State Efficiency Study
Assigned Recommendations
House Commerce, Labor and Economic Development

1. KDOL Assessment Rate Change
2. Implement ITVM (Kansas Lottery)
3. Enhance Commerce's Business to Business Strategies
4. Disposition of State Owned, Surplus Properties
5. Replace Worker's Compensation SSIF Claims Management with an Experienced Third Party Administrator Overseen by ORM
6. Ensure no program subsidy for Athletic Commission fee for service operation

1. KDOL Assessment Rate Change

- » Enhanced operating efficiency
- » Centralized insurance and risk contracting
- » Alignment of risk with controls
- » Strategic risk transfer
- » Enhanced risk management brought by the new ORM's industry expertise and oversight including claims reduction and insurance cost management

- Savings assume cooperation by the state agencies with the new ORM, Department of Procurement and KDHE initiatives.
- Capital outlay breakdown for ORM includes new salaries and wages of $200,000 for a staff of three, plus an estimated 21% ($42,000) staff overhead cost and $6,276 each employee benefits cost (based on the State's Budget Cost Indices for FY16 and FY17), plus an estimated annual operational overhead expense of $150,000.
    - » The first ORM staff hire, the Director of Risk Management, is completed by the fourth quarter of FY16, with the other two ORM members to be hired in FY17.
    - » Recruiting and hiring the ORM Director may take approximately three months to complete. The FY16 investment cost estimate is discounted accordingly to represent one Director at an estimated $100,000 salary plus 21% staff overhead and $6,276 benefits cost, discounted to 25% of that cost for the fourth quarter of FY16.
    - » ORM implementation and operational overhead costs (other than salaries and benefits—recruiting costs, office space and utilities allocations) are estimated at $150,000 annually, with 25% of that amount allocated to the final quarter of FY16 in conjunction with hiring the new Director of Risk Management.
- The resultant efficiencies and cost savings of centralized risk management will outweigh the initial capital outlay and new salaries and wages costs for ORM creation. The investment costs associated with coordination with the new TPA and elimination of existing WC SSIF claims staff are accounted for in recommendation #4.

Critical Steps to Implement

The critical steps necessary to complete the implementation of recommendation #1 include:

- Prompt recruiting process to hire Director of Risk Management by fourth quarter FY16, and Claims and Safety specialists in early FY17.
- Director of ORM to coordinate with Procurement to develop and expedite an RFP for the new TPA services discussed in recommendation #4.

Recommendation #2 – Adjust the Kansas Department of Labor (KDOL) Administrative Fund Assessment Rate to 1% on a Written Premium Basis

Specifically, the KDOL should:

- Increase revenue by adjusting the KDOL Administrative Fund assessment levied to state Workers' Compensation (WC) carriers to a 1.00% rate using carriers' written premium as the rating base, from the current 2.79% rate that uses prior year losses as the rating base.

Background and Findings

- A review of National Council on Compensation Insurance (NCCI) statistical data found that—states that maintain an Administrative Fund (and finance such fund by levying an assessment surcharge or tax to their state WC insurance carriers), mostly use one of two rating bases—either written premiums or paid losses. A few states take a different approach, such as assessing a flat surcharge amount. Variations exist in each state's assessment methodology and application of the two identified general rating bases. For example, some states calculate assessments on net premiums (gross premiums less any returned premiums due to cancellations) while others use gross premiums including taxes, fees and other assessments; or some states use paid indemnity or total losses for each individual carrier while others use aggregated paid losses for all carriers in the state, with the total assessment amount levied to each carrier on a pro-rated basis. The most standardized methodology identified amongst all 50 states was to calculate assessments using prior year net written premiums as the rating base.

- As its rating base, Kansas currently uses the prior year paid losses for each individual WC carrier. Its current 2.79% Workers' Compensation Administrative Fund rate assessed to Kansas WC insurance carriers is set forth in Kansas Statute, Chapter 74, Article 7, Sections 74-712 through 74-719[1]. The statute specifies a maximum 2015 3% assessment rate levied against calendar year 2014 Paid Losses, to fund FY16. In 2015 the actual 2.79% assessment rate was levied against 466 companies with paid losses totaling $426,557,683, generating a total revenue amount of $11,900,930.

- Using written premium as the assessment base results in significantly greater revenue at a lower assessment rate percentage, because the written premium base is a significantly larger amount and more widely applied than the paid losses base. Specifically, written premium applies to all carriers on a leveled basis, while a paid-loss basis is a smaller funding pool that impacts some carriers more than others depending on their loss experience.

- Kansas' most recent written premium per National Council on Compensation Insurance (NCCI) statistics was $4,841,778,073. The NCCI 2016 rate filing received by the Kansas Insurance Department shows a decrease of 11.6% to the Kansas WC base rate for voluntary market carriers. This decrease is expected to reduce the 2016 written premium base by a commensurate 11.6%, to $4,280,131,817. Therefore, an assessment rate of 1.00% using written premium as the rating base would have generated a total revenue amount of $42,801,318 compared to the $11,900,930 revenue generated by a 2.79% rate based on paid losses. This represents an additional total annual revenue to Kansas of $30,900,388.

- Kansas' current prior-year-loss based rating methodology was initially compared against 15 "peer" states as well as the shared border state of Missouri using NCCI statistical data. Of the states evaluated, five levy a specific Administrative Fund assessment to state WC carriers (in addition to taxes and other surcharges) by utilizing a standardized assessment methodology with written premium as the rating basis. The other evaluated states either have no Administrative Fund, or use varying assessment methodologies (e.g., a flat amount, paid losses for each carrier, paid losses for all carriers on a pro-rated basis, or state-specific calculations).

- The benchmarking evaluation was then expanded to all 50 states in order to obtain a broader comparison. This comparison found that 23 states have no specific Administrative Fund assessment. Of the remainder, 14 states use a standardized written premium-based assessment methodology, with all other states using varying assessment methodologies. The assessment rates for these 14 states range from 0.50% to 6.50%, with 10 having a rate of 2.00% or lower, and five having a rate of 1.01% or lower. The average rate for the 14 states is 1.90%, which reflects the inclusion of Rhode Island's outlying rate of 6.50%. The detailed findings for the above mentioned 14 states are presented in the benchmarking chart at the end of this section.

