A Report to the South Carolina General Assembly by the Joint Committee on Government Accountability and Oversight

H3620 (A117, R175), the General Appropriation Act for Fiscal Year 2007-08, included a temporary proviso creating the Joint Committee on Government Accountability and Oversight (JCGAO). The proviso is as follows:

> **54.26. (LEG: JCGAO) There is hereby created the Joint Committee on Government Accountability and Oversight (JCGAO). The committee shall be comprised of eight legislative members, which shall be the President Pro Tempore of the Senate or his designee, the Speaker of the House of Representatives or his designee, the Chairman of the Senate Finance Committee or his designee, the Chairman of the House Ways and Means Committee or his designee, and each of these legislative office holders shall appoint one additional legislator. The purpose of the committee shall be to review and assess the merits of the recommendations of the report of the Governor's GEAR Committee and provide recommendations to the General Assembly as to any improvement deemed appropriate. The committee may further make any recommendation it deems appropriate in improving government processes for efficiency and accountability and shall provide its' report as directed by the President Pro Tempore of the Senate and the Speaker of the House of Representatives.

The members who served on the Joint Committee are:

Senator Glenn McConnell (Chairman), President Pro Tempore of the Senate
Senator Hugh Leatherman, Sr., Chairman of the Senate Finance Committee
Senator Larry Martin, appointed by the President Pro Tempore of the Senate
Senator Thomas Alexander, appointed by the Chairman of the Senate Finance Committee
Representative Daniel Cooper, Chairman of the House Ways and Means Committee
Representative Doug Smith (Vice-Chairman) Speaker of the House's Designee
Representative Dwight Loftis, appointed by the Speaker of the House
Representative Brian White, appointed by the Chairman of the House Ways and Means Committee

JCGAO Chronology of Meetings October 2007 - December 2007

The Joint Committee met on five separate occasions to review the Governor's Government Efficiency and Accountability Review (GEAR) Committee report and hear testimony. At the first meeting of the Joint Committee, a chairman and vice-chairman were selected and the Joint Committee received a review of Proviso 54.26 and a presentation by Mr. Frank Fusco, Executive Director of the State Budget and Control Board. The four subsequent meetings of the Joint Committee included testimony by Mr. Chad Walldorf, Chairman of the GEAR Committee, and Mr. Frank Fusco, Executive Director of the State Budget and Control Board. Other members of the GEAR Committee along with appropriate staff of the State Budget and Control Board also addressed the Joint Committee as each specific recommendation was discussed. Joint Committee members asked questions and engaged in discussion as each recommendation was deliberated. Following is a summary of the topics discussed at the Joint Committee's meetings:

October 4, 2007 - The Committee organized and received a general overview of the GEAR report.

October 30, 2007 - The Committee received testimony and discussed the following recommendations:

#1 through #3	Board Slogan, Allocation, Business Development Office
#4 through #10	State Fleet Management
#11 through #14	Facilities Management
#15 through #16	Insurance Reserve Fund

November 14, 2007 - The Committee received testimony and discussed the following recommendations:

Update on #4	State Fleet Management
#24 through #36	Office of the State Chief Information Officer
#37 through #39	Office of Local Government, Competitive Grants, State Energy Office
#40 through #43	Board of Economic Advisors
#44 through #46	State Auditor, Agency Carry Forwards and Dormant Accounts

December 4, 2007 - The Committee received testimony and discussed the following recommendations:

#52 through #56	State Health Plan
#57 through #60	State Retirement System

December 18, 2007 - The Committee received testimony and discussed the following recommendations:

#17 through #23	Procurement Process
#47 through #51	Office of Human Resources
#61	Department of Administration

The Committee also heard testimony from the Department of Social Services on the status of the development of the Child Support Enforcement System.

The Government Efficiency and Accountability Review Committee Report

On February 26, 2007, Governor Mark Sanford issued an executive order (#2007-06) establishing a nine-member Government Efficiency and Accountability Review (GEAR) Committee to analyze the systems and services provided by the South Carolina Budget and Control Board. The executive order directed that five of the members be appointed by the Governor and the other four committee members be appointed by the remaining four members of the State Budget and Control Board.

The nine members were:

Ms. Marcia Adams, Director, Department of Motor Vehicles
appointed by Governor Mark Sanford

Mr. Lewis Creel, Director of Human Resources and Public Affairs, Alcoa - Mt. Holly
appointed by Governor Mark Sanford

Mr. J.T. Gandolfo - Owner of Dodgeland of Columbia.
appointed by Governor Mark Sanford

Mr. Rick Kelly, Vice President and Chief Financial Officer, University of South Carolina
appointed by Senator Hugh Leatherman, Senate Finance Committee

Mr. Mike Langrehr, former Chief Information Officer, State of Maryland
appointed by Governor Mark Sanford

Mr. Burnie Maybank, Esq., Member of Nexsen Pruet.
appointed by State Treasurer Thomas Ravenel

Mr. Stephen Osborne, Senior Vice President for Business Affairs, College of Charleston
appointed by Representative Dan Cooper, House Ways & Means Committee

Mr. John Pownall, Senior Vice President for Corporate Investment Finance, Bank of America
appointed by State Comptroller General Richard Eckstrom

Mr. Chad Walldorf, former Chief of Staff for Governor Mark Sanford
appointed by Governor Mark Sanford and serving as Chairman

In July 2007, a report by the GEAR Committee was published. The GEAR Report listed sixty-one specific recommendations. Included in the recommendations for each was: verbiage on background, information on the rationale behind the recommendation, a listing of who has the authority to change the existing policy, and an estimate of savings from the first year of implementation as well as a three-year savings.

<u>Review of Recommendations</u>

Among the specific items reviewed by the GEAR Committee were:

Budget & Control Board Slogan	Recommendation #1
Board-Wide Allocation	Recommendation #2
Business Development Office	Recommendation #3
State Fleet Management	Recommendations #4, #5, #6, #7, #8, #9, #10
Real Estate	Recommendations #11, #12, #13, #14

Insurance Reserve Fund	Recommendations #15, #16
Procurement Office	Recommendations #17, #18, #19, #20, #21, #22, #23
Chief Information Officer	Recommendations #24, #25, #26, #27, #28, #29, #30, #31, #32, #33, #34, #35, #36
Office of Local Government	Recommendation #37
Competitive Grants	Recommendation #38
State Energy Office	Recommendation #39
Board of Economic Advisors	Recommendation #40, #41, #42, #43
State Auditor	Recommendation #44
Agency Carry Forwards	Recommendation #45
Dormant Accounts	Recommendation #46
Human Resources	Recommendation #47, #48, #49, #50, #51
State Health Plan	Recommendation #52, #53, #54, #55, #56
Retirement	Recommendation #57, #58, #59, #60
Agency Structure	Recommendation #61

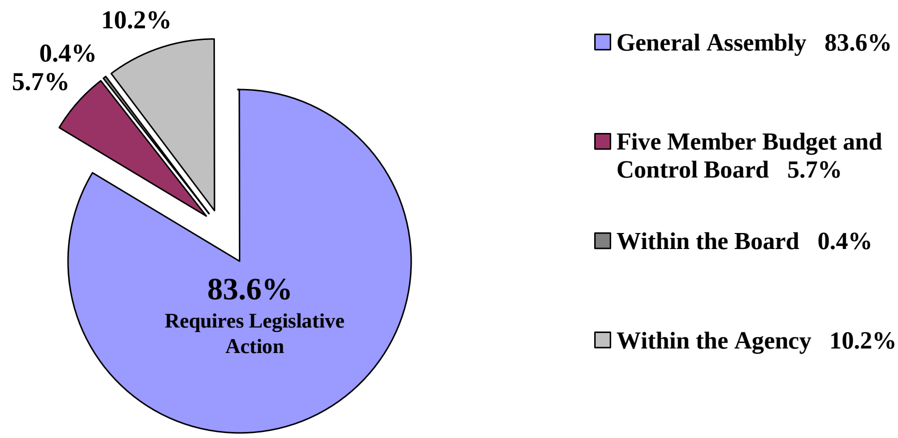
Authority for Change

As a part of each specific recommendation, the GEAR Committee listed what entity or organizational level had the authority to change and implement the GEAR Committee's recommendation. The categories listed as having the "Authority for Change" were:

Within the Agency
Within the Board
The Five Member Budget and Control Board
Competitive Grants Committee
The General Assembly

Who Can Make the Changes Recommended in the GEAR Report?

(% Based on Dollar Amount of GEAR Projected Savings)



<u>Cost Savings</u>

The GEAR Committee's report included a statement that savings garnered from implementation of the report's recommendations would yield $500 million. This statement should be regarded cautiously in light of the following information that was disclosed in testimony at the Joint Committee's meetings. First, these monetary amounts are projections that were made by a number of groups including GEAR Committee members, Board staff, and even the Board's contract actuaries. These are all projections, and in some cases the numbers produced are educated guesses. As is the case with all projections, the method of implementation determines how savings may be achieved.

Second, the projected savings cover the three major sources of funds utilized in state government: state General Funds, Federal funds, and Other Funds. All three sources have accompanying laws and regulations attached to their use. The allowed uses of any potential savings are not necessarily malleable. For instance, a change in a process currently funded by a restricted revenue source may not lead to a surplus that could be redirected to another activity, short of a statutory change. Federal funds have even more complex strings attached to their use. Thus, readers of the report should not think that large amounts of funds might be redirected to other uses.

Third, the referenced $500 million is calculated by **adding three years** of savings as projected by the GEAR Committee. The recurring **annual** savings are $165.1 million and $13.2 million in one-time savings. Of the $165.1 million in annual projected savings, $106.7 million or 65% of the projected savings are the results of eligibility changes for future retirees regarding their health insurance and pension benefits (reference Recommendations #53, #57, #58 and #59). Should these recommendations be enacted, this will result in a decrease in longer term liability to state government, but actual budgetary savings versus current expectations will not accrue to the state's coffers for many years to come. Further, the projected savings resulting from these four recommendations are yielded from changes in the benefits plan for all expected retirees in the South Carolina Retirement Systems (SCRS). But, that system is comprised of state employees, school district employees, and many local government employees across the state. So, any projected reduction in the long-term liability of the employee retirement and retiree health insurance plan would accrue to state agencies, local school districts, counties, municipalities, and special purpose districts.

While the Joint Committee does not diminish the significance of potential benefits arising from the GEAR Committee recommendations, similarly the Joint Committee does not ratify the suggestion that simply implementing the GEAR recommendations will result in hundreds of millions in unencumbered funds to either spend on priority budget items or reduce taxation. Changes implemented as recommended in the GEAR Report will yield savings and the Joint Committee endorses approaches that will save taxpayer monies. However, a clear understanding of the term "savings" is important as the members and employees of the Budget and Control Board and the General Assembly move forward in the implementation phase of the recommendations.

Overview of Findings by the Joint Committee

First, the members of the GEAR Committee are to be commended for their effort in compiling their report. While many of the GEAR Committee members have previously served or currently serve in state level governmental positions, all members gave of their time in an effort to improve the State Budget and Control Board. The Joint Committee expresses its appreciation for the time and efforts of the GEAR Committee members.

Second, the employees of the Budget and Control Board are to be congratulated for their cooperation with the GEAR Committee. In the report (Page 4), the GEAR Committee wrote, "We were also heartened having met so many good people associated with the Budget and Control Board and South Carolina who are eager for improvement." The Board staff also has been most helpful to the Joint Committee in the process of reviewing the GEAR Report.

Third, Mr. Frank Fusco and Mr. Henry White, Esq., are to be commended. The GEAR Committee members readily admitted that a significant number of their recommendations came from ideas freely shared by Board staff. This search by Board staff for better ways to do the business of the Board reflects on the quality leadership offered by Mr. Fusco and Mr. White. Also, in listening to the testimony of Mr. Fusco, it is apparent that he has developed a culture of continuous improvement within the State Budget and Control Board. His example is a model for other state agencies.

Among those areas that were within the purview of the Board's Executive Director to change, the Joint Committee found that many of the recommendations have been implemented by Board staff. This is not surprising because many of the GEAR Committee recommendations came from discussions with Board staff in their areas of expertise. The general agreement of perspective among the GEAR Committee and Board staff is centered in those functional areas related primarily to the logistical functions of the Board, those functions predominantly located in the Division of General Services.

However, there were several functional areas where the GEAR Committee and Board staff had a divergence of opinion. The first of these was in the area of Fleet Management. Much of the direction of the Fleet Management section was set in a study produced by Mercury Associates in 2005. Upon hearing testimony from Board staff, it is evident that Fleet Management has already implemented or is in the process of implementing the recommendations contained in the Mercury

Report. The Joint Committee found, based on both oral and written testimony, that the specific GEAR Committee recommendation related to the use of auto rebates could not be implemented in such a way to benefit the state more than the existing process, which protects the state's interest by extracting among the lowest prices for fleet vehicles.

A second area of divergence of opinion between the GEAR Committee and the Board staff was the Division of the Chief Information Officer (CIO). The Joint Committee found Mr. Mike Langrehr, former Chief Information Officer of the State of Maryland, to be highly credible. The Division of the CIO faces a uniquely difficult task because it fills the role of regulator in setting statewide standards, service provider for the numerous state agencies that utilize its service, and advocate on behalf of the state agencies it serves. In addition, the technology used for information management changes rapidly. Based on the GEAR Report and testimony, the Joint Committee senses a degree of friction between the Division and other organizations in state government. Thus, the Joint Committee endorses the call for more transparency, particularly as it related to service billing. Further, the Joint Committee endorses a more collaborative model of interaction with the addition of more formal legislative oversight of these information management processes.

A third area of divergence of opinion between the GEAR Committee and the Board staff was the Board of Economic Advisors (BEA). The GEAR Committee was critical of the processes used by the BEA and inferred that this revenue forecasting entity yielded to political influence. The Board staff deferred comment on this grouping of recommendations to the BEA. The three voting members of the BEA are appointed by the Governor, the Chairman of the Senate Finance Committee, and the Chairman of the House Ways and Means Committee. All three members of the BEA are private citizens of impeccable character, and the Joint Committee emphatically rejects the suggestion that these members are influenced by political considerations.

Of particular concern to the GEAR Committee, as evidenced by their recommendations, were the State Health Insurance Plan and the State Retirement Systems retirement benefits for beneficiaries. A large share of the savings projected by the GEAR Committee comes from recommended changes to the benefits structure or eligibility of state employees, local public school district employees, and many other local government employees. The Joint Committee shares this concern.

Over the past several years, the General Assembly has revised many elements of the South Carolina Retirement Systems with the passage of S.618 of 2005. In addition, the General Assembly is poised to pass legislation that creates a specific trust fund to address the issue of other post employee benefits (OPEB) related to the pre-funding of health insurance coverage for current employees. Both the Senate Finance Committee and the House Ways and Means Committee have standing subcommittees dedicated to addressing these complex issues. The General Assembly is certainly responsible for ensuring a retirement system and a health insurance system that are sustainable for the long term.   Making changes in eligibility and benefits are not very difficult if the only goal is solvency. The difficult task is to attain financial health for these benefit programs while maintaining fairness for the beneficiaries. Whatever changes are implemented, the State of South Carolina must treat teachers, state employees and local employees fairly.

The final recommendation by the GEAR Committee is the creation of a Department of Administration (DOA). The Joint Committee concurs with the creation of a DOA. The State Budget and Control Board is an important institution to South Carolina, and certain parts of it should be maintained in their current configuration. The Board is a unique institution that brings together the financial leaders of the State, and its value is greatest during times of fiscal crisis. In addition, the Board is the supplier of professionally prepared information that is untainted by political consideration, and this role should continue. Likewise, many of the logistically based services provided by the Board require rapid decision-making, and these types of services may be better suited for inclusion in the new DOA. The Joint Committee recommends that the General Assembly consider the creation of the Department of Administration with certain functions transferred from the State Budget and Control Board to the new agency. The specific functions to be transferred should be thoroughly deliberated through the committee structure of the General Assembly.

Recommendation One
The Budget and Control Board should replace their “We Make Government Better” slogan with something more service-oriented and customer focused.

GEAR RATIONALE

In most cases, the Budget and Control Board does not deliver services to the people of South Carolina - it provides resources and central support to those agencies which do. The Budget and Control Board should not view itself at the top of the pyramid (i.e. “in control”) but as the supportive agency at the bottom, which is there to support the agencies that actually deliver services to the residents of South Carolina. Slogans of the Department of Administration in other states and of our federal government seem to better grasp this important nuance. Some examples (emphasis added) include the following:

- We provide consistent and efficient support services to State agencies so that they may better serve Alaskans.
- DAS provides policy leadership, strategies and services that help our customers get their jobs done "Better, Cheaper, Quicker." (CT)
- We serve those who serve Florida.
- The Department of Administration exists to provide professional and responsive services to the state agencies, state employees, and local governments that serve the citizens of Montana.
- To provide expertly managed services to our customers that maximize the efficiency of state government. (NE)
- Help federal agencies better serve the public by offering, at best value, superior workplaces, expert solutions, acquisition services and management policies. (Federal Government)

The above slogans much better reflect the ideal customer-centric, servant-leadership approach that a support agency like the Budget and Control Board should embrace. The leadership of the Budget and Control Board should adopt their own slogan which encapsulates these ideals and also consider annual surveys of agencies to benchmark service scores so that Board employees better recognize agencies as their customers.

