STATE OF TENNESSEE
DEPARTMENT OF HUMAN RESOURCES
FIRST FLOOR, JAMES K. POLK BUILDING
505 DEADERICK STREET
NASHVILLE, TENNESSEE 37243-0635
Phone: (615) 741-2958
Fax: (615) 741-7880

Phil Bredesen
GOVERNOR

Deborah E. Story
COMMISSIONER

March 24, 2009

Ms. Jessica Ruble
NASPE
Post Office Box 11910
Lexington, Kentucky 40578-1910

Dear Ms. Ruble:

Enclosed is the State of Tennessee's nomination for the 2009 Eugene H. Rooney, Jr. Award for Innovative State Human Resource Management Program.

We are honored and excited to have the opportunity to make this entry as we believe our Voluntary Buyout Program was unique and to our knowledge unprecedented in state government. We conducted extensive research prior to developing our program and found no programs that compared.

Our pertinent information is listed below.

Program Title	Voluntary Buyout Program (VBP)
State	Tennessee
Agency	Governor's Office, Department of Human Resources, and Department of Finance & Administration
Contact Person	Kae Carpenter, Deputy Commissioner, Department of Human Resources
Address	1st Floor, James K. Polk Building 505 Deaderick Street Nashville, TN 37243-0635
Phone	615-741-0585
Fax	615-741-7880
E-mail	kae.carpenter@state.tn.us
Website Address	www.tn.gov

We look forward to answering any additional questions or providing any materials related to our entry.

Sincerely,

Deborah E. Story
Commissioner

STATE OF TENNESSEE
VOLUNTARY BUYOUT PROGRAM SUMMARY

In 2008, the State of Tennessee developed an innovative Voluntary Buyout Program (VBP) to reduce the size of the state's workforce and recurring payroll expenses in the face of declining revenues.

Governor Phil Bredesen, a former health care executive with a background in business and management, challenged his team to craft a solution to fundamental problems that accompanied some of the buyout programs he'd seen used in the public or private sectors; he wanted to avoid a program that was offered to all employees with little consideration of the effect on permanent recurring savings, resulted in organizational "brain drain," or created significant gaps in service delivery. The solution had to be applicable on a large-scale basis across state government and, while broad in its scope, be highly focused to not only reduce the size of the state's workforce but to do it in a way that required agencies to reorganize and rethink their service delivery model. The program he wanted for Tennessee had to accomplish recurring savings in annual payroll expenses and result in more efficient and effective delivery of state services to the public.

To achieve a permanent reduction in recurring expenses, agencies were required to actually eliminate the position of every VBP participant. Agency heads determined how many positions might be eliminated in job classifications or within certain divisions, business units and/or office locations. Then, positions – not individuals – were identified as being VBP eligible. To meet the expectations of Governor Bredesen, each department was also instructed to scrutinize its organization and service delivery and identify opportunities to reorganize and streamline operations.

Approximately 12,000 employees received individualized packets informing them of their eligibility and outlining benefits they would receive if accepted. Eligible employees had to apply to participate and acceptance was not guaranteed, as there was a limit to how many positions in a certain job category could be eliminated without impacting service delivery. In categories with more applicants than could be accepted, employees were accepted based on seniority.

The State of Tennessee had never before undertaken a program like the VBP, nor are we aware of any other state offering a similar buyout of this size and unique program design. In the end, the program reduced the size of the state's workforce by 1,521 positions and reduced recurring expenses by $47.2 million annually using a voluntary approach respectful of employees and also much less disruptive to both employees and agencies than a RIF.

1. Please provide a brief description of the program. The Voluntary Buyout Program (VBP) was established to reduce the size of the state's workforce to control costs and to avoid an involuntary reduction in force (RIF). The VBP was designed to provide state employees designated as eligible for the program an opportunity to voluntarily separate from employment with severance pay and benefits.

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One of the primary goals of the VBP was to achieve a permanent reduction in recurring expenses. To achieve this goal, agencies were required to actually eliminate the position of every VBP participant. Agency heads determined how many positions might be eliminated in job classifications or within certain divisions, business units and/or office locations. Then, positions – not individuals – were identified as being VBP eligible. To meet the expectations of Governor Bredesen, each department was also instructed to scrutinize its organization and service delivery and identify opportunities to reorganize and streamline operations.

Approximately 12,000 employees received individualized packets in June 2008 informing them of their eligibility and outlining benefits they would receive if accepted. Eligible employees had to apply to participate and acceptance was not guaranteed, as there was a limit to how many positions in a certain job category could be eliminated without impacting service delivery. In categories with more applicants than could be accepted, employees were accepted based on seniority.

The benefits offered included: four months of base salary plus $500 for each year of state service; advanced payment of an employee's next scheduled longevity payment (an annual benefit that pays $100 for each year of state service); continuation of subsidized medical care coverage for the first six months of COBRA for those employees electing to participate in COBRA; a one-time $2,400 cash payment to participants age 65 and over to assist in the transition to Medicare; and tuition assistance of up to $10,800 at state colleges, universities and state certified apprenticeship programs.

