

March 23, 2017

Senator Mary Kiffmeyer
Chair, State Government Finance and Policy and Elections Committee
95 University Avenue West
Minnesota Senate Building, Room 3103
Saint Paul, MN 55155

Dear Chair Kiffmeyer,

Thank you for the opportunity to testify before the Senate State Government Finance and Policy and Elections Committee regarding SF 605, the Omnibus State Government Finance bill. I want to reiterate my concerns regarding SF 605, and again urge the State Senate to fund Governor Dayton's budget recommendations for the Department of Administration.

The State of Minnesota is in the strongest financial position that it has been in for well over a decade. The February State budget forecast revealed a \$1.65 billion surplus, a structurally balanced budget, and the largest cash and budget reserves on record.

Our State's strong financial position is the result of a robust Minnesota economy, an educated and productive workforce, smart public investments, and sound State fiscal management under Governor Dayton's leadership. Independent observers such as financial rating agencies, Governing Magazine, and US News and World Report - to name just a few in the past year - have all rated Minnesota as an extremely well run State.

Now is the time for Minnesota to remain committed to sound fiscal management and to strengthen, not diminish, the programs and practices that make Minnesota one of the best run States in the country.

SF 605 reflects a 27 percent budget cut from continuation of current Admin operations, and a disproportionately large 18 percent reduction in Admin's general fund operating budget. This legislation, if enacted, would eliminate at least 26 employees, or over 30 percent of Admin's general fund workforce. Such cuts would be unwarranted given a \$1.65 billion surplus, and would greatly jeopardize our ability to deliver services that our agency partners and Minnesotans expect.

Governor Dayton's budget recommendations maintain sound fiscal management by making modest, prudent investments to continue current operations, modernize crucial information technology systems, and address critical cybersecurity issues. I urge the Senate to fund Admin's operating budget adjustments for the General Fund, e-Procurement technology, Census2020, and In-Lieu-of-Rent appropriations.

- **\$1.561M Operating Budget Adjustment:** Failing to fund Governor Dayton's recommended operating budget adjustment will result in less oversight of State construction projects, less oversight of State purchasing contracts and State agency purchasing decisions, less negotiated contract savings, and even less assistance with data practice laws and demographic data despite Minnesotans wanting more help from those experts.
- **\$10M Investment in an e-Procurement System:** The State spends more than \$2.5B for goods and services annually. By comparison, the Governor recommends \$10M to bring the information technology systems and processes used to make those purchases more in-line with those of other states and the private sector. Minnesotans expect an Amazon experience but instead we are delivering something akin to a Montgomery Ward mail order catalogue by relying on paper contracts and at least 40 unique IT sub-systems to route purchasing requisitions, bid solicitations, purchase orders, and payments across State government. State governments with modern procurement capabilities reduce costs for goods and services, increase

productivity of staff, make more informed sourcing decisions, and provide greater transparency into spending for legislators and the public.

- **\$380K to Provide Technical Assistance for Census2020:** Census2020 is under way right now; this session is the critical time to fund the necessary technical support to maximize Minnesota's Census count and support the likelihood that Minnesota maintains eight Congressional districts. For each Minnesotan not counted, the state loses an estimated \$1,400 in federal funds per person, per year. Those are tax dollars paid by Minnesota taxpayers that will not come back to Minnesota to support our residents and our communities.
- **\$2.449M Increase to In-Lieu-of-Rent Appropriation:** Even though the paint has literally not yet dried on the Minnesota State Capitol restoration project, and some scaffolding is not yet down, SF 605 puts the State once again on a path of inadequately staffing and maintaining the State Capitol, Minnesota Senate Building (MSB), and State Office Building (SOB)—despite a taxpayer investment of over \$400M in those three buildings in just the past four years. The ILR funding increase is needed to ensure proper care of the newly restored, historic Minnesota State Capitol, and to avoid reductions in building maintenance of Legislative space.