- Although Missouri is not considered a fiscal or operational comparative state to Kansas, Missouri is presented as one of the benchmarked states because of its shared border with Kansas.

- Missouri's Administrative Fund assessment rate is 1.00%, levied against insurance carriers' written premium.

- Using 1.00% as Kansas' recommended Administrative Fund assessment rate, levied against insurance carriers' written premiums, will be less than the 1.90% average of the 14 benchmarked states, in line with the most conservative one-third of the 14 states evaluated that use this standardized methodology, and commensurate with Missouri's 1.00% rate. This analysis considered the potential risk of employers relocating to Missouri from Kansas due to implementation of this recommendation.

- The revised assessment approach is favorable to the state for the following reasons:
  - » Enhanced revenue stream to the state
  - » Revenue may be recognized sooner using a written premium basis than on a paid loss basis
  - » Simpler rating methodology for the state to calculate and administer

- » Consistent comparison to other states that use a standard assessment methodology
- » The 1.00% rate is consistent with neighboring state Missouri and comfortably falls within the conservative rate ranges of the 14 premium-based peer states
- » A written premium rating basis reduces the incentive for insurance carriers to avoid paying claims in order to avoid paying assessments, as might be the case using a paid-loss rating base

- Use the increased assessment revenue to support the recommended new ORM and the Division of Industrial Safety and Health, and to subsidize risk control and safety improvements across agencies for overall reduction of state claims and total cost of risk.

Recommendation # 2 - (dollars in 000's)

FY17	FY18	FY19	FY20	FY21
$30,900	$30,900	$30,900	$30,900	$30,900

Key Assumptions

- Increased revenue will be achieved by changing the KDOL Assessment Rate base to written premium from prior year paid losses, at the same time reducing the rate percentage charged to state WC carriers to 1.00% from 2.79% against paid losses. With this change, Kansas can remain competitive with contiguous state Missouri's 1.00% written premium-based rate and with benchmarked states using the same standardized methodology.
- It is assumed Kansas' Administrative Fund assessment rating base will remain constant over the projected period of FY17 to FY21.
- No savings are projected for FY16 to allow time to effectuate regulatory changes that may be required and to notify state WC insurers of the change.

Critical Steps to Implement

The critical steps necessary to complete the implementation of recommendation #2 include:

- Effectuate any necessary statutory and/or regulatory changes to revise the rating base and percentage amount
- Notify state WC carriers of the changes

State Workers' Compensation Carrier Assessment Rate Benchmarks

Benchmarking was performed to evaluate the assessment rate levied by the Kansas Department of Labor (KDOL) to state Workers' Compensation (WC) carriers, to support its Administration Fund.

The states of Arkansas, Idaho, Illinois, Iowa, Michigan, Mississippi, Missouri, Nebraska, Nevada, New Mexico, Oklahoma, Pennsylvania, Texas, Utah, Washington and Wisconsin were initially identified as benchmark "peer" states to Kansas on a fiscal, operational, educational and/or contiguous-state basis for the purpose of comparing Administrative Fund assessment rates. An evaluation of those states found that five (Arkansas, Idaho, Illinois, Missouri and Oklahoma) levy a specific Administrative Fund assessment to state WC carriers in addition to taxes and other surcharges.

They do so by using a standardized assessment methodology with written premium as the rating basis. The other remaining evaluated states either do not have Administrative Funds, or have Administrative Funds but use varying assessment methodologies (for example, a flat amount, paid losses for each carrier, paid losses for all carriers on a pro-rated basis, or state-specific calculations).
The benchmarking comparison was then expanded to all 50 states for a broader data analysis, which found that 14 states support their Administrative Funds using the standardized methodology of levying an assessment rate against carriers' written premiums, 23 maintain no specific Administrative Fund, and the remaining states use varying assessment methodologies. The 14 comparative states are detailed in the chart below.[1]

Recommendation #3 – Re-bid Statewide Insurance Procurement through a Competitive Request for Proposal (RFP) Process

The state's recommended new Office of Risk Manage-

1 Source: National Council on Compensation Insurance (NCCI)Tax & Assessment History, Section 3-Detailed Tax and Assessment Information - https://www.ncci.com/onlinemanuals

2. Implement ITVM (Kansas Lottery)

Lottery

Acknowledgements

This report was made possible thanks to the knowledge, time, and advice of many individuals within the Kansas Lottery. Alvarez & Marsal would like to thank everyone who contributed to this endeavor, especially:

- Sherriene L. Jones-Sontag, Deputy Executive Director

Implement ITVM

Recommendation #1 – Allow the Lottery to use Instant Ticket Vending Machines in Kansas

The state should allow the Lottery to invest in and use electronic product dispensers.

Background and Findings

- The Kansas Lottery sales exceeded $250 million and transferred more than $75 million to the state in FY15.
- The Kansas Lottery has approximately 1,800 vendors across the state.
- Forty four states have a lottery, and 38 of those states use self-service electronic ticket dispensers.
- The State of Washington has two vendors that provide 1,494 machines, which generate $2,642 to $2,645 in sales per machine per week.
- Higher traffic locations such as grocery stores generate $3,390 to $4,191 in sales per machine per week.
- The primary objection has been related to concerns about minors purchasing scratch off lottery tickets without supervision.
- The proposal is to use limited implementation in higher performing stores, using highly visible locations where store managers and clerks can monitor the machines.

