

# **The Governor's Fiscal Fitness Program**



## **Savings Report Process and Methodologies**

**February 2006**

## **I. Vision Statement**

Rhode Island will become a model for the delivery of cost-effective government services to satisfied citizens who have confidence that tax dollars are being spent efficiently. State employees will be treated with dignity and respect, and be recognized for innovation and superior service to the citizens of Rhode Island.

## **II. Overview**

The “Big Audit” is alive and well, and has evolved. The Governor’s Fiscal Fitness Program (“Fiscal Fitness”) falls under the umbrella of Governor Donald L. Carcieri’s promise to perform a “Big Audit” of state government. The Fiscal Fitness initiative is designed to identify and eliminate government waste and redundancies, while streamlining government operations and improving the delivery of state services to Rhode Island taxpayers. In April 2003, the Governor officially kicked-off the Fiscal Fitness initiative by recruiting sixty state employees from all levels of state government to carry out an intensive review of executive-branch departments. This review focused on organization, staffing, workflow, processes, management, spending and budgeting of the Executive Branch.

Taking a leadership role, Fiscal Fitness team members helped employees throughout the state to generate hundreds of ideas, most of which were based on detailed analyses of agency operations. Teams of employees also researched best practices from other states and solicited improvement ideas from the private sector. An enthusiastic public contributed their own ideas, and several Rhode Island business leaders volunteered their time in support of the initiative.

In total, Fiscal Fitness generated over one hundred and forty recommendations, focusing on better and less costly government. These recommendations fell along clear lines of action: reducing costs, capturing lost revenues, leveraged purchasing, updating technology, consolidating back-office and redundant functions, streamlining agencies, combining similar divisions and reducing the levels of upper- and mid-level management. Fiscal Fitness has already begun to help the agencies implement these ideas which has resulted in efficiency and real savings. Other projects are in varying degrees of implementation, while some are on the scheduled to begin in 2006.

Fiscal Fitness proposals currently being implemented will save Rhode Island taxpayers over \$140 million by June 30, 2006. Fiscal Fitness is projecting that over \$490 million will be saved by 2010. Additionally, an eLicensing project is underway that will give Rhode Island professionals and taxpayers the ability to renew their licenses online. However, these savings and success stories are only the beginning as many Fiscal Fitness projects have yet to be fully implemented.

Fiscal Fitness continues to perform the “Big Audit” and is discovering new areas for potential efficiency and savings on a regular basis. Through this initiative, the Governor can achieve his vision of

transforming Rhode Island government into a model for the delivery of cost-effective services to satisfied citizens who have confidence that their hard earned taxpayer dollars are being spent effectively.

### III. Reporting

The purpose of this document is to explain the methodology and process used by Fiscal Fitness to track and report savings numbers. Fiscal Fitness will release a periodic report, including savings and other achievements, on a regular basis. This report will include *Actual Savings*, *Projected Savings*, and other non-savings related achievements. The agency that is responsible for implementing a specific proposal will be noted on the report so that proper credit is given to that agency for their hard-work and dedication in furtherance of the Governor’s program to create a more effective Rhode Island government.

Illinois has a similar initiative to the Fiscal Fitness Program. Deloitte, a well-known consulting and accounting firm, developed savings methodologies for the Illinois program. While these methodologies are not exact to the ones described below, some of the methodologies are similar. This Illinois’ report can be accessed at:  
<http://www.cms.il.gov/download/pdfs/savingsvalidationreport11022005.pdf>

### IV. Savings

This memo describes three major categories: 1) Savings Methodology Development; 2) Actual Dollar Savings; and 3) Projected Dollar Savings.

#### A. Methodology Development

##### 1. Frequency

The methodology for each specific Fiscal Fitness idea is implemented as needed. However, the methodology for tracking the actual savings of that idea will be reviewed within six months after the initial tracking to make sure that the methodology is accurately accounting for all of the related savings.

