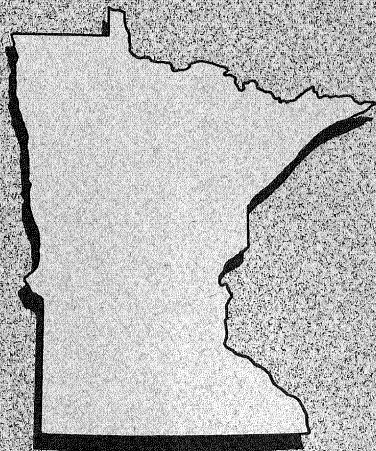


1992-93 Proposed Biennial Budget



State Government Affairs

Presented by
GOVERNOR ARNE CARLSON
to the
77th LEGISLATURE
STATE OF MINNESOTA

This document is made available electronically by the Minnesota Legislative Reference Library
as part of an ongoing digital archiving project. <http://www.leg.state.mn.us/lrl/lrl.asp>

010212

	<u>PAGE NUMBER</u>		<u>PAGE NUMBER</u>
ADMINISTRATION, DEPARTMENT OF	164	LEGISLATURE	1
ADMINISTRATIVE HEARINGS, OFFICE OF	210	SENATE	
AMATEUR SPORTS COMMISSION	222	HOUSE	
CAPITOL AREA ARCHITECTURAL & PLANNING, BOARD OF (CAAPB)	227	LEGISLATIVE COMMISSIONS	
CONSTITUTIONAL OFFICERS		MEDIATION SERVICES, BOARD OF	333
GOVERNOR/LT. GOVERNOR	96	MILITARY AFFAIRS, DEPARTMENT OF	344
STATE ATTORNEY GENERAL	104	PUBLIC EMPLOYMENT RELATIONS BOARD	360
STATE AUDITOR	148	PUBLIC-LOCAL EMPLOYEES RETIREMENT	
STATE TREASURER	156	LOCAL POLICE-FIRE AMORTIZATION	385
COURTS		MINNEAPOLIS EMPLOYEES RETIREMENT	381
COURT OF APPEALS	33	PUBLIC EMPLOYEES RETIREMENT ASSOCIATION	377
DISTRICT COURTS	39	TEACHERS RETIREMENT ASSOCIATION	387
SUPREME COURT	9	REVENUE, DEPARTMENT OF	393
EMPLOYEE RELATIONS, DEPARTMENT OF	230	STATE PLANNING AGENCY	414
FINANCE, DEPARTMENT OF	266	STATE RETIREMENT	
TORT CLAIMS	287	MINNESOTA STATE RETIREMENT SYSTEM	366
CONTINGENT ACCOUNTS	290	JUDGES RETIREMENT PLAN	371
EMPLOYEE PENSION CONTRIBUTIONS	294	LEGISLATORS RETIREMENT PLAN	373
HOUSING FINANCE AGENCY	303	ELECTIVE OFFICERS RETIREMENT PLAN	375
HUMAN RIGHTS, DEPARTMENT OF	296	MINNESOTA TAX COURT	428
INVESTMENT, BOARD OF	326	TRADE & ECONOMIC DEVELOPMENT, DEPARTMENT OF	434
JUDICIAL BOARDS		VETERANS AFFAIRS, DEPARTMENT OF	472
CLIENT SECURITY, BOARD OF	63	WORKERS' COMPENSATION COURT	478
CONTINUING LEGAL EDUCATION, BOARD OF	65	COMMISSION ON REFORM AND EFFICIENCY	485
JUDICIAL STANDARDS, BOARD OF	67	LOAN REPAYMENT - STATE FUND MUTUAL INSURANCE COMPANY	488
LAW EXAMINERS, BOARD OF	71		
LAWYERS PROF RESPONSIBILITY, BD OF	73		
PUBLIC DEFENSE, BOARD OF	75		
UNIFORM LAWS COMMISSION	94		

MISSION:

The Legislature is 1 of 3 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 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 REFERENCE LIBRARY

The Legislative Reference Library (LRL) collects, indexes and makes available information on issues of interest to members and staff of the legislature. Although, the library's main users are from the legislature, LRL also serves executive agencies and the public. State law requires 10 copies of all publications of state agencies, boards, commissions, etc. and 1 copy of all state funded consultants' reports 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. The library also is directed by state law to maintain a directory of manual and computerized information systems located within the state government.

LEGISLATIVE COMMISSION ON THE ECONOMIC STATUS OF WOMEN

Established in 1976, the purpose is the study of all matters relating to the economic status of women in Minnesota including the economic security of homemakers and women in the labor force, opportunities for educational and vocational training, employment opportunities, the access of women to the benefits and services provided to the citizens of the state, the laws and business practices constituting barriers to full participation of women in the economy, and the adequacy of programs and services for families, including single parent families.

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

MISSISSIPPI RIVER PARKWAY COMMISSION

The Commission, established in 1963, exists to maintain and improve a parkway system known as the Great River Road. The Parkway follows the path of the Mississippi River from Lake Itasca to the Gulf of Mexico. The Commission is also charged to promote tourism and economic development opportunities in the River corridor. The Commission coordinates highway and amenity improvements in communities along the Mississippi River. The Commission is also directing state, national, and international marketing efforts with communities, regional organizations and state agencies. This Commission's appropriation is from the State Trunk Highway Fund. The Commission also coordinates closely with the National Parkway Commission of the ten River states.

LEGISLATIVE COMMISSION TO REVIEW ADMINISTRATIVE RULES (LCRAR)

The Commission was established in 1974 to promote adequate and proper rules by State agencies and an understanding on the part of the public respecting them. It may periodically review statutory exemptions to APA rulemaking. It may hold public hearings to investigate complaints with respect to rules if it considers the complaints meritorious and worthy of attention. The Commission may request that an agency adopt rules if there is a need for them. The Commission may also suspend a rule by the affirmative vote of at least 6 of its members after it seeks an advisory opinion from appropriate standing committees.

The LCRAR may also provide advice and comment to an agency when the agency elects not to follow the recommendations of the Chief Administrative Law Judge to correct the draft rule proposed which the ALJ found not to be needed or reasonable.

LEGISLATIVE COMMISSION ON EMPLOYEE RELATIONS

The Commission was established in 1979 and assists the legislature by monitoring the collective bargaining process between the state and its employees, and ratifying negotiated agreements and arbitrated awards pursuant to statute. The Commission also reviews and approves the Commissioner's and Management Pay Plans for unrepresented employees of the state who are not covered by collective bargaining units. In addition, the Governor's salary proposal for agency heads is reviewed for ratification in the same manner as the Commissioner's and Management Plan. Other duties include the recommendation to the legislature of a list of state classifications eligible for comparable worth adjustments and a specific amount to be appropriated for those adjustments; the continual monitoring of the State Civil Service System; conduct research and prepare studies as directed and performing such other related functions as are delegated by the legislature,

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 8 Great Lakes states, Canada, and all water interconnections between them.

LEGISLATIVE COMMISSION ON WASTE MANAGEMENT

The Commission, established in 1980, oversees the waste management activities of the Office of Waste Management, the Pollution Control Agency and the Metropolitan Council; conducts research and prepares mandated reports; makes legislative recommendations on the formulation of waste management policies and on the use of several landfill abatement and cleanup funds.

LEGISLATIVE COORDINATING COMMISSION - GENERAL SUPPORT

The Commission is designed to coordinate certain activities of the Senate and House of Representatives and serve as an umbrella organization over joint agencies and legislative commissions. It determines the benefits for all employees and health and hospital benefits for legislators. The commission reviews the budgets of legislative commissions and joint agencies and establishes their complements and the compensation for all employees under its jurisdiction. The president of the Senate and the speaker of the House alternate annually as chair. The Commission provides staff support and funds the Redistricting activity of the state, the Compensation Council and the Regent Candidate Advisory Council. Several task forces are funded through the LCC as well as the membership dues for the National Conference of State Legislatures and the Council of State Governments.

LEGISLATIVE COMMISSION ON PUBLIC EDUCATION

Established in 1983 to study issues relating to all levels of public education, the Commission has undertaken specific studies including the study of education accountability measures and a study of special education. Legislation in 1988 established the Task Force on Education Organization composed of 28 stakeholders in Minnesota education, to study learning opportunities, financial considerations, and alternative patterns of educational organization. The Task Force serves an advisory role to the Commission and will present a full report to the legislature in February 1991.

LEGISLATIVE COMMISSION OF LONG TERM HEALTH CARE

The Commission was established in 1983 to study the following long term health issues:

1. to monitor the inspection and regulation activities, including rule developments, of the departments of health and public welfare with the goal of improving quality of care;

AGENCY: Legislature
(Continuation)

1992-93 Biennial Budget

2. to study and report on alternative long-term care services, including respite care services, day care services, and hospice services; and
3. to study and report on alternatives to medical assistance funding for providing long term health care services to the citizens of Minnesota.

The Commission shall consider the use of such alternatives as private insurance, private annuities, health maintenance organizations, preferred provider organizations, medicare and such other alternatives as the Commission may deem worthy of study.

TRANSPORTATION STUDY BOARD

Created in 1988, this 21 member board consists of 13 members representing the following: business, commerce and industry, labor, agriculture, tourism, natural resources industries and local government plus 4 members of the house and four members of the senate. The Board is to conduct a study of Minnesota's surface transportation needs into the 21st century and recommend a program for making transportation improvements to meet those needs.

LEGISLATIVE COMMISSION ON MINNESOTA RESOURCES (LCMR)

The LCMR budget is located in the LCMR section of the budget document.

LEGISLATIVE COMMISSION ON PLANNING AND FISCAL POLICY

The Commission is 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.

LEGISLATIVE AUDIT COMMISSION AND OFFICE OF THE LEGISLATIVE AUDITOR

The Legislative Audit Commission consists of up to 16 legislative leaders, 8 from the Senate and 8 from the House of Representatives. The commission appoints a legislative auditor, who supervises a staff that includes divisions of financial audits, and program evaluation. The Office of Legislative Auditor is responsible for auditing all financial matters of state government, for reviewing and evaluating state government programs and for determining compliance with state laws in the use of public funds.

REVISOR OF STATUTES

A nonpartisan professional joint legislative agency providing drafting, publication, and miscellaneous other services to the Legislature, executive departments, and to the Governor. 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.

LEGISLATIVE WATER COMMISSION

The Commission was established in the 1989 Groundwater Act and was given the primary responsibility of reviewing ground and surface water policy in Minnesota. It has the power to conduct hearings, secure data and comments and to make all recommendations it deems proper to assist the legislature. Along with this oversight responsibility, the commission is assigned specific review and study of the following: sustainable agriculture; waste pesticide handling and disposal; acid rain programs and funding; wastewater treatment system funding; methods of reducing consumptive water use; nitrogen use; ag chemical incident funding; water management needs for the year 2000; environmental agriculturalist grants; and the metropolitan water management act.

GOVERNOR'S RECOMMENDATION:

Recognizing the distinction between separate branches of government, the Governor respectfully acknowledges the right of the Legislature to present its budgetary needs directly to the legislature for consideration.

1992-1993 BIENNIAL BUDGET
(DOLLARS IN THOUSANDS)

AGENCY: LEGISLATURE

				FY 1992			FY 1993		
PROGRAM RESOURCE ALLOCATION:	FY 1989	FY 1990	Est. FY 1991	Adjusted Base	Agency Plan	Governor Recomm.	Adjusted Base	Agency Plan	Governor Recomm.
HOUSE OF REPRESENTATIVES	18,373	19,270	23,099	21,365	21,365	21,365	21,365	21,365	21,365
SENATE	14,469	14,201	17,891	15,964	15,964	15,964	15,964	15,964	15,964
LEGISLATIVE COORDINATING COMMISSIO	5,843	6,049	9,502	8,269	8,269	8,269	7,791	7,791	7,791
LEGISLATIVE AUDIT COMMISSION	3,214	3,392	3,771	3,916	3,916	3,916	3,910	3,910	3,910
TOTAL EXPENDITURES BY PROGRAM	41,899	42,912	54,263	49,514	49,514	49,514	49,030	49,030	49,030
SOURCES OF FINANCING:									
DIRECT APPROPRIATIONS:									
GENERAL	38,460	42,492	53,770	49,201	49,201	49,201	48,717	48,717	48,717
TRUNK HIGHWAY	22	22	38	38	38	38	38	38	38
HGHMY USER TAX DISTR	43	211	180						
STATUTORY APPROPRIATIONS:									
GENERAL	66	95	80	80	80	80	80	80	80
SPECIAL REVENUE	3,273								
FEDERAL	10	10	10	10	10	10	10	10	10
AGENCY	25	82	185	185	185	185	185	185	185
TOTAL FINANCING	41,899	42,912	54,263	49,514	49,514	49,514	49,030	49,030	49,030

BASE RECONCILIATION REPORT
for 1992-1993 Biennium

AGENCY: LEGISLATURE

	ALL FUNDS		GENERAL FUND		OTHER STATE FUNDS		FEDERAL FUNDS	
	F.Y. 92	F.Y. 93	F.Y. 92	F.Y. 93	F.Y. 92	F.Y. 93	F.Y. 92	F.Y. 93
F.Y. 91 FUNDING LEVEL	54,263	54,263	53,850	53,850	403	403	10	10
BIENNIAL APPROPRIATIONS	<3,661>	<3,661>	<3,661>	<3,661>				
APPROPRIATIONS CARRIED FWD	<1,238>	<1,717>	<1,058>	<1,537>	<180>	<180>		
SALARY ANNUALIZATION	34	20	34	20				
DOCUMENTED RENT/LEASE INCR.	116	125	116	125				
TOTAL	49,514	49,030	49,281	48,797	223	223	10	10
BIENNIAL TOTAL		98,544		98,078		446		20

F.Y. 1991 Budget Reductions (Information Only)

The following F.Y. 1991 reductions were implemented in Laws 1991, Chapter 2. These reductions are not reflected as changes to F.Y. 1991 or F.Y. 1992-93 BASE Levels within the budget documents.

Legislature - General Fund

\$ (2,000)

1992-1993 B I E N N I A L B U D G E T
(DOLLARS IN THOUSANDS)

AGENCY: LEGISLATURE
PROGRAM: HOUSE OF REPRESENTATIVES

				FY 1992			FY 1993		
			Est.	Adjusted	Agency	Governor	Adjusted	Agency	Governor
ACTIVITY RESOURCE ALLOCATION:	FY 1989	FY 1990	FY 1991	Base	Plan	Recomm.	Base	Plan	Recomm.
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
HOUSE OF REPRESENTATIVES	18,373	19,270	23,099	21,365	21,365	21,365	21,365	21,365	21,365
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL EXPENDITURES BY ACTIVITY	18,373	19,270	23,099	21,365	21,365	21,365	21,365	21,365	21,365
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
DETAIL BY CATEGORY:									
=====									
STATE OPERATIONS	18,373	19,270	23,099	21,365	21,365	21,365	21,365	21,365	21,365
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL EXPENDITURES BY CATEGORY	18,373	19,270	23,099	21,365	21,365	21,365	21,365	21,365	21,365
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
SOURCES OF FINANCING:									
=====									
DIRECT APPROPRIATIONS:									
GENERAL	18,333	19,152	22,970	21,236	21,236	21,236	21,236	21,236	21,236
STATUTORY APPROPRIATIONS:									
GENERAL	27	67	40	40	40	40	40	40	40
AGENCY	13	51	89	89	89	89	89	89	89
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL FINANCING	18,373	19,270	23,099	21,365	21,365	21,365	21,365	21,365	21,365
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====

1992-1993 B I E N N I A L B U D G E T
(DOLLARS IN THOUSANDS)

AGENCY: LEGISLATURE
PROGRAM: SENATE

				FY 1992			FY 1993		
ACTIVITY RESOURCE ALLOCATION:	FY 1989	FY 1990	Est. FY 1991	Adjusted Base	Agency Plan	Governor Recomm.	Adjusted Base	Agency Plan	Governor Recomm.
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
SENATE	14,469	14,201	17,891	15,964	15,964	15,964	15,964	15,964	15,964
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL EXPENDITURES BY ACTIVITY	14,469	14,201	17,891	15,964	15,964	15,964	15,964	15,964	15,964
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
DETAIL BY CATEGORY:									
=====									
STATE OPERATIONS	14,469	14,201	17,891	15,964	15,964	15,964	15,964	15,964	15,964
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL EXPENDITURES BY CATEGORY	14,469	14,201	17,891	15,964	15,964	15,964	15,964	15,964	15,964
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
SOURCES OF FINANCING:									
=====									
DIRECT APPROPRIATIONS:									
GENERAL	14,422	14,151	17,791	15,864	15,864	15,864	15,864	15,864	15,864
STATUTORY APPROPRIATIONS:									
GENERAL	39	28	40	40	40	40	40	40	40
AGENCY	8	22	60	60	60	60	60	60	60
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL FINANCING	14,469	14,201	17,891	15,964	15,964	15,964	15,964	15,964	15,964

1992-1993 B I E N N I A L B U D G E T
(DOLLARS IN THOUSANDS)

AGENCY: LEGISLATURE
PROGRAM: LEGISLATIVE COORDINATING COMMISSIO

ACTIVITY RESOURCE ALLOCATION:	FY 1992						FY 1993		
	FY 1989	FY 1990	Est. FY 1991	Adjusted Base	Agency Plan	Governor Recomm.	Adjusted Base	Agency Plan	Governor Recomm.
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
LEG REFERENCE LIBRARY	789	779	861	861	861	861	861	861	861
REVISOR OF STATUTES	3,273	3,411	4,234	4,235	4,235	4,235	4,236	4,236	4,236
LEG COORD CMSN CONTINGENT ACCOUNT	39	17	78	50	50	50	50	50	50
LEG CMSN ON ECONOMIC STATUS OF WOM	149	182	201	201	201	201	201	201	201
LEG CMSN ON PENSIONS & RETIREMENT	609	522	679	679	679	679	679	679	679
MISS RIVER PARKWAY COMMISSION	22	22	38	38	38	38	38	38	38
LEG CMSN TO REVIEW ADMINISTRATIVE	105	116	140	140	140	140	140	140	140
LEG CMSN ON EMPLOYEE RELATIONS	113	83	114	114	114	114	114	114	114
GREAT LAKES COMMISSION	42	40	41	43	43	43	45	45	45
LEG CMSN ON WASTE MANAGEMENT	120	139	176	176	176	176	176	176	176
LEG COORDINATING COMMISSION	467	616	2,017	1,185	1,185	1,185	704	704	704
LEG CMSN ON PLANNING AND FISCAL PO	66	32	765	400	400	400	400	400	400
LEG CMSN PROPERTY TAX STUDY	49								
LEG CMSN ON WATER		26	147	147	147	147	147	147	147
LEG CMSN ON SMALL BUSINESS		64	11						
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL EXPENDITURES BY ACTIVITY	5,843	6,049	9,502	8,269	8,269	8,269	7,791	7,791	7,791
DETAIL BY CATEGORY:									

STATE OPERATIONS	5,843	6,049	9,502	8,269	8,269	8,269	7,791	7,791	7,791
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL EXPENDITURES BY CATEGORY	5,843	6,049	9,502	8,269	8,269	8,269	7,791	7,791	7,791
SOURCES OF FINANCING:									

DIRECT APPROPRIATIONS:									
GENERAL	2,491	5,797	9,238	8,185	8,185	8,185	7,707	7,707	7,707
TRUNK HIGHWAY	22	22	38	38	38	38	38	38	38
HGHWY USER TAX DISTR	43	211	180						
STATUTORY APPROPRIATIONS:									
SPECIAL REVENUE	3,273								
FEDERAL	10	10	10	10	10	10	10	10	10
AGENCY	4	9	36	36	36	36	36	36	36
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL FINANCING	5,843	6,049	9,502	8,269	8,269	8,269	7,791	7,791	7,791

1992-1993 B I E N N I A L B U D G E T
(DOLLARS IN THOUSANDS)

AGENCY: LEGISLATURE
PROGRAM: LEGISLATIVE AUDIT COMMISSION

				FY 1992			FY 1993		
			Est.	Adjusted	Agency	Governor	Adjusted	Agency	Governor
ACTIVITY RESOURCE ALLOCATION:	FY 1989	FY 1990	FY 1991	Base	Plan	Recomm.	Base	Plan	Recomm.
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
LEGISLATIVE AUDIT COMMISSION	6	11	19	15	15	15	15	15	15
OFFICE OF LEGISLATIVE AUDITOR	3,208	3,381	3,752	3,901	3,901	3,901	3,895	3,895	3,895
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL EXPENDITURES BY ACTIVITY	3,214	3,392	3,771	3,916	3,916	3,916	3,910	3,910	3,910
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
DETAIL BY CATEGORY:									
=====									
STATE OPERATIONS	3,214	3,392	3,771	3,916	3,916	3,916	3,910	3,910	3,910
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL EXPENDITURES BY CATEGORY	3,214	3,392	3,771	3,916	3,916	3,916	3,910	3,910	3,910
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
SOURCES OF FINANCING:									
=====									
DIRECT APPROPRIATIONS:									
GENERAL	3,214	3,392	3,771	3,916	3,916	3,916	3,910	3,910	3,910
STATUTORY APPROPRIATIONS:									
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL FINANCING	3,214	3,392	3,771	3,916	3,916	3,916	3,910	3,910	3,910

1992-93 BUDGET

PROGRAM STRUCTURE

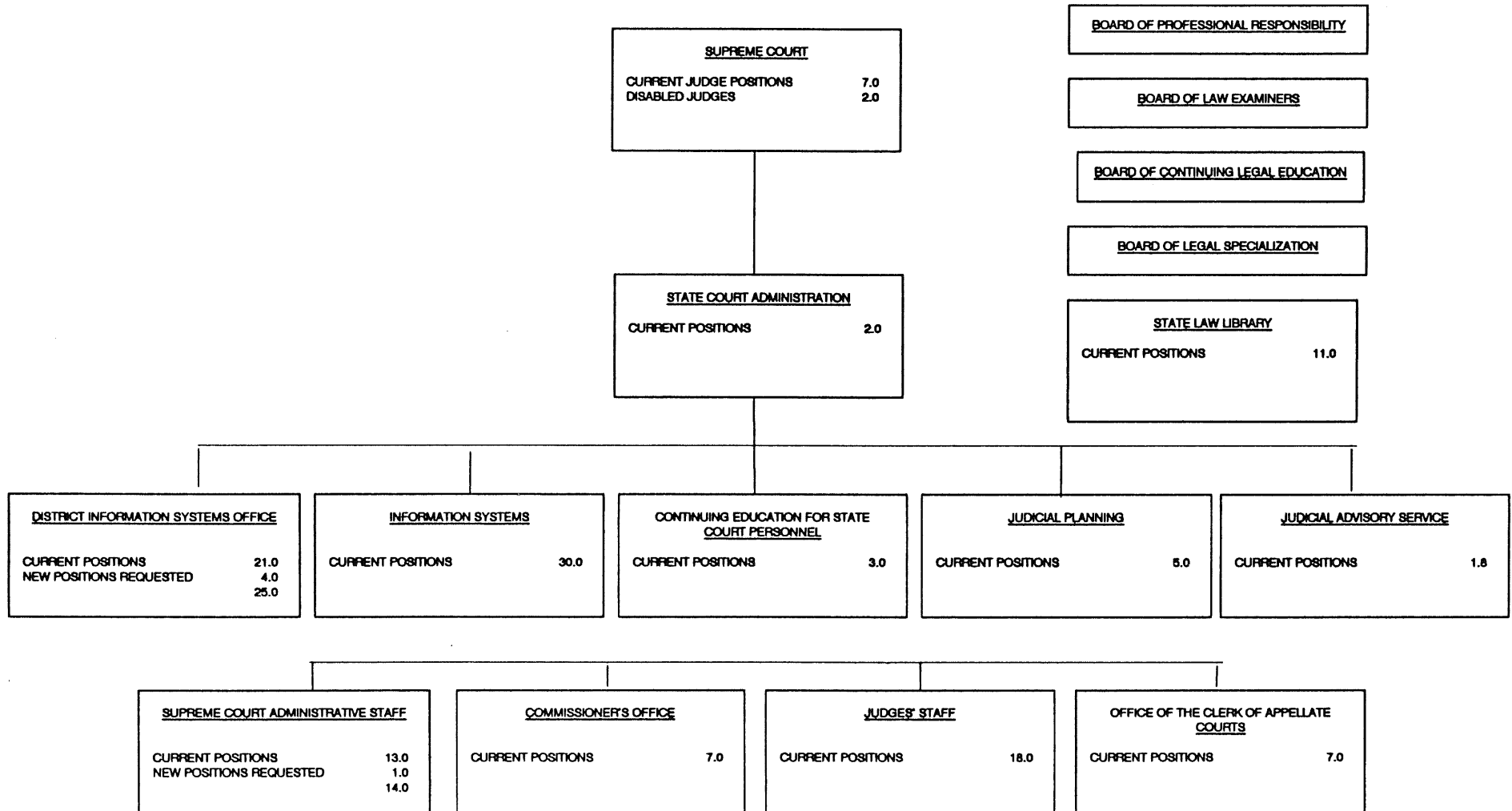
AGENCY: SUPREME COURT

PROGRAM

PAGE

Supreme Court Operations	15
Supreme Court Civil Surcharge	18
Family Farm Legal Assistance	20
Family Law Legal Services	22
State Court Administration	24
State Court Administration	
Local Trial Court Information System	
Community Dispute Resolution Programs	28
Law Library Operations	30

MINNESOTA SUPREME COURT ORGANIZATION CHART CURRENT AS OF 11/1/90



SUPREME COURT

POSITION RECONCILIATION

Authority:	Current FY91	Requested For 6/30/93
Legislative Authorized General Fund	147.3	148.3
TOTAL Authorized Positions	147.3	148.3
Employees on 6/30/90	149.0	

MISSION:

The Supreme Court, the highest court of the state, exercises supervisory and adjudicatory authority. It is responsible for adjudicating appeals brought throughout the state. The Supreme Court has original jurisdiction over cases appealed from the Workers Compensation Court of Appeals and the Tax Court and in first degree murder cases. It exercises discretionary review of cases heard by the Court of Appeals. The Supreme Court also supervises the maintenance of the state law library which provides resources necessary for a clear understanding of the law to government personnel and citizens (M.S. 480.09)

With the assistance of the State Court Administrator, the Chief Justice exercises general supervisory powers over the courts of the state and specific supervisory powers over the courts' financial affairs, programs of continuing legal education, and planning and research. (M.S. 2.724)

The primary aim in the court is to provide prompt access for litigants to well trained judges who are supported by a knowledgeable, efficient staff and modern management technology. This goal is based on the premises: that each citizen is entitled to have his dispute considered and resolved in a court of law; that litigants and society are best served by speedy, just resolution of disputes while the facts are still clear and evidence and witnesses are still available; that modern management techniques can make the court process more efficient and assist in achieving a speedy, just resolution of a case; and that planning for change in the courts, based on adequate, accurate information, will help achieve uniformity of procedure and an efficient, effective process.

AGENCY ORGANIZATION:

The Supreme Court establishes the rules and procedures which govern the courts in the 87 counties, the 264 judges, the approximately 1,800 judicial system personnel, and the 16,000 lawyers who appear in them. In 1990 an estimated 950 cases will be filed in the Supreme Court. Over 2,000,000 cases were filed in local courts in 1990.

The Supreme Court seeks to insure the efficiency and integrity of the judicial system through programs in 3 areas:

1. **Supreme Court Operations:** The Supreme Court has concentrated on refining the appellate discretionary review process, on screening and deciding petitions for accelerated and further review, on accepting and deciding the precedent setting cases which will shape Minnesota caselaw, and on disposing of the 285 original jurisdiction cases filed annually. It has continued to exercise extensive supervision of the legal process through promulgation of court rules and of the legal system through the regulatory board monitoring the practice of law. It supervises the administration of the state trial courts in conjunction with the Conference of Chief Judges by promulgating judicial branch policies and procedures.
2. **State Court Administration:** Provides administrative support for the Supreme Court, the Court of Appeals and the trial courts. Conducts operations research to identify management and caseload problems in trial and appellate courts and to recommend solutions. Provides data through a computerized management information system to support research and the operations of all courts. Plans and executes training programs for court personnel, plans for the development and use of judicial resources, for the collection, storage and use of court records. Develops uniform policies and procedures for trial court management. Reports to the legislature about the operations of the judicial system. Conducts legal research for judges through the Judicial Advisory Service. Administers distribution of funds to civil legal services programs so that indigent citizens may receive legal services. Implements the transfer of funding of trial courts from county to state funding.

3. **State Law Library:** Provides the court, other state agencies and the general public with research resources without which legal research would be impossible. Provides technical assistance to county law libraries. Provides computer assisted research capabilities for the public and state agencies on a cost reimbursement basis.

MAJOR POLICY DRIVERS:

With the increase in new legislation and a legislative emphasis on increased penalties for criminal law violations, the courts are experiencing substantial caseload increases in the juvenile and criminal areas.

In addition to its own evaluation and study process the legislature is also requesting an increasing number of substantive and management studies from court staff usually without additional resources. A list of those studies includes: Gender Fairness, Racial Bias, Housing Court Evaluation, use of notices to remove in juvenile cases, Ramsey County Alternative Dispute Resolution Evaluation, Video Courtroom Evaluation, Scott County Pilot Diversion, Speedy Trial plans, criminal procedure and law evaluation, financing and control of the trial courts, criteria for indigent representation in juvenile court. Chief among them has been a continuing study of financing of the trial courts. Legislation to transfer segments of the trial court system from county to state funding is being implemented. The fiscal impact of the transfer will be detailed in the trial court budget.

EXPLANATION OF BUDGET ISSUES AND ALTERNATIVES:

The Supreme Court has reviewed its current programs and has determined that it is unable to fund salary increases within its existing base and must rely on a salary supplement for that purpose. It further requests several programmatic increases over and above the current base, which will be detailed in each program description .

1992-1993 B-I E N N I A L B U D G E T
(DOLLARS IN THOUSANDS)

AGENCY: MINN SUPREME COURT

PROGRAM RESOURCE ALLOCATION:	FY 1989	FY 1990	Est. FY 1991	FY 1992			FY 1993		
				Adjusted Base	Agency Plan	Governor Recomm.	Adjusted Base	Agency Plan	Governor Recomm.
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
SUPREME COURT	3,185	3,059	3,419	3,715	3,767	3,715	3,716	3,773	3,716
SUP CRT CIVIL SURCHARGE	1,143	1,334	1,293	1,290	1,290	1,290	1,290	1,290	1,290
FAMILY FARM LEGAL ASSIST	859	789	877	824	824	824	824	824	824
FAMILY LAW LEGAL SERVICES			890	890	890	890	890	890	890
STATE COURT ADMINISTRATORS	4,161	4,675	7,365	7,069	8,006	7,069	7,060	7,745	7,060
COMMUNITY DISPUTE RESOLUTION PROGR			100						
LAW LIB OPS	966	944	1,265	1,746	1,757	1,746	1,753	1,764	1,753
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL EXPENDITURES BY PROGRAM	10,314	10,801	15,209	15,534	16,534	15,534	15,533	16,286	15,533
SOURCES OF FINANCING:									
=====									
DIRECT APPROPRIATIONS:									
GENERAL	7,446	10,614	15,051	15,379	16,379	15,379	15,378	16,131	15,378
SPECIAL REVENUE	859	75	94	94	94	94	94	94	94
GIFTS AND DEPOSITS	44	3	2	2	2	2	2	2	2
STATUTORY APPROPRIATIONS:									
SPECIAL REVENUE	1,791		3						
FEDERAL	29	40							
GIFTS AND DEPOSITS	145	69	59	59	59	59	59	59	59
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL FINANCING	10,314	10,801	15,209	15,534	16,534	15,534	15,533	16,286	15,533

BASE RECONCILIATION REPORT
for 1992-1993 Biennium

AGENCY: MINN SUPREME COURT

	ALL FUNDS		GENERAL FUND		OTHER STATE FUNDS		FEDERAL FUNDS	
	F.Y.92	F.Y.93	F.Y.92	F.Y.93	F.Y.92	F.Y.93	F.Y.92	F.Y.93
F.Y.91 FUNDING LEVEL	15,209	15,209	15,051	15,051	158	158		
ONE-TIME APPROPRIATIONS	<311>	<311>	<311>	<311>				
BIENNIAL APPROPRIATIONS	<1,089>	<1,089>	<1,089>	<1,089>				
FUND CHANGE/CONSOLIDATION	<3>	<3>			<3>	<3>		
SALARY ANNUALIZATION	195	171	195	171				
ANNUALIZG NEW PROG COST	50	50	50	50				
DOCUMENTED RENT/LEASE INCR.	1,483	1,506	1,483	1,506				
TOTAL	15,534	15,533	15,379	15,378	155	155		
BIENNIAL TOTAL		31,067		30,757		310		

PROGRAM: Supreme Court Operations
Agency: Minnesota Supreme Court

1992-93 Biennial Budget

PROGRAM PURPOSE:

The Minnesota Supreme Court is the final appellate court. Established by the constitution and operating pursuant to the statutory authority of M.S. Chapter 480, the court hears and resolves appellate questions of law and corrects trial court error. In addition, the Supreme Court exercises general supervisory authority over the operation of the courts of the state and the operation of the legal system.

PERFORMANCE:

The Minnesota Supreme Court considers appeals from judgments of the Workers Compensation Court of Appeals and the Tax Court as well as the Court of Appeals. It continues to hear special term matters, motions and petitions for extraordinary relief. The volume of original case filings at the Supreme Court has increased significantly, approximately 27% each year since 1986. The volume of applications for writ of certiorari has increased to approximately 660 cases in 1987 and 1988. The volume of filings has now grown to half the Supreme Court's caseload prior to the establishment of the Court of Appeals. Yet, the Court is deciding petitions of writs of certiorari within the statutory 60 day period and has reduced the median disposition time to less than one year from date of filing.

In order to process the caseload the court employs a legal research staff. For each case the research staff screens the case to determine the nature, complexity and scope of the legal issues, performs legal research to resolve correctly the issues, and assists in opinion preparation to express succinctly the decisions of the court. In addition, research staff review opinions authored by other justices, perform further research and assist in preparing concurring and dissenting opinions at the justices' direction.

Special term matters directed to the Supreme Court by motion or petition for immediate or extraordinary relief are first reviewed and researched by the Commissioner. The Commissioner then meets with a 3 judge panel composed of the Chief Justice and 2 Associate Justices. Each motion or petition is discussed, and a dispositional order is issued by the panel. The special term procedure allows the court to give prompt attention to those matters for which the normal appellate procedure is either inappropriate or unavailable.

An administrative staff monitors the progress of each case to insure timely disposition, schedules the case for hearing, oral argument or non oral consideration by the court, and maintains permanent, accurate records for all court actions. This staff also serves the same function for the Court of Appeals.

In addition to this appellate function, the Supreme Court supervises admission to the practice of law in the state and regulates legal practice. The court also promulgates rules governing practice and procedure in the courts throughout the state, a function which requires numerous hearing.

The court supervises the financial affairs of the courts as required by statute through an accounting staff which provides accounting services for the state funded trial court components, appeals court, state law library, state court administration and legal regulatory boards.

The court has general supervisory responsibility for all other courts in the state. It exercises this authority through numerous standing and ad hoc conferences, committees and commissions. All justices participate by serving on, and guiding, the work of these various administrative organizations.

The Supreme Court seeks to use its personnel:

1. To dispose of each appellate case in less than 12 months from date of filing.

2. To manage its workload so that each case receives adequate attention as its importance demands.
3. To maintain an orderly and uniform legal process and procedure throughout the state through the promulgation of uniform rules.
4. To regulate the admission to and practice of law in Minnesota so that each citizen seeking legal counsel is assured of competent representation.
5. To insure the financial integrity of the court system in accordance with generally accepted accounting principals and to insure correct payment of invoices within the statutorily required 830 days.
6. To ensure the effective operation of the State Court System.

EFFECTIVENESS MEASURES:	C.Y. 1989	C.Y. 1990	C.Y. 1991	C.Y. 1992	C.Y. 1993
CASE FILINGS	959	959	1,039	1,088	1,137
MEDIAN DAYS TO DISPOSITION	122	101	120	120	120
NUMBER OF ATTORNEYS ADMITTED	850	850	850	850	850

PROSPECTS:

The caseload at the Court of Appeals has increased 20% in the current calendar year. As a result the number of discretionary review cases at the Supreme Court is expected to increase significantly. In additional, original jurisdiction case filings have increased 23%. With increased penalties in criminal cases, the court anticipates additional appeals in criminal cases.

The court has additionally increased its administrative responsibility for the trial courts with the state funding initiative. Two hundred and seventy additional personnel have been added to the court payroll as a result of this initiative since January 1990 without additional permanent administrative support staff.

BUDGET ISSUES:

The Supreme Court has determined that it is unable to fund salary increases within its existing base and must rely on a salary supplement for that purpose.

The court requests additional funding from the legislature for the following items:)

	<u>F.Y. 1992</u>	<u>F.Y. 1993</u>
	(Dollars in Thousands)	
1. Cable contract to broadcast court hearings to various court locations and to receive broadcasts of legislative hearings	\$ 3.0	\$ 3.0
2. Inflationary increases for the National Center for State Court Dues	5.0	10.0
3. One personnel staff position to support state financing of trial court personnel in areas of benefits, classification, compensation	44.0	44.0

GOVERNOR'S RECOMMENDATION:

Recognizing the distinction between separate branches of government, the Governor respectfully acknowledges the right of the Supreme Court to present its budgetary needs directly to the Legislature for consideration.

