

March 30, 2017

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

Dear Representative Anderson:

I am writing to reiterate my concerns with HF 691, the Omnibus State Government Finance bill, to which I testified to earlier this week. And, I again urge the House of Representatives to fully fund Governor Dayton's budget recommendations for the Department of Administration.

The State of Minnesota is in a strong financial position. The February budget forecast revealed a \$1.65 billion surplus, a structurally balanced budget, and the largest cash and budget reserves on record.

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. These accolades reflect our State's tradition of supporting a robust Minnesota economy, an educated and productive workforce, and making smart public investments.

Now is the time to strengthen, not diminish, the programs and practices that make Minnesota one of the best run states in the country.

HF 691 reflects a **24 percent budget cut from continuation of current Admin operations**, and an 18 percent reduction in Admin's general fund base budget. This legislation, if enacted, **would eliminate 33% or 27.5FTE of Admin's general fund workforce** (FY2016). Such drastic cuts are unwarranted given a \$1.65 billion surplus and will ultimately increase the cost of government by making state government operations less efficient.

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 you to revise HF 691 to fund Admin's operating budget adjustments for the General Fund and In-Lieu-of-Rent appropriations, for e-Procurement technology, and for Census2020.

- **\$1.561M Operating Budget Adjustment:** Failing to fund Governor Dayton's recommended operating budget for Admin will result in less oversight of state construction projects, less oversight of state purchasing contracts and state agency purchasing decisions, increased state costs, and even less assistance with data practice laws and demographic data despite Minnesotans requesting more help from those experts.

- **\$10M Investment in an e-Procurement System:** Minnesotans expect an Amazon experience. But instead, we operate an overly complex, opaque and inefficient procurement system that relies on paper contracts and at least 40 unique IT sub-systems to route purchasing requisitions, bid solicitations, purchase orders, and payments across state government. Governor Dayton proposes \$10 million to begin bringing the systems and processes used to buy nearly \$2.5 billion of goods and services annually more in-line with procurement technology used by other states and the private sector. 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 technical support needed to maximize Minnesota's Census count, and support Minnesota's bi-partisan effort to maintain eight Congressional districts. For each Minnesotan not counted, the state loses an estimated \$1,400 in federal funds per person per year. Those are federal funds paid by Minnesota taxpayers that do not come back to support our residents or our communities when Minnesotans are undercounted.
- **\$2.449M Increase to In Lieu of Rent Appropriation:** While the paint has literally not yet dried on the Minnesota State Capitol restoration project, and some scaffolding is not yet down, HF 691 puts the State once again on a path of inadequately staffing and maintaining the State Capitol, MSB, and SOB—despite a taxpayer investment of over \$400M in those buildings in just the past four years. This funding request is needed to ensure proper care of the newly restored, historic Minnesota State Capitol and to avoid reductions in building maintenance of Legislative space.

A well-functioning organization must properly care for both its visible products and programs, as well as the behind the scenes work performed by central service agencies to ensure innovation, legal compliance, and efficiency. That is why Admin is continuously focused on how we can help state government operate better, and at a lower cost. Unfortunately, HF 691 would have a negative ROI by eliminating people and programs whose job it is to reduce the cost of government, and ensure Minnesotans experience the best value from government.

For example, HF 691 eliminates funding for the Office of Continuous Improvement, a program that is a best practice for large private sector companies. This office routinely helps state agencies reduce costs and increase value for Minnesotans by improving efficiency in state operations. The CI Office was established in 2007 as part of Governor Pawlenty's Drive to Excellence initiative. HF 691 inexplicably breaks a program that is working well for Minnesotans.

HF 691 also makes drastic cuts to all other Administration operations paid for with general fund resources. These cuts will cripple core services provided by Admin to all other state agencies including a 15.3% cut to Real Estate and Construction Services, a 15.3% cut to the Enterprise Real Property Program, and a 15.3% cut to the Office of State Procurement. Cutting division budgets will result in higher cost state government for the following reasons:

- The individuals working for Real Estate and Construction Services (RECS) are the construction and leasing experts for the entire enterprise. These staff routinely save the State money by negotiating better lease terms—including lower pricing, higher quality space, and greater landlord accountability—than would otherwise be the case. In just one recent example, one of our leasing agents saved a state agency a million dollars by negotiating better rates. That one transaction far exceeds the staff costs, and each RECS staff processes nearly 190 lease transactions annually. The expectation that Admin's

centralized experts will continue to achieve such cost savings if the budget is cut by over 15% is not realistic, or prudent. Similarly, reducing funding for construction project management experts will increase costs as a result of longer project times, more change orders, and the greater likelihood that the final construction outcomes will be less than optimal.

