

STATE GOVERNMENT

2002-03
Minnesota
Biennial Budget

*Presented by
Governor Jesse Ventura
to the 82nd Legislature*

STATE OF MINNESOTA 2002-03 BIENNIAL BUDGET

-INDEX-

STATE GOVERNMENT

	PAGE		PAGE
Administration Department	F-160	Legislature/Commissions	
Administrative Hearings Office	F-134	House	F-6
Amateur Sports Commission	F-525	Senate	F-7
Arts Board	F-419	Legislative Commissions	F-8
Campaign Finance and Public Disclosure Board	F-32	Legislative Audit Commission	F-9
Capitol Area Architectural and Planning Board	F-280	Lottery	F-501
Constitutional Officers		Military Affairs Department	F-429
Attorney General's Office	F-83	Military Order of the Purple Heart	F-490
Auditor's Office	F-45	Public Broadcasting	F-278
Governor's Office	F-37	Statewide Retirement Funds	
Secretary of State's Office	F-11	Minnesota State Retirement System	F-504
Treasurer's Office	F-74	Public Employees Retirement Association	F-511
Disabled American Veterans	F-492	Teachers' Retirement Association	F-514
Employee Relations Department (DOER)	F-307	Local Retirement Funds	
Finance Department	F-285	1 st Class City Teachers' State Aid	F-521
Debt Service	F-298	Local Police-Fire Amortization Aid	F-518
Tort Claims	F-300	Minneapolis Employees Retirement Fund	F-516
Contingent Accounts	F-304	Racing Commission	F-498
Gambling Control Board	F-494	Revenue Department	F-352
Government Innov. & Coop. Board	F-42	Strategic and Long Range Planning Office	F-145
Humanities Commission	F-415	Veterans Affairs Department	F-473
Investment Board	F-126	Veterans of Foreign Wars	F-488

LEGISLATIVE REFERENCE LIBRARY
STATE OFFICE BUILDING
ST. PAUL, MN 55155
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LEGISLATURE - EXECUTIVE SUMMARY

AGENCY MISSION AND VISION:

The legislature is one of three branches (the others are the executive and judicial branches), created by the Constitution of the state of Minnesota. The legislature consists of the House of the Representatives and the Senate. In addition, the House and Senate have jointly created various commissions and joint agencies that serve specific purposes described more fully below:

LEGISLATIVE COORDINATING COMMISSION (LCC)-GENERAL SUPPORT

The commission, established in 1973, coordinates certain activities of the Senate and House of Representatives and serves as an umbrella organization over joint agencies and legislative commissions. It determines the benefits for all employees of the legislature and health benefits for legislators. The commission reviews budget requests and establishes the complement for all commissions and joint agencies under its jurisdiction. The LCC also sets the compensation for all employees under its jurisdiction. The President of the Senate and the Speaker of the House alternate annually as chairperson. The commission provides staff support for the Compensation Council, the Regent Candidate Advisory Council, the Board of Trustees Candidate Advisory Council, and the Joint House-Senate Subcommittee on Claims. The LCC coordinates the provision of sign language interpreters at legislative hearings and meetings for citizens who are deaf or hard of hearing. The LCC Office of International Affairs serves as the main point of contact in scheduling meetings and arranging itineraries for visiting delegations seeking to learn more about the legislative process in Minnesota.

Complement: 6.0 FTE

LEGISLATIVE REFERENCE LIBRARY (LRL)

The Legislative Reference Library (established in 1969) collects, indexes and makes available public policy information to members and staff of the legislature. The library's main clientele are legislators and legislative staff. LRL also serves executive agencies and the public. State law requires six copies of all publication of state agencies, boards, commissions, etc. and one copy of all state-funded consultants' reports to be deposited with LRL. Rules of the House and Senate assign the director a custodial role with respect to the floor and committee tape recordings and accompanying minutes and logs. Public access to these materials is also required by rule.

Complement: 18.0 FTE

REVISOR OF STATUTES

The Revisor of Statutes is a nonpartisan professional joint legislative agency providing drafting publication and miscellaneous other services to the legislature, executive departments, and to the Governor and other constitutional officers. Drafting services consist primarily of bills and administrative rules. Publications consist of Laws of Minnesota, Minnesota Statutes, Minnesota Rules, and miscellaneous minor publications. Other services include computer and administrative support for the legislature under the jurisdiction of the LCC since 1973.

Complement: 52.0 Full-time, 9 seasonal

MISSISSIPPI RIVER PARKWAY COMMISSION

Mississippi River Parkway Commission expires 6-30-2001 under M.S. 161.1419.

LEGISLATIVE COMMISSION ON PLANNING AND FISCAL POLICY

The commission was established in 1987 to study and evaluate the actual and projected expenditures by state government, the actual and projected sources of revenue that support these expenditures, and the various options available to meet the state's future fiscal needs. In 1988, the duties were expanded requiring study and review of particular items and requiring recommendations to the legislature. In addition to projected state revenue, expenditures and tax expenditures, other subjects include economic and fiscal policy, mix of revenue sources for programs, investigation of state building needs and other related matters.

Complement: 0

LCC GEOGRAPHIC INFORMATION SYSTEMS OFFICE

The LCC Geographic Information Systems Office is responsible for providing the resources for the legislature, (including hardware, software and staff) to support development of redistricting plans, as well as the development and maintenance of spatial databases and the production and distribution of map data and internet map server applications. The office provides staff support for the LCC's computer network and web pages.

Complement: 3.0 FTE

LEGISLATIVE COMMISSION ON PENSIONS AND RETIREMENT

The commission was established in 1955 to study and investigate on an ongoing basis the various public retirement systems applicable to nonfederal

LEGISLATURE - EXECUTIVE SUMMARY (Continued)

governments employees in the state and to make recommendations to establish and maintain sound public employee pension legislation.

Complement: 3.5 FTE

GREAT LAKES COMMISSION

The commission promotes the orderly, integrated and comprehensive development, use and conservation of the water resources of the Great Lakes Basin, which consists of the eight Great Lakes states, Canada, and all water interconnections between them.

Complement: 0

LCC SUBCOMMITTEE ON EMPLOYEE RELATIONS

The commission was originally established in 1979 and now exists as a subcommittee of the LCC. It assists the legislature by monitoring the collective bargaining process between the state and its employees, and providing interim approval of negotiated agreements and arbitrated awards. The commission also reviews and approves the Commissioner's and Manager's Pay Plans for unrepresented employees of the state. In addition, the Governor's salary proposal for agency heads is reviewed for ratification. Other duties include the monitoring of the state Civil Service System, conducting research as directed, and performing other functions as delegated by the legislature.

Complement: 1.5 FTE

LEGISLATIVE COMMISSION ON THE ECONOMIC STATUS OF WOMEN (LCESW)

The commission was established in 1976 to study all matters relating to the economic status of women in Minnesota. Such matters include: the economic security of homemakers and women in the labor force; opportunities for education and vocational training; employment opportunities; access to state provided benefits and services; laws and business practices that constitute barriers to full participation in the economy; and the adequacy of programs and services for families, including single parent families.

Complement: 3.0 FTE

ELECTRIC ENERGY TASK FORCE AND INFORMATION POLICY TASK FORCE

Under M.S. 2160.051, Sub. 9, the Electric Energy Task Force expires 3-15-2001.

OFFICE OF THE LEGISLATIVE AUDITOR AND LEGISLATIVE AUDIT COMMISSION

The mission of the Office of the Legislative Auditor is to strengthen accountability in state government. The office completes 50 to 60 financial audit reports and 6 to 8 program evaluation reports each year with a staff of 79. The office is nonpartisan, and its chief goal is to produce audit and evaluation reports that are accurate and objective. The office is directed by the Legislative Auditor who is appointed for a six-year term by the Legislative Audit Commission. The commission consists of 20 legislators, 10 from the House and 10 from the Senate.

LEGISLATIVE COMMISSION ON MINNESOTA RESOURCES (LCMR)

The LCMR advises the legislature on the allocations for four dedicated funding sources for projects that will preserve, protect, develop and maintain the state's natural resources. The commission consists of ten representatives and ten senators. The governing statute is M.S. 116P. Complete information and the funding for LCMR is provided within the Environment and Natural Resources budget.

GOVERNOR'S RECOMMENDATIONS:

The Governor respects the separation of powers and the desire of officials in the judicial and legislative branches and other constitutional officers to independently present their budget requests directly to the legislature without specific recommendations from the Governor. However, since the Governor is required by law to submit a balanced budget to the legislature, it is necessary to identify funding for those offices as part of preparing a complete balanced budget.

The Governor's general recommendations for the legislature and constitutional offices reflect his firm commitment to minimizing the overall growth of government and the resulting tax burden on Minnesota taxpayers as well as his dedication to the effective use of technology to increase government efficiency and effectiveness in providing public services. Therefore, the Governor recommends funding to maintain the existing level of appropriations previously established by the legislature, increasing that level for salary and non-salary inflation, and providing a proportional lump sum for technology improvements.

For the legislature, the Governor's recommendation includes \$3.676 million for salary inflation, \$1.111 million for non-salary inflation, and \$2.578 million for technology.

The Governor makes no recommendation regarding any specific initiatives that may be put forward by the 2001 Legislature.

Agency: LEGISLATURE

Agency Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002			FY 2003		
				Base	Agency Request	Governor Recomm.	Base	Agency Request	Governor Recomm.
Expenditures by Program:									
HOUSE OF REPRESENTATIVES	24,218	25,920	33,660	28,336	28,336	29,617	28,843	28,843	29,136
SENATE	18,305	20,048	22,062	21,088	21,088	22,072	21,522	21,522	21,807
LEGISLATIVE COORDINATING CMSN	7,947	8,092	12,935	9,829	9,829	10,278	10,008	10,008	10,135
LEGISLATIVE AUDIT COMM	5,212	5,286	5,732	5,275	5,275	5,505	5,429	5,429	5,469
Total Expenditures	55,682	59,346	74,389	64,528	64,528	67,472	65,802	65,802	66,547
Financing by Fund:									
Direct Appropriations:									
GENERAL	54,799	58,393	73,302	63,932	63,932	66,876	65,176	65,176	65,921
HEALTH CARE ACCESS	136	129	171	150	150	150	150	150	150
TRUNK HIGHWAY	36	39	0	0	0	0	0	0	0
MISCELLANEOUS AGENCY	271	0	0	0	0	0	0	0	0
Statutory Appropriations:									
GENERAL	440	460	480	0	0	0	0	0	0
MISCELLANEOUS AGENCY	0	325	436	446	446	446	476	476	476
Total Financing	55,682	59,346	74,389	64,528	64,528	67,472	65,802	65,802	66,547
FTE by Employment Type:									
FULL TIME	68.9	69.6	69.6	71.6	71.6	71.6	71.6	71.6	71.6
PART-TIME, SEASONAL, LABOR SER	6.7	5.9	5.2	5.2	5.2	5.2	5.2	5.2	5.2
OVERTIME PAY	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Full-Time Equivalent	75.6	75.6	74.8	76.8	76.8	76.8	76.8	76.8	76.8

Activity: HOUSE OF REPRESENTATIVES
Program: HOUSE OF REPRESENTATIVES
Agency: LEGISLATURE

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002			FY 2003		
				Base	Agency Request	Governor Recomm.	Base	Agency Request	Governor Recomm.
Expenditures by Category:									
State Operations									
OTHER OPERATING EXPENSES	24,218	25,920	33,660	28,336	28,336	29,617	28,843	28,843	29,136
Total Expenditures	24,218	25,920	33,660	28,336	28,336	29,617	28,843	28,843	29,136
Change Items:	Fund								
(A) NON-SALARY INFLATION	GEN					144			293
(A) TECHNOLOGY	GEN					1,137			
Total Change Items						1,281			293
Financing by Fund:									
Direct Appropriations:									
GENERAL	24,126	25,778	33,474	28,146	28,146	29,427	28,638	28,638	28,931
MISCELLANEOUS AGENCY	92	0	0	0	0	0	0	0	0
Statutory Appropriations:									
MISCELLANEOUS AGENCY	0	142	186	190	190	190	205	205	205
Total Financing	24,218	25,920	33,660	28,336	28,336	29,617	28,843	28,843	29,136
Revenue Collected:									
Dedicated									
MISCELLANEOUS AGENCY	97	142	175	190	190	190	205	205	205
Total Revenues Collected	97	142	175	190	190	190	205	205	205

Activity: SENATE
Program: SENATE
Agency: LEGISLATURE

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002			FY 2003		
				Base	Agency Request	Governor Recomm.	Base	Agency Request	Governor Recomm.
Expenditures by Category:									
State Operations									
OTHER OPERATING EXPENSES	18,305	20,048	22,062	21,088	21,088	22,072	21,522	21,522	21,807
Total Expenditures	18,305	20,048	22,062	21,088	21,088	22,072	21,522	21,522	21,807
Change Items:	Fund								
(A) NON-SALARY INFLATION	GEN					140			285
(A) TECHNOLOGY	GEN					844			
Total Change Items						984			285
Financing by Fund:									
Direct Appropriations:									
GENERAL	18,191	19,920	21,914	20,933	20,933	21,917	21,357	21,357	21,642
MISCELLANEOUS AGENCY	114	0	0	0	0	0	0	0	0
Statutory Appropriations:									
MISCELLANEOUS AGENCY	0	128	148	155	155	155	165	165	165
Total Financing	18,305	20,048	22,062	21,088	21,088	22,072	21,522	21,522	21,807
Revenue Collected:									
Dedicated									
GENERAL	26	0	0	0	0	0	0	0	0
MISCELLANEOUS AGENCY	117	130	140	155	155	155	165	165	165
Total Revenues Collected	143	130	140	155	155	155	165	165	165

Program: LEGISLATIVE COORDINATING CMSN
Agency: LEGISLATURE

Program Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002			FY 2003		
				Base	Agency Request	Governor Recomm.	Base	Agency Request	Governor Recomm.
Expenditures by Activity:									
LCC-LEG REFERENCE LIBRARY	1,063	1,154	1,247	1,242	1,242	1,304	1,273	1,273	1,400
LCC-REVISORS OFFICE	5,008	4,883	8,487	6,461	6,461	6,461	6,575	6,575	6,575
LCC-MISS RIVER PKWY CMSN	36	39	39	0	0	0	0	0	0
LCC-FISCAL AGENTS	250	292	475	325	325	325	325	325	325
LCC-GEOGRAPHIC INFORMATION SYS	200	323	428	289	289	289	294	294	294
LCC-PENSIONS & RETIREMENTS	532	525	573	581	581	581	589	589	589
LCC-GREAT LAKES CMSN	49	51	50	50	50	50	50	50	50
LCC-EMPLOYEE RELATIONS	59	64	78	80	80	80	82	82	82
LCC-COMMISSION OPERATIONS	526	531	1,272	565	565	952	577	577	577
LCC-ECONOMIC STATUS OF WOMEN	206	215	230	236	236	236	243	243	243
LCC-ELECTRIC ENERGY TASK	14	15	56	0	0	0	0	0	0
LCC-INFORMATION POLICY TASK	4	0	0	0	0	0	0	0	0
Total Expenditures	7,947	8,092	12,935	9,829	9,829	10,278	10,008	10,008	10,135
Change Items:	Fund								
(A) NON-SALARY INFLATION	GEN					62			127
(A) TECHNOLOGY	GEN					387			
Total Change Items						449			127
Financing by Fund:									
Direct Appropriations:									
GENERAL	7,710	7,869	12,662	9,578	9,578	10,027	9,752	9,752	9,879
HEALTH CARE ACCESS	136	129	171	150	150	150	150	150	150
TRUNK HIGHWAY	36	39	0	0	0	0	0	0	0
MISCELLANEOUS AGENCY	65	0	0	0	0	0	0	0	0
Statutory Appropriations:									
MISCELLANEOUS AGENCY	0	55	102	101	101	101	106	106	106
Total Financing	7,947	8,092	12,935	9,829	9,829	10,278	10,008	10,008	10,135

Program: LEGISLATIVE AUDIT COMM
Agency: LEGISLATURE

Program Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002			FY 2003		
				Base	Agency Request	Governor Recomm.	Base	Agency Request	Governor Recomm.
Expenditures by Activity:									
LEGISLATIVE AUDITOR	5,207	5,283	5,717	5,260	5,260	5,490	5,414	5,414	5,454
LEGISLATIVE AUDIT COMM	5	3	15	15	15	15	15	15	15
Total Expenditures	5,212	5,286	5,732	5,275	5,275	5,505	5,429	5,429	5,469
Change Items:	Fund								
(A) NON-SALARY INFLATION	GEN					20			40
(A) TECHNOLOGY	GEN					210			
Total Change Items						230			40
Financing by Fund:									
Direct Appropriations:									
GENERAL	4,772	4,826	5,252	5,275	5,275	5,505	5,429	5,429	5,469
Statutory Appropriations:									
GENERAL	440	460	480	0	0	0	0	0	0
Total Financing	5,212	5,286	5,732	5,275	5,275	5,505	5,429	5,429	5,469
FTE by Employment Type:									
FULL TIME	68.9	69.6	69.6	71.6	71.6	71.6	71.6	71.6	71.6
PART-TIME, SEASONAL, LABOR SER	6.7	5.9	5.2	5.2	5.2	5.2	5.2	5.2	5.2
OVERTIME PAY	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Full-Time Equivalent	75.6	75.6	74.8	76.8	76.8	76.8	76.8	76.8	76.8

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SECRETARY OF STATE - CONTENTS

	PAGE
Agency Executive Summary	F-12
Budget Briefs by Fund	F-16
Revenue Summary Narrative	F-18
Change Item - Revised Article 9 - UCC	F-20
 PROGRAMS, BUDGET ACTIVITIES, AND CHANGE ITEMS	
 SECRETARY OF STATE	
Administration	F-22
Operations	F-25
Elections	F-30

SECRETARY OF STATE - EXECUTIVE SUMMARY

AGENCY MISSION AND VISION:

To serve the people of Minnesota by administering fair and honest elections; promoting citizen participation in government; facilitating commerce; and preserving, for use by the public, the records entrusted to this office.

KEY SERVICE STRATEGIES:

To facilitate business-related transactions; to promote citizen participation in government; act as trustees of history contained in our public records; develop customer-friendly technologies and processes to assist the election and commercial activities we support; and model effective customer service.

OPERATING ENVIRONMENT:

The Secretary of State serves as the chief election official of the state of Minnesota, whose primary responsibility is ensuring that elections are conducted in a fair and impartial manner according to law.

The office is responsible for maintaining a statewide computer network connecting all 87 county courthouses, linking the records of all registered voters, all uniform commercial code and farm lien transactions, federal tax liens, and all state and county election results. The office also assists state and county officials in conducting elections and provides timely reporting of election results as each precinct is reported to their county auditor.

The Office of the Secretary of State is the official repository for all public documents of the state. It accepts filing information for all business operating in Minnesota and disseminates information to a wide client group.

Customers include elected officials in the state of Minnesota; county auditors, county recorders and election officials from all 87 counties; employees of governmental agencies; lenders; business and non-profit entities; and, the citizens of the State of Minnesota.

ORGANIZATION/PROGRAM STRUCTURE:

The Office of the Secretary of State is organized into one program: Secretary of State; and 3 budget activities: Administration, Operations and Elections.

ADMINISTRATION	
Office of the Secretary	4 fte
Administration	5 fte
Fiscal and Support Services	7 fte
OPERATIONS	
Public Information	11 fte
Business Services	15 fte
Records Processing	10 fte
Computer Services	1 fte
Systems Development	8 fte
Systems Support	9 fte
ELECTIONS	6 fte

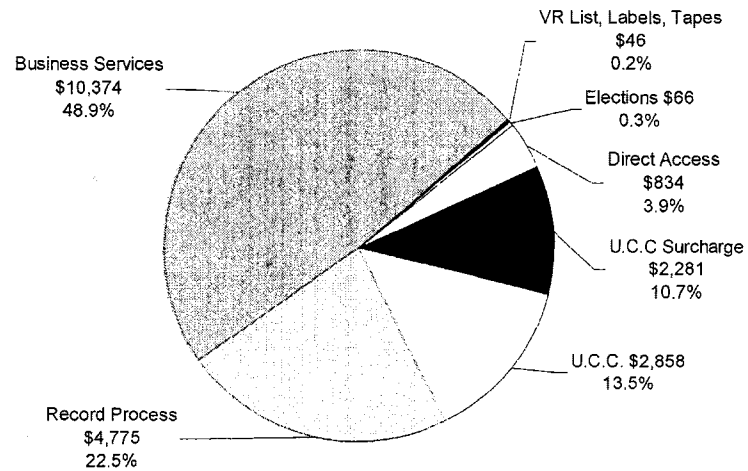
6/30/00 Total FTEs: 76

SECRETARY OF STATE - EXECUTIVE SUMMARY (Continued)

TRENDS AND PERSPECTIVES:

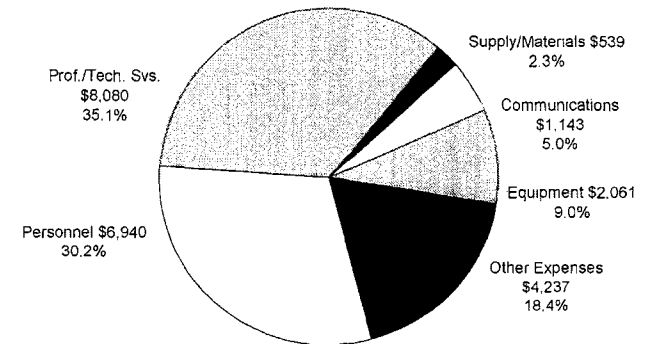
2000-01 Fees Collected

\$21.2 million

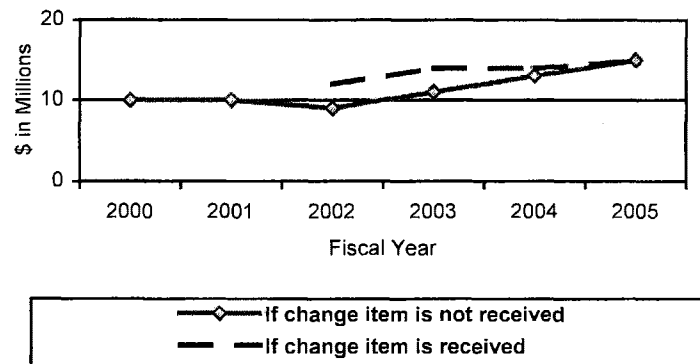


2000-01 Expenditures

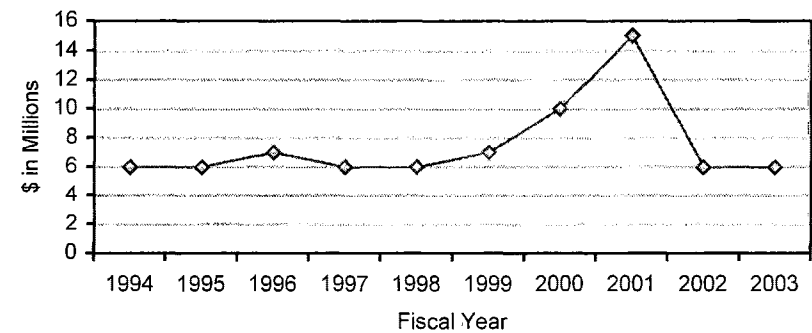
by Category
\$23 million



Revenue - Non-dedicated



Total Budget - All Funds



SECRETARY OF STATE - EXECUTIVE SUMMARY (Continued)

GOVERNOR'S RECOMMENDATION:

The Governor respects the separation of powers and the desire of officials in the judicial and legislative branches and other constitutional officers to independently present their budget requests directly to the legislature without specific recommendations from the Governor. However, since the Governor is required by law to submit a balanced budget to the legislature, it is necessary to identify funding for those offices as part of preparing a complete balanced budget.

The Governor's general recommendations for the legislature and constitutional offices reflect his firm commitment to minimizing the overall growth of government and the resulting tax burden on Minnesota taxpayers as well as his dedication to the effective use of technology to increase government efficiency and effectiveness in providing public services. Therefore, the Governor recommends funding to maintain the existing level of appropriations previously established by the legislature, increasing that level for salary and non-salary inflation, and providing a proportional lump sum for technology improvements.

For the Secretary of State, the Governor's recommendation includes a reduction of \$174,000 for cyclical base adjustments, \$351,000 for salary inflation and allowable rental rate increases, \$128,000 for non-salary inflation, and \$250,000 for technology.

The Governor makes no recommendation regarding the specific initiative put forward by the Secretary of State.

SECRETARY OF STATE - BUDGET BRIEF

Fund: GENERAL

	<u>FY 2002</u>	<u>FY 2003</u>	<u>Biennium</u>
BASE YEAR (FY 2001) (\$000s)			
Appropriations (FY 2001)	\$6,160	\$6,160	\$12,320
<u>BASE ADJUSTMENT</u>			
Biennial Appropriations	\$(173)	\$(1)	\$(174)
2002-03 Salary & Benefit Increase	\$101	\$205	\$306
Documented Space Rent/Lease Increase	\$16	\$29	\$45
<u>BASE LEVEL (for 2002 and 2003)</u>	\$6,104	\$6,393	\$12,497
<u>CHANGE ITEMS</u>			
Revised Article 9 - UCC	\$1,306	\$1,054	\$2,360
AGENCY REQUEST	\$7,410	\$7,447	\$14,857
<u>GOVERNOR'S RECOMMENDATIONS</u>			
Non-salary Inflation	42	86	128
Technology	250	0	250
GOVERNOR'S RECOMMENDATIONS	\$6,396	\$6,479	\$12,875

BRIEF EXPLANATION OF BUDGET DECISIONS:

The Office of the Secretary of State is normally a "net contributor" to the state's General Fund. Revenue generated by the Office of the Secretary of State for FY 2002-03 is projected to exceed the amounts appropriated by the Legislature to this office by over \$6 million. The Office of the Secretary of State projects that the agency will generate approximately \$19 million in various fees for the General Fund during the next biennium.

The agency is requesting a change item of \$2,360 million for ongoing costs associated with Laws 2000, Chapter 399, Revised Article 9 of the Uniform Commercial Code. The funding will cover salaries, equipment, ongoing maintenance and license costs, postage, phones, supplies, and a disaster recovery plan. An increase of 21 FTE's is requested in FY 2002 with a gradual decrease thereafter.

The plan calls for the following adjustments to our base:

- Decrease of \$93,000 biennial appropriation for printing of *the Minnesota Legislative Manual*, because the document is printed every other year.
- Decrease of \$2,000 for board compensation for Presidential Electors, which is budgeted every four years as it relates to the presidential election.

- Decrease of \$125,000 related to the operation of a voter information telephone line, because the line is in operation every other year.
- Increase of \$8,000 for the straw ballot conducted on the evening of Precinct Caucuses every other year; the first time is for the presidential election, and the next is for the gubernatorial election.
- Increase of \$20,000 for election training materials; every other year the costs are higher due to the election.
- Increase of \$18,000 for producing an election judge training video, which is produced every other year.)
- Increase of \$306,000 for allowable salary and benefit supplements.
- Increase of \$45,000 for allowable rental rate increases.

GOVERNOR'S RECOMMENDATIONS:

The Governor respects the separation of powers and the desire of officials in the judicial and legislative branches and other constitutional officers to independently present their budget requests directly to the legislature without specific recommendations from the Governor. However, since the Governor is required by law to submit a balanced budget to the legislature, it is necessary to identify funding for those offices as part of preparing a complete balanced budget.

The Governor's general recommendations for the legislature and constitutional offices reflect his firm commitment to minimizing the overall growth of government and the resulting tax burden on Minnesota taxpayers as well as his dedication to the effective use of technology to increase government efficiency and effectiveness in providing public services. Therefore, the Governor recommends funding to maintain the existing level of appropriations previously established by the legislature, increasing that level for salary and non-salary inflation, and providing a proportional lump sum for technology improvements.

For the Secretary of State, the Governor's recommendation includes a reduction of \$174,000 for cyclical base adjustments, \$351,000 for salary inflation and allowable rental rate increases, \$128,000 for non-salary inflation, and \$250,000 for technology.

The Governor makes no recommendation regarding the specific initiative put forward by the Secretary of State.

Program: SECRETARY OF STATE
Agency: SECRETARY OF STATE

Program Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002			FY 2003		
				Base	Agency Request	Governor Recomm.	Base	Agency Request	Governor Recomm.
Expenditures by Activity:									
ADMINISTRATION	907	1,414	6,082	1,835	3,141	1,877	1,983	3,037	2,069
OPERATIONS	5,099	6,632	7,631	4,314	4,314	4,564	4,232	4,232	4,232
ELECTIONS	836	618	803	424	424	424	647	647	647
Total Expenditures	6,842	8,664	14,516	6,573	7,879	6,865	6,862	7,916	6,948
Change Items:	Fund								
(A) REVISED ARTICLE 9 - UCC	GEN				1,306			1,054	
(A) NON-SALARY INFLATION	GEN					42			86
(A) TECHNOLOGY	GEN					250			
Total Change Items					1,306	292		1,054	86
Financing by Fund:									
Direct Appropriations:									
GENERAL	6,419	7,811	13,719	6,104	7,410	6,396	6,393	7,447	6,479
Statutory Appropriations:									
GENERAL	3	576	2	417	417	417	417	417	417
SPECIAL REVENUE	420	277	792	50	50	50	50	50	50
MISCELLANEOUS AGENCY	0	0	3	2	2	2	2	2	2
Total Financing	6,842	8,664	14,516	6,573	7,879	6,865	6,862	7,916	6,948
FTE by Employment Type:									
FULL TIME	68.6	76.0	80.0	80.0	101.0	80.0	80.0	98.5	80.0
PART-TIME, SEASONAL, LABOR SER	4.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
OVERTIME PAY	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Full-Time Equivalent	73.7	76.0	80.0	80.0	101.0	80.0	80.0	98.5	80.0

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SECRETARY OF STATE - REVENUE SUMMARY

FEE STRUCTURE:

The agency will generate revenues of approximately \$19 million in the next biennium.

The agency fees include the following:

- **Business Services:** Filing fees for documents by domestic, foreign and nonprofit corporations; cooperatives; limited partnerships; trademarks; assumed names; limited liability companies; limited liability partnerships; fees for service of process; land survey copies; and, expedited service.
- **Public Information:** Fees for the production of precinct finders, voter registration and Business Services lists; direct access to Business Services and UCC databases; and filing fees for annual/biennial reports/registrations and reinstatements for domestic and foreign business organizations and legal newspaper registrations.
- **Elections:** Filing fees for individuals who run for public office; sale of maps.
- **Uniform Commercial Code:** Fees for filing UCC, farm lien and state and federal tax lien documents; certified copies; Certificates of Status; notary certificates; and land survey orders.
- **Surcharge:** Surcharge fee on farm lien filings and searches for 88 filing offices.
- **Digital Signature Licenses:** Fees for certification authority licenses and recognition of repositories.

RECENT CHANGES:

No county surcharge for UCC going to general fund.

FORECAST BASIS:

Statute removes surcharge on UCC filings and searches.

ATTORNEY GENERAL - CONTENTS

	PAGE
Agency Executive Summary	
Budget Briefs by Fund	F-84
Revenue Summary Narrative	F-88
Federal Funds Summary	F-92
Consolidated Listing of Appropriations	F-94
Change Item – MPCA Environmental Tax Reform	F-95
	F-96
PROGRAMS, BUDGET ACTIVITIES, AND CHANGE ITEMS	
ATTORNEY GENERAL	
Government Services	F-97
Government Regulation	F-100
Civil Enforcement	F-105
Public Protection	F-113
Solicitor General	F-119
Administration	F-122
IT - Change Item - Information Technology Budget Request	F-124
Change Item - Salary Equity Initiative	F-125

ATTORNEY GENERAL - EXECUTIVE SUMMARY

AGENCY MISSION AND VISION:

The mission of the Attorney General's Office (AGO) is to protect the interests of Minnesota citizens by:

Law Enforcement

- Enforcing the state's consumer, charities, Medicaid and antitrust laws to protect the citizens of the state from fraud and to ensure fair business practices.
- Assisting county attorneys in prosecuting crimes and upholds criminal convictions on appeal to safeguard the public.
- Assisting citizens to resolve consumer complaints and legal issues through education, information and mediation.
- Providing education and information to help citizens avoid consumer fraud.
- Advocating for the interests of residential and small business utility customers before the Public Utilities Commission (PUC).

Agency Representation (The AGO serves as counsel to state agencies.)

- Protecting the public from unsafe health care and childcare providers, dangerous drivers, sexual predators, and unethical licensed professionals.
- Protecting the public's natural resources.
- Protecting taxpayer dollars.
- Enforcing state laws.
- Helping agencies design and carry out their programs.
- Operating facilities such as prisons, hospitals, parks and campuses in compliance with all applicable laws.

Defense of Claims (The AGO serves as defense counsel for the legislature, judiciary and state agencies.)

- Protecting taxpayer dollars.
- Defending state legislation and agency program decisions.

Through this work during FY 2000-01, the AGO:

- Returned \$108 million to the state treasury or to citizens of the state.
- Saved the state \$1.1 billion by successfully defending claims against the state.
- Protected state funds by carefully reviewing state contracts, grants and bond issues.

As a result, the AGO returns, saves, and protects far more taxpayer dollars than it spends.

The AGO accomplishes this through its continuing efforts to provide high quality cost-effective legal services. The AGO works with state agencies to help them avoid legal problems before they occur. It has aggressively used alternative dispute resolution (ADR) methods.

KEY SERVICE STRATEGIES:

The AGO carries out its mission and vision by:

- Attracting highly qualified lawyers, legal assistants and support staff.
- Developing legislative proposals to address the concerns of Minnesota citizens.
- Addressing new threats to the public such as computer crime, methamphetamine labs and gang violence.
- Working with state agencies, county attorneys and other constituent groups to enable them to carry out their programs more effectively.
- Working with agencies to educate staff about issues such as employment law, tort claims, and implementation of new statutes to reduce exposure to claims and prevent costly litigation.
- Educating consumers to avoid unscrupulous business practices and working with businesses to educate them about state laws.
- Regularly examining staffing needs to assure efficient delivery of legal services.
- Training its staff to enhance their ability to meet the state's legal needs.

OPERATING ENVIRONMENT:

The challenges faced by the AGO include:

- Meeting the constantly changing demand for AGO services driven by new programs, enhanced programs, new facilities, increased litigation, and new threats to public safety.
- Developing necessary legal expertise and recruiting qualified staff attorneys in light of salary disparities with other public law offices.
- Maintaining adequate funding for the office in light of the increasing demand for services, salary inequities and the need to retain experts in cases brought and behalf of the state. Currently, the office is funded by a mix of general fund appropriation and funding agreements with "partner agencies."

ATTORNEY GENERAL - EXECUTIVE SUMMARY (Continued)

FINANCING INFORMATION:

Beginning in FY 1996-97 the Attorney General's Office began "partnering" with various agencies to provide legal services. Under this partner arrangement, the AGO negotiated agreements with certain agencies for a specific number of hours of legal services. The agencies transfer or make payments to the AGO to cover the cost of these services.

ORGANIZATION/PROGRAM STRUCTURE:

Attorney General	
Government Services	73.6 fte
Government Regulation	76.0 fte
Civil Enforcement	84.0 fte
Public Protection	110.9 fte
Solicitor General	70.1 fte
Administration	43.0 fte

6/30/00 TOTAL FTEs 457.6

GOVERNOR'S RECOMMENDATION:

The Governor respects the separation of powers and the desire of officials in the judicial and legislative branches and other constitutional officers to independently present their budget requests directly to the legislature without specific recommendations from the Governor. However, since the Governor is required by law to submit a balanced budget to the legislature, it is necessary to identify funding for those offices as part of preparing a complete balanced budget.

The Governor's general recommendations for the legislature and constitutional offices reflect his firm commitment to minimizing the overall growth of government and the resulting tax burden on Minnesota taxpayers as well as his dedication to the effective use of technology to increase government efficiency and effectiveness in providing public services. Therefore, the Governor recommends funding to maintain the existing level of appropriations previously established by the legislature, increasing that level for salary and non-salary inflation, and providing a proportional lump sum for technology improvements.

For the Attorney General, the Governor's recommendation includes: (1) a net increase of \$167,000 for allowable base adjustments for salary and benefits, lease rate increases, elimination of one-time appropriations and a transfer between agencies; (2) \$191,000 for non-salary inflation; and (3) \$1.027 million

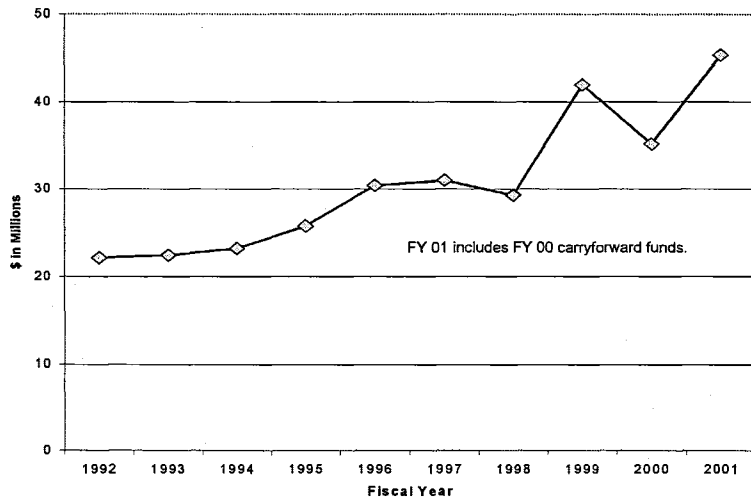
for technology. Additionally, the Governor recommends a change in method of financing as part of the Pollution Control Agency's (PCA) Environmental Tax Reform Initiative, whereby funds previously appropriated from the Solid Waste Fund to the Attorney General will now be appropriated from the Environmental Fund.

The Governor makes no recommendation regarding the specific initiatives put forward by the Attorney General.

ATTORNEY GENERAL - EXECUTIVE SUMMARY (Continued)

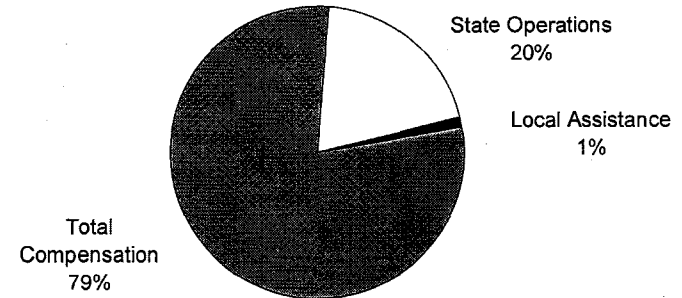
TRENDS AND PERSPECTIVE:

Total Budget - All Funds



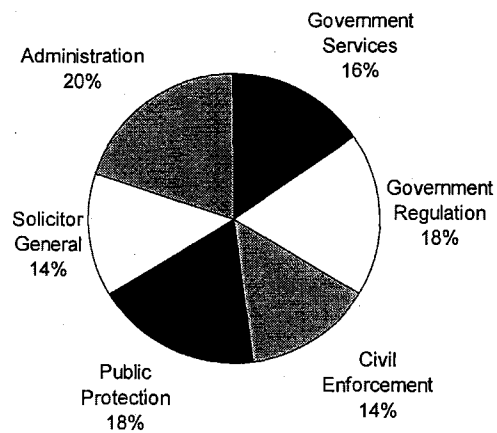
2000-01 Expenditures by Category

Total: \$80.5 Million



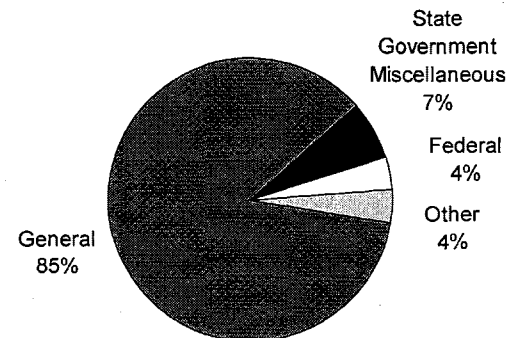
2000-01 Expenditures by Budget Activity

Total: \$80.5 Million



2000-01 Expenditures by Category

Total: \$80.5 Million



Program: ATTORNEY GENERAL
Agency: ATTORNEY GENERAL

Program Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002			FY 2003		
				Base	Agency Request	Governor Recomm.	Base	Agency Request	Governor Recomm.
Expenditures by Activity:									
GOVERNMENT SERVICES	6,057	6,031	6,500	5,646	5,646	6,223	5,710	5,710	6,352
GOVERNMENT REGULATION	10,415	7,648	6,754	4,270	4,270	4,270	4,390	4,390	4,390
CIVIL ENFORCEMENT	12,636	4,852	7,782	6,261	6,261	6,261	6,430	6,430	6,430
PUBLIC PROTECTION	9,650	5,849	11,752	7,547	7,547	7,547	7,652	7,652	7,652
SOLICITOR GENERAL	5,273	5,097	6,127	5,215	5,215	5,215	5,369	5,369	5,369
ADMINISTRATION	8,646	6,851	9,227	7,577	10,460	7,577	7,733	10,716	7,733
Total Expenditures	52,677	36,328	48,142	36,516	39,399	37,093	37,284	40,267	37,926
Change Items:	Fund								
(A) MPCA ENVIRONMENTAL TAX REFORM	ENV					477			484
(A) MPCA ENVIRONMENTAL TAX REFORM	SW					(477)			(484)
(A) NON-SALARY INFLATION	GEN					63			128
(A) TECHNOLOGY	GEN					514			514
(B) INFORMATION TECHNOLOGY BUDGET REQUEST	GEN				883		883		
(B) SALARY EQUITY INITIATIVE	GEN				2,000		2,100		
Total Change Items					2,883	577	2,983	642	
Financing by Fund:									
Direct Appropriations:									
GENERAL	30,092	22,947	33,508	25,650	28,533	26,227	26,221	29,204	26,863
STATE GOVERNMENT SPECIAL REVENUE	3,014	2,332	2,876	1,834	1,834	1,834	1,876	1,876	1,876
ENVIRONMENTAL	95	107	166	142	142	619	145	145	629
SOLID WASTE	363	349	581	477	477	0	484	484	0
Statutory Appropriations:									
GENERAL	6,208	6,911	5,766	5,828	5,828	5,828	5,943	5,943	5,943
PETROLEUM TANK RELEASE CLEANUP	119	123	126	0	0	0	0	0	0
SPECIAL REVENUE	247	196	692	210	210	210	215	215	215
FEDERAL	1,349	1,774	1,178	1,175	1,175	1,175	1,200	1,200	1,200
MISCELLANEOUS AGENCY	10,713	1,158	2,808	1,200	1,200	1,200	1,200	1,200	1,200
HOUSING FINANCE AGENCY	356	431	441	0	0	0	0	0	0
GIFT	121	0	0	0	0	0	0	0	0
Total Financing	52,677	36,328	48,142	36,516	39,399	37,093	37,284	40,267	37,926
FTE by Employment Type:									
FULL TIME	433.0	407.0	427.8	427.8	427.8	427.8	427.8	427.8	427.8
PART-TIME, SEASONAL, LABOR SER	35.6	33.9	29.8	29.8	29.8	29.8	29.8	29.8	29.8
Total Full-Time Equivalent	468.6	440.9	457.6	457.6	457.6	457.6	457.6	457.6	457.6

ATTORNEY GENERAL - BUDGET BRIEF

Fund: GENERAL

	<u>FY 2002</u>	<u>FY 2003</u>	<u>Biennium</u>
BASE YEAR (FY 2001) (\$000s)			
Appropriations	\$25,852	\$25,852	\$51,704
<u>BASE ADJUSTMENT</u>			
One-time Appropriations	(912)	(912)	(1,824)
Transfer Between Agencies	43	44	87
2002-03 Salary and Benefit	485	985	1,470
Documented Rent/Lease Inc/Dec	<u>182</u>	<u>252</u>	<u>434</u>
<u>BASE LEVEL (for 2002 and 2003)</u>	\$25,650	\$26,221	\$51,871
<u>CHANGE ITEMS</u>			
Information Technology Budget Request	883	883	1,766
Salary Equity Initiative	<u>2,000</u>	<u>2,100</u>	<u>4,100</u>
AGENCY REQUEST	\$28,533	\$29,204	\$57,737
<u>GOVERNOR'S RECOMMENDATION</u>			
Non-salary Inflation	63	128	191
Technology	<u>1,027</u>	<u>0</u>	<u>1,027</u>
GOVERNOR'S RECOMMENDATION	\$26,740	\$26,349	\$53,089

BRIEF EXPLANATION OF BUDGET DECISIONS:

- In addition to direct appropriations, the AGO receives funds from "partner" agencies for the cost of providing legal services.
- Base adjustments include the removal of \$1.824 million for one-time appropriation to improve information technology; \$87,000 as a transfer from the Department of Finance for legal services related to Public Finance; \$1.47 million for FY 2002-03 salary and benefit compensation; and \$434,000 for documented rent/lease increases.
- \$1.766 million is requested for information technology consisting of maintenance costs associated with hardware replacement and software upgrades. The AGO has submitted this change item request to the Minnesota Office of Technology for review.
- \$4.1 million is requested to reduce the gap that continues to exist between AGO salaries and those of other public law firms in the Twin Cities area.

GOVERNOR'S RECOMMENDATION:

The Governor respects the separation of powers and the desire of officials in the judicial and legislative branches and other constitutional officers to independently

present their budget requests directly to the legislature without specific recommendations from the Governor. However, since the Governor is required by law to submit a balanced budget to the legislature, it is necessary to identify funding for those offices as part of preparing a complete balanced budget.

The Governor's general recommendations for the legislature and constitutional offices reflect his firm commitment to minimizing the overall growth of government and the resulting tax burden on Minnesota taxpayers as well as his dedication to the effective use of technology to increase government efficiency and effectiveness in providing public services. Therefore, the Governor recommends funding to maintain the existing level of appropriations previously established by the legislature, increasing that level for salary and non-salary inflation, and providing a proportional lump sum for technology improvements.

For the Attorney General, the Governor's recommendation includes: (1) a net increase of \$167,000 for allowable base adjustments for salary and benefits, lease rate increases, elimination of one-time appropriations and a transfer between agencies; (2) \$191,000 for non-salary inflation; and (3) \$1.027 million for technology.

The Governor makes no recommendation regarding the specific initiatives put forward by the Attorney General.

ATTORNEY GENERAL - BUDGET BRIEF

Fund: STATE GOVERNMENT SPECIAL REVENUE

	<u>FY 2002</u>	<u>FY 2003</u>	<u>Biennium</u>
BASE YEAR (FY 2001) (\$000s)			
Appropriations	\$1,717	\$1,717	\$3,434
<u>BASE ADJUSTMENT</u>			
Workload Change	<u>117</u>	<u>159</u>	<u>276</u>
<u>BASE LEVEL (for 2002 and 2003)</u>	\$1,834	\$1,876	\$3,710
<u>AGENCY REQUEST</u>	\$1,834	\$1,876	\$3,710
 GOVERNOR'S RECOMMENDATION	 \$1,834	 \$1,876	 \$3,710

BRIEF EXPLANATION OF BUDGET DECISIONS:

- The AGO serves 13 health-related licensing boards, the Emergency Medical Services Regulatory Board and the Health Professionals Services Program by assisting them in their licensing and disciplinary functions. AGO staff work with staff in reviewing complaints, drafting legal documents, investigating complaints, and, if the facts warrant, initiating formal contested case proceedings. Many of the cases are resolved through settlement, but an increasing number of cases, reflecting more aggressive board enforcement policies, are proceeding through the process. Some of these cases proceed through the full appeal process allowed within the court system.
- The health licensing boards charge fees to the practitioners they license. These fees cover the costs of the services provided to the boards by the AGO.
- The Workload Change Base Adjustment reflects a slight increase for legal services needed by the various boards and programs.

GOVERNOR'S RECOMMENDATION(S):

The Governor recommends the agency's base budget.

ATTORNEY GENERAL - BUDGET BRIEF

Fund: ENVIRONMENTAL

	<u>FY 2002</u>	<u>FY 2003</u>	<u>Biennium</u>
BASE YEAR (FY 2001) (\$000s)			
Appropriations	\$138	\$138	\$276
<u>BASE ADJUSTMENT</u>			
2002-03 Salary & Benefit	<u>4</u>	<u>7</u>	<u>11</u>
<u>BASE LEVEL (for 2002 and 2003)</u>	\$142	\$145	\$287
<u>CHANGE ITEMS</u>			
None	<u>0</u>	<u>0</u>	<u>0</u>
AGENCY REQUEST	\$142	\$145	\$287
<u>GOVERNOR'S RECOMMENDATION</u>			
PCA Environmental Tax Reform	<u>477</u>	<u>484</u>	<u>961</u>
GOVERNOR'S RECOMMENDATION	\$619	\$629	\$1,248

BRIEF EXPLANATION OF BUDGET DECISIONS:

In carrying out the Attorney General's responsibility for investigating and prosecuting environmental crime, the Public Protection Section has entered into memoranda of understanding with interested state agencies, including the Pollution Control Agency and the departments of Transportation and Natural Resources. In this way we can direct public resources to the areas in which our cooperative efforts can achieve our most important shared objectives.

GOVERNOR'S RECOMMENDATION(S):

The Governor recommends base funding levels as requested by the agency's budget plus an increase of \$961,000 to alter the agency's source of funding as part of the Pollution Control Agency's (PCA) Environmental Tax Reform initiative. Because funding from the Solid Waste Fund would decrease by \$961,000, the change would not affect the agency's overall funding levels.

ATTORNEY GENERAL - BUDGET BRIEF

Fund: SOLID WASTE

	<u>FY 2002</u>	<u>FY 2003</u>	<u>Biennium</u>
BASE YEAR (FY 2001) (\$000s)			
Appropriations	\$470	\$470	\$940
<u>BASE ADJUSTMENT</u>			
2002-03 Salary & Benefit	<u>7</u>	<u>14</u>	<u>21</u>
<u>BASE LEVEL (for 2002 and 2003)</u>	\$477	\$484	\$961
<u>CHANGE ITEMS</u>			
None	<u>0</u>	<u>0</u>	<u>0</u>
AGENCY REQUEST	\$477	\$484	\$961
<u>GOVERNOR'S RECOMMENDATION</u>			
PCA Environmental Tax Reform	<u>(477)</u>	<u>(484)</u>	<u>(961)</u>
GOVERNOR'S RECOMMENDATION	\$0	\$0	\$0

BRIEF EXPLANATION OF BUDGET DECISIONS:

These funds are appropriated from the solid waste fund for responsibilities associated with insurance claims settlement and recovery associated with landfills in the landfill cleanup program under M.S. 115B; and to assist local governments in the defense of selected lawsuits challenging local government implementation of state solid waste programs.

GOVERNOR'S RECOMMENDATION:

The Governor recommends altering the agency's source of funding as part of the Pollution Control Agency's (PCA) Environmental Tax Reform initiative; instead, the Environmental Fund would finance these activities. Because funding from the Environmental Fund would increase by \$961,000, the change would not affect the agency's overall funding levels.

ATTORNEY GENERAL - REVENUE SUMMARY

REVENUE SOURCES:

The AGO generates non-dedicated, dedicated revenue and federal funds. The majority of non-dedicated revenue in FY 1999 was generated as a result of the tobacco litigation settlement. Responsibility for the collection of this revenue was transferred to the Department of Finance beginning in FY 2000. Revenue is also generated through legal services provided to other state agencies as provided for under M.S. 8.15. Other non-dedicated revenues are associated with assurance of discontinuance, civil penalties and restitution of legal costs. Funds collected are deposited in the state's General Fund and also the Cambridge Deposit Fund. Beginning with FY 2002, the Cambridge Deposit Fund will no longer be used and these funds will be deposited into the General Fund. We anticipate non-dedicated revenues to be approximately \$3.5 million in FY 2002 and FY 2003.

Dedicated revenue is received through interagency agreements, federal grants and indirect costs associated with those federal grants. Federal funds are received from the Department of Health and Human Services-Medicaid Fraud grant, and the Office of Justice Program-Narcotics grant. The agency estimates it will receive \$8.4 million in revenue in FY 2002 and \$8.6 million in FY 2003.

FEE STRUCTURE:

Fees for attorney general services are based on the recovery of costs as provided under M.S. 8.15.

RECENT CHANGES:

As a result of the tobacco litigation settlement, non-dedicated revenues increased significantly in FY 1999, but the responsibility for collection of these revenues was transferred to the Department of Finance beginning in FY 2000.

FORECAST BASIS:

Forecasts are based on both prior history and settlement documents.

CHANGE ITEMS:

No change item is being requested.

Agency: ATTORNEY GENERAL

Summary of Agency Revenues (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Forecast	Governor Recomm.	Forecast	Governor Recomm.	Dollars	Percent
<u>Non-Dedicated Revenue:</u>									
Departmental Earnings (Inter-Agency):									
GENERAL	3,933	2,516	2,500	2,500	2,500	2,500	2,500	(16)	(0.3%)
Departmental Earnings:									
GENERAL	0	0	0	244	244	244	244	488	
CAMBRIDGE DEPOSIT FUND	311	323	283	0	0	0	0	(606)	(100.0%)
Other Revenues:									
GENERAL	928	1,479	775	775	775	775	775	(704)	(31.2%)
MISCELLANEOUS AGENCY	460,800	0	0	0	0	0	0	0	
Total Non-Dedicated Receipts	465,972	4,318	3,558	3,519	3,519	3,519	3,519	(838)	(10.6%)
<u>Dedicated Receipts:</u>									
Departmental Earnings (Inter-Agency):									
GENERAL	5,759	7,141	5,337	5,808	5,808	5,923	5,923	(747)	(6.0%)
Grants:									
FEDERAL	1,373	1,743	1,114	1,175	1,175	1,200	1,200	(482)	(16.9%)
Other Revenues:									
GENERAL	0	4	0	0	0	0	0	(4)	(100.0%)
SPECIAL REVENUE	273	203	200	210	210	215	215	22	5.5%
MISCELLANEOUS AGENCY	867	1,903	1,114	1,200	1,200	1,200	1,200	(617)	(20.5%)
GIFT	23	0	0	0	0	0	0	0	
Other Sources:									
GENERAL	163	19	20	20	20	20	20	1	2.6%
SPECIAL REVENUE	105	0	0	0	0	0	0	0	
MISCELLANEOUS AGENCY	50	9	0	0	0	0	0	(9)	(100.0%)
Total Dedicated Receipts	8,613	11,022	7,785	8,413	8,413	8,558	8,558	(1,836)	(9.8%)
Agency Total Revenues	474,585	15,340	11,343	11,932	11,932	12,077	12,077	(2,674)	(10.0%)

ATTORNEY GENERAL - FEDERAL FUNDS SUMMARY

Federal Program (\$ in Thousands)	Related SFY 2000 Spending	Primary Purpose	SFY 2000 Revenues	SFY 2001 Revenues	Estimated SFY 2002 Revenues	Estimated SFY 2003 Revenues
Department of Health and Human Services – Medicaid Fraud	140	SO	814	975	1,025	1,050
Office of Justice Program - Narcotics	23	SO	152	150	150	150
Office of Justice Program - Weed and Seed	-0-	GPS	808	-0-	-0-	-0-
Agency Total	163		1,774	1,125	1,175	1,220

KEY:

SO - State Operations

GPS - Grants--Political Subdivisions

The AGO receives federal funds for the following activities:

- The Medicaid Fraud grant allows the AGO to continue investigating and prosecuting fraud in the Medicaid program. This grant has a 25% state match requirement. The AGO anticipates continued funding of this grant.
- The Narcotics grant allows the AGO to continue our efforts to target the prosecution of those who facilitate the narcotics trade. It also allows us to continue to provide the prosecution support needed by law enforcement during the investigative phase of such cases. This grant has a 25% state match requirement. The AGO anticipates continued funding of this grant.
- The Weed and Seed grant program in SFY 1999 but was subsequently transferred to the Department of Public Safety. The expenditures shown in SFY 2000 reflect the balance of the grant paid to nine federally recognized "Weed and Seed" sites around the state and for management of the federal program on behalf of the Executive Office for Weed and Seed.

**Consolidated Listing of Appropriations
(\$ in thousands)**

Agency: ATTORNEY GENERAL'S OFFICE

	<u>Agency Request</u>		<u>Senate Budget</u>	<u>House Finance</u>
	<u>FY 2002</u>	<u>FY 2003</u>	<u>Division</u>	<u>Committee</u>
<u>Submitted as Part of the Attorney General's Budget Request:</u>				
Direct Appropriations:				
General Fund	\$28,533	\$29,204		
State Government Miscellaneous Fund	1,834	1,876		
Environmental Fund	619	629		
Statutory Appropriations:				
General Fund	5,828	5,943		
Miscellaneous Special Revenue Fund	210	215		
Federal Fund	1,175	1,200		
Miscellaneous Agency Fund	1,200	1,200		
Total 2002-03 Biennial Budget Request	<u>\$39,399</u>	<u>\$40,267</u>	Government Operations	State Government
<u>Other Funding: Partner Agency Agreements:</u>				
Direct Appropriations-General Fund:				
Department of Human Services	2,064	2,126	Health and Family Security	Health and Human Services
Pollution Control Agency	523	539	Environment and Agriculture	Environment and Natural Resources
Direct Appropriations-Petroleum Tank Release Cleanup Fund:				
Department of Commerce	130	134	Transportation & Other Agencies	Jobs and Economic Development
Direct Appropriations-State Government Miscellaneous Revenue Fund:				
State Board of Medical Practice	1,159	1,159	Health and Family Security	Health and Human Services
Direct Appropriations-Housing Finance Agency Fund:				
Housing Finance Agency	454	468	State Government	Jobs and Economic Development
Total Partner Agency Agreement Funding	<u>\$4,330</u>	<u>\$4,426</u>		
TOTAL ALL	<u>\$43,729</u>	<u>\$44,693</u>		

BUDGET CHANGE ITEM (62461)**Agency: ATTORNEY GENERAL****Item Title: MPCA ENVIRONMENTAL TAX REFORM**

	2002-03 Biennium		2004-05 Biennium	
	FY 2002	FY 2003	FY 2004	FY 2005
Expenditures: (\$000s)				
-Solid Waste Fund	\$(477)	\$(484)	\$(484)	\$(484)
-Environmental Fund	\$477	\$484	\$484	\$484
Revenues: (\$000s)				
General Fund	\$-0-	\$-0-	\$-0-	\$-0-
Statutory Change? Yes _____ No <u>X</u>				
If yes, statute(s) affected:				
_____ New Activity _____ Supplemental Funding <u>X</u> Reallocation				

GOVERNOR'S RECOMMENDATION:

As a part of the Pollution Control Agency's (PCA) Environmental Tax Reform Initiative, the Governor recommends that \$477,000 in FY 2002 and \$484,000 in FY 2003 be appropriated from the Environmental Fund, rather than the Solid Waste Fund.

RATIONALE:

In an effort to improve the ability of the legislature and affected agencies to direct money to the highest environmental priorities, the PCA is proposing to reform the way that the state funds certain environmental activities. Specifically, PCA is proposing to restructure the Environmental Fund, create a new Remediation Fund, and abolish the Solid Waste and the Metropolitan Landfill Contingency Action Trust Funds. For more information on this initiative, please see the PCA's budget.

This change item simply appropriates base level funding to the Attorney General from the Environmental Fund rather than the Solid Waste Fund. No change in the use or oversight of these funds is proposed.

FINANCING:

Funding will be changed from the Solid Waste Fund to the Environmental Fund. These funds are used to support Attorney General responsibilities associated with insurance claims settlement and recovery related to the landfill cleanup program under MS 115B; and to assist local governments in the defense of selected lawsuits challenging local government implementation of state solid waste programs.

OUTCOMES:

Please see PCA's budget document for a discussion of the outcomes expected from their tax proposal.

No change in funding level, use of funds, or oversight is proposed for the Attorney General.

BUDGET ACTIVITY SUMMARY

Budget Activity: GOVERNMENT SERVICES
Program: ATTORNEY GENERAL
Agency: ATTORNEY GENERAL

ACTIVITY PROFILE:

Functions

- Litigation to enforce and defend legislatively granted agency authority
- General counsel role
- Transactions: real estate, contracts and grants, bonding
- Prevention and training

STRATEGIES AND PERFORMANCE:

Public Finance/Opinions/Small Boards Division

Strategies and Performance

- Drafted and/or reviewed several thousand contracts, intellectual property license agreements, leases, requests for proposals, investment management agreements, limited partnerships, and other transactions involving hundreds of millions of dollars for numerous state agencies.
- Expanded the small boards and agencies team to provide representation to the Board of Teaching with respect to teachers' licensing and the commissioner of the Department of Children, Families and Learning with respect to licensing of school superintendents, principals and special education directors.
- Responded to 60 opinion requests from local governments, school districts, state agencies and legislators.
- Advised and assisted various state agencies in the issuance of over \$1.8 billion in bonds (new issues, refunding issues, general obligation, revenue, tax-exempt and taxable) in FY 1999-00, as shown in the following table.

	\$ in Thousands	
	FY 1999	FY 2000
Agriculture and Economic Development Bd.	\$39,385	\$212,215
Department of Finance	200,000	389,000
Minnesota Housing Finance Agency	359,960	385,915
Public Facility Authority	78,000	148,580
TOTAL	\$677,345	\$1,135,710

Challenges

- By statute, the office now plays a key role in enforcing the law relating to use of tax increment financing by local governments. We anticipate additional legal services to be performed in this area by this division.
- Under new federal and state laws, we will be required to make significant decisions regarding the use of digital signatures and electronic commerce for the state's business transactions.
- Efficient and accurate financial disclosures via electronic means in connection with the state's bond issues and financing may require additional legal services.

Agriculture and Natural Resources Division

Strategies and Performance

- Initiated first lawsuit in recent memory to enforce the provisions of Minnesota's Corporate Farm Act.
- Advised numerous state agencies on various Indian law issues pertaining to tribal sovereignty, boundaries, scope of state enforcement, and regulatory coordination.
- Provided legal advice and representation to state agencies in the application and enforcement of laws designed to protect our natural resources including those pertaining to wildlife, waters, trails and forests.

Challenges

- The agency will continue to encourage the use of alternative dispute resolution to achieve prompt resolution of disputes and avoid protracted litigation.
- The agency will respond to an increasing number of questions from state agencies relating to Indian law.

Health Licensing and Investigations Divisions

Strategies and Performance

- Established a database to effectively track cases referred to the division for investigation and to track their outcomes.
- Completed focused and timely investigations for review and possible action by the health-related licensing boards. Worked to eliminate backlog of cases opened for investigation, as illustrated in the following table.

BUDGET ACTIVITY SUMMARY (Continued)

Budget Activity: GOVERNMENT SERVICES
Program: ATTORNEY GENERAL
Agency: ATTORNEY GENERAL

	FY 1999	FY 2000
Number of Investigations Opened	344	310
Number of Investigations Closed	422	249
Number of Investigations Pending	187	70

- Increasingly utilized negotiated settlements, such as stipulations, orders and agreements for corrective action, as means to resolve disputed matters, as illustrated in the following table.

	FY 1999	FY 2000
Stipulations and Orders	9	139
Agreements for Corrective Action	N/A	54
Notices of Hearing Filed	N/A	6
Final Board Disciplinary Orders Issued	N/A	28

Challenges

- The agency will continue working to provide effective investigative and legal services to 15 health-related licensing boards in a manner where the unique needs and time demands of each board are addressed.
- The agency will continue striving to develop a certain level of specialization among staff while ensuring that investigators and attorneys develop expertise in multiple areas to enhance division efficiency and flexibility.

BUDGET ISSUES:

This activity provides a wide range of legal services to numerous state agencies. The AGO focuses on providing efficient, cost-effective advice and solutions. The office must ensure that it retains flexibility among the funds that are appropriated or transferred to the office from other agencies so that legal service needs are met. As competing needs arise, the AGO must work with agencies to develop strategies, which provide appropriate services within budget restrictions. Some strategies include education/training of agency staff and seeking alternatives to litigation, such as alternative dispute resolution.

Activity: GOVERNMENT SERVICES
Program: ATTORNEY GENERAL
Agency: ATTORNEY GENERAL

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002			FY 2003		
				Base	Agency Request	Governor Recomm.	Base	Agency Request	Governor Recomm.
Expenditures by Category:									
State Operations									
COMPENSATION	5,263	5,612	5,849	5,104	5,104	5,104	5,165	5,165	5,165
OTHER OPERATING EXPENSES	794	419	651	542	542	1,119	545	545	1,187
Total Expenditures	6,057	6,031	6,500	5,646	5,646	6,223	5,710	5,710	6,352
Change Items:	Fund								
(A) MPCA ENVIRONMENTAL TAX REFORM	ENV					477			484
(A) MPCA ENVIRONMENTAL TAX REFORM	SW					(477)			(484)
(A) NON-SALARY INFLATION	GEN					63			128
(A) TECHNOLOGY	GEN					514			514
Total Change Items						577			642
Financing by Fund:									
Direct Appropriations:									
GENERAL	4,187	4,392	4,399	3,610	3,610	4,187	3,626	3,626	4,268
ENVIRONMENTAL	0	0	0	0	0	477	0	0	484
SOLID WASTE	363	349	581	477	477	0	484	484	0
Statutory Appropriations:									
GENERAL	1,507	1,290	1,520	1,559	1,559	1,559	1,600	1,600	1,600
Total Financing	6,057	6,031	6,500	5,646	5,646	6,223	5,710	5,710	6,352
FTE by Employment Type:									
FULL TIME	80.1	84.4	68.0	68.0	68.0	68.0	68.0	68.0	68.0
PART-TIME, SEASONAL, LABOR SER	4.2	4.2	5.6	5.6	5.6	5.6	5.6	5.6	5.6
Total Full-Time Equivalent	84.3	88.6	73.6	73.6	73.6	73.6	73.6	73.6	73.6

BUDGET ACTIVITY SUMMARY

Budget Activity: GOVERNMENT REGULATION
Program: ATTORNEY GENERAL
Agency: ATTORNEY GENERAL

ACTIVITY PROFILE:

Functions

- Provide legal advice to state agencies.
- Represent and defend state agencies in administrative and judicial proceedings.
- Prepare contracts, real estate documents, grants and other transactional documents.
- Prosecute Medicaid fraud cases involving the abuse or neglect of vulnerable adults or billing fraud.
- Advocate for the interests of residential and small business utility customers before the Public Utilities Commission (PUC).

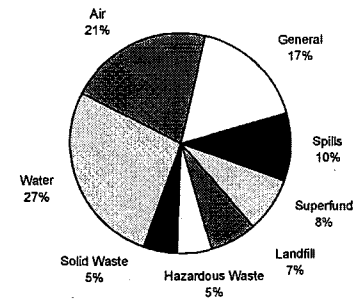
STRATEGIES AND PERFORMANCE:

Environmental Protection Division

Strategies and Performance

- Provided litigation defense in an increasing number of cases, including the proposed Brooklyn Park Amphitheater, the proposed Kondrator metal shredder in the city of Minneapolis and the proposed expansion of the Boise Cascade paper mill in Koochiching County.
- Recovered approximately \$5.8 million from insurance companies to help pay the cost of cleaning up contaminated landfills.
- Provided client advice and legal representation with respect to the application and enforcement of various environmental laws, as indicated in the following chart.
- Assisted client agency in recovering fines, penalties and restitution of over \$1.8 million for violations of environmental laws.
- Assisted client in recovering over \$7.7 million for Superfund clean ups and site remediation.

Environmental Protection Division Areas Percentage of Workload



Challenges

- Encourage the use of alternative dispute resolution to achieve prompt resolution of disputes and avoid protracted litigation.
- Provide legal representation in an increasing number of appeals of decisions of the Minnesota Pollution Control Agency Board.

Human Services and Residential Utilities Division

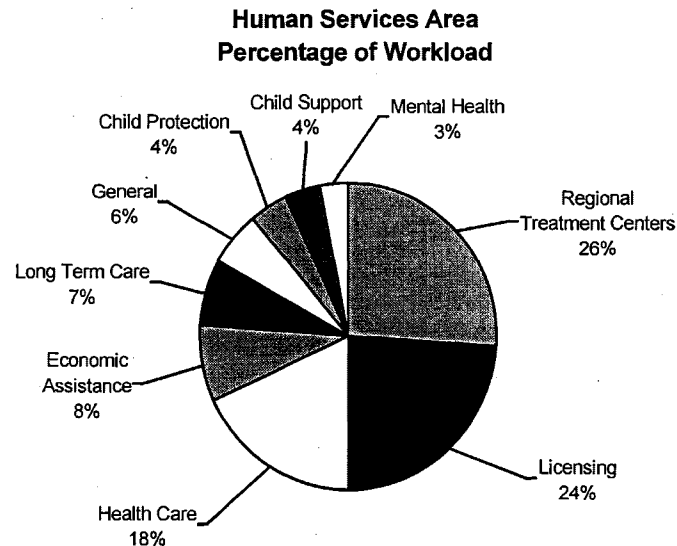
Strategies and Performance

- Represented the Department of Human Services in increasing numbers of hearings in which action is pursued against perpetrators of maltreatment and neglect; experienced a workload increase of over 230% in licensing matters since the last biennium.
- Responded to thousands of citizen calls and letters seeking assistance and requesting information about human service programs, including issues involving child support, MinnesotaCare and vulnerable adults.
- Defended constitutionality of statutes authorizing the state to recover medical assistance benefits from third party tortfeasors.

BUDGET ACTIVITY SUMMARY (Continued)

Budget Activity: GOVERNMENT REGULATION
Program: ATTORNEY GENERAL
Agency: ATTORNEY GENERAL

- Provided legal advice and representation to the Department of Human Services in connection with human services programs as outlined in the following chart.
- Negotiated and obtained \$589,000 in civil penalties against telecommunications companies for alleged "slamming" practices and consumer law violations.
- Responded to an increasing number of citizen complaints and inquiries with respect to telecommunications and energy issues, resulting in savings



for citizens as set forth in the following table.

	FY 1999	FY 2000
Number of Citizen Complaints	2,483	2,855
Savings for Citizens	\$464,048	\$356,416

- Achieved over \$57 million in rate reduction and successful advocacy against rate increase requests in proceedings before the Public Utilities Commission.
- Achieved rate reductions, improved customer service standards and investments, and assured non-recovery of certain acquisition costs in negotiated settlements in several utility merger and acquisition approvals before the Public Utilities Commission, totaling over \$200 million.
- Negotiated settlement and obtained Public Utilities Commission approval of conditions on Northern State Power Company/New Century Energy merger that will reduce rates approximately \$10 million per year for the next five years, as well as adding \$1.2 million to low income energy assistance programs.

Challenges

- As competition emerges in the telecommunications area, respond and address an increasing number of consumer complaints.
- Advocate the interests of consumers and small businesses in the upcoming energy deregulation and restructuring debate.
- Represent the Department of Human Services in an increasing number of hearings and appeals arising out of allegations of maltreatment and neglect of vulnerable adults and minor children.

Medicaid Fraud Division

Strategies and Performance

- Increased criminal prosecution and civil enforcement efforts targeted at persons or facilities involved in the abuse or neglect of vulnerable adults.
- Obtained a civil temporary restraining order and a criminal felony conviction against an individual who falsified Department of Human Services background check documents in order to allow unqualified and untrained temporary "pool" employees to work with vulnerable adults in nursing home facilities.
- Obtained a civil temporary restraining order against an assisted living facility that was the subject of numerous complaints about quality of care and other issues. The settlement of the case required the facility to take specific steps to improve care issues and provided for the appointment of an independent third party to monitor compliance with the settlement.
- Obtained over \$4.9 million of recoupment to state Medicare and Medicaid Programs.

Court Ordered Recoveries	
	\$ in Thousands
Medicare	\$3,666

BUDGET ACTIVITY SUMMARY (Continued)

Budget Activity: GOVERNMENT REGULATION
Program: ATTORNEY GENERAL
Agency: ATTORNEY GENERAL

Medicaid	1,213
Prosecution Costs	3
Other	1134
Total	\$4,996

- Reviewed 1,090 complaints regarding abuse, neglect or financial exploitation of residents or patients in Medicaid funded facilities.

Challenges

- Continue to expand efforts to protect vulnerable adults and prosecute fraud cases.

Tax Litigation Division

Strategies and Performance

- Successfully defended the Department of Revenue's application of the sales tax law to purchases of amusement devices by businesses operating video arcades and other places of amusement.
- Under the federal Railroad Revitalization and Regulatory Reform Act, successfully defended imposition of Minnesota use tax on locomotive diesel fuel.
- Represented the department in approximately 450 bankruptcy cases defending the state's bankruptcy claim or requiring that debtors comply with state laws by filing returns.
- Successfully argued for the imposition of income tax on federal employees who become Minnesota residents.
- Successfully defended the state's imposition of income tax on lottery proceeds won by a Native American purchasing her ticket on the reservation but awarded winnings off the reservation.
- Settled more than 50 tax cases involving all types of taxes.

Challenges

- Analyze the significant increase in income tax cases to identify areas where legislation would help eliminate disputes.
- Assist the department in pursuing businesses that seek to avoid state taxation by establishing insubstantial business relationships with so called

"independent contractors" which, in reality, carry on the taxpayers' businesses in this state.

- Assist the department in administering sales tax as it applies to electronic commerce.

BUDGET ISSUES:

This activity provides a wide range of legal services to numerous state agencies. The AGO focuses on providing efficient, cost-effective advice and solutions. The office must ensure that it retains flexibility among the funds that are appropriated or transferred to the office from other agencies so that legal service needs are met. As competing needs arise the AGO must work with agencies to develop strategies which provide appropriate services within budget restrictions. Some strategies include education/training of agency staff and seeking alternatives to litigation, such as alternative dispute resolution.

Activity: GOVERNMENT REGULATION
Program: ATTORNEY GENERAL
Agency: ATTORNEY GENERAL

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002			FY 2003		
				Base	Agency Request	Governor Recomm.	Base	Agency Request	Governor Recomm.
<u>Expenditures by Category:</u>									
State Operations									
COMPENSATION	8,931	7,140	5,919	5,769	5,769	5,769	5,919	5,919	5,919
OTHER OPERATING EXPENSES	1,484	508	835	637	637	637	637	637	637
TRANSFERS	0	0	0	(2,136)	(2,136)	(2,136)	(2,166)	(2,166)	(2,166)
Total Expenditures	10,415	7,648	6,754	4,270	4,270	4,270	4,390	4,390	4,390
<u>Financing by Fund:</u>									
Direct Appropriations:									
GENERAL	3,986	2,225	2,576	1,549	1,549	1,549	1,600	1,600	1,600
STATE GOVERNMENT SPECIAL REVENUE	2,993	2,311	2,855	1,813	1,813	1,813	1,855	1,855	1,855
Statutory Appropriations:									
GENERAL	3,080	2,681	882	908	908	908	935	935	935
HOUSING FINANCE AGENCY	356	431	441	0	0	0	0	0	0
Total Financing	10,415	7,648	6,754	4,270	4,270	4,270	4,390	4,390	4,390
<u>FTE by Employment Type:</u>									
FULL TIME	116.5	102.6	73.0	73.0	73.0	73.0	73.0	73.0	73.0
PART-TIME, SEASONAL, LABOR SER	9.1	7.8	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Total Full-Time Equivalent	125.6	110.4	76.0	76.0	76.0	76.0	76.0	76.0	76.0

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BUDGET ACTIVITY SUMMARY

Budget Activity: CIVIL ENFORCEMENT
Program: ATTORNEY GENERAL
Agency: ATTORNEY GENERAL

ACTIVITY PROFILE:

Functions

- Provide advice and representation to the Department of Health in connection with its regulation and oversight of environmental health hazards, infectious disease, health maintenance organizations, health care facilities and individuals, and other health-related matters.
- Provide advice and representation to the Department of Commerce in connection with its regulation of banks, insurance companies, mortgage brokers, real estate and insurance agents, securities dealers and building contractors.
- Register and provide oversight of thousands of non-profit organizations and professional fundraisers operating in Minnesota. Enforce Minnesota's laws governing nonprofits, provide public education about issues involving charitable giving and the operation of nonprofits, and serve as a public repository of financial and other information concerning nonprofit organizations in Minnesota.
- Enforce the consumer protection laws, including the False Advertising Act, the Consumer Fraud Act and the Deceptive Trade Practices Act, to protect consumers and create a fair marketplace. Enforce the antitrust laws to create a competitive marketplace for businesses and consumers alike.
- Serve as an information clearinghouse for consumers, answering their questions or directing them to the appropriate source in local, state or federal government. Mediate disputes between citizens and organizations with which they do business. By working to assist citizens and helping to effect voluntary settlements between consumers and companies, the division often eliminates the need for costly and time-consuming litigation between private parties. In addition, an incalculable amount of economic loss is prevented by the advice given to citizens.

STRATEGIES AND PERFORMANCE:

Health Division

Strategies and Performance

- During FY 2000 alone, the division handled more than 30 requests for fair hearings in cases involving maltreatment of residents in nursing homes and other facilities. Examples of legal representation provided to the

department in connection with enforcement of the Minnesota Vulnerable Adults Act include the following:

- While caring for a nursing home resident who suffered from dementia, a nurse's aide forcefully slapped the resident. The nurse's aide then grabbed the vulnerable adult by both shoulders and threw him in the opposite direction. After the incident, the vulnerable adult had skin tears on both hands and a bright pink handprint across his face. Division attorneys successfully defended the Department of Health's determination that this conduct constituted abuse under the Minnesota Vulnerable Adults Act.
- A nurse's aide had forceful sexual contact with a resident of a nursing home. The department of Health found the conduct constituted sexual abuse, and the nurse aide appealed. Division attorneys represented the Department, and the finding of abuse was affirmed.
- A nurse's aide stole two blank checks from a nursing home resident's elderly husband. The nurse's aide then wrote checks totaling \$3,500 and forged the husband's name. The Department of Health found the conduct constituted financial exploitation, and the nurse's aide appealed. Division attorneys represented the department, and the finding of exploitation was affirmed.
- A hospital employee raped a patient. As a result of this conduct, the state barred the employee from working in direct contact with vulnerable people. The employee sought review of this decision from the court of appeals. Division attorneys represented the Department of Health and the ban was ultimately affirmed. As a result, unless the employee can show he is no longer a risk of harm, he will not be able to work in nursing homes, hospitals or other settings with vulnerable people.
- The division successfully represented the Department of Health in numerous instances involving public health threats. For example, a carrier of infectious tuberculosis was not complying with her physician's instructions concerning the medical treatment necessary to cure the disease and render her non-infectious. This caused an unknown number of citizens to be exposed to a highly infectious disease. After the individual refused to comply with a department order concerning her illness, division attorneys obtained a court order pursuant to the Tuberculosis Health Threat Act requiring the individual to be held in a health care facility for treatment until rendered non-infectious so as not to expose additional citizens to the disease.
- Numerous matters involving environmental health hazards were also handled by the division. For instance, division attorneys obtained a temporary

BUDGET ACTIVITY SUMMARY (Continued)

Budget Activity: CIVIL ENFORCEMENT
Program: ATTORNEY GENERAL
Agency: ATTORNEY GENERAL

restraining order against an individual and two companies for performing asbestos-related work in violation of the Minnesota Asbestos Abatement Act and without appropriate safeguards.

- Finally, the division also negotiated with a government-run health plan a stipulation requiring it to impose no greater copays for mental health visits than for regular medical visits under the Mental Health Parity law.

Challenges

- In the next biennium, the division will have to represent the department in connection with increasingly complex and serious public health threats. In addition, the division expects to continue to receive a significant number of requests for fair hearings involving maltreatment, neglect or abuse of vulnerable adults.

Commerce Division

Strategies and Performance

- The division handled over 390 matters involving disciplinary actions against insurers, insurance agents, real estate professionals, appraisers, and building contractors. These matters often involved license discipline or other injunctive relief and resulted in the imposition of approximately \$500,000 in civil penalties payable to the state of Minnesota.
- In administrative litigation against three out-of-state insurance companies, the division obtained a civil penalty of \$395,000 and secured full restitution of over \$200,000 for Minnesota consumers.
- The division successfully defended the Commissioner of Commerce in a complex proceeding in the Court of Appeals involving a challenge to the commissioner's order reducing the rates of certain accident and health insurance policies. The division's victory on appeal resulted in over \$3 million in restitution being awarded to Minnesota policyholders.
- The Commissioner of Commerce was also represented by the division in the high-profile litigation involving Blue Cross and Blue Shield's plan to spend its portion of the tobacco settlement.
- Representation was provided to the department in connection with the investigation and prosecution of individuals and entities involved in the illegal practice known as "real estate flipping." As a result of the division's efforts, successful actions were brought against real estate agents, insurance agents, mortgage brokers, and real estate appraisers who

conspired to defraud lower-income home buyers in Minnesota. The division's successful prosecution of key players who engaged in flipping brought widespread attention to real estate flipping and has helped eradicate this type of fraud in Minnesota.

Challenges

- The division will challenges in the next biennium related to assisting the department with ongoing issues relating to the \$469 million Blue Cross tobacco settlement, as well as defending the department in the class action lawsuit challenging the distribution of surplus from the Minnesota Workers' Compensation Assigned Risk Plan. These matters are complex and involve significant amounts of money. In addition, the division will continue to be challenged by a significant number of contested case proceedings.

Charities Division

Strategies and Performance

In the last biennium, the division has worked hard to keep pace with the rapid growth of the nonprofit sector and has continued to fulfill its mission of providing information to the public about the finances and operations of professional fundraisers and nonprofits in Minnesota and nationwide. The division has maintained a vigilant role in enforcing Minnesota laws governing charitable solicitation and nonprofit governance and operations. Specific examples include:

- Obtained court orders to protect or recover \$3.2 million in charitable assets.
- Successfully litigated against an out-of-state charity and its professional fundraiser for fraudulent solicitation practices involving claims of benefiting terminally ill children, resulting in permanent injunctive relief, a civil penalty, and agreement by the charity to spend significant sums in Minnesota to benefit terminally ill children.
- Shut down a fraudulent automobile donation program that misrepresented material facts to donors and presented numerous public safety concerns.
- Successfully prosecuted and rehabilitated a community foundation whose director converted large sums of money held in charitable trust to his own use.
- Took legal action resulting in money being returned to the foundation and worked to establish new board structure within the organization.
- Litigated against a company that fraudulently sold grant-matching services to consumers, resulting in complete restitution for all Minnesota consumers.
- In probate proceedings throughout Minnesota, represented the charitable beneficiaries of wills and other testament or instruments, protecting over \$480,000 in charitable bequests.

BUDGET ACTIVITY SUMMARY (Continued)

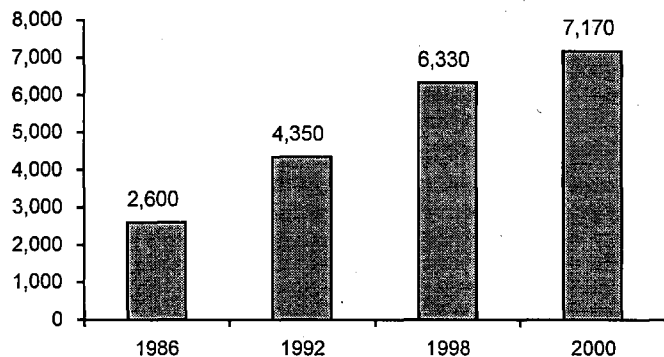
Budget Activity: CIVIL ENFORCEMENT
Program: ATTORNEY GENERAL
Agency: ATTORNEY GENERAL

- Provided up-to-date and accurate public information on over 7,000 registered nonprofit organizations, both in the division's public file room and through the office's website. Collected over \$600,000 in registration fees and copying costs payable to the General Fund.

Challenges

- Since the oversight of charitable organizations was delegated to the attorney general in 1986, there has been tremendous growth in the number of such organizations registered in Minnesota, including charities, nonprofits and public and private foundations. As the nonprofit sector continues its steady growth, the division will be faced with the task of keeping up, both in terms of the numbers of organizations registered, and in new ways such organizations perform their charitable functions. An area of particularly rapid growth involves fundraising through the Internet, as more and more organizations solicit online donations. This new fundraising medium represents new opportunities for charities, as well as challenges for nonprofit regulators.

Registered Charitable Organizations in Minnesota



Consumer Division

Strategies and Performance

The division has worked diligently to protect citizens from wrongful acts and illegal conduct. Examples of the division's work during the last biennium include:

- In one of the first privacy lawsuits in the nation, the division commenced a lawsuit against a major national bank for releasing customers' financial data, social security numbers, and account histories, to telemarketing companies despite a pledge that, "all personal information you supply to us will be considered confidential." In connection with the settlement, the bank agreed to disgorge \$3 million in fees generated from the disclosure of this information to outside companies. The bank also agreed to stop disclosing customer information to third parties for purposes of marketing nonfinancial products and services and to give consumers the opportunity to restrict the sharing of information with nonaffiliated third parties for purposes of marketing financial products and services and with affiliates for any marketing purpose.
- Filed suit against companies and individuals for engaging in schemes of "mortgage flipping," or the purchase and resale of homes in a short period of time at substantially inflated prices. Mortgage flipping financially harmed many Minnesota homebuyers, particularly first time homebuyers with lower incomes. The division's work has helped to curb this illegal practice in Minnesota.
- Settled a first-in-the-nation lawsuit against a mortgage company involved in "predatory lending" through the use of misleading sales practices to charge consumers extraordinarily high loan fees. The settlement resulted in the payment of fines to the state of Minnesota and over 100 customers being reimbursed thousands of dollars in loan fees and refinancing costs. Minnesota consumers have been some of the only consumers in the nation to receive recoveries, as the company subsequently declared bankruptcy, leaving thousands of consumers in other states with little recourse.
- Entered into settlements with two national companies that used consumers' private bank account information to market membership programs offering discounts on merchandise and services. Scores of consumers complained that they did not know their bank had supplied their names to these companies, nor did they believe they had ordered the products or services from the companies. The settlement required the companies to change their business practices and provide double refunds to consumers who did not consent to charges to their bank accounts.
- Commenced a lawsuit against American Family Mutual Insurance Company for failing to honor the terms of its insurance contracts by replacing shingles and siding of consumers' homes with "like kind and quality" materials. Approximately 600 American Family policyholders complained to the AGO that the company refused to pay for matching siding and roofing. In a related

BUDGET ACTIVITY SUMMARY (Continued)

Budget Activity: CIVIL ENFORCEMENT
Program: ATTORNEY GENERAL
Agency: ATTORNEY GENERAL

action, the division entered into an agreement with another major insurance company whereby consumers were offered the opportunity to participate in arbitration or mediation with the Attorney General's Office involving replacement of mismatched siding or roofing. This led to 35 consumers recovering nearly \$300,000 from the insurance company.

- Shut down a fraudulent Internet web page design company that charged small businesses and nonprofits, including many daycare centers, dentist offices and funeral homes, \$24.95 to \$73.95 per month on their telephone bills for Internet web pages they never ordered.
- Shut down a fraudulent company offering consumers a "guaranteed VISA or MasterCard for only \$69," when, in fact, all consumers received for their payment was a list of five banks from which they could apply for a credit card.
- Commenced the first-ever lawsuit under the state's four-year-old civil bias offense statute against a self-proclaimed neo-nazi who targeted members of Minnesota's Jewish community with hate literature featuring seven hanging corpses and the epithet, "The fate of all Jews and race traitors."
- Commenced litigation against the federal government for creating a system of inequitable reimbursements for Minnesota seniors enrolled in Medicare HMOs. The federal government reimburses Medicare HMOs approximately \$450 per month for each senior enrolled in Minnesota compared to \$700-800 in states such as Florida, California and New York. As a result, seniors in the more populated states benefit from free drug coverage and no co-payments while seniors in Minnesota often go without drug coverage and pay substantial co-payments and other fees. Although the U.S. District Court dismissed the litigation, it recognized that the lawsuit brought attention to the "gross unequal treatment of senior citizens" and urged congress to "remedy this wrong."
- Persuaded a major car manufacturer to include Minnesota in a regional corrosion recall for certain 1987-1991 vehicles. A previous recall had covered 14 cold-climate states, including Wisconsin, but excluded Minnesota due to use of a faulty formula involving the calculation of the road salt used in this state. As a result of the division's work, an estimated 20,000 vehicles in Minnesota have now been included in the recall.
- Instituted a disaster response team to assist communities struck by natural disasters, such as the tornado that struck Granite Falls, Minnesota in July 2000. After natural disasters, residents often face a myriad of consumer problems and often are targeted by scam artists. The disaster response

team travels to the site of such disasters to respond to consumer problems and deter scam artists and other perpetrators of fraud.

- Recovered \$1.8 million for Minnesota consumers who purchased boats or boating equipment from W.W. Holes Manufacturing Co. d/b/a Marine Outlet and Bud Grant's Boat Buying Club. This recovery was in settlement of a lawsuit which alleged overcharging of customers for government license fees and bogus registration charges, false claims that equipment was "demo" equipment, and misrepresentations concerning standard equipment on the boat.
- Created and maintained public handbooks in such areas as privacy, managed health care, home building and remodeling, senior rights, landlord and tenant issues, consumer credit, fraud, telephone sales and solicitation, conciliation court and manufactured home parks. Issued warnings concerning emerging scams and informed consumers and businesses of legal rights.
- Obtained settlements or judgments requiring payments to the state of Minnesota of over \$1.6 million in the 18 months since January, 1999.
- Obtained settlements or judgments requiring the payment of over \$8.1 million in restitution for consumers in the 18 months since January, 1999.

Challenges

- As technology advances, so too does the way in which perpetrators of fraud carry out their unscrupulous activities. Fraud over the Internet will present an issue of complexity and difficulty for the division.

Antitrust Division

Strategies and Performance

The division has strived to help create and maintain a fair marketplace for Minnesota consumers and businesses. Examples of work done by the division include:

- Intervened with the U.S. Department of Justice, the U.S. Department of Transportation and other attorneys general to promote competition in the airline industry. Opposed the merger between United Airlines and US Air in hearings before Congress and with the Justice Department and other attorneys general.
- Settled a price-fixing lawsuit against pharmaceutical giant Mylan Laboratories and three defendants that alleged an illegal 2,000% price increase for two drugs used to treat Alzheimer's Disease and similar afflictions. The division was a leader in initiating the investigation that led to the lawsuit and a \$100 million settlement.

BUDGET ACTIVITY SUMMARY (Continued)

Budget Activity: CIVIL ENFORCEMENT
Program: ATTORNEY GENERAL
Agency: ATTORNEY GENERAL

- Settled a lawsuit against Toys R Us, Mattel and Little Tykes for illegally restricting the supply of toys to discount stores.
- Resolved a price-fixing lawsuit against several dairy companies.
- Intervened with the U.S. Department of Justice concerning agricultural mergers and consolidation in the agricultural industry.
- Settled a criminal and civil antitrust case that alleged that manufacturers' representatives for lighting equipment engaged in a bid rigging and price-fixing conspiracy involving public contracts.
- Obtained settlements or judgments requiring the payment to the state of Minnesota of \$826,000 in the 18 months since 1-1-99.
- Obtained settlements or judgments requiring the payment of over \$6.5 million in restitution for consumers in the 18 months since 1-1-99.

Challenges

- The division will also have the task of keeping up with additional industry consolidations. It will also need to deal with potential anti-competitive effects of new technologies, such as B2B websites.

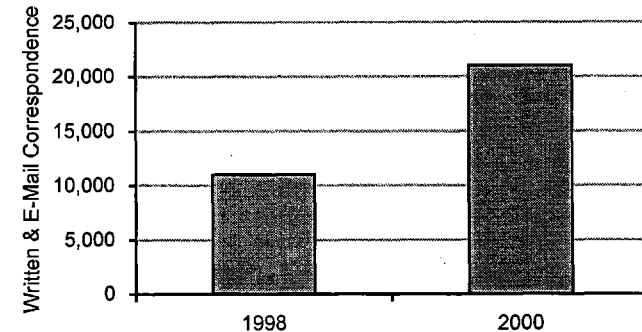
Consumer Services Division

Strategies and Performance

The Consumer Services Division provides advice and assistance to consumers and businesses in Minnesota. Examples of the division's work include:

- During FY 1999, the division eliminated an inefficient telephone system that often led to busy signals, disconnects, and long waits. Now consumer specialists provide prompt assistance to citizen callers. The division's consumer specialists speak numerous foreign languages in an effort to serve Minnesota's increasingly diverse community.
- Answer approximately 150,000 telephone calls per year from citizens who contact the office's consumer hotline.
- Respond to approximately 21,000 written and e-mail complaints and inquiries per year from Minnesota citizens.

Consumer Services Complaints



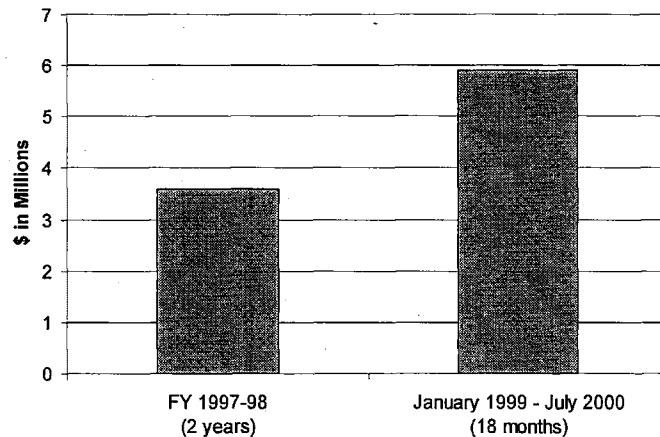
- Obtained approximately \$3 million in recoveries for Minnesota consumers in 1999 and \$2.9 million for the first six months of 2000 through voluntary mediations. Examples of mediations handled by the division include:
 - A Minnesota woman, who had recently moved out of the state, suffered from life threatening anorexia nervosa. When the woman first contacted the office, she weighed 77 pounds. Her doctor advised her to move back to Minnesota in order to be surrounded by her family. She was covered by an employer health plan in Arizona that utilized an Arizona provider network that did not include Minnesota physicians. After being contacted by the office, the employer and the health plan agreed to re-evaluate the woman's coverage. As a result, she will receive approximately \$22,000 in coverage that would not have been otherwise available to her.
 - In the spring of 2000 a family farmer was being hounded by several different collection agencies for debts in varying amounts between \$158,000 and \$221,000. The U.S. Department of Treasury was targeting the farmer to collect a substantial loan. However, after intervention by the office, it was revealed that the U.S. Department of Treasury, as well as the collection agencies, had the wrong individual, which was finally acknowledged by the U.S. Department of Treasury after a verification of the individual's social security number. Without intervention by the office, the farmer would not have been able to secure adequate loans for spring planting.

BUDGET ACTIVITY SUMMARY (Continued)

Budget Activity: CIVIL ENFORCEMENT
Program: ATTORNEY GENERAL
Agency: ATTORNEY GENERAL

- The seller of a house artificially inflated its price and created a second mortgage, engaging in "real estate flipping." As a result, the house was overvalued by \$26,000. The office negotiated the elimination of the fictitious \$26,000 mortgage.
- An elderly woman unknowingly co-signed on her grandson's checking account. Since the grandson had a history of delinquent behavior, the grandmother repeatedly told the bank representative that she did not want to co-sign on the account. Despite the grandmother's wishes, the bank representative told her to sign on the dotted line that made her a co-signer. After spending all of his money, the grandson spent all of his grandmother's money, which was comprised only of social security savings. After being contacted by the office, the bank reimbursed the elderly woman for the full amount withdrawn.
- A young couple had been having numerous problems with their "lemon" 1997 sport utility vehicle. Because the husband was seriously ill with cancer, it was important for the couple to have a reliable truck. After division staff contacted the manufacturer, the couple was given a new 1999 truck to replace their 1997 "lemon."

Mediated Recoveries



Challenges

- To continue to assist citizens promptly and effectively despite an increasing number of citizen inquiries and complaints.

BUDGET ISSUES:

This activity provides a wide range of legal services for two state agencies. The AGO focuses on providing efficient, cost-effective advice and solutions. The office must ensure that it retains flexibility among the funds that are appropriated or transferred to the office so that legal service needs are met. As competing needs arise, the AGO must work with agencies to develop strategies which provide appropriate services within budget restrictions. Some strategies include education/training of agency staff, seeking alternatives to litigation, such as alternative dispute resolution. This activity also takes action on an increasing number of consumer complaints and must allocate its resources as to the prioritization of complaints.

Activity: CIVIL ENFORCEMENT
Program: ATTORNEY GENERAL
Agency: ATTORNEY GENERAL

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002			FY 2003		
				Base	Agency Request	Governor Recomm.	Base	Agency Request	Governor Recomm.
<u>Expenditures by Category:</u>									
State Operations									
COMPENSATION	1,557	4,358	6,133	5,301	5,301	5,301	5,470	5,470	5,470
OTHER OPERATING EXPENSES	11,079	494	1,649	960	960	960	960	960	960
Total Expenditures	12,636	4,852	7,782	6,261	6,261	6,261	6,430	6,430	6,430
<u>Financing by Fund:</u>									
Direct Appropriations:									
GENERAL	1,408	4,785	6,217	5,204	5,204	5,204	5,359	5,359	5,359
Statutory Appropriations:									
GENERAL	711	0	444	457	457	457	471	471	471
SPECIAL REVENUE	8	0	2	0	0	0	0	0	0
MISCELLANEOUS AGENCY	10,509	67	1,119	600	600	600	600	600	600
Total Financing	12,636	4,852	7,782	6,261	6,261	6,261	6,430	6,430	6,430
<u>FTE by Employment Type:</u>									
FULL TIME	21.4	74.0	76.0	76.0	76.0	76.0	76.0	76.0	76.0
PART-TIME, SEASONAL, LABOR SER	4.4	8.8	8.0	8.0	8.0	8.0	8.0	8.0	8.0
Total Full-Time Equivalent	25.8	82.8	84.0	84.0	84.0	84.0	84.0	84.0	84.0

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BUDGET ACTIVITY SUMMARY

Budget Activity: PUBLIC PROTECTION
Program: ATTORNEY GENERAL
Agency: ATTORNEY GENERAL

ACTIVITY PROFILE:

Functions

Criminal Prosecution Division

- Prosecutes violent and serious crimes statewide.
- Prosecutes gang crime statewide.
- Prosecutes drug and white collar crimes statewide.
- Provides training and prosecutorial assistance to local prosecutors.

Criminal Appeals Division

- Defends felony convictions upon appeal and argues public safety issues of statewide importance.

Sex Offender Civil Commitment Unit

- Obtains civil commitment of sex offenders under psychopathic personality and sexually dangerous person statutes.
- Provides legal advice regarding sex offender registration and DNA registration issues.
- Handles hearings relating to determinations of risk levels for sex offenders under the Community Notification Act.

STRATEGIES AND PERFORMANCE:

Murder Convictions

Obtained a number of murder convictions including:

- Second degree intentional murder conviction against Harold "Howie" Kramer, Jr. after Kramer, Jr., murdered his own son.
- Second degree intentional murder conviction against Charles Slabaugh in connection with the murder of his wife, Lynn.
- First degree premeditated murder conviction against Daniel Day in connection with the murder of Carol Kirchner.
- Second degree intentional murder conviction against Kellie Sater in connection with her role in a gang related murder.

- First degree premeditated murder conviction against Burr Crowsbreast III in connection with the beating death of his girlfriend.
- Second-degree felony murder plea by Lee Langworthy in connection with the suffocation murder of the 22-month-old child of his girlfriend.
- First degree murder conviction against Rodney Rosengartner in connection with the strangulation killing of his wife.
- First degree murder conviction against Christopher Nelson in connection with the murder of Dennis Johnson.
- Second-degree intentional murder plea by Edward Lopez in connection with the beating death of Craig Ehresmann.
- First degree murder plea by Dario George Bonga in connection with the stabbing death of Carlos San Miguel.
- Conspiracy to commit second degree intentional murder plea by Wayne Aaron Johnson in connection with the stabbing death of Carlos San Miguel.

Gang Prosecutions

- Expanded the number of gang prosecutors from one attorney to three attorneys to meet increased need and demand.
- Provided legal advice and prosecutorial assistance to the Minnesota Gang Strike Force and the Minnesota Gang Strike Force Oversight Council.
- Prosecuted gang cases in both the metropolitan area and greater Minnesota, including cases involving murder, drive-by shootings, drug distribution and racketeering committed by street gang members.
- Conducted significant training for police, prosecutors and community members related to gang activity across the state.
- Handled forfeiture cases for the Minnesota Gang Strike Force.

Drugs

- Continued operating under the Federal Byrne Grant Program to prosecute drug cases, primarily in greater Minnesota.
- Continued to see an increase in methamphetamine sale and distribution cases and a growth in clandestinely operated methamphetamine labs throughout the state.
- Trained law enforcement personnel regarding drug prosecution issues.

BUDGET ACTIVITY SUMMARY (Continued)

Budget Activity: PUBLIC PROTECTION
Program: ATTORNEY GENERAL
Agency: ATTORNEY GENERAL

White Collar

- Prosecuted a number of significant white collar cases, including: a major payroll check counterfeiting ring; a fraud case against a patient of the Minnesota Sexual Psychopathic Personality Treatment Center in Moose Lake; a case involving theft by swindle for several victims, including senior citizens, by a telemarketing company; a willful evasion of petroleum tax case; and a felony tax fraud case.
- Provided prosecution assistance to local prosecutors in several white-collar cases, including a criminal case filed in connection with the death of an employee at a cheese processing plant in Zumbrota, Minnesota and an environmental crimes case.

Criminal Appeals

Convictions were successfully upheld in well over 90% of the appeals handled by the division including:

- The criminal convictions of all defendants convicted of murder in connection with the death of Paul Antonich.
- The second-degree murder plea entered by the shooter in a gang related killing in Itasca County.
- Numerous other criminal convictions in cases involving murder sex, offenders, gang activity, drug possession and distribution.
- Handled federal *habeas corpus* challenges to state criminal convictions.

Challenges

- Continue to provide top quality prosecution resources to county attorneys across the state.
- Continue to provide legal advice and prosecution assistance to meet the needs and demands of the Minnesota Gang Strike Force.
- Continue to successfully uphold criminal convictions.
- Continue to respond to crime growth areas such as drug prosecutions and emerging criminal law issues relating to computer crime.

Human Rights/Labor Division

Strategies and Performance

- In FY 1999-00, obtained approximately \$3.6 million as compensation for individuals who filed charges of discrimination with the Department of Human Rights.
- Litigated 72 cases to preserve assets in special compensation fund, thereby reducing cost of workers compensation insurance for Minnesota employers.
- Represented interests of Minnesota workers in over 90 new cases concerning Minnesota's occupational safety and health laws, including winning a ruling that pregnant workers cannot be discharged from refusing to work in conditions potentially harmful to themselves or their unborn children.

Challenges

- Maintain appropriate levels of protection for state funds, workplace safety, and individuals affected by discriminatory practices while conserving legal resources through use of non-litigious methods of dispute resolution.
- Defend pending constitutional challenges to provisions in Minnesota's occupational safety and health, teacher's retirement, and public employee pension laws.

Public Safety/Gambling Division

Strategies and Performance

- In FY 2000, handled over 4,000 implied consent cases (drunk driver license revocations) in Minnesota's district courts. This represents a 98% increase in implied consent cases from FY 1996. Despite this sharp increase in caseload, the division's litigation success rate remains at 87%.

Fiscal Year	Implied Consent Cases
1993	1,885
1994	2,232
1995	2,233
1996	2,121
1997	2,699
1998	3,040
1999	3,847
2000	4,192
2001	4,611*
2002	5,072*

* Projected

BUDGET ACTIVITY SUMMARY (Continued)

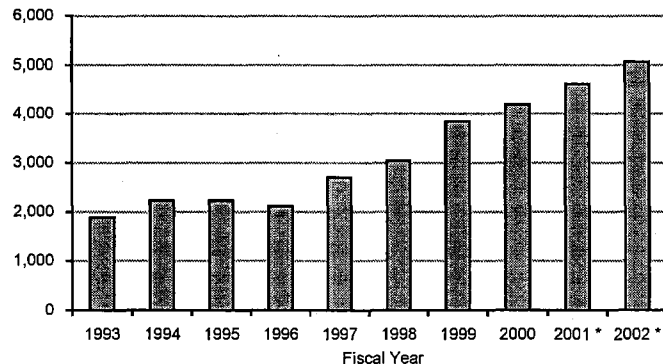
Budget Activity: PUBLIC PROTECTION
Program: ATTORNEY GENERAL
Agency: ATTORNEY GENERAL

- Successfully defended over 100 petitions under M.S. 171.19 (court actions to regain driving privileges filed by the most severe DWI offenders who have had their driver's licenses canceled and denied as inimical to public safety) in FY 2000. This represents a 60% increase in M.S. 171.19 caseload for the division since 1993.
- Initiated or defended over 60 drunk driving related appeals to the Supreme Court and Court of Appeals which had statewide impact.
- Handled over 100 disciplinary cases for the Gambling Control Board and the Alcohol and Gambling Enforcement Division of the Department of Public Safety resulting in approximately \$80,000 in civil penalties, 25 license suspensions and 15 license revocations.

Challenges

- Continue to effectively remove drunk drivers from Minnesota roads through vigorous and uniform enforcement of implied consent, DWI and other driving laws, despite projected large increases in challenges to license suspensions, revocations, and cancellations.
- Defend at the appellate court level the constitutionality of recent amendments to the implied consent and DWI laws.

Implied Consent Cases



- Continue effective litigation and representation of gambling and liquor regulatory agencies in order to maintain the integrity of both industries within the state.

Telecommunications and Energy Division

Strategies and Performance

- Represented the Department of Commerce in several major telecommunications company and energy company mergers. Settlements in these mergers resulted in significant consumer benefits and savings.
- Represented the Department of Commerce in opening the local telephone market to competitors through rulemakings, complaint procedures and investigations. The long-term result will be lower rates for all telephone consumers.

Challenges

- As electrical utility mergers and acquisitions evolve, the division will need to handle the inevitable increase in litigation associated with major industry changes.
- The division will continue to respond to an increased telephone caseload generated by industry mergers and acquisitions. Changes in state law in 1995 and in federal law in 1996 to promote competition in local telephone markets were associated with a dramatic increase in telephone filings. These patterns, coupled with increased complexity in technology and ownership, are expected to continue.

Transportation Division

Strategies and Performance

- New eminent domain cases started in FY 1999-00 placed 363 new parcels in the condemnation process for Department of Transportation (Mn/DOT) projects. Either through awards or stipulated statements, 369 parcels were closed out. The AGO accomplished this net reduction in the backlog of pending actions, despite greater and more complex legal activity due to substantially increased funding for road and highway projects.
- Successfully defended the state's statewide fiber optic deployment project, "Connecting Minnesota," from both challenges in court and before the Federal Communications Commission.
- Defended the state's federally-mandated DBE program in a constitutional challenge.

BUDGET ACTIVITY SUMMARY (Continued)

Budget Activity: PUBLIC PROTECTION
Program: ATTORNEY GENERAL
Agency: ATTORNEY GENERAL

- Provided on-going legal counsel to the commissioner of Transportation in the planning and development of the light rail transit project in matters such as bid protests, utility relocation, and federal regulatory compliance.

Challenges

- Planned highway construction projects, including the expansions of TH 100 and TH 12 in Hennepin County, TH 52 in Rochester, the Wacouta bridge and other projects, run through established commercial areas resulting in complex and expensive acquisitions. Experienced litigators are needed to represent the state's interests in both the eminent domain and mandamus claims inevitably arising out of such projects. Additional federal and state funding appropriated to Mn/DOT for future projects almost doubles the number of projects to be undertaken by the agency in the next biennium, creating more demand for legal resources.
- Provide high quality representation for the Light Rail Transit (LRT) project. Matters such as utility relocation, creation and enforcement of both public-private and public-public contract relationships, and challenges to other legal aspects of the project will require expert legal advice.
- Continue developing partnership relationships with Mn/DOT personnel to more efficiently and effectively handle areas of special legal needs such as title research, contract review and negotiations, rulemaking, and contested case administration.

BUDGET ISSUES:

This activity provides a wide range of legal services to numerous state agencies. The AGO focuses on providing efficient, cost-effective advice and solutions. The office must ensure that it retains flexibility among the funds that are appropriated or transferred to the office from other agencies so that legal service needs are met. As competing needs arise the AGO must work with agencies to develop strategies which provide appropriate services within budget restrictions. Some strategies include education/training of agency staff, seeking alternatives to litigation, such as alternative dispute resolution.

Activity: PUBLIC PROTECTION
Program: ATTORNEY GENERAL
Agency: ATTORNEY GENERAL

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002			FY 2003		
				Base	Agency Request	Governor Recomm.	Base	Agency Request	Governor Recomm.
Expenditures by Category:									
State Operations									
COMPENSATION	6,721	3,120	9,103	8,074	8,074	8,074	8,247	8,247	8,247
OTHER OPERATING EXPENSES	2,556	1,936	2,649	1,537	1,537	1,537	1,531	1,531	1,531
TRANSFERS	0	0	0	(2,064)	(2,064)	(2,064)	(2,126)	(2,126)	(2,126)
Subtotal State Operations	9,277	5,056	11,752	7,547	7,547	7,547	7,652	7,652	7,652
LOCAL ASSISTANCE	373	793	0	0	0	0	0	0	0
Total Expenditures	9,650	5,849	11,752	7,547	7,547	7,547	7,652	7,652	7,652
Financing by Fund:									
Direct Appropriations:									
GENERAL	7,605	2,664	7,374	4,335	4,335	4,335	4,379	4,379	4,379
STATE GOVERNMENT SPECIAL REVENUE	21	21	21	21	21	21	21	21	21
ENVIRONMENTAL	95	107	166	142	142	142	145	145	145
Statutory Appropriations:									
GENERAL	203	140	1,215	1,244	1,244	1,244	1,277	1,277	1,277
SPECIAL REVENUE	75	52	109	30	30	30	30	30	30
FEDERAL	1,349	1,774	1,178	1,175	1,175	1,175	1,200	1,200	1,200
MISCELLANEOUS AGENCY	204	1,091	1,689	600	600	600	600	600	600
GIFT	98	0	0	0	0	0	0	0	0
Total Financing	9,650	5,849	11,752	7,547	7,547	7,547	7,652	7,652	7,652
Revenue Collected:									
Dedicated									
MISCELLANEOUS AGENCY	0	7	0	0	0	0	0	0	0
Total Revenues Collected	0	7	0	0	0	0	0	0	0
FTE by Employment Type:									
FULL TIME	106.0	41.0	103.5	103.5	103.5	103.5	103.5	103.5	103.5
PART-TIME, SEASONAL, LABOR SER	12.3	4.8	7.4	7.4	7.4	7.4	7.4	7.4	7.4
Total Full-Time Equivalent	118.3	45.8	110.9	110.9	110.9	110.9	110.9	110.9	110.9

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BUDGET ACTIVITY SUMMARY

Budget Activity: SOLICITOR GENERAL
Program: ATTORNEY GENERAL
Agency: ATTORNEY GENERAL

ACTIVITY PROFILE:

Functions

- Defense of tort claims.
- Defense of employment claims.
- Commercial litigation and environmental compliance.
- Prisoner litigation.
- Constitutional litigation.
- Representation of state educational agencies, the Department of Corrections (DOC) and the Public Utilities Commission (PUC).

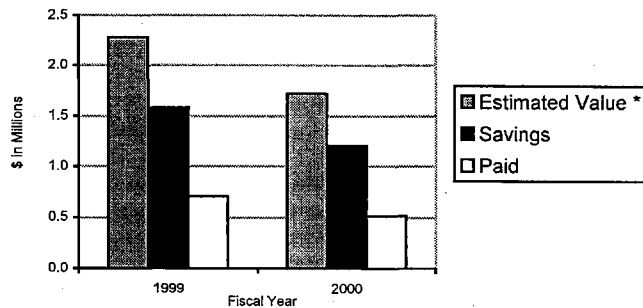
STRATEGIES AND PERFORMANCE:

Strategies and Performance

Tort Claims Division

In defending the state against tort claims, the tort claims division has had great success in limiting the number of lawsuits filed against the state and the amount of money paid out on those claims. Although approximately 600 claims are filed annually, less than 10% of those claims result in a lawsuit. The division also proactively manages the state's exposure to tort claims by providing preventative legal advice and training to state agencies.

Savings Achieved By Tort Claims Division



* Estimated Value is comparable to the term "reserved amount" used by insurance companies.

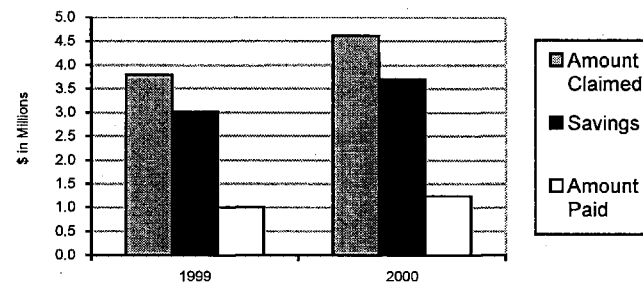
Employment Law Division

This division handles the defense of state employment cases and claims. It also provides legal advice and training to state agency managers on employment-related and labor relations issues. The division's efforts, including its extensive use of Alternative Dispute Resolution (ADR), have saved the state millions of dollars.

Commercial Litigation and Environmental Compliance Division

The division represents state agencies in litigation involving large state construction projects. It protects the state's interest as a creditor in bankruptcies and liquidations, and assists in the recovery of debts owed to the state. The division also advises and represents state agencies in complying with federal and state environmental requirements and represents those agencies in environmental litigation. The division has saved the state over \$6.7 million during FY 1999-00 on claims brought by contractors asking for additional compensation on construction projects. The division also recovered over \$9 million in FY 1999-00 on behalf of various state agencies with respect to debts owed the state.

**Construction Claims/State Dollars Saved
FY 1999-00**



Civil Litigation and Public Utilities Division

The division handles various civil litigation matters, including constitutional challenges, filed against the state, its agencies, or its officials. The division also acts as general counsel for the DOC and for the PUC. The division successfully handled three very complex "education adequacy" cases involving claims

BUDGET ACTIVITY SUMMARY (Continued)

Budget Activity: SOLICITOR GENERAL
Program: ATTORNEY GENERAL
Agency: ATTORNEY GENERAL

potentially exceeding a billion dollars. Two of the cases could have also resulted in court supervision of the Minneapolis School District. After very substantial pretrial litigation, the division settled all three cases at no financial cost to the state and without court oversight of the Minneapolis School District.

Education Division

This division is the general counsel for the state's educational agencies including Minnesota State Colleges and Universities (MnSCU) and its 53 campuses, the Department of Children, Families and Learning (CFL), the Higher Education Services Office (HESO), and the Perpich Center for Arts Education. It provides legal advice, handles a variety of litigation and provides training for these agencies. It is very efficient in handling the variety of student matters in state and federal courts and administrative agencies, almost all of which are resolved in favor of the educational agencies. The division has, for example, successfully defended CFL in the federal Court of Appeals against a claim for attorneys' fees in excess of \$300,000 and a state university from a student's harassment claim in federal court, avoiding thousands of dollars in damages and attorneys' fees.

Challenges

Tort Claims

Recently, the AGO started handling motor vehicle cases for the Risk Management Division of the Department of Administration. Private counsel had formerly handled these cases; bringing them "in house" will save the state several hundred thousand dollars a year.

Employment Law

The division continues to handle several complex class action lawsuits brought against a number of state universities, which allege comparable pay violations. The division will also continue its focus on finding ways to resolve employment disputes before they reach the courts or resolving them quickly through mediation and other ADR techniques when such matters do reach the court system.

Commercial Litigation/Environmental Compliance

Litigation challenging controversial state construction projects, such as the Light Rail Transit (LRT) project and the proposed St. Croix River Bridge, will continue

to require substantial resources. The significant increase in public construction funding will also result in an increase in litigation, both by opponents of those projects and contractor claims.

Constitutional Litigation

Recent cases present challenges to state laws or rules regarding teacher pensions and surplus monies in the workers compensation assigned risk plan. These cases involve claims against the state totaling more than a billion dollars. Another case, now awaiting decision, involves a challenge to provisions regulating judicial elections in Minnesota.

Prisoner Litigation

The number of inmate cases has increased sharply in the past year. Because the number of inmates continues to grow, it is likely that the number of lawsuits will also continue to increase.

Public Utilities Commission (PUC)

The rise in PUC activity due to federal decisions interpreting the Telecommunications Act will continue to create increased legal work. In addition, the mergers and acquisitions in the gas and electricity industries will create legal issues in new uncharted areas.

Education

A recent Court of Appeals decision has recognized causes of action for students who are not satisfied with their educational program, and MnSCU now has such a case pending. The division also faces new challenges assisting state educational agencies with implementation of the settlement of the desegregation litigation in the metropolitan area and application of the new CFL desegregation rules. Also, the division will deal with charter school issues, including management accountability, lease aid, real property ownership, state regulation/deregulation, and application of graduation standards to charter schools.

BUDGET ISSUES:

This activity provides a wide range of legal services to numerous state agencies. The AGO focuses on providing efficient, high quality and cost-effective legal services. The office must ensure that it retains flexibility among the funds that are appropriated or transferred to the office from other agencies so that legal service needs are met. The AGO works with agencies to develop strategies for the cost-effective handling of claims made against the state. Strategies include education/training of agency staff, and seeking alternatives to litigation, such as ADR.

Activity: SOLICITOR GENERAL
Program: ATTORNEY GENERAL
Agency: ATTORNEY GENERAL

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002			FY 2003		
				Base	Agency Request	Governor Recomm.	Base	Agency Request	Governor Recomm.
<u>Expenditures by Category:</u>									
State Operations									
COMPENSATION	4,552	4,758	5,881	5,099	5,099	5,099	5,257	5,257	5,257
OTHER OPERATING EXPENSES	721	339	246	246	246	246	246	246	246
TRANSFERS	0	0	0	(130)	(130)	(130)	(134)	(134)	(134)
Total Expenditures	5,273	5,097	6,127	5,215	5,215	5,215	5,369	5,369	5,369
<u>Financing by Fund:</u>									
Direct Appropriations:									
GENERAL	4,681	2,193	4,332	3,575	3,575	3,575	3,729	3,729	3,729
Statutory Appropriations:									
GENERAL	473	2,781	1,669	1,640	1,640	1,640	1,640	1,640	1,640
PETROLEUM TANK RELEASE CLEANUP	119	123	126	0	0	0	0	0	0
Total Financing	5,273	5,097	6,127	5,215	5,215	5,215	5,369	5,369	5,369
<u>FTE by Employment Type:</u>									
FULL TIME	69.0	65.0	67.3	67.3	67.3	67.3	67.3	67.3	67.3
PART-TIME, SEASONAL, LABOR SER	3.3	3.8	2.8	2.8	2.8	2.8	2.8	2.8	2.8
Total Full-Time Equivalent	72.3	68.8	70.1	70.1	70.1	70.1	70.1	70.1	70.1

BUDGET ACTIVITY SUMMARY

Budget Activity: ADMINISTRATION
Program: ATTORNEY GENERAL
Agency: ATTORNEY GENERAL

ACTIVITY PROFILE:

Administrative Services provides support for the AGO in the following areas:

- General Administrative
- Human Resources
- Systems
- Fiscal Services (budget, accounting, purchasing)
- Library
- Docketing/Timekeeping

STRATEGIES AND PERFORMANCE:

Administrative staff are responsible for: strategic planning, developing and implementing policies and procedures, personnel transactions, upgrading and maintaining the AGO systems network, communications, budget, accounting, purchasing, providing the services of a comprehensive law library, and a docketing/timekeeping system that provides reports and billing information for partner agencies and all clients the AGO serves.

Administrative Services provides overall administrative support to the AGO. An increasing role of this program is the provision of systems-related support. Recently the office began operating on one system. This upgrade has brought the office together so that documents, research, etc., can be shared. However, it has resulted in a need to maintain the system as effectively and efficiently as possible. Consequently, the AGO seeks "maintenance initiatives" as well as "new initiatives" in the systems area. These are outlined in the plan that was submitted to the Office of Technology.

BUDGET ISSUES:

One area that will require additional support is the AGO systems effort. This is necessary to keep pace with accelerating demands on our systems and system staff. New legislation and litigation place greater demands on AGO technology to support complex litigation, provide information and links to other information resources. The AGO cannot hope to serve its clients or litigate against high-powered opponents without significant investments in replacement hardware and software. The AGO has submitted its information technology request to the Office of Technology for review.

Activity: ADMINISTRATION
Program: ATTORNEY GENERAL
Agency: ATTORNEY GENERAL

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002			FY 2003		
				Base	Agency Request	Governor Recomm.	Base	Agency Request	Governor Recomm.
Expenditures by Category:									
State Operations									
COMPENSATION	3,489	2,618	3,254	3,166	5,166	3,166	3,252	5,352	3,252
OTHER OPERATING EXPENSES	5,157	4,233	5,973	4,411	5,294	4,411	4,481	5,364	4,481
Total Expenditures	8,646	6,851	9,227	7,577	10,460	7,577	7,733	10,716	7,733
Change Items:	Fund								
(B) INFORMATION TECHNOLOGY BUDGET REQUEST	GEN				883			883	
(B) SALARY EQUITY INITIATIVE	GEN				2,000			2,100	
Total Change Items					2,883			2,983	
Financing by Fund:									
Direct Appropriations:									
GENERAL	8,225	6,688	8,610	7,377	10,260	7,377	7,528	10,511	7,528
Statutory Appropriations:									
GENERAL	234	19	36	20	20	20	20	20	20
SPECIAL REVENUE	164	144	581	180	180	180	185	185	185
GIFT	23	0	0	0	0	0	0	0	0
Total Financing	8,646	6,851	9,227	7,577	10,460	7,577	7,733	10,716	7,733
FTE by Employment Type:									
FULL TIME	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0
PART-TIME, SEASONAL, LABOR SER	2.3	4.5	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Total Full-Time Equivalent	42.3	44.5	43.0	43.0	43.0	43.0	43.0	43.0	43.0

INFORMATION TECHNOLOGY CHANGE ITEM (52742)

Activity: ADMINISTRATION

Program: ATTORNEY GENERAL

Agency: ATTORNEY GENERAL

IT Change Item: INFORMATION TECHNOLOGY BUDGET REQUEST

ITEM DESCRIPTION AND PURPOSE:

The AGO's information technology budget request focuses on maintaining and upgrading existing information systems. The AGO has completed development of its network, which has ensured greater effectiveness in providing legal services to our clients. In order to maintain that system we need to upgrade both hardware and software on a regular basis. We have established a timeframe to accomplish that need.

FUNDING: (Dollars in Thousands)

Funding Distribution	2002-03 Biennium		2004-05 Biennium		2006-07 Biennium	
	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Personnel	0	0	0	0	0	0
Supplies	0	0	0	0	0	0
Hardware	454	454	737	737	737	737
Software	229	229	222	222	222	222
Facilities	0	0	0	0	0	0
Services	150	150	150	150	150	150
Training	50	50	50	50	50	50
Grants	0	0	0	0	0	0
Total	883	883	1,159	1,159	1,159	1,159

Current funding of approximately \$276,000 (excluding salary and fringe benefits costs of current systems staff) exists for hardware and software, maintenance agreements, licensing requirements, supplies, line connection fees, systems staff training and system enhancements. These funds are not sufficient to support the on-going requirements of maintaining and upgrading hardware and software needs of the office.

RATIONALE:

The initiative provides for hardware and software replacement on an industry standard basis. It is not aggressive, but allows us to continue to operate an efficient system.

These upgrades will make the office more accessible to clients and citizens. This enhancement of our system infrastructure will allow us to provide greater outreach to and interaction with Minnesota's citizens.

Our goal is to accomplish the following:

- Provide more efficient/effective legal services to state agencies;
- Continue to respond effectively to the legal resources of private law firms who represent entities, which file claims against the state;
- Provide enhanced services to the citizens of Minnesota via the AGO's web site and through interactive electronic communication; and
- Enhance the AGO's capability to share information with other state agencies.

LIFE CYCLE ANALYSIS:

Life Cycle Status	2002-03 Biennium		2004-05 Biennium		2006-07 Biennium	
	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Development						
Operations	X	X	X	X	X	X
Modification						
Retirement	X	X	X	X	X	X

The AGO has adopted the industry standard of a 3-year cycle for replacement of computer hardware, a 5-year cycle for replacement of printers and communication equipment.

OFFICE OF TECHNOLOGY ANALYSIS:

Deliverables/Objectives: This initiative focuses on maintaining and upgrading existing information systems. The funding will be used to purchase hardware, software, consulting services and training. It supports infrastructure components. This initiative is listed as a priority in the agency SIRMP.

Conclusion: This initiative meets information technology criteria for funding. Funding is key to operating and maintaining technology in the Attorney General's office.

GOVERNOR'S RECOMMENDATION:

The Governor makes no recommendation regarding any specific initiatives put forward by the Attorney General and other constitutional officers.

BUDGET CHANGE ITEM (59544)

Budget Activity: ADMINISTRATION
Program: ATTORNEY GENERAL
Agency: ATTORNEY GENERAL

Item Title: SALARY EQUITY INITIATIVE

	<u>2002-03 Biennium</u>		<u>2004-05 Biennium</u>	
	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u>
Expenditures: (\$000s)				
General Fund				
-State Operations	\$2,000	\$2,100	\$2,100	\$2,100
Revenues: (\$000s)				
General Fund	\$-0-	\$-0-	\$-0-	\$-0-
Statutory Change? Yes _____ No <u> X </u>				
If yes, statute(s) affected:				
_____ New Activity <u> X </u> Supplemental Funding _____ Reallocation				

GOVERNOR'S RECOMMENDATION:

The Governor makes no recommendation regarding the specific initiatives put forward by the Attorney General and other constitutional officers.

RATIONALE:

The AGO requests \$4.1 million for the FY 2002-03 biennium to reduce the gap that continues to exist between AGO salaries and those of other public law firms in the Twin Cities area. AGO comparable attorney salaries fall far below those offered by other area public law offices. Typically, AGO salaries are 12-20% lower than other area public law offices.

The resources requested in this initiative would help us close the salary gap that exists with other public law offices. As a result, the AGO will be able to develop required expertise and fill key vacancies with the qualified individuals that the state's work requires. On the other hand, without the funds to pay competitive public lawyer salaries, the AGO is at a very serious disadvantage in retaining and attracting the quality lawyers needed to provide legal representation for the state. Less than high quality legal services can have a devastating impact, financial and otherwise, on the state and its citizens. It is essential that the AGO be able to pay comparable salaries to other similar public law offices to ensure that the AGO is able to employ high quality attorneys. Inability to pay competitive salaries will compromise the state's

ability to respond effectively to the ever-increasing amount and complexity of the state's legal services needs.

OUTCOMES:

This initiative will allow the AGO to attract and retain qualified and capable attorneys, who are essential for proper legal representation to the state and in protecting the state's interests.

LONG-TERM IMPACT:

This initiative will enable the AGO to accomplish several important objectives. We will: 1) continue to develop required legal expertise; 2) continue to recruit quality attorneys to fill vacancies, including those requiring specialized expertise; and 3) continue to provide effective legal services to the state of Minnesota and its citizens.

Agency: SECRETARY OF STATE

Summary of Agency Revenues (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Forecast	Governor Recomm.	Forecast	Governor Recomm.	Dollars	Percent
<u>Non-Dedicated Revenue:</u>									
Departmental Earnings:									
GENERAL	0	0	0	8,263	8,263	10,750	10,750	19,013	
CAMBRIDGE DEPOSIT FUND	9,881	10,475	9,924	0	0	0	0	(20,399)	(100.0%)
Other Revenues:									
GENERAL	1	1	2	2	2	2	2	1	33.3%
Taxes:									
GENERAL	1	1	2	2	2	2	2	1	33.3%
Total Non-Dedicated Receipts	9,883	10,477	9,928	8,267	8,267	10,754	10,754	(1,384)	(6.8%)
<u>Dedicated Receipts:</u>									
Departmental Earnings:									
GENERAL	2	2	2	2	2	2	2	0	0.0%
SPECIAL REVENUE	359	419	465	50	50	50	50	(784)	(88.7%)
MISCELLANEOUS AGENCY	1	0	2	2	2	2	2	2	100.0%
Total Dedicated Receipts	362	421	469	54	54	54	54	(782)	(87.9%)
Agency Total Revenues	10,245	10,898	10,397	8,321	8,321	10,808	10,808	(2,166)	(10.2%)

BUDGET CHANGE ITEM (51772)

Agency: SECRETARY OF STATE

Item Title: REVISED ARTICLE 9 - UCC

	2002-03 Biennium		2004-05 Biennium	
	FY 2002	FY 2003	FY 2004	FY 2005
Expenditures: (\$000s)				
General Fund	\$1,306	\$1,054	\$914	\$861
Revenues: (\$000s)				
General Fund	\$3,805	\$2,461	\$1,373	\$79
Statutory Change? Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>				
If yes, statute(s) affected: MS Ch.336, as amended in 2000 by Laws 2000, Chapter 399				
<input type="checkbox"/> New Activity <input checked="" type="checkbox"/> Supplemental Funding <input type="checkbox"/> Reallocation				

GOVERNOR'S RECOMMENDATION:

The Governor makes no recommendation regarding any specific initiative put forward by the Secretary of State, or other constitutional officers.

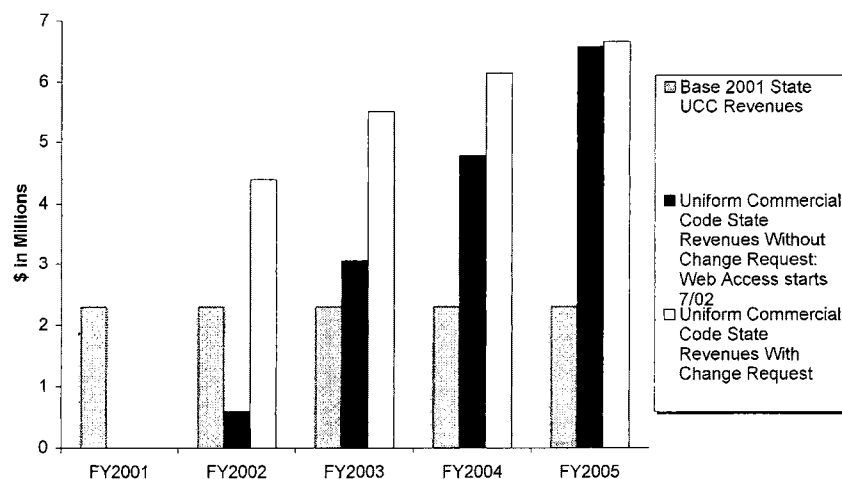
RATIONALE:

The Office of the Secretary of State was appropriated \$4.0 million in the FY2000-2001 biennium to construct a statewide filing and retrieval system for Revised Article 9 of the Uniform Commercial Code (UCC), a uniform law revision now adopted in 28 states. Ongoing funds are required to operate this system. Prior to the enactment of the 2000 legislation, total state revenues from UCC filings, searches, and county and state surcharges totaled approximately \$2.3 million per fiscal year. As a result of the 2000 legislation, a substantial increase in total state revenues was forecast. This forecast is dependent upon funds being provided to operate the system at full capacity, as planned in the fiscal note to the 2000 legislation.

Estimated Revenues Lost without Change Item Request (millions)

FY2002	FY2003	FY2004	FY2005
\$3.81	\$2.46	\$1.37	\$0.8

State Revenues



Without this operational funding, revenue forecasts seriously drop and commercial clients and services will be impaired. Statutory timelines set forth in UCC Revised Article 9 require that virtually all acts relating to filing and searching must be completed within two business days. Without this funding, the Office of the Secretary of State will not have the staff and resources necessary to process the paper filings expected during FY 2002. Greater staffing demands in the Information Services area would necessitate that some existing staff be directed there. The expected result would be a smaller processing staff, and reduced customer service and processing time. This would result in a significant decrease in filings- even from existing levels; causing a direct and substantial loss of revenue to the state. Additionally, past history of similar backlogs in other states, indicates that commercial loans could become more difficult to process and obtain, risking a downturn in the state's economic growth.

FINANCING:

The Secretary of State requests an increase of \$2.360 million in the FY 2002-03 biennium for ongoing costs associated with Laws 2000, Chapter 399. (The funding will cover salaries, space, equipment, ongoing maintenance and license costs, postage, phones, supplies, and a disaster recovery plan.) The Secretary requests an increase of 21 FTE's in FY 2002; in FYs 2003, 2004, and 2005, there will be a gradual decrease in this number as a result of the implementation of web filings. There is no current funding in the base for FTE's relating to this change request.

BUDGET CHANGE ITEM (51772) (Continued)

Agency: SECRETARY OF STATE

Item Title: REVISED ARTICLE 9 - UCC

OUTCOMES:

The agency plans to measure the success of the program by the revenue received each fiscal year as well as by the provision of faster customer service as measured by the elapsed time between the submission of customer searches and filings and completion of those services. Please note that this program, if funded, will produce substantially more revenue than the amount requested in appropriations and should provide much quicker response time to customer requests.

BUDGET ACTIVITY SUMMARY

Budget Activity: ADMINISTRATION
Program: SECRETARY OF STATE
Agency: SECRETARY OF STATE

ACTIVITY PROFILE:

Administration provides centralized administrative and management support to office operating divisions. Administration furnishes management direction, fiscal services, human resources support and training.

- **Office of the Secretary** is responsible for the development of office policy and management systems. The staff provides support to the Secretary in her role as a member of the State Canvassing Board, Executive Council and State Board of Investment. Additionally, the Office of the Secretary staff administers the Open Appointments Act.
- Administration provides and coordinates the office's management support services through human resource, communication/voter outreach, legal analysis, attorney services and digital signature staff. The division also publishes the *Minnesota Legislative Manual*, which is the official record of state government; the *Minnesota Legislative Manual: Abridged Edition*, which is distributed for classroom use in the public schools; and *Minnesota Elected Officials*, which is a compilation of all state, federal and county elected officials in Minnesota. Each item is published biennially.
- **Fiscal and Support Services** is responsible for tracking and documenting all incoming revenue, handling all incoming mail, and general accounting functions for the office. The section processes approximately 300,000 money transactions each biennium. This unit ensures compliance with applicable accounting principles, laws, rules, policies and guidelines for use of fiscal resources.

STRATEGIES AND PERFORMANCE:

The administration division has consistently delivered improved services:

- As a result of the computerization program, the office will streamline many processes formerly undertaken by hand, improve our ability to serve both internal and external customers, increase productivity, and improve the work environment.
- On average, the fiscal services section has processed and paid 98% of bills within 30 days. As a result, the office has exceeded the goal set by the Department of Finance for state agencies, reduced interest penalties for late payments, and maintained a strong and positive working relationship with vendors.