1992-1993 B I E N N I A L B U D G E T
(DOLLARS IN THOUSANDS)

AGENCY: MINN SUPREME COURT
PROGRAM: SUPREME COURT

				FY 1992			FY 1993		
ACTIVITY RESOURCE ALLOCATION:	FY 1989	FY 1990	Est. FY 1991	Adjusted Base	Agency Plan	Governor Recomm.	Adjusted Base	Agency Plan	Governor Recomm.
SUPREME COURT	3,185	3,059	3,419	3,715	3,767	3,715	3,716	3,773	3,716
TOTAL EXPENDITURES BY ACTIVITY	3,185	3,059	3,419	3,715	3,767	3,715	3,716	3,773	3,716
DETAIL BY CATEGORY:									
STATE OPERATIONS	3,185	3,059	3,419	3,715	3,767	3,715	3,716	3,773	3,716
TOTAL EXPENDITURES BY CATEGORY	3,185	3,059	3,419	3,715	3,767	3,715	3,716	3,773	3,716
SOURCES OF FINANCING:									
DIRECT APPROPRIATIONS:									
GENERAL	2,967	2,947	3,360	3,656	3,708	3,656	3,657	3,714	3,657
GIFTS AND DEPOSITS	44	3	2	2	2	2	2	2	2
STATUTORY APPROPRIATIONS:									
FEDERAL	29	40							
GIFTS AND DEPOSITS	145	69	57	57	57	57	57	57	57
TOTAL FINANCING	3,185	3,059	3,419	3,715	3,767	3,715	3,716	3,773	3,716

ACT: Operations
PROGRAM: Operations
AGENCY: Supreme Court

1992-93 Biennial Budget

and State Court Administrators. National Center for state court dues are pegged to the state's assessment for the National Conference of state legislatures.

DECISION ITEM:

GOVERNOR'S RECOMMENDATION:

Recognizing the distinction between separate branches of government, the Governor respectfully acknowledges the right of the Supreme Court to present its budgetary needs directly to the legislature for consideration.

		Dollars in Thousands			
		<u>F.Y. 1992</u>	<u>F.Y. 1993</u>	<u>F.Y. 1994</u>	<u>F.Y. 1995</u>
AGENCY PLAN:					
Expenditures					
General Fund	\$	52	\$ 57	\$ 62	\$ 67
Revenues					
General Fund	\$	-0-	\$ -0-	\$ -0-	\$ -0-

GOVERNOR'S RECOMMENDATION:

Expenditures								
General Fund	\$	-0-	\$	-0-	\$	-0-	\$	-0-
Revenues								
General Fund	\$	-0-	\$	-0-	\$	-0-	\$	-0-

Requires statutory change: _____ Yes X No
Statutes Affected:

ITEM SUMMARY:

The Supreme Court requests funding for a personnel professional to assist with the ongoing state funding of the courts effort and an increased amount for National Center for state court dues.

RATIONALE:

The court, if it is to continue its efforts to unify the operation of the trial courts, must have a classification and compensation specialist to continue the classification effort initiated in F.Y. 1992 and to assist in benefit counseling for the 1-1-92 transition. Two hundred thirteen additional court positions were added to the Minnesota state payroll. An additional 292 are scheduled in law to be transferred to the state 1-1-92. It is essential that this position be continued to handle the substantial increase in administrative responsibilities associated with these transfers.

The courts of Minnesota receive free technical support from the National Center for state courts. The National Center for State Courts is the national research arm of the state court judiciaries and corresponds to the National Conference of State Legislatures. The dues support the valuable state collaborative efforts sponsored by the center in exploring technology applications in the court, budgeting, personnel management, court services (probation), legal reform. This organization also serves the secretarial of many specialized court groups such as the The Conference of Chief Justices

PROGRAM: Supreme Court Civil Surcharge
Agency: Supreme Court

1992-93 Biennial Budget

PROGRAM PURPOSE:

M.S. 480.24-480.244 the enabling legislation was enacted in 1982 to counteract the substantial reduction in Legal Services Corporation (LSC) and other federal funding. Funds are used to provide legal assistance in civil cases to persons who are unable to afford private counsel and also to provide alternative dispute resolution services for low-income persons. Originally funded by dedicated revenue from \$20 surcharge on each litigant in a civil action, the surcharge is now deposited to the general fund and the program is supported by a general fund appropriation.

PERFORMANCE:

The Legal Services Surcharge provides funding for legal services or alternative dispute resolution programs in 2 areas - mandatory and discretionary grants.

1. MANDATORY GRANTS: M.S. 480.24-480.244 provides that the Supreme Court (with the assistance of an advisory committee) shall make grants to qualified non-profit corporations to enable them to provide legal services (attorney's advice, counsel and representation) to low income people with civil legal problems. Funding for such programs through the federal Legal Services Corporation (LSC) was cut substantially, effective 1-1-82, leaving many Minnesotans without access to legal assistance.

RECIPIENT IDENTIFICATION AND ELIGIBILITY CRITERIA: The grants are available to non-profit corporations which provide legal services to eligible clients in civil matters. (An eligible client is defined, M.S. 480.24, Subd. 2., as an individual who is financially unable to afford legal assistance from private counsel, as determined by income guidelines promulgated for recipients by the Supreme Court.) To be eligible, non-profit corporations must also have boards of directors composed of attorneys at law and consumers of legal services. M.S. 480.242, Subd. 3., provides that 85% of the funds available for grants shall be distributed to those eligible legal services programs which have demonstrated an ability as of 7-1-82, to provide legal services to eligible clients with funds provided by the federal LSC. These programs are closely scrutinized and monitored by LSC and are subject to extensive and uniform rules and regulations, reporting requirements and other accountability features. Reliance on this federal oversight and statewide structure insure fair and equitable statewide distribution of funds and saves considerably on administrative costs. There are six such programs (Legal Services Coalition Programs) which together provide services to low-income residents of every county in Minnesota, as well as to migrant workers and native Americans. These programs provide services using full-time paid staff working in 27 legal aid offices throughout the state. The Average program staff attorney experience is about 7 years. The average annual salary of a 7 year attorney is approximately \$28,000. Also, these programs have organized or contribute to volunteer programs of local private attorneys who donate some of their time in all 87 counties. Some programs also use a "judicare" or "contract" delivery system, in which cases are handled by local lawyers on a substantially reduced fee basis.

CRITERIA AND FORMULAS DETERMINING AMOUNT OF PAYMENT TO RECIPIENT: By statute (M.S. 480.242, Subd. 3), the 85% of the total funds distributed to the 6 LSC funded programs are allocated on a statewide basis among those programs on the basis of the number of persons with incomes below the poverty level, established by the United States Census Bureau, who reside in the geographical areas served by each program, as determined by the Supreme Court on the basis of the census. Thus, for each LSC funded program in Minnesota, the formula for determining the program's funding would be: (number of below-poverty level residents in Minnesota) - (number of below-poverty level residents of the areas served by the program). The resulting ratio would be applied to the funds available to be divided among the programs.

EFFECTIVENESS MEASURES:

Number of clients served by Legal Services Services Coalition Programs.

<u>F.Y.1988</u>	<u>F.Y.1989</u>	<u>F.Y.1990</u>	<u>F.Y.1991</u>	<u>F.Y.1992</u>	<u>F.Y.1993</u>
35,637	37,817	39,000	40,000	40,000	40,000

In 1989, Coalition program provided advice or representation in 37,817 cases at an average of \$286 per case (when all funds are counted). The 1985 study, "Legal Needs of the Poor in Minnesota: An Assessment of the Unmet Need" estimated 701,687 Minnesotans have incomes low enough to be eligible for legal services. The needs assessment also estimated that poor Minnesotans annually have at least 161,388 civil legal problems. At current levels there are nearly 14 times as many poor persons per legal services attorney as there are persons per lawyer in the general population.

Most of the legal problems handled by these programs directly and significantly affect the day-to-day lives of needy people: legal issues involving their homes, family, health and support for their children. These legal problems often involve enforcement of legal rights necessary to gain or continue access to basic necessities such as food, clothing, shelter, medical care, citizenship, income, family law, and protection from abuse and other important individual rights. The vast majority of legal services clients are children and families - often female-headed households, the aged, minority race individuals, disabled persons, refugees, immigrants, the homeless and other disadvantaged persons.

2. DISCRETIONARY GRANTS. RECIPIENT IDENTIFICATION AND ELIGIBILITY CRITERIA: The Legal Services Advisory Committee solicits proposals from non-profit corporations seeking funding for legal services or alternative dispute resolution programs, screens applications for soundness of proposal, reasonableness of the budget and fulfillment of unmet needs in the legal services areas and makes recommendations to the Court.

CRITERIA AND FORMULA DETERMINING AMOUNT OF PAYMENT TO RECIPIENT: M.S. 480.242 provides that 15% of the funds shall be distributed to not for profit corporations seeking to provide legal services or alternative dispute resolution projects. In the event that applications do not use the total amount available, the balance may be distributed among the 6 LSC funded programs.

ACTIVITY STATISTICS:

	<u>F.Y. 1989</u>	<u>F.Y.1990</u>	<u>F.Y.1991</u>	<u>F.Y.1992</u>	<u>F.Y.1993</u>
No. of Programs Supported	11	12	10	11	11

PROSPECTS:

In spite of the state funding provided to this program, 20,000 clients are turned away from legal aid programs each year. In addition program staff salaries are significantly underfunded, especially since most programs do not provide pension benefits.

BUDGET ISSUES:

While the Supreme Court does not propose a specific dollar increase for this program, it would urge an inflationary increase to provide for salary increases for program staff equivalent to increases provided other state employees.

GOVERNOR'S RECOMMENDATION:

Recognizing the distinction between separate branches of government, the Governor respectfully acknowledges the right of the Supreme Court to present its budgetary needs directly to the Legislature for consideration.

1992-1993 B I E N N I A L B U D G E T
(DOLLARS IN THOUSANDS)

AGENCY: MINN SUPREME COURT
PROGRAM: SUP CRT CIVIL SURCHARGE

				FY 1992			FY 1993		
ACTIVITY RESOURCE ALLOCATION:	FY 1989	FY 1990	Est. FY 1991	Adjusted Base	Agency Plan	Governor Recomm.	Adjusted Base	Agency Plan	Governor Recomm.
SUP CRT CIVIL SURCHARGE	1,143	1,334	1,293	1,290	1,290	1,290	1,290	1,290	1,290
TOTAL EXPENDITURES BY ACTIVITY	1,143	1,334	1,293	1,290	1,290	1,290	1,290	1,290	1,290
DETAIL BY CATEGORY:									
STATE OPERATIONS	5	2	3						
LOCAL ASSISTANCE	150	184							
AID TO INDIVIDUALS	988	1,148	1,290	1,290	1,290	1,290	1,290	1,290	1,290
TOTAL EXPENDITURES BY CATEGORY	1,143	1,334	1,293	1,290	1,290	1,290	1,290	1,290	1,290
SOURCES OF FINANCING:									
DIRECT APPROPRIATIONS:									
GENERAL		1,334	1,290	1,290	1,290	1,290	1,290	1,290	1,290
STATUTORY APPROPRIATIONS:									
SPECIAL REVENUE	1,143		3						
TOTAL FINANCING	1,143	1,334	1,293	1,290	1,290	1,290	1,290	1,290	1,290

PROGRAM: Family Farm Legal Assistance Program
Agency: Supreme Court

1992-93 Biennial Budget

PROGRAM PURPOSE:

The Minnesota Family Farm Legal Assistance Program (M.S. 480.250-480.256) was enacted in 1986 in response to the need of Minnesota farmers for representation and advice in matters relating to the worsening agricultural crisis. M.S. 480.250 et al, directs the Supreme Court to contract with one or more non-profit corporations to assist financially distressed farmers by providing direct representation and legal advice to farmers, training and research support, information and referral, and education and expert advice on farm law matters to farmers, private attorneys and others.

To be eligible for the program, a farmer must have a debt to asset ratio greater than 50% and a reportable federal adjusted gross income of \$15,000 or less in the previous tax year. In addition, a farmer must be financially unable to retain legal representation from attorneys who charge fees for their services.

The primary purpose of the program is to help family farmers remain on their farm by assisting farmers with legal problems such as foreclosure, repossession of farm and other matters. These objectives are met by providing the services in each of the areas prioritized by the legislature in M.S. 480.252, Subd. 2: (1) direct representation of individual farmers; (2) legal services to eligible persons whose loans are held by the FDIC; (3) basic legal information to farmers, state and local officials and state supported farm management advisors; and (4) the provision of legal backup and research support to private attorneys who are representing farmers.

RECIPIENT IDENTIFICATION:

The Supreme Court may contract with established non-profit corporations who have a proven record of delivering quality legal services and who have demonstrated expertise in representing financially distressed family farmers. During the F.Y.1990-91 biennium, the court awarded contracts to the following non-profit corporations: Southern Minnesota Regional Legal Services, Inc.; and Farmers Legal Action Group, Inc., Mid Minnesota Legal Services and Legal Assistance of Northwestern Minnesota.

PERFORMANCE:

Approximately 2,000 farmers were served in each year of the last biennium. In F.Y. 1990 in addition to work on ongoing cases opened in 1989 an additional 1512 farmers received representation or advice and 500 received information and referral. Farmers and others seeking legal assistance came from 85 of Minnesota's 87 counties. Farm Project staff handle advice and information calls for 1100 legal problems of farmers during the same period. The "average" advice call take 1-2 hours.

The most frequent legal problems requiring representation are farm foreclosures, repossession of farm property, denial of credit and other loan problems, restructuring of farm debt, mediation, and bankruptcies. Legal problems regarding Farmers Home Administration and Farm Credit Administration have substantially increased the past two years. FmHA data indicates that of the 2,000 financially distressed Minnesota farmers who returned a completed application for new loan servicing programs, fewer than 50 percent will qualify for alternatives to foreclosure. Additionally, many of the Minnesota FmHA borrowers who failed to return a completed application, are or will face loan acceleration and foreclosure. Many of these families in both categories will seek legal counsel for foreclosures or judicial review proceedings in order to keep their homesteads. In addition to a higher demand for legal assistance based on frequency of mistakes by FmHA and other meritorious defenses, FmHA has been requiring new loan applications of farmers who have won their appeal when there is any change in circumstances thus, re-triggering the entire restructuring process.

Also, the Federal Land Bank entered into a significant number of three to five year "restructuring" or "shared appreciation mortgage" agreements in 1986. Many of these agreements have balloon payments that are now coming due. Cases have become more time consuming than those in early years due to complexity of the FmHA debt restructuring program requirements and the need of

many FmHA and Farm Credit Service (FCS) borrowers to evaluate bankruptcy or foreclosure options following denial of loan restructuring applications.

The Agricultural Stabilization and Conservation Service (ASCS) has been very aggressive in Minnesota, particularly in the Sodbuster/Swampbuster Act determinations, creating new legal problems.

The Farm Project also provides training sessions, and publishes and distributes fact sheets, booklets and information to inform farmers, private attorneys, farmer advocates and the public about farm related legal issues and the impact of the 1990 Federal Farm Bill and participation in programs such as ACSC. Some booklets include "The Farmers Guide to FmHA", "The Farmers Guide to Lending Law", "The Farmers Guide to the FDIC", and "Mediation From the Farmers Perspective." It also publishes a bi-monthly newsletter for farm advocates and attorneys entitled "The Minnesota Family Farm Law Update."

Farm Project staff are located in Mankato, Worthington, Winona, Marshall, St. Cloud and Moorhead. Six part-time farm paralegals (most of whom are farmers), and FTE of 6 attorneys are located in local offices. The programs also contract with approximately 100 local private attorneys to provide services on a substantially reduced fee basis. The Farm Project has a state-wide component that staffs the state-wide toll-free telephone line and prepares community education materials. The Farmer's Legal Action Group in St. Paul provides support, backup, and training for attorneys, paralegals and farm advocates and provides direct representation of farmers in cases involving litigation which affects many farmers.

BUDGET ISSUES:

Continued funding at the BASE level will enable current staff and private attorneys to continue their work on hundreds of opened cases as well as to meet the additional need created by existing and newly enacted farm legislation.

REVENUE:

This program was previously supported by \$850,000 of dedicated revenue from a filing fee surcharge on civil case which was redirected to the general fund.

PROSPECTS:

Farmers continue to experience legal problems relating to the Farmers Home Administration farmer loan programs and Farm Credit System lending. Additional credit provisions are included in the 1990 Farm Bill. Farmers require legal advice to qualify for Agricultural Stabilization and Conservation Service subsidies. The increasing complexity of federal farm regulations requires the active involvement of trained legal specialists to advise farmers and farm advocates in these areas which directly effect their ability to survive as small family farmers. In addition family farmers experience many of the general civil and family legal problems experienced by the general population.

PLAN:

While the need for legal assistance to family farmers continues, the need to provide traditional civil legal services to the same clientele exists as well. The Supreme Court and Family Farm Legal Assistance programs propose that the Family Farm Legal Assistance funding be merged with the civil surcharge funding to simplify the administration of these two programs and to provide flexibility in the use of the funding to meet the continuing and changing needs of farmers and others in local communities. Family Farm Legal Services Funding would be distributed according to the formula specified in M.S. 480.242.

GOVERNOR'S RECOMMENDATION:

Recognizing the distinction between separate branches of government, the Governor respectfully acknowledges the right of the Supreme Court to present its budgetary needs directly to the legislature for consideration.

1992-1993 B I E N N I A L B U D G E T
(DOLLARS IN THOUSANDS)

AGENCY: MINN SUPREME COURT
PROGRAM: FAMILY FARM LEGAL ASSIST

				FY 1992			FY 1993		
ACTIVITY RESOURCE ALLOCATION:	FY 1989	FY 1990	Est. FY 1991	Adjusted Base	Agency Plan	Governor Recomm.	Adjusted Base	Agency Plan	Governor Recomm.
FAMILY FARM LEGAL ASSIST	859	789	877	824	824	824	824	824	824
TOTAL EXPENDITURES BY ACTIVITY	859	789	877	824	824	824	824	824	824
DETAIL BY CATEGORY:									
STATE OPERATIONS	859	789							
AID TO INDIVIDUALS			877	824	824	824	824	824	824
TOTAL EXPENDITURES BY CATEGORY	859	789	877	824	824	824	824	824	824
SOURCES OF FINANCING:									
DIRECT APPROPRIATIONS:									
GENERAL		789	877	824	824	824	824	824	824
SPECIAL REVENUE	859								
STATUTORY APPROPRIATIONS:									
TOTAL FINANCING	859	789	877	824	824	824	824	824	824

PROGRAM: Family Law Legal Services
Agency: Supreme Court

1992-93 Biennial Budget

PROGRAM PURPOSE:

The Supreme Court through its Gender Fairness Task Force identified a large unmet need for family law legal services for the indigent. Legal services providers dedicate roughly 30% of their resources to family law problems. Despite this effort, an estimated 10,000 persons each year are turned down for family law service each year, because provider resources must also be used to address critical legal needs for housing, food, safety and medical care. The 1990 Legislature appropriated funds to begin to address the met legal needs of low income clients in family law matters. Examples of cases accepted for representation include requests for orders for protection, visitation limitations where abuse is documented, post decree custody disputes, divorces where custody is involved.

PERFORMANCE:

Funding is distributed to 6 legal services programs according to the formula specified in M.S. 480.242, Subd. 2(a). These programs provide services in each of the 87 counties.

	<u>F.Y. 1991</u>	<u>F.Y. 1992</u>	<u>F.Y. 1993</u>
Estimated Caseload	2,000	2,000	2,000

BUDGET ISSUES:

While the current level of funding allows legal service providers to serve new clients, the nature of family law cases, especially those involving serious and difficult custody issues, requires repeated court appearances which may extend for the minority of the child. These cases, unlike some other legal cases, continue to require legal services over an extended period. To continue to reduce the unmet need therefore requires additional resources.

GOVERNOR'S RECOMMENDATION:

Recognizing the distinction between separate branches of government, the Governor respectfully acknowledges the right of the Supreme Court to present its budgetary needs directly to the Legislature for consideration.

1992-1993 B I E N N I A L B U D G E T
(DOLLARS IN THOUSANDS)

AGENCY: MINN SUPREME COURT
PROGRAM: FAMILY LAW LEGAL SERVICES

ACTIVITY RESOURCE ALLOCATION:	FY 1989	FY 1990	Est. FY 1991	FY 1992			FY 1993		
				Adjusted Base	Agency Plan	Governor Recomm.	Adjusted Base	Agency Plan	Governor Recomm.
FAMILY LAW LEGAL SERVICES			890	890	890	890	890	890	890
TOTAL EXPENDITURES BY ACTIVITY			890	890	890	890	890	890	890
DETAIL BY CATEGORY:									
LOCAL ASSISTANCE			890	890	890	890	890	890	890
TOTAL EXPENDITURES BY CATEGORY			890	890	890	890	890	890	890
SOURCES OF FINANCING:									
DIRECT APPROPRIATIONS:									
GENERAL			890	890	890	890	890	890	890
STATUTORY APPROPRIATIONS:									
TOTAL FINANCING			890	890	890	890	890	890	890

PROGRAM: State Court Administrator
Agency: Minnesota Supreme Court

1992-93 Biennial Budget

EFFICIENCY MATTERS:

PROGRAM PURPOSE:

The office of the State Court Administrator was established to plan for and administer the courts of the state. Pursuant to M.S. 480.15, the State Court Administrator examines administrative methods and dockets of the local courts; collects and compiles statistical data relating to the business of the courts for submission to the legislature and the Supreme Court; prepares uniform personnel standards and procedures for the recruitment, evaluation, promotion, in-service training and discipline of all court personnel and promulgates uniform standards for court budgets, information systems and the collection, storage and use of court records. It develops uniform policies and procedures for trial court management. The office also provides direct administrative support to the Supreme Court and Court of Appeals.

PERFORMANCE:

State Court Administration operates in the following major program areas:

The State Court Administrator supervises the state court administrative staff and functions detailed below. She assists the chief justice in supervising the court operations of the state. For example, the office recommends the reassignment of judges to meet workload demands. Staff assist the judiciary in establishing policies and priorities and in developing a long-range plan for the improvement of courts. It is responsible for promulgating budget and personnel standards and for informing the legislature and the public about the operations and needs of the state courts. The office provides technical assistance to trial courts in a broad range of administrative areas including personnel, financial, and caseload management and facilities design. The State Court Administrator is the coordinating link between the court administrative structure and the judiciary.

EDUCATION AND TRAINING:

Develops programs to insure that court personnel stay abreast of new developments and meet mandatory education coursework requirements established by the Supreme Court and the Conference of Chief Judges. Judges must complete 45 hours of judicial education every three years. Court administrators and judicial district administrators must complete 45 hours of mandatory training every 3 years. During every 6 year term of office judges must attend a Minnesota Sentencing Institute and attend an educational tour of a correctional facility to which they sentence individuals. New judges must complete a 3-part orientation program within the first year on the bench. Court administrators and judicial district administrators must complete 45 hours of management education every 3 years. A court administrator orientation is provided during the first year of service.

Provides basic and advanced training on a wide variety of legal and management subjects for court personnel including judges, district administrators, court administrators and their deputies, and court specialty groups such as probate registrars, court reporters, guardians ad litem, and bailiffs. Limited programming is also provided for prosecutors and public defenders. New legislation, caselaw and changes in court procedures and technological developments necessitate continuous update of the information and skills being used by members of the judicial branch.

	<u>F.Y. 1989</u>	<u>F.Y. 1990</u>	<u>F.Y. 1991</u>	<u>F.Y. 1992</u>	<u>F.Y. 1993</u>
Education Course Co-Sponsored	21	24	41	45	50
Hours of Course Work Provided	144	223.5	337	385	435
Attendance of Court Personnel	1,027	1,171	1,331	1,490	1,650
Average Attendance Per Course	48.9	34.4	32.5	33	33
Average Hours Per Course	6.86	6.57	8.22	8.55	8.70
Average Cost Per Course	\$6,870	\$3,529	\$3,536	\$3,602	\$3,700
Average Cost Per Person Per Course	\$ 140	\$ 103	\$ 109	\$ 109	\$ 112
Average Cost Per Person Per Hour	\$20.40	\$15.67	\$13.26	\$12.75	\$12.87

RESEARCH AND PLANNING:

Examines the structure and operation of the judicial system to identify court related problems and recommends organizational changes. Conducts research and makes recommendations for improvements in the areas of judicial resources, court management, redistricting, alternative dispute resolution processes, court management, alternative dispute resolution processes, court processes, and restitution services. Conducts legal and management research required to draft statewide administrative policies and to respond to requests for legal and policy guidance on administrative procedures in appellate and trial courts. Publishes and updates benchbooks to provide operational reference material for court personnel. Conducts weighted caseload analysis, advises Supreme Court in the exercise of its sunset and transfer authority over trial court judgeships, presents statistical information on the work of the courts to the legislature, other governmental agencies and the public.

	<u>F.Y. 1989</u>	<u>F.Y. 1990</u>	<u>F.Y. 1991</u>	<u>F.Y. 1992</u>	<u>F.Y. 1993</u>
No. of Research Requests	350	360	360	375	375
No. of Major Projects	7	12	12	12	12
No. of Benchbooks Maintained	2	2	2	2	2

INFORMATION SYSTEMS:

Designs, implements and operates automated trial and appellate court information systems, both for individual courts and judicial districts, to improve time payments revenue collection, efficiency of judicial and nonjudicial personnel, and accuracy of and access to court records. Collects and compiles milestone case information from all courts to monitor case flow, produces caseload statistics, and supports evaluation of judicial resources and policy analysis. Analyzes and improves manual court administrative processes and procedures including office organization, financial management and records retention.

	<u>F.Y. 1989</u>	<u>F.Y. 1990</u>	<u>F.Y. 1991</u>	<u>F.Y. 1992</u>	<u>F.Y. 1993</u>
Cumulative No. Automated TCIS Courts	46	76	80	86	86
Cumulative No. Automated TCIS Judicial Districts	4	6	7	9	9

PROGRAM: State Court Administrator
(Continuation)
Agency: Minnesota Supreme Court

1992-93 Biennial Budget

JUDICIAL ADVISORY SERVICE:

Provides research on legal and policy issues for trial judges throughout the State of Minnesota.

	<u>F.Y. 1989</u>	<u>F.Y. 1990</u>	<u>F.Y. 1991</u>	<u>F.Y. 1992</u>	<u>F.Y. 1993</u>
Memos	180	167	170	170	170
Quick Memos	190	187	190	190	190
Materials Mailed	50	42	50	50	50
Major Projects	12	17	15	15	15
Law Clerk Assistance	30	52	50	50	50

BUDGET ISSUES:

The Supreme Court after reviewing the state court administrator budget has determined that it is unable to fund salary increases within its existing base and must rely on a salary supplement for that purpose. It further requests the following programmatic increases:

(Dollars in Thousands)
F.Y. 1992 F.Y. 1992

Implementation funding for Trial Court Information System for the First and Second Judicial Districts in accordance with the Judicial Branch 10 Year Implementation System for Information Systems	\$759.0	\$508.0
Increases in funding for the Information Systems Programs in several judicial districts to provide for supplies and operational increases which cannot be absorbed.	\$178.0	\$177.0

INFORMATION POLICY OFFICE'S RECOMMENDATION:

Continued funding at the requested level is recommended. The court should develop a methodology for measuring efficiencies resulting from technology changes, and should investigate re-engineering their related work processes to increase productivity.

GOVERNOR'S RECOMMENDATION:

Recognizing the distinction between separate branches of government, the Governor respectfully acknowledges the right of the Supreme Court to present its budgetary needs directly to the Legislature for consideration.

1992-1993 B I E N N I A L B U D G E T
(DOLLARS IN THOUSANDS)

AGENCY: MINN SUPREME COURT
PROGRAM: STATE COURT ADMINISTRATORS

ACTIVITY RESOURCE ALLOCATION:	FY 1989	FY 1990	Est. FY 1991	FY 1992			FY 1993		
				Adjusted Base	Agency Plan	Governor Recomm.	Adjusted Base	Agency Plan	Governor Recomm.
STATE COURT ADMINISTRATORS	4,161	4,675	6,845	6,549	7,308	6,549	6,540	7,048	6,540
LOCAL TCIS			520	520	698	520	520	697	520
TOTAL EXPENDITURES BY ACTIVITY	4,161	4,675	7,365	7,069	8,006	7,069	7,060	7,745	7,060
DETAIL BY CATEGORY:									
STATE OPERATIONS	4,161	4,627	7,349	7,053	7,990	7,053	7,044	7,729	7,044
LOCAL ASSISTANCE		48	16	16	16	16	16	16	16
TOTAL EXPENDITURES BY CATEGORY	4,161	4,675	7,365	7,069	8,006	7,069	7,060	7,745	7,060
SOURCES OF FINANCING:									
DIRECT APPROPRIATIONS:									
GENERAL	3,656	4,675	7,363	7,067	8,004	7,067	7,058	7,743	7,058
STATUTORY APPROPRIATIONS:									
SPECIAL REVENUE	505								
GIFTS AND DEPOSITS			2	2	2	2	2	2	2
TOTAL FINANCING	4,161	4,675	7,365	7,069	8,006	7,069	7,060	7,745	7,060

ACTIV
PROGRAM: State Court Administration
AGENCY: Supreme Court

1992-93 Biennial Budget

DECISION ITEM: Trial Court Information System (TCIS)

Dollars in Thousands			
<u>F.Y. 1992</u>	<u>F.Y. 1993</u>	<u>F.Y. 1994</u>	<u>F.Y. 1995</u>

AGENCY PLAN:

Expenditures			
General Fund	\$ 937	\$ 685	\$ 685
Revenues			
General Fund	\$ -0-	\$ -0-	\$ -0-

GOVERNOR'S RECOMMENDATION:

Expenditures			
General Fund	\$ -0-	\$ -0-	\$ -0-
Revenues			
General Fund	\$ -0-	\$ -0-	\$ -0-

Requires statutory change: _____ Yes X No
Statutes Affected:

ITEM SUMMARY:

This request would fund additional operating costs in district trial court information systems budgets and fund implementation of TCIS in the 1st and 2nd Judicial Districts.

RATIONALE:

Funding for the 1st and 2nd Judicial Districts would complete the 10-year implementation plan the court has consistently presented to the legislature and put the trial court information system in each of the judicial districts. This system provided automated record keeping, calendaring and financial accounting for the trial courts. Funding for the 80 counties supported by TCIS is required for consumable supply costs previously contained in county budgets and to make fully operational the 3 districts which were implemented in the F.y. 1990-91 biennium.

GOVERNOR'S RECOMMENDATION:

Recognizing the distinction between separate branches of government, the Governor respectfully acknowledges the right of the Supreme Court to present its budgetary needs directly to the legislature for consideration.

PROGRAM: Community Dispute Resolution Program
Agency: Minnesota Supreme Court

1992-93 Biennial Budget

PROGRAM PURPOSE:

The 1990 Legislature provided a one-time appropriation of \$100,000 to the state Court Administrator for partial funding (not to exceed 1/3 of operating budget) of qualified community dispute resolution programs. To qualify a program must be certified under the state Court Administrator's Office Guidelines for Community Mediation. These guidelines, developed in 1984, specify the criteria required for each program to insure that the due process rights of participants are protected and that the neutrals serving the program have received at least minimum training in dispute resolution techniques.

Community Dispute Resolution programs seek to provide the public with an efficient, fair and low-cost means of resolving disputes outside the courtroom. Typically disputes presented involve vandalism, noise abatement, juvenile delinquency, landlord/tenant issues and consumer relations.

PERFORMANCE:

Pursuant to the enabling legislation, 5 qualified programs applied for a grant from the state Court Administrator's office. Four community programs have been awarded funds as of 1-1-91. In 1989, these 4 programs received 1,263 referrals and mediated a total of 427 cases.

PROSPECTS:

The Court Administrator's office received a one-time appropriation which expires when the funds are expended.

PLAN:

The Court Administrator's office has requested evaluation information data from participant programs which will be available upon request. Should the legislature wish to continue funding for these programs, the Court Administrator's office is available to administer the funds.

GOVERNOR'S RECOMMENDATION:

Recognizing the distinction between separate branches of government, the Governor respectfully acknowledges the right of the Supreme Court to present its budgetary needs directly to the Legislature for consideration.

1992-1993 B I E N N I A L B U D G E T
(DOLLARS IN THOUSANDS)

AGENCY: MINN SUPREME COURT
PROGRAM: COMMUNITY DISPUTE RESOLUTION PROGR

				FY 1992			FY 1993		
			Est.						
ACTIVITY RESOURCE ALLOCATION:	FY 1989	FY 1990	FY 1991	Adjusted	Agency	Governor	Adjusted	Agency	Governor
=====	=====	=====	=====	Base	Plan	Recomm.	Base	Plan	Recomm.
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
COMMUNITY DISPUTE RESOLUTION PROGR			100						
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL EXPENDITURES BY ACTIVITY			100						
DETAIL BY CATEGORY:									
=====									
LOCAL ASSISTANCE			100						
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL EXPENDITURES BY CATEGORY			100						
SOURCES OF FINANCING:									
=====									
DIRECT APPROPRIATIONS:									
GENERAL			100						
STATUTORY APPROPRIATIONS:									
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL FINANCING			100						

PROGRAM: Minnesota State Law Library
Agency: Minnesota Supreme Court

1992-93 Biennial Budget

PROGRAM PURPOSE:

This program provides research and information services on a statewide basis to users of legal data. A complete range of traditional and automated professional library functions are offered at the Minnesota Judicial Center; limited services are offered in a downtown location and at a crosstown storage facility. The program offers advisory services to all 87 county law libraries, manages a computerized legal data service and participates in interlibrary consortium and mutual projects on a local, state and national level. The objectives of this program are to promote the administration of justice through the selection and organization of, and assured access to, the justice through the selection and organization of, and assured access to, the collection of authority (laws, statutes, government documents and regulations) and explanations of the authority (journals, law reviews and treatises) that controls the relationship between the citizen and society.

OPERATION:

The following are the agency's principal activities and services.

1. The public services staff provides reference and circulation assistance so that users may fully utilize library resources. Their expertise is especially useful in suggesting research strategies to locate cases, statutes, regulations, and books on point.
2. The technical services staff handles the acquisitions, processing, cataloging, and conservation of the library's resources using the latest in automated technology. In addition, state government libraries, county and academic law libraries, benefit from 3 technical services programs; shared government documents, county law library cataloging, and briefs on microfiche.
3. The library, in cooperation with several other libraries, participates in the production and distribution of the records and briefs of cases argued before the Minnesota Supreme Court and the Court of Appeals. The microfiche format saves shelf space, binding costs, and staff time needed to process documents.
4. Under contract with the Department of Corrections, the library provides inmates in Minnesota's 5 adult correctional institutions with access to legal materials and information. Librarians assigned to the program make regular visits to the prisons supplementing the institutional core collections with materials and research results from the library's collection.
5. The library is required by law to advise and assist development of county law libraries throughout the state. The librarian assigned to coordinate the project makes on-site visits to the libraries and submits recommendations for solving problems or issues confronting the boards of trustees. The coordinator also provides training in law library management and develops cooperative programs.
6. The library operates the first computer-assisted legal research program available throughout the state. This service provides users with an economical way to utilize the most advanced legal research techniques.

PERFORMANCE:

	<u>F.Y. 1989</u>	<u>F.Y. 1990</u>	<u>F.Y. 1991</u>	<u>F.Y. 1992</u>	<u>F.Y. 1993</u>
No. of Reference Requests	16,848	18,533	20,757	27,559	31,004
Circulation of Resources	4,847	5,332	5,572	9,005	9,634
Photocopy Requests	789	868	972	1,915	2,211
No. of Titles Cataloged	2,200	2,000	2,000	1,800	1,800
No. of Govt. Doc. Processed	14,000	15,000	16,000	17,000	18,000

BUDGET ISSUES:

The Supreme Court after reviewing the law library budget has determined that is unable to fund salary increases from within its existing base and must rely on a salary supplement for that purpose. It further requests the following programmatic increases:

	<u>(Dollars in Thousands)</u>	
	<u>F.Y. 1992</u>	<u>F.Y. 1993</u>
Resource Cost Inflation	\$ 11.0	\$ 11.0

GOVERNOR'S RECOMMENDATION:

Recognizing the distinction between separate branches of government, the Governor respectfully acknowledges the right of the Supreme Court to present its budgetary needs directly to the Legislature for consideration.

1992-1993 B I E N N I A L B U D G E T
(DOLLARS IN THOUSANDS)

AGENCY: MINN SUPREME COURT
PROGRAM: LAW LIB OPS

				FY 1992			FY 1993		
ACTIVITY RESOURCE ALLOCATION:	FY 1989	FY 1990	Est. FY 1991	Adjusted Base	Agency Plan	Governor Recomm.	Adjusted Base	Agency Plan	Governor Recomm.
LAW LIBRARY OPERAT'S	966	944	1,265	1,746	1,757	1,746	1,753	1,764	1,753
TOTAL EXPENDITURES BY ACTIVITY	966	944	1,265	1,746	1,757	1,746	1,753	1,764	1,753
DETAIL BY CATEGORY:									
STATE OPERATIONS	966	944	1,265	1,746	1,757	1,746	1,753	1,764	1,753
TOTAL EXPENDITURES BY CATEGORY	966	944	1,265	1,746	1,757	1,746	1,753	1,764	1,753
SOURCES OF FINANCING:									
DIRECT APPROPRIATIONS:									
GENERAL	823	869	1,171	1,652	1,663	1,652	1,659	1,670	1,659
SPECIAL REVENUE		75	94	94	94	94	94	94	94
STATUTORY APPROPRIATIONS:									
SPECIAL REVENUE	143								
TOTAL FINANCING	966	944	1,265	1,746	1,757	1,746	1,753	1,764	1,753

ACTIVITY:
PROGRAM: State Law Library
AGENCY: Supreme Court

1992-93 Biennial Budget

DECISION ITEM: Law Library Materials Inflation

	Dollars in Thousands			
	<u>F.Y. 1992</u>	<u>F.Y. 1993</u>	<u>F.Y. 1994</u>	<u>F.Y. 1995</u>

AGENCY PLAN:

Expenditures						
General Fund	\$	11	\$	11	\$	11
Revenues						
General Fund	\$	-0-	\$	-0-	\$	-0-

GOVERNOR'S RECOMMENDATION:

Expenditures						
General Fund	\$	-0-	\$	-0-	\$	-0-
Revenues						
General Fund	\$	-0-	\$	-0-	\$	-0-

Requires statutory change: _____ Yes X No
Statutes Affected:

ITEM SUMMARY:

Reference cost inflation.