To save any cost from this change, the new slogan should not be immediately switched out everywhere. Instead, over time as new signs, stationary, etc are replaced, the new slogan can be incorporated.

Authority for Change
Within the Agency

BUDGET & CONTROL BOARD RESPONSE

There is no meaningful reason identified to change the vision statement. The current vision statement continues to set the direction and performance expectations of our agency when employees are properly trained in the vision and mission of the agency.

Estimate of Fiscal Impact: $0

GEAR RESPONSE

COMMITTEE FINDING

The appropriateness of vision statements is to a large degree a matter of personal taste. A more meaningful measure is the degree to which the leadership of an organization articulates the values of the organization. Mr. Fusco, Executive Director of the State Budget and Control Board, testified that he takes time to meet with every group of new Board employees to pass along the culture and values of the Board. The Joint Committee commends Mr. Fusco's efforts. Collectively as the General Assembly and separately as a Joint Committee, we have been pleased with customer service we have received from the State Budget and Control Board.

One area of customer focus that likely needs improvement is within the Division of the Chief Information Officer. Because of conflicting roles as a regulator for purposes of consistency while providing information technology services to other state agencies, the emphasis on customer service can be tricky. However, it is apparent from the testimony received that the customer service emphasis by the Division of the Chief Information Officer should be increased.

Recommendation Two
The Executive Director should reduce the Board-wide Allocation charged to offices and divisions within the Budget and Control Board by a minimum of five percent.

GEAR RATIONALE

When asked about ways to cut cost for state agencies, several division and office directors within the Budget and Control Board would somewhat laughingly start with a request to reduce the amount they paid for administrative oversight. Given the dramatic increase in these payments in recent years, the point is a serious one. If divisions within the Budget and Control Board are being asked to reduce their charges to other state agencies, the example for this sacrifice should start at the top.

We recommend the agency's new Executive Director reduce the Board-wide charges to the divisions and offices within the agency by a minimum of five percent as of the new fiscal year (which just began on July 1st) and look for opportunities to continue reducing them in the future. While the total savings are not large compared with some other items, they are symbolically very important in creating a culture focused on reducing the cost of government support services rather than increasing them.

If every division within the Budget and Control Board – excluding the Retirement System – can find a way to reduce their own charges by a similar five percent, the total annual savings to the agencies and taxpayers of South Carolina would be approximately $95 million.

Authority for Change	First Year Savings
Within the agency	$145,000

Savings (three years)
$435,000

BUDGET & CONTROL BOARD RESPONSE

The Board is monitoring its FY 2007-2008 expenditures and budget, as it does each fiscal year, and is planning a mid to late-year refund equal to or greater than recommended by GEAR. In addition, the Board is committed to a lean central administration and further reductions in the future, if sustainable. This commitment is evidenced by the reduction in central administration's budget since FY 2000-2001.

Estimate of Fiscal Impact: $145,000 (cost savings to Board programs)

GEAR RESPONSE

COMMITTEE FINDING

The only disagreement between the GEAR committee and the Board staff is whether the overhead assessment should be reduced at the beginning of a budget cycle or at the end of a budget cycle. The net effect is the same. Therefore, no further action is recommended.

Recommendation Three
The General Services Division should close the agency's Business Development Office.

GEAR RATIONALE

Some at the Budget and Control Board seem to have taken the "run government like a business" mantra to the extreme by trying to grow the agency's revenue. In fact, in a presentation to the GEAR Committee, one Budget and Control Board official talked about "replacing lost business" from the closure of one division with increased revenue from another. However, it is far from a core function of government to grow – especially an agency that primarily exists to serve other agencies. This off-mission focus is even more egregious in that time and taxpayer resources are being spent on it.

Additionally, the "Business Development News" section of the Business Operations website has not been updated in over two years and the website's calendar of events has no events. Whether well run or not, there is no justification for spending this kind of money – or any taxpayer money – on a government to government (G2G?) marketing campaign.

Authority for Change	First Year Savings
Within the Agency	$130,000

Savings (three years)
$390,000

BUDGET & CONTROL BOARD RESPONSE

The Board Executive staff will close the Business Office by the end of February 2008. Duties will be transferred to the respective program areas. General Services intends to continue to make government entities aware of savings that can be realized from utilization of its programs or which offer savings through economy of scale (combined purchasing power); publicizing these savings opportunities can be accomplished by each team without a dedicated business office. The Board recognizes there will be a small cost savings to the Board's programs; however it will not be significant enough to affect any of the rates. Savings realized in this program area will be used for deferred maintenance, which is a top funding priority.

Estimate of Fiscal Impact: $130,000 (cost savings for Board revenue programs)

GEAR RESPONSE

COMMITTEE FINDING

Because the Board is in the process of closing the Office, no further action is recommended.

Recommendation Four
State Fleet Management's vehicle acquisition bid process should be revised to ensure the lowest price – including rebates – is available throughout the entire year.

GEAR RATIONALE

It is very simple to change the bid structure to require that the successful bidder pass on to the state all the highest rebate or manufacturer's fleet incentives when the state orders the vehicle. This will ensure that the state gets the advantage of the lowest price throughout the year. The state purchased over 2000 vehicles last year. The state bid is always awarded at the beginning of the model year when the rebates are the lowest. Rebates on most domestic vehicles change by as much as $3000 over the course of a model year. It is conservative to assume a rebate savings of $1000 per year from adding this to the bid contracts.

Authority for change	First Year Savings
Within the Agency	$2,000,000

Savings (three years)
$6,000,000

BUDGET & CONTROL BOARD RESPONSE

Because of overwhelming feedback from vehicle fleet vendors and manufacturers' representatives, which was contrary to the recommendation of the GEAR Committee and because of concern that such language might actually increase costs to the state, we opted not to include language in the current contracts that required vendors to certify that the state will receive the benefit of any rebates.

However, after the current bid cycle is completed (April, May), the Materials Management Office will survey the marketplace to gauge the effect of certification language on state contract pricing and will modify the FY 2009 solicitation if it appears that such language could result in any savings to the state.

Estimate of Fiscal Impact: $0 There are no projected savings

GEAR RESPONSE

COMMITTEE FINDING

The Joint Committee spent a great deal of time investigating this recommendation. After receiving testimony from Mr. J.T. Gandolfo of the Gear Committee, the Joint Committee requested detailed information from the Board to substantiate their claim of best practices to ensure the Board was purchasing vehicles at the lowest possible prices. The Joint Committee then received testimony from numerous private vendors of vehicles. Their testimony, along with additional documentation supplied by the Board staff, proved that the process of large fleet vehicle purchases through a competitive bid process was dramatically different from the retail market where rebates are the norm. As a result, the Joint Committee is satisfied that the current fleet vehicle purchase process leads to a very low price per vehicle. Thus, no further action is recommended.

Recommendation Five
The state bid structure should be modified to provide for two bid prices: one for payment within five days of delivery and one for payment within thirty days of delivery.

GEAR RATIONALE

A selling dealer can notify the purchasing agency of the delivery date up to two weeks prior to delivery. The state saves money because the dealer can offer a lower price because he will not incur large floor plan interest charges. Moreover, the state will attract more dealers to bid and get the benefit of increased competition.

As the average floor plan cost is $200 per vehicle, a dealer, knowing that he can be paid in a timely manner, can lower his bid by thirty days of floor plan expense. Estimating that this will only occur with half of the vehicles purchased equals an annual savings of $200,000.

Authority for change	First Year Savings
Within the Agency	$200,000

Savings (three years)
$600,000

BUDGET & CONTROL BOARD RESPONSE

The state included language to solicit a discount for prompt payment in its statewide term contracts for vehicles during the Fall of 2007. This 15 day payment incentive for purchases was virtually ignored by the vendor community. The only discount offeror was not price competitive.

The state will monitor new contracts to determine if any savings are realized by this approach, and include the 15 day prompt payment offer in FY 2009 solicitations.

Estimate of Fiscal Impact: $0

GEAR RESPONSE

COMMITTEE FINDING

The Board has responded to the recommendation and included language in statewide term contracts for discounts for prompt payment.

Recommendation Six
The Commercial Vehicle Repair Program surcharge of 16% should be lowered to a maximum of 13% with a maximum cap of $75.

GEAR RATIONALE

Until legislation is enacted requiring all agencies to maintain their vehicles through the Commercial Vehicle Repair Program, agencies are free to repair vehicles internally and/or use any outside vendor they choose. As stated before, vehicle maintenance distracts from an agency's core mission. Moreover, State Fleet Maintenance has negotiated excellent rates with reputable vendors who are required to maintain high standards of repair and integrity.

It should be State Fleet Maintenance's intention to break even at the end of each year and not to run a surplus. Lowering the surcharge to 13% and reviewing that percentage annually for future reductions will encourage more agencies to use this valuable service.

Authority for change	First Year Savings
Within the Agency	$75,000

Savings (three years)
$225,000

BUDGET & CONTROL BOARD RESPONSE

The CVRP rate has been lowered to 14% with a $75 cap effective September 1, 2007. State Fleet Management will monitor program revenue and expenses quarterly to determine if further adjustments are necessary.

Estimate of Fiscal Impact: $115,000 (Annual estimated savings to agencies)

GEAR RESPONSE

COMMITTEE FINDING

The Board staff has responded to the recommendation and has lowered the surcharge.

Recommendation Seven
The state should consolidate all non-Corrections maintenance facilities throughout the state, limit repairs at remaining facilities to specialty and heavy duty repairs, and maintain all other light duty vehicles through the Commercial Vehicle Repair Program.

GEAR RATIONALE

The mission of a state agency is to provide whatever vital services it is commissioned to provide. Administering fleet vehicles distracts from an agency's core mission.

The inefficiencies of administering 80 separate repair facilities, some as close as .7 of a mile from each other is staggering. Training is one example. Today's vehicles have computers which are more powerful and perform more complicated tasks than the computers aboard our first manned missions to the moon. Equipment is another example. What is up to date today becomes obsolete or worn out in short order in a modern shop. Unfortunately, it is very unlikely that an agency's vehicle repair shop can adequately and economically keep up with today's standards for repair. While State Fleet Management laudably administers a repair facility certification program, it does not provide training, equipment, or management.

All State Highway Patrol vehicles are maintained through Commercial Vehicle Repair Program and it is certainly more dependent on its vehicles than any other agency. It is hard to imagine a better blending of efficient centralized control of the maintenance of the state's fleet and outsourcing to the private sector than the Commercial Vehicle Repair Program administered through State Fleet Management.

As it will take time to close down a number of state run service stations, no year-one savings were assumed. A very conservative 10% a year savings of the state's total $30 million vehicle maintenance cost was assumed for years two and three.

Authority for change
Individual Agencies and/or the Legislature

Savings (three years)
$6,240,000

BUDGET & CONTROL BOARD RESPONSE

No administrative action is planned in response to this recommendation as it is within the purview of other agencies and the General Assembly.

Estimate of Fiscal Impact: Unknown savings to other agencies.

GEAR RESPONSE

COMMITTEE FINDING

The Joint Committee has been informed this recommendation is under review by the Governor's Office for implementation by Cabinet agencies. The Committee refers this recommendation to the respective legislative budget committees for follow-up.

Recommendation Eight
While studying and preparing legislation to limit in-house state agency vehicle repairs to specialty and heavy duty vehicles and equipment, state agencies should immediately consolidate seven repair facilities located in Columbia to no more than three.

GEAR RATIONALE

All of the rationale contained in the previous State Fleet Maintenance facilities recommendation is applicable here. Consolidating these facilities could result in a minimum savings of $360,000 annually.

Authority for change	First Year Savings
Within the Agency	$360,000

Savings (three years)
$1,080,000

BUDGET & CONTROL BOARD RESPONSE

As State Fleet Management and USC examine their future facility requirements, an effort will be made to completely consolidate operations. Once a facility large enough to house all three agencies is secured, SFM will be able to allow ETV to consolidate their vehicle repair operations as well. Consolidation of other facilities referenced by the GEAR report is within the discretion of the agencies referenced or the General Assembly.

Estimate of Fiscal Impact: Unknown savings to other agencies.

GEAR RESPONSE

COMMITTEE FINDING

The Committee has been informed this recommendation is under review by the Governor's Office for implementation by Cabinet agencies. The Committee refers this recommendation to the respective legislative budget committees for follow-up.

Recommendation Nine
The current South Carolina Equipment Management Information System (SCEMIS) should be replaced. The savings from a new system should be used to reduce the State Fleet Maintenance's gas surcharge to agencies from .06 to .05 per gallon.

GEAR RATIONALE

A new system can be purchased for approximately $800,000 but will cost only about $40,000 per year to maintain. Additionally, a new system will give State Fleet Maintenance greater ability to manage the State Fleet thus allowing for more informed decision aimed at efficiency and cost savings. There is currently $1.2 million in excess State Fleet Maintenance funds that will more than cover the cost of the new computer system.

Authority for change	First Year Savings
Within the Agency	$110,000

Savings (three years)
$330,000

BUDGET & CONTROL BOARD RESPONSE

State Fleet Management (SFM) is planning to replace SCEMIS. Once a new system is implemented, at an estimated cost of $700,000, SFM will review program expenses to determine the proper adjustment to the fuel surcharge. No changes in this rate should be made until these savings are realized.

Estimate of Fiscal Impact: ($700,000) Expense to Board Program.

GEAR RESPONSE

COMMITTEE FINDING

The Board staff has responded to this recommendation and is in the process of implementation.

Recommendation Ten
State Fleet Maintenance should pay all Commercial Vehicle Repair Program vendors through a credit card rather than process each invoice and pay by check.

GEAR RATIONALE

If allowed to use a credit card account for payment, State Fleet Maintenance will save $120,000 per year. However, according to the Comptroller General's office, a credit card account cannot be used because the current state accounting system, STAR, is not capable of capturing the Federal Employer Identification number critical for payment. When the state converts to the new enterprise computer system, State Fleet Maintenance should begin paying by credit card. As this system is not yet deployed, no savings were assumed for the next two years.

Authority for change
Within the Agency

Savings (three years)
$120,000

BUDGET & CONTROL BOARD RESPONSE

When the SCEIS system is fully implemented, the state should be able to provide this type of transactional service to vendors.

Estimate of Fiscal Impact: $0

GEAR RESPONSE

COMMITTEE FINDING

The use of credit cards should be expanded to as many purchases as practical to lower the overall cost per transaction. Upon the completion of the South Carolina Enterprise Information System, the Board should explore every opportunity to utilize purchasing credit cards.

Recommendation Eleven
All requests for capital improvement projects over $1 million should be ranked and prioritized as an integral part of the Budget and Control Board's approval process. The Budget and Control Board should request that the Commission on Higher Education annually prioritize all of the higher education projects in the Comprehensive Permanent Improvement Plan. The Budget and Control Board should develop a comprehensive ranking system for all other capital improvement projects, regardless of source of funds.

GEAR RATIONALE

Each year the Board's capital budgeting unit prepares a Comprehensive Permanent Improvement Plan. The Comprehensive Permanent Improvement Plan is developed based on each agency's determination of the construction or renovation projects the agency wants to pursue over the next two fiscal years. The Comprehensive Permanent Improvement Plan is essentially each agency's wish list of capital projects. It represents a bottom up approach to capital project planning. The myopic priorities of each agency should not drive how the State does its capital improvement planning. Ideally, the Board would use its final review authority to rank all the requests in the Comprehensive Permanent Improvement Plan and approve projects based solely on the rankings. The relative merit of each project would be weighed against the other projects. Instead, the requests of agencies are not ranked based on relative need. Instead, the Board currently approves projects based primarily on whether the agency has funding for the project.

South Carolina's 33 public colleges and universities do the bulk of the state's capital projects. Of the $3.4 billion in capital projects approved by the Board since 2000, eighty percent ($2.7 billion) were for state supported colleges and universities. The Board approved these projects without any relative scoring system.

South Carolina law requires colleges and universities to submit their capital improvement plans to the Commission on Higher Education. The Commission on Higher Education has a ranking system for higher education projects that are funded with appropriations from the general fund or the capital reserve fund. This ranking system includes a consideration of whether the proposed project adds critical capacity and functionality to address defined statewide needs. The Commission on Higher Education, however, does not currently use this ranking system for higher education projects funded by a college or university with funds that do not come from the general fund or the capital reserve fund. Extending this ranking system to all higher education projects, regardless of source of funds, would provide helpful criteria for an improved decision-making process.

Authority for Change
Within the Agency

BUDGET & CONTROL BOARD RESPONSE

Budget and Control Board staff will take any actions requested by the Board. However, to fully accomplish the recommendation would require the General Assembly to modify various funding laws and laws related to capital budgeting.

Estimate of Fiscal Impact: $0

GEAR RESPONSE

COMMITTEE FINDING

The Joint Committee finds that the current law is sufficient to provide the Governor the opportunity to recommend priorities for capital improvements and the General Assembly to make appropriation decisions for capital improvement projects.

Recommendation Twelve
General Services should provide janitorial services for the buildings it manages at night rather than during the day. These savings should be passed on to agencies in the form of reduced rents.

GEAR RATIONALE

Most government as well as private sector offices, receive janitorial services at night. State agencies that lease property from the private sector – including the many divisions within the Budget and Control Board with offices in the Capitol Center Building – receive standard nightly cleaning service with no reported problems. Officials at Parks, Recreation and Tourism reported that they would actually prefer night time janitorial service as it would be much less disruptive to their daily operation. Additionally the president of a large South Carolina-based cleaning contractor adds that, “day cleaning in administrative areas is generally unproductive, a safety hazard and an inconvenience to the office staff.”