Activity: ADMINISTRATION
Program: SECRETARY OF STATE
Agency: SECRETARY OF STATE

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002			FY 2003		
				Base	Agency Request	Governor Recomm.	Base	Agency Request	Governor Recomm.
Expenditures by Category:									
State Operations									
COMPENSATION	814	867	1,253	1,124	2,089	1,124	1,169	2,017	1,169
OTHER OPERATING EXPENSES	90	535	4,829	711	1,052	753	814	1,020	900
Subtotal State Operations	904	1,402	6,082	1,835	3,141	1,877	1,983	3,037	2,069
CAPITAL OUTLAY & REAL PROPERTY	3	12	0	0	0	0	0	0	0
Total Expenditures	907	1,414	6,082	1,835	3,141	1,877	1,983	3,037	2,069
Change Items:	Fund								
(A) REVISED ARTICLE 9 - UCC	GEN				1,306			1,054	
(A) NON-SALARY INFLATION	GEN					42			86
Total Change Items					1,306	42		1,054	86
Financing by Fund:									
Direct Appropriations:									
GENERAL	907	1,414	6,032	1,785	3,091	1,827	1,933	2,987	2,019
Statutory Appropriations:									
SPECIAL REVENUE	0	0	50	50	50	50	50	50	50
Total Financing	907	1,414	6,082	1,835	3,141	1,877	1,983	3,037	2,069
Revenue Collected:									
Dedicated									
SPECIAL REVENUE	0	0	50	50	50	50	50	50	50
Total Revenues Collected	0	0	50	50	50	50	50	50	50
FTE by Employment Type:									
FULL TIME	14.5	16.0	20.0	20.0	41.0	20.0	20.0	38.5	20.0
PART-TIME, SEASONAL, LABOR SER	1.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Full-Time Equivalent	15.9	16.0	20.0	20.0	41.0	20.0	20.0	38.5	20.0

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BUDGET ACTIVITY SUMMARY

Budget Activity: OPERATIONS
Program: SECRETARY OF STATE
Agency: SECRETARY OF STATE

ACTIVITY PROFILE:

Operations includes the following management activities: Business Services, Public Information and Computer Services.

Business Services

The Business Services Division is comprised of three specific areas. One is the *Corporation Section* where the division reviews, approves, files and maintains renewals of organizing documents and amendments for-profit and non-profit entities doing business in Minnesota. This section also records trademarks, assumed names, is the agent for substituted services of process and holds a copy of the original land survey records of the state.

The *UCC Section* deals with secured transactions such as UCC filings, Effective Financing Statements (EFS) and Tax Liens. The filings are reviewed, approved and filed for records that contain information on collateral that has been encumbered by secured loans for commercial ventures. The EFS system is for Farm Product Liens enacted in 1992, which allows for a Central Notification System on a computerized database of information on loans from lenders to farmers. The tax liens are filed with our office through the Minnesota Department of Revenue and the IRS.

The *Certification Section* is responsible for providing certified copies and certificates of status or fact for any corporate entity filed with our office. Also issued are notary and apostille certificates on Minnesota notary publics and public officials for documents used internationally.

The volume of filings and product requests made within the Division continue to rise steadily over both the recent and the historical past. On-line web filings, when introduced, will allow the Division to continue to meet those steadily rising volumes without any major changes to staffing.

Computer Services

The Computer Services division includes System Development and Systems Support.

System Development provides programming support for all Secretary of State systems. The two major systems are voter registration and business services. Both these systems were replaced in FY 2001. Both systems were migrated to client server technology and have significant web capabilities. System

Development staff will do ongoing maintenance and enhancements with limited support from contract staff. Ongoing enhancements will expand appropriate web access to OSS databases.

System Support maintains the operation of OSS servers, applications and network. These services support 450 direct access customers, 87 county Auditor and Recorders, and OSS staff. OSS has developed a substantial web-based infrastructure. System Support staff are responsible for assuring adequate security and performance. System Support also operates a help desk for direct access customers, counties, and OSS staff.

The databases are:

- Voter Registration
- Election Reporting
- Business Services
- Uniform Commercial Code (UCC)
- Central Notification System for Farm Product Liens

Public Information

The Public Information division disseminates information on businesses registered in Minnesota, UCC filings, election information and registered voters. Public Information has primary responsibility for:

- Producing 2,000 business lists and 700 Voter Registration lists for election administration, political activities or law enforcement purposes;
- Providing information to 6,000 customers per week through our Public Information call center;
- Providing 500 Direct Access subscribers with online access to major databases maintained by the office;
- Providing document review and data entry of 85,000 Domestic Corporation documents;
- Providing general office, mail and receptionist support required by the office.

The table on the following page shows specific volumes.

STRATEGIES AND PERFORMANCE:

On July 1, 2001, the Business Services Division will use a paperless workflow system, which stores documents as optical images. This will increase efficiency and provide same-day processing of filings. The division has completed a

BUDGET ACTIVITY SUMMARY (Continued)

Budget Activity: OPERATIONS
Program: SECRETARY OF STATE
Agency: SECRETARY OF STATE

customer service initiative, which includes a one-stop counter service process. This allows the same staff person to follow through with the transaction from beginning to end, including compliance review and data entry. The initiative is being implemented for documents received by mail, which will create a more efficient process for all filings and product request. The division has improved customer services by implementing new filing methods, electronic transmission and facsimile transmission. The division ensures the integrity of the databases by entering accurate data on a daily basis into a statewide database, which is available to each of the 87 counties in the state.

Table 1 on the following page shows specific filing volumes. (NOTE: See Change Item for explanation of reduced filing volumes.)

The Computer Services Division accomplished the following activities during the FY 2000-01 biennium:

- Implemented an electronic transfer of tax liens from the Internal Revenue Service to all 87 Minnesota counties.
- Upgraded mainframe to new software levels.
- Maintained and enhanced existing applications software.
- Developed a substantial web-based infrastructure.
- Operated a help desk for direct access customers and the counties.

The Public Information Division provided and produced the specific volumes as shown in Table 2.

BUDGET ACTIVITY SUMMARY (Continued)

Budget Activity: OPERATIONS
 Program: SECRETARY OF STATE
 Agency: SECRETARY OF STATE

Table 1.
 ESTIMATED NUMBER OF DOCUMENTS PROCESSED

Corporations					UCC, CNS & Tax Lien				
	<u>FY 2000</u>	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>		<u>FY 2000</u>	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>
Corporations	12,731	12,950	13,200	13,400	UCC Filings	97,036	98,000	27,500	27,500
Corporate Amendments	16,330	17,200	17,400	17,600	UCC Searches	8,417	8,600	6,000	12,500
Nonprofit Corporations	2,098	2,200	2,300	2,400	Tax Lien Filings	3,985	4,100	4,200	4,300
Foreign Corporations	2,210	2,300	2,500	2,700	Tax Lien Searches	829	850	500	400
Foreign Amendments	2,363	2,450	2,550	2,650	CNS Filings	2,029	2,200	2,300	2,400
Limited Partnerships	1,107	1,175	1,200	1,250	CNS Searches	368	400	450	500
Assumed Name Certificates	16,968	17,500	17,900	18,200	CNS Buyers	478	500	510	520
Assumed Name Renewals	2,580	2,700	3,000	3,400	Total	113,142	114,650	41,460	48,120
Trademarks	1,138	1,300	1,400	1,500					
Trademark Renewals	268	280	290	290	Certification				
Service of Process	980	1,050	1,100	1,200		<u>FY 2000</u>	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>
Limited Liability Companies	5,216	5,800	6,500	7,000	Land Survey Orders	120	130	140	150
Limited Liability Company	4,695	5,100	5,500	6,000	Certification Requests	50,801	51,200	2,000	52,500
Amendments	1,205	1,300	1,800	2,300	Authentication	16,933	17,400	17,900	18,400
Limited Liability partnerships	1,170	1,200	1,300	1,400	Total	67,854	68,730	70,040	71,050
Limited Liability Partnership									
Amendments									
Miscellaneous Filings	7,690	8,000	8,300	8,600					
Total	78,749	82,505	86,240	89,890					

BUDGET ACTIVITY SUMMARY (Continued)

Budget Activity: OPERATIONS
Program: SECRETARY OF STATE
Agency: SECRETARY OF STATE

Table 2.
ESTIMATED NUMBER OF DOCUMENTS PROCESSED

Data Sold	FY 2000	FY 2001	FY 2002	FY 2003
VR Lists/Labels/Tapes	500	900	500	900
Daily/Weekly Printouts	2,000	2,000	800	850
Business Services Tapes	48	48	70	75
Business Services Customized Lists/Labels	2,434	2,434	1,500	1,600
Direct Access (DA)				
Paid Subscribers	435	438	475	500
Public Information				
Incoming requests	430,016	494,518	500,000	600,000
Annual Registrations				
Domestic Corporations	FY 2000	FY 2001	FY 2002	FY 2003
Filed	78,000	81,000	85,000	88,000
Rejections	N/A	N/A	600	6,000
Rejection Rate	17%	17%	7%	7%
Statutory Dissolutions	6,600	7,000	8,000	8,100
Reinstated	350	400	N/A*	N/A*
Foreign Corporations				
Annual Registrations Filed	13,000	14,000	15,000	16,000
Fees in excess of minimum	\$510,000	\$525,000	N/A	N/A
(Fee change effective 1/1/2001)				
Revocations	2,200	2,500	1,500	2,000
Nonprofit Corporations				
Filed	22,500	23,500	24,500	25,500
Rejected	N/A	N/A	2,105	2,300
Rejection rate	9%	9%	9%	9%
Statutory Dissolutions	1,000	1,000	1,000	1,000
Reinstated	3	3	3	3

*Cannot reinstate due to new legislation effective 1/1/2000 for FY2002 and FY2003.

	FY 2000	FY 2001	FY 2002	FY 2003
Legal Newspapers				
Filed	355	360	350	351
Rejected	N/A	N/A	4	4
Rejection Rate	1%	1%	1%	1%
Domestic Limited Liability Companies				
Filed	2,500	3,000	16,000	17,500
Rejection Rate	31%	31%	7%	7%
Administrative Terminations				
	225	250	900	1,000
Reinstated	30	40	10	15
Foreign Limited Liability Companies				
Filed	900	1,100	1,000	1,100
Rejection Rate	3%	3%	3%	3%
Revocations	25	30	40	50
Reinstated	5	7	3	4
Domestic Limited Liability Partnerships				
Filed	N/A	N/A	1,600	1,700
Rejection Rate	N/A	N/A	7%	7%
Revocation	N/A	N/A	40	50
Reinstated	N/A	N/A	3	4
Foreign Limited Liability Partnerships				
Filed	N/A	N/A	15	20
Rejection Rate	N/A	N/A	1%	1%
Reinstated	N/A	N/A	0	1

Activity: OPERATIONS
Program: SECRETARY OF STATE
Agency: SECRETARY OF STATE

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002			FY 2003		
				Base	Agency Request	Governor Recomm.	Base	Agency Request	Governor Recomm.
Expenditures by Category:									
State Operations									
COMPENSATION	2,156	2,491	2,836	2,756	2,756	2,756	2,884	2,884	2,884
OTHER OPERATING EXPENSES	2,943	4,138	4,795	1,558	1,558	1,808	1,348	1,348	1,348
Subtotal State Operations	5,099	6,629	7,631	4,314	4,314	4,564	4,232	4,232	4,232
CAPITAL OUTLAY & REAL PROPERTY	0	3	0	0	0	0	0	0	0
Total Expenditures	5,099	6,632	7,631	4,314	4,314	4,564	4,232	4,232	4,232
Change Items:	Fund								
(A) TECHNOLOGY	GEN					250			
Total Change Items						250			
Financing by Fund:									
Direct Appropriations:									
GENERAL	4,676	5,779	6,887	3,897	3,897	4,147	3,815	3,815	3,815
Statutory Appropriations:									
GENERAL	3	576	2	417	417	417	417	417	417
SPECIAL REVENUE	420	277	742	0	0	0	0	0	0
Total Financing	5,099	6,632	7,631	4,314	4,314	4,564	4,232	4,232	4,232
Revenue Collected:									
Dedicated									
GENERAL	2	2	2	2	2	2	2	2	2
Nondedicated									
GENERAL	2	2	4	8,266	12,071	8,266	10,688	13,149	10,688
CAMBRIDGE DEPOSIT FUND	9,826	10,474	9,860	0	0	0	0	0	0
Total Revenues Collected	9,830	10,478	9,866	8,268	12,073	8,268	10,690	13,151	10,690
FTE by Employment Type:									
FULL TIME	47.7	54.0	54.0	54.0	54.0	54.0	54.0	54.0	54.0
PART-TIME, SEASONAL, LABOR SER	2.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
OVERTIME PAY	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Full-Time Equivalent	50.7	54.0	54.0	54.0	54.0	54.0	54.0	54.0	54.0

BUDGET ACTIVITY SUMMARY

Budget Activity: ELECTIONS
Program: SECRETARY OF STATE
Agency: SECRETARY OF STATE

ACTIVITY PROFILE:

The Elections Division strives to ensure that elections are conducted honestly and fairly in conformance with Minnesota election law.

In addition to election administration, the division also carries out the following activities:

- Dissemination of election-related information - The goal of this activity is to make election-related information readily available for public use.
- Preservation of public documents - The goal of this activity is to make official documents readily available for public use.

STRATEGIES AND PERFORMANCE:

The division provides advice, guidance and information on election-related matters to 3,000 local election officials, 17,000 elected officials, 28,000 election judges and over 30,000 candidates for public office. The division is also responsible for supervision of elections for the Public Employees Retirement Association board of trustees and the Minnesota Indian Affairs Council. The division provides information on election-related matters to members of the legislature and legislative staff, other state agencies, the news media and the general public.

The division works with the chief information officer of the agency to maintain and operate the statewide voter registration system.

The division also prepares and distributes *Minnesota Voters Guides* for the precinct caucuses and the state elections. The division makes this information available on the World Wide Web, on audiocassettes and in Braille.

The division maintains a database of precinct and election district boundaries in Minnesota and from this information prepares maps of the congressional, legislative, county commissioner and school district boundaries. These maps are made available for sale to members of the legislature, election officials, candidates for public office and the general public. During this biennium, the division will be producing revised election district maps following legislative and congressional redistricting. The division will also provide extensive training and materials to local elected officials during the local government redistricting process.

The division is responsible for preservation of the following official documents:

results of state elections, oaths of state elected and appointed officials, bills signed into law by the governor, executive appointments, orders and proclamations of the governor, extradition orders, administrative rules adopted by state agencies and delegations of authority. The division also preserves and makes available for public inspection special laws approved by local governing bodies, municipal ordinances, official copies of the decennial census and other documents.

Activity: ELECTIONS
Program: SECRETARY OF STATE
Agency: SECRETARY OF STATE

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002			FY 2003		
				Base	Agency Request	Governor Recomm.	Base	Agency Request	Governor Recomm.
<u>Expenditures by Category:</u>									
State Operations									
COMPENSATION	328	360	353	347	347	347	366	366	366
OTHER OPERATING EXPENSES	508	258	450	77	77	77	281	281	281
Total Expenditures	836	618	803	424	424	424	647	647	647
<u>Financing by Fund:</u>									
Direct Appropriations:									
GENERAL	836	618	800	422	422	422	645	645	645
Statutory Appropriations:									
MISCELLANEOUS AGENCY	0	0	3	2	2	2	2	2	2
Total Financing	836	618	803	424	424	424	647	647	647
<u>Revenue Collected:</u>									
Dedicated									
MISCELLANEOUS AGENCY	1	0	2	2	2	2	2	2	2
Nondedicated									
GENERAL	0	0	0	2	2	2	67	67	67
CAMBRIDGE DEPOSIT FUND	55	1	64	0	0	0	0	0	0
Total Revenues Collected	56	1	66	4	4	4	69	69	69
<u>FTE by Employment Type:</u>									
FULL TIME	6.4	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0
PART-TIME, SEASONAL, LABOR SER	0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Full-Time Equivalent	7.1	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0

CAMPAIGN FIN & PUB DISC BD - EXECUTIVE SUMMARY

AGENCY MISSION AND VISION:

The Campaign Finance and Public Disclosure Board is the service and regulatory agency that develops and implements administration and enforcement of M.S. Chapter 10A, the Ethics in Government Act. The act requires:

- Registration and public disclosure by candidates, political committees and funds.
- Registration and public disclosure by lobbyists attempting to influence state legislative action, administrative action, and the official action of metropolitan governmental units.
- Disclosure of economic interests, conflicts of interest, and representation of a client for a fee under circumstances defined in M.S. Ch. 14 and M.S. Ch. 216B.243 for certain state and metropolitan officials.
- The administration of the state's public subsidy program which provides public funding to qualified state candidates, the state committee of a political party, and allows those candidates and parties to give political contribution refund receipts to campaign contributors.

Mission: To promote public confidence in state government decision making through development, administration, and enforcement of disclosure and public financing programs which will ensure public access to and understanding of information filed with the board.

KEY SERVICE STRATEGIES:

- Campaign finance software that assists clients and their treasurers in keeping accurate records, filing timely, and minimizing violations of M.S. 10A.
- Availability of electronic filing for all reports and statements required by M.S. 10A.
- Easy, fast access for all citizens of the state to view and disseminate information filed by candidates through agency web-based applications.
- Easy access to campaign information to make a better informed public and re-engage citizens in the political process.

PERFORMANCE SUMMARY:

- Twice as many committees filed required reports electronically in election year 2000 as in election year 1998.
- 100% of program information on web site updated daily.

- Increase annually the number of hits on agency web site.
- Increase the number of client searches using agency provided, public-access computers to retrieve public data filed with the board.

REVENUES:

The board collects non-dedicated General Fund revenue from late filing fees and civil fines. It collects dedicated revenue for the State General Election Account in a special revenue fund from anonymous contributions to political committees and political funds and certain other funds, which by law, cannot be carried forward to the next election cycle. In addition, both the General Fund and the special revenue fund may receive gifts from political committees upon termination.

ISSUES AFFECTING AGENCY'S OPERATIONS:

Rising costs of fringe benefits and salaries continue to erode the money available for agency operating expenses. Current salary and fringe benefits account for approximately 92% of the agency budget. Another 7% is for non-discretionary items including office rent and rental contracts for copiers. This leaves approximately 1% of the budget for discretionary expenses such as telephones, postage, printing, etc.

As these costs continue to rise, the agency finds it increasingly difficult to meet the statutory requirements to enforce M.S. 10A and keep up with technology to assist our clients. The public's continued desire for easy access to information filed with the agency requires newer and faster systems. Difficulty in attracting and retaining information systems people hampers the agency's ability to meet the public's need for easily accessible, timely, accurate information.

An increase in postage due in January 2001, will increase the cost of certified letters by 32%. Requirements of M.S. 10A to send certified letters to clients in order to impose late filing fees will add an additional burden to the operating budget.

Therefore, the agency has a deficiency request of \$75,000 in FY 2001, and \$155,000 for the 2002-2003 biennium.

GOVERNOR'S RECOMMENDATION:

The Governor recommends base funding levels as requested by the agency and recommends funding for the board's deficiency beginning in FY 2001 at \$75,000 and \$155,000 for the 2002-2003 biennium. The Governor has also included funding to improve this agency's technology capacity in the Small Agency Infrastructure (SAI) initiative, carried under the Office of Technology.

Program: CAMPAIGN FINANCE BD
Agency: CAMPAIGN FIN & PUB DISC BD

Program Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
Expenditures by Activity:									
CAMPAIGN FINANCE BD	539	640	892	599	674	622	702	(156)	(10.2%)
PUBLIC FINANCING	4,010	162	3,393	345	345	6,776	6,776	3,566	100.3%
Total Expenditures	4,549	802	4,285	944	1,019	7,398	7,478	3,410	67.0%
Change Items:	Fund								
(A) DEFICIENCY	GEN		75		75		80		
Total Change Items			75		75		80		
Financing by Fund:									
Direct Appropriations:									
GENERAL	539	640	892	599	674	622	702		
SPECIAL REVENUE	4,010	162	3,393	345	345	6,776	6,776		
Total Financing	4,549	802	4,285	944	1,019	7,398	7,478		
FTE by Employment Type:									
FULL TIME	7.8	8.4	9.0	9.0	9.0	9.0	9.0		
PART-TIME, SEASONAL, LABOR SER	0.1	0.0	0.0	0.0	0.0	0.0	0.0		
Total Full-Time Equivalent	7.9	8.4	9.0	9.0	9.0	9.0	9.0		

Agency: CAMPAIGN FIN & PUB DISC BD

Base Budget Report (Dollars in Thousands)	All Funds		General Fund		Other State Funds		Federal Funds	
	FY 2002	FY 2003	FY 2002	FY 2003	FY 2002	FY 2003	FY 2002	FY 2003
FY 2001 Budgeted	1,052	7,483	707	707	345	6,776	0	0
<u>Base Adjustments</u>								
2002-03 SAL. & BEN. BASE	16	31	16	31	0	0	0	0
DOC. SPACE RENTAL/LEASE	3	4	3	4	0	0	0	0
ONE-TIME APPROPRIATIONS	(133)	(133)	(133)	(133)	0	0	0	0
SMALL AGENCY OPERATIONAL EXPENSE	6	13	6	13	0	0	0	0
Subtotal Base Adjustments	(108)	(85)	(108)	(85)	0	0	0	0
Base Budget	944	7,398	599	622	345	6,776	0	0

BUDGET CHANGE ITEM (47170)**Agency: CAMPAIGN FIN & PUB DISC BD****Item Title: DEFICIENCY****OUTCOMES:**

If the change level increase in the agency budget is denied the agency will have to lay off additional staff, cut current client services, and be unable to meet statutory requirements. Investigations and complaints would not be resolved in a timely manner. Information filed with the agency would not be available for the public to access as quickly as is now possible.

	<u>2002-03 Biennium</u>		<u>2004-05 Biennium</u>	
	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u>
Expenditures: (\$000s)				
General Fund	\$75	\$80	\$80	\$80
-State Operations	\$-0-	\$-0-	\$-0-	\$-0-
Revenues: (\$000s)				
General Fund	\$-0-	\$-0-	\$-0-	\$-0-
Statutory Change? Yes _____ No <u>X</u>				
If yes, statute(s) affected:				
_____ New Activity <u>X</u> Supplemental Funding _____ Reallocation				

GOVERNOR'S RECOMMENDATION:

The Governor recommends approval of funding at the requested level of \$75,000 in FY 2001 and \$155,000 for the FY 2002-03 biennium.

RATIONALE:

Current salary and fringe benefits account for approximately 92% of the agency's administration budget. Department of Employee Relations estimates that fringe benefit costs to agencies will rise 20% in January 2001, due to the increase in medical costs. While past salary savings funded MAPE-required signing bonuses for two new technology employees as well as higher than expected state-paid benefit costs for replacement personnel, these salary savings will no longer exist in FY 2001 and the FY 2002-03.

Another 7% of the agency administration budget is allocated for non-discretionary expenses for office rent and rental contracts for copiers. An increase in postage due January 2001 will increase the cost of all mailings done by the board. Cost for statutorily required certified letters to delinquent clients will increase 32%. The agency's information technology specialists also require costly, ongoing training to keep abreast of changing technology related to the high information requirements of agency clients and public demands.

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GOVERNORS OFFICE - EXECUTIVE SUMMARY

AGENCY MISSION AND VISION:

As chief executive, the governor is responsible for the general direction and supervision of the affairs of the state. The governor appoints the majority of state department heads and the members of most boards and commissions. The governor fills vacancies, which occur in judgeships, commissions, public notaries, and the position of commander-in-chief of the military forces of Minnesota. He issues extradition papers and restores civil rights to felons. He also prepares comprehensive long-range plans for the orderly coordinated growth of the state and establishes advisory committees to aid in developing legislative proposals and plans for executive action. The governor has the responsibility of informing the legislature of the general condition of the state, of reviewing all laws passed by the legislature, and of calling special sessions of the legislature when needed. The governor is responsible for preparation of the biennial budget and its presentation to the legislature.

PERFORMANCE SUMMARY:

The executive operations of the Governor's Office encompass various levels of support that allow the governor to fulfill responsibilities as required under the authority of the constitution and statutory laws of the state.

The Governor's Office is organized to effectively administer the duties of chief executive. Major duties of the governor are to:

- Oversee and provide leadership for the day-to-day operations of state government, with emphasis on quality service delivery and state agency responsiveness to Minnesota citizens.
- Take the lead in shaping public policy.
- Develop programs directed toward efficient, effective operation of state government.
- Represent the citizens of the state at various official and non-official functions at local, state and national levels.
- Promote business development and help create new jobs with assistance and advice from legislators and business leaders.
- Utilize the governor's residence for visiting guests and dignitaries.
- Participate with other governors in the National Governors' Association, sharing information and developing new ideas for government reform and implementation of policy initiatives.
- Appoint citizens to state boards and commissions and appoint judges for all court systems when vacancies occur.
- Perform all other duties as specified by the laws of the state.

The lieutenant governor's chief duty is to assist the governor in carrying out the functions of the executive branch (and to be prepared to act in the governor's absence when required). The Governor's Office encompasses all levels of support that make it possible for the lieutenant governor to fulfill delegated responsibilities. Major duties of the lieutenant governor are to:

- Serve to promote an effective K-12 education system accountable for student achievement.
- Chair the Capitol Area Architectural Planning Board.
- Serve as a member of the Executive Council.
- Carry out all other gubernatorial assignments.

OPERATING ENVIRONMENT:

The executive operations of the Governor's Office are focused on:

- Managing state government through examining, measuring and reforming government service delivery to ensure affordable government.
- Establishing quality and customer-driven systems, which eliminate overlapping services and the attendant citizen confusion.
- Encouraging sustainable economic development and incentives for job growth.
- Establishing measurable and achievable goals for education.
- Maintaining a quality of life that emphasizes generally available health care, environmental protection and a safe, non-violent society.

ORGANIZATIONAL STRUCTURE:

GOVERNOR AND LIEUTENANT GOVERNOR		2.0 fte
	Chief of Staff	1.0 fte
	Citizen Outreach	10.0 fte
	Communications	6.0 fte
	General Counsel	1.0 fte
	Operations	16.0 fte
	Policy Management	7.0 fte
	Governor's Residence	10.0 fte
	Washington Office	2.0 fte

9/30/00 TOTAL FTEs 55.0

GOVERNORS OFFICE - EXECUTIVE SUMMARY (Continued)

GOVERNOR'S RECOMMENDATION:

The Governor's general recommendations for the legislature and constitutional offices reflect his firm commitment to minimizing the overall growth of government and the resulting tax burden on Minnesota taxpayers as well as his dedication to the use of technology to increase government efficiency and effectiveness in providing public services. Therefore, the Governor recommends funding to maintain the existing level of appropriations previously established by the legislature, increasing that level for salary and non-salary inflation, and providing a proportional lump sum for technology improvements.

The Governor recommends an increase of \$377,000 for allowable base adjustments for salary inflation and rental rate increases and a decrease of \$88,000, transferring utility funding for the governor's residence to the Department of Administration in order to consolidate all budgets of state ceremonial spaces. Furthermore, the Governor's recommendation includes an additional \$57,000 for non-salary inflation and \$170,000 for technology for the Governor's Office in adherence with the same budget restraints and targeted funding levels as other constitutional officers.

Agency: GOVERNORS OFFICE

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002			FY 2003		
				Base	Agency Request	Governor Recomm.	Base	Agency Request	Governor Recomm.
Expenditures by Category:									
State Operations									
COMPENSATION	2,751	3,015	3,245	3,286	3,286	3,286	3,382	3,382	3,382
OTHER OPERATING EXPENSES	1,399	954	1,010	976	976	1,165	987	987	1,025
Total Expenditures	4,150	3,969	4,255	4,262	4,262	4,451	4,369	4,369	4,407
Change Items:	Fund								
(A) NON-SALARY INFLATION	GEN					19			38
(A) TECHNOLOGY	GEN					170			
Total Change Items						189			38
Financing by Fund:									
Direct Appropriations:									
GENERAL	4,144	3,969	4,254	4,262	4,262	4,451	4,369	4,369	4,407
Statutory Appropriations:									
GIFT	6	0	1	0	0	0	0	0	0
Total Financing	4,150	3,969	4,255	4,262	4,262	4,451	4,369	4,369	4,407
Revenue Collected:									
Dedicated									
GIFT	4	0	0	0	0	0	0	0	0
Nondedicated									
GENERAL	0	8	4	0	0	0	0	0	0
Total Revenues Collected	4	8	4	0	0	0	0	0	0
FTE by Employment Type:									
FULL TIME	46.0	52.2	54.0	54.0	54.0	54.0	54.0	54.0	54.0
PART-TIME, SEASONAL, LABOR SER	2.9	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Total Full-Time Equivalent	48.9	53.2	55.0	55.0	55.0	55.0	55.0	55.0	55.0

Agency: GOVERNORS OFFICE

Base Budget Report (Dollars in Thousands)	All Funds		General Fund		Other State Funds		Federal Funds	
	FY 2002	FY 2003	FY 2002	FY 2003	FY 2002	FY 2003	FY 2002	FY 2003
FY 2001 Budgeted	4,171	4,171	4,171	4,171	0	0	0	0
Base Adjustments								
2002-03 SAL. & BEN. BASE	93	189	93	189	0	0	0	0
DOC. SPACE RENTAL/LEASE	42	53	42	53	0	0	0	0
TRANSFERS BETWEEN AGENCIES	(44)	(44)	(44)	(44)	0	0	0	0
Subtotal Base Adjustments	91	198	91	198	0	0	0	0
Base Budget	4,262	4,369	4,262	4,369	0	0	0	0

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GOV'T INNOV & COOP BOARD - EXECUTIVE SUMMARY

AGENCY MISSION AND VISION:

The Board of Government Innovation and Cooperation (Board) facilitates improved quality and efficiency in local government service delivery. It does this by providing incentives for innovation and cooperation and removing state barriers to effective service delivery. The Board was created in 1993 to assist government units work more effectively by eliminating duplication of effort and eliminating bureaucratic obstacles that often frustrate local government officials, citizens and taxpayers. The members of the Board include the State Auditor, the Commissioners of Administration and Finance, two Administrative Law Judges, three Senators and three members of the House of Representatives. The Board's authorizing statutes are M.S. 465.795 - 465.88.

KEY SERVICE STRATEGIES:

The Board can waive administrative rules and grant exemptions from enforcement of procedural laws, enabling local governments to develop more efficient and effective means of achieving outcomes. It promotes locally driven initiatives to merge units of local government. The Board provides financial assistance to help overcome barriers to mergers that will yield long-term cost savings. It facilitates regional forums bringing together elected and appointed officials from counties, cities, townships and school districts. These forums discuss opportunities for improved service delivery through intergovernmental cooperation and innovation. The Board, along with statewide local government associations, will assist in organizing a conference called "*Bright Ideas in Local Government*" in January 2001. This event will be co-sponsored by 19 organizations and academic institutions.

The Board actively encourages local governments to replicate successful pilot projects. When waiver or exemption recipients achieve desired outcomes effectively or efficiently, the board advocates that subject rules and laws be amended to enable all local governments to take advantage of the improved processes and outcomes.

PERFORMANCE SUMMARY:

In the first year of the current biennium, the Board awarded \$720,400 in grants to 12 projects involving 74 local governments and non-profit corporations. Of these, two regional and four locally sponsored projects involving state agencies may have statewide significance. The Board awarded three waivers/exemptions from rules and laws. It provided \$112,340 in financial assistance to three pairs of local governments helping overcome fiscal barriers to merger. It awarded a planning grant of \$10,000 to a pair of local governments that have expressed interest in merging. It hosted nine regional local government forums. It actively monitors the progress of 93 grant or waiver projects initiated during previous biennia. Most of these pilot projects have successfully developed more effective or efficient service delivery processes. For example, a waiver granted to Itasca County has enabled the county to experiment with a managed care system for

providing chemical dependency treatment services. The new system saves the state and county over \$150,000 annually.

REVENUES:

The Board received a one-time award of \$20,000 in FY01 from the Innovations in American Government Competition. These funds will be used to underwrite Board outreach efforts to local units of government.

GRANTS:

The Board has statutory authority to award Competitive Grants (M.S. 465.798 to 465.80) and Cooperation and Combination Aid (M.S. 465.87) to units of local government. Cooperation and Combination grants are available over a four-year period of time; however, the Board does not have the legal authority to carry funds forward from one biennium to the next to honor those commitments. All unencumbered Cooperation and Combination Aid cancels to the general fund at the close of the biennium, even though the Board has made contingent awards of Aid into the next biennium.

ISSUES AFFECTING AGENCY'S OPERATIONS:

All Minnesota public officials are under intense public pressure for permanent tax relief. At the same time, citizens are demanding more and better public services without an increase in government spending levels. The Board assists local officials to meet these dual challenges. The Board does this by focusing attention on improving both the efficiency and effectiveness of public services, working to eliminate wasteful duplication of services and enhancing public sector collaborations that reduce overall spending.

Through the Board's competitive grant program, the state shares the financial risks of developing and implementing improved service delivery systems with local governments. By authorizing waivers of administrative rules and limited exemptions from enforcement of procedural laws, the Board removes state imposed barriers to improved public services.

In the 2000 legislative session, the Board's ability to assist local governments was expanded to include a special pilot program to examine restructuring the organization and operation of special purpose environmental districts through the development of alternative natural resource management models. While the Board was authorized to undertake this initiative in cooperation with the Board of Water and Soil Resources, no additional funding was received. This pilot is being funded out of the existing base. Should the pilot project prove successful, additional funding for development of alternative natural resource management models may be required in subsequent budgets.

GOVERNOR'S RECOMMENDATION:

The Governor recommends the Board's base budget.

Agency: GOV'T INNOV & COOP BOARD

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
Expenditures by Category:									
State Operations									
COMPENSATION	129	132	106	143	143	147	147	52	21.8%
OTHER OPERATING EXPENSES	26	14	106	19	19	21	21	(80)	(66.7%)
Subtotal State Operations	155	146	212	162	162	168	168	(28)	(7.8%)
LOCAL ASSISTANCE	534	843	860	860	860	860	860	17	1.0%
Total Expenditures	689	989	1,072	1,022	1,022	1,028	1,028	(11)	(0.5%)

Financing by Fund:							
Direct Appropriations:							
GENERAL	689	988	1,044	1,022	1,022	1,028	1,028
GIFT	0	1	28	0	0	0	0
Total Financing	689	989	1,072	1,022	1,022	1,028	1,028

Revenue Collected:							
Dedicated							
GIFT	0	9	20	0	0	0	0
Nondedicated							
GENERAL	98	1	0	0	0	0	0
Total Revenues Collected	98	10	20	0	0	0	0

FTE by Employment Type:							
FULL TIME	2.0	1.9	1.9	2.0	2.0	2.0	2.0
Total Full-Time Equivalent	2.0	1.9	1.9	2.0	2.0	2.0	2.0

Agency: GOV'T INNOV & COOP BOARD

Base Budget Report (Dollars in Thousands)	All Funds		General Fund		Other State Funds		Federal Funds	
	FY 2002	FY 2003	FY 2002	FY 2003	FY 2002	FY 2003	FY 2002	FY 2003
FY 2001 Budgeted	1,018	1,018	1,018	1,018	0	0	0	0
<u>Base Adjustments</u>								
2002-03 SAL. & BEN. BASE	4	8	4	8	0	0	0	0
DOC. SPACE RENTAL/LEASE	0	1	0	1	0	0	0	0
SMALL AGENCY OPERATIONAL EXPENSE	0	1	0	1	0	0	0	0
Subtotal Base Adjustments	4	10	4	10	0	0	0	0
Base Budget	1,022	1,028	1,022	1,028	0	0	0	0

STATE AUDITOR - CONTENTS

	PAGE
Agency Executive Summary	
Budget Briefs by Fund	F-46
Revenue Summary Narrative	F-51
	F-52
PROGRAMS, BUDGET ACTIVITIES, AND CHANGE ITEMS	
STATE AUDITOR	
Audit Practice	F-54
Change Item - Human Resources Staffing	F-56
Change Item - Petition Audits & Local Audit Reviews	F-57
Special Investigations	F-60
Government Information	F-62
IT - Change Item - Information Technology Staffing	F-65
Pension	F-66
Constitutional Office	F-68
Change Item - Preneed Funeral Trust Reviews	F-70
Tax Increment Financing	F-72

STATE AUDITOR - EXECUTIVE SUMMARY

AGENCY MISSION:

The mission of the Office of the State Auditor (OSA) is to serve as a watchdog for Minnesota taxpayers by helping to ensure financial integrity, accountability, and cost-effectiveness in the over 4,300 governmental entities throughout the state. In fulfilling this mission, the OSA performs professional level audits and reviews of financial statements, documents, data, reports, and complaints submitted to or gathered by the Office; endeavors to provide consistent review comments on the accuracy of financial data and the legal compliance of entities reviewed; and strives to adhere to the highest government accounting principles and auditing standards.

KEY SERVICE STRATEGIES:

The key service strategies of the Office of the State Auditor are to:

- 1. Examine whether local government resources are spent in an appropriate manner.** The Audit Practice Division performs audits, attests to the accuracy of financial statements, ensures compliance with applicable laws and regulations, establishes uniform reporting standards, and provides technical assistance and education to strengthen accounting practices and improve operating efficiency at the local level. All other divisions also compile and review documents and reports to ensure local government resources are not misspent or handled improperly.
- 2. Develop innovative methods to provide quality audit, data collection, and investigative services.** The OSA strives to assist local governments in identifying ways to improve services in a cost-effective manner. The challenge is to be innovative in identifying and fostering quality service deliveries, explore new methods to analyze and disseminate data and information collected, and still keep services meaningful and accessible to citizens and local officials.
- 3. Promote compliance with Minnesota law.** A primary function of the OSA is to oversee and ensure that local government funds are used for the purposes intended by law. The OSA monitors local government entities for accountability regarding the proper expenditures of their tax dollars, establishes uniform reporting standards and provides technical assistance to strengthen local accounting practices, reports on the use of local government resources, and investigates allegations of improper expenditures or conduct in local units of government.

OPERATING ENVIRONMENT:

The following environmental factors impact the OSA's work:

- There is an ongoing need to train staff in audit and investigative methods, technology, and other skills necessary to complete OSA functions.

- In the past five years, the number of TIF districts increased by 25%. The Tax Increment Financing Division must develop processes to work with this growth while verifying compliance with complex and changing TIF laws.
- The Special Investigations Division must cope with the consistent demand to promptly complete theft and other investigative cases involving the misuse of local funds in order to permit timely and appropriate prosecution of cases.
- It is essential for the Government Information Division to provide adequate network and workstation support to staff, including computer training, while maintaining up-to-date technology capable of being used to file, compile, analyze, review, and manage financial data.
- Management must assist in recruiting and maintaining qualified employees for all divisions due to an understaffed human resources office.
- Citizens and other governmental entities expect OSA audit reports to be completed within a 6-month time period. The Audit Practice Division has not been able to work on citizen requests for petition audits until statutory audits were completed.
- The Pension Division must continue to monitor investment activity and measure performance in an environment where both statutes and investment options continue to take on more complex forms.
- The Constitutional Office is working to meet the increase in demand for the OSA to respond to various citizen and consumer inquiries/complaints, including reviews of monies deposited in preneed funeral trusts.

ORGANIZATION/PROGRAM STRUCTURE:

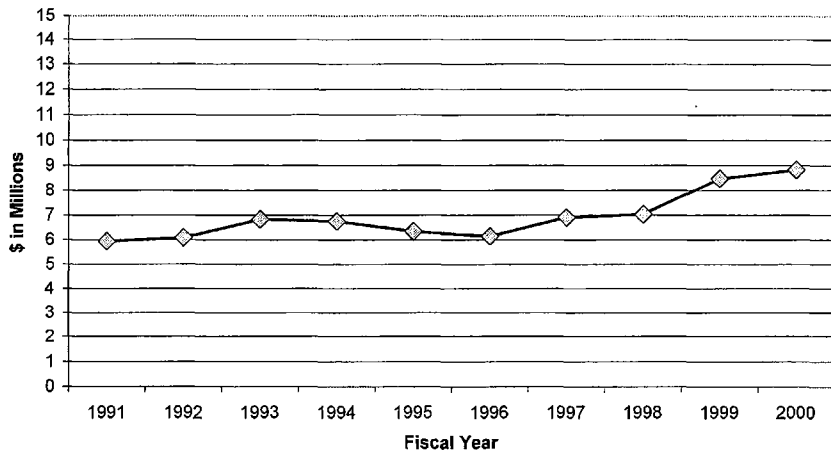
Constitutional Office	4.0 FTE
Audit Practice Division	
Central Office Staff	20.5 FTE
Field Office Staff — 13 Offices	85.0 FTE
Pension Division	8.0 FTE
Special Investigations Division	9.5 FTE
Government Information Division	10.0 FTE
Tax Increment Financing Division	8.0 FTE

6/30/00 Total FTEs	145.0 FTE
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STATE AUDITOR - EXECUTIVE SUMMARY (Continued)

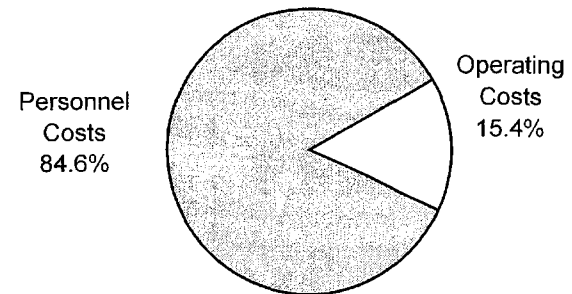
TRENDS AND PERSPECTIVE:

1991-2000 Total OSA Expenditures by Fund

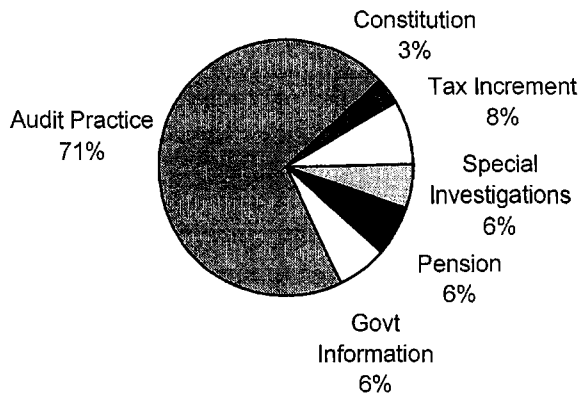


*FY 00 includes Audit Practice salary equity/staffing funds approved last budget.
FY 99 includes FY 98 carryforward funds.*

2000-01 Expenditures by Category
Total: \$19.9 Million

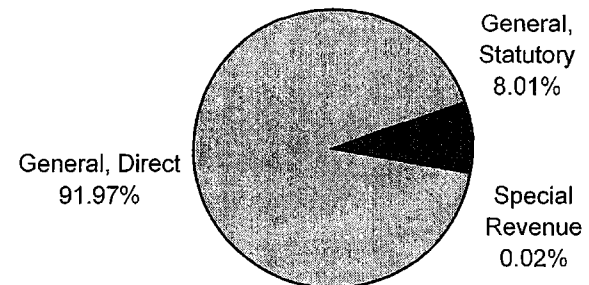


2000-01 Expenditures by Division
Total: \$19.9 Million



State of Minnesota 2002-03 Biennial Budget

2000-01 Expenditures by Fund
Total: \$19.9 Million



STATE AUDITOR - EXECUTIVE SUMMARY (Continued)

GOVERNOR'S RECOMMENDATIONS:

The Governor respects the separation of powers and the desire of officials in the judicial and legislative branches and other constitutional officers to independently present their budget requests directly to the legislature without specific recommendations from the Governor. However, since the Governor is required by law to submit a balanced budget to the legislature, it is necessary to identify funding for those offices as part of preparing a complete balanced budget.

The Governor's general recommendations for the legislature and constitutional offices reflect his firm commitment to minimizing the overall growth of government and the resulting tax burden on Minnesota taxpayers as well as his dedication to the effective use of technology to increase government efficiency and effectiveness in providing public services. Therefore, the Governor recommends funding to maintain the existing level of appropriations previously established by the legislature, increasing that level for salary and non-salary inflation, and providing a proportional lump sum for technology improvements.

For the State Auditor, the Governor's recommendation includes \$772,000 for salary inflation and allowable lease rate increases, \$51,000 for non-salary inflation, and \$383,000 for technology.

The Governor makes no recommendation regarding the specific initiatives put forward by the State Auditor or other constitutional officers.

Program: STATE AUDITOR

Agency: STATE AUDITOR

Program Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002			FY 2003		
				Base	Agency Request	Governor Recomm.	Base	Agency Request	Governor Recomm.
Expenditures by Activity:									
AUDIT PRACTICE	6,127	6,324	7,747	7,387	7,691	7,387	7,589	7,877	7,589
SPECIAL INVESTIGATIONS	455	491	597	572	572	572	587	587	587
GOVERNMENT INFORMATION	617	575	700	657	737	657	674	749	674
PENSION	456	416	790	620	620	620	633	633	633
CONSTITUTIONAL OFFICE	316	309	354	345	443	745	354	448	388
TAX INCREMENT FINANCING	533	722	831	840	840	840	848	848	848
Total Expenditures	8,504	8,837	11,019	10,421	10,903	10,821	10,685	11,142	10,719
Change Items:	Fund								
(A) NON-SALARY INFLATION	GEN					17			34
(A) TECHNOLOGY	GEN					383			
(B) HUMAN RESOURCES STAFFING	GEN				73			68	
(B) PETITION AUDITS & LOCAL AUDIT REVIEWS	GEN				231			220	
(B) INFORMATION TECHNOLOGY STAFFING	GEN				80			75	
(B) PRENEED FUNERAL TRUST REVIEWS	GEN				98			94	
Total Change Items					482	400		457	34
Financing by Fund:									
Direct Appropriations:									
GENERAL	7,969	8,104	10,174	9,569	10,051	9,969	9,825	10,282	9,859
Statutory Appropriations:									
GENERAL	524	709	816	824	824	824	832	832	832
SPECIAL REVENUE	11	24	29	28	28	28	28	28	28
Total Financing	8,504	8,837	11,019	10,421	10,903	10,821	10,685	11,142	10,719
FTE by Employment Type:									
FULL TIME	126.0	131.7	152.9	153.4	160.4	153.4	153.4	160.4	153.4
PART-TIME, SEASONAL, LABOR SER	2.4	3.4	3.3	3.2	3.7	3.2	3.2	3.7	3.2
OVERTIME PAY	2.3	1.1	1.5	1.0	1.0	1.0	1.0	1.0	1.0
Total Full-Time Equivalent	130.7	136.2	157.7	157.6	165.1	157.6	157.6	165.1	157.6

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STATE AUDITOR - BUDGET BRIEF

Fund: GENERAL

	<u>FY 2002</u>	<u>FY 2003</u>	<u>Biennium</u>
BASE YEAR (FY 2001) (\$000s)			
Appropriations (FY 2001)	\$9,311	\$9,311	\$18,622
<u>BASE ADJUSTMENT</u>			
2002-03 Salary & Benefit Increase	\$232	\$478	\$705
Documented Space Rent/Lease Increase	<u>26</u>	<u>41</u>	<u>67</u>
BASE LEVEL (for 2002 and 2003)	\$9,569	\$9,825	\$19,394
<u>REQUEST ITEMS</u>			
Petition Audits & Local Audit Reviews	231	220	451
Human Resources Staffing	73	68	141
Technology Staffing	80	75	155
Preneed Funeral Trust Reviews	<u>98</u>	<u>94</u>	<u>192</u>
AGENCY REQUEST	\$10,051	\$10,282	\$20,333
<u>GOVERNOR'S RECOMMENDATION</u>			
Non-salary Inflation	17	34	51
Technology	<u>383</u>	<u>-0-</u>	<u>383</u>
GOVERNOR'S RECOMMENDATION	\$9,969	\$9,859	\$19,828

BRIEF EXPLANATION OF BUDGET DECISIONS:

- In FY 2000-01, the Office of the State Auditor (OSA) will spend approximately 77% of its direct appropriated base budget on the function of auditing local governments.
- The remaining 23% of direct appropriated funds for FY 2000-01 will provide for the other primary functions of the OSA, including special investigations, review of public pension funds, the collection and reporting of local government information, and executive level planning and management.
- Changes to the base include compensation-related adjustments of 3.0% per year and documented increases in rent, as directed in the budget guidelines.
- A 4.0% increase in audit rates will occur in January 2001 and January 2002 to recover costs required by law.
- The Audit Practice Division is requesting \$592,000 in funding, which will include one human resources director to address complex management and personnel issues and four auditors to conduct petition audits and reviews of local government audits. The costs of this funding will be offset by \$325,000

in revenues returned to the General Fund.

- The Government Information Division is requesting resources for a technology specialist to address computer network, workstation, training, staff support, and other technology related issues. To serve 145 people, the OSA currently has one network administrator to handle all technology needs.
- The request for the Constitutional Office includes staffing to conduct reviews of providers of cemetery and funeral goods and services to insure that payments for preneed funeral arrangements are properly placed in trust accounts.

GOVERNOR'S RECOMMENDATION:

The Governor respects the separation of powers and the desire of officials in the judicial and legislative branches and other constitutional officers to independently present their budget requests directly to the legislature without specific recommendations from the Governor. However, since the Governor is required by law to submit a balanced budget to the legislature, it is necessary to identify funding for those offices as part of preparing a complete balanced budget.

The Governor's general recommendations for the legislature and constitutional offices reflect his firm commitment to minimizing the overall growth of government and the resulting tax burden on Minnesota taxpayers as well as his dedication to the effective use of technology to increase government efficiency and effectiveness in providing public services. Therefore, the Governor recommends funding to maintain the existing level of appropriations previously established by the legislature, increasing that level for salary and non-salary inflation, and providing a proportional lump sum for technology improvements.

For the State Auditor, the Governor's recommendation includes \$772,000 for salary inflation and allowable lease rate increases, \$51,000 for non-salary inflation, and \$383,000 for technology.

The Governor makes no recommendation regarding the specific initiatives put forward by the State Auditor or other constitutional officers.

STATE AUDITOR - REVENUE SUMMARY

REVENUE SOURCES:

M.S. 6.58 requires that audit costs of the Office of the State Auditor (OSA) be recovered, generating a significant source of reimbursement for the state. This non-dedicated revenue is received through audit fees charged for the audits of local governments conducted by audit staff. Funds collected by Audit Practice are deposited in the General Fund (until 6-30-01 in the Cambridge Deposit Fund) and are expected to exceed \$6.1 million in FY 2001. In addition to audit fees, other sources of revenue, which offset the appropriations of the OSA, are listed as follows:

- The review of single audit reports by the Audit Practice Division is financed by reimbursements to the General Fund through the statewide indirect cost process managed by the Department of Finance.
- The Government Information Division and Pension Division are supported in part through reductions to aid distributions made by the Minnesota Department of Revenue for: 1) local government aids; and 2) peace officers and fire state aids pursuant to M.S. 477A.014, subd. 4, and M.S. 69.021, subd. 5, respectively.
- The Tax Increment Financing (TIF) Division is funded by 0.25% of tax increment distributed to authorities that administer TIF districts. Payments made to the State Treasurer by counties are transferred to the OSA.
- The OSA also generates miscellaneous revenue through an interagency agreement with the Minnesota Department of Transportation, the sale of documents and accounting software, and by conducting training seminars.

FEE STRUCTURE:

M.S. 6.58 requires that the OSA recover specific costs of conducting its audits. Audit work is billed on an hourly basis, plus reimbursable travel expenses. Audits are billed on an individual client basis. Fees are developed to recover the cost of conducting audits of local governments; i.e., counties, cities, school districts, nursing homes, and other local entities.

RECENT CHANGES:

From January 1997 through December 2000, audit fees did not increase due to a continued effort to provide quality audit services in the most cost efficient manner possible. However, as approved by the Department of Finance, audit fees will increase by 4.0% in January 2001 and January 2002 to recover audit costs as required by law.

FORECAST BASIS:

Revenue from audit work and offsetting expenditures are based upon the estimated time required to complete the annual audits of local governments. The OSA will continue to review the level of fees charged to clients to meet the statutory requirement to recover costs. No rate changes will be implemented without the State Auditor adjusting the schedule of charges in conjunction with reviewing the annual costs of examinations with the Commissioner of Finance. In addition, the Audit Practice Division will continue to strive to maintain the current low rate structure.

CHANGE ITEMS:

None.

Agency: STATE AUDITOR

Summary of Agency Revenues (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Forecast	Governor Recomm.	Forecast	Governor Recomm.	Dollars	Percent
Non-Dedicated Revenue:									
Departmental Earnings:									
GENERAL	0	0	0	6,481	6,481	6,589	6,589	13,070	
CAMBRIDGE DEPOSIT FUND	5,899	6,011	6,133	0	0	0	0	(12,144)	(100.0%)
Other Revenues:									
GENERAL	2	2	4	2	2	3	3	(1)	(16.7%)
Taxes:									
GENERAL	1	3	0	1	1	1	1	(1)	(33.3%)
Total Non-Dedicated Receipts	5,902	6,016	6,137	6,484	6,484	6,593	6,593	924	7.6%
Dedicated Receipts:									
Other Revenues:									
SPECIAL REVENUE	11	25	28	28	28	28	28	3	5.7%
Total Dedicated Receipts	11	25	28	28	28	28	28	3	5.7%
Agency Total Revenues	5,913	6,041	6,165	6,512	6,512	6,621	6,621	927	7.6%

BUDGET ACTIVITY SUMMARY

Budget Activity: AUDIT PRACTICE DIVISION
Program: STATE AUDITOR
Agency: STATE AUDITOR (OSA)

ACTIVITY PROFILE:

Audit Practice plays a primary role in the OSA's ability to perform its oversight functions by examining the accounting systems of local governments. This division helps ensure integrity, accountability and cost-effectiveness at the local level by conducting 275 financial and legal compliance audits for 86 counties; the cities of Duluth, Minneapolis, and St. Paul; organizations affiliated with counties and cities; other local entities; and Hennepin County (limited compliance audit).

In addition to auditing for evidence of inappropriate expenditures, this division examines local governments for financial and legal compliance to provide them with an independent analysis of the effectiveness of their organization. The legal compliance component of audits determines whether local government activities are being administered in accordance with certain Minnesota laws. The management letter accompanying each audit provides suggestions on how local governments might improve their operational effectiveness and efficiency.

In addition, this division annually reviews approximately 400 single audit reports submitted by cities, counties, school districts, nonprofit agencies, regional development commissions, housing redevelopment authorities, and other agencies for compliance with federal reporting requirements and generally accepted government auditing standards. The OSA issues a report on the findings of these reviews to the U.S. Department of Agriculture (federal cognizant agency for single audit), Department of Finance, the Legislative Auditor, and state agencies receiving federal funding.

STRATEGIES AND PERFORMANCE:

This budget will accomplish the following objectives:

- The Audit Practice Division plans to issue over 275 audit reports of counties, cities, organizations affiliated with counties and cities, and other local governments during each of the 2001, 2002, and 2003 FYs ending June 30.
- Audit Practice will continue to report on the condition of local governments' revenues and expenditures, comment on irregularities and deficiencies in local government financial statements, note issues of legal noncompliance, and recommend changes in local government accounting practices and procedures.

- Ever committed to its client service objective, the division will utilize the experience of its auditors to make the audit process the most efficient possible and work with clients to enable them to assist in the audit process. Auditors will also work to utilize new technology such as downloading data for analysis at field offices and other computer methods to streamline audits.
- The division will conduct joint OSA staff and client education programs on local government accounting principles and procedures to help improve efficiency of local governments. Client education is of vital importance as new accounting principles adopted by the Governmental Accounting Standards Board are implemented, fundamentally changing the overall accounting practices of local government.
- The OSA participates in a Peer Review program conducted by an outside review team under the auspices of the National State Auditors' Association to maintain and improve the quality of audits. The purpose of the Peer Review is to report on the internal system of audit quality control and its compliance with established policies and procedures and applicable auditing standards.

FINANCING INFORMATION:

Under M.S. 6.58, the OSA must recover the costs of audits through fees charged to audit clients. These non-dedicated revenues are deposited in the General Fund. The following is a summary of the estimated audit revenues to be collected from FY 2001-2005:

Dollars in Thousands				
<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u>
\$6,133	\$6,481	\$6,589	\$6,787	\$6,990

Note: Not all of the funding for the Audit Practice Division is a recoverable cost.

BUDGET ISSUES:

Audit Practice faces the challenge of providing a high level of quality, competitive audit services in a cost effective manner. Staff must actively seek ways to minimize audit costs by using the audit planning process to identify accounting services that can be performed at the local level and by providing training services on accounting principles and procedures. The application of computerized financial packages and auditing methods must be developed and implemented on a continual basis to improve the efficiency of the financial reporting and auditing process, along with relevant staff training. This division must also contend with increased demands to perform additional audits using existing staffing levels.

Activity: AUDIT PRACTICE
Program: STATE AUDITOR
Agency: STATE AUDITOR

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002			FY 2003		
				Base	Agency Request	Governor Recomm.	Base	Agency Request	Governor Recomm.
Expenditures by Category:									
State Operations									
COMPENSATION	5,269	5,697	6,580	6,799	7,077	6,799	7,005	7,283	7,005
OTHER OPERATING EXPENSES	858	627	1,167	588	614	588	584	594	584
Total Expenditures	6,127	6,324	7,747	7,387	7,691	7,387	7,589	7,877	7,589
Change Items:	Fund								
(B) HUMAN RESOURCES STAFFING	GEN				73			68	
(B) PETITION AUDITS & LOCAL AUDIT REVIEWS	GEN				231			220	
Total Change Items					304			288	
Financing by Fund:									
Direct Appropriations:									
GENERAL	6,125	6,313	7,733	7,375	7,679	7,375	7,577	7,865	7,577
Statutory Appropriations:									
SPECIAL REVENUE	2	11	14	12	12	12	12	12	12
Total Financing	6,127	6,324	7,747	7,387	7,691	7,387	7,589	7,877	7,589
Revenue Collected:									
Dedicated									
SPECIAL REVENUE	2	12	13	12	12	12	12	12	12
Nondedicated									
GENERAL	2	2	3	6,483	6,647	6,483	6,592	6,753	6,592
CAMBRIDGE DEPOSIT FUND	5,899	6,011	6,133	0	0	0	0	0	0
Total Revenues Collected	5,903	6,025	6,149	6,495	6,659	6,495	6,604	6,765	6,604
FTE by Employment Type:									
FULL TIME	93.6	94.6	110.0	110.6	115.6	110.6	110.6	115.6	110.6
PART-TIME, SEASONAL, LABOR SER	2.2	2.9	3.3	3.2	3.2	3.2	3.2	3.2	3.2
OVERTIME PAY	2.3	1.1	1.5	1.0	1.0	1.0	1.0	1.0	1.0
Total Full-Time Equivalent	98.1	98.6	114.8	114.8	119.8	114.8	114.8	119.8	114.8

BUDGET CHANGE ITEM (45682)

Budget Activity: AUDIT PRACTICE DIVISION

Program: STATE AUDITOR

Agency: STATE AUDITOR (OSA)

Item Title: HUMAN RESOURCES STAFFING

	2002-03 Biennium		2004-05 Biennium	
	FY 2002	FY 2003	FY 2004	FY 2005
Expenditures: (\$000s)				
General Fund				
-State Operations	\$73	\$68	\$68	\$68
Revenues: (\$000s)				
General Fund	\$48	\$45	\$45	\$45
Statutory Change? Yes _____ No <u>X</u>				
If yes, statute(s) affected:				
<u>X</u> New Activity _____ Supplemental Funding _____ Reallocation				

GOVERNOR'S RECOMMENDATION:

The Governor makes no recommendation regarding any specific initiatives put forward by the State Auditor and other constitutional officers.

RATIONALE:

This request is to add funding for a human resources director for the Office of the State Auditor (OSA), which has a staffing level of approximately 145 people. The person filling this position would be required to address the on-going personnel needs of the OSA related to recruiting, training, conflict management, staff turnover, labor relations, and other human resource issues. In addition, this person would be required to develop innovative methods for staff hiring, retention, and employee development.

At the OSA, most managers and supervisors are audit staff employees who have been promoted through years of experience and audit proficiency. Supervisors and managers are required to deal with a great number of complex managerial issues in their work crews while still performing core functions. Therefore, manager training also must be increased and centralized.

The OSA has a majority of its professional audit staff located in small offices throughout the state. With this decentralized structure, there is a need to assist managers and employees with techniques to prevent and resolve human resources issues.

FINANCING:

This request for a personnel director is to be funded by the General Fund, with partial reimbursement by audit fees. There is currently 1.0 FTE, an Office Services Supervisor 3, in the base budget to address the personnel needs of the 145 people on staff.

OUTCOMES:

The Office of the State Auditor would be able to address more complex personnel and management issues with a personnel director specifically trained in human resource management because:

- This position will aid in expanding our hiring outreach by developing and implementing new recruiting methods.
- This position will monitor the effects of the salary equity initiative implemented 01-01-00, staff training, and other organizational development plans on staff retention.
- This position will provide centralized training for new and existing managers, supervisors, and staff.
- This position will provide employee training to assist staff in avoiding and managing workplace conflict.

This position will assist in continuing to offer prompt intervention, investigation and resolution of personnel complaints.

BUDGET CHANGE ITEM (49489)

Budget Activity: AUDIT PRACTICE DIVISION
Program: STATE AUDITOR
Agency: STATE AUDITOR (OSA)

Item Title: PETITION AUDITS & LOCAL AUDIT REVIEWS

	2002-03 Biennium		2004-05 Biennium	
	FY 2002	FY 2003	FY 2004	FY 2005
-State Operations	\$231	\$220	\$220	\$220
Revenues: (\$000s)				
General Fund	\$116	\$116	\$116	\$116

Statutory Change? Yes _____ No X

If yes, statute(s) affected:

X New Activity _____ Supplemental Funding _____ Reallocation

GOVERNOR'S RECOMMENDATION:

The Governor makes no recommendation regarding any specific initiatives put forward by the State Auditor and other constitutional officers.

RATIONALE:

The Office of the State Auditor (OSA) is requesting funding to fulfill specific needs related to its oversight responsibility of local governments. Additional staff is required for the Audit Practice Division to: 1) respond in a timely manner to the increased demand for citizen petition requests filed with the OSA; and 2) institute a process to review audit reports deposited with the Government Information Division.

M. S. 6.54 authorizes voters in cities, towns, and school districts to petition the State Auditor to examine the books, records, accounts, and affairs of their city, town, or school district. During the last two years, the Audit Practice Division has experienced an increase in the number of petition audits received from citizens. In 1998, the OSA issued one petition audit report; in 1999, three petition audit reports were issued; and as of 09-01-2000, the OSA had received five petition audit requests.

As the number of requests rises, it is more difficult for audit staff to complete petition audits in a timely manner. Usually, petition audits cannot be commenced until staff concludes their regular audit responsibilities (i.e., Minnesota counties, cities of the first class, and other specified statutory audits), since regular audits are often subject to statutory completion deadlines. Although Minnesota voters submitting petition audit requests deserve to have their audits scheduled in an expeditious manner, the OSA cannot provide these services in a timely manner with existing staff resources.

Secondly, the Audit Practice Division does not at present review audits filed with the Government Information Division. Last year, certified public accounting firms (CPAs) completed audits of 30 (out of 1792) townships and 665 (out of 854) cities and filed them with the Government Information Division, which then compiled certain financial data from these audits for publication in statutorily-required reports. Funding is needed to institute a process to review financial issues in these audits, thereby allowing any necessary corrective or preventative actions to be implemented by local governments.

FINANCING:

The Audit Practice Division is requesting funding for 4.0 FTE staff auditors to perform petition audits and reviews of local government audits. This request would be funded by the General Fund and reimbursed, in part, through audit fees.¹ The amount required, including salary, fringe benefits, equipment, and other operating costs associated with the requested positions, is \$220,000/year. There is no base funding specifically set aside for these activities.

OUTCOMES:

This request is directly related to the OSA's three key service strategies: to examine whether local government resources are spent in an appropriate manner, to develop innovative methods to provide quality services to clients and citizens, and to promote compliance with Minnesota law. Through the creation of a petition audit team, the OSA will provide petition audit services to meet the growing demands of Minnesota citizens. It will allow more-timely placement of accurate financial information into the hands of voters and will help foster greater financial accountability of local governments by permitting the OSA to conduct a greater number of petition audits and to complete such audits more promptly.

Funding for instituting a process for reviewing audits received from local governments will allow the OSA to better assist all local governments in

¹ By statute, the OSA must recover its reimbursable costs of audits, including petition audits, through fees charged to audit clients. These non-dedicated revenues are deposited in the General Fund. Reviews of local government audits would not be a fee-based service.

BUDGET CHANGE ITEM (49489) (Continued)

Budget Activity: AUDIT PRACTICE

Program: STATE AUDITOR

Agency: STATE AUDITOR

Item Title: AUDIT PRACTICE PETITION AUDITS

developing and maintaining consistent and accurate financial statements. The OSA is prepared to fulfill its duties to assure accountability of local governments and to serve as a watchdog over taxpayers' funds. This initiative will allow the OSA to more effectively accomplish its mission and serve Minnesota taxpayers.

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BUDGET ACTIVITY SUMMARY

Budget Activity: SPECIAL INVESTIGATIONS DIVISION
Program: STATE AUDITOR
Agency: STATE AUDITOR (OSA)

ACTIVITY PROFILE:

The goal of the Special Investigations Division is to ensure integrity and accountability in local government by investigating allegations of wrongdoing on behalf of local government officials, law enforcement agencies, certified public accountants, and the citizens of Minnesota. M.S. 609.456 requires local government officials and employees to report evidence of theft, embezzlement, or unlawful use of public funds or property to the State Auditor.

This division evaluates allegations brought to its attention and, when appropriate, provides specialized auditing techniques, initiates independent investigations, or refers matters to external oversight authorities. Results of investigations are public and intended to serve as a deterrent to additional misappropriation of public funds. Since this division has no prosecutorial powers, investigations that disclose evidence of malfeasance, misfeasance, or nonfeasance are referred to the proper authorities for corrective action. Evidence of criminal wrongdoing is directed to the appropriate city or county attorney for potential prosecution. Evidence of other local ordinance or policy violations are referred to local officials to pursue civil litigation, recover losses, or initiate disciplinary or other appropriate action. Improper financial management practices are referred to local officials for corrective action.

Personnel in this division have specialized backgrounds in law and accounting, which enables the OSA to investigate possible violations of law and address internal control and management issues. Staff is increasingly called upon to help train and educate local government officials and employees in detecting and preventing fraud, waste, and abuse in their programs. This division has assisted the OSA's staff auditors, local law enforcement agencies, the Bureau of Criminal Apprehension, the Department of Trade and Economic Development, the Department of Administration, and the Office of the Attorney General where suspected fraud involving local funds required expertise in complex financial investigations.

STRATEGIES AND PERFORMANCE:

This budget will advance the following objectives:

- The division will investigate allegations of malfeasance, misfeasance, and nonfeasance for the 4,300 local units of government in a thorough and timely manner, communicating its findings of wrongdoing to the appropriate agencies and to the public. As its work becomes more recognized, the number of requests for special investigative services continues to increase.

- Special Investigations will continue to address and comment on major policy issues of statewide impact that relate to assessing the integrity, stewardship, and performance of local government finance, such as the profit and not-for-profit entities created by local government units, competitive bidding requirements, potential conflicts of interest, and violations of Minnesota law.
- The division will continue to train and educate local government officials, employees and OSA auditors in the detection and the prevention of fraud, waste, and abuse, as well as violations of law and policy, with the objective of helping local governments evaluate and improve their control systems.
- Special Investigations will strive to close at least 300 cases each year, which includes requests for assistance from citizens; requests from other law enforcement agencies and formal notification by local government officials and employees, pursuant to M.S. 609.456; and from public accountants, pursuant to M.S. 6.67.

FINANCING INFORMATION:

This division receives funding from the General Fund. Local entities are not charged for services relating to the detection and investigation of suspected fraud because: 1) government officials may hesitate to utilize the services or may discontinue reporting as required by M.S. 609.456; 2) there would be great resistance to allowing this division to conduct the comprehensive and exploratory procedures that are an inherent part of the investigative process; and 3) assessing fees against a government entity may not be appropriate in certain cases due to the source of the complaint, nature of the case, or target of the investigation.

BUDGET ISSUES:

This division continues to expand due to the growth in new caseloads and the increasingly complex and time-consuming nature of cases. A single complicated investigation may utilize over 2,000 hours of staff time. In addition to the time spent on cases and monitoring criminal investigations, Special Investigations must also review and manage numerous other requests and questions from citizens, local government officials, and employees regarding potential fraud, waste, and abuse of public funds.

	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>
Cases closed/yr	202	279	295	296	341

Activity: SPECIAL INVESTIGATIONS
Program: STATE AUDITOR
Agency: STATE AUDITOR

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002			FY 2003		
				Base	Agency Request	Governor Recomm.	Base	Agency Request	Governor Recomm.
Expenditures by Category:									
State Operations									
COMPENSATION	380	431	510	499	499	499	514	514	514
OTHER OPERATING EXPENSES	75	60	87	73	73	73	73	73	73
Total Expenditures	455	491	597	572	572	572	587	587	587
Financing by Fund:									
Direct Appropriations:									
GENERAL	455	491	597	572	572	572	587	587	587
Total Financing	455	491	597	572	572	572	587	587	587
FTE by Employment Type:									
FULL TIME	7.2	8.1	9.0	8.6	8.6	8.6	8.6	8.6	8.6
Total Full-Time Equivalent	7.2	8.1	9.0	8.6	8.6	8.6	8.6	8.6	8.6

BUDGET ACTIVITY SUMMARY

Budget Activity: GOVERNMENT INFORMATION DIVISION
Program: STATE AUDITOR
Agency: STATE AUDITOR (OSA)

ACTIVITY PROFILE:

The Government Information Division promotes financial accountability and cost-effective public services for over 2,700 Minnesota local governments. This division prescribes the chart of accounts and reporting requirements for the 854 cities and 1,792 towns, and collects, verifies, and analyzes financial information for cities, towns, and counties. This local government data is compiled into databases, which include information on local government revenues, expenditures, indebtedness, fund balances, tax capacity, and totals for personnel services. Others use the information collected, such as the U.S. Bureau of the Census, Department of Revenue, Pollution Control Agency, Minnesota Planning, the city of Minneapolis, and the Minnesota Taxpayers' Association. The OSA's Single Audit staff and TIF Division also utilize information received. This division produces 12 annual reports on local government finances, which are made available to the public in print and on the Internet. This information provides local officials and citizens with a better understanding of their financial condition relative to other local governments and provides Minnesota policy makers with significant data useful in making sound public policy decisions.

The Government Information Division assists with special projects requested by the legislature, including coordinating the collection of data into databases, preparing tables and charts, analyzing data, and publishing reports. It also provides research and strategic planning support on technology issues to other OSA divisions; makes recommendations on equipment and software purchases; provides network and personal computer installation, support, and maintenance; procures common network equipment; and supervises the LAN administrator and web site technical staff.

STRATEGIES AND PERFORMANCE:

The overall efficiency and effectiveness of the Government Information Division should be measured by more than the amount of data it produces. The most important measure of its effectiveness is the ultimate dissemination and use of its data to assist in comparative discussions and public policy decisions. To this end, the division will continue to improve the usefulness of information on local government finances and work to enhance the raw data with meaningful analysis, while improving the overall access to that data. The objectives of the Government Information Division are to:

- offer interactive databases and electronic reporting forms on our website;

- revise reporting forms and instructions used to collect routine financial information from local governments;
- review and resolve discrepancies and reporting errors in financial statements, audits, lobbying disclosure forms, criminal forfeiture incident reporting forms, solid waste management reporting forms, and other statutorily required reporting forms filed by 87 counties, 854 cities, and over 1,792 townships;
- maintain extensive databases of financial data on all local governments within the state, including totals of revenues, expenditures, and outstanding debt;
- for legislative or client requests, develop surveys and forms to gather detailed financial information on specific subjects related to local government finances;
- review annual reporting forms filed by local governments on the bonded debt for streets and highways and share the data with the Department of Transportation; and
- maintain the Small Cities and Towns Accounting System (CTAS) software used at present by 715 small cities and towns throughout the state.

FINANCING INFORMATION:

Pursuant to M.S. 477A.014, subd. 4, the Commissioner of Revenue deducts \$217,000 each year from local government aids for the costs related to the government information function.

The costs of collecting highway expenditure data from local governments and reporting the statewide data to state and federal transportation officials is repaid to the OSA by the Department of Transportation through an interagency agreement. The OSA was reimbursed \$22,000 in FY 1999 and \$14,000 in FY 2000 for this work.

Fees charged for the Small Cities and Towns Accounting System software are transferred to the Department of Administration under M.S. 16B.405. Revenues from these software sales totaled \$8,000 in FY 1999 and \$48,000 in FY 2000.

BUDGET ISSUES:

This division manages all information technology needs, making recommendations directly to the State Auditor on the technology requirements of the OSA. The continuous changes in the field demand that staff remain current on new developments, including recommending investments in new equipment, software, training, and technologies, while researching and developing methods to manage database information. This division is presently unable to meet the computer network and technology support needs of the Office of the State Auditor and is understaffed relative to standards found in other organizations of similar size.

Activity: GOVERNMENT INFORMATION
Program: STATE AUDITOR
Agency: STATE AUDITOR

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002			FY 2003		
				Base	Agency Request	Governor Recomm.	Base	Agency Request	Governor Recomm.
Expenditures by Category:									
State Operations									
COMPENSATION	390	453	506	523	591	523	546	614	546
OTHER OPERATING EXPENSES	227	122	194	134	146	134	128	135	128
Total Expenditures	617	575	700	657	737	657	674	749	674
Change Items:	Fund								
(B) INFORMATION TECHNOLOGY STAFFING	GEN				80			75	
Total Change Items					80			75	
Financing by Fund:									
Direct Appropriations:									
GENERAL	617	575	700	657	737	657	674	749	674
Total Financing	617	575	700	657	737	657	674	749	674
Revenue Collected:									
Nondedicated									
GENERAL	1	3	1	1	1	1	1	1	1
Total Revenues Collected	1	3	1	1	1	1	1	1	1
FTE by Employment Type:									
FULL TIME	7.9	8.6	9.5	9.5	10.5	9.5	9.5	10.5	9.5
Total Full-Time Equivalent	7.9	8.6	9.5	9.5	10.5	9.5	9.5	10.5	9.5

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INFORMATION TECHNOLOGY CHANGE ITEM (45441)

Activity: GOVERNMENT INFORMATION
 Program: STATE AUDITOR
 Agency: STATE AUDITOR
 IT Change Item: INFORMATION TECHNOLOGY STAFFING

ITEM DESCRIPTION AND PURPOSE:

Serving 145 staff, the sole PC/Network Administrator in the Office of the State Auditor (OSA) cannot meet existing computer systems and staff needs. An IT Specialist is required to address the OSA's multiple uses of technology.

FUNDING: (Dollars in Thousands)

Funding Distribution	2002-03 Biennium		2004-05 Biennium		2006-07 Biennium	
	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Personnel	68	68	68	68	68	68
Supplies	1	2	2	2	2	2
Hardware	6	0	0	0	6	0
Software	0	0	0	0	0	0
Facilities	1	1	1	1	1	1
Services	3	3	3	3	3	3
Training	1	1	3	1	3	1
Grants	0	0	0	0	0	0
Total	80	75	77	75	83	75

The base includes one technology staff person. This General Fund request will fund 1.0 FTE information technology specialist and related costs.

RATIONALE:

The Government Information Division manages technology resources within the Office of the State Auditor, including installation and maintenance of workstations and 14 network systems. Currently, one PC/network administrator supports approximately 145 users in 14 locations throughout the state, including 18 servers (5 servers in the central office and 13 servers in the field). This request will provide staff, equipment, tools, and technical expertise to more adequately support the OSA's local area network systems, 65 computers, 85 laptops, and computer peripherals. The OSA relies heavily on the use of computer applications, databases, and computer technology to complete its assigned tasks. Prompt attention to resolving network downtime and computer technology problems impacts the effectiveness and efficiency of daily operations. This initiative would allow technology staff to promptly attend to user requests for assistance on software, computers, networks, and training.

LIFE CYCLE ANALYSIS:

Life Cycle Status	2002-03 Biennium		2004-05 Biennium		2006-07 Biennium	
	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Development						
Operations	X	X	X	X	X	X

Life Cycle	2002-03 Biennium		2004-05 Biennium		2006-07 Biennium	
	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Modification						
Retirement						

This request is not for development/hardware. It adds an IT Specialist to provide these outcomes:

1. In-house staff will maintain the 14 networks with the goal of responding to problems within 24-48 hours (rather than 48-72 hours) to reduce system downtimes and work interruptions by meeting user needs for computer workstation support and the on-going resolution of network/server, e-mail, Internet, software, set-up, configuration, and other technical problems.
2. Support to remote offices and to staff in travel status will be provided in hours, not days, using trained technical support, instead of non-technical staff attempting to inefficiently resolve off-site computer problems. In addition, the central office will not lose its technical support when on-site field office visits are required or the PC/Network Administrator is on vacation or sick leave.
3. System testing and adocumentation will be provided, with more in-depth evaluations if needed.
4. Asset management will be improved, including distribution of computers and other technology purchased by the OSA to within 1-4 weeks, instead of the current 3-6 month distribution schedule.
5. Individual and group staff training on software applications and the effective and efficient use of technology will be implemented. There is almost no time for this activity at present.
6. Periodic upgrades to state accounting, budget, personnel, and other systems will be provided within one week, instead of approximately one month's time.
7. Technological resources will be managed in a more cost-effective and timely manner, including planning and the disposal of out-dated technology to within 1-3 months, instead of 6-12 months.
8. Reliance on contractual technical services will be reduced by up to \$10,000/yr.

OFFICE OF TECHNOLOGY ANALYSIS:

Deliverables/Objectives: This initiative provides one additional IT staff person to serve 145 people. The initiative will address the growing lack of technical support within the office. It supports infrastructure components. The initiative is identified as a priority in the Office SIRMP. Conclusion: This initiative meets information technology criteria for funding.

GOVERNOR'S RECOMMENDATION:

The Governor makes no recommendation regarding any specific initiative put forward by the State Auditor and other constitutional officers.

BUDGET ACTIVITY SUMMARY

Budget Activity: PENSION DIVISION
Program: STATE AUDITOR
Agency: STATE AUDITOR (OSA)

ACTIVITY PROFILE:

The Pension Division monitors investment, financial and actuarial reporting for approximately 720 public pension funds. Its objective is to ensure a financially stable retirement system for the participants throughout the state, accountability for the fiscally prudent management of local tax dollars contributed to the retirement funds, and compliance with state statutes governing the administration of plans covering approximately 25,000 members. Most plans are small volunteer fire relief associations administered by part-time boards and officers, whose tasks include understanding state laws affecting benefit levels, financing, actuarial methods, investment practices and pension fund administration.

The division plays an important role in the plan review process by attempting to deliver the highest quality service to pension plan members, policymakers and taxpayers through achievement of the following key goals: 1) promoting consistent interpretation and application of statutes and bylaws in all phases of operation; 2) providing a uniform basis for calculating and reporting of investment returns for all public plans; and 3) monitoring plan operations and administration of benefits to effectively measure compliance with state laws. The division's activities fall under the following four categories:

Financial Review -- Because financial review is this division's core function, the division must:

- manage reporting processes that give pension members, pension boards, local jurisdictions and state policymakers reliable information on the status and funding requirements of local pension plans;
- review all financial reporting forms, actuarial reports, defined contribution allocation tables, and audits for accuracy and completeness; and
- annually distribute forms and reference tools, such as treasurer and auditor packets and tax and investment guidebooks, along with automated files on diskette for data entry, form submission, and scenario testing.

Investment Performance Reporting -- Responsibilities in this area require the division to:

- manage reporting processes for time-weighted rate-of-return data collected from approximately 720 pension funds; and
- collect and review investment report submissions, compile and analyze rate-of-return data, and report investment performance information to policymakers, pension fund members and the public.

Research and Communications -- Since laws governing local pension plan administration are complex, a significant share of the division's technical resources is required to:

- provide assistance to pension funds on issues relating to tax laws, state statutes, form submissions, investment policies and valuation of benefits;
- prepare regular reports to policymakers on pension plan status and investment performance; and
- conduct approximately 5-6 training sessions/year and respond to requests for information from state elected officials and their staff, local officials, and taxpayers.

Compliance Monitoring and Investigation -- When monitoring for legal compliance in the administration of local pension plans, the division must:

- evaluate submitted reporting forms and contact pension fund officers, municipal officials, auditors or investment advisors regarding any technical irregularities, administrative or investment policy concerns;
- assist the OSA's Legal, Audit Practice, and Special Investigations staff when pension issues arise; and
- prepare reports to the Commissioner of Revenue certifying individual relief associations are eligible to receive various state aid distributions.

STRATEGIES AND PERFORMANCE:

This division will receive, review, and report each year on the financial or investment information from approximately 720 public pension funds, as required by the legislature. One of the division's challenges in the next biennium is to continue to augment its review and reporting functions by expanding customer service to offer regional training sessions, enhance publications, and streamline various reporting processes. Increased training may result in more efficient use of staff resources by correcting reporting and administrative problems before they are encountered through OSA reviews.

FINANCING INFORMATION:

Under M.S. 356.219, the costs for investment performance reporting (approximately \$180,000 in FY 2001) must be funded from the General Fund. Under M.S. 69.021, subd. 5, the remaining costs of the division for this same fiscal year (approximately \$282,000) will be offset through dollar-for-dollar reductions against state pension-related aids distributed by the Department of Revenue. These costs vary annually based upon the allocation of payroll and other costs between investment and other financial monitoring activities.

BUDGET ISSUES:

The division will continue to strive to offer review of public pension plans in a complex investment environment.

Activity: PENSION
Program: STATE AUDITOR
Agency: STATE AUDITOR

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002			FY 2003		
				Base	Agency Request	Governor Recomm.	Base	Agency Request	Governor Recomm.
<u>Expenditures by Category:</u>									
State Operations									
COMPENSATION	336	336	489	509	509	509	540	540	540
OTHER OPERATING EXPENSES	120	80	301	111	111	111	93	93	93
Total Expenditures	456	416	790	620	620	620	633	633	633
<u>Financing by Fund:</u>									
Direct Appropriations:									
GENERAL	456	416	790	620	620	620	633	633	633
Total Financing	456	416	790	620	620	620	633	633	633
<u>FTE by Employment Type:</u>									
FULL TIME	6.8	6.6	9.3	9.3	9.3	9.3	9.3	9.3	9.3
Total Full-Time Equivalent	6.8	6.6	9.3	9.3	9.3	9.3	9.3	9.3	9.3

BUDGET ACTIVITY SUMMARY

Budget Activity: CONSTITUTIONAL OFFICE
Program: STATE AUDITOR
Agency: STATE AUDITOR (OSA)

ACTIVITY PROFILE:

The Constitutional Office provides senior level management for the Office of the State Auditor (OSA), overseeing all OSA divisions, their supervisors, and staff. The Constitutional Office furnishes management review and support for the regular and special audits of the Audit Practice Division. This budget also includes the costs of the State Auditor's administrative and official operations.

The Constitutional Office directs the planning for educational programs and conferences hosted by the OSA. It also oversees the arrangements for the training and required instruction for staff regarding audit and single audit standards, technology, customer service, client relations, finance and administration, and human resource matters.

This division coordinates the dissemination of information regarding the financial condition of local governments, working with local officials to improve the quality of their financial operations to make services more efficient and cost-effective. The Constitutional Office also assists the Government Information Division to bring information to local governments and citizens through advances in technology.

The Constitutional Office supports the State Auditor's contribution to and the OSA's role on the State Board of Investment, Executive Council, Land Exchange Board, Minnesota Housing Finance Agency, Rural Finance Authority Board, Public Employees Retirement Board, and Board of Government Innovation and Cooperation.

STRATEGIES AND PERFORMANCE:

The Constitutional Office's primary functions are to:

- Provide supervisory oversight and direction for all OSA staff.
- Assist with the development, distribution, and drafting of special reports requested by the legislature.
- Offer training programs and conferences for supervisors, staff, clients, and other interested parties, including internal staff training on audit practice, technical issues, customer service, and human resources twice a year.
- Review projects to improve the efficiency and effectiveness of the electronic collection and dissemination of local government financial information.

- Supervise the distribution of information collected by the Government Information Division on the financial condition of local governments and the financial trends affecting government at state and local levels.
- Monitor local entities' reporting requirements on a regular basis.
- Monitor the investments and policies of the Minnesota State Board of Investment.
- Oversee policies and practices of the seven state boards on which the State Auditor serves.
- Establish policies and procedures for the OSA regarding proper financial controls and administrative procedures.
- Provide assistance and information to citizens, local government officials, and state agencies concerning the operation of the OSA.
- Assist in reviewing regulatory and legal compliance guidance offered by the Office of the State Auditor.

FINANCING INFORMATION:

The Constitutional Office is funded by the General Fund.

BUDGET ISSUES:

In the past four years, the OSA has assumed the oversight of new tax increment financing districts throughout the state, new functions in the reporting of public pension plans, increased demands for special investigative work, completed special task force work on cemetery and funeral goods, and conducted numerous inquiries due to the publication of several highly visible audit reports. These conditions required the Constitutional Office to address the senior management issues that accompanied these changes in operations and increases in workload. In addition, the Constitutional Office will continue to strive to communicate the results of its oversight responsibilities to local government officials and the public.

Activity: CONSTITUTIONAL OFFICE
Program: STATE AUDITOR
Agency: STATE AUDITOR

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002			FY 2003		
				Base	Agency Request	Governor Recomm.	Base	Agency Request	Governor Recomm.
Expenditures by Category:									
State Operations									
COMPENSATION	268	282	295	304	389	304	288	373	288
OTHER OPERATING EXPENSES	48	27	59	41	54	441	66	75	100
Total Expenditures	316	309	354	345	443	745	354	448	388
Change Items:	Fund								
(A) NON-SALARY INFLATION	GEN					17			34
(A) TECHNOLOGY	GEN					383			
(B) PRENEED FUNERAL TRUST REVIEWS	GEN				98			94	
Total Change Items					98	400		94	34
Financing by Fund:									
Direct Appropriations:									
GENERAL	316	309	354	345	443	745	354	448	388
Total Financing	316	309	354	345	443	745	354	448	388
FTE by Employment Type:									
FULL TIME	3.9	3.9	3.9	4.0	5.0	4.0	4.0	5.0	4.0
PART-TIME, SEASONAL, LABOR SER	0.0	0.0	0.0	0.0	0.5	0.0	0.0	0.5	0.0
Total Full-Time Equivalent	3.9	3.9	3.9	4.0	5.5	4.0	4.0	5.5	4.0

BUDGET CHANGE ITEM (45445)

Budget Activity: CONSTITUTIONAL OFFICE
Program: STATE AUDITOR
Agency: STATE AUDITOR (OSA)
Item Title: PRENEED FUNERAL TRUST REVIEWS

	2002-03 Biennium		2004-05 Biennium	
	FY 2002	FY 2003	FY 2004	FY 2005
Expenditures: (\$000s)				
General Fund				
-State Operations	\$98	\$94	\$94	\$94

Statutory Change? Yes _____ No X

If yes, statute(s) affected:

 X New Activity _____ Supplemental Funding _____ Reallocation

GOVERNOR'S RECOMMENDATION:

The Governor makes no recommendation regarding any specific initiatives put forward by the State Auditor and other constitutional officers.

RATIONALE:

The Office of the State Auditor (OSA) requests funding for 1.5 FTEs for financial and compliance monitoring of Minnesota funeral providers who maintain consumer preneed trust funds and permanent care and improvement (PCI) trust funds.

Legislation was enacted in 1997 and 2000 expanding and strengthening consumer protection laws governing the purchase and sale of funeral and cemetery goods and services, as well as the handling and expenditure of preneed trust fund deposits by funeral providers. Under Minnesota law, the OSA has jurisdiction to investigate claims that funeral providers may have violated Minnesota's preneed and PCI trusting laws. During the past four years, the OSA has experienced a dramatic increase in the number of citizen complaints received regarding both sales practices and the preneed and PCI trusting practices of funeral providers (funeral homes and cemeteries). From June 1999 through November 2000, the OSA received 1,350 inquiries on this issue and distributed 220 consumer guides to citizens.

With the passage of additional consumer protection laws in 2000, drafted in large part by the State Auditor's 1999 task force to study the sale of funeral

goods and services, consumers and funeral providers have sought increased assistance from the OSA regarding compliance with state trusting laws and investigation of potential trust law violations. These violations involve claims that funeral providers failed to properly establish trust accounts and properly credit interest, failed to provide required notifications to consumers, and did not provide required sales disclosures and price lists. In response, the OSA has substantially increased employee time spent providing consumer assistance and reviewing consumer complaints. To date, the OSA has also engaged in extensive compliance auditing of two metropolitan cemeteries operated by multi-national corporations.

FINANCING:

The Constitutional Office is a General Fund activity. Base funding has not been specifically designated for these activities because the compliance issues have only recently begun to increase as a result of legislative action in this area. (A fiscal note was prepared in 1997 at the time of relevant statutory changes; however, no additional funds were provided). To date, existing staff assumed these duties in addition to their regular assignments. The amount requested to fulfill these responsibilities equals 1.5 FTE. Including salaries, benefits, equipment, rent, and operating costs, the total amount requested is \$94,000 annually.

OUTCOMES:

The OSA serves as the watchdog for Minnesota taxpayers, including cases where Minnesotans place their dollars into trust funds, under the management of funeral and cemetery providers. In order to effectively monitor these trusts and assure financial compliance with Minnesota laws, the OSA must be able to monitor these trusts and respond to citizen concerns in a timely manner. The initiative designates additional funding specifically for funeral and cemetery compliance monitoring. The OSA expects the initiative's impact will be to increasingly hold funeral providers accountable for the administration and investment of consumer trust funds. Its success will be shown by generating awareness of statutory requirements among consumers and providers, assuring compliance with statutory requirements, and resolving trust issues in a timely manner.

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BUDGET ACTIVITY SUMMARY

Budget Activity: TAX INCREMENT FINANCING DIVISION
Program: STATE AUDITOR
Agency: STATE AUDITOR (OSA)

ACTIVITY PROFILE:

In 1996, the legislature transferred all oversight and audit responsibilities for tax increment financing (TIF) districts to the State Auditor. Tax increment financing is a statutory tool used by local governments to encourage economic development, redevelopment, and housing projects, and its use by local governments is subject to complex statutory requirements and limitations. New development on parcels in a TIF district increases the property tax revenue from the parcels. The increase in property tax revenue is then "captured" by the TIF district authority and used to pay associated costs of the new development. In 1999, the estimated 2,100 TIF districts throughout the state generated about \$300 million of tax increment revenue to be used for development assistance.

The creation of a TIF district allows one local government to capture property tax revenue that would otherwise be distributed to other local governments (e.g., counties and school districts). Furthermore, when a TIF district diverts property tax revenue from a school district, the education funding formulas allocate additional state aid to the school district, which increases the resulting demand on the state General Fund.

STRATEGIES AND PERFORMANCE:

The TIF Division promotes legal compliance and accountability of local governments' uses of TIF through financial reviews and audits. It collects and analyzes financial information that local governments are required to report annually regarding their uses of tax increment. The division also performs legal compliance audits on TIF districts throughout the state, answers questions from citizens and local government officials regarding TIF, and conducts and participates in numerous TIF educational programs around the state. In 1999 and 2000, the division presented at 17 seminars and workshops attended by approximately 600 people.

When the TIF Division finds that a local government has not complied with the TIF laws, it issues a notice of noncompliance to the municipality that approved the plan for the TIF district. By law, the municipality must respond to the notice of noncompliance within 60 days. The OSA is required to report these responses to the chairs of the legislative committees with jurisdiction over TIF. If the municipality's response does not resolve the noncompliance issues, the division refers the matter to the county attorney for possible enforcement action.

The TIF Division plans to achieve the following objectives:

- Review all annual financial reports for TIF districts for substantial completeness, conduct an in-depth review of approximately 25% of the annual reports, notify TIF authorities of problems or issues relating to their annual reports, and obtain the necessary corrected information.
- Provide information and respond to local government officials and citizens who request information regarding the lawful uses of TIF.
- Investigate citizen information regarding unlawful uses of TIF and conduct on-site legal compliance audits, as warranted.
- Identify TIF non-compliance issues, notify municipalities of such issues, send final notices of noncompliance (16 notices issued 01-01-99 to 11-20-00), and forward information regarding violations of TIF law to county attorneys for possible enforcement action.
- Provide chairs of the legislative committees with jurisdiction over TIF with an annual report describing TIF legal compliance issues.
- Work in cooperation with state agencies, local government associations, and local government officials to provide annual training and education to individuals administering TIF districts in the state.

FINANCING INFORMATION:

This division consists of 1.5 FTE managers, 1.0 FTE administrative specialist, and 9.0 FTE auditors and is funded exclusively by a statutory appropriation of revenue generated by deducting 0.25% of tax increment distributed to authorities that administer TIF districts. Counties pay the deducted revenue to the State Treasurer, which transfers the funds to the Office of the State Auditor. The OSA projects it will receive \$755,000 in FY 2002 and \$778,000 in FY 2003 from the statutory enforcement deduction. However, the annual revenue from the enforcement deduction will vary depending on the number of active TIF districts and the amount of tax increment generated by those districts.

BUDGET ISSUES:

The number of TIF districts over which the TIF Division has audit jurisdiction increased by 25% in the past five years. TIF districts required to report to the OSA was 1,674 for 1995; 1,830 for 1996; 1,924 for 1997; 2,061 for 1998; and approximately 2,100 for 1999.

The TIF Division's oversight results in greater statutory compliance with TIF laws by local governments, promotes consistent and uniform TIF usage, and aids in preventing TIF law violations. In addition, gathering of TIF financial information allows local government personnel, legislators, and citizens access to uniform TIF financial data.

Activity: TAX INCREMENT FINANCING
Program: STATE AUDITOR
Agency: STATE AUDITOR

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002			FY 2003		
				Base	Agency Request	Governor Recomm.	Base	Agency Request	Governor Recomm.
<u>Expenditures by Category:</u>									
State Operations									
COMPENSATION	359	610	637	689	689	689	716	716	716
OTHER OPERATING EXPENSES	174	112	194	151	151	151	132	132	132
Total Expenditures	533	722	831	840	840	840	848	848	848
<u>Financing by Fund:</u>									
Statutory Appropriations:									
GENERAL	524	709	816	824	824	824	832	832	832
SPECIAL REVENUE	9	13	15	16	16	16	16	16	16
Total Financing	533	722	831	840	840	840	848	848	848
<u>Revenue Collected:</u>									
Dedicated									
SPECIAL REVENUE	9	13	15	16	16	16	16	16	16
Total Revenues Collected	9	13	15	16	16	16	16	16	16
<u>FTE by Employment Type:</u>									
FULL TIME	6.6	9.9	11.2	11.4	11.4	11.4	11.4	11.4	11.4
PART-TIME, SEASONAL, LABOR SER	0.2	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Full-Time Equivalent	6.8	10.4	11.2	11.4	11.4	11.4	11.4	11.4	11.4

STATE TREASURER - EXECUTIVE SUMMARY

NOTE: *In November 1998, Minnesota voters passed an amendment to the constitution to abolish the office of Treasurer, effective at the end of the current treasurer's term of office in January 2003.*

AGENCY MISSION AND VISION:

The mission of the State Treasurer, the chief elected state financial officer, is to carry out, independently of other state agencies, responsibilities in monetary areas important to the efficient fiscal operation of state government and the related operations of local government agencies.

KEY SERVICE STRATEGIES:

To maintain the integrity of financial controls and to maintain checks and balances, the Treasurer's Office operates independently of the Department of Finance and all revenue-collecting agencies. The State Treasurer also serves as member of the State Board of Investment (SBI) and the Executive Council.

The office is service-oriented and serves the public and all state agencies by performing duties that are unique. It is the cash management and cash control center for the state. It transforms all revenues to cash and drives cash investment. The office provides fiscal information necessary to operate state government. The office, as a representative of the taxpayers of Minnesota, serves as a watchdog for all monies paid into and out of the General Fund, retirement funds, debt service funds, as well as other funds.

To accomplish its mission and implement its key strategies, the office employs the following activities:

- Annually approves approximately six million state-issued warrants, and legislative payroll and expenditures, as they are presented daily by banks for payment.
- Accurately records daily deposits into 126 banks as reported by approximately 160 deputy registrars and 210 different state agencies, including higher education facilities, throughout the state.
- Educates and provides technical assistance to state agencies to connect to the secure electronic financial transaction infrastructure.
- Monitors and approves settlement of electronic payments issued by state agencies.
- Analyzes receipt and disbursement activity to maximize investment earnings by determining amounts available for investment throughout the day.
- Verifies all investment expenditures made by SBI staff and authorizes payment to brokers.
- Verifies receipts of all investment proceeds earned from investments made on behalf of state agencies.

- Assures each day that all state funds on deposit are properly collateralized or insured.
- Formulates policy for cash management procedures.
- Pays and accounts for principal and interest due for some 70 state-bonded debt issuances.
- Receives, accounts for, and deposits payments for federal and state income taxes, and Medicare and social security taxes, for the legislature, boards and commissions, state employees, and state colleges and universities.
- Accounts for and processes payments to banks for service charges assessed the state for banking activities.
- Receives, accounts for and deposits the state's share of county receipts, miscellaneous gifts and escheated estates proceeds.
- Operates a cash facility to redeem state warrants, bonds and bond coupons.
- Prepares and publishes a credit card report to be available to the general public for the purpose of comparing information of the various credit card issuers.

OPERATING ENVIRONMENT:

The following factors are shaping the direction of policies and activities of the State Treasurer's Office:

- *Electronic Financial Transactions (EFTs).* Minnesota citizens and businesses are demanding that state agencies accept and make payments electronically. EFTs include credit cards, Automated Clearinghouse (ACH) debits and credits, and electronic data interchange (EDI) transactions. The web/internet, advances in telecommunications, and development of standards allow governments to provide services more efficiently and less expensively. The Treasurer's Office as the hub of electronic financial transactions must simultaneously make the information about those transactions available to the bank, the accounting system, and the agency. EFTs are a central element of the Office of Technology/IPC Electronic Government Services (EGS) Initiative. The Treasurer has already taken the lead in developing the national infrastructure allowing Electronic Benefits Transfers (EBTs), the system that enables public assistance recipients to obtain benefits from ATM machines.
- *Master Contract for Credit Card Vendors (Current)* – Despite inefficiencies, each agency in the State of Minnesota currently negotiates separate terms with credit card companies when the agency has elected to accept credit card payments. Because agencies are not knowledgeable about these matters, the state loses volume discounts, bidding is not competitive, balancing deposits is much more difficult, the state must support paper and

STATE TREASURER - EXECUTIVE SUMMARY (Continued)

electronic systems, etc. The Treasurer's Office and the Department of Finance are developing processes that will allow agencies to offer such services through a master contract.

- **Citizen Access to Information.** Citizens and businesses are demanding electronic access to information. One example of such a demand is when the state provides single electronic payments to vendors for multiple payment transactions (both large and small). Vendors are requesting detailed information about these payments in an electronic format. The Treasurer is involved with the Electronic Government Services (EGS) Initiative to meet these needs as well.

ORGANIZATION/PROGRAM STRUCTURE:

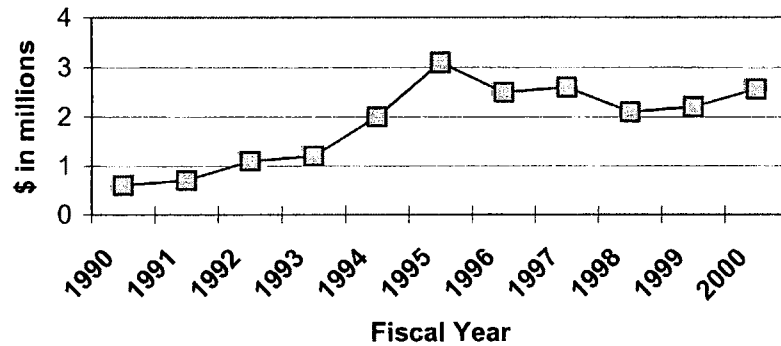
The Office of State Treasurer has 13 employees, including the State Treasurer.

TREASURER AND EXECUTIVE TEAM	4.0 fte
Investments and Debt Service	2.0 fte
Data Processing	4.0 fte
Cash Management	3.0 fte

10/30/00 TOTAL FTEs 13.0

TRENDS AND PERSPECTIVE:

Total Budget - All Funds



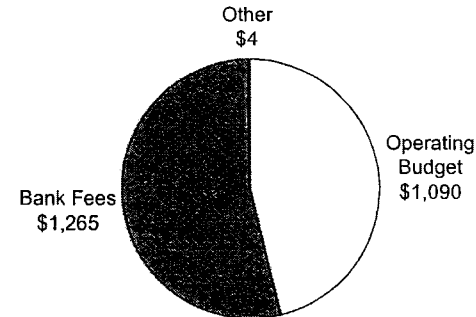
FY 1995 includes carry forward from FY 1994 to pay for bank fees (\$420,000) and information system contracts (\$110,000). These expenses were not invoiced until FY 1995.

FY 1999 included a \$1.5 million appropriation for transfer to the transportation revolving loan fund, which is not included here.

The increase from FY 1999 to FY 2000 for the most part was caused by one-time appropriations for Sales Tax Rebate bank fees (\$278,000) and Electronic Government Services initiatives (\$75,000). An additional \$77,000 was due to salaries, rent, and small agency increases.

FY 2000 General Fund Expenditures (\$ in 000s)

Total: \$2.4 Million



REVENUES:

(\$50 Million for FY 1998)

The State Treasurer is designated by statute to receive the state's share of various monies collected by the counties as fees, fines, assessments, and surcharges. These monies are not a part of the State Treasurer's budget. They are either dedicated to certain specific funds or are deposited into the General Fund.

STATE TREASURER - EXECUTIVE SUMMARY (Continued)

Dedicated Fund Revenues (\$ in Thousands):

Marriage Fees	\$ 168
Probate Fees	13,661
Birth, Adoption & Child Restraint Fees	1,587
Police Officer Training	549
Seat Belt Fines	1,487
Petty Misdemeanor Fees	157
Conciliation Court & License Fees	2,841
Children Trust & Housing Trust	<u>1,081</u>
Total:	\$21,531

General Fund Revenues (\$ in Thousands):

Court Fees & Fines	\$30,178
Public Defender Fees	302
Land Recording Fees	5,992
Tax Forfeited & Tax Increment Fees	<u>938</u>
Total:	\$37,410

GOVERNOR'S RECOMMENDATIONS:

The Governor respects the separation of powers and the desire of officials in the judicial and legislative branches and other constitutional officers to independently present their budget requests directly to the legislature without specific recommendations from the Governor. However, since the Governor is required by law to submit a balanced budget to the legislature, it is necessary to identify funding for those offices as part of preparing a complete balanced budget.

The Governor's general recommendations for the legislature and constitutional offices reflect his firm commitment to minimizing the overall growth of government and the resulting tax burden on Minnesota taxpayers as well as his dedication to the effective use of technology to increase government efficiency and effectiveness in providing public services. Therefore, the Governor recommends funding to maintain the existing level of appropriations previously established by the legislature, increasing that level for salary and non-salary inflation, and providing a proportional lump sum for technology improvements.

For the State Treasurer, the Governor's recommendation includes \$70,000 for salary inflation, \$136,000 for non-salary inflation, and \$92,000 for technology. In addition, the base budget has been reduced by \$90,000 to reflect savings generated by the abolition of the office effective January 2003.

The Governor makes no recommendation regarding the specific initiative put forward by the State Treasurer.

Activity: STATE TREASURER
Program: STATE TREASURER
Agency: STATE TREASURER

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002			FY 2003		
				Base	Agency Request	Governor Recomm.	Base	Agency Request	Governor Recomm.
<u>Expenditures by Category:</u>									
State Operations									
COMPENSATION	678	752	792	816	816	816	760	760	760
OTHER OPERATING EXPENSES	1,618	1,603	1,934	1,535	1,685	1,627	1,571	1,571	1,571
OTHER FINANCIAL TRANSACTIONS	165	4	0	0	0	0	0	0	0
Subtotal State Operations	2,461	2,359	2,726	2,351	2,501	2,443	2,331	2,331	2,331
PAYMENTS TO INDIVIDUALS	82	0	0	0	0	0	0	0	0
Total Expenditures	2,543	2,359	2,726	2,351	2,501	2,443	2,331	2,331	2,331
<u>Change Items:</u>	<u>Fund</u>								
(A) ELECTRONIC FINANCIAL TRANSACTIONS	GEN				150				
(A) TECHNOLOGY	GEN					92			
Total Change Items					150	92			
<u>Financing by Fund:</u>									
Direct Appropriations:									
GENERAL	2,543	2,359	2,726	2,351	2,501	2,443	2,331	2,331	2,331
Total Financing	2,543	2,359	2,726	2,351	2,501	2,443	2,331	2,331	2,331
<u>Revenue Collected:</u>									
Dedicated									
GENERAL	5,028	8,188	8,023	8,064	8,064	8,064	8,087	8,087	8,087
STATE GOVERNMENT SPECIAL REVENUE	1,488	1,531	1,600	1,600	1,600	1,600	1,600	1,600	1,600
SPECIAL REVENUE	5,602	2,092	2,060	2,060	2,060	2,060	2,060	2,060	2,060
MISCELLANEOUS AGENCY	558	726	770	770	770	770	770	770	770
HOUSING FINANCE AGENCY	487	395	500	500	500	500	500	500	500
Nondedicated									
GENERAL	19,466	29,456	29,444	46,139	46,139	46,139	46,139	46,139	46,139
STATE GOVERNMENT SPECIAL REVENUE	167	167	300	300	300	300	300	300	300
CAMBRIDGE DEPOSIT FUND	20,850	16,659	16,895	0	0	0	0	0	0
Total Revenues Collected	53,646	59,214	59,592	59,433	59,433	59,433	59,456	59,456	59,456

Activity: STATE TREASURER
Program: STATE TREASURER
Agency: STATE TREASURER

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002			FY 2003		
				Base	Agency Request	Governor Recomm.	Base	Agency Request	Governor Recomm.
<u>FTE by Employment Type:</u>									
FULL TIME	12.1	13.0	13.0	13.0	13.0	13.0	13.0	13.0	13.0
PART-TIME, SEASONAL, LABOR SER	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
OVERTIME PAY	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Full-Time Equivalent	12.6	13.0	13.0	13.0	13.0	13.0	13.0	13.0	13.0

STATE TREASURER - BUDGET BRIEF

Fund: GENERAL

	<u>FY 2002</u>	<u>FY 2003</u>	<u>Biennium</u>
BASE YEAR (FY 2001) (\$000s)			
Appropriations	\$2,283	\$2,283	\$4,566
<u>BASE ADJUSTMENT</u>			
Constitutional Amendment Change		(90)	(90)
Salary Compensation Inflation	23	47	70
Small Agency Operating Expense	42	86	128
Documented Rent Increase	3	5	8
<u>BASE LEVEL (for 2002 and 2003)</u>	\$2,351	\$2,331	\$4,682
<u>CHANGE ITEMS</u>			
Electronic Financial Transactions	150	-0-	150
AGENCY REQUEST	\$2,501	\$2,331	\$4,832
<u>GOVERNOR'S RECOMMENDATION</u>			
Technology	92	-0-	92
GOVERNOR'S RECOMMENDATION	\$2,443	\$2,331	\$4,774

BRIEF EXPLANATION OF BUDGET DECISIONS:

- The Treasurer's Office requests \$4.832 million for the biennium:
 - 46% for Banking Contract Services (pursuant to competitive bid);
 - 54% for salaries, office rent, maintenance, contracts, communications services, on-going programming and development costs to maintain the data processing capabilities for our financial systems, and office expenses, including supplies, travel, replacement equipment, furniture, etc.
- Base adjustments include increases for salary, operating expenses, and rent;
- \$150,000 is requested as a part of the Electronic Financial Transactions (Electronic Government Services – EGS) initiative that is designed to give the public the ability to electronically purchase permits and licenses, and electronically pay fees and taxes through commercially available communication channels such as the world wide web and the telephone. Multiple agencies are involved with this initiative, which has the support of the Information Policy Council (IPC) and the Office of Technology (OT).

GOVERNOR'S RECOMMENDATIONS:

The Governor respects the separation of powers and the desire of officials in the judicial and legislative branches and other constitutional officers to independently

present their budget requests directly to the legislature without specific recommendations from the Governor. However, since the Governor is required by law to submit a balanced budget to the legislature, it is necessary to identify funding for those offices as part of preparing a complete balanced budget.

The Governor's general recommendations for the legislature and constitutional offices reflect his firm commitment to minimizing the overall growth of government and the resulting tax burden on Minnesota taxpayers as well as his dedication to the effective use of technology to increase government efficiency and effectiveness in providing public services. Therefore, the Governor recommends funding to maintain the existing level of appropriations previously established by the legislature, increasing that level for salary and non-salary inflation, and providing a proportional lump sum for technology improvements.

For the State Treasurer, the Governor's recommendation includes \$70,000 for salary inflation, \$136,000 for non-salary inflation, and \$92,000 for technology. In addition, the base budget has been reduced by \$90,000 to reflect savings generated by the abolition of the office effective January 2003.

The Governor makes no recommendation regarding the specific initiative put forward by the State Treasurer.

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Agency: STATE TREASURER

Summary of Agency Revenues (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Forecast	Governor Recomm.	Forecast	Governor Recomm.	Dollars	Percent
Non-Dedicated Revenue:									
Departmental Earnings:									
GENERAL	0	0	0	16,695	16,695	16,695	16,695	33,390	
CAMBRIDGE DEPOSIT FUND	20,850	16,659	16,895	0	0	0	0	(33,554)	(100.0%)
Other Revenues:									
GENERAL	19,466	29,456	29,444	29,444	29,444	29,444	29,444	(12)	0.0%
STATE GOVERNMENT SPECIAL REVENUE	167	167	300	300	300	300	300	133	28.5%
Total Non-Dedicated Receipts	40,483	46,282	46,639	46,439	46,439	46,439	46,439	(43)	0.0%
Dedicated Receipts:									
Other Revenues:									
GENERAL	5,028	8,188	8,023	8,064	8,064	8,087	8,087	(60)	(0.4%)
STATE GOVERNMENT SPECIAL REVENUE	1,488	1,531	1,600	1,600	1,600	1,600	1,600	69	2.2%
SPECIAL REVENUE	5,602	2,092	2,060	2,060	2,060	2,060	2,060	(32)	(0.8%)
MISCELLANEOUS AGENCY	558	726	770	770	770	770	770	44	2.9%
HOUSING FINANCE AGENCY	487	395	500	500	500	500	500	105	11.7%
Total Dedicated Receipts	13,163	12,932	12,953	12,994	12,994	13,017	13,017	126	0.5%
Agency Total Revenues	53,646	59,214	59,592	59,433	59,433	59,456	59,456	83	0.1%

INFORMATION TECHNOLOGY CHANGE ITEM (56113)

Agency: STATE TREASURER
IT Change Item: ELECTRONIC FINANCIAL TRANSACTIONS

ITEM DESCRIPTION AND PURPOSE:

This change item is a continuation of the "EGS - Electronic Financial Transactions Initiative" for which the Office was provided a one-time appropriation of \$75,000 in FY 2000-01. The amount requested will be used to assist state agencies with their efforts to electronically provide goods and services to taxpayers.

FUNDING: (Dollars in Thousands)

Funding Distribution	2002-03 Biennium		2004-05 Biennium		2006-07 Biennium	
	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Personnel	0	0	0	0	0	0
Supplies	0	0	0	0	0	0
Hardware	0	0	0	0	0	0
Software	0	0	0	0	0	0
Facilities	0	0	0	0	0	0
Services	150	0	0	0	0	0
Training	0	0	0	0	0	0
Grants	0	0	0	0	0	0
Total	150	0	0	0	0	0

Explain the use of resources and how the new funding is related to the base funding for a given project.

RATIONALE:

This initiative is designed to assist smaller agencies to connect to a secure electronic financial transactions (EFT) infrastructure being developed by the State Treasurer, the Department of Finance and the Office of Technology in cooperation with a third party EFT processor. Smaller agencies will then be able to give Minnesota citizens and businesses the ability to electronically purchase permits and licenses, and electronically pay fees and taxes through commercially available communication channels such as the internet and the telephone. This collaboration of efforts by the above-named support agencies in cooperation with user agencies will establish a broader base of technical capabilities that will allow more agencies to provide EGS services without every agency, or their subcontractors, having to re-invent the basic EFT/connectivity technology.

LIFE CYCLE ANALYSIS:

Life Cycle Status	2002-03 Biennium		2004-05 Biennium		2006-07 Biennium	
	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Development	X					
Operations	X					
Modification						
Retirement						

This project is designed to be completed within FY 2002. The project is an intensive effort to connect as many agencies as possible to the EFT infrastructure that has already been developed. The focus will be on identifying agencies with business needs requiring the electronic delivery of goods or services, then working with them and their subcontractors to connect to the EFT infrastructure being developed and maintained by the support agencies: State Treasurer, Department of Finance and the Office of Technology.

OFFICE OF TECHNOLOGY ANALYSIS:

This initiative is a continuation of funding for electronic financial transactions. Deliverables/Objectives: This is an EGS initiative that addresses Big Plan (Service, Not Systems - Electronic Government Services Initiative) and provides infrastructure for collaborating agencies. The initiative is identified as a priority in the Office SIRMP. Conclusion: This initiative meets information technology criteria for funding. Development needs to occur in collaboration with statewide EGS efforts.

GOVERNOR'S RECOMMENDATION:

The Governor makes no recommendation regarding the specific initiatives put forward by the State Treasurer and other constitutional officers.

INVESTMENT BOARD - EXECUTIVE SUMMARY (Continued)

Currently the Environmental Trust Fund is invested in a balanced portfolio of fixed income securities and common stocks.

The Tobacco Prevention Fund and the Medical Education Fund are governed primarily by the constraints and goals for the funds as established by statute. Annual earnings up to 5% of the market value of the Funds, measured each year at the beginning of the year for the Tobacco Prevention Fund and measured at the beginning of each quarter for the Medical Education Fund, may be distributed for expenditure. Effective 7-1-00, the two endowment funds have an asset allocation of 50% equity and 50% fixed income securities. SBI staff manages all assets of the two endowment funds.

The Closed Landfill Investment Fund was created to generate high returns from capital appreciation. The Fund will be used by the Commissioner of the Pollution Control Agency to pay for the long-term costs of maintaining the integrity of landfills in Minnesota once they have been closed. The assets of the Fund are unavailable for expenditure until after FY 2020. Effective July 1999, the Closed Landfill Investment Fund is invested entirely in common stock. Given the long time horizon of the Fund and the lack of need for any short term or mid-term withdrawals, this strategy will maximize the long-term gain of the Fund.

State Cash Accounts represent the cash balances in more than 400 individual accounts that flow through the Minnesota State Treasury. These accounts range in size from \$5,000 to over \$400 million, and are invested by SBI staff through two commingled short-term investment pools. The objectives of these pooled funds are to preserve capital, to provide a high level of current income and to meet the cash needs of state government without the forced sale of securities at a loss. The pools are expected to generate investment income equal to or greater than other money market-type funds.

ORGANIZATION/PROGRAM STRUCTURE:

The SBI, composed of five constitutional officers, provides investment management for the Basic Retirement Funds, Post Retirement Fund, Permanent School Fund, Environmental Trust Fund, Assigned Risk Plan, and Supplemental Investment Fund. In addition, the SBI manages Invested Treasurer's Cash and approximately 50 other state cash accounts. On 6-30-2000, assets managed by the board totaled \$53.2 billion.

The board retains an executive director, an internal investment management staff, and external investment managers to execute its policies. In performing its duties, the board is assisted by the Investment Advisory Council, which is composed of 17 persons with investment and retirement fund expertise.

The SBI staff recommends strategic planning alternatives to the board and council and executes the board's decisions. The staff also provides internal

management for the Permanent School Fund, Environmental Trust Fund and State Cash accounts; closely monitors the performance of all external managers retained by the board; and reviews prospective investment vehicles for legislative consideration. The majority of the board's activity relates to investment of retirement funds (roughly 82%). Primary clients are the current and retired members of the three statewide retirement systems (PERA, TRA, MSRS). For cash accounts, the board's largest clients are the State Treasurer and the Department of Finance.

AGENCY BUDGET PLAN:

By statute, the SBI bills the statewide retirement funds and non-general fund cash accounts for approximately 90% of its General Fund appropriation. These receipts are deposited in the General Fund as non-dedicated revenue. The General Fund appropriation not recovered by the bill-back provision (approximately 10%) represents the portion of the SBI's budget that is associated with the investment of the General Fund portion of the Invested Treasurer's Cash Fund. Any reduction in appropriations and expenditures will result in a matching reduction in revenue to the General Fund, and reduced billings to non-general fund accounts.

PERFORMANCE INDICATORS:

Statutes establish investment goals for the Basic and Post Retirement funds. In addition, the board has set more exacting standards for investment returns. The following pages demonstrate that long-term performance has generally exceeded both statutory requirements and the board's investment performance targets at the total fund level. Returns shown on the following pages are presented net of management fees and investment expenses.

INVESTMENT BOARD - EXECUTIVE SUMMARY (Continued)

SUMMARY OF INVESTMENT RESULTS **Period Ending 6/30/00**

	<u>6/30/00</u> <u>Millions</u>	<u>1 Year</u> <u>(%)</u>	<u>Annualized</u> <u>3 Years</u> <u>(%)</u>	<u>Annualized</u> <u>5 Years</u> <u>(%)</u>
Basic Funds:	\$21,228	10.5	14.6	16.8
Market composite		10.6	14.4	16.5
Post Fund:	\$20,794	8.6	13.3	15.5
Market composite		8.7	13.1	14.9
Benefit increase		11.1	10.3	9.8
Supplemental Fund:				
Income Share	\$ 662	8.0	14.3	16.3
Composite		7.8	14.1	16.3
Growth Share	\$ 334	7.4	18.2	21.7
Composite		9.5	19.1	22.2
International Share	\$ 51	17.0	9.0	12.4
EAFE Index		16.4	8.4	10.3
Common Stock Index	\$ 428	9.9	19.5	22.7
Wilshire 5000		9.5	19.1	22.5
Bond Market	\$ 112	4.7	6.1	6.6
Lehman Aggregate		4.6	6.0	6.3
Money Market	\$ 87	5.9	5.7	5.7
91 Day T-Bills		5.4	5.1	5.2
Fixed Interest	\$ 88	6.2	6.3	6.5
Assigned Risk Plan	\$ 756	5.1	9.3	10.5
Market composite		5.5	8.7	9.7
State Cash Accounts				
Treasurer's Pool	\$5,655	6.0	5.7	5.6
Trust Pool	\$ 53	5.9	5.7	5.7
91 day T-bill		5.4	5.1	5.2
Permanent School	\$ 579	6.1	12.5	10.2
Market composite		6.2	12.1	9.8
Environmental Trust Fund	\$ 315	6.6	13.7	15.4
Composite		6.7	13.3	15.1

DETAIL INVESTMENT RESULTS:

BASIC RETIREMENT FUNDS **Market Value 6/30/00: \$ 21.228 Billion** **Period Ending 6/30/00**

	<u>1 Year</u> <u>(%)</u>	<u>Annualized</u> <u>3 Years</u> <u>(%)</u>	<u>Annualized</u> <u>5 Years</u> <u>(%)</u>
Basic Funds	10.5	14.6	16.8
Comparisons:			
Market Composite	10.6	14.4	16.5
TUCS Median Fund	14.4	13.9	15.8
Inflation (CPI)	3.7	2.4	2.5
Actuarial Assumption	8.5	8.5	8.5

The Basic Retirement Funds contain the assets of active employees in the three statewide retirement systems: MSRS, PERA, and TRA. The long term asset allocation of the portfolio on 6/30/00 was 60% stocks, 24% bonds, 1% cash and 15% alternative assets (real estate, venture capital and resource funds).

For FY 2000 the Basic Funds trailed their market composite index by 0.1 percentage points and surpassed the median fund in the Trust Universe Comparison Service (TUCS) by 0.2 percentage points.

Performance over the longer term has been favorable as well. Over the latest five year period, the Basic Funds have exceeded their market index composite by 0.3 percentage points annualized, and the median fund by approximately 1.0 percentage points. The Basic Funds continue to keep well ahead of the inflation rate and have surpassed the actuarially assumed rate of return.

POST RETIREMENT INVESTMENT FUND **Market Value on 6/30/00: \$ 20.794 Billion** **Period Ending 6/30/00**

	<u>1 Year</u> <u>(%)</u>	<u>Annualized</u> <u>3 Years</u> <u>(%)</u>	<u>Annualized</u> <u>5 Years</u> <u>(%)</u>
Post Fund	8.6%	13.3%	15.5%
Comparisons:			
Market Composite	8.7%	13.1%	14.9%
Inflation (CPI)	3.9%	2.4%	2.5%
Actuarial Assumption	6.0%	6.0%	5.0%
Benefit increase	11.1%	10.3%	9.8%

The Post Retirement investment Funds contain the assets of retired employees in the three statewide retirement plans: MSRS, PERA, TRA. The long-term

INVESTMENT BOARD - EXECUTIVE SUMMARY (Continued)

asset allocation of the portfolio on 6/30/00 was 65% stocks, 27% bonds, 5% alternative assets and 3% cash.

Since fiscal year 1993, the statutory formula has been based on total return and actual market value of the portfolio. The new formula has two components:

- An inflation adjustment which will provide 100% of the CPI, capped at 2.5%. Between 1993 and 1997, the CPI was capped at 3.5%. This was changed in 1998 to 2.5%. This will be provided regardless of investment performance.
- An investment adjustment which will be based on Post Fund returns over a five-year period. This will be provided only if the Fund generates returns above the actuarial assumed rate of 6% and the cumulative value of all inflation based adjustments previously granted. (Prior to 1998 the actuarial assumed rate was 5%.)

The formula changes, which were sought by the retirement systems and enacted by the 1992 and 1997 Legislatures, have allowed the Post Fund to increase its exposure to stocks and should increase the long term growth potential of its assets. Benefit increases granted since 1993 have surpassed inflation by significant amounts.

SUPPLEMENTAL INVESTMENT FUND Period Ending 6/30/00

	<u>Market Value</u> <u>6/30/00</u>	<u>1 Year</u>	<u>Annualized</u> <u>3 Years</u>	<u>Annualized</u> <u>5 Years</u>
Supplemental Fund:				
Income Share Account	\$ 662	8.0	14.3	16.3
TUCS Median Fund		10.4	13.9	15.8
Growth Share Account	\$ 334	7.4	18.2	21.7
TUCS Median Stock Pool		9.7	17.3	21.3
Common Stock Index	\$ 428	9.9	19.5	22.7
Wilshire 5000 Stock Index		9.5	19.1	22.5
International Share Account	\$ 51	17.0	9.0	12.4
EAFE Index		16.4	8.4	10.3
Bond Market Account	\$ 112	4.7	6.3	6.6
Lehman Aggregate		4.6	6.0	6.3
Money Market Account	\$ 87	5.9	5.7	5.7
91 Day Treasury Bills		5.4	5.1	5.2
Fixed Interest Account	\$ 88	6.2	6.3	6.5

The Supplemental Investment Fund is an investment vehicle available to a wide range of state and local public employee groups for retirement related purposes.

The largest participants in the Fund are the Deferred Compensation Plan and the Unclassified Employees Retirement Plan.

Overall, FY 2000 was a strong year for the Fund. All investment accounts exceeded their performance targets for the year. Over the last three and five year periods, all accounts in the Supplemental Investment Fund have met or exceeded their targets.

The Fixed Interest Account utilizes investments in guaranteed investment contracts (GIC's) available through insurance companies and banks.

Permanent School Trust Fund Market Value on 6/30/00: \$ 579 Million Period Ending 6/30/00

	<u>1 Year</u>	<u>Annualized</u> <u>3 Years</u>	<u>Annualized</u> <u>5 Years</u>
Permanent School	6.1	12.5	10.2
Market composite	6.2	12.1	9.8

The Permanent School Trust Fund is a trust established for the benefit of Minnesota public schools. Income from the Trust is used to offset state expenditures for school aid payments. The investment objective of the Permanent School Fund is to produce a growing level of spendable income, within the constraints of maintaining adequate portfolio quality and liquidity.

Effective with FY 1998 the Permanent School Fund is invested in a balanced portfolio of common stocks and bonds. Common stocks provide the potential for significant capital appreciation, while bonds provide portfolio diversification and a more stable stream of current income.

Prior to FY 1998, the Fund was invested entirely in fixed income securities in order to maximize current income. It is understood that the change in asset mix will reduce portfolio income in the short term, but will enhance the value of the fund, over time.

Environmental Trust Fund Market Value on 6/30/00: \$ 315 Million Period Ending 6/30/00

	<u>1 Year</u>	<u>Annualized</u> <u>3 Years</u>	<u>Annualized</u> <u>5 Years</u>
Environmental Trust Fund	6.6	13.7	15.4
Composite	6.7	13.3	15.1

INVESTMENT BOARD - EXECUTIVE SUMMARY (Continued)

The Environmental Trust Fund is to be used to supplement traditional sources of funding for environmental and natural resource activity. The Trust will receive a portion of the net lottery proceeds until 2001.

The SBI added stocks to the portfolio during FY 1994. Currently, the asset mix of the Trust is targeted at 50% common stocks and 50% fixed income to provide for long term growth.

Assigned Risk Plan **Market Value on 6/30/00: \$ 756 Million** **Period Ending 6/30/00**

	<u>1 Year</u>	<u>Annualized 3 Years</u>	<u>Annualized 5 Years</u>
Assigned Risk Plan	5.1	9.3	10.5
Market composite	5.5	8.7	9.7

The Minnesota Assigned Risk Plan is the insurer of last resort for Minnesota companies seeking workers compensation insurance. The Plan is administered by the Department of Commerce. Investment management responsibility for the assets of the plan was transferred to the SBI by the Legislature in May 1991.

The investment goals of the Plan are to match the projected liability/payment stream and to provide sufficient liquidity/cash for payment of claims and operating expenses. Due to the relatively short duration of the liability stream, the asset mix of the plan was 20% stocks and 80% bonds during FY 2000. This allocation is reviewed annually upon receipt of new actuarial valuations and will be changed to reflect changes in plan liabilities.

State Cash Accounts **Market Value on 6/30/00: \$ 6,210 Million** **Period Ending 6/30/00**

	<u>1 Year</u>	<u>Annualized 3 Years</u>	<u>Annualized 5 Years</u>
Treasurer's Pool	6.0	5.7	5.6
Trust Pool	5.9	5.7	5.7
91 day T-bill	5.4	5.1	5.2

The SBI invests the cash balances in more than 400 separate accounts in the Minnesota State Treasury. These accounts range in size from \$5,000 to over \$400 million.

Most of these accounts are invested through two pooled funds.

1. The Trust Fund Pool holds cash balances of retirement related accounts managed internally and cash balances in the Permanent School Fund.
2. The Treasurer's Cash Pool holds the cash balances of special or dedicated accounts necessary for the operation of certain state agencies and the balances of the Invested Treasurer's Cash.

Because of special legal restrictions, a small number of cash accounts cannot be commingled. These accounts are invested separately.

All state cash accounts are managed by the SBI investment staff.

GOVERNOR'S RECOMMENDATION:

The Governor recommends the agency's base budget with additional funding of \$48,000 in FY 2002 and \$52,000 in FY 2003 to cover the increased costs associated with the Board's move to the new pension building.

Agency: INVESTMENT BOARD

Agency Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
Expenditures by Program:									
INVESTMENT OF FUNDS	50,559	58,219	62,095	61,945	61,993	61,999	62,051	3,730	3.1%
Total Expenditures	50,559	58,219	62,095	61,945	61,993	61,999	62,051	3,730	3.1%

Financing by Fund:							
Direct Appropriations:							
GENERAL	2,145	2,107	2,579	2,429	2,477	2,483	2,535
Open Appropriations:							
SUPPLMNTL INVEST INVEST INDEX	14	15	25	25	25	25	25
SUPPLEMENTAL INVEST SUPPL BOND	5	4	5	5	5	5	5
SUPPLEMENTAL INVEST INVEST GIC	106	111	125	125	125	125	125
SUPPLMNTL INVEST MONEYMARKET	2	4	5	5	5	5	5
SUPPLEMENTAL INVESTMENT INCOME	27	27	100	100	100	100	100
SUPPLEMENTAL INVESTMENT GROWTH	13	14	100	100	100	100	100
POST RETIREMENT INVESTMENT	805	828	1,500	1,500	1,500	1,500	1,500
INVEST EXT MONEY MANAGERS#1	8,825	9,675	12,000	12,000	12,000	12,000	12,000
INVEST EXT MONEY MANAGERS #2	38,616	45,433	45,556	45,556	45,556	45,556	45,556
SUPPLEMENTAL INTL EQUITY	1	1	100	100	100	100	100
Total Financing	50,559	58,219	62,095	61,945	61,993	61,999	62,051

FTE by Employment Type:							
FULL TIME.	21.7	23.4	23.4	23.4	23.4	23.4	23.4
PART-TIME, SEASONAL, LABOR SER	0.6	0.0	0.0	0.0	0.0	0.0	0.0
Total Full-Time Equivalent	22.3	23.4	23.4	23.4	23.4	23.4	23.4

BUDGET CHANGE ITEM (55186)**Agency: INVESTMENT BOARD****Item Title: RENT FOR NEW BUILDING****OUTCOMES:**

For a very small cost increase, the Investment Board will improve its lease space and create closer ties to three of its biggest customers.

	<u>2002-03 Biennium</u>		<u>2004-05 Biennium</u>	
	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u>
Expenditures: (\$000s)				
General Fund				
-State Operations	\$48	\$52	\$52	\$52
Revenues: (\$000s)				
General Fund	\$38	\$42	\$42	\$42
Statutory Change? Yes _____ No <u> X </u>				
If yes, statute(s) affected:				
_____ New Activity _____ Supplemental Funding _____ Reallocation				

GOVERNOR'S RECOMMENDATION:

The Governor recommends additional funding of \$48,000 in FY 2002 and \$52,000 in FY 2003 to cover the increased costs associated with the Board's move to the new pension building.

RATIONALE:

The State Investment Board has close and critical interaction with the state's major pension funds. Therefore, it has initiated lease negotiations to move into the new pension building being built by PERA, MSRS, and TRA. With this move, the board's rental space will increase from its current 6,735 square feet to 8,070 square feet. Therefore, the Board is presenting the increase as a change item rather than a base adjustment.

FINANCING:

Approximately 80% of the state's General Fund appropriation to the Investment Board is recovered by billing the pension funds for investment services provided. Therefore, 80% of the increase rent requested above will be returned to the General Fund. The net cost to the General Fund will be approximately \$10,000 per year.

Activity: OPERATIONS & ADMIN
Program: INVESTMENT OF FUNDS
Agency: INVESTMENT BOARD

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
Expenditures by Category:									
State Operations									
COMPENSATION	1,611	1,706	1,935	2,020	2,020	2,105	2,105	484	13.3%
OTHER OPERATING EXPENSES	534	401	644	409	457	378	430	(158)	(15.1%)
Total Expenditures	2,145	2,107	2,579	2,429	2,477	2,483	2,535	326	7.0%

Change Items:	Fund				
(A) RENT FOR NEW BUILDING	GEN			48	52
Total Change Items				48	52

Financing by Fund:							
Direct Appropriations:							
GENERAL	2,145	2,107	2,579	2,429	2,477	2,483	2,535
Total Financing	2,145	2,107	2,579	2,429	2,477	2,483	2,535

Revenue Collected:							
Nondedicated							
GENERAL	2,084	2,102	2,376	2,376	2,376	2,376	2,376
Total Revenues Collected	2,084	2,102	2,376	2,376	2,376	2,376	2,376

<u>FTE by Employment Type:</u>							
FULL TIME	21.7	23.4	23.4	23.4	23.4	23.4	23.4
PART-TIME, SEASONAL, LABOR SER	0.6	0.0	0.0	0.0	0.0	0.0	0.0
Total Full-Time Equivalent	22.3	23.4	23.4	23.4	23.4	23.4	23.4

ADMINISTRATIVE HEARINGS - EXECUTIVE SUMMARY

AGENCY MISSION AND VISION:

The Office of Administrative Hearings (OAH) was established in 1976 to conduct contested case proceedings when state or local government action might adversely impact private citizens. In 1981, OAH became responsible for resolving contested workers' compensation claims.

Mission:

The mission of the OAH is to settle, decide, or make recommendations about claims and disputes submitted to the office in ways that are fair, prompt, and efficient.

Vision:

- Provide persons adversely affected by state or local government actions with full and fair opportunities to be heard and to challenge those actions.
- Ensure that agency rules and rulemaking proceedings conform to the law and that the public participates in the formulation of agency rules as much as possible.
- Provide injured workers, their employers, and workers' compensation insurers with prompt and impartial resolutions of claims for workers' compensation benefits.
- Encourage and assist disputing parties to resolve their differences through settlement and mediation and without a hearing process.

KEY SERVICE STRATEGIES:

- Reduce the cost of providing hearing services by delegating many routine tasks and legal research functions to lower cost staff attorneys.
- Encourage the use of administrative law judges (ALJs) to mediate disputes between citizens and state agencies as well as disputes between state agencies or other political subdivisions.
- Cross-train judges to handle a variety of hearing types to manage caseload variations more efficiently.

ISSUES AFFECTING AGENCY'S OPERATIONS:

In January 1999, the Minnesota Supreme Court ruled the legislatively established system for administrative enforcement of child support obligations to be an unconstitutional delegation of judicial power to the executive branch. In response, the 1999 State Legislature transferred that function to the state court system. As a result, OAH lost approximately \$3.75 million per year in child support revenues, or about 75% of all of the Administrative Law Division's annual revenues. This major loss of revenue has had significant direct and indirect impacts upon the agency's operations. Initially, OAH eliminated its Child Support

Section, along with 17 full-time equivalent staff positions, two full-time child support ALJ positions and about 45 contract ALJs. Because of additional decreases in caseload, OAH also eliminated three regular full-time ALJ positions through attrition.

