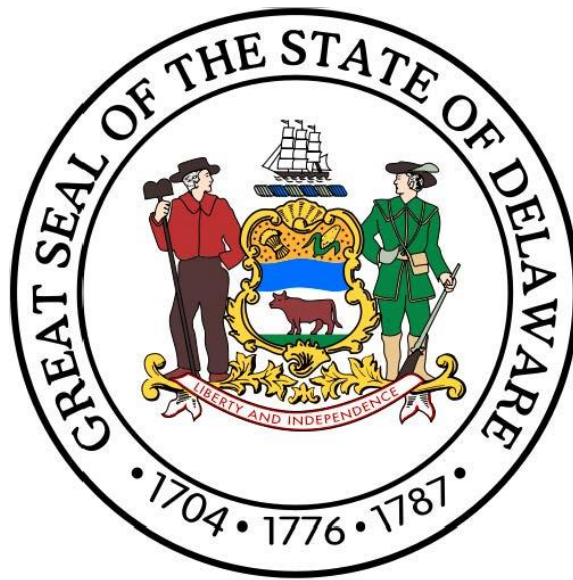


Final Report of the Delaware Expenditure Review Committee

State of Delaware



Submitted on January 29, 2016

Established Under the Provision of Executive Order Number 52

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Executive Summary

Executive Summary

Executive Order Number 52 created the Delaware Expenditure Review Committee (Committee). The Committee was charged with reviewing state government for opportunities to create efficiencies and provide services in a more cost-effective manner. The Committee was comprised of appointees from the Governor and all four caucuses of the General Assembly and brought together representatives of the business community, unions, government and the non-profit sector. Formed on September 25, 2015, the Committee was directed to submit its final report by January 29, 2016.

In doing its work, the Committee considered both overall cost savings that might be obtained and the positive and negative effects of those savings on the provision of services. Given limited time to complete its work, the Committee focused on key areas of state expenditures. To limit its scope, the Committee considered:

- The overall share of the state budget (primarily the General Fund budget);
- Issues related to past or expected future growth in its share of the budget; and
- Whether there are readily identified areas or opportunities for cost savings or efficiencies.

Based on these considerations, the following departments and expenditure areas were determined to be points of attention for the Committee:

- The Department of Correction and related programs and activities;
- The Division of Medicaid and Medical Assistance (Medicaid) and related programs;
- The Department of Education programs (primarily focused on K-12 education);
- Employee benefits (primarily pension and employee/retiree health insurance); and
- Central services (such as fleet, procurement and other statewide spending).

How Delaware Stacks Up

The Committee spent considerable time gaining a working understanding of state expenditures, cost drivers and trends. While there are many factors to consider - and some that varied across program areas - the following were identified as key factors that explain significant aspects of and trends in state spending:

- Expenditures are driven by personnel and related benefit costs, which are the largest component of General Fund spending;
- State employee headcount has been negative in the cabinet agencies, but the State has experienced significant growth concentrated in local school district teachers and personnel;
- The largest share of state spending goes toward K-12 education - much of which is set by formula and is sent directly to local school districts;
- Delaware spends more on K-12 education as a share of its General Fund budget than most states, and this drives much of state expenditure growth; and
- Medicaid spending, some of which is driven by the federal Affordable Care Act, is also a significant cost driver.

Executive Summary

Committee Approaches

As the Committee developed its recommendations, some weighting methods came to be relied upon. These included:

- **Best Practices.** The Committee sought to emulate approaches that have been successfully adopted by other organizations, particularly benchmark states.
- **Root Cause Analysis.** The Committee worked to confront expenditure pressures by not only identifying what is growing but why.
- **Strategic Direction.** Given the Committee's relatively short duration, it primarily focused its attention on setting future strategic direction, rather than detailed descriptions of hundreds of specific department recommendations.

Strategic Themes and Recommendations

While the Committee made a variety of recommendations in multiple areas of the General Fund budget, the recommendations can be broadly grouped into three categories.

- **Outcomes-based Approaches.** These recommendations seek to focus resources on approaches that have the potential to both reduce costs (often through redirecting outputs) and improve outcomes. The Committee recommended:
 - Investigating sentencing reform that could reduce the overall inmate population of low-level, non-violent offenders;
 - Investigating ways to reduce the number of pre-trial detainee inmates by pre-trial diversions or other alternatives to bail (bail reform);
 - Implementing and expanding Medicaid transformation through the Delaware "Pay for Value" initiative;
 - Focusing on foster care program initiatives that reduce the number and cost of out-of-state placements and increase prevention and in-home services; and
 - Investigating options that focus on the Senior Property Tax credit.
- **Personnel Cost Containment.** As noted throughout the Committee's deliberations, Personnel Costs are the largest component of General Fund spending and a major cost driver of current and future costs. To help contain those increases, the Committee recommended:
 - Investigating and identifying alternatives that could bring retiree health care cost sharing and spending into line with national averages for state retiree health care programs;
 - Investigating opportunities to use private and public markets for the provision of health insurance coverage (such as public and private health insurance exchanges);
 - Investigating and identifying alternatives to the current Delaware pension system that modify approaches to eligibility, benefits and internal program assumptions to maintain the system's ability to serve past, current and future members within its existing share of the Delaware state budget; and
 - Managing current use of overtime, with particular attention to the Department of Correction and in Division of Youth Rehabilitative Services' secure care facilities.

Executive Summary

- **Use of Consolidation, Sharing and/or Centralized Services.** The State has used these strategies to reduce costs in a variety of areas. The Committee believes that there are additional opportunities, and in some instances the use of these approaches should be not just incented, but required. The Committee recommended:
 - Investigating approaches that will increase school district use of shared services and/or facilities, which may include requiring their shared use; and
 - Expanding the use of state government central services to, for example, include other fleets in its current fleet management initiatives.

Conclusion

Delaware state government has undertaken substantial actions to control costs in recent years, which has mirrored national trends. Given continued cost pressures, the Committee believes it important to maintain this focus. While many of the recommendations require further study and analysis, they provide a general course of action that should meet the Committee's charge to identify opportunities to provide services more efficiently, effectively or at less cost to taxpayers.

Introduction

Introduction

Governor's Executive Order

Delaware Governor Jack Markell signed Executive Order Number 52 on September 25, 2015, which created the Delaware Expenditure Review Committee. The Committee was charged with reviewing state government for opportunities to create efficiencies and provide services in a more cost-effective manner. The Committee was comprised of private sector appointees from the Governor and all four caucuses of the General Assembly and brought together representatives of the business community, unions, government and the non-profit sector.

The following individuals served as members of the Delaware Expenditure Review Committee:

Member	Affiliation
1. Chairman Fred Sears	- Delaware Community Foundation - Appointed by the Speaker of the House - Designated Chairperson by the Joint Finance Committee Co-Chairs
2. Fred Cottrell	- Richards, Layton & Finger - Appointed by the Senate Minority Leader
3. Rick Gessner	- Capital One - Representing the Delaware State Chamber of Commerce
4. Dennis Greenhouse	- Former County Executive and State Auditor
5. Hon. Joshua Martin	- Potter Anderson & Corroon LLP - Chairperson of Delaware Economic and Financial Advisory Council
6. Robert McMurray	- Christiana Care Health System - Representing the Delaware Business Roundtable
7. Mike Morton	- Controller General
8. Ed Ratledge	- University of Delaware - Chairperson of DEFAC's Subcommittee on Expenditures
9. Jack Riddle	- Community Bank of Delaware - Appointed by the House Minority Leader
10. Jeff Taschner	- Delaware State Education Association - Appointed by the Senate President Pro Tempore
11. Ann Visalli	- Director of the Office of Management and Budget
12. Lincoln Willis	- Willis Chevrolet - Former State Representative

Introduction

The work of the Committee was complemented by the work being done in other State-sponsored committees and commissions that included the following:

- **Access to Justice Commission** - Established to undertake the task of examining the criminal justice system to identify any barriers to access justice that may exist and to develop recommendations designed to improve access to justice for the residents of Delaware.
- **Criminal Justice Improvement Committee** - Established to identify efficiencies, improvements and cost savings related to the criminal justice system.
- **Justice Reinvestment Oversight Committee** - Established to develop and review statewide policies to reduce spending on incarceration and reinvest in strategies that reduce recidivism and enhance public safety. Additionally, the Committee is tasked with monitoring the implementation of the 146th General Assembly's Senate Bill 226.
- **Pew-MacArthur Results First Initiative** - Established to develop a cost-benefit analysis model to focus on key areas of state spending and policy making processes, promoting the effective use of taxpayer dollars.
- **Education Funding Improvement Commission** - Established to review and make recommendations to modernize and improve Delaware's system for funding public education.
- **Public Education Compensation Committee** - Established to review the comparability of salaries statewide, in addition to surrounding areas and alternative compensation models.
- **Special Education Strategic Planning and Evaluation Oversight Group** - Established to perform a comprehensive, annual review of the delivery of special education services within the public school system.
- **Education Technology Task Force** - Established to review educational technology and is responsible for a review of the current need of state-provided bandwidth; determining the current use of educational technology and assistive technology for students with special needs; determining the current readiness of staff to teach using educational technology; and recommending strategies and goals for improving and equalizing access to and use of educational technology.
- **Wilmington Education Improvement Commission** - Established to make recommendations regarding strengthening public education for all Wilmington students including redistricting, charter and district collaboration, meeting the needs of students in poverty, parent engagement and funding mechanisms.
- **Statewide Review of Educational Opportunities** - Established to develop the statewide strategic plan for public schools and to undertake a comprehensive review of the educational opportunities available for students in the State.

Introduction

- **Division of Developmental Disabilities Quality Working Group** - Established to plan for the development and implementation of additional quality standards for providers of home and community based services.
- **Pediatric Health Care Access Working Group** - Established to make recommendations regarding changes needed to ensure that all children in Delaware, regardless of income or pre-existing condition, have access to affordable, skilled and geographically appropriate preventative, general and specialized health care.
- **Health Plan Task Force** - Established to identify cost savings and efficiencies in the State Group Health Program as a result of a significant increase in Group Health Insurance Plan costs in Fiscal Year 2014 and Fiscal Year 2015.

Committee Assistance

The State contracted with Public Financial Management, Inc. (PFM) to provide analytical and programmatic support for the Committee. PFM has served as a financial advisor to the State for many years and was already under contract with the State to provide these types of services.

The PFM team assisting the Committee was led by two former state budget directors: John Cape, Managing Director, who previously served as the budget director for the State of New York, and Randall Bauer, Director, who previously served as the budget director for the State of Iowa. The PFM project team also included Geoff Stewart, Director, who provides financial advisory services for the State and Jennifer Lydic, a senior analyst in PFM's Management and Budget Consulting practice. The project team also was supported by other analysts and staff at PFM's Philadelphia office.

The Committee was also supported by Delaware Office of Management and Budget (OMB) staff, including Deputy Director Brian Maxwell and Meaghan Brennan, Director, Budget Development, Planning and Administration, as well as staff responsible for the key state expenditure areas examined and discussed by the Committee. OMB staff were generally responsible for state-specific data and analysis, while PFM was responsible for national benchmarking, best practices research and activities undertaken in other states within these expenditure areas.

Analytical Approach

Analytical Approach

Background

The Committee's charge, as provided in Executive Order Number 52 (see [Appendix](#)), was to review state government services to evaluate whether there are opportunities to provide them more efficiently, effectively or at less cost to taxpayers. The Committee was to give consideration to both the overall cost savings that might be obtained and the positive and negative effects of those savings on the provision of services. The Committee was ultimately charged with reporting to the Governor and the Joint Finance Committee of the General Assembly any findings and any recommendations for the State of Delaware's operations or budget.

To accomplish its work, the Committee held most meetings on a bi-weekly basis. In total, the Committee met on eight occasions. These meetings were two to three hours in length, were open to the public and provided an opportunity at each meeting for public comment. The Committee conducted all of its discussions and deliberations in open session, and minutes for each of the meetings were publicly available.

Meeting Focus Areas

The State of Delaware's budget touches on numerous programs that provide services and support for its citizens. It would be possible to spend many more hours and meetings to cover all of these programs than were available for the Committee. Given time constraints to provide a timely report to the Governor and the General Assembly, it was necessary for the Committee to concentrate its time and effort on key expenditure areas. After discussion and input from PFM and OMB, the following were identified as key areas for consideration, and each became a subject area considered by the Committee:

- The Department of Correction and related programs and activities;
- The Medical Assistance (Medicaid) program;
- Other Department of Health and Social Services' programs;
- Education programs (primarily focused on K-12 education);
- Central services (such as fleet, procurement and other statewide spending);
- The Department of Services for Children, Youth and Their Families;
- Employee benefits (primarily pension and employee/retiree health insurance); and
- Miscellaneous programs.

In the deliberation on what programs should be reviewed, the following were key considerations:

- The overall share of the state budget (primarily the General Fund budget);
- Issues related to past or expected future growth in its share of the budget; and
- Whether there are readily identified areas or opportunities for cost-savings or efficiencies.

These are complicated issues for resolution. In many cases, areas of state spending were moved off of the list of key topics for discussion based on these criteria. As an example, there was interest from Committee members in reviewing the budget and activities of the Delaware Department of Transportation. While this may well have been a useful exercise and discussion, it would likely have little impact on overall budget decisions for the State.

Analytical Approach

As in many states, the Delaware Department of Transportation receives the bulk of its funding from a dedicated fund comprised of gas tax and auto registration revenue. These revenues are specifically dedicated to department functions and may not be dedicated to other uses. In this case, program changes would not impact the resources that would be available for other state programs.

There are other cases where specific policy issues made discussion of program changes moot issues. As an example, the State of Delaware had a Medicaid program for eligible citizens that pre-dated the federal Patient Protection and Affordable Care Act (ACA). Based on that pre-existing program, the State was able to receive higher reimbursement for covered individuals once ACA was implemented. While it is possible for the State to reduce this benefit, the lost federal reimbursement (compared to what the State was previously spending to insure this population) would make changes to this program a net-loser for the State. Unless the ACA or other federal mandates are modified or repealed, substantial cost savings in many aspects of Medicaid are not feasible at this time.

Analytical Methodology

The Committee had to be expeditious in its focus on areas of coverage and analysis. In general, that approach focused on those areas where a high level review might identify approaches that could provide cost savings to the State, while not reducing required levels of service. As a result, a high level review was conducted. While many of the topics and ultimately recommendations discussed require further study and analysis, the Committee believes that the recommendations are grounded in good business practice and good public policy. While there is not sufficient time or resources available within the Committee's constraints to fully cost out these areas of recommendations, there is a strong belief that each is worthy of significant consideration, and most should yield cost savings to the State.

In doing its analysis and recommendations, the Committee was also mindful of issues of effort and impact. Ultimately, the Committee has focused on higher impact items where the effort necessary to achieve savings and efficiencies is commensurate with those likely savings. The Committee chose to set aside possible recommendations where the level of effort necessary to achieve savings (or the risks associated with those efforts) did not lend themselves to a positive cost benefit analysis.

Current State of States

Current State of States

The past several years have been extremely difficult budgeting years for the states as a whole. It is notable just how extensively the impacts of the “Great Recession” were felt by state governments. This commentary, from the National Association of State Budget Officers just four years ago, identifies the profound impact that the recession had on state budgets around the country:

“Without question, state expenditures have been significantly impacted by the national recession that began in December 2007. The economic downturn has created a unique and in some ways unprecedented fiscal situation for states. Spending from state funds (general funds and other state funds combined) declined in both fiscal 2009 and estimated fiscal 2010, marking the first occurrences in the 23-year history of the State Expenditure Report. The decline in spending from state funds was precipitated by a rapid reduction in state revenue. During the two-year period from fiscal 2008–2010 state revenues decreased nearly 12 percent, or by \$78.5 billion.”¹

While conditions have improved in recent years, there is still an understanding among most state budget officers that the recovery has been fragile. Given this set of circumstances, it is logical that the State would seek to identify what opportunities might exist for the State to manage its programs and run them in ways that might lead to cost savings and efficiencies.

State Efficiency Studies

It is notable that a majority of the states have engaged in similar efforts to identify efficiencies and cost savings. According to analysis conducted by PFM and supported by past survey efforts by the National Association of State Budget Officers, a majority of the states have undertaken some form of efficiency study or review over the past 15 years. There are a variety of ways that these efforts can be formed and led. In many states, it has been an approach similar to the one used in Delaware to form the Expenditure Review Committee, wherein the Governor appoints a committee that is responsible for reviewing state expenditures and identifies opportunities for efficiencies or other cost savings.

There are other approaches as well. In some states, these efficiency efforts have been led by the General Assembly, while in others it is a joint effort by the Governor and the General Assembly.

Finally, in some cases, the State has hired a consultant to do the vast majority of the research and analysis around program changes. In many instances, these are substantial projects that stretch out to six to twelve months. These are substantially different than that which was created for the State of Delaware. The variety of approaches to these sorts of studies are summarized in the Appendix.

Delaware Efficiency Studies

It is notable that the State of Delaware has undertaken significant steps to slow the increase in General Fund spending. The Executive Order creating the Committee notes that when accounting for inflation and population growth, the state budget has shrunk by an average of 0.58 percent per year during the Markell Administration.

¹ State Expenditure Report, Fiscal Year 2009, National Association of State Budget Officers

Current State of States

Some of this reduction in spending can be contributed to prior studies. For example, the State conducted another efficiency study in 2009, which resulted in a Government Performance Review Report to Governor Markell. That study included the participation of all 16 Cabinet agencies and identified opportunities for savings and revenue throughout state government; many of those opportunities were realized. Given the current state government situation, this seems an opportune time to take another look at the State's expenditures.

Overview of Delaware and Delaware Expenditures

Overview of Delaware and Delaware Expenditures

As with most states, Delaware budgets on an annual basis. As with 49 of the 50 states, Delaware also has annual balanced budget requirements. In fact, Delaware has both constitutional and statutory requirements that the Governor must propose and the General Assembly must enact a balanced budget.

Delaware is generally highly regarded for its budget and financial policies and procedures. Delaware has a number of financial policies and procedures in place that are considered “best practices” among the states. It is notable that Delaware is one of just a handful of states to maintain a AAA bond rating by all three of the major credit rating agencies.

As best practice examples, Delaware uses a consensus revenue and expenditure forecasting approach embodied in the Delaware Economic and Financial Advisory Council (DEFAC). By statute, DEFAC prepares and approves revenue and expenditure forecasts that are then used by the Governor and the General Assembly in the budget preparation process. Delaware, also by law, may not appropriate greater than 98 percent of estimated General Fund revenues, maintains a Budget Reserve Account (also known as a rainy day fund) equal to 5 percent of estimated gross General Fund revenues and is limited to tax supported debt issued not exceeding 5 percent of estimated net General Fund revenues.

