A QUARTERLY REPORT ON
THE EFFECTIVENESS OF EXECUTIVE ORDER 2009-07S:
IMPLEMENTING ADDITIONAL SPENDING CONTROL STRATEGIES

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SUBMITTED BY:

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Overview:

Executive Order 2009-07S, *Implementing Additional Spending Control Strategies*, was issued on April 22, 2009, in response to the continued decline in state revenues. Your Order explains that although many aggressive reduction strategies were implemented during 2008, the State must continue its commitment to prudent and responsible financial management.

The Order established several cost-savings and spending control strategies to be implemented by DAS and OBM and to be utilized by agencies, boards and commissions during Fiscal Years 2009, 2010 and 2011.

Your Order requires that the Directors of OBM and DAS monitor the implementation of this Order and provide quarterly reports to you beginning July 30, 2009, regarding the effectiveness of the Order. This document serves as the first quarterly report. Within this report, we will highlight the efforts taken during the initial months of the Executive Order and explain our intended approach for reporting future fiscal activity beginning October 30, 2009. Section I of the report provides summaries of the efforts taken during the last weeks of fiscal year 2009. Section II highlights some of the key initiatives that are being developed and implemented for fiscal years 2010 and 2011. Section III explains the approach that DAS and OBM will take to provide you with feedback on the effectiveness of this Executive Order.

I. Efforts for Remainder of Fiscal Year 2009:

Upon the issuance of this Executive Order, DAS, OBM and state agencies, boards and commissions collaborated to address the initial requirements of the Order. Agencies worked quickly to implement the required spending controls. On May 11, 2009, Director Sabety submitted an interim report to estimate the savings of the key strategies. We are pleased to report that the actual savings exceeded our May estimates. We estimated a fourth quarter savings of $98,888,157. Actual savings totaled $167,284,609. Below are summaries of the key efforts along with the estimated and actual dollars saved during the remaining weeks of Fiscal Year 2009 (FY09):

A. Allotment Controls:

OBM tallied lapsed GRF allotments from the first, second, and third quarters of the fiscal year. In addition, OBM reduced agencies' available fourth quarter non-payroll GRF allotments by 30% to achieve additional savings. This directly limited agencies' ability to purchase goods and services for the remainder of the fiscal year, pursuant to the Executive Order.

Allotment controls for first, second, and third quarter lapses plus generally 30% of fourth quarter amounts for personal service contracts, supplies and maintenance, and equipment significantly exceeded initial estimates.

Estimate: $17,000,000
Actual: $29,076,464

B. Cancellation of GRF Open Contracts:

Agencies were immediately tasked with reviewing their existing FY09 GRF-based contracts to determine whether the contract was non-critical, critical or uncertain. Agencies assessed their open contracts and issued stop work orders to vendors with non-critical contracts. Agencies were next tasked with reviewing their lists of critical and non-critical contracts with DAS procurement officers. DAS' assessments found that agencies recognized the urgency of this task and appropriately delayed, reduced or cancelled non-critical contracts. This review process resulted in cancelled contracts valued at an estimated $13,878,157.

DAS review of contracts with agencies and subsequent "stop work" orders issued were complete by the time of the May 11, 2009 letter. As a result, the actual savings remains the same as the estimate.

Estimate: $13,878,157
Actual: $13,878,157

C. Rate Holidays:

After issuing rate holidays earlier in 2009, DAS and OBM issued additional rate holidays for the following programs for the remainder of FY09:

For four pay periods:

- Collective Bargaining
- Equal Opportunity

For two pay periods:

- State Accounting
- Payroll Processing
- Employee Disability Leave
- Life Insurance
- Parental Leave

Agency rate holidays from payroll charges achieved less than half of what was initially estimated because of the number of payrolls left in fiscal year 2009 by the time of the Executive Order's implementation. In addition, fewer agency payroll charges than anticipated could be reduced for all remaining fiscal year 2009 pay periods and have sufficient remaining cash balances to pay expenses and keep rates at steady levels.

