Report to the Joint Legislative Commission
on Government Operations

March 5, 2015
“We have the opportunity to transform our culture of government through a top-to-bottom assessment of efficiency, effectiveness and more than anything else, a culture of customer service.”

- Governor Pat McCrory from his Inaugural Address
NC GEAR: A New Culture of Government

The North Carolina Government Efficiency and Reform (NC GEAR) program was proposed by Governor McCrory in 2013 to develop a strategic transformation plan for state government. The General Assembly formalized the program in legislation that same year, and NC GEAR began the most comprehensive effort to analyze and reform operations of state government in over two decades.

The top-to-bottom review revealed that state government must innovate to serve our citizens better. In this report, NC GEAR recommends 22 reforms that will increase the efficiency, effectiveness, and customer service of state government, allowing agencies to focus on delivering their core services. The reforms will provide first year budget savings of $14 million and projected long-term benefits of over $615 million by 2025, but this effort goes far beyond dollars. Our goal is to foster a government that works better for North Carolinians and that consistently exceeds customer expectations.

NC GEAR recommendations that require near-term legislative action will be included in the Governor’s FY2015-17 Budget; others may be implemented by Executive Order. Several of the recommendations would move the State from its traditional agency-focused approach to an enterprise-wide approach for statewide programs, services, and core functions. It is necessary to fix the foundations of government, in order to provide for current and future success.

NC GEAR is a data-based approach to improving state government processes, enhancing customer service and realizing cost savings and cost avoidance. The program’s purpose is to serve as a catalyst for long term, self-sustaining solutions within state government. One of NC GEAR’s legacies will be the Results Management Office within the Office of State Budget and Management. Its immediate goal is to see that the initial NC GEAR reforms are implemented. Longer term, it will push continuously to improve the efficiency, effectiveness and service of state government.
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Section 1. Introduction
Legislation spelled out grand ambitions for the North Carolina Government Efficiency and Reform initiative (NC GEAR) to examine the reasons that agencies exist, where they get their funding, and what they do with it. NC GEAR would also examine whether programs were effective or duplicated across agencies. A team from Deloitte Consulting was hired through a competitive bidding process to bring outside expertise and experience from other states into the process.

Structure of this Report
This report will provide background on the need for government reform, the work undertaken by NC GEAR, and some direction for future work. Section 2 provides an overview of the state of the state today demographically and economically. It then provides some of the reasons within government for reform and summarizes why NC GEAR is needed. North Carolina has a long history of change and adaptation in government, which Section 3 examines to show the continuity and innovation in this round of reform.

One thing that sets this reform effort apart from previous iterations is the focus on implementation. Rather than propose hundreds of reforms and walk away, the team is working with state agencies to implement fewer than 50 recommendations, which are described in one-page briefs in Section 4. Some of these one-pagers combine related projects in a single recommendation. Each page provides a brief background on the problem, a description of the recommendation, expected budget impact for the 2015-2017 biennium, expected outcomes including a net present value (NPV) calculation, based on five years of benefits and the dollars of expected benefits for each dollar invested, and some measures to gauge progress as the recommendations take flight.

Section 5 provides summaries of a series of half-day or longer discussions that focused on broad areas within state government – cybersecurity, budget and finance, state property, employee benefits, human resources organization, and contracting to pay for success. It also looks at “economic dynamism,” a relatively new concept in policy discussions that deserves attention, but could not be harnessed into the structure of these sessions.

The next sections focus on supplemental work done through the NC GEAR contract with Deloitte Consulting on core information technology efforts and some human resources questions (Section 6), and highlight some of the initiatives already underway within state government (Section 7).

NC GEAR benefited greatly from the insights of those who were personally involved in previous reform efforts. In anticipation of future large-scale reforms, Section 8 provides some of the lessons learned this time. Section 9 looks at two areas that make reform a unique challenge in North Carolina – the impact of federal dollars and regulations on state policy direction, and the delineation between Cabinet and Council of State agencies.

Quick Fixes
While the NC GEAR process focused on core functions of government that touched multiple agencies or functions that were very visible to citizens, every part of state government can benefit from taking some straightforward actions that do not require outside experts or consultants. Many positive actions involve
bringing hidden knowledge to the surface, or finding out the things state employees do not know they know.

**Map the process:** We do things the way we do because they worked in the past, like the woman who would cut the end off a roast because that was what her mother always did. In the story, the mother cut the end off because that was the only way it would fit in the small roasting pan she had, not to improve the roast. How many processes no longer make sense? How much data is collected that goes unused? How many people are involved? What technologies are used?

First, learn the necessary steps of a process. The point is not to see that it takes 3.2 seconds to staple a stack of papers. Instead, it will help to know that the website for a reservation-based service for state employees advises multiple times that reservations are not taken and that employees should call the agency instead of using the website.

**Create checklists and timelines:** Even when a process is known and relevant, some steps are more important, and some take longer, than others. Checklists can help a new person get started quickly, or keep an experienced employee from inadvertently missing a critical step. The timeline helps to know what dates are critical to stay on track.

**Cross-train staff for multiple roles:** The more people know about what their colleagues do, the more they can contribute when the need arises. Cross-training also breaks down silos and provides context for how the pieces within state government contribute to the overall goals.

**Learn the tools:** There are numerous ways to accomplish the same result. Software tools especially are often more useful than most employees realize. Training is important, but so is experience. For example, members of the NC GEAR team have forgotten many things they learned in classes that they did not use, but they became experts at other things without any formal training simply by observation and experimentation.

**Evaluate positions when they become vacant:** Providing consistent service to state residents requires that program duties carry on after individual employees are gone. Often, the individual serving a role has developed the role well beyond the position description for which they were hired. When positions become vacant, managers should review whether and how to fill the gap of lost talents and abilities. The nature of the work needed may have changed greatly in ways that were not accounted for in the job description. Remaining team members may be able to pick up the key roles and responsibilities, or technology may fill the gap. The team may want to replace an experienced member with a less experienced person with a lot of potential but not as much immediate value. Evaluations like this allow agencies to direct resources to their highest and best use.

**Ask questions:** Each program and activity should regularly face difficult questions. Is the program’s goal relevant to the core mission of state government and the agency? Is the program effective at accomplishing its goal? Does the program accomplish its goals with the most efficient use of resources? The specific answers are less important than the questions themselves and understanding why the answers are what they are.
Section 2. Current Operating Model

Information and Organization
Much of the information needed to evaluate government efficiency and effectiveness is simply not available. Data collection systems are lacking within state government and even when data exist, the process to retrieve them is overly cumbersome. Many state employees tell of manually entering data into Excel spreadsheets from two or more different sources just to get an understanding of simple management questions.

Agencies spent hours gathering information that had been expected to be readily available for the NC GEAR Statewide Assessment survey. The Office of the State Controller eventually provided data on financial and asset management questions after receiving requests from a number of agencies who did not track that information on their own. A few agencies delayed their responses because they could not answer questions about how they manage their activities.

It is hard to manage what is not measured. Performance measures were even harder for NC GEAR to obtain than financial data. Most agencies do not know the cost or time it takes to perform their core functions. Agencies that provide information to the public often do not know how many people visit their websites, which pages they visit, or for how long. Agencies that process licenses, permits, or registrations do not know how long the process takes or how many steps are involved in the process. Without this knowledge, it is difficult to automate or consolidate processes or to train new people.

Lack of coordination emerged as a significant constraint to NC GEAR’s work. The North Carolina Constitution created Council of State agencies headed by statewide elected officials and provided no direction on Cabinet agencies led by the Governor. General Statutes, Session Laws, or federal funding requirements have filled in the gaps to mandate much of what agencies do. For example, most early childhood programs are in the Department of Health and Human Services, but if a preschool is housed in a public school, federal funds through the Individuals with Disabilities Education Act (IDEA) flow through the Department of Public Instruction. NC GEAR found that this kind of fragmented implementation is common across state government. Individual agencies lack the authority to unify counterpart agencies’ work with their own.

Infrastructure (IT and Physical)
State government has thousands of information technology systems, including multiple customized versions of the same system in different locations. Many of these “systems” are complicated Excel spreadsheets or improvised Access databases. Others are older than the average North Carolinian (median age 37.4) and may require specialized skills not generally available in the market. In an example from the Department of Agriculture and Consumer Services, it takes twelve steps and six data or accounting systems to reconcile a credit card transaction, only one of which is automated.
The State’s physical infrastructure is similarly inefficient. For example, the Administration Building has asbestos but no sprinklers to deal with fires. Electrical outlets stick out of the floor, which can limit
furniture placement as a matter of safety. Many offices do not have their own light switches, so employees cannot take the small step of turning out the lights at the end of the day to save money. Temperatures in some offices can fluctuate by 12 degrees during the course of the day, even as they differ by that much from other offices on the same floor. Employees on one side of the building will have their windows open when the outside temperature is under 30 because the temperature inside is approaching 80, while another employee on the opposite side of the building runs a heater or wears a coat because the temperature is under 70. The diesel-powered HVAC system runs even on weekends and the black particulate exhaust can be seen on registers despite jerry-rigged, ill-fitting filters that had not been replaced in years.

This is not a critique of the facilities management team. It is an illustration of the system-wide deficiencies due to lacking investment. There is a critical need for efforts like Governor McCrory’s recently announced Project Phoenix to make more efficient use of space in Raleigh and around the state.

Two levels of investment decisions affect the efficiency of the State’s physical infrastructure. The first level concerns decisions on where to locate an agency’s facilities; the second level deals with how to provide the facilities an agency requires.

Location of state buildings has not been considered in a centralized fashion. Each agency makes its own decision about office locations and the populations they serve. In Jacksonville for instance, the Vocational Rehabilitation office, which offers employment services, is 2.5 miles from the Employment Security office. Why should a person have to travel two places to deal with programs providing related assistance? And could costs be reduced by consolidating the offices into one facility?

The Division of Motor Vehicles has located its customer service offices primarily in the Piedmont Region, with the bulk of the state’s population. This philosophy would increase customers’ distance traveled to access the office, but should keep wait times lower because offices are located where they can serve the most people. The Division of Employment Security, conversely, has located its offices roughly equidistant across the state to offer coverage in all regions, even though offices in more populous areas would have longer wait times. Each program has chosen its office locations based on a number of factors, and neither is the “right” answer. The two examples provide a strong case that agencies following their individual missions will not develop an enterprise strategy. Central coordination is necessary to achieve efficiencies.
Division of Motor Vehicles (68 locations)
Mean Distance (miles) from Nearest Population
- 1.0 - 3.2 (7 DMV locations)
- 3.2 - 9.3 (27)
- 9.3 - 14.9 (17)
- 14.9 - 21.8 (13)
- 21.8 - 32.4 (4)

Sources: NC Department of Administration, State Property Office for building locations; US Census Bureau for Census block boundaries; NC Center for Geographic Information and Analysis for processing and mapping.

January 2015
The choice of whether to own or lease a facility is currently delegated to each individual agency. The Department of Administration maintains a standard state lease contract and acts as negotiator for a property, once the operating agency has chosen a facility and named a price. DOA is an agent, rather than an arbiter, of these decisions. As a result, the investment decisions made by individual agencies may not reflect system-wide efficiencies. Further, the agency budget process for building a new facility does not consider the ongoing costs of operations and maintenance. Buildings are being built without a plan to maintain them. The results are predictable. The State’s real estate portfolio is overburdened with aged buildings and funding for repairs and renovations falls below 5% of recorded needs annually.

Systemic problems with the budget, location, building, leasing, and maintaining of state facilities are creating poor results for NC communities and state government.

Organizational Structure and Mission
From the start, NC GEAR approached its review of the executive branch from the traditional approach that there is a legislature, a judiciary system, and everything else is the executive branch. State government operations are more complicated. The Constitution creates a number of elected offices that make up the Council of State, while Cabinet offices are the creation of the Governor and statute. The University system is half-jokingly referred to by people throughout government as “the fourth branch,” and local community colleges and school districts have great leeway in their operations.
Many social services are administered by counties on behalf of the State, while counties also split the cost of assisted living for seniors with the State. Alcohol distribution and sales also have a significant local component that makes any review of this activity difficult.

Federal funds add another level of complication altogether, and receive more attention later in this report.

Because of the complicated relationship between other constitutional offices and the Governor’s Office, the legislative mandate of NC GEAR was necessary to work with all parts of the executive branch. Locating the initiative’s staff within the Office of State Budget and Management provided some additional leverage when seeking information from agencies because of provisions of the State Budget Act that, “Upon request, all State agencies and non-State entities subject to this act shall furnish the Director, in the form and at the time requested by the Director, any information desired by the Director in relation to their respective activities or fiscal affairs so long as the information is not confidential pursuant to federal or State law.” Combined, the legislative mandate for NC GEAR and the powers vested through the State Budget Act gave broader scope to the information-gathering abilities of NC GEAR than an executive order would have.