The Facilities Management Office reports that providing night time janitorial service for 80% of their buildings would save $700,000 annually. The state could save an additional hundreds of thousands of dollars by cleaning offices two to three nights a week rather than five. Several tenants of the Brown Building – Parks, Recreation and Tourism, the Department of Natural Resources and the Department of Motor Vehicles – have all agreed to switch from daily janitorial service to service three nights a week. Bathrooms will still be cleaned daily.

After a short pilot with these agencies, the Budget and Control Board should bring this same level of more economical service to most, if not all, of the buildings it manages. Because the majority of the janitorial services are provided via contract labor, General Services should make this change without any reduction in force of state employees. Savings should be passed on to the agencies in the form of a reduction in the rent paid to General Services.

Authority for Change	First Year Savings
Within the Agency	$1,000,000

Savings (three years)
$3,000,000

BUDGET & CONTROL BOARD RESPONSE

Board Executive staff has reduced the cost of custodial services by 22% from FY 2004, which has produced an annual savings of approximately $815,000. The Board conducted a survey among all custodial service customers to determine what their cleaning preferences are and their willingness to reduce services if it results in savings to the state. Board staff is conducting a pilot with agencies who have agreed to move from day service to night service 3 days a week to determine if further savings can be realized by reducing and changing the time of service. Should there be any savings realized from this recommendation, the savings will be directed to deferred maintenance.

Estimate of Fiscal Impact: Unknown

GEAR RESPONSE

In April 2007, officials at the Budget and Control Board provided the GEAR Committee with a written savings estimate of $700,000 a year from moving to nighttime janitorial service. Reducing the number of days of service will also clearly provide savings. The committee thinks it is crucial that these savings be accrued to the agency tenants that receive the reduced services. Otherwise, if the Budget and Control Board keeps the savings for deferred maintenance as they propose, agencies will have no incentive to alter their service schedule.

COMMITTEE FINDING

The Committee recommends evaluating the actual savings when the Board completes the pilot project. Decisions related to the accrual of any savings should be considered by legislative budget writers. The Committee refers this recommendation to the respective legislative budget committees for follow-up.

Recommendation Thirteen
The Budget and Control Board and specifically the General Services Division should more actively work to identify and liquidate underutilized real estate assets of the state.

GEAR RATIONALE

While some may question the cost and expense of developing this software rather than purchasing it, the final result looks to be impressive and very thorough. The employees who developed it should be commended for their good work.

The previously uncataloged information about the state's real estate assets will be an invaluable planning tool in the coming years. A crucial next step is to figure out how best to use the information.

While the state does have a list of surplus property for sale, there appears to be other vastly underutilized or surplus properties that are not currently being marketed. Recent examples include the Department of Mental Health's valuable but nearly vacant Bull Street Campus and the State Ports Authority's similarly valuable but underutilized facility in Port Royal. Both properties are currently moving towards being sold but at the suggestion of Governor Sanford rather than the officials charged with overseeing the state's real estate holdings.

A current example of a nearly dormant state asset is 240 acre State Park Health Complex on Farrow Road in Columbia, which includes dozens of buildings, many of which are vacant and dilapidated. Last year's budget included $470,000 to demolish twenty-two buildings on the campus. The Department of Mental Health occupied the Farmer Building, one of the large office buildings on the complex, but vacated it eight years ago.

The only occupants seem to be some small divisions of the Department of Health and Environmental Control mostly using old residences on the complex as offices. The large complex is badly underutilized and should be sold by the state so that the property can be put to better use and returned to the local tax roles. *(Please see appendix #8)*

General Services is in the final stages of assembling an impressive and much needed inventory of all of the state's real estate assets. As the primary overseer of those assets, they should become more proactive in identifying and leading the effort to liquidate all of the ones that are poorly used. While the fiscal impact could be significant, it is difficult to assess the state's real estate holdings.

Authority for Change
Within the Agency

BUDGET & CONTROL BOARD RESPONSE

Prior to the GEAR report, at the Board's direction, the Division of General Services began development of an automated and comprehensive real property management system (RPMS). Upfront implementation costs are being absorbed by the rent account. Additional funding may be needed. The present surplus property list is being monitored and reviewed at least monthly to ensure that GS is moving forward with the sale of all surplus property in a timely and effective manner.

Estimate of Fiscal Impact: $0

GEAR RESPONSE

We are not recommending that the Budget and Control Board "overrule" using the agency's decisions on property. Our recommendation is for the General Services Division to act like the state's central real estate office and become more proactive in making the General Assembly and the five-person Budget and Control Board aware of all state properties that are poorly utilized and deserve consideration for potential sale. Properly filling this role would have resulted in the General Services Division alerting the General Assembly about the underutilization of the Department of Mental Health Bull Street campus and the State Ports Authority's Port Royal facility years before the Governor's Office brought it to their attention. We also encourage the Budget and Control Board and the General Assembly to look more closely at the nearly dormant, 240-acre State Health Park Complex on Farrow Road in Columbia for potential sale as well.

COMMITTEE FINDING

The development of the new property inventory system should assist the Budget and Control Board in becoming efficient in the management of state assets. The Joint Committee encourages the Board to become more proactive within this arena. Likewise, agency leadership, including cabinet appointees and members of boards and commissions, should be cognizant that state assets are ultimately owned by the citizens of South Carolina, and their efficient use serves the owners.

Recommendation Fourteen
General Services should make better use of private real estate agents and auctioneers in disposing of surplus real estate.

GEAR RATIONALE

The SC Department of Transportation had similar difficulties and recently went through an "RFP" process in order to hire two real estate brokerages to list and market their surplus property. Within two years they sold approximately $5 million of previously dormant property – some at higher than appraised value – and cut their inventory of surplus real estate by half.

A Department of Transportation official reported the experiment was a success because local real estate agents "provided information on local markets we didn't know" and "brought a clientele to the table once they had an incentive to do so." They are considering offering "Broker protection" to real estate agents who bring buyers to the table as long as the net proceeds to the Department are the highest option and above appraised value. The Budget and Control Board Property Services Department should do so as well.

Authority for Change	First Year Savings
Within the Agency	$1,000,000

Savings (three years)
$3,000,000

BUDGET & CONTROL BOARD RESPONSE

General Services (GS) is in favor of using auctioneers, brokers, or any other sales methodology that will maximize net return to the state on surplus property sales. GS has already met with DOT's real property manager to discuss their procurement of a broker. Also, GS will explore the feasibility of offering commission protection to real estate agents who bring contracts for purchase of state property, as well as the advisability of contracting with brokers for the sale of its properties.

Estimate of Fiscal Impact: Unknown (Any additional revenue would benefit the sinking fund)

GEAR RESPONSE

COMMITTEE FINDING

The Board staff has embraced the recommendation and has retained an auctioneer to sell properties when the members of the Board direct that method of marketing.

Recommendation Fifteen
The Insurance Reserve Fund should, through an open competitive process, select a retail broker to place its excess property reinsurance without the use of a wholesale market intermediary broker. The selected broker should be compensated by a flat fee rather than an unknown commission based on a percentage of the placement.

GEAR RATIONALE

The decision of the Insurance Reserve Fund to work with one portal to the insurance underwriting market is a sound one. However, the process can be significantly improved and economies can be achieved through competition. It seems highly unusual to spend over $20 million a year in public funds without some form of an open competitive process over the past two decades.

A retail broker selection review should be conducted prior to next and subsequent years' renewals to assure that the Insurance Reserve Fund is represented by a firm which can access most underwriting markets directly, which has significant experience working with governments and with placements in international underwriting markets. Given the significant amount of the policy, it would be more advantageous for the state to follow current best practices by contracting with a broker for a pre-negotiated flat fee rather than the current undisclosed commission based on a percentage of such a large contract.

A commission arrangement essentially takes the control over the broker's compensation away from the state and gives it to the underwriting market. Many other states, including those with similar large windstorm exposures such as Florida, Alabama and Mississippi, have enjoyed substantial savings by evolving to a pre-negotiated flat fee arrangement with the brokers they select. Given the significant size of South Carolina's annual reinsurance purchase, the Insurance Reserve Fund should follow this best practices model as well to save five percent or more annually.

Additionally, the state's long-time retail broker accesses the market through a wholesale market intermediary broker. This intermediary step adds significant transaction costs to the process and conservative estimates project annual savings of an additional five percent. These savings could be passed along to state agencies and other Insurance Reserve Fund customers through reduced premium assessments.

The IRF is currently managing a separate builder's risk program which they should consider rolling into the property program to avoid possible coverage gaps and remove additional costs. Finally, a properly procured broker will help the state in assessing best practices from the private sector and other governments to examine whether the state's current deductible structure is too low. The state of Texas, for example, has benefited from lower insurance rates by increasing their deductible to a $25 million aggregate deductible.

Given the significant growing funds that the Insurance Reserve Fund carries forward annually, it may be prudent to set aside a special management reserve fund so that the state can be more aggressive with the working deductible layer of the state's reinsurance in order to get significantly better purchasing leverage.

Authority for Change	First Year Savings
Within the Agency	$2,080,000

Savings (three years)
$6,240,000

BUDGET & CONTROL BOARD RESPONSE

This recommendation has been fully implemented as required by Proviso 63.58. The Board selected the lowest price bidder at its November 2007 meeting. The Insurance Reserve Fund has entered into a contract with the selected broker. Whether the state will be able to meet its reinsurance needs and save money using this process is unknown at this time.

Estimate of Fiscal Impact: Unknown

GEAR RESPONSE

After undergoing the RFP process that we recommended, the Insurance Reserve Fund has contracted with a winning bidder that identified annual cost savings in their proposal of at least our estimated $2.08 million.

COMMITTEE FINDING

Proviso 63.58 of the Fiscal Year 2007-08 Appropriation Act has been implemented, therefore no further action is necessary.

Recommendation Sixteen
The automobile reinsurance program should be restructured from a "pass through" fully insured program to a self-funded mechanism with excess insurance for large losses. The Insurance Reserve Fund should select a qualified broker to solicit quotes from qualified carriers and compensate the chosen broker on a flat-fee basis.

GEAR RATIONALE

The past six years of loss data for the fleet shows an average annual incurred loss of $11 million with an average of $8.7 million actually paid out – yet the state is paying a $13 million annual premium. Best practices from other entities with large fleets, the spread of risk associated with so many vehicles, and the discrepancies between the premium versus the loss history all suggest that the Insurance Reserve Fund should create a plan that is largely self-funded with significant retentions. The state should continue to contract with a third party administrator to handle claims management and excess reinsurance coverage for large losses which exceed the internal loss limit which could either be per occurrence, based upon a total upper level retention or a combination of the two.

Additionally, the Insurance Reserve Fund considers their current procurement process to be on a "bid" basis. However, when the decision is made to "bid" the business, it is more of a race to the market as the Insurance Reserve Fund does not select a broker nor do they assign certain markets to certain brokers. Instead they create a "free for all" mentality which allows brokers to approach and lock down any market they can. The result is that when brokers know that the business is going to be "bid," they routinely start approaching markets before the actual release of the RFP. By the time the RFP is released, all viable markets have been contacted.

The lack of sophistication of this approach causes quality insurance brokers and carriers to avoid participating in the process. Perhaps as a result, the automobile program is currently written on "B-rated" paper with a local carrier when "A-rated" carriers are available. Rather than a "race to the market" approach, the Insurance Reserve Fund should follow best practices by issuing an RFP to select a qualified broker and then have the selected broker solicit quotes from all qualified carriers. As with property reinsurance, given the size of the policy, the broker that places this coverage should be compensated via a flat fee rather than a percentage of the placement.

The Insurance Reserve Fund can transition from trading dollars with an insurance carrier to controlling both the claim adjudication process and the cash flow of contributions into and claims payment outflow from the automobile fund. Savings, which would be achieved from the premium/funding spend, operating cash flows, and administrative efficiencies, should be passed on to the Insurance Reserve Fund clients through reduced premiums.

Authority for Change	First Year Savings
Within the Agency	$950,000

Savings (three years)
$2,850,000

BUDGET & CONTROL BOARD RESPONSE

The state's insurance consultants have determined that it will cost the state an additional $1 million a year to implement GEAR's recommendation. This would require a 7.7% rate increase in the cost of automobile insurance. The state's insurance consultants have also determined that the competitive process used by the Insurance Reserve Fund to acquire automobile reinsurance provides the best opportunity for the lowest price.

The current contract begun in May 2007 will end May 1, 2010. The claims data along with annual premium payments will be re-evaluated at the end of the contract period. A cost savings analysis at that time will indicate if a transition from a fully insured automobile liability program to a self-funded program is beneficial.

Estimate of Fiscal Impact: $0 (if implemented, public entities would have to pay higher rates)

GEAR RESPONSE

We think an RFP based on our recommendations will lead to significant savings – just as it did in our previous insurance recommendation. We do not understand how actuaries can determine that a proposal based on best practices from other states would lead to higher costs.

COMMITTEE FINDING

The Joint Committee finds that both the GEAR Committee and the Board staff have researched this complex issue in good faith, yet a difference of opinion still exists. As the Board staff moves forward with management of auto insurance for state vehicles through the remainder of this current contract period, detailed financial data should be collected and analyzed to determine the merits of the change proposed by the GEAR Committee.

Recommendation Seventeen
The General Assembly should eliminate the two provisos requiring legislative approval before restructuring the Budget and Control Board, reducing the workforce or privatizing any of its functions.

GEAR RATIONALE

It is a basic tenant of good management and good government to focus an organization's efforts on its key core competencies. In order to maintain an efficient and effective operation government needs all available tools at its disposal. None are more important than the ability to use outside vendors to provide quality non-core services when available at reasonable prices. The Budget and Control Board does not make its own computers or run its own hospitals, for example, because it can better contract to buy those goods and services.

The Board has privatized many functions that it used to provide with great success. Recent examples include outsourcing the creation and maintenance of the state's portal to a private company specializing in portals for state government. The results have been so significant in terms of improved on-line services for our citizens that South Carolina jumped from 43rd to 17th in a recent ranking of state's e-government services. The Budget and Control Board recently closed its Office Supply Division as the emergence of office supply stores such as Office Depot and Staples had rendered it obsolete. And similar examples abound throughout the Budget and Control Board, be they State Fleet Management's Commercial Vehicle Repair Program which contracts with thousands of private garages, at General Services which contracts for equipment repairs and tree trimmers, at the Retirement Systems which uses outside actuaries, and at the State Health Plan which has saved tens of millions in recent years through contracting with partners for disease prevention, smoking cessation and evidence-based medicine amongst other areas.

It is impractical to ask any agency – and especially <u>only</u> one agency – to receive legislative approval before entering into individual properly procured contracts. Legislative oversight beyond the two members who sit on the Budget and Control Board actually threatens the validity of our procurement system. A group of legislators would now have the ability to prevent a contract from being signed with a vendor selected through the legislatively written procurement process if they had reason to prefer another vendor. Mixing politics with management is never a recipe for good administration.

Most fiscal conservatives and champions of good governance encourage the use of the private sector to provide appropriate goods and services. It is for that reason, for example, that the state of Florida recently created the Council for Efficient Government as a response to the growing trend of outsourcing government services. Further, Virginia enacted the Commonwealth Competition Council more than a dozen years ago to help the state identify ways to provide better and less costly services; especially in areas where services or products can best be provided by the private sector. It is odd, at best, that the South Carolina Legislature has taken the opposite tact by discouraging privatization of government services, likely costing the taxpayers of our state incalculable millions of dollars in the process.

Authority for Change
The General Assembly

BUDGET & CONTROL BOARD RESPONSE

This recommendation requires Legislative action.

Estimate of Fiscal Impact: $0

GEAR RESPONSE

COMMITTEE FINDING

The Committee recommends elimination of the restructuring provisos. Similar to the GEAR Committee, this Committee is convinced that the restructuring provisos are unnecessary in the context of the Board.

Recommendation Eighteen
Expand the concept of agency certification levels beyond dollar amounts and focus on existing purchasing within state agencies. Allow agencies to make larger purchases without direct oversight. Focus the role of the Procurement Office on the processing of statewide term contracts used by all agencies, training and certification of procurement officers in both state and local governments, and consultation and technical assistance to agencies with complex procurements.

GEAR RATIONALE

State employees' most common complaint about the Procurement Office was related to their lengthy turn around time for purchases. One customer for example, wrote that "there is no accountability within Materials Management Office requiring procurements be processed in a set number of days. There should be a required schedule for turn around."

The data backs up customer concerns. The average time to process invitations for bids has more than doubled from 30 days in fiscal year 1997 to 68 days in fiscal year 2006, an increase of 127%. The time to process requests for proposals has increased from 67 days to 124 days, a change of 85% for the same time period. While some of the increase in turn around time is due to a loss of staff, most of the cause lies with the lack of procurement delegation to the agencies.

