



March 28, 2017

Senator Mary Kiffmeyer, Chair  
Senate State Government Finance and Election Policy Committee  
3103 Minnesota Senate Building  
Saint Paul, MN 55155

Dear Senator Kiffmeyer:

Thank you for the opportunity to testify on S.F. 605, the omnibus state government finance and policy bill in your committee on March 21. Please allow me the opportunity to follow up on that testimony with this letter with issues that are of concern to the administration and Minnesota Management and Budget in particular.

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

#### **Across-the-Board Cuts**

S.F. 605 cuts the operating budgets of state agencies from 4% to 7.5%. This arbitrary reduction of agency budgets is an approach that the Governor does not support. He has insisted that all proposed budget reductions identify the programs and services that will be cut. This budget bill does not provide that clarity.

The Governor's budget proposal is strategically focused on the needs of each individual agency. Instead of the wholesale agency cut approach of S.F. 605, the Governor has worked closely with commissioners to determine what each agency's operating budget needs to maintain current services, starting with known, necessary costs and anticipated costs, such as employer pension costs to cover the Governor's recommendation to improve the funding status of our pension plans.

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.

## **Minnesota Management and Budget Cuts**

S.F. 605 indiscriminately cuts the base budget of Minnesota Management and Budget by 7.5%. 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. S.F. 605 actually cuts the Governor's proposed budget by 15% without including the SWIFT IT upgrade and the IT program for talent management.

Under the cuts of your committee's budget proposal, MMB will be forced to reduce the quality of services and cut critical employees. For context, a 7.5% budget cut to MMB is equivalent to eliminating our entire debt management team, our economic analysis team, and half of our budget team. These employees are responsible for the sale and issuance of state bonds that cities and counties across the state rely upon; 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 that we all rely upon.

As Commissioner of MMB, I am the state's chief financial officer, chief accounting officer, state controller, treasurer, chief human resource officer, and chief negotiator for collective bargaining on behalf of the state with our employee bargaining units.

In considering the reduction of the agency's base budget by 7.5%, the committee must consider MMB's role in the operation of the state government and the increasing demands for its critical services.

To give a specific example, the bill reduces the base appropriation for the Budget Division by \$548,000, yet forms a task force to study the fiscal note process. This is equal to approximately 5 budget employees. Legislators are often frustrated by the fiscal note process but laying off 5 budget staff employees will undoubtedly slow the fiscal note work even further.

MMB has about 240 employees, but our responsibilities and scope of work are increasingly extensive and 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 approximately 305 employees – about 20% more than today. At that time, the state's population was 5.3 million. Today, MMB's 240 employees serve an estimated population of 5.5 million, 200,000 more people, which is an increase of about 4%.

We serve the people of Minnesota, 55,000 state employees, over 100 state agencies, boards and commissions, over 300 businesses that work with the state, Minnesota State Colleges and Universities, the Governor, the Judicial branch, and the Legislature. The budget reduction included in S.F. 605 will have a negative impact on our clients and the people of Minnesota. Potential consequences could include increased risk in the state's financial accounting, less oversight and management of public debt, slower delivery of fiscal notes to the legislature, and a less competitive and efficient workforce.

The positive impact our small agency has on the state is enormous. And I'm so proud of the work we accomplish. We take our responsibilities seriously and everything we do is for the betterment of all Minnesotans.

## **Lack of Appropriations**

Unfortunately, the bill does not fund the Governor's proposed change items for enterprise security and risk management, operating increases, compliance and risk management efforts, or a talent management system. These proposed change items are necessary to maintain current services and ensure state government as a whole can function in an effective and efficient manner.

As we have testified before your committee, the state's accounting system that was launched in 2011, will no longer be supported as of 2018. Maintenance to the system is a matter of data protection and accounting accuracy. Additional resources are also needed to reduce risk associated with economic forecasting, debt management and accounting services. Finally, the Governor has requested a statewide system to better train our employees and manage the state's human resources. We appreciate your consideration on these important initiatives.

## **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. During our agency presentation in committee, members expressed support for the SEGIP efficiency proposals. For these reasons, we were surprised they were not included in your budget bill as they would save the program around \$689,000 over the biennium and will help assist us in keeping health care costs lower.