Carrying out recommendations, however, leads back to the same complication. Council of State agencies have traditionally not been subject to executive orders in the same way Cabinet agencies have been. Larger Cabinet agencies also have been more equal than others in past reorganizations of, for example, IT services.

**Source of Funds**

State spending has increased from $6.7 billion in fiscal year (FY) 1983-84 to $50.8 billion in FY2013-14, for average annual growth of 7.0 percent. Over that time, however, the share of spending from state taxes through the General Fund and Highway funds has declined from 67 percent of the total to 46 percent while Federal funding has increased from 24 percent to 34 percent. In addition, funding from tuition and other fees has doubled as a share of total spending in less than ten years.
Spending by Agency
Medicaid has been a significant factor in the growth of federal spending in the state budget, displacing spending on primary and secondary education as the largest share of total state dollars between 1983-84 and 2013-14. That does not mean that education spending has slackened over time. K-12 expenditures have grown at six percent annually, roughly three-and-a-half times faster than population grew over the same period. The federal extension of unemployment benefits and paying off the debt for those benefits has been the main contributor to “other” spending growth since 2003-04.
As the State has become more dependent on federal funding, and actively worked to increase that dependence, it has lost its ability to reform important programs for North Carolinians most in need of government services. Reversing this trend will not be easy. For years, it has been state policy to maximize federal funding for programs in an effort to reduce state appropriations. Spending decisions within a policy area may be made based on which funds have a federal match with little regard for the programmatic merits.

**State and Local Government Employees per 10,000 residents**

State and local government employment remained flat between 2007 and 2013 following a decade of expansion from 1997. The number of state and local government employees per 10,000 residents was about the same in 2013 as in 1997. Virginia, Tennessee, and Florida had fewer government employees as a share of state population throughout the period. Georgia and South Carolina had more state and local government employees per resident than North Carolina did in 1997, but had relatively smaller governments than North Carolina by 2013. Idaho, Iowa, Louisiana, Oklahoma, and Texas took the same path.
Only Arkansas, Vermont, and West Virginia went from fewer government employees than North Carolina as a share of population in 1997 to more government employees. West Virginia has lost population. Vermont’s Governor in December admitted that single-payer health care was more than that state could afford without crippling tax increases.

Georgia and Texas reduced the number of non-education government employees by more than they increased their education workforces. Arkansas had a similar increase in education-related employees, but a smaller reduction in its non-education workforce. As the ninth most populous state in the country, and growing, North Carolina should also be able to continue to reduce the relative size of state and local government.

Doing this well will require asking less of government in some areas and finding private partners in others. This challenge was evident during the NC GEAR process when considering restructuring efforts that would normally reduce costs and provide better service. But in many cases, services would mean higher costs, whether privatized or kept within government, because investment has lagged and the current level of service is low.

Two efforts have helped in small ways: Reorganization through Reduction (RTR) offers voluntary separation for employees so an agency can better match the skills of its employees to its goals, and Three-to-Two redirects funds when a person leaves to the remaining members of a team. The first two phases of RTR covered four agencies with 121 employees eligible to participate. A total of 25 people voluntarily retired or separated from those agencies, and another eight were released through a traditional Reduction in Force (RIF). The Three-to-Two effort in the Department of Environment and Natural Resources has resulted in elimination of 35.25 newly vacant positions, saving $2.2 million and providing $300,000 in salary increases to employees, including direct raises averaging $7,545 (including benefits) to 29 employees and $80,810 reserved for range revisions.
A new employee performance management system from the Office of State Human Resources should help match skills and requirements for other positions as it becomes standard policy.

Pension and OPEB obligation

Government obligations to retired public employees forced Detroit into state receivership. Other municipalities and states have reduced payments to retirees without resorting to bankruptcy. The liabilities of Illinois, California, and New Jersey threaten the possibility of federal bailouts of state pensions.

Although North Carolina has one of the best-funded systems in the country, with assets valued at 94 percent of accrued liability, economists Robert Novy-Marx and Joshua Rauh concluded in a 2009 paper, “[G]overnment accounting standards require states to use procedures that severely understate their liabilities.” Using the Treasury rate, as they did, would have increased the unfunded actuarial liability for December 31, 2012, from $3.7 billion to $51.6 billion and left the State with a funded ratio of 54 percent, instead of 94 percent. Without any policy changes, Novy-Marx and Rauh found in a 2014 paper, annual contributions would more than double, which would have meant over $1 billion instead of $521 million in FY2012-13.

<table>
<thead>
<tr>
<th></th>
<th>Actuarial Valuation Date</th>
<th>Actuarial Value of Assets (a)</th>
<th>Actuarial Accrued Liability (AAL) (b)</th>
<th>Unfunded AAL (UAAL) (b-a)</th>
<th>Funded Ratio (a/b)</th>
<th>Covered Payroll (c)</th>
<th>UAAL as a Percentage of Covered Payroll ([b-a]/c)</th>
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</thead>
<tbody>
<tr>
<td>TSERS</td>
<td>12-31-12</td>
<td>$59,911,833</td>
<td>$63,630,278</td>
<td>$3,718,445</td>
<td>94.2%</td>
<td>$12,774,187</td>
<td>29.1%</td>
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<tr>
<td></td>
<td>12-31-13</td>
<td>62,363,807</td>
<td>65,805,555</td>
<td>3,441,748</td>
<td>94.8%</td>
<td>12,834,121</td>
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<tr>
<td>Retiree Health</td>
<td>12-31-12</td>
<td>765,828</td>
<td>23,883,107</td>
<td>23,117,279</td>
<td>3.2%</td>
<td>14,957,179</td>
<td>154.6%</td>
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<tr>
<td></td>
<td>12-31-13</td>
<td>890,756</td>
<td>26,420,168</td>
<td>25,529,412</td>
<td>3.4%</td>
<td>15,080,627</td>
<td>169.3%</td>
</tr>
</tbody>
</table>

Source: 2014 Consolidated Annual Financial Report,

Retiree health benefits are valued at a more reasonable 4.25 percent discount rate, but few assets have been set against the future health benefit costs. As a result, the unfunded actuarial liability for the health plan is $25.5 billion, seven times higher than the official liability for pensions, though with less risk that the liability is actually larger.

In addition to the funding challenge, there is a question of fairness in North Carolina’s pension system. Younger employees and those who have a shorter tenure are disadvantaged by the formula to calculate benefits. It takes five years to vest in the program, after which a retiree would receive annuity payments equal to 1.82 percent of the average of their highest four years of pay multiplied by the number of years he or she was a state employee. For example, an employee who earned an average of $100,000 in the highest-paying four years of a 30-year career would receive annual pension payments of ($100,000 x 1.82% x 30 years) or $54,600 the rest of his or her life, in addition to Social Security. In contrast, a teacher who leaves after three years would get his or her contributions back, plus interest.

Maria Fitzpatrick found that teachers would pay just 20 cents for a dollar increase in retirement benefits, which indicates that putting more emphasis on current pay and less on deferred compensation may be a trade-off more employees would be willing to make given the choice.
Case for Change for NC GEAR

It is projected that North Carolina will have slower population growth in the next twenty years than it had in the past twenty years, with population and economic growth concentrated in the major metropolitan areas of the Piedmont, plus Wilmington and Asheville.

State government’s role has changed as it has been asked to provide a greater range of services, and relied more on federal funds to provide those services. Citizens expect to be able to do more online or through their mobile devices, but few state systems or processes can meet the demand. With a quarter of the workforce eligible for retirement within five years, this is the time to consider what state government will do in the future, who will be in state government, and how they will work and be compensated.

Government has not had a strong record of technology implementation, responsiveness, innovation, or customer service. There is little trust in government’s ability to deliver core services. For all the hopes some may have had for sweeping reforms, the focus in this report is on shoring up the foundation of state government—budgeting, facilities, and vehicles—to show that government can excel at the basics and so build trust with the people of North Carolina.
Section 3. Previous Government Reform Efforts

One of the most common questions from legislators and state employees has been why NC GEAR would succeed when similar efforts in the past have done little more than produce reports that gathered dust. To help address this question, we looked to those past efforts for lessons on what worked and why as we tackled the perennial challenges of personnel, technology, purchasing, efficiency, and accountability.

Some reform efforts have indeed been successful. The 1971 Constitution was the culmination of piecemeal reforms throughout the 1950s and 1960s. Since then, studies and plans have come on a regular basis with economic recessions and changes in partisan control of the Governor’s Office.

Responding to a Crisis

The first major reforms after Reconstruction came in 1930 when Governor O. Max Gardner brought in the Brookings Institution. “I lay awake at night wondering how my ambitions led me into the governorship at a time like this,” Gardner later wrote of his time in office. He cut state spending ten percent after he learned in January that government could not meet its budget for the remainder of the fiscal year. In June, Gardner brought in the Brookings Institution to create a plan to improve state government efficiency and effectiveness.

Adding to the urgency, North Carolina had more state and local public sector debt per person than any other state. Local governments tripled property taxes, which accounted for three-fourths of their revenue, to repay their debts. Unfortunately, their citizens were also heavily indebted. Defaults by farmers and homeowners forced 88 banks to close in 1930. The North Carolina Tax Relief Association led a property tax revolt beginning in April 1930 with a call for the State to take fiscal responsibility for roads and schools from local governments with an increase in the gas tax and a new statewide sales tax.

Brookings experts offered a set of sweeping reforms, such as consolidating 92 commissions, boards, and institutions into 14 departments in a Cabinet reporting to the Governor, leaving the Governor, Lieutenant Governor, and State Auditor as the only three statewide elected officials. Brookings also called for the three state universities to be brought together in a single system. The Governor would have had direct authority over state records, state police, budget, and newly centralized purchasing and personnel agencies.

“It is difficult to estimate the direct economies that would result from the establishment of such an improved system,” the Brookings authors wrote, “it can only be said that its benefits would run throughout almost all government processes.”

The General Assembly in 1931 enacted many of Brookings’ recommendations, though it left the Council of State intact. The newly created central purchasing agency saved the State almost $400,000 in its first year ($6.3 million in 2014 dollars), including $150,000 from a gasoline contract with Texaco. A one-cent gas tax hike was passed to help pay for the new state roads, but the state sales tax did not pass until 1933.

Legislators created the Local Government Commission to provide greater state control of county and municipal borrowing. Although the Commission was not able to keep 39 counties and 78 towns from
declaring bankruptcy by December 1932, its legacy has been to keep counties and municipalities out of much financial mischief in the ensuing decades.

**Creating the Government We Know Today**

Less comprehensive reforms, but often with constitutional changes, followed through the post-war years. In the century following adoption of the 1868 Constitution, it was amended 69 times. Obsolete and invalid provisions misled unwary readers. Inconsistent between sections caused confusion. Finally, Governor Dan K. Moore proposed the North Carolina State Constitution Study Commission in 1967, "to obtain… a constitution that deals in a realistic, direct, and understandable way with the current and foreseeable problems of the State."

Led by the North Carolina State Bar, the Commission recommended significant revisions and clarifications to the Constitution in its December 1968 report, plus nine major amendments. Legislators agreed to most of the changes, but rejected an amendment that would have left the Governor, Lieutenant Governor, Attorney General, State Treasurer, and State Auditor as the only five statewide elected offices. They also opposed direct reelection of the Governor and veto power, both of which eventually became enshrined in the Constitution. Voters approved the revisions and five of the remaining six amendments in November 1970.

Governor Bob Scott pulled together 50 North Carolinians to submit a plan for the 1971 legislative session to reorganize state government. The Scott Committee lamented that the State’s “fragmented organization makes it virtually impossible to determine what is being accomplished now and even more difficult to project these accomplishments against future needs.” Its plan provided the basis for the Executive Reorganization Act of 1971, which consolidated more than 200 agencies, boards, bureaus, and commissions into 17 departments. Governor Scott also reorganized the University of North Carolina into essentially the system we have today.

The Committee report called for the “quest for improved management to become continuous” with biennial reviews in 1973 and 1975. In addition to studies of occupational licensing boards and state retirement systems, the report urged “early attention be given to improving the management of the new Department of Education.”

In 1973, Governor Jim Holshouser asked volunteer business leaders from across the state to apply their expertise to the “complex management problems” facing the State. The Governor’s Efficiency Study Commission put seven area-specific teams to work over three months, with the assistance of Warren King and Associates, a Chicago-based consulting firm.

They offered 676 specific reforms, mostly small efficiencies that could be implemented without legislation. Major changes were incorporated into the Executive Reorganization Act of 1973, which vested final managerial authority for the executive branch with the Governor and defined the roles of Cabinet secretaries. Two-thirds of the Commission’s recommendations, which also included fee increases to “adequately offset program costs,” led to action and claims of $63 million in annual savings.
Reinventing Government

Governor Jim Martin revived the Governor’s Efficiency Study Commission by executive order when he took office in 1985. About 130 executives from the state’s business community split into seven committees with assistance from the consulting firm Warren King and Associates and the Office of State Budget and Management (OSBM). The Commission offered 414 recommendations with a total of $247 million in potential annual savings or fee increases.