Although much has been done to give agencies larger certification levels, a dollar level limit is not necessarily the answer. In fact, ten states (Alaska, Arizona, Colorado, Hawaii, Missouri, New Hampshire, North Dakota, Oregon, Utah, and Washington) have unlimited dollar amount procurement delegation authority. Consideration should also be given to the types of products or services being procured, so that certification for different types of products and services can be targeted to individual buyers' expertise in agencies. There is expertise in agency procurement divisions, and if used correctly, the agencies' procurement staff can do much of the purchasing currently being handled by the Procurement Division. The Procurement Office has the authority to grant agencies higher certification levels, but they have not seen many agencies take advantage of this opportunity. An emphasis on agency procurement staff expertise, along with professional procurement training, certification, and strenuous compliance reviews will help agencies use procurement personnel more effectively. Delegating more procurement authority to agencies will allow the Procurement Office to refocus its limited resources on those areas with the greatest potential to achieve statewide savings.

An employee of the Procurement Office who responded to the GEAR survey wrote that, "the role of the State Procurement Division should be adjusted. The State Procurement Office would no longer process procurements for individual agencies. Agencies would need certification to complete their own procurement regardless of dollar value. The highly skilled and experienced SPO procurement officers would reallocate some of the time currently spent for specific agencies to this effort, thus spending more time where they can make the largest impact."

Resources should be refocused on statewide term contracts, thus aggregating the spending of all agencies into a single procurement. While difficult to quantify, there would be significant savings in the reduced turn around time to process procurements. Decentralizing the purchasing activity to the agencies will allow them to more quickly process procurements and better serve their customers and allow the Procurement Office to focus on large procurements and statewide term contracts that will produce statewide dollar savings.

Authority for Change
Within the Agency (higher dollar certification) The General Assembly (threshold and specific expertise)

BUDGET & CONTROL BOARD RESPONSE

Changing the role of central Procurement Office with state agencies would require legislative action. We continue to encourage agencies to request higher levels of procurement certification.

The Materials Management Office is currently surveying agencies to determine their interest in greater procurement authority as requested by the Joint Legislative Committee.

Estimate of Fiscal Impact: $0

GEAR RESPONSE

COMMITTEE FINDING

The Joint Committee is pleased with the Procurement Office's efforts to encourage their customers to seek and accept higher procurement certification levels. Since a change in the primary focus of the Procurement Office would involve a change in statute, the Office should develop an analysis of the different role and discuss this alternative with appropriate standing committees in the Senate and House.

Recommendation Nineteen
Review the bid protest process and determine solutions to make the protests less time-consuming and disruptive to agency operations. Create a hierarchy of protests so that not all are handled in the same manner and allow agencies to continue with the award of the contract for protests at certain levels. Assess a filing fee for protests that will be refunded if the protests are upheld.

GEAR RATIONALE

Even though protests for the state are few in number, resolving protests takes a significant amount of time. A protest usually requires the attention of three employees of the Procurement Office; the chief procurement officer, legal counsel, and two staff members from the agency affected by the action. The Procurement Office estimates they spent a total of approximately 2800 hours in FY 2006 in resolving procurement protests. However, this estimate does not even include the days that agencies must wait until the Procurement Office can begin work on the protests or schedule any necessary hearings.

In addition to protests being resource intensive, many appear to be made with little merit. During fiscal year 2006, Procurement Services received 45 protests of purchases for supplies and services. Of the 45 protests, 25 needed no decision as 14 were withdrawn, eight were settled before the hearing, and three were cancelled by agencies. Yet, these 25 protests used resources that were taken away from other procurement activities. In the 20 protests that resulted in decisions, eleven were denied, seven were dismissed and only two protests were granted. All of these protests received equal consideration and consumed a large part of the 2800 hours that procurement staff spent on protests even though only eight of the protests were settled and only two of them were granted as a result of hearings.

Creating a hierarchy of protests would allow for a quick analysis of the validity of protests further consideration and time need only be given to the few that initially seem to have merit. Assessing a protest fee will encourage vendors to protest only when there is sufficient cause.

A significant reduction in the time spent on protests will allow procurement resources to be reallocated to other activities such as statewide term contracts, training, certification, and audits. Based on the statistics from FY 2006, approximately 1600 hours, or the equivalent of one full-time position, can be saved through this proposal. In addition, agencies will save months of delays in their operations by being allowed to proceed with contract awards which will minimize the need for expensive stop-gap procurements.

Authority for Change	First Year Savings
Within the Agency (Create protest fees) The General Assembly (Create protest thresholds)	$150,000

Savings (three years)
$450,000

BUDGET & CONTROL BOARD RESPONSE

The State Procurement Office believes that delays imposed by the protest process are immaterial. However, we will continue to review the protest process for efficiency. Facts indicate no action should be taken at this time. Imposition of a filing fee by the Chief Procurement Officer would require a change in law.

Estimate of Fiscal Impact: $0

GEAR RESPONSE

COMMITTEE FINDING

It should also be stated that part of the goal of the procurement process is to ensure fairness for private sector vendors while seeking lowest prices for state agencies. As such, any consideration for shortening the procurement process should balance expediency with fairness and due process for vendors. The Joint Committee believes the recommendation to charge vendors a protest-filing fee should be explored; however, further study is needed before a recommendation can be made to the General Assembly. The Committee has requested further study and analysis by the Board staff.

Recommendation Twenty
The Procurement Office should (and has agreed to) reduce its 1% administrative fee to .75% of total purchases. Procurement officials should review this fee annually to insure that it is only for cost recovery and should instruct vendors to show this fee as a separate line on all agency invoices so that it is made more transparent to the agencies ultimately paying it.

GEAR RATIONALE

State term contracts allow agencies to aggregate spending and thus reduce overall costs to the state. The Procurement Office does incur costs in the administration and management of those contracts, and the administrative fee offsets those costs. However, the basis for the fee needs to be calculated annually to ensure that the fee is set to only match costs, not exceed them. The administrative costs are passed from the vendor to the agencies, and a higher fee only creates more costs for the state as a whole. In addition, vendors should show this fee as a separate line on the agencies' invoices so that agencies are aware of the total fees paid to the Procurement Office for this service.

With the help of the GEAR Committee, the Procurement Office recently analyzed this fee and agreed to reduce it to .75% of the total purchase amounts for state term contracts in order to better match it with costs. Administrative fees should be visible to agencies so that they can track how much is spent for Board services.

Authority for Change	First Year Savings
Within the Agency	$500,000

Savings (three years)
$1,500,000

BUDGET & CONTROL BOARD RESPONSE

The fee was reduced by the Procurement Office prior to the issuance of this recommendation of the GEAR Committee. We will pursue itemizing the fee with the affected vendors.

Estimate of Fiscal Impact: $641,000 (cost savings for purchasing agencies and local governments)

GEAR RESPONSE

While this fee was reduced before the GEAR recommendation was formally published, it is important to note that the reduction by the Procurement Office was done after extensive dialogue with members of the GEAR Committee about this fee and the surplus carry-forward it has generated.

COMMITTEE FINDING

The Board staff has implemented the recommendation, so no further action is necessary.

Recommendation Twenty-One
Expand and improve the procurement system statewide to allow agencies access to common templates to prepare procurement packages, to allow agencies to report procurement activities, and to make historical information about vendors, products, services, and purchase planning available statewide.

GEAR RATIONALE

An integrated procurement system was a recommendation of the Governor's Commission on Management, Accountability, and Performance in 2003. A common system will allow information to be consistent, easily transferred, and easily accessed. Currently, the state's solution to an integrated system is the SCEIS project which uses SAP software. This system has a module that can be used to allow agencies and state procurement to create bid documents, to track and report agency solicitations, and to process other purchasing transactions. However, there is widespread concern among state agencies and other stakeholders that the procurement module designed in the SCEIS project may not be able to meet all of the needs of the state. There is also concern that the module has not been fully tested to produce a successful implementation.

Careful consideration should be given to the functionality of this system so that both state procurement's as well as agencies' needs are met by SCEIS. Many agencies are not aware of the full functionality of the procurement module of SCEIS and are not aware of the individual agency requirements to implement this system. Implementation and rollout should not occur until the Procurement Division and agencies have had adequate time to review, test, and provide input concerning the procurement functionality of the SCEIS system.

While an integrated procurement system is needed by the state, SCEIS may not be the most favorable solution for procurement. The state should pursue the best system that can be designed, tested, and implemented to meet the needs of the Procurement Office as well as those of state agencies.

There will be savings from the implementation of a properly working system as paper transactions in the procurement process will be eliminated, consistency will be gained by all entities using the same system, more information will be available to the public in an electronic format and the state will save hours in administering procurement activities. Although beyond the scope of this study to quantify, these are significant cost savings to be realized but only if the system is carefully designed, tested and implemented. Otherwise, the state will pay millions of dollars for a system that is not usable.

Authority for Change
Within the Agency

BUDGET & CONTROL BOARD RESPONSE

The GEAR recommendation is completely in concert with MMO's ongoing process improvement. The cost of these improvements to date is $475,417.

Estimate of Fiscal Impact: ($475,417) Expense to Board program

GEAR RESPONSE

Funds were allocated for this project in 2006. The recommendation has no additional cost associated with it as it merely relates to making sure the funds are spent effectively on a system that is helpful for the agencies that use it.

COMMITTEE FINDING

The Board staff has implemented this recommendation, so no further action is recommended.

Recommendation Twenty-Two
The State Engineer along with the agencies and other stakeholders should conduct a comprehensive review of all of its statutes, policies, and processes.

GEAR RATIONALE

The State Engineer is planning to conduct meetings with its agency customers and other stakeholders. That process should be formalized. An official study group should be named and should be comprised of agencies as well as other State Engineer customers and stakeholder. A charter outlining the purpose of the group as well as a report delivery date should be indicated. Much can be done to address agency certification and delegation of construction procurements. Technology can eliminate the manual approval processes and there are legislative changes that could reduce the time-consuming approval process.

Authority for Change
Within the Agency

BUDGET & CONTROL BOARD RESPONSE

The Office of the State Engineer will continue its on-going review of the laws and processes.

Estimate of Fiscal Impact: $0

GEAR RESPONSE

The newly hired State Engineer seems to be moving this office in a much better direction by offering improved services to state agencies.

COMMITTEE FINDING

The Committee recommends that no legislative action take place until this comprehensive review is completed. Upon completion of the review, all of the issues brought forward by the GEAR Committee should be analyzed for possible cost savings along with maintaining process integrity. The results of the analysis should be communicated to the appropriate committees in the House and Senate.

Recommendation Twenty-Three
Consolidate all statewide procurement functions of the Board under the Procurement Office. Move Information Technology Management Office back from the CIO to the Procurement Office.

GEAR RATIONALE

Consolidating procurement under one division minimizes the duplication of procurement activities and provides consistency in the administrative and reporting functions of procurement. In May 2007, the Legislative Audit Council in their limited-scope review of state purchasing overseen by the Budget and Control Board cited the inconsistencies in the reporting and review methods of a bifurcated system and wrote "the Materials Management Office and the Information Technology Office of the State Budget and Control Board should ensure that procurement information is determined and recorded in an accurate and consistent manner."

Other states have also seen the benefit in housing their technology procurement function with their central purchasing function. In a recent procurement survey, 29 of the 41 states responding reported that the central purchasing office in the state was responsible for procurement of information technology goods and services.

The Procurement Office should be responsible for setting procurement policies, processes, and reporting. Procurement policy should be applied consistently, regardless of the type of item being purchased. Dividing the procurement function only creates duplication in the administrative process. In addition, agencies have to adjust processes according the procurement function with which they are interacting. The rationale for moving the Information Technology Management Office to the CIO was to allow the CIO to set standards for the types of information technology purchases agencies can make. It is good practice to allow the CIO to set standards, but once those standards are set, procurement policy and processes should be consistent. This consistency can only be achieved by bringing all procurement functions together. While this move should produce some administrative savings, the biggest gains will be in the consistency of procurement policies and processes.

Authority for Change
Within the Agency

BUDGET & CONTROL BOARD RESPONSE

This matter should be considered in concert with the other CIO recommendations. According to Proviso 63.3, this type of reorganization or restructuring would require Legislative approval.

Estimate of Fiscal Impact: $0

GEAR RESPONSE

COMMITTEE FINDING

Based on testimony by the GEAR Committee, the Joint Committee believes the recommendation is sound and should be implemented. However, it is prudent to consider this recommendation along with the other proposed changes related to the Division of the Chief Information Officer.

Recommendation Twenty-Four
There needs to be a comprehensive review of all the statutes that deal with information technology as it relates to state government.

GEAR RATIONALE

Unfortunately, the state now faces a situation whereby an organization that has no direct responsibility, authority or accountability for the actual delivery of government services to the citizens of South Carolina has a virtual stranglehold on one of the principal means that the state has to improve the delivery of services to its citizens and lower the cost of government. The time has come to perform a comprehensive review of how the state manages information technology to insure that the citizens of South Carolina are being properly served by the way the government uses information technology to provide both services and information.

Authority for Change
The Legislature

BUDGET & CONTROL BOARD RESPONSE

This item is dependent on Legislative action. We will continue to assist the Legislature with their review.

Estimate of Fiscal Impact: $0

GEAR RESPONSE

COMMITTEE FINDING

The Joint Committee endorses a comprehensive review of all statutes that deal with information technology as it relates to state government. Information technology now permeates all aspects of governmental service delivery, and any changes to statutes should provide enough flexibility to embrace the rapid speed of change in this field.

Because the arena of information technology can be complicated, the General Assembly should consider fostering specialized expertise from within its ranks to oversee the information technology efforts within the executive branch of government. This may be accomplished through the creation of a joint committee for information technology oversight or standing subcommittees within the existing standing committee structure.

Recommendation Twenty-Five
All financial information included in the reimbursement system should be made available to anyone with a legitimate interest in access to the information. In addition, a detailed audit of the past five year's activities in the CIO reimbursement system and the CIO operations should be conducted with the goal of reducing changes to agencies to reflect their actual costs.

GEAR RATIONALE

Good government is an open and transparent government. There is no legitimate reason to restrict access to any of the financial information in the reimbursement system behind a curtain of secrecy. In fact, to restrict access arouses suspicion and brings into question the legitimacy of the entire process. In the modern world of technology the rate of change is accelerating, new products and methods are coming into the market at an ever increasing pace and competition on both price and service levels has never been greater. Today virtually everywhere, except South Carolina state government, the agency IT buyer has the advantage. The state and the operating agencies should be required to jointly determine if it is more cost effective to procure goods and services from the CIO or from private contractors.

There is some self-reported data from the CIO's office that provides an aggregate picture of the delta between revenues anticipated for telecommunications and data center services and the CIO's apparent cost for providing them. In their FY 2007 activity-based budget report, the CIO's office shows a total of \$49.6 million in revenue for telecomm and data services. However, in an attempt to show that they stack up well against industry benchmarks, the CIO's office has also provided information from a consultant they hired which reports that the agency only spent \$16.7 million for telecomm and data services. *(please see appendix #9 for the complete numbers)*

The result is a significant \$33.3 million gap between the CIO's office anticipated receipts and what they say they will spend for what seem to be the same services. All or part of this gap appears to be primarily in charges to CIO Customers and pays for other functions within the office or helps explain the huge cash balances that that CIO's office carries forward annually. A detailed analysis of all the underlying numbers by an independent agency is required to determine just how much of this gap is real and how much can be explained by other differences.

While more details are certainly needed, these aggregate numbers might help explain why the CIO's office doesn't want to reveal details about their cost reimbursement and pricing decisions and also why agencies believe they are continuously being overcharged. There is little doubt that the CIO's office is making a substantial profit on state agencies given its annual carry-forwards of over \$20 million for the past two years. *(please see appendix #10)*

Opening up the CIO's reimbursement system and reducing telecommunications charges to actual costs should save state agencies millions and perhaps tens of millions of dollars annually. The \$4 million annual savings assumption below is likely low, but the underlying numbers to make a more definitive estimate have simply not been made available at this time to individuals outside the CIO's office.

Authority for Change	First Year Savings
Within the Agency	$4,000,000

Savings (three years)
$12,000,000

BUDGET & CONTROL BOARD RESPONSE

The CIO recently implemented a rate reduction retroactive to July 1, 2007, that will result in an estimated $1.9 million annual recurring savings to customers. In addition, in the 2007-2008 Appropriations Act, the Legislature mandated by proviso the transfer of $2,000,000 from the CIO for the implementation of the SCEIS project. This transfer, along with the fee reduction savings will result in a $3.9 million impact.

The Executive Director has instituted an annual audit of all fees charged by the agency that will be available for review by any interested party.

Estimate of Fiscal Impact: $3,900,000 ($2 million non-recurring) Savings to other agencies and local governments

GEAR RESPONSE

COMMITTEE FINDING

Every customer of the CIO should have access to billing information. The Office of the Chief Information Officer is an internally granted monopoly. The reason for the monopoly is for South Carolina state government to take advantage of the economies of scale inherent in large investments in technology hardware. However, when such a monopoly is granted, it is necessary to demonstrate that the organization is charging a fair price. Based upon the testimony received, this information was not being provided to the CIO’s customers. In subsequent recommendations, the GEAR Committee suggests the creation of user groups to review relevant information and act as a check on the natural tendency of a monopoly to charge a higher than necessary price for its services.

The Joint Committee commends the Board on their reduction in prices for technology services. Their charges should be based on the actual cost of business. In addition, the Board should annually justify the cash balances in its CIO revenue accounts to the relevant committees in the General Assembly.

Recommendation Twenty-Six
Create a CIO Council chaired by the state CIO made up of CIO's from the twenty largest state agency customers and ten CIO's from small to medium size agencies with missions that are significantly impacted by technology to work cooperatively with the State CIO in the broad areas of IT planning, procurement and operations.