Recommendation #1 - (dollars in 000's)

FY17	FY18	FY19	FY20	FY21
$6,147	$9,554	$9,554	$9,554	$9,554

Key Assumptions

- There is an estimated increase of $30 million in annual lottery sales as a result of the ITVMs
- There is an estimated increase from $8 million to $9 million in annual funds that would transfer to the general fund.
- The retailer profits would increase from $1.3 to $1.5 million.
- Corporate Income tax rates of 0.3 percent were applied to net profit.
- Lottery retailers who have locations in other states, where electronic dispensers are available report their sales increased from 30% to 50% and

have cut their lottery labor costs in half.

- Kansas is assumed to be able to achieve 50 percent of Washington State's point of sale efficiency in 2017 and 75 percent of Washington State's point of sale efficiency in 2018.
- The lottery is assumed to be able to transfer 25 percent to 30 percent of the increased lottery ticket sales to the state.
- The administration of the program would be minimal.

Critical Steps to Implement

The critical steps necessary to complete the implementation of the Lottery recommendation include:

- Revise state statues to allow for the use of ITVMs.
- Install dispensers in 325 top performing higher traffic retailers .

3. Enhance Commerce's Business to Business Strategies

Recommendations – A Summary of the State General Fund and Economic Development Initiatives Fund Savings

		Target Savings and Revenue Estimate (All values in 2015 dollars, in 000s)					
Rec #	Recommendation Name	FY17	FY18	FY19	FY20	FY21	Total
1	Enhance Commerce's Business to Business Strategies with increased financial modeling, research analysis, project auditing, and marketing/sales service support efforts	$6,400	$6,400	$6,400	$6,400	$6,400	$32,000
3	Revise Primary Tax Incentive Programs	$5,000	$5,000	$0	$0	$0	$10,000
4	Eliminate Community Service Tax Credit Program	$2,000	$4,000	$4,000	$4,000	$4,000	$18,000
	State General Fund Subtotal	$13,400	$15,400	$10,400	$10,400	$10,400	$60,000
1	Enhance Commerce's Business to Business Strategies with increased financial modeling, research analysis, project auditing, and marketing/sales service support efforts (EDIF)	($530)	($530)	($530)	($530)	($530)	($2,650)
2	Implement a Community Finance Administrative Fee, Tax Incentive Application Fee, and Administrative Cost Recovery on Grants (EDIF)	$3,018	$3,018	$3,018	$3,018	$3,018	$15,090
5	Ensure no program subsidy for Athletic Commission fee for service operation (Athletic Fee Fund)	$26	$26	$26	$26	$26	$130
6	Centralize Commerce's Human Resources and Information Technology Infrastructure Operations within the Department of Administration (EDIF)	$25.4	$25.4	$25.4	$25.4	$25.4	$127
	Non-General Fund Total	$2,539	$2,539	$2,539	$2,539	$2,539	$12,697
Department of Commerce Total		**$15,939**	**$17,939**	**$12,939**	**$12,939**	**$12,939**	**$72,697**

Recommendation #1 – Enhance Commerce's Business to Business Strategies with increased financial modeling, research analysis, project auditing, and marketing/sales service support efforts

Various state agencies, including the Department of Commerce, the Kansas BioSciences Authority, and the Department of Revenue, administer the state's economic development programs. The state's incentive programs are also combined with community finance or local government incentives to form development incentives for new and expanding businesses.

In December 2014, a Legislative Post Audit (LPA) Report analyzed whether the major Kansas economic development programs have been successful. The report highlights the major economic programs, which created significant returns on investment for Kansas through business activities of the associated state and local tax revenue generations.[6]

The Report also highlighted several High Performance Incentive Program (HPIP) limitations in reporting the

6 2014 Legislative Post Audit Report Highlights – Economic Development: Determining Which Economic Development Tools are Most Important and Effective in Promoting Job Creation and Economic Growth in Kansas, Part 3

benefits of the program. Per the LPA report[7]:

- HPIP is more like an economic development entitlement program—its incentives may be given to companies for investments that would have been made without the incentives
- LPA was not able to analyze projects that had only HPIP incentives due to the programs' structures and lack of documentation

The department identified a requirement for six new staffing resources to address the need for improved financial analysis, project forecasting, monitoring, and enhanced business to business sales and marketing strategies. Any new positions would be funded from the dedicated Economic Development Initiative Fund and not the State General Fund. These positions could allow the department to improve the total financial impact of development projects including the direct, indirect, and induced impacts that new proposed developments would bring into the state.

Since mid-December 2015, the department is now creating strategic roadmaps, or Strategic Market Entity Analysis (SMEA), on all new development projects to measure the true economic impact and value of the state's portfolio of economic development incentives. However, added resources are needed within the Incentive and Marketing Units to support the enhanced business-to-business proactive marketing efforts.

The department indicated that the existing Business Incentive sales and marketing staff actively pursue 175 to 200 new projects each year with 80 projects closing, all of which generate 8,000 to 10,000 new jobs each year. The four new positions in the marketing and sales business incentive unit would provide return on investment to the state. Currently, each existing sales and marketing representative has an annual net return on bringing in 1,000 per jobs annually to the State. Each new job, based on annual salary between $56,000 and $65,000, generates $1,600 to $2,000 in new Kansas state income tax withholdings annually.

The state should undertake a more comprehensive incentive analysis and should analyze more than just the initial capital investment to the state-provided incentives. The direct, indirect, and induced impacts of projects provide a significant economic value to the state and should be considered.