Governor Martin said 301 of the recommendations were underway by the end of his first term. Some of the savings financed other priorities, such as new technology. Among the enduring legacies of the Martin Commission were consolidation of financial functions in an Office of the State Controller and of environmental programs in the Department of Environment, Health and Natural Resources.

Proposals to convert the North Carolina Museum of Art and the North Carolina Symphony to privately held endowments raised objections in the Raleigh papers. The Raleigh News & Observer objected the Commission had “strayed from inefficiency into policy.” The Raleigh Times wrote, “Art is apples. Efficiency is oranges.” Both the symphony and the museum receive more private support today, but are still heavily funded by the State.

Legislators took the lead on reform in 1991. Senate President Pro Tempore Henson Barnes and House Speaker Dan Blue created the North Carolina Government Performance Audit Committee (GPAC). KPMG Peat Marwick conducted a yearlong audit of all branches of state government for the Legislative Research Commission and issued a final report in February 1993 with 350 recommendations yielding an estimated $200 million in savings.

GPAC sent out 100,000 questionnaires to state employees and received over 33,000 responses. In addition to ten questions to rate the efficiency and effectiveness of state programs, state employees had space to provide their own suggestions. Although they offered a number of ideas, GPAC staff could not assimilate the volume of comments into its review.

Legislators did not pass many of GPAC’s recommendations at the time, and some took twenty years to eventually become policy. The ideas made great practical sense, but had not incorporated political factors, like the employment impact of closing small rural prisons.

A New Millennium

Governors and legislators mined the GPAC report and sought additional opportunities for cost savings and revenue increases in the 2000s. Governor Mike Easley asked former Governors Bob Scott and Jim Holshouser and former State Treasurer Harlan Boyles to act as chairs of the North Carolina Efficiency and Loophole-Closing Commission when he took office in 2001. By April, the Commission offered 40 recommendations, including more budget flexibility for agency management. It passed the General Assembly but did not produce the expected results.

A $1.5 billion shortfall later that year prompted Governor Easley to create the Commission to Promote Government Efficiency and Savings on State Spending in February 2002. Its 17 members recommended 80 long-run efficiencies in personnel, information technology, program duplication, and programs “not
part of government’s core mission” in their December 2002 final report. They attributed 14 of their recommendations to GPAC.

In 2006, the General Assembly created the Joint Select Government Performance Audit Committee, or GPAC II as it came to be called. The new committee focused on particular issues and established the Program Evaluation Division and the Joint Legislative Program Evaluation Oversight Committee within the General Assembly.

Governor Beverly Perdue took office in January 2009 with the most challenging economy since the Great Depression. She looked to Governor O. Max Gardner’s reforms and her own experience with the military Base Realignment and Closure process when she created the Budget Reform and Accountability Commission (BRAC). “It is time for us to transform the way we do business in North Carolina,” she proclaimed early in her tenure. Instead of seeking outside advice, Governor Perdue appointed a twelve-member commission from business, government, and academia. OSBM staff and the Governor’s policy advisors provided assistance, but were not dedicated to the effort. The Commission met publicly six times and received more than 500 emails from interested citizens before submitting nine recommendations to the Governor in January 2011, but its impact was limited.

Today
The NC GEAR initiative trod familiar territory in technology, people, budget reforms, purchasing, and organization. It consisted of dedicated staff and outside consultants, covered the entire executive branch, and leveraged internal resources. The location within OSBM made it more likely to have recommendations incorporated into the budget, and the two-step process of receiving analysis from Deloitte Consulting before releasing its own report provided an additional level of coordination with agencies that could otherwise have been lost.

The NC GEAR team reached out to multiple groups to get ideas including through the website ncear.nc.gov/yourideas, which has generated more than 500 suggestions to date. Some suggestions were straightforward, like using Garamond font for all publications to save money (the font is hard to read on a screen) and making two-sided printing the default (not standard practice everywhere, yet). Some were good ideas that are impractical, like shutting off lights at the end of the day when many offices do not have individual light switches, or setting a common temperature that would keep people from using private heaters or fans. Suggestions for new applications of electronic reporting, improved contracting, consolidated data systems, and one-stop small business centers were incorporated in the analysis, though not all of them have recommendations in this report. NC GEAR will continue to seek and develop ideas that put the customer first.
Section 4. Specific Recommendations
Implement and Monitor Reforms

Background
Government reform should be a continuous process of identification, development, implementation, and assessment. The NC GEAR team considered hundreds of ideas, but fewer than 50 have made it through the prioritization process for implementation or inclusion in the biennial budget. A continuation of the NC GEAR effort is required to ensure successful implementation of these items and to evaluate backlogged ideas. A standing institution could also build stronger ties within state government and to outside groups with a shared interest in improved government performance, such as the Pew-MacArthur Results First Initiative.

Description
A permanent staff would have a team to develop and implement new ideas and a team to evaluate the initiatives already underway. The Office of State Budget and Management (OSBM) would continue to be an appropriate home for this group as it incorporates reforms into budget recommendations. State law also gives OSBM sufficient authority to obtain information from agencies throughout the executive, judicial, and legislative branches.

Budget Impact

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Expected Outcome
Institutionalizing the NC GEAR initiative in OSBM would accelerate the adoption of worthwhile reforms and more rapid iterations of programs until they can become successful.

NPV: -$4.6 million
Benefit/Cost Ratio: n/a

Measures
Number of recommendations implemented
Net benefits compared to expectations
Employee/Taxpayer Satisfaction
**Ensure Grants are Strategic**

**Background**
The most recent single audit shows that the state receives $22 billion in federal grant funding. Each new federal grant induces additional state spending, imposes limitations on how those state dollars can be spent, and introduces risk that mismanagement will have negative effects on existing federal grants. Agencies seek assistance to manage their grant portfolios from application through disbursement and reporting.

**Description**
The State would coordinate grant writing and administration in a central grants management function. The function would bring together resources to provide training, share best practices, and seek solutions to common challenges and it would be housed in the Office of State Budget and Management.

**Budget Impact**

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**Expected Outcome**
A central grants management function could expand training opportunities, improve financial management, and align grant applications with state priorities. Understanding how federal grants interact could also enhance North Carolina’s ability to get waivers or other freedoms to pursue reforms. Massachusetts was able to reduce the number of audit findings per dollar after it adopted a grants office.

NPV: -$372 thousand

Benefit/Cost Ratio: n/a

**Measures**
Audit findings per dollar of federal grants
Total federal grant dollars
Grant application success rate
Manage Cultural and Natural Attractions Together

Background
State parks, historic sites, museums, aquariums, and the zoo share the goal of providing worthwhile experiences for their visitors. Leadership in the agencies responsible for managing these resources have regularly shared ideas across IT, marketing, contracts, and operations, but could gain from more direct interaction, shared resources, and shared focus on visitation, education, and private funding. Within the Department of Environment and Natural Resources (DENR), energy and environmental protection have needed more strategic focus in recent years, eclipsing management of state attractions.

Description
The expanded Department of Cultural Resources (DCR) would absorb the state zoo, aquariums, natural science museums, and parks system to provide collaborative management of all state attractions. This would allow DENR to focus on strategic efforts within its core mission of energy and the environment. In conjunction with this reorganization, there is opportunity to pursue exemption from rulemaking already provided to Department of Cultural Resources for these other state attractions. This exemption provides state attractions management flexibility to generate additional revenues with dynamic pricing, promotions, and seasonal hours.

DCR will continue to focus on opportunities for increasing private support, including donor development, and new revenue streams. The financials are based on implementation of these initiatives.

Budget Impact

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Expected Outcome
This realignment should enhance the pricing, marketing, donor development, and operational strategies each agency is already undertaking and coordination of efforts across the state’s cultural, historical, and natural attractions. Visitation should increase across sites and revenues from private sources should provide a larger share of support.

NPV: $41.2 million
Benefit/Cost Ratio: $13.43

Measures
Number of visitors
Net revenue generated
Customer satisfaction
Elevate Coordination of Military and Veterans' Programs

Background
The Department of Administration (DOA) is home to a number of internal state services and other functions such as veterans affairs, advocacy efforts, and nonpublic education. Effectiveness of the varying functions could be improved through reorganization.

North Carolina is one of only four states to have more than 100,000 active-duty military personnel and is also home to 770,000 veterans. Governor McCrory has stated his priority to make our favorable environment for active-duty military carry through to veterans, but the current government structure has not brought about necessary coordination of veterans’ programs.

State property, fleet, contracting and other internal services have improved their capabilities in the past two years, but would benefit from closer coordination with the Office of State Budget and Management.

Description
The Department of Military and Veterans’ Affairs would become a Cabinet-level agency unifying the Military Affairs Commission and Adviser roles with the Division of Veterans' Affairs to coordinate programs for active military, veterans, and their families, with support coming from the Department of Administration. The remaining advocacy groups would move to the Governor’s Office, and the operating sections would remain in place, with potential for a later consolidation with the Office of State Budget and Management pending further analysis. The Lobbyist Registration function of the Secretary of State would be brought into the State Ethics Commission.

Budget Impact

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Expected Outcome
This realignment will improve execution of state functions for key populations and state employees. The Secretary for Military and Veterans' Affairs would be able to coordinate with other Cabinet members as a peer. Without the advocacy functions, the Secretary of Administration could provide greater attention to the core support functions and coordinate with OSBM.

NPV: n/a Benefit/Cost Ratio: n/a

Measures
Improved service to veterans
Administrative savings in advocacy activities
Number of veterans served
Enforce Standards for Pet Breeders

Background
The Animal Welfare Section of the Department of Agriculture and Consumer Services currently operates without a statewide registry of pet breeders. Standards currently lag behind those of USDA and neighboring states. Restructuring the Animal Welfare Section and requiring registration will ensure that pet breeding businesses operate humane, healthy facilities; protecting customers’ safety and animal welfare.

Description
The Animal Welfare Section would transfer from the Department of Agriculture and Consumer Services to the Department of Public Safety where it would be a function of law enforcement. The transfer would be accompanied by greater oversight of pet breeders, with a year of transition for breeders to register their businesses. Funding would also be provided for local communities to offer spay and neuter services, ensuring that pet owners have ample resources.

Budget Impact

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Expected Outcome
Registering pet breeders would allow statewide enforcement of animal welfare laws. Pet owners would be better protected by ensuring animals sold by breeders are raised in healthy conditions, and animals would be protected by enforcement of humane standards for breeding facilities.

NPV: -$ 1.4 million
Benefit/Cost Ratio: n/a

Measures
Number of pet breeders registered
Number of animals / breeder
Number of inspections
Enhance Debt Collection Efforts

Background
North Carolina state government coordinates with the U.S. Treasury Department to collect three kinds of debt: Overdue income taxes, unpaid child support, and unemployment insurance overpayments. Under these Treasury Offset Programs, when a person owes money to the State, but is expecting payment from the federal government, that federal payment is diverted from the individual to the State. Local governments have similar agreements with the State to recover debts owed for services, such as medical care at UNC Hospital. A handful of other states operate a fourth type of Treasury Offset Program with the federal government, called a state reciprocal program, to recover debts owed by companies that have a contract with the federal government, and vice versa.

Description
The U.S. Treasury Department would require some minor changes in North Carolina General Statutes before it will coordinate implementation of a state reciprocal program. The program itself would start with the federal government offsetting state debts against payments. Then the State would begin to offset federal debts against its payments. Some states have put the program into place utilizing contractors and some as a state function. North Carolina operates its three current programs through the three agencies directly involved with each of these types of debt, which are Department of Revenue, DHHS, and Commerce. If the State used an outside vendor, the company could take its payment as a share of state collections.

Budget Impact

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Expected Outcome
The State should improve its debt collection through participation in a state reciprocal program, garnering revenue that would otherwise go uncollected.

NPV: $38.0 million  Benefit/Cost Ratio: 5.10

Measures
Gross collections
Cost of collections
Budget Funds Clearly and Transparently

Background
North Carolina state government currently has a number of budget policies and procedures that are not in line with practice in other states and that can hinder sound budget planning and management practices. There is no incentive for agencies to identify efficiencies and savings or reflect certain items accurately in the budget. For example, the State currently budgets the full cost for salary and benefits of every position, even though a percentage of those funds will go unused due to standard turnover rates. Unused funds are used for different purposes by each agency, typically to address unbudgeted needs (e.g., workers’ compensation or overtime pay) or to meet year-end reversion targets. Agency budgets are controlled by the Office of State Budget and Management (OSBM) at a very granular level, resulting in a significant transactional burden. Budget practices also make it difficult to identify accurate program costs for purposes of comparing alternative models or determining benefit/cost estimates.

