



August 1, 2017

Senator Mary Kiffmeyer
Senate State Government Finance Committee
3103 Minnesota Senate Building
St. Paul, MN 55155

Representative Sarah Anderson, Chair
House State Government Finance Committee
583 State Office Building
St. Paul, MN 55155

Senator Jim Carlson
Senate State Government Finance Committee
2207 Minnesota Senate Building
St. Paul, MN 55155

Representative Sheldon Johnson
House State Government Finance Committee
259 State Office Building
St. Paul, MN 55155

RE: State Employee Gainsharing: Report to the Legislature

Dear Senators and Representatives:

In accordance with Minnesota Statute 16A.90, the Commissioner of Minnesota Management and Budget (MMB) is required to report on the status of the gainsharing program by August 1, 2017. Please find the report attached.

Further questions can be directed to John Pollard, Director of Legislative and Intergovernmental Affairs at john.pollard@state.mn.us or (651) 201-8039.

Sincerely,

Myron Frans, Commissioner

State Employee Gainsharing

Report to the Legislature

August 1, 2017

As required by M.S. 16A.90

Table of Contents

State Employee Gainsharing	1
Report to the Legislature	1
Introduction	3
Considerations of Internal Controls.....	5
Proposed Gainsharing Program Guidelines	6
Eligibility.....	7
Eligible Employees.....	7
Ineligible Employees.....	7
Eligible Gainsharing Suggestions	7
Ineligible Suggestions for Gainsharing Awards	8
Process for Submitting and Reviewing Ideas.....	8
Submission of Ideas.....	8
Role of Agency Gainsharing Program Administrator	9
Role of Agency Gainsharing Suggestion Review Team.....	9
Review and Approval by the Commissioner of Minnesota Management and Budget.....	10
Proposed Methods to Promote Gainsharing Program	11
Process for Determining Savings	12
Initial Documentation of Net Savings by State Agency.....	12
Considerations in Determining Savings.....	13
Cost of Implementation	13
Assumptions.....	14
Assumptions on Idea Submission Volume	14
Assumptions on Compliance Objectives	14
Cost Projections	14
Projections for Administering Gainsharing at Agency and MMB Levels.....	14
Biannual Reporting Requirements	16
Expenditure Formula.....	16
Concerns with Gainsharing	18
Unfunded Mandate	18
Difficulty of Budgeting Documented Savings	18
Diminished Goal of All State Employees.....	18
Increased Risk of Waste or Abuse	19

Introduction

Gainsharing began as a profit-sharing initiative in the private sector designed to incentivize employees to increase productivity, create efficiencies, and save money for an organization. Under a gainsharing program in a private enterprise, an employee is awarded a share of the increased profits that the employee's idea created. Several states have attempted to implement a similar concept by providing state employees a bonus award for ideas that save the state money. For the purpose of this report, gainsharing and employee recognition programs in other states have been examined. There are at least 14 other states that implement programs for rewarding employee suggestions with financial incentives. Cash incentives are often just one component of wider employee recognition programs. The state programs vary widely in their terms, application, and outcomes.

A previous report on state employee gainsharing in Minnesota was completed in 2015 and is included as an addendum to this report. The report outlines that the state has been implementing a variety of employee award and recognition programs, including Achievement Awards that incentivize efficiency, creativity, and hard work by state employees. Achievement Awards are monetary awards granted throughout the state to recognize outstanding employee achievement, including circumstances where financial savings to the state have been realized. However, in 2017 Minnesota Statute 16A.90, authorizing a gainsharing program, was amended to require a separate program from these current employee recognition programs. Several concerns about a separate gainsharing program were listed in the 2015 report that remain considerations today.

Below is the statute that authorizes a gainsharing program for Minnesota Executive Branch employees with the new 2017 language underlined.

16A.90 EMPLOYEE GAINSHARING SYSTEM.

Subdivision 1. Commissioner must establish program.

(a) The commissioner shall establish a program to provide onetime bonus compensation to state employees for efforts made to reduce the costs of operating state government or for ways of providing better or more efficient state services. The commissioner may authorize an executive branch appointing authority to make a onetime award to an employee or group of employees whose suggestion or involvement in a project is determined by the commissioner to have resulted in documented cost-savings to the state. Before authorizing awards under this section, the commissioner shall establish guidelines for the program including but not limited to:

(1) the maximum award is ten percent of the documented savings in the first fiscal year in which the savings are realized up to \$50,000;

(2) the award must be paid from the appropriation to which the savings accrued; and

(3) employees whose primary job responsibility is to identify cost savings or ways of providing better or more efficient state services are generally not eligible for bonus compensation under this section except in extraordinary circumstances as defined by the commissioner.

(b) The program required by this section must be in addition to any existing monetary or nonmonetary performance-based recognition programs for state employees, including achievement awards, continuous improvement awards, and general employee recognitions.

The statute requires a report be submitted to the legislature twice a year, beginning on the date of enactment of the updated statute, August 1, 2017. Below is the statutory language outlining the requirements of this report.