Program enhancements recommended include:

- Fiscal Modeling, Research Support, and Audit/Compliance – Two positions for increased accountability of Investment Projects
  - » Currently, only one Research/Fiscal Support modeling expert position exists within the Department of Commerce
  - » The two additional positions would allow the department to increase its financial forecasting and Return on Investment Analysis on proposed development projects
  - » New staffing resources would also allow the department to place added effort upfront in the marketing of the state and creating Strategic Market Entity Analysis roadmaps that highlight the competiveness of the state's assets (e.g., infrastructure, education, quality of life,) as an introduction to what the state has to offer
  - » The state should be leading its development discussions on the Strategic Quality of the state and not highlighting its incentive tools
  - » While most of the department's incentive programs are performance based, the department does not always claw back incentives from developments for sustaining the job creation or capital investment measures for a variety of reasons
  - » The department should coordinate project reviews with the Department of Revenue of existing and new incentives to ensure the state is receiving sufficient financial and compliance information for accountability of the provided tax incentives
- Marketing & Sales Support – Four positions for Marketing, Branding, and Imaging
  - » Retool marketing and sales departments to support efforts for a more positive and direct marketing business to business targeted campaigns
  - » Proactively recruit new and expanding business in the state using the new business to business SE
  - » Texas, North Carolina, and South Carolina have all experienced significant success in their state economic growth due to strong marketing efforts to align new development efforts with existing workforce skills and

7 Ibid

supplier locations

» Expand its business-to-business social media and advertising efforts

As shown below, the proposed expansion of the department's business-to-business strategy will result in increased revenues to the state. The EDIF funded staff proposal is estimated to generate $6.0 million in new tax revenue for a net return of investment, resulting from new state income tax withholding revenues to Kansas of $5.87 million annually or $26.7 million over the next five years. While it requires an initial outlay of funds, the return on investment is significant if Commerce is successful in its revitalized business-to-business strategy.

Secondly, the added Research Analyst positions will reduce the future spending requirements for outside consulting services for development of Strategic Market Entity Analysis documents (SMEAs). The new SMEA analytical tools would cost $25,000 to $50,000 each, if the department had to acquire from outside resources. Currently, the department's budget does not include monies for SMEAs. The marketing analysis will be a primary tool for the entire department for both inbound and outbound business opportunities.

Recommendation #1 - (dollars in 000's)

	FY17	FY18	FY19	FY20	FY21
Economic Development Initiative Funds	($530)	($530)	($530)	($530)	($530)
State General Fund	$6,400	$6,400	$6,400	$6,400	$6,400

Key Assumptions:

- New position cost estimated at $80,000 per position (salary and benefits) paid from the EDIF.
- Increased marketing and research support costs of $50,000 annually paid from the EDIF.
- Based on historical data from the past four years, it is estimated that each new sales and marketing position will recruit 1,000 new jobs annually to the State, with an annual salary of between $56,000 and $65,000. Each new job is estimated to generate between $1,600 to $2,000 in new Kansas state income tax withholdings annually.
- The $6.4 million in new State General Fund Income Tax Withholdings assumes each new Business Incentive Sales/Marketing position would generate $1.6 million in new revenue to the state. This does not take into account any other direct, indirect or induced impacts generated by the increase in jobs and related business investments these indirect and induced impacts will add to the direct ROI.

Critical Steps to Implement

- Commerce needs to deploy modeling applications to supplement its tax incentive projections including estimating the direct, indirect, and induced revenues and local spending related to proposed new development projects. Commerce is investigating the potential use of the Department of Revenue's modeling application to mitigate any added cost increase.
- Commerce needs to finalize its internal market branding and imaging campaigns to roll out a revamped business-to-business strategy plan.
- The department will have increased marketing and research operating costs including printing, publications, and travel and modeling application tools.

Recommendation #2 - Implement Community Finance Administrative Fee and Tax Incentive Application Fees to Recover Program Oversight Costs

The department does not assess any administrative fee for its major economic development incentive programs or any of the community finance incentive projects. Commerce staff spends significant time each year in review, analysis, and negotiation of new proposed projects. The limited audit and project review that does occur is also not covered by any application or administrative fee.

4. Disposition of State Owned, Surplus Properties

Recommendation #2 – Leasing decisions for all state agencies should be centralized within DOA under the existing state Leasing Coordinator in order to achieve savings on personnel costs

Background and Findings

- Fifty-eight individuals currently handle leasing operations across all state agencies as part of their responsibilities.
- Titles for these FTEs range widely, from Office Specialist to Executive Director.
- None of the personnel assigned to manage their agency's leasing operations have a real estate title or job description.
- The average FY 2014 salary of all personnel was $62,476.

Key Assumptions

- On average, each FTE spends 5%-10% of his/her time on leasing operations.
- Fully burdened cost per FTE at $84,343 ($62,476 plus 35% mark-up) on average.
- That state can identify positions for reduction across the agencies.
- Assume that the state can identify positions for reduction across the agencies.

Critical Steps to Implement

- Dedicate two of the 58 current FTEs into DOA to create a new leasing operations team, reporting to the state leasing director. This personnel shift will be revenue neutral.
- All personnel will handle multiple agencies; however, the two individuals will come from (and continue to have responsibility for) the Department of Children and Family Services (2), the Department of Revenue, or the Department of Transportation.

Recommendation #2 - (dollars in 000's)

FY17	FY18	FY19	FY20	FY21
$448	$456	$466	$475	$484

Recommendation #3 – Hire an external real estate PMO to identify, value, market, and sell suruplus state owned building and land

Background

- According to the property list provided by the state ("Land-Bldg. List.doc"), the state owns nearly 12,300,000 sq. ft. of building space and nearly 179,000 acres of land.
- Utilizing input from the DOA and the Office of the Budget, A&M identified potential surplus properties across different state agencies and provided estimates of their respective potential, to generate value to the state.
- A&M worked closely with each state agency owning surplus property to first confirm that the properties were indeed surplus and to ascertain the most appropriate path to market.

Findings

- A&M estimates that between surplus building and land inventory within the state's portfolio, there is an estimated $9 million in potential value.
- A&M found that state agencies might be reluctant to sell any excess property given that the agency only keeps 20% of the proceeds. The remaining 80% would be paid to the state pension fund.
- Additionally, the process for obtaining the appropriate state approval to move surplus properties to market can be too long, leading to an increased potential for sales to not to be completed.