In FY 2002 and 2003, OAH must make up loss of the Child Support Section's contribution to general office overhead services that still must be maintained. Also, OAH will no longer be able to take advantage of the economies that are possible with widespread use of contract ALJs. Therefore, the agency will be increasing the hourly rates that it charges agencies for administrative hearing by around 43%. (See attached change item for this increase in compliance with MS 16A.1283.)

Billing rate increases will heavily impact local units of government that now use OAH's ALJs to conduct various kinds of local due process hearings, as well as parties to the local annexation and boundary adjustment that are being referred to OAH. The rate increases will also add to the costs of political subdivisions that become parties to veterans preference claims. Finally, the increases will also heavily impact the budgets of the state's professional licensing boards which are required to refer disciplinary hearings to OAH.

The 1998 Legislature adopted legislation transferring the personnel, functions and base appropriations from the Department of Labor and Industry's Judicial Services Unit to the OAH. This included 11 workers' compensation judges (formerly "settlement judges") and 16 support staff positions at offices located in St. Paul, Duluth, and Detroit Lakes. Substantial progress has been made in integrating the workers' compensation settlement and hearing functions.

Faced with very substantial increases in rental rates for its Minneapolis offices, OAH will be moving those offices to St. Paul on or about 10-1-01. At that time OAH will be merging the existing St. Paul Settlement Division Office with the rest of its operation. This will provide the opportunity for complete integration of all workers' compensation functions.

GOVERNOR'S RECOMMENDATION:

The Governor recommends a biennial appropriation of \$17.212 million as requested in the agency's budget, which includes allowable base adjustments in the Workers Compensation Fund program for increases in salaries (\$511,000) and lease rate increases (\$144,000). The biennial appropriation also includes: 1) a reduction of \$238,000 in Workers Compensation Funds to be reallocated to the DOLI to develop a coordinated data base and case scheduling system; 2) one-time deficiency funding of \$168,000 in General Funds to pay the obligated lease for child support functions no longer administered by OAH; and 3) \$927,000 in fee-supported increases to compensate for loss of revenue. The Governor has also recommended relocation costs for the agency in the capital budget legislative initiative.

Program: ADMINISTRATIVE HEARINGS
Agency: ADMINISTRATIVE HEARINGS

Program Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
Expenditures by Activity:									
ADMINISTRATIVE HEARINGS	4,793	2,503	1,593	964	1,592	986	1,453	(1,051)	(25.7%)
WORKERS COMPENSATION	6,595	6,716	7,089	7,101	6,982	7,304	7,185	362	2.6%
Total Expenditures	11,388	9,219	8,682	8,065	8,574	8,290	8,638	(689)	(3.8%)

Change Items:	Fund						
(B) ADMINISTRATIVE LAW FEE RATE INCREASES	CDT				460		467
(B) DEFICIENCY - CHILD SUPPORT RENT	GEN				168		
(B) CASE SCHEDULING/MGMT SYSTEM SUPPORT	WCS				(119)		(119)
Total Change Items					509		348

Financing by Fund:							
Direct Appropriations:							
GENERAL	0	205	195	0	168	0	0
WORKERS COMPENSATION	6,589	6,710	7,073	7,085	6,966	7,288	7,169
Statutory Appropriations:							
ADMINISTRATIVE HEARINGS	4,793	2,298	1,398	964	1,424	986	1,453
WORKERS COMP TRANSCRIPT	6	6	16	16	16	16	16
Total Financing	11,388	9,219	8,682	8,065	8,574	8,290	8,638

FTE by Employment Type:							
FULL TIME	113.1	97.0	95.2	95.2	95.2	95.2	95.2
PART-TIME, SEASONAL, LABOR SER	2.8	1.3	0.7	0.7	0.7	0.7	0.7
OVERTIME PAY	0.9	0.2	0.2	0.1	0.1	0.1	0.1
Total Full-Time Equivalent	116.8	98.5	96.1	96.0	96.0	96.0	96.0

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Agency: ADMINISTRATIVE HEARINGS

Base Budget Report (Dollars in Thousands)	All Funds		General Fund		Other State Funds		Federal Funds	
	FY 2002	FY 2003	FY 2002	FY 2003	FY 2002	FY 2003	FY 2002	FY 2003
FY 2001 Budgeted	7,839	7,861	0	0	7,839	7,861	0	0
<u>Base Adjustments</u>								
2002-03 SAL. & BEN. BASE	168	343	0	0	168	343	0	0
DOC. SPACE RENTAL/LEASE	58	86	0	0	58	86	0	0
Subtotal Base Adjustments	226	429	0	0	226	429	0	0
Base Budget	8,065	8,290	0	0	8,065	8,290	0	0

BUDGET ACTIVITY SUMMARY

Budget Activity: ADMINISTRATIVE HEARINGS
Program: ADMINISTRATIVE HEARINGS
Agency: ADMINISTRATIVE HEARINGS

ACTIVITY PROFILE:

Administrative law judges (ALJs) assigned to the Administrative Law Division conduct administrative rule reviews and hearings for state agencies and also administrative contested case proceedings for state agencies and local political subdivisions. During FYs 1999 and 2000, staffing was reduced from 11 to eight full-time, permanent ALJs. The Chief and Assistant Chief ALJs conduct rule and contested case hearings in addition to their management responsibilities.

The office contracts with a few attorneys throughout the state to conduct contested case proceedings on an as-needed basis. As a result of legislation enacted in the 2000 session, OAH will have authority to cross-train workers' compensation judges to hear administrative contested case proceedings. This will significantly reduce OAH's need to refer matters to contract ALJs.

PERFORMANCE SUMMARY:

- State agencies and local units of government referred 584 administrative rulemaking and contested case proceedings in FY 2000, approximately the same as during the previous budget cycle.
- OAH has an internal policy requiring ALJs to issue orders or reports within 30 days after the record is closed, absent exceptional circumstances. On average, ALJs in the APA Section issued their orders and reports within 17 days during FY 2000.

FINANCING INFORMATION:

OAH bills state agencies and local units of government for the time (in tenths of hours) that ALJs and staff attorneys actually spend on rule reviews and hearings and administrative contested case proceedings. Currently, OAH charges user agencies and local governments \$91/hr. for time spent by ALJs on their matters and \$50/hr. for time spent by staff attorneys. During FY 2002 and FY 2003, OAH expects to bill those customers \$130 for ALJ time and \$75 for staff attorney time. (Per MS 16A.1283, OAH has submitted a separate change item related to this fee increase.)

Since the 1999 transfer of OAH's child support, the agency has covered anticipated operating losses with accumulated retained earnings. OAH's revolving fund balance was \$1.2 million at the beginning of FY 2000 and \$809,000 at the beginning of FY 2001. It will decline to an estimated \$285,000 as of 7-1-01. After implementing fee increases (43% for ALJ time and 50% for

staff attorney time), OAH expects to receive \$1.42 million in revolving fund revenues in FY 2002 and \$1.45 million in FY 2003. The Administrative Law Division revolving fund supports 14.25 FTEs and has received no loans from the General Fund.

Since agencies will have to absorb the increased costs within existing appropriations, they may be pressured to use publicly funded forums, such as the court system, or to avoid providing aggrieved parties with hearings. State and local agencies that do not receive appropriated funds from the state will have to absorb those costs, pass them on to their licensees, customers, etc. or seek alternative forums. Any such change in demand for OAH services will have ramifications upon its revenue and operations.

The department received a one-time deficiency appropriation from the General Fund in FY 2000 that was used to defray lease obligations of the child support function during FY 2000 and FY 2001.

BUDGET ISSUES:

When the legislature transferred the child support function to the state court system, OAH retained its ongoing lease obligation for the section's office space that will not expire until 6-30-02. Efforts to negotiate with the lessor to liquidate that obligation or to sublease the space have been unsuccessful. OAH is therefore requesting a second one-time General Fund deficiency appropriation of \$168,000 for FY 2002 to meet that obligation. No further costs attributable to transferring the child support function are expected.

Negotiations with OAH's current lessors in Minneapolis and St. Paul have revealed that OAH can expect very substantial increases in the cost of space rental beginning in FY 2003. The Real Estate Management Division has been able to negotiate a lease for space that would allow merger of the two existing Metro area offices into a single St. Paul office, if OAH is able to move to the new site as of 10-1-01. Moving will produce net rental savings of \$96,363 in FY 2002-03 and \$374,440 in FY 2004-05, as well as savings in future biennia. The cost of moving will be \$200,000, and the agency is requesting an appropriation for this cost within the Governor's capital budget.

Activity: ADMINISTRATIVE HEARINGS
Program: ADMINISTRATIVE HEARINGS
Agency: ADMINISTRATIVE HEARINGS

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
Expenditures by Category:									
State Operations									
COMPENSATION	2,078	1,450	1,140	861	1,149	894	1,189	(252)	(9.7%)
OTHER OPERATING EXPENSES	2,715	1,053	453	103	443	92	264	(799)	(53.1%)
Total Expenditures	4,793	2,503	1,593	964	1,592	986	1,453	(1,051)	(25.7%)
Change Items:	Fund								
(B) ADMINISTRATIVE LAW FEE RATE INCREASES	CDT				460		467		
(B) DEFICIENCY - CHILD SUPPORT RENT	GEN				168				
Total Change Items					628		467		
Financing by Fund:									
Direct Appropriations:									
GENERAL	0	205	195	0	168	0	0		
Statutory Appropriations:									
ADMINISTRATIVE HEARINGS	4,793	2,298	1,398	964	1,424	986	1,453		
Total Financing	4,793	2,503	1,593	964	1,592	986	1,453		
Revenue Collected:									
Dedicated									
ADMINISTRATIVE HEARINGS	5,211	1,936	900	900	1,360	900	1,367		
Total Revenues Collected	5,211	1,936	900	900	1,360	900	1,367		
FTE by Employment Type:									
FULL TIME	34.9	19.8	14.6	14.6	14.6	14.6	14.6		
OVERTIME PAY	0.1	0.0	0.0	0.0	0.0	0.0	0.0		
Total Full-Time Equivalent	35.0	19.8	14.6	14.6	14.6	14.6	14.6		

BUDGET CHANGE ITEM (56764)**Agency: ADMINISTRATIVE HEARINGS****Item Title: AMINISTRATIVE LAW FEE RATE INCREASES**

	<u>2002-03 Biennium</u>		<u>2004-05 Biennium</u>	
	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u>
Expenditures: (\$000s)				
Administrative Hrgs.				
-State Operations	\$460	\$467	\$467	\$467
Revenues: (\$000s)				
Administrative Hrgs	\$460	\$467	\$467	\$467
Statutory Change? Yes _____ No <u>X</u> _____				
If yes, statute(s) affected:				
_____ New Activity <u>X</u> Supplemental Funding _____ Reallocation				

GOVERNOR'S RECOMMENDATION:

The Governor recommends that legislative approval of OAH fee changes be exempted from the requirements of MS 16A.1283 for the reasons discussed below. However, should the agency fall within the statutory requirements, the Governor recommends approval of the fee increases and associated anticipated biennial expenditures and revenues of \$927,000 each.

RATIONALE:

The change item is forwarded as a confirmation for exception to the requirements of MS 16A.1283. Pursuant to paragraph (b), clause (1), which exempts "charges billed within or between state agencies agencies, or billed to federal agencies," legislative approval of OAH fee changes does not appear to be necessary. OAH bills state agencies as well as other units of local government for the time (in tenths of hours) that administrative law judges (ALJs) and staff attorneys actually spend on rule reviews and hearings and administrative contested case proceedings. An exception might be boundary adjustment hearings involving local units where OAH has the statutory authority to allocate a portion of hearing costs to private parties.

From FY 1995 through FY 1998, OAH billed agencies \$89 per hour for ALJ time and \$50 per hour for staff attorney time. From FY 1999 through FY 2001 the charge for ALJs was increased to \$91 per hour. OAH had been able to keep rates that low because of contributions to general office overhead and economies made possible by OAH's child support hearing function. That

function has since been transferred to the court system. So, during FY 2002 and FY 2003, OAH expects to bill the agencies for which it provides hearing and rulemaking services \$130 for ALJ time and \$75 for staff attorney time in order to maintain fiscal stability.

FINANCING:

During FY 2002 and FY 2003, OAH expects to bill agencies \$130 for ALJ time and \$75 for staff attorney time. OAH expects to receive in total \$1.4 million in revolving fund revenues in FY 2002 and \$1.4 million in FY 2003. This level of total revenue equals the current level of total anticipated expenditures for the Administrative Hearings Program in FY 2001.

OUTCOMES:

The increases for OAH's charges will have a negative fiscal impact on the budgets of the agencies for which OAH conducts hearings and review proceedings.

BUDGET CHANGE ITEM (48018)**Agency: ADMINISTRATIVE HEARINGS****Item Title: DEFICIENCY FOR LOSS OF CHILD SUPPORT**

	<u>2002-03 Biennium</u>		<u>2004-05 Biennium</u>	
	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u>
Expenditures: (\$000s)				
General Fund				
-State Operations	\$168	\$-0-	\$-0-	\$-0-
Revenues: (\$000s)				
General Fund	\$-0-	\$-0-	\$-0-	\$-0-
Statutory Change? Yes _____ No <u>X</u> _____				
If yes, statute(s) affected:				
_____ New Activity <u>X</u> Supplemental Funding _____ Reallocation				

GOVERNOR'S RECOMMENDATION:

The Governor recommends one-time deficiency funding of \$168,000.

RATIONALE:

When the legislature transferred Office of Administrative Hearings (OAH's) child support function to the state court system in 1999, OAH retained an ongoing lease obligation for that section's office space that will not expire until 6-30-02. Real Estate Management Division's efforts to negotiate with the lessor to liquidate that obligation or to sublease the space have been unsuccessful. OAH is therefore requesting a one-time General Fund deficiency appropriation of \$168,000 for FY 2002 to meet that obligation. No further costs attributable to transferring the child support function to the judicial system are expected.

FINANCING:

This represents deficiency funding for a special and time-limited purpose.

OUTCOMES:

Without deficiency funding to cover this lease obligation, OAH will be compelled to shift this child support cost to the state and local agencies for which OAH provides hearing and rulemaking services by building the cost into the hourly rates that OAH will charge in FY 2002.

BUDGET ACTIVITY SUMMARY

Budget Activity: WORKERS COMPENSATION
Program: ADMINISTRATIVE HEARINGS
Agency: ADMINISTRATIVE HEARINGS

ACTIVITY PROFILE:

The Workers' Compensation Division is made up of a Hearing Section and a Settlement Section. The latter was previously the Judicial Services Unit of the Department of Labor and Industry. In 1998, the legislature transferred the functions and personnel of that unit to OAH. The new Settlement Section provides alternative dispute resolution services that result in efficient, final resolution of many disputes over workers' compensation benefits. The Section's workers' compensation judges resolve disputes by facilitating negotiations between the parties or by entering orders following administrative conferences. The Settlement Section refers disputes that it cannot resolve to the Hearing Section for formal evidentiary hearings.

When a contested workers' compensation case is referred to the Hearing Section, a workers' compensation judge: considers and decides motions; issues pre-trial orders; schedules and conducts pre-trial hearings and settlement conferences; reviews any settlement agreements and issues awards based on those agreements; conducts trials; and issues final decisions. He or she also awards attorneys' fees, processes appeals, and handles cases remanded from the Workers' Compensation Court of Appeals.

PERFORMANCE SUMMARY:

- During FY 2000, 10,583 workers' compensation cases were referred to the Settlement Section. During the same period, Settlement Section judges disposed of 7,211 disputes.
- During FY 2000, 4,357 workers' compensation cases were referred to the Hearing Section for hearing. During the same period, Hearing Section judges disposed of 4,344 cases.
- The average time between receipt of a contested case at the Hearing Section to hearing was 6.2 months.
- State law requires that a final order be entered on regular claim petitions within 60 days after close of the record and within 30 days for fast-track cases. During FY 2000, the average time for entering final orders on *all* claim petitions was 36.4 days.

FINANCING INFORMATION:

The Workers' Compensation Division maintains a special revenue revolving fund. Revenues currently consist of charges of a \$25 filing fee for appeals and

a \$.25 per page charge for photocopying documents from case file. No increases in those charges are planned during the FY 2002-03 biennium. The fund balance increased from \$56,000 at the end of FY 1999 to \$60,000 at the end of FY 2000, which was within the normal level of fluctuation due to fund activity. Expected revenues for the FY 2002-03 biennium are approximately \$10,000 per year.

This fund supports no full time equivalents and has received no loans from the General Fund. No expenditures from this fund for technology or equipment are contemplated.

BUDGET ISSUES:

An appropriation from the Workers Compensation Special Fund funds the activities of OAH's Workers' Compensation Division. The only Special Fund budget initiatives that OAH is proposing for FY 2002-03 is a biennial reallocation of \$238,000 of those Special Fund appropriations to the Department of Labor and Industry's Special Fund appropriations. That reallocation will be used by the Department of Labor and Industry to help fund an information technology position to support OAH's portion of the new workers' compensation case management system that serves both agencies.

Major technical and operational problems still remain relating to integrating the computer information systems used by the Department of Labor and Industry, OAH's Settlement Section in St. Paul and the Hearing Section in Minneapolis. With the assistance of the Office of Technology, a technology Special Fund budget initiative is proposed to enable all the computer systems to become fully integrated and functional for all participants.

Activity: WORKERS COMPENSATION
Program: ADMINISTRATIVE HEARINGS
Agency: ADMINISTRATIVE HEARINGS

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
Expenditures by Category:									
State Operations									
COMPENSATION	5,504	5,579	5,953	6,066	5,947	6,215	6,096	511	4.4%
OTHER OPERATING EXPENSES	1,091	1,137	1,136	1,035	1,035	1,089	1,089	(149)	(6.6%)
Total Expenditures	6,595	6,716	7,089	7,101	6,982	7,304	7,185	362	2.6%
Change Items:	Fund								
(B) CASE SCHEDULING/MGMT SYSTEM SUPPORT	WCS				(119)		(119)		
Total Change Items					(119)		(119)		
Financing by Fund:									
Direct Appropriations:									
WORKERS COMPENSATION	6,589	6,710	7,073	7,085	6,966	7,288	7,169		
Statutory Appropriations:									
WORKIERS COMP TRANSCRIPT	6	6	16	16	16	16	16		
Total Financing	6,595	6,716	7,089	7,101	6,982	7,304	7,185		
Revenue Collected:									
Dedicated									
WORKIERS COMP TRANSCRIPT	10	9	9	9	9	9	9		
Total Revenues Collected	10	9	9	9	9	9	9		
FTE by Employment Type:									
FULL TIME	78.2	77.2	80.6	80.6	80.6	80.6	80.6		
PART-TIME, SEASONAL, LABOR SER	2.8	1.3	0.7	0.7	0.7	0.7	0.7		
OVERTIME PAY	0.8	0.2	0.2	0.1	0.1	0.1	0.1		
Total Full-Time Equivalent	81.8	78.7	81.5	81.4	81.4	81.4	81.4		

BUDGET CHANGE ITEM (48042)**Agency: ADMINISTRATIVE HEARINGS****Item Title: CASE SCHEDULING/MGMT SYSTEM SUPPORT**

	<u>2002-03 Biennium</u>		<u>2004-05 Biennium</u>	
	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u>
Expenditures: (\$000s)				
Workers Comp				
-State Operations	\$(119)	\$(119)	\$(119)	\$(119)
Revenues: (\$000s)				
General Fund	\$-0-	\$-0-	\$-0-	\$-0-
Statutory Change? Yes _____ No <u>X</u>				
If yes, statute(s) affected:				
_____ New Activity _____ Supplemental Funding <u>X</u> Reallocation				

GOVERNOR'S RECOMMENDATION:

The Governor recommends a biennial reduction in funding of \$238,000 as proposed by the agency.

RATIONALE:

For several years, Office of Administrative Hearings (OAH) and the Department of Labor and Industry (DOLI) have been working cooperatively to develop a single data base and Case Scheduling and Management System (CSMS) that will encompass all workers' compensation claims and support both agencies' activities. That system was recently implemented but there will be a continuing need for two positions, a supervisory position to direct data and image quality assurance activities and an information technology position to provide technical support, programming, training, and database administration improve the CSMS system to meet both agencies' needs. OAH, DOLI and the Workers' Compensation Court of Appeals (WCCA) have agreed to jointly fund the positions to be located at DOLI.

FINANCING:

OAH is proposing to reallocate \$238,000 of its biennial Workers Compensation Fund appropriation to DOLI as OAH's contribution to the cost of the new positions. OAH's Workers Compensation Fund budget therefore shows a \$238,000 biennial base level reduction, and DOLI's budget shows a corresponding biennial base level increase.

OUTCOMES:

By sharing the cost of staff to address the individual needs of each agency, OAH, DOLI, and WCCA will each be able to avoid the duplication of services and increased costs of services that will result if they each obtain those services separately. The workers' compensation dispute resolution process will be more efficient in three significant ways:

- All state agency partners are able to access data related to cases.
- Improved information will be available for decision making.
- Stakeholders will receive better service.

PLANNING, STRATEGIC & L R - EXECUTIVE SUMMARY

AGENCY MISSION AND VISION:

Vision: Minnesota Planning will be a recognized leader for providing information and analysis to guide those making decisions affecting Minnesota's future.

Mission: To identify strategic issues and provide the information, analysis, coordination and tools necessary for informed decision-making to guide Minnesota's future.

KEY SERVICE STRATEGIES:

Minnesota Planning is a small agency with a variety of assignments – to raise awareness of critical issues important to Minnesota's future, to provide local planning assistance and facilitate municipal boundary adjustments, to conduct environmental review and furnish coordination on environmental issues, to provide geographic information systems services and coordination and to supply demographic and criminal justice information services. We are an information-rich agency; our service strategies were developed to address our assignments and to maximize the use of our resources in public policy development.

- To help government, business and citizens make informed decisions by: 1) gathering and providing input to collections of data, organizing data, providing access to data, providing analytical tools to use the data effectively, and by coordinating data across state agencies; 2) providing information that reflects an appropriate context for and interpretation of available data; and 3) by identifying strategic issues, developing strategic plans, and through analysis, grants, technical assistance, demonstration projects, and policy recommendations.
- To promote efficient delivery of government services by providing coordination among government agencies and with the private sector.
- To facilitate proactive responses to issues before they become critical by raising awareness, facilitating debate, and advancing potential solutions.

PERFORMANCE SUMMARY:

To determine how effectively we address our key service strategies, our new strategic plan contains four success criteria:

- Visibility – decision-makers and Minnesota citizens know who we are, how we can assist and how to access our wide array of information and data.
- Demand - decision-makers and citizens ask for information and advice on key issues.
- Satisfaction - we meet or exceed the expectations of our customers.

- Influence - decision-makers and citizens respect our information and advice and use them when making plans and setting policy.

Indicators and measures for these success criteria have been developed; data collection has been initiated but is incomplete. Some results for this budget cycle are outlined below, using available data and previous measures. Satisfaction and influence criteria will be measured by customer surveys.

Visibility

- In partnership with the USDA, regional development commissions and several other state agencies, we sponsored 10 listening posts around the state to gather citizen input on challenges facing rural Minnesota. The resulting reports were used extensively by DTED and USDA in planning the 2000 Rural Summit and by several of the administration's mini-cabinets.
- We regularly make presentations and organize exhibits that describe our services in geographic information technology, local planning assistance, environmental review, municipal boundary adjustments and demographics at events sponsored by state, regional and local organizations.
- Staff made more than 100 site visits to local governments engaged in developing comprehensive plans
- An electronic environmental atlas for students in grade K-12 is being prepared in partnership with the DNR and Macalester College.
- We are leading development of a multi-agency approach to deliver integrated assistance to local governments.

Demand

- The State Demographic Center annually receives more than 100 requests for presentations
- The agency responded to approximately 250 requests for information from legislators and legislative staff, approximately 500 requests for information from the media and more than 2000 requests for criminal justice reports, statistics and information.
- At the request of the Commissioner of Employee Relations, the agency is conducting analysis of the state's work force for human resources planning.
- During the 2000-2001 biennium, the agency responded to more than 400 requests for planning assistance from counties, cities and townships.
- As requested by the legislature, we prepared *Minnesota by Design*, which offers options for a state development strategy.
- More than 1,000 Internet searches for digital geographic data are made through the Minnesota GeoData Clearinghouse every month.

PLANNING, STRATEGIC & L R - EXECUTIVE SUMMARY (Continued)

- Completed *Watermarks*, the state's 10-year water plan, as directed by the legislature.
- Agency staff leads or participates in approximately 25 inter-agency, inter-governmental work groups and task forces.
- More than 1,500 individuals have registered as users of the Internet Datanet service, a comprehensive collection of tables, charts and maps about Minnesota's people and economy. Datanet registers 25,000 hits per month.

Satisfaction

- Received national awards for outstanding statistical and policy analysis for the following Criminal Justice Center publications: *Minnesota Homicides, 1985 to 1997*; *Judging by the Data: Offenders in Minnesota's Juvenile Courts*; and *Tracking Crime: Analyzing Minnesota Criminal History Records*.
- "Your organization is providing an excellent service to its constituents, including Native American Tribes!" Prairie Island Indian Community (Assistance Center user)
- LMIC is working with educators to incorporate GIS technology into the classroom. Comment from a recent conference demonstrating EPPL, state-developed GIS software: "This is excellent. I know at least a dozen things I can use this for immediately."
- The agency developed GeoGateway, an Internet tool designed to help Minnesota GIS users search a wealth of online geographic data sources simultaneously. Comment from a user: "Two thumbs up! Wonderfully easy."
- Ramsey County officials used the "Children's Report Card" to determine budget priorities, after examining their report card rankings.
- Park Rapids residents took action to develop a youth center, citing Hubbard County's 76th place ranking in the "Children's Report Card."

Influence

- Worked in partnership with the Department of Finance to build the Governor's budget for the 2002-2003 biennium.
- Working with the Pollution Control Agency, the Office of Environmental Assistance, the departments of Administration, Commerce and Finance, the agency helped form the Smart Buildings Partnership, with the goal of reducing the state's long-term costs and improving environmental and employee performance by incorporating into capital projects state-of-the-art smart building practices for siting, design, operations and maintenance.
- In 1999 and 2000, the agency worked with the US Census Bureau to promote the Census; Minnesota's response was the second highest in the nation.

- Database and maps of more than 15,000 daycare providers have been used by DCFL to support operations of its children's food nutrition program.
- We led "State Departments: Best Bang for the Buck" initiative to ensure that multi-agency focus is brought to bear on government activities and to increase efficiency, increase the quality of services and obtain the best value for every taxpayer dollar spent.
- We partnered with the Departments of Administration and Transportation and Pine City to develop *Netplan*, a community-planning guide for advanced telecommunications services.
- The agency developed smart growth criteria for evaluating capital bonding proposals, in order to ensure the lowest possible long-term costs.
- *Positional Accuracy Handbook: Using the National Standard for Spatial Data Accuracy*, a LMIC publication, has been requested by more than 2,000 users of GIS technology and adopted by the Federal Geographic Data Committee as a basic training resource.
- Four standards developed by the Minnesota Governor's Council on Geographic Information, with technical support from LMIC, have been adopted by the state as official standards.
- The Municipal Boundary Adjustments team facilitated the settlement of contested cases for the development of local agreements for the city of Dundas and property owners, the city of Waconia and Waconia Township, and the cities of Brainerd and Baxter and unorganized territory within Crow Wing County.
- The agency initiated the administration's multi-agency labor shortage and work force development studies.
- Minnesota Planning staff assisted with the formation of 12 multijurisdictional comprehensive planning efforts and integration of state programs into those efforts, including source water protection, agricultural preservation and transportation corridor planning.
- The agency fostered adoption of an areawide comprehensive plan for the St. Cloud area and development of continued joint planning and implementation efforts in that region.
- Staff were instrumental in integrating local comprehensive planning with other state agency efforts, including through the Division of Emergency Management's Mitigation Advisory Committee, Pollution Control Agency's Statewide Nonpoint Source Management Plan, and Department of Transportation's Statewide Plan Steering Committee and Access Management Technical Committee.

PLANNING, STRATEGIC & L R - EXECUTIVE SUMMARY (Continued)

DIRECTOR/EXECUTIVE MANAGEMENT & SUPPORT	4.0 fte
State Demographic Center	7.0 fte
Environmental Quality Board	11.0 fte
Land Management Information Center	18.9 fte
Criminal Justice	2.0 fte
Critical Issues	9.8 fte
Local Planning Assistance	2.5 fte
Municipal Board	3.6 fte
LCMR Project	2.0 fte
Agency Operation and Support Staff	21.8 fte
6/30/00 TOTAL	82.6 fte

OPERATING ENVIRONMENT:

The Office of Strategic and Long-Range Planning was established in 1991, following the abolition of the State Planning Agency, to develop a long-range strategic plan for the state (*Minnesota Milestones*), keep Minnesotans focused on the future, coordinate activity among all levels of government and work with the Department of Finance on the funding of major state projects.

To address its charge, the agency held extensive public meetings and produced *Minnesota Milestones* in 1992, with updates in 1994, 1996 and 1998. Ten Listening Posts were held around the state in 1999 and 2000. In the 2002-03 biennium we will again hold public meetings to revise the plan according to the priorities established by Minnesotans.

By conducting in-depth research and analysis, and working with other state agencies, local governments, the private sector and the public we identify policy options. To enhance the ability of decision-makers and citizens to plan for the state's future we maintain large stores of demographic, geographic, criminal justice, environmental, education and human services data. Managing data is a critical function and is identified as a high priority in our Strategic Information Resources Management Plan. Internal reallocations have strengthened our issue identification, strategic planning and coordination functions. These will remain priorities for the 2002-03 biennium.

Staff in the Land Management Information Center continue to work toward full implementation of a geographic data clearinghouse and standardization of geographic data with base budget funding. As more and more data becomes available in the future, these critical management efforts will significantly reduce future costs to state and local governments. We will continue to provide reliable data that is useful to decision-makers, local planners and the public. The base budget will continue to provide support for the Governor's Council on Geographic

Information; we believe that this kind of coordination is a necessary function of state government.

Our base budget has minimally supported our Local Planning Assistance Team, but we have been unable to fully satisfy requests from local governments. We are exploring expanded collaboration with other agencies and are submitting an initiative to strengthen this important function and prevent future costs arising from lack of local planning.

The EQB is close to completing the Generic Environmental Impact Statement on Animal Agriculture. The study will prevent future economic, environmental and social costs by providing a framework for future development of animal agriculture enterprises in the state.

ORGANIZATION/PROGRAM STRUCTURE:

Minnesota Planning is organized into functional teams, which have the flexibility to reorganize quickly, making appropriate research, analysis, planning and evaluation skills available for varied assignments and projects.

State Demographic Center

The State Demographic Center annually reports changes in Minnesota's population and population characteristics and predicts the future population. It identifies trends such as labor shortages and long-term care needs that are likely to have an impact on state expenditures. The center checks the accuracy of federal statistics that are the basis for distribution of funding for certain programs. It is also Minnesota's liaison with the U.S.Census.

The "Answer People" at the Demography Helpline respond to thousands of requests a year. They provide citizens and governments with information necessary for informed decisions on major capital projects, social programs, economic programs and business investments.

Future activities will include analysis and publication of Census 2000 results, certification of county, city, township and school district populations for specific funding formulas, demographic analysis related to evaluation of effectiveness of existing programs, and identification of needs for additional programs or absence of need for existing programs.

Criminal Justice Statistics Center

The Criminal Justice Statistics Center provides criminal and juvenile justice information, conducts research and maintains databases for policy development. The center tracks crime and disseminates vital justice system data for

PLANNING, STRATEGIC & L R - EXECUTIVE SUMMARY (Continued)

government policy makers and citizens and serves as Minnesota's Statistical Analysis Center; it receives funding from the US Department of Justice

Recent activities include working with other states, state agencies and local communities to improve integration of criminal history information, conduct statistical analysis to include in Minnesota's comprehensive statewide three-year juvenile justice plan, and enhance information and data available on-line.

The center's most recent publication, *Keeping Watch: 1999 Minnesota Crime Survey*, details Minnesotans' perceptions of safety and opinions of law enforcement, and victimization experiences including crimes unreported to the police.

Some information and data available on-line:

- Arrest and apprehension data by age, ethnicity, race and sex from 1985 to 1997.
- Links to state and national resources on criminal justice and other topic areas such as education, health and human services.
- Maps showing reported crimes, arrests and apprehensions, and probation cases for 1994 to 1997 and justice system expenditures from 1994 to 1996.
- Probation cases by age and offense level for 1985 to 1997.
- Reported offense data for 1985 to 1997.
- Sheriff's office and county corrections expenditures from 1985 to 1996.
- State correctional facility populations by age for 1981 to 1998.

Critical Issues Team

The Critical Issues Team identifies and examines emerging issues of statewide importance to Minnesota's governments, its people, economy and natural resources. The team handles a broad range of research, analysis, policy and strategic planning projects, often leading collaborative efforts with other state agencies, local government, and the public.

Analysis and reports equip policy makers and all Minnesotans to respond effectively to key challenges facing the state. The team has worked on topics such as K-12 education policy reform, workforce development, rural issues and indicators, welfare reform, gambling, higher education, fetal alcohol syndrome, housing, health care, local government affairs, and government spending.

Recent reports:

- *IssueWatch*, Monthly. An electronic newsletter highlighting trends affecting government spending, revenues and public policy.

- "Open the Doors: Partnering with Parents in a Standards-Based Education System." *Perspectives*, December 2000. A study of what schools, districts and state government can do to make the educational process more accessible to parents.
- "Educational Accountability: The Pursuit of Excellence in Minnesota Schools." *Perspectives*, July 2000. Explores the need for K-12 education to embrace standards and advocates partnership from family, community, persons working in education and those who support it at state and local levels. Shows that consequences are critical motivators and suggests incentives for students and teachers.
- "Implications of Rural Minnesota's Changing Demographics," *Perspectives*, July 2000. Examines the driving forces and implications of three demographic trends in rural Minnesota: the aging population, exodus of young adults and the concentration of population growth. Includes examples of practices and programs that hold promise for addressing these issues.
- *Children's Report Card*. The latest summary report looks at statewide trends and provides additional information on 26 indicators. Data is continuously updated online, most recently in September 2000.

Local Planning Assistance Team

The Local Planning Assistance Team seeks to assure that local governments and citizens have the resources to make informed comprehensive planning and land use decisions that promote healthy, vital communities and prevent future environmental, social and economic costs.

The team offers a variety of services to help communities with comprehensive planning. It provides data, information, guidance materials and referrals to address specific planning-related questions from local governments and citizens, administers grants to regional planning organizations and also administers the Community-Based Planning Act, which sunsets on 6-30-01.

Staff members fill requests on many topics, from urban growth boundaries to geographic information systems. They draw on a collection of planning publications and resources in the agency's Local Planning Assistance Center. The team prepares information packets to address commonly asked questions. In addition to providing individualized assistance, the team also is developing a geographic information system tool of software and data for local planning.

The team is working with the Department of Transportation, the Board of Water and Soil Resources and the Office of Environmental Assistance to better integrate state-level programs with local planning, including water planning, solid waste planning, inter-regional corridor management planning and water/waste-water infrastructure funding.

PLANNING, STRATEGIC & L R - EXECUTIVE SUMMARY (Continued)

Environmental Quality Board (EQB)

Minnesota Planning staffs the Environmental Quality Board, which is appointed by the Governor. The EQB provides the public with an accessible forum for discussing the environmental policies and decisions of state government.

The EQB provides the mechanism for coordinating actions of major state agencies and the impact of their decisions on the environment. It is the forum for working on those environmental issues and problems that do not fit in one of the state's other environmental agencies. This team is preparing the Generic Environmental Impact Statement on Animal Agriculture, and developing the scope of a possible GEIS on urban development.

Activities of board staff include environmental review, power plant siting, transmission line and pipeline routing, wind power facility siting, genetic engineering regulation, water resources planning, high-level radioactive waste monitoring programs and the sustainable development initiative.

Land Management Information Center (LMIC)

The Land Management Information Center offers services that promote the effective use of information technologies that use geographic information.

LMIC offers geographic data clearinghouse services in collaboration with other state agencies and levels of government. LMIC's "one-stop shop" includes a comprehensive data catalog, interactive data searches, and access to hundreds of geographic data sets, many of which can be downloaded at no cost over the Internet. LMIC's web site also offers maps and tools for spatial analysis and visualization, including software to view land use, digital photographs and topographic maps. LMIC's Service Bureau offers contract technical services to other units of government with special geographic information system needs.

LMIC promotes technical standards and collaboration among organizations that use GIS and federal mapping agencies. This includes administrative and technical support for the Governor's Council on Geographic Information. The council focuses on advising GIS users about data standards and best practices, promoting access to geographic data, identifying needed public investments, and providing a forum for discussion of key issues affecting GIS use.

Municipal Boundary Adjustments

The Municipal Boundary Adjustments Team was formed following the sunset of the Municipal Board and the transfer of all its duties and responsibilities to Minnesota Planning pursuant to Laws 1997, Ch. 202, Art. 5, Sec. 8, and Laws 1999, Ch. 243, Art. 16, sec. 24. The Director of Minnesota Planning inherited the Municipal Board's decision-making authority to issue orders approving or

disapproving the creation or dissolution of municipalities, or alteration of municipal boundaries through consolidation, merger, annexation or detachment of land.

The team continues to administer the work generated by Minnesota Statutes Chapter 414 which provides a uniform system of boundary adjustments and facilitates the economical delivery of municipal services such as water and sewer. There are nine statutory boundary adjustments authorized in Chapter 414. Customers are individual property owners, townships and cities. The workload, which averages 350-400 adjustments per year, is completely customer-driven and unpredictable. There is no agency control over the number of petitions filed or the number of petitions that are contested. Demand increased 26% over the last year.

REALLOCATIONS

Minnesota Planning reallocated resources to increase our visibility and influence by expanding research, strategic planning and coordination functions from 5.5 FTE to 10 FTE. The result will be expanded issue identification, research, analysis and planning ability to facilitate proactive responses to issues before they become critical by raising awareness, encouraging debate, identifying strategies to address cause and effect, and offering solutions. In FY 2000, we reallocated staff from editing and production services functions and the sustainable development initiative to enable us to reach this goal. We have strengthened our ability to examine and report on a wide range of issues while reducing design, production and printing costs by standardizing and simplifying formats. Salary dollars reallocated total \$440,000 biennially.

GOVERNOR'S RECOMMENDATIONS:

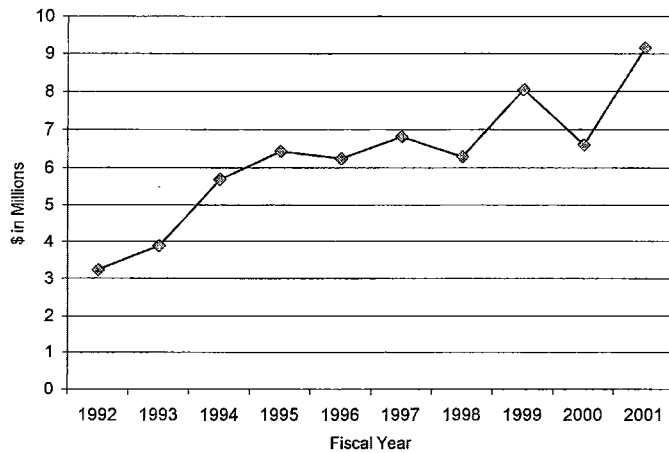
The Governor recommends the agency's requested base level appropriation; and a reduction of \$335,000 so that this funding may be used to provide more critical government services; \$170,000 to complete the Animal Agriculture GEIS to help protect Minnesota's natural and business environments; \$230,000 for Local Planning Assistance to help satisfy requests from local governments; and \$180,000 for Information Technology Integration to enable Minnesota Planning to electronically provide its information to citizens and decision-makers.

PLANNING, STRATEGIC & L R - EXECUTIVE SUMMARY (Continued)

TRENDS AND PERSPECTIVE:

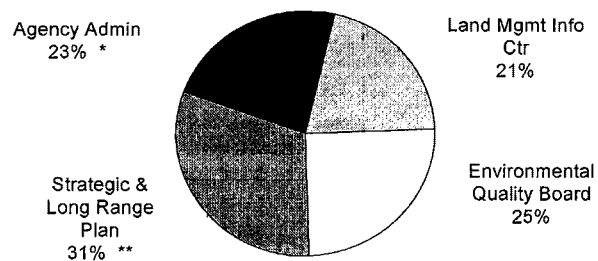
The Land Management Information Center (LMIC) was returned to Minnesota Planning in FY 1994. (It had been transferred to Admin in FY 1992). The increase in 1999 and 2001 are in large part due to the Generic Environmental Impact Statement on Animal Agriculture.

Total Budget - All Funds



2000-01 Expenditures by Program

Total: \$15,632

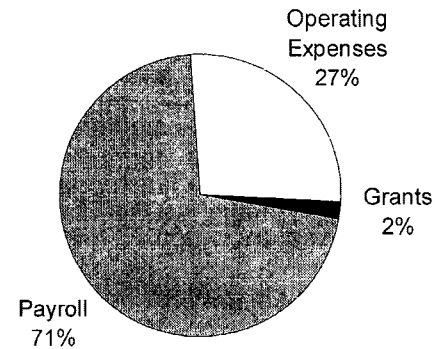


* Agency Administration Fiscal, Human Resources, Demographic Education, Production Services, IT Support

** Demography, Criminal Justice, Critical Issues, Municipal Boundary Adjustments, Local Planning Assistance

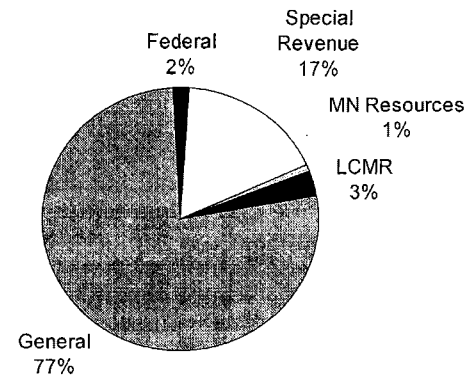
2000-01 Expenditures by Category

Total \$15,632



2000-01 Expenditures by Fund

Total \$15,632



Activity: STRATEGIC & LONG RANGE PLAN
Program: STRATEGIC & LONG RANGE PLAN
Agency: PLANNING, STRATEGIC & L R

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
Expenditures by Category:									
State Operations									
COMPENSATION	4,669	4,875	5,942	5,289	5,517	5,415	5,472	172	1.6%
OTHER OPERATING EXPENSES	2,644	1,507	2,934	1,037	1,017	1,028	1,008	(2,416)	(54.4%)
Subtotal State Operations	7,313	6,382	8,876	6,326	6,534	6,443	6,480	(2,244)	(14.7%)
LOCAL ASSISTANCE	1,019	174	200	0	0	0	0	(374)	(100.0%)
Total Expenditures	8,332	6,556	9,076	6,326	6,534	6,443	6,480	(2,618)	(16.7%)

Change Items:	Fund				
(A) BASE REDUCTION FOR CHALLENGE POOL	GEN			(167)	(168)
(A) GEIS - ANIMAL AGRICULTURE	GEN			170	
(A) LOCAL PLANNING ASSISTANCE	GEN			115	115
(A) INFORMATION TECHNOLOGY INTEGRATION	GEN			90	90
Total Change Items				208	37

Financing by Fund:							
Direct Appropriations:							
ENVIRONMENT & NATURAL RESOURCE	0	92	358	0	0	0	0
GENERAL	5,849	4,529	7,003	4,903	5,111	5,041	5,078
MINNESOTA RESOURCES	0	15	85	0	0	0	0
FEDERAL	44	42	0	0	0	0	0
Statutory Appropriations:							
GENERAL	1,275	682	0	0	0	0	0
MINNESOTA RESOURCES	137	0	0	0	0	0	0
SPECIAL REVENUE	907	1,103	1,452	1,246	1,246	1,225	1,225
FEDERAL	120	93	178	177	177	177	177
Total Financing	8,332	6,556	9,076	6,326	6,534	6,443	6,480

Revenue Collected:							
Dedicated							
GENERAL	24	0	0	0	0	0	0
SPECIAL REVENUE	1,525	1,019	1,045	1,155	1,155	1,155	1,155
FEDERAL	233	146	148	148	148	148	148
Nondedicated							
GENERAL	0	1	0	52	52	52	52
CAMBRIDGE DEPOSIT FUND	38	52	52	0	0	0	0
Total Revenues Collected	1,820	1,218	1,245	1,355	1,355	1,355	1,355

Activity: STRATEGIC & LONG RANGE PLAN
Program: STRATEGIC & LONG RANGE PLAN
Agency: PLANNING, STRATEGIC & L R

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003	
				Base	Governor Recomm.	Base	Governor Recomm.
FTE by Employment Type:							
FULL TIME	75.0	72.9	75.4	75.4	75.4	75.4	75.4
PART-TIME, SEASONAL, LABOR SER	6.2	9.7	9.4	9.4	9.4	9.4	9.4
Total Full-Time Equivalent	81.2	82.6	84.8	84.8	84.8	84.8	84.8

PLANNING, STRATEGIC & L R - BUDGET BRIEF

Fund: GENERAL

	<u>FY 2002</u>	<u>FY 2003</u>	<u>Biennium</u>
BASE YEAR (FY 2001) (\$000s)			
Appropriations	\$4,900	\$4,900	\$9,800
<u>BASE ADJUSTMENT</u>			
2002-03 Salary & Benefit	121	247	368
Space Rental/Lease	38	50	88
One time Appropriation Reductions	(156)	(156)	(312)
<u>BASE LEVEL (for 2002 and 2003)</u>	\$4,903	\$5,041	\$9,944
<u>CHANGE ITEMS</u>			
Base Reduction for Challenge Pool	(167)	(168)	(335)
GEIS on Animal Agriculture	170	-0-	170
Local Planning Assistance	115	115	230
Information Technology Integration	90	90	180
GOVERNOR'S RECOMMENDATION	\$5,111	\$5,078	\$10,189

BRIEF EXPLANATION OF BUDGET DECISIONS:

- *The Salary & Benefit and Space Rental/Lease base adjustments:* allow Minnesota Planning to maintain the same level of staffing and office space as in the previous biennium. It is the level considered necessary for continued support of our basic functions.
- *One-time Appropriation Reduction:* removes a one-time appropriation for Demographic Education Activities from our base appropriation.

GOVERNOR'S RECOMMENDATIONS:

The Governor recommends the agency's requested base level appropriation, and:

- a reduction of \$335,000 so that this funding may be used to provide more critical government services;
- \$170,000 to complete the Animal Agriculture GEIS to help protect Minnesota's natural and business environments;
- \$230,000 for Local Planning Assistance to respond to local government's requests for aid in developing information that helps prevent future environmental, social and economic costs;
- \$180,000 for Information Technology Integration to enable Minnesota Planning to provide its information electronically to citizens and decision-makers.

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Agency: PLANNING, STRATEGIC & L R

Summary of Agency Revenues (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Forecast	Governor Recomm.	Forecast	Governor Recomm.	Dollars	Percent
Non-Dedicated Revenue:									
Departmental Earnings:									
GENERAL	0	0	0	52	52	52	52	104	
CAMBRIDGE DEPOSIT FUND	38	52	52	0	0	0	0	(104)	(100.0%)
Other Revenues:									
GENERAL	0	1	0	0	0	0	0	(1)	(100.0%)
Total Non-Dedicated Receipts	38	53	52	52	52	52	52	(1)	(1.0%)
Dedicated Receipts:									
Departmental Earnings:									
SPECIAL REVENUE	1,522	1,012	1,044	1,155	1,155	1,155	1,155	254	12.4%
Grants:									
GENERAL	24	0	0	0	0	0	0	0	
FEDERAL	233	146	148	148	148	148	148	2	0.7%
Other Revenues:									
SPECIAL REVENUE	3	7	1	0	0	0	0	(8)	(100.0%)
Other Sources:									
SPECIAL REVENUE	113	84	0	0	0	0	0	(84)	(100.0%)
Total Dedicated Receipts	1,895	1,249	1,193	1,303	1,303	1,303	1,303	164	6.7%
Agency Total Revenues	1,933	1,302	1,245	1,355	1,355	1,355	1,355	163	6.4%

BUDGET CHANGE ITEM (48092)**Agency: PLANNING, STRATEGIC & L R****Item Title: BASE REDUCTION FOR CHALLENGE POOL**

	<u>2002-03 Biennium</u>		<u>2004-05 Biennium</u>	
	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u>
Expenditures: (\$000s)				
General Fund				
-State Operations	\$(167)	\$(168)	\$(167)	\$(168)
Revenues: (\$000s)				
General Fund	\$-0-	\$-0-	\$-0-	\$-0-
Statutory Change? Yes _____ No <u> X </u>				
If yes, statute(s) affected:				
_____ New Activity _____ Supplemental Funding <u> X </u> Reallocation				

GOVERNOR'S RECOMMENDATION:

The Governor recommends a biennial reduction of \$335,000 so that these funds are available for more urgent government services.

RATIONALE:

- The agency will eliminate one FTE from the document editing/production services function for a biennial reduction of \$175,000.

The agency has recently completed both a long-range strategic plan and a Strategic Information Resources Management Plan. Preparation of both plans demanded a detailed examination of the delivery of our most important product, information. We are committed to clear and accurate presentation of our work, but have determined that we can accomplish this goal with reduced design and editing services. We will emphasize content and de-emphasize process and presentation, thus addressing the Service Not Systems goal.

- The agency will combine accounting officer senior and personnel officer senior into one position or will collaborate with the other service agencies for sharing these necessary functions for a biennial reduction of \$120,000.

The agency recently experienced simultaneous vacancies in fiscal and human resources functions. An examination of our needs led us to believe that these positions need not necessarily be full-time, so we entered into

agreements with the departments of Administration and Finance to share staff services in these areas. We believe this initiative serves the Best Bang for the Buck initiative well by eliminating duplication of services and sharing expertise. We are also participating in a collaborative with the departments of Employee Relations, Administration and Finance to examine in greater detail the benefits of more extensive sharing of staff skills in these areas and in communications, production services, information technology and contracting and procurement.

- The agency has entered into a collaborative for library services with Intertech and DOER for a biennial reduction of \$40,000.

Minnesota Planning, the Intertech division of the Department of Administration and the Department of Employee Relations have offices in the Centennial Building. Minnesota Planning and Intertech have maintained libraries for many years; DOER has not previously had a library. This collaboration eliminates duplication of book purchases and periodicals and extends library services to DOER without adding staff.

FINANCING:

This is a permanent reduction of \$335,000 in the agency's biennial base.

OUTCOMES:

- Specialized expertise is shared across agencies, eliminating duplication of services
- Fewer resources, in time and dollars, are devoted to packaging of agency information products; earlier reallocations enhance number and substance of projects
- These initiatives will reduce future costs.

These initiatives will be evaluated by customer surveys in the upcoming biennium:

- Staff will be surveyed as to satisfaction with level of services that are obtained by sharing expertise.
- Legislators, other state agencies, local governments and other agency customers will be surveyed regarding quality and level of satisfaction with services and products.

BUDGET CHANGE ITEM (48095)**Agency: PLANNING, STRATEGIC & L R****Item Title: GEIS - ANIMAL AGRICULTURE**

	<u>2002-03 Biennium</u>		<u>2004-05 Biennium</u>	
	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u>
Expenditures: (\$000s)				
General Fund	\$170	\$-0-	\$-0-	\$-0-
-State Operations	\$-0-	\$-0-	\$-0-	\$-0-
Revenues: (\$000s)				
General Fund	\$-0-	\$-0-	\$-0-	\$-0-
Statutory Change? Yes _____ No <u>X</u>				
If yes, statute(s) affected:				
_____ New Activity <u>X</u> Supplemental Funding _____ Reallocation				

GOVERNOR'S RECOMMENDATION:

The Governor recommends a one-time appropriation of \$170,000 to complete the Animal Agriculture GEIS to help protect Minnesota's natural and business environment.

RATIONALE:

The agency is requesting a one-time appropriation of \$155,000 to complete the Generic Environmental Impact Statement (GEIS) on Animal Agriculture. Since 1997, the legislature and Governor have appropriated \$2.8 million to conduct this nationally unique study of the economic, environmental and social impacts associated with the animal ag industry. Funding is requested to complete the research, support the citizen advisory committee which provides direction and advice, and to produce and distribute the final document. The 1999 appropriation for the study was \$200,000 less than requested to finish the study.

A GEIS is an alternative form of environmental review that may be ordered by the EQB to study types of projects that are not adequately reviewed on a case by case basis. Criteria for determining the need for a GEIS include the following: if the possible effects on the human environment from a type of action are highly uncertain or involve unique or unknown risks; the degree to which decision makers or the public have a need to be informed of the potential impacts of such projects; the degree to which information to be presented in the GEIS is needed for governmental or public planning.

The agency mission statement is "To identify strategic issues and provide the information, analysis, coordination and tools necessary for informed decision making to guide Minnesota's future." The GEIS was designed to provide government officials with the information, analysis and tools required for making important decisions with long-lasting impact on Minnesotans. The study is a coordinated effort, involving a 24-member citizen advisory committee and the 10 EQB agencies.

The GEIS will bolster two important initiatives of the Healthy, Vital Communities Big Plan goal, "Improving the Competitive Position of Rural Minnesota," and "Growing Smart in Minnesota" by making recommendations that address mitigation of environmental impacts, clarifying the relationship between the animal ag industry and Minnesota's economy, and informing decision making that will better position the state to compete in world markets while avoiding undesirable environmental impacts. The GEIS will enable planners and policy makers to make regulatory decisions that will prevent future economic, environmental and social costs.

The GEIS is a collaborative between EQB member agencies. The initiative was first proposed by the departments of Natural Resources and Agriculture, the Pollution Control Agency and Minnesota Planning. We estimate that \$200,000 will be required to finish the study. Four EQB agencies have agreed to support the project through reallocation. They are the departments of Agriculture, Health and Commerce and the MPCA.

FINANCING:

One-time funding to complete the GEIS on Animal Agriculture.

OUTCOMES:

- Easing of controversy surrounding operation of feedlots.
- Decision-makers have the information necessary to make informed regulatory decisions resulting in a cleaner environment and a more competitive animal agriculture industry in Minnesota.

EQB staff will evaluate the project by monitoring:

- how often the results and recommendations contained in the GEIS are used as the basis for local decisions regarding the permitting and regulation of feedlots;
- how often the GEIS is used by state agencies engaged in permitting, regulation and modification of the state regulatory framework for feedlots;
- what new legislative and/or new research initiatives can be attributed to the information and recommendations contained in the final GEIS.

BUDGET CHANGE ITEM (48820)**Agency: PLANNING, STRATEGIC & L R****Item Title: LOCAL PLANNING ASSISTANCE**

	<u>2002-03 Biennium</u>		<u>2004-05 Biennium</u>	
	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u>
Expenditures: (\$000s)				
General Fund	\$115	\$115	\$115	\$115
-State Operations	\$-0-	\$-0-	\$-0-	\$-0-
Revenues: (\$000s)				
General Fund	\$-0-	\$-0-	\$-0-	\$-0-
Statutory Change? Yes _____ No <u> X </u>				
If yes, statute(s) affected:				
_____ New Activity <u> X </u> Supplemental Funding _____ Reallocation				

GOVERNOR'S RECOMMENDATION:

The Governor recommends a base increase of \$230,000 so that the office can continue to respond to local government requests for assistance in developing information that helps prevent future environmental, social and economic costs.

RATIONALE:

Many, if not most, decisions and actions affecting the state's future are made by local governments. At the same time, the state makes significant investments across Minnesota in infrastructure, natural resources and environmental protection. Many of these are to remedy past and current mistakes and problems. Their integrity cannot be protected and future problems avoided without local comprehensive plans and the local controls that implement them. This initiative will avoid future costs by providing local governments with the best available information for planning and ordinance development and technical assistance through multi-agency collaboration.

Although the agency has a long history of planning assistance to local governments, this work was not funded throughout most of the 1990s. With passage of the Community-Based Planning Act in 1997, we reinstituted these efforts. Most assistance was directed to governments planning under the Act; however, once local governments became aware that help was again available, requests escalated sharply. We have been unable to meet the needs of our customers – local governments and citizens – for planning assistance.

The agency mission is "to identify strategic issues and provide the information, analysis, coordination and tools necessary for informed decision making to guide Minnesota's future." This initiative responds directly to the needs of local governments for information, coordination and tools. By responding to specific requests, researching innovative approaches and integrating and coordinating efforts across agencies, we can ensure that local governments have the data and information necessary to improve the future for Minnesota and its communities.

Nearly all elements of the Healthy, Vital Communities Big Plan goal are integral to comprehensive planning, which is the vehicle for people to come together to create strong communities. The initiative also supports the budget principle of preventing future costs.

Partnerships with state and regional agencies and organizations for coordinated assistance were begun through administration of the Community-Based Planning Act. These will be enhanced to ensure that local governments have the data and information on state plans and programs that they need to make informed decisions and to ensure that state investments are supported.

FINANCING:

This activity had been partially supported with funding for the Community Based Planning Act, which sunsets on 6-30-01. We request an appropriation from the General Fund, added to the agency's base, to support 2 FTE.

OUTCOMES:

Initiative success will be judged on actual plans and ordinances produced and perceived value of the services provided.

- Local governments satisfied with the assistance received
- Increase in percentage of local governments with up-to-date comprehensive plans that are citizen driven and integrated with water plan, solid waste plan and other single-purpose planning efforts
- Increase in percentage of official controls, such as zoning ordinances, that are consistent with or supported by up-to-date comprehensive plans
- Revisions to local plans and ordinances in at least four interregional corridor management planning areas; two communities receiving telecommunication grants; and, two unsewered or undersewered communities requesting wastewater and/or water treatment grants and loans.

Evaluation will consist of customer feedback and surveys and evaluations following each assistance effort.

INFORMATION TECHNOLOGY CHANGE ITEM (48098)

Agency: PLANNING, STRATEGIC & L R
IT Change Item: INFORMATION TECHNOLOGY INTEGRATION

ITEM DESCRIPTION AND PURPOSE:

To create and maintain an information technology unit, headed by a CIO, who will oversee implementation and updating of the Strategic Information Resources Management Plan, redesign and implementation of the agency's web site and databases, technology planning, purchasing and computer support services.

FUNDING: (Dollars in Thousands)

Funding Distribution	2002-03 Biennium		2004-05 Biennium		2006-07 Biennium	
	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Personnel	90	90	90	90	90	90
Supplies	0	0	0	0	0	0
Hardware	0	0	0	0	0	0
Software	0	0	0	0	0	0
Facilities	0	0	0	0	0	0
Services	0	0	0	0	0	0
Training	0	0	0	0	0	0
Grants	0	0	0	0	0	0
Total	90	90	90	90	90	90

Increase in base funding to expand information delivery, data management, and ensure the integrity of the processes.

RATIONALE:

This project continues an initiative partially funded in the last biennium. It provides the resources needed to integrate technology activities, as recommended in the agency's Strategic Information Resources Management Plan approved by the Office of Technology. Base funding would be increased to consolidate the IT staff in a unit headed by a part-time CIO and to provide ongoing funding for an agency web coordinator. It is intended that both positions will be shared with another state agency not requiring full CIO or web staff.

A principal function of Minnesota Planning is to serve as an information broker for other units of government and the public. Several strategically important information units support this function, including the:

- * State Demographic Center
- * Land Management Information Center
- * DATANET
- * Criminal Justice Statistics Center
- * Environmental Quality Board
- * Local Planning Assistance Center

These activities have served the public well, but technology investments are critical to their functions. This initiative would ensure that investments are appropriate, timely and well supported.

Enhancement and expansion of our web site will strengthen our ability to coordinate projects across state agencies and among different levels of government and to deliver the data and information necessary to informed planning and decision making by elected officials and the public.

Outcomes:

- * Improved and more consistent policies and procedures for systems administration and security, IT purchasing, computer and network use, Internet use, user support, applications development and database design.
- * Improved integration of systems that support Minnesota Planning's functional units and other organizations that depend on our information services.
- * 2000 Census and future annual American Community Survey data will be on-line in useful formats
- * A comprehensive data management plan

The agency's Information Resource Steering Committee will establish goals and monitor progress by working with State Demographic Center staff to establish and observe timelines for public distribution of Census Bureau data, working with management to reallocate staff resources necessary to develop a comprehensive data management plan and working with the CIO to set priorities for long-term technology investments.

LIFE CYCLE ANALYSIS:

Life Cycle Status	2002-03 Biennium		2004-05 Biennium		2006-07 Biennium	
	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Development						
Operations	X	X	X	X	X	X
Modification						
Retirement						

OFFICE OF TECHNOLOGY ANALYSIS:

Deliverables/Objectives: This will create a shared CIO position and maintain a web coordinator position with another state agency. The CIO position will manage the IT, including planning, purchasing and support. The web coordinator will design and implement their web site and database. This initiative is identified in the agency SIRMP. Shared web and CIO staff is a good alternative for Minnesota Planning. **Conclusion:** This initiative meets information technology criteria for funding. This is one of only a few cabinet agencies that does not have a CIO.

GOVERNOR'S RECOMMENDATION:

The Governor recommends a base increase of \$180,000 to enable Minnesota Planning to electronically provide its information to citizens and decision-makers.

ADMINISTRATION DEPT - CONTENTS

Agency Executive Summary	PAGE
Budget Briefs by Fund	F-162
Revenue Summary Narrative	F-167
Federal Funds Summary	F-174
 PROGRAMS, BUDGET ACTIVITIES, AND CHANGE ITEMS	
 OPERATIONS MANAGEMENT BUREAU	 F-176
Change Item - Operations Management Budget Reductions	F-178
Risk Management	F-180
Materials Management	F-182
MMD Central Stores	F-185
Travel Management	F-189
Communications Media	F-192
MN Office Volunteer Services	F-197
 OFFICE OF TECHNOLOGY	 F-200
IT - Change Item - North Star Enterprise Portal	F-203
Change Item - Technology Enterprise Fund	F-205
Change Item - IT Architecture	F-207
Change Item - Technology Analyst Positions	F-208
IT - Change Item - Crimnet - Integration Backbone Development	F-210
IT - Change Item - Small Agency Infrastructure	F-212
IT - Change Item - Crimnet - Supreme Court	F-213
Change Item - Unemployment Ins Project Management	F-215
 INTERTECHNOLOGIES GROUP	 F-217
Computer Services	F-221
Telecom Services	F-224
Intertech-Other Services	F-228
911 Emergency Services	F-231
 FACILITIES MANAGEMENT BUREAU	 F-234
Change Item - Facilities Management Budget Reductions	F-237
Real Estate Management	F-238
Plant Management	F-240
Building Code & Standards	F-244
Building Construction	F-246
Change Item - Luverne Lawsuit	F-249
In-Lieu Of Rent	F-250
Change Item - In-Lieu Of Rent	F-252
Change Item - Governor's Residence	F-253

ADMINISTRATION DEPT - CONTENTS (Continued)

	PAGE
MANAGEMENT SERVICES BUREAU	F-254
Change Item - Management Services Budget Reductions	F-257
Administrative Management	F-258
Financial Mgmt Reporting & Human Resources	F-260
Management Analysis Division	F-263
Change Item - Governor's Transition	F-267
Information Policy Analysis	F-268
Office State Archaeologist	F-270
Developmental Disabilities Council	F-272
System Of Technology To Achieve Results	F-274
FISCAL AGENT	F-276

ADMINISTRATION DEPT - EXECUTIVE SUMMARY

AGENCY MISSION AND VISION:

The mission of the Department of Administration (Admin) is to improve the quality and productivity of Minnesota government. Admin accomplishes this by providing facilities, services, and infrastructure that contribute to each agency's ability to meet their goals. Admin serves multiple customers, including state agencies and constitutional offices, political subdivisions, the legislature, and government employees.

Admin is a customer-driven organization that operates under a common set of values. Some basic principles guide our behavior. These include

- winning compliance internally and in our interactions with customers;
- empowering and enabling customers by providing services, education, and frameworks for asset management;
- maximizing the benefit returned from citizen investment in government facilities and services; and
- meeting customer expectations via follow-through on commitments, responsiveness, flexibility, providing quality products and services, and recognition of high performance.

KEY SERVICE STRATEGIES:

Admin recently updated its strategic plan. Within that document, Admin identified four types of services that are provided to our customers.

1. **Marketplace Services** include most of the internal service fund activities. Customers have freedom of choice when selecting vendors and will choose to do business with Admin only if superior value is provided. These services include consulting services, travel management services, sale of office supplies, sale of surplus property, risk management insurance services, printing services, sale of state documents, micrographics, and records storage services.
2. **Utility Services** are similar to cooperatives in that the aggregation of demand is one of the primary benefits the utility provides. Utility services include data processing, telecommunications, 9-1-1 emergency telephone services, maintenance and grounds services, parking services, and mail operations.
3. **Compliance Services** are those that work to achieve compliance with laws, rules, standards, norms, and other expectations. These include information policy analysis, internal financial and audit services, professional and technical contracting, and building codes and standards.

4. **Leadership Services** are those that provide statewide leadership on various issues. Leadership expertise within Admin focuses on technology architecture, NorthStar website, electronic government services, facilities siting and building construction, resource recycling/recovery services, energy management, state archaeologist, assistance to disabled individuals throughout the state, and volunteer services.

The department's primary statutory duties are detailed in M.S. 16B and 16C.

OPERATING ENVIRONMENT:

In its 60 years of existence, the Department of Administration has evolved in response to changing needs within state government, and changing leadership. However, we are constant in our focus on "a strategy for service."

Admin is committed to offering only those products and services that are demanded by customers, generate enough revenue to at least meet the cost of provision, meet legislative mandates that continue to be relevant and appropriate, or can be delivered by Admin in ways that meet or exceed customer requirements for value and price.

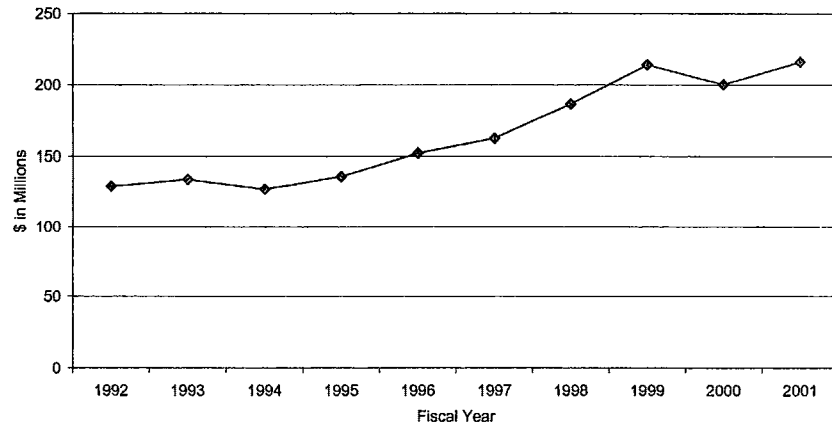
ORGANIZATION/PROGRAM STRUCTURE:

Operations Management Bureau	205.8 fte
Office of Technology	19.9 fte
InterTechnologies Group	282.7 fte
Facilities Management Bureau	320.1 fte
Management Services Bureau	84.5 fte
Fiscal Agent	0.0 fte
6/30/2000	913.0 fte

ADMINISTRATION DEPT - EXECUTIVE SUMMARY (Continued)

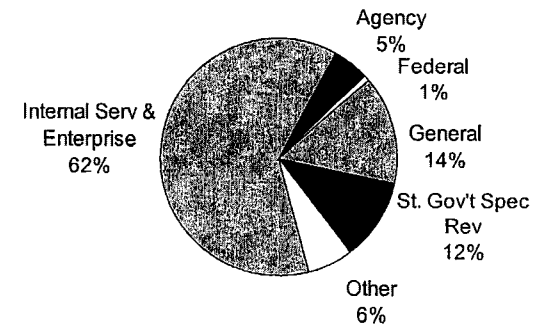
TRENDS AND PERSPECTIVE:

Total Budget - All Funds



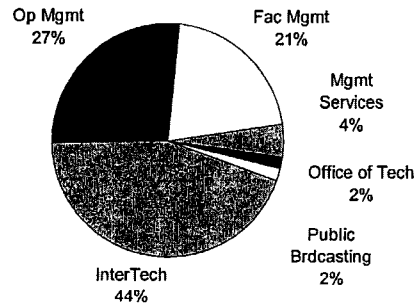
2000-01 Expenditures by Fund

Total: \$443.8 Million



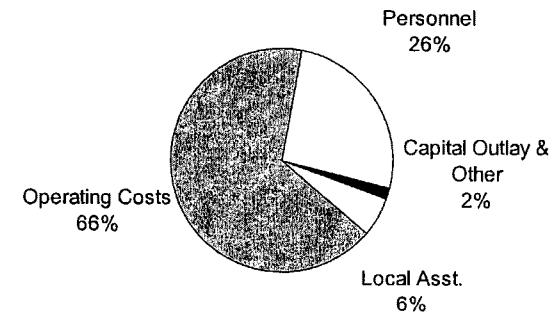
2000-01 Expenditures by Program

Total: \$416.7 Million



2000-01 Expenditures by Category

Total: \$416.1 Million



These graphs include expenditures of \$409.4 million for Admin and \$6.7 million for Public Broadcasting. Change item requests for increased spending in FY 2001 are not included in these graphics.

ADMINISTRATION DEPT - EXECUTIVE SUMMARY (Continued)

GOVERNOR'S RECOMMENDATION:

The Governor recommends the agency's base level funding, an increase to the 9-1-1 spending authority for FY 2001 and billing authority for the operation of the Office of the State Archeologist beginning in FY 2003. After review of organizational and program requirements, the Governor recommends transferring responsibility and funding for the Governor's mansion from the Governor's Office to the department of Administration and the fiscal agency responsibilities for the Minnesota Childrens' Museum from the department of Administration to the department of Children, Families & Learning. The Governor also recommends the following change items:

<u>Change Item / Fund</u>	<u>FY 2001</u>	<u>Biennial Total</u>
General Fund		
Technology Analyst Positions		\$ 864,000
North Star Enterprise Portal		1,000,000
Technology Enterprise Fund		1,000,000
IT Architecture		300,000
CriMNet – Integration Backbone Devel.		4,000,000
CriMNet – Supreme Court		15,000,000
Unemployment Insurance Project Mgt		300,000
In-Lieu of Rent		2,536,000
Governor's Office Transition		150,000
Governor's Residence		48,000
Luverne Lawsuit	75,000	125,000
Small Agency Infrastructure		1,489,000
Operations Mgt Reductions		(300,000)
Facilities Mgt Reductions		(260,000)
Management Services Reductions		(1,246,000)
Total General Fund	75,000	\$25,006,000
State Government Special Revenue		
Additional Spending Authority for 9-1-1	3,998,000	
LCMR – Using Biodiesel in Generators		90,000
Small Agency Infrastructure		1,179,000
Total Special Revenue Fund	3,998,000	\$1,269,000

Agency: ADMINISTRATION DEPT

Agency Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
Expenditures by Program:									
OPERATIONS MANAGEMENT BUREAU	50,285	53,843	59,079	60,368	60,218	62,326	62,176	9,472	8.4%
OFFICE OF TECHNOLOGY	4,170	2,650	3,936	3,211	16,698	3,288	14,933	25,045	380.3%
INTERTECHNOLOGIES GROUP	102,482	88,757	94,850	99,169	99,169	99,453	99,453	15,015	8.2%
FACILITIES MANAGEMENT BUREAU	45,299	43,954	44,638	49,633	50,920	50,854	52,016	14,344	16.2%
MANAGEMENT SERVICES BUREAU	7,640	8,568	8,706	8,867	8,392	9,117	8,692	(190)	(1.1%)
FISCAL AGENT	627	282	262	2	92	2	2	(450)	(82.7%)
Total Expenditures	210,503	198,054	211,471	221,250	235,489	225,040	237,272	63,236	15.4%

Financing by Fund:							
Carry Forward:							
GENERAL	0	0	0	1,332	1,332	1,358	1,358
STATE GOVERNMENT SPECIAL REVENUE	0	0	0	2,862	2,862	0	0
Direct Appropriations:							
GENERAL	43,201	27,630	27,899	22,322	35,897	23,044	34,475
STATE GOVERNMENT SPECIAL REVENUE	10,543	11,723	18,234	19,135	19,799	20,503	21,108
NATURAL RESOURCES	50	0	0	0	0	0	0
Statutory Appropriations:							
STATE GOVERNMENT SPECIAL REVENUE	3,967	4,051	4,886	5,263	5,263	5,421	5,421
SPECIAL REVENUE	3,559	4,389	5,076	10,326	10,326	10,318	10,514
FEDERAL	5,928	2,854	1,608	1,480	1,480	1,480	1,480
RISK MANAGEMENT	4,990	7,533	7,609	7,699	7,699	8,108	8,108
MISCELLANEOUS AGENCY	11,806	10,251	11,290	11,241	11,241	11,242	11,242
GIFT	225	121	199	120	120	120	120
PLANT MANAGEMENT	20,922	22,511	24,342	25,393	25,393	26,098	26,098
DOCUMENTS AND PUBLICATIONS	2,387	1,900	2,317	2,406	2,406	2,499	2,499
MICROGRAPHICS	1,400	1,462	1,545	1,614	1,614	1,654	1,654
MANAGEMENT ANALYSIS	1,129	1,187	1,299	1,415	1,415	1,472	1,472
CENTRAL MOTOR POOL	10,874	11,252	11,983	12,438	12,438	12,954	12,954
STATE PRINTER	6,313	5,798	6,874	7,229	7,229	7,593	7,593
CENTRAL STORES	7,601	7,540	8,049	8,302	8,302	8,555	8,555
MATERIALS DISTRIBUTION	1,643	3,125	4,386	4,551	4,551	4,713	4,713
INTERTECHNOLOGIES	73,472	73,985	73,189	75,413	75,413	77,191	77,191
CENTRAL MAILING	493	742	686	709	709	717	717
Total Financing	210,503	198,054	211,471	221,250	235,489	225,040	237,272

Agency: ADMINISTRATION DEPT

Agency Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003	
				Base	Governor Recomm.	Base	Governor Recomm.
<u>FTE by Employment Type:</u>							
FULL TIME	881.0	878.5	971.0	990.5	986.0	991.5	991.0
PART-TIME, SEASONAL, LABOR SER	26.4	26.9	13.6	14.1	14.1	14.1	14.1
OVERTIME PAY	6.4	7.6	2.1	2.1	2.1	2.1	2.1
Total Full-Time Equivalent	913.8	913.0	986.7	1,006.7	1,002.2	1,007.7	1,007.2

ADMINISTRATION DEPT - BUDGET BRIEF

Fund: GENERAL

	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>	<u>Biennium</u>
BASE YEAR (FY 2001) (\$000s)				
Appropriations		\$22,863	\$22,863	\$45,726
BASE ADJUSTMENT				
One-Time Appropriations		(1,571)	(1,490)	(3,061)
Doc. Space Rental/Lease		914	1,212	2,126
2002-03 Sal. & Ben. Base		332	675	1,007
Transfers Between Agencies		(216)	(216)	(432)
BASE LEVEL (for 2002 and 2003)		\$22,322	\$23,044	\$45,366
CHANGE ITEMS				
Operations Mgt Reductions		(150)	(150)	(300)
Facilities Management Reductions		(130)	(130)	(260)
Management Services Reductions		(475)	(771)	(1,246)
Technology Enterprise Fund		1,000	-0-	1,000
Technology Analyst Positions		324	540	864
North Star Enterprise Portal		500	500	1,000
IT Architecture		150	150	300
In-Lieu of Rent		1,268	1,268	2,536
Governor's Office Transition		-0-	150	150
Governor's Residence		24	24	48
Luverne Lawsuit	75	125	-0-	125
Small Agency Infrastructure		1,139	350	1,489
CrimNet - Integration Backbone		2,000	2,000	4,000
CrimNet - Supreme Court MNCIS		7,500	7,500	15,000
Unemployment Insurance Project		300	-0-	300
GOVERNOR'S RECOMMENDATION	\$75	\$35,897	\$34,475	\$70,372

BRIEF EXPLANATION OF BUDGET DECISIONS:

- One-time appropriation adjustments include a reduction of \$150,000 per year for the Data Practices Archives transfer to the Minnesota Historical Society, \$153,000 per year for the Alliance With Youth Program, and \$1.268 million for the In-Lieu of Rent Deficiency. In FY 2003, these reductions are partially off-set by \$20,000 for the Governor's portrait, \$50,000 for the governor-elect's transition, and \$11,000 for the attorney general-elect's transition.
- Budget guidelines allow for an increase of \$2.126 million documented space rental/lease costs, and \$1.007 million for compensation related adjustments.
- There were two transfers: the first was \$88,000 from the Governor's Office to the Department of Administration to cover utilities, property taxes, and

household insurance for the Governor's Residence. The second was \$520,000 giving the department of Children, Families & Learning (CFL) the fiscal agency responsibilities for the Minnesota Children's' Museum.

GOVERNOR'S RECOMMENDATION(S):

The Governor recommends the agency's base level funding and billing authority for the operation of the Office of the State Archeologist beginning in FY 2003. After review of organizational and program requirements, the Governor recommends transferring responsibility and funding for the Governor's mansion from the Governor's Office to the Department of Administration and the fiscal agency responsibilities for the Minnesota Children's' Museum from the department of Administration to CFL. The Governor also recommends the following change items:

- \$1.806 million in reductions so that the funding may be used for more urgent state functions.
- \$19 million to fund part of the development of CrimNet, a technology system that will allow criminal and juvenile justice information to be shared with criminal justice organizations across the state.
- \$1.489 million to provide funding for the Office of Technology so that it can work with small agencies to improve their technological capacity. (An additional \$1.179 million is also being requested from the Special Revenue Fund).
- \$1 million for the Technology Enterprise Fund.
- \$864,000 to fund technology analysts so that the Office of Technology is better able to achieve its mission.
- \$1 million for enhancements to the North Star Enterprise Portal.
- \$300,000 to help develop a framework of principles, best practices, and standards for information systems that will enable agencies to efficiently coordinate the use of technology.
- \$300,000 to develop a project plan for the modernization of the unemployment insurance information systems.
- \$2.536 million to fully fund the on-going costs of maintaining and operating the capitol complex buildings, grounds and the governor's residence.
- \$150,000 to provide space, technology, equipment and basic staffing for the transition office for the next governor.
- \$48,000 to operate and maintain the governor's residence.
- \$200,000 to pursue litigation in defense of the state's investment in the Luverne Nursing Home.

ADMINISTRATION DEPT - BUDGET BRIEF

Fund: STATE GOVERNMENT SPECIAL REVENUE

	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>	<u>Biennium</u>
BASE YEAR (FY 2001) (\$000s)				
Appropriations	\$3,988	\$19,135	\$20,503	\$39,638
<u>BASE LEVEL (for 2002 and 2003)</u>	\$3,988	\$19,135	\$20,503	\$39,638
<u>CHANGE ITEMS</u>				
Small Agency Infrastructure		574	605	1,179
LCMR- Using Biodiesel in Generators	-0-	90	-0-	90
GOVERNOR'S RECOMMENDATION	\$3,998	\$19,799	\$21,108	\$40,907

BRIEF EXPLANATION OF BUDGET DECISIONS:

- Spending authority is requested in the amount of \$3.988 million in FY 2001 for increased costs associated with wireless enhanced 9-1-1 and reimbursements to providers for prior period services provided but not yet certified by the Public Utilities Commission. Receipts have been collected to cover these costs.
- Based on the statute authority of M.S. 403.11, and due to the increased wireless and enhanced phone costs, the fee for 9-1-1 is proposed to increase from 27 cents to 29 cents on 7-1-01. Current statutory authority allows for a fee of up to 30 cents. This request does not require a change in legislation.

GOVERNOR'S RECOMMENDATIONS:

The Governor recommends the agency's requested spending level and additional spending authority in FY 2001 to address increased wireless enhanced 9-1-1 costs. The Governor also recommends the LCMR project put forth by the department of Administration.

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ADMINISTRATION DEPT - REVENUE SUMMARY

REVENUE SOURCES:

The department generates both non-dedicated and dedicated revenue. The non-dedicated revenue is generated through the receipts collected for resource recovery/recycling activities and the potential lease of surplus real estate. These receipts are estimated to be nearly \$125,000 for FY 2001.

Dedicated revenue is generated through various activities and from both governmental and non-governmental sources. Revenues generated from these sources are deposited in special revenue, agency, internal service funds (predominant customers are state agencies), enterprise funds (predominant customers are not state agencies), and federal accounts. For the FY 2000-01 biennium, special revenue funds account for approximately 13% of the agency budget, agency funds 5%, and federal funds 1%.

Enterprise and internal service funds account for nearly 70% of the agency's budget. Fees are generated through rates charged to customers for services and products. The revenue collected is deposited into specific accounts and is included in the biennial budget numbers.

The Developmental Disabilities Council and the STAR (System of Technology to Achieve Results) program receive federal grant dollars. The federal government reimburses Building Codes for performing HUD manufactured home inspections.

FEE STRUCTURE:

Several programs authorized through state statutes require the Department of Administration to operate programs through user fees. Fees are established to recover the cost of providing these services to various clients.

Special Revenue Fund: Parking revenue is generated through fees to state employees and agencies using state-owned parking space. State employees in the Commuter Van Program pay fees based on the use of state vehicles driving between home and work. The Minnesota Office of Citizenship and Volunteer Services generates a small amount of revenue through the sale of memberships, books, and products.

State Government Special Revenue Fund: Building Codes generates revenue through surcharge fees and other miscellaneous fees collected for plan reviews, inspections, certifications, and licenses. The 9-1-1 Program generates revenue through telephone subscriber fees.

Agency Fund: Pass-through revenue is generated from state employees electing to purchase discounted bus tickets used for commuting between work

and home. The postage account generates pass-through revenue by charging state agencies postage for their federal mailings.

Federal Funds: The Developmental Disabilities Council and the STAR Program receive federal funds for their operations and granting activities.

RECENT CHANGES:

Market conditions have an impact on the agency's revenue collections. When the economy is good, as is the current condition, revenues trend upward. The construction market directly affects building code revenues and the number of phones in use dictates 9-1-1 revenues. Parking revenues are dependent upon employee counts and the availability of parking spaces. In general, all of these programs have grown at a moderate rate over recent years.

The 9-1-1 Program recently increased revenues in FY 2000 due to the growth in wired and wireless telephone subscribers. Continued growth is expected in the number of telephone subscribers.

Federal funding through a grant of \$500,000 has been applied for under Title III of the AT (Assistive Technology) Act for the purpose of providing assistive technology. We expect to hear after 9-30-00 as to the awardees of this federal funding.

FORECAST BASIS:

The revenues are estimated based on volume and cost projections. Increases are projected due to the positive economic climate and the increasing use of technology. The federal revenues for the STAR program are dependent upon the awarding of the federal grants

Agency: ADMINISTRATION DEPT

Summary of Agency Revenues (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Forecast	Governor Recomm.	Forecast	Governor Recomm.	Dollars	Percent
Non-Dedicated Revenue:									
Departmental Earnings (Inter-Agency):									
GENERAL	125	189	120	140	140	148	148	(21)	(6.8%)
Other Revenues:									
GENERAL	90	4	5	5	5	5	5	1	11.1%
Other Sources:									
GENERAL	21	13	0	0	0	0	0	(13)	(100.0%)
Taxes:									
GENERAL	341	225	0	0	0	0	0	(225)	(100.0%)
Total Non-Dedicated Receipts	577	431	125	145	145	153	153	(258)	(46.4%)

Agency: ADMINISTRATION DEPT

Summary of Agency Revenues (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Forecast	Governor Recomm.	Forecast	Governor Recomm.	Dollars	Percent
Dedicated Receipts:									
Departmental Earnings (Inter-Agency):									
SPECIAL REVENUE	2,120	2,423	2,435	2,473	2,473	2,504	2,504	119	2.4%
RISK MANAGEMENT	5,654	7,067	7,384	7,753	7,753	8,063	8,063	1,365	9.4%
MISCELLANEOUS AGENCY	263	235	290	239	239	242	242	(44)	(8.4%)
PLANT MANAGEMENT	31,414	36,392	38,203	40,093	40,093	41,279	41,279	6,777	9.1%
DOCUMENTS AND PUBLICATIONS	2,498	2,194	2,372	2,462	2,462	2,555	2,555	451	9.9%
MICROGRAPHICS	1,482	1,580	1,631	1,685	1,685	1,728	1,728	202	6.3%
MANAGEMENT ANALYSIS	1,188	1,056	1,343	1,419	1,419	1,476	1,476	496	20.7%
CENTRAL MOTOR POOL	8,898	8,917	10,421	10,838	10,838	11,217	11,217	2,717	14.1%
STATE PRINTER	6,316	5,217	6,915	7,261	7,261	7,624	7,624	2,753	22.7%
CENTRAL STORES	7,978	7,661	8,209	8,455	8,455	8,709	8,709	1,294	8.2%
MATERIALS DISTRIBUTION	2,164	4,037	4,641	4,817	4,817	4,961	4,961	1,100	12.7%
INTERTECHNOLOGIES	75,421	70,885	72,355	76,700	76,700	78,050	78,050	11,510	8.0%
CENTRAL MAILING	520	748	754	765	765	772	772	35	2.3%
Departmental Earnings:									
STATE GOVERNMENT SPECIAL REVENUE	17,621	19,492	20,855	23,999	23,999	26,668	26,668	10,320	25.6%
SPECIAL REVENUE	28	25	24	53	53	53	53	57	116.3%
Grants:									
STATE GOVERNMENT SPECIAL REVENUE	441	356	0	0	0	0	0	(356)	(100.0%)
FEDERAL	6,088	2,716	1,571	1,480	1,480	1,480	1,480	(1,327)	(31.0%)
Other Revenues:									
GENERAL	73	25	0	0	0	0	0	(25)	(100.0%)
STATE GOVERNMENT SPECIAL REVENUE	189	98	100	120	120	120	120	42	21.2%
SPECIAL REVENUE	1,851	1,840	2,301	2,198	2,198	2,299	2,495	552	13.3%
RISK MANAGEMENT	578	610	583	530	530	580	580	(83)	(7.0%)
MISCELLANEOUS AGENCY	10,062	9,822	11,000	11,000	11,000	11,000	11,000	1,178	5.7%
GIFT	66	191	211	96	96	96	96	(210)	(52.2%)
PLANT MANAGEMENT	31	28	20	17	17	17	17	(14)	(29.2%)
MICROGRAPHICS	11	9	10	9	9	8	8	(2)	(10.5%)
CENTRAL MOTOR POOL	1,626	1,759	1,683	1,734	1,734	1,787	1,787	79	2.3%
INTERTECHNOLOGIES	793	769	650	650	650	650	650	(119)	(8.4%)
CENTRAL MAILING	8	15	13	10	10	8	8	(10)	(35.7%)
Other Sources:									
SPECIAL REVENUE	0	9	9	6	6	6	6	(6)	(33.3%)
MISCELLANEOUS AGENCY	1,247	0	0	0	0	0	0	0	
GIFT	0	0	2	0	0	0	0	(2)	(100.0%)
PLANT MANAGEMENT	32	16	41	63	63	65	65	71	124.6%
Total Dedicated Receipts	186,661	186,192	196,026	206,925	206,925	214,017	214,213	38,920	10.2%

Agency: ADMINISTRATION DEPT

Summary of Agency Revenues (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Forecast	Governor Recomm.	Forecast	Governor Recomm.	Dollars	Percent
Agency Total Revenues	187,238	186,623	196,151	207,070	207,070	214,170	214,366	38,662	10.1%

ADMINISTRATION DEPT - FEDERAL FUNDS SUMMARY

HUD Manufactured Housing Program:

The Building Codes and Standards Division of the Department of Administration is an approved State Administrative Agency (SAA) for the U.S. Department of Housing and Urban Development (HUD) manufactured housing program. Minnesota has an installation and consumer complaint program as part of state law and rule which is approved under HUD Code of Federal Regulations ((CFR) 3282 Subpart G). Current HUD funding covers about 67% of the \$94,860 program costs with the remainder generated from program fees. The federal dollars are a reimbursement of label fees, a fee for service, not a grant.

The program has not changed significantly in the past year. Federal legislation has been proposed for the last several sessions, which could change the program, but given the competing interest significant change is not anticipated.

Developmental Disabilities Council (DD Council):

The annual federal allocation provides about 93% of the DD Council's operating and program budget with the state contributing the remaining 7%. The FFY 2000 allocation was \$980,322 and required a 25% match of about \$245,000. We met this match through grant recipients and a state contribution of \$71,000.

At least 65% of each year's federal allocation must be regranted to programs and activities that will result in the increased independence, productivity, integration and inclusion of people with developmental disabilities and their families in the community (IPII). The balance of each year's allocation is for operating expenses.

The DD Council successfully competed for \$200,000 in additional funds, through the ADD Projects of National Significance. Our "Family Support Project" focuses on families with children who have developmental disabilities in the African American, Hispanic, Native American, and Asian American communities. This project will create a family support council with a majority of the membership being emerging leaders from the targeted communities. They will receive

training on the Baldrige Criteria and Framework, and support as they begin to serve in leadership roles on interagency committees and community organizations. We will apply for continued funding if it is available for Years II and III of this project.

In FFY 1996, federal funds were reduced due to general Congressional budget reductions. The final FFY 1996 allocation of \$963,734 was a 7.3% reduction over FFY 1995. We have recovered less than 1% of that loss. We expect FFY 2000 level funding in FFY 2001 through FFY 2003.

Assistive Technology Act (STAR):

The federal grant to Minnesota is insufficient to support both the operations and program components of the STAR Program. Since the federal funding began to decline in FY 1998, the state has provided funding through general fund appropriations to fill the funding gap. Prior to receiving federal funding, the state supported the Governor's Advisory Council on Technology for People with Disabilities. STAR is a program of the Governor's Advisory Council on Technology. The AT Act of 1998 does not require a state match. A reinterpretation of the executive loan agreement with ATMN prohibited all fund-raising activities.

Under Title I of the Assistive Technology Act of 1998 (P.L. 105-394), STAR will receive \$379,533 each year until sunset 9-30-02. Star is working to extend our federal support. There is an amendment to the LHHS & Ed Appropriations bill (HR4577) in Congress (In conference committee at this writing) that could potentially remove the sunset and increase STAR support to \$500,000 annually. Currently, Admin is unable to estimate the outcome.

The Minnesota Department of Human Services has included us in two federal grant applications: The first is a \$40,000 request to NIST for training on assistive technology, and the other is a four year \$200,000 request to the Health Care Financing Agency sponsored Medicaid Infrastructure Improvement.

Federal Program (\$ in Thousands)	Related SFY 2000 Spending	Primary Purpose	SFY 2000 Revenues	SFY 2001 Revenues	Estimated SFY 2002 Revenues	Estimated SFY 2003 Revenues
HUD Manufactured Housing Program	\$33	State Operations	\$51	\$54	\$ 55	\$ 55
Developmental Disabilities Council (DDC)	71	Grants – Individuals	980	980	980	980
Assistive Technology Act (STAR)	450	State Operations	380	380	500	500
Agency Total	\$554		\$1,442	\$1,443	\$ 1,543	\$ 1,544

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PROGRAM SUMMARY

Program: OPERATIONS MANAGEMENT BUREAU
Agency: ADMINISTRATION DEPT

PROGRAM PROFILE:

The Operations Management Bureau (OMB) provides a range of operating support services to state government. These services are provided as cost-effective alternatives to decentralized administrative services. By statute, OMB is responsible for the following:

- Operating a central motor pool and employee commuter van program.
- Operating a mailing system within the city of St. Paul.
- Providing centralized printing and duplicating services.
- Overseeing publication and sale of official documents
- Publishing certain state documents, including the *State Register*.
- Providing micrographic services and products.
- Purchasing supplies, materials and equipment for state agencies.
- Supervising and approving all state contracts and purchasing.
- Operating a cooperative purchasing program for other local governments.
- Administering a small business procurement program.
- Coordinating federal and state surplus property disposal.
- Providing supplies and equipment through a central store.
- Offering insurance programs and related risk management services.
- Operating a state information, technical assistance and promotion center for volunteer programs and facilitating citizen participation in local governance and public problem solving.

STRATEGIES AND PERFORMANCE:

OMB strives to honor the agency mission by providing "services of such high quality and value that they are sought after by our customers." Bureau activities that met this objective during the 2000-01 biennium include the following:

- The bureau's marketplace services have held down rate increases while maintaining successful business operations. All bureau activities now report favorable retained earnings balances.

- Central Stores successfully implemented online shopping for office supplies through its web site – a government innovation profiled in the *Minneapolis StarTribune*.
- Other electronic services developed include online vehicle requisitions and maintenance scheduling at Travel Management and posting of solicitation notices through the Materials Management web site.
- Risk Management returned \$2.9 million to its customers in dividends.
- The Minnesota Office of Citizenship and Volunteer Services (MOCVS) issued its comprehensive analysis of volunteerism in the state, showing that 66% of all Minnesotans volunteer, compared to a national average of 56%.
- Minnesota Alliance with Youth volunteers constructed a house each year at the State Fair and donated it to a family in need.
- Minnesota's Bookstore won a Minnesota Book Award for Worlds Within a World -- a joint venture with the Department of Natural Resources.
- PrintComm developed a full partnership between the department's printing operations and those of MINNCOR Industries at Moose Lake and St. Cloud.
- Materials Management and PrintComm were recognized for leadership in environmentally responsible purchasing and printing.
- Materials Management partnered with state agencies, the city of Minneapolis, and the University of Minnesota to develop new contracts providing a wide range of technology options and service levels. It further collaborated with other states to obtain volume discounts on computer hardware purchases expected to total \$500 million over the first two years.
- At the request of local units of government, Materials Management developed new contracts – including school buses and voting machines – to meet their special needs.

Because OMB operations are funded largely through fees paid by customers who are not required to use them, the bureau must exercise strict business discipline to provide services that match other options in price, quality, and convenience.

FINANCING INFORMATION:

OMB's General Fund appropriation pays for oversight of state purchasing, central mail processing, and the activities of the Office of Citizenship and Volunteer Services. However, the majority of the bureau's revenues are generated through revolving funds on a fee-for-service basis.

GOVERNOR'S RECOMMENDATION:

The Governor recommends base funding as requested.

Program: OPERATIONS MANAGEMENT BUREAU

Agency: ADMINISTRATION DEPT

Program Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
Expenditures by Activity:									
RISK MANAGEMENT	4,990	7,533	7,609	7,699	7,699	8,108	8,108	665	4.4%
MATERIALS MANAGEMENT	4,567	6,092	7,467	7,691	7,585	7,945	7,839	1,865	13.8%
MMD CENTRAL STORES	7,601	7,540	8,049	8,302	8,302	8,555	8,555	1,268	8.1%
TRAVEL MANAGEMENT	11,036	11,407	12,141	12,594	12,594	13,110	13,110	2,156	9.2%
COMMUNICATIONS MEDIA	21,451	20,483	23,026	23,598	23,554	24,122	24,078	4,123	9.5%
MN OFFICE VOLUNTEER SERV	640	788	787	484	484	486	486	(605)	(38.4%)
Total Expenditures	50,285	53,843	59,079	60,368	60,218	62,326	62,176	9,472	8.4%

Change Items:	Fund				
(P) OPERATIONS MANAGEMENT BUDGET REDUCTIONS	GEN			(150)	(150)
Total Change Items				(150)	(150)

Financing by Fund:							
Direct Appropriations:							
GENERAL	3,949	3,979	4,183	4,121	3,971	4,234	4,084
Statutory Appropriations:							
SPECIAL REVENUE	211	353	233	231	231	231	231
FEDERAL	57	104	146	0	0	0	0
RISK MANAGEMENT	4,990	7,533	7,609	7,699	7,699	8,108	8,108
MISCELLANEOUS AGENCY	10,300	10,000	11,000	11,000	11,000	11,000	11,000
GIFT	67	55	68	68	68	68	68
DOCUMENTS AND PUBLICATIONS	2,387	1,900	2,317	2,406	2,406	2,499	2,499
MICROGRAPHICS	1,400	1,462	1,545	1,614	1,614	1,654	1,654
CENTRAL MOTOR POOL	10,874	11,252	11,983	12,438	12,438	12,954	12,954
STATE PRINTER	6,313	5,798	6,874	7,229	7,229	7,593	7,593
CENTRAL STORES	7,601	7,540	8,049	8,302	8,302	8,555	8,555
MATERIALS DISTRIBUTION	1,643	3,125	4,386	4,551	4,551	4,713	4,713
CENTRAL MAILING	493	742	686	709	709	717	717
Total Financing	50,285	53,843	59,079	60,368	60,218	62,326	62,176

FTE by Employment Type:							
FULL TIME	194.9	194.0	211.7	209.4	207.4	209.4	207.4
PART-TIME, SEASONAL, LABOR SER	7.9	9.5	6.6	7.1	7.1	7.1	7.1
OVERTIME PAY	2.4	2.3	0.5	0.5	0.5	0.5	0.5
Total Full-Time Equivalent	205.2	205.8	218.8	217.0	215.0	217.0	215.0

BUDGET CHANGE ITEM (61234)**Program: OPERATIONS MANAGEMENT BUREAU****Agency: ADMINISTRATION DEPT****Item Title: OPERATIONS MANAGEMENT BUDGET REDUCTIONS**

	<u>2002-03 Biennium</u>		<u>2004-05 Biennium</u>	
	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u>
Expenditures: (\$000s)				
General Fund				
-State Operations	\$(150)	\$(150)	\$(150)	\$(150)
Revenues: (\$000s)				
General Fund	\$-0-	\$-0-	\$-0-	\$-0-
Statutory Change? Yes _____ No <u> X </u>				
_____ New Activity _____ Supplemental Funding _____ Reallocation				

GOVERNOR'S RECOMMENDATION:

The Governor recommends biennial budget reductions for Materials Management of \$212,000 and Communications Media of \$88,000 so that this funding may be used to provide more critical government services.

MATERIALS MANAGEMENT**RATIONALE:**

This proposed reduction will provide savings through staff reductions of \$172,000 and cuts in training and travel expenditures of \$40,000, for the purpose of reallocation to priority items. The division would eliminate two positions: one Central Services Administrative Specialist Intermediate position has been vacated through attrition and will not be filled and one Customer Services Specialist Intermediate will be returned to a division from which he is on leave. Efforts would be made to minimize the impact on customers by redistributing work responsibilities within the division.

FINANCING:

This recommendation is for a reduction in the General Fund appropriation, with reallocation to higher priority initiatives.

OUTCOMES:

The Central Services Administrative Specialist Intermediate position is located at the Surplus Services warehouse and includes a range of activities associated with locating, transporting, storing and selling federal and state surplus property. Functions would be reduced, rather than eliminated. Customers could anticipate longer waits for warehouse services and some reduction in the quantity of federal surplus coming to Minnesota may occur. However, efforts will be made to mitigate the adverse impacts.

Three individuals currently work as Customer Service Specialists. They provide front-line service to vendors and agencies by phone and in person. Eliminating one such position would primarily impact the timeliness of service available. Customers would experience somewhat longer waits and more frequent automated phone messages.

COMMUNICATIONS MEDIA**RATIONALE:**

This appropriation was provided to partially offset the lost revenue associated with free on-line access to the *State Register*, *Solicitation Announcements* (formerly known as the *State Register Contracts Supplement*) and the *Minnesota Guidebook to State Agency Services*. This reduction provides for the reallocation of dollars to higher priorities.

FINANCING:

Because of free online access, Minnesota's Bookstore has lost more than 60 percent of its subscription revenue (nearly \$200,000) for these publications over the past two years. Consequently, because the department is required by statute to provide free online access, additional costs must be passed on either to those customers who purchase printed copies of the publications or to the state agencies that publish material in the *State Register*. The department is required to publish printed versions of the *State Register* and *Guidebook*. Since not all subscribers have or want online access, discontinuing the production of printed copies is not a viable option. Because the department's philosophy has been not to penalize printed copy purchasers, the additional costs have been -- and will continue to be -- transferred to state agencies that use the *State Register*. The original appropriation did not cover all costs associated with online access.

OUTCOMES:

Service levels will remain constant, and any additional costs will be absorbed by state agencies that choose to publish material in the *State Register*.

BUDGET ACTIVITY SUMMARY

Budget Activity: RISK MANAGEMENT
Program: OPERATIONS MANAGEMENT BUREAU
Agency: ADMINISTRATION DEPT

ACTIVITY PROFILE:

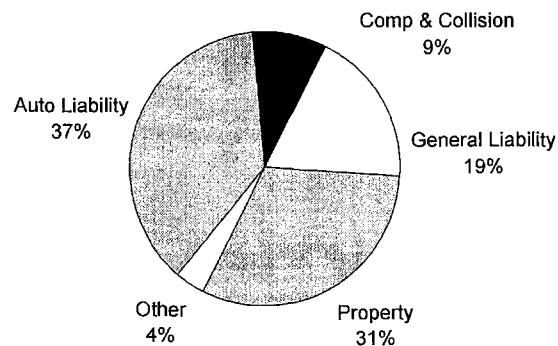
The Risk Management Division (RMD), operating under legislative authority of M.S. 16B.85, provides three major areas of service to state agencies, boards, and commissions:

- Manage the Risk Management Fund (RMF), which operates as the state's internal insurance company providing property and casualty insurance coverage.
- Purchase commercial insurance to meet agencies' needs when the placement of the insurance may not be appropriate in the RMF.
- Provide risk and insurance management consulting services on a wide variety of issues.

STRATEGIES AND PERFORMANCE:

- RMD is dedicated to controlling operating expenses to keep them below those of the commercial insurance industry. In addition, a dividend policy allows the return of funds, with interest, to agencies when the line of insurance has a positive balance. In FY 2000 and FY 2001, dividends declared total \$3 million. RMD offers five major lines of insurance. The percentage of sales for those lines is illustrated in the following chart.

Lines of Insurance



The division has an advisory committee made up of representatives from state agencies, private sector, and academia.

FINANCING INFORMATION:

Funding is received from premiums charged to state agencies for their risks that are underwritten by the RMF. The growth in revenue reflects increased agency participation in the risk management programs rather than actual "rate" increases.

RMD does not have a General Fund loan or any proposed investment in technology or equipment of \$100,000 or more.

Operating Losses or Increases in Retained Earnings:

Retained earnings increased by \$699,098 in FY 2000. Factors contributing to this increase include:

- minor rate increases for two major clients for auto physical damage
- favorable loss experience
- increase in amount of insurance written (i.e., increase in agency insurable values and new business written)

Retained earnings are projected to increase by \$392,970 for FY 2001. Factors contributing to this increase include:

- continued favorable loss experience
- increase in amount of insurance written
- auto liability rate increase from \$177 to \$189 per vehicle
- sizable increase in a major client's auto physical damage rate due to unfavorable experience in this line

RMD will be paying FY 2000 dividends to customers in FY 2001 of \$1,069,000. It is important that the RMF maintain a favorable financial position for the following reasons:

- access to quality reinsurance
- adequate funding to assure liquidity in the event of unexpected adverse loss experience
- reasonable premium written to policyholders' surplus ratio

Dividend declarations vary by the line of insurance and the maturity of claims. Property losses have the shortest maturity so dividends are generated more quickly with a 25% dividend declaration 12 months after the close of the policy year and the remaining amount paid 24 months after the close of the policy year.

BUDGET ACTIVITY SUMMARY (Continued)

Budget Activity: RISK MANAGEMENT
Program: OPERATIONS MANAGEMENT BUREAU
Agency: ADMINISTRATION DEPT

The following chart illustrates the actual and projected growth in revenue for RMD.

Automobile liability losses take longer than property losses to mature and be paid. Dividends are declared 36 months after the close of the policy year and are paid out over a four-year time period (35%, 25%, 25%, and 15% respectively). General Liability takes an even longer time to mature, resulting in a 48-month period before the first dividend declaration. The pay-out pattern is the same as automobile liability (35%, 25%, 25%, and 15% respectively.)

Dividends represent the return of premium for superior loss and expense experience. Premiums are collected and the excess funds are invested by the state's Board of Investment. The difference between premium and investment income, less deductions for losses incurred and administrative expenses, equals the amount of funds that are eligible for dividend declaration.

In the event of unsatisfactory experience, it is possible that no dividend will be declared or a favorable year's dividend will be used to offset the poor experience. This approach creates a more level dividend over time and also minimizes the possibility of dividend recapture, which can be very disruptive to an agency's budget planning. The projected increase in retained earnings will be more than offset by the dividend payable that will be recorded in FY 2001. Retained earnings increase as a result of growth in premiums written, modest increases in claims expenses, time factor involved in paying out dividends, and accumulated interest income.

History of Rates:

	<u>FY 1996</u>	<u>FY 1997</u>	<u>FY 1998</u>	<u>FY 1999</u>	<u>FY 2000</u>	<u>FY 2001</u>
Rate Change	(2.45%)	6.40%	2.68%	2.40%	2.77%	12.21%

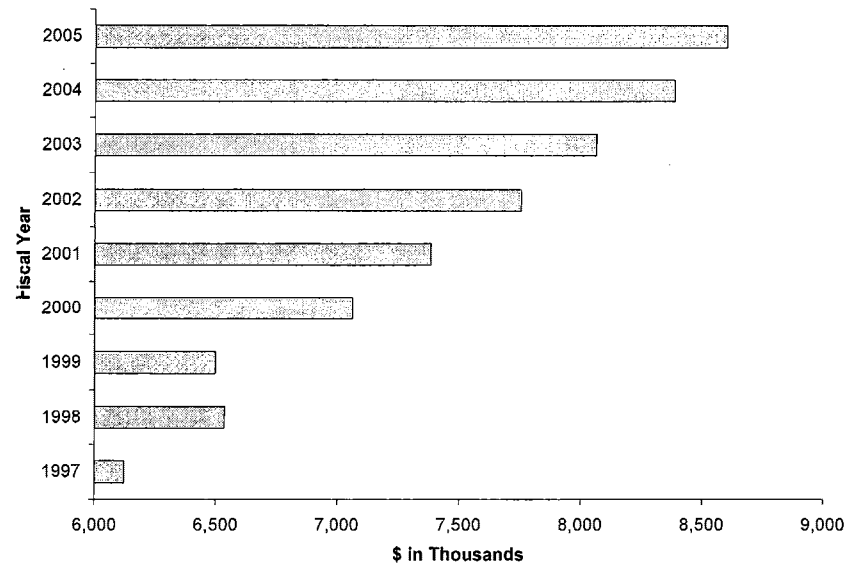
Factors contributing to changes in premium rates include:

- variation in loss experience
- increased claim potential due to additional volume
- increased need for proactive loss management

Assuming the same volume and mix of services, as used in FY 2000, RMD's five largest customers will pay approximately 3.1% more in FY 2001. The approximate amount of increase for these agencies is listed below:

Administration	\$106,579
MnSCU	49,465
Transportation	48,837
Natural Resources	16,793
Human Services	2,839

Revenue by Fiscal Year



Activity: RISK MANAGEMENT
Program: OPERATIONS MANAGEMENT BUREAU
Agency: ADMINISTRATION DEPT

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
Expenditures by Category:									
State Operations									
COMPENSATION	1,016	785	735	760	760	790	790	30	2.0%
OTHER OPERATING EXPENSES	3,974	6,748	6,874	6,939	6,939	7,318	7,318	635	4.7%
Total Expenditures	4,990	7,533	7,609	7,699	7,699	8,108	8,108	665	4.4%

Financing by Fund:									
Statutory Appropriations:									
RISK MANAGEMENT	4,990	7,533	7,609	7,699	7,699	8,108	8,108		
Total Financing	4,990	7,533	7,609	7,699	7,699	8,108	8,108		

Revenue Collected:									
Dedicated									
RISK MANAGEMENT	6,232	7,677	7,967	8,283	8,283	8,643	8,643		
Total Revenues Collected	6,232	7,677	7,967	8,283	8,283	8,643	8,643		

FTE by Employment Type:									
FULL TIME	6.2	8.1	10.5	11.0	11.0	11.0	11.0		
PART-TIME, SEASONAL, LABOR SER	0.1	0.1	0.0	0.0	0.0	0.0	0.0		
Total Full-Time Equivalent	6.3	8.2	10.5	11.0	11.0	11.0	11.0		

BUDGET ACTIVITY SUMMARY

Budget Activity: MATERIALS MANAGEMENT
Program: OPERATIONS MANAGEMENT BUREAU
Agency: ADMINISTRATION DEPT

ACTIVITY PROFILE:

The Materials Management Division (MMD) administers the authority of the commissioner of administration to "acquire all goods, services, and utilities needed by agencies." It provides responsible materials and service acquisition and property disposition through professional and timely services to Minnesota government. The division facilitates and oversees more than \$1.5 billion in government purchases each year.

Primary service activities include the following:

- Purchases and contracts for goods, services, and utilities.
- Recruits and manages vendors.
- Promotes environmentally sensitive purchasing.
- Manages procurement through MAPS (Minnesota Accounting and Procurement System).
- Reviews and manages all state contracts.
- Manages state and federal surplus property.
- Operates a pharmaceuticals purchasing program on behalf of 36 states and the cooperative purchasing program (CPV program).

The Surplus Services activity of MMD is an enterprise fund (predominate customers are not state agencies) that actively competes for business and provides services that match or exceed their competitors in price, quality, delivery, and convenience. Surplus services acquires and distributes federal and state surplus property to all branches of state government, political subdivisions, non-profit health organizations, educational organizations, service educational organizations, participants in the Small Business Administration's 8(a) program, and homeless advocacy organizations. The statewide auction program and warehouse rental is also administered by Surplus Services.

The COOP activity of MMD is an enterprise fund that makes state contracts available to over 450 governmental entities, from townships to other states and units of the federal government. The increased purchasing volume improves the state's bargaining position and creates a volume discount which is passed to its members. For example, when Minnesota participates in a program that is purchasing over \$800 million in personal computers annually, all state agencies and CPV members benefit from prices that Minnesota could never match by itself.

STRATEGIES AND PERFORMANCE:

During the current biennium, MMD has undertaken a number of initiatives to improve services and access to information through the use of technology:

- New interactive forms allow state agencies and CPV members to post solicitation announcements online.
- MMD is continuously upgrading information available to its customers through its web site. For example, comprehensive lists of items to be auctioned are now available online.
- Legislation passed in 2000 allowed MMD to pilot online "reverse auctions" where vendors bid down their price to the state for specified commodities.
- As initiative underway will allow potential state vendors to register and maintain up-to-date information on the web.

Key specific performance objectives include the following:

- Conduct centralized procurement activities and uphold statutory mandates at a cost of less than one cent per dollar of goods and services purchased. [In FY 1999, the cost was less than one-half cent per dollar.]
- Continue to implement and administer the 1998 procurement reform legislation:
 - Train 95% of all persons requiring training for certification as authorized local procurement practitioners. [During the CY 2000, 96% was achieved.]
 - Continue to support the purchase of cost-competitive, environmentally friendly products, continuing leadership that has been recognized both within Minnesota and nationally in the past year.
 - Review 100% of all individuals seeking delegated purchasing authority at the higher levels (e.g., \$25,000) to audit purchasing practices and facilitate coaching. [This goal was met for CY 2000.]
- Continue to implement and administer the results of the 1998-2000 disparity study assessing Minnesota's TG/ED program.

FINANCING INFORMATION:

The General Fund appropriation covers costs associated with MMD's delivery of procurement services, oversight of state purchasing, and essential support services for Surplus Services. Additional revenues are generated by the enterprise funds.

Activity: MATERIALS MANAGEMENT
Program: OPERATIONS MANAGEMENT BUREAU
Agency: ADMINISTRATION DEPT

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
Expenditures by Category:									
State Operations									
COMPENSATION	3,386	3,643	4,019	4,250	4,155	4,478	4,383	876	11.4%
OTHER OPERATING EXPENSES	1,181	1,446	1,448	1,381	1,370	1,345	1,334	(190)	(6.6%)
OTHER FINANCIAL TRANSACTIONS	0	1,003	2,000	2,060	2,060	2,122	2,122	1,179	39.3%
Total Expenditures	4,567	6,092	7,467	7,691	7,585	7,945	7,839	1,865	13.8%

Change Items:	Fund				
(P) OPERATIONS MANAGEMENT BUDGET REDUCTIONS	GEN			(106)	(106)
Total Change Items				(106)	(106)

Financing by Fund:								
Direct Appropriations:								
GENERAL		2,924	2,967	3,081	3,140	3,034	3,232	3,126
Statutory Appropriations:								
MATERIALS DISTRIBUTION		1,643	3,125	4,386	4,551	4,551	4,713	4,713
Total Financing		4,567	6,092	7,467	7,691	7,585	7,945	7,839

Revenue Collected:							
Dedicated							
MATERIALS DISTRIBUTION	2,164	4,037	4,641	4,817	4,817	4,961	4,961
Nondedicated							
GENERAL	19	27	0	0	0	0	0
Total Revenues Collected	2,183	4,064	4,641	4,817	4,817	4,961	4,961

<u>FTE by Employment Type:</u>							
FULL TIME	63.1	60.8	67.9	67.9	65.9	67.9	65.9
PART-TIME, SEASONAL, LABOR SER	1.6	3.4	0.1	0.1	0.1	0.1	0.1
OVERTIME PAY	0.3	0.1	0.0	0.0	0.0	0.0	0.0
Total Full-Time Equivalent	65.0	64.3	68.0	68.0	66.0	68.0	66.0

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BUDGET ACTIVITY SUMMARY

Budget Activity: MMD CENTRAL STORES
Program: OPERATIONS MANAGEMENT BUREAU
Agency: ADMINISTRATION DEPT

ACTIVITY PROFILE:

Central Stores is the state's distribution center for office supplies. FY 1999 gross sales exceeded \$8 million; FY 2000 gross sales were \$7.833 million.

Primary service activities include the following:

- Sales and statewide distribution of nearly 1,000 stock items.
- Wholesale catalog sales of another 24,000 items available to customers at discount rates.
- An annual product show for all customers.
- Several methods of ordering including walk-in, fax, mail, Electronic Data Interchange (EDI), and a new web-based ordering system.
- Guaranteed replacement or credit for defective products.
- Free delivery statewide.

STRATEGIES AND PERFORMANCE:

Central Stores provides office supplies to legislative, executive, and judicial branches of state government, schools, and political subdivisions.

Key specific performance objectives include the following:

- Yearly customer surveys and customer feedback through a customer panel rate review process. [Surveys distributed at the annual fall product show reflect positive feedback. The customer panel rate review is held each spring in conjunction with the rate setting process to inform these customers of rate changes and receive additional feedback on the success or changes these customers would like to see in our organization.]
- Provide and maintain a state-of-the-art, easy to use electronic catalog and web-based ordering system allowing all customers to submit their orders quickly and easily without the need for a printed catalog. At least 40% of all orders will be placed electronically in FY 2002. [With the implementation of the web-based ordering system in May 2000, E-orders represent 20% of all orders received.]
- Provide at least 2,300 recycled content products in FY 2002 by stocking and advertising recycled products and listing recycled content for all

products stocked in the "One-Stop Shopping" catalog. [2,266 recycled products are presently available through Central Stores.]

- Provide customer and management reports for sales dollars, product number sales, recycled content sales, reports and graphs, etc., in response to our customer needs. [Reports are provided upon request.]
- Conduct yearly marketplace comparisons on items that represent at least 45% of gross sales to ensure that Central Stores' prices are competitive.
- Maintain overall prices at least 30% below private sector pricing on items that represent 45% of gross sales. [The comparison completed in FY 2000 demonstrates Central Stores' prices are 46% to 63% lower than its advertised competitors prices.]
- Increase sales by 3% each year over the previous year by expanding our customer base and adding new products that are in high demand.

FINANCING INFORMATION:

Central Stores is an internal service fund (state agencies are predominant customers) that receives no legislative appropriation and competes in the marketplace for its business. Operating costs are covered and prices are determined by adding a small markup to the cost of inventory purchased.

Central Stores does not have a *General Fund loan* or any proposed investment in *technology or equipment* of \$100,000 or more.

Operating Losses or Increases in Retained Earnings:

FY 2000 retained earnings increased by \$146,810. Factors contributing to this change include:

- Strong fourth quarter sales and relatively strong sales for the entire fiscal year.
- The addition of a web-based ordering system in the fourth quarter.
- Increased sales overall in the fine paper area.

FY 2001 retained earnings are projected to increase by \$154,528. Factors contributing to this change include:

- Increased sales through product expansion.
- Increased sales by expanding Central Store's customer base and providing local units of government easy access to products through our convenient online web-based ordering system.

BUDGET ACTIVITY SUMMARY (Continued)

Budget Activity: MMD CENTRAL STORES
Program: OPERATIONS MANAGEMENT BUREAU
Agency: ADMINISTRATION DEPT

History of Rates:

	<u>FY 1996</u>	<u>FY 1997</u>	<u>FY 1998</u>	<u>FY 1999</u>	<u>FY 2000</u>	<u>FY 2001</u>
Rate						
Change	0%	0%	0%	7.27%	(3.39%)	0%

(No increase in rates charged to customers in FY 2001 over FY 2000.)

Factors contributing to changes in rates include:

- In FY 1999, rates increased to ensure sufficient operating capital in accordance with federal guidelines.
- In FY 2000, rates decreased due to improved pricing on the miscellaneous supply contract and greater than anticipated sales from the previous fiscal year.

Rates charged for stock merchandise are an increase/decrease of percent from cost, while any changes in our non-stock merchandise program are measurements of increased/decreased margin revenue based on sales.

Assuming the same volume and mix of goods/services as used in FY 2000, Central Stores' five largest customers will pay approximately the same amount in FY 2001 since our rates will remain the same. The five largest customers for Central Stores are:

Department of Transportation
Children, Families and Learning
Department of Health
Department of Revenue
Department of Agriculture

Activity: MMD CENTRAL STORES
Program: OPERATIONS MANAGEMENT BUREAU
Agency: ADMINISTRATION DEPT

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
Expenditures by Category:									
State Operations									
COMPENSATION	628	626	652	684	684	709	709	115	9.0%
OTHER OPERATING EXPENSES	6,973	6,914	7,397	7,618	7,618	7,846	7,846	1,153	8.1%
Total Expenditures	7,601	7,540	8,049	8,302	8,302	8,555	8,555	1,268	8.1%

Financing by Fund:									
Statutory Appropriations:									
CENTRAL STORES	7,601	7,540	8,049	8,302	8,302	8,555	8,555		
Total Financing	7,601	7,540	8,049	8,302	8,302	8,555	8,555		

Revenue Collected:									
Dedicated									
CENTRAL STORES	7,978	7,661	8,209	8,455	8,455	8,709	8,709		
Nondedicated									
GENERAL	7	8	0	0	0	0	0		
Total Revenues Collected	7,985	7,669	8,209	8,455	8,455	8,709	8,709		

FTE by Employment Type:									
FULL TIME	12.5	11.6	12.4	12.4	12.4	12.4	12.4		
PART-TIME, SEASONAL, LABOR SER	0.8	1.3	1.3	1.3	1.3	1.3	1.3		
OVERTIME PAY	0.0	0.1	0.1	0.1	0.1	0.1	0.1		
Total Full-Time Equivalent	13.3	13.0	13.8	13.8	13.8	13.8	13.8		

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BUDGET ACTIVITY SUMMARY

Budget Activity: TRAVEL MANAGEMENT
Program: OPERATIONS MANAGEMENT BUREAU
Agency: ADMINISTRATION DEPT

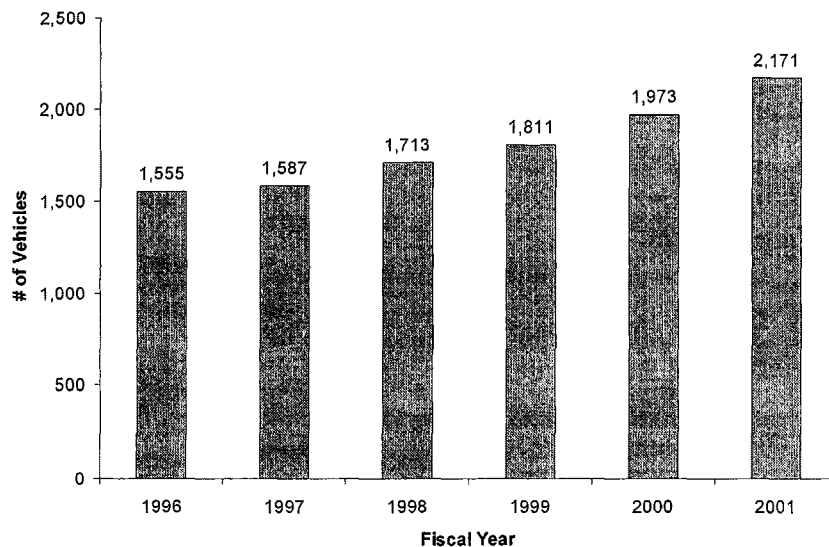
ACTIVITY PROFILE:

Travel Management's primary business is to deliver competitively priced vehicle rentals, vehicle leasing, and related fleet services to state agencies and local governments. Travel Management is organized as an internal service fund (predominant customers are state agencies) and receives no general fund appropriation. The division must therefore earn and maintain sufficient business volume to remain viable. Travel Management also operates the state's Commuter Van Program and oversees the state's Travel Program.

STRATEGIES AND PERFORMANCE:

Travel Management's marketing strategy is to provide a turnkey "one-stop-shop" for customers' passenger vehicle and light truck fleet requirements. The division is unbundling existing services and developing new ones to create a cafeteria plan of standalone services. Packaging of these services can be customized on a vehicle-by-vehicle basis. Demand for services remains strong and business has grown by 27% from 1,555 vehicles in June 1996 to 1,973 in June 2000, as illustrated in the chart below.

Fleet Vehicles in Service

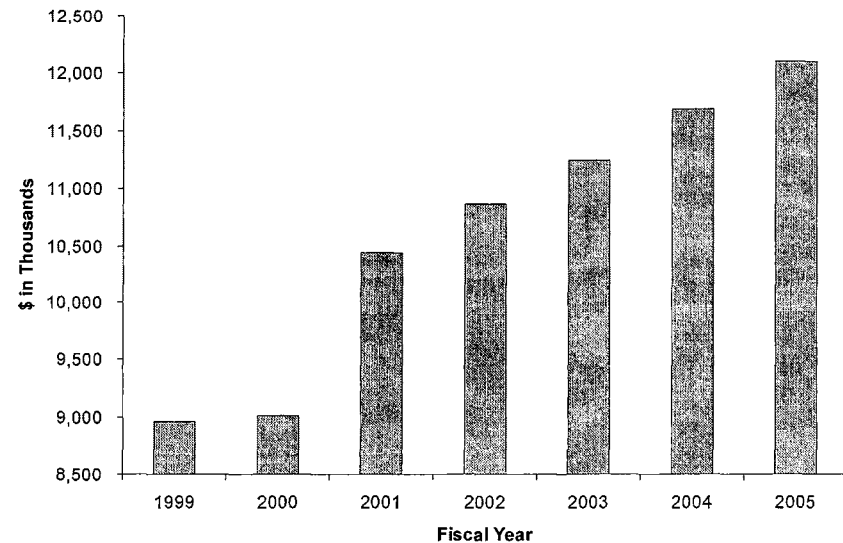


Competitive Pricing. Travel Management's pricing compares favorably with other government fleets and private sector alternatives. In maintenance and repair, the only area where private pricing is comparable, a recent survey determined that satisfaction with such services by the division enjoyed twice the level of customer satisfaction as those of a private vehicle management firm.

FINANCING INFORMATION:

As an internal service fund organization, Travel Management generates funding by charging government customers for services provided. The growth in revenue, illustrated below, projects increased agency participation in Travel Management Division programs.

Estimated Annual Revenue



General Fund Loans:

General Fund loans are used to refinance master lease loans so that repayment schedules work within the division's cash flow constraints. Travel Management's general fund loan balance is \$3.8 million as of 6-30-2000 with payments scheduled through May 2001.

BUDGET ACTIVITY SUMMARY (Continued)

Budget Activity: TRAVEL MANAGEMENT
Program: OPERATIONS MANAGEMENT BUREAU
Agency: ADMINISTRATION DEPT

The chart below illustrates annual revenue from Travel Management's five largest customers in comparison to revenue from all other customers in FY 2000.

Investments in Equipment:

Travel Management plans to purchase approximately 325 vehicles each year. Anticipated expenditures are \$8,966,647 in FY 2002 and \$9,504,645 in FY 2003.

Operating Losses or Increases in Retained Earnings:

FY 2000 retained earnings decreased by \$305,736 due to record high fuel prices. FY 2001 retained earnings are projected to increase by \$7,324.

History of Rates:

	<u>FY 1996</u>	<u>FY 1997</u>	<u>FY 1998</u>	<u>FY 1999</u>	<u>FY 2000</u>	<u>FY 2001</u>
Rate Change	1.00%	(2.59%)	9.70%	(0.12%)	(3.11%)	4.66%

Factors contributing to the changes in rates include:

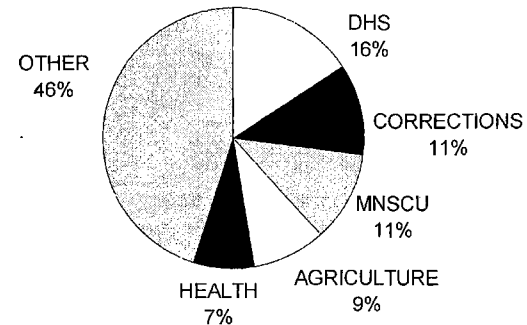
- Large increase in FY 1998 due to increased operational expenses at Travel Management's new location which included higher building rent and higher fuel prices due to the loss of onsite fueling. The division's former site was redeveloped for the Stassen Building.
- Increase in FY 2001 is due to high auto physical damage and record high prices for motor gasoline.

Assuming the same volume and mix of services as used in FY 2000, the approximate increase for Travel Management's five largest customers is shown below:

Human Services	\$62,910
Corrections	45,752
MnSCU	44,921
Agriculture	35,554
Health	29,440

Five Largest Customer Comparison

Annual Revenue for FY 2000



BUDGET ACTIVITY SUMMARY

Budget Activity: COMMUNICATIONS MEDIA
Program: OPERATIONS MANAGEMENT BUREAU
Agency: ADMINISTRATION DEPT

ACTIVITY PROFILE:

The division provides key services to customers through four major businesses: PrintComm, Minnesota's Bookstore, MailComm, and DocuComm.

PrintComm

PrintComm (internal service fund – predominant customers are state agencies) is a printing partnership between the Department of Administration and MINNCOR Industries, utilizing production facilities in St. Paul, Roseville, Moose Lake, and St. Cloud. PrintComm provides a variety of cost-effective graphic services utilizing innovative technology and personalized customer service to Minnesota government.

Services include convenient 'quick copying,' networked digital printing, color copying, high-end film output, graphic design, file manipulation, offset printing, finishing, mailing, and delivery. In St. Paul, production operations run 24 hours daily during the week, with customer service staff accessible from 7 a.m.-7 p.m. weekdays. Value-added services include no-cost training programs for agency customers and expert advice on environmentally sound printing options.

Minnesota's Bookstore

This activity (enterprise fund – predominant customers are not state agencies) provides three services to the general public and state agencies:

- Minnesota's Bookstore operates as a centralized publishing house for state agency-produced products sold to the public. Minnesota's Bookstore provides mail and telephone ordering services to a national customer base (45,000 calls annually generating 8,000 credit card orders as well as 10,000 mail orders) and also serves walk-in customers (12,000 annually) through its retail operation in the Ford Building near the State Capitol. Minnesota's Bookstore, open from 8 a.m.-5 p.m. weekdays, sells a wide variety of products including Revisor of Statute books (statutes, rules, session laws), statute and rule extracts, building codes, directories, Department of Natural Resources recreational products, maps, and selected federal government products.
- The state of Minnesota Mailing List Service operates a centralized production and distribution outlet for the sale of selected state, public licensing data to a national customer base.

- Minnesota's Bookstore publishes the *State Register*, the official weekly publication for the state of Minnesota. The Monday edition of the *State Register* contains rulemaking activity, official notices, executive orders of the governor, requests for proposals, and commissioners' orders. In cooperation with the department's Materials Management Division, the *Solicitation Announcements* (formerly known as the *State Register Contracts Supplement*) is also published on Tuesdays and Fridays. It contains contract and bid information. Although subscription fees are charged for printed copies of both publications, electronic versions of both are available free on the web (www.comm.media.state.mn.us).

MailComm

MailComm provides a mailing service (General Fund) including metering and processing of outgoing federal mail, as well as consultation for agencies on cost-saving postal programs. This unit also provides inter-office services to all state agencies within the boundaries of St. Paul and has the responsibility for distributing the federal mail for the Capitol Complex.

MailComm also provides addressing, inserting, pre-sorting, and bulk mail service (internal service fund) resulting in reduced postage costs to state agencies. During FY 1999, MailComm began providing in-house bar coding of first class and standard mail to state agencies that generates additional postage savings.

DocuComm

DocuComm (internal service fund) provides document management services to state agencies and local units of government. These services include conversion of paper records to microfilm or compact disk, secure warehouse storage, retrievals of files and electronic back-ups, conversion of microfilm or electronic data to compact disk, and production of Computer Output Microfilm.

During the past five years, efforts were undertaken to improve the business picture for DocuComm. Several of the services listed above, including computer output microfilm and compact disk production, were added.

STRATEGIES AND PERFORMANCE:

State agencies are generally not required to use state operations for printing, addressing, inserting, and records management. Consequently, the division places great emphasis on customer service, timeliness, turnaround, quality, and competitive pricing. However, state agencies within the boundaries of St. Paul are required to use MailComm's mail handling and processing services for outgoing mail. This centralized operation allows small and large agencies to collectively achieve postage savings and also helps to realize operational efficiencies such as staffing, equipment, and space.

Activity: TRAVEL MANAGEMENT
Program: OPERATIONS MANAGEMENT BUREAU
Agency: ADMINISTRATION DEPT

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
Expenditures by Category:									
State Operations									
COMPENSATION	913	986	1,110	1,171	1,171	1,218	1,218	293	14.0%
OTHER OPERATING EXPENSES	10,123	10,421	11,031	11,423	11,423	11,892	11,892	1,863	8.7%
Total Expenditures	11,036	11,407	12,141	12,594	12,594	13,110	13,110	2,156	9.2%
Financing by Fund:									
Statutory Appropriations:									
SPECIAL REVENUE	162	155	158	156	156	156	156		
CENTRAL MOTOR POOL	10,874	11,252	11,983	12,438	12,438	12,954	12,954		
Total Financing	11,036	11,407	12,141	12,594	12,594	13,110	13,110		
Revenue Collected:									
Dedicated									
SPECIAL REVENUE	145	133	142	147	147	151	151		
CENTRAL MOTOR POOL	10,524	10,676	12,104	12,572	12,572	13,004	13,004		
Nondedicated									
GENERAL	17	0	0	0	0	0	0		
Total Revenues Collected	10,686	10,809	12,246	12,719	12,719	13,155	13,155		
FTE by Employment Type:									
FULL TIME	21.1	21.1	22.9	22.9	22.9	22.9	22.9		
PART-TIME, SEASONAL, LABOR SER	0.1	0.2	0.2	0.2	0.2	0.2	0.2		
OVERTIME PAY	0.2	0.4	0.4	0.4	0.4	0.4	0.4		
Total Full-Time Equivalent	21.4	21.7	23.5	23.5	23.5	23.5	23.5		

BUDGET ACTIVITY SUMMARY (Continued)

Budget Activity: COMMUNICATIONS MEDIA
Program: OPERATIONS MANAGEMENT BUREAU
Agency: ADMINISTRATION DEPT

Operating Losses or Increases in Retained Earnings FY 2000 retained earnings increased by \$105,000 due to an operating increase sustained during the fiscal year. FY 2001 retained earnings are projected to increase by \$50,000 due to a projected operating increase during the fiscal year.

History of Rates (*State Register*)

	<u>FY 1996</u>	<u>FY 1997</u>	<u>FY 1998</u>	<u>FY 1999</u>	<u>FY 2000</u>	<u>FY 2001</u>
Rate Change	0%	0%	6%	22.51%	0%	0%

Assuming the same volume and mix of goods/services as used in FY 2000, the *State Register's* five largest agency customers (Human Services, Labor and Industry, Pollution Control, Administration, and Transportation) will pay no more in FY 2001.

However, the rate charged to state agencies to publish material in the *State Register* did increase 36.9% in FY 1999 (since subscription rates did not change, the overall rate increase was 22.51%). Customers reported that they were not concerned about this increase for several reasons: 1) publishing costs represented a relatively small portion of the total cost for rulemaking; 2) publishing in the *State Register* is far more cost-effective than publishing in other legal publications; and 3) because of free online access, the increased publishing cost was offset by a reduction in costs associated with requests for printed copies of rules from the public.

MAILCOMM

Annual revenue of approximately \$750,000 (generated from state agencies for addressing, inserting, and bar-coding) is projected for FY 2001. This does not include the \$11 million agency fund postage account, which is a pass-through account between the state of Minnesota and the U.S. Postal Service.

Operating Losses or Increases in Retained Earnings: FY 2000 retained earnings increased by \$13,000 due to a small operating increase sustained during the fiscal year. FY 2001 retained earnings are projected to increase by \$1,000 due to a projected operating increase during the fiscal year.

History of Rates

	<u>FY 1996</u>	<u>FY 1997</u>	<u>FY 1998</u>	<u>FY 1999</u>	<u>FY 2000</u>	<u>FY 2001</u>
Rate Change	5.90%	3%	4%	2.40%	2.30%	.90%

Assuming the same volume and mix of goods/services as used in FY 2000, MailComm's five largest customers (Public Safety, Human Services, Revenue,

Minnesota State Retirement Association, and Public Employee Retirement Association) will pay virtually no more in FY 2001.

DOCUCOMM

Annual revenue of approximately \$1.6 million (generated from state agencies and local units of government) is projected for FY 2001.

Operating Losses or Increases in Retained Earnings FY 2000 retained earnings increased by \$104,000 due to an operating increase sustained during the fiscal year. DocuComm ended FY 2000 with positive retained earnings of \$55,000, the first time this has occurred in five years. FY 2001 retained earnings are projected to increase by \$47,000 due to a projected operating increase during the fiscal year.