Subd. 2. **Biannual legislative report.** No later than August 1, 2017, and biannually thereafter, the commissioner must report to the chairs and ranking minority members of the house of representatives and senate committees with jurisdiction over Minnesota Management and Budget on the status of the program required by this section. The report must detail:

(1) the specific program guidelines established by the commissioner as required by subdivision 1, if the guidelines have not been described in a previous report;

(2) any proposed modifications to the established guidelines under consideration by the commissioner, including the reason for the proposed modifications;

(3) the methods used by the commissioner to promote the program to state employees, if the methods have not been described in a previous report;

(4) a summary of the results of the program that includes the following, categorized by agency:

(i) the number of state employees whose suggestions or involvement in a project were considered for possible bonus compensation, and a description of each suggestion or project that was considered;

(ii) the total amount of bonus compensation actually awarded, itemized by each suggestion or project that resulted in an award and the amount awarded for that suggestion or project; and

(iii) the total amount of documented cost-savings that accrued to the agency as a result of each suggestion or project for which bonus compensation was granted; and

(5) any recommendations for legislation that, in the judgment of the commissioner, would improve the effectiveness of the bonus compensation program established by this section or which would otherwise increase opportunities for state employees to actively participate in the development and implementation of strategies for reducing the costs of operating state government or for providing better or more efficient state services.

The gainsharing program proposed in this report is the most streamlined and efficient process that Minnesota Management and Budget (MMB) has developed by the reporting date. However, numerous significant concerns remain. The final two sections of the report address considerations of funding and potential problems with implementation.

Considerations of Internal Controls

Because a new gainsharing program is in the developmental stage, this report includes proposed guidelines for a program as well as summaries of the requirements associated with development and implementation. The inclusion of information on the potential risks and concerns are critical to any discussion on a gainsharing program because the Commissioner of MMB must effectuate implementation in a manner that provides reasonable assurances that the objectives of the program are accomplished balanced with core internal control responsibilities created by law.

The commissioner is, by statute,¹ responsible for the coordination, design, implementation, and maintenance of an effective system of internal controls for all executive branch agencies. The commissioner is also under an obligation to safeguard public funds and assets to minimize incidences of fraud, waste, and abuse. In executing these responsibilities, the commissioner fulfills another statutory obligation to ensure that programs are administered in compliance with federal and state laws and rules. This compliance requires written and clear documentation of internal control procedures over financial management activities, the analysis of risks, and periodic evaluation of control procedures to make sure they are properly designed, implemented, and functioning. The obligation would be the same for the development and implementation of any state program.

The evaluation of any new program that impacts the entire Executive Branch workforce must be comprehensive. Executive Branch agencies represent approximately 35,319 employees in 78 agencies. If Minnesota State Colleges and Universities (Minnesota State) employees are determined to also be eligible, that number expands to 49,889. Subsequently, implementation of the program must be carefully considered to allow for a fair and effective process for all employees of the enterprise to engage.

The State's internal control standards, as adopted from the Standards for Internal Control in the Federal Government or the "Green Book," provide a framework that easily guides evaluation of the development and implementation of a new entity or program. In a new program driven by statute, this is especially true because often the law includes language on what the Green Book considers the three core categories for all program objectives: operations, reporting, and compliance.

Operational objectives focus on "how" things are achieved and include areas such as human resources, production, financial management, information technology, policies, and procedures. They also relate to the effectiveness and efficiency of program operations to achieve the overall mission. For a gainsharing program, this requires the evaluation of staffing of the program and related human resource matters (recruitment, hiring, training, and related personnel matters). Similarly, development and implementation of a gainsharing program requires the consideration of matters related to production. Here, production might include how the gainsharing program operates, such as workflow, document management, and policies and procedures. The financial aspect of a gainsharing program is another operational objective that is both critical and complicated. The evaluation of financial objectives includes issues related to an appropriation to develop and implement the program, the workflow for related financial transactions, and the necessary control activities. Additionally, any program of the State that involves money will require consideration of requisite policies and procedures and information

¹ Minn. Stat. 16A.057, subd. 1(1)-(3).

technology. For gainsharing, at a minimum SWIFT and related financial systems are impacted to ensure appropriate fiscal management and oversight.

Reporting objectives relate to the preparation of reports for use by the program, its stakeholders, or other external parties². The employee gainsharing program statute is clear on the program's reporting objectives and requires a biannual report from the commissioner to the chairs and ranking minority members of the House of Representatives and Senate committees with jurisdiction over MMB on the status of the program.³ The statute is specific about what is to be included in the report. A comprehensive evaluation considering the development and implementation of this program, includes reporting objectives and any associated issues. For the gainsharing program, that might include the staff and preparation efforts necessary to develop the report as well as the efforts across the State and their obligation to generate data responsive to the report requirements.