##### 2. Roles & Responsibilities

Fiscal Fitness Savings Team (Individuals assigned to tracking savings for Fiscal Fitness.)	<ul style="list-style-type: none"> <li>• Develop methodology for each idea</li> <li>• Develop spreadsheet for Agency’s use</li> </ul>
Fiscal Fitness Project Manager (Individual assigned to Fiscal Fitness project.)	<ul style="list-style-type: none"> <li>• Inform Fiscal Fitness Savings Team of new project</li> <li>• Work with Fiscal Fitness Savings Team to develop methodology</li> <li>• Identify Agency Savings Coordinator if one has not already been identified</li> </ul>

Agency Savings Coordinator (Individual in agency assigned to report numbers to Fiscal Fitness.)	<ul style="list-style-type: none"> <li>• Work with Fiscal Fitness Savings Team to develop methodology</li> </ul>
State Budget Office State Controller's Office	<ul style="list-style-type: none"> <li>• Work with Fiscal Fitness Savings Team to develop methodology</li> </ul>

### 3. Savings Methodologies:

The categories of Fiscal Fitness savings are: 1) Staff Savings/Costs; 2) New Revenues; 3) Fee Increases; 4) Negotiated Contracts; and 5) Expenditure Reduction. These are standard methodologies and are described below. Most of the Fiscal Fitness proposals will fall into one of these categories, however, some proposals may require a non-standard methodology. Non-standard methodologies are developed on an as needed basis, and will be noted in the savings report.

### 4. General Process

1. The Fiscal Fitness Project Manager engages the Fiscal Fitness Savings Team in reviewing and developing the proper savings methodology for a specific idea.
2. The Fiscal Fitness Project Manager, with the help of the agency, identifies the Agency Savings Coordinator if one has not already been established by an Agency.
3. The Fiscal Fitness Project Manager, Savings Team, and Agency Savings Coordinator will determine the appropriate tracking methodology, or determine the measurement standard that should be used.
4. The Fiscal Fitness Savings Team, in consultation with the Agency Savings Coordinator, develops a tracking spreadsheet that the Agency Savings Coordinator will use to report savings.
5. The Fiscal Fitness Savings Team, with assistance from the State Budget Office and the State Controller's Office, will verify the methodology for each proposal.

#### B. Actual Savings

##### 1. Frequency & Manner

Fiscal Fitness will track and release actual savings numbers on a quarterly basis. Additionally, the report will separate the actual savings according to the "Source of Funds:

- a. Cost Avoidance (Money that otherwise would have been expended, if not for the implementation of the project.)
- b. General Revenue
- c. Federal Funds
- d. Restricted Receipt
- e. Other Funds (non-standard revenue)
- f. Internal Services Fund

## 2. Roles & Responsibilities:

Fiscal Fitness Savings Team	<ul style="list-style-type: none"> <li>• Collect spreadsheets</li> <li>• Combine idea savings into master spreadsheet</li> <li>• Enter idea savings in MS Project</li> <li>• Provide data/reports</li> </ul>
Fiscal Fitness Communications Team	<ul style="list-style-type: none"> <li>• Update communication tools</li> <li>• Distribute/develop reports</li> </ul>
Agency Savings Coordinator	<ul style="list-style-type: none"> <li>• Collect data &amp; track savings for each idea.</li> <li>• Complete savings spreadsheet</li> <li>• Deliver spreadsheets to Fiscal Fitness</li> </ul>
State Budget Office State Controller's Office	<ul style="list-style-type: none"> <li>• Work with Fiscal Fitness to remove/reallocate savings from Agency Budgets</li> <li>• Notify Fiscal Fitness of changes in removal/reallocation of savings</li> </ul>

The agency will receive credit for savings that are generated by projects that are implemented in that agency. The Agency Savings Coordinator, as a member of the agency, is responsible for the accuracy of the reported numbers. If the Agency Coordinator does not report the savings numbers to Fiscal Fitness, the numbers for the specific proposal may not reflect up-to-date actual savings for that project.

## 3. Process Summary

1. Agency Savings Coordinator will send updated spreadsheet to Fiscal Fitness Savings Team on or before the 30<sup>th</sup> of the month following the end of a fiscal quarter.
2. The Fiscal Fitness Savings Team reviews all information for consistency.
3. The Fiscal Fitness Savings Team enters data into the master spreadsheet.
4. The Fiscal Fitness Savings Team updates MS Project.
5. A Fiscal Fitness evaluation team (includes a member from Budget, Controller, and Fiscal Fitness) will sign off on the actual savings numbers. The Agency Coordinator is responsible for providing accurate savings numbers that conform to the approved methodology.
6. Fiscal Fitness will retain a copy of the spreadsheet provided by the Agency Coordinator for auditing purposes.
7. The Fiscal Fitness Savings Team provides the Communications Team with data/reports.
8. The Fiscal Fitness Communication Team updates communication tools.
9. Periodically, the Bureau of Audits may be asked to verify underlying savings data.

#### 4. Savings Methodologies:

There are standard categories that apply to most Fiscal Fitness proposals. The quarterly report of the Fiscal Savings numbers will identify which category the proposal falls into for tracking. It should be noted that some proposals may require a non-standard methodology because of the nature of the proposal. These non-standard methodologies are developed on an as needed basis through the methodology development process described below. Additionally, any deviation from the standard tracking category described above will be noted in the quarterly report for that proposal.

