



April 3, 2017

Representative Sarah Anderson, Chair  
583 State Office Building  
Saint Paul, MN 55155

Dear Chair Anderson:

As a follow up to the testimony I provided to the House State Government Finance Committee on March 27 and 28, I write to express my serious concerns regarding H.F. 691/ S.F. 605, the House omnibus state government budget bill.

H.F. 691 arbitrarily cuts the operating budgets of Minnesota Management and Budget (MMB) by approximately 23%. This across-the-board reduction is not a responsible way to fund MMB and is an approach that the Governor does not support. He has insisted that all proposed budget reductions identify the programs and services that the committee intends to eliminate.

#### **Governor's Approach**

Governor Dayton's budget is strategically focused on what each individual agency needs to provide services to Minnesotans. Instead of the wholesale agency cut approach of H.F. 691, the Governor has worked closely with commissioners to determine each agency's operating budget adjustment, starting with known, necessary costs.

The Governor's budget includes agency operating adjustments that recognize the expectation of Minnesotans that state government provide high-quality state services. He understands that maintaining services means covering expected cost growth in the next biennium. We have been thoughtful and strategic in putting together our budgets over the last several years. Instead of arbitrary budget cuts, we should be proud of the relatively lean state government Minnesota currently operates. In comparison with other states when measuring the number of state employees per capita, Minnesota ranks 35 out of 50 states, or 15th lowest, meaning we manage a lean workforce per the number of people served.

In addition, the Governor cautions that we must be aware of the increased uncertainty that the state budget faces this year. Minnesotans see it every single day in the news coming out of Washington. Whether it is cuts to state grant programs or uncertainty over future economic growth, our state leaders must recognize the importance of budgeting strategically. Governor Dayton has been clear that his number one priority this session is maintaining fiscal responsibility. His proposal invests in the services that Minnesotans deserve while saving \$200 million for the high degree of uncertainty we face today.

## Management and Budget Reductions

H.F. 691 arbitrarily cuts the base budget of Minnesota Management and Budget by 23%. MMB already operates an efficient and lean agency. The Governor has asked for additional investments to keep the best talent and highest level of service the department can provide. H.F. 691 actually cuts the Governor's proposed budget by 29% without including the SWIFT IT upgrade and the IT program for talent management.

But under the cuts of this committee's budget proposal, MMB will be forced to reduce the quality of services and lay off critical employees. For context, a 23% budget cut to MMB is the equivalent of eliminating our entire debt management team, our economic analysis team, the entire budget staff, and a large portion of the accounting services staff. These employees are responsible for the sale and issuance of state bonds, the calculation and analysis of the biennial state economic forecast that the legislature relies upon, the preparation, coordination and execution of the biennial and supplemental operating budgets, and the annual preparation, coordination, and execution of the capital budget, the maintenance of the state's general books of account, the administration of the statewide accounting system, the central disbursements system, the financial records, and the state of Minnesota's banking and cash management activities.

MMB has about 240 employees, but our responsibilities and scope of work are increasingly complex. The number of employees at MMB is near its lowest point in the past ten years, yet the statutorily required work has increased and the number of people served has grown significantly. For a comparison, in 2011, MMB had about 20% more employees than today – and at a time when the population of the state was 4% smaller. We are currently serving more Minnesotans with fewer employees. And I am proud at how efficiently and effectively we provide those services on an already lean budget.

MMB serves 55,000 people who work for the state, over 100 state agencies, boards and commissions, businesses that work with the state, Minnesota State Colleges and Universities, the Governor, the Judicial branch, and the Legislature.

In cutting MMB's budget by 23%, the Legislature must consider the agency's role in the operation of state government and the increasing demands for its critical services. Governor Dayton requested that all legislative proposals to cut agency budgets identify what programs and services you wish to see eliminated. As I testified to the duties of MMB, consider which one of the services below that you would take responsibility for cutting.