Compliance objectives relate to compliance with applicable laws and regulations and are significant. In addition to ensuring compliance with the authorizing statute, Minnesota Statutes, Section 16A.90, the State as a government faces a complex system of both state and federal law, related regulations, and governing policy and procedure. Specifically, legal obligations related to federal funds provided to the State are likely to cause complications or issues for any gainsharing program. The existence of the collective bargaining agreements will also influence implementation of any gainsharing program.

Considering the operational, reporting, and compliance objectives of the proposed employee gainsharing program requires consideration of the necessary internal controls. There is a direct relationship between a program's objectives and the five components of internal control: control environment, risk assessment, control activities, information and communication, and monitoring. The objectives are what the program is intended to achieve. The five components of internal control are what is required to achieve the objectives.

In order to develop and implement a gainsharing program that will achieve the intended objectives, it should be developed using a sound system of internal control. The nature of the gainsharing program makes this even more critical given the State's obligation to be prudent stewards of public funds. This includes the commissioner's obligation to oversee the internal control system of the Executive Branch by giving attention to the control environment, risk assessment, control activities, information and communication, and monitoring.

The last two sections of this report addresses challenges identified in the development and implementation using the framework described above.

Proposed Gainsharing Program Guidelines

The framework for a Minnesota Employee Gainsharing Program requires an examination of employee eligibility, suggestion eligibility, a process for evaluation of suggestions at the agency level and at Minnesota Management and Budget, and a determination on how to budget for documented savings that occur in the first fiscal year that an implemented idea realizes savings. The following is an outline of considerations that must be addressed

² GAO-14-704G, Federal Internal Control Standards (Green Book), OV2.21. (Overview)

³ Minn. Stat. 16A.90, Subd. 2.

by program guidelines and criteria. These considerations are based on Minnesota-specific factors (e.g., statute) and research on practices of other states that have gainsharing (or similar) programs.

Eligibility

In order to implement a gainsharing program, specific eligibility criteria must be fair and unambiguous. Below are suggestions in the process of determining the eligibility of employees and their ideas for providing better or more efficient state services.

Eligible Employees

A determination must be made regarding which definition of “executive branch” governs employee participation in the program. At this stage of research, it is believed that executive branch employees, including those at Minnesota State, may participate.

Ineligible Employees

A determination must be made regarding whether some roles or employee statuses must be excluded from program participation. In this consideration, it is important to note the challenge of excluding only certain categories of employees when it is the mission of all state government agencies and the job of all employees to save state resources and perform work efficiently.

Examples of employee roles or statuses that should be specifically ineligible include:

- Commissioners and Deputy Commissioners.
- Employees principally involved in process improvement, reengineering, etc.
- Employees on layoff, leave of absence, retired, resigned, etc.
- Employees in a probationary period, pre-probationary, or trainee appointment.
- Employees performing duties in support of the administration of the Gainsharing Program at any Executive Branch agency.
- Employees who are not in active status both at the time the suggestion was submitted and at the time the award has been approved.
- Employees who do not have a current satisfactory or better performance review on file in the Human Resources Office.

Eligible Gainsharing Suggestions

The scope of eligible ideas must:

- Provide better or more efficient state services and reduce the costs of operating state government.
- Result in documented cost-savings to the state that can be realized in the first fiscal year⁴.

⁴ Minn. Stat. 16A.90 outlines that onetime bonus compensation be awarded “to state employees for efforts made to reduce the costs of operating state government *or for ways of providing better or more efficient state services.*” (emphasis added). The statute also requires that the effort result in “documented cost-savings to the

Ineligible Suggestions for Gainsharing Awards

A determination must be made regarding what types of suggestions are ineligible. If a suggestion improves the efficiency or effectiveness of state services but results in no documented cost savings, the suggestion would not be eligible for a gainsharing award. However, it is possible that the idea may be considered for an employee Achievement Award⁵.

Research from other state gainsharing programs indicate that ineligible ideas include suggestions that:

- Rely on changes to law, collective bargaining agreements, or compensation plans.
- Alter or create new taxes or fees.
- Recommend a change in job class or pay, or establishment of new positions (determining the basis for such decisions is the assigned role of Human Resource staff)
- Recommend a study or survey or other activity where any action taken is dependent on the findings.
- Have been previously implemented by one or more state agencies.
- Suggest changes to a program that is not supported by state funds.
- Propose making minor changes, for example, to databases; i.e., adding or deleting fields or creating or changing a data report.
- Will decrease the quality of a service provided by the agency or another government entity.
- Will shift costs to another entity.

Process for Submitting and Reviewing Ideas

States with employee suggestion programs have developed and established multi-level processes for reviewing and evaluating employee suggestions and making awards. These processes often involve employees who are responsible for administering or coordinating the program. A board or committee is also often used to evaluate the awards. The details vary from state to state, but what is clear is that states that have this type of program create and develop a process, which involves multiple people, across departments and agencies, and multi-level processes to ensure transparency, accuracy, and accountability.