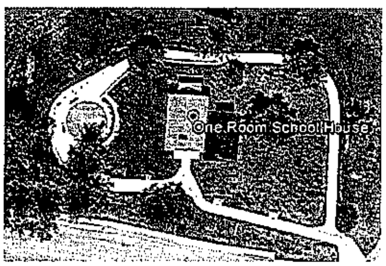
Key Assumptions & Methods

- Estimated values of surplus buildings were calculated using a comparable sales approach combined with market inferences from local brokers and key members of the DOA.
- In the analysis of comparable properties, it was assumed that land value is incorporated into the sale of the building; therefore, building values were estimated on a value per sq. ft. of building area basis. For certain properties containing large tracts of land, or properties located in or near high population areas, land value instead of

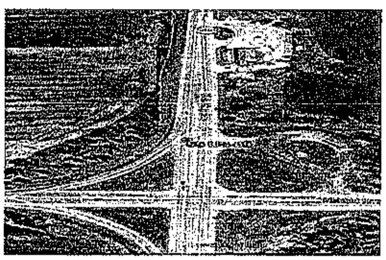
building value was estimated.

- For properties in which market data differed from value estimations of local brokers or real estate experts, a range of estimated value was created.
- A&M also analyzed the state property portfolio to identify properties with abnormally large tracts of land in high value areas. Using the assumption that 10% of these large plots could be sold or leased at market value, A&M calculated the potential value.
- The average Kansas state property tax rate is 1.4% of the appraised property value. Due to the fact the appraised property value will typically be lower than a third party value estimate, property tax income estimates were made based on the lower property value estimates.

<u>Surplus Property Overview</u>

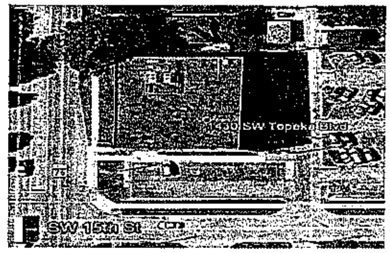


1830 Merchant St, Emporia, KS	
Estimated Value	$140,000 - $144,780

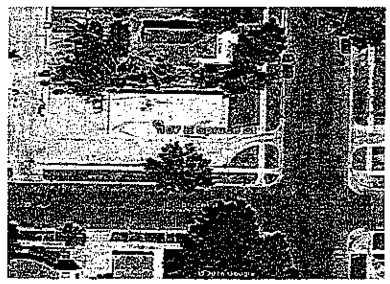


55 NE US 96 Highway, Crestline, KS	
Estimated Value	$32,340

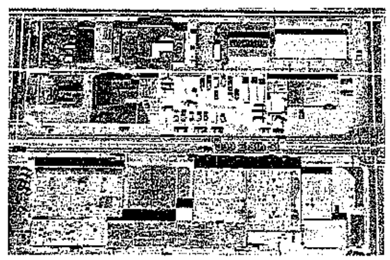
2308 1st Ave, Dodge City, KS	
Estimated Value	$180,508



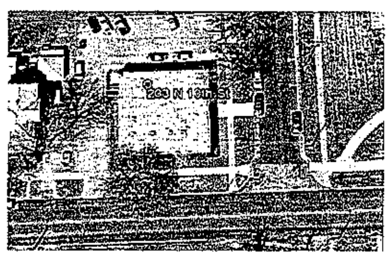
1430 SW Topeka Blvd, Topeka, KS	
Estimated Value	$1,712,297



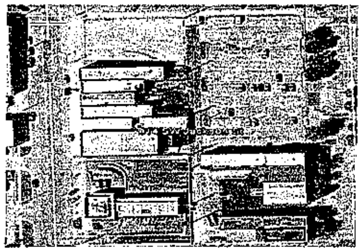
107 Spruce Street, Garden City, KS	
Estimated Value	$77,332



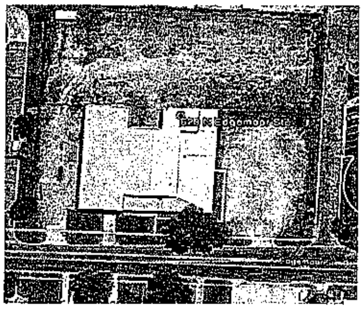
332 E 8TH ST., HAYS, KS	
Estimated Value	$300,000 - $498,375



203 N10TH ST., SALINA, KS	
Estimated Value	$80,640 - $125,000



414 & 420 SW Jackson St, Topeka, KS	
Estimated Value	$72,912



620 N Edgemore, Wichita, KS

Estimated Total Value	$3,427,151 - $3,674,666
Estimated State Tax Revenue	$47,980

Estimated Value	$831,122

Surplus Property Overview

- In addition to the surplus properties identified by the state, A&M analyzed additional state owned properties with high potential to yield excess or unused land.
- While the land parcels recommended to be part of the land disposition program have been reviewed with the DOA, they have not received the approval of the individual state agencies, which currently control them. Additional due diligence would be necessary to determine how each state agency would play a role in the disposition program.
- This particular land surplussing opportunity also represents a chance to align agencies and land, to provide a bulk land sale/lease program.
- During its due diligence of this potential land surplus program, A&M discovered several critical pieces of data:
  - » The Dept. of Corrections has already made attempts to sell surplus land.
  - » In the past, state legislature required an inventory of all state land and the sale of any land determined to be surplus. Land was sold at WCF (Winfield) and the Dept. of Corrections attempted to sell land at LCF (Lansing) and KJCC (Topeka) but had no bidders.
  - » The Department of Corrections currently leases land to farmers at NCF (Norton) and LCMHF (Larned). KCI farms land at LCF and HCF (wild horse program).
  - » Similar inquires have been made with regard to the status of excess land owned by the Adjutant General; however, due to the complexity of funding allocations and mission goals, the Adjutant General demonstrated limited interest in selling any of the identified properties.

State Owned Surplus Land

Agency	Address	Size	Value
El Dorado Correctional Facility	1737 SE Highway 54, El Dorado, KS	615 Acres	$300,000
Dept. of Labor	6425 SW 6th Ave, Topeka, KS	82 Acres	$1,235,096
Kansas Neurological Institute	3107 W 21st St, Topeka, KS	221 Acres	$3,730,566
Dept. of Veterans Affairs	5181Wildcat Creek Road, Manhattan, KS	90 Acres	$163,212
	Estimated Sales Total:		$5,428,874
	Estimated State Tax Revenue:		$74,004

- The chart below estimates potential revenue from the sale or lease of 10% of the land listed (> 80 Acres).