GEAR RATIONALE

The state needs to have some way of insuring that the operating agency CIO's are included in the large over-arching decisions in the area of information technology planning, procurement and operations. The current situation whereby agency mid-level experts are involved in the "what to buy decisions" while the larger and more important decisions about how the state will deploy new technologies, how new technologies will be managed, etc. are handled by the State CIO and his staff is unacceptable. The agencies that have the direct responsibility and accountability to provide citizens, businesses and other governmental agencies with the services that government provides must have a significant say in how technology is used to deliver those services in the most cost-effective way.

Authority for Change
Within the Agency

BUDGET & CONTROL BOARD RESPONSE

Analysis of this recommendation is ongoing. The recommendation appears to propose that the policy and planning direction of the state's IT function should be restructured. This would be a critical component in the review of state laws and policies as addressed in GEAR Recommendation 24. While we believe that a customer based council has merit, a thorough review of organizational and oversight possibilities is recommended.

Estimate of Fiscal Impact: $0

GEAR RESPONSE

COMMITTEE FINDING

The Joint Committee supports this recommendation. As a monopolistic organization, the tendency of the Division is to give specific direction to all customers. In order to thwart this inclination, the Division of the Chief Information Officer should create entities that inject greater collaboration with users. The GEAR Committee's recommendation is a way to foster collaboration with the customers of the CIO.

Recommendation Twenty-Seven
Create an Information Technology Board (ITB) consisting of eight private sector CIO's and eight state agency heads to provide advice and council on IT matters to the Governor, the Budget and Control Board and to the CIO.

GEAR RATIONALE

Many states have found that one way to stay on top of this changing marketplace is to create a board made up of private sector CIO's and state agency heads with the role of providing advice and counsel on IT matters to the state's senior executives. The state of Maryland's Information Technology Board would be a good model to use in creating such a board.

Authority for Change
Within the Board

BUDGET & CONTROL BOARD RESPONSE

While we believe that the idea of an ITB has merit, a thorough review of organizational and oversight possibilities is recommended.

Estimate of Fiscal Impact: $0

GEAR RESPONSE

COMMITTEE FINDING

The Joint Committee endorses this recommendation. Collaboration with private sector information technology practitioners can lead to even greater innovative solutions to common problems. This type of advisory board also offers the ability to benchmark CIO services and costs against private industry standards.

Recommendation Twenty-Eight
Procure an independent quality assurance and risk management vendor reporting directly to the South Carolina Enterprise Information System (SCEIS) Executive Oversight Committee (EOC).

GEAR RATIONALE

The SCEIS Executive Oversight Committee needs to have an independent contractor reporting directly to the Executive Oversight Committee to provide a "second opinion" on the project. This contractor should be required to provide, as a minimum, quarterly reports on project status, funding, issues, problems and recommendations. Funding for this contract should come from the SCEIS reserve account. Until this vendor is in place and has completed its initial report the Executive Oversight Committee should closely monitor the progress being made toward achieving the November 5, 2007 go live for Wave 1a of the SCEIS project. If there are any additional delays in the preparations for the implementation of Wave 1a the EOC should suspend implementation until the quality assurance and risk management report has been reviewed and acted upon by the Executive Oversight Committee.

Authority for Change
Within the Agency

BUDGET & CONTROL BOARD RESPONSE

The CIO agrees an IV&V review would add value to the SCEIS project. Initial Estimates provided by SAP were cost prohibitive. More recent analysis indicates an anticipated cost of this quality assurance (QA) to be $700K-$800K. The CIO has initiated the procurement of an independent IV&V vendor who will report to the Executive Oversight Committee. The procurement will be completed in November 2007.

Estimate of Fiscal Impact: ($700,000) Expense to Board program

GEAR RESPONSE

As mentioned in the introduction of this section, "the South Carolina Enterprise Information System (SCEIS) project, led by the CIO, provides an example of the leadership concerns, the cloak of hidden dollars and the importance of independent oversight." The GEAR Committee remains very concerned about the state's chances for successful implementation of such a complex system given its structural challenges and inadequate leadership. This project and its ongoing problems merit detailed high level scrutiny.

COMMITTEE FINDING

Given the high stakes as well as the time, effort and money invested in the South Carolina Information Enterprise System project, the Joint Committee endorses the concept of some type of review of the status of the project.

Recommendation Twenty-Nine
The funds loaned to the SCEIS project by the CIO should not be returned to the CIO but should be transferred to the SCEIS project contingency reserve account as they become available.

GEAR RATIONALE

Since the CIO did not, apparently, have an immediate need for these funds, consideration should be given to allowing those funds to be put into the project contingency reserve account to cover future costs which almost certainly will arise during the implementation of this complex project.

Authority for Change
Within the Agency

BUDGET & CONTROL BOARD RESPONSE

Following the GEAR recommendation could cause the State to violate federal regulations prescribed by the Office of Management and Budget (OMB) Circular A.87.

Estimate of Fiscal Impact: $0

GEAR RESPONSE

COMMITTEE FINDING

As mentioned earlier in this report, great care must be exercised if considering a redirection of funds because of the potential to violate federal regulations. Thus, the Joint Committee, in order to maintain appropriate accounting for project expenses, endorses the loan repayment. Further, the CIO should monitor future cash balances for possible rate reductions to agencies.

Recommendation Thirty
Identify the operating funds now being used to pay for the operations of the current financial, human resources and budgeting systems and develop a plan to return those funds to the state treasury as the new SCEIS applications come on line and the old applications are no longer needed.

GEAR RATIONALE

Once SCEIS comes on line all of these old systems will be turned off and almost all of the functions will be assumed by the State CIO. It seems prudent to identify these funds and earmark them for return to the state treasury as SCEIS application come on line.

Authority for Change
General Assembly

Savings (three years)
$20,000,000 estimated

BUDGET & CONTROL BOARD RESPONSE

As requested by the Joint Committee, the Board will make the updated Business Case Study available to the Governor and General Assembly for use as deemed appropriate.

Estimate of Fiscal Impact: Unknown

GEAR RESPONSE

This recommendation and estimated savings do take into consideration that agencies pay 75% of the implementation cost with those funds appropriated by the General Assembly.

COMMITTEE FINDING

The Joint Committee believes that recurring cost savings need to be identified and monitored in agencies for realignment or appropriation to higher priorities. The Committee requests that Board staff obtain an updated Business Case Study as soon as SCEIS is sufficiently implemented to provide a meaningful analysis and make it available to the relevant committees in the General Assembly.

Recommendation Thirty-One
The current internet telephony procurement should be cancelled and the procurement should be restarted as a joint process with the CIO and the most impacted operating agencies. This procurement should be done by the board's procurement agency and not by the CIO's office.

GEAR RATIONALE

While this is a very "thorny" and difficult area it needs to be thrashed out by the users and the State CIO. It is just one more example of when the coordination and cooperation gets difficult there is a resort to shutting out the agencies. There is great potential for cost saving and better service in this area but only if the new system is not burdened with significant overhead charges and bogged down by excessive administrative requirements.

Authority for Change	First Year Savings
Within the Board	$500,000

Savings (three years)
$2,500,000

BUDGET & CONTROL BOARD RESPONSE

Ongoing analysis is being conducted and the Executive Director is holding meetings with key agencies.

Estimate of Fiscal Impact: Unknown

GEAR RESPONSE

COMMITTEE FINDING

Mr. Fusco, Executive Director of the Budget and Control Board, has informed the Joint Committee that agency representatives will be consulted as this procurement moves forward to conclusion. The ultimate goal should be savings for the state agencies being served by the CIO. The CIO must build a higher degree of trust with these customers so that they are convinced that the actions of the CIO are not motivated simply by revenue generation reasons.

Recommendation Thirty-Two
The Department of Health and Environmental Control (DHEC) processing costs for the IBM database management system DB2 should be reduced to the costs proposed to DHEC by IBM.

GEAR RATIONALE

Consideration should be given to allow DHEC, as the largest DB2 user, to work directly with the vendor and to allow other state agencies that use the current DB2 to either continue with their current arrangements or to use the new DHEC arrangements if that is more cost effective. This is a case where almost the entire requirement belongs to one large agency that could do for themselves what the State CIO does for them, but at significant cost savings to the agency. In addition, the other DB2 users could go through DHEC and IBM directly and probably save themselves significant money. As the State CIO said several months ago, “this is a no-brainer.” However if it happens, the state Data Center would have to cut their costs significantly or pass the revenue loss on to the users of other systems. The savings shown are only for DHEC but other agencies that pay the CIO office for DB2 services should be able to achieve significant savings as well.

Authority for Change	First Year Savings
Within the Board	$600,000

Savings (three years)
$4,000,000

BUDGET & CONTROL BOARD RESPONSE

We have engaged a consultant to evaluate the current system and any proposed alternatives. We are working closely with DHEC to arrive at a mutually agreed upon solution.

Estimate of Fiscal Impact: $870,000 (cost savings for DHEC)

GEAR RESPONSE

COMMITTEE FINDING

The Joint Committee endorses the Board’s efforts to work in a collaborative way to resolve the issue.

Recommendation Thirty-Three
Develop an IT strategic planning process that includes all state agencies. The plan should have a five year time horizon and include full life-cycle IT costs. All procurements should be required to be consistent with the long range plan.

GEAR RATIONALE

Without a broad based strategic IT plan for the state much of what the state will do in this expensive and extremely complex area is potentially uncoordinated, expensive and duplicative. If the state is to use technology to help control costs and at the same time increase efficiency it will have to be done in a more coordinated way than it is being done today.

Authority for Change
Within the Board

BUDGET & CONTROL BOARD RESPONSE

The CIO began a planning process in 2005 that closely parallels this recommendation. The plan is scheduled for review and update in 2008. We will review our process steps and ensure we optimize customer input.

Estimate of Fiscal Impact: $0

GEAR RESPONSE

COMMITTEE FINDING

The Joint Committee recognizes that state law provides for an information technology planning process, but recommends this be re-evaluated in the context of the overall review.

Recommendation Thirty-Four
Project Management Training should be done by the technical colleges. In addition, the threshold for requiring a project manager needs to be raised to at least $200,000 not including the cost of hardware in the project costs.

GEAR RATIONALE

The state technical college system CIO estimated that the state requirements could be added for around $200 per trainee bringing the total cost to approximately $800 per trainee versus the current cost of $2200 per trainee. This change would also create additional training opportunities for the approximately forty trainees a year as the state program is limited. Adding the necessary state procurement piece to the technical college program will provide additional training opportunities for state employees at a lower cost and will allow state project mangers to obtain PMI certification. The current requirement to have a Project Manager for any project over $50,000 is overly restrictive and not cost effective. Using a certified Project Manager on a small project is overkill and expensive. In addition to increasing the dollar amount, the threshold also needs to be changed to exclude hardware costs.

Authority for Change	First Year Savings
Within the Board	$56,000

Savings (three years)
$168,000

BUDGET & CONTROL BOARD RESPONSE

The Board has contacted the State Technical College System to find out the level of interest and capability of providing the PMI training at the technical colleges. The bid process for PMI training is an open competitive process. CIO will encourage the technical colleges to participate in this process in the future.

Estimate of Fiscal Impact: Unknown (cost savings to other agencies and local governments)

GEAR RESPONSE

COMMITTEE FINDING

The Joint Committee endorses this possible approach to maintaining training levels and expertise while lowering costs. The Board staff should report the outcome of communications with the State Technical College System to the relevant committees in the House and Senate.

Recommendation Thirty-Five
Department of Social Services CIO should be an employee of DSS and not a part of the CIO staff.

GEAR RATIONALE

The Virtual CIO program can work well for smaller less complex agencies but it should not be used for large agencies that should have their own CIO with no direct ties to the State CIO. At the present time the Department of Social Services CIO is in fact a State CIO employee on loan to DSS. DSS should have an independent CIO not beholden to the State CIO. Decisions on outsourcing, new technology, telecommunications and other such subjects need to be made with the best interests of the primary agency in mind rather than the CIO's office.

Authority for Change
Within the Board

BUDGET & CONTROL BOARD RESPONSE

Implementation of this recommendation is solely within the purview of DSS.

Estimate of Fiscal Impact: $0

GEAR RESPONSE

COMMITTEE FINDING

The Joint Committee agrees with the analysis of the GEAR Committee and points out that implementation of this recommendation is solely within the purview of the cabinet agency.

Recommendation Thirty-Six
Finally, two major changes need to be made to the State CIO organization. First, there needs to be a new attitude adopted throughout the organization. Second, the State CIO organization needs to be split into two separate entities, one of which needs to be a cabinet level state CIO.

GEAR RATIONALE

Leadership is the ability to get people and organizations with diverse interests and responsibilities to coalesce around reasonable solutions. Good leaders do not drive organizations, they lead them. The State CIO organization has to be a dynamic organization with a leader and executive staff that is able to function in a collaborative, cooperative and open environment. The CIO must be willing to share power and decision-making, compromise where required and maintain the CIO organization in a completely transparent and open manner. In order to do this the CIO office needs to be split into two separate organizations with one of those being a state data center under the Budget and Control Board that is a service provider of telecommunications, computing services and printing and is funded by its customers using a fully transparent reimbursement methodology; the other organization should be a generally funded State CIO Cabinet level agency reporting directly to the Governor with responsibility for all of the remaining functions currently performed by the State CIO organization.

Authority for Change
Within the Agency (new direction) The General Assembly (cabinet level CIO)

BUDGET & CONTROL BOARD RESPONSE

1) "There needs to be a new attitude adopted throughout the organization"

The Executive Director is conducting meetings with key customers. The Board plans to engage an independent consultant to obtain actionable feedback from different customer groups and a benchmark for future assessments.

2) "The State CIO organization needs to be split into two separate entities, one of which needs to be a cabinet level state CIO"

Dividing the CIO into two separate entities requires legislative action. This matter should be considered in concert with other CIO recommendations.

Estimate of Fiscal Impact: $0

GEAR RESPONSE

As mentioned in the introduction of this section, "the South Carolina Enterprise Information System (SCEIS) project, led by the CIO, provides an example of the leadership concerns, the cloak of hidden dollars and the importance of independent oversight." The GEAR Committee remains very concerned about the state's chances for successful implementation of such a complex system given its structural challenges and inadequate leadership. This project and its ongoing problems merit detailed high level scrutiny.

COMMITTEE FINDING

The Joint Committee agrees with the overall thrust of the GEAR Committee's recommendation. Detailed configurations should be determined within the context of the many law changes that must be made. Regardless of the final organizational structure, the General Assembly should consider the creation of some type of legislative oversight body for technology issues.

Recommendation Thirty-Seven
The Office of Local Government should revive the State Infrastructure Loan Fund to make use of the $17 million in the fund.

GEAR RATIONALE

While the Office of Local Government has wisely used its funds to maximize federal funding coming to the state, it has unfortunately done so at the expense of the SIRF program. The SIRF fund now contains nearly $17 million which the office was setting aside to guarantee sufficient match through FY 2010. However, state offices shouldn't hold monies to use in future years. Especially now that the General Assembly has restored their full federal match, the Office of Local Government should reopen the SIRF loan program to put the $17 million to work for its appropriated purpose.

Authority for Change
Within the Agency

BUDGET & CONTROL BOARD RESPONSE

The Office of Local Government is in the process of re-opening the State Infrastructure Loan Fund in order to process loans under the guidelines of the program and expects to make between 3 to 5 loans this fiscal year.

Estimate of Fiscal Impact: $0

GEAR RESPONSE

COMMITTEE FINDING

The Board staff has embraced the recommendation, so no further action is necessary.

Recommendation Thirty-Eight
Unless the program can be eliminated, the Budget and Control Board's Competitive Grants Program needs a major overhaul. The agency should follow the best practices of other well-run grants programs by establishing a set of criteria for awarding projects, increasing auditing and oversight for recipients, keeping exclusive grant-making authority away from any one individual, limiting recipients to one grant and requiring a demonstration of need, long-term job creation and a positive economic impact.

GEAR RATIONALE

In the process of distributing awards, cases have arisen that lead to questions about whether or not the program has historically been managed fairly and transparently. To date, project priority has been unclear, at best, and super-legislative at worst. When establishing a process for grants below $100,000, the Committee gave very little in the way of guidance to pick projects. As a result, those that were funded were either done in a complete vacuum or at the direction of legislators – akin to the old, offline budget pass-throughs that were sent at the direction of legislators.

On numerous occasions, applicants have submitted requests in the hundreds of thousands and instead receive grants for less than $100,000. Given the limited resources the Budget and Control Board staff has dedicated to this program, it seems likely that grants were awarded just to award them in certain circumstances. However, a $250,000 need may not be helped at all if it only receives a fraction of its budget. There has been little follow-up to insure that the funds are even spent for their intended purpose. Clear auditing procedures need to be established. Again, limited staff resources make follow up on the thousands of pages of documentation difficult. The original legislative mandate did not include any auditing language at all – leaving $30 million worth of grants suspect in nature.

Currently, there are grant programs at all four of the agencies, such as the Tourism Partnership Fund at PRT, the Community Development Block Grant at Commerce or the Office of Local Government at the Budget and Control Board. All of those programs rely on scoring systems on a competitive basis that should be emulated for this program.