History of Rates

	<u>FY 1996</u>	<u>FY 1997</u>	<u>FY 1998</u>	<u>FY 1999</u>	<u>FY 2000</u>	<u>FY 2001</u>
Rate Change	6%	2.98%	3.01%	2.10%	(.012%)	3%

Assuming the same volume and mix of goods/services as used in FY 2000, DocuComm's five largest customers (Human Services, Labor & Industry, Health, Secretary of State, and Administration) will pay virtually no more in FY 2001.

BUDGET ISSUES:

- **State Register**--The department will not be seeking the \$44,000 annual appropriation to help cover some costs associated with online access to this product. The appropriation did not cover costs associated with access, and the reduction provides for the reallocation of dollars to higher agency priorities.
- **Privacy**--Minnesota's Bookstore has not yet been impacted by legislative privacy initiatives and debate. However, if commercial access to public licensing data is limited or curtailed, it will impact the future financial viability of the bookstore.
- **DocuComm services**--Although DocuComm has become financially stable during the past five years, there is some level of concern about the unit's ability to compete with comparable private-sector pricing. During FY 2001, department staff are assessing this development and may pursue alternative methods of service delivery for customers.

BUDGET ACTIVITY SUMMARY (Continued)

Budget Activity: COMMUNICATIONS MEDIA
Program: OPERATIONS MANAGEMENT BUREAU
Agency: ADMINISTRATION DEPT

The concept of having government operations, especially centralized publishing services, operate more like businesses, is appropriate for the activities of the Communications Media Division. However, the challenge is running an efficient, competitive business within the requirements and constraints of state government.

Measurable objectives for the division include the following:

- Maintaining printing prices that are at least 5% below private-sector pricing averages. (A pricing study completed during FY 2000 showed PrintComm was, on average, 35.9% below the market on smaller jobs and 27.7% below the market on larger jobs.)
- Producing at least 90% of printing work on paper with a 30% minimum of post-consumer waste. (For FY 2000, the actual figure was 96%.)
- Processing at least 95% of first-class mail within 24 hours (For FY 2000, the actual figure was 97%).
- Maintaining document conversion products and services at prices that are at least 5% below private-sector pricing averages (DocuComm is not achieving this objective based on analysis completed in preparation of the FY 2001 rate package. Consequently, the department is assessing the situation and may pursue alternative service delivery for its document management customers.)

FINANCING INFORMATION:

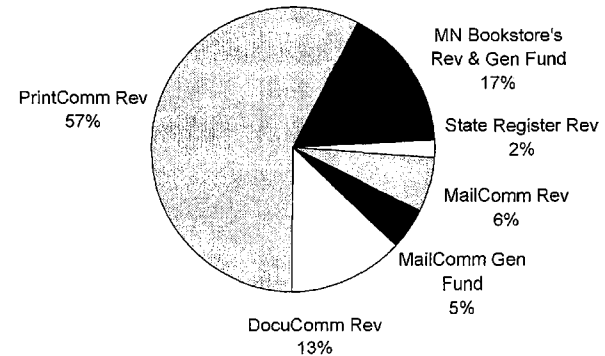
Virtually all funding for the Communications Media Division comes from the products and services it sells to its customers.

The Communications Media Division does not have a *General Fund loan* or any *proposed investment in technology or equipment* of \$100,000 or more.

The only general fund appropriations in FY 2001 are \$559,000 to operate the mail delivery portion of MailComm and \$44,000 to place the *State Register*, *Solicitation Announcements* and *Minnesota Guidebook to State Agency Services* online. Division revenue sources are illustrated in the chart below.

Communication Media Division

Annual Revenue - FY 2001



PRINTCOMM

PrintComm will generate annual revenue of approximately \$7 million during FY 2001 from state agencies and local units of government.

Operating Losses or Increases in Retained Earnings FY 2000 retained earnings decreased by \$375,000 due to an operating loss sustained during the fiscal year due to sales that did not meet projections. However, the fund continues to show a healthy retained earnings position as a result of very strong financial performance during FY 1997 (net income of \$136,000) and FY 1998 (net income of \$195,000). FY 2001 retained earnings are projected to increase by \$21,000 due to a projected small operating increase during the fiscal year.

History of Rates

	FY 1996	FY 1997	FY 1998	FY 1999	FY 2000	FY 2001
Rate Change	(3.00%)	0.80%	0.30%	1.60%	0.30%	0.20%

Assuming the same volume and mix of goods/services as used in FY 2000, PrintComm's five largest customers (Human Services, Health, Administration, Transportation, and Corrections) will pay virtually no more in FY 2001.

MINNESOTA'S BOOKSTORE

Annual revenue of approximately \$250,000 for the *State Register* is projected for FY 2001 (revenue is generated from state agencies publishing material as well as subscribers). Minnesota's Bookstore and the Mailing List Service generate approximately \$2 million in revenue annually. Most of this revenue is from the general public.

Activity: COMMUNICATIONS MEDIA
Program: OPERATIONS MANAGEMENT BUREAU
Agency: ADMINISTRATION DEPT

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003	
				Base	Governor Recomm.	Base	Governor Recomm.
FTE by Employment Type:							
FULL TIME	86.4	86.4	92.0	91.2	91.2	91.2	91.2
PART-TIME, SEASONAL, LABOR SER	4.7	4.0	3.5	4.0	4.0	4.0	4.0
OVERTIME PAY	1.9	1.7	0.0	0.0	0.0	0.0	0.0
Total Full-Time Equivalent	93.0	92.1	95.5	95.2	95.2	95.2	95.2

Activity: COMMUNICATIONS MEDIA
Program: OPERATIONS MANAGEMENT BUREAU
Agency: ADMINISTRATION DEPT

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
Expenditures by Category:									
State Operations									
COMPENSATION	4,106	4,203	4,750	4,892	4,892	5,043	5,043	982	11.0%
OTHER OPERATING EXPENSES	17,345	16,280	18,276	18,706	18,662	19,079	19,035	3,141	9.1%
Total Expenditures	21,451	20,483	23,026	23,598	23,554	24,122	24,078	4,123	9.5%

Change Items:	Fund				
(P) OPERATIONS MANAGEMENT BUDGET REDUCTIONS	GEN			(44)	(44)
Total Change Items				(44)	(44)

Financing by Fund:							
Direct Appropriations:							
GENERAL	558	581	604	640	596	659	615
Statutory Appropriations:							
MISCELLANEOUS AGENCY	10,300	10,000	11,000	11,000	11,000	11,000	11,000
DOCUMENTS AND PUBLICATIONS	2,387	1,900	2,317	2,406	2,406	2,499	2,499
MICROGRAPHICS	1,400	1,462	1,545	1,614	1,614	1,654	1,654
STATE PRINTER	6,313	5,798	6,874	7,229	7,229	7,593	7,593
CENTRAL MAILING	493	742	686	709	709	717	717
Total Financing	21,451	20,483	23,026	23,598	23,554	24,122	24,078

Revenue Collected:							
Dedicated							
MISCELLANEOUS AGENCY	10,062	9,822	11,000	11,000	11,000	11,000	11,000
DOCUMENTS AND PUBLICATIONS	2,498	2,194	2,372	2,462	2,462	2,555	2,555
MICROGRAPHICS	1,493	1,589	1,641	1,694	1,694	1,736	1,736
STATE PRINTER	6,316	5,217	6,915	7,261	7,261	7,624	7,624
CENTRAL MAILING	528	763	767	775	775	780	780
Nondedicated							
GENERAL	74	53	0	0	0	0	0
Total Revenues Collected	20,971	19,638	22,695	23,192	23,192	23,695	23,695

BUDGET ACTIVITY SUMMARY

Budget Activity: MN OFFICE VOLUNTEER SERV
Program: OPERATIONS MANAGEMENT BUREAU
Agency: ADMINISTRATION DEPT

members involved in research and public policy issues. Support services provided by the volunteers are illustrated in the chart below:

ACTIVITY PROFILE:

For 25 years the Minnesota Office of Citizenship and Volunteer Services (MOCVS) has been the leader in developing and maintaining the highest quality of volunteer and citizen participation through training, leadership, and resource development. State government expects its citizens to be actively engaged in solving community problems. This state-run resource center fulfills an essential government function, providing information, technical assistance, education, and promotion to aid Minnesotans in their efforts to be active citizens. MOCVS represents the state of Minnesota as a true partner in solving critical community problems and involving citizens in government decisions. In addition to a minimal number of full-time employees, MOCVS utilizes an advisory committee of 25 members representing 13 districts around Minnesota, and over 200 volunteers.

MOCVS services include:

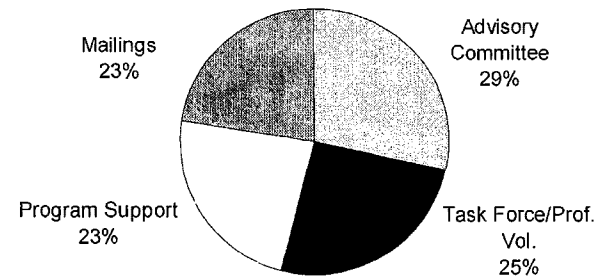
Technical Assistance -- MOCVS responds to over 12,000 annual requests for assistance and information including performing research and connecting people and organizations around the state and the country.

Print Resources -- MOCVS has an extensive library of over 3,600 books, video, audiotapes, and other resources on civic engagement, volunteer management, and America's Promise. Resources are available for free to the public at the St. Paul office, and for a nominal membership fee are mailed to customers across Minnesota. Selected bibliographies are available for review on the MOCVS web site.

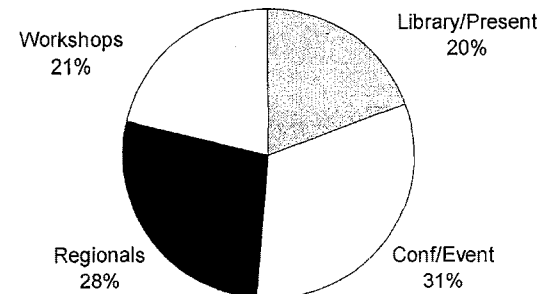
Electronic Resources -- through MOCVS' website, 24 hr fax-it-back system, and listserve, thousands of volunteer and community leaders across Minnesota have access to MOCVS resources. Services offered include Minnesota statutes pertaining to volunteer and citizen participation efforts, current legislation pending regarding youth and adult volunteers and citizen participation, a statewide calendar of events, lists of Volunteer Centers, and over 50 professional Volunteer Management Associations across Minnesota, to name a few.

Volunteer Management -- To supplement its own small staff, MOCVS utilizes over 200 volunteers resulting in over 3,900 volunteer hours worth \$56,350. Volunteers from across Minnesota serve MOCVS as Advisory Committee members, judges for the Governor's and Student Services awards, meeting and conference organizers, library assistants, office support, and task force

Volunteer Support



Training

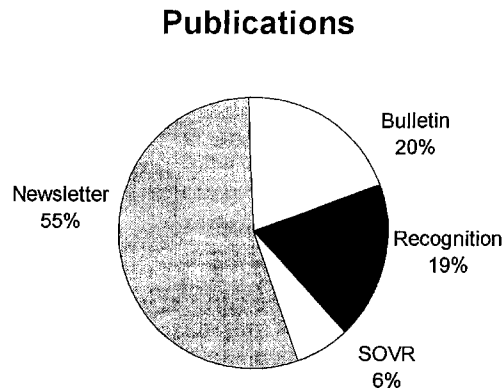


BUDGET ACTIVITY SUMMARY (Continued)

Budget Activity: MN OFFICE VOLUNTEER SERV
Program: OPERATIONS MANAGEMENT BUREAU
Agency: ADMINISTRATION DEPT

Training/Statewide and Regional Meetings -- The composition of training provided is illustrated in the chart on the previous page. Over 3,500 Minnesotans receive training from MOCVS each year, most in greater Minnesota. Training ranges from conferences and events with 200 to 400 in attendance, to customized training of 20 to 30 people for small communities or organizations. MOCVS is one of the lead organizations in Minnesota offering comprehensive risk management and liability training.

Publications - MOCVS does 10 regular publications and many special reports, distributing approximately 40,000 copies each year throughout Minnesota. MOCVS has published two books and each year produces a detailed statistical report on the rate of Minnesota's volunteerism in comparison to the nation. In addition, every five years MOCVS produces the State Of Volunteerism Report (SOVR) that is used extensively by community leaders and policy makers. The composition of publications distributed is illustrated in the graph below:



STRATEGIES AND PERFORMANCE:

Effective management, recruitment, retention, and satisfaction of citizen volunteers are key factors in successful citizen participation and volunteer initiatives. Thanks in large part to the work of MOCVS, Minnesota has among the highest rate of volunteer citizen participation in the country. Citizen volunteer service for state agencies alone is conservatively estimated at over

\$10 million annually. Sixty-six percent of Minnesotans volunteer, well above the national average of 56%. This translates into \$6.5 billion in service to local and state government, communities, and individuals. Without this tremendous citizen effort the role of government in serving community needs would be greatly increased.

MOCVS is also a resource center to thousands of organizations and individuals involved with Communities of Promise and Commitment Makers engaged originally by the Minnesota Alliance with Youth. By continuing to be a resource to hundreds of communities doing the work of the Alliance, MOCVS will ensure that not only are community members working to solve problems, but also that young people are being prepared to be actively engaged Minnesota citizens. This type of local grass roots involvement demonstrates citizen participation at its best since community members are involved in policy decisions, they *volunteer* to do the work to solve local community problems, and build stronger communities than either the government or private sector could do alone. The state of Minnesota is a true partner in this effort by providing the resource of MOCVS.

FINANCING INFORMATION:

MOCVS is requesting the same base funding as FY 2000-01. In addition, MOCVS will generate \$103,400 in special revenue funds and \$44,000 in gift funds in FY 2002-03. Revenue is generated through memberships, fees for service, and product sales. The gift fund is donations for scholarships, special projects, and general support.

Activity: MN OFFICE VOLUNTEER SERV
Program: OPERATIONS MANAGEMENT BUREAU
Agency: ADMINISTRATION DEPT

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
Expenditures by Category:									
State Operations									
COMPENSATION	274	316	361	269	269	285	285	(123)	(18.2%)
OTHER OPERATING EXPENSES	365	461	426	215	215	201	201	(471)	(53.1%)
Subtotal State Operations	639	777	787	484	484	486	486	(594)	(38.0%)
LOCAL ASSISTANCE	1	11	0	0	0	0	0	(11)	(100.0%)
Total Expenditures	640	788	787	484	484	486	486	(605)	(38.4%)

Financing by Fund:									
Direct Appropriations:									
GENERAL	467	431	498	341	341	343	343		
Statutory Appropriations:									
SPECIAL REVENUE	49	198	75	75	75	75	75		
FEDERAL	57	104	146	0	0	0	0		
GIFT	67	55	68	68	68	68	68		
Total Financing	640	788	787	484	484	486	486		

Revenue Collected:									
Dedicated									
SPECIAL REVENUE	94	84	93	103	103	103	103		
FEDERAL	86	103	118	0	0	0	0		
GIFT	52	93	131	44	44	44	44		
Total Revenues Collected	232	280	342	147	147	147	147		

FTE by Employment Type:									
FULL TIME	5.6	6.0	6.0	4.0	4.0	4.0	4.0		
PART-TIME, SEASONAL, LABOR SER	0.6	0.5	1.5	1.5	1.5	1.5	1.5		
Total Full-Time Equivalent	6.2	6.5	7.5	5.5	5.5	5.5	5.5		

PROGRAM SUMMARY

Program: OFFICE OF TECHNOLOGY
Agency: ADMINISTRATION DEPT

PROGRAM PROFILE:

The Office of Technology (OT) provides strategic leadership and direction for information and communications technology policy in Minnesota. Citizens' demand for real time access to government resources, services, and information is driving strategic investments in technology architecture and infrastructure required to deliver the vision of an integrated information transmission network throughout the state. OT leadership provides connection through high-speed bandwidth networked through the state to include all communities providing easy access to information and services in a secured environment.

STRATEGIES AND PERFORMANCE:

The Office of Technology will provide the strategy, architecture, and blueprint required to achieve the optimal use of technology needed to deliver government services today and into the future. This will ensure that the citizens of Minnesota receive the best quality services and have access to real-time transactions and services for the least taxpayer dollar expended.

The OT focuses on effective, proven strategies to provide leadership and strategic direction, architecture, and standards to improve accountability, eliminate redundancy, and ensure that citizens receive the best quality service for the least taxpayer dollar expended.

Through the state's *North Star* web portal, OT provides server host space for over 100 agencies, boards, and councils; links to all agencies; services to more than 40,000 web customers daily; and web security.

Strategic Information Resource Management Plan (SIRMP) requirements and contract and budget review activities with agencies ensure that information technology (IT) planning and investments support agency missions and statewide IT standards. In 2000, over 50 agencies have submitted SIRMPs to assure that their technology plans are coordinated and prioritized for serving their missions. OT is evaluating and assisting agencies in developing these plans. Also, SIRMPs are foundational for building the state's enterprise architecture.

OT develops and delivers collaborative IT investment strategies and trains over 250 state and local government employees annually on project management, project definition, risk assessment, contract management, and process and data modeling. EGS (Electronic Government Services) is coordinated through OT to leverage investments such as *Secure Financial Transactions (SFT)* and avoid duplication.

These activities will join an enterprise EGS architecture initiative as well as standards and protocols, to enable agencies to deliver all appropriate government services to citizens electronically throughout the state.

OT successfully negotiated education technology contributions worth over \$15 million between 1997-2000 from private sector firms.

FINANCING INFORMATION:

This program operates through a General Fund appropriation.

BUDGET ISSUES:

Information infrastructure is dynamic and will remain in a constant state of development, requiring ongoing investment and management. Of the 29 initiatives in the Governor's Big Plan at least 17 are technology dependent. Quality IT plans and investments for state government require sufficient resources to lead the effort. Sufficient funding is required to support the following key programs:

North Star Portal services growth and support requires additional investment. Citizen expectations require delivery of real time access to services, not just information online. A Portal will manage ADA compliance; increased one-stop shopping opportunities; centralized directory service that will permit the authentication and authorization of individual user; hardware, software, licensing and service agreements; and SFT will grow with the exponential growth in traffic.

EGS and IT Architecture will provide a more accessible government, regardless of where citizens are located. OT must develop and advance a common state government information technology architecture supporting EGS, providing a systematic approach for updating technology, and IT policies, standards, and procedures critical to interoperability, integrity, security, and recovery.

Funding Pool – The need for enterprise-wide capabilities (IT architecture and infrastructure, project coordination, and oversight, data standards, interoperable system specification, and a robust IT architecture) requires serious investments. Since this capability does not fall within any one agency's budget, there is a need to create and fund a pool of monies to pay for enterprise-wide and priority IT projects.

GOVERNOR'S RECOMMENDATION:

The Governor recommends the requested base level funding as well as \$25.132 million for the Technology Enterprise Fund (TEF), IT Architecture, Technology Analyst Positions, North Star Enterprise Portal, Small Agency Infrastructure, Unemployment Insurance Project Management, CriMNet Integration Backbone Development and Supreme Court MNCIS. These projects are designed to enhance the state's ability to provide services for citizens.

Activity: OFFICE OF TECHNOLOGY
Program: OFFICE OF TECHNOLOGY
Agency: ADMINISTRATION DEPT

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
Expenditures by Category:									
State Operations									
COMPENSATION	1,758	1,412	1,662	1,980	2,235	2,072	2,839	2,000	65.1%
OTHER OPERATING EXPENSES	1,722	1,238	2,274	1,231	14,463	1,205	12,083	23,034	655.9%
TRANSFERS	0	0	0	0	0	11	11	11	
Subtotal State Operations	3,480	2,650	3,936	3,211	16,698	3,288	14,933	25,045	380.3%
LOCAL ASSISTANCE	690	0	0	0	0	0	0	0	
Total Expenditures	4,170	2,650	3,936	3,211	16,698	3,288	14,933	25,045	380.3%

Change Items:	Fund				
(B) NORTH STAR ENTERPRISE PORTAL	GEN			500	500
(B) TECHNOLOGY ENTERPRISE FUND	GEN			1,000	
(B) IT ARCHITECTURE	GEN			150	150
(B) TECHNOLOGY ANALYST POSITIONS	GEN			324	540
(B) CRIMNET - INTEGRATION BACKBONE DEVELOPME	GEN			2,000	2,000
(B) SMALL AGENCY INFRASTRUCTURE	GEN			1,139	350
(B) SMALL AGENCY INFRASTRUCTURE	SGS			574	605
(B) CRIMNET - SUPREME COURT	GEN			7,500	7,500
(B) UNEMPLOYMENT INSURANCE PROJECT MGT	GEN			300	
Total Change Items				13,487	11,645

Financing by Fund:							
Carry Forward:							
GENERAL	0	0	0	432	432	458	458
Direct Appropriations:							
GENERAL	4,166	2,593	3,811	2,779	15,692	2,830	13,870
STATE GOVERNMENT SPECIAL REVENUE	0	0	0	0	574	0	605
Statutory Appropriations:							
SPECIAL REVENUE	4	47	125	0	0	0	0
GIFT	0	10	0	0	0	0	0
Total Financing	4,170	2,650	3,936	3,211	16,698	3,288	14,933

Activity: OFFICE OF TECHNOLOGY
Program: OFFICE OF TECHNOLOGY
Agency: ADMINISTRATION DEPT

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003	
				Base	Governor Recomm.	Base	Governor Recomm.
Revenue Collected:							
Dedicated							
GENERAL	0	25	0	0	0	0	0
SPECIAL REVENUE	0	50	125	0	0	0	0
GIFT	0	10	0	0	0	0	0
Nondedicated							
GENERAL	20	0	0	0	0	0	0
Total Revenues Collected	20	85	125	0	0	0	0
FTE by Employment Type:							
FULL TIME	26.0	19.8	23.1	25.8	28.8	25.8	30.8
PART-TIME, SEASONAL, LABOR SER	0.1	0.1	0.0	0.0	0.0	0.0	0.0
Total Full-Time Equivalent	26.1	19.9	23.1	25.8	28.8	25.8	30.8

INFORMATION TECHNOLOGY CHANGE ITEM (46373)

Activity: OFFICE OF TECHNOLOGY
Program: OFFICE OF TECHNOLOGY
Agency: ADMINISTRATION DEPT
IT Change Item: NORTH STAR ENTERPRISE PORTAL

ITEM DESCRIPTION AND PURPOSE:

The North Star portal provides 1) Internet services to citizens such as information through WWW pages and secure on-line transactions 2) Intranet services such as state agency directories, on-line forms, and custom searches, and 3) Extranet services to state agencies and partners such as the Journey 2000 Project. While in the infancy stages of deploying these services, a cohesive strategy to eliminate redundancy is necessary and provided by the North Star portal design. A more robust portal design to meet state agency e-government needs is currently under evaluation and will require significant financial resources to implement. As agencies and citizens look to North Star to provide the leadership, direction and services they require, we must couple our knowledge and experience with financial backing to meet their demands.

FUNDING: (Dollars in Thousands)

Funding Distribution	2002-03 Biennium		2004-05 Biennium		2006-07 Biennium	
	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Personnel	0	0	0	0	0	0
Supplies	0	0	0	0	0	0
Hardware	100	100	100	100	100	100
Software	130	130	136	136	136	136
Facilities	0	0	0	0	0	0
Services	200	200	376	376	376	376
Training	70	70	70	70	70	70
Grants	0	0	0	0	0	0
Total	500	500	682	682	682	682

1) The North Star search engine is the most essential service provided for citizen access to state government. In 1998 the Office of Technology upgraded the existing search engine license from 100,000 to 250,000 documents at a cost of \$42,750. Capacity has again been reached with the cost of a license upgrade now at \$156,000. The existing budget allocates funds for the current service, but cannot cover the additional costs that are continually increasing due to explosive growth.

2) Citizens are becoming more sophisticated in anticipating the increased complexity of audio/visual content delivery, navigational assistance and interactivity services. They are diverse, creating a demand for ADA compliance and multilingual web design. Support for these technical service enhancements requires additional training along with hardware and software.

3) The development phase of directory services has focused on how to empower citizens with tools to make legally entitled information easily accessible. The

standardized content and public directory services will be required to migrate from the existing static environment to a dynamic one, increasing current levels in service contracts, maintenance and creating new ones.

4) Our current budget has provided North Star a digital audio/video streaming software license and has made this available to North Star clients according to statute (MS 16E.07.) This service is currently offered on an individual basis. With the proposed budget increase, the Office of Technology will be able to offer this highly-requested capability as a standardized, fully-supported service with necessary equipment and support.

RATIONALE:

The number of hits on North Star, the state's web portal, will quadruple from 40,000 to 160,000 customers daily by 2002. The number of hits is projected exceed 4 million by 2007. Not only is the number of hits increasing, but the demand for more complex content, interactive financial and other secure transactions is also increasing. Citizens are becoming more sophisticated in anticipating the increased complexity of audio-visual content delivery, navigation assistance, interactivity, and advanced search capabilities.

Citizens using North Star are diverse, creating demand for ADA-compliant and multilingual web design. Citizens' services require a shift from the current agency-oriented design to government services-oriented design. This requires continued investments in a redesign process and deployment.

The growth of government activity on the Internet has spawned an urgent need to protect the integrity of government resources on-line from hackers. Increases in cyber-crime have increased the demand for investments in security. Attempted hacks on North Star increased 460 percent from September 1999 to September 2000 (23 hacks per day in 1999 to 106 hacks per day in 2000.) With the advent of electronic government services (EGS), each agency is under the same threat of attack and enterprise security based on the proven North Star model is needed.

Documents and information presented over the Internet are dynamic and changing rapidly. This presents the need to define and implement a robust document management system for the document retention strategy required by the Data Practices Act (M.S. Chapter 13.) Legal actions and data practices legislation have created a need for a robust document management system that allows agencies to manage and ensure authenticity of their digital content.

The Minnesota Center for Survey Research at the University of Minnesota concluded that Internet activity in Minnesota with on-line government services is on the rise and will continue at a rapid pace. Survey highlights in the area of technology are:

INFORMATION TECHNOLOGY CHANGE ITEM (46373) (Continued)

Activity: OFFICE OF TECHNOLOGY
Program: OFFICE OF TECHNOLOGY
Agency: ADMINISTRATION DEPT
IT Change Item: NORTH STAR ENTERPRISE PORTAL

76% of Minnesotans have access to the Internet. A more detailed breakdown indicates that:

- 21% of Minnesotans have Internet access from work
- 26% have Internet access from home and work
- 17% have Internet access from home
- 12% have Internet access from other sources
- 24% do not have internet access (this percentage decreases daily)

13% of respondents had done business with Minnesota government on-line.

43% of respondents were very likely, and 28% were somewhat likely, to use on-line government services if available.

The portal provides Intranet and Internet services; over 70% of North Star clients are citizens, and almost 30% are state employees. North Star is currently researching Internet services including forums, desktop video conferencing, and other services to improve government operations and information access. This increased level of sophistication and exponential growth volume requires service provision and infrastructure support 24 hours a day and 365 days per year.

North Star must reach citizens of diverse backgrounds and education. Multimedia services allow for diverse communications methods to attain a connection with a far greater number of citizens.

North Star portal services need to be capable of sustaining high quality, secure services to citizens over the Internet as the percentage of Minnesotans and others doing business on-line with the state increases. It requires investments in hardware, software licenses and maintenance contracts to create an efficient operation that leverages Internet services to citizens across the whole state for a better return on investment and reduced risk for future investment.

LIFE CYCLE ANALYSIS:

Life Cycle Status	2002-03 Biennium		2004-05 Biennium		2006-07 Biennium	
	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Development	X	X	X	X	X	X
Operations			X	X	X	X
Modification			X	X	X	X
Retirement				X	X	X

The web defies the more traditional multiple-year software development life cycle by changing at high velocity. The average life cycle of web software is 90 to 180 days. Few web software products remain current beyond one year. Computer hardware has an average useful life of three years. North Star (and all serious

web portals) must engage in a continuous process of development, operations, modification, and retirement across an array of interdependent web applications.

OFFICE OF TECHNOLOGY ANALYSIS:

This initiative continues support and development of the state's portal, North Star. With traffic to government sites more than doubling, this initiative is necessary to improve equipment, security and programming, in addition to expanding web services. Deliverables/Objectives: This includes investments in added technical staff, supervisor and trainer. Hardware items include servers, routers, switches and firewalls. Other items include web server, database, server operation, video streaming, web traffic analysis and security software. This initiative is collaborative, incorporating EGS, Big Plan (Service, Not Systems -- Electronic Government Services Initiative) and Infrastructure components. This project is listed as a priority in the agency SIRMP. Conclusion: This initiative meets information technology criteria for funding. Funding is key to operating, maintaining, and developing North Star if the state is to hold its position as a leader among states.

GOVERNOR'S RECOMMENDATION:

The Governor recommends funding for this change item at the requested level so that North Star can continue to be a high quality and secure method of delivering electronic services to the citizens of Minnesota.

BUDGET CHANGE ITEM (46352)

Budget Activity: OFFICE OF TECHNOLOGY
Program: OFFICE OF TECHNOLOGY
Agency: ADMINISTRATION DEPT
Item Title: TECHNOLOGY ENTERPRISE FUND

	2002-03 Biennium		2004-05 Biennium	
	FY 2002	FY 2003	FY 2004	FY 2005
Expenditures: (\$000s)				
General Fund				
-State Operations	\$1,000	\$-0-	\$1,000	\$-0-
Revenues: (\$000s)				
General Fund	\$-0-	\$-0-	\$-0-	\$-0-
Statutory Change? Yes _____ No _____				
If yes, statute(s) affected:				
<input checked="" type="checkbox"/> X New Activity <input type="checkbox"/> Supplemental Funding <input type="checkbox"/> Reallocation				

GOVERNOR'S RECOMMENDATION:

The Governor recommends a \$1 million General Fund appropriation to establish a Technology Enterprise Fund (TEF).

RATIONALE:

The funding of IT initiatives related to statewide "enterprise" level connectivity among state government entities does not occur presently. Rather, each agency submits budget proposals tying their individual IT initiatives closely to their individual program needs. The result is a collection of agencies unable to effectively communicate with one another electronically, and the establishment of redundant and costly communications systems without the ability to network. In addition, there are no established means by which government can strategically plan for or encourage the development of telecommunications infrastructure throughout the state for the purpose of delivering service to citizens electronically.

State government entities are not able to obtain funding needed for IT initiatives at the time they are required. A biennial budget process permits consideration of technology initiatives only once every two years. Current changes in technology and IT needs for business purposes occur far more frequently. In order to assure that agencies can take advantage of technology required for state services as it is developed, and at the best prices, there is a need for more frequent consideration of and expenditures for IT funding needs.

IT and telecommunications expenditures are among the most expensive, and the most strategic, in state government. There is a critical need to establish a means to fund these technology needs as they arise, with sufficient dollars to assure success. Expenditures from the TEF would be made as directed by the legislature, assisted by information from the state's existing Strategic Information Resource Management Plan (SIRMP) process and the recommendations of a Technology Enterprise Board, which would review project submissions and the statewide strategic plans for IT and telecommunications.

The state's existing SIRMP process evaluates IT initiatives based on critical success factors and provides a foundation by which "enterprise" level IT can be prioritized and funded at a statewide level.

The term "enterprise" refers to those systems necessary to permit individual units of government to communicate across shared networks, and to the technology infrastructure necessary to connect government with citizens.

This proposal has the support of the Information Policy Council, by unanimous resolution, and 14 cabinet agencies, seven of which have pledged funds in support of the TEF.

The TEF would accomplish the following:

- Drive investment in IT at the statewide level to:
 - Realize the state's investment in IT as a shared, "enterprise," resource; and
 - Provide technical infrastructure/architecture to support universal citizen access.
- Enhance levels of individualized citizen services through projects focused on universal citizen access and effective delivery of electronic government services to citizens throughout the state;
- Provide start-up capital necessary for funding major IT initiatives within individual agencies that are consistent with a statewide "enterprise"; and
- Promote agency cooperation and innovation, since the criteria for project selection includes the achievement of breakthrough improvements in efficiency and statewide implementation.

FINANCING:

The TEF is proposed to receive funding from the Governor's recommended General Fund appropriation, through revenue from new antenna tower space rentals, and from savings generated by TEF-funded projects.

BUDGET CHANGE ITEM (46352) (Continued)

Budget Activity: OFFICE OF TECHNOLOGY
Program: OFFICE OF TECHNOLOGY
Agency: ADMINISTRATION DEPT

Item Title: TECHNOLOGY ENTERPRISE FUND

OUTCOMES:

The purpose of the TEF is to provide an alternate, recurring, or self-sustaining source of funding for "enterprise" level IT projects that meet some or all of the following criteria:

- Projects must, through quantifiable benchmarks, achieve some or all of the following:
 - Improve the quality of education.
 - Create jobs and strengthen business opportunities.
 - Make communities safer.
 - Maximize customer (both government and citizen) satisfaction.
 - Promote advanced telecommunications and information technology services throughout Minnesota.
 - Promote the efficient and/or effective operation of government.
- Achieve universal citizen IT access and/or maximize citizen satisfaction with electronic government service.
- Facilitate breakthrough improvements in state service efficiency (for example: business process re-engineering).
- Drive toward a statewide or inter-agency implementation (immediate or near future).

A Technology Enterprise Board will be established that will advise and make recommendations regarding funding of information technology projects and infrastructure developments in Minnesota from the TEF. These recommendations would be advisory only, and would use information derived from the existing SIRMP process and a statewide strategic plan for IT and telecommunications. Board membership will be comprised of people from government, education, and the private sector who shall have an interest and/or general expertise in IT and telecommunications initiatives and planning. The board also could be given authority to make expenditures, subject to making a report of project annually to the Legislative Advisory Committee, the LMCR, and the legislature. The board is important to assure that a comprehensive and critical evaluation of projects and strategic plans can be made by an advisory group with special interest and expertise in the area, from all walks of life.

RELATIONSHIP TO THE GOVERNOR'S BUDGET PRINCIPLES

The TEF would be managed by the State's Chief Information Officer, upon advice from the Technology Enterprise Board, based upon criteria established through the existing SIRMP process and the statewide strategic plan for

technology and telecommunications. Appropriations would be made as directed by the legislature, subject to reporting to the Legislative Advisory Committee, the LMCR, and the legislature, based upon the state's SIRMP process and recommendations of the Technology Enterprise Board.

In this way, it is assured that the state is being fiscally conservative and prudent in the expenditure of IT dollars.

Programs will be evaluated at the start-up, and evaluated during design and implementation, to assure their effectiveness and adherence to budget, for the purpose of assuring real, cost-effective results.

Project submissions to the Technology Enterprise Board would compete with one another for contribution from the TEF. Each project would be evaluated for effectiveness through the existing SIRMP process, and measured against one another by the board in consideration of an overall statewide IT and telecommunications plan. Since the board will be comprised of private sector members representing the legislature, citizens, and business, the process helps to assure that the state's taxpayers are directly involved in the process.

RELATIONSHIP TO THE GOVERNOR'S BIG PLAN

The TEF relates directly to the Governor's Big Plan strategies under "Healthy, Vital Communities" by helping to assure an "Information Highway" that leaves no community excluded, and "Service, Not Systems" by addressing government accessibility, citizen participation, and obtaining results. As the state of Minnesota enters a new high-technology economy, its citizens have come to expect, and demand, high-speed communications access for the purpose of communicating with one another and conducting commerce. There also is an expectation, and demand, that government is as accessible as other service needs of our citizens. The TEF will establish a method by which government can continue to fund the types of upgrades and modifications in the state's communications networks to assure both that government entities have the ability to offer services to citizens electronically and that an advanced telecommunications network is within reach of citizens throughout the state. As noted above, the demand of citizens for this type of access, as well as the speed of technological change, is developing far faster than our current legislative budgetary processes to assure that government can meet the challenge. Yet, the very purpose of government to be open and accountable to citizens, to streamline and simplify service delivery, and to promote citizen participation in government and policy-making, all key features of the Governor's Big Plan, depend upon the state's ability to act quickly in this area. We believe that a TEF initiative is essential as one means to deliver on the state's obligation to its citizens.

BUDGET CHANGE ITEM (46364)

Budget Activity: OFFICE OF TECHNOLOGY
Program: OFFICE OF TECHNOLOGY
Agency: ADMINISTRATION DEPT

Item Title: IT ARCHITECTURE

	2002-03 Biennium		2004-05 Biennium	
	FY 2002	FY 2003	FY 2004	FY 2005
Expenditures: (\$000s)				
General Fund				
-State Operations	\$150	\$150	\$150	\$150
Revenues: (\$000s)				
General Fund	\$-0-	\$-0-	\$-0-	\$-0-
Statutory Change? Yes _____ No <u>X</u>				
<u>X</u> New Activity _____ Supplemental Funding _____ Reallocation _____				

GOVERNOR'S RECOMMENDATION:

The Governor recommends a biennial appropriation of \$300,000 to the Office of Technology for IT Architecture.

RATIONALE:

Designing, building, and maintaining information systems has become increasingly complex. With dozens of separate agencies having to share security, data, and systems, the importance of an ongoing and shared architecture is fundamental. The IT Architecture will provide a framework or "blueprint" of principles, best practices, and standards that will direct the design, construction, deployment, and management of information systems. IT architecture will

- provide a "road map" to support the state's current and future technical direction for agencies;
- provide the capability to effectively share information electronically where appropriate;
- provide a plan to help deal with the increasing technical complexity of information systems;
- make it easier to select products that are able to work together;
- leverage technology investments;

- establish and communicate technical standards and guidelines across the state;
- provide the ability to track actual to plan technology deliverables over time.

More specific results include ease of exchanging data, lower purchasing costs, and fewer ongoing expenses for training, shared components, diagnosis, and administration. Further, a smaller, consistent array of products simplifies systems, performance, and configuration management and security. It enables effective and efficient software distribution, backup and recovery, capacity planning, and systems software support.

Design, planning, and initial deployment for the enterprise-wide architecture using a large repository for management, tracking, and recording will occur during FY 2001-02. Final deployment, maintenance, and fine-tuning will occur by the end of FY 2002. An iterative analysis, design, development approach will be used for the ongoing evolution of this repository and the enterprise-wide technology architecture.

FINANCING:

Ongoing design, development, and deployment of an enterprise-wide statewide IT Architecture enabling agencies to share information, make better technology investment decisions, and capitalize on the latest technology is essential to any enterprise architecture effort. This request covers the need of agencies for a management mechanism to collect, access, store, and retrieve technology component information, inventory information, system interfaces, major business functions, business rules, goals, and objectives of projects with multiple agencies, etc. It is a request for the initial and ongoing funding (for hardware and software) of a robust repository or database. Designing the repository will be the task of the Office of Technology, the Architecture Working Group of the IPC, ITG, and the agency CIOs. Developing and initially maintaining the repository will be the responsibility of the engineers in the Architecture Group of the Office of Technology and possibly from ITG.

OUTCOMES:

A mechanism to manage and maintain the IT enterprise architecture effort currently being designed by the Architecture Working Group, The Office of Technology, and the IPC.

An architecture can easily be designed but needs to be maintained and evolved as the state and technology change. The Office of Technology, the agencies, and other state government offices need to easily accommodate the requests of citizens. A flexible and managed architecture needs to be designed and maintained to support the backbone for any of these requests.

BUDGET CHANGE ITEM (46366)

Budget Activity: OFFICE OF TECHNOLOGY
Program: OFFICE OF TECHNOLOGY
Agency: ADMINISTRATION DEPT

Item Title: TECHNOLOGY ANALYST POSITIONS

	2002-03 Biennium		2004-05 Biennium	
	FY 2002	FY 2003	FY 2004	FY 2005
Expenditures: (\$000s)				
General Fund				
-State Operations	\$324	\$540	\$540	\$540
Revenues: (\$000s)				
General Fund	\$-0-	\$-0-	\$-0-	\$-0-
Statutory Change? Yes _____ No <u> X </u>				
If yes, statute(s) affected:				
<u> X </u> New Activity _____ Supplemental Funding _____ Reallocation				

GOVERNOR'S RECOMMENDATION:

The Governor recommends a biennial appropriation of \$864,000 to fund three Technology Analysts in 2002 and five Technology Analysts in 2003 so that the Office can better achieve its mission of providing the state with leadership and direction for information technology policy.

RATIONALE:

Technology Analysts (TAs) are critical to the successful fulfillment of the Office's mission. They are responsible for the implementation of legislative and administrative charges to the office, particularly as they relate to state agencies. TAs provide the coordination and review of how IT is used in state government and is interlinked between agencies. TAs are responsible for supporting recommendations to the commissioner and the governor for information technology (IT) activities both in the agencies and at the enterprise level. The recommendations are determined through analysis of agency IT plans and familiarity with issues related to deployment of IT solutions within and between the agencies to meet business needs. They partner with the agencies to ensure agency success in aligning their IT strategies to the overall state architecture for IT.

These individuals are familiar with agency business and intentions to ensure successful and appropriate application of technology to meet the business

drivers as well as the overall plan for IT investment for the state. TAs are responsible for identifying and developing options on technology management so that issues are thoroughly explored prior to investments being made. They advise the legislature, agencies, commissioner, and the governor on the appropriateness and impact of technology decisions on the agency and on the state as a whole.

The TAs are also responsible for researching answers to legislative questions and concerns regarding technology activities within their assigned agencies. The intended impact is to enable knowledgeable fiscal decisions to be made by reporting and addressing issues as they arise. The same is true for their relationship with the Department of Administration. It is expected that these individuals are responsible for writing briefing papers for management and the governor to ensure management's understanding of all technology issues. Overall, these individuals play an active role in the planning and associated budgetary decisions related to IT on an agency and statewide basis.

Collaboration and Coordination

TAs are involved in all aspects of technology across agencies. These staff members are a key resource to developing the essential collaboration and coordination for a successful delivery of services in a more efficient and cost-effective manner, and to address the need to eliminate redundancy of systems. The TAs have firsthand knowledge of agency opportunities to fulfill the governor's vision to integrate information and technology needs into a comprehensive plan for service provision throughout the state.

The TAs play a key role in identifying Electronic Government Services (EGS) related activities within the agencies and centralizing the coordination and collaboration opportunities these activities present. As the agencies move swiftly to the delivery of government services electronically, the state is at risk of duplication of solutions without an organization to ensure synchronicity of effort. The agencies find it difficult to partner with other agencies because there is no mechanism to communicate about plans and approaches to EGS unless the Office of Technology performs this role. This requires staff that is involved with the state agencies on a frequent basis and is familiar with agency plans and intentions for delivery of services.

Resource Needs

It is anticipated that the office will grow from three positions in the first year, to five positions in the second year, to carry out the work required of this office in statute. The positions are expected to evolve as the legislative responsibilities of the office and technology environment change. Additionally, the technology needs and capabilities of the agencies are changing and will impact the level of service that these positions will provide over the next two years.

BUDGET CHANGE ITEM (46366) (Continued)

Budget Activity: OFFICE OF TECHNOLOGY
Program: OFFICE OF TECHNOLOGY
Agency: ADMINISTRATION DEPT

Item Title: TECHNOLOGY ANALYST POSITIONS

These positions are classified as ITS4's, requiring a high level of technology expertise. These individuals are required to address technology from a policy and practices perspective as well as in a consultative role to the agencies.

FINANCING:

This request is for funding to cover salaries and fringe benefit expenses for five new positions at the ITS4 classification. Due to the rapidly rising technology salary levels in the private sector and the tight labor market, we anticipate that attracting high quality new hires would require salaries near the top of the ITS4 pay scale. Salaries and fringe benefits are expected to total \$279,000 in FY 2002 and \$487,000 in FY 2003.

Other expenses included in this request include routine start-up and ongoing expenses for computer equipment, furniture, training, communications, and supplies.

OUTCOMES:

Statutory Responsibility

Chapter 16E outlines OT's statutory responsibilities in detail. Many of the requirements of the statute fall into the categories of review, recommendation, coordination/collaboration, evaluation, development of procedures and methods, and assistance to state agencies. The office must be the authority on standards for IT, appropriate methodologies for system development and acquisition, funding of IT operations, and appropriate purchases of IT solutions. These TA positions are the professionals who carry out this work.

Relationships

The TAs participate in cross-agency discussions related to those areas described above and, under the direction of the office management, work with agency CIO's to plan and successfully implement IT activities and strategies, both at the agency and statewide level. They act as liaisons between agencies whose efforts have potential for collaboration and partnership in delivery.

As consultants to the agencies they provide significant feedback to the state agencies and the statewide enterprise regarding technology investments, and consulting to agency heads and top management. These individuals have responsibility for educating and informing legislators regarding individual agency IT activities and investments.

Each TA has responsibility for three to six cabinet-level agencies, as well as 10 to 15 smaller agencies, depending on the number of TAs hired. They are actively involved in the agencies throughout the year. The TAs work under the direction of one or more of the Office of Technology's division directors, with leadership from a team lead.

Scope of Influence

TAs have review and advisory responsibility for IT change items within the agencies. They provide expertise in reviewing RFP's and Statements of Work (SOW) for IT services. They also assist in the development of strategic information resource management plans for each agency and the state as a whole. It is their responsibility to ensure that agencies are managing IT investments appropriately and efficiently, that these investments align with the statewide architecture and planning, and that agencies are making sound financial and policy decisions regarding these investments.

INFORMATION TECHNOLOGY CHANGE ITEM (64256)

Activity: OFFICE OF TECHNOLOGY
Program: OFFICE OF TECHNOLOGY
Agency: ADMINISTRATION DEPT
IT Change Item: CRIMNET - INTEGRATION BACKBONE DEVELOPME

ITEM DESCRIPTION AND PURPOSE:

The CriMNet integration backbone development is a criminal justice technology "search engine" that will find the right criminal justice information at the right time for use at the right place. This initiative funds the planning, design and early implementation of the integration backbone, and puts in place an organization to support the backbone technology once it is implemented.

FUNDING: (Dollars in Thousands)

Funding Distribution	2002-03 Biennium		2004-05 Biennium		2006-07 Biennium	
	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Personnel	0	280	289	298	307	316
Supplies	5	15	5	5	5	5
Hardware	0	10	5	5	5	5
Software	0	5	2	2	2	2
Facilities	0	0	0	0	0	0
Services	1,985	1,675	1,055	5,155	8,075	11,024
Training	10	15	15	15	15	15
Grants	0	0	0	0	0	0
Total	2,000	2,000	1,371	5,480	8,409	11,367

This initiative will allow for the implementation of the criminal justice integration backbone and it will put in place the necessary support resources. The services in FY 2004 and beyond are anticipated to be payment of fees charged by the Intertechnologies Group.

RATIONALE:

The criminal justice integration backbone is the technology that will make criminal justice information integration work. In addition to technology, the backbone includes policy, standards, and processes amongst criminal justice entities working together, moving the integration effort forward throughout Minnesota.

This initiative will fund a planning and design effort to create an information backbone. Information integration requirements will be incorporated into an RFP process in FY 2002, then the state will contract for services to develop a backbone meeting those requirements. The funding will also allow for a support unit of three technical analysts to maintain the integration backbone application.

Funding is also needed to expand the bandwidth and capabilities of the criminal justice data network to accommodate the transfer of electronic fingerprints, photos, and data. With an improved network infrastructure, other critical

integration projects will be able to proceed across the state. This funding is reflected in the increase in services shown in future years.

This project is an inter- and intra-agency collaborative that has taken years to develop. Last year, with the advent of Katie's law, the first installment was made. To realize significant information integration, and provide better safety and security for law enforcement and the public, the project must be continued.

LIFE CYCLE ANALYSIS:

Life Cycle Status	2002-03 Biennium		2004-05 Biennium		2006-07 Biennium	
	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Development	X	X				
Operations			X	X	X	X
Modification						
Retirement						

OFFICE OF TECHNOLOGY ANALYSIS:

This initiative proposes the design, planning, and implementation of backbone technology that will allow criminal and juvenile justice information to be shared with criminal justice organizations across the state. Deliverables/Objectives: It also expands the bandwidth of the criminal justice data network. This initiative addresses EGS (from a criminal justice perspective), Colloborative, Big Plan (Service, Not Systems -- Electronic Government Services Initiative) and Infrastructure components and is listed as a priority in the agency SIRMP. Conclusion: This initiative meets information technology criteria for funding. Caution: The Crimnet initiative is a large and complex undertaking, including state, county, city and local government. Standards must be developed and strongly adhered to.

GOVERNOR'S RECOMMENDATION:

The Governor recommends \$27 million to improve criminal justice information systems through the multi-agency CriMNet initiative. This funding will continue current statewide projects that meet criminal justice integration enterprise architecture standards and further planning efforts to determine the best approach and cost estimates for integrating information systems that now are primarily implemented at the local level. This initiative includes the following components:

- * \$15 million to continue implementation of the court information system MNCIS, which will fully integrate the adjudication function in the state.
- * \$4 million to complete the development of the integration backbone, a search engine that will tie all the CriMNet components together.
- * \$3 million to work with counties to develop cost estimates and recommendations on how best to integrate local criminal justice agency systems and data with state information; this initiative would explore options ranging along a spectrum from a centralized provision of statewide systems that all local

INFORMATION TECHNOLOGY CHANGE ITEM (64256) (Continued)

Activity: OFFICE OF TECHNOLOGY

Program: OFFICE OF TECHNOLOGY

Agency: ADMINISTRATION DEPT

IT Change Item: CRIMNET - INTEGRATION BACKBONE DEVELOPME

agencies would use to decentralize, locally-designed systems that would link with the state CriMNet backbone.

* \$2 million to alleviate the "suspense file" problem which occurs when criminal justice information is not collected, processed, or transmitted properly, resulting in incomplete criminal history files. Funds will be used to work on eliminating records currently in suspense, and to assist local agencies in changing their business practices to prevent inaccurate and incomplete data from being submitted.

* \$1.5 million to develop statewide systems for tracking offenders in jail or prison, or under community supervision.

* \$1.5 million to analyze, fill out and maintain the CriMNet enterprise model for use in all criminal justice information systems implementation efforts, and to staff other CriMNet activities.

For this specific request, the Governor recommends \$4 million be appropriated to the Office of Technology to coordinate the development of the a criminal justice technology "search engine" that will find the right criminal justice information, at the right time for use in the right place. These funds would be appropriated to the Office of Technology to ensure appropriate coordination with MNET and other state systems, and may be transferred to other state agencies to facilitate CriMNet development and operations as necessary.

INFORMATION TECHNOLOGY CHANGE ITEM (63437)

Activity: OFFICE OF TECHNOLOGY
Program: OFFICE OF TECHNOLOGY
Agency: ADMINISTRATION DEPT
IT Change Item: SMALL AGENCY INFRASTRUCTURE

ITEM DESCRIPTION AND PURPOSE:

This initiative seeks to provide small agencies with a funding stream for technology so that they can provide citizens with a high level of service. The type of technology infrastructure needs addressed include personal computers, local area networks, support of the environment, and other related activities. It will also include several Electronic Government Services (EGS) projects and life-cycle replacement/maintenance costs. The appropriation for this initiative would initially be assigned to the Office of Technology (OT). OT would work with these agencies to develop effective and efficient work plans and then transfer funds to eligible small agencies. Funding for the next biennium would be directly appropriated to the small agency.

FUNDING: (Dollars in Thousands)

Funding Distribution	2002-03 Biennium		2004-05 Biennium		2006-07 Biennium	
	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Personnel	123	121	146	152	159	165
Supplies	7	7	7	7	6	6
Hardware	204	148	137	130	93	93
Software	52	62	66	66	56	56
Facilities	0	0	0	0	10	10
Services	1,274	575	155	156	106	101
Training	53	42	31	31	33	33
Grants	0	0	0	0	0	0
Total	1,713	955	542	542	463	464

OT will develop Interagency Agreements with the specified small agencies, and provide oversight and assistance in the preparation and submission of strategic information technology plans and work/spending plans. The terms of the Interagency Agreements will specify the timing and amounts of funding distributions (via appropriation transfers) to the specified small agencies.

RATIONALE:

This initiative will provide a funding stream for small agency technology maintenance and development. The funding will be used to meet basic technology infrastructure needs, Electronic Government Services, maintenance, support, and related activities.

Historically, small agencies have been under-funded for information technology. This request will allow specified small agencies to meet the growing demand for providing government services electronically, develop technology to streamline business processes, and maintain current systems. It will also reduce the need

for individual small agencies to request additional funding each biennium to support agency infrastructure.

The Office of Technology (OT) will lead this effort. Small agencies will work with OT to develop planning documents and work/spending plans. Interagency agreements will be executed for the distribution of funds.

Small agencies in the General Fund portion of this initiative are: Board of Architecture/Engineering, Amateur Sports Commission, Campaign Finance Board, Board of Judicial Standards, Mediation Services Bureau, Board of Nursing, Racing Commission, Sentencing Guidelines Commission, and Veterans Affairs.

Small agencies in the Special Revenue Fund portion of this initiative are: Chiropractic Board, Medical Practices Board, Board of Nursing, and the Social Work Board. Please note that the Board of Nursing has two separate projects, one funded by the General Fund, and the other funded by the Special Revenue Fund.

LIFE CYCLE ANALYSIS:

Life Cycle Status	2002-03 Biennium		2004-05 Biennium		2006-07 Biennium	
	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Development	X	X				
Operations	X	X	X	X	X	X
Modification	X					
Retirement						

Development will occur in the first two years to ensure that each of the small agencies have current personal computers, local area networks, infrastructure for electronic government services, support, maintenance, internet access, web presence, and related tools and resources. Costs beyond the first two years are for standard operation and life-cycle investments.

OFFICE OF TECHNOLOGY ANALYSIS:

Deliverables/Objectives: This initiative proposes to build a permanent funding stream for technology. The funding stream will be used to meet basic technology infrastructure needs, such as PCs, local area networks, support, e-mail, web site, internet access and related activities. **Conclusion:** This initiative meets information technology criteria for funding. OT will work collaboratively with the agencies involved to build a basic, maintainable infrastructure.

GOVERNOR'S RECOMMENDATION:

The Governor recommends the requested level funding so that small agencies can maintain and improve their technological capacity thereby providing citizens with a high level of service.

INFORMATION TECHNOLOGY CHANGE ITEM (64510)

Activity: OFFICE OF TECHNOLOGY
Program: OFFICE OF TECHNOLOGY
Agency: ADMINISTRATION DEPT
IT Change Item: CRIMNET - SUPREME COURT

ITEM DESCRIPTION AND PURPOSE:

This project will complete a significant part of the implementation of the new MN Court Information System (MNCIS) for all case types including: software licenses, custom modifications; data conversion from TCIS and Hennepin and Scott counties; data conversion for the existing court CJAD data warehouse to reflect MNCIS data model and create MNCIS data warehouse; implementation; training; integration with new CRIMNET statewide backbone. The overall project effort will address core operations that support core business functions related to cover an entire major business function, i.e. adjudication. The project effort will be conducted in a manner that furthers organizational and community values, which include: equal and timely justice; accountability to the public, the legislature and state Supreme Court policy; customer access to services and ease of use of judicial systems; accountability for record keeping on a state and national basis; and policy implementation. MNCIS will provide vertical integration within the courts and be the first statewide system to cover an entire major business area, i.e. adjudication. This cornerstone project also will be the first rollout of the integrated statewide application and will use and further develop the CrimNet integration enterprise architecture.

FUNDING: (Dollars in Thousands)

Funding Distribution	2002-03 Biennium		2004-05 Biennium		2006-07 Biennium	
	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Personnel	0	0	0	0	0	0
Supplies	0	0	0	150	0	0
Hardware	150	150	150	550	500	500
Software	150	150	150	500	1,500	1,500
Facilities	0	0	0	0	0	0
Services	7,000	7,000	7,000	2,500	500	500
Training	200	200	200	800	0	0
Grants	0	0	0	0	0	0
Total	7,500	7,500	7,500	4,500	2,500	2,500

RATIONALE:

This project will improve the court's ability to manage cases and be accountable for following legislative policy, especially in criminal cases and cases involving children in need of protective services (CHIPS), extended juvenile jurisdiction (EJJ), and adult certification cases. It will provide a significantly improved means for collecting, storing, retrieving, tracking, reporting, and electronically sharing trial and appellate court case information with other agencies for reuse in the

criminal justice community. It will also provide better public access to court records and improved interfaces with other agencies.

LIFE CYCLE ANALYSIS:

Life Cycle	2002-03 Biennium		2004-05 Biennium		2006-07 Biennium	
	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Development	X	X	X	X		
Operations		X	X	X	X	X
Modification		X	X	X	X	X
Retirement						

Implementation will be phased by court business function as quickly as funding and staffing permit. Full implementation is not expected until 2005. The adaptability of the application architecture to new technologies is a key component of the procurement process. Therefore, a minimum of a ten year life cycle before system retirement is anticipated. The full operational costs are shown in FY 2006-07.

OFFICE OF TECHNOLOGY ANALYSIS:

Deliverables/Objectives: This initiative will support core business functions related to case management, record keeping, scheduling, financial management, reporting, collection, storage, retrieval, tracking and sharing of trial and appellate court data from case initiation through archiving. MNCIS will provide vertical integration within the courts and be the first statewide system to cover an entire major business area - adjudication. This project integrates with CrimNet efforts. This initiative is identified in both the Supreme Court and Criminal Justice Community SIRMPs. It supports EGS, Big Plan (SNS - Electronic Government, More Bang for the Buck), collaborative and infrastructure components. **Recommendation:** Yes, approve funding for an ambitious project that has come together through years of planning. The initiative will modernize the way courts do business. **Caution:** The CrimNet initiative is a large and complex undertaking including state, county, city and local government. Standards must be developed and strongly adhered to.

GOVERNOR'S RECOMMENDATION:

The Governor recommends \$27 million to improve criminal justice information systems through the multi-agency CrimNet initiative. This funding will continue current statewide projects that meet criminal justice integration enterprise architecture standards and further planning efforts to determine the best approach and cost estimates for integrating information systems that now are primarily implemented at the local level. This initiative includes the following components:

- * \$15 million to continue implementation of the court information systems MNCIS, which will fully integrate the adjudication function in the state.
- * \$4 million to complete the development of the integration backbone, a search engine that will tie all the CrimNet components together.
- * \$3 million to work with counties to develop cost estimates and recommendations on how best to integrate local criminal justice agency systems

INFORMATION TECHNOLOGY CHANGE ITEM (64510) (Continued)

Activity: OFFICE OF TECHNOLOGY

Program: OFFICE OF TECHNOLOGY

Agency: ADMINISTRATION DEPT

IT Change Item: CRIMNET - SUPREME COURT

and data with state information; this initiative would explore options ranging along a spectrum from a centralized provision of statewide systems that all local agencies would use to decentralize, locally-designed systems that would link with the state CriMNet backbone.

* \$2 million to alleviate the "suspense file" problem which occurs when criminal justice information is not collected, processed, or transmitted properly, resulting in incomplete criminal history files. Funds will be used to work on eliminating records currently in suspense, and to assist local agencies in changing their business practices to prevent inaccurate and incomplete data from being submitted.

* \$1.5 million to develop statewide systems for tracking offenders in jail or prison, or under community supervision.

* \$1.5 million to analyze, fill out and maintain the CriMNet enterprise model for use in all criminal justice information systems implementation efforts, and to staff other CriMNet activities.

For this specific request, the Governor recommends \$15 million be appropriated to the Office of Technology for the Minnesota Court Information System (MNCIS). This funding will be used to continue implementation of that project which will fully integrate the adjudication function in the state. Funding is appropriated to the Office of Technology to ensure appropriate coordination with other information systems. These funds may be transferred to the Courts upon receipt of project implementation plans within the funding parameters of the recommendation. Total project funding for four years remains the same as requested by the Courts, but the full development process will be extended through the end of the FY 2004-05 biennium.

BUDGET CHANGE ITEM (65747)**Budget Activity:** OFFICE OF TECHNOLOGY**Program:** OFFICE OF TECHNOLOGY**Agency:** ADMINISTRATION DEPT**Item Title:** DES - UNEMPLOYMENT INS PROJECT MGT

database and develop a plan for renovation and modernization, and provide a plan for renovating and converting core UI systems.

FINANCING:

This is a one-time General Fund appropriation.

OUTCOMES:

- Connection of technology enhancements with other state initiatives.
- Development of a project plan for modernization of the UI systems.
- Preparation of an RFP for the purpose of hiring a contractor to develop the Requirements Definition and Detail

	<u>2002-03 Biennium</u>		<u>2004-05 Biennium</u>	
	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u>
Expenditures: (\$000s)				
General Fund				
-State Operations	\$300	\$-0-	\$-0-	\$-0-
Revenues: (\$000s)				
General Fund	\$-0-	\$-0-	\$-0-	\$-0-
Statutory Change? Yes _____ No <u> X </u>				
If yes, statute(s) affected:				
<u> X </u> New Activity _____ Supplemental Funding _____ Reallocation				

GOVERNOR'S RECOMMENDATION:

The Governor recommends a one-time appropriation of \$300,000 to develop a project plan to modernize the unemployment insurance systems.

RATIONALE:

The appropriation would be used to fund a joint study by the Office of Technology and the Unemployment Insurance (UI) Branch of the Department of Economic Security in preparation for the modernization of major portions of UI systems. This would be a high level study of current business processes within the UI Branch and analysis of the best methods of utilizing current and future technology to provide the highest level of customer service to the taxpayers and clientele, and to identify and capture productivity improvements and potential labor savings. A key component of the analysis is to insure that technology enhancements will mesh with technology being used in other agencies of the state, particularly the Department of Human Services and the Department of Revenue.

The goal of the study is to develop a project plan for the modernization of the UI systems, leading to the hiring of a contractor to develop the Requirements Definition and Detail Design. The objectives are to review the business processes and improvement opportunities, assess the legacy UI systems and

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PROGRAM SUMMARY

Program: INTERTECHNOLOGIES GROUP
Agency: ADMINISTRATION DEPT

PROGRAM PROFILE:

InterTech's primary responsibility is to provide data processing and telecommunications services to other state agencies and public sector entities. These responsibilities include providing data processing, storage, and print capabilities. In addition, InterTech manages and supports the state's data network including video support. Lastly, InterTech resells voice and voice-related products. More specifically, InterTech:

- Maintains and operates 7X24 a shared, secure, reliable and efficient computing center; data and video telecommunications network; e-mail delivery system; Internet access portal; and security infrastructure.
- Provides business impact analysis and disaster recovery planning services to agencies.
- Performs security assessments of agencies and develops and implements protective plans/processes.
- Implements and operates the Criminal Justice Data Network.

InterTech's mission is to serve Minnesota's public sector by delivering value-added information technology services through a shared infrastructure. InterTech delivers this through:

- providing technology leadership;
- being responsive to customer needs;
- aggregating demand; and
- integrating technologies.

To support this mission, InterTech manages its operations to:

- Deliver 7X24 operational support focusing on high availability.
- Provide a secure Operations Center to protect assets, data, and operational staff.
- Provide an Operations environment with continuous equipment power and environmental controls which avoids service disruption.
- Manage change to minimize service disruptions yet stay current with technology opportunities.

- Track and manage problems to reduce time of outage and, if possible, avoid future disruption.
- Plan, coordinate with customers, and test disaster recovery plans and capabilities.
- Provide a broad range and depth of technical and operational staff expertise to deliver server, data, voice, and video technologies.
- Provide an array of technologies that protect the confidentiality, integrity, and availability of customer data.
- Design and order telecommunications services.
- Provide statewide connectivity and inter-networking among branches and levels of government.
- Plan strategies with customers that migrate them to new technologies.
- Aggregate demand across customers to eliminate redundancy of services and staff while also improving efficiency.
- Negotiate statewide contracts to take advantage of volume discounts.
- Consolidate various vendor telecommunications bills onto one bill to simplify the customer approval and payment processes.
- Provide testing support and project management expertise for new or changed applications.
- Manage vendors and coordinate their problem resolution, repair, and installation support.
- Provide customer technical orientation/training concerning new technologies or when a customer experiences staff turnover.

InterTech's other responsibilities include managing the state's 9-1-1 services and supporting the Communication Center, which produces the state's telephone directory.

STRATEGIES AND PERFORMANCE:

InterTech actively pursues strategies to remain a competitive provider of computing, telecommunication, and related services with the understanding that state agencies may pursue other service providers. To determine InterTech's competitive position, InterTech contracted with a nationally recognized outside performance measurement company, Gartner Measurement Group, to measure InterTech's performance compared to other technology providers and to measure customer satisfaction with InterTech's services.

Gartner's FY 1998 assessment of computing and telecommunications services compared InterTech to other commercial service providers, state bureaus, and

PROGRAM SUMMARY (Continued)

Program: INTERTECHNOLOGIES GROUP
Agency: ADMINISTRATION DEPT

private organizations to assess the competitiveness of the services being provided. In the Computer Services analysis, InterTech ranked among the top 15% most efficient companies studied by Gartner. In the Network Management analysis, InterTech's network ranked among the top 10% most cost efficient organizations based on Gartner's total database. These evaluations utilized costs divided by work produced to determine level of efficiency.

Gartner conducted follow-up assessments of InterTech's Computer Services for FY 1999 and FY 2000. In these analyses, InterTech ranked among the top 10% most efficient companies in Gartner's total database allowing InterTech to remain in Gartner's best of class based on its efficiency.

During FY 2000, Gartner Measurement Group performed a customer satisfaction survey. Customers indicated very high levels of satisfaction with InterTech's products, services, and the organization as a whole based on Gartner's total database. InterTech's overall satisfaction score was 3.82, on a scale of 1.00-5.00, with 5.00 being the highest. InterTech's overall score ranked 4th best in Gartner's current database of more than 100 comparative data points.

FINANCING INFORMATION:

Approximately 85% of InterTech's funding is obtained through internal service fund (predominant customers are state agencies) activity. Service rates, or fees, are reviewed and set annually with the assistance of customers and the Department of Finance. Agencies reimburse the InterTech internal service fund for the services they receive, and InterTech pays for its costs from the internal service fund reimbursements. At the end of each fiscal year, the accounting objective of the internal service fund is to break even.

Even though rates will be held level from FY 2000 to FY 2001, InterTech's customers will pay approximately 3% more in FY 2001 over FY 2000 due to customer forecasted increases in volume.

Based on forecasted volumes and FY 2001 rates, estimated costs are shown in the chart titled Estimated InterTech Fees/Costs. Actual costs may be higher or lower depending upon actual customer usage.

InterTech also receives general funding for Other Services such as the communication center, disaster recovery, and other budget initiatives.

The Year 2000 Project and the Intergovernmental Information Systems Advisory Council, which received General Fund appropriations, expired 6-30-00.

Estimated InterTech Fees/Costs

Customer	Dollars in Thousands			
	FY 2000	%	FY 2001	%
DHS	\$26,228	36%	\$26,400	35%
MnSCU	8,350	11%	9,300	12%
Finance	7,440	10%	8,000	11%
Transportation	3,465	5%	3,700	5%
Public Safety	3,235	4%	3,500	5%
All Other	24,561	34%	24,555	32%
TOTAL	\$73,279	100%	\$75,455	100%

InterTech receives funding for the 9-1-1 emergency telephone program. This is supported through a special revenue fund, the source of which is a fee collected on Minnesotans' telephone bills. Funds are deposited into the special account for the administration of 9-1-1.

BUDGET ISSUES:

Starting with FY 2001 InterTech utilized a budget criterion that is tied to projected workload volume changes when calculating budget projections. This criteria states that budgeted costs will increase no more than one half projected volume increases. InterTech projects an overall rate reduction of 1% in FY 2002 with a 5-10% increase in output. In FY 2003, aggregate rates are expected to be reduced another 1% with a 5-10% increase in output. It must be noted, however, that because customers' volumes are projected to increase, the overall cost to agencies may increase.

Specific budget issues include:

- keeping current with technology changes.
- managing costs in a rapidly changing technological environment.
- increasing complexity of network infrastructure and network security requirements.
- forecasting customer workload usage for an extended period.
- maintaining qualified and efficient staff.
- managing retained earnings balances within federal government limitations.

GOVERNOR'S RECOMMENDATIONS:

The Governor recommends the requested base level funding as well as an increase to the 9-1-1 spending authority for FY 2001.

Program: INTERTECHNOLOGIES GROUP
Agency: ADMINISTRATION DEPT

Program Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
Expenditures by Activity:									
COMPUTER SERVICES	36,830	37,770	31,799	33,672	33,672	35,139	35,139	(758)	(1.1%)
TELECOM SERVICES	36,642	36,215	41,390	41,741	41,741	42,052	42,052	6,188	8.0%
INTERTECH-OTHER SERVICES	18,467	3,049	3,427	1,759	1,759	1,759	1,759	(2,958)	(45.7%)
911 EMERGENCY SERVICES	10,543	11,723	18,234	21,997	21,997	20,503	20,503	12,543	41.9%
Total Expenditures	102,482	88,757	94,850	99,169	99,169	99,453	99,453	15,015	8.2%

Financing by Fund:									
Carry Forward:									
GENERAL	0	0	0	900	900	900	900		
STATE GOVERNMENT SPECIAL REVENUE	0	0	0	2,862	2,862	0	0		
Direct Appropriations:									
GENERAL	18,118	3,048	3,427	859	859	859	859		
STATE GOVERNMENT SPECIAL REVENUE	10,543	11,723	18,234	19,135	19,135	20,503	20,503		
Statutory Appropriations:									
SPECIAL REVENUE	0	1	0	0	0	0	0		
MISCELLANEOUS AGENCY	349	0	0	0	0	0	0		
INTERTECHNOLOGIES	73,472	73,985	73,189	75,413	75,413	77,191	77,191		
Total Financing	102,482	88,757	94,850	99,169	99,169	99,453	99,453		

FTE by Employment Type:									
FULL TIME	267.4	275.8	299.0	301.8	301.8	301.8	301.8		
PART-TIME, SEASONAL, LABOR SER	3.2	3.4	0.0	0.0	0.0	0.0	0.0		
OVERTIME PAY	2.0	3.5	0.0	0.0	0.0	0.0	0.0		
Total Full-Time Equivalent	272.6	282.7	299.0	301.8	301.8	301.8	301.8		

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BUDGET ACTIVITY SUMMARY

Budget Activity: COMPUTER SERVICES
Program: INTERTECHNOLOGIES GROUP
Agency: ADMINISTRATION DEPT

ACTIVITY PROFILE:

Computer Services delivered by InterTech and used by public sector agencies include: computing, disk and tape storage, printing, data security, electronic mail, data entry, and computer-output-to-microfilm. Following is a list of InterTech's largest customers and their applications:

Department of Human Services: PRISM (the Child Support System) and MAXIS (the eligibility determination system for AFDC, food stamps, Medicaid, and other social service programs) in all 87 Minnesota counties.

Departments of Finance and Employee Relations: Statewide procurement/accounting system (MAPS) and human resources/payroll system (SEMA4).

Department of Revenue: Income tax returns and refund checks, state sales tax, and property tax records and processing.

Department of Public Safety: Criminal Justice Information System (which is used by state, city, county, and municipal police departments and sheriffs, correctional institutions, the Department of Natural Resources, and others) with ties to the FBI and other national law enforcement systems.

Department of Transportation: Computer assisted design (CAD) applications, and the department's PROFS (electronic mail) system.

Other state agency applications are also supported but to a lesser extent.

STRATEGIES AND PERFORMANCE:

The primary goal of Computer Services is to be the provider of choice by offering high quality services, continuous availability of services, competitive rates, and expert and efficient staff. Computer Services aggregates the needs of the public sector to provide economies of scale for state government and other public sector entities.

Gartner's FY 1998 assessment of InterTech's processing, storage, and transport services compared InterTech to commercial service providers, state bureaus, and private organizations to assess the competitiveness of the services being provided. In the Computer Services analysis, InterTech ranked among the top 15% most efficient companies studied by Gartner. This evaluation utilized costs divided by work produced to determine level of efficiency.

Gartner conducted follow-up assessments of InterTech's Computer Services for FY 1999 and FY 2000. In these analyses, InterTech ranked among the top

10% most efficient companies in Gartner's total database allowing InterTech to remain in Gartner's best of class based on its efficiency.

In addition to external benchmarking, InterTech performs numerous internal performance measurements. A critical measurement is system availability. InterTech's goal is to ensure primary applications are available 99% of the time (during FY 2000 InterTech achieved 99.9% availability). Also, InterTech's Performance Report measures determine how effectively resources are used to deliver service to customers. For instance, the average cost per MIP (millions of instructions per second) decreased from \$21,190 in FY 1996 to a projected \$9,852 in FY 2001.

InterTech has found that external benchmarking is a critical function that needs to be performed on a continuous basis. During the upcoming biennium, InterTech will continue to have external benchmarking analyses performed.

FINANCING INFORMATION:

Computer Services' finances are managed through the InterTech Internal Service Fund. Annual rates are established for services, and customer agencies are charged fees for services delivered. Expenses for personnel, hardware, software, etc., are paid for with internal service fund payments. At the end of each fiscal year, the accounting objective of the fund is to break even.

General Fund Loans: Computer Services does not have a loan from the General Fund. InterTech does not anticipate a need for a General Fund loan during the next biennium.

Investments in Technology or Equipment: InterTech purchases capital equipment to support customer applications. Computer Services equipment such as mainframe, disk, and tape equipment is depreciated over three years; all other equipment is depreciated over four years. The depreciated portion of the total cost is incorporated into usage rates.

During FY 2002-03 processing will continue to grow from existing applications' transaction increases. PRISM is growing faster than expected. SEMA4 has begun an upgrade approved by the 1999 Legislature that is projected to add 32% increased CPU workload in FY 2001 over FY 2000. Growth in storage requirements will come from across the entire customer base. We will continue a "just-in-time" strategy to provide storage when needed but not maintain an excess. Print volumes continue to decline as online viewing becomes more prevalent thus no significant upgrades to printers are anticipated.

BUDGET ACTIVITY SUMMARY (Continued)

Budget Activity: COMPUTER SERVICES
Program: INTERTECHNOLOGIES GROUP
Agency: ADMINISTRATION DEPT

<u>FY96</u>	<u>FY97</u>	<u>FY98</u>	<u>FY99</u>	<u>FY00</u>	<u>FY01</u>	<u>FY02</u>	<u>FY03</u>
Actual	Actual	Actual	Actual	Actual	Budget	Projected	Projected
(10%)	(12%)	0%	(8%)	(9%)	(2%)	(2%)	(2%)

Anticipated equipment purchases greater than \$100,000 needed to meet these customer application capacity needs include:

- Additional processing capacity of 150 MIPS (millions of instructions per second) in both FY 2002 and FY 2003 at a cost of \$330,000 each year;
- \$300,000 in both FY 2002 and FY 2003 for coupling facility upgrades;
- \$200,000 in FY 2002 for the connection device, ESCON (Enterprise System Connection); and
- \$200,000 in FY 2002 for an automated tape storage library for customer disaster recovery purposes.

Operating Losses or Increases in Retained Earnings: During FY 1994, Computer Services and Telecom Services Internal Service funds were merged into one fund. Retained earnings are managed at the InterTech level and are managed according to federal requirements. These requirements state that the retained earnings balance cannot exceed two months of operating expenses. The federal government does not recognize depreciation as an operating expense in its calculation. In FY 2000, depreciation expense for Computer Services was \$4.9 million.

InterTech's budget goal is to break even by the end of each fiscal year. However, if customer usage is higher/lower than forecasts, increases/decreases in retained earnings occur. Over the years, Computer Services' products have exceeded budget forecasts, causing increases in retained earnings. The earnings above guidelines have been refunded to InterTech's customers.

Computer Services Retained Earnings increased by \$331,000 from FY 1999 to FY 2000. The primary reason for this increase was actual usage exceeding forecasts.

History of Rates: Historically, major Computer Services rates, except for print, have continued to decrease. This is primarily due to increases in customer usage and decreases in equipment costs. While most Computer Services' rates continue to decrease, total cost to customers increases as customer usage increases. For those customers whose usage remains stable, they receive the overall benefit of lower rates. Historical rate changes for Computer Services are as follows:

Factors contributing to these rate decreases include increases in customer usage and decreases in data processing capital equipment costs.

Even though rates will be reduced, Computer Services customers will pay approximately the same amount in FY 2001 as FY 2000 due to customer forecasted increases in volume.

BUDGET ISSUES:

- It is difficult to make accurate and timely volume forecasts, particularly for an extended period (34 months). Volume forecasts are key to determining Computer Services' resource levels;
- Technology is constantly changing. While InterTech does not need to keep absolutely current, it is necessary to operate systems that are serviceable and supported by vendors; and
- Staffing remains difficult due to demands for scarce skills creating salary pressures, compounded by a highly competitive human resource market.

Activity: COMPUTER SERVICES
Program: INTERTECHNOLOGIES GROUP
Agency: ADMINISTRATION DEPT

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
Expenditures by Category:									
State Operations									
COMPENSATION	10,647	11,885	13,023	13,809	13,809	14,462	14,462	3,363	13.5%
OTHER OPERATING EXPENSES	26,183	25,085	18,776	19,863	19,863	20,677	20,677	(3,321)	(7.6%)
OTHER FINANCIAL TRANSACTIONS	0	800	0	0	0	0	0	(800)	(100.0%)
Total Expenditures	36,830	37,770	31,799	33,672	33,672	35,139	35,139	(758)	(1.1%)
Financing by Fund:									
Statutory Appropriations:									
INTERTECHNOLOGIES	36,830	37,770	31,799	33,672	33,672	35,139	35,139		
Total Financing	36,830	37,770	31,799	33,672	33,672	35,139	35,139		
Revenue Collected:									
Dedicated									
INTERTECHNOLOGIES	43,786	39,738	30,988	34,764	34,764	35,564	35,564		
Total Revenues Collected	43,786	39,738	30,988	34,764	34,764	35,564	35,564		
FTE by Employment Type:									
FULL TIME	177.5	182.9	202.6	203.7	203.7	203.7	203.7		
PART-TIME, SEASONAL, LABOR SER	3.2	2.8	0.0	0.0	0.0	0.0	0.0		
OVERTIME PAY	1.8	2.2	0.0	0.0	0.0	0.0	0.0		
Total Full-Time Equivalent	182.5	187.9	202.6	203.7	203.7	203.7	203.7		

BUDGET ACTIVITY SUMMARY

Budget Activity: TELECOM SERVICES
Program: INTERTECHNOLOGIES GROUP
Agency: ADMINISTRATION DEPT

ACTIVITY PROFILE:

Telecommunications (Telecom) Services delivered by InterTech are used by state agencies, public and private K-12 and higher education institutions, local governments, and libraries. These services include long distance voice network service, local voice (dial tone) service, enhanced voice services, interactive video service, data transmission, Internet access, data/telecommunications network management, and consulting services.

All of the long distance and local voice services provided by Telecom Services are leased/bought from telephone companies. This includes over 46 million minutes of long distance service and 30 million minutes of 800 service annually. Over 14,000 voice mail boxes are managed on behalf of state agencies.

Telecom Services operates and manages the state's digital telecommunications network, which uses high capacity digital lines leased from the telephone companies. This network has "hubs" located strategically in the following cities: St. Paul, Duluth, Rochester, St. Cloud, Hibbing, Marshall, Mankato, Minneapolis, Pine City, Willmar, Moorhead, Bemidji, Thief River Falls, and Brainerd. This network uses over 400 routers to provide the statewide connectivity for over 120,000 terminals required for most state agencies mission-critical computer applications which use InterTech's Computer Services mainframe or the agencies own computers. This network provides the reliability (99.92% in FY 2001), capacity, and security required to conduct the state's business in a cost-effective manner. It also connects 175 state agency, local government, and education video sites located throughout the state.

Telecom Services aggregates the needs of the public sector and negotiates favorable contracts with telephone companies to get volume discounts which lowers the cost to all users of the services. Telecom Services also aggregates usage to ensure efficient utilization of available capacities. The objective is to provide these services with the highest quality and reliability at competitive rates.

STRATEGIES AND PERFORMANCE:

Gartner's FY 1998 assessment of InterTech's processing, storage and telecommunications transport services compared InterTech to commercial service providers, state bureaus, and private organizations to assess the competitiveness and efficiency of the services being provided. The telecommunications transport services assessment showed InterTech's network ranked among the top 10% most cost efficient organizations based on Gartner's

total database. This evaluation utilized costs divided by work produced to determine level of efficiency.

InterTech has found that external benchmarking is a critical function that needs to be performed on a continuous basis. During the upcoming biennium, InterTech will continue to have external benchmarking analyses performed.

InterTech also performs numerous internal performance measurements. One critical measurement is circuit availability. InterTech's goal is to ensure that InterTech managed circuits are available 99.9% of the time. During FY 2000, InterTech achieved this goal.

FINANCING INFORMATION:

Telecom Services' finances are managed through the InterTech Internal Service Fund. Annually, rates are established for services and customers are charged these rates for services delivered. Expenses for personnel, communications, hardware, etc., are paid for with internal service fund payments. At the end of each fiscal year, the accounting objective of the internal service fund is to break even.

General Fund Loans: Telecom Services does not have a loan from the General Fund. InterTech does not anticipate a need for a General Fund loan during the next biennium.

Investments in Technology or Equipment: InterTech purchases capital equipment to support customer applications. Voice, data, and video network equipment is depreciated over four years with the depreciation incorporated into rates. Individual pieces of network equipment normally cost less than \$100,000. However, in aggregate, InterTech anticipates spending \$3.9 million during FY 2002-03 with depreciation (rate) impact of \$250,000 in FY 2002 and \$750,000 in FY 2003.

During FY 2002-03, there are no significant capital purchases planned for local, long distance, and enhanced voice services. Continued growth in the data and video network areas is anticipated. For FY 2001, a major project is the upgrade of the Criminal Justice Data Network (CJDN), which will nearly double the number of routers/ports on the network with some of the work overlapping into FY 2002. In addition, the following projects are currently being planned:

\$450,000 for bridging H.323 to H.320 utilizing three Accord MCUs (multipoint control unit):

- to provide a bridging and multi-point conferencing service to both types of video customers.
- Industry trends are moving to video over IP (Internet Protocol) (H.323).

BUDGET ACTIVITY SUMMARY (Continued)

Budget Activity: TELECOM SERVICES
Program: INTERTECHNOLOGIES GROUP
Agency: ADMINISTRATION DEPT

- InterTech is currently in a pilot with METNet for H.323 video.

\$400,000 for 300 CSU/DSUs (channel service unit/data service unit) that will be utilized at new network sites:

- to add additional CJDN sites.
- potential to bring more K-12 sites up.
- general network expansion and the upgrade of 56kb to t1 sites.

\$500,000 for optical fiber for MNSCU connections.

\$200,000 for optical fiber repeaters for MNSCU connections.

\$142,000 for 8540 switches for 4 additional hubs.

\$120,000 for 8510 switches for 4 additional mini hubs:

- General network expansion will require additional hub sites.

\$963,000 for upgrade of 4500 series routers:

- required to provide Quality Of Service for H.323 video; current routers at County Collaboration sites do not provide this feature.

\$130,000 for core router additions:

- this is related to the 8540 switches listed above; general network expansion.

\$570,000 for routers for 200 new customers:

- this is related to the CSU/DSUs implementation listed above.

\$425,000 for 150 upgrades of 2500 series routers to 2600 series routers:

- required to provide Quality Of Service for H.323 video; 2500 series routers do not provide this feature.

Operating Losses or Increases in Retained Earnings: During FY 1994, Computer Services and Telecom Services Internal Service funds were merged into one fund. Retained earnings are managed at the InterTech level according to federal requirements. These requirements state that the retained earnings balance cannot exceed two months of operating expenses. The federal

government does not recognize depreciation as an operating expense in this calculation. In FY 2000, depreciation expense for Telecom Services was \$1.9 million.

Telecom Services do not contribute to InterTech's overall retained earnings balance.

History of Rates: The market within the telecommunications industry, particularly for local and long distance services, is becoming increasingly competitive and complex which puts additional pressure on InterTech's rate structure. InterTech's long distance and voicemail rates have continued to decrease to remain competitive with industry standards. Local service rates are primarily a pass-through of vendor charges. As vendor charges, including additional FCC approved fees, increase, InterTech must pass these increased costs on to customers. Data and video rates are also primarily a pass-through of vendor charges. Historical rate changes are as follows:

<u>FY96</u>	<u>FY97</u>	<u>FY98</u>	<u>FY99</u>	<u>FY00</u>	<u>FY01</u>	<u>FY02</u>	<u>FY03</u>
Actual	Actual	Actual	Actual	Actual	Budget	Projected	Projected
(3%)	7%	(1%)	1%	(2%)	2%	1%	1%

Factors contributing to these rate increases are the increased complexity, bandwidth, and number of locations covered by the network.

Even though rates will increase 2%, Telecom Services customers will pay approximately 6% more in FY 2001 over FY 2000 primarily due to increases in pass-through costs from vendors and customer forecasted increases in volume.

BUDGET ISSUES:

Several ongoing forces have an impact on the Telecom Services budget:

- State agencies continue to demand additional bandwidth capacity and services necessary to deliver services to citizens.
- Rapid changes in technology require hardware and software to be constantly upgraded, which is necessary to operate a network that is secure, serviceable, reliable, and supported by the vendors who provide and maintain the equipment.
- Obtaining and retaining skilled technical staff is a challenge since these are limited resources sought by the public sector as well as the private sector.
- Network security requirements for the network to ensure confidential data cannot be accessed by unauthorized users and/or outside hackers are increasing.

BUDGET ACTIVITY SUMMARY (Continued)

Budget Activity: TELECOM SERVICES
Program: INTERTECHNOLOGIES GROUP
Agency: ADMINISTRATION DEPT

All of the above issues are being managed by InterTech to minimize their impact on Telecom Services' rates. This is being done in several ways:

- Agencies are encouraged to share bandwidth and resources, where it is feasible, to lower costs.
- New technology is being introduced in a controlled manner when technically, operationally, and cost-effective to do so.
- New technology and systems are being used where applicable and cost-effective to better manage the complex network and ensure reliability for agencies' mission-critical applications.
- Technical support resources of other agencies are utilized at certain locations where they may be available to assist in supporting the network.
- Collaborate with MnSCU and the University of Minnesota to share, rather than duplicate, facilities and circuits.

Activity: TELECOM SERVICES
Program: INTERTECHNOLOGIES GROUP
Agency: ADMINISTRATION DEPT

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
Expenditures by Category:									
State Operations									
COMPENSATION	4,030	5,034	5,499	5,834	5,834	6,146	6,146	1,447	13.7%
OTHER OPERATING EXPENSES	32,612	31,181	35,891	35,907	35,907	35,906	35,906	4,741	7.1%
Total Expenditures	36,642	36,215	41,390	41,741	41,741	42,052	42,052	6,188	8.0%

Financing by Fund:							
Statutory Appropriations:							
INTERTECHNOLOGIES	36,642	36,215	41,390	41,741	41,741	42,052	42,052
Total Financing	36,642	36,215	41,390	41,741	41,741	42,052	42,052

Revenue Collected:							
Dedicated							
INTERTECHNOLOGIES	32,428	31,916	42,017	42,586	42,586	43,136	43,136
Total Revenues Collected	32,428	31,916	42,017	42,586	42,586	43,136	43,136

FTE by Employment Type:							
FULL TIME	66.6	78.1	83.9	84.1	84.1	84.1	84.1
PART-TIME, SEASONAL, LABOR SER	0.0	0.2	0.0	0.0	0.0	0.0	0.0
OVERTIME PAY	0.2	0.9	0.0	0.0	0.0	0.0	0.0
Total Full-Time Equivalent	66.8	79.2	83.9	84.1	84.1	84.1	84.1

BUDGET ACTIVITY SUMMARY

Budget Activity: INTERTECH-OTHER SERVICES
Program: INTERTECHNOLOGIES GROUP
Agency: ADMINISTRATION DEPT

ACTIVITY PROFILE:

General Fund Services delivered by InterTech are used by public sector agencies, public and private K-12 and higher education institutions, local governments, libraries, and citizens. Specific services include:

Ongoing:

- Communication Center - answers, responds to, and/or direct calls received on the state's general telephone number. It also supports the printing of the state's telephone directory.

Funding Approved in FY 2000-2001 Session:

- Disaster Recovery Services - Conduct coordinated, disaster-recovery planning in state agencies. First, an agency "business impact analysis" is conducted which becomes the foundation for establishing a recovery plan specific to the agency. Then, state agencies are provided a standard planning tool to ensure that critical information is readily available in the event of a disaster.
- Electronic Government Services - Security Impact Analysis and Planning: Conduct security impact analysis for state agencies of their automated information systems which identifies security vulnerabilities. Each agency then receives recommendations designed to eliminate the vulnerabilities and to prepare the agency to deliver electronic government services via the Internet.
- Electronic Government Services - Security Infrastructure: The implementation of Electronic Government Services (EGS) will require a common security infrastructure that will allow both government and citizen access to data currently stored on the state of Minnesota's shared mainframe computers and servers. The security infrastructure for EGS needs to be flexible, adaptable, and platform independent so all agencies can use it. Early implementation of the infrastructure would save state agencies the time, money, and resources that might otherwise be spent on incompatible security tools adopted on an agency-by-agency basis. Funding for these services was approved through FY 2002-03.
- Electronic Government Services - Directory Services Technology: Directory Services defines the "what" in "what systems are available to different EGS users." Directory Services focuses on the data-specific aspects of EGS: the application of technology to identify individuals, ensure that they are

authorized, verify their digital identity, direct them to the information required, and secure the information transferred during a transaction.

Note: The Year 2000 Project and the Intergovernmental Information Systems Advisory Council, which received General Fund appropriations, expired 6-30-00.

STRATEGIES AND PERFORMANCE:

These General Fund activities are used for consolidating requirements and sharing resources so that the state can accomplish these activities for a considerably smaller investment than if funded individually. These activities provide the leverage needed to share the resources already developed in the Department of Administration.

The Communications Center is the front door to government for many people. An improvement that was completed in FY 2000 included automation of the state's telephone directory, which facilitates continuous updating and the annual printing of the State Directory at a cost comparable to previous biennial printing. It also allows for custom, limited printing of selected entity directories such as legislative listings when a new session convenes.

FINANCING INFORMATION:

InterTech – Other Services are managed through the General Fund. These funds equal less than 5% of InterTech's funding.

BUDGET ISSUES:

Ongoing funding for the Communications Center is critical for citizen's access to state government. If this access is closed and citizens are required to depend only on decentralized information lines, there will be dissatisfaction with access to government and increased citizen frustration.

Activity: INTERTECH-OTHER SERVICES
Program: INTERTECHNOLOGIES GROUP
Agency: ADMINISTRATION DEPT

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
Expenditures by Category:									
State Operations									
COMPENSATION	1,083	659	502	571	571	597	597	7	0.6%
OTHER OPERATING EXPENSES	4,027	2,390	2,925	1,188	1,188	1,162	1,162	(2,965)	(55.8%)
Subtotal State Operations	5,110	3,049	3,427	1,759	1,759	1,759	1,759	(2,958)	(45.7%)
LOCAL ASSISTANCE	13,357	0	0	0	0	0	0	0	
Total Expenditures	18,467	3,049	3,427	1,759	1,759	1,759	1,759	(2,958)	(45.7%)

Financing by Fund:									
Carry Forward:									
GENERAL	0	0	0	900	900	900	900		
Direct Appropriations:									
GENERAL	18,118	3,048	3,427	859	859	859	859		
Statutory Appropriations:									
SPECIAL REVENUE	0	1	0	0	0	0	0		
MISCELLANEOUS AGENCY	349	0	0	0	0	0	0		
Total Financing	18,467	3,049	3,427	1,759	1,759	1,759	1,759		

Revenue Collected:									
Dedicated									
MISCELLANEOUS AGENCY	349	0	0	0	0	0	0		
Total Revenues Collected	349	0	0	0	0	0	0		

FTE by Employment Type:									
FULL TIME	20.3	11.8	9.5	11.0	11.0	11.0	11.0		
PART-TIME, SEASONAL, LABOR SER	0.0	0.4	0.0	0.0	0.0	0.0	0.0		
OVERTIME PAY	0.0	0.4	0.0	0.0	0.0	0.0	0.0		
Total Full-Time Equivalent	20.3	12.6	9.5	11.0	11.0	11.0	11.0		

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BUDGET ACTIVITY SUMMARY

Budget Activity: 911 EMERGENCY SERVICES
Program: INTERTECHNOLOGIES GROUP
Agency: ADMINISTRATION DEPT

ACTIVITY PROFILE:

The Department of Administration Statewide 9-1-1 Program provides support and oversight for the implementation and improvement of 9-1-1 emergency number systems at county and other government agencies to allow immediate telephone and wireless telephone access to emergency services. The 9-1-1 Emergency Number saves time for the caller and, consequently, it reduces the overall response time for all emergency services. Additional time is saved with Enhanced 9-1-1 systems, which provide vital location information to 9-1-1 centers.

For budget purposes, 9-1-1 costs can be viewed as several related activities required by M.S. 403.11, 403.113, and 473.901:

- 9-1-1 Network and Database Costs – The recurring costs of delivering 9-1-1 calls, with the associated location information to Public Safety Answering Points operated by county and other government agencies.
- Enhanced 9-1-1 Grant Costs - Grants to county and other government agencies operating public safety answering points to implement, improve, and maintain Enhanced 9-1-1. The amount (currently, ten cents) is established by the Commissioner of Administration.
- Metropolitan Radio Board Transfer Costs - A portion of the Metropolitan Radio Board budget is funded at no more than four cents from the 9-1-1 Special Revenue Fund.
- Wireless Enhanced 9-1-1 Costs – The installation and recurring costs for integrating wireless 9-1-1 calls into the Enhanced 9-1-1 networks. Also, two cents of the subscriber fee collected from wireless subscribers is transferred to the Minnesota State Patrol, to offset the costs for handling 9-1-1 emergency calls made from cellular phones.
- 9-1-1 Improvement Grant Costs – The commissioner is authorized to provide up to \$50,000 per year as grant funds to improve 9-1-1 service.
- Poison Center Grant Costs - Grants to poison centers in the amount of \$50,000 per year from 9-1-1 carryover funds. (Laws, 1994, Chapter 634, Article 1, Section 25(a)).
- Administration Costs - Salaries and miscellaneous costs of running the Statewide 9-1-1 Program.

FINANCING INFORMATION:

The following table shows the amount received (or estimated) compared to actual and expected costs.

Dollars in Thousands

	<u>FY 1998</u>	<u>FY 1999</u>	<u>FY 2000</u>	<u>FY 2001 (est.)</u>	<u>FY 2002 (est.)</u>	<u>FY 2003 (est.)</u>
Fees Received	\$9,557	\$12,881	\$14,059	\$15,695	\$18,759	\$21,228
Costs	9,162	10,543	11,723	14,246	19,135	20,503
Cost Increase*				3,988		
Carryforward*					2,862	
Transfer State Patrol	414	509	596	622	661	701
Fees Minus Costs	(19)	1,829	1,740	(3,161)	(3,899)	24
Beginning Carryover	6,200	6,181	8,010	9,750	6,589	2,690
Ending Carryover	\$6,181	\$8,010	\$9,750	\$6,589	\$2,690	\$2,714

* Includes cost increases for wireless enhanced 9-1-1 and reimbursements to providers for prior period (back to 1988) services provided but not yet certified by the Public Utilities Commission.

Funding Summary:

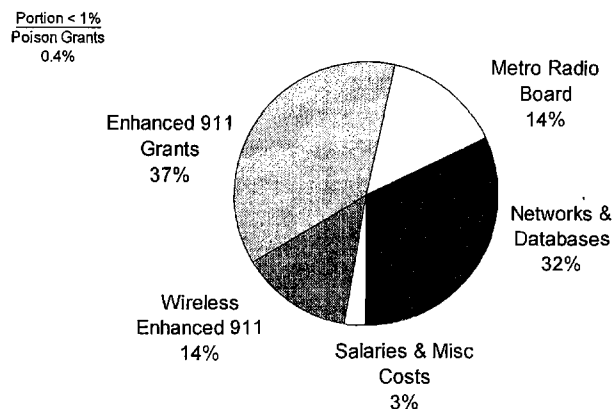
Funds are collected through a monthly statewide subscriber fee which is not less than eight cents nor more than 30 cents per month on each customer access line, including cellular and other nonwire access services. The amount of the subscriber fee (currently 27 cents) is set by the commissioner of administration with the approval of the commissioner of finance. During FY 2000 wired access lines grew by 3% and wireless lines grew by 26%. Projections for FY 2001 through 2003 assume the same growth as experienced during FY 2000.

BUDGET ACTIVITY SUMMARY (Continued)

Budget Activity: 911 EMERGENCY SERVICES
Program: INTERTECHNOLOGIES GROUP
Agency: ADMINISTRATION DEPT

Based on FY 2001 anticipated costs, and a projected average subscriber count of 4,844,134 during that period, the following chart shows the approximate allocation of the 27-cent subscriber fee:

FY 2001 27-Cent 9-1-1 Fee Allocation



The following table shows historical information regarding the amount of the 9-1-1 subscriber fee in cents per month, and revenue results in thousands of dollars per fiscal year:

Recent Revenue Levels:

Fiscal Year	Dollars in Thousands			
	Monthly Fee (wired)	Monthly Fee (wireless)	Annual Revenue	% Increase (Decrease)
1992	18	-0-	\$4,911	-0-
1993	18	-0-	4,937	0.5%
1994	14	-0-	3,949	(20%)
1995	14	14	4,596	16%
1996	22	12	6,600	44%
1997	22	12	7,875	19%
1998	22	22	9,557	21%
1999	27	27	12,881	35%
2000	27	27	14,059	9%
2001 (est)	27	27	15,695	11%
2002 (est)	29	29	18,759	20%
2003 (est)	29	29	21,228	13%

The decrease in wired revenues in FY 1994 was due to a reduction in the 9-1-1 subscriber fee to 14 cents, but was offset by other receipts (mostly the rebate of telephone overcharges) of \$760,000. There was a further decrease in wired FY 1995 revenues, but that decrease was partly offset by the addition of wireless cellular subscribers who started paying the subscriber fee at the beginning of FY 1995.

The implementation of Enhanced 9-1-1 grants (10 cents of the 9-1-1 subscriber fee) increased our costs in 1995 and 1996, but the subscriber fee was not increased to 22 cents (for wired telephones) until October 1995 because carryover funds were available in the 9-1-1 Special Revenue Fund.

Metropolitan Radio Board 1998 costs were offset by carryover funds rather than an immediate increase in the subscriber fee. Subscriber fee revenues still increased, however, because 1997 legislation expanded the scope of the Enhanced 9-1-1 grants, requiring collection of the enhanced component from wireless subscribers.

The subscriber fee was increased to 27 cents effective 7-1-98, to help cover the new costs of implementing Wireless Enhanced 9-1-1.

A further increase in subscriber fee collections in FY 2000 was caused by growth in wired and wireless telephone subscribers. Estimated collections in FY 2001 will also increase based on projected increases in the number of subscribers. If subscriber fee growth is higher than estimated, both revenues and expenses will increase. From FY 2001 and forward, over half of the 9-1-1 budget is directly variable with the number of subscribers paying the fee.

BUDGET ISSUES:

Costs have increased beyond the capacity of a 27 cent 9-1-1 fee. Due to increased wireless enhanced 9-1-1 costs, additional spending authority in FY 2001 is required in the amount of \$4 million. An increase to 29 cents for FY 2002 is also required.

Activity: 911 EMERGENCY SERVICES
Program: INTERTECHNOLOGIES GROUP
Agency: ADMINISTRATION DEPT

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
Expenditures by Category:									
State Operations									
COMPENSATION	171	180	209	218	218	239	239	68	17.5%
OTHER OPERATING EXPENSES	4,091	4,680	10,418	13,080	13,080	10,546	10,546	8,528	56.5%
Subtotal State Operations	4,262	4,860	10,627	13,298	13,298	10,785	10,785	8,596	55.5%
LOCAL ASSISTANCE	6,281	6,863	7,607	8,699	8,699	9,718	9,718	3,947	27.3%
Total Expenditures	10,543	11,723	18,234	21,997	21,997	20,503	20,503	12,543	41.9%
Financing by Fund:									
Carry Forward:									
STATE GOVERNMENT SPECIAL REVENUE	0	0	0	2,862	2,862	0	0		
Direct Appropriations:									
STATE GOVERNMENT SPECIAL REVENUE	10,543	11,723	18,234	19,135	19,135	20,503	20,503		
Total Financing	10,543	11,723	18,234	21,997	21,997	20,503	20,503		
Revenue Collected:									
Dedicated									
STATE GOVERNMENT SPECIAL REVENUE	12,881	14,059	15,695	18,759	18,759	21,228	21,228		
Total Revenues Collected	12,881	14,059	15,695	18,759	18,759	21,228	21,228		
FTE by Employment Type:									
FULL TIME	3.0	3.0	3.0	3.0	3.0	3.0	3.0		
Total Full-Time Equivalent	3.0	3.0	3.0	3.0	3.0	3.0	3.0		

PROGRAM SUMMARY

Program: FACILITIES MANAGEMENT BUREAU
Agency: ADMINISTRATION DEPT

PROGRAM PROFILE:

The Facilities Management Bureau manages some of the land and buildings owned or leased by the state. Through a participatory strategic planning process, agency long-term capital needs are identified and prioritized, with the overall goals of providing high quality, healthy, cost-effective, and serviceable facilities that:

- meet code and are responsibly built or leased to meet agency long-term capital needs following the principles of smart growth.
- provide for sustainable, cost-effective operation and maintenance.
- maximize customer service and the productivity of employees.

STRATEGIES AND PERFORMANCE:

Capital budget improvements are planned and prioritized through the strategic planning process to assure smart growth. The development and management of databases for cost history, facility condition, and asset preservation will assist agencies and the legislature in providing and reviewing key project information. The progressive implementation of computer-assisted facilities management (CAFM) program is providing tools needed for improved management operations and maintenance. CAFM uses computer programs to manage facility services such as maintenance, operations, inventory control, asset management, telecommunications, and space layouts so that all users can access the facilities data appropriate to their role in the organization.

- **Building Codes and Standards Division:** Promulgates and administers the Minnesota State Building Code and performs building, mechanical, structural, accessibility, elevator, and manufactured structures plan review and inspections for public building and state-licensed facilities and other projects throughout the state. The division strives to win compliance and develop a consistent code administration by providing education, training, and assistance to code officials, design professionals, contractors, and consumers. Currently, 385 cities and 17 counties administer the Minnesota State Building Code.
- **Building Construction Division:** Manages the predesign, design, construction, and post-occupancy evaluations for new, renovated, and remodeled state buildings, grounds, and monuments through architectural, drafting, engineering, and other professional services. The statewide building access, capital asset repair and replacement account, asset preservation, hazardous materials abatement, underground storage tank removal, and facility management programs reside here.

- **Plant Management Division:** Provides and maintains quality building environments that support sound facilities, meet customer needs, and reflect civic pride.
- **Real Estate Management Division:** State agencies are located in both state-owned and nonstate-owned space that is economical and supportive of agency programs. Where possible, agencies are co-located to conserve resources through the sharing of space, equipment, and staff, and thus improving public access to government services. Approximately 1,000 leases are managed, encompassing over 5.4 million useable square feet of space.

FINANCING INFORMATION:

The Facilities Management Bureau operates through three funding sources:

- General Fund Appropriation: Building Construction, Energy Management Services, Resource Recovery Office, and Real Estate Management.
- Special Revenue Receipts: Building Codes and Standards, and Parking.
- Internal Service Funds: Plant Management Division.

BUDGET ISSUES:

Budget issues affecting the Facilities Management Bureau include:

- The tight labor market and pay disparity in many classifications compared to the private sector make it difficult to recruit and retain qualified employees.
- We need a facility assessment program which would take a comprehensive look at each state building and determine the viability of its structure, systems, technology, and serviceability to support agency programs.
- The deferred maintenance needs of the 21 facilities and 3.3 million gross square feet of space under Admin's control is estimated to be \$27 million.
- Funding is needed to assist with the development of an information system to support facility operations.

GOVERNOR'S RECOMMENDATION:

The Governor recommends the requested base level funding as well as \$2.784 million for the Luverne Lawsuit, In-Lieu of Rent, and Governor's Residence.

Program: FACILITIES MANAGEMENT BUREAU
Agency: ADMINISTRATION DEPT

Program Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
Expenditures by Activity:									
REAL ESTATE MANAGEMENT	363	370	396	405	405	415	415	54	7.0%
PLANT MANAGEMENT	27,508	27,709	28,983	35,157	35,134	35,875	35,852	14,294	25.2%
BUILDING CODE & STANDARDS	3,967	4,051	4,886	5,263	5,263	5,421	5,421	1,747	19.5%
BUILDING CONSTRUCTION	8,212	6,377	3,645	2,516	2,534	2,591	2,484	(5,004)	(49.9%)
IN-LIEU OF RENT	5,249	5,447	6,728	6,292	7,584	6,552	7,844	3,253	26.7%
Total Expenditures	45,299	43,954	44,638	49,633	50,920	50,854	52,016	14,344	16.2%

Change Items:	Fund				
(P) FACILITIES MANAGEMENT BUDGET REDUCTIONS	GEN			(130)	(130)
(B) LUVERNE LAWSUIT	GEN		75	125	
(B) IN-LIEU OF RENT	GEN			1,268	1,268
(B) GOVERNORS RESIDENCE	GEN			24	24
Total Change Items			75	1,287	1,162

Financing by Fund:							
Direct Appropriations:							
GENERAL	12,464	13,659	12,037	10,402	11,689	10,767	11,929
Statutory Appropriations:							
STATE GOVERNMENT SPECIAL REVENUE	3,967	4,051	4,886	5,263	5,263	5,421	5,421
SPECIAL REVENUE	2,242	2,359	2,882	8,334	8,334	8,326	8,326
FEDERAL	4,420	1,103	96	0	0	0	0
MISCELLANEOUS AGENCY	1,157	251	290	241	241	242	242
GIFT	127	20	105	0	0	0	0
PLANT MANAGEMENT	20,922	22,511	24,342	25,393	25,393	26,098	26,098
Total Financing	45,299	43,954	44,638	49,633	50,920	50,854	52,016

FTE by Employment Type:							
FULL TIME	311.1	311.3	345.5	361.2	360.2	362.2	361.2
PART-TIME, SEASONAL, LABOR SER	9.0	7.0	5.0	5.0	5.0	5.0	5.0
OVERTIME PAY	1.7	1.8	1.6	1.6	1.6	1.6	1.6
Total Full-Time Equivalent	321.8	320.1	352.1	367.8	366.8	368.8	367.8

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BUDGET CHANGE ITEM (61252)**Program: FACILITIES MANAGEMENT BUREAU****Agency: ADMINISTRATION DEPT****Item Title: FACILITIES MANAGEMENT BUDGET REDUCTIONS**

	<u>2002-03 Biennium</u>		<u>2004-05 Biennium</u>	
	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u>
Expenditures: (\$000s)				
General Fund				
-State Operations	\$(130)	\$(130)	\$(130)	\$(130)
Revenues: (\$000s)				
General Fund	\$-0-	\$-0-	\$-0-	\$-0-

Statutory Change? Yes _____ No X

If yes, statute(s) affected:

_____ New Activity
 _____ Supplemental Funding
 _____ Reallocation

GOVERNOR'S RECOMMENDATION:

The Governor recommends biennial budget reductions for Plant Management's Resource Recovery Office in the amount of \$46,000, and Building Construction in the amount of \$214,000.

PLANT MANAGEMENT-RESOURCE RECOVERY OFFICE**RATIONALE:**

To support the Department of Administration's Strategic Plan, and the Governor's Big Plan initiatives, the Resource Recovery Office of PMD will reduce their annual budget by \$23,000. M.S. 115A.15 requires each state agency to work to meet a 60% recycling goal. It also requires the Department of Administration to promote recycling and provide information about recycling opportunities and expectations to agencies. Resource Recovery Office will continue to provide its recycling technical assistance that helped agencies to meet and exceed the recycling goal while reducing \$23,000 from its annual recycling transportation budget.

FINANCING:

This General Fund reduction would be permanent.

OUTCOMES:

The annual \$23,000 reduction will eliminate recycling collection and transportation services for approximately 30 state agencies housed in leased space, and will expect landlords to do the recycling. Administration will facilitate development and usage of a state service contract to reduce individual agency recycling costs where landlords fail to provide recycling service. Recycling is a priority, but the state is not responsible for private sector recycling. This will enable the reallocation of dollars to higher priority initiatives of the Governor's Big Plan and Admin's Strategic Plan.

BUILDING CONSTRUCTION**RATIONALE:**

To support the Department of Administration's Strategic Plan and the Governor's Big Plan Initiatives, the Division of State Building Construction will reduce their biennial budget by \$214,000.

The Division of State Building Construction is unable to fill the position of Principal Electrical Engineer due to market conditions. While this is an important function, we are giving up this position and associated administrative costs for higher priority functions.

FINANCING:

This General Fund reduction would be permanent.

OUTCOMES:

The elimination of this position will require outsourcing electrical engineering services, the cost of which will be borne by the project.

BUDGET ACTIVITY SUMMARY

Budget Activity: REAL ESTATE MANAGEMENT
Program: FACILITIES MANAGEMENT BUREAU
Agency: ADMINISTRATION DEPT

ACTIVITY PROFILE:

This activity provides the following services to state agencies statewide, except those agencies that have their own authority or are exempt from M.S. 16B.24.

- Provide, allocate, and lease state-owned and nonstate-owned real property.
- Generate revenue by leasing state-owned property temporarily not needed for state use.
- Provide space programming and monitor leasehold improvement construction for compliance with terms and conditions of leases.
- Provide relocation assistance and project financial analysis.
- Assist agencies in acquiring and disposing of real property, issue easements and permits, and transfer custodial control of property between agencies.
- Manage the Capitol Child Care Center vendor contract.

STRATEGIES AND PERFORMANCE:

The activity maintains approximately 1,000 leases of nonstate-owned and state-owned real property. The state leases approximately 4 million useable square feet of nonstate-owned space and other real property statewide at an annual cost of \$57.3 million. The Department of Administration leases out 1.4 million useable square feet of state-owned space under its custodial control to other agencies. Of the total 5.4 million useable square feet occupied, approximately 74% is nonstate-owned.

Life cycle cost analyses on owning and leasing real estate have shown that it is more economical to own than lease facilities. Case by case life cycle cost analyses of owning and leasing facilities will continue to be used to determine the most economic manner of providing space for state agencies.

Consolidation and co-location of agencies continues to be a priority. The anticipated results of this effort are to conserve resources by sharing space, equipment, and staff; offer the public the ability to obtain products and services and to conduct more than one transaction at a visible, accessible, easily identifiable location; facilitate transportation pools that lead to conserving resources, better accessibility, reducing pollution, and controlling parking development costs.

The primary issue raised in customer surveys is the time it takes to complete transactions. Real estate negotiations and transactions have become more complex due to issues involving accessibility, code compliance, indoor air quality, hazardous materials, and risk management. Due to the lack of availability of larger spaces in the market, negotiations have become exceedingly more difficult and time consuming. Customers expect the service to also provide project management to ensure that spaces are delivered in accordance with lease terms and conditions. These requirements need to be addressed and monitored, but due to inadequate staffing for the workload it is difficult to be thorough and often these issues are only minimally addressed.

FINANCING INFORMATION:

This activity is financed by the General Fund and it is anticipated to generate non-dedicated revenue of approximately \$10,000 in the FY 2002-03 biennium from leasing state property that is temporarily surplus.

BUDGET ISSUES:

This activity is only partially funded. Funding from other areas of Admin supplements this deficiency causing a reduction in the performance of those divisions.

For many years, this activity has been understaffed for the continual increase in property leased for state agencies. While staffing has remained the same over the past 12 years, the square feet of nonstate-owned space leased has increased from 2.1 million in 1988 to 4 million in 2000, an increase of 54%. This workload pressure combined with other available opportunities has caused staff turnover. Additionally, agencies have hired their own real estate staff, which duplicates the expertise of this activity, causes confusion in the delineation of responsibility, and results in additional costs to the state.

Activity: REAL ESTATE MANAGEMENT
Program: FACILITIES MANAGEMENT BUREAU
Agency: ADMINISTRATION DEPT

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
Expenditures by Category:									
State Operations									
COMPENSATION	292	275	341	353	353	363	363	100	16.2%
OTHER OPERATING EXPENSES	71	95	55	52	52	52	52	(46)	(30.7%)
Total Expenditures	363	370	396	405	405	415	415	54	7.0%

Financing by Fund:							
Direct Appropriations:							
GENERAL	363	370	396	405	405	415	415
Total Financing	363	370	396	405	405	415	415

Revenue Collected:							
Nondedicated							
GENERAL	70	1	5	5	5	5	5
Total Revenues Collected	70	1	5	5	5	5	5

FTE by Employment Type:							
FULL TIME	2.9	2.8	3.0	3.0	3.0	3.0	3.0
Total Full-Time Equivalent	2.9	2.8	3.0	3.0	3.0	3.0	3.0

BUDGET ACTIVITY SUMMARY

Budget Activity: PLANT MANAGEMENT
Program: FACILITIES MANAGEMENT BUREAU
Agency: ADMINISTRATION DEPT

ACTIVITY PROFILE:

The Plant Management Division (PMD) maintains 3.3 million gross square feet in 21 facilities under Admin's custodial control, the grounds related to the facilities and Ceremonial grounds, 30 parking facilities, 11 monuments/memorials, one mile of tunnels, seven miles of sidewalks, and two state-owned streets. PMD's mission is to deliver consistent, quality services to ensure cost-effective, clean, safe, and environmentally sound buildings, grounds, and operations by:

- furnishing housekeeping, engineering, building management, refuse removal, grounds maintenance, snow removal, traditional trade and repair services, and environmental and fire/life/safety systems.
- operating the State Recycling Center to prepare recyclables for market and providing resource recovery assistance and education.
- facilitating statewide energy efficiency improvements and retrofit projects.
- supplying moving, equipment rental, and delivery services.
- maintaining and managing parking facilities and contracts.
- providing alternative transportation services.

The majority of PMD's customers are state agencies and the legislature. Non-state agency customers include visitors and event participants, as well as:

- federal, regional, and local units of government needing resource recovery services;
- local units of government or organizations leasing space or needing parking.

These services adhere to the guiding principles of The Big Plan, the Budget Principles and Admin's strategic direction. Resource Recovery provides cost savings and long-term environmental benefits. This program also provides recycling education services not duplicated by other agencies in accordance with statutory directives. Similarly, Leases contain costs through owning versus leasing space. Also, transportation coordination services provide emphasis on healthy and vital communities through multi-modal transportation.

STRATEGIES AND PERFORMANCE:

PMD has developed a prioritized Asset Preservation Program for facilities under Admin's custodial control. The overall goal of this program is to continually

ensure all facilities are operated, repaired, and maintained in a cost-effective manner to ensure the integrity of the facilities and provide a safe and comfortable environment for building tenants. Historically, funding has been unavailable for long-term repair and/or replacement of major building components.

The 1997 legislature provided an asset preservation appropriation of \$4.5 million for facilities under Admin's custodial control, which funded:

- roof replacement at the State Office, Veteran Services, and Centennial Office buildings;
- tuckpointing of the lower levels of the Capitol Building;
- abatement/renovation of the fifth floor of the Veteran Services Building;
- exterior wall repair at the Ford Building;
- caulking at the Administration Building; and
- replacing failed electrical feeds serving Transportation, State Office, and Capitol buildings.

The 2000 legislature provided an asset preservation appropriation of \$3 million. The following projects are underway:

- tuckpointing and replacing of failing lintels on the south and east sides of the State Office Building and replacing all exterior doors;
- replacing roof on the Carriage House at Governor's Residence; and
- replacing windows at the Centennial Office Building.

Through a change in legislation in 1997, a segregated Facility Repair/Replacement account was established to enable CAPRA/ADA Bond Interest and Building Depreciation collected through the rental rates to fund major projects. For FY 1998-01, \$1.6 million will be transferred. In addition, with the change to the 1999 legislation that goes into effect on 7-1-01, all Building Depreciation collected through the rental rates for bonded projects will be transferred to this Facility Repair/Replacement account. Receipts are estimated at \$12 million for the biennium. With the exception of CAPRA/ADA, Bond Interest continues to be transferred to the General Fund. Over time, this Facility Repair/Replacement account will assist PMD in planning and budgeting for future cyclical repairs and replacements that extend the useful life of the facilities and reduce the reliance on the Capital Budget process. Preventive maintenance and planned, coordinated repair and replacements are significantly less expensive than emergency repairs or full replacement of facilities.

Service delivery accomplishments include:

- maintenance of Ceremonial grounds as a showplace for all Capitol Complex tenants, visitors, and Minnesota citizens.

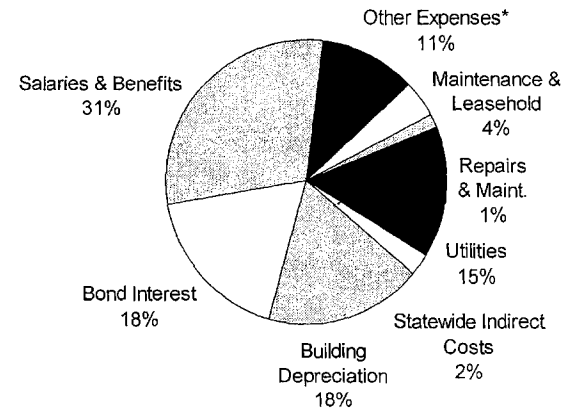
BUDGET ACTIVITY SUMMARY (Continued)

Budget Activity: PLANT MANAGEMENT
Program: FACILITIES MANAGEMENT BUREAU
Agency: ADMINISTRATION DEPT

The pie chart below illustrates PMD's ISF expense budget.

PMD Internal Service Fund Expense Budget FY 2002

Only a Portion of PMD's Operation



PMD does not have a *loan from the General Fund* nor *proposed investment in technology or equipment of \$100,000 or more*.

Operating Losses or Increases in Retained Earnings

FY 2000 retained earnings for Leases increased by \$426,890. Factors contributing to this increase include:

- addition of the Stassen Building housing the Department of Revenue;
- inability to fill positions due to wage disparities and tight labor market for qualified and/or licensed candidates resulting in lower salary expenses; and
- inherent fluctuations in the lease rate setting process as rates are established during the biennial budget process, i.e., one to two years in advance.

FY 2001 retained earnings for Leases are projected to decrease by approximately \$204,000. Additional planned Maintenance and Leasehold projects contribute to this decrease.

FY 2000 and FY 2001 retained earnings for ROJ decreased by \$1,846 and projected \$29,000 respectively. Planned loss based on positive retained earnings contribute to these decreases

- completion of all scheduled roof replacements, preserving facilities and supporting a quality environment for building tenants.
- increased overall recycling by state agencies/regional government in the metropolitan area over the FY 1998-99 biennium resulting in reduced waste disposal and increased shipments to recycling industries.
- 2,247 hours of energy management-coordinated training attended by statewide facility operators resulting in more efficiently run state facilities.
- increased number of bus cards sold by 3% resulting in more users of alternative transportation.

FINANCING INFORMATION:

PMD's Internal Service Fund (ISF) (predominant customers are state agencies) is made up of three activities:

- Leases provides housekeeping, engineering, building management, refuse removal, grounds maintenance, snow removal, traditional trade and repair services, and environmental and fire/life/safety systems for buildings, grounds, and monuments/memorials.
- Repair and Other Jobs (ROJ) provides traditional trade, repair, and remodeling services outside the scope of the lease.
- Materials Transfer provides moving services, equipment rental, and delivery of central mail, recyclables, printed materials, and office supplies.

PMD's funding sources include the ISF, General Fund, dedicated and non-dedicated receipts as indicated below:

Funding Sources	FY 2002	Dollars in Thousands			FY 2005
		FY 2003	FY 2004	FY 2005	
ISF Leases	39,217	40,378	42,397	44,517	
ISF ROJ	160	172	181	190	
ISF Materials Transfer	796	811	835	860	
Other Funds ¹	2,991	3,018	3,031	2,998	
General Fund ²	1,164	1,184	1,184	1,184	

¹ Other Funds includes the revenue from Energy, Resource Recovery, and Parking.

² General Fund includes the General Fund appropriation for Energy and Resource Recovery.

BUDGET ACTIVITY SUMMARY (Continued)

Budget Activity: PLANT MANAGEMENT
Program: FACILITIES MANAGEMENT BUREAU
Agency: ADMINISTRATION DEPT

FY 2000 and FY 2001 retained earnings for Materials Transfer increased by \$71,253 and projected \$17,000 respectively. Increased business and recovery of negative retained earnings contribute to these increases.

History of Rates

	FY 1996	FY 1997	FY 1998	FY 1999	FY 2000	FY 2001
Leases	1.90%	2.30%	5.20%	1.60%	9.34%	0.66%
ROJ	(1.70%)	(5.53%)	1.83%	7.83%	10.10%	0.00%
Material Transfer	3.85%	10.71%	22.32%	3.27%	0.49%	0.27%

Factors contributing to the change in Lease rates include:

- increased bond interest and building depreciation due to major construction, repair, and replacement projects.

Factors contributing to the change in ROJ rates include:

- small size of activity and continued return of positive retained earnings.

Factors contributing to the change in Materials Transfer rates include:

- recovery of negative retained earnings and instability of fuel costs.

ISF Largest Customers

Assuming the same volume and mix of goods/services in PMD's ISF as used in FY 2000, the five largest Lease customers will pay 2.8% more in FY 2001; the five largest ROJ customers will pay 0% more in FY 2001; the Admin customers of Materials Transfer will pay 4% more (\$2,776) in FY 2001. The resulting change in dollars for the five largest Lease customers is as follows:

Department of Transportation	\$293,532
Department of Revenue	241,751
Department of Administration	31,022
Historical Society	27,462
Supreme Court	3,612

BUDGET ISSUES:

Budget issues or problems that PMD faces include:

- **Deferred Maintenance:** PMD has identified deferred maintenance projects exceeding \$30 million. Continued deferral of these projects will cause serious structural damage, deterioration, and reduction in the life expectancy of the buildings.
- **In Lieu of Rent:** During the FY 2000-01 biennium, Admin under-requested the In Lieu of Rent appropriation. The 2000 legislature provided a one-time appropriation for the FY 2001 shortfall in the amount of \$1.268 million.
- **Electrical Infrastructure:** There is insufficient funding to continue needed improvements and increased expectations/demands for reliability and uninterrupted electrical services due to changing office environments and expanding information technology needs.
- **Labor Market:** Tight labor market and significant pay disparities in some classifications compared to the private sector make it difficult to recruit qualified and/or licensed candidates.
- **Utility and Fuel Costs:** There is instability due to deregulation, product costs, and unstable markets.
- **Energy Retrofit Program:** Sunset language is scheduled to end 1-1-01. If this language is not minimally extended to 12-30-06 (when the contract between Xcel Energy, formerly NSP, and the state ends), the state would lose access to the no-interest energy retrofit account for statewide energy retrofit projects. Energy retrofits have already been completed in 22 million square feet of state-owned buildings, producing annual energy savings of \$4.4 million.
- **Sauk Centre Correctional Facility:** The city of Sauk Centre may choose not to accept the conveyance of the former Sauk Centre Correctional Facility authorized to them during the 2000 legislative session. An appropriation may be needed for minimal maintenance and marketing of the facility for sale.

Activity: PLANT MANAGEMENT
Program: FACILITIES MANAGEMENT BUREAU
Agency: ADMINISTRATION DEPT

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
Expenditures by Category:									
State Operations									
COMPENSATION	10,472	11,008	12,456	13,454	13,454	14,051	14,051	4,041	17.2%
OTHER OPERATING EXPENSES	16,996	15,927	16,477	21,653	21,630	21,774	21,751	10,977	33.9%
Subtotal State Operations	27,468	26,935	28,933	35,107	35,084	35,825	35,802	15,018	26.9%
CAPITAL OUTLAY & REAL PROPERTY	40	774	50	50	50	50	50	(724)	(87.9%)
Total Expenditures	27,508	27,709	28,983	35,157	35,134	35,875	35,852	14,294	25.2%

Change Items:	Fund				
(P) FACILITIES MANAGEMENT BUDGET REDUCTIONS	GEN			(23)	(23)
Total Change Items				(23)	(23)

Financing by Fund:							
Direct Appropriations:							
GENERAL	4,228	2,726	1,580	1,189	1,166	1,209	1,186
Statutory Appropriations:							
SPECIAL REVENUE	2,099	2,221	2,771	8,334	8,334	8,326	8,326
MISCELLANEOUS AGENCY	259	251	290	241	241	242	242
PLANT MANAGEMENT	20,922	22,511	24,342	25,393	25,393	26,098	26,098
Total Financing	27,508	27,709	28,983	35,157	35,134	35,875	35,852

Revenue Collected:							
Dedicated							
SPECIAL REVENUE	2,135	2,562	2,583	2,612	2,612	2,628	2,628
MISCELLANEOUS AGENCY	263	235	290	239	239	242	242
PLANT MANAGEMENT	31,477	36,436	38,264	40,173	40,173	41,361	41,361
Nondedicated							
GENERAL	370	342	120	140	140	148	148
Total Revenues Collected	34,245	39,575	41,257	43,164	43,164	44,379	44,379

FTE by Employment Type:							
FULL TIME	237.0	240.5	264.7	275.4	275.4	276.4	276.4
PART-TIME, SEASONAL, LABOR SER	8.0	5.4	5.0	5.0	5.0	5.0	5.0
OVERTIME PAY	1.5	1.6	1.4	1.4	1.4	1.4	1.4
Total Full-Time Equivalent	246.5	247.5	271.1	281.8	281.8	282.8	282.8

BUDGET ACTIVITY SUMMARY

Budget Activity: BUILDING CODE & STANDARDS
Program: FACILITIES MANAGEMENT BUREAU
Agency: ADMINISTRATION DEPT

ACTIVITY PROFILE:

The Building Codes and Standards Division (BCSD) administers and enforces the state building code, which governs the construction, reconstruction, alterations, and repair of buildings and structures to which the code is applicable. The state building code provides basic and uniform performance standards, establishes reasonable safeguards for health, safety, welfare, comfort, and security of the residents of this state, and provides for the use of modern methods, devices, materials, and techniques used by the construction industry.

STRATEGIES AND PERFORMANCE:

The clientele served and impacted by the division's statutory mandates are local government, municipal building officials, other state agencies/divisions involved in building construction and construction regulations, citizens of the state, design professionals, construction industry suppliers, manufacturers and contractors, technical committees, national model code associations, manufactured structures corporations, manufactured home manufacturers, and installers.

The BCSD has the responsibility for ensuring that the building codes and standards are uniformly adopted and administered at the least possible cost consistent with nationally recognized standards of health, life safety, and welfare.

The division activity is achieved by updating the state building code with current national model codes; by providing training and assistance to code officials, design professionals, and the construction industry; by oversight of municipal code departments; by plan review and inspection of public buildings, state licensed facilities, manufactured homes, prefabricated buildings, and elevators; and by certification of building officials.

Improved application of codes and standards will be attained at the local level through training, direct assistance, and monitoring efforts. Safer buildings will be produced reducing loss of life and personal injury as well as property value loss. Energy efficiency levels in buildings will be maintained as well as improvement in accessibility and usability by the disabled community. Public and user complaints involving quality and performance of buildings will be reduced.

Strong performance has been measured in meeting goals set: 99% approval rating on evaluation forms from 2,500+ educational seminar attendees exceeded the 90% goal; 90% of manufactured housing complaints closed at the end of FY 2000 met the goal and the most recent adoption of model codes was within the 18 months of publication goal.

FINANCING INFORMATION:

This activity generates dedicated special revenue funds consisting of surcharge fees and other miscellaneous fees collected for plan review, inspections, licenses, certifications, and seals.

BUDGET ISSUES:

FY 2002 will see the implementation of the next set of updated model codes in Minnesota. These codes will have been reviewed by balanced advisory committees and will incorporate the newest technology and materials. This will lead to additional demand for education and code interpretation services.

Requests for assistance and training are increasing as construction activity continues to grow and more jurisdictions in the state of Minnesota choose to administer the state building code. The 2000 legislature transferred the energy code development and maintenance to the Building Codes and Standards Division. In FY 2001 we will hire an energy specialist and fill two other vacancies to help meet the new responsibilities and demands for service.

In FY 2002-03 we will fill the remaining five vacant positions from our reorganization to maintain service in the face of increased demand and continue to improve service where needed. These would include an elevator inspector, regional inspector, and a residential code specialist.

The BCSD was charged to develop a report to the legislature, by 12-1-01, addressing the energy code. This report is to address the cost benefit, as well as air quality, building durability, moisture, enforcement, enforceability, and liability regarding implementation of the Minnesota Energy Code. The estimated cost for this study is \$200,000.

Activity: BUILDING CODE & STANDARDS
Program: FACILITIES MANAGEMENT BUREAU
Agency: ADMINISTRATION DEPT

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
Expenditures by Category:									
State Operations									
COMPENSATION	2,420	2,702	3,079	3,520	3,520	3,687	3,687	1,426	24.7%
OTHER OPERATING EXPENSES	1,547	1,349	1,807	1,743	1,743	1,734	1,734	321	10.2%
Total Expenditures	3,967	4,051	4,886	5,263	5,263	5,421	5,421	1,747	19.5%
Financing by Fund:									
Statutory Appropriations:									
STATE GOVERNMENT SPECIAL REVENUE	3,967	4,051	4,886	5,263	5,263	5,421	5,421		
Total Financing	3,967	4,051	4,886	5,263	5,263	5,421	5,421		
Revenue Collected:									
Dedicated									
STATE GOVERNMENT SPECIAL REVENUE	4,803	5,469	5,200	5,300	5,300	5,500	5,500		
Total Revenues Collected	4,803	5,469	5,200	5,300	5,300	5,500	5,500		
FTE by Employment Type:									
FULL TIME	42.8	39.9	45.8	50.8	50.8	50.8	50.8		
PART-TIME, SEASONAL, LABOR SER	0.0	0.8	0.0	0.0	0.0	0.0	0.0		
OVERTIME PAY	0.2	0.2	0.2	0.2	0.2	0.2	0.2		
Total Full-Time Equivalent	43.0	40.9	46.0	51.0	51.0	51.0	51.0		

BUDGET ACTIVITY SUMMARY

Budget Activity: BUILDING CONSTRUCTION
Program: FACILITIES MANAGEMENT BUREAU
Agency: ADMINISTRATION DEPT

ACTIVITY PROFILE:

The Division of State Building Construction (DSBC) provides a central resource for state agencies to obtain comprehensive architectural, engineering, and facility management services to meet their facility's program needs. Major activities for new construction and remodeled facilities include capital budgeting, predesign, designer selection, project management, construction administration, asset preservation, hazardous materials abatement, indoor air quality assessment, ADA modifications, facilities management, and space planning.

Virtually every state entity that occupies a state-owned building or receives a state building appropriation, uses at least one of these services. Clients served include the Capitol Complex, Perpich Center for Arts Education, Corrections, Economic Security, Historical Society, Human Services, Health, Iron Range Resources & Rehabilitation Board, Public Safety, Residential Academies, Minnesota State Colleges and Universities (MnSCU), Revenue, Veterans Affairs, and the Veterans Homes Board. Construction management assistance is also provided to political subdivisions receiving grants from the state for various construction projects.

STRATEGIES AND PERFORMANCE:

The purpose of DSBC is to provide a full complement of services from planning and predesign through design and project delivery, post-occupancy evaluation, and facility management. DSBC continues to explore methods to improve the quality of its professional staff and use of technology to efficiently deliver and maintain the state's buildings.

The process of building construction has become more time consuming due to increasing volume and complexity of addressing regulatory needs including safety codes, building codes, health regulations, and pollution control regulations.

Additional factors that influence the building design include sustainable/green architecture, life cycle costs related to 1:10:100 theory (building cost: operating cost: staff cost), complexity of coordinating technology infrastructure, managing alternative building delivery systems, and increase in clients' expectations. As the complexity of the building process has increased, the required level of construction supervision has also increased.

In addition to maintaining its core activities, several specialized programs have been added to DSBC's responsibility. These include Statewide Building Access (SBA), Capital Asset Preservation and Replacement Account (CAPRA), statewide predesign, building classification system, asbestos and lead hazardous material abatement, environmental assessments, underground storage tank removal, indoor air quality, and staff services provided to Governor's Residence Council. Since its inception, the CAPRA program has funded 571 projects totaling \$58.9 million, Asset Preservation has funded 287 projects totaling \$24.5 million, and SBA has funded 607 projects costing \$49.5 million. Also, the removal of underground storage tanks on state property is nearly complete. In addition, DSBC is currently responsible for the implementation of a statewide facilities management system. This system will aid all entities in providing a focused approach to facilities management requirements.

DSBC is committed to continue to improve both product and process in response to meeting their customer's expectations and needs. The projects and programs are all of critical importance because life safety, code compliance, and/or program requirements are involved. The increase in project complexity with associated time consumption has made it necessary for DSBC to implement internal methods to increase the division's efficiency. One method employed is to contract out for required architectural, engineering, and professional services to assist in performing a variety of these functions. Also, the ability to group smaller diverse projects at a facility provides opportunities to implement cost-saving measures through economy of scale.

Experience has shown that a variety of renewal projects can be accomplished internally more efficiently than purchasing consultant services. DSBC's knowledge and experience with state-owned facilities and evolving regulations gives an economic advantage over the private sector. Additional advantages include providing a consistent quality and historical profile of the project process.

FINANCING INFORMATION:

DSBC receives operating funds from a General Fund appropriation.

Revenue is typically not generated by this activity. Exceptions include federal funds for veterans' home projects and match requirements for memorial projects. DSBC also retains litigation awards per M.S.16B.31, subd. 7. There have been no awards during the last biennium.