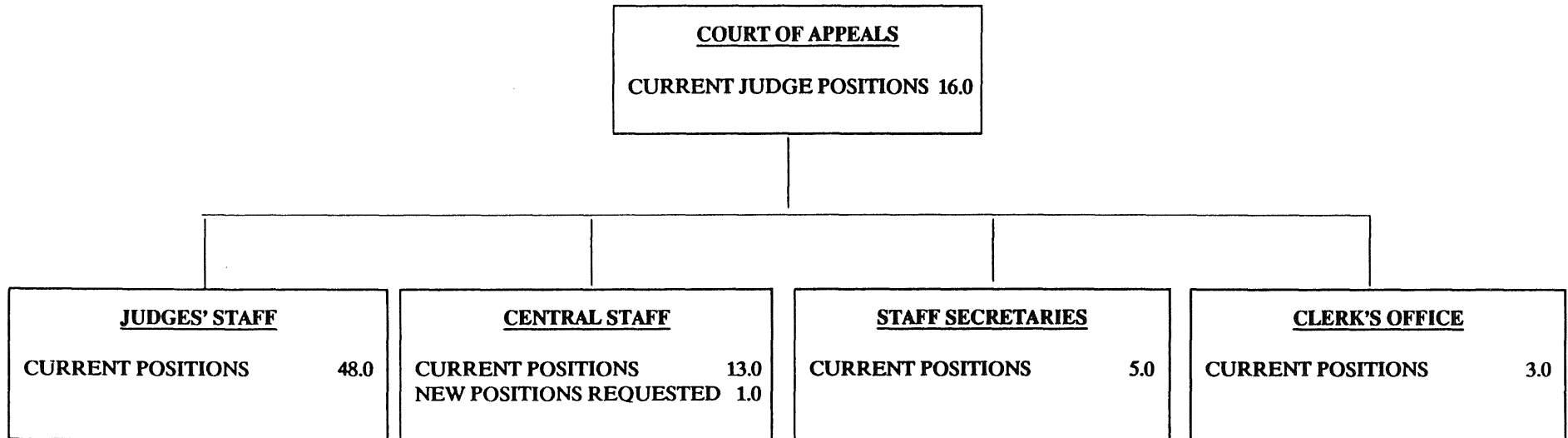
RATIONALE:

Legal periodical inflation is increasing at a 20+% rate, much greater than the general rate of inflation. In spite of paring back the collection and the frequency of updates, the Law Library is unable to absorb all the inflation to maintain its collection.

GOVERNOR'S RECOMMENDATION:

Recognizing the distinction between separate branches of government, the Governor respectfully acknowledges the right of the Supreme Court to present its budgetary needs directly to the Legislature for consideration.

**COURT OF APPEALS
ORGANIZATION CHART
CURRENT AS OF 11/1/90**



COURT OF APPEALS

POSITION RECONCILIATION		
Authority:	Current FY91	Requested For 6/30/93
Legislative Authorized General Fund	85.0	86.0
TOTAL Authorized Positions:	85.0	86.0
Employees on 6/30/90	75.0	

MISSION:

The Court of Appeals strives to adjudicate expeditiously all appeals from the trial courts, except first degree murder cases and legislative election contests, and from most administrative agency appeals. The court is charged with correcting error in those appealed decisions. The court complies with the statutory mandate to dispose of cases within 90 days of hearing or submission on briefs. The court in 1989 has achieved a median case processing time of 152 days from filing to dispositional order or opinion. The records of the Court of Appeals are maintained by the office of the Clerk of Appellate Courts in the Minnesota Judicial Center. To provide convenient access to litigants, the court hears cases at its chambers in the Minnesota Judicial Center, Ramsey County, and in each of the 9 other judicial districts.

MAJOR POLICY DRIVERS:

As the legislature passes new laws and increases the penalties for criminal law violations, the number of appeals increases. In 1990 criminal caseload in the Court of Appeals increased 27% while the caseload in general increased 20%. The court strives to use existing staff to absorb the increase in workload.

PERFORMANCE:

	<u>C.Y. 1989</u>	<u>C.Y. 1990</u>	<u>C.Y. 1991</u>	<u>C.Y. 1992</u>	<u>C.Y. 1993</u>
Cases filed	2,155	2,547	2,367	2,411	2,455

EXPLANATION OF BUDGET ISSUES AND ALTERNATIVES:

After reviewing its budget the Court of Appeals has determined that it is unable to fund salary increases from within its existing BASE and must rely on a salary supplement for that purpose. It further requests the following programmatic increases:

(Dollars in Thousands)

	<u>F.Y. 1992</u>	<u>F.Y. 1993</u>
One staff attorney position to assist with the processing of the significant increase in the court caseload.	\$ 44	\$ 44
Computerized legal research funding to enhance the courts' ability to use available technology to conduct legal research and expedite case decision making.	\$ 30	\$ 30
Computer programming funds to provide computer programming assistance to the Information Systems Office to extract management data from statistical and operational data bases.	\$ 55	\$ 55

GOVERNOR'S RECOMMENDATION:

Recognizing the distinction between separate branches of government, the Governor respectfully acknowledges the right of the Court of Appeals to present its budgetary needs directly to the Legislature for consideration.

1992-1993 B I E N N I A L B U D G E T
(DOLLARS IN THOUSANDS)

AGENCY: COURT OF APPEALS

				FY 1992			FY 1993		
			Est.	Adjusted	Agency	Governor	Adjusted	Agency	Governor
PROGRAM RESOURCE ALLOCATION:	FY 1989	FY 1990	FY 1991	Base	Plan	Recomm.	Base	Plan	Recomm.
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
COURT OF APPEALS	3,901	4,131	5,133	5,447	5,576	5,447	5,448	5,577	5,448
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL EXPENDITURES BY PROGRAM	3,901	4,131	5,133	5,447	5,576	5,447	5,448	5,577	5,448
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
SOURCES OF FINANCING:									

DIRECT APPROPRIATIONS:									
GENERAL	3,898	4,130	5,131	5,445	5,574	5,445	5,446	5,575	5,446
STATUTORY APPROPRIATIONS:									
GIFTS AND DEPOSITS	3	1	2	2	2	2	2	2	2
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL FINANCING	3,901	4,131	5,133	5,447	5,576	5,447	5,448	5,577	5,448
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====

BASE RECONCILIATION REPORT
for 1992-1993 Biennium

AGENCY: COURT OF APPEALS

	ALL FUNDS		GENERAL FUND		OTHER STATE FUNDS		FEDERAL FUNDS	
	F.Y.92	F.Y.93	F.Y.92	F.Y.93	F.Y.92	F.Y.93	F.Y.92	F.Y.93
F.Y.91 FUNDING LEVEL	5,133	5,133	5,131	5,131	2	2		
BIENNIAL APPROPRIATIONS	<283>	<283>	<283>	<283>				
SALARY ANNUALIZATION	151	142	151	142				
DOCUMENTED RENT/LEASE INCR.	446	456	446	456				
TOTAL	5,447	5,448	5,445	5,446	2	2		
BIENNIAL TOTAL		10,895		10,891		4		

ACTIV
PROGRAM: Court of Appeals
AGENCY: Court of Appeals

1992-93 Biennial Budget

Recognizing the distinction between separate branches of government, the Governor carefully acknowledges the right of the Court of Appeals to present its budgetary needs directly to the legislature for consideration.

DECISION ITEM: Court of Appeals

	Dollars in Thousands			
	<u>F.Y. 1992</u>	<u>F.Y. 1993</u>	<u>F.Y. 1994</u>	<u>F.Y. 1995</u>

AGENCY PLAN:

Expenditures				
General Fund	\$ 129	\$ 129	\$ 129	\$ 129
Revenues				
General Fund	\$ -0-	\$ -0-	\$ -0-	\$ -0-

GOVERNOR'S RECOMMENDATION:

Expenditures				
General Fund	\$ -0-	\$ -0-	\$ -0-	\$ -0-
Revenues				
General Fund	\$ -0-	\$ -0-	\$ -0-	\$ -0-

Requires statutory change: _____ Yes x No
Statutes Affected:

ITEM SUMMARY:

Request for one staff attorney, computerized legal research funding, and computer programming funding.

RATIONALE:

	<u>F.Y. 1992</u>	<u>F.Y. 1993</u>
One staff attorney position to assist with the significant increase in the court caseload	\$ 44	\$ 44
Computerized legal research funding to enhance the courts' ability to use available technology to conduct legal research and expedite case decision making.	\$ 30	\$ 30
Computer programming funds to provide computer programming assistance to the Information Systems' Office to extract management data from the data bases.	\$ 55	\$ 55

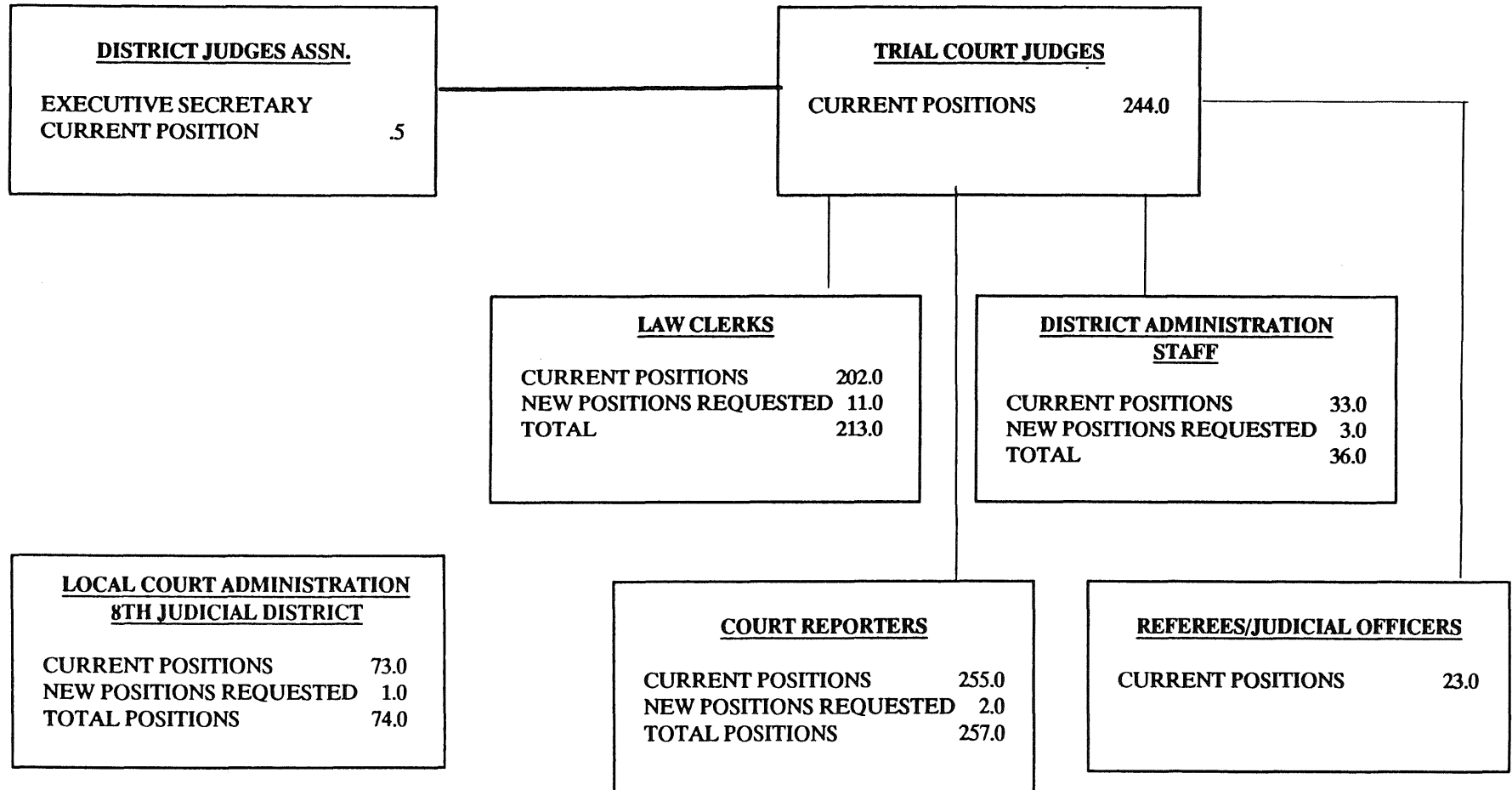
GOVERNOR'S RECOMMENDATION:

1992-93 BIF AL BUDGET
PROGRAM STRUCTURE

AGENCY: DISTRICT COURTS

<u>PROGRAM</u>	<u>PAGE</u>
Trial Courts	46
Eighth Judicial District Budget	49
Court Reporters	52
Law Clerk Expenses	55
Referee Judicial Officer Expenses	58
Judge Expenses	60

TRIAL COURTS ORGANIZATION CHART CURRENT AS OF 11/1/90*



*Including positions to be transferred 1/1/92.

TRIAL COURT

POSITION RECONCILIATION

Authority:	Current FY91	Requested For 6/30/93
Legislative Authorized General Fund	466.5	485.5
Legislative Authorized Base Adj. 1-1-92		291.0**
TOTAL Authorized Positions	466.5	776.5
Employees on 6/30/90*	253.5	

*State funding initiative added employees to state payroll on 7/1/90 and 10/1/90.

**Court Reporters and Referee/Judicial officers and support staff added by law 1/1/92.

AGENCY: District Courts

1992-93 Biennial Budget

MISSION:

The trial courts of the state are charged with the constitutional responsibility of adjudicating fairly and expeditiously all civil and criminal legal disputes brought before them by private parties and governmental agencies.

Judges are elected within a judicial district to hear and decide cases. They are subject to the assignment power of the Chief Judge or Chief Justice and may be assigned to hear cases in a county other than the site of their chambers as workload demands. Judges generally travel among the several counties in their judicial district to dispose of cases, or they may travel to another district to assist with the caseload. Travel costs and certain office expenses specified by statute are reimbursed by the state.

Judicial District Administrators are assigned to each of the judicial districts and work with the judges, lawyers and local court administrators to expedite the caseload and to improve court management and administrative procedures.

The Executive Secretary for the District Judges Association assists the district judges in fulfilling the statutory mandate of M.S. 484.33 to meet and revise the rules of practice in the district courts. The Executive Secretary plans for and coordinates the activities of the meetings of the district judges, keeps associational minutes, and informs judges of organizational concerns.

Law clerks are provided according to a statutory formula to perform legal research for trial court judges. The state pays the salary of law clerks statewide.

In order to assure a more uniform delivery of judicial services, the state funds the salaries and certain statutorily defined expenses of all trial court judges, the salaries of trial court law clerks, and the operations of judicial district administration staff. The state also funds the operating expenses of the local court administrators' offices, responsible for court records and daily court operations, in the 13 counties of the Eighth Judicial District in West Central Minnesota.

MAJOR POLICY DRIVERS:

Policy drivers for trial courts include:

1. Increasing criminal caseloads statewide and a shortage of 12 judges statewide as indicated by the weighted caseload study.
2. Judicial, legislative and public emphasis on efforts to reduce trial courts backlog and delay.
3. Transfer of funding for trial court staff from county to the state. Legislation provides that beginning 1-1-92 the state will fund law clerk expenses, court reporter salaries and expenses and referee and judicial officer salaries and expenses. In addition the Supreme Court requests funding for judge expenses currently funded by the counties. The funding mechanism identified in previous legislative sessions is a reallocation of aid monies currently directed to the counties with a concomitant transfer of expenses from the county to the state.

PLAN:

As a result of a legislatively mandated study, the Supreme Court recommended the transfer of segments of the trial court budget from county to state funding. This transfer was recommended to achieve a more equitable funding base for a constitutional state function and to provide a coherent administrative and fiscal structure. The 1989 Legislature enacted a bill calling for a phased transition

and further study of additional court components. The Supreme Court has presented the legislature with recommendations for transfer of additional court components to state funding in subsequent biennia.

EXPLANATION OF BUDGET ISSUES AND ALTERNATIVES:

The Judicial Branch has reviewed the budget for the trial courts and finds it is unable to fund salary increases within the existing base. The Compensation Council has granted and the legislature has approved judicial salary increases effective 1-1-92 which are unfunded in the current executive branch budget. A salary supplement is requested for all salary increases. In addition the Judicial Branch in accordance with existing legislation requests funding for law clerk expenses, referee/judicial officer salaries and expenses, court reporter and expenses. Funding for judge expenses is requested using local government aid as the funding mechanism. The Trial Court budget includes requests for additional funding in each of the programmatic areas as specified.

1992-1993 BIENNIAL BUDGET
(DOLLARS IN THOUSANDS)

AGENCY: DISTRICT COURTS

PROGRAM RESOURCE ALLOCATION:	FY 1989	FY 1990	Est. FY 1991	FY 1992			FY 1993		
				Adjusted Base	Agency Plan	Governor Recomm.	Adjusted Base	Agency Plan	Governor Recomm.
TRIAL COURTS	19,885	20,824	28,674	30,812	31,241	30,812	30,787	31,270	30,787
8TH JUD DIST BUDG		1,756	3,614	3,011	3,259	3,011	3,004	3,237	3,004
COURT REPORTERS				7,051	7,127	7,051	14,102	14,254	14,102
LAW CLERK EXPENSES				501	523	501	996	1,030	996
REFEREE/JUDICIAL OFFICER				1,314	1,314	1,314	2,627	2,627	2,627
JUDGES EXPENSES					605			1,210	
TOTAL EXPENDITURES BY PROGRAM	19,885	22,580	32,288	42,689	44,069	42,689	51,516	53,628	51,516
SOURCES OF FINANCING:									
DIRECT APPROPRIATIONS:									
GENERAL	19,885	22,580	32,288	42,689	44,069	42,689	51,516	53,628	51,516
STATUTORY APPROPRIATIONS:									
TOTAL FINANCING	19,885	22,580	32,288	42,689	44,069	42,689	51,516	53,628	51,516

BASE RECONCILIATION REPORT
for 1992-1993 Biennium

AGENCY: DISTRICT COURTS

	ALL FUNDS		GENERAL FUND		OTHER STATE FUNDS		FEDERAL FUNDS	
	F.Y.92	F.Y.93	F.Y.92	F.Y.93	F.Y.92	F.Y.93	F.Y.92	F.Y.93
F.Y.91 FUNDING LEVEL	32,288	32,288	32,288	32,288				
ONE-TIME APPROPRIATIONS	<67>	<67>	<67>	<67>				
BASE TRANSFER (BTWN AGENCIES)	<661>	<661>	<661>	<661>				
LEG-DIRECTED ADJUSTMENTS	8,866	17,740	8,866	17,740				
SALARY ANNUALIZATION	748	716	748	716				
ANNUALIZG NEW PROG COST	1,500	1,500	1,500	1,500				
DOCUMENTED RENT/LEASE INCR.	15		15					
TOTAL	42,689	51,516	42,689	51,516				
BIENNIAL TOTAL		94,205		94,205				

PROGRAM: District Courts
Agency: Trial Courts

1992-93 Biennial Budget

PROGRAM PURPOSE:

In order to provide a uniform adjudicative and district management structure for the judicial branch of government, the state funds the salaries of judges, law clerks, and district administration staff statewide. In addition the state currently funds the operating costs of the district administration offices and certain statutory expenses of trial court judges.

The state is divided into ten judicial districts, each of which has a district administrator whose responsibilities include assisting the chief judge of the district in the performance of administrative duties, managing the administrative affairs of the courts of the judicial district, and supervising the court administrators and other support personnel, except court reporters who serve in the courts of the judicial district. The judicial district administrators in cooperation with the State Court Administrator and the Supreme Court have been instrumental in the last year in implementing 1989 Laws, Chapter 335 concerning state financing of court personnel.

Law Clerks assist judges throughout the state in reviewing case files and assessing the status of the case to insure that rule and statutory requirements have been followed, preparing memoranda of law concerning the legal issues presented in a case or certain aspects of a case, drafting proposed jury instructions, court orders, or memoranda in support of orders for court approval. The law clerks may in some instances perform court room functions such as swearing witnesses, drawing juror names, collecting fines and bail.

PERFORMANCE:

In Minnesota the trial courts processed more than 2 million cases in 1990. Of those cases, 8% were major civil or criminal cases which comprise 77% of the judicial workload. Over the past four years gross misdemeanor cases, for which a person could be incarcerated for up to one year, increased 50% statewide. Felonies which carry even stiffer penalties increased 18% during the same period. The Legislature required the courts to prepare case processing plans and meet stringent time standards in criminal cases by 1994. The Courts are disposing of 80% of felony and gross misdemeanor cases in 4 months instead of the 90% set forth in statute. The importance of expeditious handling of criminal cases is underscored by the 1988 State Planning Agency study of sentencing effectiveness which found that the single most effective deterrent to recidivism is swift imposition of sanctions by the court. In order to achieve the 80% in 4 months result, the courts found it necessary to shift emphasis from civil cases. As a result the dispositional time in civil cases from 1989 to 1990 increased. Minnesota's trial courts have made delay reduction and improved case management a top priority since 1984. Caseloads have grown substantially over that period. Yet progress has been made in moving many cases more quickly through the system. More progress is needed to move closer to meeting the case processing time standards and to absorb further caseload increases will require new resources.

PROSPECTS:

The weighted caseload analysis shows a need for twelve additional judges in the urban and suburban areas statewide. The Supreme Court has transferred all of the judges in excess of the need indicated by the weighted caseload study so that any additional resources for a particular district must come from new judgeships. The current budget seeks additional law clerk personnel to assist judges in those districts which have increasing judicial resource needs. These law clerks will assist the judges in expediting the cases by performing the routine review and legal research, thus freeing the judge to hear and decide cases based on adequate legal and procedural information.

PLAN:

In the Seventh Judicial District for example the weighted caseload indicates a need for an additional

three judges. By amending the statute to allow for a law clerk for each judge in the district additional adjudicative time can be made available. Additionally, funding is requested for a two law clerk positions in the Ninth Judicial District where judges currently do not have the statutory standard of one law clerk for every two judges. Judgeships were transferred from other districts to the First and Tenth Judicial Districts. Each judge in those districts has a law clerk. Two additional positions are requested. Finally Ramsey County is proposing to convert referee positions to judgeships upon retirement of incumbents. Two retirements are expected in 1991-92. Two law clerks are requested for the anticipated judgeships.

In order to perform the additional administrative, personnel and budgeting functions which are necessary under state funding the trial courts are requesting additional funding and two positions for judicial district administration offices. The diversity of court budgeting practices became apparent as the courts moved to state funding. Where some districts moved to state funding with a centralized district budget and administrative support procedures in place, others moved to state funding dependent on the counties for many support services. In the past biennium, three districts have become fully functional as TCIS districts, with the increased support role for the local court administrators some additional expenditures for equipment, travel, communication costs are required to keep everyone informed of implementation and administrative developments.

GOVERNOR'S RECOMMENDATION:

Recognizing the distinction between separate branches of government, the Governor respectfully acknowledges the right of the Trial Courts to present its budgetary needs directly to the Legislature for consideration.

1992-1993 B I E N N I A L B U D G E T
(DOLLARS IN THOUSANDS)

AGENCY: DISTRICT COURTS
PROGRAM: TRIAL COURTS

				FY 1992			FY 1993		
ACTIVITY RESOURCE ALLOCATION:	FY 1989	FY 1990	Est. FY 1991	Adjusted Base	Agency Plan	Governor Recomm.	Adjusted Base	Agency Plan	Governor Recomm.
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TRIAL COURTS	19,885	20,824	28,674	30,812	31,241	30,812	30,787	31,270	30,787
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL EXPENDITURES BY ACTIVITY	19,885	20,824	28,674	30,812	31,241	30,812	30,787	31,270	30,787
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
DETAIL BY CATEGORY:									
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
STATE OPERATIONS	19,874	20,809	28,607	30,812	31,241	30,812	30,787	31,270	30,787
LOCAL ASSISTANCE	11	15	67						
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL EXPENDITURES BY CATEGORY	19,885	20,824	28,674	30,812	31,241	30,812	30,787	31,270	30,787
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
SOURCES OF FINANCING:									
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
DIRECT APPROPRIATIONS:									
GENERAL	19,885	20,824	28,674	30,812	31,241	30,812	30,787	31,270	30,787
STATUTORY APPROPRIATIONS:									
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL FINANCING	19,885	20,824	28,674	30,812	31,241	30,812	30,787	31,270	30,787

ACTIVITY:**1992-93 Biennial Budget****PROGRAM:** Trial Courts**AGENCY:** District Courts**DECISION ITEM:** District Administration

Dollars in Thousands			
<u>F.Y. 1992</u>	<u>F.Y. 1993</u>	<u>F.Y. 1994</u>	<u>F.Y. 1995</u>

AGENCY PLAN:**Expenditures**

General Fund	\$ 166	\$ 192	\$ 192	\$ 192
--------------	--------	--------	--------	--------

Revenues

General Fund	\$ -0-	\$ -0-	\$ -0-	\$ -0-
--------------	--------	--------	--------	--------

GOVERNOR'S RECOMMENDATION:**Expenditures**

General Fund	\$ -0-	\$ -0-	\$ -0-	\$ -0-
--------------	--------	--------	--------	--------

Revenues

General Fund	\$ -0-	\$ -0-	\$ -0-	\$ -0-
--------------	--------	--------	--------	--------

Requires statutory change: _____ Yes X No**Statutes Affected:****ITEM SUMMARY:**

Three new positions and additional funding for coordination of court personnel districtwide.

RATIONALE:

With the implementation of computer centers and increased management responsibilities for personnel and budget at the district level, additional funding for mailing, communications, travel and training is needed in certain districts. Three secretarial/clerical positions are needed to support the increased administrative demands being placed on several districts. In one instance the computer center is located apart from the administrators's office, preventing shared secretarial assistance and computer operations backup. In two other instances the advent of the computer center and the increased responsibilities for budget and personnel coordination in the district have increased the demand for secretarial/clerical assistance.

GOVERNOR'S RECOMMENDATION:

Recognizing the distinction between separate branches of government, the Governor respectfully acknowledges the right of the Trial Courts to present its budgetary needs directly to the Legislature for consideration.

ACTIVITY
PROGRAM: Trial Courts
AGENCY: District Courts

1992-93 Biennial Budget

DECISION ITEM: Law Clerks

AGENCY PLAN:	Dollars in Thousands			
	F.Y. 1992	F.Y. 1993	F.Y. 1994	F.Y. 1995
Expenditures				
General Fund	\$ 263	\$ 291	\$ 291	\$ 291
Revenues				
General Fund	\$ -0-	\$ -0-	\$ -0-	\$ -0-

GOVERNOR'S RECOMMENDATION:

Expenditures				
General Fund	\$ -0-	\$ -0-	\$ -0-	\$ -0-
Revenues				
General Fund	\$ -0-	\$ -0-	\$ -0-	\$ -0-

Requires statutory change: X Yes No

Statutes Affected: M.S. 484.545 must be amended to permit one law clerk for each judge in the district.

ITEM SUMMARY:

Law clerk positions - 11.0 additional law clerk positions to perform legal research for trial court judges.

RATIONALE:

Felony caseloads have increased 18% from 1986 to 1990; gross misdemeanor caseloads have increased 50% during the same period and 14% in the last year alone. The Weighted Caseload study shows a need for 12.0 additional judges in the urban and suburban districts, the fast growing areas of the state. Legal support positions are required to free judges from administrative tasks thus providing additional court time so that the time standards set forth in case management plans submitted from the courts by the legislature can be met.

GOVERNOR'S RECOMMENDATION:

Recognizing the distinction between separate branches of government, the Governor respectfully acknowledges the right of the Trial Courts to present its budgetary needs directly to the Legislature for consideration.

PROGRAM: 8th Judicial District Budget
Agency: District Courts

1992-93 Biennial Budget

PROGRAM PURPOSE:

The 13 local Court Administrator offices in the Eighth Judicial District are responsible for creating and maintaining the official court records and for the effective administrative operations of the court in a particular county. The Office of the Court Administrator receives and files all official court documents, schedules all cases for hearing, collects all fees and fines, monitors the status of cases, issues legal process, enters official court orders and judgments. In addition, the Court Administrator may be responsible for assisting indigent defendants obtain legal counsel and for administering the local guardian ad litem program. Beginning 1-1-90 the local court administration function was funded by the state in this judicial district as a pilot project to highlight the administrative issues arising out of state funding of the courts at this level.

PERFORMANCE:

The Court Administrators in each of the counties are responsible for processing the 38,000 cases filed in the Eighth Judicial District during 1990, a 5% increase over the preceding year. Together with the Judges of the district, the Court Administrators are responsible for implementing the case management plan to expedite the cases in each county. Throughout the past year the Court Administrators have worked with the Office of the State Court Administrator in establishing budgets for the operations of the local courts, establishing the interface with the statewide accounting system, accounting and budgeting procedures, and effective cashflow management.

PROSPECTS:

The 1991 Legislature will need to decide whether to continue to fund the local court administrative offices of the Eighth Judicial District. Homestead and Agricultural Credit Aid has been reduced and fines have been transferred to the state in the 13 counties of the Eighth Judicial District to pay for the cost of the local court administration operation.

PLAN:

One Court Reporter position is requested. The felony/gross misdemeanor caseload has increased 58% since 1987 in Kandiyohi County where the Judge, to whom this position is to be assigned, primarily serves. The caseload for all types of cases has increased 58% in that county. One additional position for the Court Administrator's office in that county is also requested. The courts of the Eighth Judicial District request additional funding for inflationary costs associated with court operations due to the rising caseload.

In addition, the courts are requesting additional funding for guardian ad litem programs in the counties where the caseloads are growing and for psychiatric exams. If no supplemental funding is provided for salary increases, these costs cannot be absorbed within the existing budgets. Salary increases would have to be suspended. The minimal staff size in many of these counties, low salaries, and low turnover make vacancy savings an unlikely means of funding increases.

GOVERNOR'S RECOMMENDATION:

Recognizing the distinction between separate branches of government, the Governor respectfully acknowledges the right of the Trial Courts to present its budgetary needs directly to the Legislature for consideration.

1992-1993 BIENNIAL BUDGET
(DOLLARS IN THOUSANDS)

AGENCY: DISTRICT COURTS
PROGRAM: 8TH JUD DIST BUDG

				FY 1992			FY 1993		
ACTIVITY RESOURCE ALLOCATION:	FY 1989	FY 1990	Est. FY 1991	Adjusted Base	Agency Plan	Governor Recomm.	Adjusted Base	Agency Plan	Governor Recomm.
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
8TH JUD DIST BUDG		1,756	3,614	3,011	3,259	3,011	3,004	3,237	3,004
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL EXPENDITURES BY ACTIVITY		1,756	3,614	3,011	3,259	3,011	3,004	3,237	3,004
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
DETAIL BY CATEGORY:									
=====									
STATE OPERATIONS		1,526	3,614	3,011	3,259	3,011	3,004	3,237	3,004
LOCAL ASSISTANCE		230							
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL EXPENDITURES BY CATEGORY		1,756	3,614	3,011	3,259	3,011	3,004	3,237	3,004
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
SOURCES OF FINANCING:									
=====									
DIRECT APPROPRIATIONS:									
GENERAL		1,756	3,614	3,011	3,259	3,011	3,004	3,237	3,004
STATUTORY APPROPRIATIONS:									
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL FINANCING		1,756	3,614	3,011	3,259	3,011	3,004	3,237	3,004

ACTIVITY:
PROGRAM: Eight Judicial District
AGENCY: District Courts

1992-93 Biennial Budget

DECISION ITEM: Eight Judicial District

Dollars in Thousands			
<u>F.Y. 1992</u>	<u>F.Y. 1993</u>	<u>F.Y. 1994</u>	<u>F.Y. 1995</u>

AGENCY PLAN:

Expenditures			
General Fund	\$ 248	\$ 233	\$ 233
Revenues			
General Fund	\$ -0-	\$ -0-	\$ -0-

GOVERNOR'S RECOMMENDATION:

Expenditures			
General Fund	\$ -0-	\$ -0-	\$ -0-
Revenues			
General Fund	\$ -0-	\$ -0-	\$ -0-

Requires statutory change: _____ Yes X No
Statutes Affected:

ITEM SUMMARY:

One court reporter, one clerical staff position and operating cost increases due to rising criminal caseload.

RATIONALE:

One court reporter is requested. The felony/gross misdemeanor caseload has increased 58% since 1987 in Kandiyohi County where the Judge, to whom this position is to be assigned, primarily serves. The caseload for all types of cases has increased 48% in that county. One additional position for the Court Administrator's office in that county is also requested. The courts of the 8th Judicial District request additional funding for inflationary costs associated with court operations due to the rising caseload. In addition, the courts are requesting additional funding for guardian and ad litem programs in the counties where the caseloads are growing and for psychiatric exams.

GOVERNOR'S RECOMMENDATION:

Recognizing the distinction between separate branches of government, the Governor respectfully acknowledges the right of the Trial Courts to present its budgetary needs directly to the Legislature for consideration.

PROGRAM: Court Reporters
Agency: District Courts

1992-93 Biennial Budget

PROGRAM PURPOSE:

Court Reporters record the court procedures and testimony and serve as the secretary to the Judge. By statute each Judge may hire a Court Reporter, who serves at the pleasure of the Judge.

Current law provides for the state to assume responsibility for funding the salaries and operating expenses of Court Reporters effective 1-1-92. The law further provides a dollar for dollar reduction of county Homestead and Agricultural and Credit Aid for the transferred expenses. The budget is based on the 1991 operating costs to the counties and districts.

PERFORMANCE:

Each Court Reporter is required to make an accurate and complete verbatim record of court proceedings and to produce a transcript upon demand within the time specified by the Rules of Appellate Procedure. In addition, the Court Reporter types the correspondence, orders and memoranda of the Judge and serves as the personal secretary to the Judge facilitating the workflow of the Judge's office.

PROSPECTS:

The trial court anticipates absorbing most inflationary cost increases for the F.Y. 1992-93 biennium even though the level of budgeted expenditures varies among counties and districts.

PLAN:

Current law provides that Court Reporter services shall be state funded starting 1-1-92 and shall be transferred from the counties by using a Homestead and Agricultural Credit Aid reduction. The budget has been prepared based on the expenses which the counties are currently paying for Court Reporter salaries and operating costs, exclusive of transcript costs, which remain a county expense. In addition, a position is requested for Ramsey County if Referee positions are converted to Judgeships.

GOVERNOR'S RECOMMENDATION:

Recognizing the distinction between separate branches of government, the Governor respectfully acknowledges the right of the Trial Courts to present its budgetary needs directly to the Legislature for consideration.

1992-1993 B I E N N I A L B U D G E T
(DOLLARS IN THOUSANDS)

AGENCY: DISTRICT COURTS
PROGRAM: COURT REPORTERS

				FY 1992			FY 1993		
ACTIVITY RESOURCE ALLOCATION:	FY 1989	FY 1990	Est. FY 1991	Adjusted Base	Agency Plan	Governor Recomm.	Adjusted Base	Agency Plan	Governor Recomm.
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
COURT REPORTERS				7,051	7,127	7,051	14,102	14,254	14,102
=====				=====	=====	=====	=====	=====	=====
TOTAL EXPENDITURES BY ACTIVITY				7,051	7,127	7,051	14,102	14,254	14,102
DETAIL BY CATEGORY:									

STATE OPERATIONS				7,051	7,127	7,051	14,102	14,254	14,102
=====				=====	=====	=====	=====	=====	=====
TOTAL EXPENDITURES BY CATEGORY				7,051	7,127	7,051	14,102	14,254	14,102
SOURCES OF FINANCING:									

DIRECT APPROPRIATIONS:									
GENERAL				7,051	7,127	7,051	14,102	14,254	14,102
STATUTORY APPROPRIATIONS:									
=====				=====	=====	=====	=====	=====	=====
TOTAL FINANCING				7,051	7,127	7,051	14,102	14,254	14,102

ACTIVITY:
PROGRAM: Courts Reporters
AGENCY: District Courts

1992-93 Biennial Budget

DECISION ITEM: Court Reporter Costs

Dollars in Thousands			
<u>F.Y. 1992</u>	<u>F.Y. 1993</u>	<u>F.Y. 1994</u>	<u>F.Y. 1995</u>

AGENCY PLAN:

Expenditures					
General Fund	\$ 76	\$ 152	\$ 152	\$ 152	
Revenues					
General Fund	\$ -0-	\$ 0-	\$ -0-	\$ -0-	

GOVERNOR'S RECOMMENDATION:

Expenditures					
General Fund	\$ -0-	\$ -0-	\$ -0-	\$ -0-	
Revenues					
General Fund	\$ -0-	\$ -0-	\$ -0-	\$ -0-	

Requires statutory change: _____ Yes X No
Statutes Affected:

ITEM SUMMARY:

One position and additional operating cost funding for court reporting services.

RATIONALE:

One position is requested for Ramsey County if referee positions are converted to judgeships. Additional funding is requested in several districts to address equipment needs and operating cost increases.