Our responsibilities include:

- Preparation, coordination and execution of the biennial and supplemental budgets. Cuts to the budget staff could mean delays in implementing the state budget and difficulty retaining quality staff to analyze the state's finances.
- Annual preparation, coordination, and execution of the capital budget and sale and issuance of state general obligation bonds, appropriation bonds and other public financing. We currently

oversee over \$8 billion in state public debt. Cuts to the debt management team could impact our bond rating and starting capital projects in an efficient way.

- Maintenance of general books of account, the administration of the statewide accounting system, the central disbursements system, financial records of the state, as well as banking and cash management activities. Cuts to the accounting division could mean slower payments to vendors, leading to difficulty working with private business.
- Preparation and delivery to the Governor and Legislature: twice a year budget and economic forecasts, quarterly economic updates, and monthly revenue memos. Cuts to these services would directly impact the quality of information provided to the Legislature to make policy and budget decisions.
- Administration of human resource functions across state government, including maintenance of the state's online payroll, human resources, and benefits system. Cuts to these services would impact the management of the 55,000 employees who work for the state. Those of us who have experience in the private sector know that to run an effective, efficient organization, you must provide reliable services to your most important resource: your employees.
- Coordination and planning to ensure agencies can continue providing priority services in the event of weather emergencies, disasters, or a shutdown due to the inability of the Legislature to pass a budget on time.

### **Funding for Statewide Accounting and Financial System Upgrade**

No funding is provided in H.F. 691 for critical upgrades to increase security, support disaster planning and recovery, and ensure optimal operation of the IT systems that support enterprise operations. MMB's request included a critical update to our state's accounting, financial, and procurement IT system, SWIFT (Statewide Integrated Financial Tools). MMB uses this system for paying individuals, businesses, nonprofit organizations, school districts, cities and counties. It bills customers for money due to the state. It is the official system of record for the state's financial affairs and is critical for supporting priority services to Minnesotans.

The Governor proposed \$13.9 million in FY 2018 to increase security and ensure optimal operation of the IT systems. We have not upgraded this system since we purchased it five years ago and the version we are on will no longer be supported by the company after January 2018. The upgrade will also make our systems more user friendly for people with disabilities.

### **Compliance and Risk Management**

MMB's budget request of \$860,000 in FY 2018 and \$866,000 in FY 2019 for nine new positions to mitigate risk across the enterprise is also not funded in H.F. 691.

The funding would create several vital positions needed to more effectively provide the budget services the state requires including:

- One economist to back-up the sole staffer who forecasts income tax, bringing the economic staff total to four people.
- Two staff dedicated to enterprise FLSA classification work, related to recent changes in federal law. This work includes auditing 1,800 job classes and the positions within them. Additional work required includes rewriting class specifications and creating a system for monitoring employees with multiple appointments and part-time work to ensure compliance with federal law.
- 1.5 FTEs to provide back up to critical payroll functions such as employer tax reporting. This work is currently completed by one individual.
- One FTE to assist the four-member Debt Management Division with regulatory compliance measures related to the use of proceeds and bond financed property. Adding a fifth FTE to this small division will allow for better allocated resources in all of the current, critical functions.
- An Office of Accessibility is created with the addition of three new FTEs to coordinate, develop strategy, and provide direction to the enterprise on all facets of accessibility, from compliance to creating an inclusive and accessible environment for employees, customers, and the general public. The office would support the mission by creating materials, and providing training and communications to the enterprise.

### **Training and Development**

MMB's budget request for \$15 million in 2018 to implement a new Talent Management System was also not funded in H.F. 691. In our effort to make the state an employer of choice, and in recognition of the tight labor market, best practices in the private sector, and wave of retirements we are facing, we recognize we must do everything we can to recruit, attract, and keep the very best talent. A key element of that is to improve the delivery of employee training and development so that all employees receive consistent, high quality training and development. The proposed new system will deliver these services in one place for state employees.