Estimate: $7,810,000
Actual: $3,171,482

D. Travel Expense Reductions:

Agencies were instructed to:

- strictly comply with OBM's travel reimbursement instructions;
- implement controls on non-essential travel expenses both in and out of the US;
- use fleet cars when available, and
- use teleconferencing, webinars or other technology to negate the need for travel by automobile to participate in meetings when practical.

Mileage reimbursement for exempt employees was reduced from 50.5 cents per mile to 45 cents per mile effective May 1, 2009; the same reduction will be effective for bargaining unit employees effective October 1, 2009. Agencies were expected to closely monitor their employees' reimbursable travel and to prevent mileage reimbursements over 4,000 miles.

Travel limits achieved nearly three times the estimated savings when comparing May-June 2009 expenses with those incurred during May-June 2008.

Estimate: $200,000
Actual: $590,482

E. Prior-Year Encumbrance Review:

OBM undertook a review of Department of Development, Department of Education, and other agency GRF encumbrances dating from fiscal year 2008 and before. OBM consulted with agencies to determine which of these old encumbrances could be cancelled because they were no longer needed.

Encumbrance reviews for past fiscal years prior to and including 2008 reaped most of the total savings achieved, more than double what was estimated.

Estimate: $60,000,000
Actual: $120,568,024

II. Continued Mandatory Spending Control Strategies for Fiscal Years 2010 and 2011:

Your Executive Order calls for continued vigilance during Fiscal Years 2010 and 2011 (FYs 10 and 11) in the areas of procurement, travel, printing, mail, information technology and employee parking expenses. The importance of your strategies was amplified by the legislature in Am. Sub. House Bill 1 (128th GA), when the majority of strategies were codified. DAS and OBM continue to develop and deploy guidance to support our agency customers as they strive to reduce spending. Key strategies that we believe will be effective in helping agencies reduce spending during FYs 10 and 11 include:

A. Reduce Contracting and Procurement Expenses

Your Executive Order instructs all executive agencies to participate in contracting and procurement reform and strategic sourcing efforts in Fiscal Years 2010 and 2011. Two procurement efforts highlighted in this report are: 1) the reduction of vendor rates and 2) strategic sourcing:

1. Reduction of Vendor Rates: On May 11, 2009, more than 1,900 vendors with state contracts were sent letters explaining the state's budget crisis and requesting that they voluntarily reduce their rates by 15%, effective June 1, 2009. As of July 17, 2009, both the IT and non-IT groups of Procurement Services each received responses from more than one-third of their suppliers with a total of 226 agreeing to a price reduction.

   Of the 375 letters sent to IT-related suppliers, 132 suppliers responded with 80 of those suppliers (20 percent) agreeing to a price reduction. Those figures could be higher because some IT suppliers may have responded directly to the state agency holding their contract.

   Similar letters were also sent to about 1,600 non-IT suppliers. Of the 504 responding, 146 suppliers or nearly 10 percent agreed to a price reduction. DAS issued second notices to the suppliers and continues to follow up with those which have not responded. DAS is considering rebidding contracts in which the vendors did not agree to a reduction or did not respond.

   Vendor Responses to Rate Reductions:

	Responses received	Vendor agreed to price reduction	Vendor refused price reduction	Vendor has questions	DAS has provided written response
Non-IT	504	146	285	76	16
IT	132	80	26	22	124
Totals	636	226	311	98	140

   All of the suppliers had to research their own business cases to determine the percentages they could offer. Many of the suppliers agreed to the requested 15 percent while others agreed to lower percentages. Some were unable to offer reductions due to their federal GSA pricing commitments. As expected, DAS received more positive responses from providers of services than providers of products, as the availability of people in the market is relatively high due to higher unemployment.

It is not possible to estimate accurately the savings from supplier letters. Agencies' spending plans for fiscal year 2010 and 2011 include substantial reductions and some contracts may be cancelled entirely due to lack of volume.