Expenditures

Delaware has certain characteristics that create ongoing budget challenges for the State. It is notable that Delaware is one of just a handful of states that cover K-12 educational personnel expenses at the state level. In most states, this is a local government function, primarily handled by school districts through local property taxes. This tends to skew statistics on per capita state spending in these states, as K-12 education is generally one of the top expenditure categories for state and local combined spending. Delaware is also one of a small number of states that provided Medicaid to an expanded population prior to the enactment of ACA. This characteristic is now being “washed out” of expenditure comparison data because of the expanded Medicaid coverage requirements.

As the following table indicates, over half of Fiscal Year 2015 actual General Fund expenditures were for Personnel Costs. This (at least in terms of recent increases) is largely driven by increases in K-12 public education Personnel Costs. The following details expenditures by category:

Actual DEFAC Expenditures (Fiscal Year 2015)

Expenditure Category	Amount (millions)	% of Expenditure	
Personnel Costs	\$2,028.5	52.9%	↘
Medicaid	\$668.0	17.4%	↘
Contractual Services	\$511.9	13.3%	
Grants	\$377.9	9.9%	
Debt Service	\$163.9	4.3%	↗
Supplies and Materials	\$68.0	1.8%	
Capital Outlay	\$14.4	0.4%	
Total	\$3,832.6	100.0%	

Account for
74.6% of total
expenditures

Overview of Delaware and Delaware Expenditures

State General Fund Expenditures by Category (FY 2015) (in millions)

Department	Amount	% of Expenditures
Legislative	\$14.7	0.4%
Judicial	\$92.7	2.4%
Executive	\$149.0	3.9%
Other Elective Offices	\$190.7	5.0%
Legal	\$55.6	1.5%
State	\$23.8	0.6%
Technology and Information	\$38.7	1.0%
Finance	\$22.3	0.6%
Health and Social Services	\$1,096.8	28.6%
Children, Youth and Their Families	\$149.1	3.9%
Correction	\$282.8	7.4%
Natural Resources	\$41.6	1.1%
Safety and Homeland Security	\$131.8	3.4%
Transportation	\$0.0	0.0%
Labor	\$9.1	0.2%
Higher Education	\$232.6	6.1%
Public Education	\$1,277.8	33.3%
Other	\$23.5	0.6%
Total Expenditures	\$3,832.6	100.0%

In Fiscal Year 2013, Delaware dedicated the single largest portion of its expenditures towards K-12 education (24.3 percent). It also out ranked many of its peers in terms of percentage spent on elementary and secondary education.

Overview of Delaware and Delaware Expenditures

State Spending by Function as a Percent of Total Expenditures (FY 2013)²

State	K-12 education	Higher education	Public assistance	Medicaid	Correction	Transportation	Other
Delaware	24.3%	4.6%	0.3%	17.2%	3.0%	8.7%	42.0%
Maryland	19.2%	14.5%	3.8%	21.0%	4.0%	10.0%	27.5%
New Jersey	24.9%	7.9%	0.9%	20.4%	3.1%	10.0%	32.8%
New York	19.3%	7.6%	3.0%	29.1%	2.5%	6.4%	32.1%
Pennsylvania	14.9%	2.1%	1.5%	26.9%	2.6%	7.5%	44.6%

“Other” expenditures in the chart above included Children’s Health Insurance Program (CHIP), institutional and community care for the mentally ill and developmentally disabled, public health programs, employer contributions to pensions and health benefits, economic development, environmental projects, State Police, parks and recreation and housing.

When drilling down one level lower, the 19 largest Fiscal Year 2015 General Fund expenditures account for over 90 percent of total expenditures:

² State Expenditure Report, National Association of State Budget Officers, 2014

Overview of Delaware and Delaware Expenditures

Fiscal Year 2015 Expenditures

Description	Amount	% of Expenditures
Salaries	\$1,338,536,832	34.9%
Medicaid	\$667,947,996	17.4%
Employee/Retiree Health Care	\$373,245,257	9.7%
Pension	\$196,861,305	5.1%
Debt Service	\$163,940,086	4.3%
Other Employment Costs (OECs)	\$119,865,091	3.1%
Higher Education University of Delaware	\$119,813,100	3.1%
Medical Services and Supplies	\$110,901,021	2.9%
Education Pupil Transportation	\$55,719,027	1.5%
Energy	\$47,612,399	1.2%
Grants in Aid	\$46,788,698	1.2%
Bond Bill	\$39,964,943	1.0%
Professional Services	\$37,226,743	1.0%
Child Care	\$29,506,954	0.8%
Education School District Operations All Other Costs (AOCs)	\$26,149,376	0.7%
Child Welfare	\$24,706,785	0.6%
Education- School District Operations	\$24,084,899	0.6%
Elder Tax Relief and Education Expense Fund	\$22,341,917	0.6%
Information Technology	\$21,327,236	0.6%
Total	\$3,466,539,665	90.3%

Within the category of Personnel Costs, it is also evident that those costs are concentrated in a few key areas. The following table indicates that the vast majority of personnel spending and growth is concentrated in the areas of Education and Safety:

Overview of Delaware and Delaware Expenditures

Personnel Cost Comparison by Agency (FY 2009 to FY 2015)

Agency	\$ Change FY 09 to FY 15	% Change FY 09 to FY 15	% Increase of Statewide Total
Education	\$197,703,545	22.6%	76.3%
Safety and Homeland Security*	\$26,619,262	24.1%	10.3%
Correction	\$20,185,282	12.1%	7.8%
Services for Children, Youth and Their Families	\$9,964,272	14.7%	3.8%
Higher Education	\$7,034,255	7.4%	2.7%
Judicial	\$5,983,650	7.9%	2.3%
Legal	\$5,861,321	14.7%	2.3%
Other**	(\$14,275,855)	(4.1%)	(5.5%)
Total	\$259,075,732		100%

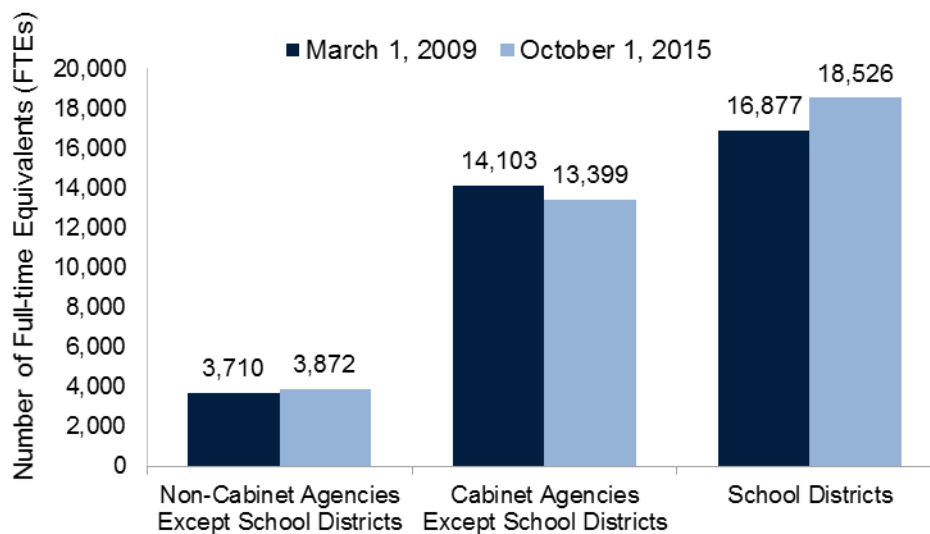
*Includes Closed State Police Plan Pension expenditures

**Other includes DTI, Legislature, Fire, Executive, Labor, National Guard, Exceptional Citizens, Agriculture, Elections, DNREC, State, Finance and DHSS

Head-count data supports this perspective as well. Since 2009, head-count for state cabinet agencies is down significantly, while those for school districts are up. Non-cabinet state agencies, which include statewide elected officials, the General Assembly, the judicial branch and higher education, show a slight increase as well:

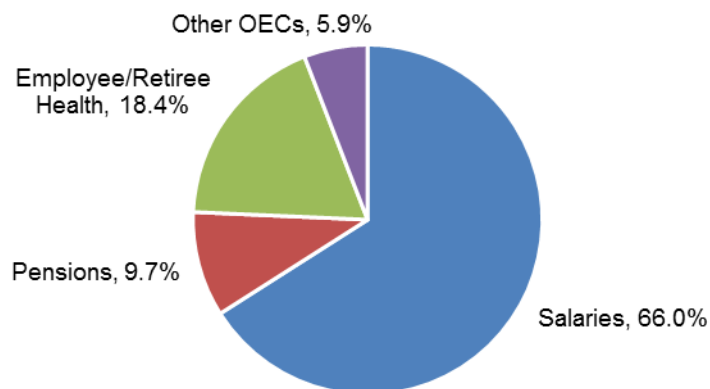
Overview of Delaware and Delaware Expenditures

Employee Count Comparison
(March 2009 to October 2015)



Finally, Personnel Costs are also being driven by non-salary issues. As will be discussed in the chapter on employee and retiree benefits, these categories are exhibiting significant percentage increases in cost. They are not insubstantial and make up one third of total Personnel Costs:

Personnel Expenditures by Category
(FY 2015)



The cost pressures faced by the Delaware budget are substantial, but the opportunities to make targeted reductions are less clear. Over the course of several years, the State has been exploring and adopting various expenditure efficiency measures. The challenge is that as past enacted changes are removed, it is harder to revisit the same areas of the budget and get additional substantial savings.

For example, the Fiscal Year 2017 cost drivers are primarily focused on employee/retiree health, debt service and education programs. The following list, provided by OMB, identifies these cost drivers:

Overview of Delaware and Delaware Expenditures

Fiscal Year 2017 Cost Drivers

Agency	Description	Amount (millions)
Statewide	Employee/Retiree Health	\$81.1
Treasurer's Office	Debt Service	\$19.8
Education	Early Childhood Education and Development	\$12.5
Education	District Employee Steps	\$9.8
Education	Pupil Enrollment	\$9.2
Statewide	Self Insurance	\$5.0
Transportation	Transportation Operations	\$5.0
Health	Delaware Medicaid Enterprise System	\$4.3
Health	Community Placements	\$3.8
Correction	Health care Services	\$2.5
Elections	Primary and General Election	\$2.4
Education	Pupil Transportation	\$2.3
Health	Eligibility Modernization System	\$2.0
Statewide	Legal fees	\$2.0
Statewide	Post Retirement Increase Amortization	\$2.0
Health	Special School Graduates	\$1.1
Health	Medicaid	\$1.1

Note: Data reported as of October 9, 2015, when presented to the Committee.

Based on this and the previous data, it is clear that there are a handful of budget items that are and have the most impact for Delaware's General Fund budget. As possible, these topics have been a focus for the Committee's deliberation and discussions.

Major Topic Areas Reviewed by Committee

Major Topic Areas Reviewed by Committee

1. Department of Correction

Overview

7.3%

*General Fund
(Fiscal Year
2015 Budget)*

2.9%

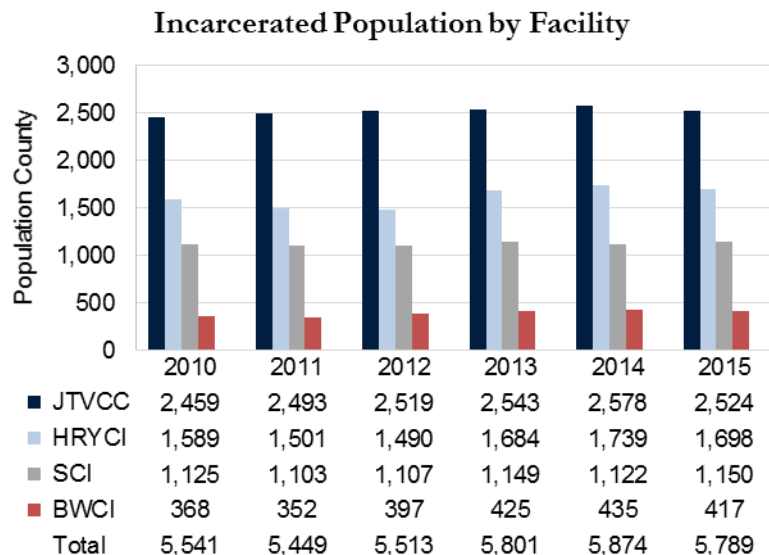
*Fiscal Year 2014 to
Fiscal Year 2015 General
Fund Budget Growth*

The Department of Correction is the second largest Executive branch agency and the largest law enforcement agency in the State of Delaware with over 2,500 employees. The department is comprised of the Office of the Commissioner, the Bureau of Administrative Services, the Bureau of Correctional Health care Services, the Bureau of Prisons and the Bureau of Community Corrections.

Delaware is one of six states that provides a unified correctional system, in which jails and prisons are operated by the State, rather than by counties or other specific jurisdictions.³ Facilities and institutions operating under a unified structure are also responsible for holding pre-trial and sentenced individuals falling under the jurisdiction of the State.

The department supervises between 6,500 and 7,000 inmates within their correctional facilities and approximately 17,000 probationers within the community. Statewide, the department maintains four prisons⁴:

- Delores J. Baylor Women's Correctional Institution (BWCI)
- Howard R. Young Correctional Institution (HRYCI)
- James T. Vaughn Correctional Center (JTVCC)
- Sussex Correctional Institution (SCI)



³ "Unified correctional system" (also known as "unified correctional structure" or integrated correctional system) refers to jails and prisons that are operated by the State, rather than county and state jurisdictions. Delaware, in addition to Alaska, Connecticut, Hawaii, Rhode Island and Vermont all have unified correctional structures that combine jails and prisons.

State Prison Health Care Spending, July 2014, The Pew Charitable Trusts

⁴ Prisons are longer-term facilities compared to jails and typically hold felons and persons with sentences of more than a year. In unified correctional facilities such as Delaware, however, jails and prisons are both overseen by the State.

Major Topic Areas Reviewed by Committee

Within the unified system, Delaware maintains a five-level system of supervision for offenders ranging from prisons to community supervision. To support these operations, the department operates 18 institutions, centers and other facilities statewide.

How Delaware Stacks Up

Department spending in comparable states tends to exceed the rate of General Fund revenue growth. In the recent snapshot of growth in correction budgets, Delaware's growth is relatively moderate, owing largely to its more stable inmate population than those of some comparable states.

**Annual Percentage Change in
Corrections Expenditures⁵**

	FY 2014 to FY 2015	
	(State Funds)	(All Funds)
New Hampshire	9.0%	13.9%
Pennsylvania	6.9%	6.7%
Maryland	3.8%	5.9%
National Average	3.8%	4.0%
Delaware	3.7%	3.2%
Rhode Island	1.0%	1.0%
Connecticut	0.9%	3.8%
New Jersey	-2.0%	-1.6%
Vermont	-2.7%	-3.3%

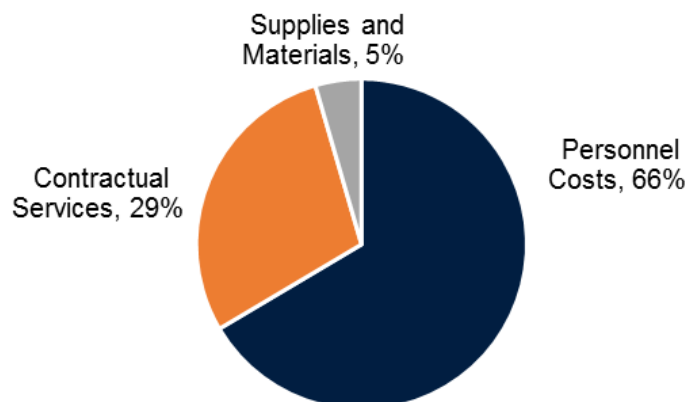
Budget In Brief

With a spending authorization of nearly \$277.5 million, the Department of Correction constitutes about 7.3 percent of Delaware's overall General Fund budget. Like many institutional budgets, the department is dominated by Personnel Costs. A significant portion of these costs are security-related, whereas spending on contractual services is dominated largely by inmate medical costs.

⁵ National Association of State Budget Officers (NASBO) State Expenditure Report, 2015

Major Topic Areas Reviewed by Committee

Fiscal Year 2015 General Fund Expenditures by DEFAC Category



As shown in the following table, the breakdown of expenditures reflects the significance of the agency's institutional responsibilities. The second largest expenditure category is for inmate health care (\$63 million). Consistent with national trends, this area is one of the fastest growing budget items in the agency.

Fiscal Year 2015 GF Expenditures by DEFAC Category - Itemized

Description	Personnel Costs	Contractual Services	Supplies & Materials	Capital	Grants	Grant Total
Personnel Costs	\$187,627,169					\$187,627,169
Medical Services and Supplies		\$62,675,455	\$466,362	\$160,303		63,302,120
Energy		8,339,765				8,339,765
Food			7,642,540			7,642,540
Buildings - Office Space		3,318,909				3,318,909
Information Technology		1,567,904	28,895	48,819		1,645,618
Clothing and Linens			1,645,387			1,645,387
Custodial Services/Supplies		153,829	1,395,433			1,549,262
Fleet Rental		1,468,545				1,468,545
Other		4,296,830	1,580,727	351,635	209	6,229,401
Total	\$187,627,169	\$81,821,237	\$12,759,344	\$560,757	\$209	\$282,768,716

The department's Bureau of Community Corrections operates a wide variety of programs and services for offenders and individuals awaiting trial in community supervision programs. Based on a risk-based assessment system, individuals in the Probation and Parole systems are assigned to different levels of supervision.

- **Level I - Administrative Supervision** is the least restrictive, most cost-effective form of community placement. These are generally first time offenders who pose little risk of re-offending. The majority of these offenders are required to either pay a fine, make restitution or attend a specific first offender program. This level also requires monitoring offenders' participation in designated programs and progress reports on same to the Court.

Major Topic Areas Reviewed by Committee

- *Level II* - Level II is the standard Probation/Parole supervision program and comprises the largest group of community-based offenders. Offenders regularly meet with a Probation Officer to comply with contact requirements based on risks/needs assessments.
- *Level III* - Intensive Supervision entails at least the equivalent of one hour of supervision per day and no more than 56 hours of supervision per week. The minimum is achieved through direct offender contact, collateral contact, verification of each offender's activities and performance with court-ordered treatment and community service. The emphasis is on supervision through increased community contacts.
- *Level IV* - Community supervision is delivered through various centers located around the State. Other programs in Community Supervision include House Arrest, Pre-Trial Services, Community Work Release and Violation of Probation Centers.
- *Level V* - 24 hour incarceration includes both the prison population and the jail population, which is comprised of offenders serving one year or less. Level V is not included in the Bureau of Community Corrections, which oversees Levels I-IV.