Description
Further review of current policies against other states' practices would identify opportunities to streamline processes. The NC GEAR team and Deloitte Consulting together developed common standards for estimating current and projected costs that will be further developed and incorporated into future analysis. Salaries should be budgeted according to actual spending history, which would provide more accurate agency budgets. Underfunded items traditionally paid with lapsed salary will need to be adjusted in conjunction with this change. To incentivize savings, agencies should also be able to carry a portion of their savings into the next fiscal year, rather than revert the full amount and risk lower appropriations in the future.

Budget Impact

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Expected Outcome
Streamlined processes will allow agency and OSBM analysts to direct more time towards higher value activities, such as analysis, monitoring and forecasting. Budgets will more accurately present requirements and allow decision-makers to plan and monitor more effectively. Allowing agencies to retain a share of savings will incentivize efficiencies and ultimately increase savings to the State.

NPV: $63.1 million  Benefit/Cost Ratio: n/a

Measures
Accuracy of certified budget
Percent of salary realigned
Agency identified savings
Budget Funds Strategically

Background
Taxpayers and policymakers want to make sure state government is a good steward of the resources with which it is entrusted. Names and methods have changed over the years (zero-based budgeting, results based budgeting, program budgeting) but the purpose has been to match spending to outcomes and use those outcomes to inform decision-making. North Carolina has reintroduced requirements for strategic planning and has been working to align agency programs with budget and performance. These efforts provide the framework necessary for continually assessing programs on alignment with strategic goals and ability to achieve results.

Description
The current iteration of strategic planning and program budgeting is designed to ask the right questions, not simply to report data. --What is the mission of the organization? What goals has it set related to the mission? Are they the right goals? How does it measure progress toward those goals? How does the spending in question accomplish those goals? --The effort has focused on presenting budget and performance information in a format that better serves the needs of decision-makers and the public. With this framework in place, efforts can focus on integrating this information into day-to-day management and decision-making.

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Expected Outcome
As Program Budgeting takes hold, agencies should be able to target resources more effectively within and across programs. Performance information and other data can be more widely used to inform budget and management decisions.

NPV: -$150 thousand
Benefit/Cost Ratio: n/a

Measures
Percent of programs reviewed by OSBM
Percent of programs regularly tracking and using performance data
Percent of agency budget requests aligned to strategic priorities
Privatize State Motor Pool

Background
Using state vehicles for a short time to get across the state is a common source of frustration for employees who need them. It is also questionable whether providing vehicles in this manner is a core function for state government. The Department of Administration (DOA) already has contracts with for-profit rental companies for some vehicle needs. The Department has reduced the number of vehicles in the motor pool by two-fifths, including more than half of its SUVs, generating $190,000 in revenue. It has also added a key drop for after-hours vehicle returns, though the change is not widely known.

Description
The Department of Administration would outsource short-term vehicle rental services to eliminate a line of business that is not core to the State’s objectives. Contracting the service eliminates a large fixed cost and controls variable costs. Bundling vehicle maintenance and replacement costs, website upgrades, and roadside service into a single contract provides greater predictability over time.

Budget Impact

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Expected Outcome
Moving to a completely outsourced model would generate $350,000 in receipts from sale of the remaining motor pool vehicles. With a larger volume of business, the State could renegotiate favorable terms with rental companies and potentially add an hourly rental option to reduce the need for long-term assigned vehicles. Outsourcing could cost $100,000 more per year than the current system, but would improve convenience and service level predictability. It would also free a portion of the state-owned land on Blue Ridge Road in Raleigh, facilitating eventual sale for private development.

NPV: $59 thousand  
Benefit/Cost Ratio: n/a

Measures
Service utilization
Service complaints
Charge Appropriately for Motor Fleet

Background
The Department of Administration (DOA) owns 6,576 vehicles that are permanently assigned to agencies. North Carolina statute requires that all state vehicles be utilized 3,150 miles per quarter for an annual total of 12,600 miles. Only 40 percent of the agency-assigned fleet was utilized to its required capacity in FY2013-14. This is reflected in low fuel usage. In the first seven months of 2014, 75 percent of fleet vehicles were never refueled. Management of the motor fleet represents a large fixed cost for the State. The annual cost could be reduced if all vehicles were efficiently utilized and unnecessary vehicles were sold. Agencies should be incentivized to meet utilization standards through fees paid for the use of motor fleet vehicles. In order for agency budgets to reflect the real cost of owning and operating motor fleet vehicles, it is necessary to update the motor fleet rate structure and impose an appropriate minimum charge.

Description
Each month, agencies would be charged an appropriate minimum mileage rate that adequately accounts for the cost of ownership and maintenance and supports a reasonable replacement schedule. The rate per mile would be studied and adjusted within the fiscal year, in order to index the rate to fuel prices and vehicle miles-per-gallon standards. Motor fleet vehicles driven more than the minimum miles per month would be charged the mileage rate on their total mileage, which is no change from the current policy.

Budget Impact

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Expected Outcome
Charging agencies an appropriate rate ensures that the real cost of owning and operating each vehicle is reflected in the budget. The new policy allows agencies to decide how best to utilize resources to meet their mission. It is likely that agencies could seize upon efficiencies and relinquish some vehicles over time. Based on historical utilization data, NC GEAR analysis conservatively estimates that 750 motor fleet vehicles could be relinquished by agencies.

NPV: $18.4 million
Benefit/Cost Ratio: n/a

Measures
Average vehicle miles driven
Average unit cost of motor fleet vehicles
Total size of state motor fleet
Register Deaths Faster and More Accurately

Background
North Carolina is one of only six states that processes the official record of death manually instead of with an Electronic Death Registration System (EDRS). Registering deaths is one of the core functions of state government. The State’s lack of an electronic system increases the risk of fraud or federal sanctions and leaves families in limbo without an official record of death.

Description
The Department of Health and Human Services (DHHS) has been pursuing an electronic death registration system for more than two years. NC GEAR and DHHS leadership agreed on the business case for a new system and the efficiencies that would result from implementation. Once implemented, the Vital Records Unit will turn its attention to the digitization of historic documents.

Budget Impact

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Expected Outcome
An Electronic Death Registration System will ensure the State meets federal reporting guidelines without imposing delays on families. The State should be able to obtain efficiencies within Vital Records once it has electronic registration of births and deaths.

NPV: -$662 thousand  Benefit/Cost Ratio: n/a

Measures
Time to process a death registration
Transaction cost to process a death registration
Death registrations per FTE
Increase Efficiency of Human Resource Management

Background
Human resources policies and practices vary across agencies. Basic costs, like workers’ compensation, have not been actively managed. Multiple insurance committees have negotiated benefits for subsets of employees across state government, forgoing the economies of scales that can be attained by a 70,000-person organization. HR professionals within the agencies work with as few as 48 employees and as many as 282. Across such a wide span, it is not surprising that HR professionals' salaries also vary widely.

Description
Three reforms within the Human Resources function would produce greater efficiencies and better customer service: reduce workers' compensation costs through a consolidated reporting relationship and an overall improvement in case management to protect against abuse and fraud; consolidate agency insurance committees to leverage the buying power of all state government rather than an individual agency; define a new HR Service Delivery Model to standardize and streamline HR processes.

Budget Impact

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Expected Outcome
With workers' compensation reform, the state will realize a significant cost avoidance in future compensation payments, and with a consolidation of the agency insurance committees, employees will see a reduction in their insurance premiums. A new HR Service Delivery Model will streamline and standardize HR practices and allow agency HR professionals to focus on agency specific personnel needs.

NPV: $135.6 million  Benefit/Cost Ratio: $9.40

Measures
Process times for HR actions
Percent change in workers’ compensation payments
Cost of employee insurance premiums for supplemental insurance products
Make State Government Easier for Citizens and Businesses to Navigate

Background
Thousands of individuals, parents, and businesses look to contact various state agencies on a daily basis to resolve their questions, understand state requirements, or learn about available programs. Ultimately, they may have to maneuver through several agency service desks, call centers, or websites to obtain the information needed. Hunters and fishers waste time and money because they do not know they can get licenses online. Entrepreneurs face challenges navigating how to register their business and file taxes. Parents do not know the services available for their children prior to kindergarten. These are just a few examples of areas where North Carolina can improve the experience of citizens and businesses interacting with the State.

Description
NC GEAR is working with partners throughout state government, including the Office of the State Chief Information Officer, to improve the licensing, permitting, and informational services available. The work so far has focused on understanding who would use the services and how. It coincides with the overall effort to unify the look and feel of state government’s web presence. Next steps will focus on improving the user experience, building a knowledge base, preparing answers to frequently asked questions, and coordinating agency business processes to operate across state government. These steps will inform how the State designs web and call center infrastructure to more effectively serve citizens and businesses.

Budget Impact

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Expected Outcome
By thinking through the State’s contact points from the customer’s perspective, agencies should be able to more effectively provide information and resources in a seamless, efficient manner.

NPV: n/a
Benefit/Cost Ratio: n/a

Measures
Customer Satisfaction
Transaction costs
Licenses processed online
Leverage Buying Power for School Districts

Background
There are 115 school district, or local education agencies (LEAs), in North Carolina. Each one has its own administration, funds its own support services, and manages its own purchasing processes and contracts, along with all the other functions needed to support a self-sustaining agency. On a per-student basis, administrative and support costs are higher for smaller districts in the state. However, the autonomy of all the districts causes efficiency improvements to be challenging. LEAs are exempted from a requirement to use statewide contracts for all purchases, so many choose to purchase outside of state contracts. This results in increased costs for both the LEA and the State due to a loss in purchasing power. Significant savings can be realized in these areas through the use of shared services and strategic sourcing.

Description
The State has already undertaken a strategic sourcing effort that is projected to save agencies $32 million over three years in food, maintenance, laboratory, and office supplies. LEAs should leverage this effort at no additional implementation cost and realize significant savings from utilizing state contracts for all purchases. Estimated savings based on strategic sourcing programs in other state school systems is $15-20 million annually. Additional savings can be realized by establishing regional or statewide shared services for support functions (e.g., administration/finance, janitorial/facilities, IT, procurement, security, transportation and nutrition services), similar to existing efforts in professional development and technology. The State should also assess opportunities for merging administrative functions of LEAs to realize additional efficiencies.

Budget Impact

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Expected Outcome
Savings in administrative costs will allow for a greater share of state and local education funding to be directed to students and programs. Integrated service hubs developed with leading practices will provide support services more efficiently and consistently.

NPV: $170.5 million
Benefit/Cost Ratio: $226.52

Measures
Administrative cost per student
Percent savings in purchasing
Maximize Efficiency of State Property

Background
Older state-owned facilities have had their maintenance and repair needs neglected in favor of new facilities and ongoing operations. The average annual spending on maintenance for state-owned buildings is less than five percent of what is needed. Instead of contributing to the value of surrounding areas, they detract from their settings. State government needs a new model for owning and operating properties.

Description
The State must address the maintenance of existing real estate and planning for future real estate. Facilities maintenance would be reorganized to provide necessary statewide service for all agencies at a fixed cost per year. The reorganization would allow for the average cost of facilities management to be reduced, while service levels would rise due to reliable funding of needed repairs. Planning for the future of real estate must consider the full cost of ownership for each facility. New buildings would be budgeted based on a lifecycle cost structure that considers not only building costs, but ongoing costs of ownership. Existing buildings’ repair budgets would be based on lifecycle cost that weighs all options for each facility, including repair, rebuild, and lease.

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Expected Outcome
The State can improve the value of its portfolio with proper facilities maintenance and a firm accounting of facility lifecycle costs. Agencies will be able to make strategic investments in real estate, rather than relying on short-term fixes and unpredictable funding. These adjustments will allow the State to maintain facilities to the standards of its neighbors and citizens.

NPV: $33.1 million					 Benefit/Cost Ratio: $13.10

Measures
Average cost of facilities maintenance per square foot
Service-level agreements in place and fulfilled
Facilities condition grades (Office space class, etc.)
Require All Agencies to Pay Rent and Utilities

Background
The Department of Administration (DOA) manages 4.6 million square feet of state-owned building space that is occupied by multiple state agencies in and around Raleigh. Most agencies do not pay for rent or utilities, and most of the funds for maintenance and operation of facilities are directly appropriated to DOA. Under this model, agencies have no incentive to efficiently use space. The average space allocated per person is 320 square feet, versus the industry standard of 155 square feet. Meanwhile, facilities are not adequately maintained. The estimated backlog for deferred maintenance is approximately $3.9 billion.

Description
The State would transition to a rent-based funding model for state-owned facilities. This would likely require additional funds for agencies to pay rent at a level comparable with market rates in the Raleigh area, and a transition can be phased in over time. For the first phase, the existing budget for DOA Facilities Management, State Property and State Construction ($33.8 million GF appropriation) could be allocated to agencies based on their current share of space. Funds would be used by agencies to pay rent to DOA.

DOA and OSBM should then establish rental rates based on market prices for comparable space and develop a schedule for phasing-in new rates by building funds into agency budgets. This approach will also allow the State to leverage federal funds to cover a portion of the costs.