GOVERNOR'S RECOMMENDATION:

Recognizing the distinction between separate branches of government, the Governor respectfully acknowledges the right of the Trial Courts to present its budgetary needs directly to the Legislature for consideration.

PROGRAM: Law Clerk Expenses
Agency: District Courts

1992-93 Biennial Budget

PROGRAM PURPOSE:

Law clerk operating costs are contained in this budget request. In 1990 the state assumed responsibility for funding Law Clerk salaries. Legislation provides for state assumption of Law Clerk operating costs in 1-1-92. These costs have been identified based upon the 1991 budgeted Law Clerk operating costs in the various counties and districts throughout the state. Current law provides that county Homestead and Agricultural Credit Aid should be reduced equal to the costs transferred to the state. Transferring the Law Clerk operating expenses to the state establishes a linkage between the funding responsibility and the policy setting responsibility at the same level of government. Judges are no longer able to exercise taxing authority by assessing the judicial district budget to the counties.

PERFORMANCE:

This budget provides minimal operating costs for Law Clerks, including telephone, postage, travel, supplies, and equipment maintenance and replacement.

PROSPECTS:

The caseload continues to grow. Gross misdemeanor caseload has increased 50% in the past four years. Felony caseload has increased 18% during that same period. The Legislature and the public continue to demand resolution of disputes within shorter and shorter time frames for good policy reasons. Prompt resolution of disputes tends to have a positive effect on deterring recidivism. The use of Law Clerks on site to assist with the processing of cases by performing legal research, drafting and reviewing court documents frees Judges from the routine of the case to concentrate on the decision making process and facilitates speedy disposition of the caseload.
PLAN:

The trial courts will manage expenses within the existing budgets with the exception of a requested increase for computerized legal research the Sixth and Eighth Districts to facilitate legal research.

GOVERNOR'S RECOMMENDATION:

Recognizing the distinction between separate branches of government, the Governor respectfully acknowledges the right of the Trial Courts to present its budgetary needs directly to the Legislature for consideration.

1992-1993 B I E N N I A L B U D G E T
(DOLLARS IN THOUSANDS)

AGENCY: DISTRICT COURTS
PROGRAM: LAW CLERK EXPENSES

				FY 1992			FY 1993		
				Adjusted	Agency	Governor	Adjusted	Agency	Governor
ACTIVITY RESOURCE ALLOCATION:	FY 1989	FY 1990	Est. FY 1991	Base	Plan	Recomm.	Base	Plan	Recomm.
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
LAW CLERK EXPENSES				501	523	501	996	1,030	996
=====				=====	=====	=====	=====	=====	=====
TOTAL EXPENDITURES BY ACTIVITY				501	523	501	996	1,030	996
=====									
DETAIL BY CATEGORY:									

STATE OPERATIONS				501	523	501	996	1,030	996
=====				=====	=====	=====	=====	=====	=====
TOTAL EXPENDITURES BY CATEGORY				501	523	501	996	1,030	996
=====									
SOURCES OF FINANCING:									

DIRECT APPROPRIATIONS:									
GENERAL				501	523	501	996	1,030	996
STATUTORY APPROPRIATIONS:									
=====				=====	=====	=====	=====	=====	=====
TOTAL FINANCING				501	523	501	996	1,030	996

ACTIVITY:
PROGRAM: Law Clerk Expenses
AGENCY: District Court

1992-93 Biennial Budget

DECISION ITEM: Law Clerk Expenses

	<u>Dollars in Thousands</u>			
	<u>F.Y. 1992</u>	<u>F.Y. 1993</u>	<u>F.Y. 1994</u>	<u>F.Y. 1995</u>

AGENCY PLAN:

Expenditures					
General Fund	\$ 22	\$ 34	\$ 34	\$ 34	
Revenues					
General Fund	\$ -0-	\$ -0-	\$ -0-	\$ -0-	

GOVERNOR'S RECOMMENDATION:

Expenditures					
General Fund	\$ -0-	\$ -0-	\$ -0-	\$ -0-	
Revenues					
General Fund	\$ -0-	\$ -0-	\$ -0-	\$ -0-	

Requires statutory change: _____ Yes X No
Statutes Affected:

ITEM SUMMARY:

Increased costs of Law Clerk Expenses.

RATIONALE:

Additional funding is needed to support operating costs for law clerks throughout the state and to provide computerized legal research in those districts which do not presently have access to it.

GOVERNOR'S RECOMMENDATION:

Recognizing the distinction between separate branches of government, the Governor respectfully acknowledges the right of the Trial Courts to present its budgetary needs directly to the Legislature for consideration.

PROGRAM: Referee Judicial/Officer Expenses
Agency: District Courts

1992-93 Biennial Budget

PROGRAM PURPOSE:

Referees serve an adjudicatory function similar to judges in Hennepin and Ramsey Counties, although the decisions of a referee are subject to review by a judge. A Judicial Officer performs as a judge in St. Louis County. These positions are counted in the weighted caseload study as judges and the judicial need of a district is calculated to include their services. Referees and Judicial Officers are paid 90% of the salary of a judge. They are subject to the assignment power of the Chief Judge of the District and may be assigned to hear any type of case. They are currently county funded. Because of their similarity to judges, current law provides to transfer of the salaries and operating expenses of these court officials to the state effective 1-1-92. The counties transferring these expenses will incur a dollar for dollar reduction in Homestead and Agricultural Credit Aid.

PERFORMANCE:

The Referees and Judicial Officers typically serve in family, probate, and juvenile divisions of the district court and specialize in a particular area of the law.

PROSPECTS:

Since Referees serve as judges, whose decisions can be reviewed by a district court Judge, an intermediate level of review is created at the district level. This level of review could be eliminated by providing for the conversion of these positions to judgeships, either immediately or as the incumbents leave or retire. The positions would then be accountable to the electorate for tenure in office.

PLAN:

The Trail Court is dependent upon a salary supplement for funding any salary increases for the employees in this budget. Law clerk support staff and operating expenses as budgeted by the county are transferred with this function.

GOVERNOR'S RECOMMENDATION:

Recognizing the distinction between separate branches of government, the Governor respectfully acknowledges the right of the Trail Courts to present its budgetary needs directly to the legislature for consideration.

1992-1993 B I E N N I A L B U D G E T
(DOLLARS IN THOUSANDS)

AGENCY: DISTRICT COURTS
PROGRAM: REFEREE/JUDICIAL OFFICER

				FY 1992			FY 1993		
			Est.	Adjusted	Agency	Governor	Adjusted	Agency	Governor
ACTIVITY RESOURCE ALLOCATION:	FY 1989	FY 1990	FY 1991	Base	Plan	Recomm.	Base	Plan	Recomm.
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
REFEREE/JUDICIAL OFFICER				1,314	1,314	1,314	2,627	2,627	2,627
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL EXPENDITURES BY ACTIVITY				1,314	1,314	1,314	2,627	2,627	2,627
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
DETAIL BY CATEGORY:									
=====									
STATE OPERATIONS				1,314	1,314	1,314	2,627	2,627	2,627
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL EXPENDITURES BY CATEGORY				1,314	1,314	1,314	2,627	2,627	2,627
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
SOURCES OF FINANCING:									
=====									
DIRECT APPROPRIATIONS:									
GENERAL				1,314	1,314	1,314	2,627	2,627	2,627
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
STATUTORY APPROPRIATIONS:									
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL FINANCING				1,314	1,314	1,314	2,627	2,627	2,627

PROGRAM: Judge Expenses
Agency: District Courts

1992-93 Biennial Budget

PROGRAM PURPOSE:

The Supreme Court Task Force on Financing of the Trial Courts has recommended transfer of all costs associated with Law Clerks, Court Reporters, Referees, Judicial Officers and Judges, costs previously associated generally with the district budget. Judge-related travel expenses have been paid by the state for many years. Counties have paid overhead costs in many instances. The expenses in this budget are the Judge-related operating costs - telephone, communications, equipment maintenance, supplies - currently paid from county or judicial district budgets. Transfer of these expenses to the state using the dollar for dollar Homestead and Agricultural Credit Aid reduction mechanism is requested.

PERFORMANCE:

Trial court Judges hold court in each of the counties in Minnesota. In each court the Judge has an office available. Each Judge is assigned a primary chamber where the Judge routinely performs the ministerial and administrative functions of the office.

PROSPECTS:

In the various court offices Judges incur communications costs (telephone and postage) to accomplish the work of the courts and use consumable supplies in the routine functioning of the office. Maintenance and replacement costs for routinely used equipment has been budgeted.

PLAN:

It is anticipated that the counties would continue to provide facilities free of charge for the operation of the courts in each county. In the event of a major courthouse remodeling, the county would be responsible, as part of the renovation cost, for furnishing the court facilities. For occasional replacement of furniture, and for equipment, the state would be responsible.

GOVERNOR'S RECOMMENDATION:

Recognizing the distinction between separate branches of government, the Governor respectfully acknowledges the right of the Trial Courts to present its budgetary needs directly to the legislature for consideration.

1992-1993 B I E N N I A L B U D G E T
(DOLLARS IN THOUSANDS)

AGENCY: DISTRICT COURTS
PROGRAM: JUDGES EXPENSES

				FY 1992			FY 1993		
			Est.	Adjusted	Agency	Governor	Adjusted	Agency	Governor
ACTIVITY RESOURCE ALLOCATION:	FY 1989	FY 1990	FY 1991	Base	Plan	Recomm.	Base	Plan	Recomm.
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
JUDGES EXPENSES					605			1,210	
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL EXPENDITURES BY ACTIVITY					605			1,210	
DETAIL BY CATEGORY:									

STATE OPERATIONS					605			1,210	
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL EXPENDITURES BY CATEGORY					605			1,210	
SOURCES OF FINANCING:									

DIRECT APPROPRIATIONS:									
GENERAL					605			1,210	
STATUTORY APPROPRIATIONS:									
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL FINANCING					605			1,210	

ACTIVITY:**1992-93 Biennial Budget****PROGRAM:** Judge Expenses**AGENCY:** District Courts**DECISION ITEM:** Judge Expenses

	<u>Dollars in Thousands</u>			
	<u>F.Y. 1992</u>	<u>F.Y. 1993</u>	<u>F.Y. 1994</u>	<u>F.Y. 1995</u>

AGENCY PLAN:**Expenditures**

General Fund	\$ 605	\$ 1,210	\$ 1,210	\$ 1,210
--------------	--------	----------	----------	----------

Revenues

General Fund	\$ 605	\$ 1,210	\$ 1,210	\$ 1,210
--------------	--------	----------	----------	----------

GOVERNOR'S RECOMMENDATION:**Expenditures**

General Fund	\$ -0-	\$ -0-	\$ -0-	\$ -0-
--------------	--------	--------	--------	--------

Revenues

General Fund	\$ -0-	\$ -0-	\$ -0-	\$ -0-
--------------	--------	--------	--------	--------

Requires statutory change: X Yes No**Statutes Affected:** Requires change in the tax bill to use HACA offset**ITEM SUMMARY:**

In the various court offices Judges incur communications costs (telephone and postage) to accomplish the work of the courts and use consumable supplies in the routine functioning of the office. Maintenance and replacement costs for routinely used equipment has been budgeted.

GOVERNOR'S RECOMMENDATION:

Recognizing the distinction between separate branches of government, the Governor respectfully acknowledges the right of the Trial Court to present its budgetary needs directly to the legislature for consideration.

AGENCY: Client Security Board

1992-93 Biennial Budget

MISSION:

The Client Security Board reviews claims by clients who have been defrauded by lawyers and reimburses clients for losses up to \$50,000.

OPERATIONS:

In F.Y. 1988 and F.Y. 1989 the Board reimbursed clients over \$700,000 in claims. In F.Y. 1990 over \$250,000 was reimbursed. The Board contemplates continuing reimbursements in future years at \$350,000 per year.

REVENUE:

This function is supported by an assessment against all licensed lawyers and by the interest earned on that assessment.

	<u>F.Y. 1989</u>	<u>F.Y. 1990</u>	<u>F.Y. 1991</u>	<u>F.Y. 1992</u>	<u>F.Y. 1993</u>
Dedicated Revenue	172	151	164	120	120

MAJOR POLICY DRIVERS:

In exercising its constitutional responsibility to supervise the practice of law, the Supreme Court has created a regulatory board to monitor compliance with its rules. The Supreme Court is responsible for the fees assessed attorneys which fund the regulatory operations.

EXPLANATION OF BUDGET ISSUES AND ALTERNATIVES:

No general fund monies are requested as this agency is funded by an assessment from attorneys.

GOVERNOR'S RECOMMENDATION:

Recognizing the distinction between separate branches of government, the Governor respectfully acknowledges the right of the Client Security Board to present its budgetary needs directly to the Legislature.

1992-1993 BIENNIAL BUDGET
(DOLLARS IN THOUSANDS)

AGENCY: CLIENT SECURITY BOARD
PROGRAM: CLIENT SECURITY BOARD

				FY 1992			FY 1993		
			Est.						
ACTIVITY RESOURCE ALLOCATION:	FY 1989	FY 1990	FY 1991	Adjusted Base	Agency Plan	Governor Recomm.	Adjusted Base	Agency Plan	Governor Recomm.
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
CLIENT SECURITY BOARD	260	284	375	375	375	375	375	375	375
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL EXPENDITURES BY ACTIVITY	260	284	375	375	375	375	375	375	375
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
DETAIL BY CATEGORY:									
=====									
STATE OPERATIONS	260	284	375	375	375	375	375	375	375
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL EXPENDITURES BY CATEGORY	260	284	375	375	375	375	375	375	375
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
SOURCES OF FINANCING:									
=====									
DIRECT APPROPRIATIONS:									
STATUTORY APPROPRIATIONS:									
SPECIAL REVENUE	260	284	375	375	375	375	375	375	375
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL FINANCING	260	284	375	375	375	375	375	375	375
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====

MISSION:

Under the supervision and direction of the Supreme Court, the State Board of Continuing Legal Education accredits courses and programs which will satisfy continuing legal education requirements, discovers and encourages the offering of such courses and programs, and ensures compliance by lawyers licensed by the court.

The board monitors the compliance of the 16,000+ state attorneys with the continuing legal education program requirements.

The objective of this agency is to ensure that practicing attorneys continue their legal education.

Also included in this agency presentation is the Board of Legal Certification. Although this is a free standing board, it receives administrative services through the Board of Continuing Legal Education.

Under the supervision and direction of the Supreme Court, the Board of Legal Certification approves the designation of areas of legal specialization, specifies the certification requirements and accredits the certifying agency.

The board receives petitions from 2 or 3 certifying agents annually. These petitions specify areas of legal specialty and identify qualifications to be certified as a specialist. The designation of a legal specialization assists the public in identifying lawyers with experience and expertise in handling particular types of legal claims.

The board reviews the experience and education proposed for certification of a specialty and the ability of the certifying agency to assess compliance with the criteria. The board approves the certifying agency which in turn examines applicants seeking to qualify as specialists.

ACTIVITY STATISTICS:	<u>F.Y. 1989</u>	<u>F.Y. 1990</u>	<u>F.Y. 1991</u>	<u>F.Y. 1992</u>	<u>F.Y. 1993</u>
Number of Attorneys	5,500	5,500	5,500	5,500	5,500

MAJOR POLICY DRIVERS:

In exercising its constitutional responsibility to supervise the practice of law, the Supreme Court has created a regulatory board to monitor compliance with its rules. The Supreme Court is responsible for the fees assessed attorneys which fund the regulatory operations.

EXPLANATION OF BUDGET ISSUES AND ALTERNATIVES:

Dedicated funds from attorney registration fees and fees for certifying legal specialties support this agency. No monies are from the General Fund.

GOVERNOR'S RECOMMENDATION:

Recognizing the distinction between separate branches of government, the Governor respectfully acknowledges the right of the Board of Continuing Legal Education to present its budgetary needs directly to the Legislature.

1992-1993 B I E N N I A L B U D G E T
(DOLLARS IN THOUSANDS)

AGENCY: CONTINUING LEGAL ED
PROGRAM: CONT LEGAL ED OPS

				FY 1992			FY 1993		
			Est.	Adjusted	Agency	Governor	Adjusted	Agency	Governor
ACTIVITY RESOURCE ALLOCATION:	FY 1989	FY 1990	FY 1991	Base	Plan	Recomm.	Base	Plan	Recomm.
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
CONT LEGAL ED OPS	150	141	155	155	155	155	155	155	155
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL EXPENDITURES BY ACTIVITY	150	141	155	155	155	155	155	155	155
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
DETAIL BY CATEGORY:									
=====									
STATE OPERATIONS	150	141	155	155	155	155	155	155	155
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL EXPENDITURES BY CATEGORY	150	141	155	155	155	155	155	155	155
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
SOURCES OF FINANCING:									
=====									
DIRECT APPROPRIATIONS:									
STATUTORY APPROPRIATIONS:									
SPECIAL REVENUE	150	141	155	155	155	155	155	155	155
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL FINANCING	150	141	155	155	155	155	155	155	155
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====

Board on Judicial Standards
Position and Employee Status Information

Position Reconciliation:

	Current <u>F.Y. 1991</u>	Requested <u>For 6-30-93</u>
Authority:		
Legislative Complement:		
General Fund	<u>2.0</u>	<u>2.0</u>
Total Permanent Positions	2.0	2.0
TOTAL Positions	2.0	2.0
Employees on 6-30-90	2.0	

Employees by Employment Status:

	<u>6-30-90</u>
Full-Time Unlimited	<u>2.0</u>
TOTAL	2.0

pesi.jsb
02/06/91 12:56 pm jc

MISSION:

The Board on Judicial Standards' mission is to ensure the public's confidence in a respectable, independent and ethical judiciary. This goal is to be accomplished within the powers and restrictions in M.S. 490.16 and the rules of the board promulgated by the Supreme Court. The board is authorized to receive complaints from the public concerning misconduct or unethical conduct of judges, to investigate these matters, to hold formal hearings and to make disciplinary recommendations to the Supreme Court. It may recommend to the Supreme Court the retirement of a judge for disability, or the censure or removal of a judge for:

1. action or inaction that may constitute persistent failure to perform duties;
2. habitual intemperance; or
3. conduct prejudicial to the administration of justice that brings the judicial office into disrepute.

In assuring a respectable judiciary, the board has also taken care to preserve the rights and dignity of the individual judges. The board has become involved in educational programs at judge's seminars, issuing advisory opinions to the judges, and generally, creating an awareness among the judges of proper judicial behavior. The board emphasizes to the judges their obligations to uphold the integrity of the judicial process and to avoid any appearances of impropriety which might impair this integrity. The existence of our agency offers the public an opportunity to contribute to the maintenance of a respectable judiciary.

MAJOR POLICY DRIVERS:

The major activity of the board concerns the processing and investigation of complaints received. Prompt consideration and final disposition of these complaints has been a basic concern of this board. Each year the number of complaints has increased. In calendar year 1975, 41 complaints were received. This increased to 156 complaints in calendar year 1990. The number of judges has increased slightly over the years, but does not correlate with the increased number of complaints. The board feels the increase has resulted from the public's awareness of the agency. In the last legislative session, more judicial positions were created and over a period of time, will increase the complaints received by this board. Two hundred (200) complaints are estimated to be received in F.Y. 1992 and 210 complaints are estimated for F.Y. 1993. In addition, to each complaint actually processed by the board, there are approximately 4 other significant inquiries or potential complaints that are obviated or otherwise satisfactorily resolved by telephone communication or correspondence. As much of the board's time is spent in the response to potential complaints, as in the processing of the actual complaints as shown by the statistics.

The board also receives numerous inquiries from the judges concerning issues regarding judge's conduct as it relates to the Code of Judicial Conduct. The board has recently entered upon a program of issuing advisory opinions to judges making inquiry about ethical considerations in particular situations. It is the belief of the board that such opinions will be helpful to judges and tend to establish a base of information giving guidance to judges and assurance to the public that the judges are being advised in these matters.

To achieve a respectable judiciary, the board believes educating the judges concerning judicial ethics is also a paramount responsibility of this board. The board has, through its members and executive secretary, attended meetings of the District Judges Association and the State Bar Association and has given presentations to these organizations in matters of judicial ethical conduct. It is the belief of the board that these informational meetings have been curative in assisting judges to avoid situations leading to violations of the code of judicial conduct. Also, the board has disposed of marginal complaints by warning the judge, or impressing upon the judge, awareness of the code of judicial conduct and what is expected in regard to judicial ethics.

M.S. 546.27 has given the board the responsibility to monitor the judges' compliance with this statute in issuing their orders in a timely manner. The board has enacted a policy to review compliance twice a year. By the board's active participation under requirements of this statute, the judges are informed of their obligations and duties to assure an effective and efficient judiciary.

EXPLANATION OF BUDGET ISSUES AND ALTERNATIVES:

This agency has an increasingly difficult task in budgeting within the constraints of this biennium. The board is unique in its function and can only depend on funding from the legislature. Income from other sources, i.e., attorneys or judges, would create an appearance of undue reliance on or influence by the legal community. The board is a creature of the legislature and independent of the legal system. The public's perception of an independent body to evaluate and to investigate complaints against judges would be tainted if additional or supplementary funding came from a specific source. Thus, the board is limited in this respect and must depend on funding solely from the legislature. The board is also prohibited, by the legislation creating it, from receiving services from other state or public agencies.

Another difficult issue is the inability of the board to fully convey the details of its operation and needs due to the stricture of confidentiality. Such confidentiality assures fairness to the individual judges under scrutiny and privacy to the complainants against the judges or any witnesses or informants who are asked to respond to the particulars of a complaint. When in its presentation the board is asked to divulge its files, it cannot do so because of the confidentiality imposed by its rules adopted by the Supreme Court. As a result, the statistics and actions of the board are not as vivid and detailed as can be expected of other agencies of government.

Working within the constraints of this biennium, the only base adjustments were the salary annualization and increasing miscellaneous payroll (08) to comply with the statutory increase of M.S. 15.075, Subd 3. All of the other expenditures relate to minimal daily operating expenditures. The board has been extremely conservative in its budgets in the past bienniums with no increases in expenditures and no increases in staff/personnel in spite of the increased scope of operations and responsibilities. The increases in costs by inflation which may effect the board's operation and certain services may have to be eliminated as need be.

The main statutory function of the board is definitely unattainable within the funds as proposed for F.Y. 1992 and F.Y. 1993. If a complaint warrants disciplinary action against a judge, the board would be unable to proceed to the stage of a formal complaint. The board has annually experienced, over the past several years, the emergence of a major disciplinary case, requiring the retention of outside counsel and the requirement of a full hearing. Each case has required the board to request additional funds from the Legislative Advisory Committee (LAC) during the process of the disciplinary action. The board has, in a sense, "gambled" on the notion that funds from the LAC would be available and received. This biennium, only \$29 is available each fiscal year for this activity (Code 16). For this reason, the board requests funding for a contingency fund of \$150 for the next biennium to be drawn upon as required in a matter of a disciplinary proceeding. The contingency fund would be restricted to that purpose alone. The requested figure is calculated as an average total cost from previous disciplinary proceedings by the board. By this allocation of a fund, the board could proceed in a matter of serious misconduct, fulfilling its statutory responsibility, and not be hindered, or perhaps even prevented, from proceeding on a complaint warranting disciplinary action.

GOVERNOR'S RECOMMENDATION:

Recognizing the distinction between separate branches of government, the Governor respectfully acknowledges the right of the Board of Judicial Standards to present its budgetary needs directly to the Legislature for consideration.

1992-1993 B I E N N I A L B U D G E T
(DOLLARS IN THOUSANDS)

AGENCY: JUDICIAL STDS, BD OF
PROGRAM: JUDICIAL STANDARDS BOARD - OPERATI

				FY 1992			FY 1993		
			Est.						
ACTIVITY RESOURCE ALLOCATION:	FY 1989	FY 1990	FY 1991	Adjusted Base	Agency Plan	Governor Recomm.	Adjusted Base	Agency Plan	Governor Recomm.
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
JUDICIAL STANDARDS BOARD - OPERATI	124	138	201	171	171	171	171	171	171
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL EXPENDITURES BY ACTIVITY	124	138	201	171	171	171	171	171	171
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
DETAIL BY CATEGORY:									
=====									
STATE OPERATIONS	124	138	201	171	171	171	171	171	171
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL EXPENDITURES BY CATEGORY	124	138	201	171	171	171	171	171	171
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
SOURCES OF FINANCING:									
=====									
DIRECT APPROPRIATIONS:									
GENERAL	124	138	201	171	171	171	171	171	171
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
STATUTORY APPROPRIATIONS:									
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL FINANCING	124	138	201	171	171	171	171	171	171
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====

BASE RECONCILIATION REPORT
for 1992-1993 Biennium

AGENCY: JUDICIAL STDS, BD OF

	ALL FUNDS		GENERAL FUND		OTHER STATE FUNDS		FEDERAL FUNDS	
	F.Y.92	F.Y.93	F.Y.92	F.Y.93	F.Y.92	F.Y.93	F.Y.92	F.Y.93
F.Y.91 FUNDING LEVEL	201	201	201	201				
APPROPRIATIONS CARRIED FWD	<31>	<31>	<31>	<31>				
SALARY ANNUALIZATION	1	1	1	1				
TOTAL	171	171	171	171				
BIENNIAL TOTAL		342		342				

AGENCY: Law Examiners, Board of

1992-93 Biennial Budget

MISSION:

Under the supervision and direction of the Supreme Court, the State Board of Law Examiners screens and tests candidates for admission to the practice of law and advises the Court of developments in the field of bar admissions.

The Board of Law Examiners screens an average of 1,000 applicants for admission to the practice of law each year, administers standardized national and locally developed tests and recommends to the Supreme Court the admission of successful applicants.

The objective of the agency is to administer procedures and develop standards which reasonably guard against the admission to the practice of law of unqualified persons.

	<u>F.Y. 1989</u>	<u>F.Y. 1990</u>	<u>F.Y. 1991</u>	<u>F.Y. 1992</u>	<u>F.Y. 1993</u>
Number of Attorneys Examined	1,000	1,000	1,000	1,000	1,000

MAJOR POLICY DRIVERS:

In exercising its constitutional responsibility to supervise the practice of law, the Supreme Court has created a regulatory board to monitor compliance with its rules. The Supreme Court is responsible for the fees assessed attorneys which fund the regulatory operations.

REVENUE:

The agency is supported by dedicated revenue from attorney registration fees and bar examination fees.

	<u>Actual</u> <u>F.Y. 1989</u>	<u>Actual</u> <u>F.Y. 1990</u>	<u>Estimate</u> <u>F.Y. 1991</u>	<u>Estimate</u> <u>F.Y. 1992</u>	<u>Estimate</u> <u>F.Y. 1993</u>
Dedicated	\$563	\$570	\$685	\$672	\$672

EXPLANATION OF BUDGET ISSUES AND ALTERNATIVES:

Funds are derived from attorney registration fees and admission fees; no monies are from the General Fund.

GOVERNOR'S RECOMMENDATION:

Recognizing the distinction between branches of government, the Governor respectfully acknowledges the right of the Board of Law Examiners to present its budgetary needs directly to the Legislature

1992-1993 B I E N N I A L B U D G E T
(DOLLARS IN THOUSANDS)

AGENCY: LAW EXAMINERS, BD OF
PROGRAM: LAW EXAM OPS

ACTIVITY RESOURCE ALLOCATION:	FY 1989	FY 1990	Est. FY 1991	FY 1992			FY 1993		
				Adjusted Base	Agency Plan	Governor Recomm.	Adjusted Base	Agency Plan	Governor Recomm.
LAW EXAM OPS	489	529	715	715	715	715	715	715	715
TOTAL EXPENDITURES BY ACTIVITY	489	529	715	715	715	715	715	715	715
DETAIL BY CATEGORY:									
STATE OPERATIONS	489	529	715	715	715	715	715	715	715
TOTAL EXPENDITURES BY CATEGORY	489	529	715	715	715	715	715	715	715
SOURCES OF FINANCING:									
DIRECT APPROPRIATIONS:									
STATUTORY APPROPRIATIONS:									
SPECIAL REVENUE	489	529	715	715	715	715	715	715	715
TOTAL FINANCING	489	529	715	715	715	715	715	715	715

MISSION:

Under the supervision and direction of the Supreme Court, the Lawyers Professional Responsibility Board advises lawyers about ethical questions arising from the practice of law and responds to citizen complaints about the actions of lawyers.

The board receives, investigates and assists in the disposition of complaints about the 16,000 lawyers licensed to practice law in Minnesota.

The objective of the Lawyers Professional Responsibility Board is to insure that the public is served by lawyers whose legal practices conform to the Code of Professional Responsibility adopted by the Supreme Court.

	<u>F.Y. 1989</u>	<u>F.Y. 1990</u>	<u>F.Y. 1991</u>	<u>F.Y. 1992</u>	<u>F.Y. 1993</u>
Complaints Filed	1,200	1,200	1,200	1,200	1,200
Complaints Closed	1,150	1,150	1,150	1,150	1,150

MAJOR POLICY DRIVERS:

In exercising its constitutional responsibility to supervise the practice of law, the Supreme Court has created a regulatory board to monitor compliance with its rules. The Supreme Court is responsible for the fees assessed attorneys which fund the regulatory operations. Dedicated funds support this agency, earned from attorney registration and legal corporation registration fees. Revenue also is obtained from collection of judgments against disciplined attorneys and a contract with the Client Security Board for staff services.

EXPLANATION OF BUDGET ISSUES AND ALTERNATIVES:

No General Fund monies are requested as this agency is funded from attorney registrations.

GOVERNOR'S RECOMMENDATIONS:

Recognizing the distinction between separate branches of government, the Governor respectfully acknowledges the right of the Board of Lawyers Professional Responsibility to present its budgetary needs directly to the Legislature.

1992-1993 B I E N N I A L B U D G E T
(DOLLARS IN THOUSANDS)

AGENCY: PROFSNL RESP, BD OF
PROGRAM: PROFESSIONAL RESPON BD

				FY 1992			FY 1993		
			Est.	Adjusted	Agency	Governor	Adjusted	Agency	Governor
ACTIVITY RESOURCE ALLOCATION:	FY 1989	FY 1990	FY 1991	Base	Plan	Recomm.	Base	Plan	Recomm.
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
PROF RESPON OPS	976	1,113	1,295	1,295	1,295	1,295	1,295	1,295	1,295
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL EXPENDITURES BY ACTIVITY	976	1,113	1,295	1,295	1,295	1,295	1,295	1,295	1,295
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
DETAIL BY CATEGORY:									
=====									
STATE OPERATIONS	976	1,113	1,295	1,295	1,295	1,295	1,295	1,295	1,295
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL EXPENDITURES BY CATEGORY	976	1,113	1,295	1,295	1,295	1,295	1,295	1,295	1,295
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
SOURCES OF FINANCING:									
=====									
DIRECT APPROPRIATIONS:									
STATUTORY APPROPRIATIONS:									
SPECIAL REVENUE	976	1,113	1,295	1,295	1,295	1,295	1,295	1,295	1,295
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL FINANCING	976	1,113	1,295	1,295	1,295	1,295	1,295	1,295	1,295

1992-93 BIENNIAL BUDGET

PROGRAM STRUCTURE

AGENCY: PUBLIC DEFENSE, BOARD OF

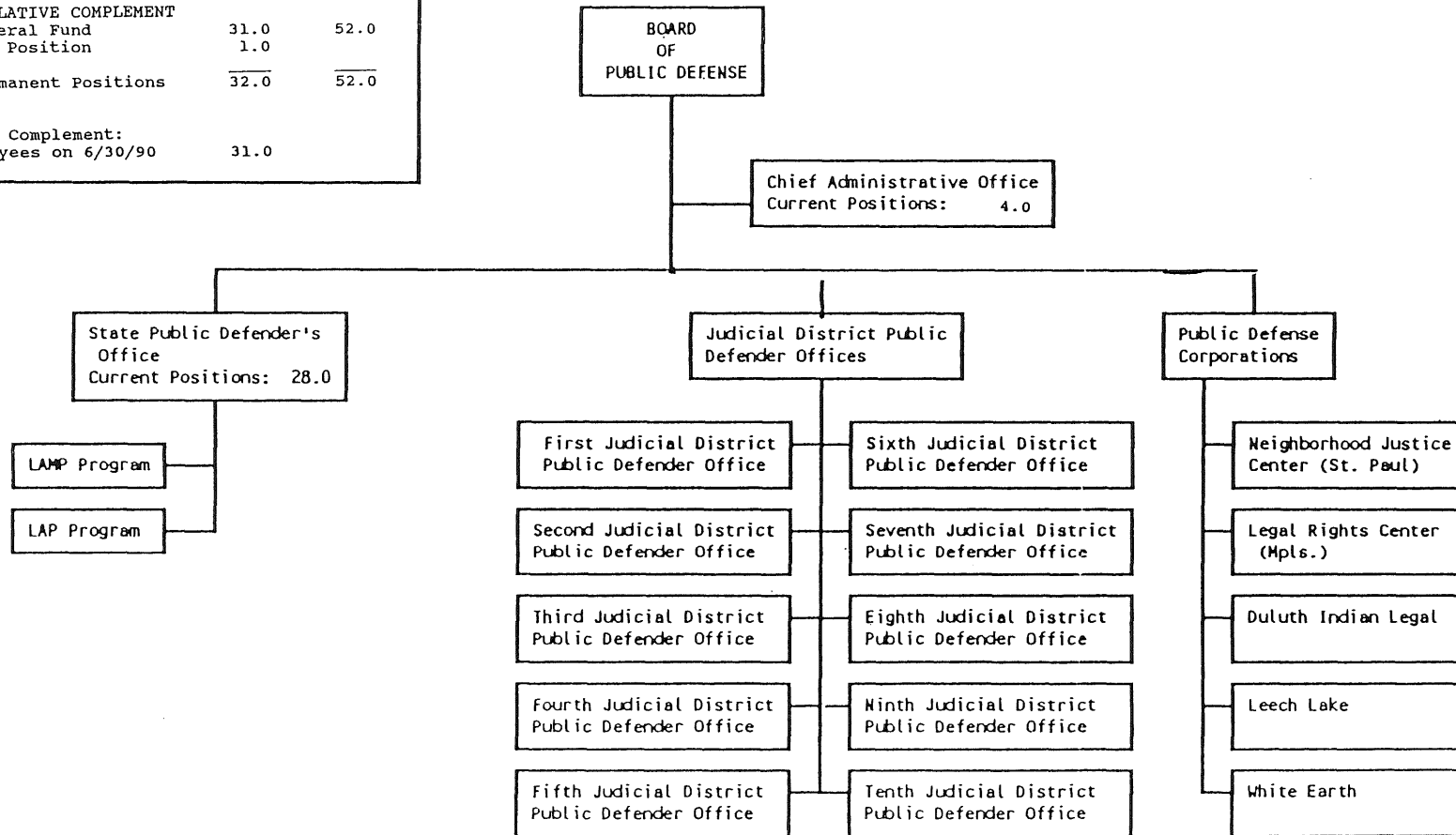
PROGRAMS

PAGE

State Public Defender	83
Public Defense, Board of	83
District Public Defense	83

BOARD OF PUBLIC DEFENSE

POSITIONS RECONCILIATION		
Authority:	Current F.Y.91	Requested For 6/30/92
LEGISLATIVE COMPLEMENT		
General Fund	31.0	52.0
LAC Position	1.0	
TOTAL	32.0	52.0
Other Complement:		
Employees on 6/30/90	31.0	



MISSION:

The Board of Public Defense is a Judicial Branch agency whose purpose is to provide quality criminal defense services to indigent defendants in the state of Minnesota through a cost effective and efficient public defender system.

The Board of Public Defense was created by the Legislature in 1981 and consists of 7 members: 4 lawyers and 1 district court judge appointed by the Supreme Court and 2 public members appointed by the Governor. The statutory duties of the Board are contained in M.S. 611.215 through 611.27. The responsibilities of the Board include: appointing the State Public Defender, who supervises the appellate office of the public defender system; selecting a trial court District Public Defender in each of the 10 Judicial Districts; and hiring a Chief Administrator to the Board to implement its policies. As a state agency, the Board receives and distributes an appropriation from the Legislature to pay for the costs of the State Public Defender's Office, the 10 Judicial District Public Defender offices, and the Board's Administrative Services Office. From that appropriation, the Board also makes grants to 5 Public Defense Corporations, which serve minority clients in the Twin Cities and northern Minnesota. In addition, the Board sets standards for the operation of all the public defender offices under its jurisdiction. These standards apply as well to the county-based appointed counsel systems which otherwise do not fall under the supervision of the Board.

MAJOR POLICY DRIVERS:

Within this narrative will be an identification of major policy decisions that affect the workload and budget capacity of the public defender system in the state of Minnesota. Prior to identifying those major policy decisions, it is important to state that the public defender system does not and cannot control its client intake or workload. These important variables are controlled by external circumstances, such as Constitutional mandates, Legislative policies, Supreme Court Rules, Sentencing Guideline changes, Statutory changes, judicial calendaring changes and Department of Corrections policies, etc., which the Board does not direct. Equally important, the current system of Legislative Biennial appropriations for the Board of Public Defense is extremely difficult to administer since many variables that increase caseloads, such as local funding of police and prosecutors, occur on an annual, or in some cases, a 6 month budget cycle. For example, when a City decides to add more police officers or a County decides to add more prosecutors to concentrate on drug arrests, the Public Defender system within that locality has no ability to match those increased services under the current State budgeting system. Another example is money collected and used by prosecutorial and police agencies as a result of forfeitures. In many cases, the use of this money is outside the budget review of the local governmental entity. The availability of forfeiture money to police and prosecutors allows those agencies to either add additional personnel to their departments or increase their services, without the defense having an opportunity to do the same. The Board's public defender services are driven by external forces not under its control, many of which are described in the Major Policy Drivers outlined below.