Findings

- El Dorado Correctional Facility – 1737 SE Highway 54, El Dorado, KS: The Department of Corrections has indicated that it has taken portions of its owned portfolio to market in the past with mixed levels of success. Given that the sale process would be streamlined through creation of a single PMO dedicated solely to property dispositions, and considering the large amount of land, there would be a higher potential for a successful sale if this property were to be taken to market. Additionally, given the fact that there have been previous attempts to sell portions of Lansing Correctional Facility, and Topeka Correctional Facility, which were unsuccessful, A&M anticipates a high probability of a successful solicitation.

- Dept. of Labor - 6425 SW 6th Ave, Topeka, KS: While redevelopment attempts have been made for this land, indicating a state interest in the disposition of the property, there has been limited success. Under a joint solicitation through a single PMO structure, there is a much greater probability of a successful sale.

- Kansas Neurological Institute - 3107 W 21st St, Topeka, KS: Development attempts have been made on this parcel, indicating a state interest in its potential sale. Several market factors such as the properties proximity to a VA hospital and the KNI would need to be considered for the solicitation of this land.

- Dept. of Veterans Affairs – 5181 Wildcat Creek Road, Manhattan, KS: The real estate market in Manhattan has grown considerably over the past decade with increased population of Kansas State, indicating a high potential for sale. A portion of the property is being utilized as a VA graveyard, so additional due diligence will be necessary to verify the viability of the sale.

Critical Steps to Implement

- Attaining the buy-in and cooperation of respective state agencies will be crucial to the disposition process. A&M recommends that the state institute a one-year moratorium on the law requiring 80% of net proceeds from state land dispositions to go to KPERS. This moratorium is also critical for implementing Recommendation #4.

- Additionally, the state would need to grant a temporary credence such that once properties have been identified as surplus, property value can be confirmed in-house (within the DOA) eliminating the necessity of a third party appraiser. This will greatly increase the speed of transaction execution.

- Speed to market will also be a critical component of to the successful disposition of state owned surplus properties. A&M recommends that the state form an external Project Management Office (PMO) to auction or lease identified excess land beginning in February 2016, ending November 2016.

- With regard to excess land parcel in high value areas, the state should finalize which parcels are indeed surplus and move to group and sell/lease these properties.

Recommendation #3 - (dollars in 000's)

FY17	FY18	FY19	FY20	FY21
$3,817	$3,817	$122	$122	$1,834

Recommendation #4 – Enter into a long-term ground lease agreement for Lot #4, a state-owned piece of property adjacent to the State Judicial Complex in Topeka

Background & Strategy

- In 2013, the state issued an RFP for the sale of Lot #2, a 60,000 sq. ft. parcel currently being used as a parking lot, immediately South of the Docking Building.

- The state received a winning bid of $2,500,000; however, concerns about the sale of the property given its adjacency to the State Capitol Building were raised and the solicitation was terminated.

- Lot #4, slightly smaller at around 50,000 sq. ft. is South of Lot #2. While it is adjacent to a parking area servicing the Kansas Judicial Center, it has less of a visual impact on the green space surrounding the state Capitol Building. In all other terms of size, location and access, it is identical to Lot #2.

- The strategy around the disposition of Lot #4 would be to ground lease the property long-term and accelerate the lease payments to one payment at closing—essentially providing all the value up-front to the state.

- Instead of a fee simple sale of a strategic property close to the Capitol core, the state could maintain long-term control over the site and would also

5. Replace Worker's Compensation SSIF Claims Management with an Experienced Third Party Administrator Overseen by ORM

factors to consider when determining the advisability of a mid-term cancel/re-write of the statewide property policy. However, there still could be significant savings available to cancel and re-write the policy prior to its 07/01/2016 scheduled renewal, even if a 10% short-rate penalty does apply.

- In addition to premium cost savings, the improved sourcing and leveraged procurement process is expected to result in enhanced coverage terms, expanded market access and strategic insights.
- Communication and cooperation between state agencies, Department of Procurement, and the ORM (upon its establishment), to achieve coordination and leverage of insurance sourcing.

Critical Steps to Implement

The critical steps necessary to complete the implementation of recommendation #3 include:

- If required, amend the State's Financial Services Negotiated Procurement statute (75-3799) to allow for the execution of these operational recommendations.
- Prompt commencement of a statewide property insurance re-bid RFP and carrier-marketing process, targeting implementation by fourth quarter FY16.

Recommendation #4 – Replace WC SSIF Claims Function with an Experienced Third Party Administrator (TPA) Overseen by the Office of Risk Management (ORM)

Specifically, the state should:

- Reduce WC SSIF claims costs by outsourcing the WC SSIF claims functions for new claims, at the beginning of FY17, to an experienced and knowledgeable TPA, that has expertise and best practices in place to efficiently and effectively manage claims, to drive down overall claims costs for the state.
- Eliminate the existing 16 FTE WC SSIF claims staff (adjusters, supervisors and managers) at FY16 end.
- Transfer open runoff claims to the new TPA at the beginning of FY17. Close out as many of the currently open claims as possible by FY16 year-end to minimize the TPA investment expense to transfer the open runoff claims.
- Assign oversight of the new TPA to the new ORM detailed in recommendation #1.