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Expected Outcome
Agencies will be incentivized to more efficiently use space and utilities. As agencies identify and relinquish unneeded space, the State can rationalize utilization and sell excess property. Once rental rates are brought in line with market prices, more adequate funding should be available for DOA to support reasonable service levels of facilities maintenance.

NPV: n/a          Benefit/Cost Ratio: n/a

Measures
Square footage per person
Deferred maintenance backlog
Reduce Barriers to Work from Occupational Licensing

Background
A January 2015 Brookings paper estimated that 3 in 10 jobs requires an occupational license, and that licensure burdens have cost the nation 2.85 million jobs and $203 billion. North Carolina imposes more stringent requirements than most other states and many limitations do not match the public safety risk occupations pose. North Carolina is among a minority of states with licensing requirements for at least nine occupations. Restrictions on other occupations can be loosened to allow greater participation in the workforce and greater availability of affordable services to consumers.

Description
NC GEAR proposes immediate elimination of occupational licensing requirements that do not provide value to North Carolina citizens. Eliminated licenses would include opticians, locksmiths, natural hair stylists (aka, hair braiders), landscape contractors, soil scientists, and others. Within the fiscal year, the Office of State Budget and Management (OSBM) would conduct a full review of occupational licenses and licensing boards to identify additional licensing requirements that could be eliminated, consolidated, or deregulated.

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Expected Outcome
Businesses and potential business owners would find it easier to start work. Consumers would benefit from lower prices and increased service provision. Taking steps to make operating a business more feasible and affordable will benefit all North Carolinians through economic growth.

NPV: n/a
Benefit/Cost Ratio: n/a

Measures
Number of state-licensed occupations
Cost of licensure
Evaluate Economic Development Incentives

Background
There is no ongoing review of the State’s return on investment for economic development incentives. State programs provide incentives through appropriated funds and tax breaks totaling hundreds of millions of dollars annually. The 2012 Economic Development Inventory found 45 separate appropriation-supported economic development incentive funds. Annual review of the programs’ efficacy is necessary to ensure that the State makes prudent investments now and in the future. Similarly, review of incentive programs’ geographic impact can inform policies intended to aide economically depressed areas.

Description
The Office of State Budget and Management (OSBM) would catalog and analyze all economic development incentive programs awarded by the State annually. It would calculate return on investment, net present value and determine geographic distribution of programs’ benefits. The resulting report would be made available to the public. State leaders would be able to utilize this report to inform future investments and to divest from programs that do not produce results.

Budget Impact

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Expected Outcome
The annual OSBM report would allow taxpayers, businesses and leaders to objectively examine results of the State’s economic development incentive programs. Resulting decisions would be better informed and would likely reduce spending for programs that do not produce results. A five percent shift would redirect $5 million to more productive uses.

| NPV: $20.6 million | Benefit/Cost Ratio: n/a |

Measures
Economic return of incentives
Distribution of incentives
Continue to Improve Unemployment Insurance Integrity

Background
To detect and prevent unemployment insurance fraud, the Division of Employment Security (DES) matches claims with tax records, matches companies against other state databases, requires in-person interviews for claimants, and investigates reports of fraud it receives. Despite the success of these efforts, North Carolina had one of the highest rates of improper payments in the most recent data available. DES is coordinating with other states on data standards as it prepares to replace its 35-year-old software.

Description
Predictive analytics tools help to identify potential problems before the state pays a claim. DES can build on its work with the Government Data Analytics Center to enhance its capabilities in this area, or it can seek new vendors.

Budget Impact

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Expected Outcome
Improved software and better analytics should give DES greater ability to identify and prevent potential improper payments and to recover improper payments sooner. Based on the most recent data, reporting through March 2014, the State could reduce overpayments by $22 million per year.

NPV: $99.5 million  
Benefit/Cost Ratio: $37.57

Measures
Overpayments
Recoveries
Improper Payment Rate
Prioritize Child Support Payments to the Most Vulnerable

Background
Counties administer North Carolina’s child support enforcement in coordination with the Department of Health and Human Services (DHHS), which administers federal incentive funds to counties. DHHS and the General Assembly’s Program Evaluation Division (PED) agree that the State’s first priority should be the formula for allocating incentives to counties, ahead of a new performance management system.

Description
A new formula for incentive funds could redirect county efforts to prioritize child support payments that would reduce families’ dependence on state programs. Following PED’s recommendation, DHHS would distribute 75 percent of incentives according to the formula and keep 15 percent for IT and assistance for local staff, with 10 percent as bonus payments to counties that meet or exceed their goals. Aligning rewards with results would make implementation of a performance management system more productive.

Budget Impact

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Expected Outcome
Focusing incentives on support to vulnerable families will have a significant improvement where it is most needed and reduce state spending on other support programs.

NPV: n/a  Benefit/Cost Ratio: n/a

Measures
Revise incentive formula by September 2013
Child support collections
Reduced payments from other programs
Ensure Strategic Value of Boards and Commissions

Background
In addition to 76 boards that oversee institutions of higher education and more than 50 occupational licensing or registration boards, North Carolina has about 200 boards and commissions to make or enforce policy. Independent policymaking entities diffuse responsibility and accountability for decisions. Advisory boards can provide context for policy decisions and connections to affected communities, but can also raise expectations or set bad relationships. Standing commissions and boards can provide an appearance of action, even if no action is taken.

Description
Any commission more than five years old, not explicitly mentioned in the state constitution, should have its mission reviewed for relevance; its activities and outcomes reviewed against its mission.

Budget Impact

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Expected Outcome
A review should identify boards and commissions to eliminate or merge by January 1, 2016, with a reduction of 50 percent in effect by July 1, 2017.

NPV: $2.8 million  Benefit/Cost Ratio: $6.83

Measures
Total number of commissions and boards
Change from previous year
Administrative cost per board
Assess Value of Certain Assets

Background
Jennette’s Pier in Nags Head, Wanchese Seafood Industrial Park, the Ports Authority, Global TransPark, NC Railroad, and the interstate welcome centers have been frequent subjects of speculation. The State’s investments to date and the cost to replace each asset are clear enough, but it is not as clear what they can contribute without further investment or what additional benefits would accrue with further investment. If policymakers had a sense of the market value and alternative scenarios, they could make better-informed decisions.

Description
State leadership would benefit from a solid analysis of the commercial value of the ports, railroad and Global TransPark to provide structure to the 25-year infrastructure vision. Such an analysis would put reasonable probabilities on specific actions and outcomes, such as the likelihood of getting a private partner for investments or the expected return on planned investments in Wilmington. The analysis should consider each asset independently and the interplay among the ports, rail, and GTP. Similar valuations should be obtained for the Wanchese Seafood Industrial Park, Jennette’s Pier, and the visitor and welcome centers around the state. Valuations could be done within six months after a competitive bidding process.

Budget Impact

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Expected Outcome
Financial analysis will provide a common basis to evaluate alternatives. In the end, the decision will depend on the perceived strategic value of government participation in this aspect of the economy, but at least it will be informed by an objective numerical assessment.

NPV: n/a
Benefit/Cost Ratio: n/a

Measures
Replacement value
Market value
NPV of investment alternatives
Section 5. Ideation Sessions

There were six half-day “ideation sessions,” each designed to explore a topic, set a direction, and assign action steps. These sessions brought together state government staff involved in that area of work, Deloitte Consulting subject experts, and other experts. The most important sessions were the first, on the security of state information and networks, and one that was not held, on fostering a dynamically resilient economy in North Carolina. Other sessions were on the budget and finance functions of state government, the potential value of pay for success initiatives, construction and maintenance of state facilities, and non-salary benefits for state employees. Deloitte also provided assistance to a two-day session led by the Office of State Human Resources on the future organization of HR functions.

Cybersecurity: 7/21/2014

Deloitte and the Office of the State Chief Information Officer (SCIO) held a cross-agency working session to capture examples of current challenges related to security management and to explore potential changes to State IT policies and procedures. Participants included the Office of Information Technology Services (OITS), a range of Cabinet agencies, and the Office of State Budget and Management (OSBM). Subject matter experts from Deloitte provided examples of issues experienced by other states and the steps they took to address them. Suggestions that were made as a result of this session include additional training opportunities for state employees to increase their awareness about cybersecurity. Participants also reinforced the need to establish a single ID for all state networks and applications.

Budget and Finance: 8/22/2014

North Carolina has significant checks and balances built into its financial management organization. The State Treasurer is a constitutional office elected every four years, the State Controller is appointed by the governor and approved by the General Assembly, the Secretary of Revenue runs a Cabinet-level agency, and the Office of State Budget and Management (OSBM) is directly under the Governor’s Office. The constitutionally-created State Auditor is also elected and provides an outside check on dollars collected and spent by the rest of state government.

Although there are longstanding recommendations to consolidate some or all of these functions in a single Department of Finance, the financial management agencies generally work well together and the focus of agency chief financial officers (CFOs) was on the difficulty of working across multiple financial software systems. Some agencies use ten different systems, including Excel spreadsheets and paper documents, to manage transactions. They take significant time re-entering data from different sources to analyze and revise their budgets. Most people involved in budgeting and financial management agree
they spend too much time working on transactions and not enough time developing and implementing strategic improvements.

NC GEAR and Deloitte brought together a range of budget and financial professionals from across the Cabinet and Council of State, OSBM, and the Office of the State Controller for this session. Recommendations focused on strategic budget planning, financial and budget system training, and replacing the North Carolina Accounting System (NCAS) with financial enterprise resource planning (ERP) software.

**State Property: 8/27/2014**

A session brought together Cabinet agencies, Department of Administration leaders, the Governor’s Office, OSBM, and Deloitte to discuss practical ways to meet the State’s physical infrastructure needs. Focus of the sessions landed on needs for centralized information on facility availability, lifecycle budgeting for the state-owned buildings, and reliable repair and renovation funding. The session was followed by a two-day workshop with the National Governors’ Association discussing next steps for public-private partnerships in building and maintaining state facilities.

Next steps are underway. Project Phoenix was announced as a priority for 2015, and the Department of Administration issued a request for proposals (RFP) for a market assessment of all state-owned property. OSBM and NC GEAR are working to gather information on the total cost of ownership of state property – what it is and what it should be – including square feet per employee, energy costs, and maintenance costs. Without this accounting, the State cannot accurately compare the lifecycle costs of state-owned buildings to a public-private partnership or a lease.

**Employee Benefits: 9/22/2014**

State employee compensation was a top concern across all agencies. State employees have had only two formal pay increases in the past six years. Over the same period, insurance premiums for their dependents have climbed 25 percent (from $450 to $563 per month for the basic 70/30 plan) and they now pay up to $64 a month for their own insurance, if they opt for higher benefits, after years of receiving free coverage. Long-term obligations for the State to cover promised pension and health care benefits to retirees total $92 billion, with $29 billion unfunded.

One fourth of the state workforce is within five years of eligibility for retirement. Replacing the skills and knowledge lost with those retirements will be a challenge that requires an evaluation of the state government workforce, recruiting and retention.

In the private sector, salary accounts for 71 percent of compensation, but it is just 66 percent for state employees. The main difference is in the delayed compensation of paid leave, which accounts for 11.2 percent of state employee’s compensation compared to 7.2 percent of average compensation.

Participants from the Office of State Human Resources (OSHR) and the health and pension plans agreed that they needed to do a better job communicating the full value of compensation in all its forms, or Total Rewards, to state employees. The pension plan already provides an annual statement of fund
performance to state employees, and OSHR reports annually on compensation. From the session, they planned to work together to build a Total Rewards statement for state employees.

A significant portion of the session focused on ways to provide greater quality and price transparency in the health plan. The State Health Plan has been asked by the General Assembly to explore such an effort and Deloitte provided an example of how Minnesota rewarded providers for high quality, low cost care.

There was some discussion that a defined benefit pension plan is valued by mid-career professionals looking for more security and better work-life balance. Pension system representatives described their desire to have higher contributions to the optional 401k-style supplemental retirement plan. They feel that greater acceptance of this option is important to a successful transition to a full defined-contribution retirement plan. On the other hand, the University System’s optional retirement system, which replaces the traditional pension, has expanded to non-faculty. Teachers also see value in having the option to participate in a defined contribution plan.

Moving to a defined contribution plan would also provide predictability for state government appropriations while revenues are in flux.

**HR: 9/23-24/2014**

The OSHR presented the results of its work with Deloitte to HR Directors throughout state government on September 23 and 24, 2014. Deloitte provided facilitators to help guide the discussion to define the vision for the State to achieve more effective human resource management across all agencies. Forty participants in three teams developed plans to improve transactional processes, communications, and training for HR professionals. The resulting recommendations will be incorporated into a new Service Delivery Model for the HR function across state government.

**Pay for Success: 8/19/2014**

The first Social Impact Bond was created in 2010 in the United Kingdom. A paper the following year by the Center for American Progress introduced the concept to policy entrepreneurs in the US. Since 2011 Utah, South Carolina, New York, and other cities and states across the country have adopted Social Impact Bonds, also called Pay for Success contracts, to improve performance or expand successful programs in adult and juvenile corrections, pre-kindergarten, and early childhood family supports.