### **Fewer Resources - Increased Mandates**

This budget bill cuts 23% from MMB's operating budget while adding new responsibilities. H.F. 691 adds new reporting requirements for gainsharing, base budgeting, inter-agency transfers, and tracking of full time equivalents across the enterprise. Even though the bill eliminates significant resources for all state agencies, the bill adds at least six new reporting mandates as well as other restrictions that would require new calculation, implementation, and oversight.

### **Base Budget Report and Intra-agency Transfer Reporting**

One of these unfunded mandates is a new base budget report for MMB. The budget materials presented to the Legislature have statutory requirements that the agency fulfills. This new reporting mandate will increase work, reduce efficiencies, and provide little insight or direction for the Legislature. Combined with the bill's reduction to the Budget Division funding, this requirement is not workable. The same concerns should be applied to the increased bureaucracy of reporting intra-agency transfers. Legislators and legislative staff already have access to this information.

### **Collective Bargaining Agreements - Affirmative Vote Required to Implement Contracts**

H.F. 691 includes a provision that requires affirmative approval of state employee collective bargaining agreements by the Subcommittee on Employee Relations (SER) when the Legislature is not in session, pending approval by the full Legislature.

The current process has been in place for over 20 years and has worked well. It allows MMB to process the general adjustments in a timely manner – which are normally effective July 1 of each year. Employees should receive wage adjustments annually and this process assists with retention and recruitment, particularly in the tight labor market we have now.

Health and dental insurance changes could be delayed, leading to uncertainty for members and health plans. The plan year begins January 1, but open enrollment is normally held in late October to early November. If interim approval is not given, open enrollment will be delayed, likely beyond the beginning of the plan year. Thus, any improvements to the plan or cost savings realized will also be delayed.

We must be able to adequately address the wage and insurance needs of our state workforce efficiently. H.F. 691 makes this process more cumbersome and is unnecessary.

### **Elimination of Statewide Executive Recruiter**

The bill restricts the state's ability to recruit a diverse workforce. Statute requires MMB to maintain an active recruiting program designed to attract qualified workers to serve the people of Minnesota. Special emphasis is given to recruitment of veterans and protected group members to achieve a balanced work force. *M.S.43A.09*

Realizing the value of a diverse and inclusive work culture, we are tracking our progress with disparate hires. Our data show that persons with disabilities make up 6.3% of the state's workforce, 7.5% are veterans, 11.5% are persons who identify as racial or ethnic minorities, and 49.9% are women. To effectively provide services, we must keep pace with the changing demographics of the entire state. State government also faces a tightening labor market over the next two decades due to retirements and fewer people entering the labor force. Currently there are 97,000 available jobs and only 120,000 job seekers in Minnesota. Creating a talent pipeline is crucial to the state's long term success and the services we offer our citizens.

By cutting funding for Statewide Executive Recruiting, this budget would reverse the progress we have already made in developing recruiting and retention strategies that would prevent skill shortages, retain a diverse workforce, and promote the State of Minnesota as an employer of choice.

### **Gainsharing**

H.F. 691 creates additional requirements under the gainsharing statute in addition to the Achievement Awards program that is already successfully administered by the state. This provision does not provide the necessary funding to set-up and administer a new, likely unmanageable program. Not only are the new requirements unfunded, the spreadsheet claims that the new gainsharing program will provide \$1 million in revenue over the next biennium. This assumption of savings arbitrarily reduces agency

budgets if the actual savings are not realized. The bill does not recognize the realities that not all savings are funded within the General Fund and no clarification is provided in how to realistically administer the program.

### **Continuing Appropriations**

The bill provides that if a budget is not passed into law upon the end of the previous budget, agencies and programs will continue at 95% of the previous appropriation. It is the duty of the Legislature to appropriate funds for each biennium and, by planning for a state government shutdown in advance, this provision is an abdication of the Legislature's core responsibility.