Some groups have been turned down by the primary agencies overseeing their needs for legitimate reasons but then have requested and been given funding from the Competitive Grants program, fulfilling the classic "adage about one hand not knowing what the other is doing." A points system should be developed in concert with PRT, Commerce, and DHEC and the Office of Local Government to insure that grant recipients meet the core functions of those agencies. Those criteria should include the following:

- In order for the grants to be most fairly awarded, the program needs complete accountability. Since the creation of this program, there have been no standards or explanation for awarding grants. Moreover, there needs to be a check and balance in the system to insure that applications are awarded based on merit.

- The grants should be temporary in nature. A policy of repeat awards should be prohibited to prevent problems. For example, Clinton Junior College received two separate grants of $100,000 and $50,000, both awarded directly by the Executive Director, therefore, not requiring a vote by the Committee. If an entity is to be funded annually, then it should be a part of the regular budget process.

- To date, the funding comes from four different agencies, but only the Budget and Control Board staff has been engaged in any type of work on the program. Finance and audit staff from DHEC, Commerce, and PRT needs to be leveraged to make use of their industry knowledge and help with oversight of the program and for recommendations of grants awarded.

Authority for change
Competitive Grants Committee/General Assembly

BUDGET & CONTROL BOARD RESPONSE

This recommendation requires Legislative action. The Competitive Grants Program is not governed or managed by the Budget and Control Board.

Estimate of Fiscal Impact: $0

GEAR RESPONSE

COMMITTEE FINDING

The Competitive Grants Committee has developed guidelines to address concerns related to the program. Included in the updated processes are requirements that grant recipients provide reports on the use of grant funds to the Competitive Grants Committee. In addition, the Committee is requiring that changes in the use of funds for previously approved activities be considered and approved by the Committee. The Joint Committee finds that a higher degree of accountability has been added to the grants process.

Recommendation Thirty-Nine
Given the high cost of energy and significant carry-forward cash balances, the Energy Office should increase their loan production to put more funds to work in reducing energy costs for government entities in South Carolina.

GEAR RATIONALE

From fiscal year 2002 to 2004, the Energy Office made approximately $7.6 million in loans. However, their loan output has dropped dramatically since then as they have only loaned around $2 million over the past three fiscal years. *(please see appendix #11 for details)* This past year they made only one loan for $450,000. This drop in production is not due to a lack of funds, as the Energy Office has had approximately $5 million that it is carrying forward in the Energy Conservation Loan Fund.

Given the sharp increases in both energy prices and awareness about conservation over this time period, this dramatic reduction in loan activity seems very odd and raises questions about the overall effectiveness of the office. The Energy Office should work to put these funds to work for energy conservation in government agencies.

Authority for Change
Within the Agency

BUDGET & CONTROL BOARD RESPONSE

This recommendation has been implemented.

Estimate of Fiscal Impact: $0

GEAR RESPONSE

COMMITTEE FINDING

The Budget and Control Board approved a loan for energy related improvements at the Donaldson Center in Greenville County. With this action, the State Energy Office loan funds were put to work for an entity where a significant number of higher paying jobs were in jeopardy. Thus, the GEAR recommendation was accomplished.

Recommendation Forty
The Chief Economist and the Board of Economic Advisors should use dynamic scoring for proposals with significant fiscal impacts.

GEAR RATIONALE

Dynamic models include predicted changes in economic activity that would result from an adjustment of the tax code. Since static analysis assumes that GDP will not change as a result of tax adjustments, static scoring tends to overestimate both the cost of tax reductions and the revenue from tax increases; tax cuts, to an extent, encourage economic activity and thus raise revenue, just as tax increases discourage economic activity and can reduce revenues from the "static" estimate. Dynamic scoring would provide a more accurate estimate in the fiscal impact process.

The increased accuracy achieved through dynamic scoring is causing its use to increase. A 2003 survey found that ten states, including neighboring Georgia, were using dynamic revenue analysis. A similar survey the following year found the number had increased to sixteen. The federal government has also been incorporating dynamic aspects in their models.

As Harvard economics Professor Martin Feldstein has said in support of dynamic scoring, "The first step that must be taken to improve the revenue estimates associated with a proposed tax change is to drop the convention that the revenue effect is conditional on an unchanged GDP".

Authority for change
Within the Agency

BUDGET & CONTROL BOARD RESPONSE

This recommendation is directed to the BEA, not the Budget and Control Board.

Estimate of Fiscal Impact: $0

GEAR RESPONSE

COMMITTEE FINDING

The Joint Committee refers this GEAR recommendation to the Board of Economic Advisors for their consideration.

Recommendation Forty-One
The Chief Economist and the BEA should use a national economic forecasting service to gain an additional perspective on economic performance.

GEAR RATIONALE

Given our poor record of projecting revenue and the hundreds of millions of dollars that are at stake, it seems prudent to look to a national forecasting service not subject to political influences to help improve our accuracy. In fact, many states use a proprietary national forecast in formulating their revenue estimates, as a national perspective is helpful to understanding changes within each state. For example, the state of Wisconsin spent about $34,000 in 2004 on national data which certainly seems to be a reasonable investment to improve the accuracy of revenue estimates.

The National Association of State Budget Officers' writes in their "Criteria for a Good Revenue Forecasting Process" that a critical component is that the revenue estimating agency has the "data…required to generate a good estimate." Assistance from a credible national forecasting service should certainly be a piece of that that necessary data.

Authority for change
Within the Agency or The General Assembly

BUDGET & CONTROL BOARD RESPONSE

This recommendation is directed to the BEA, not the Budget and Control Board.

Estimate of Fiscal Impact: $0

GEAR RESPONSE

COMMITTEE FINDING

The Joint Committee refers this GEAR recommendation to the Board of Economic Advisors for their consideration.

Recommendation Forty-Two
The Board of Economic Advisors should have access to Department of Revenue records when preparing fiscal impact statements.

GEAR RATIONALE

Allowing the BEA access to Department of Revenue records would increase the accuracy of fiscal impact statements. The federal Joint Committee on Taxation has access to Internal Revenue Service records, and such access only makes sense because the fiscal impact of proposals frequently hinge on how many people and businesses would be affected by them for example, have tax liabilities sufficient to use a given credit. This can be best determined by an examination of Department of Revenue records.

Authority for change
The General Assembly

BUDGET & CONTROL BOARD RESPONSE

This recommendation requires legislative action.

Estimate of Fiscal Impact: $0

GEAR RESPONSE

COMMITTEE FINDING

The Joint Committee refers this GEAR recommendation to the Board of Economic Advisors for their consideration. Confidentiality issues must be addressed before access to individual taxpayer information by Board of Economic Advisors staff members is allowed.

Recommendation Forty-Three
The Board of Economic Advisors should be required to eliminate political or extraneous considerations from the revenue estimating process. The Chief Economist should also produce an annual report to assess the BEA's relative performance on revenue estimation from the previous year.

GEAR RATIONALE

While trying to protect the state from mid-year cuts is a laudable goal, interjecting deliberate errors into the revenue estimating process has given us the poorest track record in the Southeast and perhaps the United States. In years of rising surpluses, lowball estimates often deny the governor (his Executive Budget) and the House Ways and Means Committee (if not the entire House) the opportunity to fairly weigh in on the allocation of hundreds of millions of new dollars. They also interject cynicism into the budget process as the BEA often steps in to resolve the annual budget Conference Committee negotiations by "finding" the exact amount of money that was separating the two bodies.

The production of a short annual report comparing the BEA's estimates from the prior fiscal year with other states should interject some needed discipline and accountability into the process.

Authority for change
Within the Agency/The General Assembly

BUDGET & CONTROL BOARD RESPONSE

This recommendation is directed to the BEA, not the Budget and Control Board.

Estimate of Fiscal Impact: $0

GEAR RESPONSE

COMMITTEE FINDING

The Joint Committee strongly rejects the notion that the members of the Board of Economic Advisors utilize their forecasts as tools for political purposes. Mr. John Rainey appointed by the Governor, Mr. Don Herriott appointed by the Chairman of the Senate Finance Committee, Mr. Howell Clyborne appointed by the Chairman of the House Ways and Means Committee and Mr. Ray Stevens, Director of the Department of Revenue (with no BEA voting rights) are all accomplished men of impeccable character and reputation. It is understandable that the GEAR Committee feels some frustration about the nature of revenue forecasting. When the state and national economy are in expansion, the natural bias of the forecasting process is to revise the General Fund revenue forecast upward as the time frame for the forecast horizon shortens. However, the converse is also true. In times of economic softness and recession, history has proven that revenue forecasts decrease from the first estimate to the final estimate placing the General Assembly at distinct disadvantage compared to the revenue forecast available to the Governor. This is the nature of the revenue estimating process, and there is no clandestine effort to deny the Executive Branch their proper role in the appropriation process.

Recommendation Forty-Four
The Budget and Control Board should fill the vacant position of the State Auditor as well as the many vacant positions in that office. The division should become more active in suggesting ways to improve cost-effective customer service within the Budget and Control Board and at other agencies.

GEAR RATIONALE

This position has been vacant for too long. A new auditor with a more complete staff could look both within the Budget and Control Board and other agencies to examine ways to operate a more efficient and effective government. At full strength, the office could provide many of the benefits that the Inspector General's office provides to the federal government. A good State Auditor may have already discovered and improved some of the recommendations in this report and could be helpful in implementing and monitoring them in future years.

The Office of Human Resources should repost the position and should consider hiring a headhunter to help provide suitable candidates for the position.

Authority for change
Within the Agency

BUDGET & CONTROL BOARD RESPONSE

This recommendation requires an action of Budget and Control Board members.

Estimate of Fiscal Impact: $0

GEAR RESPONSE

COMMITTEE FINDING

The Joint Committee endorses the idea that a permanent State Auditor be hired. However, it is imprudent to utilize the Office of the State Auditor in its current configuration to fulfill the role of an Inspector General. A number of bills currently under consideration by the General Assembly provide for the creation of an Office of the Inspector General. Consideration of this accountability measure would be best addressed through the committee process of the General Assembly.

Recommendation Forty-Five
The Budget and Control Board should operate as a “break-even” agency rather than a profit center of state government. Other than exceptions approved by the Executive Director, all carry-forward monies (including “other funds”) over five percent of a division’s FY 2007 annual expenditures should lapse to the General Fund.

GEAR RATIONALE

As discussed earlier, the Budget and Control Board should exist solely to serve other divisions of South Carolina Government. As such, it should be a “break-even” agency that only charges agencies enough to recover expenses. Given the enormous and growing cash reserves that the Budget and Control Board carries forward year after year, agencies are clearly being overcharged for some of the services they receive.

Obviously some programs and divisions do need larger carry forwards. Examples include loan funds (such as those run by the Office of Local Government and the Energy Office), Insurance Funds (such as the Employee Insurance and Insurance Reserve Fund) and Capital Project Funds. As these types of accounts will be addressed separately in this report, they are not part of this analysis. Many divisions of the Budget and Control Board have carried forward too much cash with the thought to save it for future needs or for when “times are tight.” However, that function - essentially the function to appropriate funds for other purposes – does not belong to agency employees but is within the joint purview of the General Assembly and Governor.

In an ideal world, all administrative funds for the Budget and Control Board would be appropriated General Fund dollars and any charges to agencies would be just enough to recover the variable cost of providing the service without mark-up. Until that time, all divisions within the Budget and Control Board should strive to reduce their charges to agencies. Some specific cost reductions and associated savings are detailed in other sections of this report.

In order to reduce the current accumulation of cash, the Executive Director of the Budget and Control Board should task the Internal Audit Division with examining all FY 2007 year end funds from every division in order to recommend what funds – if any – need to be carried forward.

Unless the Director of the Budget and Control Board makes exceptions based on the auditor’s input, all funds over five percent of a division’s budget should be “lapsed” to the General Fund. Proviso 72.3 allows for a maximum of ten percent carry-forward but this is a maximum amount – not a minimum threshold. A five percent carry-forward should be sufficient in most cases. The Budget and Control Board should apply this methodology to funds from its much greater fee-based revenue as well as its General Funds.

Based upon preliminary FY 2007 yearend reports, the estimate for the total funds that could potentially be lapsed are approximately $42 million. *(please see Appendix #16)* Recognizing that there will certainly be legitimate exemptions to this recommendation, our report only assumes a conservative 25% of these funds will be deemed surplus. However, the fact that the Office of the CIO continually carries a cash balance over $20 million – indicates that the $10.5 million in estimated savings could be much larger.

Authority for Change
Within the Agency/The General Assembly

One-time Transfer
$10,500,000

BUDGET & CONTROL BOARD RESPONSE

The Board is in the process of reviewing rates and cash balances and has instituted an annual fee audit process to be conducted by the Internal Audit Unit. As to lapsing general funds above 5%, this is a policy matter requiring a change in law that would affect all agencies.

Estimate of Fiscal Impact: $0

GEAR RESPONSE

The Budget and Control Board could have voluntarily offered to lapse both general and other funds above 5% (or any amount) without any change in law.

COMMITTEE FINDING

The Joint Committee endorses the general concept of keeping specific carry-forward accounts to no more that 5% of the total account proceeds in any given fiscal year. However, an abundance of caution must be used if funds above the 5% threshold are actually lapsed because the sources of funds likely have caveats attached to their use. If any of those other funds are derived from agencies that are underwritten with federal funds, any mistake in their prescribed use may lead to an audit exception with penalties from federal officials.

In addition, great care should be exercised should any other fund carry-forward monies be redirected because of their status as a trust fund. The General Assembly was reminded of this approach by Governor Sanford in his Executive Budget for Fiscal Year 2005-06 (page 39) when he wrote, “Unfortunately, many trust funds have been raided in recent years in order to fund other operations. These raids leave the state with additional unmet liabilities that need to be restored.”

Given the complexity and possibility of audit exceptions, the best course is to reduce the overall charges to other state agencies for services rendered versus a direct lapse of funds already collected. The House Ways and Means Committee and the Senate Finance Committee should consider this approach as they deliberate the annual budget.

Recommendation Forty-Six
The monies in several largely inactive funds housed within the Budget and Control Board should be recommended for reallocation for other uses of the state.

GEAR RATIONALE

After accounting for any known outstanding liabilities, the Budget and Control Board should recommend these funds be lapsed to either the General or other appropriate fund so that they may be re-appropriated by the General Assembly. In order to clean up the state's books, all but the Civil Contingent Fund should be closed.

Authority for Change
Within the Agency

One-time Transfer
$494,694

BUDGET & CONTROL BOARD RESPONSE

Although the Budget and Control Board continues to use the training account for what it considers important development of its staff, the agency would support legislation to lapse the unobligated balances in all the accounts as recommended by GEAR. Board staff had already planned to recommend one of the two accounts it administers, CCF Ward v. State, for lapse or reappropriation.

Estimate of Fiscal Impact: $300,000

GEAR RESPONSE

COMMITTEE FINDING

The Committee recommends that the respective legislative budget committees redirect through appropriation the unexpended balances in these five accounts.

Recommendation Forty-Seven
The Human Resources function should operate in a centralized, matrix organization in order to provide better efficiency and minimize redundancy.

GEAR RATIONALE

Using a Center of Expertise model for the Office of Human Resources would provide a structure where the agency Human Resource professionals still report directly to the agency director, but also have dotted line accountability to the Office of Human Resources. The results would be as follows:

- The Office of Human Resources should be responsible for all activities that help to eliminate transactional work in the agency. They could also serve as the functional group that decided outsourcing opportunities around transactional issue management (payroll, benefit administration, etc.).
- The Office of Human Resources should be the central repository for training and development initiatives
- The Office of Human Resources should be the central source of statewide policy. Procedures are then left up to the agency to develop and maintain (preferably with input from the Office of Human Resources).
- The Office of Human Resources should be budgeted so that each agency, regardless of size, is afforded the services that are centrally provided. Currently, smaller agencies that pay for services go without the services because of their cost.

Authority for Change
Within the Agency

BUDGET & CONTROL BOARD RESPONSE

No action has been taken, because moving to a more centralized HR function would require a major shift in philosophy by the State's leadership. Creation of the more formal, dotted-line reporting structure would require legislative action.

Estimate of Fiscal Impact: $0

GEAR RESPONSE

COMMITTEE FINDING

In its existing role, the Office of Human Resources acts as a consultant and enabler for the various agency human resource offices throughout state government. This model has been recognized as a best practice by Governing Magazine. The GEAR recommendation would centralize human resources functions within that office and create a more "top-down" system. This approach is also incongruent with the thrust of the various recommendations by the GEAR Committee with regard to the Division of the Chief

Information Officer where the suggestion is to reduce the authority of that Division and institute a more collaborative model.

Thus, the Joint Committee does not recommend any legislative change. The Committee recommends that the Board staff continue with the automation of administrative functions.

Recommendation Forty-Eight
Implement a temporary to hire solution for high turnover job classifications.

GEAR RATIONALE

By implementing a “temp to hire” situation, a lot of the upfront recruitment and selection costs are borne by the temporary agency. Over seven hundred correction officers left the Department of Corrections employment in 2003 alone. That represents $2.6 million dollars in human capital investment with no return on that investment.

Through hiring a “temp to hire” contractor, the training could be done while the potential employee was a temporary worker as well as the department having the opportunity to check out the work ethics and job fit of the potential employee. In addition, the time of training and indoctrination would not count towards state health care or retirement. Many private sector companies have begun utilizing such contractors in recent years.

