hire 54 officers	Hire collection agents to fill current vacancies. The average collection agent currently produces about \$1M in collections annually.
ED.01	Excess Cash Carryover Balances	Excess cash reserves could be used to offset future education funding, provided that the USDs have assurance of stability and reliability of funding. We recommend absorbing this "one-shot" over a five year period.
INS.02	KDOL Assessment Rate Change	Increase revenue by adjusting the Administrative Fund assessment charged to state Workers' Compensation carriers to 1% based on written premium from the current 2.79% based on prior year paid losses.
SEHP.01	Plan Changes	Total Replacement - Only offer High Deductible Health Plans (Plan C) and remove the Plan A option. Tie employer Health Savings Account and Health Reimbursement Account contribution to wellness participation
SEHP.02	Retiree Liability	Implement OneExchange platform for retirees to remove all retirees from self-funded SEHP onto fully insured plans removing risk and lowering GASB liabilities
KDOR.03	Discovery	Coordinate new audits with Collections, General Counsel and Policy to have a more effective centralized audit plan that would be defensible through appeals and litigation.
KDOR.01	Audit: Fill 14 auditor vacancies	Re-hire retired auditors in order to fill current audit department vacancies. The average auditor currently produces about \$934k in collections annually.

TOP 21 RECOMMENDATIONS (CONTINUED)

Unique Identifier	Recommendation Name	Recommendation Description
LOT.01	Implement ITVM	Allow the Lottery to use Instant Ticket Vending Machines in Kansas
ED.05	Collaboratively Source Select Categories on a Statewide Basis	The school districts should join with the Department of Administration and strategically source specific spend categories to drive greater cost savings for the school districts
MED.05	Implement Healthy Birth Outcome Initiatives	Implement healthy birth outcome initiatives to improve women and child health care outcomes and manage costs
DOT.02	Office Consolidation	Eliminate area offices, moving administration to Districts and operations to sub area offices
COM.01	Enhance Commerce's Business to Business Strategies	Enhance Commerce's Business to Business Strategies with increased financial modeling, research analysis, project auditing, and marketing/sales service support efforts
DOT.01	KTA Partnership	Maximize KTA and KDOT Partnership
MED.02	Increase Oversight of MCO Program Integrity Units	Improved oversight and training of the MCO program integrity (PI) units will increase fraud, waste and abuse recoveries
COM.04	Eliminate Community Service Tax Credit Program	Eliminate Community Service Tax Credit Program

TOP 21 RECOMMENDATIONS (CONTINUED)

Unique Identifier	Recommendation Name	Recommendation Description
ED.04	K-12 Benefit Program Consolidation	Consolidate K-12 benefit plans under one benefit plan similar to SEHP, utilizing SEHP network, staff, processes and procedures. This would reduce the overall plan administration expense for the SEHP through adding additional membership to current contracts and spreading cost of administration across larger population
MED.01	Reduction of PERM Rate	The agencies should institute broad operational improvements to lower the state's Medicaid eligibility error rate
DOA.01	Strategically source top categories	Short Term - Conduct a statewide strategic sourcing exercise of a select group of high spend categories. This sourcing event will involve taking each category through a complete strategic sourcing exercise which will include the followings steps: spend analysis, category assessment, category strategy, sourcing event, negotiation and selection, contracting and supplier transition. A&M can lead the execution with assistance from DOA category managers to ensure that the approach can be repeated by DOA staff in future events.
DOA.02	Implement a category management structure	Medium Term - Establish a standardized, unified, center-led strategic sourcing and category management capability within DOA. The purpose of this function should be to develop deep expertise in the highest spend categories that state agencies consume, track and report spend across the state, maintain a list of key local/agency requirements for each category, have deep market place knowledge and be responsible for offering creative, viable solutions for satisfying needs for goods and services.

TOP 21 RECOMMENDATIONS (CONTINUED)

Unique Identifier	Recommendation Name	Recommendation Description
GGO.01	Create a new Governor's Grant Office focused on Statewide Federal Funding	Create a Federal Funds Office to enable a coordinated, prioritized, and compliance-driven approach to maximizing the amount and effective use of federal funds and provide compliance oversight to state and local agencies.
INS.04	Replace WC State Self Insurance Fund (SSIF) Claims Management with an Experienced Third Party Administrator Overseen by ORM	Reduce WC SSIF claims costs by replacing current WC SSIF claims staff with an experienced TPA overseen by the recommended new ORM, for management of new go-forward claims and closeout of open runoff claims at FY 16 end. - Capital Outlay investment for moving WC claims function to new TPA on a go-forward basis as of FY 17. - Projected cost savings generated by reduced WC claims costs and claims volume, and enhanced risk management, brought by outsourced TPA with ORM oversight. - Projected cost savings to replace existing \$136K/year Systema claims software and \$1.7M/year CompAlliance TPA limited-services contracts with new full-service TPA as of FY17. - Projected cost savings for discontinued facility operations and overhead expense (other than staffing overhead) associated with WC SSIF claims staff elimination at FY 16 end. - Projected Salaries and Wages cost savings by elimination of 16 FTE KDHE WC SSIF claims personnel salaries and staffing overhead at FY 16 end.

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