## **Legislative Appropriations Language: Lease Payments**

As Commissioner Massman testified in committee, the elimination of rider language to pay Senate lease costs puts the financing used to pay for the construction of the Minnesota Senate Building at risk. The financing documents specifically state that the debt incurred to pay for the construction can only be repaid from a source specifically appropriated for that purpose. Failure to restore the language could create an event of non-appropriation, put the state in a default position and risk a downgrade to the state's credit rating.

## **Executive Recruiter Reporting Requirement**

This new reporting requirement is an unnecessary addition of bureaucracy, an unneeded mandate, and draws time away from more important work such as recruiting a talented workforce in a tight labor market where the unemployment rate in our state is less than 4%. The general workforce in the State of Minnesota is shrinking, as demonstrated with approximately a third (15,000) of state employees who are eligible to retire today. Resources are already strained. This information is already available in the accounting system. We should be working together to find more efficiencies and eliminating excessive reporting requirements.

## **Appropriations Limited**

Article 2, section 26 is new language that appears to have a goal of limiting negotiated employee compensation unless it is within an approved spending plan. Negotiations with employee bargaining units cannot commence until we have the previous year's data on health insurance costs and updated projections for future cost growth. We do not receive this information until late April, which is one of the main reasons we cannot finish contract negotiations until June or July, after the legislative session has

concluded. Under this provision, an administration would need to know in January when a Governor submits a budget, what the outcome of the negotiation in June will be. If a Governor added additional resource requests to cover future potential costs on a contract, the administration would be at a strategic disadvantage in negotiations with the bargaining units as they would know what the Legislature has appropriated for this purpose.

Additionally, while this provision attempts to micromanage the compensation amounts, it is actually redundant. Every administration is constrained by what is appropriated by the Legislature. Agencies cannot spend more than is appropriated.

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

Article 2, section 36 of 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 are concerned about the prescriptive nature of the language in this section. If 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 the Legislative Branch, Judicial Branch, or the Minnesota State Colleges and Universities system, which together account for about 40 percent of employees covered by SEGIP. Uncertainty about how much savings will be realized, combined with the challenges of allocating those savings to agencies, makes it a risky proposition to try to capture these savings in advances through reductions in appropriations.

### **Racing Commission operations**

Article 2, section 29 allows for the continuation of services for the Racing Commission in the event there is no appropriation made by the Legislature that is signed in to law. MMB has traditionally opposed these “lights on” provisions. It is the Legislature’s constitutional responsibility to pass appropriations bills that fund state government operations and programs. In the past, we have petitioned the court to continue operations that relate to life and health safety of the people of Minnesota. In the past, the Racing Commission work has not fallen within that category. We understand that the Racing Commission has its own dedicated funding stream and therefore would appreciate this authority. However, if the Legislature wants to relinquish this responsibility, then all of the programs in state government that have dedicated funding streams should also be included in this conversation.

### **Advisory task force on fiscal notes**

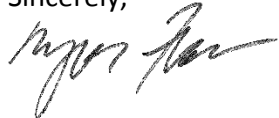
MMB is always interested in improving our processes and systems. We believe the 2012 Office of Legislative Auditor report on fiscal notes accurately describes the process and areas that could be improved. MMB has implemented all of the changes recommended by the OLA. We would suggest that before a new task force is formed, the Legislature implement the OLA recommendations. Though we are not convinced a task force on fiscal notes will reveal any additional insight in to the fiscal note process, we would request that any task force be equally balanced between the Legislative Branch and the Executive Branch since we are partners in this work.

## **Gainsharing**

Thank you for working with MMB staff on the gainsharing portion of the bill. The current version contained in the bill is much more workable than the original bill and addresses several of the concerns we testified to in your committee.

I look forward to working with you on the state's budget as the session progresses and on your bill as it makes its way through the legislative process. As always, please let me know if you have questions or concerns.

Sincerely,

A handwritten signature in black ink, appearing to read "Myron Frans", written in a cursive style.

Myron Frans  
Commissioner

cc: Senator Jim Carlson