As an example, one Fortune 500 company in South Carolina uses an outsourcing arrangement for their entire new hire process. This includes recruitment, orientation, training, background checks, and drug screening. The temporary agency employee is completely trained and put on the job when all hiring criteria are met. The employee works in a temporary capacity for up to six months. In that time period, the employee decides if they are interested in the company long term and the company gets the opportunity to observe the work habits of the employee. If both parties are satisfied, an employment offer from the company is made. This process significantly reduces the amount of work for the Human Resources department personnel and offers a better option for the on-boarding process.

A “temp to hire” program would result in a significant savings to state agencies. For example, if corrections were able to cut their turnover in half, they would save approximately $1.3 million a year. While this would result in significant savings for other agencies, there would be minimal impact on the Budget and Control Board finances.

Authority for Change
Within the Agency

BUDGET & CONTROL BOARD RESPONSE

No action has been taken, because the temp-to-hire concept is currently available to state agencies for a period of one year through either the probationary period for FTE positions or through temporary positions. Expanding the temp-to-hire concept beyond one year would require legislative action.

Estimate of Fiscal Impact: $0

GEAR RESPONSE

COMMITTEE FINDING

The Joint Committee encourages further dialogue on this GEAR Recommendation. While the idea might be valid for purposes of cost savings, more information is needed. In the meantime, the Department of Corrections should continue to explore the resources offered by the Office of Human Resources and the flexibility provided under current law.

Recommendation Forty-Nine
Employees in the top two levels of management under the Director of the Budget and Control Board and at all state agencies should serve at the will of the agency director.

GEAR RATIONALE

South Carolina is an "employment at will" state, meaning that virtually all employees of private sector companies work in an "at will" arrangement. There seems to be a disconnect, however, in that these same rules apply to such a small fraction of state government employees.

The "two down at will" pilot project proved to be a huge success amongst the cabinet agencies where it was implemented. In spite of concerns from some critics that the rule change would lead to massive firings, the reality, according to the Office of Human Resources, is that there were only three employees terminated out of 572 employees who lost grievance rights as a result of this classification change. These numbers equate to dismissing a miniscule one tenth of a percent of employees annually over the four year period.

So why expand this "pilot" project if it hasn't significantly impacted the number of employees being dismissed? The biggest benefit, according to agency heads, is reflected in the 569 employees who have not been let go as they have had a greater incentive to do good work and their supervisors can better hold them accountable for results. Labor, License and Regulations Director, Adrienne Youmans, reports that "the good employees at my agency were not threatened or bothered at all by the proviso and/or increased accountability."

Another cabinet member, Judge Bill Byars, at the Department of Juvenile Justice says that even though he had not used the proviso to "terminate an employee," he is "supportive of it as it allows me to hold more high ranking employees more accountable for results at our agency."

Officials within the Budget and Control Board, cabinet agencies and all agencies of the state government should be given the ability to hold their top employees accountable. While there are enormous financial implications that come with increased accountability, they are impossible to quantify.

Authority for Change
The General Assembly

BUDGET & CONTROL BOARD RESPONSE

No action has been taken, because employees in the top two levels under the Executive Director of the Budget and Control Board are currently exempt from the Grievance Act and serve at will. Exemption of other state agencies would require legislative action.

Estimate of Fiscal Impact: $0

GEAR RESPONSE

The GEAR Committee requests that the General Assembly look at re-implementing the "at-will" proviso and expanding it to include all agencies in order to make more senior-level employees accountable for their performance. For example, of the Budget and Control Board's over 1100 employees only seven are "at-will" even though over 200 make more than $70,000 per year and some protected employees make up to $120,000 per year. A cabinet agency head reports that she will be the only "at-will" employee in management in her agency by this summer. If virtually everyone in upper management is protected then it is difficult to hold employees accountable for results. We find this disconnect baffling for a state that touts its "employment at-will" status as a business-recruiting tool in the private sector.

COMMITTEE FINDING

The Joint Committee refers this recommendation to the respective legislative budget committees for consideration. Regardless, a balance must be attained when addressing the "at-will" issue for state employees. All employees within state government are subject to dismissal. Some employees, usually at the highest level of an organization, do not have any grievance rights should they be dismissed. Other employees have the right to a grievance process. The reason for a grievance process extends to a time in the early 20th century when governmental positions were used as a tool for political patronage. At the same time, the top echelon of employees should be sensitive to direction from the leaders in their respective organizations. If a private company chooses to dismiss all of their employees and the company suffers as a result, then the company may lose profits and eventually become defunct. If a governmental entity does the same, it is the citizens that suffer. This is why a balance between "at-will" employees and employees covered under grievance rights is the key.

Recommendation Fifty
The Executive Institute should move back under the Budget and Control Board's Office of Human Resources in order to better coordinate with the Office of Human Resources and reduce their administrative costs.

GEAR RATIONALE

The Executive Institute was created as a training function under the Office of Human Resources with the purpose of offering an annual curriculum tailored for public sector leaders and designed to meet evolving needs of governmental leaders in South Carolina. Programs are built around both academic perspective and practitioner experience. Approximately forty state employees participate in the full program every year and overall give the program high ratings. Reportedly due to personnel issues, the Executive Institute became a stand alone division within the Budget and Control Board with a budget of approximately $400,000.

The Executive Institute certainly performs a valuable function for state government. However, as a stand-alone division with four employees, it is costing approximately $10,000 per graduate of the program. As a comparison, the Charleston Metro Chamber of Commerce runs a leadership program, Leadership Charleston, at the cost of $1000 per graduate. The Riley Institute's Diversity Leadership Academy at Furman University runs their leadership program for $3000 per graduate.

Moving the program back to the Office of Human Resources should allow the Executive Institute to cut their administrative and other expenses in half, allowing the program to continue its good work but graduate students at a more reasonable cost.

It makes good tactical business sense to have a training and leadership facility such as the Executive Institute within the Office of Human Resources. In addition to making sure the process maintains the same integrity and quality, combining the process with the Office of Human Resources training group helps to save duplication of effort and budget.

Authority for Change	First Year Savings
Within the Agency	$200,000

Savings (three years)
$600,000

BUDGET & CONTROL BOARD RESPONSE

No action has been taken, because the restructuring proviso would require legislative action to make the recommended change.

Estimate of Fiscal Impact: $0

GEAR RESPONSE

COMMITTEE FINDING

The Joint Committee recommends that this program be relocated to the University of South Carolina Institute of Public Service and Policy Research. The Executive Institute training program is recognized as one of the best training programs for governmental executives across the nation. The program's reputation could only be enhanced by an association with the Institute of Public Service and Policy Research. Also, the fact that the Institute of Public Service and Policy Research already performs governmental training should offer opportunities to reduce costs while maintaining quality. In addition, the Joint Committee would encourage an alliance with the Thurmond Institute at Clemson University so that participants could receive greater exposure to the policy analysis being performed there.

Recommendation Fifty-One
The Office of Human Resources should discontinue Tempo – the state run temporary employment agency.

GEAR RATIONALE

While there may have been at one point, there is certainly no lack of private temporary employee services in our state. Many agencies and even other divisions within the Budget and Control Board use outside temporary staffing agencies because they are less expensive.

A statewide contract for temporary staffing services would yield the necessary employees without additional overhead costs for the state. Additionally, the Tempo program is also run out of a valuable 9533 square foot building which cost the state approximately two million dollars in 2000 to purchase and extensively renovate for the Executive Institute.

The Executive Institute left the facility a few years ago so the building currently only serves as office space for ten Office of Human Resources employees. As a typical office building of that size would house two or three times the number of office employees, the facility is vastly underutilized. Closing down the Tempo program would also allow the building to be sold with the proceeds going to the state.

Authority for Change	First Year Savings
Within the Agency	$2,200,000 (includes sale of building)

Savings (three years)
$2,600,000

BUDGET & CONTROL BOARD RESPONSE

We find no compelling reason to discontinue TempO because the majority of customers prefer to use this service and it offers cost savings for state agencies. In addition, elimination of the TempO program would require a reduction-in-force of OHR's revenue based employees, which would require legislative action under the restructuring proviso.

We do not recommend selling the building because it is fully utilized.

Estimate of Fiscal Impact: $0

GEAR RESPONSE

COMMITTEE FINDING

If demand for the Tempo program is maintained by state agencies and the program saves state agencies money versus the use of private temporary staffing agencies, then the program should be continued. However, this unit should benchmark their prices and service against similar private sector entities and report this information in their annual accountability report submission. Utilization of the building currently housing the Tempo program should be a factor considered by the Property Management Unit as they complete their full inventory of properties.

Statement from GEAR Committee Regarding Recommendations 52 through 60

Our recommendations for the Retirement System and State Health Plan were based upon the dire fiscal situation these systems face. While they are often treated as different problems, the reality is that they are for the same population of current and future retirees. A summary of this combined fiscal challenge is as follows:

PENSION AND HEALTH CARE FOR SOUTH CAROLINA STATE RETIREES

SNAPSHOT BALANCE (as of 6/30/06)

BENEFIT	ASSETS	LIABILITIES	% Funded
Other Post Employment Benefits*	$63.0 Million	$10.1 Billion	
Retirement System**	$ 22.3 Billion	$32.0 Billion	
COLA's above 1%***	$ -	$ 7.0 Billion	
Total	**$22.4 Billion**	**$49.1 Billion**	
Unfunded Liability with continuing to pay full COLA's		**$26.7 Billion**	**45.6%**
Unfunded Liability if we only pay the guaranteed 1% COLA's		$19.7 Billion	**53.1%**

*These funds were allocated in the '08 budget even though the OPEB Trust Fund has not yet been established.

**Actuarial values. ***Not guaranteed but historically granted - calculations reflect Retirement System's 3% annual inflation assumption.

Based on these unsustainable numbers, we have made the following recommendations for some modest changes to begin to improve these systems solvency. Doing nothing makes the cure worse in the future. An even more dangerous alternative would be adopting more optimistic assumptions that would further threaten our state's credit rating and make the real solutions in the future even more painful for South Carolina retirees, state employees and taxpayers.

Recommendation Fifty-two
Establish a trust to allow for advance funding of the state's other Post-Employment Benefits (OPEB) expenses. Use State Health Plan funds over 140% of the plan's liability to help fund this trust.

GEAR RATIONALE

As previously mentioned, officials at the State Health Plan have been very proactive in working with the Governor's Office and the five person Budget and Control Board to dramatically improve the fiscal health of the program. The result has been below market rate increases and a cash balance of $344 million at the end of FY 2007 compared with a negative $15 million balance just three years earlier.

State Health Plan officials readily admit they do not need funds over 140% of their liability and it appears there will likely be more than $135.8 million in surplus funds that health plan officials offered last year. It seems logical to use the surplus health care funds for current employees' health care to pay down the tremendous unfunded debt for retiree care. This recommendation is contained in H3789 which has passed the House and is currently in the Senate Finance Committee.

Authority for change
The General Assembly

One-time Transfer
$135,750,000 (or more)

BUDGET & CONTROL BOARD RESPONSE

This recommendation requires legislation.

GEAR RESPONSE

The one-time savings of approximately $227 million achieved by moving excess State Health Plan funds into a newly created OPEB accounts will also lead to savings of additional tens (or even hundreds) of millions in actuarial savings by reducing the OPEB liability.

Also see GEAR statement, page 71.

COMMITTEE FINDING

This matter is before both the Senate and House for consideration of pending bills (S462 & H3789) establishing and funding an OPEB Trust Fund.

Recommendation Fifty-Three
Change the eligibility requirements for state and local employee retiree insurance to require twenty-five years of service for a full taxpayer subsidy and fifteen for a half subsidy.

GEAR RATIONALE

A significant number of retirees with State-funded insurance have worked for the State or a school district for a period of less time than would be considered for a full career. Nearly 36% of these retirees have less than 25 years' service and almost 12% have less than fifteen years' service. Providing subsidized insurance to non-career employees as retirees has had a substantial impact on the State's OPEB $10 billion liability.

The OPEB Study Committee in its report earlier this year recommended changes in retiree insurance eligibility that were only applied only to future hires. While this change would not impact the current OPEB number, the effect on future OPEB expenses would be substantial. Pre-Medicare retirees in some states such as Florida and Virginia can remain in their state's health plans but only receive a flat amount (up to $150 depending on years of service) in subsidies for their health insurance. Other states such as North Carolina have recently increased the years of service necessary for an employee to receive subsidized health insurance.

Actuaries for the State Health Plan estimate this change would save the state over $3.5 billion over the next 50 years, which averages over $70 million annually. H3789 has passed the House and is currently in the Senate Finance Committee where it was amended with this proposal.

Authority for change	First Year Savings
The General Assembly	$71,400,000 annually

Savings (three years)
$214,200,000

BUDGET & CONTROL BOARD RESPONSE

This change requires legislation.

The GEAR report listed an average savings of $71.4 million for the first year and savings of $214.2 million over the next three years. The savings linked to this change will largely occur after the year 2030 with the first savings beginning in 2014. The GEAR calculation was derived by using the 50 year present value savings of $3.57 billion and dividing it by 50 to achieve an annual savings of $71.4 million.

Estimate of Fiscal Impact: $0

GEAR RESPONSE

See GEAR statement, page 71.

COMMITTEE FINDING

This matter is before both the Senate and House for consideration of pending bills establishing and funding an OPEB Trust Fund. While adoption of this recommendation will not produce any current savings over the next several years, it would reduce the state's long term reported liability for retiree health care.

Recommendation Fifty-Four
For certain therapeutic classes of prescription drugs, move participants from non-preferred drugs to clinically equivalent generic or preferred drugs.

GEAR RATIONALE

As the state discovered through its 2003 creation of a Preferred Drug List, moving certain preferred drugs to equally effective lower priced drugs can lead to significant savings for the state. A logical continuation of that process would involve adding these classes of drugs to the equation. When a prescription is presented at the pharmacy and is not on the preferred drug list, the pharmacist requests a change to a generic or preferred drug from the physician. The physician can change the prescription or request a coverage review for the non-preferred drug. If the participant receives coverage approval, the higher copayment is applied, as is currently the case. If coverage is denied or the doctor does not request coverage approval, the participant pays 100% of the drug cost.

This program would work in a way similar to other Step Therapy Prior Authorization programs common in the industry. The State's Pharmacy Benefits Manager estimates physicians make recommended changes 75% of the time. Plan savings associated with moving these eight classes of drugs is estimated $16.4 million a year.

Authority for Change	First Year Savings
Within the Agency	$16,400,000

Savings (three years)
$49,200,000

BUDGET & CONTROL BOARD RESPONSE

The practice of the State Health Plan is to annually review the availability and use of generic drugs. Consistent with this annual review, the Board staff is in the process of briefing the Budget and Control Board liaisons as to the details of the proposal and we expect implementation in February 2008. Any cost savings will mitigate future health care insurance premium increases.

Estimate of Fiscal Impact: $16,400,000 savings to State Health Insurance Plan

GEAR RESPONSE

See GEAR statement, page 71.

COMMITTEE FINDING

The Committee supports this type of approach for cost reductions to offset future rate increases when a generic drug has the same effectiveness as a brand name drug.

Recommendation Fifty-Five
Implement a plan that encourages State Health Plan members to fill routine maintenance drugs through mail order pharmacies to save money for both parties.

GEAR RATIONALE

According to the state's Pharmacy Benefits Manager, our state health plan's use of mail order for maintenance drugs continues to run below peer averages. In order to make up the differential, we could follow the lead of other state's plans in more actively encouraging the use of mail order pharmacies for maintenance prescriptions.

While there is no requirement to purchase maintenance drugs through mail order, members do realize a savings in their co-payments. For a ninety day prescription filled at retail, a participant pays a co-payment of $30 for generic, $75 for a preferred brand or $120 for a non-preferred brand. The same prescription filled through mail service would drop co-payments to $25 for generic, $62 for a preferred brand or $100 for a non-preferred brand.

Once a member presents a refill at a retail pharmacy for a maintenance drug, that member could receive a letter from the State's Pharmacy Benefits Manager, educating the member on the benefits of using mail service delivery, including Plan and co-payment savings and the repercussions of not doing so. If a member continues to use retail pharmacy, rather than mail service, the member would pay 50% of the cost of a drug on all subsequent refills.

Currently, 75% of the volumes for maintenance prescriptions are filled at the retail level. Moving 25% of that business to mail order would save $9 million dollars a year, with $4.1 million in annual savings for the members and $4.9 million in annual savings for the State Health Plan.

Authority for Change	First Year Savings
The Five Member Budget and Control Board	$4,900,000

Savings (three years)
$14,700,000

BUDGET & CONTROL BOARD RESPONSE

The State Health Plan will continue to market and promote mail order services. Having choices in this circumstance contribute to better personal health. This change would require approval by the Budget and Control Board. No such proposal was made at the August 2007 Board meeting at which the State Health Plan of Benefits for 2008 was approved.

Estimate of Fiscal Impact: $0

GEAR RESPONSE

COMMITTEE FINDING

The Joint Committee endorses the concept of offering choices to employees. Mail order prescriptions are an important part of that menu. However, many participants prefer direct face-to-face contact with a licensed pharmacist in South Carolina. The contribution made by a local pharmacist to the overall health of a patient is of great value to some plan participants. While the value of personal contact would be difficult to quantify in economic terms, it is nonetheless real. So, each patient should have the option to determine if the lower cost of mail order prescription or the value of direct personal contact is most important to them.