Private investors provide the initial funds to a non-profit organization for a social program that has proven to generate more savings to government than it costs. An outside organization tracks the results. If the program meets its targets, the government makes a payment that returns the initial capital plus a premium to the investors. The government then has an option to undertake another round or to take responsibility for continued operation and possible expansion of the program.

In August, NC GEAR brought together representatives from the Governor’s Office, Cabinet agencies, and private sector investors in previous Pay for Success contracts to explore the potential in North Carolina with Deloitte’s Jitinder Kohli, one of the pioneers in this area. The discussion focused on problems with current contracting procedures, areas where Pay for Success could work, technical support available, next steps if the State were to proceed, and how to apply similar practices to other state contracts.
NC GEAR also explored other methods to improve performance assessment of government programs – randomized controlled trials (RCTs), the Results First Initiative led by the Pew Charitable Trusts and the MacArthur Foundation, and implementation of OSBM-developed strategic planning and program budget tools. Deloitte developed a business case on contract monitoring and management based in part on the results of this session. This discussion also provided impetus for a more coordinated system of performance measurement and financing across state government.

Economic Dynamism: forthcoming
In the past 30 years fewer new companies have been born in North Carolina and fewer existing companies have closed, with the company creation rate falling faster. This leaves companies that have been around facing less risk of disruption from new firms. A resilient economy depends on a steady replacement of old companies with new ones. This session will bring representatives of local government, Cabinet agencies, and the Governor’s Office together with nonprofits to focus on different models of government involvement in the economy – “economic gardening,” entrepreneurial zones, and ways to ease the regulatory burden on young companies – that could supplement traditional targeted economic incentives. The very term “economic dynamism” is still being defined and policy prescriptions differ with the underlying diagnoses of the problems. We look forward to further developments among policy entrepreneurs in this area. NC GEAR will put together a session on this evolving topic in the near future.
Section 6. Supplemental work

IT Restructuring
In the Appropriations Act of 2013, the General Assembly directed the State Chief Information Officer (CIO) to “develop a plan to restructure the State’s IT operations for the most effective and efficient utilization of resources and capabilities” and report the findings to the Joint Legislative Oversight Committee on Information Technology. IT restructuring was already part of the scope of work for Deloitte within the NC GEAR initiative, so this legislative mandate provided an opportunity to dedicate additional resources to a critical need without diverting from other goals.

Deloitte recommended that the State move from the current decentralized IT structure to a unified model that creates a clear, single source of authority and accountability over the State’s IT resources. The new unified model is expected to improve citizen satisfaction, increase efficiency, reduce complexity, and improve the State’s ability to recruit, retain and reward IT talent. A unified structure has been proven to realize benefits and savings more quickly than other models.

The Office of the State CIO recommended in December of 2014 that the General Assembly create a cabinet-level Department of Information Technology for improved IT management, governance, and oversight of technology projects. OSBM is considering central funding of IT projects in a process similar to the one used by the State to pay for physical capital needs with the Repair and Renovation Fund.

Enterprise Resource Planning (ERP) System
During the early stages of the NC GEAR engagement, it became clear that state government agencies and policy makers cannot easily access a comprehensive view of important information they need to manage their operations efficiently. Agency financial and operating officers have to manually combine data from the North Carolina Accounting System (NCAS), the State’s 30 year-old core financial system. They also have to access multiple systems, including two budget systems and two fleet management systems, to piece together an understanding of their agencies’ spending and finances.

The State began implementing an Enterprise Resource Planning (ERP) system eight years ago when BEACON was implemented to provide a solution for human resources. Further deployment of the ERP system was planned, however with the economic downturn in 2008, funding for the implementation was no longer available. After multiple unsuccessful efforts to create an ERP system, the General Assembly in 2014 called for “the State Chief Information Officer, in conjunction with the North Carolina Government Efficiency and Reform Initiative (NC GEAR) and the State Controller, to develop a strategic implementation plan for a statewide ERP.”

Deloitte collaborated with 26 state agencies that use NCAS to understand what functions would be needed and when. The projected implementation plan would cost $300 million over seven years, with the RFP process beginning in April of 2015. Two-thirds of the cost would be dedicated to business process improvement, staff, and facilities with the remaining one-third used to implement the technology solutions to support the ERP. Under this plan, core financials would replace NCAS would be the first phase of the implementation.
A key consideration related to ERP implementation is how to effectively evaluate and standardize business processes across agencies. Agencies must also work through the challenges associated with continuing to manage operations with existing applications while implementing and adopting the new ERP system. The scope for developing this budgetary plan included all agencies that currently use NCAS for business operations in areas such as core financials, grants management, asset and fleet management, and human resources.

**Temporary Solutions**
The General Assembly directed OSHR to evaluate the Temporary Solutions organization to determine the value to state government. OSHR worked closely with the NC GEAR team and the Deloitte consultants to develop the report. Part of the report was a customer service survey.

Survey results varied widely especially within agencies that did not regularly access the services provided by Temporary Solutions. Survey results also showed that processes needed to be more efficient and resources better aligned, but the revenue model was sustainable. A recommendation from the report suggested a need to invest surplus revenues into improved technology to enhance performance. There are indications that the demand for temporary services is likely to increase by as much as 50 percent by December 2015. The estimated eight-year cost avoidance total ranges from $22 million to $47 million.

**University Human Resources**
While not mandated by legislation, a joint project of the OSHR, NC GEAR, and the University of North Carolina General Administration (UNC-GA) used Deloitte resources to review HR functions within the university system. Recommendations called for Universities to evaluate the mission and strategy of HR across the system, clarify the role of the UNC-GA Vice President of Human Resources, examine governance of the SPA workforce throughout the University System, and determine opportunities for shared services to create efficiencies across the HR function.
Section 7. Initiatives Underway in Agencies

Introduction
The North Carolina Government Efficiency and Reform program (NCGEAR) is intended to be an ongoing effort across state government to promote efficiency, effectiveness, and customer service. The NC GEAR team provides accountability for this effort by meeting with agency leaders to propose new ideas and to encourage strategic reforms. The NC GEAR team tracks ongoing reforms and reports on results. But the real driver of change in state government comes from the state employees who strive to provide better service.

Current Initiatives
The initiatives described below typify ongoing work throughout state government to improve efficiency, effectiveness, and customer service. These initiatives are catalogued by the NC GEAR team, but were conceived, led and achieved by managers at each agency. Highlighting their efforts and quantifying their success is a part of NC GEAR’s mission to promote continual improvement within state government.

Commercial Driver’s Licenses for Army Veterans
In just over a year, 92 veterans earned commercial driver’s licenses (CDLs) through a program that provides behind-the-wheel experience and links veterans to prospective employers. Participants in the eight-week program complete 283 hours behind the wheel of semi-trucks and 101 hours of classroom training. They receive onsite visits from over forty prospective employers and earn a five-year CDL certification upon completion. The program provides an immediate employment opportunity for soon-to-be-veterans as they complete military service.

“I was nervous, scared and excited,” said retired soldier and program graduate Matt Oliver. “I think there was more weight on my shoulders prior to retirement, because I didn’t have a guarantee after that. [Getting a truck driving job] was such a big relief; it really was. I’m really happy to have a job after my military career.”

The Department of Motor Vehicles, with legislation passed by the General Assembly, partnered with Johnston County Community College, Fayetteville Technical Community College, the Federal Motor Carrier Safety Administration, NC Trucking Association, and the US Army at Fort Bragg to create the Military Truck Driving Training Program. This partnership connects active duty military personnel or their spouses through education and licensing to jobs in private industry. Enrollment in the program has been steady and growing throughout its first year. The partners are planning for future trainings in 2015.

“Soldiers need [resources] to transition to the civilian world,” said program graduate Sergeant Shadya Maldonado. “Having an option like this is really nice.”

NCWorks: An Interagency Collaboration
On June 5, 2014 GE Aviation broke ground on a $150 million expansion of its facility in West Jefferson that would create 105 new jobs by 2017. But the company needed specially trained machinists.
NCWorks brought together a team from the NCWorks Career Center, Wilkes Community College, High Country Workforce Development Board, Ashe County Chamber of Commerce, and Ashe County Economic Development to help. The combined strength of the team brought GE Aviation the talent they needed to successfully expand in one of North Carolina’s rural counties.

“NCWorks has done a lot of great things for us. They came on-site with us, sat in strategy meetings, and helped us decide how we were going to go after the workforce and how to be most effective,” said Kory Wilcox, GE Aviation Human Resource Lead.

The NCWorks team implemented a multi-faceted marketing strategy, detailed screening process, and solutions to train local workers for the new jobs. A few months after GE Aviation and the NCWorks team first met, Wilkes Community College hosted a successful hiring event where almost 300 candidates completed applications, spoke with GE Aviation employees, and learned more about NCWorks services.

GE Aviation is only one example of NCWorks success. Governor McCrory announced creation of NCWorks as a collaborative program in April 2014, joining workforce training programs within the Department of Commerce, Community College System, and Department of Public Instruction. The agencies are working through the NC Workforce Commission to align programs, strengthen customer service and ensure high-quality career pathways. The agencies’ effort is strengthened by the recently completed “1,000 in 100” initiative that sent NCWorks teams to visit 1,000 businesses in 100 counties in 100 days. The Commission has also instituted common performance measures for all state government workforce development programs.

The NCWorks initiative links key programs in North Carolina’s workforce development system to find efficiencies, avoid redundancy, and most importantly, improve customer service.

**Wildlife Resources Commission’s Continuous Organizational Review**

The Wildlife Resources Commission increased “boots on the ground” by 29 positions, without increasing its budget. The change was made by redirecting positions from management functions to field work. At the same time, 84 field technicians had their travel time reduced and skillsets enhanced to increase working efficiency. The result allowed the Commission to meet increasing needs with existing resources.

“I love the new organization,” said Conservation Technician Jim Hollifield. “We’re able to accomplish so much more by working together than we were under the old division structure.”

When the agency arranged field staff separately in the Wildlife Management and Engineering Divisions, instead of by skills and location, technicians would drive long distances to do work that could have been done by a closer technician. Supervisors and managers from different divisions also overlapped within regions.

The Commission implemented a new structure that reduced layers of management from five to three. Field workers were cross-trained for technical needs of both engineering and wildlife management, and
crews were arranged in consolidated geographic regions. The new structure utilizes common resources including staff, facilities, and equipment and allocates these to priority activities.

“I am now trained to do things like controlled burning and managing wildlife food plots that I didn’t do before as a fisheries technician,” Hollifield said. “The same thing goes for wildlife guys who are now doing access projects for anglers and boaters. Overall this has been a big improvement.”

The Commission has undertaken continuous review of its organizational structure since institution of its strategic plan in 2010. Restructuring began with law enforcement in 2010, lands management in 2012, then accounting and customer service in 2014. The principal focus has been on flattening the organization and ensuring that resources are put to the highest, best use through review of the need for each vacant position prior to filling it.
Tracking Progress
The North Carolina Government Efficiency and Reform Interim Report published in April 2014 catalogued ongoing reform initiatives within Cabinet Agencies. The section below details each of the initiatives reported in 2014 and provides an update on its progress. Updates were supplied by the respective agencies and are not the product of NC GEAR analysis. The proposed NC GEAR Results Management Office would be organized to track and verify progress on initiatives in the future.

Department of Administration (DOA)
Procurement and Contract Reform: e-Sourcing
In 2013, DOA revived a project to streamline state procurement. The initiative harnesses the collective buying power of all state agencies to contract for lower prices. It was projected to save $9 million annually, equal to 10 percent of the allotted budget.

Update: Since its inception, the initiative has resulted in lower prices for office supplies and other goods purchased by state agencies, and is being expanded to additional areas.

Better Management of Family Violence Prevention Grants
Grant provision for domestic violence and sexual assault prevention were consolidated within NC Council for Women. The move was intended to provide greater focus and expertise with lower overhead costs.

Update: Since that time the Council has granted $515,763 to 88 domestic violence agencies throughout North Carolina. Despite increased grant management responsibility, the Council has maintained 5 percent administrative costs.

Human Relations Commission Settles Fair Housing Cases Faster
DOA streamlined the Human Relations Commission’s process for resolving housing discrimination disputes. The changes allowed the Commission to reduce staff by 18 percent in the first year while more than doubling the case closure rate in the second half of 2013.

Update: Despite staff changes, the Commission has maintained a high standard of work. Since July 2014, it has closed 63.3 percent of cases in less than 100 days.

Office of Information Technology Services (OITS)
Capital Area High Speed Fiber Network
The Office of Information Technology Services (OITS) identified available high speed fiber connections to allow state agencies to centralize and virtualize 76 servers. The change was project to save $88,400 over the following four years.

Update: OITS has moved 8 physical servers to 5 virtual machines, reducing the cost of hardware and support and elevating the State’s IT capabilities to industry standards. Virtualization will
continue throughout 2015, eliminating the need to purchase 61 physical servers at an expected savings of $344,000.