Background and Findings

- Staff interviews and WC SSIF department review found that the majority of the existing WC SSIF claims staff have limited professional claims handling background or experience.
- Training of current WC SSIF staff is on the job and insufficient for optimal claims outcomes.
- Training the current adjusters and supervisors to an adequate level to effectively manage WC claims and reduce costs would be challenging, expensive and time-consuming.
- Outsourcing WC claims management to a TPA is a substantive step toward maximizing efficiencies and reducing claims costs for the state.
- Best practices identified in WC SSIF's own policies and procedures are not followed on a consistent basis, such as the use of Physical Therapy and Return-to-Work (RTW) Programs.
- Significant WC claims reporting lag time and claim close-out deficiencies were identified. A review of the WC SSIF claims files found that—lag time from the Date of Accident, to date of First Report of Injury, to date of claim setup, can be measured in weeks or months rather than days. This lag is primarily attributed to agencies not being educated on the costs caused by delayed WC reporting, and a lack of WC SSIF claims team aggressiveness in managing these claims.
- The number of WC fraud reports currently identified (two in the last 12 months) is believed to under-represent the actual fraud cases. The 1-800 Fraud Hotline (1-800-332-0353) is currently available only during state business hours and should be made available 24/7.
- Injured employees eligible for Temporary Total Disability (TTD) and WC Lost Time (Indemnity)

benefits are subject to a seven consecutive day waiting period. The effect of this waiting period, meant to encourage a quick return to work and discourage malingering, is diluted by:

» After 21 days out of work, the first week (waiting period) becomes retroactively payable, providing a financial disincentive for an employee's quick return to work.

» Employees continue to earn/accrue vacation/PTO time while receiving Workers' Compensation benefits.

Recommendation # 4 - (dollars in 000's)

FY17	FY18	FY19	FY20	FY21
$3,116	**$4,956**	**$4,956**	**$4,956**	**$4,956**

Key Assumptions

- ORM Director is hired and operational by fourth quarter FY16.
- Capital outlay investment for outsourcing the WC claims function to a TPA, estimated at $2.24 million annual cost on a go-forward basis:
  - » 2,000 total annual new claims, estimated breakdown of 70% (1,400) Medical Only and 30% (600) Indemnity claims.
  - » TPA new-claim cost of 70% (1,400 claims) Medical Only at $400 fee per claim file, and 30% (600) Indemnity at $1,300 fee per claim file plus $900,000 additional cost for medical bill repricing, nurse case management, and other costs not included in the TPA's per-claim charge.
- Capital outlay investment for transfer of open runoff claims to the new TPA at the beginning of FY17, estimated at $1,460,500:
  - » Open runoff claims to be transferred to the new TPA at the beginning of FY17 estimated at 2,000 based on the 1,492 open claims as of December 2015 advised by KDHE (845 Medical Only and 647 Indemnity claims), new claims which will occur between December 2015 and July 2016, and an initiative to close out as many currently open and new claims as possible by FY16 year-end.
  - » TPA transfer cost at the start of FY17 for 2,000 open runoff claims at 70% (1,400), Medical Only claims at $400 fee per claim file, and 30% (600) Indemnity claims at $1,500 fee per claim file, plus $500,000 additional TPA fees not included in the per-claim file charge.
- Projected cost savings achieved by elimination of the current claims-related vendor contracts at FY16 year-end: $136,000/year Systema claims software contract and $1,700,000/year CompAlliance TPA contract, to coincide with the transfer of claims management to the new TPA. In this scenario, CompAlliance's services of medical bill repricing and payment, nurse case management and durable medical equipment (DME) management will be handled by the new full-service TPA going forward at an estimated annual expense of $900,000, and is included in the new TPA investment expense estimate above.
- Projected salary and benefit cost savings achieved by elimination of the existing 16 FTE WC SSIF claims personnel (i.e., adjusters, supervisors and managers) at FY16 year-end is approximately $814,009. This includes total base salaries of $589,746 plus 21% ($123,847) staffing overhead plus an estimated $6,276 ($523* 12 months each employee or $100,416 total) health benefits cost per the State's Budget Cost Indices for FY16 and FY17.
- Projected additional WC SSIF operational overhead cost savings (e.g., IT, subscriptions, equipment expense, etc.) of $586,000 (as per SMART FY15 budget period) can be achieved after elimination of WC SSIF claims staff and designating remaining WC SSIF functions to the new ORM.
- Annual cost savings of $3.96 million (18% on $22 million new annual claim costs for 2,000 claims) will be generated by reduced WC claims costs brought by the outsourced TPA's claims-handling expertise and technology to effectively manage new claims, in conjunction with new safety, loss control, and RTW strategies led by the ORM.
- The $3.96 million total estimated savings is expected to be derived primarily by implementation of WC best practices (via the TPA) and reduction in lag time, RTW, and fraud management (via ORM).
- Priority for the ORM Director (see recommendation #1) for the remainder of FY16 will be to:
  - » Work with the Department of Procurement

to develop and execute a detailed RFP for a TPA to handle SSIF WC claims on a go-forward basis. The TPA RFP should provide specific detail as to the TPA's process and responsibilities, as well as the expected performance criteria.

» Oversee and assist two assigned adjusters from the existing WC SSIF claims staff with the strongest Medical Only and Indemnity claims experience, to aggressively close out as many open claims as possible by FY16 year-end, as further detailed below.

- The ORM Director and KDHE aggressively work to close as many open claim files as possible to minimize the number of open runoff claims that will be transferred to the new TPA in order to mitigate the claims transfer cost.
  » Re-assign the WC SSIF's two most experienced claims adjusters (one Medical Only claims specialist and one Indemnity claims specialist) to work with the new ORM Director to close out as many current open claims as possible by FY16 year-end.
  » Concurrently, retain and utilize under KDHE direction the remainder of the existing WC SSIF claims staff until FY16 year-end to aggressively manage and close as many new claims as possible by FY16 year-end.

Critical Steps to Implement

The critical steps necessary to complete the implementation of recommendation #4 include:

- ORM Director is in place and operational as of fourth quarter FY16.
- ORM Director focuses the remainder of FY16 on (1) developing and executing an RFP process for a new TPA (2) working with two assigned SSIF adjusters to close out as many open runoff claims as possible, as detailed in the Key Assumptions section above.
- WC SSIF claims staff aggressively manages and closes new claims for the remainder of FY16.
- Eliminate WC SSIF claims staff at the end of FY16, assuming the new TPA is operational.
- Change state statute/policy to eliminate the ability for injured employees receiving Workers' Compensation benefits to concurrently accrue vacation/PTO time.

