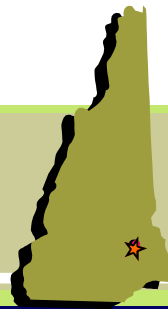


COMMISSIONERS' UPDATE



Read All About It

This is the first edition of **Commissioners' Update**, a newsletter produced by the leaders of your department and others across state government. This newsletter is designed to provide employees statewide with updates and facts on issues affecting everyone in state service.

The challenges presented by the current economy affect us all in many ways. Whether at home or work, every person in state service feels the impact this recession has on our personal peace-of-mind as well as our ability to achieve our agencies' missions despite circumstances that reduce the resources available. The state as an organization and each agency within government must also plan for and take actions to maintain service to the people of New Hampshire in the face of falling revenues.

For these reasons, we are committed to communicating with you and sharing the information contained in this and future editions of our newsletter. We hope that you find the information timely, balanced and helpful as you consider the decisions made and directions taken during these challenging times.

For Your Consideration:

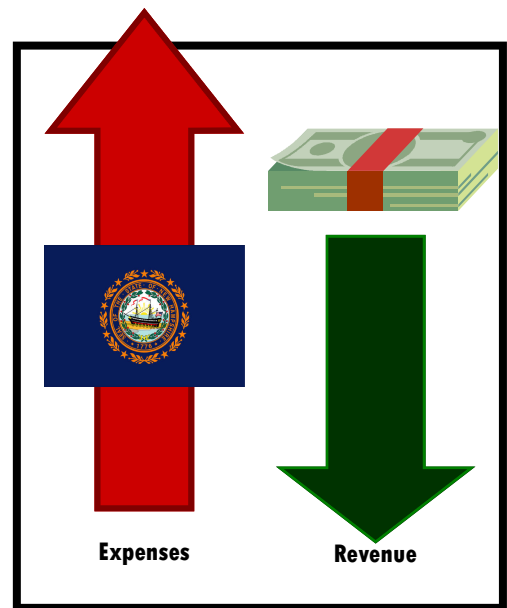
Governor Lynch's is estimating a revenue shortfall in SFY 2009 of \$275 million in General Funds. This is an 11% drop from what had been anticipated for this year. This same level of revenue shortfall is anticipated for the next two state fiscal years, which is why the Governor has proposed a budget that holds the spending level to the current fiscal year 2009 over the next biennium (SFY 2010 and SFY 2011).

This presents an enormous challenge to everyone in state government especially because there are areas of expense that will escalate due to circumstances beyond our control.

This challenge requires us to look at all expenses very carefully - curtailing spending, finding efficiencies, changing the way business gets done, and creating better ways to do things. It also means we won't be able to do everything we've done in the past.

There are certain areas in the budget that force spending to increase considerably. It may be electricity or fuel, salary or retirement increases, healthcare or debt service. It is important that every employee be familiar with these budget factors because they will be the topic of conversation as we proceed through the budget process, now having moved into the legislative phase. With declining revenues, any cost increases such as these require cost cuts elsewhere in the budget.

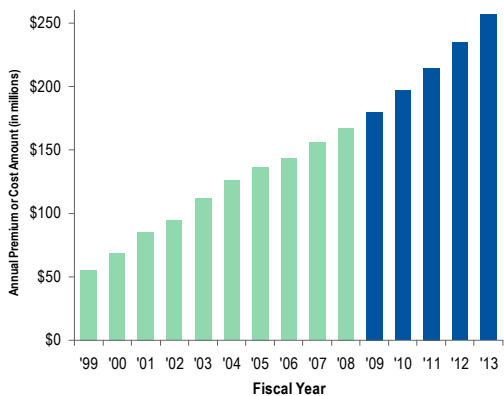
Even with the reductions proposed in the Governor's budget, retirement costs still increase \$44 million over the biennium. These amounts fund retirement costs for both our state employees as well as the percentage the State pays toward retirement benefits for municipal employees such as teachers, police and firefighters. Over the biennium, the state employee health and dental costs will grow by \$67 million, a 19.1 % increase, averaging 9.5% a year. We estimate these costs in the current biennium to be \$347 million and in the next biennium to be \$414 million.