Activity: BUILDING CONSTRUCTION
Program: FACILITIES MANAGEMENT BUREAU
Agency: ADMINISTRATION DEPT

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
Expenditures by Category:									
State Operations									
COMPENSATION	1,972	1,926	2,247	2,371	2,264	2,467	2,360	451	10.8%
OTHER OPERATING EXPENSES	641	3,323	1,228	95	220	74	74	(4,257)	(93.5%)
OTHER FINANCIAL TRANSACTIONS	75	25	50	50	50	50	50	25	33.3%
Subtotal State Operations	2,688	5,274	3,525	2,516	2,534	2,591	2,484	(3,781)	(43.0%)
CAPITAL OUTLAY & REAL PROPERTY	5,524	1,103	120	0	0	0	0	(1,223)	(100.0%)
Total Expenditures	8,212	6,377	3,645	2,516	2,534	2,591	2,484	(5,004)	(49.9%)

Change Items:	Fund				
(P) FACILITIES MANAGEMENT BUDGET REDUCTIONS	GEN			(107)	(107)
(B) LUVERNE LAWSUIT	GEN		75	125	
Total Change Items			75	18	(107)

Financing by Fund:							
Direct Appropriations:							
GENERAL	2,624	5,116	3,333	2,516	2,534	2,591	2,484
Statutory Appropriations:							
SPECIAL REVENUE	143	138	111	0	0	0	0
FEDERAL	4,420	1,103	96	0	0	0	0
MISCELLANEOUS AGENCY	898	0	0	0	0	0	0
GIFT	127	20	105	0	0	0	0
Total Financing	8,212	6,377	3,645	2,516	2,534	2,591	2,484

<u>Revenue Collected:</u>							
Dedicated							
SPECIAL REVENUE	241	0	0	0	0	0	0
FEDERAL	4,566	966	87	0	0	0	0
MISCELLANEOUS AGENCY	898	0	0	0	0	0	0
GIFT	11	34	30	0	0	0	0
Total Revenues Collected	5,716	1,000	117	0	0	0	0

FTE by Employment Type:							
FULL TIME	28.4	28.1	32.0	32.0	31.0	32.0	31.0
PART-TIME, SEASONAL, LABOR SER	1.0	0.8	0.0	0.0	0.0	0.0	0.0
Total Full-Time Equivalent	29.4	28.9	32.0	32.0	31.0	32.0	31.0

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BUDGET CHANGE ITEM (49892)**Agency: ADMINISTRATION DEPT****Item Title: LUVERNE LAWSUIT**

	<u>2000-01 Biennium</u>		<u>2002-03 Biennium</u>	
	<u>FY 2000</u>	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>
Expenditures: (\$000s)				
General Fund				
-State Operations	\$-0-	\$75	\$125	\$-0-
Revenues: (\$000s)				
General Fund	\$-0-	\$-0-	\$-0-	\$-0-
Statutory Change? Yes _____ No <u> X </u>				
If yes, statute(s) affected:				
_____ New Activity <u> X </u> Supplemental Funding _____ Reallocation				

GOVERNOR'S RECOMMENDATION:

The Governor recommends \$75,000 for FY 2001 and \$125,000 for FY 2002 for the Division of State Building Construction to pursue this litigation.

RATIONALE:

Building Construction is partnering with the Veteran's Homes Board and the Attorney General's Office in pursuing litigation to recover the costs involved in addressing the Indoor Air Quality issues at the Luverne Veterans Home. Excess moisture in the building caused mold to grow on the walls, which required abatement. The cost of the work is expected to be over \$5.5 million. Agency operating budgets do not include litigation funds. As it is deemed in the state's best interest to pursue this litigation, adequate funding is requested.

The case will be litigated by the Attorney General's Office.

FINANCING:

A General Fund appropriation is requested for the ancillary cost of this litigation. The Attorney General's Office is carrying the staffing costs.

OUTCOMES:

Money recovered through the litigation will reimburse CAPRA and the Veterans Home Board operating funds, which supplied abatement money.

BUDGET ACTIVITY SUMMARY

Budget Activity: IN-LIEU OF RENT
Program: FACILITIES MANAGEMENT BUREAU
Agency: ADMINISTRATION DEPT

the FY 2001 shortfall in the amount of \$1.268 million. These are ongoing costs and if not funded will result in a significant reduction in service.

During the FY 2002-03 biennium, the Governor's Office is transferring funds to Administration for Governor's Residence expenses that previously had been their responsibility. There has never been a clear source of funding for the other household expenses. There is Budget Change Item for the adjustment.

ACTIVITY PROFILE:

Under M.S. 16B.24, the Commissioner of Administration is charged with maintaining and operating property under its custodial control including the capitol complex buildings, grounds, and the Governor's Residence. The commissioner is required by M.S. 16B.48 to charge tenants rent to cover costs. Each biennium, Administration makes a request to the legislature for a general fund appropriation that takes the place of a lease for areas/entities that have not traditionally been covered by a lease agreement. The funds received through the appropriation are used for operating costs such as salaries for janitorial, trades, engineer and grounds staff, utilities, repairs, maintenance contracts, building depreciation, and bond interest. This entire appropriation is called "In-Lieu of Rent" and is made up of the following spaces:

- Ceremonial Space – includes ceremonial space in the Capitol Building such as the Rotunda, the Governor's Residence, the ceremonial grounds, and monuments/memorials in the Capitol area.
- Services for the Blind – space occupied by blind vending operators in buildings under Plant Management Division's (PMD's) custodial control (M.S. 248.07, subd.7).
- Rent Waived – space occupied in the Capitol, State Office Building and Veterans Service Building by the House of Representatives, Senate, Revisor of Statutes, Legislative Reference Library, and congressionally chartered veterans organizations (M.S. 197.55 to 197.58).

STRATEGIES AND PERFORMANCE:

The overall goal of PMD is to continually ensure all facilities are operated, repaired, and maintained in a cost-effective manner to ensure the structural integrity of the facilities and provide a quality environment for building tenants.

FINANCING INFORMATION:

This activity operates through a General Fund appropriation.

BUDGET ISSUES:

During the FY 2000-01 biennium, Administration under-requested the In Lieu of Rent appropriation. The 2000 legislature provided a one-time appropriation for

Activity: IN-LIEU OF RENT
Program: FACILITIES MANAGEMENT BUREAU
Agency: ADMINISTRATION DEPT

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
Expenditures by Category:									
State Operations									
OTHER OPERATING EXPENSES	5,249	5,447	6,728	6,292	7,584	6,552	7,844	3,253	26.7%
Total Expenditures	5,249	5,447	6,728	6,292	7,584	6,552	7,844	3,253	26.7%

Change Items:	Fund				
(B) IN-LIEU OF RENT	GEN			1,268	1,268
(B) GOVERNORS RESIDENCE	GEN			24	24
Total Change Items				1,292	1,292

Financing by Fund:					
Direct Appropriations:					
GENERAL	5,249	5,447	6,728	6,292	7,584
Total Financing	5,249	5,447	6,728	6,292	7,584

BUDGET CHANGE ITEM (50351)

Budget Activity: IN-LIEU OF RENT
Program: FACILITIES MANAGEMENT BUREAU
Agency: ADMINISTRATION DEPT
Item Title: IN LIEU OF RENT

	2002-03 Biennium		2004-05 Biennium	
	FY 2002	FY 2003	FY 2004	FY 2005
Expenditures: (\$000s)				
General Fund				
-State Operations	\$1,268	\$1,268	\$1,268	\$1,268
Revenues: (\$000s)				
General Fund	\$-0-	\$-0-	\$-0-	\$-0-
Statutory Change? Yes _____ No <u> X </u>				
If yes, statute(s) affected:				
_____ New Activity <u> X </u> Supplemental Funding _____ Reallocation				

GOVERNOR'S RECOMMENDATION:

The Governor recommends appropriating \$1.268 million for each year of the biennium as a base level adjustment for In Lieu of Rent.

RATIONALE:

When preparing the Biennial Budget documents for the FY 2000-01 biennium, Administration, through an oversight, requested funding for only one of the three types of spaces included in the In Lieu of Rent appropriation.

Administration failed to request funding for:

- Ceremonial Space – includes ceremonial space in the Capitol Building such as the Rotunda, the Governor's Residence, the ceremonial grounds, and monuments/memorials in the Capitol area.
- Services for the Blind – space occupied by blind vending operators in buildings under Plant Management Division's (PMD's) custodial control (M.S. 248.07, subd.7).

This resulted in the deficiency for the FY 2000-01 biennium. The problem was identified in June of 1999. The 2000 legislature provided a one-time appropriation for the FY 2001 shortfall in the amount of \$1.268 million. Since

this was a one-time appropriation and therefore not included in the base level funding, there is a significant difference between the base budget and the requested budget for the FY 2002-03 biennium. These funds are used for ongoing operating costs such as utilities, repairs, maintenance contracts, building depreciation, bond interest, and salaries for janitorial, trades, engineering, and grounds staff.

FINANCING:

A base level adjustment is needed for the deficit in the total In Lieu of Rent appropriation, totaling \$1.268 million for each year of the biennium.

OUTCOMES:

If the base level adjustment is not received, PMD will determine what services could be eliminated or reduced while striving to provide quality facility management and ensuring integrity of the facilities. Some of the items to review include: changing the frequency of janitorial, grounds, engineering, and trades services; reducing maintenance contracts; deferring scheduled maintenance; and analyzing utility usage. Reducing expenses by \$1.268 million for each year of the biennium through changing service levels will result in a diminished appearance on the ceremonial grounds and in the buildings, increased complaints, more indoor air quality concerns, slower response time, increased failure of critical mechanical/operating systems and equipment, and unknown future maintenance/replacement costs.

BUDGET CHANGE ITEM (52089)

Budget Activity: IN-LIEU OF RENT
Program: FACILITIES MANAGEMENT BUREAU
Agency: ADMINISTRATION DEPT

Item Title: GOVERNOR'S RESIDENCE

	2002-03 Biennium		2004-05 Biennium	
	FY 2002	FY 2003	FY 2004	FY 2005
Expenditures: (\$000s)				
General Fund				
-State Operations	\$24	\$24	\$24	\$24
Revenues: (\$000s)				
General Fund	\$-0-	\$-0-	\$-0-	\$-0-
Statutory Change? Yes _____ No <u> X </u>				
If yes, statute(s) affected:				
_____ New Activity <u> X </u> Supplemental Funding _____ Reallocation				

GOVERNOR'S RECOMMENDATION:

The Governor recommends appropriating \$24,000 for each year of the biennium as a base level adjustment for the Governor's Residence.

RATIONALE:

The Minnesota Governor's Residence was given to the state of Minnesota by the Irvine family in 1965 to serve as the state ceremonial building and private residence for Minnesota's first family. To ensure that the building would meet the needs of future governors, the legislature established the Governor's Residence Council (GRC) to oversee proposed alternations to the building and its furnishings. Since its donation, the Residence has been a home for the first families and the site of numerous events receiving foreign royalty and dignitaries, recognizing national leaders, and honoring outstanding Minnesotans.

Plant Management Division (PMD) has traditionally been responsible for the following major expense categories:

- Salaries for trade shop, engineering, and special project janitorial services;

- Grounds maintenance, repairs, and supplies including the provision of a full-time groundskeeper to keep the turf, plantings, and maintenance of exterior flower beds/pots.
- Facility maintenance and repair.
- Bond interest on capital improvement or remodeling projects using bonded funds.
- Building depreciation on capital improvement or remodeling projects.

Beginning with the FY 2002-03 biennium, PMD will be assuming new responsibilities and expenses including utilities, property taxes, content insurance, and other household expenses. Some of these expenses had previously been the responsibility of the Governor's Office so a base level transfer is being made in the amount of \$44,000 for each year of the biennium. A baseline adjustment of \$24,000 for each year of the biennium is being requested to cover the other ongoing expenses that had previously not been the responsibility of PMD.

FINANCING:

There has never been a clear source of funding for household expenses. In the past, work was done on an erratic basis when money from private fundraising or donations was available. It is the intent of the Governor and GRC that PMD provide these other ongoing household expenses since they are expenses related to the state's ceremonial building.

OUTCOMES:

Since the Governor's Residence is a state ceremonial building and the private residence for Minnesota's first family, it needs to be maintained as an asset of the state of Minnesota and residence for the governors of the state of Minnesota.

PROGRAM SUMMARY

Program: MANAGEMENT SERVICES BUREAU
Agency: ADMINISTRATION DEPT

PROGRAM PROFILE:

The **Management Services** program includes:

- **Admin Mgmt** - Encompasses the commissioner's office and its support, including legislative liaison and communications functions.
- **Financial Management and Reporting and Human Resources** – Provides financial reporting, internal audit, and human resource support to the agency.
- **Management Analysis Division (MAD)** – Provides consulting and training in management disciplines, and provides specific project and reporting support to the governor's office and the legislature.
- **Information Policy Analysis Division (IPA)** – Provides guidance and technical assistance for, and promotes understanding of, data practices and records management issues to government and citizens.
- **Office of State Archaeologist (OSA)** – Sponsors, conducts and directs research into the prehistoric and historic archaeology of Minnesota while protecting and preserving archaeological sites and objects.
- **Minnesota Governor's Council on Developmental Disabilities (DDC)** – Works toward assuring that people with developmental disabilities receive the necessary support to achieve increased independence, productivity, integration, and inclusion into the community.
- **STAR Program (A System of Technology to Achieve Results)** - Provides multiple support options for those needing or advocating for assistive technology.

STRATEGIES AND PERFORMANCE:

The Management Services Program provides internal leadership to the agency, and also provides statewide leadership in specific areas of expertise. Leadership services are an important part of the agency's strategic plan.

Leadership examples within Management Services include

- The Commissioner of Administration, as the state Chief Information Officer, has provided leadership to state government on technology issues.
- MAD has increased the number of annual consulting engagements by almost 600% since the inception of their consulting services in 1986.
- IPA provided expertise to multiple stakeholders throughout the privacy legislation debates during the last legislative session.

- DDC received the Gold Level achievement award given by the Minnesota Quality Council.

FINANCING INFORMATION:

Most Management Services functions are General Fund activities; however, the consulting services provided by MAD are supported through an Internal Service Fund.

BUDGET ISSUES:

The department does not envision long-term state funding as a sustainable income source for the STAR program, and will be developing strategies for moving to new support methods during this biennium.

Operating the Office of the State Archaeologist's is not the best and highest priority use of funds for this agency. This budget proposes a reduction of funding in this budget in the second year of the biennium, reallocating to higher priority activities. The agency recognizes that the functions of the Office are valuable, and believes that funding should be provided through user fees.

GOVERNOR'S RECOMMENDATION:

The Governor recommends the agency's base budget, \$150,000 of additional funding for the transition costs of a new governor and billing authority for the operation of the Office of the State Archaeologist beginning in FY 2003.

Program: MANAGEMENT SERVICES BUREAU

Agency: ADMINISTRATION DEPT

Program Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
Expenditures by Activity:									
ADMINISTRATIVE MANAGEMENT	628	654	684	721	696	737	712	70	5.2%
FINANCIAL MGMT RPT & HUMAN RES	2,952	2,897	3,155	3,154	3,154	3,253	3,253	355	5.9%
MANAGEMENT ANALYSIS DIVISION	1,782	1,796	1,933	2,061	2,061	2,195	2,345	677	18.2%
INFORMATION POLICY ANALYSIS	549	644	819	728	528	728	528	(407)	(27.8%)
OFFICE STATE ARCHAEOLOGIST	190	197	212	196	196	196	196	(17)	(4.2%)
DEVELOPEMENTAL DISABILITIES CN	946	1,354	1,060	1,054	1,054	1,054	1,054	(306)	(12.7%)
SYSTEM OF TECHNOLOGY TO ACHIEV	593	1,026	843	953	703	954	604	(562)	(30.1%)
Total Expenditures	7,640	8,568	8,706	8,867	8,392	9,117	8,692	(190)	(1.1%)
Change Items:	Fund								
(P) MANAGEMENT SERVICES BUDGET REDUCTIONS	GEN				(475)		(771)		
(P) MANAGEMENT SERVICES BUDGET REDUCTIONS	SR						196		
Total Change Items					(475)		(575)		
Financing by Fund:									
Direct Appropriations:									
GENERAL	3,927	4,069	4,179	4,159	3,684	4,352	3,731		
Statutory Appropriations:									
SPECIAL REVENUE	1,102	1,629	1,836	1,761	1,761	1,761	1,957		
FEDERAL	1,451	1,647	1,366	1,480	1,480	1,480	1,480		
GIFT	31	36	26	52	52	52	52		
MANAGEMENT ANALYSIS	1,129	1,187	1,299	1,415	1,415	1,472	1,472		
Total Financing	7,640	8,568	8,706	8,867	8,392	9,117	8,692		
FTE by Employment Type:									
FULL TIME	81.6	77.6	91.7	92.3	87.8	92.3	89.8		
PART-TIME, SEASONAL, LABOR SER	6.2	6.9	2.0	2.0	2.0	2.0	2.0		
OVERTIME PAY	0.3	0.0	0.0	0.0	0.0	0.0	0.0		
Total Full-Time Equivalent	88.1	84.5	93.7	94.3	89.8	94.3	91.8		

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BUDGET CHANGE ITEM (61272)**Program: MANAGEMENT SERVICES BUREAU****Agency: ADMINISTRATION DEPT****Item Title: MANAGEMENT SERVICES BUDGET REDUCTIONS**

	<u>2002-03 Biennium</u>		<u>2004-05 Biennium</u>	
	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u>
Expenditures: (\$000s)				
General Fund				
-State Operations	\$(475)	\$(771)	\$(871)	\$(871)
Revenues: (\$000s)				
General Fund	\$-0-	\$-0-	\$-0-	\$-0-
Statutory Change? Yes _____ No <u> X </u>				
_____ New Activity _____ Supplemental Funding _____ Reallocation				

GOVERNOR'S RECOMMENDATION:

The Governor recommends a biennial reduction of \$1.246 million.

ADMIN MANAGEMENT – \$(50,000)**RATIONALE:**

For the purpose of reallocating to higher priority items, the commissioner's office proposes savings through staff attrition and restructuring. A support position, partially funded in this division, was recently vacated and will not be filled. In addition, the legislative affairs and communications functions of the division have been combined into one public affairs unit.

FINANCING:

This recommendation is for a reduction in the General Fund appropriation.

OUTCOMES:

Efficiencies will be achieved through combining functions and responsibilities.

INFORMATION POLICY ANALYSIS – \$(400,000)**RATIONALE:**

The Information Policy Analysis (IPA) Division was appropriated \$450,000 for FY 2000-01, for training programs that have been well received. However, we believe that the legislature intended that the training appropriation be limited, and we are therefore requesting a reduction in the training dollars.

OUTCOMES:

Although data practices training will be minimally maintained with current IPA resources, dollars will be reallocated to higher priorities.

OFFICE OF THE STATE ARCHAEOLOGIST (OSA) – \$(196,000)**RATIONALE:**

This request is to eliminate General Fund support for the Office of the State Archaeologist in the second year of the biennium, at which time the activities of the OSA would be supported through revenues generated by fees billed for services provided. The reduction in the second year provides for a transition to a self-sustaining fee based activity, matching the costs of the activity to the users of the services.

OUTCOMES:

The agency recognizes that the functions of the OSA are valuable, and believes that funding should not be provided through a general fund appropriation, but rather, through fees charged to those using or benefiting from the services and functions provided.

STAR – \$(600,000)**RATIONALE:**

STAR (System of Technology to Achieve Results), is funded through a federal grant and a state general fund appropriation. The federal grant from the National Institute on Disability and Rehabilitation Research (NIDRR) mandates the development and implementation of a statewide, comprehensive, consumer-responsive program of technology-related assistance to citizens of Minnesota with disabilities. The possibility exists that the federal funding for the STAR Program will end on 09-30-02.

It is intended that the STAR become a self-sustaining program, obtaining funding through alternative, nonstate sources. The state would reduce the general fund appropriation to STAR in the FY 2002-03 biennium to correspond to the federal reductions. This would allow a transition to a self-sustaining program. Admin would put a plan in place to transition STAR to a privately funded program and would continue to serve as fiscal agent to obtain further federal grants.

FINANCING:

The General Fund appropriation for STAR is reduced by \$600,000 for the biennium. One-time funding of \$300,000 for the FY 2002-03 biennium will be needed for the transition to a self-sustaining program.

OUTCOMES:

It is not the intention of the state to end this program. The hope is that STAR will continue to serve the disabled community of Minnesota through alternative funding sources.

BUDGET ACTIVITY SUMMARY

Budget Activity: ADMINISTRATIVE MANAGEMENT
Program: MANAGEMENT SERVICES BUREAU
Agency: ADMINISTRATION DEPT

ACTIVITY PROFILE:

The activity provides both agency and statewide executive leadership and management support. The commissioner of administration is the state chief information officer (CIO), and as such, provides leadership in the technology arena to the state. This budget category also includes the department's legislative liaison, who coordinates the legislative process, as well as our communications function, which provides internal and external communication support to the commissioner and the agency. Administrative support for the commissioner's office is also a part of this category.

STRATEGIES AND PERFORMANCE:

The commissioner's office is responsible for the creation, communication, and maintenance of the agency's strategic plan. This plan has been updated and face-to-face meetings held with all members of the agency during the year. A "Strategy for Service" is the theme of the plan, which has a specific focus on customers and providing services that meet and exceed their needs and expectations.

FINANCING INFORMATION:

This activity operates through a General Fund appropriation.

BUDGET ISSUES:

Demand for services continues to increase. We continually review service delivery options in order to maximize the value of service provided without increasing costs.

Activity: ADMINISTRATIVE MANAGEMENT
Program: MANAGEMENT SERVICES BUREAU
Agency: ADMINISTRATION DEPT

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
Expenditures by Category:									
State Operations									
COMPENSATION	493	429	506	531	506	550	525	96	10.3%
OTHER OPERATING EXPENSES	135	225	178	190	190	187	187	(26)	(6.5%)
Total Expenditures	628	654	684	721	696	737	712	70	5.2%

Change Items:	Fund				
(P) MANAGEMENT SERVICES BUDGET REDUCTIONS	GEN			(25)	(25)
Total Change Items				(25)	(25)

Financing by Fund:							
Direct Appropriations:							
GENERAL	597	618	658	669	644	685	660
Statutory Appropriations:							
GIFT	31	36	26	52	52	52	52
Total Financing	628	654	684	721	696	737	712

Revenue Collected:						
Dedicated						
SPECIAL REVENUE	25	0	55	0	0	0
GIFT	3	54	52	52	52	52
Total Revenues Collected	28	54	107	52	52	52

FTE by Employment Type:							
FULL TIME	6.6	4.3	5.8	5.8	5.3	5.8	5.3
OVERTIME PAY	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Total Full-Time Equivalent	6.7	4.3	5.8	5.8	5.3	5.8	5.3

BUDGET ACTIVITY SUMMARY

Budget Activity: FINANCIAL MGMT RPT & HUMAN RES
Program: MANAGEMENT SERVICES BUREAU
Agency: ADMINISTRATION DEPT

ACTIVITY PROFILE:

The Financial Management & Reporting Division (FMR) provides financial services and a centralized and integrated accounting system to the agency. Major responsibilities include all aspects of budgeting, financial reporting, accounting, internal auditing, and accounting system maintenance and transaction processing.

The Human Resources Division serves the employees of Admin by providing the following services:

- Performance management and wage/compensation administration
- Recruitment and staffing
- Employee training and development
- Fringe benefit enrollment and administration
- Labor contract administration/employee relations
- Affirmative action/ADA compliance
- Worker's compensation, OSHA compliance, and general safety/wellness program administration
- Consultation on human resource management issues

This activity also provides fiscal and human resources support to the Capitol Area Architectural and Planning Board (CAAPB), the Council on Asian/Pacific Minnesotans, the Council on Black Minnesotans, the Chicano/Latino Affairs Council, the Board of Government Innovation and Cooperation, the Ombudsperson for Families, and the Governor's Residence Council.

STRATEGIES AND PERFORMANCE:

The staff members of FMR act as liaisons and financial consultants for Admin's operating divisions. This activity strives to provide timely financial services and support while conforming to Generally Accepted Accounting Principles (GAAP). This facilitates the effective management of available financial resources as governed by the laws, policies, and procedures of the industry, and state and federal governments.

The Human Resources Division provides human resources services to the employees, prospective employees, and management of Admin by actively recruiting and hiring, developing, and retaining a productive, diverse, and highly competent workforce. The division's work is subject to compliance with federal and state law and internal policies and procedures.

Throughout the next biennium, the following challenges face the Human Resources Division:

- A continuing trend of an insufficient labor pool with the needed skills or experience necessitates increased attention to recruitment and retention of qualified workers departmentwide.
- E-commerce and the continuing demand for highly specialized information technology skills requires increased attention to specialized recruitment, succession planning, efficient hiring practices, salary administration, and fringe benefits options geared toward this occupational category.
- Partnering with the Department of Employee Relation (DOER) and other state agencies is necessary to streamline, simplify, and automate the selection process with the goal being greater efficiency and, therefore, a competitive edge in attracting qualified applicants.
- Leveraging technology to respond to the expectations of job applicants demands creative and interactive web design and a technological means by which we can advertise and communicate with prospective hires. Additionally, using technology for maintaining accurate and efficient records of employment history, an employee's training opportunities, and other employee data, both related and unrelated to compensation, is necessary for accountability within the department.

FINANCING INFORMATION:

This activity operates through a General Fund appropriation. Various agency-wide support activities are managed through a special revenue fund, with costs distributed based on various utilization methods. Gift funds are managed for the Governor's Residence Council.

BUDGET ISSUES:

With the growing demand for services and the ever-changing work environment throughout the agency--especially as it relates to budgeting, financial reporting and accountability, recruiting, and hiring skilled technology workers--it is increasingly difficult to remain a competitive employer and provide the management of our financial and human resources within the constraints of existing General Fund appropriations.

Activity: FINANCIAL MGMT RPT & HUMAN RES
Program: MANAGEMENT SERVICES BUREAU
Agency: ADMINISTRATION DEPT

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
<u>Expenditures by Category:</u>									
State Operations									
COMPENSATION	2,409	2,482	2,870	2,915	2,915	2,991	2,991	554	10.4%
OTHER OPERATING EXPENSES	543	415	285	239	239	262	262	(199)	(28.4%)
Total Expenditures	2,952	2,897	3,155	3,154	3,154	3,253	3,253	355	5.9%
<u>Financing by Fund:</u>									
Direct Appropriations:									
GENERAL	1,667	1,289	1,331	1,393	1,393	1,492	1,492		
Statutory Appropriations:									
SPECIAL REVENUE	1,099	1,608	1,824	1,761	1,761	1,761	1,761		
FEDERAL	186	0	0	0	0	0	0		
Total Financing	2,952	2,897	3,155	3,154	3,154	3,253	3,253		
<u>Revenue Collected:</u>									
Dedicated									
SPECIAL REVENUE	1,351	1,459	1,761	1,868	1,868	1,980	1,980		
Total Revenues Collected	1,351	1,459	1,761	1,868	1,868	1,980	1,980		
<u>FTE by Employment Type:</u>									
FULL TIME	40.6	37.0	42.6	42.6	42.6	42.6	42.6		
PART-TIME, SEASONAL, LABOR SER	1.6	1.5	0.0	0.0	0.0	0.0	0.0		
Total Full-Time Equivalent	42.2	38.5	42.6	42.6	42.6	42.6	42.6		

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BUDGET ACTIVITY SUMMARY

Budget Activity: MANAGEMENT ANALYSIS DIVISION
Program: MANAGEMENT SERVICES BUREAU
Agency: ADMINISTRATION DEPT

ACTIVITY PROFILE:

The Management Analysis Division (MAD) is state government's in-house management consulting organization. Its mission is to increase the capacity of government and higher education institutions to manage resources through effective management techniques and creation and implementation of effective operational strategies. The division provides consulting services to state agencies, higher education institutions, and local units of government. Statewide productivity/quality improvement efforts are funded by the General Fund. The division:

- Provides objective information to the legislature on management and public policy issues confronting the state.
- Advises and acts for the governor and his cabinet on issues related to the overall management of state government.
- Develops, pilots, and disseminates innovative ways to improve government quality and productivity.
- Provides consultation and technical assistance on department operations to the commissioner of administration.
- Provides affordable management consulting services to state agencies, higher education institutions, and local units of government.

The Management Analysis Division's consulting business was created in 1985 at a time when management practices were undergoing rapid change in all sectors of the nation. There was also a growing public demand for accountability by government agencies. The pace of change is still high, the demand for accountability continues, and the pressure continues for public agencies to respond efficiently to customer needs. In addition, as agencies attempt to address the challenges of their department strategic plans, the Governor's Big Plan, and the legislature's direction, MAD provides a resource for inventing and adopting new approaches.

Improving the effectiveness of state government is a primary goal. MAD's presence guarantees the availability of management consulting services tailored to the public sector's unique management circumstances and problems. MAD's clients, however, are free to contract with the nonprofit and private sectors for management consulting services. MAD's services are coordinated with those of the Department of Employee Relations, Employee Assistance

Program and the Bureau of Mediation Services, ensuring that the continuum of services needed is provided without overlap or duplication.

STRATEGIES AND PERFORMANCE:

Consulting services are provided at the direction of the governor or legislature, or at the client's request to address specific needs. Satisfaction with how these needs are addressed, coupled with the need to provide fair, neutral, and comprehensive information, is the primary measurable outcome of the services.

MAD's objective is to achieve an 85% satisfied rating from client surveys and/or interviews on consulting services provided. Specific questions are asked to determine if the client found the services useful and/or if the client was using the services provided. Results of the FY 2000 client satisfaction survey are 89%.

The Management Analysis Division provides fair, objective, and comprehensive perspectives in its consulting services. At times, this means providing clients with information they do not want to hear. Such information may be vital to an organization's desire to improve, but the benefits may not be seen for a period of time after MAD completes its work.

FINANCING INFORMATION:

MAD's budget for FY 2001 is the General Fund appropriation for \$630,000 and projected revenue of \$1,342,692. The General Fund makes up 32% of MAD's total budget and the revolving fund 68%. Consulting fees, like General Fund appropriations, are expected to increase by no more than 3% in FY 2002 and 3% in FY 2003.

FY 2002-03 Management Analysis Division's Fund Summary

	Budget FY 2001	Projected FY 2002	Projected FY 2003
General Fund	\$630,000	\$646,00	\$663,000
Revolving Fund	1,342,692	1,382,973	1,424,462
Retained Earnings	104,926	108,074	111,316

Operating Losses or Increases in Retained Earnings:

FY 2000 retained earnings decreased by \$166,727. Factors contributing to this change include:

- Time spent on three General Fund legislative studies which took time away to work on revolving fund projects.
- Impact of parental leave on our income generated during that time.

BUDGET ACTIVITY SUMMARY (Continued)

Budget Activity: MANAGEMENT ANALYSIS DIVISION
Program: MANAGEMENT SERVICES BUREAU
Agency: ADMINISTRATION DEPT

FY 2001 retained earnings are projected to increase by approximately \$43,000 to \$104,926, due to anticipated rebuilding of retained earnings.

History of Rates:

	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004
Rate Change	2.6%	0%	2.5%	6.25%	0%	12%

In FY 1996 and 1997 MAD's hourly consulting rate was \$78. In FY 1998 the hourly rate was increased to \$80. In FY 1999 MAD's rate was increased to \$85 and remained at \$85 for FY 2000. In FY 2001 MAD's consulting rate was increased to \$95.

Factors contributing to changes in rates for FY 2001 include:

- Salaries, including FLSA and back-pay adjustments, one retirement, and two reallocations.
- Rent.
- Worker's compensation insurance.
- Communications expenses.
- Other operating costs.

MAD's five largest customers in FY 2000 were:

1. University of Minnesota
2. Department of Agriculture
3. Department of Administration
4. Department of Public Safety
5. Environmental Quality Board/Minnesota Planning

Each year the list of largest customers fluctuates, so projecting what particular clients might pay in the future is conjecture. However, an illustration of the increase is: a client who purchased \$1,000 worth of service in FY 2000 would pay \$1,120 for that same amount of service in FY 2001.

BUDGET ISSUES:

Unpredictable work regarding transition planning or statewide planning efforts may require extraordinary demands on MAD's time and budget.

Activity: MANAGEMENT ANALYSIS DIVISION
Program: MANAGEMENT SERVICES BUREAU
Agency: ADMINISTRATION DEPT

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
<u>Expenditures by Category:</u>									
State Operations									
COMPENSATION	1,411	1,503	1,597	1,748	1,748	1,832	1,832	480	15.5%
OTHER OPERATING EXPENSES	371	293	336	313	313	363	513	197	31.3%
Total Expenditures	1,782	1,796	1,933	2,061	2,061	2,195	2,345	677	18.2%
<u>Financing by Fund:</u>									
Direct Appropriations:									
GENERAL	653	609	634	646	646	723	873		
Statutory Appropriations:									
MANAGEMENT ANALYSIS	1,129	1,187	1,299	1,415	1,415	1,472	1,472		
Total Financing	1,782	1,796	1,933	2,061	2,061	2,195	2,345		
<u>Revenue Collected:</u>									
Dedicated									
MANAGEMENT ANALYSIS	1,188	1,056	1,343	1,419	1,419	1,476	1,476		
Total Revenues Collected	1,188	1,056	1,343	1,419	1,419	1,476	1,476		
<u>FTE by Employment Type:</u>									
FULL TIME	20.9	22.0	24.8	25.9	25.9	25.9	25.9		
PART-TIME, SEASONAL, LABOR SER	2.7	2.4	1.3	1.3	1.3	1.3	1.3		
OVERTIME PAY	0.2	0.0	0.0	0.0	0.0	0.0	0.0		
Total Full-Time Equivalent	23.8	24.4	26.1	27.2	27.2	27.2	27.2		

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BUDGET CHANGE ITEM (46251)

Budget Activity: MANAGEMENT ANALYSIS DIVISION
Program: MANAGEMENT SERVICES BUREAU
Agency: ADMINISTRATION DEPT

OUTCOMES:

Smooth transition of administrations.

Item Title: GOVERNOR'S OFFICE TRANSITION

	<u>2002-03 Biennium</u>		<u>2004-05 Biennium</u>	
	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u>
Expenditures: (\$000s)				
General Fund				
-State Operations	\$-0-	\$150	\$-0-	\$-0-
Revenues: (\$000s)				
General Fund	\$-0-	\$-0-	\$-0-	\$-0-
Statutory Change? Yes _____ No <u> X </u>				
If yes, statute(s) affected:				
_____ New Activity <u> X </u> Supplemental Funding _____ Reallocation				

GOVERNOR'S RECOMMENDATION:

The Governor recommends \$150,000 for transition costs associated with a new governor.

RATIONALE:

The allocation for the Governor's transition office has not changed since at least the early 1980s. However, the demands for effective, integrated computer systems have escalated. In the 1990 transition, phone lines, stand alone computers, and typewriters were all that was anticipated. In the 1998 transition, representatives of the candidates expected LANs, fax, and e-mail capacity. The citizenry expect access to its governor-elect.

If the intent of the legislature is to provide adequate start-up funds, space, and technology for a new governor, the amount of the election year allocation needs to be increased.

FINANCING:

Funding of \$150,000 will provide space, technology, equipment, and basic staffing for a transition office.

BUDGET ACTIVITY SUMMARY

Budget Activity: INFORMATION POLICY ANALYSIS
Program: MANAGEMENT SERVICES BUREAU
Agency: ADMINISTRATION DEPT

ACTIVITY PROFILE:

The increasing use of the Internet and changes in federal law and regulations has created increased attention by governments, the public, and the legislature to information policy. A number of federal and state laws, including the Minnesota Government Data Practices Act and the Records Management Act, have been enacted to deal with some issues. The Information Policy Analysis Division (IPA) functions as a key resource to citizens, government agencies at all levels, private sector institutions, and the legislature. IPA assists institutions and citizens in efforts to either comply with or effectively use existing law, and to develop and implement new law and policy. The increased use of the Internet and other forms of technology increased awareness of the capabilities of those technologies, and the emergence of a global economy means increased attention to these issues by citizens and policy makers. It also means even more complex issues are being presented. In Minnesota's consideration of those issues, IPA strives to help policy makers produce public policy that effectively accommodates contending and competing interests.

STRATEGIES AND PERFORMANCE:

IPA provides informational, educational, consultative, and referral services; prepares, issues, and publicizes interpretive advisory opinions concerning rights of subjects of data, classifications of data, and public access to data; accepts and retains records management filings; advises state and local agencies on records management issues; processes appeals from challenges to the accuracy and completeness of data; and, due to a one-time appropriation, offers training tools such as teleconferences on data practices issues, free videotapes of the teleconferences, computer-based training presentations, and a newsletter in the data practices and records management areas. Additional teleconferences on records management and data practices are planned for the remainder of the fiscal year. IPA assists the legislature and participants in the legislative process by offering research, expert testimony, neutral analysis, and advice on sensitive issues, bill drafting, and compromise enabling services.

Measures of IPA's performance include the number of phone requests for information, advisory opinions issued, visits to IPA's website, teleconference downlink sites, videotapes of the teleconferences provided, and newsletters sent.

Phone Contacts:

	<u>FY 2000*</u>	<u>FY 1999</u>	<u>FY 1998</u>	<u>FY 1997</u>
With citizens	1,657	2,484	2,777	3,059
With government	<u>2,423</u>	<u>4,460</u>	<u>4,516</u>	<u>4,669</u>
TOTALS	4,080	6,944	7,293	7,728
* 1 st 6 months				

Advisory Opinions Issued:

<u>Calendar Year</u>	<u>FY 2000*</u>	<u>FY 1999</u>	<u>FY 1998</u>	<u>FY 1997</u>
Number of Opinions	41	48	54	55
*as of October 3, 2000				

Website Visits:

<u>Calendar Year</u>	<u>FY 2000*</u>	<u>FY 1999</u>	<u>FY 1998</u>
Number of hits	26,234	50,594	7,301

*All data from Office of Technology; 2000 data through June 2000

Teleconference downlink sites: Averaged 80 downlink sites statewide for the five data practices teleconferences in 2000.

Videotapes Provided: 321 as of 10-10-00, for the 2000 calendar year.

Newsletter Mailing List: 2,026 mailing list for the newsletter as of 10-10-00.

FINANCING INFORMATION:

This program operates through a General Fund appropriation.

BUDGET ISSUES:

Records management continues to be an important issue, particularly with the increasing use of electronic records.

Activity: INFORMATION POLICY ANALYSIS
Program: MANAGEMENT SERVICES BUREAU
Agency: ADMINISTRATION DEPT

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
<u>Expenditures by Category:</u>									
State Operations									
COMPENSATION	328	410	494	552	377	568	393	(134)	(14.8%)
OTHER OPERATING EXPENSES	221	234	325	176	151	160	135	(273)	(48.8%)
Total Expenditures	549	644	819	728	528	728	528	(407)	(27.8%)
<u>Change Items:</u>	<u>Fund</u>								
(P) MANAGEMENT SERVICES BUDGET REDUCTIONS	GEN				(200)		(200)		
Total Change Items					(200)		(200)		
<u>Financing by Fund:</u>									
Direct Appropriations:									
GENERAL	549	644	819	728	528	728	528		
Total Financing	549	644	819	728	528	728	528		
<u>FTE by Employment Type:</u>									
FULL TIME	4.4	5.6	6.5	6.5	4.5	6.5	4.5		
PART-TIME, SEASONAL, LABOR SER	0.8	0.7	0.7	0.7	0.7	0.7	0.7		
Total Full-Time Equivalent	5.2	6.3	7.2	7.2	5.2	7.2	5.2		

BUDGET ACTIVITY SUMMARY

Budget Activity: OFFICE STATE ARCHAEOLOGIST
Program: MANAGEMENT SERVICES BUREAU
Agency: ADMINISTRATION DEPT

ACTIVITY PROFILE:

The Office of the State Archaeologist (OSA) was created by the Minnesota Legislature in 1963. M.S. 138.31-.42 (the "Field Archaeology Act") and M.S. 307.08 (section of the "Private Cemeteries Act") define OSA's legislatively mandated responsibilities and authorities.

OSA is charged with the following: sponsoring, conducting, and directing research into the prehistoric and historic archaeology of Minnesota; identifying, protecting, and preserving archaeological sites, objects, and data; disseminating archaeological information through the publication of reports and articles; identifying, authenticating, and protecting human burial sites; reviewing and licensing archaeological fieldwork conducted within the state; and enforcement of the "Field Archaeology Act."

Under provisions of M.S. 138.31-138.42, licensure through OSA is required for field archaeology undertaken on lands owned, leased by, or subject to the paramount right of the state or its subdivisions, as well as on lands or waters impacted by publicly funded development projects. M.S. 307.08 affords all human remains and burials older than 50 years, and located outside of platted, recorded, or identified cemeteries, protection from unauthorized disturbance; this statute applies to burials on either public and private lands or waters. Among others, OSA review processes related to these statutes are critical to controlling development costs, which may derive, in part, from federal, state, and local mandates that require the identification, evaluation, and protection of archaeological and other heritage resources.

STRATEGIES AND PERFORMANCE:

Strategies to realize the program elements include:

- *Data management*, the review and processing of submitted site records and reports, and development and maintenance of a comprehensive records archive and database (with both paper and electronic/website components).
- *Consultation* with other state, local, and federal agencies, developers, Tribal interests, educators, members of the general public, and others regarding applicable legislation and regulations (both federal and state), standards of performance, past and current research, etc.

- *Licensing and review* of proposed construction projects and/or related archaeological field investigations provide opportunities to assess the potential for adverse project impacts to state (and other) archaeological sites; determine the appropriateness of proposed field investigation purposes, methods, and techniques; and assess professional qualifications/capabilities.
- *Compliance and enforcement* services ensure compliance with provisions of the above statutes (including documentation of state-licensed archaeological investigations) and conformance to standards of professional performance.
- *Research* activities include sponsoring, directing, and conducting research into the archaeology of the state, and identifying and evaluating archaeological sites.
- *Information dissemination* requires making data and information about the prehistoric and historic archaeology of the state and related legislation available to other agencies of government, professional archaeologists, educators, developers, and others.

To better realize these program elements, OSA has developed strategic and collaborative partnerships with a variety of organizations including: Minnesota Planning; the Department of Transportation; the Minnesota Office of Tourism (Department of Trade & Economic Development); the University of Minnesota; the Minnesota Humanities Commission; Tribal communities; the (USDA) Natural Resources Conservation Service; the US Fish & Wildlife Service; and others.

FINANCING INFORMATION:

The program operates through a General Fund appropriation.

BUDGET ISSUES:

The administration is proposing the full General Fund appropriation for the first year of the biennium. In the second and subsequent years, revenues would be generated through fees for services.

The agency recognizes that the functions of the OSA are valuable but believes that funding should not be provided through a General Fund appropriation. Rather fees should be charged to those using or benefiting from the services and functions provided.

Activity: OFFICE STATE ARCHAEOLOGIST
Program: MANAGEMENT SERVICES BUREAU
Agency: ADMINISTRATION DEPT

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
Expenditures by Category:									
State Operations									
COMPENSATION	113	122	134	140	140	140	140	24	9.4%
OTHER OPERATING EXPENSES	77	75	78	56	56	56	56	(41)	(26.8%)
Total Expenditures	190	197	212	196	196	196	196	(17)	(4.2%)

Change Items:	Fund				
(P) MANAGEMENT SERVICES BUDGET REDUCTIONS	GEN			0	(196)
(P) MANAGEMENT SERVICES BUDGET REDUCTIONS	SR				196
Total Change Items				0	0

Financing by Fund:					
Direct Appropriations:					
GENERAL	190	190	200	196	196
Statutory Appropriations:					
SPECIAL REVENUE	0	7	12	0	0
Total Financing	190	197	212	196	196

Revenue Collected:					
Dedicated					
SPECIAL REVENUE	0	9	10	0	0
Total Revenues Collected	0	9	10	0	0

FTE by Employment Type:					
FULL TIME	2.0	2.0	2.0	2.0	0.0
Total Full-Time Equivalent	2.0	2.0	2.0	2.0	0.0

BUDGET ACTIVITY SUMMARY

Budget Activity: DEVELOPMENTAL DISABILITIES CN
Program: MANAGEMENT SERVICES BUREAU
Agency: ADMINISTRATION DEPT

ACTIVITY PROFILE:

The mission of the Developmental Disabilities (DD) Council is to work to assure that people with developmental disabilities and their families receive the necessary supports/services to achieve increased independence, productivity, integration, and inclusion in the community. Authority for this program is found in the Developmental Disabilities Assistance and Bill of Rights Act (DD Act) (P.L. 104-183).

The Minnesota DD Council, comprised of 25 members, was created in 1971 by executive order.

STRATEGIES AND PERFORMANCE:

Under the DD Act, not less than 65% of each year's federal funds must be reallocated to projects/activities that result in the increased independence, productivity, integration, and inclusion of people with developmental disabilities and their families in the community (IPIL). Our business – information, education, and training – leads to these IPIL results through the following strategic directions set out in our Three-Year State Plan for FFY 2001-03: Partners in Policymaking™, Information Dissemination, and Quality Improvement. The Three-Year Plan was recently submitted electronically to the Administration on Developmental Disabilities (ADD), U.S. Department of Health and Human Services.

Following are the results of our projects/activities:

- Total of 106 Partners in Policymaking graduates (four classes/two years).
- As of June 2000, more than 500 parents of young children with developmental disabilities and adults with disabilities are Minnesota Partners graduates; 81 of the state's 87 counties are represented.
- There are more than 8,600 Partners graduates nationally/internationally.
- Advanced Leadership Training for Partners Graduates (93 graduates).
- Youth Leadership/Service Treks and Youth in Government (37 youth).
- Native American Outreach (14 graduates/two classes).
- African American Outreach (12 graduates/two classes).
- Training Conferences (989 participants).

- Publications disseminated (29,358).
- DD Council members, staff, and suppliers completed 1,002 hours of training in the Baldrige Criteria/Framework and quality principles to improve performance and increase IPIL results.
- The DD Council completed a self-assessment, participated in the 1999 Minnesota Council for Quality Awards process, and received the Achievement (Gold) Level Award, the first time a government entity has reached this level.
- Specific results about IPIL are available for each grant awarded.

FINANCING INFORMATION:

At least 65% of federal funds are reallocated on an annual basis to carry out programs/activities that will increase IPIL for our primary customers.

Budget Activity	Dollars in Thousands					
	Actual FY 1998	Actual FY1999	Budgeted FY2000	Est FY2001	Est FY2002	Est FY2003
Summary Fed \$						
Grants	\$302	\$569	\$891	\$641	\$637	\$637
Admin	338	306	376	345	343	343
State \$	71	71	73	74	74	74

BUDGET ISSUES:

The DD Council's annual allocation is part of the Congressional appropriation for the U.S. Department of Health and Human Services. Our FFY 2000 allocation totaled \$980,322; we expect level funding in FFY 2001.

Our federal allocation also requires a 25% match. Based on our FFY 2000 allocation, we must provide about \$245,000 to satisfy the match requirement. State funds provide only \$72,000 of this match; the balance is contributed by our grant recipients.

General federal budget reductions in FFY 1996 resulted in a 7.3% reduction in our allocation over FFY 1995. Less than 1% of that loss has been recovered in subsequent funding years.

Activity: DEVELOPEMENTAL DISABILITIES CN
Program: MANAGEMENT SERVICES BUREAU
Agency: ADMINISTRATION DEPT

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
Expenditures by Category:									
State Operations									
COMPENSATION	187	209	212	221	221	231	231	31	7.4%
OTHER OPERATING EXPENSES	401	513	162	151	151	141	141	(383)	(56.7%)
Subtotal State Operations	588	722	374	372	372	372	372	(352)	(32.1%)
LOCAL ASSISTANCE	358	632	686	682	682	682	682	46	3.5%
Total Expenditures	946	1,354	1,060	1,054	1,054	1,054	1,054	(306)	(12.7%)

Financing by Fund:									
Direct Appropriations:									
GENERAL	71	73	74	74	74	74	74		
Statutory Appropriations:									
SPECIAL REVENUE	0	14	0	0	0	0	0		
FEDERAL	875	1,267	986	980	980	980	980		
Total Financing	946	1,354	1,060	1,054	1,054	1,054	1,054		

Revenue Collected:									
Dedicated									
SPECIAL REVENUE	1	0	0	0	0	0	0		
FEDERAL	1,046	1,267	986	980	980	980	980		
Total Revenues Collected	1,047	1,267	986	980	980	980	980		

FTE by Employment Type:									
FULL TIME	2.8	2.0	3.5	3.5	3.5	3.5	3.5		
PART-TIME, SEASONAL, LABOR SER	0.9	2.1	0.0	0.0	0.0	0.0	0.0		
Total Full-Time Equivalent	3.7	4.1	3.5	3.5	3.5	3.5	3.5		

BUDGET ACTIVITY SUMMARY

Budget Activity: SYSTEM OF TECHNOLOGY TO ACHIEVE RESULTS
Program: MANAGEMENT SERVICES BUREAU
Agency: ADMINISTRATION DEPT

ACTIVITY PROFILE:

STAR (System of Technology to Achieve Results) is funded primarily by a grant from the National Institute on Disability and Rehabilitation Research (NIDRR) under Title I of the Assistive Technology Act, P.L. 105-394. The federal mandate requires the development and implementation of a statewide, comprehensive, consumer-responsive program of technology-related assistance for the over 800,000 Minnesotans of all ages with disabilities. For the 2000-01 biennium, the Minnesota Legislature appropriated \$900,000. The STAR Program administers the following activities in each of the four federal mandatory areas and five of the eight discretionary activities as deemed appropriate by the Governor's Advisory Council on Technology for People with Disabilities and the STAR staff:

- Public Awareness
- Interagency Coordination
- Technical Assistance and Training
- Outreach
- Alternative State Financed Systems
- Form Partnerships and Cooperative Initiatives
- Options for Securing Devices and Services
- Technology-Related Information
- Certain Travel Expenses and Services

STAR is the designated agency to receive these federal funds. No other agency has an advocacy and systems change mandate to provide consumer-directed assistive technology (AT) services to all individuals of all ages with all disabilities and in every activity of life.

STRATEGIES AND PERFORMANCE:

- **Public-private partnerships.** STAR facilitates AT-related development as in the acquisition of a SBIR Grant from the U.S. Dept of Ed for the creation of software to identify AT solutions for employees with disabilities based on work environments and work tasks. To address the workforce shortage in personal care assistance, STAR has partnered with Home and Community Options, Inc. of Winona, Minn. and the national RERC on Telemedicine at Sister Kenny Institute to explore a technology-supported alternative to personal care where appropriate.

- **Winning compliance with Section 508 of the Rehab Act.** STAR has been the state entity for providing education and technical expertise on universal accessibility in web site/software design and policy. STAR trainings have reached 60 web masters from 27 different state agencies. Accessibility is critical to the delivery of electronic government services.
- **Maximizing employment for people with disabilities.** STAR provides demonstration grant funding to create/expand employment via for-profit and non-profit agencies, post-secondary training, and micro or small businesses.
- **Community Action Networks (CANs).** Grants for building service capacity and linking rural residents with disabilities, families, and service providers with resources for training, assessment, provision, and follow-up services of AT in the six rural regions of Minnesota. In 2000-01 CANs served 3,115 people. Each CAN has leveraged between \$5,000 and \$100,000 for their activities.
- **Alternative financing programs.** STAR provides pass-through funding for an alternative financing program.
- **Regional assistive technology grants.** Provide support to meet the needs of individuals with disabilities through Internet access, employment search opportunities, equipment lending libraries, AT demonstration projects, training, and development of new technologies; FY 2000 grants served 432 people to date and continue to operate.
- **Toll-free telephone, web site with links to national sites, and newsletter.** Reached 13,000 of our consumers.
- **Funding directory.** STAR produces the only statewide comprehensive directory of funding assistance for individuals in need of AT; over 110,000 distributed to date.
- **Scholarships.** To conferences 78 teams of parents, consumers, and educators attend Closing the Gap Conference during the biennium.
- **Eight new protections.** For consumers of AT enacted in law, rule, or policy.
- **Individual assistance and advocacy.** To 300 individuals per month.
- **Training on AT.** STAR reached 9,000 individuals through trainings and exhibits in FY 2000. Fifty-eight workshops were provided statewide.

FINANCING INFORMATION:

This activity is funded through a federal grant and a General Fund appropriation.

BUDGET ISSUES:

We anticipate that federal and state funding of the STAR Program will end 9-30-02.

Activity: SYSTEM OF TECHNOLOGY TO ACHIEV
Program: MANAGEMENT SERVICES BUREAU
Agency: ADMINISTRATION DEPT

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
Expenditures by Category:									
State Operations									
COMPENSATION	218	233	303	302	302	299	299	65	12.1%
OTHER OPERATING EXPENSES	207	293	250	361	361	365	305	123	22.7%
Subtotal State Operations	425	526	553	663	663	664	604	188	17.4%
LOCAL ASSISTANCE	168	500	290	290	40	290	0	(750)	(94.9%)
Total Expenditures	593	1,026	843	953	703	954	604	(562)	(30.1%)

Change Items:	Fund				
(P) MANAGEMENT SERVICES BUDGET REDUCTIONS	GEN			(250)	(350)
Total Change Items				(250)	(350)

Financing by Fund:							
Direct Appropriations:							
GENERAL	200	646	463	453	203	454	104
Statutory Appropriations:							
SPECIAL REVENUE	3	0	0	0	0	0	0
FEDERAL	390	380	380	500	500	500	500
Total Financing	593	1,026	843	953	703	954	604

<u>Revenue Collected:</u>							
Dedicated							
GENERAL	25	0	0	0	0	0	0
SPECIAL REVENUE	3	0	0	0	0	0	0
FEDERAL	390	380	380	500	500	500	500
Total Revenues Collected	418	380	380	500	500	500	500

FTE by Employment Type:							
FULL TIME	4.3	4.7	6.5	6.0	6.0	6.0	6.0
PART-TIME, SEASONAL, LABOR SER	0.2	0.2	0.0	0.0	0.0	0.0	0.0
Total Full-Time Equivalent	4.5	4.9	6.5	6.0	6.0	6.0	6.0

PROGRAM SUMMARY

Program: FISCAL AGENT
Agency: ADMINISTRATION DEPT

PROGRAM PROFILE:

This program has been established to meet the administrative needs of the grant and other monies Admin receives on behalf of multiple stakeholders. These funds are typically appropriated by the legislature for special projects. Admin distributes these funds to recipients, based on laws, statutes, policies, and procedures.

Activities included in this program are:

- **Miscellaneous Grants:** Monies appropriated to Admin for special legislative projects. These projects include the State Band, LCMR Project Grants, and construction grants to political sub-divisions throughout Minnesota. Admin previously served as the fiscal agent for the Minnesota Children's Museum, that function has been transferred to the Department of Children, Families, and Learning.
- **Miscellaneous Studies:** Monies appropriated to Admin for special studies or research type projects. This has included such projects as a pretrial-presentence study, a watercraft fuel study, and an energy assistance study.
- **Public Broadcasting:** Grant administration program carried out for the legislature under M.S. 129D.11-16. This activity includes Public Television, Public Radio, Twin Cities Regional Cable Channel, and Legislative Television. This activity is represented as a separate agency in the biennial budget.

STRATEGIES AND PERFORMANCE:

Each of the activities within this program are established and operated under the authority of specific state legislation. Emphasis is placed on fulfilling the intent of the specific legislation, which varies considerably with each activity. Processes are established and maintained to process financial transactions, track information, and report in various formats the information required and desired by various audiences. Contracts and agreements are an integral function of this program.

FINANCING INFORMATION:

This activity is primarily funded through General Fund appropriations.

BUDGET ISSUES:

Admin receives no operating funds for the administration of these grants and studies.

LCMR RECOMMENDATIONS:

- *Using Biodiesel in Generators* \$90,000
The LCMR proposes a \$90,000 grant from the oil overcharge money to the commissioner of administration for an agreement with the University of Minnesota to evaluate the use of biodiesel fuel in diesel powered generators and associated impacts of emissions on air quality.

GOVERNOR'S RECOMMENDATION:

The Governor recommends the requested base level funding, the transfer of the fiscal agent responsibilities to the department of Children, Families & Learning, and the LCMR project put forth by the department.

Program: FISCAL AGENT
Agency: ADMINISTRATION DEPT

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
Expenditures by Category:									
State Operations									
OTHER OPERATING EXPENSES	150	20	0	0	0	0	0	(20)	(100.0%)
Subtotal State Operations	150	20	0	0	0	0	0	(20)	(100.0%)
LOCAL ASSISTANCE	477	262	262	2	92	2	2	(430)	(82.1%)
Total Expenditures	627	282	262	2	92	2	2	(450)	(82.7%)

Change Items:	Fund				
(B) USING BIODIESEL IN GENERATORS	SGS			90	
Total Change Items				90	

Financing by Fund:					
Direct Appropriations:					
GENERAL	577	282	262	2	2
STATE GOVERNMENT SPECIAL REVENUE	0	0	0	0	90
NATURAL RESOURCES	50	0	0	0	0
Total Financing	627	282	262	2	92

Revenue Collected:					
Dedicated					
STATE GOVERNMENT SPECIAL REVENUE	567	418	60	60	60
Total Revenues Collected	567	418	60	60	60

PUBLIC BROADCASTING - EXECUTIVE SUMMARY

PROGRAM PROFILE:

Public Broadcasting is the grant administration program carried out for the legislature under M.S. 129D.11-16. Legislative allocations are divided among six public television and 12 public educational radio stations in the form of block, matching, and equipment grants. The program oversees this grant authority, disbursing funds in accordance with legislative appropriations and direction, and ensures compliance with all statutory requirements and criteria.

Public Broadcasting is made up of the following activities:

Public Television

State funds are used by recipient stations to sustain their ability to serve as a major community resource providing educational, cultural, economic development, public affairs, and children's programming to the public, governmental agencies, nonprofit organizations, business corporations, and educational facilities. State grants are made on a direct and matching basis, consistent with the criteria established in M.S. 129D.11-16.

Public Radio

State funds are used to support public radio stations that serve Minnesota residents through radio programming that is noncommercial, cultural, informational, ethnic, and educational in nature. It is programming designed to appeal to audiences not generally served by commercial broadcasters. Operational and equipment grants are made pursuant to the criteria listed in M.S. 129D.

Twin Cities Regional Cable Channel

State funds are used to provide grant-in-aid to Twin Cities Regional Cable Channel, Inc., a nonprofit organization operating the Metro Cable Network. The network appears on Channel 6 on all metropolitan area cable systems presenting a wide range of programs about issues and activities of regional interest and significance to 600,000 cabled households in the seven-county metro area as mandated by state statutes and designated by the Minnesota Cable Communications Board in 1985.

Legislative Television

An additional appropriation is included in Public Broadcasting for Legislative Television. Funding is in the form of a grant for public information television transmission of legislative activities. The legislature oversees this grant.

GOVERNOR'S RECOMMENDATION:

The Governor recommends the base budget.

Agency: PUBLIC BROADCASTING

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
Expenditures by Category:									
State Operations									
OTHER OPERATING EXPENSES	441	381	501	441	441	441	441	0	0.0%
Subtotal State Operations	441	381	501	441	441	441	441	0	0.0%
LOCAL ASSISTANCE	3,498	3,544	2,234	2,889	2,889	2,889	2,889	0	0.0%
Total Expenditures	3,939	3,925	2,735	3,330	3,330	3,330	3,330	0	0.0%
Financing by Fund:									
Direct Appropriations:									
GENERAL	3,939	3,925	2,735	3,330	3,330	3,330	3,330		
Total Financing	3,939	3,925	2,735	3,330	3,330	3,330	3,330		

CAPITOL AREA ARCHITECT - EXECUTIVE SUMMARY

AGENCY MISSION AND VISION:

Mission: To preserve and enhance the Capitol Area's unique aesthetic and historic character, and to plan and guide its future development by maintaining a framework for its physical growth.

The Capitol Area Architectural and Planning Board (CAAPB) was established by the 1967 legislature to preserve and enhance the dignity, beauty, and architectural integrity of the Capitol, the buildings immediately adjacent to it, the Capitol grounds, and the Capitol Area. It is a 10 member board, chaired by the lieutenant governor, and has both House and Senate representation. The agency is authorized to employ five full-time staff and is supported by a three-member architectural/planning Advisory Committee. (M.S. 15.50)

As the planning and regulatory agency responsible for architectural design and long-range planning for the Capitol Area, the CAAPB has exclusive zoning jurisdiction and design review over both the state government complex and the surrounding commercial and residential neighborhoods.

Vision: To be a recognized leader in preserving the Capitol Area's unique history, while providing a flexible framework for future growth and development for the benefit of all citizens of the state of Minnesota.

KEY SERVICE STRATEGIES:

- To manage agency operations, planning and project management.
- To provide planning tools and guidelines for future Capitol Area development.
- To provide coordination of all historical documents for the Capitol Area.
- To provide open communication and coordination with all clientele.
- To manage our human resources effectively.

PERFORMANCE SUMMARY:

As overseer of Capitol Area development, the CAAPB's responsibility for public projects begins with site selection and sponsorship of architectural design competitions and continues through all phases of design and construction. Individual project planning occurs within a long-range framework for the area's physical development. Our recently completed *Comprehensive Plan* and the *Specific Actions for Implementation of the Comprehensive Plan* are the framework for the CAAPB's daily agenda, along with the *Zoning and Design Rules for the Capitol Area*, serving the 60 block area around Minnesota's Capitol, published in January 2000.

In overseeing and coordinating development in the Capitol Area, the CAAPB is in a unique position to work closely with many state agencies, especially the Department of Administration, the city of Saint Paul, planning district and neighborhood development groups, and with private sector architects, engineers, and developers.

Our performance focuses on that which we traditionally do best—good design, thorough and coordinated planning, and achieving more for the public dollar, whether it be federal, state, or city. Because the board is composed of gubernatorial, legislative, and city appointees, we often are in a position to coordinate and leverage public improvements in a cost-effective and result-orientated manner. Our time frame is long-range. Our goals are to maintain our mission for the benefit of all citizens.

In recent years, the agency assisted in the design and construction of the Department of Revenue building, the Korean War Veterans Memorial, and the Woman's Suffrage Memorial Garden, in addition to the on-going restoration of the Capitol Building, including the cafeteria, the surrounding terraces, exterior cleaning of the building, all exterior doors, a complete re-landscaping of the immediate grounds, and the start of predesign for interior restoration of the building.

ISSUES AFFECTING AGENCY'S OPERATIONS:

Issues directly affecting CAAPB operations are:

Unanticipated Project Requests: Besides paying salaries for permanent employees, the budget provides funding for an Advisory Committee of three architects or planners. The Advisors are required by state law to review and advise the board on architectural and planning matters. The committee's level of activity, outside CAAPB control, is contingent upon others who need CAAPB review or approval for development projects. This has had significant consequences for the Board's operations, resulting at times in the agency not having enough remaining resources to achieve its primary goal of long-range planning; this is, keeping and maintaining a Comprehensive Plan for the Capitol Area.

The necessary involvement of CAAPB staff on other state agency or public projects is often not compensated. This leaves the CAAPB operating funds compromised when major fast-track projects require our participation.

GOVERNOR'S RECOMMENDATION:

The Governor recommends the agency's base budget. The Governor also recommends a base budget increase of \$20,000 a year to maintain the agency's technology capacity.

Agency: CAPITOL AREA ARCHITECT

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
Expenditures by Category:									
State Operations									
COMPENSATION	220	225	241	248	248	255	255	37	7.9%
OTHER OPERATING EXPENSES	79	47	391	67	87	68	88	(263)	(60.0%)
Subtotal State Operations	299	272	632	315	335	323	343	(226)	(25.0%)
LOCAL ASSISTANCE	0	326	0	0	0	0	0	(326)	(100.0%)
Total Expenditures	299	598	632	315	335	323	343	(552)	(44.9%)
Change Items:	Fund								
(A) TECHNOLOGY/LAN COSTS	GEN				20		20		
Total Change Items					20		20		
Financing by Fund:									
Direct Appropriations:									
GENERAL	299	598	631	315	335	323	343		
Statutory Appropriations:									
GIFT	0	0	1	0	0	0	0		
Total Financing	299	598	632	315	335	323	343		
Revenue Collected:									
Nondedicated									
GENERAL	0	1	1	0	0	0	0		
Total Revenues Collected	0	1	1	0	0	0	0		
FTE by Employment Type:									
FULL TIME	4.0	4.0	4.0	4.1	4.1	4.1	4.1		
Total Full-Time Equivalent	4.0	4.0	4.0	4.1	4.1	4.1	4.1		

Agency: CAPITOL AREA ARCHITECT

Base Budget Report (Dollars in Thousands)	All Funds		General Fund		Other State Funds		Federal Funds	
	FY 2002	FY 2003	FY 2002	FY 2003	FY 2002	FY 2003	FY 2002	FY 2003
FY 2001 Budgeted	306	306	306	306	0	0	0	0
<u>Base Adjustments</u>								
2002-03 SAL. & BEN. BASE	7	14	7	14	0	0	0	0
DOC. SPACE RENTAL/LEASE	1	2	1	2	0	0	0	0
SMALL AGENCY OPERATIONAL EXPENSE	1	1	1	1	0	0	0	0
Subtotal Base Adjustments	9	17	9	17	0	0	0	0
Base Budget	315	323	315	323	0	0	0	0

INFORMATION TECHNOLOGY CHANGE ITEM (49742)

Agency: CAPITOL AREA ARCHITECT
IT Change Item: TECHNOLOGY/LAN COSTS

ITEM DESCRIPTION AND PURPOSE:

The CAAPB is requesting \$20,000 per year to continue its current level of service. The funding will be used to cover the Local Area Network (LAN) charges and to replace and upgrade our hardware and software. Any remaining funding will be used to assess the CAAPB's current technical systems for compatibility with the State's Electronic Government Services (EGS).

FUNDING: (Dollars in Thousands)

Funding Distribution	2002-03 Biennium		2004-05 Biennium		2006-07 Biennium	
	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Personnel	0	0	0	0	0	0
Supplies	0	0	0	0	0	0
Hardware	2	2	2	2	2	2
Software	2	2	2	2	2	2
Facilities	0	0	0	0	0	0
Services	15	15	15	15	15	15
Training	1	1	1	1	1	1
Grants	0	0	0	0	0	0
Total	20	20	20	20	20	20

The CAAPB has completed a Strategic Information Resource Plan (SIRP) which addresses our realization of projects requiring additional funds for technical assistance over the next 3 Biennia. Our needs are minimal, but critical to our agency operation.

The agency's 2002-2003 request is focused on meeting our technology infrastructure needs. Based on the CAAPB Business Strategy Model, as identified in our SIRP document, this is a list of our Realization Projects for the 2002-2003 Biennium:

1. Stay current with technology industry standards and the Department of Administration's equipment upgrades and LAN charges.
2. Have professional expertise analyze all CAAPB current technical systems and recommend future state-of-the-art changes for a small agency. (Contingent upon LAN charges decreasing.)
3. Maintain the CAAPB Web site.
4. Provide staff training.

RATIONALE:

The rationale for the CAAPB technology infrastructure request is as follows:

Unanticipated Local Area Network (LAN) Charges:

LAN support charges were \$2,745 per user in FY 2000 and \$2,963 per user in FY 2001. We can expect to minimally be charged \$3,000 per user in FY 2002 and 2003.

Equipment/software Replacement:

Our computer stations will need replacement by the end of year 2003 to keep current with technology and systems, and to collaborate with other agencies such as the Department of Administration and the Department of Finance with whom we interface with on a regular basis.

The benefits, as identified in our SIRP, are as follows:

- Technical equipment upgrades will allow the CAAPB to maintain a current Web site where the public can access the Minnesota Capitol Area's historical data.
- Collaboration will provide a broader base of technical information and capabilities for a small agency.
- Provides minimal training for staff.

The CAAPB's request of \$20,000 per year is based primarily on our unanticipated LAN charges paid to the Department of Administration. As qualified in our SIRP, should these charges decrease, the CAAPB would have some or all funding available to provide an analysis of all CAAPB current technical systems for compatibility with the State's Electronic Government Services (EGS) to further support our business processes. We have estimated this analysis to be \$6,650. This is not in addition to the \$20,000 per year request, but is contingent only upon our LAN charges decreasing over the next 2 years.

The benefit of this analysis of current systems is:

The CAAPB will provide collaborative leadership in EGS in the processing of historical information, design guidelines, long-range planning, and zoning regulations within the Minnesota State Capitol Area.

LIFE CYCLE ANALYSIS:

Life Cycle Status	2002-03 Biennium		2004-05 Biennium		2006-07 Biennium	
	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Development						
Operations	X	X	X	X	X	X
Modification						
Retirement						

OFFICE OF TECHNOLOGY ANALYSIS:

INFORMATION TECHNOLOGY CHANGE ITEM (49742) (Continued)

Agency: CAPITOL AREA ARCHITECT

IT Change Item: TECHNOLOGY/LAN COSTS

Deliverables/Objectives: This initiative proposes funding to upgrade and maintain current technology/LAN infrastructure, which is controlled by the Department of Administration. The initiative is listed as a priority in the SIRMP. **Conclusion:** This initiative meets information technology criteria for funding in maintaining and upgrading the CAAPB LAN.

GOVERNOR'S RECOMMENDATION:

The Governor recommends a base budget increase of \$20,000 a year to meet the agency's technology infrastructure needs.

FINANCE DEPT - CONTENTS

Agency Executive Summary

Budget Briefs by Fund

PAGE

F-287

F-290

PROGRAMS, BUDGET ACTIVITIES, AND CHANGE ITEMS

STATE FINANCIAL MANAGEMENT

State Financial Management

Change Item - Eliminate Uniform Settlement Reporting

F-291

F-292

F-294

INFORMATION & MGMT SERVICES

F-295

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FINANCE DEPT - EXECUTIVE SUMMARY

AGENCY MISSION AND VISION:

The Mission of the department is twofold: To ensure the integrity of state fiscal resources and to support and challenge state decision-makers to constantly increase the value per dollar of services provided to Minnesotans.

KEY SERVICE STRATEGIES:

- Protect and maintain Finance's credibility.
- Strengthen the governance and accountability of data collection and state systems.
- Win compliance with budget and financial management principles and priorities.
- Assume statewide leadership responsibilities and allocate resources accordingly.
- Transform the budget system to tie agency funding to results.
- Clear the decks of low value-added activities.
- Build the staff capacity to deliver on these strategies.
- Continuously improve the value of data, information and policy products created by the department.

At the heart of the department's work is a core process that transforms data into useful information and then into policy:

- Data is supplied from within Finance systems or from others.
- Finance staff apply various kinds of analysis (financial, policy, legal, etc.) to the data to produce information.
- The information is used to advance both missions of the department.

The department budget is organized into two service delivery programs.

- *State Financial Management program.* Provides the budget, accounting, personnel, and payroll systems that are used by all state agencies. These systems issue 1.3 million prompt payments to state vendors each year, and accurately pay 48,000 state and MnSCU workers every two weeks.

The program's staff produce the state operating and capital budgets, analyze state budget and financial issues, manage state accounting and payroll systems and policy, perform economic analysis and financial forecasting, issue state debt instruments, and manage state cash and debt resources.

- *Information and Management Services program.* Provides technical and management support to the State Financial Management program and the statewide administrative systems.

OPERATING ENVIRONMENT: The primary external factors affecting the department include:

- the public demand that government services be effective and efficient, and easily accessible;
- the continual change of computer technology;
- competition for skilled professional staff.

The Department of Finance is committed to achieving its missions. It measures its success by the degree to which it produces the following results:

- Respected organizations say that the state is fiscally well managed.
- There is a high level of predictability in the fiscal management of the state.
- Decision-makers seek the department's advice and feel that the department provides them with credible, useful and effectively communicated information and options they believe will produce better returns on the state's investments.
- The debates among decision-makers are focused on policy rather than the quality of the information.
- Citizens perceive the state's financial condition as sound.
- The Department of Finance is viewed as the premier place for employment in state government.

ORGANIZATION/PROGRAM STRUCTURE:

COMMISSIONER	
State Financial Management Program	
Accounting Services	65.0 fte
Budget Services	29.0 fte
Economic Analysis	3.0 fte
Cash and Debt Management	2.0 fte
Information and Management Services	
Information Services	61.0 fte
Management Services	21.0 fte
6/30/2000	181.0 fte

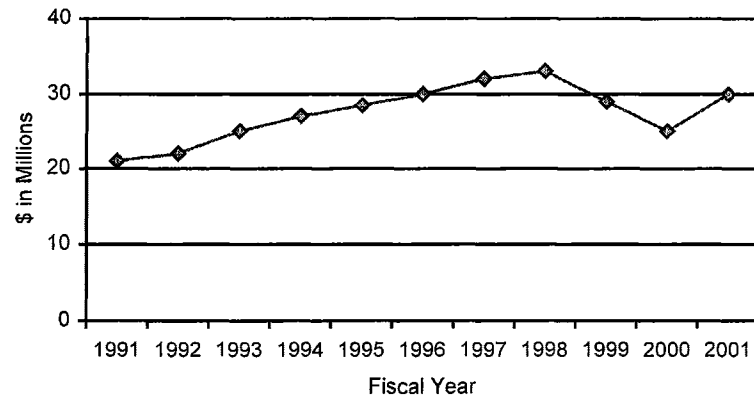
The FTE figure reflects filled positions only. The vacancy rate was 7% in FY 2000. The department anticipates a 5% vacancy rate during the next biennium.

GOVERNOR'S RECOMMENDATION: The Governor recommends the agency's requested base level funding and the reallocation of funds between programs. The Governor also recommends elimination of uniform settlement reporting and continue the billing authority for the Statewide Administrative Systems.

FINANCE DEPT - EXECUTIVE SUMMARY (Continued)

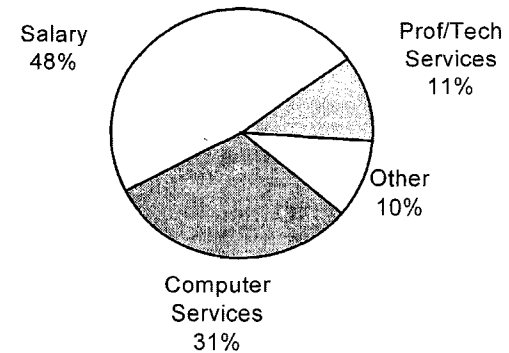
TRENDS AND PERSPECTIVE:

Total Budget -All Funds



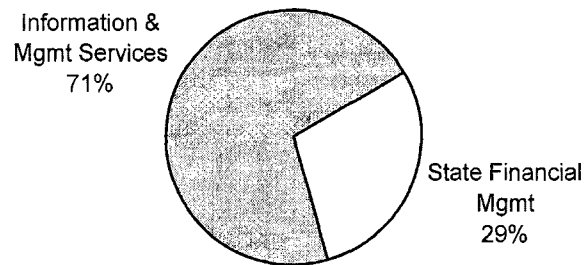
2000-01 Expenditures by Category

Total: \$55.1 Million



2000-01 Expenditures by Program

Total: \$55.1 Million



Agency: FINANCE DEPT

Agency Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
Expenditures by Program:									
STATE FINANCIAL MANAGEMENT	7,909	7,513	8,555	8,493	8,443	8,598	8,548	923	5.7%
INFORMATION & MGMT SERVICES	21,294	17,637	21,442	18,314	18,314	18,683	18,683	(2,082)	(5.3%)
Total Expenditures	29,203	25,150	29,997	26,807	26,757	27,281	27,231	(1,159)	(2.1%)
Financing by Fund:									
Carry Forward:									
GENERAL	6	0	0	987	987	1,072	1,072		
Direct Appropriations:									
GENERAL	25,634	17,933	22,508	18,300	18,250	18,689	18,639		
Statutory Appropriations:									
GENERAL	3,563	7,217	7,489	7,520	7,520	7,520	7,520		
Total Financing	29,203	25,150	29,997	26,807	26,757	27,281	27,231		
FTE by Employment Type:									
FULL TIME	175.0	176.8	183.9	182.9	182.9	182.9	182.9		
PART-TIME, SEASONAL, LABOR SER	2.6	2.7	0.7	0.7	0.7	0.7	0.7		
OVERTIME PAY	1.8	0.9	1.2	1.0	1.0	1.2	1.2		
Total Full-Time Equivalent	179.4	180.4	185.8	184.6	184.6	184.8	184.8		

FINANCE DEPT - BUDGET BRIEF

Fund: GENERAL

	<u>FY 2002</u>	<u>FY 2003</u>	<u>Biennium</u>
BASE YEAR (FY 2001) (\$000s)			
Appropriations	\$17,935	\$17,935	\$35,870
<u>BASE ADJUSTMENT</u>			
2000-01 Salary & Benefit Base	357	726	1,083
Documented Space Rental	60	80	140
One-time Appropriation Reduction	(10)	(10)	(20)
Attorney General Costs	1	2	3
Transfers Between Agencies	(43)	(44)	(87)
Technical Reallocation	0	0	0
<u>BASE LEVEL (for 2002 and 2003)</u>	\$18,300	\$18,689	\$36,989
<u>CHANGE ITEMS</u>			
Eliminate Uniform Settlement Reporting	(50)	(50)	(100)
GOVERNOR'S RECOMMENDATION	\$18,250	\$18,639	\$36,889

BRIEF EXPLANATION OF BUDGET DECISIONS:

Base adjustments:

- A 3% increase for department staff salary and benefits.
- An increase for a documented rent increase.
- Removal of a one-time appropriation for the purpose of conducting a study of salaries and benefits at the Minnesota Historical Society.
- An increase for the salary and benefits relating to the partner agency agreement with the Attorney General's office.
- A reduction that transfers the funding for the departments legal services to the Attorney General's office.
- A technical reallocation moving salary funding between the two programs.

Budget Issues:

Although described in greater detail on the program summary pages, the two major drivers of the agency budget are salaries and information services costs. The department must continually redeploy resources to accommodate those costs. Those redeployments include:

- reallocating funds from communication, printing and advertising, and contractor costs to salaries and information services;

- eliminating seven positions;
- rearranging work assignments and increasing productivity through more effective use of technology;
- placing higher priorities on mission critical tasks;
- sharing services with other agencies;
- imposing internal division reductions to achieve departmental limitations on spending.

Reallocation of Funds Between Programs:

The department is reallocating \$307,000 in FY 2002 and \$213,000 in FY 2003 from the Information and Management Services program to its State Financial Management program. This reallocation will allow the agency to balance the compensation costs between the two programs. Seven FTEs will be reduced department wide. No additional funds are being requested.

Billing Authority:

The legislature funded part of the FY 2000-2001 operating costs for the Statewide Administrative Systems by instructing the department to bill agencies for their use of the systems. The department is requesting continuation of this authority in the amount of \$7.52 million each year.

GOVERNOR'S RECOMMENDATION:

The Governor recommends the agency's requested base level funding and the reallocation of funds between programs. The Governor also recommends elimination of uniform settlement reporting and continued billing authority for the Statewide Administrative Systems.

PROGRAM SUMMARY

Program: STATE FINANCIAL MANAGEMENT
Agency: FINANCE DEPT

PROGRAM PROFILE:

The State Financial Management program consists of the units providing direct financial management services to decision-makers, agencies, and the public.

Accounting Services

- sets statewide accounting and payroll policies and procedures;
- directs and maintains integrity of the accounting and payroll systems;
- provides training and assistance to agencies on the state's financial systems;
- works with agencies to develop systems of internal controls, as well as monitoring compliance and integrity of internal controls;
- produces the state's Comprehensive Annual Financial Report (CAFR);
- coordinates the collection of state agency Accounts Receivable.

Budget Services

- manages the state budget process;
- prepares and submits the governor's operating and capital budgets;
- coordinates expenditure and revenue forecasts [from fees or other charges assessed by state agencies] and develops financial reports and analysis;
- provides oversight and monitoring of budget implementation to agencies;
- provides financial information and analysis of state spending to the governor and legislature.

Economic Analysis

- Prepares Minnesota's economic outlook and major revenues [income, sales, motor vehicle sales, corporate income] forecasts.

Cash and Debt Management

- administers the state's tax exempt bonding allocation law;
- is responsible for establishment of all state depository bank accounts;
- manages actual sale of state general obligation bonds to finance capital projects;
- manages the state's debt policies and provides debt capacity forecasting.

Key issues the program will address over the next two years include the following:

- Provide expertise to the upgrade of the state's human resource and payroll system (SEMA4).
- Improve the communication of budget and financial information to key decision-makers and the public.
- Assist the governor and legislature in dealing with the financial challenges posed by an uncertain economy and public desires for better performance from state government at a reasonable cost.
- Refinance outstanding state general obligation bonds at lower interest rates.
- Provide expertise to the upgrade of the state's human resource and payroll system (SEMA4).
- Modify CAFR to conform with recent GASB 34 requirements.

STRATEGIES AND PERFORMANCE:

The State Financial Management program primarily uses the following strategies to carry out the department's mission and meet its goals:

- Provide information and analysis to decision-makers.
- Set financial policy and accounting system standards for state agencies.
- Regulate state government financial activities.
- Provide technical assistance to ensure compliance with standards and with generally accepted governmental accounting principles.

The program's performance in meeting the department's goals is measured in the following ways:

Goal: Ensure the Integrity of the state's financial resources.

- Reduce the number of repeat audit findings in the statewide audit by the Legislative Auditor.

Repeat Audit Findings:

<u>FY 1996</u>	<u>FY 1997</u>	<u>FY 1998</u>	<u>FY 1999</u>	<u>FY 2000</u> <u>Target*</u>	<u>FY 2001</u> <u>Target</u>
17	17	10	8	8	7

Audit of FY 2000 not yet completed. (Fiscal year indicates the financial reporting year; the audit is completed in the subsequent year.)

PROGRAM SUMMARY (Continued)

Program: STATE FINANCIAL MANAGEMENT
Agency: FINANCE DEPT

Goal: Respected organizations say that the state is fiscally well-managed.

- Continue to receive the Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association. The department has received this award annually for the last 15 years.
- Unqualified audit opinion from the Legislative Auditor for the past 16 years.
- State bonds rated AAA by Moody's, Standard and Poor's and Fitch's bond rating services.
- State financial management rated A- by *Governing Magazine*.
- State capital management rated A- by *Governing Magazine*.

Goal: Facilitate informed decision-making.

- Reduce variances between forecast and actual revenues and spending.

Percentage variance between actual and forecast revenues:

	<u>FY 1996</u>	<u>FY 1997</u>	<u>FY 1998</u>	<u>FY 1999</u>	<u>FY 2000-01</u>
Target	4.5%	4.5%	4.5%	4.5%	4.5%
Actual	5.8%	9.7%	9.4%	1.6%	9.8%

Percentage variance between actual and forecast expenditures:

	<u>FY 1996</u>	<u>FY 1997</u>	<u>FY 1998</u>	<u>FY 1999</u>	<u>FY 2000-01</u>
Target	3.0%	3.0%	3.0%	3.0%	3.0%
Actual	1.5%	2.4%	1.4%	2.8%	2.5%

Goal: The debates among decision-makers are focused on policy rather than the quality of the information.

- Provide accurate, timely financial information, and useful analysis of that information. A principal measure of effectiveness in meeting this goal is whether or not the Governor, legislature, and public find the information and analysis useful in understanding the state's fiscal condition and budget options.
- Increase the clarity and usefulness of the various information products it publishes, including the economic forecasts, capital and operating budget summaries and detail books, the CAFR, and other periodic reports. As well, increase accessibility and clarity of information products via the World Wide Web.

Goal: Improve accountability and the prudent use of state resources.

Sell state bonds at or below market index rates:

	<u>June 1998</u>	<u>Nov. 1998</u>	<u>Aug. 1999</u>	<u>June 2000</u>	<u>Nov. 2000</u>
Index Rate	4.50%	4.27%	4.93%	5.24%	5.02%
Actual Rate	4.50%	4.31%	4.95%	5.26%	5.01%
Variance	0.00%	(0.04)%	(0.02)%	(0.02)%	0.01%

Percentage of Accounts Receivable older than 90 days:

	<u>FY 1996</u>	<u>FY 1997</u>	<u>FY 1998</u>	<u>FY 1999</u>	<u>FY 2000-01</u>
Target	63%	61%	59%	69%	67%/65%
Actual	66%	71%	74%	73%	68%

Percentage of vendor payments within 30 days:

	<u>19994-96</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
Target	97%	97%	97%	97%	97%
Actual	97.7%	97.8%	96.1%	96.5%	97.6%

FINANCING INFORMATION:

Salaries represent 86% of program funding, supporting 106.8 FTEs. The program has remained relatively stable over many years until the implementation of the new accounting and payroll systems in 1995. At that time, staffing increased to manage the more complex systems.

BUDGET ISSUES:

Increasing salary costs are attributed to general inflation and the competitive labor market for experienced and highly skilled employees. The core functions of the Department of Finance, such as setting statewide financial management standards, regulating state financial operations, and providing quality budget and financial policy analysis, cannot be performed adequately with entry-level staff.

The rising costs of technology continues to be a challenge for the Department of Finance, as it is for all other state agencies. Costs of software licenses continue to increase at double-digit rates, as do costs of hardware and software maintenance and support. Technology usage costs increase as more high quality services are provided electronically.

GOVERNOR'S RECOMMENDATION:

The Governor recommends the agency's requested base level funding including, the reallocation of funds between programs, and elimination of uniform settlement reporting.

Activity: STATE FINANCIAL MANAGEMENT
Program: STATE FINANCIAL MANAGEMENT
Agency: FINANCE DEPT

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
Expenditures by Category:									
State Operations									
COMPENSATION	6,378	6,366	7,276	7,419	7,369	7,524	7,474	1,201	8.8%
OTHER OPERATING EXPENSES	1,531	1,147	1,279	1,174	1,174	1,174	1,174	(78)	(3.2%)
TRANSFERS	0	0	0	(100)	(100)	(100)	(100)	(200)	
Total Expenditures	7,909	7,513	8,555	8,493	8,443	8,598	8,548	923	5.7%
Change Items:	Fund								
(P) ELIMINATE UNIFORM SETTLEMENT REPORTING	GEN				(50)		(50)		
Total Change Items					(50)		(50)		
Financing by Fund:									
Direct Appropriations:									
GENERAL	7,909	7,513	8,555	8,493	8,443	8,598	8,548		
Total Financing	7,909	7,513	8,555	8,493	8,443	8,598	8,548		
FTE by Employment Type:									
FULL TIME	103.7	97.8	98.3	98.3	98.3	98.3	98.3		
PART-TIME, SEASONAL, LABOR SER	2.4	1.0	0.0	0.0	0.0	0.0	0.0		
OVERTIME PAY	0.1	0.0	0.0	0.0	0.0	0.0	0.0		
Total Full-Time Equivalent	106.2	98.8	98.3	98.3	98.3	98.3	98.3		

BUDGET CHANGE ITEM (64686)

Program: STATE FINANCIAL MANAGEMENT
Agency: FINANCE DEPT

Item Title: ELIMINATE UNIFORM SETTLEMENT REPORTING

	<u>2002-03 Biennium</u>		<u>2004-05 Biennium</u>	
	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u>
Expenditures: (\$000s)				
General Fund				
-State Operations	\$(50)	\$(50)	\$(50)	\$(50)
Revenues: (\$000s)				
General Fund	\$-0-	\$-0-	\$-0-	\$-0-

Statutory Change? Yes ☒ No ☐

If yes, statute(s) affected: M.S. 179A.07, Subd. 7

☐ New Activity ☐ Supplemental Funding ☐ Reallocation

GOVERNOR'S RECOMMENDATION:

The Governor recommends eliminating the Uniform Settlement Reporting process and reducing the department's base budget by the \$50,000 that was added for this purpose. The reporting requirement creates an unnecessary mandate on local governments and has not been useful to decision-makers.

RATIONALE:

The Uniform Settlement Reporting process was created in the laws of 1995 to provide baseline information on collective bargaining agreements by state and local units of government. The responsibility was originally given to the Bureau of Mediation Services, but was later switched to the Department of Finance. The statutes require all public employers (except townships) to report the terms of their labor contracts. This covers state, county, city, and school district employees. There is no reimbursement for reporting employers, nor is there a penalty for those that fail to report incompletely or inaccurately.

The Uniform Settlement Reporting process has created a substantial history of contract settlements for public review. Each report shows a bargaining unit's baseline compensation and the terms or conditions for employment in the future. Changes in compensation are reported on an annualized basis with information on costs for salary and for benefits. The data requirements were

created by BMS and are intended to provide a simple summary of the total economic costs due to labor contracts.

Although the data is available, it has not been used. On average, there have been fewer than ten requests for information in any given year. The individual reports do not lend themselves to summary level reports, either. The data is incomplete and reports are not always filed on a timely basis. These gaps make an attempt to summarize the data difficult and of questionable value. The uniform settlement data comes to Finance but is seldom used by decision-makers.

FINANCING:

Responsibility for this reporting process included \$50,000 in state funding for creating the forms and collecting the information. This initiative removes that funding from the department's base.

OUTCOMES:

This reporting process should be useful to policy-makers at state and local levels to understand the terms of employment for public employees. It would be expected that better information might achieve:

- Recent settlement information for use by labor negotiators
- Summary information for use by state decision-makers
- Comparative information on compensation packages by level of government

To date, the Uniform Settlement Reports have not achieved any of these results. The Department of Finance considered alternatives to the reports but found none that would achieve these objectives without considerable additions in staff time and funding.

PROGRAM SUMMARY

Program: INFORMATION & MGMT SERVICES
Agency: FINANCE DEPT

PROGRAM PROFILE:

The Information and Management Services program consists of the commissioner's office, which provides leadership for state financial planning and operations; the technical staff responsible for the design, maintenance, and operation of the statewide administrative systems; and the administrative services unit supporting internal agency operations.

Management Services

- provides strategic direction for the department and primary contact and consultation to the governor and the legislature;
- provides internal accounting, payroll, clerical support services and office management for the department.

Information Services

- manages the computer software applications that provide the state's accounting and procurement functions (MAPS), human resources and payroll processes (SEMA4), and statewide budget planning (BIS);
- maintains the state's information access data warehouse (IA) that provides access to detailed statewide accounting, payroll, human resources, and procurement data used by agencies for operations, analysis, and reporting;
- maintains the Department of Finance's internal network and desktop computers.

Following the intensive efforts of the Statewide Systems Project in which statewide administrative services were completely overhauled, and then the project to ensure year 2000 compliance, the program has been and will continue to be engaged in keeping statewide systems secure and technologically current while providing ongoing improvements and additional electronic government services.

STRATEGIES AND PERFORMANCE:

The Information and Management Services program's strategy to carry out the department's mission and meet its goals is to provide integrated statewide administrative systems to customers in an efficient, cost effective manner, and to enhance data utility by providing access to management information through a data warehouse.

The performance of the program in meeting the department's goals is measured in the following ways.

Goal: Facilitating informed decision-making by increasing the usefulness of the state administrative systems to agency users.

Percentage of users "Satisfied" or "Very Satisfied" with the statewide administrative systems:

	1996 <u>Survey</u>	Jan 1998 <u>Survey</u>	1999 <u>Survey</u>
Accounting	41%	58%	84%
Procurement	35%	66%	86%
Payroll	59%	78%	94%
Human Resources	67%	77%	93%

User Survey Note: To enable us to make comparisons to earlier surveys, we found it necessary to recalculate percentages by removing the uncertain/no change figures, as they were not an option in the 1999 survey. Please take this into consideration when referring back to previous survey statistics.

Goal: Minimizing system downtime.

Percentage of scheduled time that systems are available:

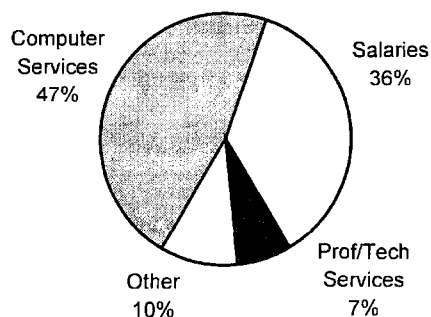
	<u>FY 1998</u>	<u>FY 1999</u>	<u>FY 2000</u>	<u>FY 2001</u>	<u>FY 2002-03</u>
Maps Availability					
Target	97%	98%	98%	98%	98%
Actual	97.15%	96.59%	97.60%		
SEMA4 Availability					
Target	97%	98%	98%	98%	98%
Actual	99.29%	98.89%	99.30%		
IA Availability					
Target	97%	98%	98%	98%	98%
Actual	91.77%	96.59%	97.89%		

PROGRAM SUMMARY (Continued)

Program: INFORMATION & MGMT SERVICES
Agency: FINANCE DEPT

FINANCING INFORMATION:

Key elements of the Information and Management Services Budget



- **Computer services charges.** The base contains \$17.7 million and represents 47% of the program's budget. This represents the operating cost of the Statewide Administrative Systems.
- **Salary.** Salary costs represent 36% of the budget plan. FTEs are planned to decrease from the 2000-01 biennium.
- **Ongoing consultant support.** Consultants provide skills and expertise necessary to supplement state staff. This represents 7% of the program's budget. This is down from 9% in the previous biennium as the department has decreased its use of contractors.
- **Other costs.** Department-wide office supplies, equipment, rent, printing, communications, etc., represent 10% of the program's budget.

BUDGET ISSUES:

Major budget issues the program will address over the next two years include:

- **Maintaining and enhancing a secure and robust network infrastructure.** Keeping current with network security technical changes is critical in protecting the department's valuable data, information, and systems. This issue becomes even more important as the state provides Electronic

Government Services including electronic funds transfer and on-line vendor payment information. A budget issue facing this area is the need to fund ongoing security-related infrastructure upgrades that enable Finance to continue to provide authorized users with high availability, easy access and prompt response time while protecting the department's valuable resources.

- **Ongoing costs of maintaining technical infrastructure.** The department relies on desktop computers, servers, computer networks and software programs. To maintain efficient operations, about one-third of this equipment must be replaced each year at a substantial cost.
- **Keeping the statewide administrative systems technologically current.** Keeping current with technical change is a business critical issue. The state administrative systems infrastructure needs to be protected and maintained in the same manner as the state's buildings. A key budget issue facing this program is the need to address frequent periodic software maintenance upgrades for those systems. The diminishing life cycle of current system technologies means that the state must increasingly view system upgrade maintenance as an ongoing cost. The state is currently upgrading the SEMA4 Human Resource and Payroll system. MAPS (Minnesota Accounting and Procurement system) will be studied in FY 2002-03 to determine if it should be replaced or upgraded in the following biennium.
- **Information Technology Series staff compensation costs.** Moderate salary - related budget increases are not proving to be adequate to enable the program to retain and attract skilled, experienced individuals needed to operate and maintain the complex statewide systems in the current tight labor market.
- **Funding Statewide Administrative Systems operating expenses.** The legislature chose to have the department bill user agencies for the systems' operating expenses for the current biennium. The department intends to maintain costs at current levels by tightening controls, reprioritizing projects, managing usage and collaborating with DOER and Admin on ITG related cost issues. The department requests continuation of the billing authority in the amount of \$7.52 million per year.
- **Funding increasing hardware and software license, maintenance and support costs.** These unavoidable costs continue to increase at a double-digit rate annually.

GOVERNOR'S RECOMMENDATION:

The Governor recommends the agency's requested base level funding including the reallocation of funds between programs and continued billing authority for the Statewide Administrative Systems.

Activity: INFORMATION & MGMT SERVICES
Program: INFORMATION & MGMT SERVICES
Agency: FINANCE DEPT

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
Expenditures by Category:									
State Operations									
COMPENSATION	4,778	5,727	6,648	6,377	6,377	6,720	6,720	722	5.8%
OTHER OPERATING EXPENSES	16,516	11,910	14,794	11,937	11,937	11,963	11,963	(2,804)	(10.5%)
Total Expenditures	21,294	17,637	21,442	18,314	18,314	18,683	18,683	(2,082)	(5.3%)
Financing by Fund:									
Carry Forward:									
GENERAL	6	0	0	987	987	1,072	1,072		
Direct Appropriations:									
GENERAL	17,725	10,420	13,953	9,807	9,807	10,091	10,091		
Statutory Appropriations:									
GENERAL	3,563	7,217	7,489	7,520	7,520	7,520	7,520		
Total Financing	21,294	17,637	21,442	18,314	18,314	18,683	18,683		
Revenue Collected:									
Dedicated									
GENERAL	0	7,280	7,489	7,520	7,520	7,520	7,520		
Total Revenues Collected	0	7,280	7,489	7,520	7,520	7,520	7,520		
FTE by Employment Type:									
FULL TIME	71.3	79.0	85.6	84.6	84.6	84.6	84.6		
PART-TIME, SEASONAL, LABOR SER	0.2	1.7	0.7	0.7	0.7	0.7	0.7		
OVERTIME PAY	1.7	0.9	1.2	1.0	1.0	1.2	1.2		
Total Full-Time Equivalent	73.2	81.6	87.5	86.3	86.3	86.5	86.5		

FINANCE - DEBT SERVICE - EXECUTIVE SUMMARY

AGENCY DESCRIPTION:

To pay the principal and interest on General Obligation long-term debt.

On December 1 of each year, the Commissioner of Finance must transfer to the Debt Service Fund an amount sufficient with the balance then on hand in the fund, and all income from the investment of such money, to pay all principal and interest on bonds due and will become due within the ensuing year and including July 1 in the 2nd ensuing year.

The Minnesota Constitution requires the State Auditor to levy a statewide property tax annually in an amount sufficient with the balance on hand in the fund to pay all debt service through this 19-month period. The legislature may make appropriations from any source to the debt service fund to reduce the amount of the statewide property tax levy. The debt service appropriation is made for the purpose of reducing or eliminating the need for a statewide property tax. On December 1 of each year, the Commissioner of Finance shall transfer to the debt service fund from appropriations made for such purposes the amount necessary to reduce or eliminate the statewide property tax.

Debt service is broken down into two categories: existing debt and new issues. Existing debt service is used for payment of principal and interest of previously issued bonds. Debt service for new issues is to cover bonds that are authorized and anticipated to be authorized but have not yet been issued.

	<u>Dollars in Thousands</u>			
	<u>FY 2000</u>	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>
Total Bonds Outstanding:				
Existing Debt on June 30	\$2,490,340	\$2,266,645	\$2,057,130	\$1,854,875
Existing Debt:				
\$ amount of principal payments	\$214,522	\$223,695	\$209,515	\$202,255
\$ amount of interest payments	\$119,501	\$123,256	\$112,350	\$102,279

REVENUES:

Revenues include interest earnings on cash balances in the Debt Service Fund and the Bond Proceeds Fund, the one-third debt service payment required on higher education capital projects, payments on user financed projects, and loan repayments from the Maximum Effort School Loan program, the Rural Finance Authority's programs, and other loan programs.

These revenues reduce the amount of the required General Fund appropriation.

DEBT SERVICE TRANSFER:

The debt service transfer shown below for FY 2002 and FY 2003 is an estimate based upon the dollar amount of bonds sold each year. The amount of the debt service transfer for existing authorizations and new authorizations is also an estimate of the dollar amount of bonds to be sold for capital projects currently authorized and for new authorizations.

	<u>Dollars in Thousands</u>			
	<u>FY 2000</u>	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>
Existing Debt	\$255,037	\$304,994	\$255,329	\$236,501
New Issue/Existing Authorization*	-0-	-0-	36,594	72,072
Future Issue/Future Authorization	-0-	-0-	9,356	22,540

* Additional bonds will be sold in FY 2002-2003

Existing Debt: The amount required in the debt service account is calculated by the total amount of principal and interest payments due December 1, through the 2nd and ensuing July 1 for all outstanding bonds. The appropriation requirements are calculated by adjusting the total transfer requirements for investment income and transfers from dedicated funds.

New Issues: It is assumed that General Obligation debt will be issued in FY 2002 and 2003 for currently authorized capital projects and for new authorizations.

The transfer requirement is determined by the payments of principal and interest that will come due within the December 1 through 2nd ensuing July 1.

GOVERNOR'S RECOMMENDATION:

The Governor recommends the agency's base budget of \$632.392 million and \$21.703 million from the General Fund for additional debt service costs associated with the Governor's 2001 Capital Budget. This appropriation will be used to make the required debt service transfers on existing debt and on new bonds issued during the biennium. The new bonds sold will provide additional funding for capital projects currently authorized and provide funding for a bonding bill in the 2001 legislative session.

BUDGET CHANGE ITEM (60329)**Agency: FINANCE - DEBT SERVICE****Item Title: CHANGE TO ODD-YEAR CAPITAL BUDGETS****OUTCOMES:**

Approval of a capital budget in 2001 will provide immediate resources to urgent needs and eliminate the need to authorize a capital budget in 2002.

	<u>2002-03 Biennium</u>		<u>2004-05 Biennium</u>	
	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u>
Expenditures: (\$000s)				
General Fund				
-State Operations	\$6,460	\$15,243	\$25,246	\$25,880
Revenues: (\$000s)				
General Fund	\$-0-	\$-0-	\$-0-	\$-0-

Statutory Change? Yes _____ No X

If yes, statute(s) affected:

_____ New Activity _____ Supplemental Funding _____ Reallocation

GOVERNOR'S RECOMMENDATION:

The Governor recommends \$21.703 million be appropriated from the General Fund for additional debt service costs associated with the Governor's 2001 capital budget.

RATIONALE:

The Governor is proposing an initiative that the legislature only meet in session in odd-numbered years. This initiative requires that capital budgets be adopted with the biennial budget in odd-numbered years, rather than even-numbered years as is the current practice.

The Governor is proposing a major capital budget this session as a replacement for the 2002 capital budget. Approval of bond authorizations in 2001 rather than 2002 will result in earlier bond sales and earlier debt service costs. These debt service costs require an additional appropriation in the 2002-03 and 2004-05 biennia.

FINANCING:

Appropriations for debt service are recommended from the General Fund as a transfer to the Debt Service Fund.

TORT CLAIMS - EXECUTIVE SUMMARY

AGENCY MISSION AND VISION:

To pay tort claim judgments against a state agency which cannot be paid from that agency's appropriated accounts.

As specified in M.S. 3.736, subd. 7, "a state agency, including an entity defined as part of the state in Section 3.732, subd. 1, incurring a tort claim judgment or settlement obligation shall seek approval to make payment by submitting a written request to the commissioner of Finance. If the Commissioner of Finance determines that the agency has sufficient money in its appropriation accounts, the claim will be paid from these accounts. Otherwise, the payment will be made from the appropriation made to the commissioner of Finance for tort claim payments."

GOVERNOR'S RECOMMENDATION:

The Governor recommends the base budget and a \$600,000 per year increase to pay Trunk Highway related tort claims.

Agency: TORT CLAIMS

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
Expenditures by Category:									
State Operations									
OTHER OPERATING EXPENSES	140	90	970	275	875	275	875	690	65.1%
Total Expenditures	140	90	970	275	875	275	875	690	65.1%

Change Items:	Fund				
(A) TRUNK HIGHWAY TORT CLAIMS	THI			600	600
Total Change Items				600	600

Financing by Fund:					
Direct Appropriations:					
GENERAL	0	0	970	275	275
TRUNK HIGHWAY	140	90	0	0	600
Total Financing	140	90	970	275	875

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BUDGET CHANGE ITEM (45845)

Agency: TORT CLAIMS

Item Title: TRUNK HIGHWAY TORT CLAIMS

	2002-03 Biennium		2004-05 Biennium	
	FY 2002	FY 2003	FY 2004	FY 2005
Expenditures: (\$000s)				
Trunk Highway Fund				
-State Operations	\$600	\$600	\$600	\$600
Revenues: (\$000s)				
Trunk Highway Fund	\$-0-	\$-0-	\$-0-	\$-0-
Statutory Change? Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>				
If yes, statute(s) affected: MS. 161.20, Subd.3				
<input checked="" type="checkbox"/> New Activity <input type="checkbox"/> Supplemental Funding <input type="checkbox"/> Reallocation				

GOVERNOR'S RECOMMENDATION:

The Governor recommends \$600,000 per year to pay Trunk Highway related tort claims.

RATIONALE:

This appropriation pays tort claim judgements against Mn/DOT or the Department of Public Safety (DPS) when the amount is of such a magnitude that it cannot be paid from the agency's accounts. As specified in M.S. 3.736, sub. 7, and entity incurring a tort claim judgement or settlement obligation shall seek approval to make payment by submitting a written request to the commissioner of Finance. If the Commissioner of Finance determines that the agency has sufficient money in its appropriation accounts, the claim will be paid from these accounts. Otherwise, the payment will be made from the appropriation made to the commissioner of Finance for tort claim payments.

During the 2000 session, the legislature amended the Trunk Highway statutes declaring that paying tort claims from the Trunk Highway is not a highway purpose. The legislature repealed the base-year tort claims appropriation from the Trunk Highway Fund, and replaced it with a one-time General Fund appropriation.

Since both Mn/DOT and DPS experience large numbers of tort claim judgements and occasionally a very large settlement obligation, it is imperative that a tort claim appropriation be available to pay those claims on a timely basis. Usually, claims must be paid within days of settlement.

The Governor recommends funding these claims from the Trunk Highway Fund as has been the practice, except for the current fiscal year. The Governor disagrees with the legislative position in Laws of 2000, Ch. 479, Art. 2, Sec.4, Subd. 3, declaring that payment of tort claims is not a trunk highway purpose. The tort claims appropriation is funded to provide compensation to various parties who are have been harmed by tortious acts of Mn/DOT or DPS in carrying out responsibilities related to the state Trunk Highway System. Until FY 2001, payment of tort claims was made from the Trunk Highway Fund, because employees presumably caused the harm and/or contractors engaged in "highway purpose" activities funded from the Trunk Highway Fund.

Certain legislators questioned the propriety of paying tort claims from the Trunk Highway Fund, citing a 1930 Supreme Court case; Wharton v. Babcock (1930) in which the court held unconstitutional a law directing the Commissioner of Highways to pay, from the Trunk Highway Fund, named persons for injuries caused through negligence of highway department employees. In reaching its decision the court emphasized the absence of actual legal liability of the state for negligence stating that: "It has always been the law here that the state is not legally liable for the negligence of any official or agent in the maintenance of highways."

The concept of state sovereign immunity referred to by the court was prospectively abolished as a general rule of tort law by the Minnesota Supreme Court in Nieting v. Blondell, (1975) subject to appropriate action taken by the legislature. This claim involved a claim of negligence in the design, construction and maintenance of a median barrier on an interstate highway. In response to the court case, the legislature enacted M.S. 3.3736 authorizing tort claims against the state. Following the effective date specified in Nieting, it was clear that the state could be legally liable, in some circumstances for negligence in highway design, construction, operation, and maintenance. Thus, unlike the circumstances in which Wharton v. Babcock was decided, payment of tort damages, in certain circumstances, is a cost directly associated with design, construction, operation and maintenance of a highway system and should be paid from the Trunk Highway Fund.

FINANCING:

Because of a one-time appropriation made by the 2000 legislature, this activity has no base-level funding.

OUTCOMES:

Restoration of Funding from the Trunk Highway Fund will provide funding for payment of Trunk Highway-related tort claims. Legislation will be prepared to repeal "tort claims" from the areas listed in M.S. 161.20, Sub. 3 as not furthering a highway purpose.

CONTINGENT ACCOUNTS - EXECUTIVE SUMMARY

AGENCY MISSION AND VISION:

Contingent accounts are appropriations made from several state funds to provide supplemental funding for emergencies or other legally authorized purposes.

The release and subsequent expenditure of this funding requires the approval of the governor after consultation with the Legislative Advisory Commission (LAC). The LAC provides legislative review of the use of these funds during interim periods when the legislature is not in session.

With the approval of the governor, supplemental funding for specific purposes is transferred to individual agency budgets; thus, expenditure history appears in each agency's budget.

GOVERNOR'S RECOMMENDATION:

The Governor recommends the current level budget and a base increase of \$5 million per year to better serve the operations of state government and its citizens.

	<u>Dollars in Thousands</u>	
	<u>FY 2002</u>	<u>FY 2003</u>
General Purpose Contingent Accounts:		
General Fund	\$5.100	\$5.100
State Gov't Special Revenue Fund	400	400
State Airports	50	50
Trunk Highway Fund	200	200
Highway Users Tax Distribution	125	125
Workers Compensation Special Fund	100	100

These appropriations shall be expended with the approval of the Governor after consultation with the LAC pursuant to M.S. 3.30.

The Governor recommends that if an appropriation in this request for either year is insufficient, the appropriation for the other year is available for it.

Activity: BUDGET
Program: BUDGET
Agency: CONTINGENT ACCOUNTS

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
Expenditures by Category:									
State Operations									
TRANSFERS	0	0	1,947	975	5,975	975	5,975	10,003	513.8%
Total Expenditures	0	0	1,947	975	5,975	975	5,975	10,003	513.8%

Change Items:	Fund				
(A) GENERAL FUND BASE INCREASE	GEN			5,000	5,000
Total Change Items				5,000	5,000

Financing by Fund:					
Direct Appropriations:					
GENERAL	0	0	197	100	5,100
STATE GOVERNMENT SPECIAL REVENUE	0	0	800	400	400
STATE AIRPORTS	0	0	100	50	50
TRUNK HIGHWAY	0	0	400	200	200
HIGHWAY USERS TAX DISTRIBUTION	0	0	250	125	125
WORKERS COMPENSATION	0	0	200	100	100
Total Financing	0	0	1,947	975	5,975

BUDGET CHANGE ITEM (66215)**Agency: CONTINGENT ACCOUNTS****Item Title: GENERAL FUND BASE INCREASE**

	<u>2002-03 Biennium</u>		<u>2004-05 Biennium</u>	
	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u>
Expenditures: (\$000s)				
General Fund				
-State Operations	\$5,000	\$5,000	\$5,000	\$5,000
Revenues: (\$000s)				
General Fund	\$-0-	\$-0-	\$-0-	\$-0-
Statutory Change? Yes _____ No <u> X </u>				
If yes, statute(s) affected:				
_____ New Activity <u> X </u> Supplemental Funding _____ Reallocation				

GOVERNOR'S RECOMMENDATION:

The Governor recommends a base increase of \$5 million per year to better serve the operations of state government and its citizens.

RATIONALE:

The current funding level for General Fund contingent accounts is insufficient to properly cover the costs incurred by the state. An increase in the contingent account appropriation will help prevent deficiency appropriations thereby saving time and allowing for more orderly operations of government.

These funds would be appropriated to agencies as needed and in accordance with the legislative advisory commission rules (M.S.3.30). All deficiencies of \$10,000 or more would be made, in collaboration with, and only with the prior approval of the legislative advisory commission. This would ensure that legislative approval and consultation were secured prior to the obligation being incurred.

One of the areas most affected by the limited contingent funding available has been Emergency Management. The problem faced here is twofold: first, the federal government requires that the state matching funds be available at the time of the federal grant and second, the amount necessary is often not known until after the legislative session has ended. The resulting delays cause unnecessary frustration and delay for citizens and local governments.

FINANCING:

This is a General Fund appropriation.

OUTCOMES:

- The more efficient and timely operation of state government by preventing unnecessary delays and paperwork.
- The elimination of staff time preparing deficiency requests. Staff time is inefficiently used attempting to estimate and receiving all of the individual subgrants, which is a lengthy, tedious and redundant process.
- The hearing and approval process is lengthy and often causes payments to citizens and local governments to be delayed, often for months.
- Goodwill can be provided to local government officials and the citizens of Minnesota by eliminating this unnecessary chain of paperwork and providing government response in a more timely fashion.

EMPLOYEE RELATIONS DEPT - CONTENTS

	PAGE
Agency Executive Summary	F-308
Budget Briefs by Fund	F-312
Revenue Summary Narrative	F-314
PROGRAMS, BUDGET ACTIVITIES, AND CHANGE ITEMS	
HUMAN RESOURCE MGMT	
Administration	F-318
Office of Diversity and Equal Opportunity	F-320
Labor Relations & Compensation	F-322
Staffing Services	F-324
Change Item – Implementation Of State Hiring Reform	F-326
Training & Development Resource Center	F-327
Conference Revolving (numbers only)	F-330
Employee Assistance Program	F-331
Human Resources Non-Operating (numbers only)	F-334
Change Item – FLSA Settlements	F-335
EMPLOYEE INSURANCE DIVISION	F-337
Employee Insurance Administration	F-341
PEIP	F-344
Workers Compensation	F-346
Insurance Division Non-Operating (numbers only)	F-348
Change Item – WCRA Open Appropriation	F-349
MEIP (numbers only)	F-351

EMPLOYEE RELATIONS DEPT - EXECUTIVE SUMMARY

AGENCY MISSION AND VISION:

The Department of Employee Relations' (DOER) mission is to provide services and systems for attracting, hiring, training, and retaining an exemplary workforce of quality contributors who, as keepers of the public trust, are dedicated to effectively and ethically conducting the business of the state of Minnesota. The Commissioner acts as the employer on behalf of the state. The department's guiding theme is *State of Minnesota: Employer of Choice*.

In April 2000, DOER began working to form the State Human Resources Directors Partnership, an organization of state agency human resources and personnel directors chartered to promote unified human resources policies, procedures, and strategies throughout Minnesota's state government. The partnership consists of 29 members.

KEY SERVICE STRATEGIES:

In support of its vision and mission, the department regulates, provides direct services, conducts research, and sets standards. DOER operates different programs to carry out each of these strategies.

Regulation

The Labor Relations Bureau represents the commissioner as the state labor negotiator for all state employees in the executive branch and carries out the state's responsibilities as an employer under state and federal law. The bureau also provides:

- overall compensation framework for all employees;
- advice on contract and human resource issues;
- training for managers and supervisors in contract administration;
- arbitration for grievance appeals;
- compliance process for the Local Government Pay Equity Act
- assistance with employee misconduct investigations.

The Office of Diversity and Equal Opportunity provides:

- affirmative action, equal opportunity, and Americans with Disabilities Act compliance
- review of sexual harassment claims upon request.

The commissioner's office provides determinations on employee conflict of interest and prohibited political activities. Through the Training and Development

Resource Center, commissioner's staff also provides interpretation and training in government ethics under M.S. 43A.38.

Direct Provision of Service

The Employee Insurance Program provides a wide range of insurance and insurance-related services, including:

- purchasing and administering life, medical, dental, disability, and long term care coverages;
- enrollment, premium collection, and payment;
- resolution of coverage and claims disputes;
- health promotion, disability management and loss prevention;
- workers' compensation claims management; and
- bargaining on insurance issues with labor organizations.

The Staffing Division provides two main service strategies:

- operation and management of the state's human resource function; and
- cooperating with other state agencies to address workforce issues of the future including marketing state employment opportunities, attracting applicants of merit and streamlining hiring processes.

Research

The department is involved in research in a number of areas including:

- The Employee Insurance Division (EID) is exploring into possible modifications of our current health care purchasing/delivery model and improvements in policies, procedure, technology and use of resources.
- The department is involved with the Department of Human Services "Project 2030" program to assess the impact of the changing workforce as a major segment of the population continues to age as we approach the year 2030.
- The Labor Relations/Compensation activity develops and researches policies and issues in the areas of compensation management, the fiscal impact of collective bargaining agreements and related matters for the executive branch.

Standard Setting

The Training and Development Resource Center provides a variety of training programs aimed at elevating the standard of state employee performance through classroom instruction, conferences and video technology.

EMPLOYEE RELATIONS DEPT - EXECUTIVE SUMMARY (Continued)

OPERATING ENVIRONMENT:

DOER was created under M.S. 43A to provide services for the human resource management function of state agencies. DOER exists to assist agencies in their efforts to recruit and retain a workforce of distinction and merit. Other primary customers are state employees, union representatives, and job applicants.

Several recent trends have influenced the department's focus and concentration efforts.

- Realization of the department's vision of becoming the Minnesota's employer of choice will, in great part, be due to a change in the way we market state employment, attract superior candidates, ease the hiring process, and offer good reasons for employees to remain in state government service.
- The Employee Insurance Division (EID) bases its insurance cost forecasts on a compilation of information from the health plans that administer our programs, our consulting actuaries, and the professional journals. Those sources have advised us that, unlike in the past, there are no indications that the current high trend of increasing medical costs will change. In response to that, medical insurance costs have been projected to continue to increase at the present rate during the biennium and will result in an increase in premiums collected.
- As of January 2000, the department became a fully self-insured medical coverage provider. New technology and the resulting increase in its use have reinforced the need to take advantage of all available cost management tools. Such technology enhances the department's decision to self-insure all medical coverage and will provide the means to create a data warehouse to further analyze trend data during the coming biennium.
- In January 2001, the department will begin to offer a pre-tax transit program to employee's, and optional enrollee-paid long term care insurance for employee's and immediate family members.
- The Employee Insurance Division's Safety and Industrial Hygiene Unit plays a central role in educating agencies on the issues of workplace safety, ergonomics, and accident prevention.
- The Information Services Division provides a comprehensive information management program to the agency and systems support for statewide systems, such as the State's Human Resources and Payroll system SEMA4. The department has made progress in providing Electronic Government Services (EGS) to the public and plans to continue enhancing and providing EGS offerings. The high priority technology projects for the next biennium are the implementation of state hiring reform and the replacement of the insurance system with SEMA4 functionality. In addition, constant improvements and support is required to ensure the integrity and usefulness

of systems and process' that leverage the use of technology given the shortage in the current work force. One example of this technology is the recent implementation of an electronic document imaging system.

- Diversification of the workforce continues, and the Office of Diversity and Equal Opportunity must continually assist agencies in developing strategies to ensure diversity in representation among state employees.
- Balancing work and family responsibilities, such as the responsibilities of elder care, are critical emerging issues in the state workforce. The average age of the state employee is 40 years old and many are primary care givers for aging parents. The state EAP is assisting these employees in managing their elder care responsibilities by providing them with resource information as well as with support in coping with the emotional stress related to being caregivers.

ORGANIZATION/PROGRAM STRUCTURE:

The department has two programs, Human Resource Management and Employee Insurance.

Human Resource Management

Administrative Management	46.8 fte
Office of Diversity and Equal Opportunity	7.5 fte
Labor Relations/Compensation	12.0 fte
Training and Development Resource Center & OSEP	9.7 fte
Staffing Division	27.8 fte
Employee Assistance Program	7.2 fte

Employee Insurance

State Employee Group Insurance	41.3 fte
Public Employees Insurance	3.1 fte
Workers' Compensation	43.4 fte

6/30/00

Total fte's - 198.8

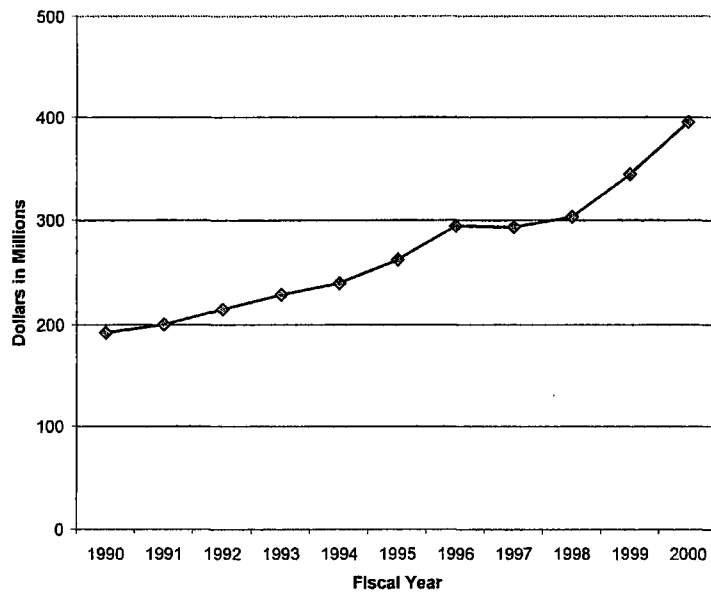
GOVERNOR'S RECOMMENDATION:

The Governor recommends a biennial appropriation of \$22.132 million as proposed by the agency. The recommended funding includes: reductions for one-time appropriations (\$930,000); allowable base adjustments for documented lease increases and salary supplements (\$592,000); an increase for an open appropriation for WCRA (\$715,000); and reallocations for reforming the state's hiring process and supplementing the Training and Development and Resource Center (requires no additional funding). In addition, the Governor recommends a one-time appropriation of \$2 million in FY 2001 for potential liability for state employee backpay under the federal Fair Labor Standards Act (FLSA).

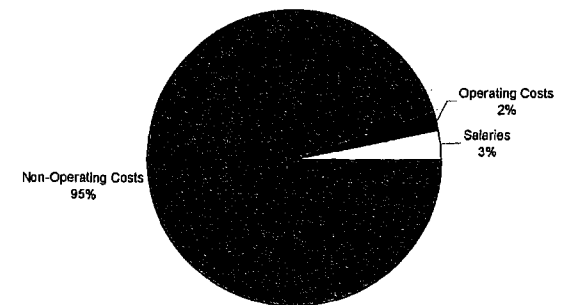
EMPLOYEE RELATIONS DEPT - EXECUTIVE SUMMARY (Continued)

TRENDS AND PERSPECTIVE:

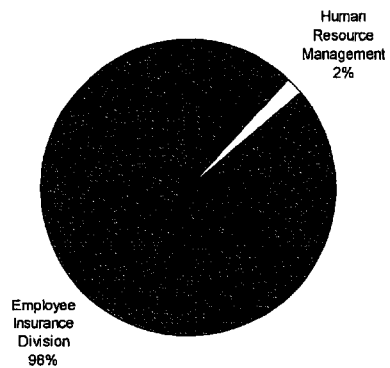
Total Budget - All Funds



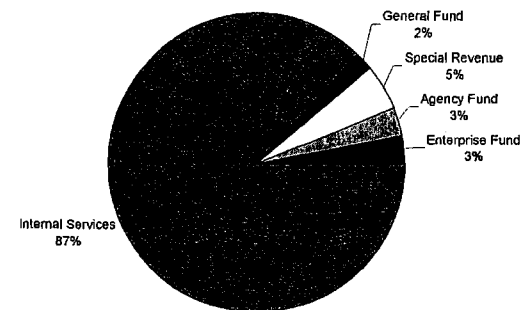
2000-01 Expenditures by Category
Total: \$850 Million



2000-01 Expenditures by Program
Total: \$850 Million



2000-01 Expenditures by Fund
Total: \$850 Million



Agency: **EMPLOYEE RELATIONS DEPT**

Agency Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
Expenditures by Program:									
HUMAN RESOURCE MGMT	9,638	8,569	12,086	9,487	9,487	9,749	9,749	(1,419)	(6.9%)
EMPLOYEE INSURANCE DIVISION	334,302	387,087	444,813	507,245	507,595	572,900	573,265	248,960	29.9%
Total Expenditures	343,940	395,656	456,899	516,732	517,082	582,649	583,014	247,541	29.0%

Financing by Fund:							
Direct Appropriations:							
GENERAL	8,203	7,545	10,875	10,596	10,596	10,821	10,821
Open Appropriations:							
GENERAL	301	311	300	0	350	0	365
Statutory Appropriations:							
GENERAL	303	109	110	150	150	150	150
SPECIAL REVENUE	22,206	22,325	23,412	23,310	23,310	23,522	23,522
MN EMPLOYER'S INSURANCE PLAN	251	34	180	0	0	0	0
STATE EMPLOYEES INSURANCE	302,126	354,524	410,912	471,566	471,566	537,046	537,046
MISCELLANEOUS AGENCY	10,486	10,808	11,110	11,110	11,110	11,110	11,110
GIFT	64	0	0	0	0	0	0
Total Financing	343,940	395,656	456,899	516,732	517,082	582,649	583,014

FTE by Employment Type:							
FULL TIME	182.7	184.0	216.1	211.2	211.2	211.2	211.2
PART-TIME, SEASONAL, LABOR SER	13.8	14.3	10.3	10.3	10.3	10.3	10.3
OVERTIME PAY	0.4	0.5	0.0	0.0	0.0	0.0	0.0
Total Full-Time Equivalent	196.9	198.8	226.4	221.5	221.5	221.5	221.5

EMPLOYEE RELATIONS DEPT - BUDGET BRIEF

Fund: GENERAL

	<u>FY 2002</u>	<u>FY 2003</u>	<u>Biennium</u>
BASE YEAR (FY 2001) (\$000s)			
Appropriations	\$10,798	\$10,798	\$21,596
<u>BASE ADJUSTMENT</u>			
WCRA Open Appropriation	(300)	(300)	(600)
Govt Training Service	(65)	(65)	(130)
Post Retirement Health Care Study	(100)	(100)	(200)
Lease Increase	68	91	159
Salaries and Benefits	195	397	592
<u>BASE LEVEL (for 2002 and 2003)</u>	\$10,596	\$10,821	\$21,417
<u>CHANGE ITEMS</u>			
WCRA Open Appropriation	350	365	715
GOVERNOR'S RECOMMENDATION	\$10,946	\$11,186	\$22,132

Government Training Services (GTS) to support the Training and Development Resource Center's (TDRC) Managerial and Supervisory CORE program as required in MS 43A.21.

GOVERNOR'S RECOMMENDATION(S):

The Governor recommends a biennial appropriation of \$22.132 million as proposed by the agency. The recommended funding includes: reductions for one-time appropriations (\$930,000); allowable base adjustments for documented lease increases and salary supplements (\$592,000); an increase for an open appropriation for WCRA (\$715,000); and reallocations for reforming the state's hiring process and supplementing the Training and Development and Resource Center (requires no additional funding). In addition, the Governor recommends a one-time appropriation of \$2 million in FY 2001 for potential liability for state employee backpay under the federal Fair Labor Standards Act (FLSA).

BRIEF EXPLANATION OF BUDGET DECISIONS:

BASE ADJUSTMENTS:

- Base adjustments include removing one-time appropriations for the post retirement and active employee healthcare study and a one-time increase to the allocation for Government Training Services to upgrade their technology.
- The Workers Compensation Reinsurance Association (WCRA) open appropriation is also a reduction to the base due to the current law that sunsets this appropriation on 6-30-01.

CHANGE ITEMS:

- DOER requests a permanent open appropriation for the WCRA premium, and the department has proposed legislation to change the statute accordingly. The dollars requested are based upon projected estimates provided by the WCRA.
- The department has proposed legislation and a change item to reallocate the funding necessary to fully implement Hiring Process Reform. Last biennium, the project received legislative approval as a pilot project. Because the change item uses funds existing under the agency's current appropriation authority, no new funding is required.

INTERNAL REALLOCATIONS:

- In its effort to operate within current level appropriations, the department will internally reallocate the \$100,000 General Fund base appropriation from the

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EMPLOYEE RELATIONS DEPT - REVENUE SUMMARY

REVENUE SOURCES:

The revenue sources in the department consist of the following;

- Administrative fees for the State Employee Group Insurance Program (SEGIP), the Workers Compensation program, the Public Employee Insurance Program (PEIP), and the Pre-Tax benefit programs.
- Fees for service provided for employee training and conference planning.
- Investment income.

FEE STRUCTURE:

Administrative fees are based upon the projected costs of program administration and the complete recovery of expenditures. Constituent groups review all proposed fee changes. The constituent groups consist of other state agencies and stakeholders.

RECENT CHANGES:

As of January 2000, the department changed to a fully self-insured medical coverage. In January 2001, the department will begin to offer a pre-tax transit program to employees, and optional enrollee-paid long term care insurance for employees and immediate family members.

FORECAST BASIS:

The Employee Insurance Division (EID) bases its insurance cost forecasts on a compilation of information from the health plans that administer our programs, our consulting actuaries, and the professional journals. Those sources have advised us that, unlike in the past, there are no indications that the current high trend of increasing medical costs will change. In response to that, medical insurance costs have been projected to continue to increase at the present rate during the biennium and will result in an increase in premiums collected.

Agency: EMPLOYEE RELATIONS DEPT

Summary of Agency Revenues (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Forecast	Governor Recomm.	Forecast	Governor Recomm.	Dollars	Percent
Dedicated Receipts:									
Departmental Earnings (Inter-Agency):									
SPECIAL REVENUE	1,091	835	850	818	818	826	826	(41)	(2.4%)
STATE EMPLOYEES INSURANCE	3,960	4,770	5,053	5,008	5,008	5,003	5,003	188	1.9%
Departmental Earnings:									
STATE EMPLOYEES INSURANCE	344	533	582	603	603	616	616	104	9.3%
Other Revenues:									
GENERAL	136	78	150	0	0	0	0	(228)	(100.0%)
SPECIAL REVENUE	21,458	20,582	22,205	21,919	21,919	21,969	21,969	1,101	2.6%
MN EMPLOYER'S INSURANCE PLAN	49	33	15	0	0	0	0	(48)	(100.0%)
STATE EMPLOYEES INSURANCE	5,653	15,834	6,565	8,540	8,540	8,545	8,545	(5,314)	(23.7%)
Other Sources:									
GENERAL	0	0	120	0	0	0	0	(120)	(100.0%)
SPECIAL REVENUE	283	348	101	102	102	103	103	(244)	(54.3%)
MN EMPLOYER'S INSURANCE PLAN	37	0	0	0	0	0	0	0	
STATE EMPLOYEES INSURANCE	293,896	366,969	426,542	471,014	471,014	491,241	491,241	168,744	21.3%
MISCELLANEOUS AGENCY	10,420	11,259	11,104	11,110	11,110	11,110	11,110	(143)	(0.6%)
GIFT	19	0	0	0	0	0	0	0	
Total Dedicated Receipts	337,346	421,241	473,287	519,114	519,114	539,413	539,413	163,999	18.3%
Agency Total Revenues	337,346	421,241	473,287	519,114	519,114	539,413	539,413	163,999	18.3%

Program: HUMAN RESOURCE MGMT
Agency: EMPLOYEE RELATIONS DEPT

Program Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
Expenditures by Activity:									
ADMINISTRATION	4,875	3,837	4,959	4,359	4,359	4,415	4,415	(22)	(0.3%)
DIVERSITY	468	450	426	383	383	403	403	(90)	(10.3%)
LABOR RELATIONS & COMPSATN	881	963	1,144	1,169	1,169	1,215	1,215	277	13.1%
STAFFING SERVICES	1,931	1,641	1,579	1,889	1,889	1,970	1,970	639	19.8%
TRNG & DEVELOPMENT RESOURCE CTR	269	564	566	652	652	679	679	201	17.8%
CONFERENCE REVOLVING	1,031	507	735	365	365	375	375	(502)	(40.4%)
EMPLOYEE ASSISTANCE PROG	0	580	667	660	660	682	682	95	7.6%
HUMAN RESOURCE NON-OPERATING	100	27	2,010	10	10	10	10	(2,017)	(99.0%)
QUALITY COLLEGE	83	0	0	0	0	0	0	0	
Total Expenditures	9,638	8,569	12,086	9,487	9,487	9,749	9,749	(1,419)	(6.9%)

Change Items:	Fund				
(B) FLSA SETTLEMENTS	GEN		2,000		
Total Change Items			2,000		

Financing by Fund:							
Direct Appropriations:							
GENERAL	7,977	7,240	10,510	8,150	8,150	8,375	8,375
Statutory Appropriations:							
GENERAL	303	109	110	150	150	150	150
SPECIAL REVENUE	1,258	1,189	1,456	1,177	1,177	1,214	1,214
MISCELLANEOUS AGENCY	36	31	10	10	10	10	10
GIFT	64	0	0	0	0	0	0
Total Financing	9,638	8,569	12,086	9,487	9,487	9,749	9,749

FTE by Employment Type:							
FULL TIME	99.0	102.3	123.3	118.3	118.3	118.3	118.3
PART-TIME, SEASONAL, LABOR SER	9.4	8.2	5.4	5.4	5.4	5.4	5.4
OVERTIME PAY	0.3	0.5	0.0	0.0	0.0	0.0	0.0
Total Full-Time Equivalent	108.7	111.0	128.7	123.7	123.7	123.7	123.7

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BUDGET ACTIVITY SUMMARY

Budget Activity: ADMINISTRATION
Program: HUMAN RESOURCE MGMT
Agency: EMPLOYEE RELATIONS DEPT

ACTIVITY PROFILE:

The budget activity for administration consists of the centralized administrative functions of the department including: Information Services Division, SEMA4 Support, Fiscal Services, Office of Human Resources, and General Services.

STRATEGIES AND PERFORMANCE:

Information Services Division

The Information Services Division has been at work with major information technology projects as well as significant web-based projects to assist not only the Department of Employee Relations (DOER) efforts but the Human Resource Directors Partnership as well. During the biennium the division's accomplishments include:

- Upgrading the SEMA4 system from Version 3.22 to 7.5. Originally scheduled for April 2001, now scheduled for the end of March 2001. This project involves personnel from both DOER and the Department of Finance, including 27 Technical Application Development and Support staff members, 22 Functional Support and User Readiness staff members. Additional assistance (technical support, project management and other areas) are provided by Fulcrum Consulting InterTech. As of December 2000, the SEMA4 Upgrade Project has entailed 27,000+ hours application development.
- Implementing imaging for the Labor Relations Bureau and Fiscal Services.
- Implementing an intranet web site for DOER employees.
- Supporting and completing the open enrollment technology requirements, including the dissemination of a web-based customer service survey for feedback.
- Implementing a "firewall" security structure for asset protection of DOER networks and information.
- Re-organized the division's help desk focusing new hiring on customer support and other higher-level staff on more difficult assignments.

SEMA4 Support

During the FY 2000-01 biennium, the SEMA4 Support Unit has focused upon upgrading and enhancing the system to Version 7.5 along with its regular objectives to support users of the system throughout the state. The unit has

provided department leadership in developing new reports as required by system customers and processed mass system updates to incorporate bargaining settlements and new bargaining units created in the State Public Defenders Office. Additionally, the unit consistently assists hundreds of individuals on an annual basis to ensure security of the payroll system.

DOER is currently developing plans for upgrades to SEMA4, which would incorporate insurance data and support within the system.

FINANCING INFORMATION:

Funding for this activity is financed by appropriation from the General Fund. Costs for SEMA4 system upgrades are financed from the Insurance Administration Fund within the Employee Insurance Division.

Activity: ADMINISTRATION
Program: HUMAN RESOURCE MGMT
Agency: EMPLOYEE RELATIONS DEPT

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
Expenditures by Category:									
State Operations									
COMPENSATION	2,731	2,888	3,334	3,391	3,391	3,577	3,577	746	12.0%
OTHER OPERATING EXPENSES	2,144	949	1,625	968	968	838	838	(768)	(29.8%)
Total Expenditures	4,875	3,837	4,959	4,359	4,359	4,415	4,415	(22)	(0.3%)

Financing by Fund:									
Direct Appropriations:									
GENERAL	4,565	3,829	4,954	4,349	4,349	4,405	4,405		
Statutory Appropriations:									
GENERAL	303	0	0	0	0	0	0		
SPECIAL REVENUE	7	4	5	10	10	10	10		
MISCELLANEOUS AGENCY	0	4	0	0	0	0	0		
Total Financing	4,875	3,837	4,959	4,359	4,359	4,415	4,415		

Revenue Collected:									
Dedicated									
GENERAL	133	3	0	0	0	0	0		
SPECIAL REVENUE	12	4	6	7	7	8	8		
Total Revenues Collected	145	7	6	7	7	8	8		

FTE by Employment Type:									
FULL TIME	45.0	43.9	50.8	48.8	48.8	48.8	48.8		
PART-TIME, SEASONAL, LABOR SER	2.7	2.9	2.4	2.4	2.4	2.4	2.4		
Total Full-Time Equivalent	47.7	46.8	53.2	51.2	51.2	51.2	51.2		

BUDGET ACTIVITY SUMMARY

Budget Activity: OFFICE OF DIVERSITY AND EQUAL OPPORTUNITY
Program: HUMAN RESOURCE MGMT
Agency: EMPLOYEE RELATIONS DEPT

ACTIVITY PROFILE:

The Office of Diversity and Equal Opportunity (ODEO) exists to provide leadership, consultation, information and support to state agencies in the following areas:

- compliance with Affirmative Action Plan and Equal Employment Opportunity;
- compliance with Americans with Disabilities Act (ADA);
- programming and planning of diversity;
- coordination of recruitment strategies among agencies to address underutilization of protected group members;
- development of selection, retention and mentorship program strategies;
- coordination of EEO/AA resources throughout state of Minnesota; and
- review of sexual harassment cases upon request, pursuant to AFSCME contract.