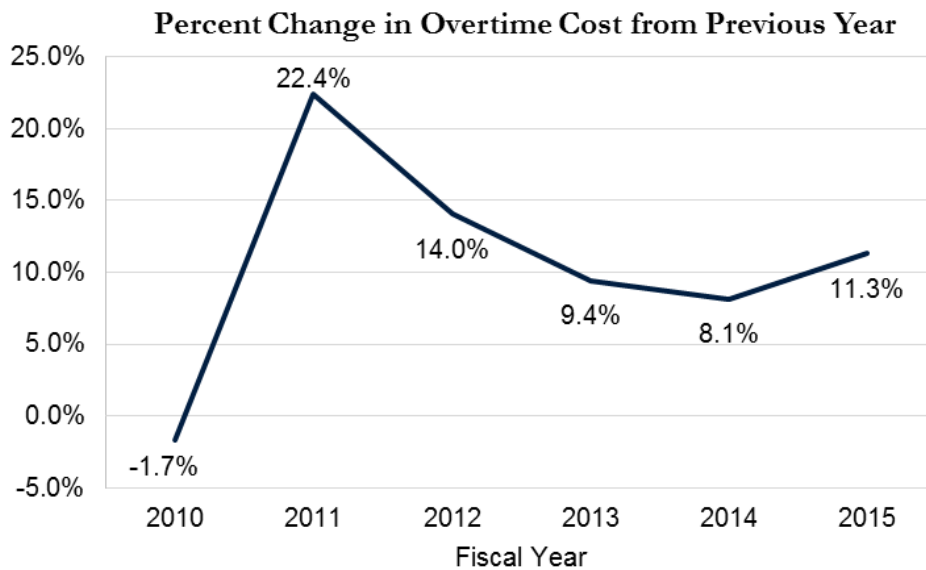
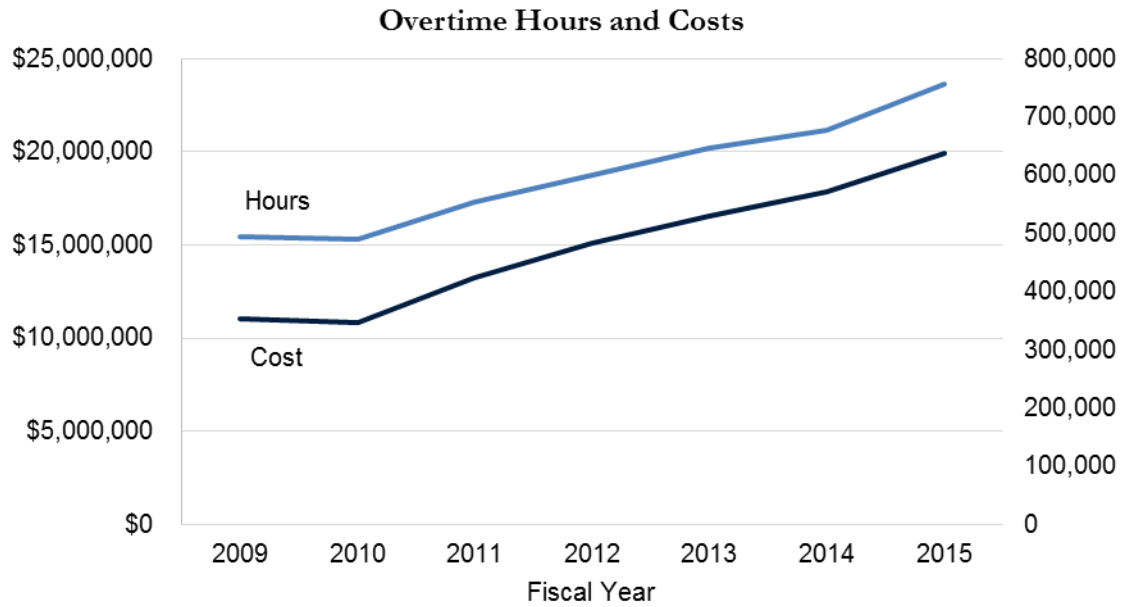
Cost Drivers

General Fund costs of the department are driven largely by the following factors:

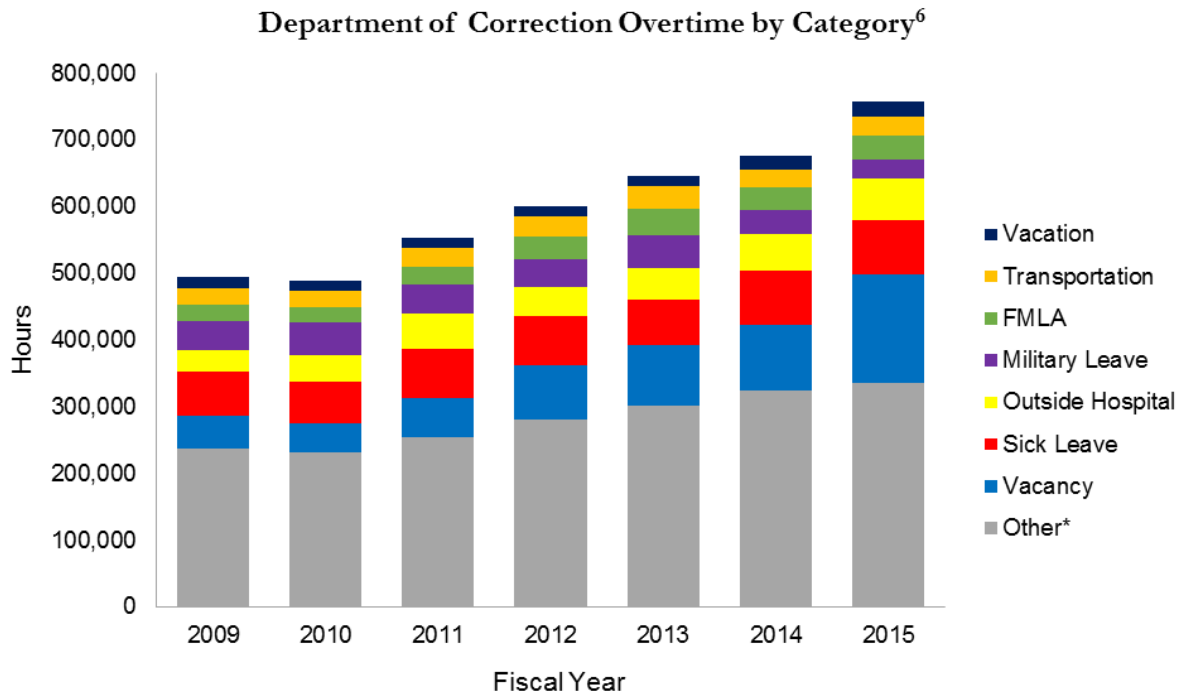
Personnel Costs - The department was budgeted 2,562 full-time employees (FTEs) (all funds) during Fiscal Year 2015. However, as of October 1, 2015, the actual headcount was 2,447 (all funds), which is down 40.0 since March of 2009. Since Fiscal Year 2009, due to salary policy, collective bargaining and overtime costs, the department's personnel expenditures have increased more than 7 percent.

Overtime Costs - Overtime costs are an increasing cost driver for the department. While some level of overtime is a necessary component of correctional operations, the recent increases have been the subject of management focus in the agency. A variety of statistics on the department's use of overtime are displayed below.

Major Topic Areas Reviewed by Committee



Major Topic Areas Reviewed by Committee



* Other includes administrative, suspension, leave without pay, workers compensation, training, weapons requalifications, special projects, jury duty, union business, shakedown, perimeter security, call back, apprehension/arrest, extra security, etc.

Collective Bargaining: Beginning in Fiscal Year 2013, collective bargaining agreements have resulted in approximately \$4,592,500 of additional Personnel Costs.

Medical Services and Supplies - The department provides oversight of the daily medical, substance abuse and mental health treatment and pharmaceutical operations of contracted service providers to ensure the department is adhering to the National Commission on Correctional Health Care standards. As all offenders have a right to health care, the department structures its medical service offerings similar to those offered through the Medical Assistance (Medicaid) program. The department spends nearly \$63 million on these activities.

⁶ Notes for consideration:

1. Correctional Officer positions are exempt from the hiring review process imposed by Human Resource Management.
2. During Fiscal Year 2015, the department increased recruitment efforts by beginning to hold career fairs, increasing participation with armed forces and other local job fairs and offered internship opportunities for local college students.
3. Collective bargaining for wages began in Fiscal Year 2013.

Major Topic Areas Reviewed by Committee

Medical Services and Supplies

Description	Cost	Percentage of Total
Inmate Health Care	\$37,479,200	59%
Substance Abuse and Mental Health	\$12,576,600	20%
Pharmaceutical	\$8,390,700	13%
Other	\$4,855,620	8%
Total	\$63,302,120	100%

Inmate Population - As noted, the department operates a unified correctional system that accommodates both sentenced offenders and pre-trial detainees. Pre-trial detainees generally have shorter stays than the sentenced population. As a result, inmate population is more dynamic than systems that house only sentenced individuals. Overall, the inmate population in Delaware has been fairly stable, experiencing an increase of about 4.5 percent between 2010 and 2015; however, the female offender population has risen by about 13 percent over the same period.

Committee Review and Analysis

Public safety budgeting has some substantial impediments to savings. Not only does it involve difficult collective bargaining issues, there are also issues of safety and risk that, compared to some other program areas, are disproportionate to the savings. The Committee received research and heard presentations from OMB and PFM. The key points of these materials and testimony include:

Key Drivers of the Correction Budget

- Number of employees, especially sworn officers
- Level of inmates and community-based offenders under supervision

Summary of Analysis

- The spending base of the department is relatively stable, with only moderate growth in areas that are typically seen such as overtime and health care.
- The two growth areas within the department, health care and overtime, are related. Increases in health costs are driven by the number of inmates utilizing medical services, the type and frequency of medical services and the price increases from contract medical service providers. Overtime costs are, in part, increasing due to securing outside-facility medical visits and ad-hoc inmate movement for medical reasons. The reduced headcount is also a contributor to overtime growth, as more security posts are covered by officers on overtime.
- The inmate population is essentially flat, and there is nothing notable in the crime data to suggest that there will be a material change in the upcoming budget period. One distinguishing trend, however, is the growth in the female inmate population in recent years.
- The under-supervision population in the community has trended down slightly but is otherwise fairly flat.
- The agency workforce seems well managed. The filled-position headcount is down about 40 positions over the past six years, which is significant given the nature of the agency's staffing and

Major Topic Areas Reviewed by Committee

workload. However, the recent escalation in the use of overtime, especially to cover vacant positions warrants further exploration.

- In terms of inmate population management, PFM analysts reported that:
 - Release rates seem appropriate, given current law. It was also noted that the department already utilizes certain early release programs.
 - New commitments and parole and/or probation violation returns were not remarkable.
 - Recidivism rates are somewhat elevated, but new initiatives such as increased efforts in program evaluation have been put in place to address this issue.

Committee Recommendations

Following a wide-ranging question and answer period with the Committee's presenters, the Committee members focused on initiatives to address key drivers of the department's cost:

1. Sentencing Reform.

There was a consensus that the State should further investigate the potential for statutory changes that could reduce the overall inmate population. These could include reduced or alternative sentences for certain offenses such as low-level, non-violent crimes, which can consist of lighter offenses like simple drug possession. A particular area of emphasis for this initiative is the rising number of female inmates in the Delaware system.

The Committee recommended that Judges be given additional discretion to weigh factors related to community risk and to the efficacy of prison-based rehabilitation in sentencing. Changes could result in Judges determining that individuals who meet certain risk factors should have shorter terms of incarceration or alternative sentences. These efforts could promote rehabilitation while maintaining ties to family, the community and employment.

Savings from sentencing initiatives would be generated from sufficiently lowering the inmate population. This could better permit the closing of some of the department's prison capacity, while the attendant reduction in staffing and operating costs could be offset by the cost of treatment or other services and community supervision.

It was noted that the results of a 2014 study by the Pew Charitable Trust on state prison health care spending can also yield data and objective analysis of potential initiatives in this area.⁷

The Committee did note that changes to the current system must continually weigh public safety concerns with those of reducing the non-violent offender population. In this cost-benefit analysis, the need of the public to be safe from violent crime and violent offenders must be continually viewed as a top priority of the state criminal justice system. This recommendation is not intended to minimize that prioritization.

- ### 2. Bail Reform.
- As one of the few integrated correctional systems in the nation, Delaware faces the unique challenge of managing a pre-trial detention population. The Committee agreed that further examination of this population, as well as analysis of the reasons why individuals for whom the courts have determined that release prior to trial was appropriate remain incarcerated during this period. In general, individuals accused of a crime are subject to two tests regarding their liberty until tried and

⁷ Pew Charitable Trusts, July 2014, State Prison Health Care Spending

Major Topic Areas Reviewed by Committee

convicted: (1) do they pose a clear and present danger to public safety; and (2) are they likely to flee the jurisdiction and not appear for trial. For individuals for whom the courts have set bail, the first concern has been satisfied. What remains is whether the financial penalty is sufficient to compel their appearance for trial. For this population, many jurisdictions are examining new and different ways to deal with an individual's flight risk in ways that make their release financially viable.

Accordingly, and subject to the safety concerns noted above, the Committee believes that the State should further examine this issue and identify ways to reduce the number of pre-trial detainee inmates by pre-trial diversions and/or alternatives to bail programs.

3. Correctional Officer Overtime Management. Research and testimony presented before the Committee documented a significant increase in the cost of overtime, especially with regard to the department's Correctional Officers. As described in the Budget In Brief section above, there are a number of factors that are driving the use of overtime in the department. However, a major growth area is the coverage of vacant positions, predominantly Correctional Officers. The amount of hours used for vacancy coverage in 2015 equates to roughly 80 positions. Given the relative stability of the overall inmate population, and the fact that Correctional Officer positions are not subject to the State's vacancy control procedures, the Committee believes this condition warrants further examination by department management. The Committee recommends that the department make it a priority to examine a variety of strategies to control and reduce the cost of overtime. These initiatives include, but are not limited to:

- Use of electronic technology to replace or supplement Correctional Officer supervision of inmates, including closed-circuit cameras, thermal and motion sensors, etc., to address the need to cover selected fixed or "rover" posts when scheduling does not permit the post to be filled by a regularly-scheduled Correctional Officer.
- Assessment of the scheduling and movements of inmates during the day to determine if certain areas can be closed for some additional periods, thereby reducing the need for Correctional Officer coverage.
- An evaluation of facility post plans and policies regarding inmate movement to reduce the need for facility staffing without compromising employee or community safety.
- Examine the potential for civilianizing some currently sworn positions that do not have significant security duties. These would include ID officers, communications staff and other training or administrative positions that are currently filled by Correctional Officers.
- Explore the use of "telemedicine" and medical staff scheduling to reduce the need to transport inmates outside the facility for medical evaluation or treatment.

Major Topic Areas Reviewed by Committee

2. Division of Medicaid and Medical Assistance

Overview

17.9%

*General Fund
(Fiscal Year
2015 Budget)*

4.5%

*Fiscal Year 2014 to Fiscal
Year 2015 General Fund
Budget Growth*

The Delaware Department of Health and Social Services (DHSS) plays a major role in meeting the basic needs of Delaware families and individuals. This is recognized by the department's mission to improve the quality of life for Delaware's residents by promoting health and wellbeing, fostering self-sufficiency and protecting vulnerable populations. The department provides services in the areas of public health, social services, substance abuse and mental health, child support, developmental disabilities, long-term care residents' protection, visual impairment, aging and adults with physical disabilities and Medicaid and medical assistance. It also includes three long-term care facilities and the State's only psychiatric hospital. Many of the services funded through the department leverage additional federal funding, with the largest example being the Medicaid program.

The Division of Medicaid and Medical Assistance (DMMA) is responsible for operating the State's Medicaid program. DMMA is comprised of three organizational sections: Planning and Development, Support Services and Service Delivery.

Planning and Development

The Planning and Development section is responsible for creating and managing the portfolio of DMMA programs. It aims to maximize benefits to clients while assuring efficient, effective use of taxpayer resources. Organizationally, it is comprised of the following units:

- *Program Development, Policy Planning and Evaluation.* This unit specifies and develops programs and policies, taking into consideration fiscal impacts, technology requirements and program performance expectations. It performs research and multi-component data analysis and maintains the state plan. It develops program measurements, manages public relations and oversees communications with stakeholders for compliance activities.
- *Managed Care and Quality Assurance.* This unit works closely with the Managed Care Organizations (MCOs) serving Medicaid and Delaware Healthy Children Program clients. It also provides the quality assurance function for DMMA programs.
- *Vendor Relations/Contracts.* This unit develops and manages contracts and Requests for Proposals (RFPs). It sets vendor performance expectations and vendor requirements. The unit is responsible for monitoring vendor credentials, managing claims resolution, handling vendor complaints, developing vendor procedure manuals, imposing corrective actions and providing vendor education.

Support Services

The Support Services section is led by the DMMA Chief Financial Officer. It assists DMMA in executing its core process at an optimal level by providing training, technology, financial resources, facilities and information.

Major Topic Areas Reviewed by Committee

The Support Services Section is comprised of the following units:

- Facilities and Supplies;
- Staff Development;
- Financial Management;
- Reimbursement; and
- Technical Support.

Service Delivery

DMMA and the Division of Social Services (DSS) have offices throughout the State that determine eligibility for all DMMA programs with the exception of the Delaware Prescription Assistance Program. DMMA has a contractor, HP Enterprise Services that determines eligibility for the Delaware Prescription Assistance Program.

Medicaid Program

The Medicaid program is authorized by Title XIX of the Social Security Act (SSA) to furnish medical assistance on behalf of families with dependent children and of aged, blind or disabled individuals whose income and resources are insufficient to meet the cost of necessary medical services.