Commissioners' Update is produced collaboratively by the Commissioners and Agency heads of the State of New Hampshire and is distributed electronically by the Department of Administrative Services. Questions regarding the content of this newsletter should be directed to your agency Human Resources representative or your Commissioner.

A Healthy Opportunity

HEALTH AND DENTAL INSURANCE PREMIUMS AND CLAIMS AND ADMINISTRATION COSTS EMPLOYEES (1999-2013)



State Employees and State Government together are presented with a real opportunity to manage the escalating cost of health coverage and reduce it in the short-term and long-term. It is important that the State and its employees seriously consider the opportunity to manage these expenses in ways that *promote the health* of employees and their families.



The Department of Administrative Services has developed a plan that would provide a foundation for building a culture of wellness among employees. The plan's benefit incentives would encourage employees to get regular check ups and enroll in condition management if they have a chronic illness. This plan would ensure the sustainability of the benefits program by reasonably sharing costs with employees while also reducing those costs by creating a healthier population.

The employee health benefit plan as currently designed is not fiscally sustainable over the long term. From FY2000 through FY2008, annual health costs have risen from \$69M to \$167M. The plan lacks realistic cost-sharing as well as features to reduce the rate of cost and utilization increases. The cost-sharing increases proposed by the State will immediately save money, and the wellness-focused design will reduce medical expenses over time and enhance employee health and productivity.

If adopted statewide, this plan will have a significant impact on the future costs of the benefit program. Implementation would save up to \$12.8M in FY 2010 alone. State Employees would immediately benefit from these cost-saving changes to the health plan. As the Governor announced in his February 12th budget address, the State will *return to employees all of the savings* achieved in the first year of the biennium, in the form of a one-time payment. Positioning employee health coverage for long term sustainability, while also enhancing the health of employees and their families, is an important investment for the State and worth the cost of returning first year savings to employees.

We Are Not Alone

New Hampshire is not alone in its efforts to curb costs and reduce state spending. According to information released from the National Association of State Personnel Executives (NASPE), many **other states have already implemented cost savings** measures including:

- Layoffs
- Buyouts
- Eliminate vacant positions
- Hiring freeze
- Furloughs
- Pay reductions
- Early retirement incentives
- Retraction of previously planned pay raises

Out of 23 states responding to the NASPE survey, 60% anticipate additional budget cuts over the next biennium with: 65% anticipating continuation or instituting a hiring freeze, 80% eliminating vacant positions, 55% implementing a furlough program, and 50% implementing layoffs.

Governor Lynch's proposed budget for the next biennium (SFY2010-2011) contains plans to achieve savings in many areas including potential reductions in force by about 300 full time positions, as well as un-funding an additional 400 positions.

We recognize that people within agencies work hard to deliver services and achieve efficiency. We also understand that the challenge to succeed in our mission becomes greater when we leave positions unfilled, eliminate funding for vacant positions, and make further reductions in staff through attrition or lay-offs. We must also manage the reality that the current budget and forthcoming budgets will impose.

Several states have resorted to furloughs as a means of addressing budgetary shortfalls rather than relying solely on layoffs. California is furloughing employees for two days per month; a money-saving method that allows the state to save operating costs and allows employees to retain their jobs and their benefits.

While a voluntary unpaid furlough may present a financial hardship to some, for others it may be a preferable way to achieve savings, maintain their professional position and the agency's operations while also retaining their health insurance.

By sharing the burden in this way, it may be possible to avoid less attractive alternatives. Consider the example to the right.



Facts & Figures

- State payroll costs about \$2,658,000 per day.
- A full time state employee is scheduled to work 1950 regular hours per year or 162.5 hours per month.
- 12 unpaid furlough days amounts to 7.5 hours per month and 90 hours in total annually per employee.
- If 12,000 state employees took 1 unpaid furlough day per month, it would save the cost of about \$2.658 million per month which is 1,080,000 hrs. or \$31 million per year.
- This would represent savings equivalent to 550 full time positions.