Submission of Ideas

An Employee Gainsharing Form must be developed to capture the documentation needed to inform decision-making at the agency and MMB levels. At a minimum, the documentation must include:

- A description of the specific problem and provide a workable solution in as much detail as possible and include examples or attachments to validate the idea.
- The names and signatures of all employees who participated in development of the suggestion.
- The identity of each state agency and/or department affected by the suggestion.
- The employee(s) signature and date of form submission.

state. Subsequently, those efforts that provide better or more efficient services, but result in savings that cannot be documented will not be eligible for a gainsharing award.

⁵ Achievement Awards must confirm to limits contained in collective bargaining agreements, compensation plans, and MMB HR/LR Policy 1420 Employee Recognition and Achievement Awards.

The completed form would be submitted to the employee's Gainsharing Program Administrator within each individual agency.

Role of Agency Gainsharing Program Administrator

Each agency would assign primary support of the Gainsharing Program to an agency Gainsharing Program Administrator. At the idea submission stage, the Program Administrator, at a minimum would:

- Confirm each employee(s) eligibility to participate in the program.
- Conduct an initial review to determine whether the suggestion merits additional review.
- Notify employees whose suggestions have been declined of the basis of the denial.

Role of Agency Gainsharing Suggestion Review Team

Ideas that merit additional review would require additional resources to investigate the idea's merit and viability. Therefore each agency would need to find resources to staff a Gainsharing Suggestion Review Team.

It is estimated that the Gainsharing Suggestion Review Team would include several members, including but not limited to:

The receiving agency's financial or budget expert.

- The agency supervisor(s) or manager(s) of affected program(s).
- Management representation from other agencies whose programs would be affected by the idea.
- The MMB Executive Budget Officer assigned to the agency(ies) affected.

The scope of the Gainsharing Suggestion Review Team's work would, at a minimum, include:

- Review the suggestion.
- Conducting research, analyzing the problem, and determining the feasibility of implementing the suggestion.
- Consult with other departments or agencies affected by the suggestion. Each affected agency must be consulted and approve the suggestion before it could be implemented.
- Determine the degree to which any projected cost savings can be documented.
- Prepare a Gainsharing Suggestion Recommendation form and submit it to the agency's Commissioner or designee for a decision.
- If an employee(s) suggestion is approved, the agency's Gainsharing Program Administrator will ensure that each employee who signed the suggestion form receives notice of the approval of their suggestion.

At a minimum, as a result of the Agency Review Team's work the affected agency(ies) must:

- Document a summary of the results of the agency Gainsharing Program, including:
 - The total number of agency employees whose Gainsharing suggestions or involvement in a Gainsharing project were considered for a possible award.
 - A description of each Gainsharing suggestion or project that was considered.
 - The total amount of Gainsharing award compensation actually awarded, itemized by each suggestion or project that resulted in an award, and the amount actually awarded for that suggestion or project.

- The total amount of documented cost-savings that accrued to the agency as a result of each suggestion or project for which an award was granted.
- Determine which implemented suggestions merit sending an Employee Gainsharing Form for approval of a Gainsharing Award Recommendation to MMB.
- Submit a Employee Gainsharing Form to the MMB Enterprise Gainsharing Program Administer when the facts support such action. The information to be submitted to MMB should include:
 - A description of the proposed cost-savings measure.
 - Information on whether the cost-savings measure impacts federal funding sources.
 - Information on whether the cost-savings measure likely impacts multiple state agencies.
 - Data on whether the measure will result in lower spending on material resources or services currently purchased by the agency. If so, 3 years of past, baseline data should be provided that summarizes recent spending patterns and the savings that would be delivered should be included with the proposal.
 - Data on whether the measure will result in lower spending on personnel costs in the form of reduced hours or headcount. If so, 3 years of past, baseline data should be provided that summarizes recent spending patterns and the savings that would be delivered with the proposal.
 - Information on whether there are other costs that will be saved aside from material, purchased services or labor. If so, 3 years of past, baseline data should be provided that summarizes recent spending patterns and the savings that would be delivered with the proposal.
 - Information on whether the measure requires an initial investment of funds by your agency. If so, an itemized list of staff (hours and wage rates) and material resources should be included.
 - Data on whether the measure may result in increased revenue to the agency. If so, 3 years of past, baseline data should be provided that summarizes recent revenue patterns and how the proposal will increase revenues.
 - Data on whether the cost-saving measure will result in a one-time benefit to the state or whether the cost reductions are expected to be realized over the course of several years. Expected annual cost savings must be documented.
- Upon successfully implementing the suggestion, the savings must be documented in the first fiscal year in which the savings are realized.⁶

Review and Approval by the Commissioner of Minnesota Management and Budget

Minnesota Management and Budget (MMB) must have the resources to staff the MMB Enterprise Gainsharing Program. Among these resources will be an Enterprise-Wide Gainsharing Program Administrator and an Enterprise Gainsharing Committee. Upon receipt of an agency-approved Employee Gainsharing Form, the Enterprise-Wide Gainsharing Program Administrator will:

- Document the receipt of each agency gainsharing award request.
- Confirm the successful implementation and documented savings with the affected agency(s).