The Governor's Office of Communications, in cooperation with the Departments of Human Resources and Finance and Administration and other agencies, launched a comprehensive communications initiative to help employees understand the voluntary program, its requirements and application process. This included packets mailed to the employee's home, 20 meetings held in various locations across the state, a video, Web site, regular e-mail updates, and a designated call center and e-mail address for employees with questions. Regular updates were also provided to media, lawmakers and the state employees' association, and final agency plans and other VBP documents were posted online to make the program as transparent as possible. Employees were given almost two months to consider the program and make the decision that was right for them. During that period, thousands attended group and one-on-one meetings, called the VBP call center and received individual responses to questions submitted via e-mail.

This process involved an unprecedented collaboration between departments, including human resources, finance and administration, labor and workforce development, benefits, communications, legal, information resources, retirement, the higher education commission, and department heads and human resource officers across state government.

2. How long has this program been operational (month and year)? The program began in May 2008 and continued through November 2008. The majority of employee participants were separated from state employment in August 2008.

3. Why was the program created? What problem[s] or issue[s] was it designed to address? The VBP was established in response to current and anticipated business conditions that required a reduction in the number of employees to control costs and operate within the state's budget. Declining revenues made reductions necessary, and this creative approach achieved that goal without the disruption and morale issues of an involuntary reduction in force. By making the program voluntary and offering an attractive package of severance and benefits, the VBP provided eligible employees with the opportunity to elect to separate from employment on their own terms.

The buyout offer was made to about 12,000 eligible employees to achieve the desired reduction of approximately 2,200 positions. It was estimated that to yield the number of position reductions desired, the number of employees deemed eligible to participate needed to be five to six times that number. Employees received application materials in June, but as the national economy continued to decline through the summer, employees were even more conservative in their decision-making than had been anticipated. A total of 2,204 applications were received, but there were limits to how many employees could be accepted within the divisions, business units and/or office locations of each agency. In these cases of "oversubscription," the agency was allowed to accept more applicants if it could manage its core operations without the positions. Agencies were then obligated to abolish the positions previously held by buyout participants.

The final result was a reduction of 1,521 positions, reducing recurring expenses by $47.2 million.

4. Why is the program a new and creative approach or method? It was Governor Bredesen's challenge to his team to craft a buyout program that would result in permanent savings in payroll expenditures, could be executed in a way that protected institutional memory and expertise and would ensure continuity in service delivery. It had to be a large program to achieve significant savings, but be highly focused instead of being offered "across the board" or as an early retirement program, while complying with all applicable laws and employee protections and treating employees with respect.

Using one-time funds to offer an attractive package of severance and benefits, the state achieved recurring savings of $47.2 million annually. While the program's creative approach complicated the early stages of implementation, it resulted in real savings and a renewed consideration of agency business models. It also required an unprecedented level of collaboration across state agencies, proactive communications to ensure program acceptance, and targeted assistance for employees to understand the program and its voluntary nature. Importantly, it minimized the level of disruption to state agencies that would have resulted from an involuntary RIF. Service delivery by each agency was maintained even as positions were permanently eliminated because the program design required them to reorganize or streamline processes.

5. What were the program's start-up costs? (Provide details about specific purchases for this program, staffing needs and other financial expenditures, as well as existing materials, technology and staff already in place). The VBP cost $32 million in one-time funds (state dollars) to realize recurring annual savings of $47.2 million. Fifty million in one-time funds had been budgeted, with the goal of accepting 2,200 employees into the program. The deteriorating economy impacted the program, which resulted in the elimination of 1,521 positions, bringing the program cost below budget. The largest program cost was the payment of severance and program benefits to employees accepted into the program. The project team included internal staff from state agencies responsible for implementing the program, from staffing a state call-center to developing an extensive Web site and producing the video. In addition, the State engaged outside human resources consultants and outside legal counsel, the cost of which is included in the $32 million figure.

6. What are the program's annual operational costs? This is not an ongoing program. The one-time cost of the program for FY 2008-2009 was $32 million.

7. How is the program funded? The General Assembly approved one-time funds of $50 million in the FY 2008-2009 budget for the program. Of that, $32 million was expended.

8. Did this program originate in your state? If YES, please indicate the innovator's name, present address, telephone number and e-mail address. Yes, the program originated in Tennessee and Governor Bredesen conceived the idea of a broad but targeted offering with the mandate that agencies rethink their approach to organization and service delivery. A team consisting of representatives of the Governor's Office and the Departments of Human Resources and Finance and Administration further developed the concept for Tennessee's voluntary buyout program, brought on HR consulting and outside legal expertise to assist with program development, and assembled a cross-departmental team for implementation.

9. Are you aware of similar programs in other states? If YES, which ones and how does this program differ? No, we are not aware of a buyout program of this size and unique scope undertaken by any other state.

10. How do you measure the success of the program? The program was a success from a financial perspective in that it reduced the size of the state's workforce by 1,521 positions, saving $47.2 million annually, in a manner designed by state agencies to ensure continued service delivery and minimal disruption. From an operational perspective, we believe the program was also an unqualified success in the level of interagency coordination that occurred for implementation and the unprecedented level of employee outreach and communications. In addition, after employees understood the intent of the program, many were eager to participate and others who were not in the pool of potential participants wished they had received an offer to participate.

11. How has the program grown and/or changed since its inception? The VBP was a short-term program that began in May 2008 and concluded in November 2008.