### **Limit on Number of Full Time Equivalents**

H.F. 691 places an arbitrary limit on the number of full time equivalents (FTE) the state may employ. This is not a strategic or deliberate strategy to run an organization. If this bill became law, the state would be required to lay off thousands of people on July 1. Although the workforce is reduced by this bill, all of the statutory requirements for public safety, educational programs, financial oversight, veterans programs, and road construction that the Legislature mandated would remain. We have been told regularly that the state should run more like a private-sector company. No private company that I know of, and I have run one, arbitrarily places a number on how many employees it requires. Rather, it determines the products or services needed or required and then determines how many professionals are needed to properly and efficiently execute those services. Moreover, the ability to bring on staff in times of emergency and crisis (a pandemic, for example) is critical, and is a core expectation Minnesotans have of us. Your FTE limit would not allow for necessary personnel during an emergency.

### **Opt Out of Insurance Savings**

The bill mandates a reduction to state agencies for savings that could be realized by allowing employees to opt out of state health insurance benefits if they have other coverage. We support the underlying provision of allowing an opt out for state employees, however we are concerned about the prescriptive nature of the language in this section. If enough employees choose not to opt out of the program and the insurance cost savings are not realized to the agency, MMB is still required to reduce agency budgets. Furthermore, the provision applies to the executive branch and the constitutional officers, but not to 40% of employees covered by the Statewide Employee Group Insurance Program (SEGIP) including the Legislative Branch, Judicial Branch, or the Minnesota State Colleges and Universities system. Uncertainty about how much savings will be realized, combined with the challenges of allocating those savings to agencies, makes it a financially flawed proposition to try to capture these savings in advance through reductions in appropriations.

### **State Employee Group Insurance Program (SEGIP) Efficiencies**

The Legislature routinely asks us to bring forward better ways to manage the state's resources and find new methods to be more efficient. For these reasons, we were disappointed that the proposed efficiencies to manage SEGIP were not included in this budget bill as they would save the program around \$689,000 over the biennium and would assist us in keeping health care costs lower.

**Limit on Overall Compensation**

The bill places a limit on compensation changes to employees. This micro-management hinders recruiting and retaining high-talent individuals that the state relies on for specialized services. Again, I know of no private business that would operate in this manner. A limit on overall compensation changes is an imprudent infringement on the collective bargaining process. By capping the amount of employee compensation, this provision would essentially nullify collective bargaining.

The bill also limits any increases to employees covered by the Managerial Plan. These employees include corrections facilities directors, financial oversight experts like agency Chief Financial Officers, epidemiologists, nursing managers, technology security experts, pharmacists, and state patrol officers. The state, as an employer, needs to be competitive in wages and compensation in order to maintain a qualified workforce. This provision runs counter to that essential need.

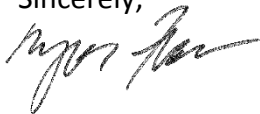
**Limit on Advertising**

The bill places an arbitrary limit on agency advertising, whereby an agency's advertising budget may not exceed 90% of the amount the agency spent on advertising in 2016. Though all agencies seek efficiencies and cost-saving measures, this is not a strategic manner in which to operate any organization. As an example, MMB's advertising budget would be limited by the previous year, but the bill requires additional communications on the gainsharing program. The problem posed by this section would be even worse for some agencies that may need to communicate with the public on matter of public safety and emergencies but would be limited in doing so.

Minnesotans are hard-working, forward thinking people. They balance their budgets in an honest way while taking care of each other. Governor Dayton shares these values. His record of managing our state budget in a fiscally responsible way is clear. We have managed the state's finances well, and consequently we have resources today. We are facing new, and increased challenges. We must meet these challenges and provide solutions to real problems. Governor Dayton's budget recommends that we invest wisely and use our resources for the benefit of all Minnesotans.

H.F. 691 is not a responsible, transparent way to budget for our state agencies. It is designed to meet an arbitrary budget target, and it does so through arbitrary cuts, and accounting shifts. I ask the Legislature to seriously consider the straight-forward parameters on the budget process that Governor Dayton outlined in his letter to legislative leaders.

Sincerely,



Myron Frans  
Commissioner

cc: Representative Sheldon Johnson