6. Ensure no program subsidy for Athletic Commission fee for service operation

growing.

Any elimination or scaling back of these programs would have a negative impact on the state's ability to grow business and compete with other states and countries vying with Kansas for new and existing business opportunities.

Recommendation #4 - (dollars in 000's)

FY17	FY18	FY19	FY20	FY21
$2,000	$4,000	$4,000	$4,000	$4,000

Key Assumptions

- Elimination of the Community Service Program Tax Credits could result in an additional $4.0 million in taxable income from the almost 900 Kansas taxpayers who filed for the exemption in state tax year 2012.
- Kansas would realize a first year impact after January 1, 2017 due based upon implementation at the beginning of a state tax year.
- The staff resource savings in the Department of Commerce and Department of Revenue for the monitoring efforts are assumed to be redirected to other program activities within each department's tax incentive program functions.
- Staff efficiency savings from Department of Commerce personnel would not be a savings to the State General Fund but from the Economic Development Initiative Fund which is funded from the Kansas Lottery Fund appropriation.

Critical Steps to Implement

- Create a working committee to determine if the Community Service Tax Credit program allocations could be funded with private resources and foundations instead of directing the business tax contribution.
- If the decision is made to eliminate the Community Service Tax Credit Program, legislation would be needed to amend the K.S.A. 79-32,194 and 197 et seq. and Schedule K-60, which allows business firms contributing to an approved community service organization to participate.

Recommendation 5 – Ensure no program subsidy for Athletic Commission fee for service operation

As noted in the introduction of this Chapter, the department oversees the operations of the Kansas Athletic Commission. This includes inspection of the health and safety of the contestants and the revenue facilities. The programs cover authorized control and direction for professional boxing, kickboxing, mixed martial arts, and wrestling, while encouraging the promotion of such sporting events in the State of Kansas. The Commission continues to facilitate the health and safety of contestants and fair and competitive bouts, in addition to protecting the public.

Department of Commerce - Athletic Commission Comparison

	FY 2013 Actuals	FY 2014 Actuals	FY 2015 Actuals
Revenues	$106,691	$100,738	$ 78,682
Expenses	$142,777	$ 32,681	$104,218
Difference	$ (36,086)	$ 68,057	$ (25,536)

Source: Department of Commerce Fiscal Office - November 2015

We found over the past several years, the revenues from 5 percent of the gross receipts fee from gate fees, event application, and promoter license/fees were not fully covering the costs of the department's oversight. While not significant today, if boxing, wrestling, and related Athletic Commission events are expanded across Kansas, the state should not be subsidizing the cost of the events from its state coffers.

It is recommended that the licenses and gross receipt fees should fully recover the costs for the Athletic Commission to regulate the commissioned events. The state assesses a 5 percent athletic fee upon the gross receipts calculated for Boxing, Mixed Martial Arts, Kickboxing, and Wrestling events. K.A.R. 128-3-1- defines gross receipts "as the total amount of all ticket sales, including complimentary tickets and passes, after sales tax is deducted."

In addition to various professional license and application fees, the event promoters shall obtain a surety bond or irrevocable letter of credit in the amount of $10,000 to guarantee payment of all fees and taxes due the Athletic Commission. The Commission may adjust the required amount to assure sufficient protection to the state.

The department should adjust the gross receipt fee for each event to ensure its costs in providing the statutory defined regulatory and compliance functions are fully recovered.

Recommendation #5 - (dollars in 000's)

FY17	FY18	FY19	FY20	FY21
$26	$26	$26	$26	$26

Key Assumptions

- No growth in sporting events over the planning period
- Increased license fees and/or increase in gross receipt fee to ensure the Athletic Commissions costs are recouped with each event
- Ability of the Athletic Commission to recover any costs not recovered by the license fee or gross receipt fee to be recovered by the $10,000 posted event surety bond
- All monies received are credited back to the Athletic Commission budget

Critical Steps to Implement

- Amendments to KAR 128 allowing the Athletic Commission to fully recover its regulatory and enforcement costs from applicant license fees, gross receipt fees, or the surety bond
- Communication to promoters of the cost recovery changes including any administrative overhead costs

Recommendation 6 – Centralize Commerce's Human Resources and Information Technology Infrastructure Operations within the Department of Administration

Human Resources

The Department of Commerce currently has 1.5 FTE assigned to support Human Resource functions. The department is also not currently using the state's time-keeping application resulting in manual processing of leave approval time.

The consolidation would transfer the Human Resource related workload of the 235 full-time positions to the Department of Administration including position requisition requests, desk audits, and other payroll related tasks.

Secondly, the department should also automate its payroll processing procedures to eliminate the manual paper sign-off of vacation and other personal leave requests. Any functions not assumed by the Department of Administration should be assumed by the Office of the Chief Finance Officer and the fiscal staff.

- Information Technology and Infrastructure Operations
  - » The Information Technology and Infrastructure Team consists of six full-time employees that support the 223 full-time and nine part-time staff members throughout the 29 Commerce work sites. Three sites utilize the KanWin network including the Curtis State Office Buildings, the 1430 SW Topeka Workforce Center, and the Manhattan Workforce Center. The rest of the Commerce field offices utilize the local ISP's to gain access to the network.

The department indicated their infrastructure sits behind a pair of Cisco ASA 5520 firewalls (except what resides in the DMZ and operates a Microsoft Hyper V Host environment) currently consisting of:

- Various physical boxes located in the LSOB data center that include seven host servers, two Domain Controllers, four boxes for Polycom (server, bridge, video boarder proxy, and five port recording servers)
- Two database servers
- Two file servers
- One mail server
- One App server
- One O365 mail hybrid server

The current use of virtual server images includes various applications including:

- Two for MS CRM production and test
- Two SQL data base production and test