⁶ See section titled Process for Determining Savings.

- Confirm the documented savings and the amount of the monetary award for which each employee participant is eligible.^{7 8}
- Submit award recommendations to the MMB Commissioner or designee for consideration.
- Gather additional data requested to inform award decision-making.
- Communicate outcomes (approvals/denials) to requesting agencies and respond to questions.
- Document all outcomes of agency award requests.
- Assist in the coordination of enterprise-wide promotion of the program.

The Enterprise Gainsharing Committee is anticipated to be composed of MMB enterprise human resource staff, statewide budget officers, enterprise communications personnel, and executive branch leadership [Deputy / Commissioner level/ Director of Internal Controls]. Other agency representation and participation on this committee may add value and needed insights to the process of evaluation.

The Enterprise Gainsharing Committee would be responsible for developing and implementing the necessary enterprise-wide policies and procedures. This new program would incorporate applicable best practices of other states' gainsharing programs such as a suggestion process, training in the implementation of the program, multi-level review to verify eligibility and merit, approval of awards at the agency and enterprise level, and processes to facilitate reporting.

Proposed Methods to Promote Gainsharing Program

To ensure employee participation in the gainsharing program, executive branch agencies must develop strategies to communicate the parameters of the program and process to submit ideas to their employees. These methods may include the following:

- Provide detailed instructions on the program to all commissioners, deputies, managers, and human resource agency staff to ensure informed answers are provided to employees.
- Include stories in agency newsletters on the program as well as successfully implemented gainsharing ideas.
- Develop a link on state agency websites and the MMB website that provides information on the program.
- Develop a link on the state employee intranet page that provides an application form and detailed instructions.
- Suggest that all executive branch agency department heads explain the program during staff meetings.
- Include information on the program in employee hiring materials.

⁷ An appeals process may be required for employees to challenge decisions on the amount of the award.

⁸ The level of confirmation is not yet determined. An audit may be required.

Process for Determining Savings

Integral in a new gainsharing program is determining an effective and accurate way to budget savings within the confines of statute. This process presents several concerns that are listed in the final section of this report. Below is a general framework to follow in establishing a process for documenting savings.

Initial Documentation of Net Savings by State Agency

Each executive branch agency must identify a fiscal lead for the purposes of the employee gainsharing program. This individual will determine whether it is possible to document the fiscal impact associated with the project described in each proposal received by the agency. If the fiscal lead determines that it is not possible to document the fiscal impact, the proposal is not eligible for an award under the employee gainsharing program. Agency fiscal leads will use guidance along the following lines to calculate savings:

- **Cumulative net savings.** Savings should reflect the cumulative net savings of the project, after accounting for all costs associated with implementing the project.
- **Savings from first fiscal year.** As required by Minn. Stat. 16A.90 Subdivision 1(a)(1), the documented savings may only include savings from the first fiscal year in which cumulative net savings are realized. According to the statute, if a fraction of the overall savings are realized in the first year, the award is calculated from the savings of that fiscal year only.
- **Baseline for comparison.** The baseline for comparison shall be a scenario in which the identified project was not implemented. For example, the savings for a project to replace traditional light bulbs with energy efficient bulbs should reflect net savings compared to a scenario of continued use of traditional light bulbs. This may produce a different estimate than would be produced by using previous spending as the baseline. For example, assume all relevant costs in the prior year were \$400,000, all relevant costs in the current year would have been \$380,000 (due to lower electricity rates and reduced usage) and all relevant costs with the implementation of the project were \$370,000. In this example, the net savings for purpose of the employee gainsharing system is \$10,000 (i.e., \$380,000 minus \$370,000). If these savings are validated and the award is approved, up to 10% of the savings (i.e., \$1,000) could be issued in the form of a gainsharing award.⁹
- **Coordinating across agencies.** For proposals that involve costs or benefits experienced by multiple agencies, the fiscal leads for each affected agency will coordinate to document the net savings. These determinations must then be confirmed by the Enterprise Gainsharing Committee and the MMB budget staff.

⁹ The example of upgrading light bulbs was used to provide clarity into the budgeting process; however, this example would likely be ineligible for a gainsharing award because it is the job of every agency to routinely find these energy inefficiencies. Additionally, the vast majority of the savings for this idea would occur in future years with minimal documented savings realized the first fiscal year. An illustrative and accurate example could not be determined prior to the deadline of this report.