The challenges faced by the program include:

- coordinating system-wide EEO/AA resources to address targeted areas of underutilization;
- creating a work environment that allows all employees to work naturally;
- creating a work environment that allows for work/life balance; and
- coordinating system-wide EEO/AA resources so that redundancies are eliminated and resources are made available for results oriented programs that will ensure a diverse and productive workforce.

The ODEO serves all state agencies. The office is committed to working with agencies to attract and retain highly qualified employees at all levels of the organization and in a fashion that mirrors the population of Minnesota. However, it is not enough that our efforts result in diversity in representation. Our efforts must also include strategies that result in the creation of a workplace that allows all employees to thrive and contribute to the organization. These strategies will result in getting all our diverse workforce has to offer as opposed to only what is requested. This approach will provide exceptional service and value to the Minnesota taxpayer as well as enhance the state of Minnesota's desire to be the employer of choice in increasingly competitive labor markets.

STRATEGIES AND PERFORMANCE:

A workgroup has been formed to address the strategic goal of achieving diversity. The group expects to complete its work by the end of the first quarter of 2001 and will submit a work plan to accomplish specific outcomes.

The following goals have been established along with precise and valid outcome-based performance measures:

- Provide state agencies with services to assure their compliance with state and federal laws governing affirmative action, equal employment opportunities, and, Americans with Disabilities Act.
- Work with state agencies to increase representation of protected group employees in all job classifications.
- Ensure the turnover rate for protected group members is equal to the rate for non-protected group members.
- Promote initiatives aimed at culture change efforts to allow employees to work naturally as opposed to archaic and rigid management practices which force employees to work in a homogeneous fashion.
- Expand training efforts within state agencies as they relate to mentorship, affirmative action, recruitment and diversity.
- Evaluate benefit programs to ensure that offerings are relevant to entire workforce instead of to only the majority.
- Coordinate with agency EEO/AA offices to maximize resources that effectively attract and retain a diverse workforce.

FINANCING INFORMATION:

The ODEO activities are supported by General Fund appropriations.

BUDGET ISSUES:

No impending budget issues.

Activity: DIVERSITY
Program: HUMAN RESOURCE MGMT
Agency: EMPLOYEE RELATIONS DEPT

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
<u>Expenditures by Category:</u>									
State Operations									
COMPENSATION	438	421	395	357	357	377	377	(82)	(10.0%)
OTHER OPERATING EXPENSES	30	29	31	26	26	26	26	(8)	(13.3%)
Total Expenditures	468	450	426	383	383	403	403	(90)	(10.3%)
<u>Financing by Fund:</u>									
Direct Appropriations:									
GENERAL	468	450	426	383	383	403	403		
Total Financing	468	450	426	383	383	403	403		
<u>FTE by Employment Type:</u>									
FULL TIME	7.6	7.4	9.0	7.0	7.0	7.0	7.0		
PART-TIME, SEASONAL, LABOR SER	0.4	0.1	0.0	0.0	0.0	0.0	0.0		
Total Full-Time Equivalent	8.0	7.5	9.0	7.0	7.0	7.0	7.0		

BUDGET ACTIVITY SUMMARY

Budget Activity: LABOR RELATIONS & COMPSATN
Program: HUMAN RESOURCE MGMT
Agency: EMPLOYEE RELATIONS DEPT

ACTIVITY PROFILE: The Labor Relations/Compensation Bureau was established in M.S. 43A.06 to perform the duties assigned to the commissioner under the Public Employees Labor Relations Act (PELRA) at M.S. 179A.01. The bureau is also responsible for monitoring compliance of local government subdivisions with the Local Government Pay Equity Act (M.S. 471.991).

The bureau consists of three distinct activities: labor relations, compensation, and local government pay equity.

- The **labor relations** activity represents the commissioner as the labor negotiator for all state employees in the executive branch. The activity negotiates collective bargaining agreements with the exclusive representatives of state employees, presents management's positions in interest arbitration, and implements major portions of the collective bargaining agreements. This activity is responsible for carrying out the state's obligations as an employer under a variety of state and federal employment laws.

This activity also advises the management of each state agency in their relationships with the exclusive representatives for state employees, and sets statewide policy for management's relationship with labor. In its role supporting state agency management, this activity interprets collective bargaining agreements, advises agency management on contract and human resources administration issues, trains supervisors and managers in contract administration, and administers grievances appealed to arbitration.

- The **compensation** activity provides an overall compensation framework for cash compensation and benefits other than insurance, i.e., vacation, sick leave, holidays and expense reimbursement. This activity provides policy development and research services to executive branch management in the areas of compensation and related programs. This activity is responsible for estimating the fiscal impact of collective bargaining proposals and providing policy and technical direction in the negotiation of collective bargaining agreements. In addition, this activity develops or approves compensation plans for unrepresented employees in all non-higher education agencies.
- The **local government pay equity** activity is responsible for administering the compliance process for the Local Government Pay Equity Act. Responsibilities include informing local governments of the act's requirements, reviewing reports received from local governments,

determining compliance, assessing penalties and informing the legislature of the compliance status of local units of government.

STRATEGIES AND PERFORMANCE: During the 2000-01 biennium, 802 grievances were appealed to arbitration resulting in the following: 34 grievances being decided by an arbitration, 185 grievances settled, 265 grievances withdrawn with a remainder of 318 active grievances left from the biennium.

All bargaining agreements and plans, with the exception of Bargaining Unit No. 13, Engineers, were successfully negotiated with voluntary settlements and subsequently approved by the legislature. Bargaining Unit No. 13 elected to use their right to interest arbitration under M.S. 179A.16. The arbitrator's decision was issued on 8-8-2000 with the same economic package that was offered to the bargaining unit prior to this decision to go to interest arbitration.

In 1984, the Minnesota Legislature passed the Local Government Pay Equity Act (LGPEA). All local governments (approximately 1,600) were required to implement pay equity and submit reports to DOER in January of 1992. Eventually, 100% of all jurisdictions reporting achieved compliance in 1992. Beginning in 1994, each jurisdiction was required to report every three years, and currently 95% of all jurisdictions are in compliance.

In 1995, DOER began to track the "before" and "after" wages for male and female employees in a sample of jurisdictions that were out of compliance.

For jurisdictions that were out of compliance during the reporting period 1995-1999, the average pay for females in underpaid classes was 80% of males. After compliance was achieved, the wage gap narrowed significantly, and the average pay for the females in underpaid classes was 91% of males. On a per hour basis, the wage gap narrowed from \$2.35 per hour to \$1.04 per hour. These results are consistent with projections that proper implementation of pay equity should cut the wage gap in half and result in greater equity.

The Labor Relations/Compensation Division's key objectives, goals and performance indicators are as follows:

- Continue to make pay equity compliance determinations and provide technical assistance. Plans include updating the pay equity analysis software and the State Job Match, a job evaluation tool provided free to local governments.
- Prepare for the upcoming FY 2002-03 bargaining negotiations.
- Continue to provide ongoing labor relations services and information to executive branch agencies.

FINANCING INFORMATION:

The department's General Fund appropriation finances the activities of the Bureau.

Activity: LABOR RELATIONS & COMPSATN
Program: HUMAN RESOURCE MGMT
Agency: EMPLOYEE RELATIONS DEPT

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
Expenditures by Category:									
State Operations									
COMPENSATION	668	778	930	967	967	1,013	1,013	272	15.9%
OTHER OPERATING EXPENSES	213	185	214	202	202	202	202	5	1.3%
Total Expenditures	881	963	1,144	1,169	1,169	1,215	1,215	277	13.1%
Financing by Fund:									
Direct Appropriations:									
GENERAL	728	849	994	1,019	1,019	1,065	1,065		
Statutory Appropriations:									
SPECIAL REVENUE	153	114	150	150	150	150	150		
Total Financing	881	963	1,144	1,169	1,169	1,215	1,215		
Revenue Collected:									
Dedicated									
GENERAL	3	0	0	0	0	0	0		
SPECIAL REVENUE	153	114	150	150	150	150	150		
Total Revenues Collected	156	114	150	150	150	150	150		
FTE by Employment Type:									
FULL TIME	10.4	11.4	14.0	14.0	14.0	14.0	14.0		
PART-TIME, SEASONAL, LABOR SER	0.0	0.6	0.0	0.0	0.0	0.0	0.0		
Total Full-Time Equivalent	10.4	12.0	14.0	14.0	14.0	14.0	14.0		

BUDGET ACTIVITY SUMMARY

Budget Activity: STAFFING SERVICES
Program: HUMAN RESOURCE MGMT
Agency: EMPLOYEE RELATIONS DEPT

ACTIVITY PROFILE:

This activity exists to provide statewide direction, technical consultation, coordination, development and maintenance of a variety of hiring and job classification services in order to maximize state agency efforts to attract, hire and retain productive employees.

The Agency Services Team provides management consultation to our state agency Human Resource Partners as well as agency managers and supervisors. Areas of consultation include: recruitment and marketing; selection process design and development; strategic staffing, workforce planning and redeployment; assessment and exam development and administration; and classification, including job analysis and job evaluation.

The Human Resources Business Systems Team administers the division's Human Resources Information System (HRIS) tools to meet the current and future business needs of Human Resources statewide. It evaluates and revises the staffing process, and researches new HRIS assessment, recruitment and selection tools to meet agency vacancy-filling needs in today's tight labor market. This activity works to implement Electronic Government Services (EGS) by its increased use of web-based technology and revision of outdated selection processes.

The Applicant Services Team eliminates problems and delays in the selection process and ensures that the applicants for state employment receive timely and accurate information. It maintains the *Sigma* applicant tracking database, processes applications for state positions, coordinates the publication of the *Minnesota Career Opportunities Bulletin*, staffs the Job Information Line, schedules and scores written tests, prepares lists of qualifying applicants for state positions, and processes the imaging of applicant information.

STRATEGIES AND PERFORMANCE:

The Staffing Division has delegated authority for classification decisions and selection processes while providing oversight and consultation as needed to many of its agency Human Resource Partners. This has reduced the processing time, placed the decisions at the lowest possible level, and held agencies accountable for their own decisions.

The Staffing Division retains responsibility for providing direct services to agencies without delegation or when statewide coordination of services is necessary. Approximately 3,500 classification audits are performed each year.

In the last five years, DOER has reduced the number of audits it performs from 50% to 20% of that total.

We are incorporating new technology to support the work of the division. We are currently developing a new selection process in collaboration with our agency Human Resource partners, management, unions and legislative staff that will utilize web-based technology and a resume-scanning software with artificial intelligence to make the application and selection process more efficient and timely for both applicants and hiring managers. We have submitted a change item to finance the project through a reallocation of existing agency appropriations.

The new process provides a method to identify potential candidates meeting position, rather than job class-specification, requirements, and allows agencies the flexibility to determine job-related assessment methods they believe are appropriate for their job vacancies. Agencies control the processes and timelines for hiring as DOER provides technological solutions that encourage ownership of decisions at the agency level. Hiring managers, aided by their agency human resource consultant, will be able to complete their job requisitions over the Internet, identify job seekers from a resume database, review resumes, contact and track candidates through their processes quickly, and apply legal and union requirements, all in about one-third the time. Job seekers will be able to retrieve more current statewide job information through the Web, job-line, or more traditional methods and be considered for all job openings with one resume.

This major procedural change will require a major technology purchase and deployment, extensive staff training and communications with human resource staff, managers, employees and job seekers. In the meantime, we continue to operate under the Skill Search pilot, which is a prototype of the new selection process. Under that pilot we have received 4,810 resumes during the past fiscal year, processed 589 requisitions, and filled 296 positions.

Until the new selection process is fully implemented, we will continue to provide and improve traditional selection services to agencies. We currently process approximately 40,000 applications for examinations per year. We annually schedule approximately 18,000 job seekers for written exams at 23 test sites throughout the state. We are exploring computerized testing as a better means of providing assessment tools to agencies. In order to provide applicant information more efficiently to hiring supervisors, we are implementing an imaging system that will provide copies of applications to them via web technology for the approximately 2,700 requisitions we receive yearly.

We continue to upgrade our recruitment and marketing services through the *Minnesota Career Opportunities Bulletin* (MCOB) and web site. We announce approximately 700 examinations per year through 27 issues of the MCOB. We have upgraded our Interactive Voice Response system to provide job seekers with up-to-date information on our selection processes via telephone access.

Activity: STAFFING SERVICES
Program: HUMAN RESOURCE MGMT
Agency: EMPLOYEE RELATIONS DEPT

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
<u>Expenditures by Category:</u>									
State Operations									
COMPENSATION	1,503	1,411	1,384	1,716	1,716	1,797	1,797	718	25.7%
OTHER OPERATING EXPENSES	428	230	195	173	173	173	173	(79)	(18.6%)
Total Expenditures	1,931	1,641	1,579	1,889	1,889	1,970	1,970	639	19.8%
<u>Financing by Fund:</u>									
Direct Appropriations:									
GENERAL	1,931	1,641	1,579	1,889	1,889	1,970	1,970		
Total Financing	1,931	1,641	1,579	1,889	1,889	1,970	1,970		
<u>FTE by Employment Type:</u>									
FULL TIME	27.2	24.9	31.5	30.5	30.5	30.5	30.5		
PART-TIME, SEASONAL, LABOR SER	4.1	2.4	0.9	0.9	0.9	0.9	0.9		
OVERTIME PAY	0.3	0.5	0.0	0.0	0.0	0.0	0.0		
Total Full-Time Equivalent	31.6	27.8	32.4	31.4	31.4	31.4	31.4		

BUDGET CHANGE ITEM (53244)

Budget Activity STAFFING SERVICES
Program HUMAN RESOURCE MGMT
Agency: EMPLOYEE RELATIONS DEPT

Item Title: IMPLEMENTATION OF SELECTION & HIRING
 REFORM PROJECT

	2002-03 Biennium		2004-05 Biennium	
	FY 2002	FY 2003	FY 2004	FY 2005
Expenditures: (\$000s)				
General Fund				
-State Operations	\$541	\$302	\$317	\$325
	\$(541)	\$(302)	\$(317)	\$(325)
Revenues: (\$000s)				
General Fund	\$-0-	\$-0-	\$-0-	\$-0-

Statutory Change? Yes _____ No X

If yes, statute(s) affected:

_____ New Activity _____ Supplemental Funding X Reallocation

GOVERNOR'S RECOMMENDATION:

The Governor recommends reallocating \$843,000 biennially for full implementation of the Hiring Reform Project.

RATIONALE:

The department's mission is to provide services and systems for attracting, hiring, training, and retaining an exemplary workforce of quality contributors. State government is the state's largest employer, with over 6,000 vacancies per year. We are currently facing a highly competitive labor market with record low unemployment rates that are expected to continue as the baby boomers age and retire. It is critical that we have a more efficient, user-friendly hiring process that screens job seekers, if we are to attract and hire qualified candidates before they are lost to other employers.

In response to what human resource (HR) professionals and managers saw as a critical need to revise employment procedures, the legislature appropriated \$575,000 in the 1998-99 biennial budget as seed money to begin reengineering of HR processes. The new process is a result of several years of collaborative work by eight teams comprised of over 150 statewide representatives from human resources, management, unions, and legislative staff.

The current hiring process was designed to manage extremely large pools by screening job seekers out. It is paper-intensive, time-consuming, and cumbersome, and can take months of perseverance to complete. Job seekers must reapply for every job in which they have an interest.

The new process provides an efficient and timely method to identify potential candidates meeting position--rather than job class-specific--requirements, and allows agencies the flexibility to determine job-related assessment methods they believe are appropriate for their job vacancies. Agencies control the processes and timelines for hiring as DOER provides technological solutions that encourage ownership of decisions at the agency level. Hiring managers, aided by their agency Human Resource consultant, will be able to complete their job requisitions over the Internet, identify job seekers from a resume database, review resumes, contact and track candidates through their processes quickly, and apply legal and union requirements, all in about one-third the time. Job seekers will be able to retrieve more current statewide job information through the Web, job-line, or more traditional methods and be considered for all job openings with one resume.

This major procedural change will require a major technology purchase and deployment, extensive staff training and communications with human resource staff, managers, employees and job seekers.

The division has considered several alternative implementation strategies ranging from a minimal approach using only existing staff to the ultimate approach, which provided and supported new technology in over 500 locations statewide. A middle of the road, fiscally-prudent approach, which creates a centralized database and utilizes the technology in partnership with the HR community, was determined to be sufficient to get the job done. Agencies wishing to purchase software licenses on their own will be supported in their use of the software. Current DOER staff will be retained to support the new system but additional staff is needed to manage the increased volume of work generated by the new process.

FINANCING:

Reallocated resources will provide the funding for this project. The projected costs for the biennium are \$843,000 in FY 2002-03 and includes \$301,000 of one-time costs for hardware, software, licenses, installation, and consultant fees.

OUTCOMES:

The success of this reengineered process will be measured in terms of: recruitment activity, hiring activity, timesaving, cost savings, adherence to merit principles, open access and recruitment, job-related selection, and appointment of the best suited, including meeting affirmative action goals. Customer satisfaction surveys will be used to address concerns voiced by agency staff and job seekers.

BUDGET ACTIVITY SUMMARY

Budget Activity: TRNG & DEVELOPMENT RESOURCE CENTER (TDRC)
Program: HUMAN RESOURCE MGMT
Agency: EMPLOYEE RELATIONS DEPT

ACTIVITY PROFILE:

The Training & Development Resource Center (TDRC) division exists to provide and coordinate training as required by law (M.S. 43A.21) to state managers, supervisors and employees in all state agencies in the following areas:

- Management development
- Supervisory training
- Preventing sexual harassment
- Americans with Disabilities Act
- Affirmative Action.

So that the state of Minnesota may increase productivity and retain skilled employees, the division also provides development opportunities to state employees on topics of general/management interest such as:

- Performance Management
- Public Policies
- Orientation to State Government
- Career and Life Planning
- Project Management

The challenges faced by the division include:

- Providing required training at low or no cost so that all state agencies can meet the requirements of law;
- Developing and delivering training which meets the needs of all state agencies at a cost that all agency budgets can accommodate; and
- Developing and delivering training that is specific to state/public employment and that enhances the state's ability to retain quality employees.

The state of Minnesota, as an employer, consistently faces the problem of retaining a high quality, highly productive workforce. In FY 1998, the turnover rate due to resignations of state of Minnesota agency employees was 1,350, or just over 4%. Industry standards put the turnover cost per employee at \$10,000-\$30,000 plus. At that rate, the state of Minnesota, as an employer,

spent between \$1.5 million and \$40 million in FY 1998 on costs associated with turnover. It has been suggested that the two most important factors in retaining qualified, productive employees are the quality of supervision and corporate culture. The TDRC provides training and development for supervisors so that supervision of employees is enhanced and the culture is improved.

Projections over the next 5-10 years indicate an increasing shortfall in worker availability. It will become even more necessary that the state of Minnesota, as an employer, retain quality employees.

The TDRC's programs seek to improve the productivity of all state employees, thus providing better services to the citizens of the state of Minnesota.

STRATEGIES AND PERFORMANCE:

The following goals and performance indicators have been established for the TDRC:

Goal 1 - Equip managers and supervisors with skills necessary to effectively meet customer needs.

Indicator: Improve the quality and increase the number of training options available for state of Minnesota agency managers and supervisors.

Measure: Management Core/Supervisory Core revision in 1998-99.

Program options:

FY 1999

Supervisory Core
Management Core
Performance Management
Long Distance Supervision
Performance Appraisal & Evaluation
Managing Human Behavior
Writing, Learning & Performance
Objectives
Styles of Decision-Making
Effective Meetings

FY 2000

Supervisory Core
Management Core
Additional Leadership &
Supervision: 9 course offerings
Performance Improvement: 9
course offerings
Team Development: 10 course
offerings
Enhancing Communication: 5
course offerings
Train-the Trainer: 2 course
offerings
Retirement Planning: 2 course
offerings

BUDGET ACTIVITY SUMMARY

Budget Activity: TRNG & DEVELOPMENT RESOURCE CENTER (TDRC)
Program: HUMAN RESOURCE MGMT
Agency: EMPLOYEE RELATIONS DEPT

Goal 2 - Create and support opportunities to maximize the productivity of the state's workforce.

Indicator: Develop and deliver new training programs as required to meet agency needs.

Measure: Twenty-one new programs offered during 2000 calendar year.

FINANCING INFORMATION:

This activity is funded from revolving funds. The revolving fund is based on a rate set for each course sponsored by the TDRC Services division. Prior to 1998, TDRC received General Fund appropriations to support required training programs (Supervisory/Management Development Core).

BUDGET ISSUES:

Revenues generated from tuition are not sufficient to recover program costs (salaries, supplies, and overhead), and therefore, the department needs supplemental funding to meet the demand for training while keeping the price affordable for state agencies. Therefore, the department has decided to reallocate \$100,000 biennially from the Government Training Service allocation to supplement this program.

Activity: TRNG & DEVELOPMENT RESOURCE CTR
Program: HUMAN RESOURCE MGMT
Agency: EMPLOYEE RELATIONS DEPT

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
Expenditures by Category:									
State Operations									
COMPENSATION	393	409	419	553	553	580	580	305	36.8%
OTHER OPERATING EXPENSES	(124)	155	147	99	99	99	99	(104)	(34.4%)
Total Expenditures	269	564	566	652	652	679	679	201	17.8%
Financing by Fund:									
Direct Appropriations:									
GENERAL	202	0	0	0	0	0	0		
Statutory Appropriations:									
SPECIAL REVENUE	67	564	566	652	652	679	679		
Total Financing	269	564	566	652	652	679	679		
Revenue Collected:									
Dedicated									
SPECIAL REVENUE	279	433	566	613	613	663	663		
Total Revenues Collected	279	433	566	613	613	663	663		
FTE by Employment Type:									
FULL TIME	6.2	7.3	10.0	10.0	10.0	10.0	10.0		
PART-TIME, SEASONAL, LABOR SER	1.8	0.6	0.5	0.5	0.5	0.5	0.5		
Total Full-Time Equivalent	8.0	7.9	10.5	10.5	10.5	10.5	10.5		

Activity: CONFERENCE REVOLVING
Program: HUMAN RESOURCE MGMT
Agency: EMPLOYEE RELATIONS DEPT

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
<u>Expenditures by Category:</u>									
State Operations									
COMPENSATION	109	127	152	154	154	163	163	38	13.6%
OTHER OPERATING EXPENSES	921	380	583	211	211	212	212	(540)	(56.1%)
Subtotal State Operations	1,030	507	735	365	365	375	375	(502)	(40.4%)
PAYMENTS TO INDIVIDUALS	1	0	0	0	0	0	0	0	
Total Expenditures	1,031	507	735	365	365	375	375	(502)	(40.4%)
<u>Financing by Fund:</u>									
Statutory Appropriations:									
SPECIAL REVENUE	1,031	507	735	365	365	375	375		
Total Financing	1,031	507	735	365	365	375	375		
<u>Revenue Collected:</u>									
Dedicated									
SPECIAL REVENUE	1,099	526	754	379	379	387	387		
Total Revenues Collected	1,099	526	754	379	379	387	387		
<u>FTE by Employment Type:</u>									
FULL TIME	1.4	1.7	2.0	2.0	2.0	2.0	2.0		
PART-TIME, SEASONAL, LABOR SER	0.4	0.1	0.0	0.0	0.0	0.0	0.0		
Total Full-Time Equivalent	1.8	1.8	2.0	2.0	2.0	2.0	2.0		

BUDGET ACTIVITY SUMMARY

Budget Activity: EMPLOYEE ASSISTANCE PROG
Program: HUMAN RESOURCE MGMT
Agency: EMPLOYEE RELATIONS DEPT

ACTIVITY PROFILE:

The State Employee Assistance Program (EAP) is a vital component of the state's human resource management function, and its services are sought throughout Minnesota by all branches of state government. State employees and agencies look to EAP for counseling and consultation regarding serious personal, family and workplace problems that negatively affect employee performance and organizational effectiveness. By providing easy access to confidential, solution-focused counseling, EAP is able to help state employees and their families resolve personal crises and improve their job performance. EAP strengthens organizational effectiveness within state government by providing direct consultation to management and labor regarding complex workgroup issues such as organizational change, performance management problems, workplace communication, critical incidents and workplace violence.

Depression and other mental health problems have been documented to have a harmful effect on employee performance, resulting in significant financial losses to the employer. In the last biennium, depression was identified as a contributing factor in 30% of the state EAP's counseling cases. Therefore, in July 2000, the state EAP launched the State Employee Depression Awareness Project.

The primary components of this initiative included employee training, interactive telephonic screening and direct referral to the state EAP. At the end of the first quarter, 1,201 employees had used the telephonic screening line with 70.2% of the callers showing symptoms of depression ranging from mild to severe. Additionally, of those callers whose screening results indicated the presence of depression, 85.1% were not seeking any treatment at the time of their call. Preliminary analysis of customer use data in FY 2001 indicates an increase in the use of EAP services in response to the Depression Awareness Project.

STRATEGIES AND PERFORMANCE:

EAP Strategies:

- In-person assessment and brief counseling (maximum of four sessions) for state employees and their dependents experiencing serious personal problems. These problems include but are not limited to relationship difficulties, mental health problems, eldercare issues, parenting problems, grief and loss issues, alcohol or drug abuse, domestic abuse, legal or financial problems.

- In-person counseling and coaching for state employees experiencing work-related problems such as deteriorating performance, harassment, stress-management problems, conflict with coworkers, critical incidents, and threats of violence.
- Consultation to managers and supervisors regarding organizational change, performance management problems, workplace communication, critical incidents, workplace violence, harassment, and work group problems.

Performance Summary:

EAP services are designed to reduce the negative impact that serious personal problems have on employee job performance and productivity. EAP measures the effectiveness of its services by measuring positive changes in an employee's job performance and attitude about work after using EAP services. EAP's Service Outcome Survey from the 1999-2000 biennium found that since using EAP services, EAP clients/users reported improvements in the following areas:

- 65% - relationships with their supervisors.
- 72% - relationships with coworkers.
- 80% - ability to concentrate while at work.
- 76% - general attitude about work.
- 60% - work attendance.
- 81% - overall effectiveness on the job.

Because EAP's Service Outcome Survey demonstrates a positive correlation between the utilization of program services and improved job performance, EAP continually strives to increase the use of program services.

- The number of new clinical cases opened in the St. Paul EAP office increased 11% over the last biennium.
- The number of organizational cases increased by 20% from FY 1999 to FY 2000.
- Management consultation services provided directly to state agencies increased by 47% over the last biennium.
- Since 1998, the number of employees participating in EAP's training and other organizational services grew from 3,185 to 5,894, an increase of nearly 85%.

BUDGET ACTIVITY SUMMARY (Continued)

Budget Activity: EMPLOYEE ASSISTANCE PROG
Program: HUMAN RESOURCE MGMT
Agency: EMPLOYEE RELATIONS DEPT

FINANCING INFORMATION:

The state EAP is funded by a General Fund appropriation and supplemental funding from DOER's Employee Insurance Division as authorized by M.S. 43A.30, Subd. 5.

BUDGET ISSUES:

Demand on EAP resources continues to increase and stretch staff and financial resources. During FY 2001, the program absorbed the EAP function of the Minnesota Department of Transportation (MNDOT) and its 2200 employee population with no additional funds. MNDOT's utilization rate of EAP services has dramatically increased since EAP began its administration of the program; the number of MNDOT cases opened at the St. Paul office has increased over 400% compared to the same period in 1999 (13 cases in 1999, 57 cases in 2000). Additional program funding or reallocation will eventually be necessary as the demand continues to exceed the hours of staff time currently funded.

Activity: EMPLOYEE ASSISTANCE PROG
Program: HUMAN RESOURCE MGMT
Agency: EMPLOYEE RELATIONS DEPT

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
Expenditures by Category:									
State Operations									
COMPENSATION	0	409	469	487	487	511	511	120	13.7%
OTHER OPERATING EXPENSES	0	171	198	173	173	171	171	(25)	(6.8%)
Total Expenditures	0	580	667	660	660	682	682	95	7.6%
Financing by Fund:									
Direct Appropriations:									
GENERAL	0	471	557	510	510	532	532		
Statutory Appropriations:									
GENERAL	0	109	110	150	150	150	150		
Total Financing	0	580	667	660	660	682	682		
FTE by Employment Type:									
FULL TIME	0.0	5.7	6.0	6.0	6.0	6.0	6.0		
PART-TIME, SEASONAL, LABOR SER	0.0	1.5	1.6	1.6	1.6	1.6	1.6		
Total Full-Time Equivalent	0.0	7.2	7.6	7.6	7.6	7.6	7.6		

Activity: HUMAN RESOURCE NON-OPERATING
Program: HUMAN RESOURCE MGMT
Agency: EMPLOYEE RELATIONS DEPT

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
Expenditures by Category:									
State Operations									
COMPENSATION	0	0	2,000	0	0	0	0	(2,000)	(100.0%)
Subtotal State Operations	0	0	2,000	0	0	0	0	(2,000)	(100.0%)
PAYMENTS TO INDIVIDUALS	36	27	10	10	10	10	10	(17)	(45.9%)
LOCAL ASSISTANCE	64	0	0	0	0	0	0	0	
Total Expenditures	100	27	2,010	10	10	10	10	(2,017)	(99.0%)

Change Items:	Fund				
(B) FLSA SETTLEMENTS	GEN		2,000		
Total Change Items			2,000		

Financing by Fund:					
Direct Appropriations:					
GENERAL	0	0	2,000	0	0
Statutory Appropriations:					
MISCELLANEOUS AGENCY	36	27	10	10	10
GIFT	64	0	0	0	0
Total Financing	100	27	2,010	10	10

Revenue Collected:					
Dedicated					
MISCELLANEOUS AGENCY	0	9	4	10	10
GIFT	19	0	0	0	0
Total Revenues Collected	19	9	4	10	10

BUDGET CHANGE ITEM (65626)

Budget Activity: HUMAN RESOURCE NON-OPERATING
Program: HUMAN RESOURCE MGMT
Agency: EMPLOYEE RELATIONS DEPT

Item Title: FLSA SETTLEMENTS

	2000-01 Biennium	2002-03 Biennium	
	FY 2001	FY 2002	FY 2003
Expenditures: (\$000s)			
General Fund			
-State Operations	\$2,000	\$-0-	\$-0-
Revenues: (\$000s)			
General Fund	\$-0-	\$-0-	\$-0-
Statutory Change? Yes _____ No <u> X </u>			
If yes, statute(s) affected:			
_____ New Activity <u> X </u> Supplemental Funding _____ Reallocation			

GOVERNOR'S RECOMMENDATION:

The Governor recommends a one-time appropriation in FY 2001 of \$2 million for potential liability for state employee backpay.

RATIONALE:

The purpose of this change item is to provide one-time funds for agencies having to make a wage settlement during FY 2001 to employees for previously unpaid overtime. Many agencies may not have adequate resources to cover the one-time cost, and use of the one-time pool instead of base dollars will allow agencies to more easily meet this extraordinary one-time cost.

Fair Labor Standards Act (FLSA) coverage was extended to public employers as the result of a 1985 Supreme Court decision. Minnesota believed its professional employees to be exempt from FLSA overtime provisions and had continued to treat them as such. In the past few years, groups of professional employees in several agencies have been audited by the federal Department of Labor (DOL) and determined to be non-exempt, that is covered by overtime provisions. As a result of these audits, the DOL indicated that it would begin assessing civil penalties against the state, in addition to the normal requirement for backpay to affected employees. To avoid these penalties, the state agreed to conduct a self-audit.

The state has completed the self-audit to determine which professional and professional-supervisory employees are non-exempt (subject to 1½ overtime after 40 hours of work in a week) and exempt under the federal Fair Labor Standards Act (FLSA).

On 10-16-2000, the Department of Employee Relations released information on the FLSA status of state job classes. In early November, state agencies began calculating backpay due for uncompensated overtime worked by employees represented by the Minnesota Association of Professional Employees (MAPE). As part of the DOL agreement, the date for backpay to employees found to be non-exempt during the self-audit, is "frozen" at 1-12-98. In return, DOL will not impose civil penalties where employees are identified as non-exempt through the self-audit and will not pursue audits of additional state employees during this period.

The original deadline for backpay was 6-30-2000. Because it took DOL longer than planned to review state job classes, this deadline was extended and is currently 7-31-01. However, payments made after 1-12-01 are subject to interest.

Of the 1,098 job classes audited, 717 were found to be exempt, 313 non-exempt and 68 mixed. In terms of actual positions, 15,000 positions were involved in the audit and approximately 8,000 were found to be non-exempt.

The amount of the actual back pay liability is still being determined. It is calculated on an individual-by-individual basis making an overall estimate difficult. It is dependent on employees applying for the backpay and providing a determination of the hours they worked that were unpaid. The Pollution Control Agency has a separate change item request for authority to spend \$500,000 in non-General Fund dollars to cover their obligation; this \$2.0 million will be used to cover General Fund obligations in other state agencies, if needed.

There is an additional group of non-exempt employees numbering 1,150 who may potentially be impacted in the same way. It is estimated that approximately 300 of this group might actually receive back pay. If the average for this second group follows the initial group, then the additional potential liability is \$250,000.

FINANCING:

This is one-time funding in General Fund dollars. The Department of Employee Relations will determine the disbursement of the funds after an analysis of agency needs, liability and their ability to pay. There is a separate change item for the Pollution Control Agency.

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PROGRAM SUMMARY

Program: EMPLOYEE INSURANCE DIVISION
Agency: EMPLOYEE RELATIONS DEPT

PROGRAM PROFILE:

The Employee Insurance program provides development, administration and management of group medical, dental and life insurance to about 73,000 employees and retirees representing Minnesota state agencies, the University of Minnesota, several independent billing units, and various quasi-state entities such as the Minnesota Historical Society. The program is also responsible for managing workers' compensation benefits for its 54,000 state employees and a purchasing pool that makes affordable health, dental and life coverage available to over 2,600 employees of local units of government. The Employee Insurance program serves approximately 160,000 covered individuals, including employees, retirees and their dependents and includes the State Employee's Insurance Group (SEGIP), Workers Compensation, and the Public Employee Insurance Program (PEIP).

The Employee Insurance program provides a wide range of insurance and insurance-related services, including:

- Purchasing and administering life, medical, dental, disability, and long term care coverage's;
- Administering enrollment, premium collection and payment;
- Providing resolution of coverage and claims disputes;
- Promoting health, disability management, and loss prevention;
- Managing workers' compensation claims;
- Bargaining on insurance issues with labor organizations.

The Employee Insurance program was established in 1945 and adopted its current health plan-based, multi-plan, and managed competition model in 1989. The State Workers' Compensation activity was established in 1935 and in 1987 separated from the Department of Labor and Industry and was incorporated into the Employee Insurance program. The program adopted its managed care approach to workers' compensation medical services in 1993. In 1989, the Public Employees Insurance Program (PEIP) was launched by the Employee Insurance program to provide the advantages of a health care purchasing pool to political subdivisions around Minnesota.

To address concerns about the increasing cost of medical care, the Employee Insurance Program continues the process, begun in 1997, of exploring potential modifications or alternatives to our present health care purchasing delivery model. Effective January 2000, the financing structure of the medical plans was changed to fully self-insured to provide more flexibility to address cost issues

across all health plans. In 1999, the legislature approved an optional, employee-paid long-term care insurance benefit offering for state and University of Minnesota employees, spouses, and parents of employees, effective January 2001. The state's workers' compensation activity continues to explore "24-Hour Care" by taking part in a pilot clinic study with the *Minnesota Health Partnership: Coordinated Health Care and Disability Prevention Project* that runs through 2001. Enrollment in PEIP's health insurance grew by more than 18% during the past year.

The Employee Insurance program's public goal is to furnish insurance coverage as part of a comprehensive benefits package that attracts and retains high-quality personnel for service in state government.

STRATEGIES AND PERFORMANCE:

Strategies used by the Employee Insurance Program to advance these goals include:

- Negotiating contracts with insurance carriers and labor unions.
- Cooperating with state employee labor unions through the Joint Labor Management Committee on Health Plans.
- Managing competition and managed health care.
- Operating the State Employees Health Promotion activity and the State Safety and Industrial Hygiene Unit.
- Carefully monitoring and analyzing health care services through the biennial Consumer Satisfaction Survey.
- Participating in activities of the Minnesota Health Data Institute, the Minnesota Health Partnership and many other public-private organizations.

The program's key objectives, goals and performance indicators are as follows:

- SEGIP: Projected expenditures for FY 2001 will increase approximately 19% above SEGIP FY 2000 expenditures. Increasing medical costs and utilization accounts for this increase in total SEGIP costs. A key objective will be to purchase medical coverage for CYs 2002 and 2003 so that the trend in premium growth is at or below the trend for Minnesota private sector employers, as measured by the Minnesota Chamber of Commerce annual survey.
- PEIP: Increase annually the number of participating employer groups by 15% in PEIP.
- Workers Compensation: Maintain total workers' compensation costs equal to or less than the annual workers' compensation cost-of-living adjustment (COLA).

PROGRAM SUMMARY (Continued)

Program: EMPLOYEE INSURANCE DIVISION
Agency: EMPLOYEE RELATIONS DEPT

FINANCING INFORMATION:

The funding for the programs in the Insurance Division consists primarily of insurance premiums, agency reimbursements for workers compensation claims, and employee pre-tax benefits. These are principally pass-through funds to insurance carriers and third party administrators. These expenditures are reflected in the fiscal pages for the Insurance Division's non-operating account and includes those expenditures associated with PEIP and SEGIP insurance claims and premiums, workers compensation claims, and employee pre-tax benefit accounts. These expenditures are segregated from the administrative activities of the programs in order to present the administrative activity more clearly.

Program: EMPLOYEE INSURANCE DIVISION
Agency: EMPLOYEE RELATIONS DEPT

Program Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
Expenditures by Activity:									
EMPLOYEE INSURANCE ADMINISTRAT	5,268	5,529	7,451	7,525	7,525	7,705	7,705	2,250	17.3%
PEIP	7,927	12,584	14,384	14,403	14,403	14,416	14,416	1,851	6.9%
WORKERS COMPENSATION	3,955	3,994	4,458	4,627	4,627	4,789	4,789	964	11.4%
INSURANCE DIV NON-OPERATNG	316,969	364,946	418,340	480,690	481,040	545,990	546,355	244,109	31.2%
MEIP	183	34	180	0	0	0	0	(214)	(100.0%)
Total Expenditures	334,302	387,087	444,813	507,245	507,595	572,900	573,265	248,960	29.9%
Change Items:	Fund								
(B) WCRA OPEN APPROPRIATION	GEN				350		365		
Total Change Items					350		365		
Financing by Fund:									
Direct Appropriations:									
GENERAL	226	305	365	2,446	2,446	2,446	2,446		
Open Appropriations:									
GENERAL	301	311	300	0	350	0	365		
Statutory Appropriations:									
SPECIAL REVENUE	20,948	21,136	21,956	22,133	22,133	22,308	22,308		
MN EMPLOYER'S INSURANCE PLAN	251	34	180	0	0	0	0		
STATE EMPLOYEES INSURANCE	302,126	354,524	410,912	471,566	471,566	537,046	537,046		
MISCELLANEOUS AGENCY	10,450	10,777	11,100	11,100	11,100	11,100	11,100		
Total Financing	334,302	387,087	444,813	507,245	507,595	572,900	573,265		
FTE by Employment Type:									
FULL TIME	83.7	81.7	92.8	92.9	92.9	92.9	92.9		
PART-TIME, SEASONAL, LABOR SER	4.4	6.1	4.9	4.9	4.9	4.9	4.9		
OVERTIME PAY	0.1	0.0	0.0	0.0	0.0	0.0	0.0		
Total Full-Time Equivalent	88.2	87.8	97.7	97.8	97.8	97.8	97.8		

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BUDGET ACTIVITY SUMMARY

Budget Activity: EMPLOYEE INSURANCE ADMINISTRAT
Program: EMPLOYEE INSURANCE DIVISION
Agency: EMPLOYEE RELATIONS DEPT

ACTIVITY PROFILE:

The State Employee Group Insurance Program (SEGIP) exists under the authority of M.S. 43A, subds. 22-31. It provides life, disability, medical and dental, long term care benefits, as well as pre-tax programs for employees of the state's judicial, legislative and executive branches, the University of Minnesota, and other groups defined in statute. The specific benefits are negotiated by DOER with the unions representing state employees.

SEGIP provides and administers these benefits primarily through contracts negotiated with insurance carriers, health maintenance organizations, and health service plans. SEGIP is the benefit program for the largest single employer in the state, the State of Minnesota. It provided these benefits in CY 1999 for approximately 156,000 people, including employees, retirees, and their dependents at a combined employer and employee cost of approximately \$355 million including direct payments to vendors by University of Minnesota and retirees.

The 1999 Legislature authorized Long-Term Care Insurance under M.S. 43A.318. The authority allows the commissioner to make voluntary employee paid long-term care coverage available to employees of the state and the University after April 2000. The intent of the program is to encourage employees to insure themselves against the financial effects of chronic illnesses and reduce their reliance on state medical assistance programs for elderly long-term care. The program was introduced to employees in October 2000 with an effective date of January 2001. Eligible participants for this participant-paid program include employees of the state and the University of Minnesota, their parents and their spouses.

STRATEGIES AND PERFORMANCE:

Since 1989, SEGIP has successfully maintained a strategy of managed competition among health plans. The strategy bases the employer contribution on the lowest cost medical plan capable of providing appropriate access to medical care throughout the employee's work county. (In 1999, the basis for low-cost carrier determination was changed from county of work to county of residence effective January 2001.) Plans compete for low-cost status. Following cost reductions in the early to mid-90's, SEGIP began to experience increases in cost and medical care utilization, and has initiated a re-examination of the current medical care delivery strategy.

SEGIP has two major performance goals, both of which address medical coverage which accounts for over 80% of expenditures.

- Maintain the cost of providing medical coverage at or below the increases experienced by Minnesota private sector employers, as measured by the Minnesota Chamber of Commerce. Note: This is a new benchmark, replacing the North Central Medical CPI. The significance of this new benchmark allows the division to measure its results and hold itself accountable against the performance of other local employers in a way that provides more accurate real world comparisons. Because the CPI reflects cost only and not adjustments for utilization and aging demographics, DOER believes that the private sector comparison is a better measure.

Percent SEGIP Premium rate changes

	FY 1990	FY 1991	FY 1992	FY 1993	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998	FY 1999
SEGIP	13.7	9.6	6.3	5.6	2.7	(5.1)	(2.5)	6.7	10.1	11.4
MN Private Sector		14.3	7.7	5.7	4.3	(0.5)	0.5	4.0	8.6	11.0

- Maintain overall employee satisfaction with medical plans at 80% or higher. Success in achieving this goal is measured by the SEGIP biennial satisfaction survey. As indicated below, the 1993 and 1995 surveys showed the goal had been met. The 1997 survey showed a drop in employee satisfaction with a slight increase in 1999.

Employee Satisfaction

FY 1993	FY 1995	FY 1997	FY 1999
81%	81%	72%	75%

In 1997, a combination of events occurred that called for a re-examination of SEGIP's medical care delivery strategy. They included: a) a larger than anticipated increase in costs, b) a reduction in employee satisfaction, and c) the withdrawal of a health plan. In response to these events, the Joint Labor-Management Committee (JLMC) on health plans completed phase one of a study to reassess the SEGIP purchasing strategy. As a result of this assessment, we self-insured medical coverage and developed a data warehouse to provide the information needed to continue to redesign our purchasing strategies.

The Employee Insurance Program is currently in the process of working with the JLMC to determine the next steps that will be taken to achieve the following purchasing goals established by the JLMC:

- Stable, predictable costs (limit cost fluctuation to a determined level);

BUDGET ACTIVITY SUMMARY (Continued)

Budget Activity: EMPLOYEE INSURANCE ADMINISTRAT
Program: EMPLOYEE INSURANCE DIVISION
Agency: EMPLOYEE RELATIONS DEPT

- Provider choice (low-cost plan must include key area providers);
- Provider stability (equal trend in provider retention prior to 1997);
- Controlled costs (not to exceed the rate of medical inflation).

FINANCING INFORMATION:

SEGIP Administrative Revenue and Expenses (dollars in thousands)

Revenue

FY 1999	FY 2000	Projected FY 2001	Projected FY 2002	Projected FY 2003	Projected FY 2004	Projected FY 2005
\$5,343	\$6,070	\$6,498	\$6,388	\$6,388	\$6,854	\$7,315

Expenses

\$5,268	\$5,529	\$7,451	\$7,525	\$7,705	\$7,776	\$7,952
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SEGIP administrative revenues are collected from several different sources of funds through direct charges for administrative services provided to state agencies. In FY 2001-03, we anticipate spending an existing \$2.8 million in administrative fees to develop an insurance benefit system using PeopleSoft. This will result in another function being added to the existing statewide human resource and payroll system (SEMA4). We have allocated \$2.8 million in system development costs for the next three years as follows: FY 2001 - \$800,000; FY 2002 - \$1.0 million and FY 2003 - \$1.0 million. After the insurance system is installed, we anticipate an increase in administrative fees beginning in FY 2004 to pay for ongoing maintenance costs of the system.

BUDGET ISSUES:

The Division will use existing resources to complete the SEMA4 upgrade.

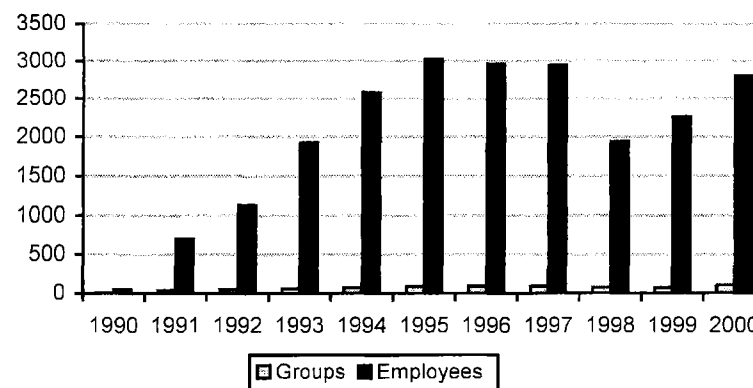
Activity: EMPLOYEE INSURANCE ADMINISTRAT
Program: EMPLOYEE INSURANCE DIVISION
Agency: EMPLOYEE RELATIONS DEPT

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
Expenditures by Category:									
State Operations									
COMPENSATION	2,079	2,274	2,623	2,879	2,879	3,053	3,053	1,035	21.1%
OTHER OPERATING EXPENSES	3,159	3,227	4,788	4,606	4,606	4,612	4,612	1,203	15.0%
Subtotal State Operations	5,238	5,501	7,411	7,485	7,485	7,665	7,665	2,238	17.3%
LOCAL ASSISTANCE	30	28	40	40	40	40	40	12	17.6%
Total Expenditures	5,268	5,529	7,451	7,525	7,525	7,705	7,705	2,250	17.3%
Financing by Fund:									
Direct Appropriations:									
GENERAL	183	255	275	0	0	0	0		
Statutory Appropriations:									
SPECIAL REVENUE	581	863	998	986	986	999	999		
STATE EMPLOYEES INSURANCE	4,504	4,411	6,178	6,539	6,539	6,706	6,706		
Total Financing	5,268	5,529	7,451	7,525	7,525	7,705	7,705		
Revenue Collected:									
Dedicated									
GENERAL	0	0	120	0	0	0	0		
SPECIAL REVENUE	808	661	725	735	735	735	735		
STATE EMPLOYEES INSURANCE	4,535	5,409	5,653	5,653	5,653	5,653	5,653		
Total Revenues Collected	5,343	6,070	6,498	6,388	6,388	6,388	6,388		
FTE by Employment Type:									
FULL TIME	37.1	39.2	45.9	46.0	46.0	46.0	46.0		
PART-TIME, SEASONAL, LABOR SER	2.3	2.1	1.6	1.6	1.6	1.6	1.6		
OVERTIME PAY	0.1	0.0	0.0	0.0	0.0	0.0	0.0		
Total Full-Time Equivalent	39.5	41.3	47.5	47.6	47.6	47.6	47.6		

BUDGET ACTIVITY SUMMARY

Budget Activity: PEIP
Program: EMPLOYEE INSURANCE DIVISION
Agency: EMPLOYEE RELATIONS DEPT

PEIP Enrollment 7/1/90-9/1/00



continues, as PEIP's enrollment for health insurance increased again by approximately 18% in CY 2000 over CY 1999.

The number of participating employer groups participating for the past five years.

	FY 1995	FY 1996	FY 1997	FY 1998	FY 1999	FY 2000
# of PEIP groups	82	91	90	70	73	95
% increase in groups from previous year	-0-	11%	(1%)	(22%)	4%	30%

FINANCING INFORMATION:

PEIP is funded almost exclusively by employer group premiums. Premiums collected in excess of claims paid will be used to reduce the rates charged to employer groups. In addition, PEIP receives investment income that is used to reinforce the programs reserve balance and offset administrative expenses. In the past, PEIP has received General Fund appropriations to assist in establishing required reserves when the program became self-funded.

ACTIVITY PROFILE:

PEIP is a statewide health-dental-life insurance pool for active and retired employees of local units of government. It was established in 1989 to help Minnesota's public employers, including counties, cities, townships, school districts, and other jurisdictions, purchase affordable health care.

There are currently 95 employer groups in PEIP with an enrollment of 2,680 active employees, 1,504 retired employees and 2,677 dependents. The average number of employees per group is 28, with groups as large as 353 and as small as one. Expected claims volume for CY 2000 is projected to be \$11 to \$12 million.

STRATEGIES AND PERFORMANCE:

PEIP was created to provide an affordable health insurance purchasing alternative for local units of government throughout Minnesota. While the majority of employers in the state now contract with a single carrier or health plan for health insurance, PEIP offers public sector employers and their employees a choice of health plans wherever possible.

PEIP helps local units of government obtain more competitive health insurance rates. In some cases, PEIP provides the lowest bid. In other cases, PEIP offers a bid that competing insurers will then attempt to match or improve upon in order to be selected. In these instances, even when PEIP is ultimately not the successful bidder, it helps local units of government negotiate with other carriers to obtain the best rates possible.

PEIP's viability and overall impact in the market are determined to a large extent by the number of enrollees in the program. Therefore, an important objective has been to increase the enrollment in PEIP and to make the program more widely known and available. The graph and chart shows the growth in PEIP during the period 1990-2000, and shows the number of public sector employers enrolled in the program, as well as the number of employees.

In 1998, PEIP experienced a noticeable downturn in enrollment when the program was perceived as no longer being competitive in the market. This was addressed by altering the program design from an insured model to a self-insured model, and through a new marketing plan. These changes provided for greater flexibility and stability in rating and premium setting, and greater awareness of the program. As a result, the number of public sector employer groups and employees served by PEIP increased in 1999. This trend

Activity: PEIP
Program: EMPLOYEE INSURANCE DIVISION
Agency: EMPLOYEE RELATIONS DEPT

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
<u>Expenditures by Category:</u>									
State Operations									
COMPENSATION	137	187	200	213	213	226	226	52	13.4%
OTHER OPERATING EXPENSES	7,790	12,397	14,184	14,190	14,190	14,190	14,190	1,799	6.8%
Total Expenditures	7,927	12,584	14,384	14,403	14,403	14,416	14,416	1,851	6.9%
<u>Financing by Fund:</u>									
Statutory Appropriations:									
STATE EMPLOYEES INSURANCE	7,927	12,584	14,384	14,403	14,403	14,416	14,416		
Total Financing	7,927	12,584	14,384	14,403	14,403	14,416	14,416		
<u>Revenue Collected:</u>									
Dedicated									
STATE EMPLOYEES INSURANCE	8,311	11,295	15,004	12,903	12,903	12,916	12,916		
Total Revenues Collected	8,311	11,295	15,004	12,903	12,903	12,916	12,916		
<u>FTE by Employment Type:</u>									
FULL TIME	2.4	2.9	3.1	3.1	3.1	3.1	3.1		
PART-TIME, SEASONAL, LABOR SER	0.1	0.2	0.2	0.2	0.2	0.2	0.2		
Total Full-Time Equivalent	2.5	3.1	3.3	3.3	3.3	3.3	3.3		

BUDGET ACTIVITY SUMMARY

Budget Activity: WORKERS COMPENSATION
Program: EMPLOYEE INSURANCE DIVISION
Agency: EMPLOYEE RELATIONS DEPT

ACTIVITY PROFILE:

The purpose of Minnesota's self-insured workers' compensation activity is to provide workers' compensation benefits to state employees in accordance with M.S. 176.540-176.611.

The activity consists of four distinct units: claims management, legal, disability management, and safety/industrial hygiene. It covers approximately 54,000 employees in the executive, legislative, and judicial branches of state government. In addition, the activity covers employees of quasi-state agencies, such as the Minnesota Historical Society and the Minnesota State Fair.

STRATEGIES AND PERFORMANCE:

Through the establishment of a statewide safety committee, individual safety committees in each agency, and a heightened awareness of the role that ergonomics brings to reducing the occurrence of workplace injuries, the state has reduced the number of workplace injuries over the past five years. Staff members from the Employee Insurance Division's Safety and Industrial Hygiene Unit have played central roles in bringing these factors into the daily operations of state agencies.

The active involvement of properly trained state agency personnel, combined with the services provided through a certified managed care plan, has helped the state significantly reduce the number of claims involving loss of time from work during the last five years. The Employee Insurance Division believes these factors, along with cooperative interactions with state employees, will continue to significantly control and even reduce workers' compensation costs.

In FY 2000, approximately 3,100 claims were filed. The rate of new claims has declined 20.4% since FY 1996. Table 1 contains a breakdown of these claims.

Table 1

	FY 1996	FY 1997	FY 1998	FY 1999	FY 2000	FY 1996-00	FY 1999-00
	Claims Reported					% Change	
Lost Time	710	619	678	590	627	(11.7%)	6.3%
Medical Only	3,180	3,263	2,661	2,590	2,470	(22.3%)	(4.6%)
Totals	3,890	3,882	3,339	3,180	3,097	(20.4%)	(2.6%)

Despite the reduction of claims, benefit costs increased 7.5% from FY 1996-00. Table 2 contains a breakdown of benefit costs for FY 1996-00.

Table 2

	FY 1996	FY 1997	FY 1998	FY 1999	FY 2000	FY 1996-00	FY 1999-00
	Benefit Costs					% Change	
Indemnity	\$7,315	\$7,030	\$6,847	\$7,342	\$7,221	(1.3%)	(1.6%)
Medical	4,322	4,502	5,058	5,445	5,309	22.8%	(2.5%)
Expenses	731	709	643	620	698	(4.6%)	12.6%
Rehabilitation	514	720	606	766	790	53.7%	3.1%
EE Atty Fees	576	566	457	547	446	(22.6%)	(18.5%)
Totals	\$13,458	\$13,527	\$13,611	\$14,720	\$14,464	7.5%	(1.7%)

FINANCING INFORMATION:

Workers' Compensation is funded through an administrative fee assessed to all state agencies based on the number of employees, open claims, and the number of transactions for each agency. During FY 1995-01, the annual fee remained consistently at \$2.7 million. During this period, the total workers' compensation costs have increased 1.8% since FY 1995, a rate less than the rate of inflation.

The managed care fee (Table 3, Line 2) is passed through to state agencies (on a per-employee basis) for workers' compensation certified, managed care services.

Table 3

	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004
Administrative Costs	\$2.7M	\$2.7M	\$2.7M	\$2.7M	\$2.9M	\$3.1M	\$3.1M
Managed Care	\$955K	\$1.0M	\$1.0M	\$1.1M	\$1.2	\$1.3	\$1.4

BUDGET ISSUES:

The existing administrative fee base of \$2.7 million has been in place since FY 1993 and no longer is sufficient to cover operational costs due to increased salaries and benefits. Therefore, the administrative fee will be increased. Approval for this increase was granted in FY 1998 but not implemented.

Activity: WORKERS COMPENSATION
Program: EMPLOYEE INSURANCE DIVISION
Agency: EMPLOYEE RELATIONS DEPT

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
<u>Expenditures by Category:</u>									
State Operations									
COMPENSATION	2,281	2,311	2,533	2,706	2,706	2,859	2,859	721	14.9%
OTHER OPERATING EXPENSES	1,674	1,683	1,925	1,921	1,921	1,930	1,930	243	6.7%
Total Expenditures	3,955	3,994	4,458	4,627	4,627	4,789	4,789	964	11.4%
<u>Financing by Fund:</u>									
Direct Appropriations:									
GENERAL	43	50	90	70	70	70	70		
Statutory Appropriations:									
SPECIAL REVENUE	3,912	3,944	4,368	4,557	4,557	4,719	4,719		
Total Financing	3,955	3,994	4,458	4,627	4,627	4,789	4,789		
<u>Revenue Collected:</u>									
Dedicated									
SPECIAL REVENUE	43	54	51	51	51	51	51		
Total Revenues Collected	43	54	51	51	51	51	51		
<u>FTE by Employment Type:</u>									
FULL TIME	43.4	39.6	43.8	43.8	43.8	43.8	43.8		
PART-TIME, SEASONAL, LABOR SER	1.9	3.8	3.1	3.1	3.1	3.1	3.1		
Total Full-Time Equivalent	45.3	43.4	46.9	46.9	46.9	46.9	46.9		

Activity: INSURANCE DIV NON-OPERATNG
Program: EMPLOYEE INSURANCE DIVISION
Agency: EMPLOYEE RELATIONS DEPT

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
Expenditures by Category:									
State Operations									
OTHER OPERATING EXPENSES	316,969	364,946	418,340	480,690	481,040	545,990	546,355	244,109	31.2%
Total Expenditures	316,969	364,946	418,340	480,690	481,040	545,990	546,355	244,109	31.2%

Change Items:	Fund				
(B) WCRA OPEN APPROPRIATION	GEN			350	365
Total Change Items				350	365

Financing by Fund:							
Direct Appropriations:							
GENERAL	0	0	0	2,376	2,376	2,376	2,376
Open Appropriations:							
GENERAL	301	311	300	0	350	0	365
Statutory Appropriations:							
SPECIAL REVENUE	16,455	16,329	16,590	16,590	16,590	16,590	16,590
MN EMPLOYER'S INSURANCE PLAN	68	0	0	0	0	0	0
STATE EMPLOYEES INSURANCE	289,695	337,529	390,350	450,624	450,624	515,924	515,924
MISCELLANEOUS AGENCY	10,450	10,777	11,100	11,100	11,100	11,100	11,100
Total Financing	316,969	364,946	418,340	480,690	481,040	545,990	546,355

Revenue Collected:							
Dedicated							
SPECIAL REVENUE	20,438	19,973	20,904	20,904	20,904	20,904	20,904
MN EMPLOYER'S INSURANCE PLAN	37	0	0	0	0	0	0
STATE EMPLOYEES INSURANCE	291,007	371,402	418,085	466,609	466,609	486,836	486,836
MISCELLANEOUS AGENCY	10,420	11,250	11,100	11,100	11,100	11,100	11,100
Total Revenues Collected	321,902	402,625	450,089	498,613	498,613	518,840	518,840

BUDGET CHANGE ITEM (55236)**Agency: EMPLOYEE RELATIONS DEPT****Item Title: WCRA OPEN APPROPRIATION**

	<u>2002-03 Biennium</u>		<u>2004-05 Biennium</u>	
	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u>
Expenditures: (\$000s)				
General Fund	\$350	\$365	\$375	\$400
-State Operations	\$-0-	\$-0-	\$-0-	\$-0-
Revenues: (\$000s)				
General Fund	\$-0-	\$-0-	\$-0-	\$-0-

Statutory Change? Yes ☒ No ☐

If yes, statute(s) affected:

☐ New Activity ☒ Supplemental Funding ☐ Reallocation**GOVERNOR'S RECOMMENDATION:**

The Governor recommends an ongoing Open Appropriation be made available for the purpose of paying premiums to the Workers Compensation Reinsurance Association (WCRA) as required in M.S. 317A section 79.34 subdivision. 1 (2).

RATIONALE:

As the state's self-insured employer, the Department of Employee Relations has the responsibility for the payment of reinsurance premiums to the WCRA. The premiums are based upon several factors to include payroll increases, employee count, and retention limit selection. The department has elected to choose the "Super" retention limit to minimize the premium rates charged.

FINANCING:

This open appropriation was inadvertently established as a one-time appropriation during the 1999 session. The change item would make this regular appropriation part of the agency's ongoing base budget.

OUTCOMES:

Continued membership with the WCRA.

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Activity: MEIP
Program: EMPLOYEE INSURANCE DIVISION
Agency: EMPLOYEE RELATIONS DEPT

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
Expenditures by Category:									
State Operations									
COMPENSATION	48	0	0	0	0	0	0	0	
OTHER OPERATING EXPENSES	135	34	180	0	0	0	0	(214)	(100.0%)
Total Expenditures	183	34	180	0	0	0	0	(214)	(100.0%)
Financing by Fund:									
Statutory Appropriations:									
MN EMPLOYER'S INSURANCE PLAN	183	34	180	0	0	0	0		
Total Financing	183	34	180	0	0	0	0		
Revenue Collected:									
Dedicated									
MN EMPLOYER'S INSURANCE PLAN	49	33	15	0	0	0	0		
Total Revenues Collected	49	33	15	0	0	0	0		
FTE by Employment Type:									
FULL TIME	0.8	0.0	0.0	0.0	0.0	0.0	0.0		
PART-TIME, SEASONAL, LABOR SER	0.1	0.0	0.0	0.0	0.0	0.0	0.0		
Total Full-Time Equivalent	0.9	0.0	0.0	0.0	0.0	0.0	0.0		

REVENUE DEPT - CONTENTS

	PAGE
Agency Executive Summary	F-353
Budget Briefs by Fund	F-358
Revenue Summary (numbers only)	F-365
Change Item - Nonfiler Initiative	F-366
 PROGRAMS, BUDGET ACTIVITIES, AND CHANGE ITEMS	
 TAX SYSTEM MANAGEMENT	F-368
Change Item -- Past Unfunded Operational Cost	F-373
Change Item -- PCA Environmental Tax Reform	F-374
Administrative Support	F-375
Legal & Tax Policy	F-378
Tax Operations	F-383
Change Item -- Reengineering Operational Costs	F-389
IT -- Change Item -- Reengineering Completion	F-391
Income Tax System	F-393
Business, Excise & Consumption Tax	F-397
Property Tax & State Aid System	F-402
 ACCOUNTS RECEIVABLE MGMT	F-407
Minnesota Collections Enterprise (numbers only)	F-411
Change Item - Non-Tax Revenue Recapture	F-412

REVENUE DEPT - EXECUTIVE SUMMARY

AGENCY MISSION AND VISION:

The mission of the Department of Revenue is to make the governmental revenue system work well for Minnesotans. The revenue system is made up of 28 state taxes and the local property tax collected by county governments. State taxes include individual income, sales, corporate franchise, petroleum, environmental, gambling, cigarette and tobacco, alcohol, and insurance. From the 28 state taxes, the department collects approximately \$13 billion per year.

The department also oversees the uniform application of the property tax laws by providing instructions in property valuation and tax determination to county assessors, auditors and treasurers. County governments collect \$5.1 billion annually in property taxes to partially fund services provided by school districts and local governments.

The Department of Revenue also pays out nearly \$1 billion in state aid through 34 different state programs to

- 87 counties,
- 853 cities,
- 1,806 towns, and
- 585 special taxing districts.

Four important goals are listed in the department's Strategic Plan.

1. **Taxpayer compliance:** everyone is paying the correct amount of taxes, no more, no less.
2. **Customer satisfaction:** tax transactions and tax information are accurate and are available to taxpayers in a timely and convenient manner.
3. **Employee excellence:** citizens can rely on department employees to have the knowledge, skill and tools needed to perform their work.
4. **Operational excellence:** the revenue system works well, in policy and operation.

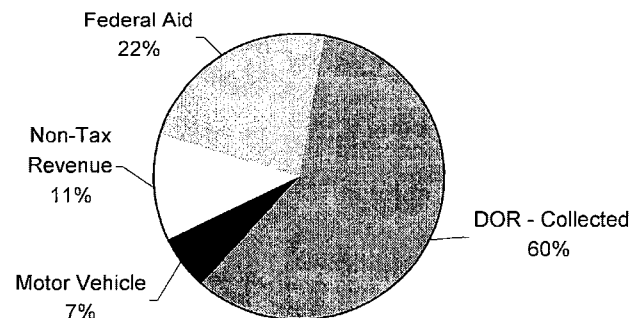
The department supports the Governor's *Big Plan* objectives to:

- improve the fairness of the tax system,
- make it easier for taxpayers to understand, influence, and control taxing and spending decisions at the state and local levels,
- ensure our tax laws permit Minnesota businesses to be competitive, and ensure Minnesota's tax system keeps pace with economic and technological changes.

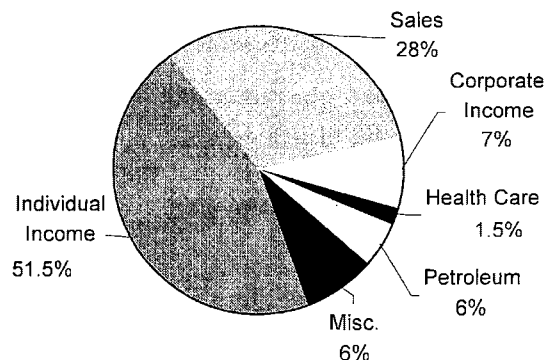
To achieve these objectives, the department has spent much of the last two years in an unusually comprehensive review of the state tax system. The tax

reform recommendations flowing from that effort will form the centerpiece of the Governor's biennial budget and legislative plan in the 2001 session.

State Revenues by Major Source



State Taxes by Major Source



KEY SERVICE STRATEGIES:

Minnesota's revenue system depends on taxpayers knowing their tax obligations and complying with them voluntarily. The department collects about 96% of the total dollar amount of taxes through voluntary compliance. The department facilitates payment of taxes through these activities:

- interpreting laws and informing taxpayers of their tax obligations and rights,

REVENUE DEPT - EXECUTIVE SUMMARY (Continued)

- providing taxpayers with forms and instructions needed to meet their filing and paying obligations,
- responding to taxpayers' questions,
- processing tax returns and payments, issuing refunds, managing taxpayer accounts, and collecting debt,
- auditing returns to identify and resolve tax filing and payment discrepancies, discourage tax evasion, and measure levels of compliance, and
- identifying and recommending changes to improve the revenue system's laws and operations.

To achieve its mission, the department relies heavily on partnerships with the Internal Revenue Service (IRS), other state agencies, local governments, volunteer taxpayer-assistance organizations, tax practitioners, accountants, software firms and other information and service providers. To maintain effective contact with taxpayers, department staff members are located in a network of 27 offices throughout Minnesota and the nation.

OPERATING ENVIRONMENT:

In this biennium, the department will continue to face unparalleled challenges presented by

- the rapid growth and change in information technologies,
- the sustained strength of the economy,
- the changing character of the state's population and workforce, and
- tax policy changes.

Changing Information Technology

Growing demand for Internet services: The dramatic growth in the use of the Internet by both businesses and individuals has led the public to expect that government will also offer online information and services. Taxpayer use of the department's web site to download Minnesota tax forms, instructions and fact sheets has grown dramatically, as shown in the following chart:

Fiscal Year	Publications
1997	136,000
1998	369,000
1999	1,159,000
2000	1,969,000

Minnesotans are filing their returns electronically. Over 627,000, or about 26%, of individual income tax returns were filed electronically in 2000. The department expects this number to grow steadily. By 2003, all tax preparers who file more

than 100 tax returns with the department will be required by state law to file electronically. Individual and business taxpayers are paying and filing their own taxes electronically as well.

Obsolete department computer systems: Key components of the department's computer systems rely on old or obsolete computer languages. These systems face mounting difficulty in meeting contemporary standards for transaction volumes, complexity, speed, and are at increasing risk of degraded performance or outright failure. It is essential that computer systems be regularly assessed, modernized and upgraded to meet acceptable performance standards. Outmoded systems are difficult and costly to modify when tax law changes require system alterations.

The Strong Economy

Globalization and e-commerce: Globalization, with businesses seeking to maintain or expand market share, has dramatically increased both the number and kind of business transactions that cross state and national borders. Business consolidations and mergers make it more difficult to trace transactions and determine which corporate entity is responsible for paying the tax.

The increased use of computer technology in business-to-business commerce drives up audit costs because electronic records do not have an obvious location or paper trail.

More businesses: From 1995 to 1999, the number of businesses remitting sales and use tax grew from 178,000 to 228,000; and the number of corporations and partnerships grew from 78,187 to 101,615. More businesses mean more demand for business tax filing, service and compliance activities.

More rebates: Minnesota's strong economy has resulted in record tax collections. In response, the legislature has reduced tax rates and enacted property tax, sales tax and agriculture rebate programs. The department administered \$2 billion in sales tax rebates in 1999 and 2000; \$892 million in property tax rebates in 1998; and an additional \$72.5 million in financial assistance to 103,000 Minnesota farmers in 1999. These rebates more than doubled the number of taxpayer telephone calls to the department.

Demographic Changes

Growth in non-English-speaking population: According to the U.S. Bureau of the Census and the State Demographic Center at Minnesota Planning, between 1990 and 1999, Minnesota's minority and immigrant population grew by 84%—from 227,303 to 418,521. Projections for the two fastest growing groups, Asians and Hispanics, are for continued rapid growth through 2025. The department is developing specialized outreach programs to meet the needs of non-English-speakers to ensure that they become full participants in Minnesota's revenue system. Our strategies include developing publications to explain tax requirements in their languages and establishing links to community

REVENUE DEPT - EXECUTIVE SUMMARY (Continued)

organizations and leaders, with the goal of creating self-sustaining volunteer community operations able to provide continued tax assistance.

Skilled worker shortage: With Minnesota's current unemployment rate at 2.8%, competition for skilled workers is intense. Moreover, the department will be facing a serious challenge in the next five years because about 600 employees—about 50%—will be eligible for retirement. We expect about 250 employees to actually retire by FY 2005. Replacing their collective experience and knowledge will be extremely difficult. Our major challenge will be to ensure a smooth transition to a younger generation of employees at a time when the labor force is shrinking and competition for workers is increasing.

As illustrated in the organization/program structure (opposite), the department continues to experience shrinking staff levels. This situation is largely due to increases in negotiated salaries and benefits that outstrip salary adjustments. It also is due to technology costs absorbing more of the department's base budget. The public expects electronic access to government services, and while computer systems offer greater service opportunities, they are expensive.

Tax Policy

Tax Reform: The complexity of the tax system is leading to taxpayer frustration and errors in filing and paying of taxes, and may even create a justification for tax evasion in the minds of some taxpayers.

On behalf of the Governor, the department is developing a series of comprehensive proposals, to be presented to the 2001 Legislature, to improve the understandability, fairness, and competitiveness of Minnesota's tax system. The legislation will include fiscal notes outlining the impact on the department's budget for this biennium.

The Internet challenges the future of the state sales tax: The department is participating with 40 other states in the Streamlined Sales Tax Project to create a nationwide simplified and uniform system for collecting and paying sales tax. However, states would still impose the tax at their own rates. The National Governors Association, the National Council of State Legislators, the Multistate Tax Commission, and the Federation of Tax Administrators support the project. The department will propose the project's model legislation, with associated costs, for adoption in 2001.

Minnesotans who make Internet or out-of-state purchases are required to report and pay use tax, but it is extremely difficult to educate these purchasers about their tax obligations. One national study estimates that Minnesota will lose \$219 million in sales tax revenues annually by 2003, due to untaxed Internet sales.

Besides the loss of state revenue, the current situation puts brick-and-mortar retailers at a competitive disadvantage compared to out-of-state, Internet, and catalogue retailers who can sell without collecting sales tax.

If implemented, the nationwide system will require the department to modify computer systems, retrain employees, rewrite and issue forms and instructions, and re-educate business taxpayers.

ORGANIZATION/PROGRAM STRUCTURE:

COMMISSIONER AND EXECUTIVE MANAGEMENT

Minnesota Tax System Management	
Income Tax System	130 fte
Business, Excise & Consumption Tax System	306 fte
Property Tax & State Aid System	36 fte
Tax Operations	399 fte
Legal & Tax Policy	59 fte
Administrative Support	77 fte
Accounts Receivable Management (MCE)	189 fte

6/30/00 TOTAL FTEs 1,196

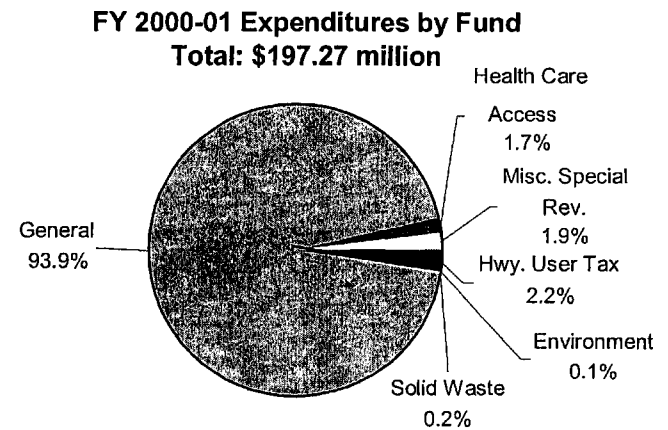
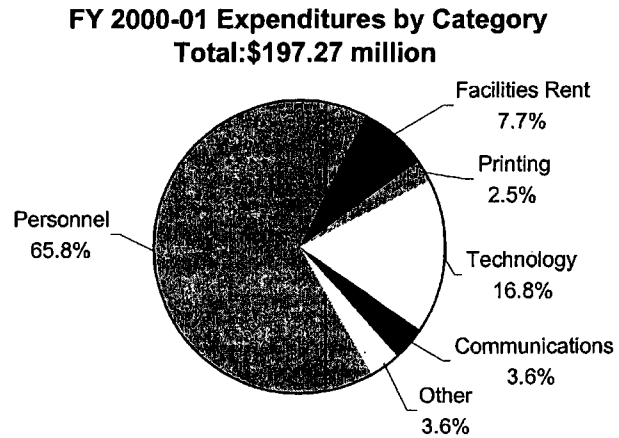
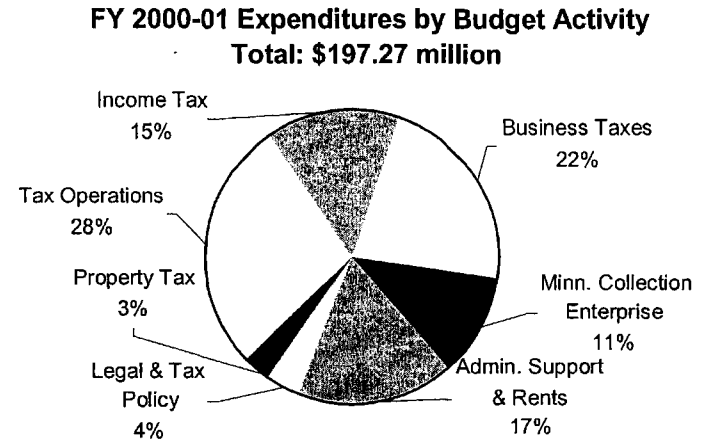
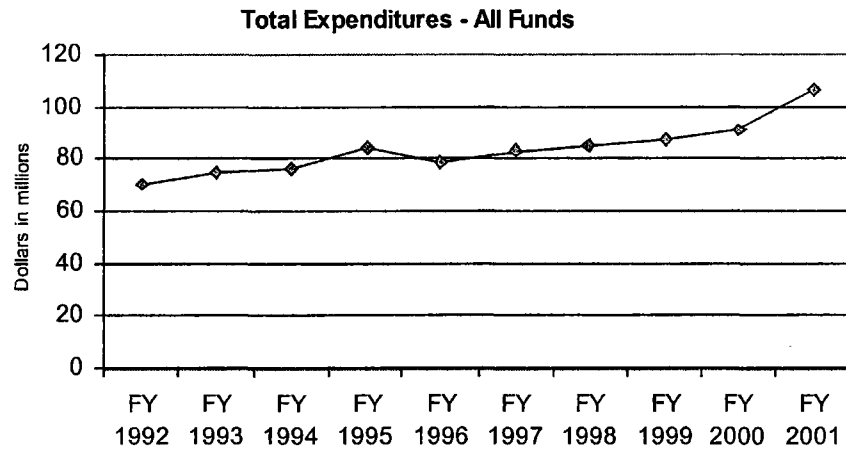
Department of Revenue Staff Positions *

	FY 1996	FY 1998	FY 2000	FY 2002	FY 2003
Tax System Mgmt:					
Income Tax	145	121	130	125	120
Business, Excise	332	316	306	291	276
Property Tax	50	47	36	35	35
Legal & Tax Policy	59	58	59	55	53
Tax Operations	389	426	399	393	383
Admin. Support	79	72	77	72	66
Total Tax System Mgmt.	1,054	1,040	1,007	971	933
Accts. Rec. Mgmt. (MCE)	214	191	189	180	175
TOTAL	1,268	1,231	1,196	1,151	1,108

* Full time equivalents as of 6/30

REVENUE DEPT - EXECUTIVE SUMMARY (Continued)

TRENDS AND PERSPECTIVE:



Agency: REVENUE DEPT

Agency Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
Expenditures by Program:									
TAX SYSTEM MANAGEMENT	81,125	80,062	94,199	83,011	88,733	84,087	87,196	1,668	1.0%
ACCOUNTS RECEIVABLE MGMT	18,162	12,871	12,888	12,948	13,228	12,951	13,272	741	2.9%
Total Expenditures	99,287	92,933	107,087	95,959	101,961	97,038	100,468	2,409	1.2%

Financing by Fund:							
Carry Forward:							
GENERAL	0	0	0	1,200	1,200	200	200
Direct Appropriations:							
GENERAL	84,957	85,570	98,408	86,963	92,547	88,889	91,842
HEALTH CARE ACCESS	1,859	1,490	1,923	1,731	1,731	1,764	1,764
SPECIAL REVENUE	0	25	0	0	0	0	0
HIGHWAY USERS TAX DISTRIBUTION	2,164	2,082	2,220	2,191	2,191	2,237	2,237
ENVIRONMENTAL	97	96	109	107	307	110	310
SOLID WASTE	256	142	258	200	0	200	0
Open Appropriations:							
GENERAL	2,512	2,073	1,900	1,900	1,900	1,900	1,900
SPECIAL REVENUE	0	0	0	0	418	0	477
Statutory Appropriations:							
GENERAL	582	0	3	0	0	0	0
SPECIAL REVENUE	1,321	1,455	2,266	1,667	1,667	1,738	1,738
FEDERAL	42	0	0	0	0	0	0
MISCELLANEOUS AGENCY	5,497	0	0	0	0	0	0
Total Financing	99,287	92,933	107,087	95,959	101,961	97,038	100,468

FTE by Employment Type:							
FULL TIME	1,028.2	1,024.2	1,007.9	989.0	989.0	952.4	952.4
PART-TIME, SEASONAL, LABOR SER	206.0	171.5	165.7	162.4	162.4	155.4	155.4
Total Full-Time Equivalent	1,234.2	1,195.7	1,173.6	1,151.4	1,151.4	1,107.8	1,107.8

REVENUE DEPT - BUDGET BRIEF

Fund: GENERAL

	<u>FY 2002</u>	<u>FY 2003</u>	<u>Biennium</u>
BASE YEAR (FY 2001) (\$000s)			
Appropriations	\$85,671	\$85,671	\$171,342
<u>BASE ADJUSTMENT</u>			
One-Time Appropriations	(354)	(354)	(708)
2002-03 Salary and Benefits	1,817	3,694	5,511
Documented Rent/Lease Decrease	(171)	(122)	(293)
<u>BASE LEVEL (for 2002 and 2003)</u>	\$86,963	\$88,889	\$175,852
<u>CHANGE ITEMS</u>			
Reengineering Completion	3,700	1,700	5,400
Nonfiler Initiative	1,312	881	2,193
New Reengineering Operational Costs	700	500	1,200
Non-Tax Revenue Recapture	(413)	(413)	(826)
Past Unfunded Operational Costs	285	285	570
GOVERNOR'S RECOMMENDATION	\$92,547	\$91,842	\$184,389

BRIEF EXPLANATION OF BUDGET DECISIONS:

Significant financial challenges affecting the FY 2002-03 budget:

The driving force behind the Department of Revenue's budget decisions is the worldwide technology revolution and its affect on Minnesota's economy. This revolution has substantially altered the way in which the state's 3.5 million individual income taxpayers and 228,000 businesses expect the department to provide services to them, and the way in which they expect to conduct transactions with the department.

Of the nearly \$13 billion collected annually by the department, 71% is now received via electronic funds transfer. However, only 26% of tax returns are filed electronically; the remaining 74% are filed on paper. Our major financial challenge is to develop an infrastructure that supports the growth of e-commerce while maintaining paper-based systems for traditional filers.

Reallocating base resources:

Since FY 1998, the department has reallocated funds from other activities in order to make investments in new electronic technology. At present, about one-third of the department's total budget is spent on information technology, including equipment purchases, systems development, and processing of taxpayer transactions. An estimated \$4.1 million of the department's \$5.7 million salary supplement for the FY 2002-03 biennium will be used to replace outdated

computer applications and to maintain anticipated increases for information technology staff.

Impact on staffing

With nearly 66% of the current biennium's budget devoted to personnel costs (not including contract labor), the impact of absorbing increased costs that result from negotiated labor agreements and inflation during the 2002-03 biennium will result in a projected 88 fewer FTE's by the end of FY 2002-03 biennium.

Impact on revenues

The anticipated reduction in staff compliment over the three-year period from FY 2001 to FY 2003 will impact activities dedicated to taxpayer education, service, audit, collection and enforcement. The reduction in these activities will ultimately lead to a reduction in revenue. It is also likely to lead to erosion in taxpayer confidence in and compliance with the tax system - resulting in a further reduction in revenue.

To mitigate the effect of the reduction on its activities, the department is seeking to:

- implement new audit techniques that require fewer employees;
- focus less effort on taxpayers who are filing – although incorrectly – and more effort on identifying those who are not filing at all; and
- shifting funds from auditing activities for taxes where taxpayer compliance is adequate to taxes where compliance is worse.

To improve taxpayer confidence in the tax system, the department is seeking law changes to simplify the system. Simplification will bring about a tax system that is more understandable, and thus more fair, more convenient and more efficient.

Agency base adjustments include:

- the removal of a \$354,000 one-time appropriation made in 2000 start-up costs associated with the 2000 tax bill;
- a decrease in lease/rental costs; and
- the 3% annual compensation-related base adjustment.

REVENUE DEPT - BUDGET BRIEF

Fund: **GENERAL** (Continued)

GOVERNOR'S RECOMMENDATION(S):

The Governor recommends a biennial appropriation of \$184.389 million dollars which includes base level funding and the following initiatives:

- \$5.4 million to complete the income tax reengineering project first funded in the 1999 legislative session;
- \$2.193 million to increase activities related to identifying and dealing with individual and corporations who own Minnesota tax but do not file Minnesota tax returns;
- \$1.2 million to pay operational costs associated with a required design modification for income tax reengineering which will allow scanning all federal returns submitted;
- \$570,000 to pay for necessary, on-going operational costs created but not funded in 1999 and 2000 tax legislation;
- changing the department's non-tax revenue recapture activities to a performance-based funding strategy by replacing a general fund base appropriation of \$413,000 annually with authority to retain a specified portion of the existing offset fee in a special revenue fund at an estimated net cost increase of \$69,000 for the biennium.

In addition, the Governor recommends appropriate adjustments in funding for new operational costs associated with tax administration and operational changes identified in the Governor's tax reform package.

REVENUE DEPT - BUDGET BRIEF

Fund: HEALTH CARE ACCESS

	<u>FY 2002</u>	<u>FY 2003</u>	<u>Biennium</u>
BASE YEAR (FY 2001) (\$000s)			
Appropriations	\$1,721	\$1,721	\$3,442
<u>BASE ADJUSTMENT</u>			
2002-03 Salary and Benefits	33	66	99
Documented Rent/Lease Decrease	(24)	(24)	(48)
2002-03 Legal Services Inflation	1	1	2
<u>BASE LEVEL (for 2002 and 2003)</u>	\$1,731	\$1,764	\$3,495
GOVERNOR'S RECOMMENDATION	\$1,731	\$1,764	\$3,495

BRIEF EXPLANATION OF BUDGET DECISIONS:

The plan includes estimated decreases in rent of \$24,000 in FY 2002 and \$24,000 in FY 2003.

The plan includes legal services inflation base adjustments of 3% annually.

The plan includes compensation-related base adjustments of 3% annually.

GOVERNOR'S RECOMMENDATION(S):

The Governor recommends the agency's base budget. In addition, the Governor recommends appropriate adjustments in funding for new operational costs associated with health care tax administration changes identified in the Governor's tax reform package.

REVENUE DEPT - BUDGET BRIEF

Fund: HIGHWAY USERS TAX DISTRIBUTION

	<u>FY 2002</u>	<u>FY 2003</u>	<u>Biennium</u>
BASE YEAR (FY 2001) (\$000s)			
Appropriations	\$2,173	\$2,173	\$4,346
<u>BASE ADJUSTMENT</u>			
2002-03 Salary and Benefits	43	87	130
Documented Rent/Lease Decrease	(26)	(25)	(51)
2002-03 Legal Services Inflation	1	2	3
<u>BASE LEVEL (for 2002 and 2003)</u>	\$2,191	\$2,237	\$4,428
GOVERNOR'S RECOMMENDATION	\$2,191	\$2,237	\$4,428

BRIEF EXPLANATION OF BUDGET DECISIONS:

The plan includes estimated decreases in rent of \$26,000 in FY 2002 and \$25,000 in FY 2003.

The plan includes legal services inflation base adjustments of 3% annually.

The plan includes compensation-related base adjustments of 3% annually.

GOVERNOR'S RECOMMENDATION(S):

The Governor recommends the agency's base budget. In addition, the Governor recommends appropriate adjustments in funding for new operational costs associated with petroleum tax administration changes identified in the Governor's tax reform package.

REVENUE DEPT - BUDGET BRIEF

Fund: ENVIRONMENTAL

	<u>FY 2002</u>	<u>FY 2003</u>	<u>Biennium</u>
BASE YEAR (FY 2001) (\$000s)			
Appropriations	\$104	\$104	\$208
<u>BASE ADJUSTMENT</u>			
2002-03 Salary and Benefits	3	6	9
<u>BASE LEVEL (for 2002 and 2003)</u>	\$107	\$110	\$217
<u>CHANGE ITEMS</u>			
PCA Environmental Tax Reform	200	200	400
GOVERNOR'S RECOMMENDATION	\$307	\$310	\$617

BRIEF EXPLANATION OF BUDGET DECISIONS:

The plan includes compensation-related base adjustments of 3% annually.

As part of environmental tax reform proposed by PCA and discussed more fully in the Environment budget book, the Solid Waste fund is being combined into the Environmental fund to allow better response to environmental priorities. As part of this change, the department will now take its environmental tax administrative money from the new combined fund. The change item above reflects this change in the accounting structure of the department. The increase in the Environmental fund is offset by a decrease in the Solid Waste fund. Net funding will be unchanged.

GOVERNOR'S RECOMMENDATION(S):

The Governor recommends the agency's base budget and also the change item identified above.

REVENUE DEPT - BUDGET BRIEF

Fund: **SOLID WASTE**

	<u>FY 2002</u>	<u>FY 2003</u>	<u>Biennium</u>
BASE YEAR (FY 2001) (\$000s)			
Appropriations	\$200	\$200	\$400
<u>BASE ADJUSTMENT</u>			
<u>BASE LEVEL (for 2002 and 2003)</u>	\$200	\$200	\$400
<u>CHANGE ITEMS</u>			
PCA Environmental Tax Reform	(200)	(200)	(400)
GOVERNOR'S RECOMMENDATION	\$0	\$0	\$0

BRIEF EXPLANATION OF BUDGET DECISIONS:

As part of environmental tax reform proposed by PCA and discussed more fully in the Environment budget book, the Solid Waste fund is being combined into the Environmental fund to allow better response to environmental priorities. As part of this change, the department will now take its environmental tax administrative money from the new combined fund. The change item above reflects this change in the accounting structure of the department. The decrease in the Solid Waste fund is offset by an increase in the Environmental Fund. Net funding will be unchanged.

GOVERNOR'S RECOMMENDATION(S):

The Governor recommends the change item identified above.

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Agency: REVENUE DEPT

Summary of Agency Revenues (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Forecast	Governor Recomm.	Forecast	Governor Recomm.	Dollars	Percent
Non-Dedicated Revenue:									
Other Revenues:									
GENERAL	1,538	545	300	300	300	300	300	(245)	(29.0%)
Taxes:									
GENERAL	1,278	0	0	0	0	0	0	0	
Total Non-Dedicated Receipts	2,816	545	300	300	300	300	300	(245)	(29.0%)
Dedicated Receipts:									
Grants:									
FEDERAL	21	0	0	0	0	0	0	0	
Other Revenues:									
GENERAL	342	0	0	0	0	0	0	0	
SPECIAL REVENUE	1,341	1,743	1,665	1,667	1,667	1,738	1,738	(3)	(0.1%)
MISCELLANEOUS AGENCY	1,002	0	0	0	0	0	0	0	
Taxes:									
MISCELLANEOUS AGENCY	4,510	0	0	0	0	0	0	0	
Total Dedicated Receipts	7,216	1,743	1,665	1,667	1,667	1,738	1,738	(3)	(0.1%)
Agency Total Revenues	10,032	2,288	1,965	1,967	1,967	2,038	2,038	(248)	(5.8%)

BUDGET CHANGE ITEM (54117)**Agency: REVENUE DEPT****Item Title: NONFILER INITIATIVE**

	2002-03 Biennium		2004-05 Biennium	
	FY 2002	FY 2003	FY 2004	FY 2005
Expenditures: (\$000s)				
General Fund				
State Operations	\$1,312	\$881	\$881	\$881
Revenues: (\$000s)				
General Fund	\$7,870	\$12,200	\$16,140	\$20,830
Statutory Change? Yes _____ No <u> X </u>				
If yes, statute(s) affected:				
<u> X </u> New Activity <u> </u> Supplemental Funding <u> </u> Reallocation				

GOVERNOR'S RECOMMENDATION:

The Governor recommends funding of \$1.312 million in FY 2002 and \$881,000 in FY 2003 to fund 17.5 additional FTE to identify and collect tax liabilities from individuals and businesses that currently owe tax but do not file. The FY 2002 recommendation includes \$443,000 in one-time start up costs.

RATIONALE:

The first goal statement in department's Strategic Plan is that everyone pays the right amount of tax, no more, no less. However, there are a significant number of individuals and businesses with Minnesota tax liability that do not file or pay anything. To create a fairer tax system for all taxpayers and to level the playing field for all businesses, these nonfilers should to be identified and brought onto the tax roles permanently.

Over the past six years, DOR has reallocated existing resources to maintain and improve our computer systems. While essential, this shift has taken a severe toll on other activities such as compliance activities. For example, in the past three years, our sales and corporate audit staff has been reduced by 20 FTE. Current resources enable DOR to do the basic work of processing returns and payments. Audit and collections activities concentrate on taxpayers with large liabilities, usually excluding other noncompliant taxpayers.

In accordance with the *Big Plan* goal of "A Tax System That Makes Sense," DOR wants to increase its focus on taxpayers that are farthest from compliance

(i.e. nonfilers). To increase compliance activities and to ensure adequate funding for technology, DOR has already taken several steps to reallocate significant resources including:

- reducing the number of tax forms available in libraries and post offices,
- eliminating mailing forms to taxpayers who use tax preparers,
- relying more on interactive voice response technology (i.e. reducing staff answering the telephone),
- offering fewer educational classes to businesses,
- reducing informational visits and customer surveys,
- automating or eliminating audits that produce few dollars,
- reducing the scope of audits and increasing self audits.

Even with these reallocations, DOR can only pursue the nonfiling population on a periodic, not systematic, basis.

With the additional staff resources of this initiative, the department will be able to systematically identify and collect tax liabilities from those who are not currently filing and paying. This effort will improve fairness and equity for all Minnesota citizens. The effort will have a significant impact on tax revenues.

Individual Income Tax

DOR estimates a tax gap—the difference between what is paid and what is owed—for individual income tax at \$882 million annually. Based on DOR and IRS studies, we project that:

- 8% is owed by individual nonfilers
- 25% is owed by individual business nonfilers (partnerships, subchapter S corporations)
- 57% is from underreported income
- 10% is errors (mathematical, misuse of deductions)

In FY 2000, Revenue was able to resolve only 4,000 nonfiler cases. However in FY 2001, DOR began a nonfiler pilot by identifying 37,000 individuals who received income of at least \$20,000 in 1996-97 but had not filed a return. DOR is using the new CACSPPlus system to manage these nonfiler cases. This collection effort is being achieved by shifting resources on a one-time basis from income tax audit to collections. As more components of income tax reengineering are completed, more tools will be available to identify the more difficult-to-detect nonfilers and under-reporters. As our ability to identify non-compliant taxpayers improves, our need for additional collection staff becomes more critical. We project that 60% of the identified nonfiler cases will require involvement by collectors.

BUDGET CHANGE ITEM (54117) (Continued)

Agency: REVENUE DEPT

Item Title: NONFILER INITIATIVE

This initiative will also build a link to the federal processing system that will automatically deduct Minnesota tax debt from IRS refunds prior to distributing these federal refunds to the taxpayer.

Sales and Use Tax

DOR estimates a \$347 million tax gap in sales and use taxes. Compliance projects conducted over the past six years targeted at specific industries, show use tax compliance at 40% or less - a significant lack of compliance.

The nonfiler problem for sales tax is primarily out-of-state businesses who are not filing and paying Minnesota sales and use tax. Although these businesses are fairly easy to identify, it takes considerable resources to gather and analyze information and pursue prospective taxpayers. DOR has 5,000 leads on businesses that likely have sufficient presence in Minnesota for a tax liability. However, we are unable to pursue them due to lack of resources.

We propose to focus on businesses currently not filing or paying and on businesses that are least compliant. For example, businesses that deal in cash transactions tend to be less compliant and will receive significant attention.

Corporate Franchise Tax

DOR estimates a \$163 million tax gap in corporate franchise tax. Declining resources have reduced traditional audit activities from 10% of corporations to 4%. However, to boost presence, we will start limited scope audits in 2002.

There is also a growing number of partnerships, limited liability, subchapter S corporations, and other types of business entities. Changes in federal law have changed the configuration of these traditionally "Mom and Pop" businesses so tax issues become more complex. At this time DOR can do very little to determine the level of compliance of these organizations.

FINANCING:

This initiative will be funded by an on-going General Fund appropriation. However, it will lead to additional General Fund tax collections well in excess of on-going funding. In addition, this nonfiler initiative will have much greater impact than traditional one-time audit activities.

OUTCOMES:

Our overall outcome is a higher level of fairness and equity in the tax system and increasing levels of voluntary tax compliance. Once identified and brought into compliance, these individuals and businesses are very likely to continue filing and paying their taxes, year after year. In addition, each year more "new" taxpayers are identified and the state's tax base will continue to remain strong. DOR will be able to verify the identified liabilities and collections by taxpayer—taxpayers who are not currently filing and paying any taxes to the state. We will track specific results from this initiative to ensure performance.

If this effort is funded permanently, we expect to achieve the following:

- refer 6,500 debt cases annually to the IRS to recapture Minnesota taxes from federal refunds, returning \$1.8 million in FY 2002 and \$1.6 million in FY 2003.
- double the rate nonfiling corporations are brought into the corporate tax system (120 in FY 2000 to 455 in FY 2002-03) and collect 95% of their valid tax liabilities.
- double the rate nonfiling businesses brought into the sales and use tax system (63 in FY 2000 to 310 in FY 2002-03) and collect 90% of their valid tax liabilities.
- resolve 50,000 individual nonfiler cases in FY 2002-03, collecting 85% of their valid tax liabilities.
- receive continued tax filing and payment—after initial work—without further intervention
 - ◆ individual income tax nonfilers at 65%,
 - ◆ sales and use tax nonfilers at 80%, and
 - ◆ corporate franchise tax nonfilers at 90%.
- develop more reliable procedures for estimating the nonfiling population and the estimated tax gap.

DOR will monitor the nonfiler activities funded under this initiative and will report the results to the legislature as part of the 2003 budget process. We fully expect to meet or exceed the performance outcome identified above. However, if expected performance is not achieved, the legislature could deny continued funding in FY 2004 and 2005.

PROGRAM SUMMARY

Program: **TAX SYSTEM MANAGEMENT**
Agency: **REVENUE DEPT**

PROGRAM PROFILE:

The mission of the department's tax system management program is to make the revenue system work well for Minnesotans. The department oversees the system's 28 state taxes and the property tax, which is levied by local governments. The revenue system generates approximately \$18.1 billion per year on behalf of state and local governments and school districts.

The program serves 3.5 million individual taxpayers, 228,000 businesses paying sales and use tax, 136,000 corporate and partnership taxpayers, as well as other business taxpayers. It also oversees property tax aids and levies for 3,300 local tax districts. Partnerships with the IRS, other state agencies, local governments, tax practitioners, accountants, civic and volunteer organizations, and the commercial software industry are key components of this program.

The program is composed of six interrelated activities

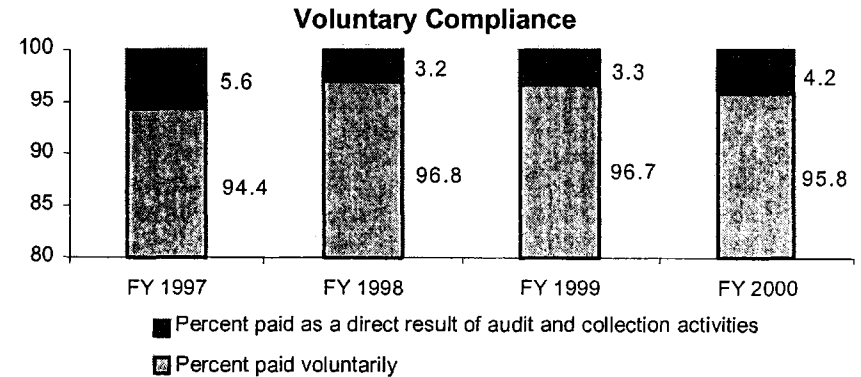
- Individual Income Tax System,
- Business, Excise and Consumption Tax System,
- Property Tax and State Aid System,
- Legal and Tax Policy,
- Tax Operations, and
- Administrative Support.

STRATEGIES AND PERFORMANCE:

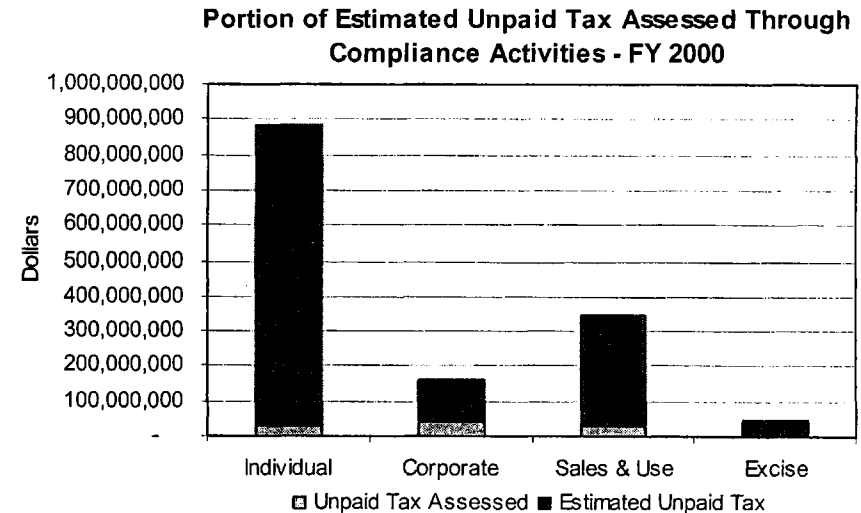
The department's fundamental business strategy is to manage a cycle of interrelated activities essential to achieving compliance: good policy; effective, timely education and information; efficient, accurate processing; thorough audits; responsible enforcement and collection. Each component supports—and depends on—the others.

The vast majority of taxpayers comply with the tax laws voluntarily. Our key strategy for these taxpayers is to support their information and service needs via the telephone, the Internet, in-person visits and classroom instruction. The department also provides services to accountants and other tax practitioners.

The key strategies for those who do not voluntarily comply include nonfiler identification, audit, and collection activities. The department estimates unpaid state tax in FY 2000 is \$1.4 billion. Only \$97.5 million of the tax gap is assessed – 7% of the estimated total.



The following table is based on estimates made in 1992 by the Office of Tax Policy Research, School of Business Administration, University of Michigan. The data has been updated for inflation to FY 2000.



PROGRAM SUMMARY (Continued)

Program: TAX SYSTEM MANAGEMENT
Agency: REVENUE DEPT

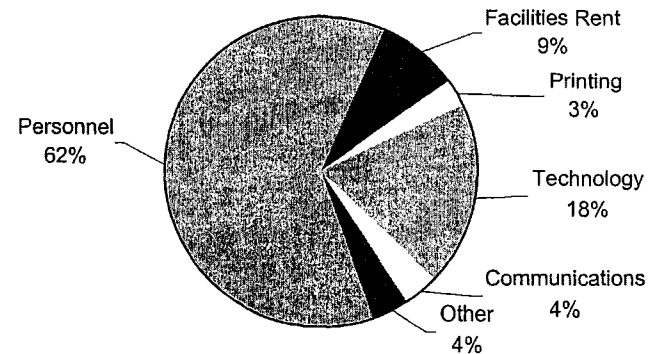
	Individual	Corporate	Sales & Use	Excise
Estimated Unpaid Tax	881,960,000	162,570,000	346,650,000	46,660,000
Unpaid Tax Assessed	27,990,000	38,470,000	29,270,000	1,690,000
Assessment as % of Estimated Unpaid Tax	3%	24%	8%	4%

The department's strategic plan identified the following strategies for tax system management:

- Work with and through public and private sector organizations to ensure that Minnesota's taxpayers receive the best possible services. Examples include our participation in the national streamlined sales tax project, and our partnerships with private-sector software developers.
- Invest in new technologies and processes that best help us keep pace with our customers' needs and expectations. Examples include our individual income tax reengineering project and our commitment to internet-based services.
- Focus our efforts on those who are furthest from compliance. An example is identifying out-of-state corporations that are subject to the corporate franchise tax but are not paying.
- Work to develop flexible and supportive recruitment, promotion, training and reward systems to meet the needs of our workforce. An example is our participation in a pilot project for direct hiring authority.
- Work to improve the tax law and interpretations in order to make them easier to understand and administer. A prime example is our leadership role in developing the governor's tax reform plan.
- Measure the effectiveness and cost of our activities, and shift resources to those that demonstrate the greatest success in achieving our mission.

FINANCING INFORMATION:

**Tax System Management Program
FY 2000-01 Expenditures by Category
Total: \$175.35 million**



BUDGET ISSUES:

The major budget issue facing the tax system management program is its continuing need to shift existing resources to new information technology and personnel in order to ensure timely processing of returns and the availability of accurate data. Costs are driven by the following factors:

- **Increased information systems labor costs.** Labor costs for state and contract employees are projected to increase by 12% in each of the next two years. There are also likely to be double-digit increases in the cost of new software and hardware.
- **Ongoing costs of maintaining technical infrastructure:** The department relies almost exclusively on desktop computers, servers, computer networks and software programs. To maintain efficient operations, about one-third of this equipment must be replaced each year at a substantial cost.
- **Necessity of maintaining dual systems:** While increasing numbers of individual taxpayers and businesses expect to be able to make all transactions electronically, many taxpayers remain unable or unwilling to participate in electronic technology. Thus, the department must maintain and secure two separate systems: a traditional paper system and a modern electronic system.

PROGRAM SUMMARY (Continued)

Program: TAX SYSTEM MANAGEMENT
Agency: REVENUE DEPT

The program has internally managed this financial pressure by leaving positions unfilled and using the salary savings for information technology costs. As a result the following will occur.

- fewer audits performed
- more returns accepted as filed
- less tax assessed
- fewer education workshops held
- less personal phone service provided
- slower processing of claims for refund
- more interest on late refunds paid

Taxpayers will be less satisfied with the service they receive. The ultimate cost will be a decline in taxpayer confidence in Minnesota's revenue system, and possibly lower levels of voluntary compliance.

GOVERNOR'S RECOMMENDATION:

The Governor recommends the base funding level requested in the agency budget. In addition, the Governor recommends the following initiatives:

- \$5.4 million to complete the income tax reengineering project first funded in the 1999 legislative session;
- \$2.193 million to increase activities related to identifying and dealing with individual and corporations who own Minnesota tax but do not file Minnesota tax returns;
- \$1.2 million to pay operational costs associated with a required design modification for income tax reengineering which will allow scanning all federal returns submitted;
- \$570,000 to pay for necessary, on-going operational costs created but not funded in 1999 and 2000 tax legislation;
- moving the department's non-tax revenue recapture activities to a performance-based funding strategy; and
- the fund level changes necessary to accommodate the PCA environmental tax reform initiative.

Program: TAX SYSTEM MANAGEMENT
Agency: REVENUE DEPT

Program Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
Expenditures by Activity:									
ADMINISTRATIVE SUPPORT	18,321	15,368	18,928	17,437	17,437	17,711	17,711	852	2.5%
LEGAL & TAX POLICY	3,889	3,818	3,967	3,947	4,177	3,952	4,049	441	5.7%
TAX OPERATIONS	26,067	25,569	29,463	27,402	32,156	29,023	31,377	8,501	15.4%
INCOME TAX SYSTEM	8,924	12,018	16,632	9,849	10,020	8,849	9,016	(9,614)	(33.6%)
BUSINESS, EXCISE & CONS TAX	21,106	20,919	22,622	21,843	22,395	21,946	22,422	1,276	2.9%
PROPERTY TAX & STATE AID SYS	2,818	2,370	2,587	2,533	2,548	2,606	2,621	212	4.3%
Total Expenditures	81,125	80,062	94,199	83,011	88,733	84,087	87,196	1,668	1.0%

Change Items:	Fund						
(A) NONFILER INITIATIVE	GEN				1,037		624
(P) PAST UNFUNDED OPERATIONAL COSTS	GEN				285		285
(P) PCA ENVIRONMENTAL TAX REFORM	ENV				200		200
(P) PCA ENVIRONMENTAL TAX REFORM	SW				(200)		(200)
(B) NEW REENGINEERING OPERATIONAL COSTS	GEN				700		500
(B) REENGINEERING COMPLETION	GEN				3,700		1,700
Total Change Items					5,722		3,109

Financing by Fund:							
Carry Forward:							
GENERAL	0	0	0	1,200	1,200	200	200
Direct Appropriations:							
GENERAL	73,896	74,900	87,554	76,039	81,761	77,965	81,074
HEALTH CARE ACCESS	1,804	1,449	1,858	1,678	1,678	1,711	1,711
SPECIAL REVENUE	0	25	0	0	0	0	0
HIGHWAY USERS TAX DISTRIBUTION	2,164	2,082	2,220	2,191	2,191	2,237	2,237
ENVIRONMENTAL	97	96	109	107	307	110	310
SOLID WASTE	256	142	258	200	0	200	0
Statutory Appropriations:							
GENERAL	582	0	3	0	0	0	0
SPECIAL REVENUE	1,282	1,368	2,197	1,596	1,596	1,664	1,664
FEDERAL	42	0	0	0	0	0	0
MISCELLANEOUS AGENCY	1,002	0	0	0	0	0	0
Total Financing	81,125	80,062	94,199	83,011	88,733	84,087	87,196

Program: TAX SYSTEM MANAGEMENT
 Agency: REVENUE DEPT

Program Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003	
				Base	Governor Recomm.	Base	Governor Recomm.
FTE by Employment Type:							
FULL TIME	846.0	842.0	830.3	816.0	816.0	784.0	784.0
PART-TIME, SEASONAL, LABOR SER	201.0	164.7	158.9	155.6	155.6	149.0	149.0
Total Full-Time Equivalent	1,047.0	1,006.7	989.2	971.6	971.6	933.0	933.0

BUDGET CHANGE ITEM (58795)**Agency: REVENUE DEPT****Item Title: PAST UNFUNDED OPERATIONAL COSTS**

	<u>2002-03 Biennium</u>		<u>2004-05 Biennium</u>	
	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u>
Expenditures: (\$000s)				
General Fund				
-State Operations	\$285	\$285	\$285	\$285
Revenues: (\$000s)				
General Fund	\$-0-	\$-0-	\$-0-	\$-0-
Statutory Change? Yes _____ No <u>X</u>				
If yes, statute(s) affected:				
_____ New Activity <u>X</u> Supplemental Funding _____ Reallocation				

GOVERNOR'S RECOMMENDATION:

The Governor recommends \$285,000 annually to the Department of Revenue to cover unfunded operational costs resulting from the 1999 and 2000 tax bills.

RATIONALE:

The department has incurred both one-time startup and ongoing operational costs resulting from the following tax law changes passed in the 1999 and 2000 legislative sessions:

- creation of the marriage penalty credit in the 1999 session and its expansion in the 2000 session.
- expansion to the education credit passed in the 1999 session.
- creation of the transit pass credit passed in the 2000 session.
- increased oversight of valuation of properties by counties passed in the 2000 session.
- increased administration of the payment in lieu of taxes (PILT) program passed in the 2000 session.

Part of the start-up costs of these tax law changes was appropriated on a one-time basis. Now funds are needed for the ongoing cost of administering these law changes. The requested funding is needed to maintain operational activities associated within the following areas: educating taxpayers via forms

and instructions, data entry and verification, and taxpayer feedback and compliance.

FINANCING:

Over one-third of the requested funding will pay for additional costs for printing and mailing the expanded Individual Income Tax Forms and Instruction booklet. This booklet is the main communication tool for more than 3.5 million individual income taxpayers.

Another one-third of the requested funding will be used by DOR to:

- provide targeted education outreach – in the form of radio announcements, flyers, posters and special mailings – to taxpayers who are potentially eligible for the refundable education credit,
- respond to a growing volume of telephone calls from taxpayers inquiring about the credit, and
- verify the taxpayer's eligibility for the credit prior to issuing the refund (thus ensuring that taxpayers receive the proper refund amount – avoiding new tax orders and collections cases – and preventing errors from recurring across tax years).

The last one-third of the requested funding will be used to administer the new transit pass credit, and the new payment in lieu of taxes (PILT) responsibilities, and to fund increased oversight in the valuing of properties by counties.

OUTCOMES:

The outcome of the requested funding is proper implementation and operation of these tax laws by adequately informing taxpayers of the credits, ensuring the issuing of timely and accurate refunds to them, and ensuring the proper payments in lieu of property taxes to local governments. Failure to fund this initiative means that these new tax laws will be less effectively implemented or that resources will be drawn away from other valuable activities such as customer service, processing, or compliance activities.

BUDGET CHANGE ITEM (62529)**Agency: REVENUE DEPT****Item Title: PCA ENVIRONMENTAL TAX REFORM**

	<u>2002-03 Biennium</u>		<u>2004-05 Biennium</u>	
	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u>
Expenditures: (\$000s)				
Solid Waste Fund	\$(200)	\$(200)	\$(200)	\$(200)
Environmental Fund	<u>\$200</u>	<u>\$200</u>	<u>\$200</u>	<u>\$200</u>
	\$-0-	\$-0-	\$-0-	\$-0-
Revenues: (\$000s)				
General Fund	\$-0-	\$-0-	\$-0-	\$-0-

Statutory Change? Yes _____ No X

If yes, statute(s) affected:

_____ New Activity _____ Supplemental Funding X Reallocation**GOVERNOR'S RECOMMENDATION:**

As a part of the Pollution Control Agency's (PCA) Environmental Tax Reform Initiative, the Governor recommends that \$200,000 in FY 2002 and \$200,000 in FY 2003 be appropriated from the Environmental Fund, rather than the Solid Waste Fund.

RATIONALE:

In an effort to improve the ability of the legislature and affected agencies to direct money to the highest environmental priorities, the PCA is proposing to reform the way that the state funds certain environmental activities. Specifically, PCA is proposing to restructure the Environmental Fund, create a new Remediation Fund, and abolish the Solid Waste and the Metropolitan Landfill Contingency Action Trust Funds. For more information on this initiative, please see the PCA's budget.

This change item simply appropriates base level funding to the Revenue Department from the Environmental Fund rather than the Solid Waste Fund. No change in the use or oversight of these funds is proposed.

FINANCING:

Funding will be changed from the Solid Waste Fund to the Environmental Fund.

OUTCOMES:

Please see PCA's budget document for a discussion of the outcomes expected from their tax proposal.

No change in funding level, use of funds, or oversight is proposed for the Revenue Department related to these funds.

BUDGET ACTIVITY SUMMARY

Budget Activity: ADMINISTRATIVE SUPPORT
Program: TAX SYSTEM MANAGEMENT
Agency: REVENUE DEPT

ACTIVITY PROFILE:

The Administrative Support Activity includes four major categories:

Service

In this category are human resource management functions, including classifying positions, recruiting and testing of job applicants, personnel and payroll transactions, employee benefits administration, negotiating labor agreements, and resolving labor contract disputes. It includes the department's Affirmative Action (AA), Equal Employment Opportunity (EEOC), Americans with Disabilities Act (ADA), and diversity awareness programs; employee development and training programs; taxpayer problem resolution; and internal and external communication services and support.

Institutional support

This includes strategic planning and business plan development; building security and negotiation of leases for department facilities; equipment and supply procurement; office space planning; professional and technical service contract management and oversight; performance measurement; and special project management.

Management and coordination

This includes biennial budget and annual spending plan preparation and monitoring; operating budget oversight; ensuring that adequate financial controls are in place; identifying trends and potential problems in spending patterns and developing solutions to those problems; and conducting internal audits to ensure the integrity of internal financial and operating systems.

Tax policy support

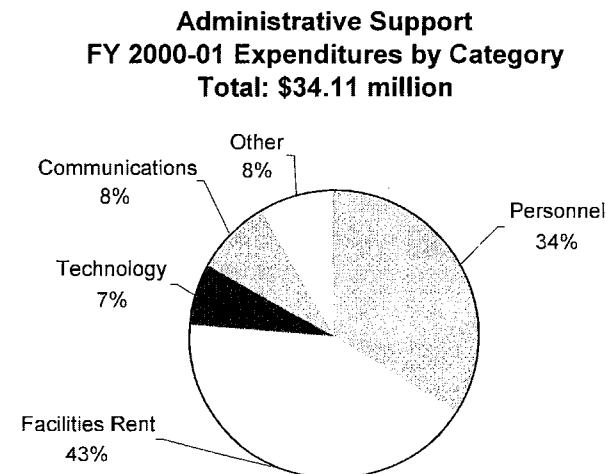
This includes developing penalty and interest policies for all types of taxes; identifying obstacles to taxpayer compliance; and working to clarify unclear, ambiguous, or conflicting provisions of the laws. This activity also develops proposals to improve the understandability, fairness, and administration of the tax laws.

STRATEGIES AND PERFORMANCE:

This activity is responsible for

- providing clear direction to the agency through a business planning process which includes the development of a strategic plan, a biennial budget, division business plans, and annual spending plans;
- ensuring that the agency's resources, support systems and training systems are in line with that direction;
- ensuring that the department's divisions have employees with the skills they need to perform their jobs, as well as the systems, supplies, and equipment to do the job;
- monitoring the agency's activities to ensure that it is operating within the broad parameters of federal and state laws, rules and procedures;
- monitoring the agency's performance through the development and use of performance measurements; and
- overseeing the development of agency-wide tax policy.

FINANCING INFORMATION:



BUDGET ACTIVITY SUMMARY (Continued)

Budget Activity: ADMINISTRATIVE SUPPORT
Program: TAX SYSTEM MANAGEMENT
Agency: REVENUE DEPT

Measuring performance

The department is participating in a project with the Federation of Tax Administrators (FTA) and the Midwestern States Association of Tax Administrators (MSATA) to develop a group of measures in which state tax agencies can compare their performance on commonly used functions, such as the speed of issuing refunds and depositing tax payments, and the quality of telephone service. The measures will encourage states to share information about "best practices" with one another.

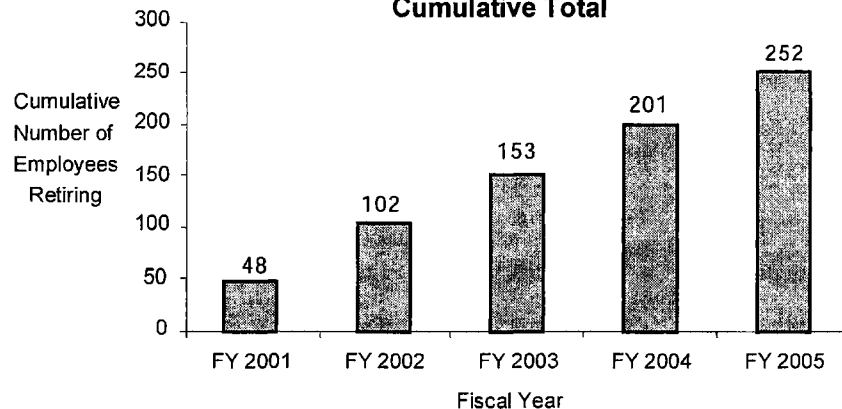
Modernizing the telephone system

The department now relies on a patchwork of outdated equipment and systems that cannot accommodate effective call handling and routing. The department is especially limited in its ability to respond to the unusually high call volumes that result from one-time events such as the sales tax rebate program. A coordinated system would allow more calls to be routed throughout the department, and would offer more automated features for taxpayer convenience. To modernize its phone system, the department will need to shift funds from other activities.

Increasing dependence on contracted services

The department's use of contracts to secure professional and technical services is growing; at the same time, the Department of Administration is transferring an increasing number of tasks to the agency in connection with negotiating, writing and overseeing contracts. These developments combine to place an increasing workload on this activity. To respond to these demands, the department will have to reallocate funds from other functions to ensure that contracts are promptly and accurately written, and that the contractors perform in accordance with contract provisions.

**Projected Retirements in the Next Five Years
Cumulative Total**



BUDGET ISSUES:

Changing workforce

The department faces significant obstacles in its effort to maintain an experienced and skilled workforce to perform the highly technical and challenging tasks of the future. These obstacles include:

- an aging workforce and the likely retirement of about one-fourth of the department's present employees in the next five years;
- a tight labor market in which to recruit highly skilled employees;
- below-market salaries for technical and professional workers;
- restrictions on the department's ability to offer flextime schedules to professional employees, due to a recent ruling of the US Department of Labor under the federal Fair Labor Standard Act (FLSA); and
- increased needs for retraining current employees to meet the requirements of newer, electronic systems and processes.

In addition, the department continues to have fewer staff overall because recent salary supplements have not covered negotiated salaries and benefits.

Activity: ADMINISTRATIVE SUPPORT
Program: TAX SYSTEM MANAGEMENT
Agency: REVENUE DEPT

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
Expenditures by Category:									
State Operations									
COMPENSATION	5,244	5,371	6,167	5,915	5,915	5,883	5,883	260	2.3%
OTHER OPERATING EXPENSES	12,997	9,855	12,710	11,521	11,521	11,827	11,827	783	3.5%
Subtotal State Operations	18,241	15,226	18,877	17,436	17,436	17,710	17,710	1,043	3.1%
CAPITAL OUTLAY & REAL PROPERTY	80	89	0	0	0	0	0	(89)	(100.0%)
PAYMENTS TO INDIVIDUALS	0	0	1	1	1	1	1	1	100.0%
LOCAL ASSISTANCE	0	53	50	0	0	0	0	(103)	(100.0%)
Total Expenditures	18,321	15,368	18,928	17,437	17,437	17,711	17,711	852	2.5%

Change Items:	Fund				
(P) PCA ENVIRONMENTAL TAX REFORM	ENV			14	14
(P) PCA ENVIRONMENTAL TAX REFORM	SW			(14)	(14)
Total Change Items				0	0

Financing by Fund:							
Direct Appropriations:							
GENERAL	17,191	15,198	18,180	17,196	17,196	17,460	17,460
ENVIRONMENTAL	0	0	0	0	14	0	14
SOLID WASTE	14	14	14	14	0	14	0
Statutory Appropriations:							
SPECIAL REVENUE	114	156	734	227	227	237	237
MISCELLANEOUS AGENCY	1,002	0	0	0	0	0	0
Total Financing	18,321	15,368	18,928	17,437	17,437	17,711	17,711

Revenue Collected:							
Dedicated							
SPECIAL REVENUE	1,323	1,554	1,530	1,532	1,532	1,603	1,603
MISCELLANEOUS AGENCY	1,002	0	0	0	0	0	0
Nondedicated							
GENERAL	1,304	(4)	0	0	0	0	0
Total Revenues Collected	3,629	1,550	1,530	1,532	1,532	1,603	1,603

FTE by Employment Type:							
FULL TIME	70.5	69.4	67.8	65.9	65.9	62.4	62.4
PART-TIME, SEASONAL, LABOR SER	4.8	8.1	7.0	6.3	6.3	3.7	3.7
Total Full-Time Equivalent	75.3	77.5	74.8	72.2	72.2	66.1	66.1

BUDGET ACTIVITY SUMMARY

Budget Activity: LEGAL & TAX POLICY
Program: TAX SYSTEM MANAGEMENT
Agency: REVENUE DEPT

ACTIVITY PROFILE:

The legal and tax policy activity manages these functions.

- Legal Services
- Appeals
- Criminal Investigations
- Tax Research

Legal Services include:

- providing in-house counsel and research and analysis of tax laws and tax policy;
- drafting administrative rules and revenue notices that announce the department's interpretation of the rules;
- representing the department at administrative and rulemaking hearings;
- providing legal support to the Attorney General's Office in tax litigation;
- drafting, negotiating, and overseeing state tax agreements with tribal governments;
- working with legislative staff, taxpayer and practitioner groups in drafting, interpreting, and providing expert testimony about legislation; and
- providing updates of law changes to taxpayer groups and tax practitioners.

The **Appeals** section is an independent, impartial unit to which taxpayers can appeal directly to resolve tax disputes over assessments and refund denials. In addition, it also

- resolves taxpayer appeals referred from the Attorney General's Office, and
- helps improve tax policy and administration by communicating the results of appeals to the department's service and compliance units.

Criminal Investigation services include:

- investigating possible tax crimes and referring cases to prosecutors;
- providing training to employees on indicators of fraud; and
- investigating threats made against department employees, and filing complaints with the appropriate local authorities.

Tax Research services include:

- forecasting state revenue sources and state aid expenditures for the state budget;
- developing the state's official revenue estimates for all proposed tax legislation;
- developing databases for use by the legislature and the executive branch for revenue forecasting and for analyzing the effect of tax proposals;
- disseminating economic and tax information for legislative staff, administration officials, executive branch officials, the department and the public;
- performing research and studies mandated by the legislature;
- preparing the *Minnesota Tax Expenditure Budget* and the *Minnesota Tax Incidence Report*; and
- maintaining an in-house library for tax research and study of tax laws.

STRATEGIES AND PERFORMANCE:

The department needs an in-house legal staff because the state's tax laws and the litigation those laws produce is extremely complex. The legal staff must also examine court rulings in both state and federal tax cases to determine their effect on department policy and operations.

In FY 1999, the department published 20 Revenue Notices in the *State Register* to announce its interpretation of tax laws and rules. In FY 2000, the department issued 18 Revenue Notices.

In FY 1999, attorneys spent over 5,000 hours researching, drafting, and testifying on legislation, and over 5,200 hours providing legal advice to the department's employees on issues arising from audits and from telephone inquiries.

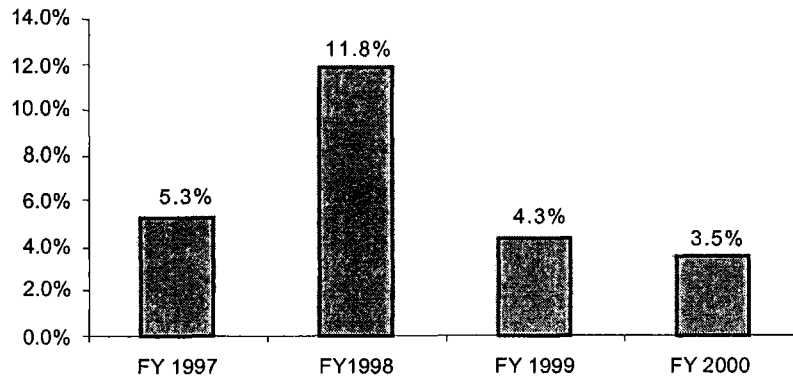
The department makes every effort to resolve tax disputes through its Appeals Unit, in part to avoid the high cost – for both the taxpayer and the department – of litigation.

BUDGET ACTIVITY SUMMARY (Continued)

Budget Activity: LEGAL & TAX POLICY
Program: TAX SYSTEM MANAGEMENT
Agency: REVENUE DEPT

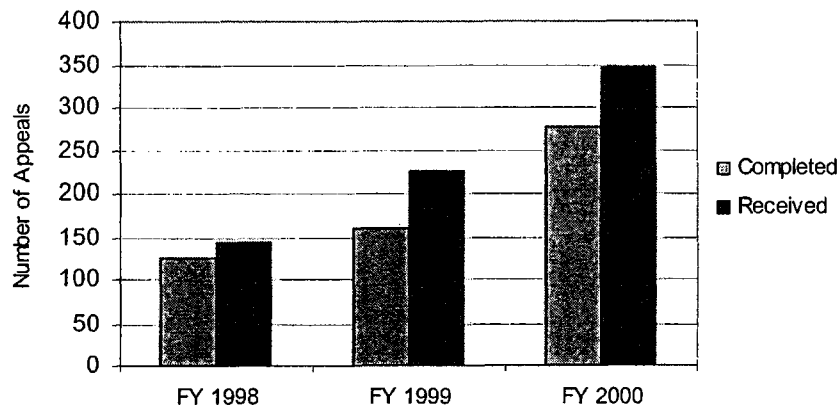
Appeals

**Percent of Administrative Appeals
Subsequently Appealed to Tax Court**



Taxpayers are increasingly making appeals solely in connection with the fairness of penalties imposed, rather than on interpretations of the penalty statutes, because they believe the penalties imposed are excessive.

Appeals of Penalty Assessments



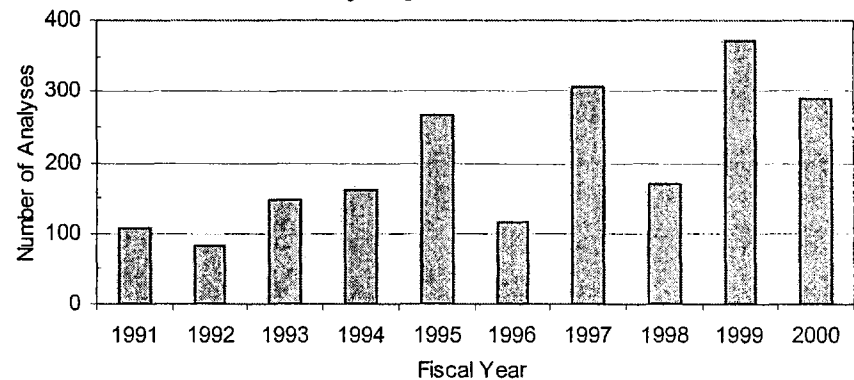
Criminal Investigations

In FY 1999, Criminal Investigations activities in the area of tobacco and cigarette tax noncompliance resulted in five individuals being charged with a total of 16 felony counts.

Research

The Director of the Tax Research Division chairs the statutorily established Data Coordinating Committee and works with legislative staff and the Department of Finance to develop databases used in state revenue forecasting and legislative tax reform. This arrangement avoids the expense of having separate databases for various agencies.

**Bill Analyses Provided to Tax Committees
By Legislative Session**



Between FY 1991 and FY 1999, the number of revenue estimates made by the Research activity in connection with tax legislation increased by almost 250%.

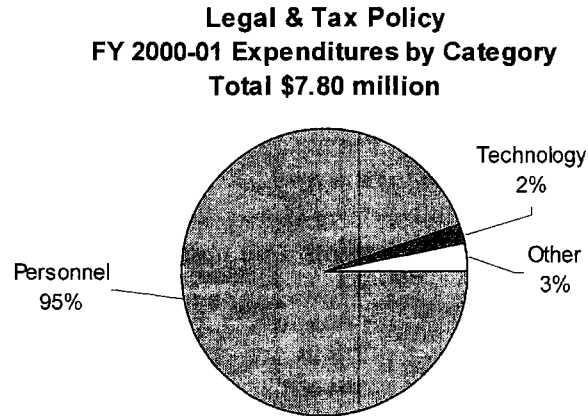
The Research activity provides revenue forecasts to the Department of Finance in connection with several state taxes. At the end of each legislative session, it also provides revenue estimates of the impact of all tax changes proposed by the legislature that are used by the Department of Finance to forecast changes in revenue.

Research is also using a Geographic Information System to map geographic patterns in the department's tax information. This system will help us implement the provisions of the federal Mobile Telecommunications Sourcing Act, and assist in property tax administration and in ongoing efforts to develop streamlined state sales tax laws.

BUDGET ACTIVITY SUMMARY (Continued)

Budget Activity: LEGAL & TAX POLICY
Program: TAX SYSTEM MANAGEMENT
Agency: REVENUE DEPT

FINANCING INFORMATION:



- Increased attempts to evade cigarette and tobacco tax, and more complex cases will limit our ability to investigate cases involving other types of taxes.

To compensate for the decreasing resources, we will

- partner with educational institutions and other public agencies; and
- use the department's web site to publish revenue analyses and research reports.

BUDGET ISSUES:

The general budgetary pressures described for other activities also effect the Legal & Tax Policy activities. In the upcoming biennium, this activity expects to face the issues listed below.

- Each year, many new tax laws are proposed, many new laws are created, and hundreds of amendments are made to existing laws, and all require legal analysis and interpretation. This task will become more difficult to achieve in this biennium due to reductions in the number of the activity's employees.
- Taxpayers are tending to be more aggressive in filing lawsuits over interpretation of state tax laws, resulting in an increased number of appeals.
- More appeals are based not on substantive law, but on time-consuming religious and constitutional arguments, even though the courts have previously rejected those arguments.
- Lack of funds will force the activity to discontinue recodification of tax law chapters, which will mean an increased number of appeals due to outdated or confusing language in existing laws.

Activity: LEGAL & TAX POLICY
Program: TAX SYSTEM MANAGEMENT
Agency: REVENUE DEPT

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
<u>Expenditures by Category:</u>									
State Operations									
COMPENSATION	3,423	3,598	3,741	3,791	3,884	3,796	3,893	438	6.0%
OTHER OPERATING EXPENSES	466	220	226	156	293	156	156	3	0.7%
Total Expenditures	3,889	3,818	3,967	3,947	4,177	3,952	4,049	441	5.7%
<u>Change Items:</u>	<u>Fund</u>								
(A) NONFILER INITIATIVE	GEN				230		97		
Total Change Items					230		97		
<u>Financing by Fund:</u>									
Direct Appropriations:									
GENERAL	3,732	3,643	3,782	3,761	3,991	3,765	3,862		
HEALTH CARE ACCESS	141	142	149	149	149	149	149		
Statutory Appropriations:									
SPECIAL REVENUE	16	33	36	37	37	38	38		
Total Financing	3,889	3,818	3,967	3,947	4,177	3,952	4,049		
<u>FTE by Employment Type:</u>									
FULL TIME	56.5	56.0	55.2	53.5	53.5	51.7	51.7		
PART-TIME, SEASONAL, LABOR SER	1.6	2.6	1.7	1.7	1.7	1.7	1.7		
Total Full-Time Equivalent	58.1	58.6	56.9	55.2	55.2	53.4	53.4		

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BUDGET ACTIVITY SUMMARY

Budget Activity: TAX OPERATIONS
Program: TAX SYSTEM MANAGEMENT
Agency: REVENUE DEPT

ACTIVITY PROFILE:

The Tax Operations activity provides the forms and instructions that taxpayers need to meet their filing and paying obligations. It processes tax returns and payments, issues refunds, manages taxpayer records, and ensures the security of taxpayer data. It also oversees the development and operation of the department's computer systems for all of its activities.

Forms, Instructions and Public Information: This activity

- designs, writes and oversees the printing of over 275 different tax forms and instructions;
- manages the department's web site on behalf of the tax systems, so forms, fact sheets, and other information are readily available to the public; and
- prepares press releases and other notices to inform taxpayers of existing tax obligations and new tax developments.

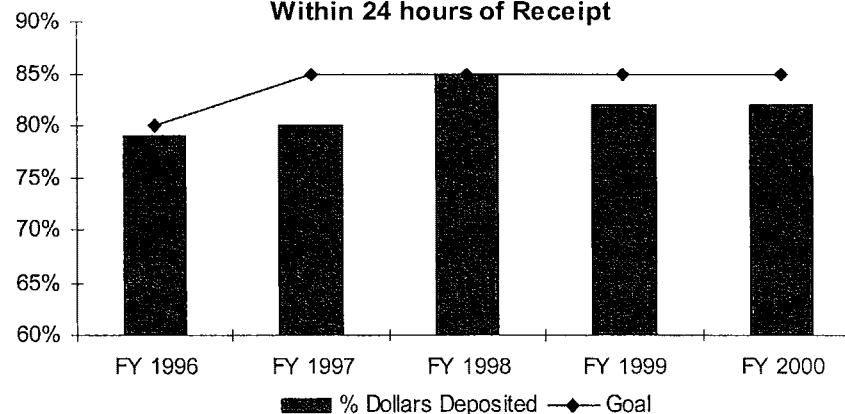
Forms Distribution and Mail Receiving: This activity

- mails 2.3 million tax forms, instructions and notices to taxpayers annually; and
- receives, opens and sorts over 6 million pieces of incoming mail annually.