Medicaid is a jointly-funded federal-state program. Federal financial participation varies from state to state and is determined by a formula, based on each state's per capita income, outlined in the SSA and known as the Federal Medical Assistance Percentage (FMAP). The minimum FMAP rate is 50 percent. Enhanced federal matching funds made available through the Recovery Act reduced the State's financial burden between 2009 and 2011. Beginning in 2014, and going forward, costs are divided using three different matching rates:

- The regular FMAP (54.05 percent for Fiscal Year 2015) will be applied to costs for traditional mandatory eligibility categories;
- Individuals who are newly eligible under the Affordable Care Act (ACA) expansion will receive 100 percent federal funding (for the first three years); and
- Adults eligible under optional expansion criteria established by Delaware in 1996 will receive an enhanced FMAP (81.45 percent starting in January 2015).

The matching rates for the last two categories will be adjusted between now and 2020, at which time they level out at 90 percent.

Delaware FMAP Rates

(FFY 2016)	
Regular Medicaid (FMAP)	54.8%
CHIP (E-FMAP)	91.4%
Delaware Adult Expansion (F-MAP)	81.5%
ACA Expansion	100.0%

Major Topic Areas Reviewed by Committee

It should be noted that the current FMAP rates may be subject to alteration by Congress in the future or may change depending on Delaware's relative standing among states in the level of personal income. Moreover, Medicaid enrollment will also be affected by the condition of the economy. While enrollment has slowed considerably due to the current economic recovery, that recovery is already 80 months old, which is long for post WWII recessions. When the eventual slowdown in the economy comes, the number of individuals on Medicaid can accelerate rapidly.

Services

The Delaware Medicaid program covers a broad range of services. In order to meet federal requirements, states must provide certain services, while other services may be offered at the option of each state. Services that must be provided by each state per SSA include:

- Acute care inpatient general hospital services (other than services in institutions for tuberculosis or mental diseases);
- Outpatient hospital services;
- Rural health clinic services and federally-qualified health center services;
- Laboratory and x-ray services;
- Nursing facility (NF) services for beneficiaries age 21 and older;
- Early and periodic screening, diagnosis and treatment (EPSDT) (including routine eye care, dental services and other medically necessary services even if they are not covered for the general population) for individuals under age 21 only;
- Family planning services and supplies;
- Physician services, including preventive services;
- Home health services for beneficiaries who are entitled to NF services under the State's Medicaid plan, including durable medical equipment and supplies;
- Nurse-midwife services;
- Pregnancy related services and services for conditions that might complicate pregnancy for 60 days postpartum, including smoking cessation services;
- Certified pediatric and family nurse practitioners (when licensed to practice under state law); and
- Emergency and non-emergency transportation.

In Delaware, the following optional Medicaid covered services are provided:

- Private duty nursing;
- Other licensed practitioner services;
- Clinic services, including mental health clinics, ambulatory surgical centers, school-based wellness centers, etc.;
- Physical, occupational and speech therapy;
- Prescription drugs and certain over-the-counter drugs;
- Prosthetic devices;
- Diagnostic services;
- Rehabilitative services and Supportive Employment services for individuals who wish to work and have visual impairments, physical disabilities (including brain injury), intellectual disabilities or autism spectrum disorder;
- Services for individuals age 65 or older in institutions for mental disease (IMD);
- Institutional services for individuals with intellectual and developmental disabilities;
- Inpatient psychiatric facility services for individuals under age 21;
- Hospice services;
- Extended services for high risk pregnant women (Smart Start program);

Major Topic Areas Reviewed by Committee

- Organ transplants;
- Home health services (other than nursing home residents);
- Prescribed pediatric extended care (only under EPSDT for individuals under 21); and
- Program for All-Inclusive Care for the Elderly (PACE) services for individuals age 55 or older with a nursing facility level of care who can safely live in the community within the PACE provider's service area.

Additionally, Delaware has an optional Home and Community Based Services (HCBS) waiver for individuals at risk of institutionalization who have intellectual disabilities. HCBS waivers create an exception to regular Medicaid rules and allow states to both target services to special populations and to provide community-based services as alternatives to institutional care that may not otherwise be covered under the State Plan.

Eligibility

The implementation of ACA in 2014 extends and streamlines Medicaid eligibility with the consolidation of certain eligibility groups. The following eligibility categories are now covered under Delaware Medicaid. Because Medicaid is an entitlement program, once an eligibility group has been established under the State Plan, coverage must be provided to anyone who meets the eligibility requirements. There can be no waiting lists or caps, except as specified under an approved federal waiver.

Several groups below are eligible based upon the Federal Poverty Level (FPL). For 2015, FPL for a 2 person family/household was \$15,930 and FPL for a 4-person household was \$24,250.

Eligibility groups include:

- Pregnant women and infants with household income that does not exceed 200 percent of FPL;
- Children ages 1-18 and adults ages 19-64 with household income that does not exceed 133 percent FPL;
- Parents/caretaker relatives with household income that does not exceed 87 percent FPL;
- Working families who are transitioning off Medicaid (for up to an additional 12 months);
- Children who receive foster care or adoption assistance under Title IV-E;
- Certain former foster children up to age 26;
- Adopted children with special medical needs;
- Children with disabilities who meet institutional criteria;
- Institutionalized individuals who meet certain income and resource standards;
- Certain individuals who are in the Medicare waiting period;
- Working individuals with disabilities under a special income limit;
- Supplemental Security Income (SSI) beneficiaries and certain former SSI beneficiaries;
- Adults in residential or foster care who receive an Optional State Supplement;
- Uninsured women with breast or cervical cancer; and
- Certain low-income Medicare beneficiaries who receive help with Medicare premiums, deductibles and co-insurance.

HCBS eligibility groups include:

- *Division of Developmental Disabilities Services (DDDS) Waiver* - Individuals with income under 250 percent of the SSI standard who have an intellectual or developmental disability and who meet an institutional level of care but who choose to receive services in the community.
- *Pathways to Employment 1915i SPA* - Individuals age 14-25 who need support in order to secure competitive employment and who have income under 150 percent of FPL, who have an intellectual

Major Topic Areas Reviewed by Committee

disability, physical disability or visual impairment and who have functional limitations that affect their ability to work.

1115 Demonstration HCBS Waiver eligibility groups include elderly and disabled individuals and those with HIV/AIDS with income under 250 percent of the SSI standard who have an Activities of Daily Living (ADL) deficit but can be safely serviced in the community (formerly covered under two separate HCBS waivers).

How Delaware Stacks Up

With a nearly 60 percent share, Delaware leads neighboring and comparable states in the level of federal financial support.

Federal and State Share Spending (FFY 2014)⁸

	DE	%	CT	%	MD	%	NH	%
Federal	\$1,021,648,704	59.2%	\$4,106,514,324	56.8%	\$5,344,948,037	57.0%	\$688,618,855	51.2%
State	\$704,531,309	40.8%	\$3,124,677,834	43.2%	\$4,027,813,019	43.0%	\$655,099,465	48.8%
Total	\$1,726,180,013	100.0%	\$7,231,192,158	100.0%	\$9,372,761,056	100.0%	\$1,343,718,320	100.0%

	NJ	%	PA	%	RI	%	VT	%
Federal	\$7,153,752,937	56.9%	\$12,790,313,597	54.1%	\$1,415,502,211	57.8%	\$906,006,154	59.0%
State	\$5,420,441,957	43.1%	\$10,832,181,333	45.9%	\$1,032,754,276	42.2%	\$628,767,987	41.0%
Total	\$12,574,194,894	100.0%	\$23,622,494,930	100.0%	\$2,448,256,487	100.0%	\$1,534,774,141	100.0%

While the Federal share of Delaware's Medicaid program is higher than its peers, as of 2011, total spending per enrollee was lower than comparable states and close to the national average.

Total Medicaid Spending per Enrollee (2011)⁹

	United States	DE	CT	MD	NH	NJ	PA	RH	VT
Aged	\$13,249	\$13,439	\$14,652	\$16,591	\$18,341	\$17,646	\$17,462	\$13,820	\$6,405
Individuals with Disabilities	\$16,643	\$16,968	\$24,567	\$20,962	\$16,771	\$22,124	\$15,526	\$20,601	\$15,081
Adults	\$3,247	\$4,843	\$4,541	\$4,231	\$3,662	\$4,687	\$3,564	\$5,741	\$4,449
Children	\$2,463	\$2,909	\$3,161	\$2,778	\$3,243	\$2,621	\$3,191	\$4,585	\$5,193

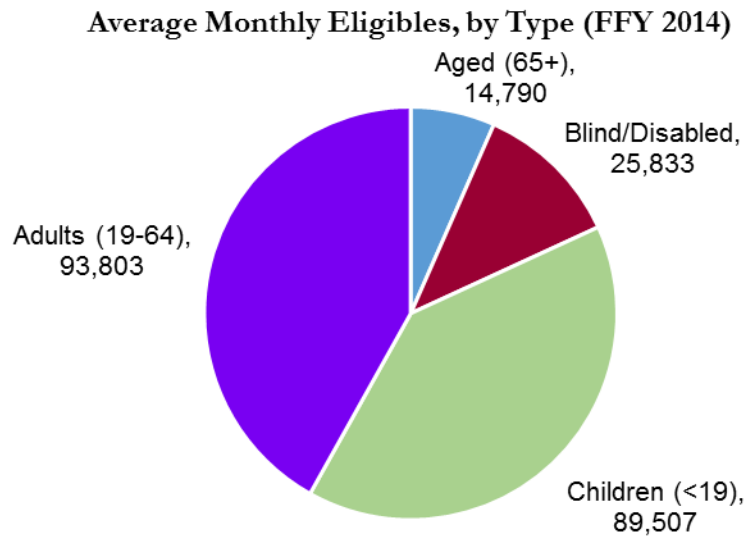
Budget In Brief

Medicaid is one of Delaware's largest and most complex state programs and is the largest spending category in the Department of Health and Social Services. Predominately financed by the federal government through its Federal Medical Assistance Percentage (FMAP), the program nonetheless requires a state match of about \$705 million in Federal Fiscal Year 2014.

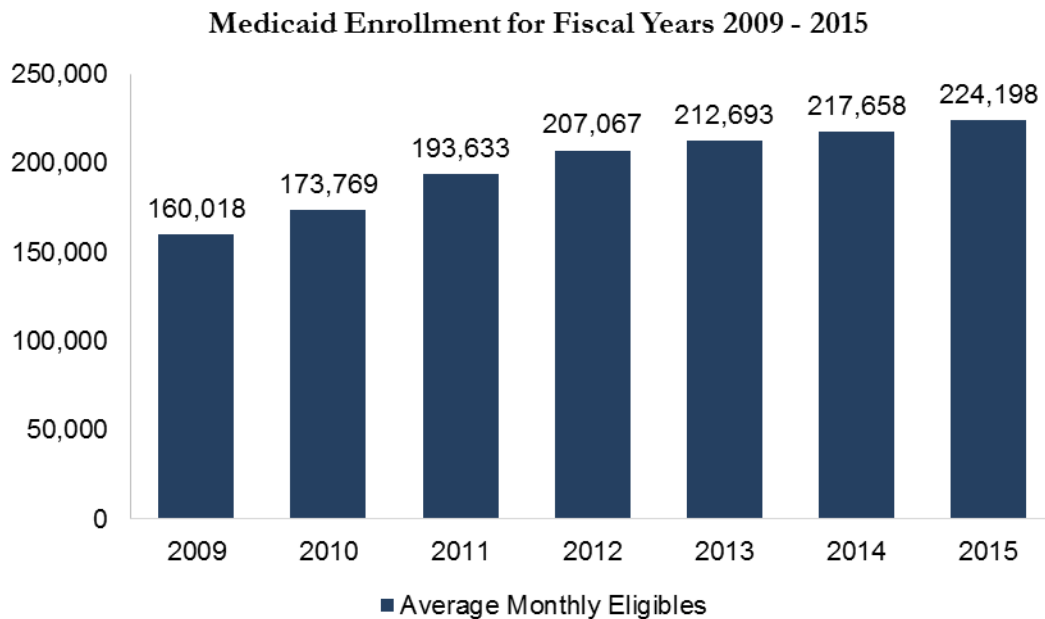
⁸ Kaiser Family Foundation, Federal and State Share of Medicaid Spending, FY 2014

⁹ The Pew Charitable Trusts, State Health Care Spending on Medicaid, 1 June 2014

Major Topic Areas Reviewed by Committee

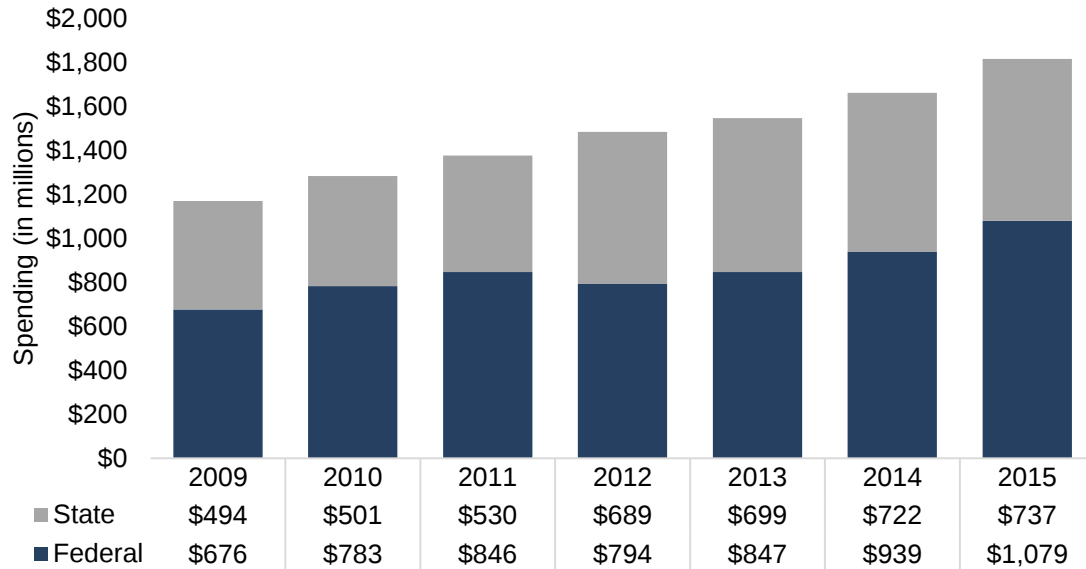


Utilization and Spending History



Major Topic Areas Reviewed by Committee

Medicaid Spending (State vs. Federal) for Fiscal Years 2009 - 2015



Cost Drivers

The primary cost drivers for the Medicaid program are enrollment, changes in the distribution of the enrolled population, health care utilization patterns and medical cost inflation. Other factors, such as the advent of high-cost specialty drugs and downward shifts in the rate of federal financial participation also contribute to potential spending increases. Since significant elements of the Delaware Medicaid program are covered by managed care, enrollment increases result in immediate managed care premiums.

A number of factors influence the growth in Medicaid costs around the country. While there are few discernable trends, there are some important concepts to consider. The growth in enrollment nationally is driven by economic conditions - as working poor slip marginally into eligibility for Medicaid when the national or regional economy slows. Secondly, federal and state statutory changes to eligibility criteria can also drive enrollment shifts - principally, of late, from implementation of ACA.

The drivers of change in cost and utilization are related to a variety of factors. The trend to managed care and its emphasis on wellness, prevention and early intervention have resulted in shifts in utilizations in hospital costs from in-patient to out-patient, and from out-patient to doctor visits. Cost factors vary by health care markets. Maintaining services and access in relatively small markets like Delaware, where there is less competition, have proved more difficult for MCOs to manage and have resulted in increasing Medical Loss Ratios that put pressure on managed care premiums.

Committee Review and Analysis

Medicaid is a complex program, serving nearly a quarter of a million residents of Delaware and touching dozens of programs and agencies. A thorough review of it alone could easily have occupied most of the Committee's time and resources. Moreover, under the provisions of ACA, changes to eligibility and certain benefits would result in the loss of a considerable amount of federal aid, and as such are not practical to consider. Accordingly, the Committee elected to take a focused approach to cost containment in Medicaid.

Major Topic Areas Reviewed by Committee

The Committee heard presentations from OMB, the State Medicaid Director and analysis from PFM. As a result of these presentations, the Committee began its review by compiling the actions Delaware has already taken to control costs.

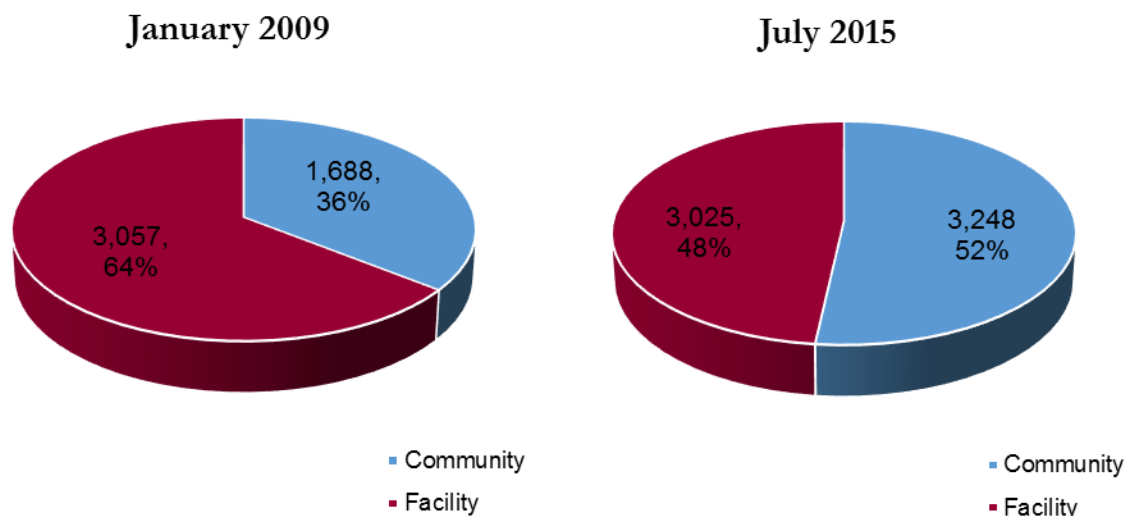
Cost Containment Measures Taken

- *ACA:* Major health coverage provisions of ACA were implemented in January 2014. These included the start of health care exchange coverage under the Federal Marketplace and expansion of Medicaid coverage to adults with incomes below 133 percent of the poverty level. These changes were preceded by 3 ½ years of planning, policy development, information technology development and training to redesign eligibility to comply with Modified Adjusted Gross Income (MAGI) guidelines mandated by ACA. ACA Expansion Fiscal Year 2015 State Share cost avoidance was \$88.9 million.
- *Quality Improvement and Value-Based Purchasing:* Medicaid is collaborating with the Delaware Center for Health Innovation and other state partners in advancing transformation of the health care system in Delaware. The new contracts with the Managed Care Organizations (MCOs) (effective January 2015) promote alignment with delivery and payment reforms, which will result in adoption of value-based purchasing to achieve the triple aim of improving the health of the population, enhancing the experience and outcomes of the patient and reducing health care costs. The new contracts also introduce new care management requirements related to relative health risk, as well as benefit changes for further integration of pharmacy and medical services and behavioral health with physical health services.
- *Pharmacy:* The pharmaceutical reimbursement methodology was revised to take advantage of the new ACA National Average Drug Acquisition Cost data. A departure from the traditional Average Wholesale Price (AWP) less a certain percentage, this change allowed for a reduction in the amount paid for the ingredient costs and an increase in dispensing fees to more accurately reflect actual acquisition costs for the pharmacies. In January 2015, the pharmacy benefit was moved into the managed care contracts and additional savings are expected from the following:
 - Ability to leverage purchasing power from multi-state prescription benefit manager contracts; and
 - Better care coordination for individuals with chronic conditions.
- *Health Information Technology/Data Analytics:* The Division for Medicaid and Medical Assistance (DMMA) has collaborated with the Delaware Health Information Network (DHIN) to implement a system of event notifications to MCOs when their members are seen in the emergency department and admitted to the hospital. This notification enables early intervention and appropriate discharge planning to coordinate follow-up care, avoid unnecessary readmissions and reduce costs associated with a single episode of care.
- *Program Integrity:* Delaware has pursued a number of steps to combat waste, fraud and abuse in the Medicaid program. These initiatives include:
 - *Eligibility and enrollment:* A key component of program integrity is assuring that those enrolled in the program are, in fact, eligible for services. System changes resulting from ACA now allow the program to automatically verify eligibility information through the

Major Topic Areas Reviewed by Committee

federal data hub which interfaces with Social Security, Internal Revenue Service and other federal data sources to verify identity, citizenship, tax filing status and income.