- **Use of savings.** As part of this process, the fiscal lead(s) will determine how the savings were used. If the savings were reinvested, the submission of the proposal to the agency head(s) and MMB shall describe the activities that were conducted and the results associated with the reinvestment.¹⁰

Considerations in Determining Savings

Below are important considerations associated with determining savings:

- **Establishing a baseline to compare against:** Determining cost savings involves comparing costs and benefits as they actually occurred to those costs and benefits that would have occurred in the absence of a given project. In some cases, this may be a relatively straightforward exercise that involves using data that is collected by existing systems. In other cases, it will be too difficult to disentangle the impact of the relevant project from the impact of other projects and external factors and/or adequate data will not be available.
- **Authority to pay awards from specific appropriations:** As required by Minn. Stat. 16A.90 Subdivision 1(a)(2), awards must be paid from the appropriation to which the savings accrued. For some appropriations, paying such awards would not be an authorized expense. We will only pay out awards where legally authorized.
- **Impact on multiple appropriations:** Some projects involve benefits and costs for multiple appropriations. In some cases, costs accrue to one appropriation and the resulting savings accrue to a different appropriation. In these cases, the documented savings that are paid out as awards will not exceed ten percent of the *net* savings.

Cost of Implementation

Implementing and administrating a new gainsharing program will require FTE hours amounting to approximately \$1.6 million in statewide resources each year once the program is fully operational. This amount is based on the fiscal note for S.F. 605. Upon further analysis of the implantation of a new gainsharing program, this previous estimate is low and additional resources would be necessary. The cost reflected below primarily equates to lost productivity among employees at all 78 state agencies. The cost of a new program will be very difficult to absorb without additional FTEs and other resources.

Below are assumptions made in compiling the information for this estimate. Throughout this section, fiscal year 2016 cost assumptions were used to provide a baseline. However, increases in salary would be incorporated upon implementation and will increase the cost.

¹⁰ If the savings are determined at the end of the biennium and not captured in time to make an award, in most cases the savings cancel back to the General Fund.

Assumptions

Assumptions on Idea Submission Volume

As stated in the fiscal note submitted for S.F. 605, certain assumptions have to be made regarding the scope of work that will be generated by the Gainsharing Program. Additional assumptions include:

- This new program would incorporate applicable best practices of other states' gainsharing programs such as a suggestion process, multi-level review to verify eligibility and merit, approval of awards at the agency and enterprise level, and processes to facilitate reporting.
- Assume an average hourly wage of \$32.13 for executive branch full time staff.
- Assume an average hourly wage of \$46.73 for executive branch managers.
- Assume a new program would impact the entire Executive Branch including Minnesota State. In 2016, total staffing in the entire Executive Branch including Minnesota State was 52,644 employees.
- Assume one in 100 employees will submit a suggestion every year: 526 suggestions annually.
- Assume that costs for program development, bi-annual reporting and a full time program administrator are incurred solely by MMB; costs for the Gainsharing Suggestion Documentation Process, Agency Review Committee, and Enterprise Gainsharing Committee are incurred by all executive branch agencies.
- Assume that the program will require the addition of at least one full time MMB program administrator (1 FTE) responsible for program development, administration and auditing. It is assumed that the cost of salary, FICA, insurance and retirement for one full time FTE will total about \$100,000 annually.

Assumptions on Compliance Objectives

- There is no appropriation for development and implementation of the employee gainsharing program.
- The estimated cost of developing and implementing an employee gainsharing program is approximately \$62,000 for the first year of operation.
- The estimated cost of operating an employee gainsharing program annually once developed and implemented is approximately \$1.5 million per year.
- The employee gainsharing program must include the appropriate design, implementation, and maintenance of a system of internal controls under Minn. Stat. 16A.057, subd. 1.
- Training will be required for state employees and agency HR personnel, managers, and others involved in the development and implementation of the program to ensure ongoing compliance.
- The employee gainsharing program will be subject to overall monitoring and risk assessment in the same manner as other statewide financial programs or related operations.

Cost Projections

Projections for Administering Gainsharing at Agency and MMB Levels

Once operational, the enterprise Gainsharing Program is assumed to involve a three-step process:

1. **Gainsharing Suggestion Documentation:** At the agency level, employees develop their proposals and the business case for projected cost savings, which would be then reviewed by the employee, appropriate managers and supervisors, budget staff, communications staff, appropriate subject matter experts and the MMB Executive Budget Officer assigned to that agency. Properly vetted proposals would be then forwarded to the Agency Review Committee. It is assumed that costs would be incurred by all agencies in the executive branch.
 - This estimate assumes that 20% of all proposals (105 total proposals annually) would be advanced to the Agency Review Committee.
2. **Agency Review Committee:** Each Agency establishes a process whereby agency human resources, budget personnel, communications staff, and executive leadership review and potentially approve awards up to \$1,000. Any proposals that potentially merit an award in excess of \$1,000 would be sent to MMB's Enterprise Gainsharing Committee. It is assumed that costs would be incurred by all agencies in the executive branch.
 - This estimate assumes that 5% of proposals considered by the Agency Review Committee, (26 total proposals annually) would be advanced to the Enterprise Gainsharing Committee.
3. **Enterprise Gainsharing Committee:** The Enterprise Gainsharing Committee composed of MMB enterprise human resource staff, statewide budget officers, enterprise communications personnel, and executive branch leadership [Deputy / Commissioner level] would review proposals and authorize awards greater than \$1,000 and up to the limits authorized by statute. It is assumed that costs would be incurred by all agencies in the executive branch.