2. Strategic Sourcing: DAS currently has 18 strategic sourcing contracts in process, which will contribute to our target of $35-$70 million in annualized savings. Included in this process are collaboration efforts with higher education, K-12 school districts and our local government cooperative purchasing members. Some of the sourcing engagements include major software providers as well as major hardware and IT services requirements. DAS is also working on rental cars, cell phones and mobile devices, food, pharmaceuticals, office supplies, paper and DNA testing. A good example of a successful opportunity is that of an annualized savings of $9.7 million through menu improvements, operational changes, leveraged procurement through reverse auctions and significantly improved service levels from the central food warehouse.

   To facilitate our sourcing efforts, DAS is also working to implement a strategic sourcing module of OAKS PeopleSoft that provides electronic capability to administer requests for proposals as well as reverse auction capability. DAS will also expand our requisitioning utilization to include linkage to supplier catalogs with pre-negotiated pricing.

B. Centralization of Printing and Mail Preparation Operations:

DAS estimates that enterprise cost savings through the centralization of printing and mail preparation service will exceed $5.3 million for the FY10-11 biennium. This includes a one-time centralization savings of $4.1 million, and rate reductions of $1.2 million annually beginning in FY11. A major portion of this savings comes from the elimination of redundant and underutilized equipment and staff within various agencies performing the same functions. Further, this centralization initiative will have a positive economic impact on all other state agencies, boards and commissions which use our services because the increased centralized production volume will significantly reduce DAS' printing and mail preparation rates to all of our customers. The customers that DAS has served over the years will realize lower printing and mail preparation costs. We anticipate rate reductions of up to 17% beginning in FY11.

C. Travel Expense Reductions:

To support agencies' efforts to reduce travel expenses, DAS issued guidance to explain that 7,395 miles was the annual mileage break-even point for FY10. Agencies were advised that they should consider assigning a state vehicle to employees who exceed the mileage breakeven point. The guidance establishes mileage limits and corresponding actions to reduce employee travel expenses.

D. IT Guidance:

1. Controls on the State's IT Investments: In September, DAS will work with state agencies to recalibrate their respective IT plans and budgets to better predict and manage the IT spend across both IT operations and new projects. DAS is continuing spending controls across all IT purchasing throughout FY10. When spending is demonstrated as necessary, adherence to state technology standards is being strictly enforced which in turn is providing lower costs.

   DAS has convened a multi-agency information technology committee which has established both a centralized strategic sourcing roadmap of centralized purchasing opportunities to pursue and an expansion of the state's body of technical standards, both of which will drive down costs. Specific working groups are convening to develop specific standards and cost reduction plans by topic, and a DAS project office to manage and measure the various efforts has been established.

   DAS is working with agencies on examining IT contract terms, conditions, and provisions in order to provide options and costs impact for cancellation, suspension, revision, and termination of contracts for more informed decision-making regarding budgetary and business needs impacts.

2. Cost Reduction Guidance: DAS is revising state policy on the selection and use of mobile telephones, and expanding its scope to include other types of mobile devices. State policy is being formulated to also provide instruction to agencies on the reduction of power consumption and the reduction of printing.

3. Server Standardization and Consolidation: DAS has launched a statewide server consolidation initiative that when fully implemented is projected to save the state 40-50% in administration costs across the statewide fleet of servers by reducing power, maintenance, and hardware costs.

III. Quarterly Reports for Fiscal Years 2010 and 2011 (beginning October 30, 2009):

For FYs 10 and 11, DAS and OBM will submit quarterly reports to you thirty days following each fiscal quarter. The October 30, 2009 report will present the dollar amounts from the final approved agency spending plans for FY 10 and 11 in comparison to the agencies' FY09 appropriations (after all OBM budget directive cuts). In addition, DAS and OBM will include observations and recommendations on the effectiveness of the Executive Order's strategies. DAS and OBM will deploy a survey to agencies each fiscal quarter to solicit feedback on the effectiveness of the spend control strategies and to gain insight on unintended consequences.

IV. Conclusion:

DAS and OBM believe that the strategies employed for the remainder of FY09 (Apr 22 –June 30, 2009) were positive in yielding GRF savings of $167.3 million. Further, the issuance of your Executive Order allowed the agencies to anticipate additional reductions in order to better manage their FY 10 and 11 budgets. On behalf of our state agency colleagues, we will utilize these and other strategies to manage our budgets through this continued economic challenge.