- *Provider enrollment:* Recent federal changes have strengthened provisions for screening providers prior to enrollment. These provisions include financial disclosures, screening against federal databases and site visits for selected provider types. New federal data sharing requirements also now allow states access to information on providers who have been terminated from Medicare or other state Medicaid programs.
- *Information systems to identify and prevent fraud, waste and abuse:* Claims processing edits have been enhanced to identify and deny claims based on more sophisticated rules indicating medically unlikely or excessive services using National Correct Coding Initiative provisions. Increased use of DHIN allows providers access to medical information to prevent unnecessary or duplicate services. The development of the Prescription Monitoring Program now provides an all-payer database to identify potential fraud, doctor shopping and diversion of medication for cash.
- *Enforcement:* Enforcement responsibilities fall under the auspices of three agencies: DMMA's Surveillance Utilization and Review unit conducts investigations of suspect billing patterns and recovers funds in cases of incorrect billing by the provider. Cases of suspected fraud and criminal activity are referred to either the Audit and Recovery Management Services (ARMS) unit if the activities involve a recipient or the Medicaid Fraud Control Unit if the activities involve a provider. A new Decision Support System/Data Warehouse will enhance the division's capacity to identify suspect patterns of utilization or billing which may indicate fraud, waste or abuse.
- *Managed Care Delivery of Long Term Services and Supports:* Integration of long term services and supports with overall medical management will result in improved overall health outcomes. Additionally, greater flexibility and additional support available under managed care will enhance support in the community, improving consumer satisfaction and avoiding costly services in facility-based settings. The charts below demonstrate the progress Delaware has made in rebalancing the long term care delivery system.



Major Topic Areas Reviewed by Committee

Between 2002 and 2008, the monthly per member per month (PMPM) cost increased 2.7 percent on average each year. Between 2009 and 2015, the monthly PMPM cost increased 1.5 percent on average each. If the PMPM cost had continued to increase at the rate of 2.7 percent annually, total annual costs would have been \$102 million higher in Fiscal Year 2015. These changes are primarily attributable to the change in the population mix and the previously mentioned cost containment measures.

The Committee also heard analysis from PFM. The major points of that analysis are described below.

- The decision made by Delaware to implement ACA Medicaid expansion contained a number of provisions that were financially advantageous to the State. Chief among them was the enhanced FMAP for childless adults already served through Delaware's early expansion.
- Enrollment growth, which had increased during the recession, has lessened.
- Staffing in DMMA is relatively stable.
- There is a slight decline in the federal matching rate for regular Medicaid that will result in \$6.6 million in increased costs in 2017.
- Effective January 1, 2015, the Pharmacy Benefit has been included in the Managed Care Organization (MCO) package. This should produce ongoing cost control for the State. However, the advent of new specialty drugs to manage conditions like Hepatitis C, cystic fibrosis and others pose a cost vulnerability.
- Reported Medical Loss Ratios (MLRs) for most managed care insurers indicate that an acceleration of the increase in rates for these companies is likely.
- School-supported health care, an area of potential savings in many states, is a limited opportunity in Delaware. The current system is already relatively efficient at capturing federal and third-party funds.
- The use of provider taxes is already employed in Delaware for nursing homes. However, the winner/loser requirement for such fiscal vehicles in a small-market state such as Delaware make their use in other health care sectors difficult and perhaps impractical.
- The management of "Dual Eligible" enrollee expenses must be carefully managed to assure that the appropriate amount of these expenses are paid by the Medicare program and/or by other federal programs where no state financial contribution is required.

Committee Recommendations

1. Enhanced efforts should be implemented to combat fraud, waste and abuse and efficiently stop and recover improperly paid funds.

The State of Delaware created a pilot project to identify areas of concern that include ¹⁰:

- Appropriateness of recipient usage of services;
- Verification of eligibility criteria;
- Inefficient and overutilization of services and subsequent waste of program funds; and
- Increased oversight of MCOs.

In 2015, Delaware contracted with Health Integrity, an organization with extensive subject matter expertise in using advanced analytics systems to detect fraud, waste and abuse, to create and administer this six-month pilot project. The pilot's goal was to implement an innovative solution to identify fraud, waste or abuse in order to recover inappropriate payments and reduce inefficient or over-utilized services.

¹⁰ Report to the State Legislature for Delaware Medicaid Fraud Control and Program Integrity, Health Integrity, Inc.; October 1, 2015

Major Topic Areas Reviewed by Committee

Working closely with the State, Health Integrity designed, configured, tested and deployed 50 customized algorithms, sometimes referred to as “edits.” These algorithms were customized with the aid of subject matter experts from Health Integrity and Delaware Medicaid to target potentially improper payments across numerous provider types, as well as potential overpayments tied directly to a misuse of client services. The criteria of each algorithm dictate which claims are identified as at-risk, as well as potentially vulnerable program areas.

The solution provided by Health Integrity included implementing a system of advanced analytics customized for the State, initially for post-payment. These analytics identify potentially improper billing and the resulting improper payment of Medicaid claims and encounters. The system is called Plato. Based on analyzing more than three years of data and \$226 million in claims, April 2012 to September 2015, Health Integrity identified over \$11 million in potentially inappropriate payments made to providers from Federal and State funds.

The Committee believes the use of edits and analytics to control fraud and abuse shows great promise and recommends that the State continue to explore and expand this effort. In doing so, the Committee believes that preventing erroneous or fraudulent payments from being made through use of edits is more efficient than having to recover those funds through post-payment audits. While both should be pursued, the emphasis should be on payment prevention.

2. The State should aggressively pursue the management of care and costs for Dual Eligible Medicaid recipients.

“Dual Eligible” enrollees, who are eligible for Medicaid due to their income and also eligible for Medicare by virtue of their age (65 or older), are a high-cost population. Because their two coverages overlap, the cost for these Medicaid enrollees must be carefully managed to assure that the appropriate amount of these expenses are paid by the Medicare program and/or by other federal programs such as SSI or veterans benefits, where no state financial contribution is required.

In Delaware, approximately 27,100 Medicaid recipients are also eligible for Medicare. While the Division of Medicaid and Medical Assistance has procedures in place to monitor the service utilization of this population, other states have found that enhanced requirements for coordination of care and coordination of benefits, as well as monitoring of patient billing can reduce state costs. The Committee believes this area has the potential to generate significant savings in the longer term and warrants aggressive exploration by DMMA and that immediate steps to enhance benefit coordination should be a high priority.

3. Continue to implement and expand Medicaid transformation and the Delaware Pay For Value (P4V) initiative.

To enable care coordination and cost-effective diagnosis and treatment, the State's goal is for most care in the State to transition to outcomes-based payments. The models will incentivize both quality and management of total medical expenditures over the next five years. Delaware's plan calls for all payers to introduce at least one Pay for Value (P4V) program that incorporates reimbursement tied to quality and utilization management for a panel of patients and one Total Cost of Care (TCC) program with shared savings linked to quality and total cost management for a panel of patients, for eligible Primary Care providers beginning in July 2015. The approach builds from the different models in the system today and supports the broader delivery system transformation underway (e.g., population health improvements, behavioral health access and integration).

Major Topic Areas Reviewed by Committee

Core technical details will continue to be defined between payers and providers (e.g., shared savings level and minimum panel size); however, all payers will support the following common principles to simplify participation for providers:

- Attribution of all Delawareans to primary care physicians or advanced practice nurses working under Delaware's Collaborative Agreement requirement;
- Flexibility to include independent primary care providers, as well as those employed by or affiliated with a health system;
- At least one P4V and one TCC model available from each payer, with at least one model that has some form of funding for care coordination, whether in the form of per member per month fees or payments for non-visit based care management;
- Payment tied to common scorecard for all models, with a minimum percentage linked to common measures and the rest linked to performance on payer-specific measures; and
- Commitment by all payers working in partnership with providers to achieve 80 percent of payments in these models within five years.

The Committee believes that the value-based approach to medical payments will can achieve three important goals:

- Promote better health care and quality of life for Delaware residents;
- Lead to better outcomes for medical treatments; and
- Reduce the cost of care over time.

As such, the Committee believes ensuring successful availability and adoption of value-based payment across the State should be a high priority. In conjunction with this effort, the State should monitor the effectiveness of value-based payment models and promote the expanded use of elements that show the most promise for outcome improvement and cost reduction.

Major Topic Areas Reviewed by Committee

3. Education

33.3%

*General Fund
(Fiscal Year
2015 Budget)*

4.1%

*Fiscal Year 2014 to
Fiscal Year 2015 General
Fund Budget Growth*

Overview

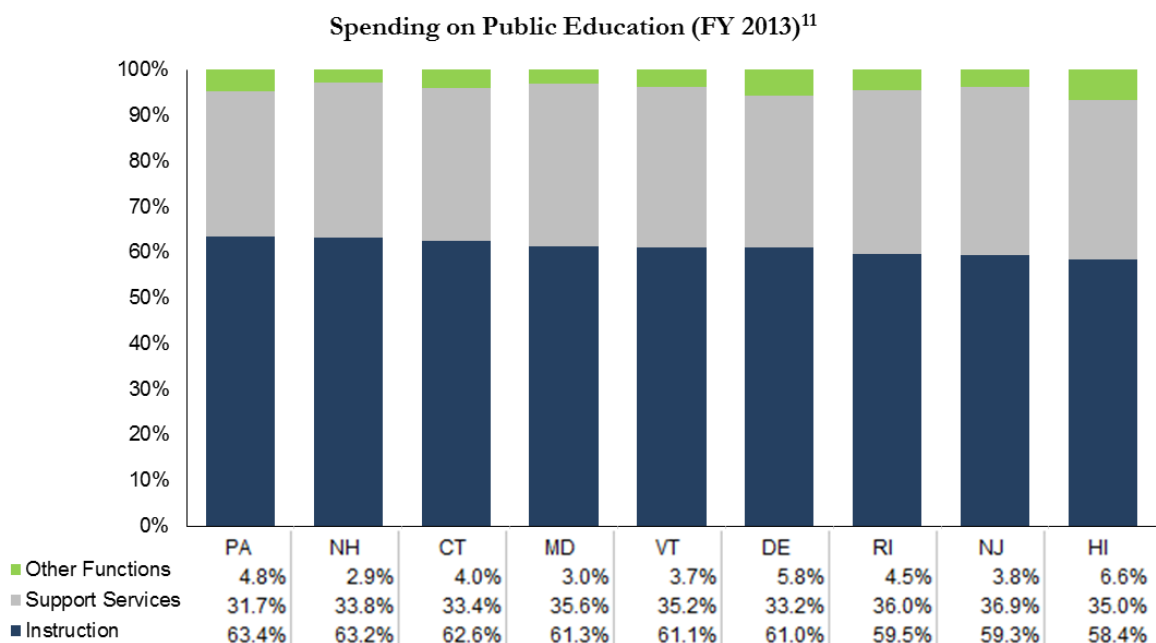
The Department of Education is the largest Executive branch agency. Because public school teachers are included, the department had over 14,000 employees in Fiscal Year 2015. As stated in its mission, the department is committed to promoting the highest quality education for every Delaware student, by providing visionary leadership and superior service. To achieve this mission, the department remains committed to four key pillars of work:

- Rigorous standards
- Curriculum and assessments
- Sophisticated data systems and practices
- Deep support for the lowest-achieving schools

Currently, there are 19 school districts in the State, including three vocational-technical school districts and 26 charter schools. Together, districts and charter schools are known as Local Education Agencies (LEAs).

How Delaware Stacks Up

Like many comparable jurisdictions, Delaware dedicates the majority of its State public education authorization towards teacher instruction, accounting for 61 percent of expenditures for that purpose in Fiscal Year 2013, as shown in the chart below.



¹¹ 2013 Annual Survey of School System Finances, U.S. Census Bureau

Major Topic Areas Reviewed by Committee

Budget In Brief

The Department of Education receives the largest portion of the overall General Fund budget, with an authorization of nearly \$1.27 billion in Fiscal Year 2015, or over 33.3 percent of the General Fund. Among all General Fund expenditures, expenses can be divided into five categories: district and charter operations, pupil transportation, pass through and programmatic funding, department personnel and operational funding and scholarships and grants. District and charter operations comprise the largest expense category, with 86.7 percent of expenditures, and support the majority of teachers, classroom supplies and other operational costs.

Fiscal Year 2015 GF Expenditures by DEFAC Category - Itemized

Description	Personnel Costs	Contractual Services	Supplies and Materials	Capital Outlay	Grants	Grand Total
District and Charter Operations	\$1,017,525,968	\$64,174,383	\$20,399,285	\$3,285,018	\$2,248,328	\$1,107,632,982
Pupil Transportation	19,324,513	51,459,725	2,633,818	3,367,511	860	76,786,427
Pass Through and Programmatic Funding	10,162,055	28,234,564	3,986,605	663,547	20,486,151	63,532,922
DOE Personnel and Operational Funding	17,423,314	668,291	40,166	24,059		18,155,830
Scholarships and Grants		525,130			11,175,887	11,701,017
Total	\$1,064,435,850	\$145,062,093	\$27,059,874	\$7,340,135	\$33,911,226	\$1,277,809,178

District and Charter Operations

Funding is allocated for district and charter operations in accordance with Title 14 of the Delaware State Code, which is based on a unit-based formula separated by three divisions:

- **Division I** includes appropriations related to school district personnel. Unit funding is determined based on the number of children enrolled between pre-kindergarten through grade 12 (for special education students) and for kindergarten through grade 12 (for traditional students). Each unit equals either one classroom teacher or two paraprofessionals. Units are then assigned based on defined ratios. Over the last seven years, enrollment and number of units earned statewide have increased.

Division I Units Earned per Local Education Agency

Grade Level	Unit Ratio
Preschool	1 unit for 12.8 students
Kindergarten - 3	1 unit for 16.2 students
4-12 Regular Education	1 unit for 20.0 students
4-12 Basic Special Education	1 unit for 8.4 students
Pre K-12 Intensive Special Education	1 unit for 6.0 students
Pre K-12 Complex Special Education	1 unit for 2.6 students

Major Topic Areas Reviewed by Committee

A breakdown of expenditures for district and charter operations indicates that a majority of funding is allocated towards Personnel Costs. Personnel Cost constitute 91.9 percent of expenditures. Personnel Costs also include expenditures associated with Academic Excellence Units, which LEAs earn for every 250 students and can be used to support expanded educational services and non-teaching positions.

Fiscal Year 2015 District and Charter Operations Expenditures by DEFAC Category - Itemized

Description	Personnel Costs	Contractual Services	Supplies and Materials	Capital Outlay	Grants	Grand Total
Personnel Costs	\$825,642,504					\$825,642,504
Division II	16,246	\$37,796,571	\$10,131,959	\$685,099	\$301,010	48,930,885
Division III	93,224,184	502,209	462,633	73,153	190	94,262,369
Charter School Operations	64,894,016	18,681,344	2,964,811	1,862,350	540,393	88,942,914
Educational Sustainment Fund	23,009,154	2,224,630	1,480,263	316,314	69,067	27,099,428
Other	10,739,865	4,969,629	5,359,619	348,101	1,337,668	22,754,882
Total	\$1,017,525,969	\$64,174,383	\$20,399,285	\$3,285,017	\$2,248,328	\$1,107,632,982

- **Division II** units include appropriations for all other school costs and energy, except those for debt service and pupil transportation. Other costs support a range of non-personnel related classroom needs, such as technology, classroom furniture, etc. Flat grants fund Division II units, which are determined based on the number of Division I units that an LEA earns.
- **Division III** units serve as equalization funding. Division III funding is meant to alleviate local funding disparities among districts. Units are determined based on a formula, which has remained frozen since Fiscal Year 2009. In Fiscal Year 2015, Division III expenses accounted for 8.5 percent of district and charter operations expenditures. Division III Unit funds are flexible, and school districts may use these funds as local funds, and many districts direct them towards local employee salaries.
- **Charter school operations, the State Educational Sustainment Fund and other expenditures** comprise the remainder of the department's district and operational expenditures. Charter schools earn units also based on enrollment but have greater flexibility to support daily operational costs. Educational Sustainment funds are equally allocated to LEAs and determined based on the number of Division I units earned.

Pupil Transportation

While district and charter operations comprise a large majority of General Fund expenditures in public education, pupil transportation constitutes the second largest expense category at 6 percent, which includes both public schools and nonpublic school transportation costs.

Major Topic Areas Reviewed by Committee

Pupil Transportation Funding by DEFAC Category - Itemized*

Description	Personnel Costs	Contractual Services	Supplies and Materials	Capital Outlay	Grant	Grand Total
Public School Transportation	\$19,324,513	\$50,090,038	\$2,633,818	\$3,367,511	\$860	\$75,416,740
Nonpublic School Transportation		1,369,686				1,369,686
Total	\$19,324,513	\$51,459,724	\$2,633,818	\$3,367,511	\$860	\$76,786,426

*Above chart excludes charter school transportation expenditures.