The projections assume that each request would require an average of 50 hours of staff time at the suggestion documentation process level, and that most of the hours would be incurred by staff paid at the full time executive branch hourly wage. The 50-hour estimate assumes that employees seeking a gainsharing award would spend significant time developing their proposals and vetting their viability; it also assumes hour contributions by, at minimum, appropriate managers and supervisors, budget staff, communications staff, appropriate subject matter experts and the MMB Executive Budget Officer assigned to that agency.

The projections assume that the Agency Review Committee would require 8 hours of work per week from one or a combination of multiple staff at each of the 25 cabinet agencies, and 8 hours of work per week from a proportional number of staff representing the dozens of small agencies, boards, and commissions. Total hours per year of staff time is assumed to be equivalent to 27 employees working 8 hours per week on vetting the proposals advanced from the Suggestion Documentation stage. The hour equivalent of 27 employees dedicating 8 hours per week to this process totals 11,232 hours of work in a year.

The projections assume that staff at the Agency Review Committee stage would be in management and paid at the executive branch manager average hourly wage.

The projections assume that the Enterprise Gainsharing Committee would require 5 MMB staff to dedicate about 52 hours to review and vet proposals, confirm the cost savings, and to coordinate all communications related to any awards offered. These projections assume that Enterprise Gainsharing Committee staff would be paid at the executive branch manager average hourly wage.

Biannual Reporting Requirements

The projections assume that the Biannual Reporting requirements would require 10 hours per month for data collection at each of the 25 cabinet agencies, and the equivalent of 250 cumulative hours per month for the dozens of small agencies, boards, and commissions. The projections further assume that most of the hours would be incurred by staff paid at the full time executive branch hourly wage.

The projections assume that the Monthly Reporting requirements would require 60 hours per month by MMB staff to obtain and analyze each agency's data and to create a report as outlined in S.F. 605. These projections assume that the MMB staff compiling the report would be paid at the executive branch manager average hourly wage. It is assumed that costs would be incurred solely by MMB.

The projections assume that the Monthly Reporting requirements would require 10 hours per month for data collection at each of the 25 cabinet agencies, and the equivalent of 250 cumulative hours per month for the dozens of small agencies, boards, and commissions. Included within these hours calculations are assumptions that some of the ideas that have been proposed may contain private or protected data and/or may contain indicia of legal liabilities or vulnerabilities that would be inappropriate for public distribution. The hours' calculation for these projections therefore assume the descriptions of some proposals will need to be rewritten, redacted, or otherwise reviewed and modified before being distributed to MMB for collation and distribution.

Expenditure Formula

Program Development: It is assumed that the development of this program would take 4 to 6 months and require a time commitment from 5 MMB staff members at one quarter time (261 hours each) and 4 managers at one tenth time (104 hours each) during that time. It is assumed that MMB staff would be paid an average of \$32.23/hour while managers would be paid an average of \$46.73/hour. It is assumed that costs would be incurred solely by MMB.

Program development cost = **(5 MMB staff x 261 hours x \$32.13) + (4 MMB Managers x 104 hours x \$46.73)**

Program development cost (FY 2017) = **\$62,000**

Gainsharing Suggestion Documentation Process: Assume one in 100 employees submits a suggestion every year or 526 suggestions annually. Assume that each request requires 50 hours at the suggestion documentation process level and that most of the hours are incurred by staff paid at the full time executive branch hourly wage of \$32.23. Assume that costs would be incurred by all agencies in the executive branch.

Suggestion documentation cost = **(526 suggestions x 50 hours per suggestion) x \$32.13.**

Suggestion documentation cost (FY 2018 and annually thereafter) = **\$845,000.**

Agency Review Committee: Assume these staff are paid at the executive branch manager average hourly wage of \$46.73/hour. Assume 105 requests reach the Agency Review Committee stage each year. Assume costs would be incurred by all agencies in the executive branch.

Agency review cost = **11,232 hours (107 hours per proposal) x \$46.73**

Agency review cost (FY 2018 and annually thereafter) = **\$525,000**

Enterprise Gainsharing Committee: Assume staff are paid at the executive branch manager average hourly wage of \$46.73/hour. Assume 26 requests reach the Enterprise Gainsharing Committee stage each year. Assume costs would be incurred by all agencies in the executive branch.

Enterprise gainsharing cost = **52 hours (2 hours per proposal) x 46.73**

Enterprise gainsharing cost = **\$2,000**

Monthly Reporting Requirements: Assume agency staff are paid at the executive branch hourly wage of \$32.23/hour. Assume MMB staff are paid at the executive branch manager average hourly wage of \$46.73/hour. Assume costs would be incurred solely by MMB.