The following are major policy developments that affect legal services to the indigent within the state of Minnesota.

Right of Representation:

Under Minnesota Law, all individuals accused of a felony, gross misdemeanor or misdemeanor crime are entitled to be represented by an attorney before, during and after their trial. Individuals undergoing civil commitment, paternity, non-support, extradition or contempt proceedings, as well as juveniles subject to judicial proceedings, are also entitled to representation by an attorney. If an individual who is accused in one of the above proceedings cannot afford the services of a private attorney and demonstrates an inability to afford such services, the Court will appoint a Public Defender to represent that individual. The defense of accused persons is Constitutionally mandated

and must be provided even when such costs are borne by the public. In Gideon v. Wainwright, 372 U.S. 335 (1963), the United States Supreme Court held that the Sixth Amendment right to counsel was applicable to the State, through the due process clause, in all felony prosecutions. Juveniles were accorded the right to counsel by the Court in In Re Gault, 387 U.S. 1, (1967). Subsequently, in Argersinger v. Hamline, 407 U.S. 25 (1972), the Court further extended the right to counsel to those misdemeanor cases that can lead to imprisonment.

1988/89 State Policy Committees

The 1988 Legislature created 2 committees, the State and Local Services/Fiscal Responsibility Study Committee instituted by the Governor's Council on State and Local Relations, and the Supreme Court State Financing Task Force created by Chapter 582, Section 2, which examined the existing funding of public defender systems statewide. The primary issue they examined was whether or not Counties should continue to pay for mandated public defender programs. Both of these committees recommended that the State should begin a process of funding Judicial District Public Defender Offices. The 1989 Legislature adopted the basic principle of those Committees' recommendations and began a phased approach to funding Judicial District Public Defender Offices through State appropriations in F.Y. 1991. Presently, the State pays for all public defender representation of indigents accused of committing felonies and gross misdemeanors, and, in the Second, Fourth and Eighth Judicial Districts, for representation of juveniles and those accused of committing misdemeanors as well.

1990 State Policy Committees

The Legislature directed that there be a continued examination and identification of other components of the public defender system not under the State's jurisdiction. It further directed that it associate costs with those components for possible conversion to State funding in the future. A new task force on Juvenile Representation was created. The Juvenile Representation Task Force recommended that new eligibility criteria for representation of juveniles be enacted. It further recommended that a study be conducted to identify the costs of the new eligibility criteria so that the Legislature would have that information prior to deciding whether or not the State should take over funding of this area. A second recommendation for immediate implementation was that an appellate team be instituted to handle all juvenile appeals. The State Court Financing Task Force made an additional recommendation for the continued assumption by the State of misdemeanor and juvenile public defender costs statewide. If sufficient resources were not available, the Task Force recommended that the State should pay for such costs in the Third and Sixth Judicial Districts. If this recommendation were accepted and funded, there would then be full public defender representation in the Second, Third, Fourth, Sixth and Eighth Judicial Districts, leaving 5 Judicial Districts still to be funded in the future in the misdemeanor and juvenile criminal area.

Weighted Caseload Study.

In 1989, the Legislature appropriated \$16,910,000 of State funds to the Board of Public Defense to provide representation in all Judicial Districts for indigent felony and gross misdemeanor cases and representation of juveniles and misdemeanants in Hennepin and Ramsey Counties. These funds became available for distribution to the Judicial Districts on July 1, 1990. With the exception of the Second, Fourth, and Eighth Judicial Districts, the responsibility for misdemeanor, juvenile and other cases requiring appointment of counsel remains with the individual counties.

In order to properly administer the newly implemented statewide system, the Legislature in 1989 also appropriated \$100,000 to the Board of Public Defense to conduct a weighted caseload study. The Legislature recognized that such a study was necessary to develop reliable caseload standards throughout the state to substantiate further appropriations to the statewide system.

The basic design of the weighted caseload study is to determine the estimated time that it takes the average public defender in the State of Minnesota to perform various case-related and non-case-related activities. The design of the study permits the Board of Public Defense to develop appropriate caseload standards for various regions of the State that would reflect differences in

practice and procedures, travel time, waiting time, etc. The results of the study will provide both a comprehensive management planning tool for the Board of Public Defense, as well as a set of caseload standards that can be built into a funding formula which will permit the Board and the Legislature to plan and budget for public defender expenditures in a more reliable and realistic way in the future.

Presently, the weighted caseload study is due for completion in December, 1990, with presentation to the Minnesota Legislature in January, 1991. M.S. 611.27, Subdivision 1 (c) states that: "Money appropriated to the State Board of Public Defense for the Board's administration, for the State Public Defender, for the Judicial District Public Defenders, and for the Public Defense Corporations shall be expended as determined by the Board. In distributing funds to the District Public Defenders, the Board shall consider the results of the weighted caseload study." Although the weighted caseload study has not been completed, preliminary results indicate that there is a significant need to increase substantially the public defender staff and their resources to meet minimum standard levels of representation within the State.

EXPLANATION OF BUDGET ISSUES AND ALTERNATIVES:

The Board of Public Defense, after conducting public hearings, reviewing agency data sources and examining projected caseload increases, has determined that the following significant budget issues warrant attention by the Legislature.

Base Adjustments

Base adjustments are those limited number of budgetary increases that the Finance Department allows an agency to carry forward in its base budget for the next Biennium. These adjustments are normally factors like analyzing the cost of salary increases, new program costs, rent increases or other items beyond the control of the agency. Currently, the portion of the budget allocated to Judicial District Public Defender offices is not eligible for those base adjustments. The result is that not only is the Board treated differently than other State funded agencies, but the provision of quality mandated legal services is threatened, as costs which are beyond the agency's control are not accommodated in the budget. This problem essentially creates a situation in which the Judicial District Public Defenders are one to two years behind in resource allocations in just attempting to continue their base level funding. This situation does not allow personnel under the Board's jurisdiction to react to their increased caseload or the increased resources available to local prosecutors and law enforcement agencies.

Salary Supplement

For the reasons listed above, Judicial District Public Defenders under the jurisdiction of the Board of Public Defense are not eligible to receive salary increases through the Salary Supplement. Because of this discrepancy, this puts enormous pressure on the Board's budget and it can no longer accommodate salary increases within existing resources. The primary problem that exists is that as attorney hours increase, Judicial District Public Defenders are putting in more hours for less compensation, and equally problematic, the Board is unable to compensate those attorneys for cost of living increases as other State and local agencies are able to do. As in the case of base adjustments above, Judicial District Public Defenders under the State's jurisdiction are treated differently than employees of other State agencies.

New Position Requests/Salary Increases

A major budget issue that confronts the Board relates to the current funding process of providing

or new positions and salary increases. The Policy Drivers identified in the narrative above, combined with information derived from existing data sources indicate that there is a significant need to increase current staff complements. Preliminary results of the weighted caseload study, as commissioned by the 1989 Legislature, indicate that the additional positions requested within this budget would lend support to the staffing budget change request.

Increases are necessary to equalize a significant salary variance occurring in Judicial Districts statewide, meet the demand of increased hours and caseloads, and provide for cost of living increases. An alternative to a portion of this budget request (salary increases) is to allow for the Board's Judicial District Public Defender employees to be included within the State's Salary Supplement request.

Provision of Health Insurance Benefits

A severe inequity affecting the Judicial District Public Defender Offices under the Board's jurisdiction is the uneven availability of health insurance benefits statewide. After conducting public hearings, meeting with Employee Relations, and discussing the health insurance subject with Legislative leaders, the Board feels that its Judicial District Public Defender employees should be treated as all other government employees regarding the availability of health insurance. This budget proposal attempts to equalize health insurance benefits statewide, provides for already enacted State guidelines and policies affecting such insurance, and guarantees that all Judicial District public defender employees have the same rights and opportunities to enroll in health insurance programs as other government employees.

Service Costs, Equipment, Furnishings and Space

This budget issue relates to increased expenses associated with a significant rise in public defender caseloads and hours. Some of these expenses can be paid for by offsetting local government aids and homestead and agricultural credit aid, and by treating them as base adjustments to Judicial District Public Defender budgets.

Defendant Appeals & Transcript Costs

The Minnesota Supreme Court Rules of Criminal Procedure, specifically Rule 28.02, Subdivision 5,(6) (10), state that all requests for transcripts necessary for judicial review in which a defendant does not have an attorney shall be referred to the State Public Defender and the cost of transcripts and other necessary expenses shall be borne by the state of Minnesota from funds available to the State Public Defender's Office. The cost of transcripts to the State Public Defender's Office has risen dramatically over the past 5 years, resulting in deficit spending for that office over the last 4 years. The issue that needs to be addressed as a result of this state policy is not so much an appropriation one, as it is an eligibility one. Since all of the defendants referred to the State Public Defender's Office are eligible for an appeal which requires a transcript, this situation is similar to any other entitlement program such as per pupil funding of K-12 education. An alternative to consider would be an open appropriation for this budget item, and study of the issue as part of the study of trial court financing.

Third and Sixth Judicial District Misdemeanor and Juvenile Costs/Juvenile Appeals

This budget issue is a result of several Policy Drivers identified in the previous narrative. This budget issue identifies costs for the continuation of the State's role in assuming public defender services currently under County jurisdiction relating to juvenile and misdemeanor cases. Recommendations from 2 State policy committees have concluded that the State needs to continue taking over the cost of public defender services, which it began in 1989. In addition, the policy committees recommended that a juvenile appeals unit be implemented in the State Public Defender's Office. The Board has initiated a matching grant process through the Humphrey Institute, the Bush Foundation and Hamline Law School. As part of the State takeover of juvenile and misdemeanor public defender services, the Board is recommending that the Chief Public Defenders of the Third and Sixth Judicial Districts become full time State employees, in order to provide for a uniform

management system.

Public Defense Corporations

The 5 Public Defense Corporations under the jurisdiction of the Board of Public Defense are governed by M.S. 611.216. They are the Legal Rights Center in Minneapolis, the Neighborhood Justice Center in St. Paul, the Duluth Indian Legal Assistance Program, the White Earth Reservation Criminal and Juvenile Defense Corporation, and the Leech Lake Reservation Criminal and Juvenile Defense Corporation. Their primary purpose is to provide criminal and juvenile defense services to indigent American Indians, Hispanics, Southeast Asians and Blacks, through community based legal services. To insure broad support, each corporation shall provide matching money received from non-state sources, which may include money or in-kind contribution from federal agencies, local governments, private agencies, and community groups, equal to 10% of its State appropriation. Since 1978, the corporations have received an increase in their state appropriation only twice, in the 1985 session and the 1989 session. Funding recommendations for these Corporations contain salary adjustments, cost of living increases, and complement increases.

1992-1993 B I E N N I A L B U D G E T
(DOLLARS IN THOUSANDS)

AGENCY: BD OF PUBLIC DEFENSE

				FY 1992			FY 1993		
			Est.	Adjusted	Agency	Governor	Adjusted	Agency	Governor
PROGRAM RESOURCE ALLOCATION:	FY 1989	FY 1990	FY 1991	Base	Plan	Recomm.	Base	Plan	Recomm.
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
STATE PUBLIC DEFENDER	1,721	1,799	2,002	1,987	2,719	1,987	1,981	2,886	1,981
BOARD OF PUB DEFENSE	1,169	913	1,087	1,049	3,540	1,049	1,050	3,827	1,050
DISTRICT PUBLIC DEFENSE			16,714	17,746	25,606	17,746	17,746	28,604	17,746
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL EXPENDITURES BY PROGRAM	2,890	2,712	19,803	20,782	31,865	20,782	20,777	35,317	20,777
SOURCES OF FINANCING:									

DIRECT APPROPRIATIONS:									
GENERAL	2,890	2,712	19,803	20,782	31,865	20,782	20,777	35,317	20,777
STATUTORY APPROPRIATIONS:									
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL FINANCING	2,890	2,712	19,803	20,782	31,865	20,782	20,777	35,317	20,777

BASE RECONCILIATION REPORT
for 1992-1993 Biennium

AGENCY: BD OF PUBLIC DEFENSE

	ALL FUNDS		GENERAL FUND		OTHER STATE FUNDS		FEDERAL FUNDS	
	F.Y.92	F.Y.93	F.Y.92	F.Y.93	F.Y.92	F.Y.93	F.Y.92	F.Y.93
F.Y.91 FUNDING LEVEL	19,803	19,803	19,803	19,803				
ONE-TIME APPROPRIATIONS	<29>	<29>	<29>	<29>				
APPROPRIATIONS CARRIED FWD	<74>	<74>	<74>	<74>				
BASE TRANSFER (BTWN AGENCIES)	665	665	665	665				
SALARY ANNUALIZATION	26	20	26	20				
ANNUALIZG NEW PROG COST	367	367	367	367				
DOCUMENTED RENT/LEASE INCR.	24	25	24	25				
TOTAL	20,782	20,777	20,782	20,777				
BIENNIAL TOTAL		41,559		41,559				

ACTIVITY: Public Defense, Board of
PROGRAM: Public Defense, Board of
AGENCY: Public Defense, Board of

1992-93 Biennial Budget

DECISION ITEM: Financing Inflationary Costs - Informational

competent counsel as constitutionally required. Under existing budget conditions the public defense system is in serious jeopardy of failing to provide competent and constitutionally mandated legal services. Substantial increases in hours for the multi-county districts and personnel in the full time districts will be necessary just to maintain current service levels in light of the rapidly increasing caseloads.

GOVERNOR'S RECOMMENDATION:

Recognizing the distinction between separate branches of government, the Governor respectfully acknowledges the right of the Board of Public Defense to present its budgetary needs directly to the legislature for consideration.

	Dollars in Thousands			
	F.Y. 1992	F.Y. 1993	F.Y. 1994	F.Y. 1995

AGENCY PLAN:

Expenditures

General Fund - Inflation:	\$ 3,578	\$ 6,323	\$ 11,100	\$ 19,400
- Reallocations:	-0-	-0-	-0-	-0-

Revenues

General Fund	\$ -0-	\$ -0-	\$ -0-	\$ -0-
--------------	--------	--------	--------	--------

Requires statutory change: _____ Yes X No
Statutes Affected:

ITEM SUMMARY:

According to the Biennial Budget Instructions, salary projections were assumed at 5% across the board. Benefit increases were calculated based on the projections provided by the counties currently providing these services. Other changes are not so much driven by inflation as they are by caseload. It is important to note that the public defense system cannot control its caseload. Additional attorney hours are needed just to meet the existing level of service, given the increase in the number of arrests and prosecutions. An average increase in the number of hours needed to maintain current service levels was calculated for FY 92 and 93 by using the average increase in hours/cases over the last four years. Also, increased caseloads means increased investigation, witness fees and associated costs. In the State Public Defenders Office the increased number of cases along with an increase in sentencing means additional transcripts, which contain an ever increasing number of pages, which in turn drives these costs up further.

These numbers reflect the caseload increases requested in the decision items for this agency as well as general inflation.

RATIONALE:

The Board cannot reallocate funds any further. Funds have been reallocated in the State Public Defenders Office the last several years to provide for deficiencies in the transcript account. Negotiated salary and benefit increases in the Second and Fourth Judicial Districts alone will cost in the area of \$2 million over the 1992-93 biennium. In the last five months the Board has made three requests to the LAC for emergency funds for transcript costs, conflict case costs, and additional costs in the State Public Defenders Office due to the increased prison populations and opening of the new prison in Faribault. These requests totaled over \$400,000 and none were placed on the LAC agenda. The Board simply does not have the funds available to reallocate. Statutory changes, Sentencing Guidelines changes, increases in local police, prosecution and judges have increased dramatically in recent years, well beyond the Board's ability to provide adequate and

PROGRAM: State Public Defender
Public Defense, Board of
District Public Defense
Agency: Public Defense, Board of

1992-93 Biennial Budget

PROGRAM PURPOSES:

These programs provide policy implementation, direction and coordination; establish standards for the Offices of the State and District Public Defender systems, and for the conduct of all appointed counsel systems; and establish procedures for distribution of State funding to the Appellate and District Public Defender Offices, as well as the Public Defense Corporations.

The Agency's administration is divided into four primary activities, which appear within the following budgetary programs:

State Public Defender

- The State Public Defender's Office provides service to indigent prisoners appealing their criminal and civil cases to the Minnesota Court of Appeals and Supreme Court; post-conviction proceedings in the District Courts throughout the State; parole revocation proceedings; civil/legal problems; and prison disciplinary proceedings. In addition, assistance, education and information regarding changes in the law are provided to court-appointed and Judicial District Public Defenders.

Board of Public Defense

- The Administrative Services Office provides policy direction and guidance for the Agency's programs and overall management of its activities. It provides general staff support to all public defender organizations in Minnesota, as well as implements the Agency's policies, rules, regulations and training. In addition, it is responsible for implementation and monitoring of management information systems relating to the Agency's budget, data and personnel. This office also directs and coordinates all agency relationships with the Legislature, other State agencies and local governments.
- The Public Defense Corporations are community based, legal service entities serving predominantly indigent American Indians, Hispanics, Southeast Asians and Blacks. The primary purpose of these Corporations is to provide criminal and juvenile defense services to minority indigents so that a high quality, independent defense system may be maintained for those unable to obtain private representation.

District Public Defense

- There are 10 Judicial District Public Defender Offices in Minnesota. The primary purpose of these offices is to provide trial court criminal defense services to indigents charged with felonies and gross misdemeanors. The Second, Fourth, and Eighth Judicial District Public Defender Offices also provide services to indigents charged with misdemeanor and juvenile offenses.

PERFORMANCE:

The foundation for Minnesota's system in the delivery of legal services to the poor was established in the mid 1960's. In 1967, the Judicial Council of Minnesota was created by the Minnesota Legislature. The purpose of this Council, comprised of Minnesota Supreme Court members, was to oversee the public defender system that was in operation at that time. In 1981, the Judicial Council recommended to the Legislature that it create a Board of Public Defense in an effort to more comprehensively supervise and review public defender operations in the State. In 1987, the Minnesota Legislature expanded the Board of Public Defense's statutory authority (M.S. 611.215 - 611.27). In 1988, the Governor's Council on State and Local Relations and the Supreme Court State Financing Task Force reviewed the current funding structure in place at that time in which Counties

levied property taxes to pay for trial court public defender services throughout the State. In 1989, recommendations were made to the Minnesota Legislature for the State to begin funding public defender services statewide. In that year the Legislature enacted a comprehensive budget allocating monies for public defender services in representation of all indigent felony and gross misdemeanor criminal cases effective 7-1-90. In the case of the Second, Fourth, and Eighth Judicial Districts, the State began funding juvenile and misdemeanor indigent cases, as well.

Performance results for the State Public Defender's Office, Judicial District Public Defender Offices and Public Defense Corporations would indicate there are significant problems being faced in attempting to meet the demands of public representation in our State. In addition, a Weighted Caseload Study, funded by the Minnesota Legislature in 1989, indicates on a preliminary basis the need for significant personnel increases to meet responsible and ethical caseload standards. The final report of the Weighted Caseload Study will be presented to the Minnesota Legislature in January of 1991.

It is estimated that 95% of those charged with crimes in the State of Minnesota are indigent and require public defender counsel. There has been an approximate 30% increase in felony and gross misdemeanor cases in Judicial Districts between 1986 and 1989. In the case of Hennepin County, the largest Judicial District, there was a 79% increase in felonies and a 33% increase for all cases. Ramsey County experienced an approximate 43% increase in felonies and a 36% increase in cases overall. In relation to the Appellate Public Defender Office, direct appeals are up 45% since 1986 without any increase in complement. The Department of Corrections records indicate a 31% increase in their prison population since 1986, and project a 61% increase by January, 1993. The new Faribault Correctional Facility, during the upcoming Biennium, will reach a population of 458, up from its present 65. Sentencing Guidelines and statutory changes that occurred in August, 1989, have increased sentences in many cases to double what they were prior to that date. This rapid growth in individuals charged with crimes, combined with those who are eventually incarcerated, directly impact the ability of the Board of Public Defense to provide adequate and competent representation to their indigent clients. Adequate and competent representation is required by Supreme Court Rules, ABA Standards, and Rules of Professional Responsibility. Under existing budget conditions, the public defense system within the State is in serious jeopardy of failing to provide competent and constitutionally mandated services.

Minimum standards regarding the number of cases an individual attorney can competently represent are being developed in the State of Minnesota through a weighted caseload study. In addition, all attorneys are governed by Constitutional mandates, the Minnesota Rules of Professional Conduct, and Court rules which require an attorney not to exceed the amount of cases for which she or he is capable of providing effective representation. If the weighted caseload study's final report indicates that competent caseload standards are being exceeded in a gross manner, there are only 2 viable alternatives available. The first is adequate funding to provide competent representation. If that is not feasible, then the Board must consider directing its attorneys not to accept additional clients beyond what the caseload standards state would be acceptable for competent representation. If the second alternative is chosen, it is probable that the Court will require some unit of government to pay for additional legal services for indigent defendants.

PROSPECTS:

In recent years, there has been a significant emphasis on both the local and national level to increase the penalties on existing crimes. In addition, there have been many new statutory penalties that have been enacted to deal with an increased awareness of crimes against vulnerable people in areas such as sex abuse, child abuse, crimes against women, etc. Stiffer penalties and stricter enforcement have resulted in a significant increase in the population of our jails and prisons.

In the past several years, there have been significant influxes of monies to local prosecutors and police on both a local, state and national level to combat crime. There has not been the same funding balance accorded to the public defense field. There also have been new judges and prosecutors added to process those defendants accused of committing crimes. There has been no

PROGRAMS: State Public Defender
Public Defense, Board of
District Public Defense
(Continuation)

1992-93 Biennial Budget

GOVERNOR'S RECOMMENDATION:

Recognizing the distinction between separate branches of government, the Governor respectfully acknowledges the right of the Board of Public Defense to present its budgetary needs directly to the legislature for consideration.

increase within the same time period for public defender staff.

Currently, the Board is examining alternative strategies to deal with the current imbalance of funding and personnel that affects its public defender operation. Without additional and adequate funding to fulfill its constitutionally mandated services, the Board is required to examine those serious alternatives that may require withdrawal of representation to indigent clients, if monies cannot be made available.

The primary trends affecting program operations of the Board of Public Defense are essentially the same as

contained in the Policy Driver section of this narrative. The basic issues revolve around the Constitutionally mandated need for representation of indigent defendants versus the ability of the State to pay for such services. The variables that are increasingly difficult to cope with, as a result of the current emphasis on crime reduction, are new statutory penalties, increased policing, prosecution, judgeships, and penal institutions, all of which the public defense field has no ability to control. The right to representation by an attorney for an offense or proceeding that could incur incarceration is a fundamental, constitutionally guaranteed one. Public Defense is an integral part of the State of Minnesota's justice system and has a profound effect on the lives of thousands of poor people. Unfortunately, it is an area which is perhaps the least popular for public funding.

The political and economic issues that will continue to affect the public defense field are related to social values and funding sources. Currently, on a national and state level, there is an emphasis on crime reduction. Funding on a local, state and national level, have prioritized increases for police, prosecution, and Judicial staff, as well as appropriations to penal institutions. There has not been a corresponding increase in public defense staffing, salaries and resources.

Finally, the State of Minnesota needs to implement the Legislative intent to not only fund its existing public defender services, but to continue the assimilation of those public defender services currently under county jurisdiction. If this does not occur, there will continue to be disparities of representation within a disjointed system that does not operate under uniform standards statewide.

A paramount issue that the Board must deal with during the upcoming Legislative session is whether its public defender staff can handle the number of cases that they are accepting at present. Currently, caseloads are rising at such numbers that there is a serious question of competent representation being raised in some Judicial Districts. The Board has recognized that something must be done soon concerning whether its attorneys should continue to accept cases where there is a question of violation of the Rules of Professional Conduct. The Board has decided to reserve such judgments, except in exceptional cases, until the weighted caseload study has been completed. Concurrent with that decision making process is the presentation of this budget proposal. If the weighted caseload study, due to be completed in January of 1991, identifies standards which are significantly exceeded by current public defender caseloads, the only alternative for the Board is to request additional staff and associated resources. If those requests cannot be funded, the Board will have to notify the Court that attorneys under its jurisdiction cannot take any more public defender cases. The reason for this is that the Board would not be able to allow its attorneys to accept additional cases, after standards have been instituted through the weighted caseload study, as such a decision would place their attorney licenses in jeopardy and place them in a situation where they could be disciplined by the Board of Professional Responsibility. The Court would need to make a decision as to what government entity should be ordered to pay for such services. In those cases which would normally be assigned to public defenders under the jurisdiction of the Board of Public Defense, that funding agency is the state of Minnesota.

1992-1993 BIENNIAL BUDGET
(DOLLARS IN THOUSANDS)

AGENCY: BD OF PUBLIC DEFENSE
PROGRAM: STATE PUBLIC DEFENDER

				FY 1992			FY 1993		
ACTIVITY RESOURCE ALLOCATION:	FY 1989	FY 1990	Est. FY 1991	Adjusted Base	Agency Plan	Governor Recomm.	Adjusted Base	Agency Plan	Governor Recomm.
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
PUB DEF	1,721	1,799	2,002	1,987	2,719	1,987	1,981	2,886	1,981
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL EXPENDITURES BY ACTIVITY	1,721	1,799	2,002	1,987	2,719	1,987	1,981	2,886	1,981
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
DETAIL BY CATEGORY:									
STATE OPERATIONS	1,721	1,799	2,002	1,987	2,709	1,987	1,981	2,876	1,981
LOCAL ASSISTANCE					10			10	
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL EXPENDITURES BY CATEGORY	1,721	1,799	2,002	1,987	2,719	1,987	1,981	2,886	1,981
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
SOURCES OF FINANCING:									
DIRECT APPROPRIATIONS:									
GENERAL	1,721	1,799	2,002	1,987	2,719	1,987	1,981	2,886	1,981
STATUTORY APPROPRIATIONS:									
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL FINANCING	1,721	1,799	2,002	1,987	2,719	1,987	1,981	2,886	1,981
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====

ACTIV
PROGR. State Public Defender
AGENCY: Public Defense, Board of

1992-93 Biennial Budget

DECISION ITEM: Increased Caseload/Juvenile Representation

Dollars in Thousands			
F.Y. 1992	F.Y. 1993	F.Y. 1994	F.Y. 1995

AGENCY PLAN:

Expenditures				
General Fund	\$ 668	\$ 841	\$ 841	\$ 841

Requires statutory change: _____ Yes X No
Statutes Affected:

ITEM SUMMARY:

The State Public Defender's Office requests an increase in its complement and funding required for the positions requested, in order to fulfill the constitutional mandate of appellate representation for those in the juvenile justice system. In addition, funds are requested to adequately represent the increased number of individuals to whom the State Public Defender is required to provide legal services.

RATIONALE:

The changes requested are necessary, to provide statewide appellate representation for indigent juveniles who are constitutionally entitled to appeal their juvenile court proceedings. This request is a direct result of a recommendation from the Supreme Court Task Force on Juvenile Representation. That Task Force found that the juvenile justice system as now constituted, has failed to provide juveniles with the protection that they are constitutionally entitled to. Matching funds for the Juvenile Appellate Unit would be provided by the Bush Foundation.

In the last several years, there has been a substantial increase in the number of people convicted of crimes and incarcerated in state prisons(31% since 1986). Since the State Public Defender has no option but to provide representation to those eligible for its services, it must increase its complement and client related budget in order to meet the increase in the demand for these mandated services. The last year the State Public Defender's Office received a complement increase was FY 86. In that year the office opened 457 appellate/post-conviction files (a file is opened when a client requests assistance, they are interviewed and, at a minimum, their case reviewed). In FY 90, the office opened 552 appellate/post-conviction files. This represents an increase of more than 20 per cent. In FY 86, 152 appellate briefs were filed (this number includes direct appeals, appeals from post-conviction cases, and responses to appeals by the state). In FY 90, 221 appellate briefs were filed. This represents an increase of 45 percent.

Civil cases handled by the office through its Legal Assistance to Minnesota Prisoners Program (LAMP) have also gone up significantly. In FY 86, LAMP handled 421 new problems and client

inquiries. In FY 90, LAMP handled 671 new problems and client inquiries. This represents an increase of more than 59 percent.

In FY 86, the office, through its Legal Advocacy Project (LAP), handled 1749 disciplinary hearings. In FY 90, the office handled 2024 disciplinary hearings. This represents an increase of just under 18 percent. In addition, as of July 1989, LAP began to handle all of the parole, supervised release and intensive supervision revocation hearings that are the responsibility of the State Public Defender's Office. In FY 90, there were 606 such hearings. Including these revocation hearings, LAP handled 50 percent more hearings in FY 90 than it did in FY 86.

GOVERNOR'S RECOMMENDATION:

Recognizing the distinction between separate branches of government, the Governor respectfully acknowledges the right of the Board of Public Defense to present its budgetary needs directly to the legislature for consideration.

ACTIVITY: 1992-93 Biennial Budget
PROGRAM: State Public Defender
AGENCY: Public Defense, Board of

DECISION ITEM: Federal Drug Funds Match

	<u>Dollars in Thousands</u>			
	<u>F.Y. 1992</u>	<u>F.Y. 1993</u>	<u>F.Y. 1994</u>	<u>F.Y. 1995</u>

AGENCY PLAN:

Expenditures				
General Fund	\$ 64	\$ 64	\$ 64	\$ 64

Requires statutory change: _____ Yes X No
Statutes Affected:

ITEM SUMMARY:

This budget request would provide the matching funds necessary for the Board to receive a grant from Minnesota's Office of Drug Policy. Matching funds would provide for a joint training session with the Minnesota County Attorneys Association relating to drug cases, the public defender portion of an experimental fast track court system in Hennepin County to speed up the processing of drug cases and finally, would provide for an additional two appellate attorneys, transcripts and other associated costs in the State Public Defenders' Office for appeals in drug related cases.

RATIONALE:

Matching funds for training would provide for enhancement of the cost effective Bemidji Trial School. The school operated by the Minnesota County Attorneys Association in cooperation with the Board of Public Defense is a cost effective method of providing ongoing trial court training for both prosecutors and defenders. Funding for the fast track system in Hennepin County would speed up the processing of drug cases, and is similar to a project funded last year in Ramsey County. Finally, increased prosecution of drug cases, changes in statutes as well as Sentencing Guidelines, have resulted in an explosion of very complex drug related cases. Matching funds would provide for an additional two attorneys to handle appeals of these often complex cases in the State Public Defender's Office.

GOVERNOR'S RECOMMENDATION:

Recognizing the distinction between separate branches of government, the Governor respectfully acknowledges the right of the Board of Public Defense to present its budgetary needs directly to the legislature for consideration.

1992-1993 BIENNIAL BUDGET
(DOLLARS IN THOUSANDS)

AGENCY: BD OF PUBLIC DEFENSE
PROGRAM: BOARD OF PUB DEFENSE

				FY 1992			FY 1993		
ACTIVITY RESOURCE ALLOCATION:	FY 1989	FY 1990	Est. FY 1991	Adjusted Base	Agency Plan	Governor Recomm.	Adjusted Base	Agency Plan	Governor Recomm.
BD OF DEFENSE	1,169	913	1,087	1,049	3,540	1,049	1,050	3,827	1,050
TOTAL EXPENDITURES BY ACTIVITY	1,169	913	1,087	1,049	3,540	1,049	1,050	3,827	1,050
DETAIL BY CATEGORY:									
STATE OPERATIONS	171	295	407	369	799	369	370	739	370
LOCAL ASSISTANCE	998	618	680	680	2,741	680	680	3,088	680
TOTAL EXPENDITURES BY CATEGORY	1,169	913	1,087	1,049	3,540	1,049	1,050	3,827	1,050
SOURCES OF FINANCING:									
DIRECT APPROPRIATIONS:									
GENERAL	1,169	913	1,087	1,049	3,540	1,049	1,050	3,827	1,050
STATUTORY APPROPRIATIONS:									
TOTAL FINANCING	1,169	913	1,087	1,049	3,540	1,049	1,050	3,827	1,050

ACTIVITY: Public Defense, Board of
PROGRAM: Public Defense, Board of
AGENCY: Public Defense, Board of

1992-93 Biennial Budget

DECISION ITEM: Juvenile and Misdemeanor Representation

	Dollars in Thousands			
	<u>F.Y. 1992</u>	<u>F.Y. 1993</u>	<u>F.Y. 1994</u>	<u>F.Y. 1995</u>

AGENCY PLAN:

Expenditures

General Fund	\$ 2,301	\$ 2,488	\$ 2,613	\$ 2,744
--------------	----------	----------	----------	----------

Revenues

General Fund	\$ 2,233	\$ 2,233	\$ 2,233	\$ 2,233
--------------	----------	----------	----------	----------

Requires statutory change: X Yes No

Statutes Affected:

ITEM SUMMARY:

This budget item would provide for continuation of the state assimilation of district public defense functions by funding the cost of juvenile and misdemeanor defense services in the Third and Sixth Judicial Districts. These costs would be offset by reductions in Homestead and Agricultural Credit Aid. This request follows the recommendations of the Supreme Court Task Force on Trial Court Funding and relieves the counties of this mandated service. It also would provide for full time chief public defenders in these districts.

RATIONALE:

The Supreme Court Task Force on Trial Court Funding has recommended that the costs of juvenile and misdemeanor representation in all judicial districts be assumed by the state, with a corresponding reduction in HACA. In light of the current budget circumstances the Task Force recommended that the phased approach to state financing continue with the Third and Sixth Judicial Districts. If the Third and Sixth were assimilated, state funding for juvenile and misdemeanor defense would exist in the Second, Third, Fourth, Sixth and Eighth Judicial Districts. This would be five of the ten judicial districts and the great majority of the states population.

GOVERNOR'S RECOMMENDATION:

Recognizing the distinction between separate branches of government, the Governor respectfully acknowledges the right of the Board of Public Defense to present its budgetary needs directly to the legislature for consideration.

ACTIVITY: Public Defense, Board of
PROGRAM: Public Defense, Board of
AGENCY: Public Defense, Board of

1992-93 Biennial Budget

DECISION ITEM: Board Operations

Dollars in Thousands			
<u>F.Y. 1992</u>	<u>F.Y. 1993</u>	<u>F.Y. 1994</u>	<u>F.Y. 1995</u>

AGENCY PLAN:

Expenditures

General Fund	\$ 34	\$ 34	\$ 34	\$ 34
--------------	-------	-------	-------	-------

Requires statutory change: _____ Yes X No

Statutes Affected:

ITEM SUMMARY:

This budget request would fund one data entry position and the necessary associated costs with that position. Also, approval of a position that was granted by the LAC would be included in this proposal. No new funding is needed for this position.

RATIONALE:

Preliminary recommendations from the Weighted Caseload Study indicate the need for increased data collection and support staff in the central office. The data entry position would be responsible for the collection and input of public defender data regarding their hours, caseloads, and other information necessary to update the Weighted Caseload Study. Institutionalization of a management information system to collect this information is crucial to the continuation and implementation of the Weighted Caseload Study, its standards, as well as management and allocation of the Board's legislative appropriations.

GOVERNOR'S RECOMMENDATION:

Recognizing the distinction between separate branches of government, the Governor respectfully acknowledges the right of the Board of Public Defense to present its budgetary needs directly to the legislature for consideration.

ACTIVITY: Public Defense, Board of
PROGRAM: Public Defense, Board of
AGENCY: Public Defense, Board of

1992-93 Biennial Budget

DECISION ITEM: Public Defense Corporations - Inflation Request

Dollars in Thousands			
<u>F.Y. 1992</u>	<u>F.Y. 1993</u>	<u>F.Y. 1994</u>	<u>F.Y. 1995</u>

AGENCY PLAN:

Expenditures

General Fund	\$	156	\$	255	\$	255	\$	255
--------------	----	-----	----	-----	----	-----	----	-----

Requires statutory change: _____ Yes X No
Statutes Affected:

ITEM SUMMARY:

This budget request would provide for a cost of living of 5% for the staffs of the five public defense corporations, a 5% increase in their state grant, and funding for two additional non state employee attorney positions .

RATIONALE:

Caseloads and the provision of adequate and competent counsel are a major issue for the corporations. Caseloads continue to increase rapidly. One of the Corporations has had to limit its services to felony and gross misdemeanor defense. Another has seen an increase of almost 400 clients from 1988 to 1990. While community support for the Corporations remains high, private sector funding is increasingly difficult to attract as foundations move away from funding operating expenses of applicants and reduce their giving to what is perceived as a government function. The corporations provide cost effective legal representation to minority populations in the central cities and northern Minnesota. Since 1978 the corporations have only received two increases in funding, in 1985 and 1989.

GOVERNOR'S RECOMMENDATION:

Recognizing the distinction between separate branches of government, the Governor respectfully acknowledges the right of the Board of Public Defense to present its budgetary needs directly to the legislature for consideration.