##### a. Staff Savings/Costs

Staff Savings/Costs savings are typically derived from reorganizations, centralizations, process improvements, and technology upgrades and improvements. There are two ways these numbers are calculated:

Staff reductions/reallocations savings are calculated from date the position was vacated. Salary plus benefits represent the amount of savings calculated starting from the date the position is vacated.

- i. New hire/upgrade costs are based on the date the positions were filled/ upgraded including salary plus benefits.
- ii. Staff hire/upgrade dollars are subtracted from the staff reduction/ reallocation savings to provide net savings.
- iii. **Formula:**  $(\text{Salary} + \text{Benefits} - \text{New Hire/Upgrade Costs}) \times \text{Time} = \text{Actual Staff Savings}$

Notes:

1. Staff Savings/Costs may include consultants and contractor costs or savings.
2. Savings are calculated regardless of whether a Director, or someone else in authority, has decided to reallocate the resources for another activity.

##### b. Fee Increase

This increase in revenue is derived by increase in license or permit fees paid to the state. These revenues are typically general revenue. The methodology is as follows:

1. The Fee Increase is calculated by subtracting the old fee from the new fee to obtain the net fee increase.

2. The number of license and permit fee increases during the quarter are then multiplied by the net increase to provide the net revenue for that idea.
3. **Formula:** New Fees – Old Fees = Fee Increase Revenue multiplied by the number of licenses/permits issued.

**c. Negotiated Contracts**

Savings will be calculated based on the type of contract negotiated. Rebates, credits, and lower rates are considered when formulating a method to calculate savings. Generally, the difference between the old contract and the new contract will be the savings. The agency responsible for the contract will provide the savings. The savings will be projected through the contract period including any options that the State may exercise.

**d. New Revenue**

New Revenue is revenue collected as a result of a project being implemented (e.g. Tax Block). In the case of Tax Block, delinquent taxpayers can not renew a license or a registration unless overdue taxes are paid. The collection of this revenue is tracked.

**e. Expenditure Reduction**

Expenditure Reduction is the new cost of doing business as a result of a project implementation, which is subtracted from the old cost. The net the amount is the savings.

**f. Non-Standard Savings**

There are some projects that will require a unique methodology to track savings. In these cases, the agency representative, the State Budget Office, the State Controller's office, and Fiscal Fitness will work together to determine the methodology that will apply to the project.

**C. Projected Savings**

Like any other projections, these estimates are based on assumptions and may change at any time for any number of reasons. Fiscal Fitness will work with the agency, the Budget Office and the State Controller's Office to assure that the projections are accurate, and reflect the current state of affairs.

### 1. Frequency:

Projections will be updated regularly.

### 2. Roles & Responsibilities

Fiscal Fitness Savings Team	<ul style="list-style-type: none"><li>• Develop Projections</li><li>• Provide Data/Reporting</li></ul>
Fiscal Fitness Project Manager	<ul style="list-style-type: none"><li>• Notify Savings Team of new multi-year contracts</li></ul>
Fiscal Fitness Communications Team	<ul style="list-style-type: none"><li>• Update Communication Tools</li><li>• Distributes Reports</li></ul>
Agency Savings Coordinator	<ul style="list-style-type: none"><li>• Provide data needed to complete projections</li></ul>
State Budget Office State Controller's Office	<ul style="list-style-type: none"><li>• Work with Fiscal Fitness Savings Team to refine projections</li></ul>

### 3. Methodology:

Projections will be made for the remainder of the reporting fiscal year, the next fiscal year, and for any contracted savings beyond the next fiscal year. Primarily, the projection will be based on the past fiscal year's savings where appropriate. Projections will also depend on the methodology, described above, for tracking actual savings. Additionally, projections may be based on actual budgeted savings (i.e. if the budget is reduced by a specific amount for a project, the projection will reflect that amount.)

In some cases, projections may include other factors, especially in cases where a non-standard methodology is being used to track savings. All of the projections, however, will be subject to review.

### 4. Process

1. The Fiscal Fitness Savings Team works with the State Budget Office, the State Controller's Office, and the Agency Savings Coordinator to collect data needed to provide projections.
2. The Fiscal Fitness Savings Team develops projection report.
3. The projections are reviewed by the State Budget Office, the State Controller's Office, and the Fiscal Fitness Manager.
4. The Fiscal Fitness Communications Team updates communication tools and distributes reports that include projections.