Agency cost for ongoing monthly reporting = **500 hours/month x12 months x \$32.13**

Agency cost for ongoing monthly reporting = **\$193,000**

MMB cost for ongoing monthly reporting = **60 hours x \$46.73**

MMB cost for ongoing monthly reporting = **\$34,000**

Total monthly reporting costs = \$227,000

Program Administrator: Assume an annual cost of \$50,000 which includes salary, FICA, insurance and retirement costs.

Total annual program administrator costs = **\$50,000**

Table 1. Total Costs for Gainsharing Program: FY 2017 through FY 2021

	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
Program Development (MMB)	\$62,000	\$0	\$0	\$0	\$0
Gainsharing Suggestion Documentation (all agencies)		\$845,000	\$845,000	\$845,000	\$845,000
Gainsharing Agency Review Committee (all agencies)		\$525,000	\$525,000	\$525,000	\$525,000
Enterprise Gainsharing Committee (all agencies)		\$2,000	\$2,000	\$2,000	\$2,000
Monthly Reporting Requirements		\$227,000	\$227,000	\$227,000	\$227,000
Program Administrator		\$50,000	\$50,000	\$50,000	\$50,000
Total Costs	\$62,000	\$1,649,000	\$1,649,000	\$1,649,000	\$1,649,000

Concerns with Gainsharing

In preparing a new state employee gainsharing program, several concerns have arisen and must be considered in the implementation of the program.

Unfunded Mandate

As outlined in the previous section, administering a gainsharing program involves a cost of approximately \$1.6 million each year once the program is implemented. No appropriation was provided to develop, implement, and administer a new program.

The state has no data to prove that the savings created by a gainsharing program would offset the cost of implementation. The cost-benefit analysis requires further study. The program may have an overall cost to the state.

Difficulty of Budgeting Documented Savings

Gainsharing was developed by the private sector. However, unlike sharing profits in the private sector, government budgets are more inflexible and cannot easily calculate and budget for savings.

Minn. Stat. 16A.09 requires that gainsharing ideas result in documented savings and the award must be paid from the appropriation to which the savings accrued in the first fiscal year in which the savings are realized. When the majority of the savings fall in the second year of an idea's implementation, an employee's financial award will not reflect ongoing savings.

Legal or budget constraints limit the state's ability to use savings for gainsharing. Funds provided by another level of government or an external source must often be used for a specific purpose. For example, the state's use of federal funds is governed by cooperative and grant agreements. Any plan to change the use of these funds, or to retain savings for another purpose, is subject to federal review and approval.

The same kind of constraint may apply to transfers between funds within a jurisdiction. For example, if savings are generated in a fund that receives transfers from another fund, any savings may need to be returned to the originating fund to comply with appropriations law.

Diminished Goal of All State Employees

The gainsharing statute requires that if an employee's job is to explicitly find efficiencies within state programs, those employees are exempt from the program. While the gainsharing program in Minnesota will attempt to find an appropriate list of positions that is ineligible for an award under this provision, it can be argued that sound fiscal management generally assumes that it is every state employee's responsibility to explore and develop efficiencies.

State employees appreciate recognition of the good work they do, however this appreciation need not be in the exclusive form of bonus compensation. In fact, social science studies repeatedly conclude that for all but simple

and routine tasks, financial rewards designed to motivate performance actually have the opposite effect. Public recognition by the legislature or the public for good work, for example, would be a welcome, motivating and appreciated form of employee acknowledgement.

It is important to note that the State of Minnesota currently provides monetary and non-monetary recognition to those employees who go above and beyond to deliver outstanding results in the workplace. These rewards and awards encourage exceptional employee performance. Monetary awards are generally capped at a range from \$1,000 to \$2,000 under the applicable collective bargaining agreement or compensation plan. This range has been found to be sufficient in providing adequate recognition for those who go beyond their day-to-day performance requirements and motivate others to do the same, without the likelihood of causing significant concerns to taxpayers.

Minn. Stat. 16A.90 caps awards to state employees at \$50,000. This amount of money is excessive and could lead to a distraction from employees doing the job they are hired for. Gainsharing-type employee award programs in other states all cap the maximum award at a much lower level. Illinois and Alabama cap awards at \$5,000, North Dakota caps awards at \$4,000, and Indiana at \$13,000.

Increased Risk of Waste or Abuse

The motivation of a bonus award of up to \$50,000 and the designation of certain employees who are employed specifically to find savings as ineligible for the program has the potential to increase risk of waste or abuse. Numerous employees' jobs throughout the state include the responsibility to find documented savings. A gainsharing program creates a risk of ineligible employees using their expertise in conjunction with eligible employees to submit ideas and then unjustly benefit from the award. Another potential risk is an employee's use of a colleague's suggestion without consent.

Given the potential for increased risk, concentrated efforts to develop and implement preventative and detective control activities will be needed. The extent of specific control activities required to prevent this abuse and potential waste has not been adequately analyzed at the time of drafting this report. MMB is committed to the implementation of internal control structures within any gainsharing program that will provide reasonable assurances that public funds are protected.