1992-1993 B I E N N I A L B U D G E T
(DOLLARS IN THOUSANDS)

AGENCY: BD OF PUBLIC DEFENSE
PROGRAM: DISTRICT PUBLIC DEFENSE

				FY 1992			FY 1993		
ACTIVITY RESOURCE ALLOCATION:	FY 1989	FY 1990	Est. FY 1991	Adjusted Base	Agency Plan	Governor Recomm.	Adjusted Base	Agency Plan	Governor Recomm.
N/A			16,714	17,746	25,606	17,746	17,746	28,604	17,746
TOTAL EXPENDITURES BY ACTIVITY			16,714	17,746	25,606	17,746	17,746	28,604	17,746
DETAIL BY CATEGORY:									
STATE OPERATIONS				665	665	665	665	665	665
LOCAL ASSISTANCE			16,714	17,081	24,941	17,081	17,081	27,939	17,081
TOTAL EXPENDITURES BY CATEGORY			16,714	17,746	25,606	17,746	17,746	28,604	17,746
SOURCES OF FINANCING:									
DIRECT APPROPRIATIONS:									
GENERAL			16,714	17,746	25,606	17,746	17,746	28,604	17,746
STATUTORY APPROPRIATIONS:									
TOTAL FINANCING			16,714	17,746	25,606	17,746	17,746	28,604	17,746

ACTIVITY
PROGRAM: District Public Defense
AGENCY: Public Defense, Board of

1992-93 Biennial Budget

GOVERNOR'S RECOMMENDATION:

Recognizing the distinction between separate branches of government, the Governor respectfully acknowledges the right of the Board of Public Defense to present its budgetary needs directly to the legislature for consideration.

DECISION ITEM: District Public Defense

Dollars in Thousands			
F.Y. 1992	F.Y. 1993	F.Y. 1994	F.Y. 1995

AGENCY PLAN:

Expenditures

General Fund	\$ 7,860	\$ 10,858	\$ 11,401	\$ 11,971
--------------	----------	-----------	-----------	-----------

Requires statutory change: _____ Yes X No

Statutes Affected:

ITEM SUMMARY:

This budget item provides for funding of existing District Public Defense services at a level that can provide for competent and effective representation, as well as elevate services in an effort to meet national standards, and the minimum requirements identified in the recently completed Weighted Caseload Study. Funding would provide for a 5% salary COLA, including the honoring of negotiated salary increases in two Judicial Districts where there are full time unionized employees. It would provide health insurance increases where those benefits currently exist, and provide for the employer paid portion of health insurance for those public defenders who do not currently have insurance benefits.

In addition, this item would provide an average of \$45 per hour for the part time public defenders, still considerably lower than the \$50 to \$60 per hour paid for the court-appointed attorneys by counties. Currently, part-time public defenders must pay overhead and support staff from their hourly rate. This item also includes the cost of creating 110 FTE positions involving both attorneys and support staff. Finally, this item would provide for an increase in transcripts, postage, investigation, and expert witnesses, that are required with the increase in public defender caseloads.

RATIONALE:

There has been an approximate 30% increase in felony and gross misdemeanor cases statewide between 1986 and 1989, and a 121% increase in juvenile case filings between 1985 and 1989. Criminal case filings have increased from 12,936 in 1986 to 17,107 in 1989. Statutory changes and Sentencing Guidelines changes have increased penalties which directly impact the Board's ability to provide adequate and competent counsel. Under existing budget conditions the public defense system is in serious jeopardy of failing to provide competent and constitutionally mandated legal services. In addition, district public defense costs are currently not eligible for salary supplement or base adjustments; the projected costs for 1992-93 negotiated salary and benefit increases in the two full time districts are close to \$2 million. Finally, the request for health insurance and a \$45/hour average rate is an attempt to provide equal compensation across the state in the part time districts.

AGENCY: Uniform Laws Commission

1992-93 Biennial Budget

MISSION:

The Minnesota Uniform Laws Commission works with the National Conference of Commissioners on Uniform State Laws (NCCUSL) made up of uniform laws commissioners from all other states and the District of Columbia. The conference drafts legislation that will accomplish improvement of the law and uniformity of the law. Minnesota now has in its statutes approximately 50 uniform acts as a result of the commission's work. A minimum of 2 years is spent drafting each act, and no state has the resources needed to duplicate the NCCUSL's meticulous, careful work. Membership in the NCCUSL enables Minnesota to use the skills and resources of the legal profession at very little cost.

MAJOR POLICY DRIVERS:

The work of the Uniform Laws Conference is aided by the Minnesota Bar Association locally and by the American Bar Association nationally. In addition, various commercial groups interested in the subject matter of particular uniform acts have input into the work of the conference during both the drafting and enacting process. For example, medical groups interested in organ transplants have helped with the Uniform Anatomical Gift Act.

PERFORMANCE:

The National Conference currently is drafting the following uniform acts, among others: Uniform Adoptive Act, Uniform Child Support Enforcement Act, Uniform Crime Victims' Reparation and Rights Act, Uniform Employment Termination Act, amendments to the Uniform Probate Code, Revised Uniform Partnership Act, Uniform Periodic Payment of Judgments Act, Revised Uniform Principle and Income Act, Uniform Defamation Act, Uniform Transfer of Litigation Act, and Model Statutory Evaluation Act.

During the 1991 session of the Minnesota Legislature, the Minnesota Commission will bring to the legislature the following acts for consideration: amendments to the Uniform Anatomical Gift Act, the Uniform Statutory Wills Act, the Uniform Health Care Information Act, the Uniform Criminal History Records Act, the Uniform Foreign Money Claims Act, the Uniform Premarital Agreements Act, the Uniform Transboundary Remedies Act, the Uniform Conflict of Laws-Limitations Act, the Uniform Information Practices Code, and the Uniform Franchising and Business Opportunities Act. In addition, the commission will have a major bill amending the Uniform Commercial Code. Included will be new Articles 3, 4, and 6, and amendments to Article 2A. Finally, there will be amendments to the Uniform Probate Code.

EXPLANATION OF BUDGET ISSUES AND ALTERNATIVES:

The commission estimates it will need a total of \$47,000 for the biennium to cover annual conference dues and to pay the cost of 5 commissioners to attend the national conference.

The budget of the Uniform Laws Commission is inflexible. It covers two expenditures: first, expenses of the commissioners for their attendance at the 8-day annual meeting of the National Conference each summer, and, second, conference dues. The commission now consists of 6 persons learned in the law. All are uncompensated. Three are appointed jointly by the Governor, Attorney General, and Chief Justice of the Supreme Court, and a 4th person is the designee of the Revisor of Statutes. Two persons have been granted life membership because of long service. Attendance at the annual meeting is essential to the Minnesota commissioners for it is at that meeting that drafting of each subject act is completed, the Minnesota members learn about the acts so they will be prepared to present the acts to the Minnesota Legislature, and decisions are made concerning the future program of the conference. The cost of attendance at the annual meeting will increase during the next biennium because money must be budgeted for the 2 life members who were not included

as regular commissioners in the 1989-91 fiscal year. Expenses will be approximately \$1,400 per commissioner so \$7,000 should be allocated each year for expenses.

The amount of annual dues to the National Conference for Minnesota is set by the conference on a formula based on population. The dues are used to maintain the Chicago office and to pay the costs of drafting committee meetings. The dues will rise from \$12,000 in F.Y. 1991 to \$16,000 in F.Y. 1992 and \$16,800 in F.Y. 1993.

Minnesota has deferred payment of dues, from time to time, when appropriation levels were misjudged and there was a shortfall. To defer dues is an embarrassment to Minnesota and to its commissioners and is not recommended. Minnesota makes more use of conference work than any other state and should pay its share. Therefore, the commission plans to ask the Governor and the legislators to increase its budget by \$13,000 for the biennium.

Governor's Recommendation:

The Governor recommends an increase of \$4,000 in F.Y. 1992 and \$5,000 in F.Y. 1993 for annual dues to the National Conference.

1992-1993 B I E N N I A L B U D G E T
(DOLLARS IN THOUSANDS)

AGENCY: UNIFORM LAWS COMMSN
PROGRAM: UNIFORM LAWS CMSN

				FY 1992			FY 1993		
			Est.	Adjusted	Agency	Governor	Adjusted	Agency	Governor
ACTIVITY RESOURCE ALLOCATION:	FY 1989	FY 1990	FY 1991	Base	Plan	Recomm.	Base	Plan	Recomm.
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
UNIFORM LAWS CMSN	14	17	17	17	17	21	17	17	22
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL EXPENDITURES BY ACTIVITY	14	17	17	17	17	21	17	17	22
DETAIL BY CATEGORY:									

STATE OPERATIONS	14	17	17	17	17	21	17	17	22
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL EXPENDITURES BY CATEGORY	14	17	17	17	17	21	17	17	22
SOURCES OF FINANCING:									

DIRECT APPROPRIATIONS:									
GENERAL	14	17	17	17	17	21	17	17	22
STATUTORY APPROPRIATIONS:									
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL FINANCING	14	17	17	17	17	21	17	17	22

MISSION:

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 municipal, district, and supreme court judgeships; commissions public notaries; issues extradition papers and restores civil rights to felons; fills the position of commander-in-chief of the military forces of Minnesota, prepares comprehensive long-range plans for the orderly coordinated growth of the state; and establishes advisory committees to aid in developing his 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 the biennial budget and its presentation to the legislature.

MAJOR POLICY DRIVERS:

The Governor's Office provides general direction and supervision to all state departments and agencies. It serves to unify and coordinate operations so that overall affairs of state government are handled in an effective and efficient manner.

EXPLANATION OF BUDGET ISSUES AND ALTERNATIVES:

The Governor's Office has determined that projected increases in the cost of goods and services (including salaries) will require changes that stream-line the executive functions. This budget will incorporate the necessary changes and continue to serve the needs of Minnesota citizens without relying on additional funding for inflationary increases. The following reallocations are necessary in order to fund the executive operations of both the Governor's Office and the Lieutenant Governor's Office.

Reallocations by Program
(Dollars in Thousands)

	<u>General Fund</u> <u>F.Y. 1991</u>	<u>F.Y. 1992</u> <u>Change from</u> <u>F.Y. 1991</u>	<u>F.Y. 1993</u> <u>Change from</u> <u>F.Y. 1991</u>
Executive Operations Governor	2,635	2,615	2,597
Executive Operations Lieutenant Governor	280	293	303

GOVERNOR'S RECOMMENDATION:

The Governor recommends the same BASE level funding for his office and the Office of the Lieutenant Governor.

1992-1993 BIENNIAL BUDGET
(DOLLARS IN THOUSANDS)

AGENCY: GOVERNOR'S OFFICE

				FY 1992			FY 1993		
			Est.						
PROGRAM RESOURCE ALLOCATION:	FY 1989	FY 1990	FY 1991	Adjusted Base	Agency Plan	Governor Recomm.	Adjusted Base	Agency Plan	Governor Recomm.
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
EXEC OPERATIONS - GOV	2,626	2,763	2,650	2,636	2,626	2,626	2,630	2,609	2,609
EXEC OPERATIONS - LT GOV	290	275	281	287	297	297	286	307	307
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL EXPENDITURES BY PROGRAM	2,916	3,038	2,931	2,923	2,923	2,923	2,916	2,916	2,916
SOURCES OF FINANCING:									
=====									
DIRECT APPROPRIATIONS:									
GENERAL	2,899	3,031	2,915	2,923	2,923	2,923	2,916	2,916	2,916
STATUTORY APPROPRIATIONS:									
GENERAL	1								
GIFTS AND DEPOSITS	16	7	16						
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL FINANCING	2,916	3,038	2,931	2,923	2,923	2,923	2,916	2,916	2,916

BASE RECONCILIATION REPORT
for 1992-1993 Biennium

AGENCY: GOVERNOR'S OFFICE

	ALL FUNDS		GENERAL FUND		OTHER STATE FUNDS		FEDERAL FUNDS	
	F.Y. 92	F.Y. 93	F.Y. 92	F.Y. 93	F.Y. 92	F.Y. 93	F.Y. 92	F.Y. 93
F.Y. 91 FUNDING LEVEL	2,931	2,931	2,915	2,915	16	16		
APPROPRIATIONS CARRIED FWD	<28>	<28>	<28>	<28>				
LEG-DIRECTED ADJUSTMENTS	8	8	8	8				
SALARY ANNUALIZATION	21	13	21	13				
DOCUMENTED RENT/LEASE INCR.	7	8	7	8				
DEDICATED RECEIPTS AND FUNDS	<16>	<16>			<16>	<16>		
TOTAL	2,923	2,916	2,923	2,916				
BIENNIAL TOTAL		5,839		5,839				

F.Y. 1991 Budget Reductions (Information Only)

The following F.Y. 1991 reductions were implemented in Laws 1991, Chapter 2. These reductions are not reflected as changes to F.Y. 1991 or F.Y. 1992-93 BASE Levels within the budget documents.

Governor/Lieutenant-Governor - General Fund

\$ (68)

ACTIVITY
PROGRAM

1992-93 Biennial Budget

AGENCY: Governor's Office

DECISION ITEM: Financing Inflationary Costs - Informational

Dollars in Thousands			
<u>F.Y. 1992</u>	<u>F.Y. 1993</u>	<u>F.Y. 1994</u>	<u>F.Y. 1995</u>

AGENCY PLAN:

Expenditures

General Fund - Inflation	\$ 95	\$ 193	\$ 193	\$ 193
- Reduction	(95)	(193)	(193)	(193)
Total	\$ -0-	\$ -0-	\$ -0-	\$ -0-

Revenues

General Fund	\$ -0-	\$ -0-	\$ -0-	\$ -0-
--------------	--------	--------	--------	--------

Requires statutory change: _____ Yes X No
Statutes Affected:

ITEM SUMMARY:

Following the Biennial Budget instructions salary projections assumed a 4.5% across the board increase for all employees for an amount of \$91,000 in F.Y. 1992 and \$185,000 in F.Y. 1993 plus increases in the National Governor's Association membership fees of \$4,000 in F.Y. 1992 and \$8,000 in F.Y. 1993.

RATIONALE:

To meet the requirements of covering inflationary costs, the agency will improve and restructure operational functions.

GOVERNOR'S RECOMMENDATION:

The Governor recommends the adjustments listed above to fund inflation for his office.

PROGRAM: Executive Operations - Governor
Agency: Governor's Office

1992-93 Biennial Budget

PROGRAM PURPOSE:

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

The Governor's Office is organized to provide the necessary assistance to enable the Governor to effectively administer his duties as Chief Executive. Major duties of the Governor are to:

- oversee the day-to-day operations of state government.
- take the lead in shaping public policy by proposing ideas to the legislature.
- develop programs approved by the legislature.
- represent the citizens of the state at various official and non-official functions at the state and local level.
- promote business development and create new jobs with the assistance and advice provided by business leaders throughout the state.
- utilize the Governor's Residence for visiting guests and dignitaries and to provide a comfortable living quarters for the Governor and his family.
- participate with other states in the National Governor's Association, sharing information and developing new ideas for policy initiatives and legislation.
- to appoint citizens to boards and commissions and judges for all court systems when vacancies occur.
- to perform all other duties as specified by the laws of the state.

Agency Reallocations:

The Governor's Office has identified both increases and reductions to the activities in this program area.

- | | | | | |
|--|-----------|------------|-----------|-------------|
| 1. Service Redesign | F.Y. 1992 | (\$95,000) | F.Y. 1993 | (\$193,000) |
| The Governor will reduce salary obligations as the agency implements the service redesign aspects of the Executive Operations Program. With these changes, we will stream-line and improve operational functions and incur salary savings through staff changes. | | | | |
| 2. Salary Increases | F.Y. 1992 | \$81,000 | F.Y. 1993 | \$164,000 |
| The office plans to provide to cost of living salary increases at projected inflation rates. | | | | |
| 3. National Governor's Association | F.Y. 1992 | \$4,000 | F.Y. 1993 | \$8,000 |
| The annual membership fee for participation in the National Governor's Association is expected to increase each year of the biennium. | | | | |

The net result of all reallocations in this program is a reduction of \$10,000 in F.Y. 1992 and \$21,000 in F.Y. 1993. These reductions are proposed in order to provide an equal level of funding for inflationary increases in the Lieutenant Governor's Executive Operations Program.

GOVERNOR'S RECOMMENDATION:

The Governor recommends the agency plan funding for his office.

1992-1993 BIENNIAL BUDGET
(DOLLARS IN THOUSANDS)

AGENCY: GOVERNOR'S OFFICE
PROGRAM: EXEC OPERATIONS - GOV

				FY 1992			FY 1993		
			Est.	Adjusted	Agency	Governor	Adjusted	Agency	Governor
ACTIVITY RESOURCE ALLOCATION:	FY 1989	FY 1990	FY 1991	Base	Plan	Recomm.	Base	Plan	Recomm.
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
EXECUTIVE ACTIVITIES	2,626	2,763	2,650	2,636	2,626	2,626	2,630	2,609	2,609
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL EXPENDITURES BY ACTIVITY	2,626	2,763	2,650	2,636	2,626	2,626	2,630	2,609	2,609
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
DETAIL BY CATEGORY:									

STATE OPERATIONS	2,626	2,663	2,650	2,636	2,626	2,626	2,630	2,609	2,609
LOCAL ASSISTANCE		100							
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL EXPENDITURES BY CATEGORY	2,626	2,763	2,650	2,636	2,626	2,626	2,630	2,609	2,609
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
SOURCES OF FINANCING:									

DIRECT APPROPRIATIONS:									
GENERAL	2,611	2,759	2,635	2,636	2,626	2,626	2,630	2,609	2,609
STATUTORY APPROPRIATIONS:									
GENERAL	1								
GIFTS AND DEPOSITS	14	4	15						
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL FINANCING	2,626	2,763	2,650	2,636	2,626	2,626	2,630	2,609	2,609
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====

PROGRAM: Executive Operations - Lieutenant Governor
Agency: Governor's Office

1992-93 Biennial Budget

PROGRAM PURPOSE:

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). This program encompasses all levels of support that make it possible for the Lieutenant Governor to fulfill these responsibilities. Major duties of the Lieutenant Governor as authorized by statute or delegated by the Governor are to:

- coordinate the state's tourism program
- initiate and coordinate programs to aid small business development
- develop and promote policies supporting Minnesota's children and families
- assist in the development of policies and programs relating to the status of women, minorities and individuals with disabilities
- chair the Governor's Appointments Advisory Commission
- chair the Capitol Area Architectural Planning Board (CAAPB)
- serve as a member of the Executive Council
- carry out all other gubernatorial assignments

PERFORMANCE:

The Lieutenant Governor's is available to assist the public with questions concerning all areas of state government and to assist the Lieutenant Governor in executive functions as needed.

Agency Reallocations:

Reductions are proposed in the Governor's Executive Operations Program in order to fund the following cost of living increases in the Lieutenant Governor's Office.

Cost of Living Increases	F.Y. 1992	\$10,000	F.Y. 1993	\$21,000
--------------------------	-----------	----------	-----------	----------

The office plans to provide cost of living salary increases at projected inflation rates for staffmembers of the Lieutenant Governor's Office.

GOVERNOR'S RECOMMENDATION:

The Governor recommends the agency plan funding for the Office of the Lieutenant Governor.

1992-1993 BIENNIAL BUDGET
(DOLLARS IN THOUSANDS)

AGENCY: GOVERNOR'S OFFICE
PROGRAM: EXEC OPERATIONS - LT GOV

				FY 1992			FY 1993		
ACTIVITY RESOURCE ALLOCATION:	FY 1989	FY 1990	Est. FY 1991	Adjusted Base	Agency Plan	Governor Recomm.	Adjusted Base	Agency Plan	Governor Recomm.
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
EXEC OPERATIONS - LT GOV	290	275	281	287	297	297	286	307	307
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL EXPENDITURES BY ACTIVITY	290	275	281	287	297	297	286	307	307
DETAIL BY CATEGORY:									
=====									
STATE OPERATIONS	290	275	281	287	297	297	286	307	307
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL EXPENDITURES BY CATEGORY	290	275	281	287	297	297	286	307	307
SOURCES OF FINANCING:									
=====									
DIRECT APPROPRIATIONS:									
GENERAL	288	272	280	287	297	297	286	307	307
STATUTORY APPROPRIATIONS:									
GIFTS AND DEPOSITS	2	3	1						
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL FINANCING	290	275	281	287	297	297	286	307	307

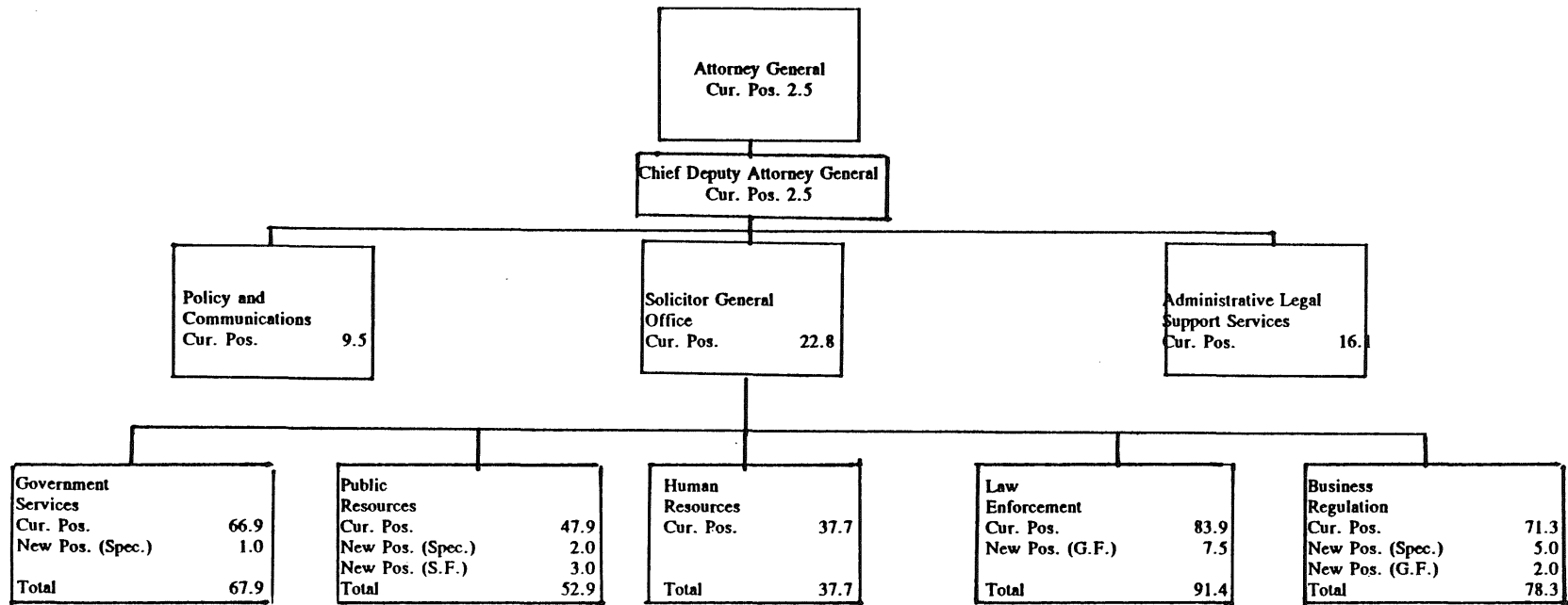
1992-93 BIE AL BUDGET

PROGRAM STRUCTURE

AGENCY: ATTORNEY GENERAL'S OFFICE

<u>PROGRAM</u>	<u>PAGE</u>
Government Services	110
Public Resources	114
Human Resources	122
Law Enforcement	127
Legal Policy and Administration	135
Business Regulation	138
Solicitor General	145

**OFFICE OF ATTORNEY GENERAL
ORGANIZATION CHART 7-1-90**



c:\wp50\budget\orgchart--text without lines--landscape
2/8/91 ked

Office of the Attorney General

Position and Employee Status Information

Position Reconciliation:

Authority:	Current F.Y. 1991	Requested For 6-30-93
Legislative Complement:		
General Fund	319.3	334.8
State Government		
Special Revenue	18.0	28.0
Special Revenue		3.0
Superfund/Petrofund		4.0
Federal	9.8	11.8
Legislative Authorized:		
General Fund	6.0	
State Government		
Special Revenue	5.0	
Superfund	1.0	
Federal	2.0	
Total Permanent Positions	<u>361.1</u>	<u>381.6</u>
Other Complement (FTE)	<u>26.5</u>	<u>26.5</u>
TOTAL Positions	387.6	408.1
Employees on 6-30-90	391.0	

Employees by Employment Status:

	<u>6-30-90</u>
Full-Time Unlimited	330
Full-Time Temporary	27
Full-Time Emergency	2
Part-Time Unlimited	18
Part-Time Temporary	14
	<hr/>
TOTAL	391

MISSION:

The mission of the Attorney General is to protect the civil rights and public resources of the citizens of Minnesota, by enforcing state laws enacted by the legislature, defending the state in all legal proceedings, assuring the legality of state government action, and proposing new laws to make Minnesota a better place to live and work.

The Attorney General is the chief legal officer of the state with duties that spring from the Minnesota Constitution, state statutes and common law.

As Minnesota's chief legal officer, the Attorney General and his assistants serve the public directly through citizen assistance, public education and litigation initiated in the name of the Attorney General.

They represent more than 100 state agency clients in the following major respects:

1. Represent them in all adversarial proceedings including lawsuits, rulemaking hearings, contested case hearings, rate hearings, disciplinary conferences, state and federal litigation, and collection activities.
2. Render day-to-day legal advice and opinions involving statutory interpretation, potential liabilities, legal authority for proposed agency actions and advisability of available alternative courses of action.

The Attorney General also provides substantial legal assistance to local officials such as county attorneys and sheriffs in their efforts to enforce the laws of this state.

MAJOR POLICY DRIVERS:

In the last half of the 80's, as demands for legal services have increased more rapidly than the size of his staff, it has become increasingly difficult for the Attorney General to fully represent state agency clients. This situation has produced longer delays in responding to requests for advice, investigating complaints and litigating enforcement actions.

With the growth of litigation, time to review rules, contracts and requests for legal advice has diminished. In response, some client agencies have hired staff attorneys. Many of these attorneys, assigned to separate agency divisions, are not supervised by other lawyers, and are not privy to the legal work of the Attorney General staff, or the legal positions which have been successfully pursued in litigation. As a result, the legal advice is less likely to take into consideration all relevant considerations and less likely to stand up in litigation.

All legal representation must be carried out in the context of the Attorney General's authority and duty to represent the State as a whole and to assure fundamental fairness and consistent application of all relevant laws in the public interest. Client agencies make better and more responsive and responsible decisions because of the Attorney General's independent involvement. The best legal representation results from Attorney General participation at the earliest stages of enforcement actions and other administrative proceedings.

The demands for service in the 90's will continue to outstrip the Attorney General's staff resources. Without an increase in staff resources, the Attorney General's ability to deflect potential legal problems and assure consistency in legal work for state agencies will suffer. This will compound the state's fiscal problems by making the state more vulnerable to judgments against it and less able to secure its own economic interests and enforce its laws.

In the F.Y. 1990-91 biennium Attorney General Office operations are being paid entirely by direct appropriations from general and special revenue funds; federal grants for Medicaid Fraud and

Narcotics prosecutions; and, interagency agreements with several agencies which have supported particular activities on a year-to-year basis.

This budget request will formalize many of the developments of the last 4 years. It includes requests for positions that are supported by agency funds. Some of these positions continue existing activities, others replace Attorney General funded positions that might have to be eliminated to keep within base level funds, and others meet new requests that cannot be met through reallocation of existing positions and dollars.

EXPLANATION OF BUDGET ISSUES AND ALTERNATIVES:

There are two closely related, major budget issues for the Office of the Attorney General. First, are there programs within the office that can be eliminated to free dollars to pay for the cost increases of the office in the next 2 fiscal years? Although the office will seek to streamline services through office automation and consolidation of resources, legal services cannot be cut without offsetting costs to citizens and state government that will produce a net loss. Cutbacks in state appropriations for human services, medical assistance, environmental enforcement actions and other state programs will produce results that may require more, not less, legal assistance to defend.

Second, without program savings is there another way to pay for costs that cannot be funded with the base level dollars available to the office? One alternative is to continue existing interagency agreements and enter new ones with state agency clients who would directly fund the unfunded or new positions needed to represent that agency. This alternative is consistent with the action taken over the past 4 years to meet special needs at the Department of Human Services, the Pollution Control Agency, the Board of Medical Examiners, the Board of Dentistry and the Public Utilities Commission. It is also consistent with legislation enacted in the 1985 legislation to make state agency clients more accountable for their demands for new or expanded legal services. This approach limits the Attorney General's flexibility in determining priorities for the assignment of staff. However, it is a positive, accountable way for agencies to obtain new legal services. Most new legal service requests can be addressed in this manner.

The budgetary consequences of this proposal are presented at the program level of the Attorney General's budget request.

1992-1993 B I E N N I A L B U D G E T
(DOLLARS IN THOUSANDS)

AGENCY: ATTORNEY GENERAL

PROGRAM RESOURCE ALLOCATION:	FY 1989	FY 1990	Est. FY 1991	FY 1992			FY 1993		
				Adjusted Base	Agency Plan	Governor Recomm.	Adjusted Base	Agency Plan	Governor Recomm.
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
GOVERNMENT SERVICES	3,895	4,078	4,025	4,196	4,196	4,196	4,197	4,197	4,197
PUBLIC RESOURCES	2,136	2,780	2,948	2,919	3,049	2,919	2,901	2,901	2,901
HUMAN RESOURCES	1,686	1,765	1,905	1,553	1,731	1,553	1,552	1,730	1,552
LAW ENFORCEMENT	3,510	3,587	4,002	4,971	5,292	4,971	4,967	5,288	4,967
LEGAL POLICY AND ADMINISTRATION	3,336	3,978	4,115	2,941	2,941	2,941	2,937	2,937	2,937
BUSINESS REGULATION	2,989	3,758	3,944	3,849	4,337	3,849	3,842	4,330	3,842
SOLICITOR GENERAL	1,163	893	945	1,499	1,499	1,499	1,499	1,499	1,499
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL EXPENDITURES BY PROGRAM	18,715	20,839	21,884	21,928	23,045	21,928	21,895	22,882	21,895
SOURCES OF FINANCING:									
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
DIRECT APPROPRIATIONS:									
GENERAL	17,084	18,706	19,913	19,852	20,583	19,852	19,824	20,425	19,824
SP REV DIRECT APPROP	902								
STATE GOVT SPEC REV		956	1,028	1,040	1,426	1,040	1,035	1,421	1,035
SPECIAL REVENUE	31								
STATUTORY APPROPRIATIONS:									
FEDERAL	571	611	826	919	919	919	919	919	919
AGENCY	110	522							
GIFTS AND DEPOSITS	17	44	117	117	117	117	117	117	117
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL FINANCING	18,715	20,839	21,884	21,928	23,045	21,928	21,895	22,882	21,895

BASE RECONCILIATION REPORT
for 1992-1993 Biennium

AGENCY: ATTORNEY GENERAL

	ALL FUNDS		GENERAL FUND		OTHER STATE FUNDS		FEDERAL FUNDS	
	F.Y. 92	F.Y. 93	F.Y. 92	F.Y. 93	F.Y. 92	F.Y. 93	F.Y. 92	F.Y. 93
F.Y. 91 FUNDING LEVEL	21,884	21,884	19,913	19,913	1,145	1,145	826	826
APPROPRIATIONS CARRIED FWD	<60>	<60>	<60>	<60>				
NON-RECURRING EXPENDITURES	<305>	<305>	<305>	<305>				
LEG-DIRECTED ADJUSTMENTS	4	4	4	4				
SALARY ANNUALIZATION	221	149	209	142	12	7		
DOCUMENTED RENT/LEASE INCR.	91	130	91	130				
FEDERAL RECEIPTS	93	93					93	93
TOTAL	21,928	21,895	19,852	19,824	1,157	1,152	919	919
BIENNIAL TOTAL		43,823		39,676		2,309		1,838

PROGRAM: Government Services
Agency: Attorney General, Office of

1992-93 Biennial Budget

PROGRAM PURPOSE:

The **Government Services Program** represents the agencies responsible for running the state in its capacity as educator, landowner, employer, builder of roads and buildings, guardian of safety on our highways, tax collector and consumer of goods and materials. The program consists of 7 divisions: Construction, Education, Employment law, Public Finance, Public Safety, Tax Litigation, and Transportation.

- The **Construction Division** was created two years ago to meet the growing demand for expertise in handling increasingly complex and expensive construction claims against the state. Attorneys advise the agencies responsible for state construction projects and defend the state when contractors, subcontractors and third parties sue. The division also files suits against contractors who provide defective work or fail to comply with contract specifications.
- The **Education Division** advises the state's educational agencies in diverse areas including contract law, rulemaking, data practices problems, bankruptcy, and employment law. Attorneys appear before administrative law judges and in federal and state courts when called upon to defend educational agencies as they implement legislative programs and execute their statutory duties.
- The **Employment Law Division** represents the Department of Employee Relations' Personnel and Labor Relations Bureaus, which act as employer to the state's more than 33,000 employees. The division renders legal advice on a variety of topics such as military leave, affirmative action, and health care. Division attorneys also represent the state in discrimination and civil rights actions brought by past and present employees.
- The **Public Finance Division** provides day-to-day representation to the accountants, landowners and purchasing agents for the state who are found in the Departments of Finance and Administration. Attorneys review thousands of contracts, draft hundreds of documents and respond to daily requests for advice. The division also advises a number of other state boards and agencies that deal with finance and contract matters, including the Department of Trade and Economic Development, the Housing Finance Agency, the Iron Range Resource and Rehabilitation Board, the Indian Affairs Council Business Loan Program, the Rural Finance Agency, the Export Finance Authority, the Amateur Sports Commission, the Public Facilities Authority, and the Agriculture and Economic Development Board.
- The **Public Safety Division** counsels the Department of Public Safety on legal issues that arise in its conduct of a wide range of public protection activities. The Department's program includes the State Patrol, Fire Marshall, Bureau of Criminal Apprehension, Capitol Security, Office of Drug Policy, Peace Officers' Death Benefit Fund, Private Detective Board, Driver and Vehicle Services, Liquor Control and many other program areas. Attorneys represent the department in implied consent cases, civil overweight truck proceedings, criminal record expungement matters, and administrative hearings on private detective licenses, dealers' licenses, and crime victims' claims.
- The **Transportation Division** provides legal advice and representation to the Minnesota Department of Transportation (MnDOT). MnDOT's highway construction and hazard elimination program requires the acquisition of hundreds of parcels of land each year. Division attorneys represent MnDOT in hearings to determine the just compensation due a landowner when real estate is taken for highway purposes. They also advise MnDOT in its regulation of intrastate trucking activities, railroad commerce, and public airport operations. MnDOT receives advice on matters of prevailing wage law, state aid distribution, local land use zoning, landlord-tenant relationships, environmental law and a variety of other matters.

PERFORMANCE:

Preventative Law

The practice of preventative law constitutes an important part of the work of Government Services attorneys. It is difficult to quantify dollars saved through efforts such as effective negotiation and wise contract drafting.

In the Public Finance Division, one measure of success is the infrequency of lawsuits over contract matters. The state was sued in only 3 instances in F.Y. 1990, despite the division having reviewed or drafted 3,500 contracts during that period. Public Finance Division attorneys also assisted the state in issuing \$200 million in general obligation bonds and \$430 million in revenue bonds in F.Y. 1990. Resolving complex problems quickly is crucial to timely issuance of bonds.

The Employment Law Division also plays an important role in preventing lawsuits before they happen. During F.Y. 1990, division attorneys conducted training on state ethics and harassment laws for more than 1,500 state employees.

Attorneys in the Construction Division similarly spend numerous hours working with client agencies to develop defensible contract specifications and to prevent situations that might result in contractor claims against the state.

Litigation

Unlike the results of practicing preventative law, litigation results can be quantified. But raw numbers do not necessarily reflect the quality of the result, the complexity of the matter or the magnitude of the effort demanded. During F.Y. 1989 and F.Y. 1990, for example, the Public Safety Division handled nearly 5,000 implied consent cases in the district courts and over 100 cases in the appellate courts. The division won 86% of these cases, but this figure depends on whether the Minnesota Supreme Court upholds new drunk driving legislation. The Construction Division, by contrast, normally handles about 45 cases at any given time. These cases typically total in excess of \$10 million, with claims ranging from less than \$10.0 to several million dollars. Regardless of the size of the claim, construction cases are highly technical, involve thousands of pages of documents and require considerable attorney and legal assistant time.

Transportation Division attorneys also handle cases involving high stakes. In F.Y. 1990, attorneys dispensed of eminent domain cases in which landowners sought damages of nearly \$30 million. Jury verdicts, commissioner awards or negotiated settlements reduced the amount actually paid by the state to less than \$21 million. Moreover, timely and effective handling of these cases has allowed MnDOT's construction program to proceed without delay and to receive full federal financial participation, which is conditioned on the state's acquiring property at a reasonable price.

Constitutional Challenges and Public Policy Defense

Apart from monetary concerns, cases often involve the defense of important state policies. For example, attorneys in the Education Division successfully defended the constitutionality of the Post-Secondary Enrollment Options Act (PSEO). The Act allows high school students to attend, at state expense, private and public colleges for high school credit. A lawsuit asked the federal district court to strike down the act as violative of the constitutional provision for separation of church and state. Attorneys in the Education Division persuaded the court that the Act is constitutional as written and as applied to all but one of the participating private colleges. Plaintiffs agreed to dismiss their lawsuit after the court's decision was announced.

In another case, a school district sued the Commissioner of Education to prevent implementation of the open enrollment program for the district's children. The Education Division is vigorously defending the right of the commissioner to pay state aid to a receiving school district when a student from another district enrolls there. The division also successfully defended state legislation that allows the Commissioner of Education to hear and decide appeals involving education of handicapped

children. The parents of a handicapped child are entitled to a local hearing if they and the school district disagree about the child's educational program. The result of the local hearing may be appealed to the commissioner. The process embodied in the law advances important state policies. It utilizes the expertise of the Commissioner in special education matters and ensures statewide uniformity in special education matters.