**Consumption-Based Licensing Reduces Costs**
The Office of Information Technology Services (OITS) redirected $3 million in 2013 by established “pay for what we use” software licensing agreements, rather than paying a blanket fee for state government software use. Additional savings were projected, as licensing agreements are renegotiated.

**Update:** OITS continues to realize savings through consumption-based, “pay for what we use” contracts and reducing future software licensing costs. OITS is also achieving savings on technology purchases by aggregating the State’s buying power.

**Department of Cultural Resources (DCR)**

**Live Streaming Online Education**
The Department of Cultural Resources (DCR) provided three live streaming videos as an online field trip for schools in North Carolina and other states in 2013. DCR called the service “Cultural Resources TV” and planned to continue the program.

**Update:** The Department expanded the program to adult learners and provided four online field trips with question-and-answer sessions in 2013 and 2014. Additionally, an online education portal made DCR-created lesson plans available to North Carolina teachers. The portal was offered in cooperation with the Department of Public Instruction.

**Cross-Marketing Efforts to Attract Tourists and Businesses**
The Department partnered with the NC Symphony and the Department of Commerce to produce a promotional compact disk for business leaders considering North Carolina as a potential relocation site.

**Update:** The Department continued its cross-marketing efforts for economic development. It developed trade show promotional materials and introduced traveling exhibits across all its historic and cultural sites. The “Art That Moves You” initiative will showcase tourism, culture, and industry at travel points within the state, including airports, welcome centers, interstates and bridges.

**Strategic Planning Introduces New Measures**
The Department introduced new measures of success for staff, tourist sites and exhibitions. DCR expanded its evaluation to include customer satisfaction, cost per visitor, return on investment, and comparisons to national best practices.

**Update:** Efforts to implement the initiative have included training for DCR staff in crisis communication, education methods, and working with non-profit groups. The 2015 Strategic Plan includes identifying key measurements by site and offering surveys across DCR entities to identify improvement opportunities.
Department of Commerce

Partnership for Prosperity

The North Carolina Partnership for Prosperity was proposed as a public-private partnership to be responsible for the marketing functions of economic development statewide. An interim board was established and legislation sought.

Update: The Economic Development Partnership of North Carolina (EDPNC) opened for business on October 6, 2014. Working closely with the incentive programs administered by the Department of Commerce, the EDPNC has helped bring to fruition 29 economic development projects, creating 4,416 jobs and representing an investment of $552 million.

Cross-training for Better Customer Service

Division of Workforce Services retrained staff to enable each member to provide customer service on all major topics. The change was projected to improve operations.

Update: The Division has continued to cross-train staff statewide to ensure high quality service to individuals and businesses. More than 60 NCWorks Career Centers across the state have been certified as providing high quality, integrated services. In 2014, Nearly 400,000 individuals received services through career centers, online job-matching system, and NCWorks Online.

Fewer Unemployment Insurance Overpayments

Division of Employment Security aligned the timing of unemployment benefit disbursement with the deadline for employers to dispute an unemployment claim. Once the deadline is passed without dispute, funds are disbursed. The Division projected that adjusting payment timing to the dispute deadline would reduce claim overpayments by $500,000 annually.

Update: New payment procedures are fully implemented. Reduction of overpayments maintains the Unemployment Insurance Trust Fund, which is funded by taxes from North Carolina employers.

Department of Environment and Natural Resources (DENR)

Reduced Paperwork for Stormwater Program

The Department of Environment and Natural Resources (DENR) consolidated processing of stormwater and sedimentation permits, which are both required for land development. The change allowed for consolidated inspection reports. The Department began development of online permitting for the consolidated program.

Update: Between July 1 and December 31, 2014, staff with the Division of Energy, Mineral and Land Resources conducted 7,242 combined inspections of construction projects. This cut in half the amount of employee time and state resources that would have been required prior to the
new combined inspection initiative. Progress has been made toward online permitting. DENR staff access to the e-permitting program, and the target for public rollout is summer 2015.

**Combining Programs Improves Services**
Under legislative direction, the Department combined management of the Energy Office, Utility Savings Initiative, and Waste Reduction Partners programs. The new organization was designed to serve more and different customers than was possible separately.

**Update:** The organizational merger is yielding better customer service to public sector clients by providing more value-added assistance and engineering expertise. Aided by this technical assistance, Utility Savings Initiative customers are expected to reduce energy use 30 percent by the end of 2015.

**Department of Health and Human Services (DHHS)**
**Statewide Telepsychiatry Improves Emergency Room Care**
The Department of Health and Human Services (DHHS) built a statewide system that connects board-certified psychiatrists to patients at referring hospitals with real-time, secure video. The system was designed to provide patients needed care sooner with the improved technology.

**Update:** The telepsychiatry system hosted more than 6,000 doctor-patient encounters between November 2013 and October 2014. The program is saving money and improving patient outcomes by reducing involuntary commitments.

**DHHS Leadership Takes Action on Problems with Medical Examiner System**
The Department addressed over-extended caseloads and delayed autopsies for criminal cases by raising fees for regional medical examiner centers and instituting higher salaries to recruit additional forensic pathologists. The changes were accompanied by process improvements to increase efficiency.

**Update:** The caseload per forensic pathologist was reduced from 379 cases per year to 270 cases per year in November 2014. The national accreditation standard requires each forensic pathologist to handle fewer than 250 cases per year.

**Youth Mental Health First Aid Addresses Mental Illness and Substance Abuse Problem**
The Center for Safer Schools began training school personnel in Youth Mental Health First Aid. Each trainee is charged with leading at least six training sessions in his or her own community during the following year.

**Update:** As of January 2015, the Center has trained 213 Mental Health First Aid Certified Instructors who have trained 8,086 people as Mental Health First Aiders statewide.
**Stronger DHHS Office of Internal Audit**
The Office of Internal Audit improved its performance from zero proactively initiated audits to 36 in 2013. The change was facilitated by additional contract staff. Additional process improvements were planned.

**Update:** Changes to the audit program were successfully implemented and the Office continues its duties.

**Improved Management of DHHS Information Technology Projects**
DHHS re-established an IT governance committee in July 2013 to prioritize and vet new initiatives. The change was intended to improve the timeliness, management and business justification of IT projects undertaken at the Department.

**Update:** IT governance was successfully implemented and the committee continues its duties.

**Department of Public Safety (DPS)**

**North Carolina Center for Safer Schools**
The newly created Center for Safer Schools compiled a list of low-cost security measures and 80 other recommendations to improve school safety in a report to the Governor. The Center also partnered with the Governor’s Task Force for Safer Schools to consider future policy and legislative changes needed to improve school safety in North Carolina.

**Update:** The Center has provided training to all 115 Local Education Areas on Critical Incident Response for Safer School Faculty and Staff. The Center determined that 106 schools are in need of a school resource officer. An anti-bullying measure amended the NC School Bullying Law to require that principals provide local policy prohibiting bullying and harassing behavior, including cyber-bullying, to staff, students and parents.

**Highway Patrol School Visits**
In 2013, the Patrol began quantifying troopers’ school visits. More than 4,000 visits were recorded in the first year.

**Update:** In partnership with the Center for Safer Schools, Troopers with the State Highway Patrol visited school facilities across the state a total of 7,187 times during 2014.

**Adult Correction and Juvenile Justice Integration**
DPS integrated the Divisions of Adult Correction and Juvenile Justice to reduce overhead for common services, such as medical care and maintenance, without sacrificing critical field operations.

**Update:** The merger of Adult Corrections and Juvenile Justice has created cost savings for the State while providing the Juvenile Justice Section needed support in the areas of repairs, renovations and construction, security services, and health services. The merger made possible
expanded use of the Inmate Construction Program. An additional $300,000 was saved through streamlining of the Juvenile Justice leadership structure.

**Fraud Waste, Abuse and Misconduct Hotline**

In 2014, DPS launched a telephone hotline (844.208.4018) and website to allow employees and members of the public to anonymously report suspected wrongdoing within the Department.

**Update:** Reports to the hotline were collected by the Internal Audit section. At least 225 reports were received in 2014, and 220 of the complaints have either been referred to the appropriate DPS manager for action or investigated by DPS Internal Audit.

**ReadyNC Website and Mobile App for Emergencies**

ReadyNC.org and the ReadyNC mobile app were launched as all-in-one emergency preparedness tools available to the public. The online resources were promoted by the Governor throughout 2014.

**Update:** More than 40,000 users downloaded the mobile app in the first year to be better informed and prepared in emergencies. In 2014, the ReadyNC.org website was updated to be more accessible and useful for those individuals who are deaf, blind or have intellectual and developmental disabilities. A Spanish version of the website also was created.

**Highway Patrol Project Pilot Speeds Accident Reports**

Accident reporting software (e-Crash) was launched to allow drivers involved in collisions and their insurers to retrieve copies of reports directly from the web several days faster than the old system. The initiative required collaboration between the Patrol and the Department of Transportation.

**Update:** The e-Crash server experiences several thousand hits per week. The website currently provides access to over 90,000 collision reports from all 100 counties. Reports are submitted to the server by field personnel at an average of 296 reports per day.

**Strategic Capital Planning**

DPS developed a data-driven system to prioritize all repair, renovation and capital expansion requests for state-owned buildings under its care. The initiative also addressed efficient use of buildings and facilities statewide. The NC National Guard (NCNG) developed an accompanying plan for its facility and infrastructure needs that consolidated locations through a statewide strategy.

**Update:** Data captured through internal technical assessments figured predominantly in crafting priorities for the Department’s 2015-17 biennial capital budget requests, as well as for the six-year forecast of Repair and Renovation needs. The National Guard is partnering with Adult Correction and Juvenile Justice to identify available properties associated with closed prison facilities that may be suitable to accommodate the NCNG’s regional consolidation effort. These properties, if ultimately determined to be suitable, would defray land acquisition costs to this capital development program, and possibly offer opportunities for development of shared space and resources with DPS.
Department of Revenue (DOR)

Replacing the Current Tax Processing System
In 2014, DOR voided the contract of a private vendor hired to develop a tax processing system that failed to produce results in a timely fashion. The move was necessary to avoid further investment in a failed project.

Update: The Department is moving forward with replacing key business systems to help improve business capabilities with lower risk.

Adding Corporate Electronic Filing
DOR and the Internal Revenue Service planned to launch electronic corporate tax filing during 2014, in time for use in the 2015 filing season.

Update: The initiative is currently on schedule with an estimated implementation date of late March 2015. Once the system launches, corporate taxpayers will be able to file returns electronically.

Department of Transportation (DOT)

Strategic Transportation Investment Law
Legislative change to the Strategic Mobility Formula allowed for funding of the state's transportation priorities through a 60/40 split between state and local projects. The formula was designed to provide greater flexibility to use existing funding to complete more infrastructure projects.

Update: A new ten-year State Transportation Improvement Program (STIP) has been drafted. It is projected to produce approximately 300 more projects and 126,000 more jobs than the previous formula. The new Program will produce nearly 1,100 projects total across all modes of transportation in all 100 counties.

Helicopter for Sale
DOT chose to contract for helicopter services as needed, rather than own and operate a helicopter, in order to reduce costs. The Department also began review of its ownership of three additional airplanes.

Update: Sale of the Department’s helicopter remains pending.

New Business for Ports
A public-private partnership was engaged to build cold storage at the Port of Wilmington. The project was expected to bring an initial $13 million investment and create approximately 110 jobs.

Update: July container volumes at the Port of Wilmington reflected a 26 percent year-over-year increase. The growth was fueled by Asian, Latin American and European customers. The Port of Wilmington’s public-private partnership is still in progress.
**Wi-Fi on the Ferry**
The Ferry Division added limited wireless internet service on five boats for use by passengers free of charge. The improvement was designed to improve passengers’ experience.

**Update:** Full implementation of the wireless internet service is in progress.

**Fortify (The I-40/440 Rebuild Project)**
A construction project to rebuild 11.5 miles of I-40/440 around Raleigh was planned for 2015. The plan included measures to minimize impact on traffic.

**Update:** Construction on the Fortify project continues to move forward on schedule. NCDOT is continuing to work with many community partners, state and local agencies, businesses, schools, emergency groups and others to share important information and encouraging drivers: "Know before you go."

**DMV Works to Reduce Wait Time and Improve Customer Service**
DMV studied each stage of its process to reduce wait times and relieve customer frustration. Resulting reforms included a pilot project testing different techniques, extended hours at 19 offices, reduced testing for those transferring an out-of-state license or renewing an expired license, and a centralized appointment calendar covering all locations.