The State supports 90 percent of transportation costs for traditional school districts, while local funds are used to fund the remaining 10 percent. Funding is allocated to school districts according to a formula based upon students, mileage, fuel prices, operating costs and bus depreciation. Expenditures also include costs associated with homeless transportation and alternative and special school transportation.

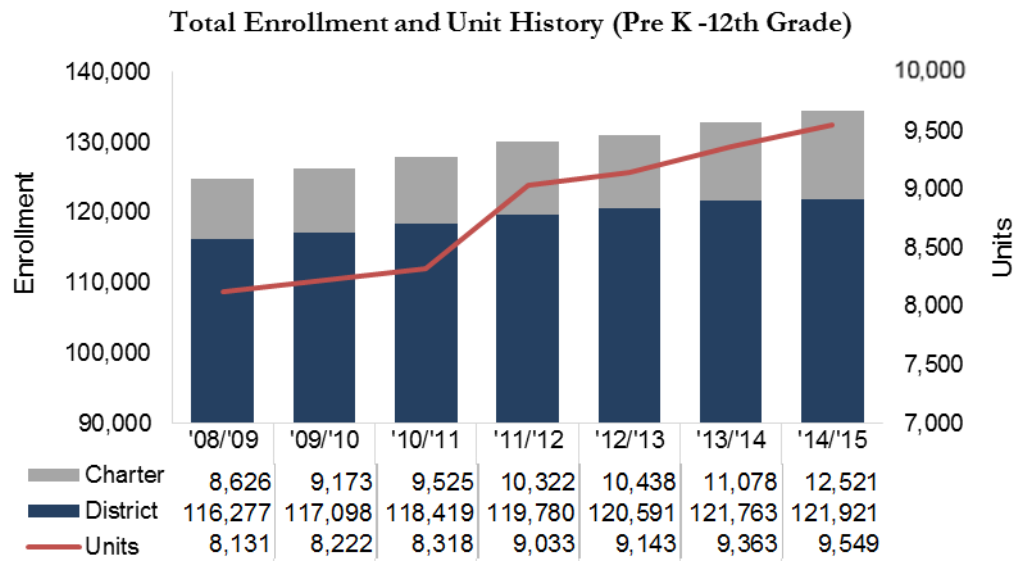
The State also allocates funds for nonpublic school transportation. In Fiscal Year 2015, the State provided approximately \$1.4 million in reimbursements to parents of nonpublic schools students for providing transportation. Nonpublic transportation accounted for 1.7 percent of the overall pupil transportation budget in Fiscal Year 2015, reflecting a small number of eligible families (approximately 10,800).

Cost Drivers

General Fund costs of the department are driven largely by the following factors:

- **Personnel Costs** - Personal costs account for the majority of the department's expenses, with the State funding approximately 70 percent of educator salaries and other employment costs. Salaries are determined based on defined pay scales outlined in Title 14 according to teacher education and years of experience.
- **Enrollment and Unit Growth** - Growth in enrollment and unit growth are the primary drivers for LEA expenses. Between the 2008/2009 school year and the 2014/2015 school year, enrollment increased 7.6 percent, while Division I units increased by 17.4 percent. In recent years, the more rapid rate of unit growth has, in part, been impacted by implementation of the needs based funding model and regulatory and policy changes.

Major Topic Areas Reviewed by Committee



- **Special education units** - Included among recent changes to the unit model system has been improving resources for children with special needs. Increased needs-based funding for special education students has been authorized by creating smaller teacher-to-student ratios for special education units within the unit count system. Since 2012, special education units have increased at a faster rate than traditional units.
- **Increased education requirements** - The addition of new graduation requirements, such as 12th grade math and world language courses, has increased the need for teachers for instruction in these subjects. The implementation of full-day kindergarten in school year 2004-2005 also increased the need for instructors. A unique kindergarten rate was created in response as school districts slowly became approved to offer it. The last school district was approved for full-day kindergarten in Fiscal Year 2015.
- **Pupil transportation** - Pupil transportation costs are also driven by a unique set of factors. Increased LEA enrollment growth has required the transportation of more school students. Additionally, the creation of new charter schools has necessitated the creation of new routes. Homeless transportation has expanded in recent years to cover children in the foster care system as well, which requires the transportation of children to their home districts, regardless of where they are currently living.

Committee Review and Analysis

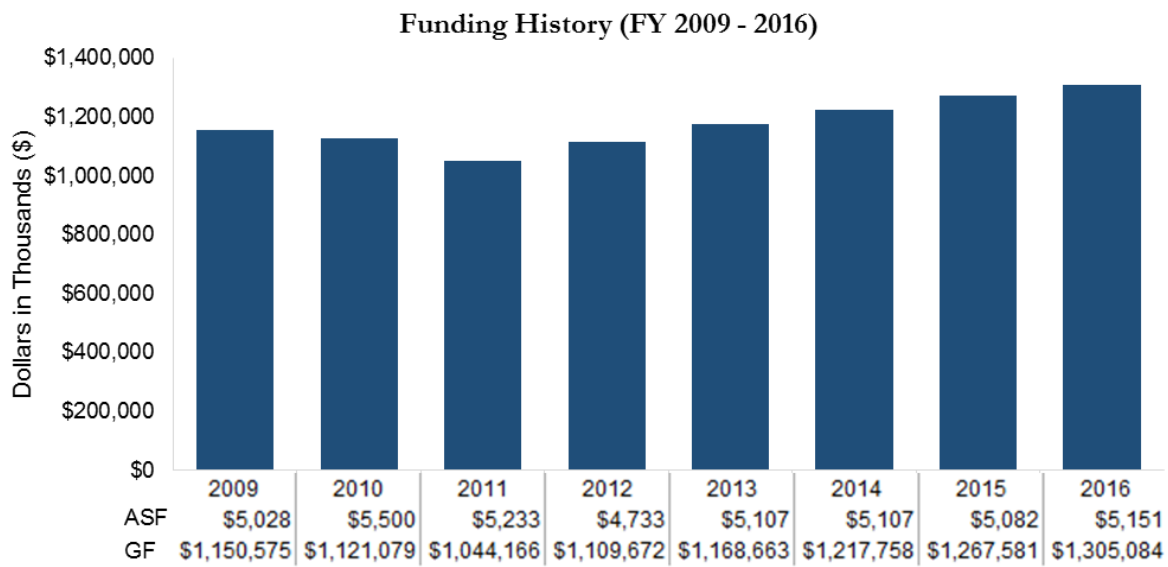
The Department of Education faces several key obstacles in obtaining cost-savings. Increases in personnel and transportation costs are primarily due to unit growth, policy changes and unit formula modifications since 2009. The State also remains committed to providing certain services and options, including various scholarships and grants, regardless of its budget.

The Committee received research and heard presentations from OMB and from PFM. Cost drivers identified during these presentations included the following:

Major Topic Areas Reviewed by Committee

Key Drivers of the Education Budget

- Enrollment growth;
- Unit growth, including special education unit growth;
- Charter school growth;
- Regulatory and policy changes to the education funding model; and
- Funding guaranteed by certain state scholarship and grant programs for eligible students, regardless of the budgeted amount.



Summary of Analysis

- Department spending has remained generally stable in recent years but has steadily increased since reaching a low in 2011.
- Since 2009, funding has increased 13.4 percent, with much of this attributable to augmentations to the funding model as well as increases in student enrollment.
- Enrollment and unit history are related and have both experienced increases in recent years as unit ratio for subpopulations have been reassessed. Subgroups, such as children with special needs and children in kindergarten, experienced greater unit growth than regular student units.
- Like many of its peers, the majority of public school funding comes from State sources (approximately 60 percent).
- Pupil transportation funding has expanded in recent years as the State supports enrollment growth, new charter schools and transportation of homeless children.
- Education cost increases are driven in part by unit growth and enrollment growth. A factor in such growth has been the migration of students from the private/parochial school systems, which adds costs but provides little revenue growth for the State. The relative lack of growth in household income appears to have played a role in parent's decision-making regarding non-public schools. Whether economic recovery substantially reverses this trend is unknown.
- Over the years, children coming from lower income families have constituted a higher percentage of public school students. In many cases, underprivileged students require additional academic support to achieve the required standards. This demographic shift has tended to put additional financial demands on local schools that is not specifically recognized by the current funding formula.

Major Topic Areas Reviewed by Committee

Committee Recommendations

Following a discussion between the Committee members and the presenters, the Committee identified the following four options to counteract existing key cost drivers:

- 1. Special Education Audit for determining eligibility.** There was consensus from the Committee that a more critical understanding of special education units was needed by the State. The Committee recommended that an audit be conducted to specifically analyze the criteria used to determine a child's eligibility for special education resources and to determine how reliably these criteria are being applied across the State. Such an audit could also allow the State to more closely monitor the following:
 - a. Appropriateness of unit allocation among LEAs;
 - b. Accuracy in appropriately reporting filled units as earned; and
 - c. Appropriateness of unit ratios.

School district shared services. The idea of a reduction in the number of school districts in the State was discussed, but a majority of the Committee did not wish to recommend this step at this time. However during presentations to the Committee, the value and opportunity for potential cost-saving through the use of shared services was reiterated. It was noted that school districts already share common platforms in a number of areas, including payroll, the State's financial system and email. The State has also provided incentives to school districts for sharing, with little progress to date. As a result, the Committee recommended that additional ways to enhance the use of shared services be explored by the State. State minimum standards, such as district size or school performance, could be developed and relied upon to identify school districts that might best benefit from such options. Other methods to mandate greater cooperation and sharing may also be appropriate. Finally, incentives could also be explored and developed by the State to support LEAs in consolidating similar administrative functions. The Committee believes that there are additional opportunities, and in some instances the use of these approaches should be not just incented but required.

- 2. School district facilities.** The State is responsible for the support and maintenance of numerous facilities across the 19 LEAs. Internet tools are increasingly available to provide instruction online and to reduce the need for courses to be provided in brick and mortar locations. The Committee therefore recommended that an inventory of existing school facilities be made from an asset management perspective. Taking stock of current resources could allow the State to better determine how current school facilities might be put to use.
- 3. Senior Property Tax.** In June 2012, Governor Markell signed H.B. 209, which enacted a three year consistent residency requirement for new applicants in the State's Senior Property Tax program. Residents over the age of 65 can apply for a tax credit against regular school property taxes assessed on their primary residence. Once qualified, applicants are eligible for a 50 percent reduction in the school portion of their property tax, with a maximum credit of \$500. The State reimburses the school districts for the foregone property tax revenue from the credit. Given the department's significant share of the budget and there being no means testing for the credit, the Committee recommended the State consider eliminating means-testing the credit and/or extending the residency requirement as ways to free up additional resources for local schools. The following details the expenditures for this program:

General Fund Expenditures (in millions)

Expenditure	FY 2009 Actual	FY 2015 Actual	Percent Change	Compound Annual Growth Rate
Senior Property Tax	\$16.6	\$22.3	34.3%	5.0%

Major Topic Areas Reviewed by Committee

4. Employee and Retiree Benefits

Overview

Personnel Costs are the largest expenditure category within the State's General Fund, totaling \$2,028.5 million in Fiscal Year 2015. It is notable that Personnel Costs in Delaware include public school K-12 employees; in most states, those costs are borne at the local school district level. While employee salaries are the largest component of Personnel Costs (\$1,338.5 million in Fiscal Year 2015), there are also significant expenditures for employees (primarily pension and health care) and retiree health care. The following details those Fiscal Year 2015 expenditures, as well as the growth rates from Fiscal Year 2009 to Fiscal Year 2015:

General Fund Expenditures (in millions)

Expenditure	FY 2009 Actual	FY 2015 Actual	Percent Change	Compound Annual Growth Rate
Salaries	\$1,225.5	\$1,338.5	9.2%	1.5%
Fringes - Other	\$112.7	\$119.9	6.4%	1.0%
Fringes - Employee Health Care	\$220.2	\$283.1	28.6%	4.3%
Fringes - RetireeHealth Care	\$73.0	\$90.2	23.6%	3.6%
Pension	\$138.1	\$196.8	42.5%	6.1%

It is notable that the significant areas of expenditure growth associated with personnel are in the employee health care, pension and retiree health care categories. Salary growth on a year-to-year basis has been minimal and much of this is attributable to a focus on position control among the executive branch agencies. While the growth in public school Personnel Costs are set by formula, there have been significant reductions in head count among executive branch agencies.

Employee Health Insurance

As with all state governments, Delaware provides group health insurance coverage for active employees. This coverage may also be extended to spouses and eligible dependents. Currently, the State provides six health plan options available to Group Health Insurance Program members. The following are the current health plan options and the premium cost share split between the State and its employees.

Major Topic Areas Reviewed by Committee

Current Health Plan Options and Premium Costs

Plan(s)	State Premium Cost Share	Employee Premium Cost Share
Highmark Comprehensive PPO	86.75%	13.25%
Highmark and Aetna HMO	93.50%	6.50%
Highmark and Aetna Consumer Directed	95.00%	5.00%
Highmark First State Basic	96.00%	4.00%

All plans include prescription drug coverage administered by Express Scripts. The Group Health Insurance Program is self-insured for health and prescription benefits; health plan premiums paid are used to pay actual claims incurred by plan members (approximately 95 percent of total contributions) as well as administrative fees for Highmark, Aetna and Express Scripts.

There are approximately 67,000 total contracts and over 122,000 covered lives. This includes active employees, non-Medicare eligible retirees (those under the age of eligibility for Medicare) and Medicare Primary retirees. Approximately 73 percent of members are active employees, while 19 percent are Medicare Primary retirees and 8 percent are Non Medicare eligible retirees.

Currently, the State pays 91.4 percent of total health premiums on average. Employees (and Non Medicare eligible pensioners) pay 8.6 percent of total health premiums on average. It is notable that employee (and Non Medicare eligible pensioners) premiums increased from \$3.86 to \$37.46 per month depending on plan effective September 1, 2015. Other health plan changes effective September 1, 2015, included \$5 increases in the primary care physician (PCP), specialist, lab and x-ray copays in the Highmark Comprehensive PPO and Highmark and Aetna HMO plans as well as increases ranging from \$10 to \$100 in the high tech imaging and outpatient surgery copays for these plans. Prescription drug copays for employees and non-Medicare pensioners and their dependents increased \$5 to \$16 for preferred and non-preferred brand medications; however, in an effort to encourage utilization of generic medications, copays in this tier decreased \$0.50 to \$1 per fill.

House Bill 81 Reforms

Delaware's experience is similar to that in many states, where growth in health care expenditures for employees has been among the largest growing components of state budgets. In response to this, in 2011, Governor Jack Markell, legislative leaders and union leaders worked together and ultimately agreed upon a bipartisan effort to reign in retiree pension and health care costs. The health care cost savings attributed to the changes in House Bill 81 over the period from Fiscal Year 2012 to Fiscal Year 2016 totaled approximately \$59.85 million (all funds) when originally estimated in 2011.

Among the health insurance benefit changes contained in House Bill 81 were the following:

- **Required employees to pay a greater share of health insurance premiums.** Prior to the change, the State paid the full price for the First State Basic health insurance plan and employees paid the difference between the cost of the First State Basic plan and the plan they selected. Effective July 1, 2012, a fixed cost share was established for each of the plans offered by the

Major Topic Areas Reviewed by Committee

State, including the First State Basic Plan. As a result, effective July 1, 2012, the State pays 96 percent of the total cost of the First State Basic plan, 95 percent of the total cost for the Highmark and Aetna Consumer-Directed Health plans, 93.5 percent of the total cost of the HMO plans and 86.75 percent of the total cost of the PPO plan.

- **“Double State Share”** was eliminated for new employees hired after January 1, 2012, as well as employees/pensioners if they become benefit eligible or marry another benefit eligible state employee/pensioner after January 1, 2012. Double State Share refers to employees who marry/are married to another state employee; in that case, there was no employee share of the costs of health insurance. Effective July 1, 2012, employees/pensioners who were Double State Share eligible pay \$25 per month for the health plan they select.
- **Health insurance premium increases.** Employee premiums for the First State Basic Plan increased by \$20.58 a month for employee-only coverage, \$42.59 for employee and spouse coverage and \$53.23 for family coverage. Premiums for other state plans generally increased as well (although there were a few plan categories with premium decreases of between \$1.86 and \$3.22 a month), within a range of \$2.29 to \$15.61 a month, depending on the plan and coverage.

Current Environment

While the changes embodied in House Bill 81 were important, the long term cost projections prepared by Aon, the State’s health and benefits consultant, suggest that absent additional changes, total costs associated with employee and retiree health insurance will grow from slightly under \$800 million in Fiscal Year 2017 to just over \$1.0 billion in 2020 and just over \$1.2 billion by 2022. The Committee believes that the increases are not sustainable over the next six years.

Comparison with Other States

As previously noted, all states provide health insurance coverage for state employees. There is significant variation, however, in the number and types of plans and for whom coverage will be extended (besides the employee, this typically includes spouses and eligible dependents).

As was noted in a report by the National Conference of State Legislatures (NCSL), “in the past five years state [health insurance] benefit plans have attracted much more attention among legislators, governors and policymakers.” The reasons identified by the NCSL include:

1. Rapidly rising commercial premiums are impacting state budgets;
2. State fiscal pressures leading to more proposals to increase employee share of costs; and
3. Co-payments and deductibles are on the rise in many states, separate from established premiums.

In 2014, the Pew Charitable Trusts and MacArthur Foundation published a widely referenced report on state employee health plan spending. Among its findings and benchmarking related to Delaware:

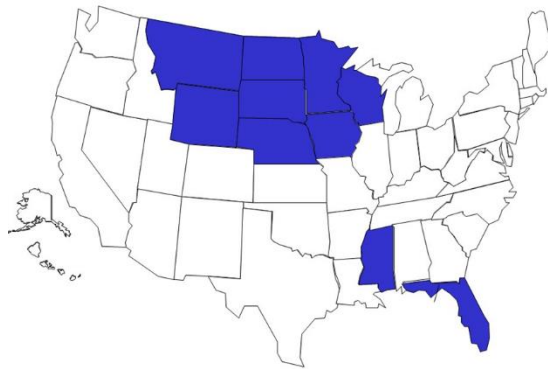
- **Average total per-employee-per-month premium for coverage of employees and dependents was \$959 in 2013.** By contrast, the average total premium per employee for the State of Delaware was slightly higher at \$975.
- **Average employer premium contribution percentage was 84 percent in 2013.** By contrast, the average employer premium contribution percentage for the State of Delaware was 90 percent.
- **Average employee contribution was \$230.** By contrast, the average employee contribution, employee plus dependents, for the State of Delaware was about half the national average at \$121.