During the last fiscal year and this one, the Public Safety Division has expended much time and effort in defending legislative policy to deter drunk driving. The 1989 Legislature enacted a measure to make it a crime for repeat offenders to refuse chemical testing when they are arrested for DWI. Drivers in more than one hundred cases challenged the law, which the court of appeals upheld. Several drivers have now appealed their cases to the Minnesota Supreme Court. The policy underlying the law makes it worth fighting for, but the fight exacts a toll in attorney and legal assistant hours demanded.

PROSPECTS:

During times of economic downturn, the need for legal services actually increases. The Government Services Program anticipates that a tighter state budget will require even more effective negotiation and astute drafting of contracts for the acquisition and financing of property and equipment. Many state agencies may look to lease purchasing rather than outright purchasing. Lease purchasing permits an agency's budget to be stretched further, but it involves more attorney time. When the economy is ailing, disappointed bidders and contractors are more apt to pursue bid disputes and file claims against the state. Defaults on revenue bonds are also anticipated to increase, which will require a significant commitment of attorney time to loan workouts. Attorneys in the Public Finance, Construction and Education Divisions will be particularly impacted by these developments.

In addition to a number of smaller claims in which the state is the defendant, the Construction Division currently is handling 5 very large, complex cases that are in the early stages of litigation. These cases will require a major effort of time and are expected to remain active throughout the coming biennium. The division is also pursuing claims ranging from \$30.0 to \$150.0 against contractors who performed defective work on state projects. The ability to pursue these and other claims on behalf of the state will become increasingly limited because of the existing case load and the anticipated increase in claims.

The Government Services Program expects a general rise in the number of lawsuits. The aggressive construction and hazard elimination programs of MnDOT, its planned reconstruction of I-494 and I-35W, and the growing emphasis on monitoring and enforcing truck safety rules will all require extensive legal services. Attorneys in the Transportation Division will be increasingly involved in litigation to hold prior landowners accountable for the contamination-producing uses to which they put property before it was acquired by MnDOT for highway purposes.

New education option programs like the PSEOA and open enrollment generate controversies that result in lawsuits. School districts and the public have become more willing to challenge state agency action in such areas, thereby adding to the workload of the Education Division. The expansion of Metropolitan State University will also create additional work for the division.

The Employment Law Division is similarly affected by law changes that create a need for increased legal services. The Public Employees' Insurance Plan and the Health Care Access Commission are developing new initiatives related to the health care needs of government workers and the public. The division is assisting state agencies as they seek solutions to the health care crisis. In December 1991, the enforcement sections of the local government pay equity law will go into effect. The law requires all public employers to file approved pay equity plans with the Department of Employee Relations. Enforcement will necessitate additional legal services. Finally, the trend the division has

seen is one of growing numbers of complaints and lawsuits filed against the state as an employer. This trend makes the division's educational efforts even more important and places increasing demand on its time spent on litigation.

The Public Safety Division anticipates that the push for effective drunk driving enforcement will continue. In addition to its considerable implied consent case load, the division has undertaken the defense of the Peace Officers' Death Benefit Fund, which was transferred from DOER to the Department of Public Safety in 1990. Until the transfer, fund defense was handled by outside counsel. On another front, division attorneys anticipate that the designation by the federal government of the Office of Pipeline Safety as its interstate agent will add to the already complex legal environment in which the office operates. Finally, the demands of these programs plus those of the federally-funded Office of Drug Policy are expected to strain existing resources within the division.

Alternatives Considered

The office anticipates increasing costs in the Government Services Program as a result of increased salary costs. The preferred alternative is a separate salary supplement appropriation as has been the practice for several biennia. Without a salary supplement appropriation alternatives would include no raises, reduced raises, reduced hours, leave without pay, lay offs, or a combination of these measures. Reducing or reallocating staff will cause serious, in some situations, unacceptable delays in enforcing or protecting the state's vital legal interests. The net result will be lost revenue or additional expenditures.

PLAN:

■ Pipeline Safety	F.Y. 1992	\$0	F.Y. 1993	\$0
-------------------	-----------	-----	-----------	-----

In order to meet the legal services needs of the Office of Pipeline Safety, the Department of Public Safety is requesting an increase in the pipeline safety fees and an appropriation to fund 1 attorney position within the Attorney General's Office.

GOVERNOR'S RECOMMENDATION:

Recognizing the distinction between separate branches of government, the Governor respectfully acknowledges the right of the Attorney General's Office to present its budgetary needs directly to the legislature for consideration.

ACTIVITY: Government Services
PROGRAM: Government Services
AGENCY: Attorney General's Office

1992-93 Biennial Budget

DECISION ITEM: Pipeline Safety

AGENCY PLAN:	Dollars in Thousands			
	<u>F.Y. 1992</u>	<u>F.Y. 1993</u>	<u>F.Y. 1994</u>	<u>F.Y. 1995</u>
Expenditures				
General Fund	\$ -0-	\$ -0-	\$ -0-	\$ -0-
Revenues				
General Fund	\$ -0-	\$ -0-	\$ -0-	\$ -0-

GOVERNOR'S RECOMMENDATION:

Expenditures				
General Fund	\$ -0-	\$ -0-	\$ -0-	\$ -0-
Revenues				
General Fund	\$ -0-	\$ -0-	\$ -0-	\$ -0-

Requires statutory change: _____ Yes X No
Statutes Affected:

ITEM SUMMARY:

The dollars to fund an additional legislative complement position in the Attorney General's Office are being requested by the Department of Public Safety. This is a position request.

RATIONALE:

The Attorney General is unable to assign the level of attorney services needed to represent the Office of Pipeline Safety of the Department of Public Safety. The Department has submitted a request to the Department of Finance for an increase in the pipeline safety fees and will ask the legislature for an appropriation to fund an interagency agreement with the Attorney General's Office.

GOVERNOR'S RECOMMENDATION:

Recognizing the distinction between separate branches of government, the Governor respectfully acknowledges the right of the Attorney General to present its budgetary needs directly to the Legislature for consideration.

1992-1993 B I E N N I A L B U D G E T
(DOLLARS IN THOUSANDS)

AGENCY: ATTORNEY GENERAL
PROGRAM: GOVERNMENT SERVICES

				FY 1992			FY 1993		
			Est.	Adjusted	Agency	Governor	Adjusted	Agency	Governor
ACTIVITY RESOURCE ALLOCATION:	FY 1989	FY 1990	FY 1991	Base	Plan	Recomm.	Base	Plan	Recomm.
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
GOVERNMENT SERVICES	3,895	4,078	4,025	4,196	4,196	4,196	4,197	4,197	4,197
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL EXPENDITURES BY ACTIVITY	3,895	4,078	4,025	4,196	4,196	4,196	4,197	4,197	4,197
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
DETAIL BY CATEGORY:									

STATE OPERATIONS	3,895	4,078	4,025	4,196	4,196	4,196	4,197	4,197	4,197
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL EXPENDITURES BY CATEGORY	3,895	4,078	4,025	4,196	4,196	4,196	4,197	4,197	4,197
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
SOURCES OF FINANCING:									

DIRECT APPROPRIATIONS:									
GENERAL	3,895	3,804	4,025	4,196	4,196	4,196	4,197	4,197	4,197
STATUTORY APPROPRIATIONS:									
AGENCY		274							
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL FINANCING	3,895	4,078	4,025	4,196	4,196	4,196	4,197	4,197	4,197
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====

PROGRAM PURPOSE:

The **Public Resources Program** enforces Minnesota's tough environmental laws and protects its pristine natural resources. The rule of law and reasoned agency decision making are critical to the public's interest in protecting and improving the environment and to assuring fundamental fairness to persons and businesses directly affected. Consequently, the quality and breadth of the state's legal services is of vital importance and fosters responsible and responsive government.

- The **Environmental Protection Division (EPD)** protects the quality of the environment by representing state agencies responsible for implementing and enforcing environmental laws and rules. To accomplish this purpose, EPD engages in a wide range of legal activities. EPD is the defender of agency decisions and actions in state and federal courts; the prosecutor of affirmative legal actions brought to enforce agency decisions, penalize violations, and take other appropriate actions intended to achieve compliance with environmental laws; and the legal counselor to agencies regarding the exercise of their authorities consistent with statutory, ethical and constitutional considerations and administrative law doctrine. The specific environmental agencies represented and served by EPD include the Minnesota Pollution Control Agency (MPCA), the Environmental Quality Board (EQB), the Office of Waste Management (OWM), and the Harmful Substance Injury Compensation Board (HSICB). The state and federal laws and rules that govern the actions of these agencies and affected parties are technically and legally complex.
- The **Natural Resources Division** performs a full range of legal services to assist in the preservation of our state's natural heritage, to make sure that resource use and development take place in a legally correct manner, and to enable the Department of Natural Resources (DNR) to function effectively, efficiently, and within the constraints of Minnesota's statutes and constitution. In addition to addressing the legal needs of the DNR, this division is assigned to represent and advise other state agencies as well, including the Indian Affairs Council, the Land Exchange Board, the State Archaeologist, and the State Board of Water and Soil Resources. Occasionally, the division provides assistance to the Great Lakes Commission, Minnesota-Wisconsin Boundary Area Commission, State College System, Minnesota Historical Society, and the Citizens' Council on Voyageurs National Park as well. Finally, Natural Resources Division lawyers serve many other state agencies and local units of government on questions of Indian law and jurisdiction. During F.Y. 1990 Indian issues generated assistance to, among others, the Governor, the Minnesota Senate and House of Representatives, various county attorneys, the Department of Public Safety, Department of Revenue, Department of Human Services, Pollution Control Agency, Department of Administration, Department of Gaming, Department of Jobs and Training, Department of Transportation, Department of Health, Department of Labor and Industry, Housing Finance Agency, and Minnesota Historical Society.
- The **Agriculture Division** works to assure Minnesota consumers a healthy, safe food supply, to foster more environmentally sustainable farming practices, and to promote the interests of Minnesota's farmers. The division provides all necessary legal services to the state Department of Agriculture, the Board of Water and Soil Resources (BOWSR), and the Board of Animal Health. That includes all enforcement and incident response work involving agricultural chemicals under Minnesota's landmark groundwater protection law, the enforcement of Minnesota's food safety, dairy and livestock inspection, and plant industry laws, and legal advice and collections assistance for the Family Farm Security Program. For BOWSR, the division reviews, approves, and enforces the terms of all Reinvest in Minnesota (RIM) conservation easements, and assists in the implementation of the new Minn. Stat. 40.46, which requires BOWSR review and withholding of easements on all state land sales. In addition, the division provides independent assistance to Minnesota's farmers, through litigation, legislation, fraud investigations, and the Attorney General's Farm and Home Preservation Hotline.

- The **Public Utility Division** advises two regulatory agencies: the Transportation Regul. Board (TRB) and the Public Utilities Commission (PUC). These agencies regulate vital industries that provide transportation, gas, electric and telephone services to Minnesota. Because of their close link to the economic and social welfare of the public and their tendency to be monopolistic, these industries historically have been subject to intense regulation. The division advises these agencies to ensure that due process is given to the regulated industries, rate adjustments are reasonable and Minnesotans have adequate services. The division also advises the agencies on the substantive law and defends the agencies' orders on appeal.

PERFORMANCE:

The Public Resources Program achieves its program purpose when its legal representation contributes in a significant way to the protection and improvement of the quality of the state's environment through the development, implementation, and enforcement of effective environmental laws and rules. The critical measurement of successful performance is the achievement of reasoned agency decision making based on the rule of law.

Environmental Protection Division

In a nationally significant case decided in 1990, the Minnesota Supreme Court ruled that costs incurred by companies to clean up environmental contamination pursuant to the Minnesota Superfund laws are covered by comprehensive general liability insurance policies. In its opinion, the Supreme Court relied to a substantial extent upon the legal reasoning contained in the brief submitted by the EPD. The Supreme Court affirmed the state's priority interest in protecting its natural resources and, most importantly, preserved the state's limited Superfund resources for cleanup of sites not covered by insurance. This was the most significant of 5 new Superfund cases in F.Y. 1989-90 in which the EPD took an active part either as plaintiff or amicus.

EPD is currently engaged in 3 Superfund litigation matters: The South Andover cost recovery case; the Freeway Landfill cost recovery case; and the challenge to the EPA's National Contingency Plan (under the Federal Administrative Procedures Act).

As a result of the Superfund administrative enforcement process, responsible parties reimbursed the MPCA for a total of \$595.0 in F.Y. 1989-90 to pay for oversight and other expenses incurred by the MPCA. In addition, the amount of money estimated to be committed to site investigation and cleanup by responsible parties increased from \$147 million in F.Y. 1989 to \$160 million as of October 1990.

With the assistance of the EPD, MPCA negotiated 16 air quality stipulation agreements and consent decrees, collecting \$481.1 in civil penalties in F.Y. 1989. In F.Y. 1990, 22 air quality stipulation agreements and consent decrees were completed, collecting \$1,804.6 in civil penalties. Pending air quality enforcement actions consist of 12 stipulation agreements seeking over \$400.0 in civil penalties and three lawsuits, 1 of which involves major violations of asbestos removal regulations and a civil penalty of over \$400.0.

Virtually every MPCA permitting decision involving incinerators since 1986 has resulted in the filing of lawsuits due to the controversial nature of this area. Three incinerator cases heard in the Supreme Court this past biennium affirmed the state's position, 1 was favorably resolved at the Court of Appeals level, and 1 was resolved by legislative intervention.

Enforcement actions in the hazardous waste program resulted in approximately \$800.0 in civil penalties during the last 3 years. Stipulation agreements, administrative penalty orders and court settlements were among the enforcement tools used by the MPCA with the assistance of the EPD.

An outstanding example of coordination between the environmental agencies and the Attorney General's Office is the permit transfers from Reserve Mining Company to Cyprus Minerals Company.

PROGRAM: Public Resources
(Continuation)
Agency: Attorney General, Office of

1992-93 Biennial Budget

The extremely complex legal and technical issues that needed to be worked out for a successful transfer represented a tremendous challenge. The long and difficult negotiations involved several parties, including the former permittees, the federal Environmental Protection Agency, state agencies, the bankruptcy trustee, and numerous interested individuals and groups. The joint effort resulted in preserving the environmental integrity of Reserve's former permits, particularly in regard to the on-land tailings disposal system at Mile Post 7. Conservatively, tens of millions of dollars of potential costs to the state were avoided and additionally allowing for the return of jobs and other positive economic effects benefiting the area.

Natural Resources Division

The Natural Resources Division has successfully provided many of the services necessary for the short term effective operation of its client agencies, has emphasized the "preventative" legal services that reduce the incidence of conflict or litigation, and has been successful in the great majority of the lawsuits with which it has been involved. During F.Y. 1989-90, collection activities of the division resulted in the recovery of approximately \$103.4 for debts on unpaid timber cutting permits; the reimbursement of approximately \$212.0 for the state costs of fighting fires caused by private individuals; the collection of approximately \$22.0 from various contract or construction disputes; and the recovery of approximately \$17.0 for accidental fish kills.

During F.Y. 1989-90, the division successfully defended the DNR against over \$9.6 million in damage claims in state and federal courts and in the legislative claims subcommittee.

During F.Y. 1989-90, the division successfully obtained the dismissal of two Indian land claim class action lawsuits in federal court. Damages of over \$100 million were claimed.

During this same period, the division successfully drafted, and lobbied for passage of, the federal White Earth Land Settlement Act which resolved ownership disputes on over 100,000 acres of land, and successfully defended its constitutionality in U.S. District Court and the U.S. Court of Appeals for the District of Columbia Circuit.

The division also during F.Y. 1989-90 prepared to litigate major issues of Indian hunting and fishing rights under the Treaty of 1854 (involving Minnesota's Arrowhead Region), while at the same time negotiating for a long-term settlement of the issue. Eventually a settlement was reached, state legislation was drafted and passed which ratified the settlement, and the federal district court incorporated the settlement into an order.

During F.Y. 1989-90, the division drafted and/or reviewed over 2,400 contracts involving more than \$52 million of state funds; drafted and/or reviewed more than 1,200 state lease documents; performed all the legal work necessary to acquire for the state more than 17,000 acres of land worth in excess of \$8.2 million; performed all legal work necessary for state/private exchanges of land with a value totalling over \$2 million; defended 7 lawsuits challenging the constitutionality of laws governing the actions taken by the DNR or state (5 of the actions were dismissed and 2 are pending); was involved in approximately 50 administrative law proceedings under the Administrative Procedures Act; approximately 260 proceedings in courts under the state and federal systems; and approximately 20 legislative or contract claims.

During F.Y. 1989-90, the division worked closely with several minerals-related issues of significance to the state. Three mineral lease auctions were held, current leases with major steel companies were renegotiated, new peatland leases were executed, and court actions were initiated to recover for the state several thousands of acres of severed mineral interests for which taxes had not been paid.

During F.Y. 1989-90 the division worked extensively on the crisis caused by the bankruptcy of

Reserve Mining Company and LTV Steel Company. It performed much of the legal work that enabled Reserve to be sold to Cyprus Minerals Company while at the same time assuring that the original environmental commitments made by Reserve would be honored by LTV and Armco, Inc., and not be lost due to the bankruptcy proceedings.

During F.Y. 1989-90 the division successfully upheld in court the validity of the state statute requiring the sale of school trust fund lakeshore lots now being leased to private individuals. The division also defended the specific auction process by which the lands were sold.

Agriculture Division

Since the Attorney General's Task Force of Food Safety issued its report last winter, food inspection has been a high priority both for the department and the Agriculture Division. The department's enforcement posture has been more aggressive, and there have been more criminal and civil prosecutions of food law violators. Aided by the Agriculture Division, the Agronomy Services' enforcement program expanded the penalties assessed for misuse of agriculture chemicals from \$9.4 in F.Y. 1988 to \$121.1 in F.Y. 1990. So far, only 7 of the enforcement orders or notices of intent to sue issued against facilities or individuals have gone to the district court complaint stage, with 5 of those settling for the full penalty amount, 1 where the court entered judgment in the department's favor, and 1 still pending.

During F.Y. 1989-90 the division has performed the legal work necessary to process over 375 RIM conservation easements over private agricultural lands. In addition, the division has developed forms and procedures for the RIM program, has trained program personnel, has assisted with the development of formal rules for the program, has resolved land description or boundary disputes, and has been involved in measures taken to enforce the terms of the easements.

Under both the 1989 pesticide control law and the 1989 groundwater protection legislation, as amended, the Department of Agriculture has the responsibility for investigating and remediating agricultural chemical spills and releases. When an "incident" occurs, the department will request or order the responsible parties to begin site assessment and corrective actions immediately. If there is no responsible party or that party refuses to comply, the department can get access to the Superfund, but then has the obligation to recover those expenses from any party that may have had custody, control, or responsibility for the chemicals at the time of the incident. In 1989, the Agronomy Services Division had 101 incident response files; in 1990 so far, they have 229. Many of these cases require legal advice while they are still at the administrative level; others require formal litigation. One case in particular--the Lund Nursery case--has required and will in the future require a considerable amount of attorney time. That case involves a fire at a retail lawn and garden supply store in St. Cloud, where the release of pesticides caused extensive contamination of the environment. The proprietors of the store were unable or unwilling to pay for cleanup, so the department stepped in and expended \$475.0 in Superfund money to remediate the site. The department then notified, not just the store proprietors, but also the owner of the property and the manufacturers and distributors of the pesticide products on the site that they were liable as responsible parties for the cleanup expenses. Those parties have all denied liability and that case is now pending in both district court and the court of appeals.

The Agriculture Division has successfully defended the Family Farm Security Program against claims amounting to at least several hundred thousand dollars. In one case, the First Bank of Worthington sued to collect a Family Farm Security guarantee for between \$200.0 and \$300.0, but the division was able to prevail both at trial and on appeal.

To date, the Agriculture Division has been successful in avoiding liability for negligent inspections and certifications in connection with a ringrot outbreak in certain seed potato shipments in northwestern Minnesota, including most recently in Hapka v. Paquin Farms, et. al., decided by the Minnesota Supreme Court. In contrast, the seed potato certification agency in Wyoming was recently found liable for \$5,000.0 in a case involving about 1% of Minnesota's certified acreage. Other agencies around the country have faced similar problems.

The 1989 grasshopper control program triggered 2 lawsuits, challenging the law on procedural due process, equal protection, and environmental grounds. The Agriculture Division successfully obtained a reversal from the court of appeals, overturning an adverse district court judgment in 1 case, and the other 1 is currently pending before the appeals court.

In 1989, the Agriculture Division took USDA to court for its refusal to comply with the law governing the farmer-owned reserve (FOR) program, and continues to assist the Department in articulating the Upper Midwest position in the current review of the federal Milk Marketing Order Program. The division independently filed an amicus brief to support the Minnesota Milk Producers Association's legal action challenging USDA's refusal to change the geographic price differentials and its policy toward the shipment of reconstituted milk.

The division continues to take independent action to support Minnesota farmers. In addition, the division continues to work with the Consumer Division and others to investigate allegations of rural fraud, most recently with allegedly defective silos, bogus living trust arrangements, and do-it-yourself lawsuits.

Public Utilities Division

Attorneys in the Public Utilities Division enjoy a similar record of success. They review and assist the PUC in its issuance of dozens of orders each year. Despite the large number of orders issued in F.Y. 1990, industries regulated by the PUC sought review of only 1.5% of those orders. Three of these 4 cases resulted in decisions favorable to the PUC; the fourth was not affirmed because of a procedural defect.

PROSPECTS:

The Environmental Protection Division staffing has not kept pace with the increase in staffing and program authorities of the environmental agencies represented by EPD. For example, since 1985, the staff of the MPCA has grown from approximately 350 to 700.

The primary example of dramatic change is MPCA's Division of Air Quality (DAQ). DAQ has grown from 58 employees in 1985 to 96 in 1990. The enforcement activities of DAQ require substantial legal assistance and have dramatically increased in the past 2 years. Complaints received doubled from 1987 to 1990; stipulation agreements rose from 3 in F.Y. 1987 to 22 in F.Y. 1990; and, civil penalties increased from \$57.2 in F.Y. 1988 to \$1,804.6 in F.Y. 1990.

Permits for mixed municipal solid waste (MSW) incinerators and medical waste incinerators are extremely controversial. Contested case proceedings will be necessary before permits are issued for these types of facilities. All 13 MSW incinerators currently permitted must have their permits renewed in the next biennium; this will be a highly controversial process. Approval of 1991 rules on new standards of performance for incinerators will vastly increase the scope of incinerator regulation (from 25 facilities to over 500 facilities) and enforcement in F.Y. 1992-93.

The most substantial change that affects the entire air quality program is the federal Clean Air Act reauthorization. Major changes will occur in the regulation of nonattainment areas, mobile sources, hazardous air pollutants, acid rain control, permits and possibly small business assistance. DAQ will need a dramatic increase in legal assistance to interpret, implement and enforce the complex requirements of the new act.

Overall, the legal service needs of EPD agency clients are increasing and resources to meet those needs are decreasing or are just not available. For the past several years, EPD has aggressively prioritized matters and increased efficiency wherever possible. However, recently EPD has had to

severely reduce some of its services to clients in order to meet other higher priority service needs. For example, during the pendency of the Flying Cloud landfill contested case hearing, which absorbed a large amount of attorney time for several months, EPD was unable to meet many legal service needs of the MPCA's solid waste program. It is anticipated that this example will become more typical in the future and will prohibit EPD from providing full legal service needs to its agency clients.

Solid waste management issues, which include issues related to waste incinerators and landfill siting and permitting, will increasingly require adversarial administrative proceedings to resolve. There has been and will continue to be more pressure on the MPCA to enforce its environmental laws. A more aggressive approach will result in more litigation. The Attorney General is proposing a legislative initiative to add administrative penalty orders to a broader spectrum of environmental violations which will potentially increase contested cases. This concept was supported in a recent report by the Legislative Auditor. Client agencies will be pushed into taking "harder look" at environmental impacts and feasible and prudent alternatives that eliminate or mitigate adverse environmental effects associated with permit issuances. The choices between competing interests and the maintenance of a reasonably balanced approach will become increasingly difficult and adversarial in nature. Finally, there are the pending environmental cost claims that need to be reviewed and litigated to recover state monies spend on Superfund and petroleum tank release cleanups and compensation paid out to persons injured by harmful substances.

With the anticipated increase in adversarial proceedings, either judicial or administrative, there will be fewer resources to provide other legal services to EPD's client agencies. Litigation and enforcement will be the priority and other legal work, by necessity, will be reduced or eliminated. Ironically, cutting back or eliminating other legal services to environmental agencies will likely result in more litigation and less effective enforcement because early legal review and advice can avoid future legal controversies. Most importantly adherence to the rule of law and reasoned agency decision making are less attainable without the required legal assistance and advice.

The trend of the past decade has been for expanded governmental programs and regulation in natural resource-related fields. The Natural Resources Division has also faced vastly increased numbers of questions, controversies, and lawsuits relating to Indian rights and jurisdictional issues.

In the new biennium there will be increased emphasis on wetlands preservation and groundwater protection. This will mean more need for legal services. Similarly, controversies surrounding timber harvesting, lake levels, public drainage systems, shoreland zoning, mineral exploration (and perhaps mining), and related issues will place further demands on the division. There has been a significant increase, which likely will continue, in the number of lawsuits filed that allege unconstitutional regulatory "takings", inverse condemnations, and federal civil rights statute violations. New lawsuits, some already filed and some anticipated, involving Indian hunting and fishing and other jurisdictional issues will further strain already stretched resources. If the agreement concerning the 1854 Treaty area (the Arrowhead Region) comes unravelled, much more attorney time will be required, and perhaps lengthy complex litigation will result.

The enforcement and incident response staff at the Agronomy Services Division has increased by 24 in 1990, and 12 new agricultural chemical investigators will come on next year. That will mean more cases and more litigation. Moreover, once the department completes the hiring and training process for its new staff, the division will refer a number of the older enforcement and incident response files to the Agriculture Division for legal action.

On July 1, 1990, the new Agricultural Chemical Response and Reimbursement Account (ACRRA) went into effect. ACRRA is funded by license and permit fee surcharges on the agricultural chemical industry and will be available to reimburse eligible persons for their reasonable cleanup expenses. The Agriculture Division will represent the Department of Agriculture before the new ACRRA board, particularly in cases where the department believes an eligible person is not entitled to full reimbursement. This new program will therefore require attorney time to handle reimbursement disputes, both administratively and in the courts.

PROGRAM: Public Resources
(Continuation)
Agency: Attorney General, Office of

1992-93 Biennial Budget

The Department of Agriculture is seeking a series of amendments to the state food laws in the upcoming legislative session. That package will involve more inspections, and likely entail substantial increases in the number of administrative and civil prosecutions. If the department's proposals are enacted, there will be a significant increase in the demand for legal services.

In addition, the department is promulgating new rules to implement the 1990 wholesale produce dealers bonding legislation that was passed to implement the recommendations of the department's contract farming task force. Once the rules are in place, the division will have to take a number of bond disputes to administrative hearings.

The F.Y. 1991 RIM signup had approximately \$750.0 available. RIM already has a \$1 million commitment from the Legislative Commission on Minnesota Resources (LCMR) over the next biennium. The Board is requesting \$12 million from the legislature; if they are successful, there will be a startling increase in their need for legal services. Over the next biennium, the division anticipates an increase in RIM enforcement work, particularly if farm income drops. The new M.S. 40.46, which requires the board to review all state land sales and withhold easements for marginal farmland and other protected categories, will also increase the need for legal advice and guidance.

The operation of federal law also impacts the **Public Utilities Division**. Because of deregulation, the number of entrants into the market has significantly increased. This has meant additional work for the division and the PUC in the form of rate regulation, consumer complaint resolution, and examination of allegedly anti-competitive practices by utilities. Mergers have become frequent, necessitating close scrutiny. Deregulation of prices has had a dramatic effect on the gas industry, which has translated into added work for the division. In this federally-deregulated environment, a greater burden has fallen on the agency and its attorneys. The division has also been heavily involved in litigation over state-defined electric service boundaries, and this litigation is expected to continue into the first half of the biennium at least. Legislative initiatives in incentive regulation of telephone companies, changes to the Cold Weather Disconnection Rule and extended area telephone service have added to the demand for legal support. Finally, technological changes in the telecommunications industry are forcing change in the industry itself, which impacts on the work of the PUC and the division.

Alternatives Considered:

The office anticipates increasing costs in the Public Resources Program as a result of increased salary costs, 1837 Treaty litigation and environmental protection enforcement. The preferred alternative is a separate salary supplement appropriation as has been the practice for several biennia. Without a salary supplement appropriation alternatives would include no raises, reduced raises, reduced hours, leave without pay, lay offs, or a combination of these measures. Reducing or reallocating staff will cause serious, in some situations, unacceptable delays in enforcing or protecting the state's vital legal interests. The net result will be lost revenue or additional expenditures. In order to meet the other costs, the office identified the following alternatives for consideration:

At a minimum, if current staff are to handle the 1837 Treaty Indian litigation in an adequate fashion, additional financial resources must be made available. A different alternative would be to hire outside counsel to assume the full burden of the litigation. However, given the Wisconsin experience on the 1837 Treaty litigation, and Minnesota's past experience with outside counsel, the total cost for the biennium easily could exceed 1 million dollars under this option.

A cost recovery unit could be established to review claims and initiate actions necessary to preserve claims and recover cleanup expenses paid out by the state. If the cost recovery unit is not established, the costs will not be recovered or presently assigned attorneys will have to undertake cost recovery actions, resulting in a substantial reduction or elimination of other legal advice and

assistance to the MPCA Superfund and Tanks and Spills programs, including assistance in important administrative enforcement matters necessary to achieve additional environmental cleanups.

The present complement of EPD cannot meet the new demand of DAQ without eliminating legal assistance to other programs. Even elimination of legal assistance may not be enough if major litigation occurs.

PLAN:

■ <u>Cost Recovery Unit</u>	<u>F.Y. 1992</u>	\$0	<u>F.Y. 1993</u>	\$0
-----------------------------	------------------	-----	------------------	-----

The Attorney General recommends that a cost recovery unit be established in the Environmental Protection Division with up to 3 agency funded attorney positions phased in as required over the biennium. This unit would be dedicated to take all actions necessary to recover state monies paid out for environmental cleanups and injury compensation. The funding for the unit would come from appropriations to client agencies from the Superfund, the Petrofund and the Hazardous Substance Compensation Fund.

■ <u>Air Quality</u>	<u>F.Y. 1992</u>	\$0	<u>F.Y. 1993</u>	\$0
----------------------	------------------	-----	------------------	-----

The Attorney General recommends that the EPD attorney complement be increased by 2 positions to handle DAQ legal needs. The funding would come from MPCA fees.

■ <u>1837 Treaty Litigation</u>	<u>F.Y. 1992</u>	\$130.0	<u>F.Y. 1993</u>	\$0
---------------------------------	------------------	---------	------------------	-----

The Attorney General will proceed with the 1837 Treaty litigation using current staff. However, the office is seeking \$130,000 to cover the litigation expenses.

GOVERNOR'S RECOMMENDATION:

Recognizing the distinction between separate branches of government, the Governor respectfully acknowledges the right of the Attorney General's Office to present its budgetary needs directly to the legislature for consideration.

1992-1993 BIENNIAL BUDGET
(DOLLARS IN THOUSANDS)

AGENCY: ATTORNEY GENERAL
PROGRAM: PUBLIC RESOURCES

				FY 1992			FY 1993		
ACTIVITY RESOURCE ALLOCATION:	FY 1989	FY 1990	Est. FY 1991	Adjusted Base	Agency Plan	Governor Recomm.	Adjusted Base	Agency Plan	Governor Recomm.
PUBLIC RESOURCES	2,136	2,780	2,948	2,919	3,049	2,919	2,901	2,901	2,901
TOTAL EXPENDITURES BY ACTIVITY	2,136	2,780	2,948	2,919	3,049	2,919	2,901	2,901	2,901
DETAIL BY CATEGORY:									
STATE OPERATIONS	2,116	2,718	2,698	2,919	3,049	2,919	2,901	2,901	2,901
LOCAL ASSISTANCE	20	62	250						
TOTAL EXPENDITURES BY CATEGORY	2,136	2,780	2,948	2,919	3,049	2,919	2,901	2,901	2,901
SOURCES OF FINANCING:									
DIRECT APPROPRIATIONS:									
GENERAL	2,038	2,509	2,856	2,827	2,957	2,827	2,809	2,809	2,809
STATUTORY APPROPRIATIONS:									
FEDERAL	98	84	92	92	92	92	92	92	92
AGENCY		187							
TOTAL FINANCING	2,136	2,780	2,948	2,919	3,049	2,919	2,901	2,901	2,901

ACTIV Public Resources
PROGRAM: Public Resources
AGENCY: Attorney General's Office

1992-93 Biennial Budget

GOVERNOR'S RECOMMENDATION:

Recognizing the distinction between separate branches of government, the Governor respectfully acknowledges the right of the Attorney General to present its budgetary needs directly to the Legislature for consideration.

DECISION ITEM: Cost Recovery Unit

		Dollars in Thousands			
		F.Y. 1992	F.Y. 1993	F.Y. 1994	F.Y. 1995
AGENCY PLAN:					
Expenditures					
General Fund	\$	-0-	\$ -0-	\$ -0-	\$ -0-
Revenues					
General Fund	\$	-0-	\$ -0-	\$ -0-	\$ -0-

GOVERNOR'S RECOMMENDATION:

Expenditures					
General Fund	\$	-0-	\$ -0-	\$ -0-	\$ -0-
Revenues					
General Fund	\$	-0-	\$ -0-	\$ -0-	\$ -0-

Requires statutory change: _____ Yes X No
Statutes Affected:

ITEM SUMMARY:

With funding from the MPCA and the Hazardous Substance Injury Compensation Board (HSICB), the Attorney General is requesting an additional 3 positions to establish a cost recovery unit. The unit would pursue all actions necessary to recover state monies paid out for environmental cleanups and injury compensation.

RATIONALE:

The state's Superfund and Petrofund laws were enacted under the premise of "cleanup now, litigate later." The "litigate later" portion is now coming into focus. Since their implementation in 1983 and 1987 the Superfund and Petrofund programs have incurred recoverable expenses. Over \$3 million of these cleanup costs are recoverable now. In addition, the HSICB has paid \$223.9 in claims which are also recoverable. Some claims are now approaching the 6-year statute of limitations. The Attorney General has the authority to recover these claims. The Attorney General must take legal action before these claims are permanently barred.

A cost recovery unit will review claims and initiate actions necessary to preserve the state's right to recover cleanup expenses paid out by the state. If the cost recovery unit is not established, costs will not be recovered or presently assigned attorneys will have to undertake cost recovery actions, resulting in a substantial reduction or elimination of other legal advice and assistance to the MPCA Superfund and Tanks and Spills programs, including assistance in important administrative enforcement matters necessary to achieve additional environmental cleanups.

ACTIVITY: Public Resources
PROGRAM: Public Resources
AGENCY: Attorney General's Office

1992-93 Biennial Budget

DECISION ITEM: Air Quality

AGENCY PLAN:	Dollars in Thousands			
	<u>F.Y. 1992</u>	<u>F.Y. 1993</u>	<u>F.Y. 1994</u>	<u>F.Y. 1995</u>
Expenditures				
General Fund	\$ -0-	\$ -0-	\$ -0-	\$ -0-
Revenues				
General Fund	\$ -0-	\$ -0-	\$ -0-	\$ -0-

GOVERNOR'S RECOMMENDATION:

Expenditures				
General Fund	\$ -0-	\$ -0-	\$ -0-	\$ -0-
Revenues				
General Fund	\$ -0-	\$ -0-	\$ -0-	\$ -0-

Requires statutory change: _____ Yes X No
Statutes Affected:

ITEM SUMMARY:

The Federal Clean Air Act reauthorization will produce new revenue for the MPCA, and a dramatic increase in demand for legal assistance to interpret, implement and enforce the complex requirements of the new act. To meet the demand the Attorney General requests 2 additional positions to be funded by the MPCA with revenue from fees associated with the act.

RATIONALE:

The Clean Air Act Amendments of 1990 establish major program changes or whole new programs in the following areas: nonattainment areas (those areas that do not attain national air quality standards), mobile sources of pollutants, such as cars, air toxins acid deposition, permits and enforcement. In one year, EPA will issue regulations that will require states to revise their permit programs to meet the requirements of the new act. This revision will be the most significant, immediate, and complex action required of the states under the new act. The number of regulated sources of pollution will double, which increases the permit workload, as well as the number of enforcement matters that will arise.

This act is the most important change in air quality regulation since 1977. It establishes a daunting agenda for EPA and the states, and the MPCA will require much assistance from the Attorney General's office to interpret and implement it.

GOVERNOR'S RECOMMENDATION:

Recognizing the distinction between separate branches of government, the Governor respectfully acknowledges the right of the Attorney General to present its budgetary needs directly to the Legislature for consideration.

ACTIVITY: Public Resources
PROGRAM: Public Resources
AGENCY: Attorney General's Office

1992-93 Biennial Budget

ven to the state, particularly in the natural resources field. \$130.0 is the current estimate of the additional expenses to litigate this matter. These expenses are in addition to the staff who will be assigned to defend the state against this lawsuit.

DECISION ITEM: 1837 Treaty Litigation

GOVERNOR'S RECOMMENDATION:

Recognizing the distinction between separate branches of government, the Governor respectfully acknowledges the right of the Attorney General to present its budgetary needs directly to the Legislature for consideration.

AGENCY PLAN:	Dollars in Thousands			
	F.Y. 1992	F.Y. 1993	F.Y. 1994	F.Y. 1995
Expenditures				
General Fund	\$ 130.0	\$ -0-	\$ -0-	\$ -0-
Revenues				
General Fund	\$ -0-	\$ -0-	\$ -0-	\$ -0-

GOVERNOR'S RECOMMENDATION:

Expenditures				
General Fund	\$ -0-	\$ -0-	\$ -0-	\$ -0-
Revenues				
General Fund	\$ -0-	\$ -0-	\$ -0-	\$ -0-

Requires statutory change: _____ Yes X No
Statutes Affected:

ITEM SUMMARY:

The Attorney General's Office is seeking an appropriation of \$130.0 for litigation expenses associated with this lawsuit.