Recommendation Fifty-Six
Establish a network management approach along with a $1000 per participant maximum for chiropractic.

GEAR RATIONALE

The majority of private plans and many other state plans place an annual maximum, often as low at $500, on an individual's chiropractic coverage. The cost of not having an annual cap nor any management system is a costly one for the state. Only about 8% of the plans participants receive chiropractic care, which is about the norm for other insurance plans. However, the average cost per patient in the State Health Plan was $875 in 2006 – about 75% higher than reported national norms of $500 per patient.

The majority of the participant's usage is below the national average as over half receive less than $300 a year in chiropractic services. However, about 25% of the plans participants had expenses over $1000 a year, 126 patients (out of 350,000) spent over $10,000 last year, fourteen patients exceeded $20,000 last year and three patients cost the state health plan over $30,000 each last year.

Chiropractic services can be valuable when medically appropriate as they can preclude more invasive and expensive types of care. The reality is that a small fraction of individuals are using an inordinate amount of chiropractic services that taxpayers and other plan participants are paying for. A quality initiative providing clinically appropriate condition and severity specific guidelines to measure patient outcomes and provider performance would reduce total chiropractic expenditure materially without changing any level of benefit. Providers who were found to be outside established service parameters and refused to adjust practice patterns after education would risk losing their continued participation in the State's provider network.

Officials at the State Health Plan estimate that a $1000 cap would save the system $13 million annually. As an alternative, the Budget and Control Board could choose to only adopt a network management approach that would save approximately $4.7 million a year.

Authority for Change	First Year Savings
The Five Member Budget and Control Board	$13,000,000

Savings (three years)
$39,000,000

BUDGET & CONTROL BOARD RESPONSE

Either approach considered in this recommendation requires Budget and Control Board action. No such proposal was made at the August 2007 Board meeting at which the State Health Plan of Benefits for 2008 was approved.

Estimate of Fiscal Impact: $0

GEAR RESPONSE

See GEAR statement, page 71.

COMMITTEE FINDING

The Committee recommends that the Board continue with its practice of annually reviewing the terms and conditions of the State Health Plan and making adjustments determined to be in the best interest of members. Chiropractic services are of great benefit to plan members and these benefits should be maintained. However, the members of the State Budget and Control Board should consider a maximum amount of dollar coverage per year at the very highest end of the usage scale to ensure credibility for the overall service.

Recommendation Fifty-Seven
The South Carolina Retirement system should discontinue applying an individual’s unused annual leave to increase retirement compensation and should discontinue applying unused sick leave at the time of retirement to creditable service for determining length of service.

GEAR RATIONALE

Practice among state-sponsored plans varies. For example, in North Carolina, vacation leave may not be used as creditable service for retirement purposes. Unused sick leave may be used to increase creditable service, but cannot be used to meet the minimum qualifications for a vested deferred benefit or the Survivor’s Alternate Benefit.

For vested employees, changing the retirement benefit formula may not be practicable. Accordingly, the financial impact of any change would be limited to current non-vested active members and prospective new hires.

Authority for change	First Year Savings
General Assembly	$6,000,000

Savings (three years)
$18,000,000

BUDGET & CONTROL BOARD RESPONSE

This recommendation requires legislative action.

There will be no immediate savings realized by the retirement system if this future benefit reduction were implemented. However, the reported amortization period for the unfunded liability will be reduced from 30 years to 29.4 years.

Estimate of Fiscal Impact: $0

GEAR RESPONSE

Actuaries working for the Budget of Control Board provided these savings calculations to the GEAR Commission. In addition to being very generous with taxpayers’ money through lenient policies regarding how annual and sick leave impact retirement payouts, comparisons with neighboring states also indicates that these benefits may be overly generous for working employees as well. The numbers below show the amount of vacation and sick days a 28-year employee in each state receives annually.

State	Vacation Days	Sick Days	Total
Georgia	21	15	36
North Carolina	25.75	12	37.75
South Carolina	30	15	45*

*South Carolina is 19% more than NC, 25% more than GA

Also see GEAR statement, page 71.

COMMITTEE FINDING

The Joint Committee shares the concern of the overall financial stability of the South Carolina Retirement System (SCRS) with the members of the GEAR Committee. The single most important obligation of the Budget and Control Board and the General Assembly with regard to the SCRS is to ensure the fiscal soundness of the System. To do otherwise jeopardizes the hard earned benefits that our public servants, both retired and active, throughout the state depend upon.

The issue of retirement savings is very difficult to understand because of its many facets. Thus, some background on the complexity of this issue is warranted. As an example, retirement systems quantify their obligations in terms of future liabilities. These liabilities are tied to governmental budgets as the stream of appropriated income is used to fulfill that obligation from year to year. Thus, the term “savings” used in the context of a retirement system refers to the reduction of multiple years of future costs.

The SCRS is also somewhat unique because its size as a public pension plan is significant, especially compared to the size of South Carolina’s population. This is because our retirement system covers state employees, public colleges and universities, local school districts and many local government and special purpose district employees. While most other states offer similar pension plans for these groups of governmental employees, the tendency is for their various systems to be separate based upon the level of government or the type of job performed.

The following chart provides the percentage of annual covered payroll of active members of the SCRS by type of employee:

Employee Category	Covered Payroll	Percentage of Total
State Agencies and Higher Education	2.1	31.7%
School Districts	2.9	43.3%
Other Employers	1.7	25.0%
Total	6.7	

(Dollars in Billions)

The point is that the SCRS provides pension coverage for a large proportion of governmental employees in South Carolina. Because of the vast array of pension coverage among the intergovernmental levels in the state, any liabilities are actually the shared responsibility of the multiple governmental entities. Likewise, any decrease or “savings” in future liabilities truly accrues to the same governmental entities. Governmental reporting standards require the SCRS as an entity to calculate the overall liability of the system, but few realize that the system is a large hybrid plan for governmental pensions across the entire state.

Yet another factor that lends complexity for liabilities related to the SCRS are the multiple sources of funds that underwrite the annual streams of payment used to address the long-term liability of the system.

Three major sources of funds are utilized through the annual state budget to underwrite a portion of the annual overall cost of the pension system, state General Funds, Federal funds, and Other Funds. The employer share of costs for state government employees and public college and universities come from these three sources. Further, a major share of the "other funds" for public colleges and universities are collected in the form of tuition. The employer share of pension funding for school district employees comes from various state government sources as well as local sources including local property taxes. Pension costs for the local government employees who participate in the SCRS are underwritten primarily from local property taxes and local fines, fees and other charges. In addition to the obligations of the various entities that participate in the SCRS, employees are charged a percentage of their salary to fund their portion of the pension system. The process of funding the costs of the state's pension system is complicated.

According to the GEAR Committee, the three-year savings that would be yielded from the implementation of Recommendations #57 (cease unused sick leave in final calculation), #58 (calculate compensation based on the five highest years of salary versus the three highest years) and #59 (change the retirement years of service from 28 to 30 years) is $106 million. The GEAR Committee estimates the first year savings would be $34.7 million. These savings are reductions in liability over a number of years. In all likelihood, these changes would be realized through a calculated and recognized decrease in the amortization period to dispose of the liability. Thus, no direct budgetary savings would be realized in such a scenario.

Recommendations #57, #58 and #59 do not directly affect current retirees of the SCRS. Instead, the policy options proposed with these three recommendations decrease the overall benefits for non-vested future retirees who participate in the South Carolina Retirement System. The Joint Committee concurs with the GEAR Committee's perspective that the current methods of calculation for vested employees should not be changed. There are two reasons for this perspective. First, there is the issue of fairness. Many employees make decisions regarding their overall retirement plan based on an estimate of their SCRS benefit. Changing the calculation of SCRS retirement benefits after these other individual retirement decisions have been made by our public servants is unfair. Second, based on recent court decisions, changing these calculations for vested employees runs the risk of reversal from our courts.

For those employees who are not vested, and for any future employees, the General Assembly should consider a number of options to reduce the longer-term liability to the SCRS. The General Assembly should consider Recommendations #57, #58 and #59 for those not vested. Additionally, strong consideration should be given to making the existing defined contributions plan more attractive because this approach could achieve the overall objective of reducing the long-term liability without creating two separate classes of public servants with different pension benefit formulas.

Recommendation Fifty-Eight
Change the retirement funding formula to be based on an average of the five most highly paid years of employment versus the three most highly paid years of employment.

GEAR RATIONALE

Nationally there are thirty other state-sponsored retirement plans that base their average final compensation (AFC) on the five most highly paid years of employment. For vested employees, changing the retirement benefit formula may not be practicable. Accordingly, the financial impact of any change would be limited to current non-vested active members and prospective new hires.

Based on a 4% increase in salary, use of a five year average final compensation for the SCRS results in approximately a 3.75% reduction in future benefits. The impact above does not consider the attractiveness to new hires of the optional DC plan if significant changes to the DB benefit formulas are undertaken.

Authority for Change	First Year Savings
General Assembly	$8,000,000

Savings (three years)
$26,000,000

BUDGET & CONTROL BOARD RESPONSE

This recommendation requires Legislative action.

There will be no immediate savings realized by the retirement system if this future benefit reduction were implemented. However, the reported amortization period for the unfunded liability will be reduced from 30 years to 29.6 years.

Estimate of Fiscal Impact: $0

GEAR RESPONSE

Actuaries working for the Budget of Control Board provided these savings calculations to the GEAR Commission.

Also See GEAR statement, page 71.

COMMITTEE FINDING

See Recommendation 57 above.

Recommendation Fifty-Nine
Change the retirement eligibility for new employees back to 30 years.

GEAR RATIONALE

Clearly one of the biggest factors in pushing our retirement system towards its unstable $10 billion in unfunded accrued actuarial liability was the reduction in the number of years required for retirement from 30 years to 28. The result is that South Carolina's retirement plan generally provides for earlier retirement than most states in the country including our neighbors of Georgia, Florida, North Carolina and Tennessee which all require 30 years of service.

According to a report issued by the SC Chamber in 2000, our move to a 28 year retirement made South Carolina's retirement program more generous than 90% of the nation's major government pension systems.

While generosity is often seen as a virtue, it is not such a good thing when you make such promises with others' money. Unfortunately the taxpayer's are now saddled with a potential growing $27 billion in unfunded costs for retiree's pensions and health care.

In order to address this very serious fiscal problem, we need to at least attempt to stop the bleeding by moving back to a 30 year retirement. For vested employees, changing the retirement benefit formula may not be practicable. Accordingly, the financial impact of any change would be limited to current non-vested active members and prospective new hires.

Actuaries calculate that the first year impact of this change would provide a $4.3 million decrease on the retirement system's unfunded liability and $16.4 million decrease on the annual unfunded liability of OPEB. The ultimate savings would be much more dramatic, as more new members come into the system.

Authority for change	First Year Savings
General Assembly	$20,700,000

Savings (three years)
$62,000,000

BUDGET & CONTROL BOARD RESPONSE

This recommendation requires Legislative action.

There will be no immediate savings realized by the retirement system if this future benefit reduction were implemented. However, the reported amortization period for the unfunded liability will be reduced from 30 years to 29.6 years.

Estimate of Fiscal Impact: $0

GEAR RESPONSE

Actuaries working for the Budget of Control Board provided these savings calculations to the GEAR Commission.

Also See GEAR statement, page 71.

COMMITTEE FINDING

See Recommendation 57 above.

Recommendation Sixty
A study should be conducted for a plan that limits participation in our state's Defined Benefits System to current employees and only offer a Defined Contribution System for new employees.

GEAR RATIONALE

The impending retirement of the baby-boom generation and longer life expectancies have caused most private sector retirement plans to switch to more economically-stable defined contribution plans. In fact, only 17% of workers in the private sector still have a traditional defined benefits plan.

In spite of the widely-held view that government jobs need higher benefits to make up for lower pay, USA Today recently reported that "most government workers are actually paid more than private employees in similar jobs, and the wage gap is growing. A typical full-time state or local government worker made $78,853 in wages and benefits in the third quarter of 2006, $25,771 more than a typical private-sector worker, the Bureau of Labor Statistics reports. The difference was $7,604 in 2000."

The federal government foresaw the coming fiscal crisis and reacted by closing its traditional defined benefit plan to new employees in 1984 when it offered its first defined contribution plan. The state of Alaska recently adopted a mandatory defined contribution plan for all new state employees as a way to stop the bleeding on its retirement systems $6 billion unfunded liability.

The primary reasons for moving to a defined contribution plan is a need to reduce cost and future funding liabilities, a desire to reduce the golden handcuffs that make it difficult for a worker to change jobs, and a desire to allow greater fund accumulation for shorter service workers.

The fiscal impact to the state will depend on the contribution rates of the defined contribution plan that the state decides to offer. Unlike our current defined contribution, the liabilities will be fixed so that taxpayers will only be forced to pick up the tab for one $20 - $27 billion shortfall rather many more of them in the future.

Authority for Change
General Assembly

BUDGET & CONTROL BOARD RESPONSE

The study has been completed and was provided to the GEAR Committee. Implementation would require Legislative action and increased contributions to fund the current plan.

Estimate of Fiscal Impact: $0

GEAR RESPONSE

This recommendation is to conduct a study limiting future employee participation only to a Defined Contribution plan. As no specific plan was suggested (given time and resource constraints), there is no way to conduct a valid actuarial study. The potential for an increase in contributions or rates to the system is based upon the fact that the system is currently underfunded by over $10 billion.

Also See GEAR statement, page 71.

COMMITTEE FINDING

The Joint Committee recommends an approach where both a defined contribution and defined benefit plan are offered. However, consideration should be given to additional incentives for employees to choose a defined contribution plan.

A defined benefit plan should be the most convenient type of retirement plan for those public servants who will likely work for a governmental entity for their entire career. Such is the case for most teachers since portability and breaks in service are less frequent. However, for other workers who move more frequently from the public sector to the private sector, the portability of a defined contributions plan is an advantage.

As the Budget and Control Board and the General Assembly move forward with deliberations regarding the relative merits of a defined contributions and defined benefits approach to our pension options, the need to contain costs should be balanced with the necessity to attract and retain quality public servants, particularly those who serve in our public classrooms. An approach where both options are offered with an additional incentive for the defined contributions plan provides a good balance for achieving both objectives.

Recommendation Sixty-One
The General Assembly should create a Cabinet level Department of Administration to oversee the administrative functions of the agency. The Five Member Budget and Control Board should continue to exist to handle the majority of its current functions.

GEAR RATIONALE

In their 1991 report, "SC State Government for the 21st Century" Chairmen David Wilkins and Nick Theodore wrote the following on behalf of the forty plus South Carolinians who spent the summer extensively studying the structure of our state government:

Unfortunately, their recommendation to create a Department of Administration was not enacted. It's now sixteen years later and the executive tasks of the Budget and Control Board have increased. Yet the tasks that were too immediate and crucial to be overseen by a Board that only met twice a month then only meets once a month now – except this month as the Budget and Control Board doesn't meet in July.

If the administrative functions of the Budget and Control Board were in a cabinet agency, the Governor likely would have created a GEAR Committee in February of 2003 rather than in February of 2007. And our state may have implemented many of the 61 suggestions in this report three years ago and have already saved the taxpayers of South Carolina much of the associated hundreds of million dollars rather than just now thinking about it.

Authority for change
The General Assembly

BUDGET & CONTROL BOARD RESPONSE

This recommendation requires Legislative action.

Estimate of Fiscal Impact: $0

GEAR RESPONSE

COMMITTEE FINDING

The Joint Committee endorses the concept of a Department of Administration. This is not to say that the State Budget and Control Board is not a valuable organization. The Board has served the citizens of South Carolina with distinction, and it will continue to do so in the future.

There are three distinct advantages offered by the Board, partially as a result of its unique structure. First, the Board is able to act decisively during times of fiscal crisis. In many states when mid-year budget reductions are necessary, a sniping contest ensues between the Legislative Branch and the Executive Branch. Within the structure of the Board, the five most important financial officials must sit together and reason to develop a course of action when fiscal emergencies arise. National credit rating agencies have consistently expressed their preference for this model. This model should be maintained.

Second, the Board offers a high degree of professional independence in supplying the data and analysis that both the Legislative and Executive Branch depend upon. Should the organization that produces a fiscal impact, revenue impact statement or any other similar type of analysis fall directly under the direction of a Governor, it will simply be a matter of time until the biased perspective of a Governor taints the analysis. Many states have similar organizations in both the Legislative and Executive Branches that produce these types of analysis, costing taxpayers twice the amount necessary. The Board's role as an independent professional organization for analysis should be maintained.

Third, the Board acts as a place where financial leaders have the opportunity to reach consensus regarding the fiscal matters of South Carolina in an open and public forum. The Board's process of a published agenda and an open deliberative meeting offers the public and the media an opportunity to see how decisions are made. The open process provided by the Board should be maintained.

Nevertheless, there are functions within the current structure of the Board that should logically be moved to a new Department of Administration. These functions are centered within the delivery of logistical services. In many cases, hundreds of quick decisions should be made regarding the delivery of logistically based services, but the Board structure sometimes forces a delay in decision making until the next Board meeting. These day-to-day functions should be moved to a Department of Administration where nimbleness will lead to greater cost savings.

This Joint Committee refers these conceptual ideas and perspectives to the appropriate Standing Committees within the General Assembly.