Major Topic Areas Reviewed by Committee

Retiree Health Insurance

As with employee health insurance, states typically provide some opportunity for their retirees to participate in their health insurance programs. According to a report from the National Association of State Retirement Administrators and the Center for State and Local Government Excellence, as of March 2014, 86 percent of state government employees had access to retiree health care under the age of 65, and 84 percent had access to those benefits at age 65 and above.

However, there is significant difference in the states levels of financial contribution to the cost of retiree health insurance. In 10 states, retirees are responsible for the full cost of their health insurance. In these states, the only benefit for the retiree is to participate in a group program with younger and generally more healthy current employees. In this case, there is an implicit rate subsidy that benefits the retirees (and, conversely, increases premiums for current employees). The following map identifies these 10 states:



Current Environment

In Delaware, non-Medicare eligible retirees participate in many of the same plans as current employees. The same six plans listed for active employees are also available to non-Medicare eligible retirees. In addition, there is one Medicare supplement plan (which provides supplemental coverage and services that are not covered by Medicare). While non-Medicare eligible retirees have the same premium cost share percentage split as active members, the Medicare Primary plan is fully paid for by the State for retirees who retired before July 1, 2012; for those who retired after July 1, 2012, the State pays 95 percent of the premium and the retiree pays 5 percent.

As previously noted, there is a significant difference in per capita claims for active employees compared to Non Medicare and Medicare Primary employees (which suggests subsidization of retirees by active employee participants).

Per Capita Claims and Premiums

Group	Per Capita Claims	Per Capita Premiums
Actives	\$5,625	\$5,254
Non Medicare Retirees	\$10,482	\$6,561
Medicare Primary Retirees	\$4,726	\$4,349

Major Topic Areas Reviewed by Committee

House Bill 81 Reforms

The reforms previously discussed apply to retiree health care as well. In addition, House Bill 81 slightly increased the number of years of service it takes to be eligible for the retiree health care benefit and the State's share of retiree health care premiums for employees hired after January 1, 2007.

Comparison with Other States

As the NCSL report noted, states have been very active in making changes to their health insurance systems, and this is particularly true for retiree health care. This is understandable, as at least some of the benefit related to providing health care coverage (a healthy current work force) is minimized for those who have already retired. Further, while there are significant legal ramifications related to diminishing pension benefits, there is general agreement that retiree health insurance coverage can be reduced or changed without similar legal concerns.

Multiple surveys have been conducted related to state changes to retiree health insurance benefits. Among the changes:

- Increased retirees' contribution premiums (25 states);
- Increased retirees' dependent contribution premiums (22 states);
- Increased retirees' copayment amounts for medical services and/or treatment (21 states);
- Increased retirees' dependent deductible amounts (18 states);
- Increased years of service required to vest for retiree health care (8 states);
- Increased cap on retirees' out-of-pocket expenses (6 states); and
- Increased age at which retiree health care is available (4 states).

It is notable that Delaware has, in recent years, also undertaken several of these types of plan changes (in particular changes to premiums and the number of years of service necessary to be eligible for the benefit).

According to the Pew Charitable Trusts 2014 survey of State Employee Health Plan spending:

- 29 states enroll retirees at a premium rate that also applies to current employees; in most cases, the rates are exactly the same.
- In some cases, the retiree rates are slightly higher, ranging from 1 percent to 5 percent, than the active employee rate.
- Three states (Connecticut, Idaho, and Mississippi) set their retiree premiums above their active employees' rate but below what is needed to cover the entire additional cost to insure early (pre-age 65) retirees.
- Eleven states (Alabama, Georgia, Hawaii, Illinois, Louisiana, Maine, Michigan, Missouri, North Dakota, New Jersey and Rhode Island) allow enrollment at a separate rate that appears to be intended to cover the additional cost of early retirees.

As an example of these different approaches, Pew provided an example of the premiums for active employees and early retirees under each of the three approaches listed above (same contribution rate for retirees and active employees, some difference on rates and significant difference on rates meant to cover the additional cost of retirees):

Major Topic Areas Reviewed by Committee

Employee-Only Coverage

Premium	California Kaiser HMO Plan	Idaho PPO Plan	Louisiana HMO Plan
Active employee	\$609	\$476	\$544
Early retiree	\$609	\$568	\$1,015
Percentage difference	0.0%	19.0%	87.0%

Public Employee Retirement System

Delaware public employees are covered by separate pension plans: the State Employees' Pension Plan, the State Police Pension Plans and the Judge's Pension Plan. The State Employees' Pension Plan is by far the largest of the three, and the following will focus on that plan.

The State Employees' Pension Plan provides its pension benefit based on a multiplier of 1.85 percent of the employee's final average salary per year. There are several key numbers that need to be known to determine pension eligibility, age at which benefits may be taken and how pension benefits are funded. The following table provides that information:

Pension Eligibility Determination Criteria

Retirement Age (Years of Service (YOS))	Vesting Period	Formula Multiplier	Employee Contribution	Employer Contribution
65 (10 YOS); 60 (20 YOS); or any age (30 YOS)	10 years	1.85%	5% over \$6,000	9.58%*

Each of these items is important for determining the employee pension benefit, when it can be claimed and how the system is funded over time. Retirement age and years of service refer to the combination of those factors necessary to claim full retirement benefits. In the case of Delaware, this can be 65 years of age with 10 years of service, 60 years of age with 20 years of service or 30 years of service at any age. Vesting period refers to the number of years of service necessary to have non-forfeitable rights to the employer contributions to the pension fund. For Delaware, this requires 10 years; if an employee does not attain 10 years of service, they would still have access to their employee contributions but not the employer contributions.

The multiplier refers to the calculation of the full retirement benefit. In the case of Delaware, it is 1.85 percent of average salary per year. For example, if an employee had average earnings over their high three years of \$50,000 and 30 years of service, their annual pension would be \$27,750. As an example of typical pension benefits, as of June 30, 2014, the average benefit for a retiree with 30 to 34.9 years of service was \$2,839 a month before taxes, health insurance and other deductions.

The employee contribution is the percentage employees pay into the pension system after their first \$6,000 of earnings. There is also an employer contribution that varies from year to year and is the amount

Major Topic Areas Reviewed by Committee

necessary to make the actuarially determined annual required contribution. For Fiscal Year 2016, this amount is 9.58 percent of employee wages.

The Delaware State Employees' Pension Plan is one of the better funded pension plans in the country. Its latest financial report indicated that it had a funding ratio of 92.7 percent. The State has consistently funded its annual required contribution to its pension plans. This is consistently identified as a financial strength of the State and contributes to its AAA bond rate with each of the three major credit rating agencies.

House Bill 81 Reforms

As with health insurance, House Bill 81 also made significant changes to the State Employees' Pension Plan. Among the notable changes for employees first hired after January 1, 2012:

- Increased the employee contribution rate from 3 percent to 5 percent of salary above \$6,000;
- Changed vesting from 5 years to 10 years;
- Increased early retirement reduction factors from 0.2 percent to 0.4 percent;
- Changed the normal retirement age with years of service from 62 years of age and 5 years of service or 60 years of age and 15 years of service to 65 years of age with 10 years of service or 60 years of age with 20 years of service; and
- Removed overtime compensation from the calculation of wages for applying the 1.85 percent multiplier.

It is estimated that the pension changes in House Bill 81 resulted in five year savings of \$71.2 million and fifteen year savings of \$327.8 million.

Committee Recommendations

Given the significant costs associated with employee benefits, the Committee spent significant time discussing these programs and opportunities to contain costs. It is notable that initial steps have already been taken in this area, as identified in the review of House Bill 81.

The following details opportunities that the Committee discussed during its meetings:

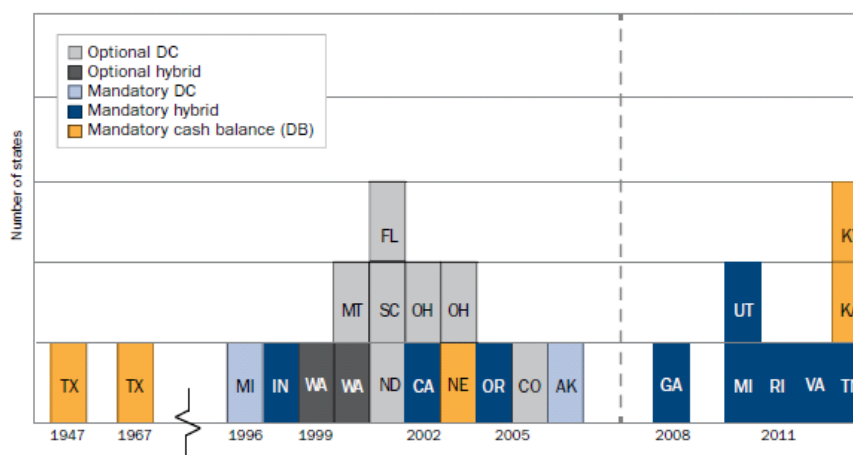
Pension System

1. **Consider, based on analysis, options to include a defined contribution program.** The majority of private pension systems have moved from defined benefit (DB) to defined contribution (DC) programs. In general, this allows a state to more readily reduce or control its costs.

Among state pension systems, there are several that have moved to some form of a defined contribution system, generally for new employees. This gets around the constitutional and other legal issues associated with diminishing pension benefits that have already been earned by existing or former employees. Most of these plans took the form of an optional DC plan, where the state retained its DB plan and offered employees the alternative of participating in a DC plan instead. Only two states, Michigan and Alaska, introduced plans that required all new hires to participate solely in a DC plan. There has been a notable increase in new options since the Great Recession. It is further notable that none of these states went the route of Michigan and Alaska where only a DC plan was offered and its

Major Topic Areas Reviewed by Committee

use was mandated. The following figure identifies the various plan approaches adopted by state and year:¹²



After the financial crisis, the motivation of states moving to DC plans is mostly focused on avoiding the high costs associated with large unfunded liabilities, unloading some of the investment and mortality risk associated with traditional DB plans and to have a less back-loaded benefit structure to increase the amount that short-term employees can take with them when they leave. This is particularly of interest for younger workers who do not intend to make state employment their entire career.

Of course, there are risks associated with this approach. There is concern that employees will not dedicate sufficient savings for their DC accounts. Some states with DC plans provide retirement finance counseling for employees or other incentives to induce greater participation. There is also the concern that diverting more employees from the existing DB plan will make it more difficult for the existing plan to cover its ongoing liabilities for retirees and those who will soon be taking retirement, particularly as the baby boomers move into their retirement years. This is a valid concern that has led at least one state system (West Virginia teachers) to switch back from a DC to a DB system. As a result, it is likely that changes that provide options related to choice of DC or DB systems (forms of hybrid systems) can best address these concerns.

2. Consider additional benefit changes. There is considerable variation among state pension system benefits, and additional changes to those adopted in House Bill 81 could be considered. For example:

- Changes to age or length of service for full retirement benefits. In particular, Delaware allows full retirement after 30 years of service. In this case, many individuals eligible for full retirement will be well under the normal retirement age and will also be drawing retiree health care for a significant number of years. Many states use a “rule of” calculation where age and years of service must equal a certain number for full retirement. Multiple states use a rule of 85, and there are also states with rules of 88 or 90. By contrast, a state employee who entered state employment after college could conceivably reach their 30 years of service around age 51 effectively a rule of 81, which is much lower than many other states.

¹² “Defined Contribution Plans in the Public Sector: An Update,” Center for State and Local Government Excellence, April 2014.

Major Topic Areas Reviewed by Committee

- Delaware currently calculates benefits based on the average of the wages earned in the employee's three highest years. Many states have moved to using the five highest years; this tends to reduce benefits for employees who had a couple of years with significantly higher wages than earlier years.
3. **Continually review pension plan performance and assumptions to ensure system viability.** The Committee noted that the Delaware pension system's funding ratio is among the highest in the country for state pension systems. While this is laudable, discussion also revealed that some of the pension plan assumptions, such as an annual rate of return of 7.75 percent, have not, on average, been attained in recent years. These plan assumptions should be reviewed on a regular basis and, if proven to be overly-optimistic, should be revised accordingly. The State has been vigilant in its adherence to strong pension practices, particularly related to funding its annual required contribution, and these practices should be replicated in all aspects of its pension system.
 4. **Resist post-retirement pension benefit increases.** In past years, ad hoc benefit enhancements that are not part of existing pension benefits have been enacted. While there may be instances in which such enhancements are acceptable, in general, pension system stability is highly important to ensure that assumptions related to funding and future benefits are accurate and sustainable. Frequent benefit changes that have not been a part of past actuarial assumptions can create risks to the system and, given that the state (as employer) contribution to the system must be set to maintain the system's financial integrity, these ad hoc benefit changes may crowd out other state funding priorities.
 5. **Support for the Health Care Task Force.** The Committee acknowledges the work of the Health Care Task Force created by Section 73 of the Fiscal Year 2016 budget. The work of this Task Force was conducted in parallel to the work of this Committee. We believe the Task Force's work was beneficial and recommend the continued pursuit of the opportunities it identified for potential cost savings in regards to state employee and retiree health care.

Retiree Health Care

6. **Consider use of private or public exchanges for health insurance coverage.** ACA provided states with the option to either develop their own exchange or to use the federal government's exchange. There is a belief that the exchanges may provide additional lower-cost options or opportunities for individuals to customize their health insurance coverage. The belief is that the power of the market will provide opportunities that lessen costs for the individual.

Besides the public exchanges, there are a number of private exchanges that have developed over the last several years, and some of these private exchanges may provide the same sorts of advantages as the public exchanges.

Among state and local governments, there is now some experience with the use of exchanges for retirees. For example, the City of Detroit entered into an agreement with its retirees to provide varying monthly dollar amounts for retirees who would then use the public exchange to purchase their own health care. The City of Chicago is also pursuing a plan that will, over three years, phase out its subsidy of retiree health insurance. Meanwhile, both Cobb County, Georgia and Alameda County, California have moved their employees onto private exchanges.

Major Topic Areas Reviewed by Committee

There is also some experience with exchanges at the state level. Nevada has moved its Medicare-eligible retirees from group Medicare coverage to private exchange coverage; Nevada has estimated it will save \$8 million a year through this move. Meanwhile, the State of Ohio Public Employees Retirement System is shifting 145,000 retirees to a private exchange, with plans offered by 90 insurers versus the one current plan.

Of course, there may well be winners and losers through this market-based approach. Because the exchanges and public sector experience with them are relatively new, it is difficult to point to definitive studies on the effects of these new moves. Because the exchange also offers a variety of available plans, determining likely financial impacts will be driven by the type of plan design created.

7. **Consider changes to the state contribution levels for retiree health care.** As noted in the benchmarking data, Delaware's average health insurance premiums are above the national average, and its average percentage of employee contribution is below the national average. Moreover, both employee and retiree health benefit cost growth exceeded the State's 10-year revenue growth rate. Changes could be made to move the State contribution to the national average. While this change could also be considered for current employees, there is perhaps even a stronger argument for doing so for retirees. That is because retirees are already obtaining a significant subsidy given their higher utilization of health care.

Besides increasing contribution levels, the State could also consider restricting benefits and/or coverage for retiree dependents. It is notable that the State does not provide an additional pension for spouses of state employees. In that case, why is health insurance coverage provided for retirees and spouses or eligible dependents? As an alternative to full coverage, the State could require dependents to pay the full additional premium cost.

Finally, at least fourteen states have developed a differing premium structure for some or all of its retirees. Given the implicit rate subsidy that already exists, this alternative appears a way to recoup some of the additional cost of this cohort.

8. **Seek to induce reductions in costs through incentives/disincentives.** Several states have experimented with approaches that seek to incentivize behavior that could reduce health care costs or the costs of insurance. For example, North Carolina has added weight maintenance and smoking cessation requirements for inclusion in its standard plans. In their case, this resulted in a shift of retirees to their basic plan, and less healthy, higher-cost retirees tended to move to less generous plans.

Additionally, the data on page 51 suggests that Non Medicare retirees should be assuming more of the fiscal burden. One approach to be considered is either requiring or incenting individuals who secure full-time employment after retirement to enroll in their current employer's health plan, if available.

Major Topic Areas Reviewed by Committee

5. Other Topics Considered

i. Central Services

Introduction

There are a variety of internal State government functions that are necessary for its efficient operation. These include managing its fleet of motor vehicles, conducting procurement, maintaining its financial systems, etc. The Committee discussed two areas that have received attention in other similar studies, fleet management and procurement.

Fleet

The State of Delaware has a number of policies and procedures in place to maximize efficiency within its fleet of motor vehicles. For example, OMB has determined optimal utilization of motor vehicles and regularly monitors this for those motor vehicles assigned to a specific agency. If utilization falls below 80 percent, those motor vehicles can be removed from assignment to that agency. To maximize use, the State will change out vehicles assigned to departments to even out mileage. Optimization also extends to the types of vehicles assigned to a department; sport utility vehicles, for example, may be switched out in favor of smaller cars unless there is a specific business need for a larger vehicle. OMB also maintains a fleet that is available to all departments on a daily or hourly basis.

Number of Vehicles by Type

Vehicle	FY 2015	FY 2016 YTD	Value Fleet Inventory
Sedans	943	947	\$15,347,955
Mini Vans	490	486	\$9,561,740
SUV	205	214	\$5,652,433
Pickups	243	242	\$5,457,179
Cargo Vans	78	78	\$1,270,182
Lg. Passenger Vans	153	153	\$3,840,044
Handicap Accessible Vans	173	169	\$6,907,607
Misc.	9	9	\$297,472
Total	2,294	2,298	\$48,334,612

The State has a seven year replacement cycle for its motor vehicles. To reduce the overhead associated with maintenance, the State contracts for maintenance of its vehicles. Because the State's fleet is mostly under warranty, this practice generally only requires routine maintenance.

The State also has a fuel management contract. Analysis by OMB indicates that the contract provides fuel at a price that is approximately 40 cents per gallon cheaper than the price paid by the typical consumer.

It is notable that OMB does not manage the fleet for the Department of Transportation or the State Police.

Major Topic Areas Reviewed by Committee

Procurement

OMB also manages procurement for covered agencies and is responsible for soliciting and managing awards. Public schools are exempt from the requirements. There are contract dollar amounts that prescribe the level of involvement of OMB - larger dollar contracts require more OMB involvement.