Processing Tax Returns, Payments and Refunds: This activity

- processes 4.6 million tax returns annually, including, for individuals, 1.8 million paper individual income tax returns and 627,000 electronic income tax returns; and, for businesses, 1.9 million paper and 102,000 electronic returns for withholding, sales, corporate franchise, and other business taxes;
- deposits and records \$13 billion in tax payments annually;
- issues 2.2 million individual income tax and property tax refunds totaling \$1.062 billion annually;
- processes and distributes \$78.6 million in local sales tax receipts for local governments annually;
- in 1999, issued 2.148 million sales tax rebate checks totaling \$1.386 billion;
- in 2000, issued 2.37 million tax rebate checks totaling \$615 million.

**Percent of Dollars Deposited
Within 24 hours of Receipt**



Managing and Protecting Taxpayer Records: This activity

- establishes tax accounts for 37,000 new businesses and makes 66,000 changes to business records;
- maintains tax accounts for 3.5 million individual taxpayers and makes 305,000 annual updates to their identifying information;
- provides 9,000 copies of returns to taxpayers annually on request;
- oversees the privacy and security of taxpayer data;
- manages and controls access to taxpayer paper and electronic records, and the scheduled destruction of the records; and
- ensures that exchanges of taxpayer information between the department and other state agencies meet the requirements of state law.

Developing and Managing Computer Systems: This activity

- oversees the development and maintenance of the department's computer systems for all taxes, including 1,300 employee desktop work stations; and
- maintains more than 130 computer applications on 15 different platforms.

BUDGET ACTIVITY SUMMARY (Continued)

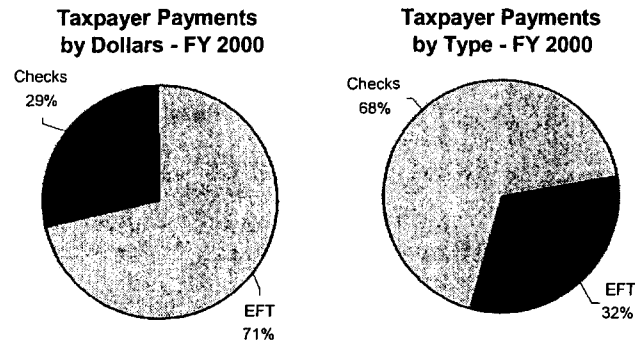
Budget Activity: TAX OPERATIONS
Program: TAX SYSTEM MANAGEMENT
Agency: REVENUE DEPT

STRATEGIES AND PERFORMANCE:

Tax Operations employs a wide variety of work processes and technologies to process, record and retrieve taxpayer returns. Most of these were designed for paper transactions. However, more and more, Minnesota taxpayers expect to be able to access forms and instructions and their tax records electronically, and they want to file and pay electronically.

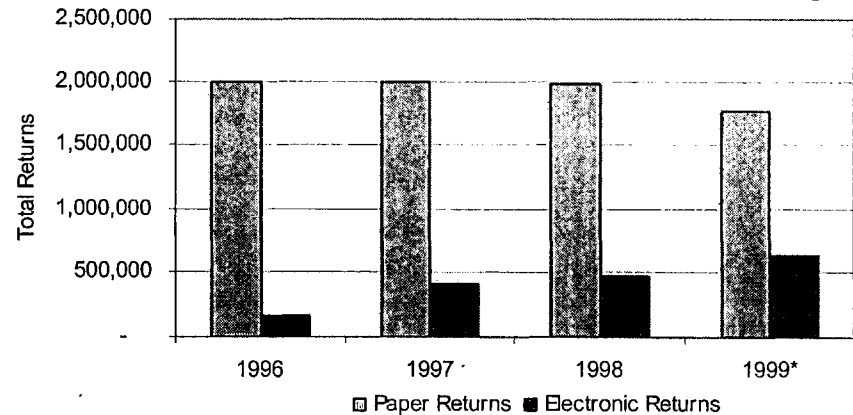
Growth in electronic filing: We are gradually implementing new electronic processes that reduce expensive, time-consuming manual handling, increase speed and accuracy, and provide higher service levels to taxpayers. Within available funds, the department is expanding its use of electronic filing, touch-tone telephone filing, internet filing, optical scanning, computer-to-computer filing and paying, and electronic funds transfer (EFT).

Of the total \$13 billion collected annually, about 71% of the money is received electronically. However, only one third of the payments are electronic, 66% of the payments are made by check. In FY 2000, the department processed 2,396,305 individual income tax returns.



Individual income tax filing: In 1997, electronic returns were about 7.5% of the total, but by 2000 they had grown to 26%. The total number of returns filed grew by about 175,000 or about 8% during the same period.

Individual Income Tax - Paper vs. Electronic Filing

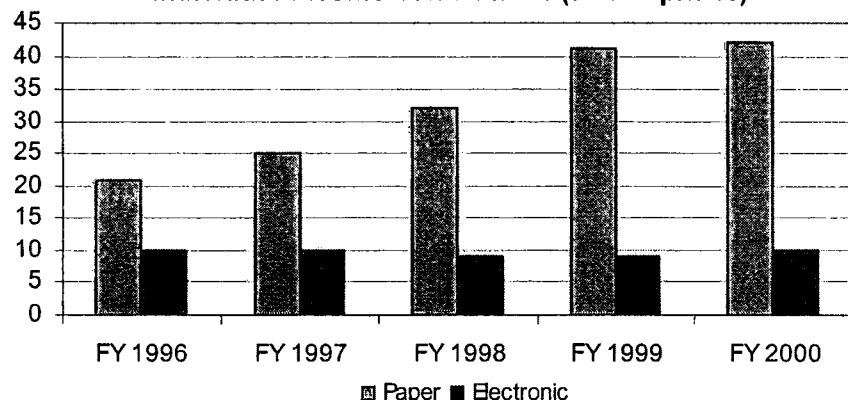


Although electronic filing and paying is growing, we must continue to process paper returns and payments. The best solution to the delays and inaccuracies inherent in paper processes will be the completion of the department's income tax reengineering project, and the future development of electronic filing and paying systems for all types of business taxes. The funds needed to develop these systems continue to be obtained by reallocating funds from other activities throughout the department, which curtails other department activities such as taxpayer telephone assistance, audit, and collection work.

BUDGET ACTIVITY SUMMARY (Continued)

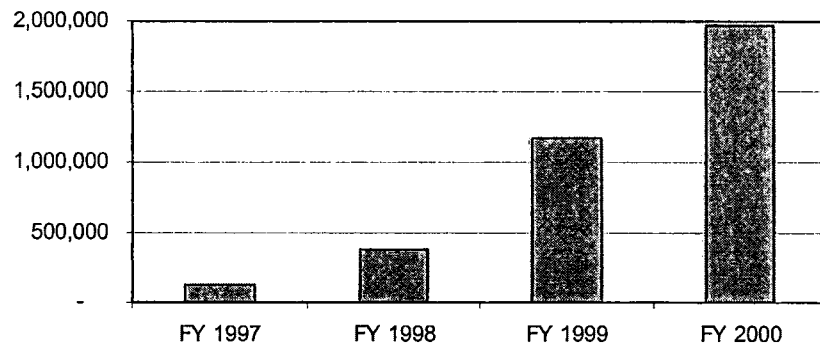
Budget Activity: TAX OPERATIONS
Program: TAX SYSTEM MANAGEMENT
Agency: REVENUE DEPT

**Average Days to Process
Individual Income Tax Returns (Jan - April 15)**



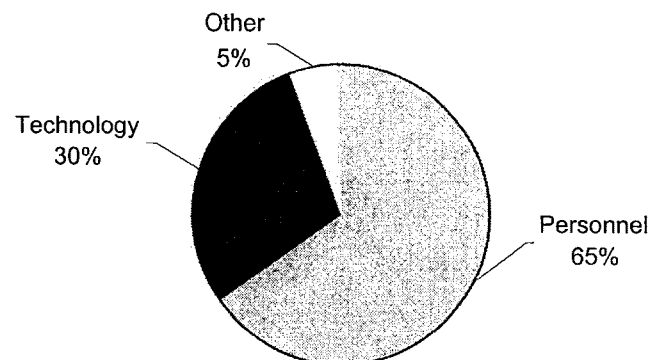
The number of income tax refunds issued grew from 1.5 million in 1997 to 1.8 million in 2000. However, during the rebate programs in 1998-99, refund returns were over 1.9 million. The number of forms and instructions provided to taxpayers by means of the internet has grown from 136,000 in FY 1997 to approximately two million in FY 2000.

Forms Downloaded from Website



FINANCING INFORMATION:

**Tax Operations
FY 2000-01 Expenditures by Category
Total: \$54.88 million**



BUDGET ISSUES:

The entire department is highly dependent on this activity for timely processing and accurate data. Consequently, the department has made every effort to shift resources to tax operations. This, coupled with the cost of reengineering the income tax system, will result in significantly reduced resources available for the department to carry out its other functions.

Income Tax Reengineering

Our income tax system, with approximately 3.5 million taxpayers and \$5.6 billion in annual net receipts, depends largely on old processes and computer systems placing our ability to provide good service and information to taxpayers and policymakers at serious risk.

To address this concern, in 1999, the Governor recommended \$16 million to reengineer the individual income tax system. To date, the legislature has appropriated \$12.6 million for the project. The department is seeking funds to complete this project in this budget.

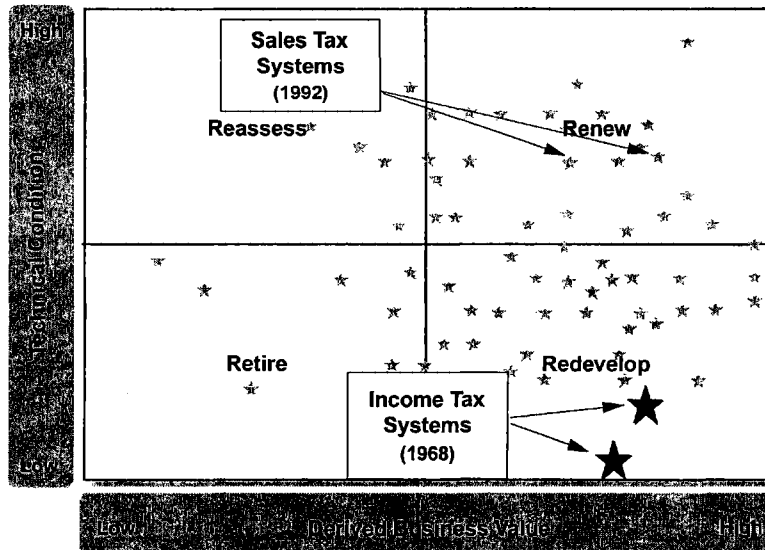
Other Old Computer Systems

The cost of maintaining all the current computer systems, including business taxes, is growing. It is especially difficult to find (and expensive to hire) programmers who are skilled in the old languages used to create the current systems. In addition, changes to these old programs run the risk of creating errors that can lead to major disruptions in service.

BUDGET ACTIVITY SUMMARY (Continued)

Budget Activity: **TAX OPERATIONS**
Program: **TAX SYSTEM MANAGEMENT**
Agency: **REVENUE DEPT**

DOR Information Systems Assessment



The department must develop new methods to audit the increasingly computerized accounting, filing and payment systems used by taxpayers. This will require developing tools and expertise to access and audit these records.

Overall, the cost of developing, maintaining and operating computer systems constitutes about 22% of the department's total budget. A recent study completed by the Gartner Group, considered a world leader in technology research, concluded that the department's direct and indirect costs in this area are lower than those of comparable organizations.

Increasing demand for electronic transactions

Although increasing numbers of individual taxpayers and businesses are becoming accustomed to making all financial transactions electronically, many taxpayers remain unable or unwilling to participate in electronic technology. Thus, the department will have to maintain and secure two separate systems: one for filing and paying taxes by paper, the other for filing and paying electronically.

Information systems labor costs

Labor costs for state and contracted information employees are projected to increase by 12% annually in each of the next two years. There are also likely to be major increases in the cost of new technologies. To pay for the salary increases, the department will have to reallocate funds from its other activities.

Maintaining technical infrastructure

The department relies almost exclusively on desktop computers, servers, computer networks and software programs. To maintain efficient operations, about one-third of this equipment should be replaced each year—a substantial cost. In addition, the department will have the added expense of upgrading computer connections for its offices in greater Minnesota.

Activity: TAX OPERATIONS
Program: TAX SYSTEM MANAGEMENT
Agency: REVENUE DEPT

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
Expenditures by Category:									
State Operations									
COMPENSATION	16,400	17,204	18,361	18,765	19,579	19,071	19,695	3,709	10.4%
OTHER OPERATING EXPENSES	9,661	8,365	11,102	8,637	12,577	9,952	11,682	4,792	24.6%
Subtotal State Operations	26,061	25,569	29,463	27,402	32,156	29,023	31,377	8,501	15.4%
CAPITAL OUTLAY & REAL PROPERTY	6	0	0	0	0	0	0	0	
Total Expenditures	26,067	25,569	29,463	27,402	32,156	29,023	31,377	8,501	15.4%

Change Items:	Fund				
(A) NONFILER INITIATIVE	GEN			200	
(P) PAST UNFUNDED OPERATIONAL COSTS	GEN			154	154
(P) PCA ENVIRONMENTAL TAX REFORM	ENV			18	18
(P) PCA ENVIRONMENTAL TAX REFORM	SW			(18)	(18)
(B) NEW REENGINEERING OPERATIONAL COSTS	GEN			700	500
(B) REENGINEERING COMPLETION	GEN			3,700	1,700
Total Change Items				4,754	2,354

Financing by Fund:							
Direct Appropriations:							
GENERAL	24,512	24,703	28,411	26,404	31,158	27,989	30,343
HEALTH CARE ACCESS	150	137	142	140	140	140	140
HIGHWAY USERS TAX DISTRIBUTION	53	54	54	54	54	54	54
ENVIRONMENTAL	0	0	0	0	18	0	18
SOLID WASTE	18	18	18	18	0	18	0
Statutory Appropriations:							
GENERAL	582	0	3	0	0	0	0
SPECIAL REVENUE	752	657	835	786	786	822	822
Total Financing	26,067	25,569	29,463	27,402	32,156	29,023	31,377

FTE by Employment Type:							
FULL TIME	256.8	258.0	256.9	255.5	255.5	248.2	248.2
PART-TIME, SEASONAL, LABOR SER	182.3	141.1	139.2	137.6	137.6	134.7	134.7
Total Full-Time Equivalent	439.1	399.1	396.1	393.1	393.1	382.9	382.9

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BUDGET CHANGE ITEM (58706)**Agency: REVENUE DEPT****Item Title: NEW REENGINEERING OPERATIONAL COSTS**

	<u>2002-03 Biennium</u>		<u>2004-05 Biennium</u>	
	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u>
Expenditures: (\$000s)				
General Fund				
-State Operations	\$700	\$500	\$300	\$300
Revenues: (\$000s)				
General Fund	\$-0-	\$-0-	\$-0-	\$-0-
Statutory Change? Yes _____ No <u> X </u>				
If yes, statute(s) affected:				
<u> X </u> New Activity _____ Supplemental Funding _____ Reallocation				

GOVERNOR'S RECOMMENDATION:

The Governor recommends a General Fund appropriation of \$700,000 in FY 2002 and \$500,000 in FY 2003 to modify the original income tax reengineering design to include scanning of all federal returns (paper) submitted with Minnesota income tax returns.

RATIONALE:**Original Design Plan**

The department's original design for the income tax reengineering project was to scan only Minnesota paper returns, including attachments and W-2 information – but not the federal returns attached to them. This design reduced the filing burden for the taxpayer and eliminated handling of millions of unneeded federal documents at DOR.

DOR receives all federal information whenever the taxpayer files electronically – 627,000 taxpayers filed electronically in 2000. Also the IRS provides most federal return information to the department on tape within nine months. The IRS data provides DOR with sufficient information to 1) serve as a basis for review and audit activities, and 2) provide educational assistance to individual taxpayers and accountants.

Therefore, part of the original reengineering design included pursuing legislation to make the current requirement of attaching copies of federal returns with Minnesota filings permissive at the discretion of the Commissioner of Revenue.

Legislation

DOR sought the discretionary language in the 2000 legislative session. The legislature expressed concerns about the reliability of the income tax data samples without requiring federal forms – these samples generally rely on collecting information from approximately 24,000 federal returns. The legislature directed DOR, in consultation with the Data Coordinating Committee, to study and evaluate alternatives to requiring the attachment of paper federal returns. (M.S. 270.0682) The Data Coordinating Committee included representatives from Revenue, Finance, and legislative fiscal and research staff.

The study was conducted over the interim, and the final report was completed 12-14-2000. The Data Coordinating Committee recommended Minnesota taxpayers continue to attach copies of their federal returns to their Minnesota filings.

Design Modification

The conclusion of this study required DOR to reevaluate its income tax reengineering design. The department concluded scanning all federal returns increased the imaging effort by about 2.5 times, increased the capturing quality step by 2.5 times, and required additional effort to securely store and safely destroy the additional federal paper records.

For the new scanning requirements, the department is asking for an on-going but declining appropriation because it is actively promoting electronic filing. All electronically filed Minnesota returns already include an electronic version of the taxpayer's federal return. DOR's goal is for 70% of returns to be filed electronically in FY 2003. A law passed in 2000, which requires all tax preparers who file over 100 returns in FY 2003 to file them electronically, will assist DOR in meeting that goal.

FINANCING:

DOR's original design for reengineering was based on the assumption that it would obtain federal information from tapes supplied by the IRS. To accommodate the research needs of the legislature, the Department of Finance, and the Tax research Division at DOR, for quicker access to complete federal return information for all filers, DOR requests on-going funding to scan all federal returns at an additional operating cost of \$.50 per return. DOR is seeking funding to cover the scanning of approximately 1.4 million paper returns in FY 2002 and one million paper returns in FY 2003. As the volume of electronic filing increases, the department expects the on-going costs of scanning federal returns will diminish over time.

BUDGET CHANGE ITEM (58706) (Continued)

Agency: REVENUE DEPT

Item Title: NEW REENGINEERING OPERATIONAL COSTS

OUTCOMES:

Federal return images will be available electronically within 14 days for returns filed prior to April 1 and within 45 days for returns filed between April 1 –15. This will provide better data for tax policy and budget analysis.

The advantages of scanning the paper federal returns, as opposed to manually processing them, include:

- return images would be available more quickly;
- the data obtained from scanning is more accurate because human errors are reduced; and
- storage space needs and retrieval costs are greatly reduced.

INFORMATION TECHNOLOGY CHANGE ITEM (53869)

Activity: TAX OPERATIONS
Program: TAX SYSTEM MANAGEMENT
Agency: REVENUE DEPT
IT Change Item: REENGINEERING COMPLETION

ITEM DESCRIPTION AND PURPOSE:

The Governor recommends \$5.4 million to complete implementation of the individual income tax reengineering project.

This project was presented to the 1999 legislature and partially funded in 1999 and 2000. The existing appropriation of \$12.6 million allows DOR to replace the fragile computer system, but only minimally improve processing and taxpayer data.

The additional \$5.4 million will add a scanning and imaging component to capture additional data, accurately and electronically. Scanning will enable us to process income and property tax refunds more quickly, and will markedly assist us in undertaking additional compliance activities.

FUNDING: (Dollars in Thousands)

Funding Distribution	2002-03 Biennium		2004-05 Biennium		2006-07 Biennium	
	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Personnel	1,400	1,700	0	0	0	0
Supplies	0	0	0	0	0	0
Hardware	1,500	0	0	0	0	0
Software	800	0	0	0	0	0
Facilities	0	0	0	0	0	0
Services	0	0	0	0	0	0
Training	0	0	0	0	0	0
Grants	0	0	0	0	0	0
Total	3,700	1,700	0	0	0	0

The Governor originally recommended \$16 million in response to DOR's request, spread over four years, for income tax reengineering in the FY 99-00 biennial budget. In 1999 the Legislature approved \$12 million, available for four years. In 2000, the Legislature awarded an additional \$600,000 from remaining Y2K monies. Total funding approved to date is \$12.6 million.

Thus far DOR has scaled back the reengineering design to stay within the \$12.6 million appropriation. This amount allows DOR to update computer hardware, rewrite programs in current computer languages, validate and reconcile more information as it is entered into the processing system, deposit funds more quickly, and somewhat improve the information available to the taxpayer.

The current funding will not measurably speed up processing nor capture more data. The additional funding will allow DOR to implement a scanning and imaging component. This will speed up processing, capture more data, and improve compliance activities.

Additional Internet access will also be available to taxpayers. Options under consideration include filing, access to view and update their accounts, and online questions.

RATIONALE:

A key DOR vision underlying reengineering is that taxpayers should pay what the right amount, no more, no less. In regard to the Governor's budget principles, the project will ensure cost-effective processing and sound technical support for this tax system.

The individual income tax system, with over 3.5 million taxpayers and \$5.6 billion in annual receipts, affects the lives of every citizen and accounts for 43% of the Department's resources each year. However this vital cornerstone of Minnesota's public revenue system depends largely on antiquated processes and old, fragile computer systems. DOR's ability to provide good service and information to the taxpayers and policymakers is at serious risk.

With the current funding DOR will mitigate system risks, but will only minimally improve taxpayer service, tax and budget policy implementation, compliance, and the cost management benefits described below.

DOR's original case for income tax reengineering outlined these issues:

RISK AND COST MANAGEMENT: The risks and difficulties of keeping the old systems running and modifying programs written in obsolete program languages have concerned DOR for a decade. DOR risks losing the system either incrementally or catastrophically, under the stress of operations or modification.

TAXPAYER SERVICE: The current system is inflexible and unresponsive, and cannot accommodate electronic filing and paying. Incorrect and untimely information about taxpayer accounts and filing status is far too common.

TAX AND BUDGET POLICY IMPLEMENTATION: The current systems cannot adapt efficiently to changes in tax law such as various rebate programs. Delays and errors in manually captured return and payment information affect the quality of state revenue forecasts.

COMPLIANCE: Late and/or inadequate data limit DOR's ability to achieve compliance through proper audit, information and service activities. DOR's ability

INFORMATION TECHNOLOGY CHANGE ITEM (53869) (Continued)

Activity: TAX OPERATIONS

Program: TAX SYSTEM MANAGEMENT

Agency: REVENUE DEPT

IT Change Item: REENGINEERING COMPLETION

to identify nonfilers and evaders is hampered by our outdated processing and data management status.

The OUTCOMES of additional funding include:

- All return information is available within 14 days of receipt.
- All filers and non-filers are evaluated so that we can identify the most appropriate and effective compliance activities.
- Feedback is provided to those taxpayers who require it before the next filing.
- Critical information to identify a taxpayer is correct before entered into the system.
- Information is available to authorized employees and taxpayers when and where needed.
- Taxpayer and employer withholding and estimated payment information is captured and reconciled.
- All return information is captured accurately and mathematical computations validated during processing
- Minimally sufficient information is maintained to uniquely identify those who may need to interact with the income tax system.

improve service to both policymakers and taxpayers alike. This initiative is listed as a priority in the agency SIRMP. It supports Big Plan (SNS- Best Bang for the Buck), and infrastructure components. Conclusion: This initiative meets information technology criteria for funding.

GOVERNOR'S RECOMMENDATION:

The Governor recommends a \$5.4 million general fund appropriation to the Department of Revenue to complete full implementation of the individual income tax reengineering project.

LIFE CYCLE ANALYSIS:

Life Cycle Status	2002-03 Biennium		2004-05 Biennium		2006-07 Biennium	
	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Development	X	X				
Operations	X	X				
Modification						
Retirement						

The detailed design was completed in 1999 and included several releases. Release One, the file folder, will be completed in January 2001; release Two, the tax factory, will be completed in January 2002. Additional compliance releases and web programs are dependent on additional funding.

OFFICE OF TECHNOLOGY ANALYSIS:

This initiative is a continuation of funding for the income tax reengineering project. Deliverables/Objectives: Proposed is to spend 5.4 million to complete the project. This will allow replacement of an antiquated computer system and

BUDGET ACTIVITY SUMMARY

Budget Activity: INCOME TAX SYSTEM
Program: TAX SYSTEM MANAGEMENT
Agency: REVENUE DEPT

ACTIVITY PROFILE:

The Individual Income Tax activity administers the state individual income tax, the withholding of individual income tax, and the property tax refund program. It provides services to:

- 3.5 million individual income tax taxpayers,
- 180,000 withholding taxfilers, and
- 500,000 property tax refund claimants.

The individual income tax accounts for nearly half of the state's total tax collections each year—about \$5.6 billion, with \$4.6 billion remitted by businesses through withheld income tax. In 2000, 471,000 renters and homeowners received property tax refunds averaging \$375 each.

This activity works closely with the Internal Revenue Service (IRS), volunteer taxpayer assistance organizations, professional tax preparers, tax return software developers, and electronic filing services.

STRATEGIES AND PERFORMANCE:

This activity facilitates voluntary compliance by interpreting laws, educating taxpayers, and responding to questions. A major factor contributing to voluntary compliance is the withholding of individual income taxes. Additionally, this activity audits taxpayer records to identify and resolve tax filing and payment discrepancies, discourage tax evasion, and measure levels of compliance.

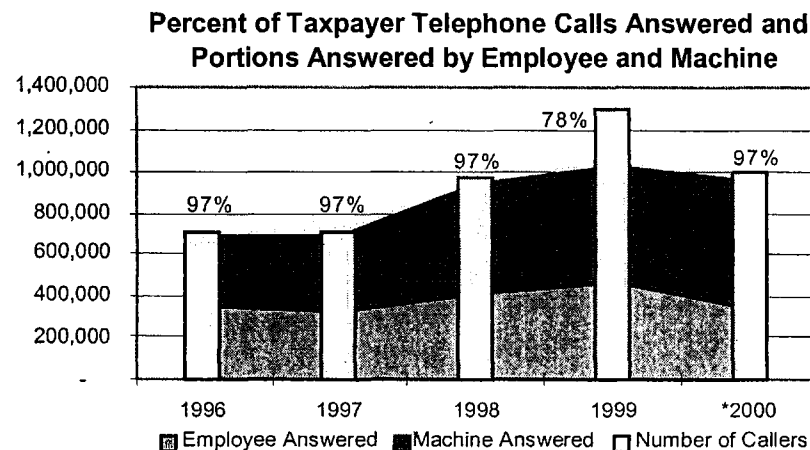
Expanding services to non-English speaking taxpayers

Minnesota's Asian population, currently estimated at 136,000, is expected to reach 229,000 by 2025. The state's Hispanic population, now estimated at 132,000, is expected to reach 296,000. This activity is expanding outreach into non-English-speaking communities to educate these citizens in order to improve their compliance.

In FY 2000, this activity developed an outreach program for the Asian-Pacific and Hispanic communities that included identifying needs, establishing links to community organizations and leaders, and developing publications to explain tax requirements in their languages. It is also working on presenting information to community groups and creating self-sustaining volunteer community operations that will provide continued assistance in filing tax returns.

Responding to taxpayer telephone inquiries

In 1998, telephone calls from individual taxpayers increased about 34%, largely due to changes in the income tax laws and a one-time property tax rebate program. In 1999, incoming calls increased an additional 36%, due mainly to a sales tax rebate program. Even though employees from other units assisted in handling this dramatic growth, service levels dropped. Telephone inquiries are expected to drop to about 800,000 annually by 2002 because our web page will be more detailed, refunds will be quicker because of reengineering completion, and taxpayers have gained experience in filing for rebates.



*Estimated through 12-31-2000

The cost of complexity. Following the 1987 income tax reform, Minnesota's income tax return had only 17 lines. Today's return has 47 lines, mainly due to the threefold increase in credits and modifications to income. This increase in complexity results in more taxpayer confusion and errors. Errors lead to more phone calls, delays in issuing refunds, and increase the overall cost of processing tax returns.

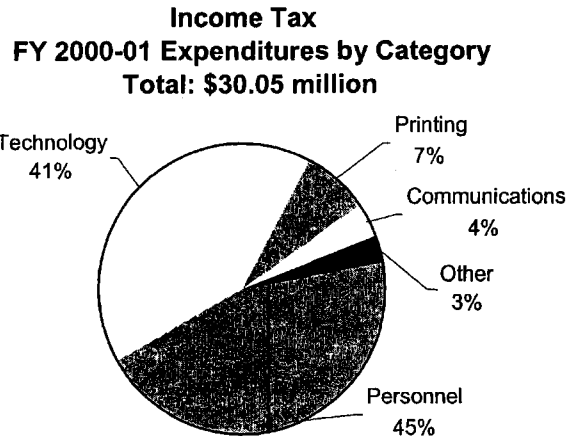
Auditing returns. Returns audited by this activity result in both increases and decreases of the tax owed by the taxpayer. The decrease of audits is largely due to shifting employees from auditing to taxpayer telephone service for the rebates.

\$ in millions	returns audited	taxes increased	taxes decreases	net
FY 1999	37,911	\$24.1	\$1.5	\$22.6
FY 2000	24,943	19.2	1.4	17.7
FY 2001 (est)	23,000	24.3	1.3	23.0

BUDGET ACTIVITY SUMMARY (Continued)

Budget Activity: INCOME TAX SYSTEM
Program: TAX SYSTEM MANAGEMENT
Agency: REVENUE DEPT

FINANCING INFORMATION:



BUDGET ISSUES:

In each year of the 2002-03 biennium, this activity will receive the same level of funding as in FY 2001. Nevertheless, the challenge is to bring about increased compliance with the income tax system while maintaining existing levels of telephone taxpayer service. This is a major undertaking, due to the large number of calls each year.

This task is more difficult because 10 positions will be left unfilled to pay for the increased costs of existing positions and inflationary increases for equipment.

Growing tax compliance gap

The department estimates that in FY 2000 the gap between the state income tax amount owed and actually paid was about \$882 million, largely due to unreported income. Estimates by the National Center for Policy Analysis suggest that the gap keeps growing. The activity will be working informally with the University of Minnesota to assess the tax gap estimate.

This activity is focusing on identifying nonfilers and collecting unpaid tax from those who owe tax. We estimate that each year from 25,000 to 50,000 Minnesotans fail to file state income tax returns. In FY2001, the department identified 37,000 Minnesotans who received income of at least \$20,000 in 1996 or 1997 and failed to file Minnesota income tax returns. This activity is now using an existing computer system, which it has just modified to automatically determine the tax due, penalty and interest for each of those who owe tax, and to generate a series of letters to the nonfiler.

Activity Reallocations

more of this activity's To maintain current levels of service and also expand nonfiler activities within current funding levels, this activity will

- use more automated telephone responses to free up employees for nonfiler efforts;
- automate tasks that have required considerable manual intervention;
- encourage taxpayers and tax preparers to use the department's website as a source of information instead of relying on telephone assistance;
- stop mailing tax forms and instructions to individual taxpayers who have for at least one year filed their returns electronically or used a tax practitioner, thus saving printing and mailing costs;
- stop distributing forms and instructions to locations, such as certain post offices, where there has been little or no taxpayer interest in picking them up, thus saving printing and distribution costs;
- ensure that tax preparers who file substantial numbers of returns comply with the law that mandates all-electronic filing for preparers who meet the thresholds: more than 500 returns in 2001, more than 250 returns in 2002, and more than 100 returns in 2003;
- offer incentives such as faster refunds and filing confirmation to encourage more individual taxpayers to file electronically, thus reducing the cost of printing, mailing, and handling paper returns;
- develop an integrated filing and paying system for businesses to use in remitting withheld income tax, thus reducing the cost of printing, mailing and handling of paper returns; and
- work with Department of Economic Security to include withholding tax audits in its audits of payments of unemployment compensation tax, thus making employees available to pursue nonfilers.

Activity: INCOME TAX SYSTEM
Program: TAX SYSTEM MANAGEMENT
Agency: REVENUE DEPT

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
Expenditures by Category:									
State Operations									
COMPENSATION	6,117	6,434	7,099	6,849	6,911	6,849	6,912	290	2.1%
OTHER OPERATING EXPENSES	2,807	5,584	9,533	3,000	3,109	2,000	2,104	(9,904)	(65.5%)
Total Expenditures	8,924	12,018	16,632	9,849	10,020	8,849	9,016	(9,614)	(33.6%)
Change Items:	Fund								
(A) NONFILER INITIATIVE	GEN				55		51		
(P) PAST UNFUNDED OPERATIONAL COSTS	GEN				116		116		
Total Change Items					171		167		
Financing by Fund:									
Carry Forward:									
GENERAL	0	0	0	1,200	1,200	200	200		
Direct Appropriations:									
GENERAL	8,924	12,018	16,632	8,649	8,820	8,649	8,816		
Total Financing	8,924	12,018	16,632	9,849	10,020	8,849	9,016		
FTE by Employment Type:									
FULL TIME	122.2	124.0	121.7	120.1	120.1	115.6	115.6		
PART-TIME, SEASONAL, LABOR SER	5.4	5.6	5.6	4.6	4.6	4.1	4.1		
Total Full-Time Equivalent	127.6	129.6	127.3	124.7	124.7	119.7	119.7		

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BUDGET ACTIVITY SUMMARY

Budget Activity: BUSINESS, EXCISE & CONSUMPTION TAX
Program: TAX SYSTEM MANAGEMENT
Agency: REVENUE DEPT

The chart shows the percent of sales and use tax the businesses were actually paying in comparison to what they should have paid.

ACTIVITY PROFILE:

The Business, Excise and Consumption Tax System administers taxes and provides services to the following Minnesota taxpayers.

- 228,000 businesses that collect and remit sales and use tax
- 55,000 corporations, 50,000 S corporations, and 31,000 partnerships
- 33,000 fiduciary and 1,900 estate tax payers
- 800 petroleum product distributors
- 70 cigarette and 200 tobacco distributors
- 35 wine and 6 liquor distributors; 120 brewers and beer importers
- 1,700 insurance companies
- 8,500 hospitals, health care providers and prescription drug wholesalers
- 1,500 organizations that conduct lawful gambling, and 15 gambling equipment distributors
- 10,000 hazardous waste generators and 500 solid waste management services
- 8 mining companies
- 300 dry cleaning facilities

This activity also administers local option sales and use tax on behalf of 10 cities and one county.

STRATEGIES AND PERFORMANCE:

This activity facilitates voluntary compliance by providing educational services to businesses, including interpreting the laws, providing forms and instructions to help them meet their filing and paying obligations, and responding to questions. This activity also audits taxpayer records to identify and resolve tax filing and payment discrepancies, discourage tax evasion, and measure levels of compliance.

Uneven Compliance: The following chart illustrates the wide range of sales tax compliance among different types of businesses. This activity audited a representative group of businesses in each of the seven categories shown below.

Tax Dollars Reported Correctly in Sample Populations

	FY	Sales Tax		Use Tax	
		Large*	Small	Large	Small
Medical Doctors	1996	98%	76%	63%	13%
Accountants	1997	100%	84%	91%	17%
Specialty Contractor	1997	99%	100%	84%	17%
Hotels, Motels, Inns	1998	100%	98%	69%	46%
Legal Services	1999	73%	n/a	41%	0%
Computer Programming	1999	92%	94%	89%	18%
Real Estate	2000	100%	94%	56%	12%

*Large/Small categories determined by amount of Minnesota withholding tax remitted

Internet Sales: Minnesota sales tax is not collected on many sales made to Minnesotans by out-of-state businesses over the internet because the sellers do not have sufficient business presence in Minnesota. National studies estimate that by FY 2003, untaxed internet sales could represent a loss of \$219 million in Minnesota sales tax revenues annually.

Corporate Franchise Tax. In 1997, unpaid corporate franchise tax was estimated to be \$138.3 million. Of that amount, the activity was able to identify and assess \$64.4 million, or 47%. In 2000, the estimated amount of unpaid tax had grown to \$162.6 million, but the activity identified and assessed only \$38.4 million, or 24% of that amount. This decline has two main causes: the activity reduced its audit efforts in order to offset cost increases in salaries and technology support, and corporations are aggressively—and successfully—challenging the department's interpretations of the tax laws.

Identifying Nonfilers: This activity has an ongoing program to identify and bring into compliance businesses, both within and outside Minnesota, that are not collecting and remitting Minnesota sales tax on their transactions. Businesses identified and addressed in the last 12 years continue to collect and remit taxes; from FY 1998-00 those businesses paid about \$50 million in sales tax. In contrast, from FY 1998-00, audits collected \$6.5 million in sales tax from similar businesses.

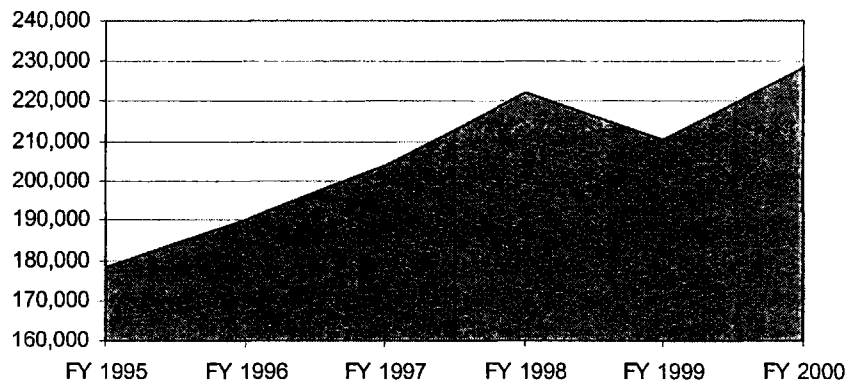
This activity also identifies businesses outside Minnesota that should be paying the Minnesota corporate franchise tax. From FY 1998-00, this activity identified 1,600 businesses that were out of compliance and collected \$16.6 million in taxes—about \$5.5 million annually. These businesses, too, continue to file and pay taxes in subsequent years.

BUDGET ACTIVITY SUMMARY (Continued)

Budget Activity: BUSINESS, EXCISE & CONSUMPTION TAX
Program: TAX SYSTEM MANAGEMENT
Agency: REVENUE DEPT

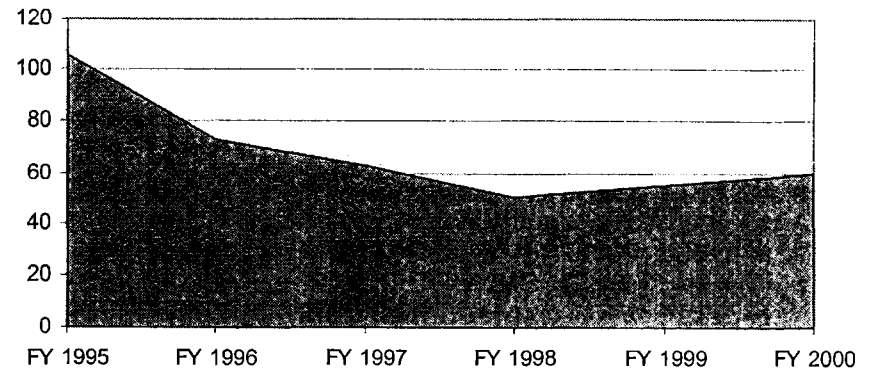
More Businesses, Fewer Audits: From FY 1995-00, the number of businesses paying sales and use tax increased by nearly 50,000, from 178,592 to 228,431: an increase of nearly 28%.

**Sales and Use Tax
Registered Businesses**

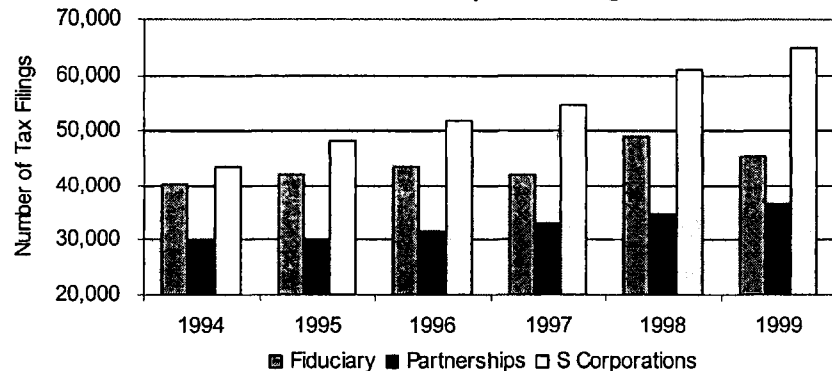


Audits during the same period decreased from 1,887 to 1,371: a decrease of 27%. In FY 1995, the activity audited about 1% of businesses. In FY 2000, the rate dropped to about 0.6% of total businesses.

**Sales and Use Tax
On-Premise Audits per 10,000 Taxpayers**



**Growth in S Corporations, Fiduciary
and Partnership Tax Filings**



To improve customer service, employees were reallocated from audit activities to telephone taxpayer assistance. In FY 1995, only 71% of taxpayer phone calls were answered. Since June 1999, this measure has improved to about 98%.

As in other department activities, audit positions have also been left vacant to pay for systems maintenance and development, and the rising cost of salaries, equipment, and travel. Coupled with rapid growth in the number of taxpayers, this has resulted in less traditional audits.

To compensate for the reduction in traditional audits, this activity employs other "alternative" compliance techniques, including

- managed audits—an examination of business records conducted by the taxpayer using department guidelines;
- partial audits—auditing only records of those types of transactions where noncompliance has been common;
- targeting audits and information efforts at types of businesses that have a history of noncompliance; and

BUDGET ACTIVITY SUMMARY (Continued)

Budget Activity: BUSINESS, EXCISE & CONSUMPTION TAX
Program: TAX SYSTEM MANAGEMENT
Agency: REVENUE DEPT

- making more information available over the Internet so that taxpayers are aware of their responsibilities for filing returns and paying taxes.

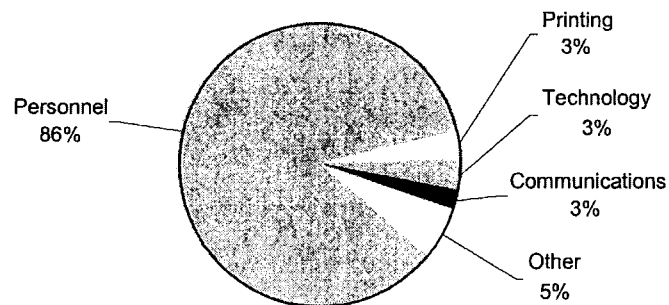
While these efforts bring in less revenue than traditional audits, they still focus on taxpayers making an effort to comply with the tax laws. However, these "alternative" efforts do not make progress in improving conformity among those furthest from compliance with the tax laws, including:

- businesses that typically deal in cash transactions;
- out-of-state businesses that fail to collect and remit Minnesota sales and excise taxes;
- businesses that adopt a strategy of not paying taxes until discovered by the department; and
- businesses that choose to evade the tax laws.

In 1997 and 1999, surveys revealed that more than three-quarters of taxpayers surveyed supported the idea of a robust audit program. We believe taxpayers support such an audit program as a means of ensuring that they are not at a disadvantage with their competitors, who—without audit presence—might be inclined to pay less tax than owed.

FINANCING INFORMATION:

**Business, Excise and Consumption Tax
FY 2000-01 Expenditures by Category
Total: \$43.54 million**



BUDGET ISSUES:

Resource Pressures

Each year of the FY 2002-03 biennium this activity will receive the same amount base funds it received in FY 2001. While funding has remained static, costs have not. To pay for negotiated salary and benefit increases and inflationary increases in the cost of equipment, this activity will leave approximately 33 positions vacant. The result will be fewer audits and less information and service provided to businesses. Specific impacts by tax type will include:

Sales and Use Tax: Over the biennium, there will be 18 fewer employees assigned to ensure compliance with the sales and use tax law. As a result,

- about 850 fewer contacts will be made with non-compliant taxpayers, resulting in a reduction of approximately \$6 million in collected taxes;
- the taxpayer telephone service level is expected to drop from 98% to 90%;
- 10 workshops on sales and use tax for new businesses will be dropped; and
- timely (within 30 days) processing of claims for refunds will drop by 11%, which will mean a decline in customer satisfaction and additional interest paid out to businesses filing claims.

Corporate Franchise Tax: Over the next biennium, there will be nine fewer employees. As a result, we will perform approximately 40 fewer audits per year, with an estimated loss of \$3.8 million annually.

Tobacco, alcohol, petroleum, lawful gambling, MinnesotaCare, mining, deed and environmental taxes: Over the biennium, there will be six fewer employees assigned to do on-site audits and to verify the accuracy of returns. This reduction in audit presence is expected to affect levels of compliance.

Growing Complexity of Audits

At the same time that fewer employees will be available to perform audits, the audits are becoming increasingly complex—and therefore more time-consuming and expensive—due to several these developments.

- Taxpayers are hiring tax law and accounting firms to aggressively challenge state tax laws. These firms have also become aggressive in soliciting clients.
- As businesses convert from paper to electronic records, less information is preserved for each business transaction in their records.
- More businesses are using computers to maintain financial records and pay taxes and more training is needed to enable employees to understand and access various computer systems.

BUDGET ACTIVITY SUMMARY (Continued)

Budget Activity: BUSINESS, EXCISE & CONSUMPTION TAX
Program: TAX SYSTEM MANAGEMENT
Agency: REVENUE DEPT

If this simplified, uniform sales tax system is implemented, it will require the activity to modify computer systems, retrain employees, rewrite and issue forms and instructions, and re-educate business taxpayers.

- Consolidations and mergers among businesses have made it more difficult to trace transactions and determine which corporate entity is responsible for paying the tax.
- The rapid growth of catalogue, telephone and internet sales has made it more difficult to determine who is responsible for paying the taxes.
- Unprecedented growth in the state's economy has meant growth for businesses, and as businesses grow, they become more complex, making audits more complex and time-consuming. In addition, more businesses have become national and international, increasing the number of cross-border transactions.

Increasing Prices affect Consumption Tax Activities

- Higher fuel prices make it more attractive for drivers to put untaxed fuel designated for off-road use into their on-the-road vehicles. We will need to create and implement additional means for detection of untaxed fuel, including partnering with other agencies (state and federal) to identify such use.
- The increasing cost of cigarettes and tobacco products has made unauthorized sources more attractive, thus reducing tax revenue from cigarette and tobacco sales. This activity has identified over 100 Internet sites offering "tax free" cigarettes and tobacco products. Purchases made outside the normal chain of distribution not only deprive the state of revenue, they also represent unfair competition for licensed, tax paying businesses.

Streamlined Sales Tax Project:

This activity is participating with 40 other states in the Streamlined Sales Tax Project to create a simplified, uniform system for collecting and paying sales tax—while allowing states to impose the tax at their own rates. The project is supported by the National Governors Association, the National Council of State Legislators, the Multi-State Tax Commission, and the Federation of Tax Administrators.

In addition to traditional over-the-counter sales, the project will also provide for uniform methods of collecting sales tax from internet and mail-order sales. The project will complete its recommendations in November 2000, and will propose the draft model legislation to all state legislatures for adoption in 2001.

Activity: BUSINESS, EXCISE & CONS TAX
Program: TAX SYSTEM MANAGEMENT
Agency: REVENUE DEPT

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
<u>Expenditures by Category:</u>									
State Operations									
COMPENSATION	17,099	17,992	19,220	18,949	19,420	19,047	19,523	1,731	4.7%
OTHER OPERATING EXPENSES	4,007	2,927	3,402	2,894	2,975	2,899	2,899	(455)	(7.2%)
Total Expenditures	21,106	20,919	22,622	21,843	22,395	21,946	22,422	1,276	2.9%
<u>Change Items:</u>	<u>Fund</u>								
(A) NONFILER INITIATIVE	GEN				552		476		
(P) PCA ENVIRONMENTAL TAX REFORM	ENV				168		168		
(P) PCA ENVIRONMENTAL TAX REFORM	SW				(168)		(168)		
Total Change Items					552		476		
<u>Financing by Fund:</u>									
Direct Appropriations:									
GENERAL	16,739	16,976	17,962	17,496	18,048	17,496	17,972		
HEALTH CARE ACCESS	1,513	1,170	1,567	1,389	1,389	1,422	1,422		
SPECIAL REVENUE	0	25	0	0	0	0	0		
HIGHWAY USERS TAX DISTRIBUTION	2,111	2,028	2,166	2,137	2,137	2,183	2,183		
ENVIRONMENTAL	97	96	109	107	275	110	278		
SOLID WASTE	224	110	226	168	0	168	0		
Statutory Appropriations:									
SPECIAL REVENUE	380	514	592	546	546	567	567		
FEDERAL	42	0	0	0	0	0	0		
Total Financing	21,106	20,919	22,622	21,843	22,395	21,946	22,422		
<u>Revenue Collected:</u>									
Dedicated									
SPECIAL REVENUE	0	180	125	125	125	125	125		
FEDERAL	21	0	0	0	0	0	0		
Total Revenues Collected	21	180	125	125	125	125	125		
<u>FTE by Employment Type:</u>									
FULL TIME	298.2	299.4	293.7	286.2	286.2	271.7	271.7		
PART-TIME, SEASONAL, LABOR SER	5.9	6.5	4.6	4.6	4.6	4.0	4.0		
Total Full-Time Equivalent	304.1	305.9	298.3	290.8	290.8	275.7	275.7		

BUDGET ACTIVITY SUMMARY

Budget Activity: PROPERTY TAX & STATE AID SYSTEM
Program: TAX SYSTEM MANAGEMENT
Agency: REVENUE DEPT

ACTIVITY PROFILE:

The Property Tax and State Aid activity ensures the uniform application of Minnesota's property tax laws, monitors the performance of local assessors throughout the state, and computes and pays state aid payments to local governments.

The activity serves 3,300 local units of government and 2.2 million property taxpayers each year. It also contains the Board of Assessors, which is responsible for the education and licensing of over 1,100 county and local assessors.

In the **local property tax** area, the activity

- assists and oversees county and city assessors in the complete and accurate identification of taxable property, its proper classification and valuation, and equalization of assessments among taxing districts;
- conducts annual assessment-to-sales ratio studies to measure assessment levels, ensure their uniformity, and determine the basis for state aid payments to school districts and cities;
- staffs the State Board of Equalization, which is responsible for monitoring assessment levels for accuracy and uniformity and for issuing corrective orders where necessary;
- directly assesses railroads, public utilities, and airflight property on a statewide basis as required by law;
- educates and assists county auditors and treasurers on requirements and procedures for tax computation and collection, and provides consultation when requested;
- assists and monitors local governments in implementing the annual Truth in Taxation process; and
- provides information to individual taxpayers and local government officials about the property tax process.

In administering **state aids to local governments**, the activity:

- collects and maintains assessment and levy information from all local taxing authorities each year;

- determines state aid payments for each county, city, town, and special taxing district under a variety of statutory formulas, including Homestead and Agricultural Credit Aid (HACA), Local Government Aid (LGA), Disparity Reduction Aid (DRA), and many other smaller programs;
- makes aid payments by statutory deadlines each year;
- verifies and issues state deeds for tax-forfeited property; and
- determines levy limitations for the seven-county area-wide special taxing districts.

STRATEGIES AND PERFORMANCE:

The activity has three primary goals.

Equalization of Property Values Throughout the State

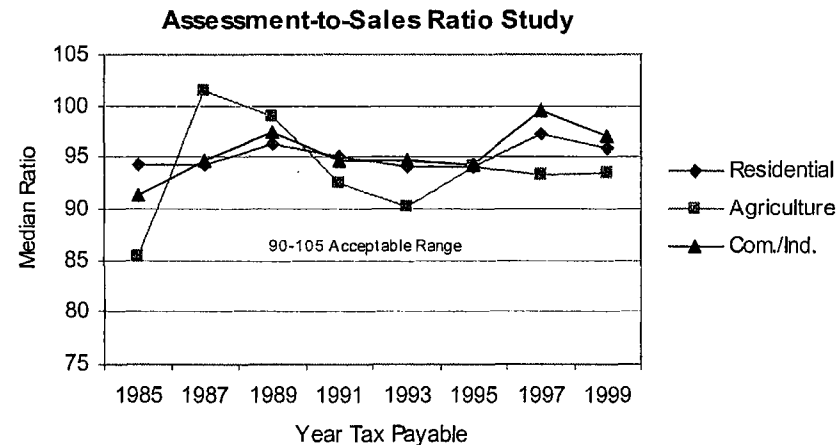
The activity seeks to ensure that property tax payers pay only their fair share of taxes, no more, no less. The Commissioner of Revenue, acting as the State Board of Equalization, has the authority to issue orders increasing or decreasing market values in order to bring about equalization.

Assessment-to-sales ratios are used to equalize school district net tax capacity values. These values are provided to the Department of Children, Families and Learning, which uses them to determine state-imposed property tax limitations on local school districts. The activity also computes equalized city net tax capacity values, which are used in determining local government aid.

In valuing a property, assessors seek to estimate a value that is as close as possible to what the property would sell for on the market. This activity conducts an assessment-to-sales ratio study for each of the state's 87 counties. The studies compare the selling price of all properties sold with the assessor's estimated market value of the property. The following table shows that Minnesota's assessors have been estimating the value of residential, farm and commercial property at about 95% of its selling price.

BUDGET ACTIVITY SUMMARY (Continued)

Budget Activity: PROPERTY TAX & STATE AID SYSTEM
Program: TAX SYSTEM MANAGEMENT
Agency: REVENUE DEPT



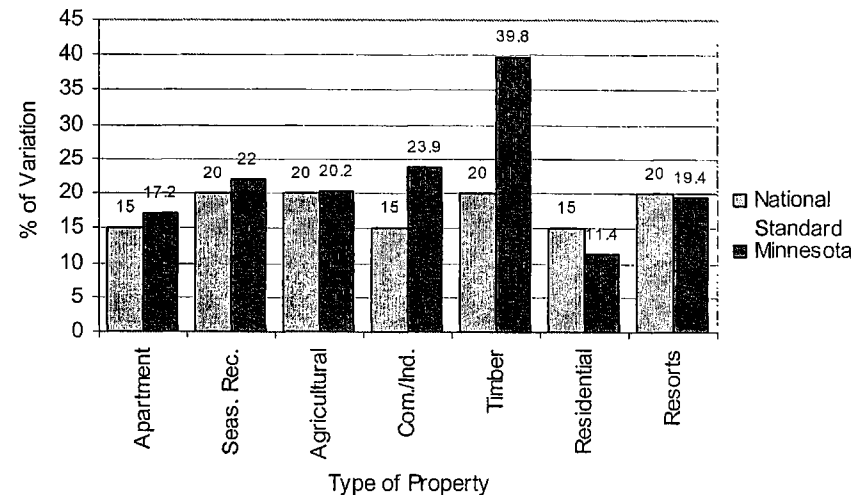
While a ratio of 95% suggests that assessors are doing a capable job of estimating the values of properties close to their sale values, it does not reveal how close individual property values are in relation to the average.

The following graph shows the degree of variation in individual assessments from the average for various classes of property in Minnesota, and compares that figure to the national standard established by the International Association of Assessing Officers.

Overall, Minnesota assessors are fairly close to the national standard on apartments, cabins, farms and resort properties, and are surpassing it when valuing residential property.

By contrast, the graph shows that assessed values for business property and timberland deviate considerably from the national average. It is difficult to estimate the value of business property because businesses tend to be differently situated, and there may be no similar businesses for comparison.

Assessment Performance Standards Minnesota Performance CY 2000



Uniform Application of State Property Tax Laws Among Counties

This activity provides county officials with the support and training necessary to administer the property tax laws uniformly. Each year it

- issues approximately 175 directives, bulletins and instructional letters to property tax administrators;
- updates the Property Tax Administrator's Manual;
- issues a Property Tax Law Summary following each legislative session; and
- responds to over 25,000 telephone and 10,000 e-mail inquiries from taxpayers and property tax administrators.

Accurate, Timely Aid Calculations, Certifications and Payments of State Aid

This activity ensures that local units of government will receive accurate state aid payments on time. State aid payments are computed in accordance with statutory formulas and are certified to local units of government in time for preparing their annual budgets.

BUDGET ACTIVITY SUMMARY (Continued)

Budget Activity: PROPERTY TAX & STATE AID SYSTEM
Program: TAX SYSTEM MANAGEMENT
Agency: REVENUE DEPT

BUDGET ISSUES:

The primary budget issue is limited resources to develop the databases necessary to ensure the accuracy of the assessment process and the assessment-to-sales ratio study, and to meet statutory deadlines for the computation, certification, and payment of state aids to local governments.

The sales ratio study is the foundation for state aid payments, and is used to identify inequities in assessment practices throughout the state. Without good information, inaccurate amounts of state aid could be paid, and unequal taxation among property owners within the same taxing jurisdiction may occur.

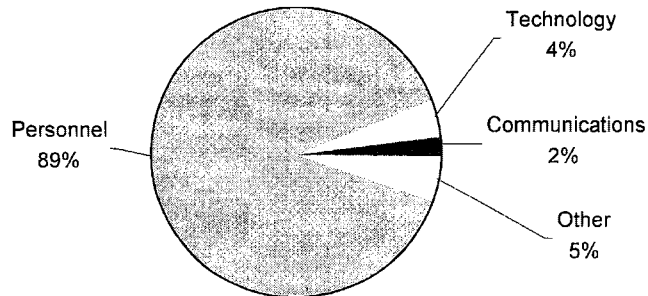
In conducting the study, the activity excludes sales of property that it determines have not been conducted at arm's length. Counties and school districts frequently challenge the exclusion of such sales because the exclusions will result in the payment of less state aid than if the sale were included in the study. At present, this activity does not have sufficient staff to adequately investigate such challenges.

Counties, cities and townships rely on state aid payments (primarily HACA and LGA) for a significant amount their total revenue. The activity has shifted resources in order to meet statutory deadlines for state aid payments. Even so, current staff may not be sufficient to ensure the quality of the aid payment process in the future.

Because Minnesota has a very complicated property tax system, it is important to have adequate resources for educating assessors and overseeing their performance. However, the activity has reallocated funds from assessor education and oversight in order to fund mandated activities such as determining and paying state aids. As a result, this activity will find it difficult to adequately educate assessors and oversee their performance.

FINANCING INFORMATION:

**Property Tax
FY 2000-01 Expenditures by Category
Total: \$4.98 million**



Aids and Credits Paid to Local Governmental Units

Type of Aid	FY 1999	FY 2000
HACA	\$449,400,000	\$452,800,000
Local Government Aid	379,800,000	386,400,000
Local Performance Aid	10,500,000	9,800,000
County Criminal Justice Aid	27,800,000	28,800,000
Disparity Reduction Aid	14,400,000	13,200,000
Family Preservation Aid	1,600,000	1,700,000
Police, Fire & Insurance Aid	65,800,000	66,500,000
Misc. Aids & Credits	25,400,000	25,800,000
Totals	\$974,700,000	\$985,000,000

Activity: PROPERTY TAX & STATE AID SYS
Program: TAX SYSTEM MANAGEMENT
Agency: REVENUE DEPT

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
Expenditures by Category:									
State Operations									
COMPENSATION	2,372	2,062	2,272	2,284	2,274	2,357	2,347	287	6.6%
OTHER OPERATING EXPENSES	446	308	315	249	274	249	274	(75)	(12.0%)
Total Expenditures	2,818	2,370	2,587	2,533	2,548	2,606	2,621	212	4.3%
Change Items:	Fund								
(P) PAST UNFUNDED OPERATIONAL COSTS	GEN				15		15		
Total Change Items					15		15		
Financing by Fund:									
Direct Appropriations:									
GENERAL	2,798	2,362	2,587	2,533	2,548	2,606	2,621		
Statutory Appropriations:									
SPECIAL REVENUE	20	8	0	0	0	0	0		
Total Financing	2,818	2,370	2,587	2,533	2,548	2,606	2,621		
FTE by Employment Type:									
FULL TIME	41.8	35.2	35.0	34.8	34.8	34.4	34.4		
PART-TIME, SEASONAL, LABOR SER	1.0	0.8	0.8	0.8	0.8	0.8	0.8		
Total Full-Time Equivalent	42.8	36.0	35.8	35.6	35.6	35.2	35.2		

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PROGRAM SUMMARY

Program: ACCOUNTS RECEIVABLE MGMT
Agency: REVENUE DEPT

PROGRAM PROFILE:

The functions of the Accounts Receivables Management program are carried out by two units.

- the Minnesota Collection Enterprise (MCE), and
- the Revenue Recapture Unit

The Minnesota Collection Enterprise (MCE)

The MCE manages tax and non-tax debt collection on behalf of state agencies and other public entities. It offers high quality debt collection service at less cost than comparable service from private collection agencies. Offices are located in four metro locations and 10 sites elsewhere in Minnesota.

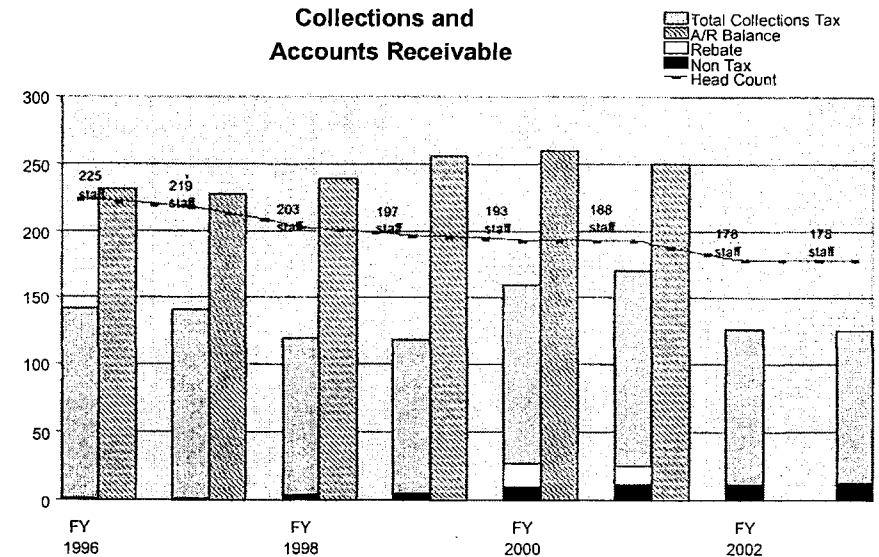
MCE tailors its methods to the characteristics of the debt and debtor, and uses the most appropriate and least intrusive approach appropriate. Collection activities focus on progressively stronger actions when debtors have demonstrated an unwillingness to pay their liabilities. Actions include a thorough explanation of statutes and the reasons for the liability, billing, using an automated telephone dialer to contact debtors, arranging and receiving payment immediately or through payment plans, using electronic payment methods when appropriate, monitoring payment plans, and personal visits to reach acceptable resolution of the debt.

In those situations where the debtor is uncooperative, other actions are undertaken such as: locating and evaluating assets, revocation of licenses or permits, issuing liens and levies, and seizing assets. In addition, MCE does considerable work for the department and clients in locating debtors. Other debt services to public entities include consulting on effective debt management, productive collection practices, and evaluation and determination of the debt collection potential.

With a staff of 190 located throughout Minnesota, MCE is able to resolve approximately 90,000 tax and non-tax cases each year. MCE has a working inventory of over 280,000 cases with 40,000 of those accounts assigned to private collection agencies. In an effort to increase the number of resolved cases and overall effectiveness, MCE continues to identify new approaches. Assuming legislative approval, MCE will begin listing egregious tax delinquents on the department's web site. In a program identified as "Delinqnet" approximately 100 names of delinquent individuals and businesses with tax liens on record will be posted. In addition as part of the department's nonfiler initiative, funding is being requested to modify computer systems to electronically capture Minnesota individual income tax debt prior to the issuing of federal tax refunds.

The MCE recovers its costs of collecting non-tax debt by assessing fees, set annually. The fees assessed against the debtors are deposited into the General Fund after they are collected. For FY 2000, the fee was 15% of the amount collected. An additional 10% is charged if legal action is required to obtain payment. In cases of state tax or child support debts, enforced collection action may be taken without obtaining a court judgement.

At present, the MCE collects a wide variety of fees, fines, taxes, and payments for 15 state agencies, three district courts, four state boards, two public employee retirement associations, and six independent government entities.

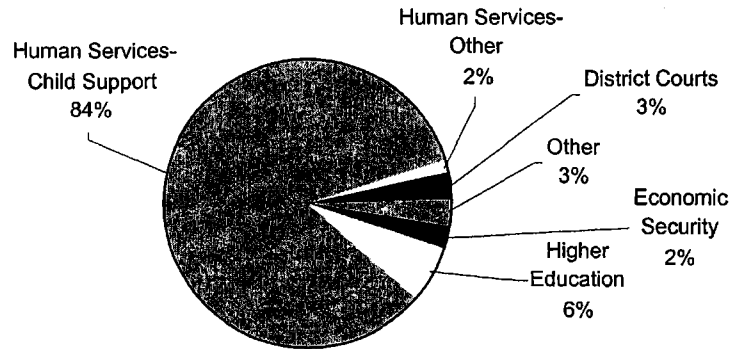


PROGRAM SUMMARY (Continued)

Program: ACCOUNTS RECEIVABLE MGMT
Agency: REVENUE DEPT

refunds, and some debtors receive refunds less than the debt owed. Therefore, the full debt cannot be recapture from tax refunds.

Receivable Balance



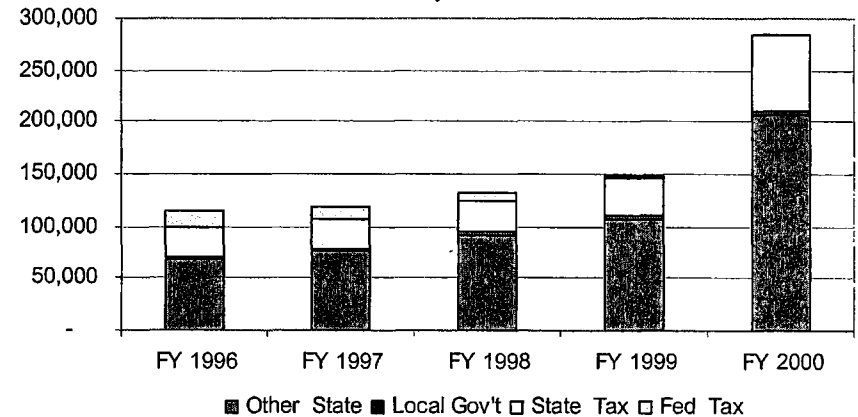
Entity	Count of debts	Receivable balance
Economic Security	3089 – 4%	\$ 3,789,372
Higher Education	9025 – 13%	10,992,012
Human Services/child support	12420 – 18%	142,358,617
Human Services/other	2606 – 4%	2,812,403
District Courts	41754 – 59%	4,504,057
Other	1671 – 2%	5,416,295
Total	70,565	\$169,872,756

Revenue Recapture

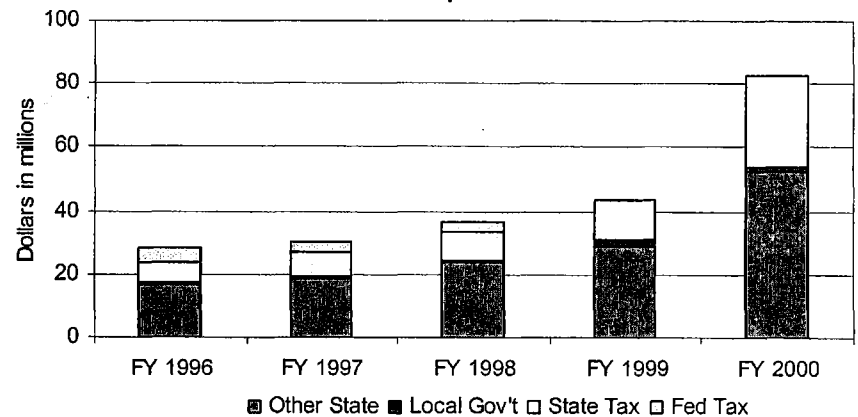
The Revenue Accounting Division is responsible for issuing refunds to taxpayers. State law enacted in 1980 authorizes the Department of Revenue to deduct certain debts, including debts owed to a state agency, to Minnesota county government agencies, and certain federal agencies, from state tax refunds before issuing the refund. Under law, tax debt owed the department must be deducted from the refund first. Delinquent child support payments are second, and crime victim restitution is third.

At present, the Revenue Recapture Unit collects debts for 711 state and county agencies. This high number is due largely to the fact that the unit can collect debt for several agencies in each of Minnesota's 87 counties, such as public assistance agencies, hospitals, libraries, correction facilities, and ambulance services. Currently, these agencies have about 420,000 claims on file, representing approximately \$1.2 billion in debt. Of course not all debtors receive

Revenue Recapture Offset Counts



Revenue Recapture Dollars



PROGRAM SUMMARY (Continued)

Program: ACCOUNTS RECEIVABLE MGMT
Agency: REVENUE DEPT

STRATEGIES AND PERFORMANCE:

MCE

By performing professional collection services, MCE enables other public entities to concentrate on pursuing their primary missions. In the FY 2002-03 biennium, MCE expects to:

- identify, verify, and collect unpaid individual and business taxes of about \$142 million in FY 2000, and an estimated \$200 million in FY 2002-03;
- identify and collect about \$6.9 million in FY 2000, and an estimated \$10 million in FY 2002-03 from taxpayers who failed to file returns; and
- expand the amount of debt referred from other agencies while increasing the percentage of dollars collected in FY 2002-03.

Revenue Recapture

For FY 1998-00, the Revenue Recapture unit collected

Fiscal Year	Number of refunds reduced for debt	Fees collected	Debt collected
1998	94,644	\$ 946,440	\$24.5 million
1999	110,304	\$1,103,040	\$30.7 million
2000	211,289	\$2,112,890	\$50.9 million

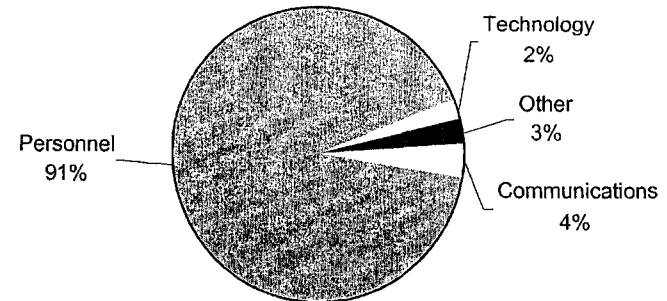
In FY 2000, the number of times refunds were reduced or offset almost doubled. This was due largely to the 2000 sales tax rebate program that added 85,000 offsets. Without the sales tax rebate offsets, offsets still grew by about 14 %.

By FY 2003, all revenue recapture claims filed with the unit by state agencies will be filed electronically, which will save costs.

FINANCING INFORMATION:

In the FY 2002-03 biennium, the program expects to collect \$114 million over the biennium from state taxpayer refunds on behalf of its client agencies.

Minnesota Collection Enterprise
FY 2000-01 Expenditures by Category
Total: \$21.91 million



BUDGET ISSUES:

Funding for each year of the FY 2002-03 biennium will be at the same level as in FY 2001. Inflationary increases in the cost of salaries, benefits, and technology for MCE will be paid by reducing the number of employees. This program plans to leave unfilled 15 positions during the biennium.

To handle its workload with a reduced number of employees, MCE will have to expand its use of private collection agencies. Even so, the program estimates that approximately \$88 million that could have been collected during the FY 2002-03 biennium will go uncollected because:

- The number of cases the program can handle will be reduced by 10% due to the reduction of employees.
- Debts collected by private agencies will be reduced by collection fees of 20 to 30%.
- Private agencies are not as effective as this program in collecting debts, because they are unable to issue liens and levies, and seize assets.

This program will also reduce the number of claims filed against bankrupt debtors, the number of intransigent debtors against whom maximum financial penalties are imposed, and the number of debts written off as uncollectable.

The Revenue Recapture Unit does not have sufficient funds to independently verify the accuracy of debts, nor to determine if debtors have been given adequate notice, as required by law. As a result, this program must accept as accurate the information provided to it by the claimant agency. In addition, this

PROGRAM SUMMARY (Continued)

Program: ACCOUNTS RECEIVABLE MGMT
Agency: REVENUE DEPT

program lacks sufficient resources to provide training to the client procedures and timing requirements of debt collection.

GOVERNOR'S RECOMMENDATION:

The Governor recommends the base funding level requested in the agency's budget. In addition, the Governor recommends moving the department's non-tax Revenue Recapture activities to a performance-based funding strategy by replacing a direct base appropriation with authority to retain a specified portion of the existing offset fee at a net cost estimated at \$69,000 for the biennium.

Activity: MINN COLLECTIONS ENTERPRISE
Program: ACCOUNTS RECEIVABLE MGMT
Agency: REVENUE DEPT

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
Expenditures by Category:									
State Operations									
COMPENSATION	9,510	9,832	10,105	10,175	10,424	10,178	10,448	935	4.7%
OTHER OPERATING EXPENSES	2,557	1,967	2,783	2,773	2,804	2,773	2,824	878	18.5%
OTHER FINANCIAL TRANSACTIONS	4,495	0	0	0	0	0	0	0	
Subtotal State Operations	16,562	11,799	12,888	12,948	13,228	12,951	13,272	1,813	7.3%
CAPITAL OUTLAY & REAL PROPERTY	1,600	1,072	0	0	0	0	0	(1,072)	(100.0%)
Total Expenditures	18,162	12,871	12,888	12,948	13,228	12,951	13,272	741	2.9%

Change Items:	Fund				
(A) NONFILER INITIATIVE	GEN			275	257
(P) NON-TAX REVENUE RECAPTURE	GEN			(413)	(413)
(P) NON-TAX REVENUE RECAPTURE	SR			418	477
Total Change Items				280	321

Financing by Fund:							
Direct Appropriations:							
GENERAL	11,061	10,670	10,854	10,924	10,786	10,924	10,768
HEALTH CARE ACCESS	55	41	65	53	53	53	53
Open Appropriations:							
GENERAL	2,512	2,073	1,900	1,900	1,900	1,900	1,900
SPECIAL REVENUE	0	0	0	0	418	0	477
Statutory Appropriations:							
SPECIAL REVENUE	39	87	69	71	71	74	74
MISCELLANEOUS AGENCY	4,495	0	0	0	0	0	0
Total Financing	18,162	12,871	12,888	12,948	13,228	12,951	13,272

FTE by Employment Type:							
FULL TIME	182.2	182.2	177.6	173.0	173.0	168.4	168.4
PART-TIME, SEASONAL, LABOR SER	5.0	6.8	6.8	6.8	6.8	6.4	6.4
Total Full-Time Equivalent	187.2	189.0	184.4	179.8	179.8	174.8	174.8

BUDGET CHANGE ITEM (54409)

Agency: REVENUE DEPT

Item Title: NON-TAX REVENUE RECAPTURE

	2002-03 Biennium		2004-05 Biennium	
	FY 2002	FY 2003	FY 2004	FY 2005
Expenditures: (\$000s)				
General Fund	\$(413)	\$(413)	\$(413)	\$(413)
Special Revenue	\$418	\$477	\$534	\$598
	\$5	\$64	\$121	\$135
Revenues: (\$000s)				
General Fund	\$136	\$307	\$474	\$661

Statutory Change? Yes ☒ No ☐

If yes, statute(s) affected:

☒ New Activity ☐ Supplemental Funding ☐ Reallocation

GOVERNOR'S RECOMMENDATION:

The Governor recommends changing the funding for this activity from a base appropriation to a performance-based fee retention system.

This would be accomplished by a permanent base budget reduction of \$413,000 annually in exchange for permitting the agency to retain \$2.55 of each of the current \$10 revenue recapture offset fees now fully returned to the General Fund.

RATIONALE:

The revenue recapture program matches verified non-tax debtors to potential tax refunds and reduces a specific refund by the identified debt. The program has expanded dramatically, and now serves over 700 agencies. It collected nearly \$54 million on their behalf in FY 2000. The program is very beneficial to participating agencies and the state because it returns \$10 to the General Fund for each recapture processed. In FY 2000, over \$2 million was returned to the general fund through this program. The last several years of the program activity are summarized in the following table.

(Dollars In Thousands)

	Number of Offsets Collected	Percent Change	Fee Collected	Fee Returned to GF	Claims Paid to Agencies
FY 1998	94,644		\$946	\$946	\$24,500
FY 1999	110,304	17%	\$1,103	\$1,103	\$30,700
FY 2000	211,269	92%	\$2,113	\$2,113	\$53,900

Note the dramatic increase in the FY 2000 offsets which includes 85,000 from the first sales tax rebate. "Normal" recapture activities only grew from 110,304 to 126,269, or an increase of approximately 14%. The large number of offsets for the sales tax rebate occurred because many agencies recognized this as an opportunity for debt recapture. There was both a large increase in the number of registered agencies and the number of identified debts. Although DOR does not expect increases of this magnitude to continue, it estimates "normal" growth would be approximately 14% each year of this biennium and 12% each year of the next biennium.

However, the department's resources are totally inadequate to manage this anticipated level of program growth. As valuable as this program is, collecting non-tax debt is not one of the core functions of DOR. If no new funding mechanism is made available, DOR will be forced to administratively "cap" the non-tax recapture activity. The table below shows the future results of a "capped" recapture activity.

Capped Revenue Recapture

(Dollars in Thousands)

	Appr GF Cost of Operating	Number of Offsets Collected	Percent Change	Fee Collected	Fee Retained By DOR	Fee Returned to GF	Net General Fund Impact
FY 2002	\$413	150,000	(4%)	\$1,500	\$-0-	\$1,500	\$1,087
FY 2003	\$413	150,000	0%	\$1,500	\$-0-	\$1,500	\$1,087
FY 2004	\$413	150,000	0%	\$1,500	\$-0-	\$1,500	\$1,087
FY 2005	\$413	150,000	0%	\$1,500	\$-0-	\$1,500	\$1,087

Therefore, DOR is seeking a new, performance-based approach to funding the non-tax revenue recapture service. DOR proposes retaining \$2.55 of the current \$10 fee charged to agencies for each offset collected in exchange for permanently reducing DOR base General Fund appropriation by \$413,000 annually. This performance based funding mechanism will allow DOR to collect operational funds for recapture in direct proportion to program volume – when the program grows DOR will receive additional operational funds, and if the program shrinks, the department will receive less funding.

BUDGET CHANGE ITEM (54409) (Continued)**Agency: REVENUE DEPT****Item Title: NON-TAX REVENUE RECAPTURE**

DOR's funding for the revenue recapture program will be directly linked to its success in operating the program. DOR will be able to more closely monitor and report on the costs and benefits of the recapture program.

Claimant agencies will receive annual training and an audit review.

The following table shows the results of the switching the funding source of this program to a retained fee and allowing the program to grow. Note that compared to the 'capped' program scenario above, not only will DOR receive more operational fund, but participating agencies and the state General Fund will benefit also.

Fee-based Revenue Recapture (with growth)

(Dollars in Thousands)							
	Appr GF Cost of Operating	Number of Offsets Collected	Percent Change	Fee Collected	Fee Retained By DOR	Fee Returned to GF	Net General Fund Impact
FY 2002	\$-0-	164,098	14%	\$1,641	\$418	\$1,223	\$1,223
FY 2003	\$-0-	187,071	14%	\$1,871	\$477	\$1,394	\$1,394
FY 2004	\$-0-	209,520	12%	\$2,095	\$534	\$1,561	\$1,561
FY 2005	\$-0-	234,682	12%	\$2,347	\$598	\$1,748	\$1,748

With the authority to retain \$2.55 from each recapture fee, DOR can accommodate the program growth anticipated. As the program grows, more money would flow to both the agencies and the General Fund, and DOR would be better able to

- provide the proper supervision and audit of the claimant agencies,
- correct and manage overpayments,
- ensure security of data,
- maintain the system hardware and software, and
- add new claimant agencies and increase the number of debts offset.

FINANCING:

The department would be granted authority to retain \$2.55 of each \$10 fee already collected. In exchange, DOR's base budget General Fund appropriation would be reduced permanently by \$413,000.

OUTCOMES:

Recapture activities will continue to grow benefiting both the claimant agencies and the state General Fund.

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HUMANITIES COMMISSION - EXECUTIVE SUMMARY

AGENCY MISSION AND VISION:

The Minnesota Humanities Commission (MHC) was created by U.S. PL89-209 and authorized in M.S. 138.91. It has been in operation since 1970.

Mission: The mission of MHC is to contribute to excellence in family literacy, K-12 education, cultural programming, and older adult learning, thereby contributing to healthy, vital communities. The humanities are defined as the study of literature, history, philosophy, ethics, languages, civics, anthropology, history of science, and history of art. MHC, as the state partner of the National Endowment for the Humanities, is the sister agency of the State Arts Board, which is the partner of the National Endowment for the Arts.

Vision: To provide humanities resources and training that benefit families, schools, cultural organizations, and learning in retirement organizations. MHC's work aims for excellence in K-12 education; support for cultural organizations developing cultural tourism initiatives; curriculum and training that helps parents be good parents and transition from welfare to work; K-12 and community resources that foster respect for human rights; and support of new community strengthening models for learning in retirement.

MHC is focused on seven areas of the Governor's Big Plan:

- *Healthy and Vital Communities -*
The best K-12 public education in the nation:
MHC works directly with teachers and CFL to improve instruction in reading, writing, history, geography, literature, and languages.
Living human rights and respect:
MHC provides teachers with seminars on the history and culture of diverse peoples. MHC's Motherread/Fatheread provides family reading materials to Hmong community (Green and White dialects).
- *Self-Sufficient People -*
Transitioning from welfare to self-sufficiency; Insisting that parents parent:
MHC's Motherread includes both work-readiness training and family reading training. Motherread books include classics that explore topics such as responsibility, truthfulness, and perseverance.
Assuring lifelong learning for work and life:
MHC grants, in cooperation with NEH, make possible programs in the humanities for schools, organizations, older adult learning organizations.
- *Service, Not Systems -*
Best bang for the buck:
MHC conducts programs that help teachers and organizations improve their work.

- *Minnesota: World Competitor -*
Promoting Minnesota tourism:
MHC works with the MN Office of Tourism to promote development of cultural tourism assets among MN museums and cultural organizations.

KEY SERVICE STRATEGIES:

- Training of literacy professionals in Motherread/Fatheread program, serving pre-schools and families.
- Promotion of reading through the MHC Center for the Book.
- Professional development classes in subject areas for K-12 teachers, with an emphasis on rights, responsibilities, and respect for diversity.
- Assistance to cultural organizations in support of K-12 education and tourism.
- Partnerships and cooperation nationally with National Endowment for the Humanities and the Library of Congress. Cooperation in MN with Children, Families, and Learning; the Senior Federation; and retirement organizations.

PERFORMANCE SUMMARY:

- Served teachers in 950 Motherread/Fatheread sites. Published the first bilingual series of Motherread curriculum children's book in English/Hmong and sponsored Hmong family reading initiative.
- Established a network of 11- K-12 subject area teacher professional organizations to further high standards in teacher professional development.
- Represented 40 humanities organizations in Office of Tourism cultural tourism initiative.
- Awarded 140 grants each year, for community cultural programming through funding from the National Endowment for the Humanities.

REVENUES:

- Dedicated revenue from the National Endowment for the Humanities: \$551,072 (2000)
- Fees received for training, primarily related to Motherread/Fatheread, Core Knowledge curriculum, and K-12 professional development seminars: \$75,000
- Revenue from facilities rental, primarily related to education programs: \$150,000
- Grants and donations received: \$660,445

HUMANITIES COMMISSION - EXECUTIVE SUMMARY (Continued)

GRANTS:

MHC awards approximately 140 small grants each year (average size \$2,500) to support education projects across Minnesota, with special attention to diverse communities and Greater Minnesota. MHC grants leverage an average of three dollars in matching funds for every grant dollar awarded. In addition to funding community projects, MHC supports organizations belonging to the MHC Learning in Retirement Network, the Humanities Organizations Network, and the Ethnic and Cultural Heritage Network, all organizations that promote community learning. In support of its work, in the past two years the MHC has received grants from funders including the St. Paul Foundation, Bush Foundation, F. R. Bigelow Foundation, Cargill Foundation, McKnight Foundation, Prudential Foundation, and Butler Family Foundation.

ISSUES AFFECTING AGENCY'S OPERATIONS:

- Need for all parents to be their children's first reading teachers (Motherread/Fatheread).
- Need for at-risk parents to be work-ready and parenting-ready (Motherread/Fatheread).
- Need for high standards in K-12 subject areas (MHC K-12 programs).
- Need for schools to develop curriculum related to respect for human rights (MHC K-12).
- Need for cultural organizations to orient their programs and activities to cultural tourism (MHC Grants Programs, Humanities Organization Network).
- Need for quality older adult learning-in-retirement programs (older adult programs).

GOVERNOR'S RECOMMENDATION:

The Governor recommends the agency's base budget.

Agency: HUMANITIES COMMISSION

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
Expenditures by Category:									
LOCAL ASSISTANCE	886	897	909	922	922	936	936	52	2.9%
Total Expenditures	886	897	909	922	922	936	936	52	2.9%
Financing by Fund:									
Direct Appropriations:									
GENERAL	886	897	909	922	922	936	936		
Total Financing	886	897	909	922	922	936	936		

Agency: HUMANITIES COMMISSION

Base Budget Report (Dollars in Thousands)	All Funds		General Fund		Other State Funds		Federal Funds	
	FY 2002	FY 2003	FY 2002	FY 2003	FY 2002	FY 2003	FY 2002	FY 2003
FY 2001 Budgeted	909	909	909	909	0	0	0	0
<u>Base Adjustments</u>								
2002-03 SAL. & BEN. BASE	13	27	13	27	0	0	0	0
Subtotal Base Adjustments	13	27	13	27	0	0	0	0
Base Budget	922	936	922	936	0	0	0	0

ARTS BOARD - EXECUTIVE SUMMARY

AGENCY MISSION AND VISION:

The Minnesota State Arts Board is governed by an 11-member board appointed by the Governor. The agency exists to provide grants and services to the statewide arts community. The primary beneficiaries of the agency are the citizens of Minnesota. Direct funding and services are provided to individual artists, schools, arts organizations, colleges and universities, communities, and sponsor groups which provide arts activities to serve the people of Minnesota.

The Arts Board also serves as the fiscal agent for 11 Regional Arts Councils (RACs) that comprise a statewide decentralized regranteeing system. Established by the legislature in 1977 to provide state support apportioned through locally initiated programs, the Regional Arts Councils provide grants and support services to sustain and encourage a diverse range of local arts activities. In 1999 approximately 12.5 million people attended arts events supported in part by legislative funding provided by both the Minnesota State Arts Board and the Regional Arts Councils. Attendance figures for 2000 are still being tabulated, but are anticipated to approach 14.8 million.

The mission of the Minnesota State Arts Board is to promote the quality of life in Minnesota by making the arts accessible to all citizens, nurturing creative activities, encouraging the development of innovative forms of artistic expression, and preserving the diverse artistic heritage of the people.

To further this mission, the board adopted the following nine goals as part of its three-year strategic plan:

1. Provide meaningful financial support to the arts in Minnesota.
2. Exercise prudent stewardship of the public interest.
3. Enhance arts education opportunities for Minnesota's school children.
4. Be a source of technical support for artists and arts organizations.
5. Build a public awareness about the importance of the arts to the community.
6. Have equal access to the Arts Board in both nonmetro and metro areas of the state.
7. Support arts opportunities for underserved cultural communities.
8. Maintain a productive, efficient organization while fostering a rewarding work environment for the staff.
9. Be considered nationally as a leader among State Arts Agencies.

PERFORMANCE SUMMARY:

To accomplish these goals, in each of the two years of the biennium, the Arts Board will complete the following objectives related to grantmaking:

- *Provide general support to at least 110 of Minnesota's premier arts organizations.*

This support has proven to be crucial to sustaining the state's cultural fabric. These funds have stabilized our leading arts organizations and have provided them with the flexibility essential to their growth and vitality.

- *Support 600 weeks of residencies by artists in schools across the state.*
By providing support directly to schools for artist residencies and by supporting arts organizations which produce artist residencies, hundreds of thousands of children are touched each year by the wonder of the arts, their cognitive skills are enhanced, and they are moved closer to successfully meeting Minnesota's graduation standards and the tests they will face in life.
- *Underwrite a major local celebration of the arts in 30 Minnesota communities.*
Be it the Guthrie Theater performing in Pipestone or Zenon Dance Company on stage in Grand Marais, snow sculptures at the Voyageur Winter Festival in Ely or outdoor banjos at the Rock Bend Folk Fest in Saint Peter, these local events make quality arts experiences available to people of all ages, in all communities across the state, year-round. They celebrate, revitalize, and stimulate community pride and spirit through active, local participation in the arts.
- *Preserve 10 of Minnesota's folk arts traditions by funding an apprentice to study under a master of that art form.*
The sounds of the cymbaly (a Polish hammered dulcimer) the Vietnamese moon (shaped) lute, and the Swedish folk fiddle, as well as a treasure trove of other traditional folk arts in Minnesota, are kept alive for us and future generations by being passed down from master artist to apprentice.
- *Provide timely and specific support to 120 of Minnesota's most promising artists.*
Either by recognizing the successes of an ongoing career through a fellowship grant, addressing an immediate career opportunity of a promising artists through minimal subsidy, or preserving an artists creative inspirations on video tape, support to individual artists has always been a crucial element of the Minnesota arts community.
- *Support the efforts of 40 communities, schools, and nonprofit organizations to bring professional performances to their communities.*
Whether in the casual settings of the Lake Agassiz Regional Library in Moorhead, the Houston County Fair in Caledonia, and the Mesaba Co-op Park in Hibbing, or the more traditional Sheldon Auditorium in Red Wing, the Ordway Center, and the Myles Reif Performing Arts Center in Grand Rapids, arts performances provide inspiration to audiences, serve to bring people together, foster community spirit and pride, and enhance the quality of life across Minnesota.

ARTS BOARD - EXECUTIVE SUMMARY (Continued)

- *Construct granting programs to ensure that at least 10% of the Arts Board and Regional Arts Council's grant funds are directed to arts programs intended primarily for children.*
Children and art have always produced an easy but powerful connection. Children have a boundless creative spirit that is uninhibited by adult norms and based in a wonderful and expanding imagination. The Arts Board and the RACs work to nurture this unique and vital creativity in children through every avenue possible. State support for arts programs for children ranges from formal residencies in schools, through dance and theater classes and performances, art classes and exhibitions to funding for choral groups and youth orchestras.
- *Provide at least \$50,000 of support each year to arts activities in traditionally underserved communities.*
The arts and the need to create are universal and exist in every culture and community in Minnesota. The Arts Board works to foster cultural and individual self-expression as a way of enhancing community and cultural identity and as a means to open new lines of communication between peoples.

KEY SERVICE STRATEGIES:

The agency has three program areas: Operations and Services, Grants and Subsidies, and Regional Arts Councils.

OPERATIONS AND SERVICES:

The agency will continue to manage its operations with a staff of 20 FTE. Operations and services constitute less than 10% of the agency's overall budget, one of the lowest percentages of any of the nation's 50 state arts agencies.

Within the operations and services budget, the Arts Board has identified 40 services objectives it will work to accomplish during the 2002-03 biennium. In addition to the program areas identified below, those service objectives fall under the areas of: Accessibility, Arts Midwest Partnership, Human Resources, Information Technology, Management, Communications, and Percent for Art in Public Places.

GRANTS AND SUBSIDIES:

The agency administers six distinct programs that make the arts accessible to the citizens of Minnesota. These programs are supported by a mix of primarily state and some federal funding. In addition, the Arts Board works in partnership with a variety of state agencies, nonprofit organizations, and for-profit business to further its mission. Each of the Arts Board's granting programs uses citizen panels to review applications and make funding recommendations to the board

for their final approval. In 2000, 136 Minnesotans volunteered their time to assist the Arts Board to equitably distribute the funding it has available.

The six programs include:

Artist Assistance: Supports the creation of artwork by artists who live and work in every area of the state. The Arts Board assists some of these artists through:

- Fellowship grants, directed at the highest quality artists in Minnesota;
- Career Opportunity grants, designed to help build the professional careers of artists in the visual, performing, and literary arts; and
- Cultural Collaborations grants, pairing artists of color with arts organizations and nonprofit community groups to create new works of art.

Arts Across Minnesota: Supports special celebrations of our Minnesota culture, heritage, arts, and community by funding arts festivals and tours in every region of the state. Arts festivals receive grants for artists, performances, and educational activities; the touring component enables host communities to present public performances, school programs, and community workshops by some of Minnesota's premier performing arts organizations.

Arts in Education: Supports arts activities directed at K-12 children in Minnesota schools. Schools receive direct support to bring in high-quality artists from across the state. In addition, arts organizations are eligible to receive Arts Board support to place artists affiliated with their institutions in school residency activities.

Folk Arts: Works to preserve and perpetuate Minnesota's living folk arts traditions. The program matches master artists with apprentices and supports their work together so that specific traditional arts may be passed on from one artist to another and preserved for the future. The program also supports the presentation and interpretation of the folk arts through presenter grants to organizations in communities throughout the state.

Institutional Support: Supports arts organizations with operating budgets greater than \$123,000 that provide quality performances, exhibitions, and artist services throughout the state. Applicants undergo extensive reviews of their artistic quality, fiscal management, accessibility to Minnesotans, and service to the state.

Presenter Support: Supports the many presenters across Minnesota who bring the very best artists and performing companies from across the state, country, and the world to their communities. As with Institutional Support, presenting organizations undergo extensive reviews of their artistic quality, fiscal management, accessibility to Minnesotans, and service to the state.

ARTS BOARD - EXECUTIVE SUMMARY (Continued)

Partnerships: Whenever possible the Arts Board works to take advantage of partnership arrangements. Examples of past partnerships include US West in promoting and supporting Arts Across Minnesota program activities, Norwest Banks in increasing support to mid-size metro area arts organizations, the Minnesota History Center in presenting folk art informational classes, the Perpich Center for Arts Education and the Minnesota Alliance for Arts in Education in providing professional development opportunities for residency artists, and COMPAS in developing new ways of working with artists and educators in schools.

REGIONAL ARTS COUNCILS:

The 11 Regional Arts Councils (RACs) ensure that the arts are accessible throughout Minnesota by providing vital grants and services to small professional organizations, community-based arts activities and artists. While each council's programs are unique to its region, the grant programs include:

General Operating grants provide a critical base of support helping to sustain and expand many established arts organizations in greater Minnesota. Organizational Development grants help strengthen the management or administration of arts organizations by funding projects that demonstrate the potential for long-term impact.

Sponsorship grants enable presenters to bring Minnesota and national artists to their communities providing many residents their only opportunity to see professional artists perform in geographically accessible locations.

Production grants provide vital project support for the creation of dance, music, theater, visual, and literary arts activities.

Arts in Education and Mentor grants provide opportunities for artists to work in schools and other educational settings to strengthen and enhance the educational experiences of youth that would not otherwise exist due to lack of school budget funding.

Individual artist grants help support the creation of art by working artists and provide learning and exhibition opportunities for artists.

Capital grants help communities make needed improvements and facility restoration, bring buildings up to code (including meeting Americans with Disabilities Act (ADA) compliance requirements), and provide organizations with access to technology and equipment.

Community Access grants enable traditionally underserved individuals to participate in community arts activities. These grants also foster partnerships between arts organizations and their respective communities and regions.

The Regional Arts Councils have used legislative funds effectively to strengthen the arts, artists, and communities throughout Minnesota. The increased legislative allocation in FY 1997 was critical in reaching Minnesota communities. However, Minnesota's appetite for the arts continues to grow. In FY 2000, Regional Arts Councils were able to fund only 67% of requests compared with 73% in FY 1997.

In FY 2000, RACs awarded 1,063 grants which served 2,781,997 people. They funded 252 arts in education projects with a total of 575,330 children and youth reached through RAC funding. RACs awarded grants to 145 artists, provided 70 workshops and conferences, and produced 82 publications that reached over 72,824 people.

ISSUES AFFECTING AGENCY'S OPERATIONS:

The Minnesota arts community is seeing an unprecedented period of positive growth. Programs established 15 to 20 years ago are bearing fruit. This growth is visible in a number of areas:

- Rural based arts presenters are increasing the number of performances available to their community members.
- Communities large and small are using the arts as a draw for tourists.
- Arts programming for young people continues to grow as a proven method of engagement for youth at risk.
- Artists are living and working throughout the state providing a valuable resource in their communities.

For the past four years Arts Board funding has been level. However, since 1998 increases in need have occurred:

- During the last three fiscal years, the requests the Arts Board has received for support of artist residencies in schools has increased more than 40% from \$488,000 to \$688,000.
- In the last three years, the Arts Board received 2,610 applications for financial support from individual artists. There were funds available to make grants to only 343 of those artists, or slightly over 13%.
- The Folk Arts Sponsorship program experienced a doubling in the total amount of dollars requested (from \$41,937 to \$85,518 or a 105% increase) from 1996 to 2000.
- The Arts Across Minnesota Festival program has been able to fund only 60% of the requested dollars it has received since the program began.

ARTS BOARD - EXECUTIVE SUMMARY (Continued)

- Since 1994, the Arts Board has received 142 requests from apprentices to work with a master artist in order to learn and continue on important cultural traditions. We have only been able to fund 81 of those requests, or slightly over half. (57%)

Governor's Recommendation:

The Governor recommends the agency's base budget.

Agency: ARTS BOARD

Agency Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
Expenditures by Program:									
OPERATIONS & SERVICES	1,377	1,318	1,436	1,407	1,407	1,431	1,431	84	3.1%
GRANT PROGRAMS	8,839	8,824	9,139	8,676	8,676	8,676	8,676	(611)	(3.4%)
REGION ARTS FISC AGENT	3,535	3,535	3,535	3,535	3,535	3,535	3,535	0	0.0%
Total Expenditures	13,751	13,677	14,110	13,618	13,618	13,642	13,642	(527)	(1.9%)
Financing by Fund:									
Direct Appropriations:									
GENERAL	13,168	12,912	13,396	13,118	13,118	13,142	13,142		
Statutory Appropriations:									
FEDERAL	553	730	510	500	500	500	500		
GIFT	30	35	204	0	0	0	0		
Total Financing	13,751	13,677	14,110	13,618	13,618	13,642	13,642		
FTE by Employment Type:									
FULL TIME	17.2	23.6	20.0	20.0	20.0	20.0	20.0		
PART-TIME, SEASONAL, LABOR SER	1.6	1.3	0.7	0.7	0.7	0.7	0.7		
Total Full-Time Equivalent	18.8	24.9	20.7	20.7	20.7	20.7	20.7		

Agency: ARTS BOARD

Base Budget Report (Dollars in Thousands)	All Funds		General Fund		Other State Funds		Federal Funds	
	FY 2002	FY 2003	FY 2002	FY 2003	FY 2002	FY 2003	FY 2002	FY 2003
FY 2001 Budgeted	13,594	13,594	13,094	13,094	0	0	500	500
<u>Base Adjustments</u>								
2002-03 SAL. & BEN. BASE	15	31	15	31	0	0	0	0
DOC. SPACE RENTAL/LEASE	2	2	2	2	0	0	0	0
SMALL AGENCY OPERATIONAL EXPENSE	7	15	7	15	0	0	0	0
Subtotal Base Adjustments	24	48	24	48	0	0	0	0
Base Budget	13,618	13,642	13,118	13,142	0	0	500	500

Program: OPERATIONS & SERVICES
Agency: ARTS BOARD

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
<u>Expenditures by Category:</u>									
State Operations									
COMPENSATION	854	942	1,015	1,045	1,045	1,061	1,061	149	7.6%
OTHER OPERATING EXPENSES	479	366	402	362	362	370	370	(36)	(4.7%)
Subtotal State Operations	1,333	1,308	1,417	1,407	1,407	1,431	1,431	113	4.1%
LOCAL ASSISTANCE	44	10	19	0	0	0	0	(29)	(100.0%)
Total Expenditures	1,377	1,318	1,436	1,407	1,407	1,431	1,431	84	3.1%
<u>Financing by Fund:</u>									
Direct Appropriations:									
GENERAL	1,003	788	1,220	1,043	1,043	1,067	1,067		
Statutory Appropriations:									
FEDERAL	364	520	197	364	364	364	364		
GIFT	10	10	19	0	0	0	0		
Total Financing	1,377	1,318	1,436	1,407	1,407	1,431	1,431		
<u>Revenue Collected:</u>									
Dedicated									
FEDERAL	350	714	510	500	500	500	500		
GIFT	15	9	0	0	0	0	0		
Total Revenues Collected	365	723	510	500	500	500	500		
<u>FTE by Employment Type:</u>									
FULL TIME	17.2	23.6	20.0	20.0	20.0	20.0	20.0		
PART-TIME, SEASONAL, LABOR SER	1.6	1.3	0.7	0.7	0.7	0.7	0.7		
Total Full-Time Equivalent	18.8	24.9	20.7	20.7	20.7	20.7	20.7		

Program: GRANT PROGRAMS
Agency: ARTS BOARD

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
<u>Expenditures by Category:</u>									
State Operations									
OTHER OPERATING EXPENSES	0	8	0	0	0	0	0	(8)	(100.0%)
Subtotal State Operations	0	8	0	0	0	0	0	(8)	(100.0%)
PAYMENTS TO INDIVIDUALS	589	414	482	512	512	512	512	128	14.3%
LOCAL ASSISTANCE	8,250	8,402	8,657	8,164	8,164	8,164	8,164	(731)	(4.3%)
Total Expenditures	8,839	8,824	9,139	8,676	8,676	8,676	8,676	(611)	(3.4%)
<u>Financing by Fund:</u>									
Direct Appropriations:									
GENERAL	8,630	8,589	8,641	8,540	8,540	8,540	8,540		
Statutory Appropriations:									
FEDERAL	189	210	313	136	136	136	136		
GIFT	20	25	185	0	0	0	0		
Total Financing	8,839	8,824	9,139	8,676	8,676	8,676	8,676		
<u>Revenue Collected:</u>									
Dedicated									
GIFT	0	31	46	0	0	0	0		
Total Revenues Collected	0	31	46	0	0	0	0		

Program: REGION ARTS FISC AGENT
 Agency: ARTS BOARD

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
<u>Expenditures by Category:</u>									
LOCAL ASSISTANCE	3,535	3,535	3,535	3,535	3,535	3,535	3,535	0	0.0%
Total Expenditures	3,535	3,535	3,535	3,535	3,535	3,535	3,535	0	0.0%
<u>Financing by Fund:</u>									
Direct Appropriations:									
GENERAL	3,535	3,535	3,535	3,535	3,535	3,535	3,535		
Total Financing	3,535	3,535	3,535	3,535	3,535	3,535	3,535		

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MILITARY AFFAIRS DEPT - CONTENTS

	PAGE
Agency Executive Summary	F-430
Budget Briefs by Fund	F-435
Revenue Summary Narrative	F-436
Federal Funds Summary	F-438
PROGRAMS, BUDGET ACTIVITIES, AND CHANGE ITEMS	
MAINT-TRAINING FACILITIES	F-440
Camp Ripley/Holman	F-442
Armory Maintenance	F-445
Change Item - Lease Adjustment	F-449
Air Base Maint-Twin Cities	F-450
Air Base Maint-Duluth	F-452
GENERAL SUPPORT	F-454
Administrative Services	F-456
Change Item - Special Assessments	F-459
Auxiliary Services (numbers only)	F-461
Starbase Minnesota	F-462
ENLISTMENT INCENTIVES	F-465
Change Item - Enlistment Incentives	F-468
EMERGENCY SERVICES	F-470

MILITARY AFFAIRS - EXECUTIVE SUMMARY

AGENCY MISSION AND VISION:

The Minnesota Department of Military Affairs, also known as the Minnesota National Guard, is unique among state agencies in that it has both state and federal responsibilities. Minnesota Statutes, Chapters 190, 191, 192, 192A, and 193 authorize and establish the Minnesota National Guard and some of its programs and budget activities. The department provides the leadership and management for both state and federal programs.

Federal Mission

As a federal entity, the 11,975 military members of the Minnesota National Guard serve as a reserve force for the United States Army and Air Force. Soldiers and airmen train one weekend per month and an additional 15 days during the year for this mission. They are subject to be called to federal active duty for extended periods of time by the President.

Authority for the establishment of the National Guard is contained in Article 1 of the United States Constitution. During the 2000 federal fiscal year, the Minnesota National Guard received \$161.5 million in federal funds to support its federal mission. This represented over 90% of the agency's operating budget.

State Mission

As a state entity, one of the primary missions of the Minnesota National Guard is to provide support to local law enforcement agencies during natural disasters and other emergencies at the direction of the governor. Other state missions include protecting the state's investment in facilities through a facilities maintenance program and supporting the recruiting efforts of the National Guard through incentive programs.

Community Mission

The Minnesota National Guard is also involved in community support projects throughout the state, leveraging its resources in conjunction with its federal and state missions.

The vision of the Minnesota National Guard is to successfully recruit, train and organize personnel to satisfy federal, state, and community missions.

KEY SERVICE STRATEGIES:

Minnesota National Guard customers within the state include: the Office of the Governor, the state legislature, the Minnesota Department of Public Safety and other state agencies; county sheriffs; police chiefs; emergency management personnel and members of Minnesota communities.

The agency uses the following strategies within Minnesota in pursuit of its mission and vision:

- Recruit and retain quality personnel in part by providing lifelong learning opportunities for members of the Minnesota National Guard.
- Meet or exceed state active duty readiness requirements.
- Develop and maintain quality facilities.
- Seek partnerships that enable the agency to leverage existing resources in order to operate and maintain facilities and establish community support projects and activities.

OPERATING ENVIRONMENT:

Two primary environmental factors present challenges to successfully executing the agency's key service strategies. First, a robust economy coupled with low unemployment impacts recruiting activities. And second, aging Minnesota National Guard facilities have created a significant backlog of maintenance requirements.

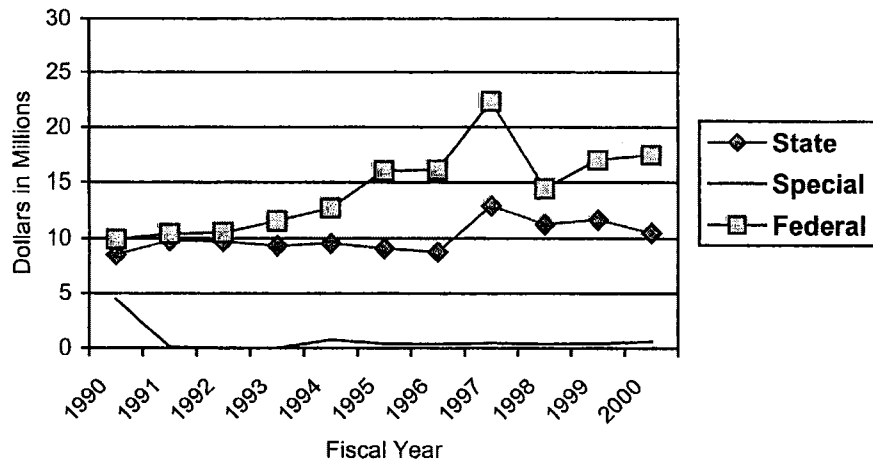
ORGANIZATION/PROGRAM STRUCTURE:

<u>Department of Military Affairs</u>	<u>FTE</u>	<u>Federal Funded</u>	<u>State Funded</u>	<u>Special Funded</u>
Adjutant General				
Admin Services	18		18	
Enlistment Incentives	1		1	
Air National Guard				
Duluth				
Security	11	11		
Firefighters	24	24		
Civil Engineers	19	15	4	
Minneapolis				
Security	11	11		
Civil Engineering	15	11	4	
Facilities Management				
Operations	34	23	11	
Public Works	98	49	48	1
Camp Commander				
Training Site	32	22	1	9
Community Support				
Youth Programs	3		3	
Total	266	166	90	10

MILITARY AFFAIRS - EXECUTIVE SUMMARY (Continued)

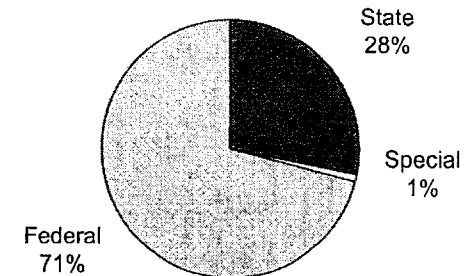
TRENDS AND PERSPECTIVE:

Total Budget -All Funds

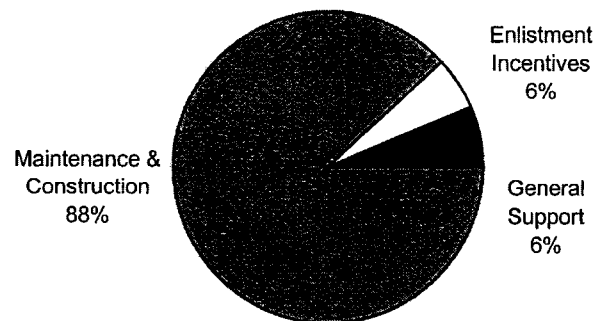


1997 data includes state expenditures and federal reimbursement for emergency flood operations

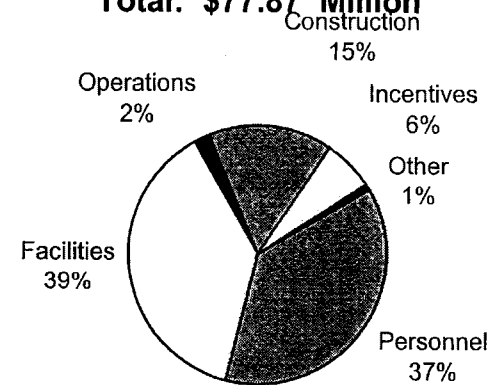
2000-01 State Expenditures by Fund Total: \$77.87 Million



2000-01 State Expenditures by Program Total: \$77.87 Million



2000-01 Expenditures by Category Total: \$77.87 Million



MILITARY AFFAIRS - EXECUTIVE SUMMARY (Continued)

GOVERNOR'S RECOMMENDATION:

The Governor recommends a biennial appropriation of \$27.196 million, which includes allowable base adjustments for salaries and documented rent increases, reductions for one-time appropriations, and the following change items:

- A biennial increase of \$206,000 for lease costs associated with construction of the new Mankato Training and Community Center.
- A biennial increase of \$4.129 million to raise the tuition reimbursement rate to the 75% level as authorized by statute.
- One-time fund in the amount of \$200,000 for special assessments to be paid to local governments as required by MS 3.754.

Agency: MILITARY AFFAIRS DEPT

Agency Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
Expenditures by Program:									
MAINT-TRAINING FACILITIES	23,983	22,319	45,789	51,252	51,355	51,716	51,819	35,066	51.5%
GENERAL SUPPORT	2,686	2,075	2,534	2,111	2,311	2,182	2,182	(116)	(2.5%)
ENLISTMENT INCENTIVES	2,376	2,496	2,508	2,356	4,355	2,357	4,487	3,838	76.7%
EMERGENCY SERVICES	0	71	79	75	75	75	75	0	0.0%
Total Expenditures	29,045	26,961	50,910	55,794	58,096	56,330	58,563	38,788	49.8%
Financing by Fund:									
Direct Appropriations:									
GENERAL	11,203	10,700	12,032	11,243	13,545	11,418	13,651		
Open Appropriations:									
GENERAL	276	0	100	0	0	0	0		
Statutory Appropriations:									
GENERAL	192	46	112	302	302	302	302		
SPECIAL REVENUE	398	563	429	440	440	445	445		
FEDERAL	16,976	15,652	38,237	43,809	43,809	44,165	44,165		
Total Financing	29,045	26,961	50,910	55,794	58,096	56,330	58,563		
FTE by Employment Type:									
FULL TIME	261.1	252.9	260.8	260.8	260.8	260.8	260.8		
PART-TIME, SEASONAL, LABOR SER	27.0	34.2	31.7	31.7	31.7	31.7	31.7		
OVERTIME PAY	2.7	2.4	2.3	2.3	2.3	2.3	2.3		
Total Full-Time Equivalent	290.8	289.5	294.8	294.8	294.8	294.8	294.8		

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MILITARY AFFAIRS DEPT - BUDGET BRIEF

Fund: GENERAL

	<u>FY 2002</u>	<u>FY 2003</u>	<u>Biennium</u>
BASE YEAR (FY 2001) (\$000s)			
Appropriations	\$11,091	\$11,091	\$22,182
BASE ADJUSTMENT			
One-time Appropriations	(85)	(85)	(170)
Salary and Benefit	134	272	406
Rent Increase	103	140	243
BASE LEVEL (for 2002 and 2003)	\$11,243	\$11,418	\$22,661
CHANGE ITEMS			
Enlistment Incentives	1,999	2,130	4,129
Rent Increase (Mankato)	103	103	206
Special Assessments	200	0	200
GOVERNOR'S RECOMMENDATION	\$13,545	\$13,651	\$27,196

- A biennial increase of \$206,000 for lease costs associated with construction of the new Mankato Training and Community Center.
- A biennial increase of \$4.129 million to raise the tuition reimbursement rate to the 75% level as authorized by statute.
- One-time funding in the amount of \$200,000 for special assessments to be paid to local governments as required by MS 3.754.

BRIEF EXPLANATION OF BUDGET DECISIONS:

Base:

The department will spend approximately \$1.3 million annually to match federal funds for operation, maintenance, and repair of federally supported facilities. This will amount to almost \$4 million in federal funding being spent in the state.

The department's key budget issues are increases in appropriations for enlistment incentives and adequate funding for employee, maintenance, and operating costs to support administrative and training facilities.

Base adjustments:

- Reduction of \$70,000 for MN National Guard Youth Camp one-time funding.
- Reduction of \$100,000 soft-skill one-time funding.
- Increase of \$406,000 for biennial salary and benefit increases.
- Increase of \$243,000 for biennial rent increases.

GOVERNOR'S RECOMMENDATION:

The Governor recommends a biennial appropriation of \$27.196 million, which includes allowable base adjustments for salaries and documented rent increases, reductions for one-time appropriations, and the following change items:

MILITARY AFFAIRS DEPT - REVENUE SUMMARY

REVENUE SOURCES:

The department generates dedicated revenue in general, special, and federal funds.

- The lease of federally-supported facilities at Camp Ripley, through inter-agency agreements with the Department of Natural Resources, Department of Public Safety, and the Department of Corrections, generates dedicated revenue. The revenue generated is reimbursed into Federal Fund 300, since no General Funds are used to support those leased facilities.
- Special revenue is generated through operation of the Camp Ripley housing facilities that support military and civilian overnight lodging. Special revenue is also generated in two armory facilities through reimbursement from units of local government for payment of personnel and operational costs associated with on-going, long term lease arrangements.
- Federal funds are received as reimbursements through federal/state cooperative agreements for Army and Air National Guard training and logistical facilities. The funds are for operating costs for federally supported facilities and for construction costs.

The remaining revenue is in the form of dollar-for-dollar reimbursements for operating costs in some programs and funds from sale of surplus property.

FEE STRUCTURE:

The dedicated funds received through the lease of Camp Ripley facilities by other state agencies, must be deposited in the federal fund because all costs associated with the leased facilities are supported fully by the federal government. Receipts average about \$85,000 per fiscal year.

The special revenue realized from Camp Ripley housing operations is deposited in the special revenue fund to reimburse the salaries of state employees and cover other operating costs.

Special revenue is also generated as a result of space sharing arrangements in the Bloomington and Cottage Grove armories. The city of Bloomington utilizes portions of that facility for recreational programs and reimburses the department for their pro-rata share of custodial personnel. In Cottage Grove, Washington County shares a portion of the armory for a branch of their court system. They reimburse the department for their pro-rata share of operating costs.

Federal grants are received in the form of reimbursements for actual costs of personnel, operations, maintenance, and construction at logistical facilities

located at Camp Ripley, an Army Aviation Support Facility in St. Paul, the two Air Guard bases, and vehicle repair facilities located throughout the state. These funds average between \$20 and \$30 million annually depending on the level of construction. These funds finance almost 70% of the total department state expenditures.

The department receives other federal dollars for National Guard operations that do not pass through the state budget.

RECENT CHANGES:

The department has received notice of approval of two federally-funded construction projects. One is a 100% federally funded completion of the Combined Support Maintenance Shop at Camp Ripley and the other is the 75% federally funded new Training and Community Center (Armory) at Mankato. These two projects should result in about \$14 million worth of federal construction in the state.

FORECAST BASIS:

The estimated federal revenue for the next biennium anticipates additional federal appropriations for construction. The level of federal funding for construction has been decreasing nationwide.

The department continues to aggressively pursue federal funds for construction and replacement of facilities authorized for federal funding.

Agency: MILITARY AFFAIRS DEPT

Summary of Agency Revenues (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Forecast	Governor Recomm.	Forecast	Governor Recomm.	Dollars	Percent
Non-Dedicated Revenue:									
Other Sources:									
GENERAL	1	2	2	2	2	2	2	0	0.0%
Total Non-Dedicated Receipts	1	2	2	2	2	2	2	0	0.0%
Dedicated Receipts:									
Grants:									
SPECIAL REVENUE	394	532	354	360	360	365	365	(161)	(18.2%)
FEDERAL	16,451	15,447	38,163	43,748	43,748	44,104	44,104	34,242	63.9%
Other Revenues:									
GENERAL	305	246	312	302	302	302	302	46	8.2%
SPECIAL REVENUE	4	31	75	80	80	80	80	54	50.9%
FEDERAL	624	80	61	61	61	61	61	(19)	(13.5%)
Total Dedicated Receipts	17,778	16,336	38,965	44,551	44,551	44,912	44,912	34,162	61.8%
Agency Total Revenues	17,779	16,338	38,967	44,553	44,553	44,914	44,914	34,162	61.8%

MILITARY AFFAIRS DEPT - FEDERAL FUNDS SUMMARY

Federal Program (\$ in Thousands)	Related SFY 2000 Spending	Primary Purpose	SFY 2000 Revenues	SFY 2001 Revenues	Estimated SFY 2002 Revenues	Estimated SFY 2003 Revenues
Armory Construction	\$380	Training Facilities	1,089	5,000	5,000	5,000
Logistical Facility Construction	None	Vehicle/Equip Maintenance	-0-	6,585	6,809	6,809
Minor Construction	None	Various Facilities	1,451	3,000	3,000	3,000
Operational Fed-State Agreements (25%)	\$1,109	Operation of Facilities	2,139	3,943	3,554	3,554
Operational Federal	None	Operation of Facilities	7,289	15,100	15,171	15,171
Environmental, Security, Firefighting, Telecom	None	Operational	3,540	4,234	4,234	4,234
STARBASE	None	Educational	200	230	230	230
Agency Total			15,708	37,862	37,998	37,998

Importance to Department - The department receives federal funds through the execution of cooperative agreements for the operation of facilities and for construction programs. These funds are critical to the Minnesota National Guard.

Federal funds are received under cooperative agreement appendices for operation and maintenance of federally supported logistical facilities. Most funding is received as a match to state funding under a 75%-25% arrangement. Environmental, security, telecommunications, and fire-fighting appendices are 100% federally funded.

The department's logistical facilities are used to maintain and support the operation of federally provided aircraft, vehicles, and other military equipment. Construction of these facilities is typically funded entirely by the federal government. We have completed Phase 1 of the Combined Support Maintenance Shop at Camp Ripley. Phase 2 of the project was recently funded.

Significant Changes - Nationwide, federal funding for military construction has been declining. These funds are used for construction of armory and logistical facilities. The lack of funding for construction has serious implications for the department's armory replacement program.

Our inventory of owned armories is aged: 50% (31) of the department's 62 armories are over 40 years old and 19% (12) of these are over 70 years old. These facilities are difficult to maintain, have outlived their expected useful lives, and are functionally out of date.

The department has attempted to acquire federal funding to replace one facility per year but until the recent funding of the new Mankato armory, the department had not received major construction funding since 1996. This negatively impacts our ability to attract, train, and retain National Guard members in sufficient numbers to accomplish federal, state, and community missions.

Future Funding - We anticipate further reductions in federal funding for operation of Army National Guard logistical facilities, including Camp Ripley. Federal funding for security and airfield fire fighting has also been inadequate in recent years. We see this trend continuing.

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PROGRAM SUMMARY

Program: MAINT-TRAINING FACILITIES
Agency: MILITARY AFFAIRS DEPT

GOVERNOR'S RECOMMENDATION:

The Governor recommends a biennial appropriation level of \$103.174 million, which incorporates a biennial increase in base funding of \$206,000 for lease payments to retire the state's portion of debt on a new armory facility in Mankato.

PROGRAM PROFILE:

The Adjutant General is charged with operation, care, and preservation of facilities and installations. The purpose of this program is to:

- Protect the state's investment in state-owned facilities.
- Provide for operating costs of both state-and federally-supported facilities utilized by the Army and Air National Guard members, and employees of the department.

STRATEGIES AND PERFORMANCE:

In many cases, the department has reduced the staffing levels at facilities to be able to afford maintenance and operating costs. This is often at the expense of facility cleanliness and minor repair. Currently, five of 61 armories have general maintenance workers who are shared with another armory, and another 20 armories are staffed at less than full-time. The department is developing a centralized, computer-based work order center to track and manage all maintenance and repair activities. In FY 2000, this center completed over 7,500 work orders.

The department works aggressively to match current federal funding levels and acquire additional funds for operation and maintenance of federally supported facilities.

FINANCING INFORMATION:

Funding for most activities under this program are identified on activity-level pages. Additional federal funding is received under the program in the amount of \$1.5 million for the biennium as a "pass-through" for payment of telecommunications costs for National Guard facilities. Federal funds are also received for minor construction, major construction, and upgrading federally supported facilities as a pass-through under the "Quality of Life" program. The "Quality of Life" program was an additional federal appropriation targeted at improving the federally supported infrastructure used to house and train soldiers.

BUDGET ISSUES:

The Maintenance and Training Facilities Program is required for the operation, maintenance, and repair of state-owned and department-operated facilities. We expect continued inflationary pressures in salaries, supplies, and utilities to further reduce the purchasing power of money within this appropriation.

Program: MAINT-TRAINING FACILITIES
Agency: MILITARY AFFAIRS DEPT

Program Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
Expenditures by Activity:									
CAMP RIPLEY/HOLMAN	11,843	10,338	19,050	19,198	19,198	19,423	19,423	9,233	31.4%
ARMORY MAINTENANCE	7,749	7,818	21,004	26,129	26,232	26,209	26,312	23,722	82.3%
AIR BASE MAINT-TWIN CITIES	1,487	1,369	2,227	2,335	2,335	2,405	2,405	1,144	31.8%
AIR BASE MAINT-DULUTH	2,904	2,794	3,508	3,590	3,590	3,679	3,679	967	15.3%
Total Expenditures	23,983	22,319	45,789	51,252	51,355	51,716	51,819	35,066	51.5%

Change Items:	Fund				
(B) LEASE ADJUSTMENT	GEN			103	103
Total Change Items				103	103

Financing by Fund:							
Direct Appropriations:							
GENERAL	6,654	6,305	7,341	7,038	7,141	7,141	7,244
Statutory Appropriations:							
GENERAL	192	46	112	302	302	302	302
SPECIAL REVENUE	383	517	329	333	333	338	338
FEDERAL	16,754	15,451	38,007	43,579	43,579	43,935	43,935
Total Financing	23,983	22,319	45,789	51,252	51,355	51,716	51,819

FTE by Employment Type:							
FULL TIME	232.1	230.4	237.3	237.3	237.3	237.3	237.3
PART-TIME, SEASONAL, LABOR SER	26.6	33.3	31.3	31.3	31.3	31.3	31.3
OVERTIME PAY	2.6	2.4	2.3	2.3	2.3	2.3	2.3
Total Full-Time Equivalent	261.3	266.1	270.9	270.9	270.9	270.9	270.9

BUDGET ACTIVITY SUMMARY

Budget Activity: CAMP RIPLEY/HOLMAN
Program: MAINT-TRAINING FACILITIES
Agency: MILITARY AFFAIRS DEPT

Special funds are generated through the lease of facilities at Camp Ripley, which directly offset the costs of related operations.

All the revenue generated by the use of the federally supported facilities at Camp Ripley is used to reimburse the costs of operation, maintenance, and repair of the facilities.

ACTIVITY PROFILE:

This budget activity provides for the daily operation, maintenance, and repair of the Camp Ripley Military Reservation and various logistical facilities located around the state. Camp Ripley is comprised of 2.3 million square feet of facilities within 1,424 buildings on 53,000 acres. The other facilities include 64 structures within 508,027 total square feet (127,006 are state-supported) on 697 acres and are worth a total investment of \$50.4 million.

The facilities are used to train and house:

- 9,500 members of the Minnesota Army National Guard
- Military units from other nations
- Reserve components from Minnesota and other states
- Active component soldiers from other branches
- Programs of the Department of Natural Resources
- Programs of the Department of Public Safety
- Programs of the Department of Corrections
- Programs of the Minnesota State Patrol
- Other governmental entities

BUDGET ISSUES:

Because this budget is required to support operations and maintenance of Camp Ripley Facilities and logistical facilities located around the state, it is crucial that the state be able to provide the 25% match for the related federal funds. For every state dollar we cannot provide, we lose \$3 of federal support. Without these dollars, facilities cannot be maintained at an acceptable level for training the soldiers and airmen of the Minnesota National Guard as they prepare to meet the challenges of their federal and state missions.

Additionally, we expect a decrease in federal funding for operations, maintenance, and repair of facilities. Consequently, we may have to find ways to replace this funding in the future.

STRATEGIES AND PERFORMANCE:

The department aggressively pursues strategies that leverage these facility resources by developing inter-agency agreements and agreements with other governmental entities. There is also an ongoing effort to upgrade facilities and firing ranges designed to increase the use of Camp Ripley. Such partnerships help finance the operating costs for the facilities and make more efficient use of state tax dollars.

FINANCING INFORMATION:

Almost all of the facilities at Camp Ripley are supported entirely by federal dollars. The operations and maintenance costs for the remaining logistical facilities at Camp Ripley and other locations in the state are funded 75% by federal funds and 25% by state General Funds. All of the facilities were constructed with federal funds.

Activity: CAMP RIPLEY/HOLMAN
Program: MAINT-TRAINING FACILITIES
Agency: MILITARY AFFAIRS DEPT

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
Expenditures by Category:									
State Operations									
COMPENSATION	5,387	5,717	6,176	6,663	6,663	6,888	6,888	1,658	13.9%
OTHER OPERATING EXPENSES	6,456	4,587	12,867	12,358	12,358	12,363	12,363	7,267	41.6%
Subtotal State Operations	11,843	10,304	19,043	19,021	19,021	19,251	19,251	8,925	30.4%
PAYMENTS TO INDIVIDUALS	0	34	7	177	177	172	172	308	751.2%
Total Expenditures	11,843	10,338	19,050	19,198	19,198	19,423	19,423	9,233	31.4%

Financing by Fund:							
Direct Appropriations:							
GENERAL	871	902	1,012	1,033	1,033	1,056	1,056
Statutory Appropriations:							
GENERAL	192	46	112	302	302	302	302
SPECIAL REVENUE	333	467	278	280	280	280	280
FEDERAL	10,447	8,923	17,648	17,583	17,583	17,785	17,785
Total Financing	11,843	10,338	19,050	19,198	19,198	19,423	19,423

Revenue Collected:							
Dedicated							
FEDERAL	5,039	4,764	5,268	5,738	5,738	5,944	5,944
Total Revenues Collected	5,039	4,764	5,268	5,738	5,738	5,944	5,944

FTE by Employment Type:							
FULL TIME	107.1	110.5	118.1	118.1	118.1	118.1	118.1
PART-TIME, SEASONAL, LABOR SER	10.6	13.8	13.6	13.6	13.6	13.6	13.6
OVERTIME PAY	0.8	0.8	0.7	0.7	0.7	0.7	0.7
Total Full-Time Equivalent	118.5	125.1	132.4	132.4	132.4	132.4	132.4

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BUDGET ACTIVITY SUMMARY

Budget Activity: ARMORY MAINTENANCE
Program: MAINT-TRAINING FACILITIES
Agency: MILITARY AFFAIRS DEPT

ACTIVITY PROFILE:

This activity provides the funding for the daily operation, maintenance and repair of armories located throughout the state. Of the 63 facilities supported, 62 are owned and 1 is leased. The buildings comprise a total of 1.6 million square feet of space on 246 acres of property representing a \$249 million investment.

These armories are used for three primary purposes:

- Administrative and logistical support and training for the 9,500 Army National Guard soldiers located in Minnesota.
- Stationing and support of soldiers called to state active duty by the governor in response to emergencies.
- Events and programs of government and community organizations and individuals including "Guard Our Youth" programs. "Guard Our Youth" programs make facilities available to school age persons for after school activities.

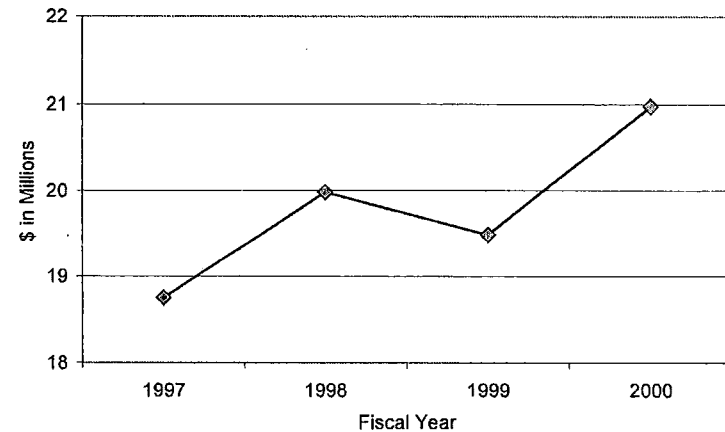
STRATEGIES AND PERFORMANCE:

The Minnesota Department of Military Affairs is nationally recognized for its creative funding and use of the armories. We work diligently to provide the best programs for the state and for taxpayers. Some facilities are shared with other governmental agencies that help pay the costs of operation, maintenance, and repair. In some instances, services are provided in-kind. Ten of our newest facilities have been built with and are operated in conjunction with local governments. These partnerships all help reduce the overhead costs the department must pay.

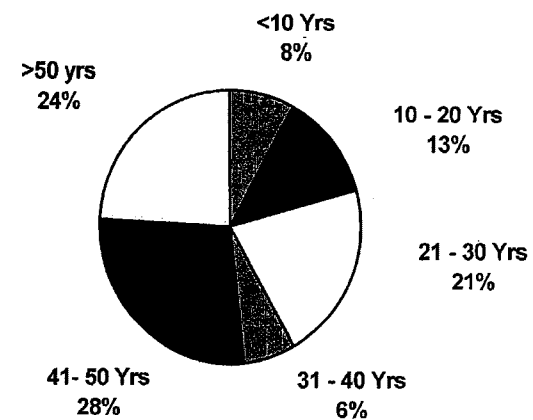
One measure of the department's ability to protect the state's investment is the backlog of armory maintenance and repair (BMAR). The department's aging inventory of facilities places greater demands on the maintenance and operational personnel budgets and hence causes the BMAR to increase.

The agency's goal is to reduce the level of BMAR by at least 5% per year. The BMAR has increased slightly from \$18.6 million on January 1997 to \$21 million in January, 2000. We have not been able to meet our goal at current funding levels without replacing older facilities. Currently, the state's armories have an average age greater than 40 years old.

Armory Maintenance Backlog



Armory Age



BUDGET ACTIVITY SUMMARY (Continued)

Budget Activity: ARMORY MAINTENANCE
Program: MAINT-TRAINING FACILITIES
Agency: MILITARY AFFAIRS DEPT

The preceding chart shows the percentage of facilities in each age group out of a total of 62 facilities owned around the state. Older facilities are more difficult and more expensive to maintain.

FINANCING INFORMATION:

During the last two fiscal years, the department aggressively sought and was partially successful in acquiring additional federal funding to maintain our facilities. Much of this was in the form of money that had to be matched and was targeted for major repair work. The state matching funds were predominantly Capital Asset Preservation and Replacement Account (CAPRA), and Asset Preservation dollars.

BUDGET ISSUES:

Funding within this activity must pay for all operational, maintenance, and repair costs for armories. Such costs include utilities, personnel costs, cleaning equipment and supplies, minor maintenance and repair, and various property costs, including department-leased space.

We expect continuing increases in salaries, utilities, and supply costs to further erode our ability to maintain and repair facilities. Therefore, the department continues to seek ways to leverage dwindling resources. We are also participating in the Statewide Facilities Managers Group to help determine the level of funding required to protect the state's investment.

Activity: ARMORY MAINTENANCE
Program: MAINT-TRAINING FACILITIES
Agency: MILITARY AFFAIRS DEPT

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
Expenditures by Category:									
State Operations									
COMPENSATION	2,246	2,340	2,484	2,558	2,558	2,633	2,633	367	7.6%
OTHER OPERATING EXPENSES	5,503	5,478	7,075	6,916	7,019	6,921	7,024	1,490	11.9%
Subtotal State Operations	7,749	7,818	9,559	9,474	9,577	9,554	9,657	1,857	10.7%
CAPITAL OUTLAY & REAL PROPERTY	0	0	11,445	16,655	16,655	16,655	16,655	21,865	191.0%
Total Expenditures	7,749	7,818	21,004	26,129	26,232	26,209	26,312	23,722	82.3%

Change Items:	Fund				
(B) LEASE ADJUSTMENT	GEN			103	103
Total Change Items				103	103

Financing by Fund:							
Direct Appropriations:							
GENERAL	5,031	4,688	5,476	5,143	5,246	5,211	5,314
Statutory Appropriations:							
SPECIAL REVENUE	50	50	51	53	53	58	58
FEDERAL	2,668	3,080	15,477	20,933	20,933	20,940	20,940
Total Financing	7,749	7,818	21,004	26,129	26,232	26,209	26,312

Revenue Collected:							
Dedicated							
GENERAL	305	246	312	302	302	302	302
FEDERAL	8,056	6,970	27,720	32,640	32,640	32,640	32,640
Total Revenues Collected	8,361	7,216	28,032	32,942	32,942	32,942	32,942

FTE by Employment Type:							
FULL TIME	39.7	39.1	39.1	39.1	39.1	39.1	39.1
PART-TIME, SEASONAL, LABOR SER	14.9	16.0	16.2	16.2	16.2	16.2	16.2
OVERTIME PAY	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Total Full-Time Equivalent	54.7	55.2	55.4	55.4	55.4	55.4	55.4

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BUDGET CHANGE ITEM (59887)**Agency: MILITARY AFFAIRS DEPT****Item Title: LEASE ADJUSTMENT**

	2002-03 Biennium		2004-05 Biennium	
	FY 2002	FY 2003	FY 2004	FY 2005
Expenditures: (\$000s)				
General Fund				
-State Operations	\$103	\$103	\$103	\$103
Revenues: (\$000s)				
General Fund	\$-0-	\$-0-	\$-0-	\$-0-
Statutory Change? Yes _____ No <u> X </u>				
If yes, statute(s) affected:				
____ New Activity <u> X </u> Supplemental Funding _____ Reallocation				

GOVERNOR'S RECOMMENDATION:

The Governor recommends a biennial base increase of \$206,000 for the lease payment on the new Mankato National Guard Training and Community Center (Armory).