- The Enterprise Real Property Program (ERPP), another program established by Governor Pawlenty, has greatly enhanced the ability of the 19 state agencies that own property to prioritize Asset Preservation needs and inform legislators regarding the \$1.3B backlog in deferred maintenance. The ERPP replaced a fragmented set of property databases with an enterprise-wide solution that consistently tracks all state-owned properties. Rather than reducing funding for this program, there are many additional, high value functions ERPP could provide with additional resources.
- The Office of State Procurement is responsible for negotiating contracts for state agencies, and local governments that use our Cooperative Purchasing Program. This program has been recognized as one of the best in the country and, last biennium. In just the past two years, our contract negotiators avoided over \$30 million in costs by reaching agreements with vendors for lower prices than were identified in bid solicitations. Again, the expectation of such efficiencies can continue if the budget is cut by 15% or more is not realistic. The expectation of such savings is our job, and it is already reflected in the state budget base. Cutting funding for these staff will increase state and local government costs due to less capacity to negotiate contract savings and minimize contract risk. Even more troubling, the reduced staff will further limit contract oversight, putting taxpayers at greater risk of costs related to contract disputes.
- While Section 39 attempts to safeguard agency services that are provided directly to the public, in fact HF 691 cuts Admin's citizen-facing services more than other Admin areas. Specifically, it makes a 25% cut to services such as responding to public data practices requests, Open Meeting law disputes, and requests for demographic analysis and other areas.

In addition, HF 691 cuts the the Small Agency Resource Team (SmART) program by 8.2%. The SmART program is a widely recognized success, and a model for shared human resources and financial services. The program saves money by providing HR, finance, and budget expertise that helps ensure state laws and processes are followed, by reducing risk, and by improving outcomes because the entities served can better focus on their core responsibilities. Providing a direct appropriation to Admin for the SmART ensures that the entities in need of services will receive those services, when they need them. This program should be expanded, not contracted.

SmART cuts are compounded by a 19.7% reduction to Admin's HR functions and 15.2% reduction in financial management services, a cut that will be felt internally, by Admin's SmART customers, and MMB who will experience greater workloads when SmART services are not provided.

Governor Dayton has been clear that budget bills should avoid new policy initiatives. Not only does HF 691 include many policy provisions, including significant changes to the state rulemaking process, it fails to include Governor Dayton's policy recommendations for Department of Administration, which are non-controversial and have no fiscal impact. I am particularly concerned with the following provisions:

- **Minnesota Senate Building Appropriation Language:** HF 691 does not include rider language for the Senate appropriation specifying that a portion of the appropriation is for the explicit purpose of paying lease payments necessary to meet MSB debt service commitments.
- **Appropriation Structure:** Article 1 of HF 691 creates an overly prescriptive appropriations structure that will inhibit our ability to make the best management decisions on behalf of Minnesotans, including being able to respond to emergencies, should they arise. Other examples of unnecessary micro-management

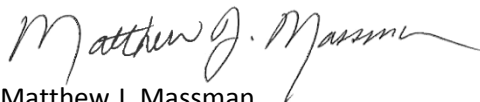
are Admin's rider language requiring 10% reduction in OEP, and a provision preventing Admin from spending any resources on Continuous Improvement.

- **Article 2, Sec. 29 Change orders on state construction projects:** As I testified two years ago, the existing transparency and fiduciary safeguards required in Minn. Stat. 16B.31, subd. 2, and 16B.355 already provide legislative notice requirements and oversight safeguards. The proposed additional requirements are redundant.
- **Article 2, Sec. 30 Reduces administrative cost of Accommodation Fund from 15% to 5%:** This program is administered by STAR, Admin's federally funded program that helps all Minnesotans with disabilities gain access to and acquire the assistive technology they need to live, learn, work, and play. Reducing this cost would impact Admin's ability to ensure timely reimbursement for accommodations for employees and job applicants with disabilities.
- **Article 2, Sec. 31 Admin must monitor all Department of Commerce grants:** Admin does not have the subject matter expertise or staff capacity to effectively oversee Department of Commerce grants, which amount to over \$150 million annually, or six times the amount of grants Admin currently administers. In 2015, we estimated it would cost Admin \$1.5 million to oversee these grants.
- **Article 2, Sec. 32 requires a state agency to terminate a grant if the recipient is convicted of a criminal offense or is under investigation by the Federal, State or Local Law Enforcement.** The second provision of this section would require continual monitoring of all grants and could result in a grant being inappropriately canceled. HF 691 provides no resources to perform these additional responsibilities.

Finally, based on the discussion during committee mark-up on HF 691, I am concerned that the reductions in HF 691 are premised on the notion that FY2012-13 staffing levels reflected the optimal staffing level for Admin, and that a continuation of current staffing levels is not justified unless the work of Admin staff results in a demonstrable budget savings that can be itemized in budget tracking. The reality is that FY2012-13 staffing levels reflect the lowest Admin staffing levels in many years and, I believe, are below the level needed to provide optimal centralized shared-services to state agencies and Minnesotans. Further, the dedicated people who do work for Admin already deliver real cost savings for state government that are built into base budgets.

I strongly encourage you to continue the State's sound fiscal management by funding operating and ILR budget adjustments for Admin. I strongly encourage you to continue the State's sound fiscal management that has led to a structurally balanced budget we currently enjoy.

Sincerely,



Matthew J. Massman  
Commissioner

cc: Representative Sheldon Johnson  
House Ways and Means Committee Members  
Senator Mary Kiffmeyer  
Senator Jim Carlson