OMB maintains a procurement website to enable greater vendor participation and transparency. It also provides a useful tool for analyzing spending and allowing trend analysis. OMB also participates in a variety of cooperative purchasing efforts, such as the National Association of State Procurement Officers (NASPO) value point contract for computer purchases. They also use an eMarketplace website for contract shopping.

The State has also devised a process that allows state employees to assist in reducing contracting costs. In an effort to ensure the State is getting the best value on its purchases, OMB's Government Support Services (GSS) provides an "I Found It Cheaper" website where state employees can submit real prices for real products. GSS then compares the contracted value to those suggestions. According to OMB, this has resulted in approximately \$800,000 in savings to the State to date.

Committee Discussion

The Committee was generally impressed with the steps taken by the State to date in this area. As a result, the discussion was generally focused on opportunities to expand on the use of centralized fleet and procurement services.

Committee Recommendations

1. **Broaden the use of Centralized Services.** In particular, the State should explore expanding the management of vehicles and procurement to additional agencies or non-covered entities. For example, all Department of Transportation assets could be required to adhere to the State's Fleet policies for light duty trucks and utilization reviews. There could also be additional requirements for the involvement of schools in cooperative procurement.
2. **Conduct a regular review of vehicle use options.** The State has established parameters around vehicle utilization that seek to optimize use from a cost-benefit perspective. The State should broaden those efforts to also identify and analyze all motor vehicle and non-motor vehicle options. There may be instances, for example, where the use of battery-powered vehicles could be used to replace more costly motor vehicles or smaller cars could be used to replace SUVs and larger sedans.
3. **Continue efforts to maximize the use of state assets.** The State continues to investigate the cost-benefit equation related to issues of renting versus owning buildings, particularly as it relates to office space. While it generally is more cost effective to place departments in existing state-owned buildings, there can be issues related to the timing of the expiration of leases, finding an appropriate fit for departments and available space, as well as location issues (such as when client access is a key factor). The State should continue space maximization efforts, continually inventory state property and determine its highest and best use.

ii. Department of Services for Children, Youth and Their Families

Department of Services for Children, Youth and Their Families (DSCYF) is responsible for child abuse reporting, child abuse prevention and the operation of the State's Foster Care system, certain behavioral

Major Topic Areas Reviewed by Committee

health programs for children, the State's juvenile justice system and for child care licensing. The department's General Fund budget for Fiscal Year 2015 totaled about \$154.6 million.

The primary goals of DSCYF are to ensure the safety of children, youth and the public from abuse, neglect, dependency, self-harm, substance abuse, crime or violence by youth and to provide positive outcomes for children and youth through reunification with families, timely achievement of permanency, achievement of the most appropriate level of functioning and behavioral adjustment, reduced recidivism or return to service and prevention services and avoidance of entering or re-entering the department's mandated services.

At \$77.6 million in Fiscal Year 2015, Personnel Costs represented the largest component (about 52 percent) of all department expenditures. DSCYF personnel staff 31 locations and serve over 8,000 children on any given day. The department was budgeted 1,203.0 FTEs during Fiscal Year 2015 (all fund types); however, as of October 1, 2015, the actual headcount for the department was 1,152.0, which is down 51.0, since March of 2009. Since Fiscal Year 2009, due to salary policy and overtime costs, the department's personnel expenditures have increased more than 14.7 percent. In Fiscal Year 2015, \$2.4 million was expended on overtime with a majority of these expenditures in Youth Rehabilitative Services' (YRS) secure care facilities. Overtime costs for Fiscal Year 2015 were nearly twice the overtime costs in Fiscal Year 2009.

Child welfare expenditure activities represent a significant component of department spending and include the use of federal funds from Title VI-E and IV-B of SSA. Funds are used to promote the well-being and safety of children and their families through prevention, protection and permanency, and include Child Placement, Foster Care, Adoption Assistance, Shelter Care, Family Support and Independent Living Services. DSCYF served the following youth populations in Fiscal Year 2015:

Department Services

Service	Children Served
Foster Care	972
Adoption Assistance	576
Shelter Care	69
Family Support	1,788
Independent Living Service	387

Committee Discussion

The Committee heard presentations by OMB and PFM on department operations and finances, as well as comparable performance of children and youth agencies in other states. There was significant discussion about the department's initiatives, including the use of the Structured Decision Making tool to screen calls to Report Line, the State's child abuse hotline. Discussion included the consolidation of residential units at the Silver Lake Treatment Center in Middletown.

Major Topic Areas Reviewed by Committee

Following discussion, the Committee focused on two areas of interest for further pursuit by the State: (1) the management of Foster Care populations and (2) overtime usage in the YRS secure care facilities.

Committee Recommendations

- 1. Continue to pursue efforts to reduce Foster Care placements.** In fall of 2011, the Division of Family Services (DFS) partnered with the Child Strategy Group of the Annie E. Casey Foundation (AECF) to conduct a comprehensive assessment of Delaware's child welfare system. That assessment confirmed several strengths in the areas of prevention of maltreatment recurrence, low entry rates into Foster Care and achievement of permanency for children. However, the assessment also identified several areas of opportunities for improved performance. These included preventing unnecessary entries of teens into Foster Care, achieving better permanency outcomes for adolescents, reducing the number of youth who age out without legal permanence and improving placement stability in Foster Care.

In May 2012, DSCYF implemented a series of initiatives branded *Outcomes Matter*, which focused on preventing unnecessary entries into Foster Care and improving outcomes for permanency. The department subsequently launched expedited transition to family meetings, designed to ensure every youth is in the least restrictive placement possible and connected to family. The target population is youth placed in residential in-state and out-of-state treatment facilities and likely served by multiple divisions, due to complex behavioral, emotional and familial issues. Cost savings from shorter lengths of stay are shifted to in-state community service agencies and the creation of expanded individualized services to families.

The Committee believes this Expedited Transition to Family initiative should continue to focus on reducing the number and cost of highly expensive out-of-state placements. Moreover, the department should utilize available resources, including grants and federal funding for the use of additional prevention/in-home services to further reduce costly Foster Care placements.

- 2. Examine the causes and solutions to the growing cost of overtime in YRS secure care facilities.** In Fiscal Year 2015, \$2.4 million was expended on overtime with a majority of these expenditures in the YRS secure care facilities. Similar to its recommendations for the Department of Correction, the Committee believes increased management focus on YRS overtime is required. This focus should include the use of scheduling alternatives, enhanced use of technology to reduce staff coverage and the strategic use of hiring, only if it can be demonstrated that some enhancements to full or part-time staffing will materially reduce overtime, as to result in a meaningful net savings.

Miscellaneous Issues

There were a variety of other issues that came up during the course of Committee discussion. While these were not the subject of rigorous analysis by the Committee as a whole and are not specific recommendations, they may be worthy of additional research and analysis in the future:

- Consider job requirements or other criteria for eligibility for public benefit programs;
- Increase the evaluation of state properties for repurposing or sale;
- Consider the need for the Office of the Lieutenant Governor; and
- Consider further exemptions from prevailing wage similar to those enacted for Community Transportation Funds and Municipal Street Aid.

Appendix

1. Delaware Expenditure Review Committee Charter

STATE OF DELAWARE



EXECUTIVE DEPARTMENT
DOVER

EXECUTIVE ORDER NUMBER FIFTY-TWO

TO: HEADS OF ALL STATE DEPARTMENTS AND AGENCIES RE: DELAWARE EXPENDITURE REVIEW COMMITTEE

WHEREAS, the Delaware Economic & Financial Council (DEFAC) Advisory Council on Revenues has examined the State of Delaware's revenue portfolio and determined that more than half of Delaware's revenue sources do not grow in proportion to the overall economy;

WHEREAS, as a result of the lack of growth among major revenue categories, total state revenues in FY 2016 are estimated to be less than FY 2015;

WHEREAS, the General Assembly and the administration have managed the State's budget responsibly, with budgets that are balanced every year and budget growth that is only 2.3% annually during the Markell administration and that is actually negative 0.58% if adjusted for inflation and population growth during that time;

WHEREAS, the Markell administration has eliminated more than 1,000 state positions between FY 2009 and FY 2016, reduced overall head count by more than 600 employees, reduced energy costs, enacted state employee health and pension reform, reduced fleet costs, and implemented savings programs in Medicaid, Long-Term Care, and many other programs;

WHEREAS, as a result of these efforts and other budget savings, the Delaware state budget has grown less during the Markell administration than any other administration in a generation or more;

WHEREAS, even with well-managed budgets, the absence of robust revenue growth that tracks Delaware's economy and the State of Delaware's expenses creates an anticipated budget deficit of more than \$100 million in FY 2017, and that deficit has the potential to grow as expenses continue to climb and revenue sources do not keep up;

Appendix

WHEREAS, the Delaware General Assembly and Joint Finance Committee are interested in identifying opportunities for savings in the state budget and have begun efforts to identify savings through reviews by the Pew Charitable Foundation and attempts to identify savings in programs like Medicaid;

WHEREAS, the Governor and the General Assembly are committed to responsible management and administration of the state's budget, including identifying opportunities for achieving better savings for taxpayers;

WHEREAS, a comprehensive review of state spending can identify opportunities to achieve savings in a manner that allows for the continued provision of effective service to Delawareans, particularly those who depend on government services in times of need.

NOW, THEREFORE I, JACK A. MARKELL, by virtue of the authority vested in me as Governor of the State of Delaware, do hereby DECLARE and ORDER that:

1. The Delaware Expenditure Review Committee is hereby created.
2. The Committee shall be comprised of twelve members. The Committee shall be comprised of the Chairperson of DEFAC, the Chairperson of DEFAC's Subcommittee on Expenditures, the Controller General or his designee, the Director of the Office of Management and Budget or her designee, one person appointed by the President Pro Tempore of the Senate, one person appointed by the Speaker of the House, one person appointed by the Minority Leader of the Senate, one person appointed by the Minority Leader of the House, and four public members appointed by the Governor. The Co-Chairpersons of the General Assembly's Joint Finance Committee shall designate a member from among those appointed to serve as chairperson of the Committee.
3. Members of the Committee shall receive no compensation, but shall be reimbursed for customary and usual expenses incurred in the performance of their duties. The Committee shall act by majority vote and may adopt public procedures and standards for the conduct of its affairs, consistent with this Order. A quorum of the Committee shall consist of a majority of members.
4. The Committee is tasked with a review of state government services to evaluate whether there are opportunities to provide government services in a manner that is more efficient, more effective, or can be performed at less cost to taxpayers. The Committee shall review any such proposals in a manner that gives consideration to both the overall cost savings that might be obtained and the positive and negative effects of those savings on the provision of services.
5. The Committee is authorized to call upon volunteer assistance from its membership or other interested parties, and may retain such advisors or consultants as appropriate to assist its work. The compensation of any advisor or consultants shall be approved jointly by the Office of Management and Budget and Controller General.
6. On or before January 29, 2016, the Committee shall report to the Governor and the Joint Finance Committee of the General Assembly any findings and any recommendations for the State of Delaware's operations or budget.

Appendix

7. The Office of Management and Budget and Controller General's Office shall provide staff support to assist the Committee in performing its duties and shall, upon request, provide the Committee with reports and data helpful to the Committee's ability to perform its assigned duties. All executive branch state agencies and departments shall cooperate with the Committee when requested.

8. The Delaware Expenditure Review Committee shall be terminated on June 30, 2016, if not reconstituted by further executive order.



APPROVED this 25th day of September, 2015

A blue ink signature, likely of the Governor, written over a horizontal line.

Governor

ATTEST:

A blue ink signature, likely of the Secretary of State, written over a horizontal line.

Secretary of State

Appendix

2. Summary and Examples of Approaches to State Efficiency Studies

The following is a summary of state efficiency studies that have been completed by states in recent years. In general, approaches to these types of studies can be categorized into one of three groups: studies conducted by external organizations; studies that have been legislatively requested including those that have been requested by one house, both, or by the General Assembly; and studies that have been conducted through a combination of these two approaches.

	State	Title of Study	Date
External Organization	Colorado	Government Efficiency and Management Performance Review	2008
	Iowa	Efficiency Review Report	2009
	New Mexico	State Government Performance Review	2003
	West Virginia	Government Performance Review	2006
Legislatively Requested	Connecticut	Commission on Enhancing Agency Outcomes	2009
	Georgia	State Senate Budget Task Force	2010
	Louisiana	Commission on Streamlining Government	2009
	Michigan	Legislative Commission on Government Efficiency	2009
	New Mexico	Government Restructuring Task Force	2010
	Ohio	Budget Planning and Management Commission	2011
	Pennsylvania	Senate Government Management & Cost Study Commission	2010
	Texas	Government Effectiveness and Efficiency Report	2015
	Iowa	State Government Reorganization Commission	2010
Hybrid	Florida	Government Efficiency Task Force	2012
	Minnesota	Drive to Excellence	2005 - present
	North Carolina	Government Efficiency and Reform	2015
	Oregon	Governor's Reset Cabinet	2009
	Vermont	Challenges for Change	2010

Appendix

3. State Efficiencies and Reductions

Statewide

- Reduced costs by renegotiating leases, resulting in an estimated savings of \$5 million annually.
- Reduced state agency electric supply rates by over 10 percent through the use of online reverse auctions achieving cumulative savings of over \$22 million. Also reduced state agency natural gas rates by more than 1/3 achieving cumulative savings of over \$6 million.
- Reduced the size of the state fleet by more than 17 percent, eliminating 899 vehicles.
- Implemented a 5 percent cut to pass-through programs and instilled greater accountability for the programs.
- Moved state tax filing systems from paper-based to online.
- Eliminated the issuance of 19,000 paychecks and advices and 39,000 W-2s by implementing the ability to view these documents online.
- Leveraged AAA-bond rating to lower bond interest costs.
- Moved 70 percent of the State's servers to the virtual Cloud.
- Placed moratorium on all non-essential out-of-state travel for cabinet agencies.
- Reduced employee recognition funding.
- Eliminated state-owned vehicles for cabinet members.
- Installed vehicle telematics and onboard diagnostic tools in the State's fleet and DeIDOT vehicles to create operational efficiencies.
- Eliminated new commitments for employee tuition assistance or reimbursement.
- Implemented purchase order review for items above \$5,000 from \$10,000.
- Automated the manual Clearinghouse process of federal, indirect and private grant review.
- Reduced state agency printing and advertising funding.

Personnel

- Eliminated over 1,100 state employee positions since 2009.
- Since March 2009, there has been a 5 percent reduction in the number of full-time state employees working in cabinet agencies.
- Enacted state employee health and pension reform, resulting in a \$12.0 million savings in Fiscal Year 2015 and more than \$480 million in savings over a 15-year period.
- Implemented an Employer Group Waiver Plan (EGWP) prescription program for Medicare- eligible retirees, resulting in an estimated savings of over \$12 million per year.
- Implemented Consumer Directed Health Plan.
- Provided the option to elect to receive Benefit enrollment online rather than mailing.
- Implemented overtime policy change whereas overtime at a rate of time and one-half will commence after an employee has accrued 40 compensable hours (was previously at 37.5 hours).
- Implemented an intensive hiring review.
- Changed the Short Term Disability elimination period from 20 days to 30 days.
- Reduced state holidays by two and benefit eligible employees became eligible for two floating holidays.
- Implemented Learning Management System to track employee training statewide.
- Implemented eProfile for employees to update personal information rather than having to contact their HR/Benefits personnel.

Appendix

Agency Reductions

- Implemented a 90/10 Pupil Transportation split as a best practice.
- Reduced non-public school transportation reimbursement (\$1.45 million).
- Reduced the number of residents living in DHSS Long-term Care Facilities, saving an estimated \$5.8 million.
- Revised the Medicaid reimbursement process for prescription drugs, lowering costs to the State.
- Implemented Medicaid Managed Long Term Care.
- Reduced funding for school based health centers.
- Reduced State's general assistance program to \$81 per month.
- Required mandatory use of the Trip Spark (Trapeze) routing system to create more efficient school transportation routes per report recommendations.
- Eliminated Service and Information Guide within Government Support Services, resulting in an estimated savings of \$556,100. Services are now provided by Delaware 2-1-1.
- Installed self-service kiosks at DMV facilities.
- Implemented new lighting control system at DelDOT to save on energy costs.
- Reduced E-ZPass Customer Service Center hours and automated 24/7 support services.
- Eliminated E-ZPass paper statements.
- Eliminated print shop within Government Support Services, resulting in cost savings associated with reduced agency printing and a reduction of staff.
- Eliminated new wildlife habitat enhancement program conservation leases.
- Reduced mowing, parking lot and road maintenance for Angola Neck in DNREC.
- Eliminated New Castle County (NCC) Dredge program for NCC Conservation District.
- Reduced operating hours at the Polly Drummond Hill Yard Waste site.
- Reduced Smyrna Rest Stop staffing hours.
- Reduced gypsy moth survey.
- Eliminated printing of budget books.
- Eliminated casual/seasonal funding for inland bays enforcement.
- Maximized technology resources by transferring DelDOT 24/7 help desk to the Department of Technology and Information.
- Reduced Maritime Exchange subsidy to reflect contribution equitable to surrounding states.
- Eliminated funding for School to Work program.
- Eliminated funding for Budget Commission.
- Implemented a Managed Service Provider program to address technology staffing needs.

Consolidations

- Consolidated Information Technology resources statewide.
- Consolidated DNREC from six divisions to three offices.
- Consolidated the Division of State Service Centers from four units to one unit in the Department of Health and Social Services.
- Consolidated the following areas within the Department of State:
 - Merit Employee Relations Board into Public Employment Relations Board;
 - Commission for Women and the Office of Human Relations;
 - Delaware State Historic Preservation Office and Delaware State Museums into the Office of the Director; and
 - Delaware Veterans Memorial Cemetery and Veterans Cemetery Georgetown into Delaware Commission of Veterans Affairs.
- Co-located State Procurement Office and Office of Supplier Diversity for greater efficiency of services.

Appendix

Consolidations (continued)

- Consolidated Delaware Advisory Council on Career and Technical Education into the Department of Education.
- Relocated Long Term Care Facilities to Division of Services for Aging and Adults with Physical Disabilities.
- Reallocated the Office of Prevention and Early Intervention to the Division of Prevention and Behavioral Health Services in the Department of Services for Children, Youth and Their Families, streamlining service delivery.
- Reallocated the Toll Administration unit from the Maintenance and Operations Unit to the Division of Motor Vehicles in DelDOT, creating operational efficiencies and future cost avoidance.