Rather than strengthening government effectiveness, SF 605 eliminates common sense programs that parallel best practices used in large private companies to ensure organizational efficiency. Those budget cuts are contrary to the notion that “government should operate more like a business” and, I believe, shortsighted because they will ultimately increase rather than decrease the cost of government. For example, SF 605:

- Eliminates the Office of Grants Management (OGM) while proposing Admin administer nearly \$3M annually in State grants including two new grants, without any administrative funding to do so. Further, the office was created as a result of an Office of the Legislative Auditor program evaluation of grants to non-profit organizations that revealed a fragmented approach to grants management practices across State agencies. The grants policies developed and maintained by OGM are used by the Legislative Auditor as a standard against which agencies measured. The \$130,000 annual appropriation for OGM is a bargain relative to its success with reducing the risk of financial loss due to misspending of State grant funds, inadequate controls, or less than optimal grant outcomes. Further, eliminating all funding while maintaining M.S. 16B.97 and 16B.98 gives the false impression that enterprise grants oversight is in place even though there will be no Admin staff to carry out those duties.
- Eliminates the Minnesota Office of Continuous Improvement (formerly known as LEAN), which was established in 2007 as part of Governor Pawlenty's Drive to Excellence initiative. Having a CI culture that empowers employees to perform better, and focuses on improving services to Minnesotans, is a win for everyone. CI services result in Minnesotans getting better outcomes at a lower cost. CI speeds up innovation, maximizes ROI for improvements, incorporates data-driven decision-making, and increases opportunities for radical improvements. Just last month state agencies celebrated the success of over 60 of the best continuous improvement projects for 2016; defunding this office will make State government less innovative and less efficient.
- Eliminates funding that supports MN's Olmstead Plan to ensure people with disabilities are living, learning, working, and enjoying life in the most integrated setting. Without this funding, Admin will no longer be able to support the Olmstead Subcabinet's Prevention of Abuse and Neglect Committee work to minimize the conditions that result in nearly 52,000 reports annually to the Minnesota Adult Abuse Reporting Center, and improve employment opportunities for people with developmental disabilities.
- Masks additional budget cuts that will be passed on to state agencies, or result in lower service levels, for mail services, accommodations for people with disabilities, and human resource and financial management services.

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Perhaps most perplexing is the proposed elimination of funding for the Small Agency Resource Team (SmART) program, a particularly successful program that is widely recognized as a model for shared human resources and financial services aimed at saving money, reducing risk, and improving outcomes. With extremely small budgets, the overhead cost of administrative functions for small agencies, boards, and commissions is a much greater share of those entity's budget than for larger agencies. Providing a direct appropriation to Admin for the SmART services ensures that resources are in place to help the entities most in need, when they need it. This program should be expanded, not contracted.

Under SF 605, use of SmART would be optional for most small agencies, boards, and commissions. As SmART costs rise without a corresponding increase to their budgets, the many small agencies may choose not to use SmART. This change will hinder small agencies' ability to focus on their statutory mission, and it will reverse the progress that has made toward eliminating questionable spending and inappropriate HR practices.

Many of the above programs were put in place by previous Administrations, and continued by Governor Dayton, specifically to improve government outcomes and save money. Those programs should be retained and bolstered. Similarly, several other provisions in SF 605 would likely increase state agency IT costs and defund scheduled technology improvements at a time when significant increases in technology are needed to meet the expectations of Minnesotans, including:

- A requirement that funding for Cybersecurity come from the Odyssey Fund; this means that resources wisely set-aside by Admin to implement a document management, improve its website, and upgrade construction services project management tools will no longer be available for those purposes.
- A required \$3.0M reduction for MN.IT that will diminish much needed IT staff essential to moving forward with IT projects at Admin and other agencies.

Finally, the current version of SF 605 eliminates rider language to the Senate appropriation that is needed to comply with bond financing covenants for the MSB. The debt issued to finance MSB construction clearly states that the debt can only be repaid from a source specifically appropriated for that purpose. Failure to restore the previous rider language could put the State in a default position.

I strongly encourage you to continue the State's sound fiscal management by funding operating and ILR budget adjustments for Admin, as well as making prudent investments in information technology and cybersecurity. I look forward to working with you to develop a budget that will meet the expectations of Minnesotans, and fully fund Governor Dayton's budget recommendations for the Department of Administration.

Sincerely,



Matt Massman
Commissioner, Department of Administration

c: Senate Finance Committee Members
Senator Jim Carlson
Representative Sarah Anderson
Representative Sheldon Johnson