**Update:** Results at offices in the pilot project indicated a combined 80 percent reduction in wait times for customers. Reforms that allowed for these results are being expanded to 25 additional locations. Additional improvements are underway, including technology updates, office optimization, and adjustments for annual service volume.
Section 8. Lessons Learned

The NC GEAR team sought advice from the State Auditor, the Program Evaluation Division, leaders of the GPAC effort in 1993, and others in preparation for this initiative. These advisers and others often voiced concern that NC GEAR would produce a book or binder that does little but gather dust on shelves. Two key pieces of advice had to do with communicating recommendations early and sustaining change after the initial burst of activity. Those lessons from previous efforts that we applied are

- Communicate early and often before things become public
- Get the legislature on board
- Focus on implementation.

As we have tried to act on that advice, we also offer here some of the lessons we learned through our work that may help the next comprehensive reform initiative.

Organization and Timing

The budget office is an excellent home for an effort of this type, because every agency must provide information to the budget office and ideas eventually need to be incorporated into the budget process. It is also good to specify the initiative in legislation as an early indication of cooperation and support from the Governor and the General Assembly, though this also delayed early work on NC GEAR as the session extended into August 2013.

A solid advisory council helped the NC GEAR initiative’s success. The State Chief Information Officer, State Auditor, Director of State Human Resources, and the Department of Administration’s Chief Operating Officer provided assistance with the Request for Proposals. Other early participants included the Budget Director, Policy Director, and the Governor’s Deputy Chief of Staff. As the initiative moved from research and idea development to implementation, representatives from the Departments of Cultural Resources, Transportation, and Environment and Natural Resources also joined the advisory council.

Timing was more of a challenge for the effort. It took until December 2013 to release the Request for Proposal, and another four months to evaluate proposals and negotiate terms. Deloitte started work with NC GEAR in early April, which meant that the bulk of information gathering had to take place while the budget office and state agencies were focused on the 2014 legislative session. Despite the importance of government reform, NC GEAR was not as urgent for the rest of government as the immediate changes that could be imposed by the legislature. Moreover, some ideas are easier to implement in the early stages of an administration or in a second term.

It would be good to include the reform initiative leader in Cabinet and Council of State meetings, or to have a specific slot in those meetings to discuss reform. NC GEAR worked at the deputy level in a number of agencies and left the agency head unfamiliar with the initiative.

All of this points to the need for a strong and visible commitment from the Governor throughout the process, including earlier involvement of the Cabinet. This is particularly true because fundamental
government reforms depend on a perspective on appropriate roles and goals of government. Without this understanding, programs may measure success on the wrong criteria. Our lessons here are:

- have the Governor involved
- do not compete with the legislative session
- start early

**Approach and Consultants**

The legislation creating NC GEAR specifically stated the effort should rely on outside consultants to evaluate state government. Deloitte provided a great deal of value in the main NC GEAR effort and supplementary work on IT restructuring, ERP planning, Temporary Solutions, and human resources in the UNC system. NC GEAR relied on Deloitte’s project management tools, and the firm’s data-driven process was a significant factor in its selection to work with NC GEAR.

It became clear, however, that evidence is not enough in itself without a guiding philosophy on which evidence counts. Evaluators will judge success differently if they think it is better to enroll a large number of people in a program and provide them with minimal benefits than to provide more comprehensive benefits to a smaller number of people. NC GEAR and Deloitte sought evidence of cost savings or objective evidence of better outcomes (e.g., higher test scores or graduation rates in education). For truly innovative ideas, however, there is little evidence of success or failure. Innovation by definition is something new.

Future reform efforts need to make sure they understand the goals of policymakers for government in general and the reform effort in particular. With a clear understanding of policy objectives, they can seek reforms that best accomplish those objectives. The policy objectives would also provide a useful lens through which to evaluate whatever data is available or what questions to ask if data is not available. Our lessons here:

- consultants need a map
- evidence needs to be interpreted
- knowing the policy objectives is key
- innovation happens in places that are not mapped

**Knowledge and Data**

“There’s only two ways to make money in business: One is to bundle; the other is unbundle,” former Netscape CEO Jim Barksdale is credited with saying. Government exists to bundle decision-making, but it does not earn money in markets, and often does things for the stated reason that markets have failed. Without money and markets, there are no prices to guide government decisions on investments it makes on behalf of society. As a result, 70,000 state government employees acting on behalf of 10 million North Carolinians do so with missing information.

“In a system in which the knowledge of the relevant facts is dispersed among many people,” Friedrich Hayek wrote, “prices can act to coördinate the separate actions of different people in the same way as subjective values help the individual to coördinate the parts of his plan.” If markets failed, that would
mean prices did not convey information needed to help people coordinate their actions. Because government workers do not have prices and profits to guide our decision-making, we come up with proxies for value. These proxies require that state government acquire and analyze a great deal of information, but it is a significant challenge getting the right information to the right person at the right time to make the right decision.

As a result, government loses a valuable source of discipline and knowledge. As one person in the University System stated, “We are not able to invest in positive NPV [net present value] projects,” in part because we spend a lot of money on things that lose money and have bad social returns, but it is difficult to determine which ones those are.

“Excellence is obvious to everyone,” according to CrossFit founder Greg Glassman, “money is what happens when you do something right.” But it doesn’t work that way in government. Government organizations cannot reward excellent work by their employees. If the organization itself performs well, reducing cost or increasing value, the money gets redirected to other places within government the next year. Failure often gets more money directed at it. Values get inverted, and the success of a program becomes measured in enrollment instead of the number of people who graduate from the program.

Before condemning government’s inversion of market-determined value, it is worth recalling that there is a reason government looks and acts the way it does. Every program directly affects somebody. This makes it difficult to stop any program and creates incentives not to measure some outcomes. Once government gets involved, it must safeguard against bad behavior from potential program beneficiaries.

Missing information and knowledge, significant local effects from decisions, and the need for consistent rules applied consistently all combine to make government function the way it does. These forces also make it easier to add programs than to end them. As State CIO Chris Estes has lamented, however, agencies are asked to do 100 percent of their assigned duties with the resources to accomplish 80 percent of them.

NC GEAR focused on making government work better at doing the things it does because reducing the number of things requires knowledge or data that currently do not exist. We can only hope that the new tools we recommend will provide the needed data for more informed decisions in the future. Until then, we can only suggest that future efforts focus on the “via negativa” of Nicholas Nassim Taleb, which focuses on experiments by subtraction rather than addition. “Democracy works by via negative. ... The American Constitution, when it was put in place, was designed to talk about what government can’t do,” Taleb has said, “and instead government has become more concerned about what it can do.”

One way to act on this would be if, rather than undertake a randomized control trial or a pay-for-success contract for a new program that will continue if it succeeds and may be stopped if it does not, the Governor and legislature eliminated a program for one-to-three years and measured the effects. So our final lesson for future efforts at statewide government reform is

- sometimes the best thing to do is to stop doing things.
**Blocking and Tackling**

A common theme is the importance of fundamentals. In football, the key to offense is protecting the person with the ball by blocking the defenders, and the key to defense is tackling the ball carrier to the ground. Contract writing and management are the fundamentals of government. A football team can hide bad blocking and tackling if they have better athletes, just as a government can hide badly written and poorly managed contracts when revenues are expanding.

After years of success and growth, state government had fallen into some bad habits. Outsourcing and technology solutions ran over schedule and over budget while failing to deliver on their promised improvements. We learned two phrases that explain some of the pitfalls of relying on these *deus ex machina* approaches: “Your mess for less” and “Paving the cowpath”.

*Your mess for less* indicts the expectation that somebody from outside can fix the broken process that frustrates people inside. The fix often takes longer and costs more than expected, in part because the contract is bid on some expectation of a functioning system that just needs to be “lifted and shifted,” but that requires transformation.

*Paving the cowpath* indicts the opposite tendency. Agencies are sometimes too wedded to their existing process and look for ways to make a new system conform to the way the old system worked, just more. They recognize the expertise of the outsiders, but insist that their existing methods are better, so the commercial-off-the-shelf (COTS) software that was going to save money becomes a proprietary system that the vendor will not support and increases costs.

IT contracting issues came to a head in 2013 when the Department of Revenue canceled its Tax Information Management System (TIMS) because further development would have sent good money after bad. OSBM unveiled its internally developed Integrated Budget Information System (IBIS) four years after outside vendors produced a system that did not work. The Department of Health and Human Services rolled out its NC FAST eligibility system and NC TRACKS medical provider payment system, which exposed a number of shortcomings in existing processes and created other problems. Later that year, the State Auditor released a performance audit of 84 IT projects that found they cost twice as much and took 65 percent longer to complete than originally estimated. Less publicly, the Department of Administration’s division of purchase and contract underwent a significant restructuring that year, as well.

State government needs to write strong contracts and enforce the terms of those contracts, particularly if public-private partnerships, social impact bonds, and other attempts to engage the private sector are to produce the desired results. This means state agencies need to understand their own costs better than they do. Implementing measures for better management has been a goal of state government for some time and we expect even sharper focus on measures in the near future as a result of slower growth and tighter revenues. Over time, we recognize that the scrutiny is bound to relax. When the next fundamental review of government occurs, improving contract provisions will likely be part of its mandate.
Section 9. Future considerations

Federal Grants and Regulations

Federal spending in the state budget has grown by $11.5 billion between FY1994-95 and FY2014-15, according to OSBM. The most recent statewide single audit, which evaluates compliance with federal rules for federal grant awards, documented $22 billion in federal funds during state fiscal year 2012-13.

It is long-standing state policy to shift as much of the spending burden as possible to federal dollars. Republicans and Democrats alike support the reliance on federal dollars, with some even calling it fiscally conservative. During the budget process, many agencies asked for more state spending to “draw down” more federal dollars promised as matching funds. Agencies also deliberately avoided cutting programs that had a federal match.

A North Carolina company offered employees the perk of country club membership for $3,000 instead of the regular $30,000. Even employees who never play golf thought on occasion that they had passed up $27,000 rather than that they had saved $3,000.

There can also be a real cost to forgoing federal assistance. Allowing the federal government to enforce its own regulations on air and water pollution would have meant a loss of $1.3 billion per year in transportation funding and more restrictive enforcement of those regulations on businesses.

Early childhood opportunities for reform are limited because of the federal requirements, although those requirements were part of the need for reform. Of the $1 billion the State spends on childcare and education from birth until children enter kindergarten, $570 million is from federal sources.

Medicaid reform is subject to the whims of the federal government because North Carolina receives two federal dollars for every state dollar spent on services, three federal dollars for every state dollar spent on administration, and nine federal dollars for every state dollar spent on some Medicaid IT projects. Through various machinations, the State budgeted $3 billion from the General Fund in FY2012-13 and received $6.9 billion from the federal government. Instead of seeking ways to reduce spending on Medicaid, which would mean three dollars in reduced services to save a dollar in state spending, policymakers have focused on shifting the State’s costs to health care providers and drug companies, often with the promise of repaying some or all of the cost with a combination of state and federal dollars.

Current Medicaid funding offers two federal dollars for each dollar the State spends on health care for pregnant women, children, and people with long-term-care needs below the poverty line. The proposed Medicaid expansion promises to match no less than nine federal dollars to every state dollar for single adults without children earning up to 38 percent more than the poverty line, making each member of this group less expensive for states but sending the message that the federal government sees them as more worthy of insurance than children. As if to confirm this valuation, the federal government has proven unwilling to accept significant state Medicaid reforms that are not accompanied by an expansion.
While all American taxpayers helped pay for the federal health insurance exchange and its difficult launch, North Carolina avoided potentially hundreds of millions of dollars in wasted costs by not attempting to build its own insurance exchange. Even states that were fully committed and to making government and technology work had difficulty. For example, Maryland “spent more than $125.5 million to build and operate its exchange, which crashed within minutes of opening.” The State eventually bought technology from Connecticut, but rebuilding the site will cost another $60 million. Oregon brought in a new consulting team for $18 million, and is in court against its original vendor, Oracle, after it spent $250 million to build and advertise an exchange that never even launched.

Despite these examples, there is no final tally of the burdens imposed on North Carolina by accepting federal funds. Costs of regulation are hard to state because measures focus on complying with regulations. As a grants manager in another state said, “It’s not like finding a needle in a haystack, it’s like finding hay.” North Carolina and other states must first recognize the hay for what it is.

**Structural Questions**

Back in 1930 the Brookings Institution suggested eliminating the Council of State in favor of a single executive branch under the Governor. Eighty years later, this still seems revolutionary in a state whose governors could only serve one term until the Constitution of 1971 and could not veto legislation until 1996, later than any other state.

“Where other states will often have a separately elected Treasurer, Auditor, and Attorney General, many do not also have separately elected heads of Agriculture, Education, State, Labor, and Insurance,” Deloitte reported. “Statewide initiatives where greater efficiencies and effectiveness could be achieved by the participation of these agencies were adjusted to account for a greater level of implementation complexity, a greater need for coordination and cooperation, and lower benefits or longer return time for the benefits given this complexity compared to other states where more control of participation and standardization would be possible.”

We leave to others the question of whether the cost of lost efficiencies and coordination in the Council of State model outweighs the benefits of diffuse centers of power.
Footnotes