RATIONALE:

The Mankato lease payment is a disbursement to the Minnesota State Armory Building Commission (MSABC) under the provisions of M.S. 193.143. MSABC calculated the lease amount based on funding required by agreement to pay the state share of the bond interest, principal, and trustee fees for the new facility.

The current Mankato Armory (Training and Community Center or TACC) was constructed in 1914 and has deteriorated extensively over the last 86 years. It does not currently meet state building codes, Life Safety codes, Occupational Safety and Health Administration (OSHA) regulations, and the requirements specified in the Americans with Disabilities Act (ADA). The facility cannot functionally support required high tech training and communication infrastructures and lacks space for classrooms, administration, and storage for the tenant units.

The Minnesota facilities program has become a national model for construction, funding, and use. We have hosted visits from over half the states and territories with some returning with community leaders for follow-up visits. Guard training

and community centers play a large role in their communities. This facility will be constructed and used in conjunction with the local government.

FINANCING:

Like other armories constructed in Minnesota, this TACC will be financed through the sale of bonds in the amount of \$2.8 million by the MSABC under the provisions of M.S. 193. These 20-year bonds will pay the state and local share of the construction costs for the basic building. The local governments will levy a tax to pay their share of the total debt, and the Department of Military Affairs will make a lease payment to the MSABC to cover its portion of the payments.

Each new armory facility adds value to both the state and local communities. Similar to a lease-to-own concept, once the bonded debt has been retired, the building and the land are deeded to the state of Minnesota. The federal government will pay for over 65% (\$5.2 million) of the total cost of the facility. Local governments will pay for another 20% (\$1.653 million) at a rate of \$150,000 annually and will donate all land for construction to the MSABC. The state will pay a 15% share at a total cost of \$1.115 million. The department's \$103,000 annual lease payment will retire the state's portion of the construction debt.

The debt of the MSABC is not legally debt of the state or local governments. The MSABC receives no direct appropriations from legislature and charges no additional fees. Payments are calculated only to retire the debt on the facility.

OUTCOMES:

The new \$8 Million TACC in Mankato will be a 45,279 square foot facility with an additional military vehicle storage building. The TACC will include a drill floor, storage areas, administrative space, and classrooms. The facility will also include a classroom designed for distance learning. The equipment for the learning center will be provided separately by the federal government.

The facility will provide a clean, safe, and modern environment for the training of the soldiers in the tenant units and also a community resource for other training and recreational activities. During emergencies, it will also function as a shelter for stranded motorists and displaced persons. Local citizen groups and individuals will also be able to lease the facilities for various activities.

BUDGET ACTIVITY SUMMARY

Budget Activity: AIR BASE MAINT-TWIN CITIES
Program: MAINT-TRAINING FACILITIES
Agency: MILITARY AFFAIRS DEPT

ACTIVITY PROFILE:

This activity supports the operational and facility needs of the 133rd Air Wing, Minnesota Air National Guard located at the Twin Cities Airbase. The mission of the 133rd is to provide the nation with a wing of eight C130H model transport aircraft, ready for immediate deployment for state, national, or international emergencies.

Facilities supported represent 414,361 square feet in 38 separate structures. Operational and maintenance expenses include:

- Utilities
- Roads, grounds, and aircraft parking ramp maintenance
- Janitorial services
- Runway use costs
- Base security
- Employee salary and benefit costs
- Minor construction and repair
- Employee safety equipment and training
- Supplies and materials
- Service contracts
- Waste hauling

STRATEGIES AND PERFORMANCE:

The 133rd participated in several missions during the statewide snow removal operations and floods of 1997 providing snow removal and water pumping equipment and personnel and airlifting equipment and sandbags to those areas hit by the flood.

FINANCING INFORMATION:

The federal government provides for 100% of the costs for base security with a combination of federally reimbursed state employee and military persons. The rest of the costs listed above are funded through a cooperative agreement with the federal government whereby they provide 75% and the state must provide 25% of those costs.

BUDGET ISSUES:

To the extent that it can, the department provides funds that are matched three to one with federal dollars. Increased costs for personnel, utilities, and supplies will continue to erode the ability of the 133rd to properly maintain their facilities. Therefore, the Air National Guard also aggressively pursues additional federal funds and new missions, which provide added resources to Minnesota's economy.

Activity: AIR BASE MAINT-TWIN CITIES
Program: MAINT-TRAINING FACILITIES
Agency: MILITARY AFFAIRS DEPT

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
Expenditures by Category:									
State Operations									
COMPENSATION	1,128	1,137	1,316	1,430	1,430	1,479	1,479	456	18.6%
OTHER OPERATING EXPENSES	359	232	911	905	905	926	926	688	60.2%
Total Expenditures	1,487	1,369	2,227	2,335	2,335	2,405	2,405	1,144	31.8%
Financing by Fund:									
Direct Appropriations:									
GENERAL	366	341	398	401	401	407	407		
Statutory Appropriations:									
FEDERAL	1,121	1,028	1,829	1,934	1,934	1,998	1,998		
Total Financing	1,487	1,369	2,227	2,335	2,335	2,405	2,405		
Revenue Collected:									
Dedicated									
FEDERAL	3,396	3,438	3,746	3,900	3,900	4,000	4,000		
Total Revenues Collected	3,396	3,438	3,746	3,900	3,900	4,000	4,000		
FTE by Employment Type:									
FULL TIME	26.0	23.2	27.0	27.0	27.0	27.0	27.0		
PART-TIME, SEASONAL, LABOR SER	0.2	1.9	1.2	1.2	1.2	1.2	1.2		
OVERTIME PAY	0.7	0.6	0.6	0.6	0.6	0.6	0.6		
Total Full-Time Equivalent	26.9	25.7	28.8	28.8	28.8	28.8	28.8		

BUDGET ACTIVITY SUMMARY

Budget Activity: AIR BASE MAINT-DULUTH
Program: MAINT-TRAINING FACILITIES
Agency: MILITARY AFFAIRS DEPT

BUDGET ISSUES:

The continuing struggle at this base is to cope with the increases in utility, personnel, and supplies costs. The department attempts to find the resources to provide the match necessary to acquire additional federal funding.

ACTIVITY PROFILE:

This activity supports the operational and facility needs of the 148th Fighter Group, Minnesota Air National Guard located in Duluth, Minnesota. The 148th provides national and international fighter support with a wing of 19 F16C fighter jets.

Facilities supported represent 474,414 square feet of space in 63 separate structures. Operational and maintenance expenses include:

- Utilities
- Water and sewer
- Roads, grounds, and airfield maintenance
- Janitorial services
- Runway use costs
- Base Security
- Fire Fighting
- Employee salary and benefit costs

STRATEGIES AND PERFORMANCE:

To the extent that it can, the department provides funds that are matched in turn by three times the amount in federal dollars. The Air National Guard also aggressively pursues additional federal funds and new missions that provide added resources. The Air National Guard at Duluth provides an economic impact to the area of over \$47 million per year.

FINANCING INFORMATION:

The federal government provides for 100% of the costs for base security with a combination of federally reimbursed state employees and military persons. The federal government also pays 100% of the costs for fire fighting services. The rest of the costs listed above are funded through a cooperative agreement with the federal government whereby they provide 75% and the state provides 25% of those costs.

Activity: AIR BASE MAINT-DULUTH
Program: MAINT-TRAINING FACILITIES
Agency: MILITARY AFFAIRS DEPT

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
Expenditures by Category:									
State Operations									
COMPENSATION	2,562	2,610	2,729	2,795	2,795	2,856	2,856	312	5.8%
OTHER OPERATING EXPENSES	342	184	779	795	795	823	823	655	68.0%
Total Expenditures	2,904	2,794	3,508	3,590	3,590	3,679	3,679	967	15.3%
Financing by Fund:									
Direct Appropriations:									
GENERAL	386	374	455	461	461	467	467		
Statutory Appropriations:									
FEDERAL	2,518	2,420	3,053	3,129	3,129	3,212	3,212		
Total Financing	2,904	2,794	3,508	3,590	3,590	3,679	3,679		
Revenue Collected:									
Dedicated									
FEDERAL	362	118	1,260	1,301	1,301	1,351	1,351		
Total Revenues Collected	362	118	1,260	1,301	1,301	1,351	1,351		
FTE by Employment Type:									
FULL TIME	59.3	57.6	53.1	53.1	53.1	53.1	53.1		
PART-TIME, SEASONAL, LABOR SER	0.9	1.6	0.3	0.3	0.3	0.3	0.3		
OVERTIME PAY	1.0	0.9	0.9	0.9	0.9	0.9	0.9		
Total Full-Time Equivalent	61.2	60.1	54.3	54.3	54.3	54.3	54.3		

PROGRAM SUMMARY

Program: GENERAL SUPPORT
Agency: MILITARY AFFAIRS DEPT

PROGRAM PROFILE:

The General Support budget program provides the leadership, and administrative and technical support for the department. It also provides the support for members of the National Guard called to state active duty by the governor. It includes the operating costs for the department headquarters in St. Paul.

There are three activities within this program: 1) Administrative Services, 2) Auxiliary Services; and 3) STARBASE.

STRATEGIES AND PERFORMANCE:

The Department of Military Affairs has continued to consolidate resources in most areas. In order to continue to provide the necessary services, we have relied upon employee training, investments in automation, and continue to leverage resources with the federal portions of the Minnesota National Guard.

FINANCING INFORMATION:

With the exception of the federally funded STARBASE activity, this program is funded predominantly through the General Fund. Some special revenue is generated through a cost sharing arrangement with the Minnesota State Armory Building Commission for personnel services.

BUDGET ISSUES:

The department continues to make strategic changes based on funding levels. The increased reliance upon the military forces of the National Guard creates additional workloads for current staff.

Activities within this program include a change item for payment of special assessments on department-managed property.

GOVERNOR'S RECOMMENDATION:

The Governor recommends a biennial appropriation of \$4.293 million, which includes one-time funding of \$200,000 for payment of special assessments to local governments.

Program: GENERAL SUPPORT
 Agency: MILITARY AFFAIRS DEPT

Program Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
Expenditures by Activity:									
ADMINISTRATIVE SERVICES	2,188	1,843	2,129	1,801	2,001	1,872	1,872	(99)	(2.5%)
AUXILIARY SERVICES	276	31	175	80	80	80	80	(46)	(22.3%)
STARBASE MINNESOTA	222	201	230	230	230	230	230	29	6.7%
Total Expenditures	2,686	2,075	2,534	2,111	2,311	2,182	2,182	(116)	(2.5%)

Change Items:	Fund				
(B) SPECIAL ASSESSMENTS	GEN			200	
Total Change Items				200	

Financing by Fund:							
Direct Appropriations:							
GENERAL	2,173	1,828	2,104	1,774	1,974	1,845	1,845
Open Appropriations:							
GENERAL	276	0	100	0	0	0	0
Statutory Appropriations:							
SPECIAL REVENUE	15	46	100	107	107	107	107
FEDERAL	222	201	230	230	230	230	230
Total Financing	2,686	2,075	2,534	2,111	2,311	2,182	2,182

FTE by Employment Type:							
FULL TIME	28.1	22.3	22.5	22.5	22.5	22.5	22.5
PART-TIME, SEASONAL, LABOR SER	0.2	0.2	0.2	0.2	0.2	0.2	0.2
OVERTIME PAY	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Total Full-Time Equivalent	28.4	22.5	22.7	22.7	22.7	22.7	22.7

BUDGET ACTIVITY SUMMARY

Budget Activity: ADMINISTRATIVE SERVICES
Program: GENERAL SUPPORT
Agency: MILITARY AFFAIRS DEPT

ACTIVITY PROFILE:

The Adjutant General is the military chief of staff to the governor and is the department head. The Assistant Adjutant General and other key members of his staff are charged with policy development, management, supervision and support of the Minnesota Army and Air National Guard. Areas of policy guidance and support include:

- strategic planning
- administration and training
- facility maintenance and management
- acquisition of funding for new construction
- personnel and recruiting
- military operational readiness

Eighteen state employees that provide management and clerical support to the department headquarters and National Guard units support the activity. Some of the administrative and management services provided by these employees include:

- senior leadership and management
- budget and accounting functions
- fiscal management of the state/federal cooperative agreement
- internal audit and management controls
- payroll and logistical support to personnel called to state active duty
- employee support services for our 300 state employees
- payment processing for departmental operations

The remaining employees in the department headquarters are federal employees who support the military activities of the Army and Air National Guard.

STRATEGIES AND PERFORMANCE:

In order to deal with general reductions in employee complements, agency human resource persons have begun to provide on-site employee benefit and payroll services, and are often included in employee training courses to provide

information on programs and benefits. It is hoped this investment of time up-front will help to reduce the time consuming problem resolution.

We partner with federal personnel to provide telecommunication, computer, network connectivity, mailroom, and printing services for the department. Training is also provided through partnerships with the Army and Air National Guard in such areas as total quality management and computer hardware and software. The department has also developed an employee sharing partnership with the Minnesota State Armory Building Commission to reduce personnel costs for both entities.

Department personnel work closely with the National Guard Bureau, the congressional delegations, and local governments to acquire funding for new training facilities.

FINANCING INFORMATION:

Revenue generated in this activity is payments received from the Minnesota State Armory Building Commission for services provided by the state to that commission.

BUDGET ISSUES:

This activity includes a base adjustment for rent in the Veterans Service Building. We are also requesting a change item to provide funding for payment of special assessments under the provisions of MS 3.754.

Activity: ADMINISTRATIVE SERVICES
Program: GENERAL SUPPORT
Agency: MILITARY AFFAIRS DEPT

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
Expenditures by Category:									
State Operations									
COMPENSATION	1,390	1,238	1,315	1,200	1,200	1,242	1,242	(111)	(4.3%)
OTHER OPERATING EXPENSES	710	480	689	509	709	538	538	78	6.7%
OTHER FINANCIAL TRANSACTIONS	35	0	0	0	0	0	0	0	
Subtotal State Operations	2,135	1,718	2,004	1,709	1,909	1,780	1,780	(33)	(0.9%)
PAYMENTS TO INDIVIDUALS	1	1	1	1	1	1	1	0	0.0%
LOCAL ASSISTANCE	52	124	124	91	91	91	91	(66)	(26.6%)
Total Expenditures	2,188	1,843	2,129	1,801	2,001	1,872	1,872	(99)	(2.5%)

Change Items:	Fund				
(B) SPECIAL ASSESSMENTS	GEN			200	
Total Change Items				200	

Financing by Fund:							
Direct Appropriations:							
GENERAL	2,173	1,828	2,104	1,774	1,974	1,845	1,845
Statutory Appropriations:							
SPECIAL REVENUE	15	15	25	27	27	27	27
Total Financing	2,188	1,843	2,129	1,801	2,001	1,872	1,872

Revenue Collected:							
Dedicated							
SPECIAL REVENUE	398	532	354	360	360	365	365
Total Revenues Collected	398	532	354	360	360	365	365

FTE by Employment Type:							
FULL TIME	28.1	22.3	22.5	22.5	22.5	22.5	22.5
PART-TIME, SEASONAL, LABOR SER	0.2	0.2	0.2	0.2	0.2	0.2	0.2
OVERTIME PAY	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Total Full-Time Equivalent	28.4	22.5	22.7	22.7	22.7	22.7	22.7

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BUDGET CHANGE ITEM (46203)**Agency: MILITARY AFFAIRS DEPT****Item Title: SPECIAL ASSESSMENTS**

	<u>2002-03 Biennium</u>		<u>2004-05 Biennium</u>	
	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u>
Expenditures: (\$000s)				
General Fund				
-State Operations	\$200	\$-0-	\$-0-	\$-0-
- Revenue	\$-0-	\$-0-	\$-0-	\$-0-

Statutory Change? Yes _____ No X

If yes, statute(s) affected:

_____ New Activity X Supplemental Funding _____ Reallocation**GOVERNOR'S RECOMMENDATION:**

The Governor recommends one-time funding of \$200,000.

RATIONALE:

M.S. 3.754 provides that all state departments and agencies shall include in their budget requests the amounts necessary to reimburse counties and municipalities for claims involving assessments for improvements benefiting state-owned property in their communities. Similar language is contained in M.S. 435.19 Subd 2. The latter statute additionally clarifies that if no funds are available to pay these assessments and the agency is supported in whole or in part by appropriations from the General Fund, then the agency shall include in its next budget request the determined amount.

The Department of Military Affairs has currently been assessed a total of \$293,344 by eight local governments. While the department has paid smaller total assessments in the past using unobligated balances, current funding levels do not provide for this higher level of assessment. If these special assessments are not paid, interest and penalties will continue to accrue against the property.

FINANCING:

The department has been notified of special assessments on the following properties in the amounts indicated:

Brooklyn Park	\$6,218
Fairmont	5,282
Montevideo	12,503
Moorhead	2,862
Rosemount	166,171
Roseville	91,437
Stillwater	3,219
Wadena	<u>5,651</u>
Total	\$293,344

The figures listed are the amounts known through 11-01-00. Most of these are currently due or past due. Penalties and interest will accrue on balances paid after respective due dates. Unobligated balances that remain at the end of the fiscal year will finance any amounts due above the recommended level of funding.

OUTCOMES:

Funding these assessments will avoid future penalties and additional interest costs. The department feels these assessments are fair and proper.

BUDGET ACTIVITY SUMMARY

Budget Activity: AUXILIARY SERVICES
Program: GENERAL SUPPORT
Agency: MILITARY AFFAIRS DEPT

ACTIVITY PROFILE:

This activity is used as a "pass-through" for funds resulting from sale of closed armories under the provisions of MS 193.36.

STRATEGIES AND PERFORMANCE:

There are no specific issues associated with the activity. We do not anticipate closing any facilities. One armory is, however, being replaced. We anticipate selling the old building during this biennium, using the proceeds to retire the oldest debt on the new building.

FINANCING INFORMATION:

There are no funds associated with this activity except for the "pass-through" funds identified.

BUDGET ISSUES:

None.

Activity: AUXILIARY SERVICES
 Program: GENERAL SUPPORT
 Agency: MILITARY AFFAIRS DEPT

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
<u>Expenditures by Category:</u>									
State Operations									
COMPENSATION	186	0	90	0	0	0	0	(90)	(100.0%)
OTHER OPERATING EXPENSES	90	0	10	0	0	0	0	(10)	(100.0%)
Subtotal State Operations	276	0	100	0	0	0	0	(100)	(100.0%)
CAPITAL OUTLAY & REAL PROPERTY	0	31	75	80	80	80	80	54	50.9%
Total Expenditures	276	31	175	80	80	80	80	(46)	(22.3%)
<u>Financing by Fund:</u>									
Open Appropriations:									
GENERAL	276	0	100	0	0	0	0		
Statutory Appropriations:									
SPECIAL REVENUE	0	31	75	80	80	80	80		
Total Financing	276	31	175	80	80	80	80		
<u>Revenue Collected:</u>									
Dedicated									
SPECIAL REVENUE	0	31	75	80	80	80	80		
FEDERAL	0	36	0	0	0	0	0		
Total Revenues Collected	0	67	75	80	80	80	80		

BUDGET ACTIVITY SUMMARY

Budget Activity: STARBASE MINNESOTA
Program: GENERAL SUPPORT
Agency: MILITARY AFFAIRS DEPT

ACTIVITY PROFILE:

This budget activity exists as a mechanism for pass-through federal funding of the STARBASE program. STARBASE, begun in 1993, is an acronym for Science and Technology Academies Reinforcing Basic Aviation and Space Exploration. It is a joint program of the National Guard, area industry, educators and non-profit organizations. The goal of STARBASE is to motivate students in second through 12th grade to "yearn to learn" about mathematics, science and technology by using aerospace education as the motivator.

STRATEGIES AND PERFORMANCE:

The program's goal is achieved by introducing the students to aerospace professionals, both civilian and military personnel, who share their experiences and love of science, mathematics and technology and by performing experimental tasks. Programs and classes are held at the Minnesota Air National Guard base near the Minneapolis-St. Paul International Airport. STARBASE is operated by a civilian staff that includes licensed teachers under the direction of a board of directors comprised of business leaders and educators.

The curriculum for the five to seven day program includes education and training in science, mathematics, and technology. Instruction may include other related components such as instruction in the biological and environmental sciences, the physiological effects of drug use on living organisms, and enhanced personal achievement within the content of the approved math and science based curriculum. Some of the objectives of STARBASE are to:

- Promote a strong educational base in the STARBASE elements beginning in the elementary grades and continuing through high school.
- Emphasize teacher training in mathematics, science, and technology.
- Encourage and create partnerships with the education community and industry as well as with local, state, and federal government.
- Create an educational resource center in support of STARBASE Minnesota.
- Develop self-esteem, positive attitudes, goal setting and drug demand reduction skills in the students that STARBASE Minnesota serves.
- Improve the problem solving and decision making skills of the students that STARBASE Minnesota serves.

Each year, approximately 2,000 young at-risk students are brought to "the school house" to participate in the two-week curriculum. Students from the following schools have participated in the STARBASE program: St. Paul's East side Consolidated, Hayden Heights elementary, North End elementary, Prepare St. Paul; and Minneapolis' Andersen School, Hamilton, and Olson Middle School.

Although the STARBASE program is conducted primarily during the school year, it has recently conducted special programs in the summer that target older children and at-risk females.

FINANCING INFORMATION:

The \$202,000 annual program is currently 100% federally funded in the form of total reimbursement for employee and operating costs. Since the inception of STARBASE, there have been no state General Fund dollars dedicated to this activity.

BUDGET ISSUES:

It is possible that at some point, federal funding will decline. STARBASE Minnesota enjoys 501.c.3. status from the Internal Revenue Service. Its active board of directors is continually seeking contributions from the private sector in preparation for the possible decline of federal funding.

Activity: STARBASE MINNESOTA
Program: GENERAL SUPPORT
Agency: MILITARY AFFAIRS DEPT

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
Expenditures by Category:									
LOCAL ASSISTANCE	222	201	230	230	230	230	230	29	6.7%
Total Expenditures	222	201	230	230	230	230	230	29	6.7%
Financing by Fund:									
Statutory Appropriations:									
FEDERAL	222	201	230	230	230	230	230		
Total Financing	222	201	230	230	230	230	230		
Revenue Collected:									
Dedicated									
FEDERAL	222	201	230	230	230	230	230		
Nondedicated									
GENERAL	1	2	2	2	2	2	2		
Total Revenues Collected	223	203	232	232	232	232	232		

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PROGRAM SUMMARY

Program: ENLISTMENT INCENTIVES
Agency: MILITARY AFFAIRS DEPT

PROGRAM PROFILE:

Incentives for Minnesota citizens to join and remain in the National Guard are authorized by M.S. 192.501, enacted by the legislature in 1989 and amended by the legislature in 1993 and again in 1996. The two incentives offered are the tuition reimbursement program and bonuses.

The tuition reimbursement program has not only helped the Minnesota Army and Air National Guard enlist and retain members, it has provided educational opportunities to many members who may not otherwise be financially able to attend school. National Guard members must be prepared to perform a military mission if called, but more practically, they add economic and social value to their state and community when they pursue post secondary education.

Likewise, the bonus programs are intended to help retain current, qualified members of the National Guard to perform their federal, state, and community missions. They are also intended to encourage soldiers and airmen to acquire additional leadership training and to fill critical skill positions.

STRATEGIES AND PERFORMANCE:

Tuition Reimbursement

The keystone of the incentives program is the tuition reimbursement program. Statutes allow for up to 75% of the U of M undergraduate rate at the Twin Cities campus for tuition paid at public or private post-secondary educational institutions. Reimbursement is applied against tuition on a per credit basis. Until school year 2000, the program reimbursed approximately 62% of the actual credit rate. In 2000-01, the rate will be reduced to 50% because of budget constraints. Over the 1999-2000 school year over 20% (2,409) of our total assigned National Guard members received tuition reimbursement.

School Year 1999 - 2000 Tuition Reimbursement Participation by Schools

	<u>Students</u>	<u>Percentage</u>
University of Minnesota	479	20%
State Universities	505	21%
Community and Technical Colleges	651	27%
*Other	774	32%
Total	2,409	100%

*Other includes out of state institutions, Minnesota private schools, and other Minnesota schools such as air traffic, flight training, beauty schools, and real estate.

Recruiting and retention incentives help ensure that the Minnesota National Guard is able to attract and retain sufficient members to accomplish federal, state, and community missions

The following tables display the demographics of participating members:

By gender:

	<u>Number</u>	<u>Percentage</u>	<u>State Percent</u>
Males	1867	80%	49%
Females	468	20%	51%

By military grade:

	<u>Number</u>	<u>Percentage</u>
Officers	74	3%
Warrant Officers	18	1%
Enlisted	2,243	96%

By race:

	<u>Number</u>	<u>Percentage</u>	<u>State Percent</u>
Caucasian	2,242	96%	91%
Black	38	2%	3%
Asian	23	1%	2%
American Indian	5	<1%	1%
Other	27	1%	2%

Bonus Incentives

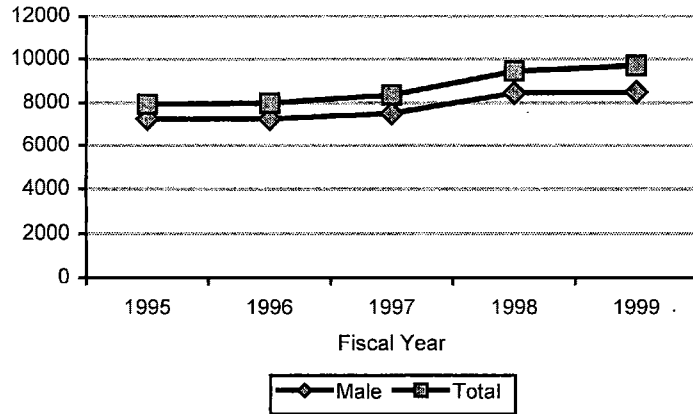
The state offers a \$1,000 bonus to personnel receiving a commission through Federal OCS (Officer Candidate School), State OCS, or Air Guard COTS (Commissioned Officer Training School). The bonus is designed to attract and encourage quality members to become officers or warrant officers in the Minnesota National Guard.

Personnel strength of the Army National Guard over the past five years has increased. While it is difficult to assess the actual impact of the incentives programs on our personnel strength because of all the other variables involved, we believe that there is a positive correlation between the incentives offered and the increase in strength overall and in female and minority membership gains.

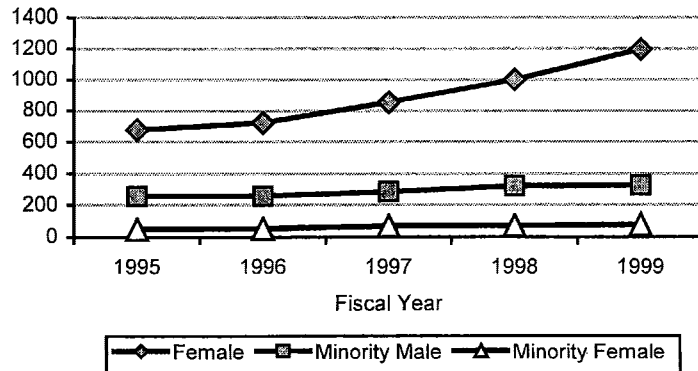
PROGRAM SUMMARY (Continued)

Program: ENLISTMENT INCENTIVES
Agency: MILITARY AFFAIRS DEPT

Personnel Strength



Personnel Strength by Key Categories



FINANCING INFORMATION:

Expenditures in the tuition reimbursement program were previously approximately 73% of the total incentives program's appropriations. As of FY 1999, expenditures for tuition reimbursement were 98% of the total, because the bonus program was suspended due to budget constraints.

BUDGET ISSUES:

Rising tuition costs have reduced the program's tuition reimbursement rate to under 50% of the actual per credit costs. If the funding for this program is not increased, we will have to further reduce the percentage of tuition costs that are reimbursed or limit the number of members allowed to participate in the program. The department has submitted a budget change item to fully fund the program at 75% as authorized by MS 192.501.

GOVERNOR'S RECOMMENDATION:

The Governor recommends a biennial appropriation of \$8.842 million, which includes funding for supplementing the tuition reimbursement program by \$4.129 million in order to raise the reimbursement rate to its statutorily-authorized level of 75%.

Program: ENLISTMENT INCENTIVES
Agency: MILITARY AFFAIRS DEPT

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
Expenditures by Category:									
State Operations									
COMPENSATION	99	33	121	122	122	123	123	91	59.1%
OTHER OPERATING EXPENSES	0	0	1	1	1	2	2	2	200.0%
Subtotal State Operations	99	33	122	123	123	125	125	93	60.0%
PAYMENTS TO INDIVIDUALS	2,277	2,463	2,386	2,233	4,232	2,232	4,362	3,745	77.2%
Total Expenditures	2,376	2,496	2,508	2,356	4,355	2,357	4,487	3,838	76.7%

Change Items:	Fund				
(P) ENLISTMENT INCENTIVES	GEN			1,999	2,130
Total Change Items				1,999	2,130

Financing by Fund:							
Direct Appropriations:							
GENERAL	2,376	2,496	2,508	2,356	4,355	2,357	4,487
Total Financing	2,376	2,496	2,508	2,356	4,355	2,357	4,487

FTE by Employment Type:							
FULL TIME	0.9	0.2	1.0	1.0	1.0	1.0	1.0
PART-TIME, SEASONAL, LABOR SER	0.2	0.7	0.2	0.2	0.2	0.2	0.2
Total Full-Time Equivalent	1.1	0.9	1.2	1.2	1.2	1.2	1.2

BUDGET CHANGE ITEM (45994)**Agency: MILITARY AFFAIRS DEPT****Item Title: ENLISTMENT INCENTIVES**

	2002-03 Biennium		2004-05 Biennium	
	FY 2002	FY 2003	FY 2004	FY 2005
Expenditures: (\$000s)				
General Fund				
-State Operations	\$1,999	\$2,130	\$2,130	\$2,130
- Revenue	\$-0-	\$-0-	\$-0-	\$-0-

Statutory Change? Yes _____ No X

If yes, statute(s) affected:

_____ New Activity X Supplemental Funding _____ Reallocation**GOVERNOR'S RECOMMENDATION:**

The Governor recommends a biennial increase of \$4.129 to fund the tuition reimbursement program.

RATIONALE:

MS 192.501 authorizes the Department of Military Affairs to provide reimbursements to Minnesota National Guard members for the costs of tuition for post-secondary education. The statute authorizes a rate of up to 75% of eligible costs. While the costs of tuition have risen annually and participation has increased over the last two biennia, the program appropriation has remained constant. Therefore, the department is currently only capable of funding the reimbursements at 50% of tuition costs.

The Department of Military Affairs requests an appropriation increase to fund the program at a 75% reimbursement level for the following reasons:

- Maintaining the strength of the Minnesota National Guard is the department's number one priority in our strategic plan. We must increase enlistment and reenlistment rates to raise end strength. A 1999 poll conducted for the U.S. Army Recruiting Command headquarters indicated that 50% of Guard members list incentives as the main reason for enlisting, and 26% list them as the only reason. Therefore, increasing the rate of tuition assistance should help maintain strength.
- Rising tuition rates have diluted the value of the program at current funding levels. University of Minnesota tuition rates (the reimbursement benchmark) have risen 90% since program inception in 1989. Annual cost is based on 34 semester credits/year.

- We must remain competitive with enlistment incentive programs offered by surrounding states. Over the last few years, Minnesota Guard members are known to have transferred to surrounding states units because of the higher benefits offered by their programs.
- The current tuition and textbook reimbursement program provides assistance to young people in pursuing post-secondary education. The soldiers and airmen using this benefit earn this assistance by serving their nation, state, and communities. It is consistent with the principle of providing incentives for desirable behavior by offering participants opportunities in leadership and vocational training.
- Educated National Guard members live, work in, and add social and economic value to their communities.

FINANCING:

These funds are ongoing.

OUTCOMES:**Measures of Success**

- Military Affairs will measure the success of this program in terms of enlistment and reenlistment rates in gross numbers and by gender and race.
- We will also measure success relative to rates of enlistment and reenlistment in other states. This measure should adjust for some of the other variables (population, economy, etc).
- We will also measure the success of this program increase by tracking the progress toward the goal of increasing the strength of the Minnesota National Guard by 400 persons by FY 2005.

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PROGRAM SUMMARY

Program: EMERGENCY SERVICES
Agency: MILITARY AFFAIRS DEPT

PROGRAM PROFILE:

Statutes require that the National Guard be available for state active duty when the governor orders the Guard to support local law enforcement authorities in time of civil disorder, natural disaster or other emergencies (M.S. 190.02). This program serves the Governor, the Department of Public Safety, local law enforcement agencies, and the citizens of the state in times of emergencies.

STRATEGIES AND PERFORMANCE:

National Guard assistance to local authorities is always in response to unplanned, emergency situations. At the direction of the governor during FY 1999, 2000, and 2001, the Minnesota National Guard completed the following missions at the costs listed.

	<u>Expenditures</u>	<u>Federal Reimbursement</u>
Search for Missing Woman - Beltrami	\$12,041	
Search for Evidence – Hallock	51,630	
Search for Missing Woman - Winnebago	24,990	
Motorist Rescues – Rock County	650	
Emergency Shelter – Freeborn and Jackson	390	
Emergency Shelter – Pennington	1,300	
Emergency Water – Lac Qui Parle	1,574	
Security – St. Cloud	16,202	
Ice Dusting – Various	22,982	22,982
Searches – Carlton	80,378	
Tornado – Granite Falls	120,000*	90,000*

* Estimated amounts based on 75% federal reimbursement to the state

Recently, client agencies completed post-operation surveys that measured customer satisfaction with National Guard assistance. These surveys showed an average rating of 4.8 (on a range of 1 to 5, 5 being the highest). Perhaps the best evaluation of how successful we were is an intangible measure: We were called by the governor, we responded with appropriate numbers of trained personnel and equipment and protected the life and property of Minnesota citizens during a critical time.

The Minnesota Department of Military Affairs partners with and leverages all of the resources of the Army and Air National Guard. Because training and equipping of the National Guard is funded totally by federal dollars, over \$1 billion worth of federally owned military aircraft and other equipment is available to the

governor to support the state in times of emergency. There is no expense to the state for this equipment, except for operating costs and repair or replacement if damaged during emergency operations. A well-trained, well-equipped National Guard is a tremendous asset to the people of Minnesota. It has responded quickly and effectively to the governor's call on many occasions to assist and protect citizens of Minnesota.

FINANCING INFORMATION:

The state is required to pay personnel costs and logistical support costs for state active duty operations. The funds are paid through this budget program (M.S. 192.49, Subd. 1, M.S. 192.51, Subd 2, and M.S. 192.52).

BUDGET ISSUES:

The Department of Military Affairs receives a biennial appropriation of \$150,000. If these funds are exhausted, the department requests additional funds under MS 192.52. When emergencies are declared federal disasters, the department applies for federal reimbursement on behalf of the state. Costs are then reimbursed at varying levels (75% to 100%), and when received, are transferred to the state's General Fund.

GOVERNOR'S RECOMMENDATION:

The Governor recommends the base biennial budget of \$150,000.

Program: EMERGENCY SERVICES
 Agency: MILITARY AFFAIRS DEPT

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
<u>Expenditures by Category:</u>									
State Operations									
COMPENSATION	0	68	70	55	55	55	55	(28)	(20.3%)
OTHER OPERATING EXPENSES	0	3	9	20	20	20	20	28	233.3%
Total Expenditures	0	71	79	75	75	75	75	0	0.0%
<u>Financing by Fund:</u>									
Direct Appropriations:									
GENERAL	0	71	79	75	75	75	75		
Total Financing	0	71	79	75	75	75	75		

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VETERANS AFFAIRS DEPT - CONTENTS

	PAGE
Agency Executive Summary	F-474
Budget Briefs by Fund	F-479
Revenue Summary Narrative	F-480
Change Item - Reduce: Vinland Rehab, Vet Svc Ofcr Pos	F-482
PROGRAMS, BUDGET ACTIVITIES, AND CHANGE ITEMS	
VETERANS BENEFITS & SERVICES	F-483
OPERATIONS	F-486

VETERANS AFFAIRS DEPT - EXECUTIVE SUMMARY

AGENCY MISSION AND VISION:

The mission of the Minnesota Department of Veterans Affairs (MDVA) is to serve Minnesota veterans, their dependents and survivors, in securing benefits and services provided by federal and state laws, by providing leadership, direction, and responsible resource management. To accomplish this mission and vision, we will assist all eligible veterans and their dependents to ensure that:

- Veterans and their dependents will not live in poverty.
- Veterans unable to work will be aided in their efforts to regain financial independence with a system of temporary financial assistance.
- Veterans will be able to provide a stable environment for their children.
- Veterans will have the skills for lifelong learning and good citizenship.
- Veterans and their dependents will be assisted in their efforts to take personal responsibility for economic situations and aided in their steps towards self-sufficiency.

KEY SERVICE STRATEGIES:

- Provide assistance to Minnesota's 450,000 veterans and their dependents.
- Collaborate with service providers coordinated and educated by the department.
- Continue to review, revise and improve upon proven business practices to ensure the most timely, cost effective delivery of services to Minnesota's veterans, their dependents and survivors.

The department is organized into two service delivery programs and associated activities.

Veterans Benefits and Services Program.

- Veterans Benefits and Services Administration
- State Soldier's Assistance Program
- Persian Gulf Bonus
- Guardianship Administration and Client Account

Operations Program

- Administrative Services
- State Cemetery Operations
- Cemetery Development and Maintenance Account, Gifts and Donations Account
- Vinland Grants, County Veterans Service Office Grants

OPERATING ENVIRONMENT:

The program goals and objectives of the Veterans Benefits and Services program are to promote self-sufficiency and personal responsibility by providing a temporary safety net of benefits and services to ensure that Minnesota veterans, their dependents and survivors do not live in poverty while they are transitioning to self-sufficiency. This program also provides representation to clients who are pursuing claims for federal veterans benefits and provides financial management of resources of incompetent individuals.

The goals and objectives of the Operations program are to manage state resources, including all budgets and accounts, financial transactions, department infrastructure, information technology and human resources using approved methods of operation.

The MDVA and Minnesota's veteran population can be severely impacted by changes in federal government benefits programs and military restructuring. Increasingly restricted access to medical care results in fewer veterans being treated within the U.S. Department of Veterans Affairs (USDVA) medical center system. Some of these veterans are dependent upon state and county sources for medical care.

Reductions in active duty military numbers have resulted in more veterans being discharged prior to their becoming eligible for retirement benefits and medical care. New medical problems, such as those presented by Persian Gulf War veterans with multiple chemical sensitivities and the estimated 28,000 Minnesota veterans suffering from Hepatitis C have created increased demand for services at a time when such care is harder to access.

Some clients will always be dependent upon government for assistance in meeting the basic needs of life due to a variety of reasons, such as; lack of education, drug and alcohol abuse, injury or illness, developmental disabilities or lack of earning capacity.

Minnesota's veteran population is aging and presents the same demands on services that the older, non-veteran population presents – healthcare, long term care, assisted living, pension, medical, dental and optical healthcare needs.

The department is partnered with County Veterans Service Officers, (CVSOs) who serve as the first point of contact for veterans and USDVA Regional Offices and the USDVA Medical Centers. Claims for federal veterans benefits, such as rehabilitation services, home loans, compensation and pension benefits are administered through the USDVA Regional Offices located in St. Paul and Fargo, North Dakota. USDVA

VETERANS AFFAIRS DEPT - EXECUTIVE SUMMARY (Continued)

Medical Centers in Minneapolis and St. Cloud provide primary medical care to eligible veterans. Community Based Outpatient Clinics (CBOCs) operated at several locations in Minnesota provide access to outpatient medical care closer to the veteran's home.

ORGANIZATION/PROGRAM STRUCTURE:

COMMISSIONER'S OFFICE	3.0 fte
Department Operations Program	11 fte
Benefits Program	23 fte
TOTAL FTEs	37

FINANCIAL PLAN:

The Persian Gulf Bonus program is due to sunset by legislative action on 6-30-01, after which time applications will no longer be accepted. This end date was extended from its original sunset date of 6-30-99 to ensure that all eligible applicants, especially those still on active duty, had sufficient time to become aware of the availability of the bonus and to apply.

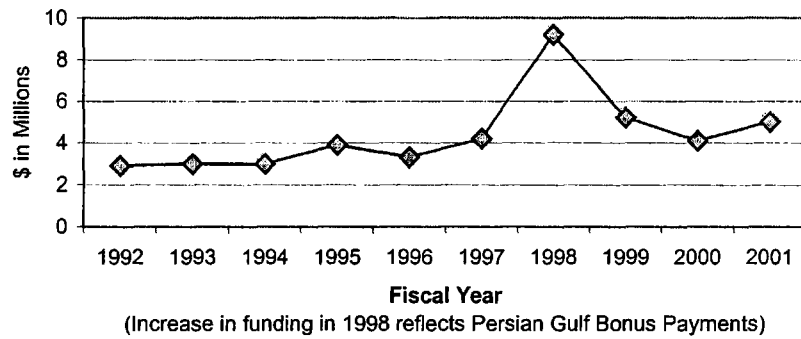
GOVERNOR'S RECOMMENDATION(S):

The Governor recommends a biennial appropriation of \$8.685 million, which includes the agency's proposed biennial reductions of \$218,000. The Governor has also included funding to improve this agency's technology capacity in the Small Agency Infrastructure initiative, carried under the Office of Technology.

VETERANS AFFAIRS DEPT - EXECUTIVE SUMMARY (Continued)

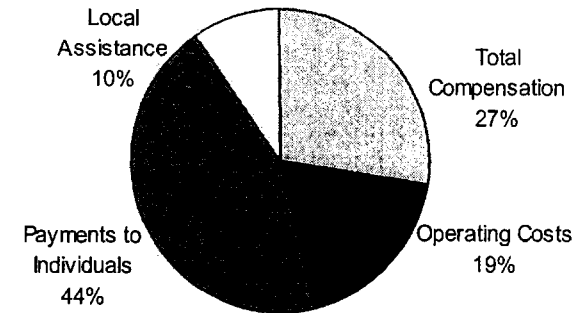
TRENDS AND PRESPECTIVE:

Total Budget-All Funds



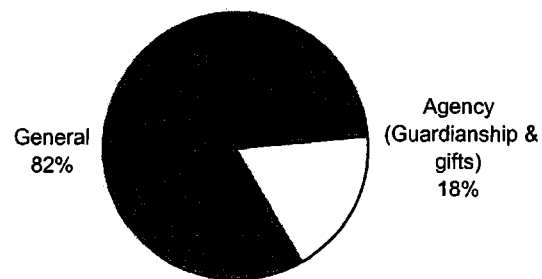
2000-01 Expenditures by Category

Total: \$14 Million



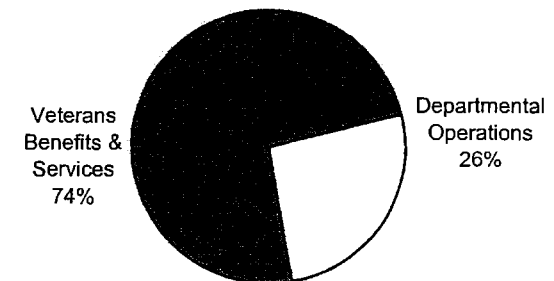
2000-01 Expenditures by Fund

Total: \$14 Million



2000-01 Expenditures by Program

Total: \$14 Million



Agency: VETERANS AFFAIRS DEPT

Agency Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
Expenditures by Program:									
VETERANS BENEFITS & SERVICES	5,315	4,053	6,433	4,875	4,875	5,006	5,006	(605)	(5.8%)
OPERATIONS	1,704	1,563	2,217	1,691	1,582	1,717	1,608	(590)	(15.6%)
Total Expenditures	7,019	5,616	8,650	6,566	6,457	6,723	6,614	(1,195)	(8.4%)

Financing by Fund:									
Direct Appropriations:									
GENERAL	5,232	4,058	6,434	4,419	4,310	4,484	4,375		
Statutory Appropriations:									
SPECIAL REVENUE	20	2	44	45	45	53	53		
MISCELLANEOUS AGENCY	1,767	1,556	2,022	2,102	2,102	2,186	2,186		
GIFT	0	0	150	0	0	0	0		
Total Financing	7,019	5,616	8,650	6,566	6,457	6,723	6,614		

FTE by Employment Type:									
FULL TIME	35.1	37.8	36.8	36.8	36.8	36.8	36.8		
PART-TIME, SEASONAL, LABOR SER	2.4	1.2	0.2	0.2	0.2	0.2	0.2		
Total Full-Time Equivalent	37.5	39.0	37.0	37.0	37.0	37.0	37.0		

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VETERANS AFFAIRS DEPT - BUDGET BRIEF

Fund: GENERAL

	<u>FY 2002</u>	<u>FY 2003</u>	<u>Biennium</u>
BASE YEAR (FY 2001) (\$000s)			
Appropriations	\$4,369	\$4,369	\$8,738
<u>BASE ADJUSTMENT</u>			
Doc. Space Rental/Lease	9	18	27
2002-03 Sal. & Ben. Base	54	110	164
One-time Appropriation	(13)	(13)	(26)
<u>BASE LEVEL (for 2002 and 2003)</u>	\$4,419	\$4,484	\$8,903
<u>CHANGE ITEMS</u>			
Reprioritization/Reductions (exp)	(109)	(109)	(218)
GOVERNOR'S RECOMMENDATION	\$4,310	\$4,375	\$8,685

BRIEF EXPLANATION OF BUDGET DECISIONS:

The agency will utilize its resources to achieve its goals and to meet significant challenges by creatively operating within the limits of the legislative appropriation. In this effort, the department has identified \$218,000 in proposed biennial reductions in anticipation of receiving additional funding to meet its information technology needs through the small agency infrastructure initiative carried by the Office of Technology. Likewise, we have proposed a legislative initiative which would allow us to internally reallocate funds to increase the level of educational grant assistance to veterans and war orphans by \$32,000 biennially.

Adjustments to the base include:

- The statewide, standard salary supplement, which assists in funding increases in salary costs due to bargaining agreements between the state and state employee bargaining units. Increased personnel costs above the standard adjustment will be absorbed by the department's base budget.
- Documented space rental increases associated with agency offices in the Veterans Services Building.
- A reduction of \$26,000 for one-time funding of a veterans transportation program.

The department has proposed three reductions for accommodating new appropriations. These are:

- A \$92,000 biennial reduction in funding for the department's Vinland Rehabilitation contract – The impact of this decision could result in eight fewer veterans being served per year.

- A biennial decrease of \$100,000 in funding for CVSO training under the CVSO grant program – Potentially, this could result in some loss of federal benefits pursued for state veterans.
- A biennial decrease of \$26,000 in funding for the Bronze Star Marker program – This will reduce, but not eliminate, Bronze Star Marker activities.

The department is seeking additional funding through the Office of Technology for its information technology functions. We received one-time funding last biennium under the Small Agency Infrastructure (SAI) initiative. The FY 2002-2003 funding would assist the agency in further meeting its technology needs and provide for some ongoing infrastructure costs.

Lastly, the Persian Gulf Bonus program will end 6-30-01 as required by statute. The department will continue to accept applications until the close of the application period at the end of the current biennium. Any funds not obligated will return to the General Fund.

GOVERNOR'S RECOMMENDATION(S):

The Governor recommends a biennial appropriation of \$8.685 million, which includes the agency's proposed biennial reductions of \$218,000. The Governor has also included funding to improve this agency's technology capacity in the Small Agency Infrastructure initiative, carried under the Office of Technology.

VETERANS AFFAIRS DEPT - REVENUE SUMMARY

REVENUE SOURCES:

The department administers the following sources of revenue:

- Guardianship client income, VA/Social Security benefits (MS 196.051.003)
- Guardianship client interest income (MS 196.051.003)
- Guardianship fees (MS 196.051)
- Interment fees from the state cemetery (MS 197.236)
- Gifts and donations for the state cemetery (MS 197.236)
- Veterans gifts and donations (MS 196.052)
- WWII Memorial donations (Laws 2000, Art. 1, Sec. 12, Subdiv. 7)

FEE STRUCTURE:

Guardianship clients with sufficient income and resources are charged a fee of up to 5% of their monthly income. For clients without sufficient income and resources, the fee is waived.

The department receives a reimbursement of \$150 per veteran burial from the United States Department of Veterans Affairs.

RECENT CHANGES:

The 2000 Legislature charged the state with generating non-state funding or donations to match the state's appropriation of \$150,000 for a WWII veterans memorial. In cooperation with the Department of Administration, the state will design and then construct the monument on the state capitol mall.

FORECAST BASIS:

We expect no change in current state or federal laws regarding fee structure.

Agency: VETERANS AFFAIRS DEPT

Summary of Agency Revenues (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Forecast	Governor Recomm.	Forecast	Governor Recomm.	Dollars	Percent
Non-Dedicated Revenue:									
Departmental Earnings:									
GENERAL	0	0	0	50	50	50	50	100	
CAMBRIDGE DEPOSIT FUND	37	39	50	0	0	0	0	(89)	(100.0%)
Other Revenues:									
GENERAL	2	2	5	5	5	5	5	3	42.9%
Total Non-Dedicated Receipts	39	41	55	55	55	55	55	14	14.6%
Dedicated Receipts:									
Departmental Earnings:									
SPECIAL REVENUE	16	32	40	40	40	40	40	8	11.1%
Other Revenues:									
SPECIAL REVENUE	18	14	25	25	25	25	25	11	28.2%
MISCELLANEOUS AGENCY	112	117	125	125	125	125	125	8	3.3%
GIFT	1	0	152	2	2	2	2	(148)	(97.4%)
Other Sources:									
MISCELLANEOUS AGENCY	1,519	1,590	2,000	2,080	2,080	2,163	2,163	653	18.2%
Total Dedicated Receipts	1,666	1,753	2,342	2,272	2,272	2,355	2,355	532	13.0%
Agency Total Revenues	1,705	1,794	2,397	2,327	2,327	2,410	2,410	546	13.0%

BUDGET CHANGE ITEM (49631)**Agency: VETERANS AFFAIRS DEPT****Item Title: REDUCE: VINLAND REHAB, VET SVC OFCR POS**

	<u>2002-03 Biennium</u>		<u>2004-05 Biennium</u>	
	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u>
Expenditures: (\$000s)				
General Fund				
-State Operations	\$(109)	\$(109)	\$(109)	\$(109)
Revenues: (\$000s)				
General Fund	\$-0-	\$-0-	\$-0-	\$-0-
Statutory Change? Yes _____ No <u>X</u>				
If yes, statute(s) affected:				
_____ New Activity	_____ Supplemental Funding	_____ Reallocation		

GOVERNOR'S RECOMMENDATION:

The Governor recommends the agency's plan to reduce funding as proposed, and has included funding to improve this agency's technology capacity in the Small Agency Infrastructure (SAI) initiative, carried under the Office of Technology.

RATIONALE:

In an effort to operate within the limits of current legislative appropriations and in anticipation of receiving additional funding to meet its information technology needs, the Minnesota Department of Veterans Affairs (MDVA) has identified \$218,000 in proposed biennial reductions as follows:

Bronze Star Marker Program – The department is proposing to reduce funding for the program by forty-three percent.

County Veterans Service Office (CVSO) Grant Program - The department is proposing to eliminate funding for the training position provided in the Veterans Service Office Grant program. This position provides the least amount of direct customer service support to our client base.

Vinland National Center Contract – The department is proposing to reduce the amount of grant money provided to the Vinland National Center because this reduction would affect the fewest number of veterans served by any program offered by the department.

FINANCING:

The department proposes that the following budgets be reduced as follows:

Bronze Star Markers	\$26,000
CVSO Grant	\$100,000
Vinland Grant	\$92,000
Total	\$218,000

OUTCOMES:

Bronze Star Marker Program – Continued program with reduced activities.

CVSO Grant Program – The elimination of the CVSO training position would delay and/or reduce the amount of training provided to County Veterans Service Officers. (CVSO's) In addition to the organization of such training seminars, the position is currently responsible for writing and updating training manuals and department publications. Because CVSOs may receive less training, this action could potentially reduce the amount of federal benefits received by Minnesota veterans.

Vinland National Center Contract - Although the services provided by Vinland under contract may be for some of the most needy veteran clients, the proposed reduction would eliminate funding for either eight clients or reduce Vinland Center salary dollars associated with the contract. Alternative services for these individuals may or may not be available.

BUDGET ACTIVITY SUMMARY

Budget Activity: VETERANS BENEFITS & SERVICES
Program: VETERANS BENEFITS & SERVICES
Agency: VETERANS AFFAIRS DEPT

ACTIVITY PROFILE:

Benefits and Services Administration includes the following major program areas:

- **State Soldiers Assistance** provides emergency, subsistence level financial assistance to veterans, their dependents and survivors.
 - **Homeless Veterans Effort** assists veterans and their families in their attempts to regain self-sufficiency by providing incentives for desirable behavior and by assisting them in taking personal responsibility for their lives.
 - **Veterans and War Orphans Education** provides financial assistance with the costs of post-secondary education to veterans and children of certain deceased veterans.
- **Claims Offices** provide representation to veterans, their dependents and survivors who are pursuing claims for benefits and services from the United States Department of Veterans Affairs.
- **Guardianship Administration** provides financial management of personal client funds.
- **Persian Gulf Bonus Program** will end on 6-30-01.

STRATEGIES AND PERFORMANCE:

Temporarily assisting veterans, their dependents and survivors with a "safety net" of services enables them to maintain themselves while regaining financial stability rather than forcing them to deplete what limited resources they may have available. Otherwise, they would become further dependent upon government to meet their daily needs of living. The department's programs assist families with children in their efforts to provide a stable supportive environment.

To break the cycle of homelessness, the agency assists eligible veterans with housing in a structured setting while the clients are working towards mutually designed goals. This process seeks to enable them to return to full, productive lives.

Claims offices provide quality representation to veterans, their dependents and survivors in maximizing the amount of federal veterans benefits received by eligible Minnesotans.

Guardianship services are provided to qualified individuals who have been adjudicated incompetent to handle their own financial resources. These services are offered to an increased number of individuals and some families.

BUDGET ISSUES:

The department has submitted a legislative initiative to increase the level of individual assistance to veterans and war orphans for educational grants. Because inflation has greatly eroded the value of this assistance, we are proposing to raise the level of grants from \$350 to \$750 per grant. This will affect approximately 40 individuals per fiscal year. In order to live within its means, the department will fund the initiative as an internal reallocation within the State Soldiers Assistance program of \$32,000 biennially.

Demand for services of the Homeless Veterans Effort continue to exert pressure on the department's budget. The increase has been especially acute from homeless veterans and their families in southern Minnesota, and therefore, the department has supported the creation of a program in Mankato to serve this population.

Forecasts indicate that natural gas prices and home heating oil prices could rise by as much as 50% in the upcoming heating season. Utility payments are a major expenditure under the State Soldiers Assistance Program. Therefore, the department will monitor expenses in this area to ensure that assistance will be available during the upcoming heating season.

PERFORMANCE MEASURES:

GOAL: To provide State Soldier's Assistance benefits in a timely manner.

OBJECTIVE: To process 98% of complete applications within 48 hours of receipt.

MEASURE: Percentage of complete applications processed within 48 hours of receipt.

	<u>FY 1995</u>	<u>FY 1996</u>	<u>FY 1997</u>	<u>FY 1998</u>	<u>FY 1999</u>	<u>FY 2000</u>
Actual	95%	96%	97%	98%	99%	99%
Target	97%	97%	97%	97%	97%	97%

BUDGET ACTIVITY SUMMARY (Continued)

Budget Activity: VETERANS BENEFITS & SERVICES
Program: VETERANS BENEFITS & SERVICES
Agency: VETERANS AFFAIRS DEPT

GOAL: To maintain personal contact with persons under guardianship of the Commissioner.

OBJECTIVE: To personally visit 50% of all guardianship clients each year.

MEASURE: Percentage of guardianship clients visited each year.

	<u>FY 1995</u>	<u>FY 1996</u>	<u>FY 1997</u>	<u>FY 1998</u>	<u>FY 1999</u>	<u>FY 2000</u>
Actual	49%	49%	40%	51%	16%*	47%
Target	50%	50%	50%	50%	50%	50%

* Staffing Issues

GOAL: To represent claimants in obtaining federal veterans benefits.

OBJECTIVE: Maintain current amount of USDVA (federal) compensation and pension dollars received by the people represented by the MNDVA claims offices expressed as a percentage of the total USDVA compensation and pension dollars coming into the state of Minnesota.

MEASURE: The percent of total compensation and pension dollars paid to clients represented by this departments claims offices.

	<u>FY 1995</u>	<u>FY 1996</u>	<u>FY 1997</u>	<u>FY 1998</u>	<u>FY 1999</u>	<u>FY 2000</u>
Actual	41%	40%	40%	44%	37%	*
Target	41%	41%	41%	41%	41%	*

* Figures not yet available

Activity: VETERANS BENEFITS & SERVICES
Program: VETERANS BENEFITS & SERVICES
Agency: VETERANS AFFAIRS DEPT

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
<u>Expenditures by Category:</u>									
State Operations									
COMPENSATION	972	985	1,159	1,170	1,170	1,218	1,218	244	11.4%
OTHER OPERATING EXPENSES	1,581	421	1,255	59	59	58	58	(1,559)	(93.0%)
Subtotal State Operations	2,553	1,406	2,414	1,229	1,229	1,276	1,276	(1,315)	(34.4%)
PAYMENTS TO INDIVIDUALS	2,633	2,387	3,769	3,396	3,396	3,480	3,480	720	11.7%
LOCAL ASSISTANCE	129	260	250	250	250	250	250	(10)	(2.0%)
Total Expenditures	5,315	4,053	6,433	4,875	4,875	5,006	5,006	(605)	(5.8%)
<u>Financing by Fund:</u>									
Direct Appropriations:									
GENERAL	3,548	2,497	4,411	2,773	2,773	2,820	2,820		
Statutory Appropriations:									
MISCELLANEOUS AGENCY	1,767	1,556	2,022	2,102	2,102	2,186	2,186		
Total Financing	5,315	4,053	6,433	4,875	4,875	5,006	5,006		
<u>Revenue Collected:</u>									
Dedicated									
MISCELLANEOUS AGENCY	1,631	1,707	2,125	2,205	2,205	2,288	2,288		
Nondedicated									
GENERAL	0	0	0	50	50	50	50		
CAMBRIDGE DEPOSIT FUND	37	39	50	0	0	0	0		
Total Revenues Collected	1,668	1,746	2,175	2,255	2,255	2,338	2,338		
<u>FTE by Employment Type:</u>									
FULL TIME	22.1	23.8	22.8	22.8	22.8	22.8	22.8		
PART-TIME, SEASONAL, LABOR SER	1.4	1.2	0.2	0.2	0.2	0.2	0.2		
Total Full-Time Equivalent	23.5	25.0	23.0	23.0	23.0	23.0	23.0		

BUDGET ACTIVITY SUMMARY

Budget Activity: OPERATIONS
Program: OPERATIONS
Agency: VETERANS AFFAIRS DEPT

ACTIVITY PROFILE:

Operations is responsible for the day-to-day administration of the department which includes:

- **Financial and Human Resources**
- **Information Management Systems**
- **State Cemetery Operations**
- **Cemetery Development and Maintenance Account, Federal Account and Cemetery Trust-Income Account, Gifts and Donations**
- **Veterans Gifts and Donations**

In addition to administrative management activities, the department operates two grant programs. They are:

- **Veterans Service Office Grants.** Authorized by MS 197.608, the purpose of these grants is to enable counties to enhance the effectiveness of their veterans service offices. Recipients are eligible counties who have submitted a qualifying application. Financed by the General Fund, the amount of each grant is based upon the veteran population of the county.
- **Vinland National Center Grants.** Authorized by Laws of Minnesota 1999, Chapter 250, Article 1, Section 18, the purpose of this grant is to rehabilitate disabled veterans who have not responded to traditional rehabilitation services. The grant amount is set by statute and is financed by the General Fund.

STRATEGIES AND PERFORMANCE:

The Operations Program is responsible for coordination of the certification program for County Veterans Service Officers (CVSOs). The department annually certifies each CVSO, which the officer achieves by attending training. Certification of the officer is required before a county is allowed to apply to the department for a CVSO Office Improvement Grant.

Furthermore, the Operations Program oversees all department financial transactions, human resources and state cemetery operations. It is required to comply with all applicable state laws, policies and procedures, and rules and regulations, which govern all activities. The program also must comply with federal rules and regulations which govern funding of the state cemetery, all human resource management, affirmative action, MAPS and SEMA4

requirements, generally accepted accounting principles, and the Americans with Disabilities Act.

PERFORMANCE MEASURE:

GOAL: To administer an educational and certification program to CVSOs.

OBJECTIVE: 100% of all CVSOs will be certified annually.

MEASURE: Percentage of CVSOs certified annually.

	<u>FY 1995</u>	<u>FY 1996</u>	<u>FY 1997</u>	<u>FY 1998</u>	<u>FY 1999</u>	<u>FY 2000</u>
Actual	100%	100%	100%	100%	100%	98%
Target	100%	100%	100%	100%	100%	100%

FINANCING INFORMATION:

Revenues generated from fees associated with operating the State Cemetery and from gifts to and from veterans are statutorily dedicated to those activities. Such revenue is intermittent and often irregular.

Furthermore, in FY 2000, the legislature charged the state with raising funds for a WWII memorial to be constructed in cooperation with the Department of Administration. The state will erect the monument on the capitol grounds pending certification in non-state funding and donations to match the state's appropriation of \$150,000 for the project.

BUDGET ISSUES:

Underfunded salary increases, general operating expenses, and communications charges continue to exert pressure on the agency's operating budget. The department needs to continue its computerization efforts to meet the demands of changes in technology and the needs of our clients, as well to serve the four geographic locations where the department has staff.

In 1999, the legislature provided only one-time funding for the Veterans Transportation Grants program. The program was intended to enable local veterans' organizations to provide transportation services for veterans to U.S. Veterans Affairs medical facilities. The department has not implemented the program, because it's biennial appropriation of \$25,000 for FY 2000-2001 is not adequate to establish a meaningful transportation program to serve veterans on a state-wide basis. Costs of required rule promulgation prior to implementation of the program would have further reduced the dollars available for and effectiveness of the grant. Unobligated appropriations will be returned to the General Fund.

Activity: OPERATIONS
Program: OPERATIONS
Agency: VETERANS AFFAIRS DEPT

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
Expenditures by Category:									
State Operations									
COMPENSATION	805	816	914	912	862	946	896	28	1.6%
OTHER OPERATING EXPENSES	429	297	582	310	297	302	289	(293)	(33.3%)
OTHER FINANCIAL TRANSACTIONS	0	0	150	0	0	0	0	(150)	(100.0%)
Subtotal State Operations	1,234	1,113	1,646	1,222	1,159	1,248	1,185	(415)	(15.0%)
LOCAL ASSISTANCE	470	450	571	469	423	469	423	(175)	(17.1%)
Total Expenditures	1,704	1,563	2,217	1,691	1,582	1,717	1,608	(590)	(15.6%)

Change Items:	Fund				
(A) REDUCE: VINLAND REHAB, VET SVC OFCR POS	GEN			(109)	(109)
Total Change Items				(109)	(109)

Financing by Fund:								
Direct Appropriations:								
GENERAL		1,684	1,561	2,023	1,646	1,537	1,664	1,555
Statutory Appropriations:								
SPECIAL REVENUE		20	2	44	45	45	53	53
GIFT		0	0	150	0	0	0	0
Total Financing		1,704	1,563	2,217	1,691	1,582	1,717	1,608

Revenue Collected:							
Dedicated							
SPECIAL REVENUE	34	46	65	65	65	65	65
GIFT	1	0	152	2	2	2	2
Total Revenues Collected	35	46	217	67	67	67	67

<u>FTE by Employment Type:</u>							
FULL TIME	13.0	14.0	14.0	14.0	14.0	14.0	14.0
PART-TIME, SEASONAL, LABOR SER	1.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Full-Time Equivalent	14.0	14.0	14.0	14.0	14.0	14.0	14.0

VFW - EXECUTIVE SUMMARY

AGENCY MISSION AND VISION:

The purpose of the Veterans of Foreign Wars (VFW) is fraternal, patriotic, historical, and educational; to preserve and strengthen comradeship among its members; to assist worthy comrades; to perpetuate the memory and history of our dead, and to assist their widows and orphans; to maintain true allegiance to the government of the United States of America, and fidelity to the U.S. Constitution and laws; to foster true patriotism; to maintain and extend the institutions of freedom, and to preserve and defend the United States from all her enemies, whomsoever.

KEY SERVICE STRATEGIES:

Our services are available to all veterans. Membership in the VFW or Ladies Auxiliary is not required in order to be represented by all VFW offices.

The activities of the claims and services offices include:

- Serving as attorneys-in-fact for veterans, their dependants, widows, and orphans in securing funds and services to which they are entitled.
- Seeking to increase awareness among veterans in Minnesota of the available services.
- Employing two accredited claims representatives and two secretaries at Fort Snelling U.S. Department of Veterans Affairs Regional Office.
- Providing representation in appeal procedures when claims are initially denied by federal agencies.

The V.A. Medical Center in Minneapolis:

- Provides hospital representatives.
- Assists veterans and their dependents in preparing the documentation and information necessary to secure health care benefits.

The VFW National Office in Washington D.C.:

- Provides personnel for appeals for all veterans.
- Provides representation in front of the U.S. Court of Veterans Appeals.

PERFORMANCE SUMMARY:

The VFW provides power of attorney services to more than 86,000 Minnesota veterans and dependants. While not all these accounts are active, the 1999 total cash benefits from the federal government still totaled \$30.4 million. These figures do not include the millions of dollars that are saved annually by Minnesota

taxpayers through the hospital care provided by the U.S. Department of Veterans Affairs.

ISSUES AFFECTING AGENCY'S OPERATIONS:

As veterans age, they experience increasing health and disability problems creating an increase in the demand for our services. Seventy-five percent of veterans in Minnesota will soon be over 65 years of age. The current age of the World War II veteran is 77 years; Korea, 68 years; Vietnam, 53 years and Persian Gulf, 34 years. Both federal and state departments of veterans services project that demand will continue to increase during the next biennium.

Services will be provided to an estimated 95,000 veterans and dependents annually in FY 2002-03, as compared to an estimated 93,000 in FY 2000-01. This will result in an estimated \$35 million in individual benefits each year.

In addition to aging veterans, increased demand is created by the ability of veterans to make appeals to the U.S. Court of Appeals for Veterans Claims. This appeals court only hears U.S. Department of Veterans Affairs issues, and is the next step after the U.S. Board of Veterans Appeals. It is a review court and not a trial type court. While it is clearly advantageous to veterans, it also increases the time and resources spent on resolving some applications.

State resources will be used to fund a portion of the budget for salaries, which total \$160,500.

GOVERNOR'S RECOMMENDATION:

The Governor recommends the current base budget.

Agency: VFW

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
<u>Expenditures by Category:</u>									
LOCAL ASSISTANCE	41	41	41	41	41	41	41	0	0.0%
Total Expenditures	41	41	41	41	41	41	41	0	0.0%
<u>Financing by Fund:</u>									
Direct Appropriations:									
GENERAL	41	41	41	41	41	41	41		
Total Financing	41	41	41	41	41	41	41		

MILITARY ORDER OF PURPLE HEART - EXECUTIVE SUMMARY

AGENCY MISSION AND VISION:

The Military Order of the Purple Heart of the USA (MOPH) is a congressionally chartered organization authorized to represent veterans, dependents, widows, and orphans with the U.S. Department of Veterans Affairs claims. The organization is exclusively made up of combat-wounded veterans from all wars.

The department's mission is to provide free assistance to ALL veterans and their dependents, regardless of their military service or records.

The department's vision is to identify the needs of the veterans and their dependents and to obtain all the benefits that they are entitled to through the U.S. Department of Veterans Affairs and the state.

KEY SERVICE STRATEGIES:

- Assisting with filing of claims with the U.S. Department of Veterans Affairs for either service connected disability compensation or non-service connected disability pensions.
- Facilitating admission to the Veterans Affairs medical centers, Minnesota state-operated veterans homes, and private nursing homes.
- Assisting with issues such as education, VA home loans, military discharge reviews and upgrades, and vocational rehabilitation.
- Operating the Outreach Program for homeless and disenfranchised veterans.
- Representing veterans before the U.S. Board of Veterans Appeal and the United States Court of Appeals for Veterans Claims.

PERFORMANCE SUMMARY:

- In FY 1999, we represented 1,214 Minnesota veterans and their dependents.
- We recovered \$2.7 million in veterans benefits that was put back into Minnesota's economy. The monthly amount in veterans benefits for FY 1999 is \$227,209.
- In FY 1999, MPOH had 572 claims approved, 40 claims denied, with 15 claims going to the federal Board of Veterans Appeals.
- The MOPH held 97 interviews and reviewed 945 files in FY 1999.

REVENUES:

The agency receives funds from the National Service Headquarters of the Military Order of the Purple Heart in Springfield, Virginia. Neither the national organizational funding nor the state-level appropriation are spent through the state's accounting system.

ISSUES AFFECTING AGENCY'S OPERATIONS:

- An increasing number of veterans are filing claims with the U.S. Department of Veterans Affairs.
- Changing laws makes it more difficult for veterans and their dependents to file claims with the U.S. Department of Veterans Affairs without assistance from a veterans service officer.
- Ongoing education and training for the veteran service officers is needed due to the changes in the laws.

GOVERNOR'S RECOMMENDATION:

The Governor recommends the current base budget.

Agency: MILITARY ORDER OF PURPLE HEART

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
Expenditures by Category:									
LOCAL ASSISTANCE	20	20	20	20	20	20	20	0	0.0%
Total Expenditures	20	20	20	20	20	20	20	0	0.0%
Financing by Fund:									
Direct Appropriations:									
GENERAL	20	20	20	20	20	20	20		
Total Financing	20	20	20	20	20	20	20		

DISABLED AMERICAN VETS - EXECUTIVE SUMMARY

AGENCY MISSION AND VISION:

Building better lives for all of our nation's disabled veterans and their families.

KEY SERVICE STRATEGIES:

The mission is carried forward by:

- Providing free professional assistance to veterans and their families in obtaining benefits and services earned through military service and provided by the U.S. Department of Veterans Affairs and other government agencies.
- Representing the interests of disabled veterans, their families, their widowed spouses and their orphans before Congress, the White House, and the Judicial Branch, as well as state and local governments.
- Extending the Disabled American Veteran's mission of hope into the communities where these veterans and their families live through a network of state-level departments, 2,400 national chapters, and 33 chapters in Minnesota.
- Providing volunteer programs through which disabled veterans can express their compassion for their fellow veterans.

The Disabled American Veterans (DAV) service officers represent veterans and their families in obtaining benefits to which they are entitled. The DAV also provides informational seminars and publishes articles to bring about an awareness concerning potential entitlement to benefits and services available through the DAV and the U.S. Department of Veterans Affairs.

There are four accredited representatives and two secretaries employed at the Fort Snelling Department of Veterans Affairs Regional Office. The DAV also has department service officers and hospital service coordinators at both the Minneapolis Department of Veterans Affairs Medical Center and the St. Cloud Department of Veterans Affairs Medical Center. Service officers at the medical centers assist veterans in obtaining transportation to obtain medical care. These services are provided free of charge, irrespective of membership in the DAV or its Auxiliary.

PERFORMANCE SUMMARY:

In the past fiscal year, the DAV completed a television access program for residents in the five Minnesota state-operated veterans homes by providing satellite dish reception, free TVs and stands for patient rooms and lounges. Four satellite dishes were installed. (Silver Bay has cable access only.) A total of 421 televisions and stands were purchased at a cost of \$275,000. Subscription costs are paid by the DAV, running over \$25,000 annually.

The complete program was initiated so that veterans did not have to pay for their TV out of their limited personal care funds.

Our Transportation Network Program, working along with Minneapolis and St. Cloud Department of Veterans Affairs Medical Centers and county veteran service officers, coordinated over 30,000 veterans rides for medical appointments to both Minnesota's VA hospitals, totaling over 88,000 volunteer donated hours, and covering over 1.7 million miles in transporting veterans.

ISSUES AFFECTING AGENCY'S OPERATIONS:

During the next biennium, we anticipate that there will be a greater demand for services from the DAV because of the increasing age of veterans. The DAV also anticipates a substantial rise in the cost of providing services, particularly in view of the transportation services that are provided to assist veterans in obtaining medical care at U.S. Department of Veterans Affairs medical centers.

Presently, there are over 420,000 veterans in Minnesota with increasing age and physical problems. The demand for the DAV's services continues to grow. We anticipate that the DAV will obtain over 5,000 favorable awards for veterans and widows and serve many more through advice and counsel. The DAV anticipates obtaining over \$40 million in monetary benefits for Minnesota veterans and widows in FY 2002-03.

GOVERNOR'S RECOMMENDATION:

The Governor recommends the current base budget.

Agency: DISABLED AMERICAN VETS

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
<u>Expenditures by Category:</u>									
LOCAL ASSISTANCE	13	13	13	13	13	13	13	0	0.0%
Total Expenditures	13	13	13	13	13	13	13	0	0.0%
<u>Financing by Fund:</u>									
Direct Appropriations:									
GENERAL	13	13	13	13	13	13	13		
Total Financing	13	13	13	13	13	13	13		

GAMBLING CONTROL BOARD - EXECUTIVE SUMMARY

AGENCY MISSION AND VISION:

The Gambling Control Board regulates lawful gambling in Minnesota as outlined in M.S. Chapter 349. Lawful gambling in Minnesota is a \$1.5 billion a year industry. In FY 2000, charitable contributions amounted to \$78 million; state taxes collected for lawful gambling amounted to \$63 million. The five forms of lawful gambling in Minnesota are pull-tabs, bingo, tipboards, paddlewheels, and raffles.

Mission: To regulate lawful gambling in Minnesota so that the integrity of the industry is ensured and non-profit organizations may continue to raise funds for charitable contributions.

Vision: To continue a pro-active approach to regulation by educating and communicating with the industry to prevent misuse of charitable funds.

KEY SERVICE STRATEGIES:

- Licensing manufacturers, distributors, bingo halls, non-profit organizations, and gambling managers.
- Educating customers through seminars, training courses, mentoring program and a monthly newsletter. The *Lawful Gambling Manual* provides nonprofit organizations a step-by-step tool to be successful in maximizing charitable profits.
- Conducting reviews to ensure compliance with statutes and rules.
- Improving client access by refining web-based services.
- Revising regulatory requirements to reduce manual processes and paper files.

PERFORMANCE SUMMARY:

- Conducted compliance reviews on 72% of licensed organizations.
- Conducted 25 Gambling Manager seminars, 133 continuing education classes, and 32 speaking engagements.
- Provided one-on-one mentoring for 256 non-profit organizations that need guidance so they can properly manage their gambling operation.
- Reviewed over 3,900 new games submitted for sale in Minnesota.
- Developed a web page and updated the *Lawful Gambling Manual*.

REVENUES:

- \$1.7 million in General Fund revenue is generated from license fees during the biennium. In addition to license fees, approximately \$126 million in gambling taxes will be paid to the Minnesota Department of Revenue.
- \$160,000 is collected for the biennium from fines.
- Dedicated fees estimated at \$10,000 cover the cost of inspecting manufacturing facilities.

ISSUES AFFECTING AGENCY'S OPERATIONS:

The board's current base budget will not fund ongoing costs for its information technology, including the provision of web-based services and infrastructure maintenance. The current systems were developed with one-time funding in FY 1998-1999 and an additional one-time appropriation of \$178,000 in FY 2000-2001 through the Office of Technology for Small Agency Infrastructure (SAI). The latter appropriation ends 6-30-01.

Therefore, the board is requesting an ongoing additional \$100,000 per biennium to fund information system replacement schedules and ongoing maintenance.

GOVERNOR'S RECOMMENDATION:

The Governor recommends a biennial appropriation of \$4.785 million, which includes \$100,000 in ongoing funding for replacing and monitoring the agency's information system.

Agency: GAMBLING CONTROL BOARD

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
Expenditures by Category:									
State Operations									
COMPENSATION	1,737	1,898	1,888	1,926	1,926	2,034	2,034	174	4.6%
OTHER OPERATING EXPENSES	694	364	550	384	434	341	391	(89)	(9.7%)
Total Expenditures	2,431	2,262	2,438	2,310	2,360	2,375	2,425	85	1.8%
Change Items:	Fund								
(A) COMPUTER MAINTENANCE & INFRASTRUCTURE	GEN				50		50		
Total Change Items					50		50		
Financing by Fund:									
Direct Appropriations:									
GENERAL	2,430	2,259	2,433	2,305	2,355	2,370	2,420		
Statutory Appropriations:									
SPECIAL REVENUE	0	3	5	5	5	5	5		
FEDERAL	1	0	0	0	0	0	0		
Total Financing	2,431	2,262	2,438	2,310	2,360	2,375	2,425		
Revenue Collected:									
Dedicated									
SPECIAL REVENUE	0	3	5	5	5	5	5		
Nondedicated									
GENERAL	73	80	80	1,280	1,280	580	580		
CAMBRIDGE DEPOSIT FUND	501	1,193	501	0	0	0	0		
Total Revenues Collected	574	1,276	586	1,285	1,285	585	585		
FTE by Employment Type:									
FULL TIME	31.5	32.0	31.0	30.9	30.9	29.9	29.9		
PART-TIME, SEASONAL, LABOR SER	2.7	3.0	3.0	2.6	2.6	2.6	2.6		
Total Full-Time Equivalent	34.2	35.0	34.0	33.5	33.5	32.5	32.5		

Agency: GAMBLING CONTROL BOARD

Base Budget Report (Dollars in Thousands)	All Funds		General Fund		Other State Funds		Federal Funds	
	FY 2002	FY 2003	FY 2002	FY 2003	FY 2002	FY 2003	FY 2002	FY 2003
FY 2001 Budgeted	2,246	2,246	2,241	2,241	5	5	0	0
<u>Base Adjustments</u>								
2002-03 SAL. & BEN. BASE	59	119	59	119	0	0	0	0
DOC. SPACE RENTAL/LEASE	5	10	5	10	0	0	0	0
Subtotal Base Adjustments	64	129	64	129	0	0	0	0
Base Budget	2,310	2,375	2,305	2,370	5	5	0	0

INFORMATION TECHNOLOGY CHANGE ITEM (46876)

Agency: GAMBLING CONTROL BOARD
IT Change Item: COMPUTER MAINTENANCE & INFRASTRUCTURE

GOVERNOR'S RECOMMENDATION:

The Governor recommends funding as requested by agency.

ITEM DESCRIPTION AND PURPOSE:

The requested amount would allow the agency to continue to provide web-based services and to keep current on hardware and software upgrades.

FUNDING: (Dollars in Thousands)

Funding Distribution	2002-03 Biennium		2004-05 Biennium		2006-07 Biennium	
	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Personnel	0	0	0	0	0	0
Supplies	0	0	0	0	0	0
Hardware	19	19	19	19	19	19
Software	5	5	5	5	5	5
Facilities	0	0	0	0	0	0
Services	20	20	20	20	20	20
Training	6	6	6	6	6	6
Grants	0	0	0	0	0	0
Total	50	50	50	50	50	50

RATIONALE:

This funding request would allow the Gambling Control Board to continue providing information to clientele and the general public in conjunction with its statutory purposes.

LIFE CYCLE ANALYSIS:

Life Cycle Status	2002-03 Biennium		2004-05 Biennium		2006-07 Biennium	
	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Development						
Operations	X	X	X	X	X	X
Modification						
Retirement						

Funding is necessary to maintain agency computer infrastructure that is currently in operation.

OFFICE OF TECHNOLOGY ANALYSIS:

This initiative seeks funding to support ongoing computer maintenance and infrastructure at the GCB.

Deliverables/Objectives: Primary investments are in hardware, software, services and training. This initiative supports infrastructure, EGS and Big Plan (SNS - Electronic Government Services initiative) components. It is listed as a priority in the board's SIRMP. **Conclusion:** This initiative meets information technology criteria for funding.

RACING COMMISSION - EXECUTIVE SUMMARY

AGENCY MISSION AND VISION:

The Minnesota Racing Commission (MRC) is a regulatory agency created in 1983 to supervise and regulate the pari-mutuel horse racing industry in Minnesota. The commission's mission is to assure the integrity of pari-mutuel wagering and card playing and the safety and welfare of the humans and animals that participate in these activities.

KEY SERVICE STRATEGIES:

The MRC:

- Establishes criteria and standards for licensing of pari-mutuel racetracks and the personnel employed or operating at such facilities.
- Establishes criteria and standards for security, surveillance and law enforcement at licensed racetracks and veterinary services and the oversight of these functions.
- Establishes standards and rules in order to protect the health and welfare of the equine athlete.
- Collects and distributes all taxes and fees related to pari-mutuel horse racing and card playing to the General and Breeders' Funds.

PERFORMANCE SUMMARY:

The MRC performs the following general duties:

- Licenses and conducts 3,600 background investigations each year of individuals applying to work at the racetrack and card club to assure the integrity of individuals participating in pari-mutuel wagering in Minnesota and nationally.
- Registers horses each year to allow owners to participate in the Minnesota Breeders Fund awards program so that economic stability and growth in related agri-business continues.
- Conducts pre-race exams of all horses racing each day, which protects equine participants and the betting public.
- Conducts investigations of any suspected violations of Minnesota's racing laws and card club laws and rules in order to enforce rules and laws that were established to protect the integrity of the racing industry in Minnesota and nationally.
- Supervises all activities affecting the conduct of a racing day to protect all human and equine participants and assure the integrity of pari-mutuel wagering for the betting public.

REVENUES:

- General Fund non-dedicated revenue reflects pari-mutuel tax revenue and receipts from Class A and B licenses, occupational licenses and fines.
- Special revenue fund dedicated revenues include reimbursements to the commission for providing steward, assistant veterinarian, and drug testing services as well as Breeders Fund pari-mutuel tax for the administration of the Breeders Fund program and equine research grants.
- Agency fund dedicated revenues represent pass-through monies to the horse racing and breeding industry participants in the form of awards and purse supplements.

GRANTS (LOCAL ASSISTANCE):

Grants are made to the Minnesota Equine Research Council through the University of Minnesota, College of Veterinary Medicine to participate in funding of various equine research projects. Grants are given to Canterbury Park, the Traverse County Agricultural Association and Minnesota Harness Racing, Inc. so as to distribute purse supplements authorized by M.S. Chapter 240.18 and the rules of the commission.

ISSUES AFFECTING AGENCY'S OPERATIONS:

The horse racing industry in Minnesota is improving and becoming more stable. We anticipate that Canterbury Park will maintain the current level of 60 days of live horse racing, a 20% increase since 1996, for the foreseeable future. In accomplishing this, the commission along with the various horsemen's organizations and the racetrack, are assuring the continued opportunity for growth for agriculture and related agribusiness.

Canterbury Park may request that the legislature increase the number of poker tables from the 50 currently allowed by law. Further, the performance of the card club to date has been an incentive to other groups to explore the potential for construction of another racetrack and card club elsewhere within the state. Such a facility would conduct at least 50 days of live horse racing, year-round simulcasting and card playing. Either of these events would directly affect the commission's financial ability to increase oversight resources and could result in the need to request additional funds this fiscal year and the next biennium.

GOVERNOR'S RECOMMENDATION:

The Governor recommends the agency's base budget. The Governor has also included funding to improve this agency's technology capacity in the Small Agency Infrastructure (SAI) initiative, carried under the Office of Technology.

Agency: RACING COMMISSION

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
Expenditures by Category:									
State Operations									
COMPENSATION	290	306	345	356	356	366	366	71	10.9%
OTHER OPERATING EXPENSES	559	637	714	726	726	730	730	105	7.8%
Subtotal State Operations	849	943	1,059	1,082	1,082	1,096	1,096	176	8.8%
LOCAL ASSISTANCE	420	522	621	621	621	621	621	99	8.7%
Total Expenditures	1,269	1,465	1,680	1,703	1,703	1,717	1,717	275	8.7%
Financing by Fund:									
Direct Appropriations:									
GENERAL	384	389	403	414	414	426	426		
Statutory Appropriations:									
SPECIAL REVENUE	244	306	351	364	364	366	366		
MISCELLANEOUS AGENCY	641	770	926	925	925	925	925		
Total Financing	1,269	1,465	1,680	1,703	1,703	1,717	1,717		
Revenue Collected:									
Dedicated									
SPECIAL REVENUE	237	270	341	364	364	366	366		
MISCELLANEOUS AGENCY	715	774	927	927	927	927	927		
Nondedicated									
GENERAL	129	149	151	286	286	286	286		
CAMBRIDGE DEPOSIT FUND	102	125	134	0	0	0	0		
Total Revenues Collected	1,183	1,318	1,553	1,577	1,577	1,579	1,579		
FTE by Employment Type:									
FULL TIME	3.9	4.4	5.7	5.7	5.7	5.7	5.7		
PART-TIME, SEASONAL, LABOR SER	1.2	1.1	1.0	1.0	1.0	1.0	1.0		
OVERTIME PAY	0.6	0.3	0.3	0.3	0.3	0.3	0.3		
Total Full-Time Equivalent	5.7	5.8	7.0	7.0	7.0	7.0	7.0		

Agency: RACING COMMISSION

Base Budget Report (Dollars in Thousands)	All Funds		General Fund		Other State Funds		Federal Funds	
	FY 2002	FY 2003	FY 2002	FY 2003	FY 2002	FY 2003	FY 2002	FY 2003
FY 2001 Budgeted	1,691	1,693	402	402	1,289	1,291	0	0
<u>Base Adjustments</u>								
2002-03 SAL. & BEN. BASE	8	16	8	16	0	0	0	0
SMALL AGENCY OPERATIONAL EXPENSE	4	8	4	8	0	0	0	0
Subtotal Base Adjustments	12	24	12	24	0	0	0	0
Base Budget	1,703	1,717	414	426	1,289	1,291	0	0

LOTTERY - EXECUTIVE SUMMARY

AGENCY MISSION AND VISION:

The Lottery's mission is to provide secure gaming opportunities designed to maximize public participation and acceptance, within the guidelines provided by statute. The Lottery will offer a variety of paper and electronic gaming options designed to appeal to the state's citizens and visitors. This mission is intended to maximize proceeds to the state beneficiaries as identified by the constitution and the legislature.

KEY SERVICE STRATEGIES:

The Lottery's strategies for meeting its operating objectives include:

- Ensuring lottery games are widely available to lottery players by offering scratch and on-line games at over 3,200 retailers.
- Providing lottery retailers with the kind of equipment, training and assistance that best supports the retailers' business needs and lottery sales volume.
- Continuously developing and introducing new scratch and online games with varied themes and styles to keep pace with changes in player preferences.
- Ensuring the effectiveness of all marketing and advertising efforts, which include varied and well-timed retailer promotions and incentives.
- Keeping pace with changing technology in the areas of telecommunications and computing, and using e-commerce for business transactions.
- Applying research to better understand player demographics and preferences, and to anticipate future directions.
- Continuing to seek greater operating efficiencies.

PERFORMANCE SUMMARY:

The performance measures of the Lottery are to maximize the contributions to the state within statutory guidelines. The Lottery intends to meet its performance objectives through merchandising, advertising and promotion of its games, and the introduction of new and attractive Lottery products. Key measures of the Lottery's performance include:

- Maintaining sales revenue at or above the FY00 record of \$397 million.
- Ensuring advertising and operating expenses remain below the limits set in statute (2.75% and 15% of gross revenue, respectively).
- Maintaining annual contributions to state beneficiaries in excess of \$80 million.

REVENUES:

The Lottery's annual sales estimate is the key driver affecting many other costs and expenses such as in-lieu-of-sales tax, prizes, retailer commissions, on-line vendor expenses, and other variable operating expenses. The annual sales estimate can be significantly affected by jackpot-driven games, such as Powerball, that may generate unpredictable sales patterns.

Lottery sales in FY 2002-03 are projected to increase.

- A new online game, Rolldown, introduced in September 2000, offers players another option to play a multi-state game in a new format with larger jackpots, and low and mid-tier prizes that increase if the jackpot is not won.
- While projections of Powerball sales for FY 2001-03 do not anticipate the repeat of a record-breaking jackpot, steady sales reflect the introduction in October 2000 of a new televised Powerball Game Show.
- Players continue to show a strong desire for scratch games. Scratch game sales are projected to remain constant in FY 2002-03. A Powerball scratch game, new in August 2000, is a part of the new Powerball Game Show and sales of the scratch game will continue for as long as players express their interest in this game.

Net proceeds in each year of the biennium are expected to remain above \$50 million. The Lottery projects the amount contributed to the state at \$171.8 million for FY 2002-03.

ISSUES AFFECTING AGENCY'S OPERATIONS:

As the Lottery enters its 12th and 13th years, it faces the challenge of sustaining record FY00 sales levels using new and advanced technology, new products, player promotions and retailer incentives. Lottery sales can be dramatically affected by a number of factors--the state of the economy, weather, and regional, national and international events. In addition, competition for discretionary spending includes other forms of gaming, entertainment and recreational opportunities. Recently, the Lottery has experienced a decline in its sales due to a significant jump in gas prices. When economic conditions adversely affect sales, it is essential for the Lottery to act quickly to maintain revenues, profits and its contributions to the state.

GOVERNOR'S RECOMMENDATION:

The Governor recommends the agency plan.

LOTTERY - EXECUTIVE SUMMARY (Continued)

	Dollars in Thousands			
	FY 2000 Actual	FY 2001 Projected	FY 2002 Projected	FY 2003 Projected
Revenue				
Scratch Ticket Sales	\$282,463	\$284,000	\$284,000	\$284,000
Online Sales	114,823	119,850	122,300	122,300
Total Sales Revenue	397,286	403,850	406,300	406,300
Less In-Lieu-of-Sales Tax	<u>25,824</u>	<u>26,250</u>	<u>26,410</u>	<u>26,410</u>
Gross Receipts	371,463	377,600	379,890	379,890
Non-operating Income	<u>2,996</u>	<u>2,330</u>	<u>2,340</u>	<u>2,340</u>
Gross Revenue	374,459	379,930	382,230	382,230

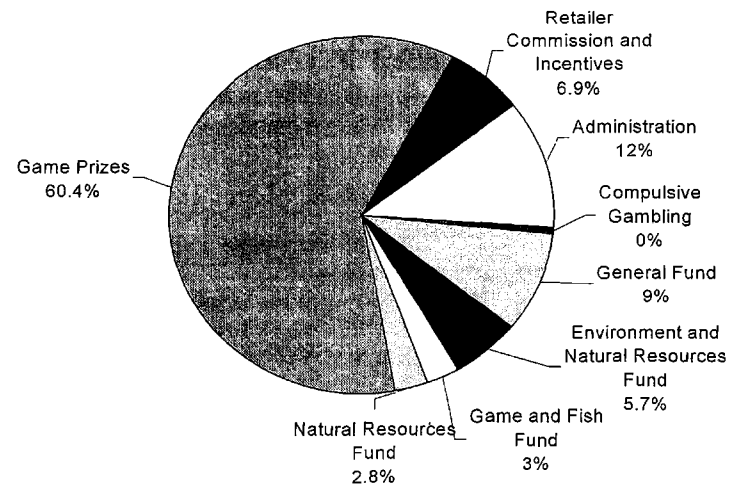
Direct Costs				
Prize Expense	\$241,518	245,641	246,909	246,909
Retailer Com & Incentives	<u>27,134</u>	<u>27,787</u>	<u>28,126</u>	<u>28,126</u>
Total Direct Costs	268,652	273,428	275,035	275,035

Operating Expenses				
Ticket Expense	4,883	4,953	5,052	5,052
Online Vendor Commission	8,368	8,450	8,500	8,500
Advertising	8,721	9,185	9,444	9,444
Promotions	3,988	3,362	3,443	3,443
Salaries & Benefits	10,824	11,842	12,321	12,321
Building and Equipment Rents	1,435	1,549	1,571	1,571
Communications	970	939	943	943
Professional Services	1,729	2,042	2,049	2,049
Depreciation	1,608	1,560	1,466	1,466
Office & Retailer Supplies	744	789	785	785
Gambling Enforcement	150	150	150	150
Other	<u>1,841</u>	<u>2,110</u>	<u>2,103</u>	<u>2,103</u>
Total Operating Expense	45,261	46,931	47,827	47,827

Operating Transfers				
Unclaimed Prizes	6,643	5,850	5,850	5,850
Compulsive Gambling	1,750	1,888	1,640	1,640
Net Proceeds	<u>52,153</u>	<u>51,832</u>	<u>51,878</u>	<u>51,878</u>
Total Operating Transfers	<u>60,546</u>	<u>59,570</u>	<u>59,368</u>	<u>59,368</u>

	Dollars in Thousands			
	FY 2000 Actual	FY 2001 Projected	FY 2002 Projected	FY 2003 Projected
PAID TO STATE BENEFICIARY				
General Fund				
In-Lieu-of-Sales Tax	\$25,824	\$788	\$3,433	3,433
Net Proceeds	31,292	31,100	31,127	31,127
Unclaimed Prizes	3,986	3,510	3,510	3,510
Compulsive Gambling	1,750	1,888	1,640	1,640
Gambling Enforcement	<u>150</u>	<u>150</u>	<u>150</u>	<u>150</u>
Total General Fund	63,002	37,435	39,860	39,860
Environmental and Natural Resources Fund				
Net Proceeds	20,861	20,733	20,751	20,751
Unclaimed Prizes	<u>2,657</u>	<u>2,340</u>	<u>2,340</u>	<u>2,340</u>
Total Envir and Natural Resources Fund	23,518	23,073	23,091	23,091
Game and Fish Fund	0	12,731	11,488	11,488
Natural Resources Fund	0	12,731	11,488	11,488
TOTAL PAID TO STATE	<u>\$86,520</u>	<u>\$85,971</u>	<u>\$85,927</u>	<u>\$85,927</u>

FY 2002-03 Distribution of Revenues



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MINN STATE RETIREMENT SYSTEM - EXECUTIVE SUMMARY

AGENCY MISSION AND VISION:

The mission of the Minnesota State Retirement System (MSRS) is to provide a comprehensive retirement program for its members. Membership is comprised of state employees, state law enforcement officers, constitutional officers, legislators, judges, employees of the University of Minnesota, the Metropolitan Council, and employees of various other designated agencies. In total, MSRS provides retirement services to 185 agencies. MSRS also oversees the operation of the tax-deferred income plan available to all public employees in Minnesota. Membership statistics are as follows:

<u>At June 30</u>	<u>Active Members</u>	<u>Inactive Members</u>	<u>Retirees & Beneficiaries</u>
2000	115,716	32,534	21,286
1999	113,000	31,592	20,320
1998	128,389	41,160	19,551
1997	122,892	37,098	18,771
1996	109,555	29,778	18,161

KEY SERVICE STRATEGIES:

MSRS programs are supported by employee and employer contributions and investment income. These funds are dedicated for the payment of monthly retirement benefits, refunds and administrative expenses. All benefit payments are determined by statute. Administrative expense budgets are recommended by MSRS staff for the review and approval of the Board of Directors.

We will continue to develop our Web site to provide more data to our participants. We also intend to increase both the quality and quantity of the group and individual counseling meetings that we offer.

PERFORMANCE SUMMARY:

MSRS has increased service to employees by offering an interactive Web site and by providing additional member counseling. The largest plans we administer are financially secure and we are committed to maintaining their financial integrity.

REVENUES:

Contribution rates as a percentage of salary for our various retirement plans are as follows:

	<u>Employee</u>	<u>Employer</u>
General employees retirement plan	4.00%	4.00%
State patrol retirement plan	8.40	12.60
Correctional employees retirement plan	5.50	7.70
Judges retirement plan	8.15	20.50
Legislators retirement plan	9.00	*
Elected state officers retirement plan	9.00	*
Unclassified employees retirement plan	4.00	6.00

* These plans are closed to new entrants. Benefits are paid from General Fund appropriations.

GOVERNOR'S RECOMMENDATION:

The Governor recommends the agency's base budget.

Agency: MINN STATE RETIREMENT SYSTEM

Agency Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
Expenditures by Program:									
MN STATE RETIREMENT SYSTEM	299,464	302,760	314,465	340,620	340,620	346,046	346,046	69,441	11.3%
ELECTIVE OFFICERS PLAN	303	308	214	356	356	384	384	218	41.8%
JUDGES PLAN	10,406	11,244	11,571	12,498	12,498	13,498	13,498	3,181	13.9%
LEGISLATORS PLAN	5,327	7,305	5,828	6,324	6,324	6,828	6,828	19	0.1%
Total Expenditures	315,500	321,617	332,078	359,798	359,798	366,756	366,756	72,859	11.1%

Financing by Fund:									
Direct Appropriations:									
JUDICIAL RETIREMENT	1,758	0	0	0	0	0	0		
Open Appropriations:									
GENERAL	2,398	3,953	4,014	4,490	4,490	4,847	4,847		
CORRECTIONAL EMPLOYEES RETIRE	10,772	13,345	13,472	14,543	14,543	15,699	15,699		
STATE EMPLOYEES RETIREMENT	222,841	253,009	263,562	285,661	285,661	286,708	286,708		
HIGHWAY PATROL RETIREMENT	22,315	25,967	27,329	29,512	29,512	31,869	31,869		
UNCLASSIFIED EMPLOYEES RETIRE	7,791	8,585	10,102	10,904	10,904	11,770	11,770		
LEGISLATIVE ANNUITIES	0	3,660	2,028	2,190	2,190	2,365	2,365		
DEFERRED COMPENSATION	35,745	1,854	0	0	0	0	0		
JUDICIAL RETIREMENT	8,648	11,244	11,571	12,498	12,498	13,498	13,498		
Statutory Appropriations:									
LEGISLATIVE ANNUITIES	3,232	0	0	0	0	0	0		
Total Financing	315,500	321,617	332,078	359,798	359,798	366,756	366,756		

FTE by Employment Type:									
FULL TIME	40.7	41.4	41.4	41.4	41.4	41.4	41.4		
PART-TIME, SEASONAL, LABOR SER	4.3	4.5	0.0	0.0	0.0	0.0	0.0		
OVERTIME PAY	0.2	0.2	0.0	0.0	0.0	0.0	0.0		
Total Full-Time Equivalent	45.2	46.1	41.4	41.4	41.4	41.4	41.4		

Program: MN STATE RETIREMENT SYSTEM
Agency: MINN STATE RETIREMENT SYSTEM

Program Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
Expenditures by Activity:									
HWY PATROL RETMNT	22,315	25,967	27,329	29,512	29,512	31,869	31,869	8,085	15.2%
CORRECTIONAL EMPL RETMNT	10,772	13,345	13,472	14,543	14,543	15,699	15,699	3,425	12.8%
UNCLASSIFIED EMPL RETMNT	7,791	8,585	10,102	10,904	10,904	11,770	11,770	3,987	21.3%
STATE EMPL RETMNT	219,237	249,322	259,553	280,317	280,317	281,978	281,978	53,420	10.5%
MSRS ADMINISTRATION	3,604	3,687	4,009	5,344	5,344	4,730	4,730	2,378	30.9%
DEFERRED COMPENSATION	35,745	1,854	0	0	0	0	0	(1,854)	(100.0%)
Total Expenditures	299,464	302,760	314,465	340,620	340,620	346,046	346,046	69,441	11.3%

Financing by Fund:							
Open Appropriations:							
CORRECTIONAL EMPLOYEES RETIRE	10,772	13,345	13,472	14,543	14,543	15,699	15,699
STATE EMPLOYEES RETIREMENT	222,841	253,009	263,562	285,661	285,661	286,708	286,708
HIGHWAY PATROL RETIREMENT	22,315	25,967	27,329	29,512	29,512	31,869	31,869
UNCLASSIFIED EMPLOYEES RETIRE	7,791	8,585	10,102	10,904	10,904	11,770	11,770
DEFERRED COMPENSATION	35,745	1,854	0	0	0	0	0
Total Financing	299,464	302,760	314,465	340,620	340,620	346,046	346,046

FTE by Employment Type:							
FULL TIME	40.7	41.4	41.4	41.4	41.4	41.4	41.4
PART-TIME, SEASONAL, LABOR SER	4.3	4.5	0.0	0.0	0.0	0.0	0.0
OVERTIME PAY	0.2	0.2	0.0	0.0	0.0	0.0	0.0
Total Full-Time Equivalent	45.2	46.1	41.4	41.4	41.4	41.4	41.4

Activity: ELECTIVE OFFICERS PLAN
Program: ELECTIVE OFFICERS PLAN
Agency: MINN STATE RETIREMENT SYSTEM

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
Expenditures by Category:									
State Operations									
OTHER OPERATING EXPENSES	3	5	0	2	2	2	2	(1)	(20.0%)
OTHER FINANCIAL TRANSACTIONS	300	303	214	354	354	382	382	219	42.4%
Total Expenditures	303	308	214	356	356	384	384	218	41.8%
Financing by Fund:									
Open Appropriations:									
GENERAL	303	308	214	356	356	384	384		
Total Financing	303	308	214	356	356	384	384		

Activity: JUDGES PLAN
Program: JUDGES PLAN
Agency: MINN STATE RETIREMENT SYSTEM

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
<u>Expenditures by Category:</u>									
State Operations									
OTHER OPERATING EXPENSES	31	39	33	34	34	35	35	(3)	(4.2%)
OTHER FINANCIAL TRANSACTIONS	10,375	11,205	11,538	12,464	12,464	13,463	13,463	3,184	14.0%
Total Expenditures	10,406	11,244	11,571	12,498	12,498	13,498	13,498	3,181	13.9%
<u>Financing by Fund:</u>									
Direct Appropriations:									
JUDICIAL RETIREMENT	1,758	0	0	0	0	0	0		
Open Appropriations:									
JUDICIAL RETIREMENT	8,648	11,244	11,571	12,498	12,498	13,498	13,498		
Total Financing	10,406	11,244	11,571	12,498	12,498	13,498	13,498		
<u>Revenue Collected:</u>									
Nondedicated									
JUDICIAL RETIREMENT	7,500	8,065	7,105	7,317	7,317	7,525	7,525		
Total Revenues Collected	7,500	8,065	7,105	7,317	7,317	7,525	7,525		

Activity: LEGISLATORS PLAN
Program: LEGISLATORS PLAN
Agency: MINN STATE RETIREMENT SYSTEM

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
Expenditures by Category:									
State Operations									
OTHER OPERATING EXPENSES	29	32	0	30	30	31	31	29	90.6%
OTHER FINANCIAL TRANSACTIONS	5,298	7,273	5,828	6,294	6,294	6,797	6,797	(10)	(0.1%)
Total Expenditures	5,327	7,305	5,828	6,324	6,324	6,828	6,828	19	0.1%
Financing by Fund:									
Open Appropriations:									
GENERAL	2,095	3,645	3,800	4,134	4,134	4,463	4,463		
LEGISLATIVE ANNUITIES	0	3,660	2,028	2,190	2,190	2,365	2,365		
Statutory Appropriations:									
LEGISLATIVE ANNUITIES	3,232	0	0	0	0	0	0		
Total Financing	5,327	7,305	5,828	6,324	6,324	6,828	6,828		
Revenue Collected:									
Nondedicated									
GENERAL	701	523	441	441	441	441	441		
Total Revenues Collected	701	523	441	441	441	441	441		

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PUBLIC EMPLOYEES RETIRE ASSOC - EXECUTIVE SUMMARY

AGENCY MISSION AND VISION:

Established by legislative act in 1931, the Public Employees Retirement Association (PERA) of Minnesota administers four retirement plans in accordance with M.S. sections 353, 353A, 353D, 353E, and 356. PERA's membership includes more than 233,000 public employees and 2,100 separate governmental subdivisions within the state, as defined in M.S. 353.01 subd. 6.

The mission of PERA is to create opportunities for members to achieve a successful and secure retirement by providing the highest quality of benefits and services. PERA's future vision is to be seen by its members as an important part of their retirement solution because it: 1) *develops* creative methods that enable members to make sound retirement and life planning decisions; 2) *displays* relentless efforts to protect the fund and provide the best public pension packages; and 3) *delivers* exceptional services any time any place.

The agency employs 88 full-time staff and is under the direction of an Executive Director responsible to a policy-setting 11-member Board of Trustees. Key business processes include: 1) collecting and managing revenues; 2) collecting and managing information; 3) issuing benefit and refund payments; 4) delivering information services; and 5) delivering education and training.

REVENUES:

Member and employer contributions, investment earnings, and income from other sources cover the liability for present and future benefits. Each membership category of the defined benefit retirement plans within the association has specific contribution and benefit provisions.

- **Basic** - Includes employees who are not covered by Social Security. Payroll contribution rates: employee = 8.75% and employer = 11.43%.
- **Coordinated** - Includes employees who also contribute to Social Security. Payroll contribution rates: employee = 4.75% and employer = 5.18%.
- **Correctional** - County and regional correctional facility employees. Payroll contribution rates: employee = 5.83% and employer = 8.75%.
- **Police and Fire** - Consists mainly of police officers and fire fighters. Payroll contribution rates: employee = 6.2% and employer = 9.3%.

Plan participants as of the 7-1-2000 actuarial valuation are as follows (dollars in thousands):

	Basic and Coordinated	Correctional	Police and Fire
Active Members	135,560	2,781	9,627
Projected Payroll	\$3,602,750	\$80,818	\$494,134
Average Annual Earnings (Projected \$)	\$26,577	\$29,061	\$51,328
Average Age	44.4	37.5	38.7
Average Service	9.0	0.9	11.0
Service Retirements	39,940	9	3,991
Survivors	6,010	0	1,205
Disability Retirements	1,397	3	482
Deferred Retirements	21,495	0	470
Terminated Other Non-Vested	79,362	0	626

Membership in PERA's defined contribution plan is limited to elected officials, physicians and ambulance service personnel. Elected officials and physicians each contribute 5% of salary to the plan which employers match. The employer determines contributions for ambulance service personnel.

Typically, administrative costs and investment fees represent approximately 1% of agency revenue. The bulk of expenditures include benefits, refunds and transfers to build future retirement reserves. Contribution rate changes may result from changes in actuarial assumptions and other legislative actions.

ISSUES AFFECTING AGENCY'S OPERATIONS:

The demographics of PERA's membership are changing. Members are entering public service later in life, taking fewer refunds, and living longer after retirement. Consequently, PERA changed its actuarial assumptions in the 2000 legislative session to match actual experience. The new assumptions have contributed to a contribution rate deficiency in the coordinated plan. Accordingly, PERA is working with interested parties to address raising future contribution rates for both members and employers to cover the shortfall.

PERA's strategic plan focuses on improving the way PERA delivers its services. Objectives include improving efficiency and productivity, reducing rework and hand-offs, and decreasing fragmented work design. Key project initiatives include the following:

- defining and developing new products and services that improve services and benefits including legislative initiatives, education modules and new or revised benefit plans;

PUBLIC EMPLOYEES RETIRE ASSOC - EXECUTIVE SUMMARY (Continued)

- collecting and organizing information required to define and deliver services by capturing data at its source and making it easier for employers to comply with standardized reporting requirements; and
- building the technology, human resources, and administrative infrastructure required to deliver services.

PERFORMANCE SUMMARY:

Growing membership and legislative changes have significantly increased the volume and the complexity of the work over the years. Technology and process improvements have enabled PERA to absorb the additional workload while maintaining a constant employee to member ratio.

GOVERNOR'S RECOMMENDATION:

The Governor recommends the agency's base budget.

Program: PUBLIC EMPL RETR ASN
 Agency: PUBLIC EMPLOYEES RETIRE ASSOC

Program Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
Expenditures by Activity:									
PERA ANNUITIES & REF	497,724	557,859	628,587	687,500	687,500	756,250	756,250	257,304	21.7%
PERA POLICE & FIRE	70,038	256,761	190,000	209,000	209,000	229,000	229,000	(8,761)	(2.0%)
PERA DEFINED	964	538	1,500	1,500	1,500	1,500	1,500	962	47.2%
PERA CORRECTIONAL	0	45	500	500	500	500	500	455	83.5%
PERA CONSOLIDATED	71,032	0	0	0	0	0	0	0	
Total Expenditures	639,758	815,203	820,587	898,500	898,500	987,250	987,250	249,960	15.3%
Financing by Fund:									
Open Appropriations:									
PERA DEFINED CONTRIBUTION PLAN	964	538	1,500	1,500	1,500	1,500	1,500		
POLICE AND FIRE CONSOLIDATED	71,032	0	0	0	0	0	0		
PUBLIC EMPLOYEES RETIREMENT	497,724	557,859	628,587	687,500	687,500	756,250	756,250		
PERA CORRECTIONAL PLAN	0	45	500	500	500	500	500		
POLICE AND FIRE	70,038	256,761	190,000	209,000	209,000	229,000	229,000		
Total Financing	639,758	815,203	820,587	898,500	898,500	987,250	987,250		
FTE by Employment Type:									
FULL TIME	72.3	78.2	78.2	78.2	78.2	78.2	78.2		
PART-TIME, SEASONAL, LABOR SER	5.8	3.2	3.2	3.2	3.2	3.2	3.2		
OVERTIME PAY	1.9	1.8	1.8	1.8	1.8	1.8	1.8		
Total Full-Time Equivalent	80.0	83.2	83.2	83.2	83.2	83.2	83.2		

TEACHERS RETIREMENT ASSOC - EXECUTIVE SUMMARY

AGENCY MISSION AND VISION:

The mission of the Teachers Retirement Association (TRA) is to administer post-employment benefits for its members. Currently, TRA serves over 120,000 active, inactive, and retired members. The management of the Association is vested in a Board of Trustees consisting of eight members, five of whom are elected from the active or retired membership. The Board of Trustees appoints an Executive Director to administer the daily operations of the Association.

<u>At June 30</u>	<u>Active Members</u>	<u>Inactive Members</u>	<u>Benefit Recipients</u>
2000	70,541	25,661	31,971
1999	68,613	25,822	29,749
1998	68,247	23,751	27,696
1997	68,554	23,009	25,681
1996	68,490	22,211	24,307

KEY SERVICE STRATEGIES:

The main source of fund revenues are employee contributions, employer contributions, and income from investments held in trust. The three main categories of expenses are monthly benefit payments, refund of employee contributions plus interest and administration.

TRA will continue to make accurate and timely monthly benefit payments to approximately 32,000 benefit recipients. Up to 2,000 new retirees are expected to be added annually during the biennium. TRA works with over 350 employer units statewide to obtain payroll and other information on members. TRA provides pre-retirement counseling services in the TRA office and at multiple outstate counseling sites. Benefit payments account for over 98% of TRA budgeted expenditures.

The main administrative focus beyond the payment of benefits during FY 2002-2003 will be the continuation of the Functional Redesign of Strategic Technologies (FROST) project. FROST, a four-year project approved by the TRA Board of Trustees on 2-18-00, will redesign and streamline TRA's main business processes and develop new systems applications to support them. Upon implementation, TRA will be ready to meet the administrative challenges of continuing to offer quality pre-retirement counseling services and to distribute timely and accurate payments to an ever-increasing base of benefit recipients.

In September 2001, TRA expects to move into a new facility located at 60 Empire Drive in St. Paul. TRA will be in a building shared with the other two statewide pension systems, the Public Employees Retirement Association (PERA), and the Minnesota State Retirement System (MSRS). The construction of the facility is funded by revenue bonds issued by the Department of Finance on behalf of the

project. Payment of principal and bond interest will be over 30 years. A portion of the space in the building will be leased to other state agencies.

ISSUES AFFECTING AGENCY'S OPERATIONS:

While the number of active members has stabilized in recent years, the number of benefit recipients has nearly doubled over the past decade. Our actuaries expect the number of retirees to grow over the next decade as retirees live longer and the beginning of the "baby boom" generation starts to retire. The actuaries predict that the number of retirements annually processed will rise over 50% to approximately 3,000 in the year 2010.

TRA must provide retirement information earlier in our members' careers, compete with alternative pension providers, and meet higher expectations from our members in the area of customer service.

The aforementioned FROST project addresses these and other issues. The following new initiatives are planned as part of FROST:

- establishing automated processes to help members obtain account information;
- estimating benefits either via telephone or TRA's home page on the worldwide web;
- expanding and enhancing the quality of pre-retirement presentation and counseling sessions throughout the state;
- redesigning and improving benefit estimates and other information provided on annual statements of account for both active and inactive members;
- enhancing member education concerning the calculation and importance of their building TRA benefits through new and revised publications and features on our world-wide web site; and
- allowing employer units to transmit TRA member demographic and payroll data using worldwide web applications with on-line editing features.

GOVERNOR'S RECOMMENDATION:

The Governor recommends the agency's base budget.

Agency: TEACHERS RETIREMENT ASSOC

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
Expenditures by Category:									
State Operations									
COMPENSATION	3,666	4,103	4,700	5,000	5,000	5,200	5,200	1,397	15.9%
OTHER OPERATING EXPENSES	4,694	4,066	8,333	9,590	9,590	9,340	9,340	6,531	52.7%
OTHER FINANCIAL TRANSACTIONS	626,453	763,573	907,675	1,000,000	1,000,000	1,200,000	1,200,000	528,752	31.6%
Subtotal State Operations	634,813	771,742	920,708	1,014,590	1,014,590	1,214,540	1,214,540	536,680	31.7%
LOCAL ASSISTANCE	2	3	0	0	0	0	0	(3)	(100.0%)
Total Expenditures	634,815	771,745	920,708	1,014,590	1,014,590	1,214,540	1,214,540	536,677	31.7%

Financing by Fund:							
Open Appropriations:							
TEACHERS RETIREMENT	634,815	771,745	920,708	1,014,590	1,014,590	1,214,540	1,214,540
Total Financing	634,815	771,745	920,708	1,014,590	1,014,590	1,214,540	1,214,540

Revenue Collected:							
Nondedicated							
TEACHERS RETIREMENT	270,667	277,276	285,880	301,000	301,000	316,000	316,000
Total Revenues Collected	270,667	277,276	285,880	301,000	301,000	316,000	316,000

FTE by Employment Type:							
FULL TIME	70.7	77.8	77.8	95.0	95.0	95.0	95.0
PART-TIME, SEASONAL, LABOR SER	1.9	2.8	2.7	0.0	0.0	0.0	0.0
OVERTIME PAY	2.8	1.0	1.0	1.5	1.5	1.5	1.5
Total Full-Time Equivalent	75.4	81.6	81.5	96.5	96.5	96.5	96.5

MPLS EMPLOYEES RETIREMENT FUND - EXECUTIVE SUMMARY

AGENCY MISSION AND VISION:

The Minneapolis Employees' Retirement Fund (MERF) was established in law in 1919. The fund provides survivor and disability benefits to active members and retirement benefits to retired members. Members are not covered by social security and are considered basic plan members. The MERF fund was closed to new members on 7-1-78. All employees hired after that date are members of the Public Employees Retirement Association (PERA).

There are currently 1,152 active members in the fund. Employer units, in order of number of active members, are the city of Minneapolis, Minneapolis Special School District No. 1, Metropolitan Airports Commission, Metropolitan Waste Control Commission, and the Minnesota State College and University System.

MERF is a cost sharing multiple employer plan governed by a seven-member board and administered by an executive director, who serves under contract with the board. The city of Minneapolis has two voting members on the board, including the mayor and a representative from the Minneapolis city council. MERF retains professional money managers to manage the assets of the fund and employs the services of an investment consulting firm to conduct searches, monitor performance and insure compliance with various regulatory requirements. The fund also has an investment advisory panel that oversees all investment decisions of the fund.

The fund's current assets are \$1.42 billion and its accrued actuarial liability is \$1.52 billion, for a funding ratio of 93.44%. Its current unfunded liability is \$99.47 million.

Current Fund Status (Dollars in Thousands):

Retirees	5,026
Deferred Retirements	233
Active Members	1,152
Projected Payroll	\$56.39 million
Average Age (years)	52.9
Average Service (years)	26.7
Current Assets	\$1.42 billion
Actuarial Accrued Liability	\$1.52 billion
Funding Ratio	93.44%

REVENUES:

Employers and the state are making supplemental payments so that the unfunded liability will be eliminated by the year 2020. State law (M.S. 422A) establishes the formula for allocating obligations among contributors. The annual contribution is based on an annual level dollar payment. Fund employers contribute 2.68% of payroll plus \$3.9 million. The remainder is paid by the state up to a maximum annual contribution of \$9.55 million (Laws of 1997, Ch. 345). The state pays roughly 37% of the total supplemental contribution.

Based on the fund's actuarial report for 7-1-00, the state contribution is \$3.782 million in FY 2001 and \$3.232 million per year beginning in FY 2002. Growth in the value of assets has decreased the unfunded liability and the need for supplemental contributions.

GOVERNOR'S RECOMMENDATION:

The Governor recommends the agency's base budget.

Agency: MPLS EMPLOYEES RETIREMENT FUND

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
Expenditures by Category:									
LOCAL ASSISTANCE	8,724	5,108	3,782	3,232	3,232	3,232	3,232	(2,426)	(27.3%)
Total Expenditures	8,724	5,108	3,782	3,232	3,232	3,232	3,232	(2,426)	(27.3%)
Financing by Fund:									
Direct Appropriations:									
GENERAL	8,724	5,108	3,782	3,232	3,232	3,232	3,232		
Total Financing	8,724	5,108	3,782	3,232	3,232	3,232	3,232		

LOCAL POLICE & FIRE AMORT AID - EXECUTIVE SUMMARY

AGENCY MISSION AND VISION:

The state provides aid to local jurisdictions and relief associations through several programs administered by the Department of Revenue's Local Government Aids Division. The largest of these is Police and Fire State Aid, which covers the employer retirement contributions for most jurisdictions. Total police and fire aids are approximately \$138 million for the biennium.

There are several other, smaller statutory General Fund aids provided to jurisdictions for public safety personnel retirement funding purposes. These smaller aids are discussed below.

Regular Police and Fire Amortization Aid. M.S. 423A.02 established a state obligation to assist local police or fire retirement associations with the financing of their unfunded liabilities. Only those associations being phased out are eligible for the aid. The aid continues until the association ceases to exist, or achieves full funding status.

Current statute fixes *regular* amortization distributions to all eligible funds as the level annual dollar amount required to amortize, by 2010, the unfunded actuarial accrued liability of the relief association as reported in the valuation of the fund for 1978. This amount is adjusted for reductions due to the amount required to pay the interest on the unfunded liability for CY 1981, at the rate specified in M.S. 1978, Sec. 356.215, subd. 4, clause 4.

In 1991, M.S. 423A.02, subd. 1 was modified to place a cap on total annual regular amortization aid expenditures for all eligible municipalities at \$5.055 million. As relief associations achieve full funding status and cease to be eligible that cap amount is, in effect, reduced dollar-for-dollar. Expenditures for both this aid and the Supplemental Amortization Aid (below) are also affected by investment returns and retiree benefit increases of the Minneapolis Police and Fire Relief Associations. If one or both of these funds pays a "13th Check," their aid is reduced and reallocated as described under the "Redirected Amortization Aid" section below.

Supplemental Police and Fire Amortization Aid. M.S. 423A.02 creates an additional *supplemental* amortization aid of \$1.0 million for distribution among the associations in proportion to the relief association's share of total unfunded actuarial accrued liabilities of all relief associations as of 1983.

Firefighter Supplemental Benefit Tax Reimbursements. M.S. 424A.10 requires firefighter relief associations to pay a supplemental retirement benefit which is in lieu of the basic retirement benefit being exempt from state income tax. This is an open appropriation.

Redirected Amortization Aid. Laws 1996, Chapter 438, Article 4, created a new aid for local fire relief associations and 1st Class City teacher retirement funds. This aid is roughly equivalent to the amount of regular and supplemental amortization aid (described above) that is not distributed for local police and salaried fire relief association costs.

GOVERNOR'S RECOMMENDATION:

The Governor recommends base funding levels for the current biennium.

Agency: LOCAL POLICE & FIRE AMORT AID

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
Expenditures by Category:									
LOCAL ASSISTANCE	8,741	7,283	9,198	11,936	11,936	10,826	10,826	6,281	38.1%
Total Expenditures	8,741	7,283	9,198	11,936	11,936	10,826	10,826	6,281	38.1%
Financing by Fund:									
Open Appropriations:									
GENERAL	8,741	7,283	9,198	11,936	11,936	10,826	10,826		
Total Financing	8,741	7,283	9,198	11,936	11,936	10,826	10,826		

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1ST CLASS CITY TEACHERS ST AID - EXECUTIVE SUMMARY

AGENCY MISSION AND VISION:

Three teachers' retirement funds receive special state aid. The largest amounts go to Minneapolis and St. Paul and are described below. The Duluth Teachers Fund also receives annual funding to amortize unfunded liability.

The Minneapolis Teachers' Retirement Fund Association (MTRFA)

The MTRFA was established in 1909 to provide retirement benefits for all certified personnel of the Minneapolis Public Schools, Special School District No. 1.

The MTRFA is not adequately funded, and has for some time experienced significant contribution deficiencies. In 1993, the legislature and the Governor attempted to resolve part of this large, ongoing funding problem. They established levy authority for the Minneapolis School District and city to raise revenues to make an additional contribution to the Fund (Laws 1993, Chap. 357, Sec. 3, modifying M.S. 354A.12).

The law also established a state match of these additional contributions, up to a maximum of \$2.5 million in any state fiscal year. Hence, the law provides a potential combined contribution of \$5.0 million each fiscal year to reduce the unfunded liabilities of the fund.

This state matching aid is paid from the General Fund by the Commissioner of Finance to the MTRFA upon the conditions that:

- the accrued liability funded ratio of the plan, as of the most recent actuarial valuation, is lower than that for the statewide Teachers' Retirement Fund (TRA); and
- documentation is received demonstrating the levy(ies) have been certified, collected and remitted to the MTRFA by the City and/or School District.

The MTRFA is also eligible for special direct state aid (Laws 1997, Chap. 233, Art. 3, Sec. 4, modifying M.S. 354A.12) in the amount of \$13.0 million annually.

In addition to this State Aid, the agency is eligible for "Redirected Local Police and Fire Amortization Aid" (Laws 1996, Chapter 438, Article 4). If investment performance is sufficient and the Minneapolis Police and/or Fire Relief Associations pay a "13th check" post-retirement increase, the state Police and Fire Amortization Aid is reduced by approximately \$2.2 million for the year. This amount is then reallocated among the Minneapolis and St. Paul teacher funds, along with local volunteer fire relief associations. MTRFA's share of that "reallocated aid" was \$1.7 million in F.Y. 2000.

Beginning 7-1-98, the city and Special School District No. 1 are each required to make additional contributions to the fund increasing annually to a combined total of \$2.0 million in 2003.

As of 7-1-00

Funding:

Statutory Contributions	23.25%
Required Contributions	25.25%
Deficiency	2.00%

Current Assets	\$1.03 billion
Actuarial Accrued Liability	\$1.54 billion
Funding Ratio	66.54%

Plan Participants:

Active Members	5,777
Members on Leave of Absence	67
Projected Payroll	\$255 million
Average Annual Earnings	\$44,225
Average Age (years)	42.6
Average Service (years)	8.4

Service Retirements	3,033
Disability Retirements	20
Survivors	254
Deferred Retirements	756
Terminated/Non-Vested	1,815

The St. Paul Teachers' Retirement Fund Association (StP-TRFA)

The StP-TRFA was established in 1909 to provide retirement benefits for all certified personnel of the Saint Paul Public Schools, ISD #625.

The StP-TRFA receives insufficient statutory funding to achieve full funding by the target date of 2020. However, significant improvements have been made in the past three years. In 1996, StP-TRFA also became eligible for "Redirected Local Police and Fire Amortization Aid" (Laws 1996, Ch. 438, Art. 4), as described above for MTRFA. StP-TRFA's share of that "reallocated aid" was \$745,726 in 2000. Under this law the St. Paul School district must also contribute the following amounts: F.Y. 1998, \$200,000; F.Y. 1999, \$400,000; F.Y. 2000, \$600,000; F.Y. 2001 and thereafter, \$800,000.

1ST CLASS CITY TEACHERS ST AID - EXECUTIVE SUMMARY (Continued)

In 1997, the legislature and the Governor attempted to solve the funding problem of this fund by creating a statutory appropriation of \$4.8 million on 10-1-97 and \$2.8 million on 10-1-98 and each October 1 thereafter (Laws 1997, Ch. 233, Art. 3). This aid terminates the first year that StP-TRFA's accrued liability equals or exceeds that of the statewide Teachers Retirement Association (TRA), as reflected in the most recent actuarial report prepared by the consulting actuary of the Legislative Commission on Pensions and Retirement.

As of 7-1-00

Funding:

Statutory Contributions	17.29%
Required Contributions	16.57%
Sufficiency	0.72%
Current Assets	\$802 million
Actuarial Accrued Liability	\$998 million
Funding Ratio	80.32%

Plan Participants:

Active Members	4,445
Members on Leave of Absence	283
Projected Payroll	\$1,989 million
Average Annual Earnings	\$42,483
Average Age (years)	43.1
Average Service (years)	10.8
Service Retirements	1,728
Disability Retirements	23
Survivors	213
Deferred Retirements	243
Terminated/Non-Vested	1,697

GOVERNOR'S RECOMMENDATION:

The Governor recommends base funding levels for the current biennium.

Program: 1ST CLASS CITIES TEACHERS AID
 Agency: 1ST CLASS CITY TEACHERS ST AID

Program Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
Expenditures by Activity:									
1993 MPLS TEACHER RETIRE AID	2,485	2,489	2,500	2,500	2,500	2,500	2,500	11	0.2%
1997 ST PAUL TEACHER RETIRE	2,827	2,827	2,827	2,827	2,827	2,827	2,827	0	0.0%
1997 MPLS TEACHER RETIRE AID	12,954	12,954	12,954	12,954	12,954	12,954	12,954	0	0.0%
1997 DULUTH TEACHER RETIRE AID	486	486	486	486	486	486	486	0	0.0%
Total Expenditures	18,752	18,756	18,767	18,767	18,767	18,767	18,767	11	0.0%
Financing by Fund:									
Open Appropriations:									
GENERAL	18,752	18,756	18,767	18,767	18,767	18,767	18,767		
Total Financing	18,752	18,756	18,767	18,767	18,767	18,767	18,767		

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AMATEUR SPORTS COMM - EXECUTIVE SUMMARY

AGENCY MISSION AND VISION:

The mission of the Minnesota Amateur Sports Commission (MASC) is to elevate the economic and social benefits of amateur sports to enrich the lives of Minnesotans.

KEY SERVICE STRATEGIES:

- **Sports Program/Event Development** -- The MASC identifies and develops major amateur sports programs. MASC staff work with groups to create new sport events and collaborate with others to host major national and international events. In the past two years, MASC staff expertise has created the International Kick-Off soccer tournament, the Rochester Volleyball Cup, and several new ice-sport programs.
- **Facility Development** -- The MASC identifies and develops major sports facilities for use by Minnesotans and for hosting events that generate out-of-state economic impact.
- **Sport Event Hosting** -- The MASC partners with cities and sport groups to host major amateur sporting events.
- **Grant Administration** -- "Mighty Ducks" Ice Arena Grants help build new arenas and renovate existing ice arenas. MASC/CFL Youth Enrichment Grants ("Mighty Kicks" Grants) help develop new sports facilities with an emphasis on soccer field construction and renovation.

PERFORMANCE SUMMARY:

■ Sports Program Development

	Economic Impact (thousands)
Schwan's USA Cup Soccer Tournament	\$15,414
Great American Shoot Out	\$1,813
USA International Hockey Cup	\$3,044
All-American Girls Soccer Tournament	\$2,119
International Kick-Off Soccer Tournament	\$1,400
All-American Girls & Women's Hockey Tournament	\$1,257
National Sports Center Soccer Cup	\$3,302

Figures are for calendar year 2000. Economic impact is defined as spending by out-of-state athletes and spectators, including costs for meals, lodging, sports fees and retail spending. Estimates are derived using a survey-based formula.

■ Facility Development

The MASC has successfully identified and developed the following state amateur sports facilities:

\$ in Millions

	State \$	Total	Opened
Inner City Sports Center, Minneapolis	4.0	22.0	2000
Bush Lake Ski Jump, Bloomington	0.5	1.0	2000
Super Rink, Blaine	1.0	11.0	1998
Qaud Cities Curling Center, Eveleth	1.25	2.75	1998
National Volleyball Center, Rochester	2.3	4.6	1998
John Rose Oval, Roseville	2.4	6.5	1994
Ole Mangseth Ski Jump, Coleraine	0.17	0.5	1991
National Sports Center, Blaine	16.4	18.7	1990
U o M Aquatic Center, Minneapolis	3.0	18.0	1990
National Ice Hockey Center, St. Cloud	9.5	11.0	1990
National Kayaking Center, Carlton	0.26	0.35	1989
Giants Ridge Ski Center, Biwabik	2.89	6.69	1987

Projects in Progress:

National Youth Golf Center, Blaine	3.1	8.0	2002
Athletic Fields, Richfield	2.0	TBD	TBD
Conference Center (planning)	0.3	TBD	TBD

■ Sport Event Hosting

- 1999 World Cup Speed skating
- 1999 & 2000 National Junior College Wrestling Championship
- 2000 ISI World Figure Skating Championship
- 2001 Women's World Hockey Championship
- 2001 USA National Championship for Girls and Women

■ Grant Administration

- *Mighty Ducks Ice Arena Grants* (\$810,000 appropriated in FY 2000) -- Since its inception, this program has awarded \$18.2 million to assist in the construction of 60 new sheets of ice and the renovation of 85 sheets. The one-time funding in FY 2000 concluded the current program.
- *MASC/CFL Youth Enrichment Grants*, a.k.a. "Mighty Kicks" Grants (\$2.5 million appropriated in FY 2000) -- This new grant program helps develop new sports facilities, with an emphasis on soccer field construction and renovation. The program facilitated the construction of 140 new soccer fields statewide, plus the renovation of an additional 12.

AMATEUR SPORTS COMM - EXECUTIVE SUMMARY (Continued)

REVENUES:

In addition to its normal appropriations, the agency received revenue from several interagency agreements in FY 1999 and FY 2000. In FY 1999, MASC received \$200,000 from the Department of Children, Families and Learning (CFL) for the Golf Learning Centers program and \$100,000 from the Department of Trade and Economic Development for the Women's World Hockey Championships to be held in April 2001. In FY 2000, the agency received \$100,000 from CFL for the Community Olympic Development Program. MASC used all of such funds to contract for services from other organizations including the National Sports Center Foundation.

ISSUES AFFECTING AGENCY'S OPERATIONS:

- The National Sports Center is maturing into one of the leading amateur sports venues in the world. As the site for all kinds of major events, the center opened Tournament Greens, an 18-hole putting course, in 2000 and anticipates the future construction of the National Youth Golf Center. The 2000 Legislature provided funding for the predesign of a conference center at the site that would host major educational events in association with sports events held there.
- The MASC's agreement with the Minnesota Wild has already helped promote amateur hockey all over the state. The two organizations have formed a partnership to host the 2001 Women's World Hockey Championship.
- There is an ongoing challenge to take full advantage of the state's Target Center agreement. Despite the Target Center being rent free, the MASC has been able to make only limited use of the facility due to high service and facility fees.
- The MASC's role in administering statewide grant programs was expanded last legislative session. The new MASC/CFL Youth Enrichment Grant Program utilized the successful Mighty Ducks Ice Arena Grant Program model to fund a similar program for developing soccer fields around the state.
- The MASC continues to develop new sports facilities. For example, the new Minneapolis YWCA/Urban Sport Center, which opened in 2000, is a showcase fieldhouse facility in the Lake Street neighborhood. Improvements to the Giants Ridge Nordic trail system will also show immediate returns in the ability of the National Sports Center to host events.

GOVERNOR'S RECOMMENDATION:

The Governor recommends the agency's base budget and has also included funding to improve the agency's technology capacity in the Small Agency Infrastructure (SAI) initiative, carried under the Office of Technology.

Agency: AMATEUR SPORTS COMM

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
Expenditures by Category:									
State Operations									
COMPENSATION	534	525	567	583	583	600	600	91	8.3%
OTHER OPERATING EXPENSES	86	79	87	74	74	77	77	(15)	(9.0%)
Subtotal State Operations	620	604	654	657	657	677	677	76	6.0%
LOCAL ASSISTANCE	3,654	950	750	750	750	750	750	(200)	(11.8%)
Total Expenditures	4,274	1,554	1,404	1,407	1,407	1,427	1,427	(124)	(4.2%)

Financing by Fund:									
Direct Appropriations:									
GENERAL	3,224	604	654	657	657	677	677		
MINNESOTA RESOURCES	0	100	0	0	0	0	0		
Open Appropriations:									
GENERAL	750	750	750	750	750	750	750		
Statutory Appropriations:									
GENERAL	300	100	0	0	0	0	0		
Total Financing	4,274	1,554	1,404	1,407	1,407	1,427	1,427		

Revenue Collected:									
Dedicated									
GENERAL	300	100	0	0	0	0	0		
Total Revenues Collected	300	100	0	0	0	0	0		

FTE by Employment Type:									
FULL TIME	10.3	9.0	9.0	9.0	9.0	9.0	9.0		
PART-TIME, SEASONAL, LABOR SER	1.4	1.4	1.4	1.4	1.4	1.4	1.4		
Total Full-Time Equivalent	11.7	10.4	10.4	10.4	10.4	10.4	10.4		

Agency: AMATEUR SPORTS COMM

Base Budget Report (Dollars in Thousands)	All Funds		General Fund		Other State Funds		Federal Funds	
	FY 2002	FY 2003	FY 2002	FY 2003	FY 2002	FY 2003	FY 2002	FY 2003
FY 2001 Budgeted	1,389	1,389	1,389	1,389	0	0	0	0
Base Adjustments								
2002-03 SAL. & BEN. BASE	16	33	16	33	0	0	0	0
SMALL AGENCY OPERATIONAL EXPENSE	2	5	2	5	0	0	0	0
Subtotal Base Adjustments	18	38	18	38	0	0	0	0
Base Budget	1,407	1,427	1,407	1,427	0	0	0	0

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