RATIONALE:

In mid-1990 the Mille Lacs Band of Chippewa Indians sued the state of Minnesota seeking rights, unlimited and unregulated by state laws, to hunt, fish, and "gather" in a large portion of east central Minnesota, including the Mille Lacs Lake area. The rights, alleged to be guaranteed by a treaty signed in 1837, are located in an area over 3 million acres in size, and comprised of parts of 12 counties (Crow Wing, Morrison, Benton, Aitkin, Mille Lacs, Sherburne, Kanabec, Isanti, Anoka, Washington, Chisago, and Pine). This conflict involves the Minnesota portion of the same treaty area that has been in dispute for years in Wisconsin. Wisconsin has been litigating various aspects of the issue for over 16 years, and has been a party to 13 separate federal court opinions on the subject. Wisconsin court rulings have no binding effect in Minnesota because Minnesota is governed by the courts of a different federal circuit. Since the early stages of its litigation Wisconsin has had 2 attorneys working full-time on the litigation, and has at times had up to 5 attorneys working on it. During the past 5 years, in addition to its own staff costs, Wisconsin has spent roughly \$400.0 on outside consultants and \$50.0 on travel for legal research, negotiation and strategy conferences, and depositions. Wisconsin counties, who recently hired private counsel to represent them in the dispute, reportedly have paid close to \$1 million already in legal fees. The state of Wisconsin also reports that it is spending approximately \$1 million a year in law enforcement expenses directly connected with the dispute.

In Minnesota, defense of this litigation falls to current staff from the Attorney General's Office. Although the Attorney General has on his staff experts in this area of the law, this litigation has the potential of swallowing up vast resources and seriously affecting the legal services currently being

PROGRAM: Human Resources
Agency: Attorney General, Office of

1992-93 Biennial Budget

PROGRAM PURPOSE:

The **Human Resources Program** enforces Minnesota's health, welfare and correction laws.

- The **Health Division** protects the public health by representing the Department of Health (DOH). The division's attorneys grapple with legal issues which arise out of the department's efforts to limit and contain the spread of contagious diseases, such as AIDS, hepatitis, herpes, tuberculosis, and measles. Foodborne illness outbreaks, associated with pathogens such as Shigella, Salmonella, and the Norwalk virus, require quick action to either temporarily close the establishment associated with the cause of the illness or to obtain confidential information so that the source of the public health threat can be identified and then eliminated. The division also represents the department in regulatory actions which result in many public health benefits such as improving conditions for residents of nursing homes; assuring that health maintenance organizations provide proper care in a cost effective manner; protecting the quality of that essential resource, our drinking water; and assuring in many other ways that the people of Minnesota will continue to live in a healthy and safe environment.
- The **Human Services Division** represents the Minnesota Department of Human Services (DHS), the largest state agency, with a biennial budget of approximately \$3 billion. The size and complexity of the responsibilities assigned to the agency are reflected in the size of the Human Services Division and the scope of its duties.
 1. DHS sets rates for virtually all the nursing homes and group homes for persons with mental retardation in Minnesota. By statute private paying patients may not be charged more than the rate DHS sets, the rates, therefore, are critical to the facilities. When informal dispute resolution fails, Human Services Division staff handles appeals and other legal challenges to the rate setting rules. Annually the appeals number in the hundreds.
 2. Since the vast majority of the persons served in DHS's 8 regional treatment centers and the Minnesota Security Hospital are there by virtue of court order, the amount of Human Service Division legal work associated with their admission, treatment, cost of care and discharge is very high. Complex data practices, AIDS, funding and treatment issues invariably arise in a health care system of this size.
 3. Recent changes in state law allow DHS to place troubled community based services into receivership and operate them directly until a new buyer is found or every resident is safely moved. These statutes have benefitted the residents and their families but have strained the resources of DHS and Human Services Division staff because leases, employees, food, insurance and services must be realigned immediately, usually with little advance notice.
- The **Corrections Division** defends the Minnesota Department of Corrections (DOC) against claims brought by inmates which allege violations of their first amendment rights, fifth and fourteenth amendment rights, and eighth amendment guarantee against cruel and unusual punishment; claimed violations of the Minnesota Human Rights Act; and petitions for a writ of habeas corpus which challenge the lawfulness of the conditions of prisoner confinement. The division also responds to legal questions arising from the operation and administration of the prison system.

PERFORMANCE:

Health Division

The Health Division's goal is often to avoid litigation so as to enable public health officials to act quickly. For example, cooperation between public health officials and individuals and businesses associated with the cause of the illness speeds the identification and elimination of the source of a

foodborne outbreak and its adverse effect on the public. Several large scale outbreaks which have required intensive legal services include the 1988 Shigella outbreak associated initially with the Minnesota Vikings and ultimately implicating Northwest Airlines and Marriott In-Flight, Inc., and the 1989 Salmonella Javiana outbreak which demonstrated, for the first time, that cheese food products can contain salmonella and resulted in recommendations for changes in the industry standards for pasteurization and processing.

Assuring that the elderly citizens of the state who reside in nursing homes receive proper care is perhaps the most significant of the regulatory and enforcement activities which require legal counsel. During F.Y. 1989-90, the Health Division successfully concluded several contested case hearings against Beverly Enterprises, Inc., the owner of the largest number of facilities in the state. The actions were commenced after investigations by the DOH disclosed repeated violations of state nursing home standards in 2 of its facilities. As a result of the Health Division's aggressive pursuit of these actions, Beverly agreed to a settlement which included: revocation of the licenses of 2 nursing homes with the worst health inspection records; increased nursing staff, in service training, and consulting services in Beverly facilities; and payment for and publicizing of a statewide hotline staffed by DOH monitors to receive complaints about Beverly nursing homes.

In another major enforcement action, the Health Division assisted the DOH in reviewing an arbitration award which would have required MedCenters Health Plan, an HMO, to pay millions of dollars to Park Nicollet Medical Center, a large medical clinic. The department decided that the award would have caused MedCenters to become insolvent, thereby jeopardizing health care coverage for almost 300,000 Minnesotans. After successfully litigating the matter in both state and federal courts as well as before an administrative law judge, the Health Division negotiated a comprehensive settlement which, among other things, saved MedCenters enrollees between \$3-4 million in excessive premiums.

Human Services Division

Following the Supreme Court decision of Jarvis v. Levine, in January, 1988, treatment with neuroleptic medications in DHS facilities requires court involvement. Human Service Division staff handled over 300 hearings in F.Y. 1990, more than a dozen appeals to the court of appeals, and spent hundreds of hours with court personnel, county attorneys and regional treatment center staff attempting to facilitate the prompt review of treatment decisions. A sharp increase in petitions for writs of habeas corpus by persons who are mentally ill and dangerous seeking discharge occurred in F.Y. 1990.

The Human Services Division rate of success in the trial and appellate state and federal courts is excellent. In addition to successfully handling hundreds of Jarvis cases and related appeals, over a dozen appellate cases concerning nursing home rates have furthered the development of administrative law in Minnesota and resolved reimbursement issues affecting hundreds of nursing homes and group homes. Historically, DHS has not kept precise statistics concerning the dollar value of appeals because, most often, DHS is concerned with insuring the preservation of the legal principles set forth by the Legislature for rate setting. However, it is possible to state that in F.Y. 1990, the Rate Appeals Unit secured about \$2.5 million for the state. The dollar value of appeals currently pending in the unit is over \$11 million.

The federal entitlement programs such as Medical Assistance and AFDC, along with their state counterparts, General Assistance and GAMC, operate in a complex web of statutes and rules which confound even the initiated. With help from Human Service Division staff, DHS has made a dramatic proposal for welfare reform and received approval from the federal government to proceed to develop it.

In R.S. v. State of Minnesota, the Minnesota Supreme Court upheld the statutory provision allowing children who may have been victims of abuse to be interviewed by trained social workers without parental consent, based in part on the Court's appreciation that, parents are often the perpetrators of abuse and advance notice to them could place some children at serious risk.

In addition to these cases which advanced the purposes of government and firmly established key principles which will guide the delivery of human services, the Human Services Division has assisted DHS in the recovery of \$900.0 per year for care delivered to recipients when non-state funds were available to help defray the costs. Although these activities do not constitute a significant percentage of the division's activities, they covered its total cost in F.Y. 1988-89.

Other Human Service Division litigation helped prevent increases in state and county expenditures. For example, in Berg v. Wynia, plaintiffs sought an order requiring DHS to provide monthly notice and a trial-type hearing when an AFDC recipient challenged the amount of child support forwarded by the county. Human Services Division staff successfully avoided that cost by obtaining court approval of a far simpler process of quarterly notices and an administrative review. This compromise will save the counties money and protect limited staff time while assuring that AFDC recipients get proper payments.

In the past few years, DHS has developed multi-million dollar state-wide computer systems. The Human Services Division has handled the complex bidding required to assure that the vendors meet detailed procurement specifications. As a result of vigilant monitoring by DHS and Human Services Division staff, DHS will save several hundred thousand dollars on 1 contract.

Corrections Division

The Corrections Division handles approximately 85 cases per year. These cases, which are brought by inmates, frequently request in excess of \$100.0 in relief. In F.Y. 1990, however, the state paid out only \$2 in damages. In Bailey v. Wood, (a Section 1983 lawsuit filed by an inmate who had been assaulted by another inmate at the correctional facility at Oak Park Heights), a jury returned a verdict of approximately \$87.0 against the warden of a correctional facility, but a division attorney persuaded the appellate court to overturn the award.

PROSPECTS:

The Health Division's work should increase as a number of the environmentally related department programs are implemented. The programs include asbestos abatement, M.S. 326.70-.82 (1988), enacted in 1987 and now fully operational; lead abatement, M.S. 144.851-862 (Supp. 1989), and M. Laws 1990, ch. 533; infectious waste control, M.S. 116.75-.83 (Supp. 1989); water well code enforcement, M.S. ch. 103I (Supp. 1989), an existing program which has been substantially bolstered; and safe drinking water act enforcement, an existing program which received substantial increases in staff (50 positions) and money in 1989, M. Laws 1989, ch. 326, art. 10, section 1, subd. 2.

While the enabling legislation was enacted in 1987, the enforcement aspect of the home care licensure program, established pursuant to M.S. 144A.43-.48 (1988) will become operational in F.Y. 1991. The regulatory process includes provisions for fining home care agencies, similar to the fining system imposed on nursing homes. Accordingly, the Health Division expects to see a number of contested case hearings arising out of the program.

The implementation of the nurse aid registry requirements and the reporting and investigation of abuse and neglect allegations will result in the need for additional DOH legal services. This system gives individuals (not just nurse aids but any nursing home staff) alleged to have abused or neglected a nursing home resident the right to a hearing. Contested cases will result from this provision, but the numbers are unknown.

Another provision which has an unknown but potentially significant impact is M.S. 144A.103 (Supp. 1989). Whenever the Commissioner determines that the death of a nursing home resident was a result of abuse or neglect which could foreseeably have resulted in death or injury, a civil fine of

\$1,000 is imposed. Most of these fines are expected to be appealed.

The expansion of patients' rights is likely to increase the Human Service Division's workload, as are projected cuts in benefits or payments made by DHS. Historically, when budget cuts were made at DHS, the amount of litigation increased as those who suffered losses or decreases attempted to challenge the changes in law.

In some specific areas, the Human Services Division has fallen behind on litigation. Licensing cases of group homes and day care center are behind. Unlicensed day care centers continue to operate. Division staff has not kept pace with the increased number of group homes and day care centers. The risk to the vulnerable adults and children served by these facilities increases when licensing cases are not pursued.

The United States Supreme Court decision in Wilder v. Virginia Hospital Ass'n gave nursing homes, hospitals and group homes for persons with mental retardation a possible basis for legal action against states to contest the reasonableness of the reimbursement system. Minnesota can anticipate a challenge. Current large field audit cases are monopolizing the time of several attorneys, and additional cases are awaiting action. Three hundred eighty-eight appeals were pending in the Rate Appeals Unit on 6/30/90. Most of the pending appeals are field audits. The largest cases, requiring the time of 2 attorneys, 1 legal assistant and 1 secretary, can be expected to take at least 2 years to resolve. There are at least 4 large field audit appeals pending at the DHS but not yet referred. In addition, many small field audit appeals are expected. DHS also intends to concentrate more resources on completing field audits. This will inevitably result in more field audit appeals and referrals to the Rate Appeals Unit. In addition, district court litigation recently won by DHS at the Supreme Court level will result in the reactivation of at least 56 appeals.

As the Minnesota prison population continues to increase, the Corrections Division expects an increase in Section 1983 lawsuits and habeas corpus petitions. The prison population has increased by approximately 400 inmates each year for the past 3 fiscal years. The growing prison population coupled with inmates' litigious tendencies have in the past resulted in an increase in the division's workload. In the last year, 85 litigation cases were filed by inmates in state and federal courts.

Without the help of the Civil Litigation Division of the Solicitor General's Section in Degidio, Anthony, et. al. v. Perpich, et. al. and Graham, Ervin, et. al. v. Orville Pung, et. al., the Corrections Division would have been unable to keep up with other DOC defense.

Alternatives Considered

The office anticipates increasing costs in the Human Resources Program as a result of increased salary costs and demands for legal assistance. The preferred alternative is a separate salary supplement appropriation as has been the practice for several biennia. Without a salary supplement appropriation alternatives would include no raises, reduced raises, reduced hours, leave without pay, lay offs, or a combination of these measures. Reducing or reallocating staff will cause serious, in some situations, unacceptable delays in enforcing or protecting the state's vital legal interests. The net result will be lost revenue or additional expenditures.

In order to meet increasing legal demands several alternatives are proposed for consideration. For the most part these alternatives have only marginal cost saving benefits or shift costs to the agency but may be a more accountable way of dealing with the anticipated increased workload:

Have the DOH assume greater responsibility for all rulemaking functions, including submitting all documents to and making virtually all presentations to the Office of Administrative Hearings. The attorney role would be reduced, with respect to most rulemaking proceedings, to that of review, advice, and attendance at rulemaking hearings.

Delegate to the DOH for approval appropriate groups of contracts Attorney General authority to review and approve for form and legality.

PROGRAM: Human Resources
(Continuation)
Agency: Attorney General, Office of

1992-93 Biennial Budget

Mitigate the need for more permanent attorney services by having the DOH directly fund a temporary law clerk position, in addition to the half-time AIDS law clerk position it is currently funding.

Several changes have been made to meet the legal representation requirements of DHS with current Human Service Division staff levels, such as contracting with county attorneys to handle neuroleptic medication hearings in F.Y. 1990, delegating contract signature authority, rule review and contested case review to DHS staff, and delaying the timeliness of responses to requests for legal analysis. The only other alternatives for keeping up with legal services are to shift more work to county attorneys and DHS staff attorneys and allow the backlogs to grow.

Referral of more DHS rate appeals cases to outside attorneys has been considered and rejected. This approach has been tried in the past and has proven more expensive. The development of policy through the administrative process has also suffered through this approach.

Continued funding of the Rate Appeals Unit by the DHS has been considered. However, the Attorney General's Office is a more appropriate source of funding since the nature of the work falls squarely within the Attorney General's statutory authority.

PLAN:

■ <u>Rate Appeals</u>	<u>F.Y. 1992</u>	<u>\$178</u>	<u>F.Y. 1993</u>	<u>\$178</u>
-----------------------	------------------	--------------	------------------	--------------

The funding of the Rate Appeals Unit through a "special projects account" expires on 6/30/91. Without additional funding the strides made in the last 4 years will be erased and a new crisis will result. Providers will renew their request for a court order forcing the DHS to begin formal contested cases for all outstanding appeals. This request continues funding for 3 attorneys, and 1 legal assistant. A larger unit would be able to be more assertive of these state's interests and more timely in resolving rate disputes but due to the limitations of the budget no new staff are requested.

GOVERNOR'S RECOMMENDATION:

Recognizing the distinction between separate branches of government, the Governor respectfully acknowledges the right of the Attorney General's Office to present its budgetary needs directly to the legislature for consideration.

1992-1993 B I E N N I A L B U D G E T
(DOLLARS IN THOUSANDS)

AGENCY: ATTORNEY GENERAL
PROGRAM: HUMAN RESOURCES

				FY 1992			FY 1993		
			Est.	Adjusted	Agency	Governor	Adjusted	Agency	Governor
ACTIVITY RESOURCE ALLOCATION:	FY 1989	FY 1990	FY 1991	Base	Plan	Recomm.	Base	Plan	Recomm.
HUMAN RESOURCES	1,686	1,765	1,905	1,553	1,731	1,553	1,552	1,730	1,552
TOTAL EXPENDITURES BY ACTIVITY	1,686	1,765	1,905	1,553	1,731	1,553	1,552	1,730	1,552
DETAIL BY CATEGORY:									
STATE OPERATIONS	1,686	1,765	1,905	1,553	1,731	1,553	1,552	1,730	1,552
TOTAL EXPENDITURES BY CATEGORY	1,686	1,765	1,905	1,553	1,731	1,553	1,552	1,730	1,552
SOURCES OF FINANCING:									
DIRECT APPROPRIATIONS:									
GENERAL	1,686	1,765	1,905	1,553	1,731	1,553	1,552	1,730	1,552
STATUTORY APPROPRIATIONS:									
TOTAL FINANCING	1,686	1,765	1,905	1,553	1,731	1,553	1,552	1,730	1,552

ACTIVITY: Human Resources
PROGRAM: Human Resources
AGENCY: Attorney General's Office

1992-93 Biennial Budget

DECISION ITEM: Rate Appeals

AGENCY PLAN:	Dollars in Thousands			
	F.Y. 1992	F.Y. 1993	F.Y. 1994	F.Y. 1995
Expenditures				
General Fund	\$ 178	\$ 178	\$ 178	\$ 178
Revenues				
General Fund	\$ -0-	\$ -0-	\$ -0-	\$ -0-
GOVERNOR'S RECOMMENDATION:				
Expenditures				
General Fund	\$ -0-	\$ -0-	\$ -0-	\$ -0-
Revenues				
General Fund	\$ -0-	\$ -0-	\$ -0-	\$ -0-
Requires statutory change:	_____ Yes	<u> X </u> No		
Statutes Affected:				

ITEM SUMMARY:

After Department of Human Service Staff have exhausted the settlement remedies available to them, disputes with nursing homes and group homes regarding their rates are referred to the Attorney General for litigation. This decision item is needed to fund the Attorney General staff who are litigating these cases.

RATIONALE:

A Rate Appeals Unit was formed in 1987 to address the nursing home and group home appeals backlog. The backlog had become severe enough to spawn an attempt by a nursing home provider organization to obtain a district court order forcing the DHS to begin formal contested cases for all outstanding appeals. At that time, there were over 2,000 backlogged appeals, many of them dating back to the 1970's. Although appeals were being filed every year, virtually no appeals staff existed in the department until the early 1980's when the number of unresolved appeals had reached 1,000.

To understand why the backlog occurred, the nature of the work done must be appreciated. Providers are entitled to a formal administrative appeal process. That process may include: discovery, the filing of legal briefs, evidentiary hearings, the filing of exceptions to the commissioner, the development of a commissioner's order and appellate review by the court of appeals and Supreme Court. Even in relatively straightforward cases, this process can easily take 2 years. In 1 case, 3 years and nearly 1,100 attorney hours have been spent litigating primarily procedural issues through 2 appearances at the court of appeals and 2 denials of review by the Supreme Court. The case was remanded to the Office of Administrative Hearings where it remains pending. With very little staff available to work on these cases, a backlog quickly developed.

Even though the amount of staff time devoted to processing rate appeals has increased steadily since the early 1980's, approximately 500 new appeals were filed every year. By the late 1980's,

unresolved appeals numbered more than 2,000. To cope with the crisis, several more attorneys were added to the department staff and the Attorney General's Rate Unit -- consisting of 4 attorneys, 1 legal assistant and 2 secretaries -- was formed. Temporary funding was established through a "special projects account." However, funding for the unit is set to expire on 6/30/91.

Dissolving the Rate Appeals Unit will produce new backlogs. The overall number of outstanding appeals has dropped significantly and very few old appeals remain. Although the immediate crisis has abated, the focus of the unit should be shifted to address 2 enduring problems. First, adequate staff must be maintained so that a new crisis does not redevelop. If Human Service Division staff levels are returned to pre-Rate Unit levels, it is not difficult to see that another backlog will develop again very quickly. It is notable that development of a backlog carries with it issues and litigation which are costly to the state. For example, the corporate owners of nine nursing homes have sought to prevent the department from continuing contested case proceedings against them involving alleged MA overpayments of \$1.4 million. The corporations had dissolved after appealing the department's rate notices and claimed that the department was precluded from pursuing them because a statute of limitations had run. The Minnesota Supreme Court ultimately upheld the Department's position. If adequate resources are allocated to prevent the accumulation of a backlog, this type of problem can be avoided in the future. Second, field audit appeals which have been referred to the Rate Appeals Unit in large numbers over the past 2 years are expected to require a tremendous amount of effort. The overall number of desk audit appeals referred to the unit has dropped from a high of 357 the first year of the unit to 51 in F.Y. 1990. This reflects the existence of a large backlog when the unit was formed and the easing of that backlog since that time. However, in the last 3 years the department has referred 378 field audit appeals. This is significant because, generally, field audit cases are larger, more complex, involve more dollars and are more difficult to settle and litigate. Also, in field audit cases the provider keeps the disputed funds until there is final resolution. Lengthy delays diminish the real value of the dollars recovered and benefit the providers. During the life of the unit, the focus has shifted to resolving field audit appeals. In F.Y. 1988, there were 516 desk audit appeals pending in the unit and 194 field audits. At the end of F.Y. 1990 there were 53 desk audit appeals and 326 field audits. In 1987, unit attorneys spent 3% of their time on field audits. By F.Y. 1990, that figure had increased to 87%. DHS hopes to increase its field audit efforts to fulfill its goal of field auditing 25% of the providers every year.

Since new rate setting rules were promulgated in the mid-1980's, the department has possession of disputed funds until a desk audit appeal is resolved. Providers are dependent upon resolution of appeals in order to receive additional reimbursement to which they may be entitled. Therefore, the provider industry would most likely agree with the need to maintain an adequate appeal staff and to resolve the appeals in a timely manner.

GOVERNOR'S RECOMMENDATION:

Recognizing the distinction between separate branches of government, the Governor respectfully acknowledges the right of the Attorney General to present its budgetary needs directly to the Legislature for consideration.

PROGRAM PURPOSE:

The **Law Enforcement Program** embraces enforcement of a wide range of fundamental laws on behalf of the citizens of Minnesota. Those laws can be grouped generally into 2 areas: 1) protection of market place integrity; and 2) protection of persons and property.

1. PROTECTION OF MARKET PLACE INTEGRITY

The Attorney General enforces laws which, collectively, work to protect the integrity of the marketplace and to maintain a fair, honest and healthy economic environment in Minnesota.

- The **Consumer Division** protects consumers against false advertising, "bait-and-switch" sales practices, pyramid schemes, home repair fraud, product safety hazards, fraudulent investment schemes, door-to-door sales frauds, auto repair scams, and a litany of other consumer frauds. The division also contains a mediation unit which receives over 100,000 telephone calls and 12,000 written complaints annually. Individual consumer complaints are mediated and settlement is attempted for all written complaints.
- The **Antitrust Division** promotes free and open competition by investigating and prosecuting antitrust offenses having an economic effect on the economy of Minnesota. The division conducts all antitrust litigation on behalf of the state. The division goes to court to recover damages suffered by the state and its citizens as victims of antitrust violations. Such damage litigation often takes the division into other venues to aggressively pursue claims on behalf to the state. In addition to its litigation responsibilities, the division advocates competition within the free market system by participating as amicus curiae, usually in the federal courts of appeal and supreme court, by advocating the public interest before federal antitrust agencies and by advising state agencies, and local governments as to the proper interpretation of the antitrust laws.
- Charities are big business. Charitable organizations and trusts registered with the Attorney General's **Charities Division** have total assets valued at more than \$16.2 billion. Last year, Minnesota business organizations gave \$270 million dollars and individual Minnesotans gave approximately \$2 billion to charity. The Attorney General is the only public official given the oversight responsibility and legal authority to assure that charities are legally raising, spending, and investing their assets.

The Charities Division's primary responsibilities over charity include: 1) detecting and prosecuting charity abuse, including self-dealing, fraud, and misappropriation of funds by charities and their professional fund-raisers; 2) maintaining a registry of charities, charitable trusts, and professional fund-raisers, including computerizing and maintaining for public access all financial statements of registered organizations; 3) reviewing and approving all complex transactions of nonprofit charitable corporations, including dissolutions, to prevent the improper diversion of charitable assets.

- The **Gambling Division** advises and represents the state agencies responsible for regulating the several legal forms of gambling in Minnesota. The division represents the Department of Gaming, the Gambling Control Board, the Racing Commission, and the State Lottery, as well as the Gambling Enforcement Division in the Department of Public Safety. The Gambling Division also handles all legal matters related to the control of gambling on Indian reservations in Minnesota. The division provides legal advice to the Gambling Control Board and its staff on a myriad of issues related to the licensing of gambling organizations, distributors and manufacturers. It also represents the Gambling Control Board in all disciplinary matters against the board's licensees, including providing guidance in the investigation of allegations of non-compliance, preparation of necessary documentation to support the initiation of disciplinary proceedings, and representation of the board in court and at all administrative proceedings. The Gambling Division provides

consultation to the Racing Commission on licensing matters, advice to the steward and the commission on disciplinary matters, advice to the Minnesota Racing Analytical Laboratory on security and test integrity, and initiates and prosecutes all civil disciplinary cases against the commission's licensees. The State Lottery relies on the Gambling Division for advice on significant contract issues and representation at all administrative proceedings concerning the suspension or termination of retail contracts. The Gambling Division also represents the lottery in all district court proceedings.

The 1988 federal Indian Gaming Regulatory Act establishes a regulatory structure over gambling on Indian lands and imposes on the state the responsibility for negotiating Tribal-State Compacts to govern certain forms of gambling in Indian country. The Gambling Division provides advice on complex legal issues to the negotiating committee appointed by the Governor. The Gambling Division also has primary responsibility for providing guidance in the implementation of the compact provisions and represents the state in all actions brought under the Indian Gaming Regulatory Act.

- The legislature has consistently recognized the imbalance in representation in utility proceedings, which often favors large business interests to the detriment of residential interests. Without the **Residential and Small Business Utilities Division**, the residential and small business classes of utility users are without a voice in regulatory proceedings. They cannot even voice their disagreement by the discontinuance of service, since they are monopoly customers and utility services are necessities. The monopoly circumstances of small business and residential customers stand in sharp contrast with the growing opportunities for large business customers to use other alternative energy sources and private communication services and to pass their costs on to others. The role of this division is to serve as the advocate of residential and small business consumers to ensure that the regulatory process recognizes their unique status and economic problems.

2. PROTECTION OF PERSONS AND PROPERTY

The Attorney General's Office helps to protect the lives, health and property of Minnesota citizens against all forms of criminal activity by conducting criminal prosecutions and handling criminal appeals in significant cases of statewide or multicounty interest.

- The **Criminal Division** has a statutory responsibility to "appear for the state in all cases in the supreme and federal courts wherein the state is directly interested." M.S. 8.01. The Criminal Division directly handles brief-writing responsibility in felony appeals for all but the largest 6 of Minnesota's 87 counties. Those counties have agreed to handle their own appeals. The brief writing responsibility of the Attorney General's office would increase by 2 fold if the appeals of those counties were handled by the Attorney General. The Criminal Division investigates and prosecutes complex white-collar, environmental and charitable gambling crimes that are beyond the jurisdiction or experience of local law enforcement. The Criminal Division provides prosecutorial support, when requested, to county attorneys in conflict cases and cases involving particularly difficult crimes such as murders, drug cases, arsons, and criminal sexual conduct. This support helps to insure uniform standards of justice throughout the state by allowing small counties to draw upon prosecutorial resources that they might not otherwise have.
- The **Medicaid Fraud Division** has the dual mission of investigating and prosecuting financial fraud committed by health care providers against the nation's multi-billion dollar a year Medicaid program and investigating and prosecuting patient abuse or neglect occurring in any facility that receives Medicaid funds. The division can bring criminal charges against offenders or can seek civil or administrative sanctions.

PERFORMANCE:

Consumer Division

During the last budget period, the Consumer Division generated more than 40 enforcement actions. Enforcement subjects included national advertising, environmental marketing, specialty contractors,

air purifiers, Aids testing, consumer electronics, cemeteries, airline and travel companies, landlord practices, automobile dealers, consumer credit, telemarketing, and health club activities. The division also presented testimony or filed comments on consumer issues with 5 federal agencies and was among the state leaders in curbing false or misleading nutritional and environmental advertising. Such activities generated a total of more than \$1.6 million in fines, costs and restitution for Minnesota consumers. This division also includes a Mediation Unit which during the last budget period handled over 180,000 telephone calls and 22,000 written complaints. The case load of this unit has increased 16% in each year of the last biennium. The Mediation Unit settles 70% of the written complaints it receives. In 1989 it recovered \$1.6 million for consumers and in 1990 it recovered \$1.8 million. The Consumer Division thus accounted for over \$5 million in fines, costs and recoveries for consumers in the last budget period.

Antitrust Division

During the last 2 years the Antitrust Division has completed 16 enforcement actions on behalf of the state. The cases range in complexity from simple boycotts to massive, multi-district federal cases alleging attempts to monopolize. They include cases involving health care delivery systems, mortgage banking, waste hauling, house moving, ready mix concrete and electronic fund transfers. These actions were all the more significant because they came during a time when federal antitrust enforcement efforts were practically non-existent. The only deterrence during much of the 1980's against conspiracies in restraint of trade and other destructive anticonsumer business practices was the activism of a handful of state antitrust divisions, Minnesota being consistently recognized as among the leaders. The division has also been active in examining mergers and consolidations in the health care area. Scrutiny of anticompetitive actions in the health care market is an essential part of the state's overall efforts to assure broad access to quality health care delivered at competitive prices. Finally, the Antitrust Division's activities are cost effective. Over the past 2 years the Division brought into the state \$692.7, in addition to arranging for health care providers to furnish \$450.0 in guaranteed free medical care to uninsured, low income Minnesotans. This \$1,142.7 exceeds the division's biennial expenses of \$543.5.

Charities Division

In the last 2 fiscal years, the Charities Division took enforcement actions against both local and national charities. These activities include: 1) An action for fraudulent solicitations, self-dealing, and unlawful administration against a national organization which raised more than \$3 million nationwide for disabled athletes. Minnesota was the only state to take action to remedy this multi-state problem. 2) An action to return to the public an abandoned community center valued at \$1 million which had been constructed with public contributions. 3) Litigation involving alleged deceptive solicitations against Watson & Hughey, a direct mail fundraiser whose sweepstakes solicitations caused a national scandal and resulted in litigation in more than 16 states. 4) Numerous enforcement actions to enjoin deceptive solicitations by professional (paid) fundraisers engaged in telemarketing in the State of Minnesota.

To increase public accountability, Minnesota law requires that financial statements be filed on a yearly basis with the Charities Division. The division maintains a registry of the information and makes it available to the public directly through reports generated by the Charities Division and indirectly through such groups as the Charities Review Council of Minnesota (CRC), which regularly obtains computerized data on charities from the division.

In 1989, the Charities Division received more than 1,000 requests for public education reports that contain summary data on many organizations, 300 requests for financial records filed in the Attorney General's registry, 3,500 telephone inquiries to the Attorney General for a total of 4,800 requests for information. In addition, the CRC received approximately 5,000 telephone requests for

information furnished from the financial records of the division. The registry also served as a source of information to researchers from the University of Minnesota, the Minnesota Council on Nonprofits, the Minnesota Council on Foundations and the media, all of which used data set forth in the financial statements.

Gambling Division

Prior to F.Y. 1990, the Gambling Control Board initiated few compliance reviews of gambling organizations and gambling equipment distributors. However, in F.Y. 1990, the board initiated more than 100 disciplinary cases against licensees. Nearly all of the disciplinary cases were resolved through negotiation and settlement, with attorneys from the Gambling Division actively participating in the negotiation and preparation of all final settlement documents. Similarly the Racing Commission stewards handled 400 disciplinary actions, 5 of which were appealed and 2 resulted in district court actions.

Minnesota was the first state in the nation to negotiate and enter into Tribal-State compacts under the Indian Gaming Regulatory Act. Of the 13 compacts in existence in the country, 9 concern Minnesota Indian tribes. The compacts permit and control the operation of video games of chance on Indian lands. The legal advice provided to the Governor and the negotiating committee contributed to the consummation of the compacts and avoided the expense of complicated and protracted litigation. However, since November of 1989, the Gambling Division has defended the state in a complicated lawsuit initiated by the Lower Sioux Community under the Indian Gaming Regulatory Act.

Residential and Small Business Utilities Division

The division has been very pro-active in representing and protecting residential and small business utility users who are captive customers with no market alternatives. Through participation in utility rate matters, the division was solely responsible for obtaining \$48 million in savings for residential and small business consumers and partially responsible for an additional \$136 million in savings. In non-rate regulatory matters, the largest recent recovery was the lawsuit against U.S. West which resulted in \$41 million of refunds to Minnesota telephone customers, an average of \$30 per customer. After the disclosure of improper contacts between Northwestern Bell and members of the Minnesota Public Utilities Commission, the division brought the lawsuit to recover the overcharges. After a court battle that went all the way to the U.S. Supreme Court, \$41 million of refunds were made to consumers. There have been several other developments in the last year on which the Residential Utilities Division prevailed but which do not have a readily calculable dollar impact. A settlement was reached with U.S. West on its marketing practices that will allow customers to obtain refunds going as far back as 5 years if they were paying for services they did not order or were misled into ordering. The potential amounts of refunds could be several million dollars. A similar case in Wisconsin resulted in \$3.4 million in refunds, while 1 in Pennsylvania resulted in over \$40 million. The Residential Utilities Division worked successfully to get agreements from every local telephone company in Minnesota to provide blocking of "900" numbers free-of-charge. It insured that no customer could be denied telephone service because of "900" bills.

The division just concluded a case involving an incentive regulation plan for U.S. West. The commission's decision, at the division's urging, would virtually guarantee that there will be no increase in basic telephone rates for the next four years. It would also require annual refunds if U.S. West's earnings exceed a prescribed level.

The division's role as a citizen contact for advice and complaint regarding utilities continues to expand. Since November of 1989, when a formalized process of handling citizen inquiries was created, the division has handled 452 formal citizen complaints and at least as many informal complaints. On an annual basis this equals 980 citizen complaints a year. Many of these contacts have resulted in direct monetary benefits to citizens. Examples include:

- A single mother with small children had her electricity shut off by a mistake of the utility. Two hundred dollars worth of food in her refrigerator and freezer spoiled. The electricity was

reconnected and a reimbursement for the food was obtained by the division.

- An elderly woman under a conservatorship was being charged for several hundred dollars of calls to "900" numbers and was being harassed by collection people. Through letters and phone calls to the long-distance carrier, U.S. West, and the woman's guardian, it was discovered that her phone line was unsecured and that someone else was illegally making the calls on her line. The long-distance carrier waived the charges, admitted the mistake and called off all collection efforts.

Criminal Division

In F.Y. 1989 and F.Y. 1990, the Criminal Division investigated or prosecuted a total of 236 criminal cases. For example, the Attorney General successfully prosecuted a brutal first degree murder in rural Traverse County. This was the first murder in that west-central Minnesota county in 24 years. The local county attorney's office did not have the resources to handle the case on its own. The Attorney General performed the lead prosecution role from the grand jury stage through the 2 and one-half week trial, which resulted in verdicts of guilty on all counts. In F.Y. 1989 a total of 74 appellate cases were handled, requiring the writing of 107 appellate briefs for all stages of the litigation. In F.Y. 1990 the appellate caseload increased to 87 cases handled, which required the writing of 97 appellate briefs.

Medicaid Fraud Division

The Medicaid Fraud Division has successfully prosecuted many financial fraud and patient abuse cases and has a number of promising new investigations. This division concentrates on complex fraud cases which require extensive audits and lengthy trials. During F.Y. 1989, the division obtained 8 criminal convictions, recovered a total of \$345.9 in fines, restitution and settlements, and completed 9 administrative cases. During this same time, the division launched a major investigation which has resulted in the State v. Medibus-Helpmobile, Inc. After a 5 week trial in 1990, the corporation and its 2 owners were convicted of defrauding the Medicaid program of \$.75 million. During F.Y. 1990, as a result of the division's work, 7 providers were criminally convicted and were ordered to spend a total of 96 months in jail or prison, perform 200 hours of community service, repay Medicaid \$10.5, repay the state \$10.0 in fines and costs of prosecution and repay defrauded third parties \$9.7. During F.Y. 1990, the division's efforts in 2 extraordinarily complex and high visibility cases, State of Minnesota v. Residential Alternatives, Inc. and State of Minnesota v. Medibus-Helpmobile, Inc. should have great deterrent value when providers continue to learn that the threat of prosecution from white collar fraud is real.

PROSPECTS:

Past successes and increased public awareness of the Consumer Division has caused an increase in complaints and potential enforcement actions. During 1989 and 1990, written consumer complaints increased 16% per year. Telephone calls on the consumer complaint line increased from an average of 250 per day to 320 per day, an increase of 28%. Consumer mediators are opening an average of 300 files per year, a 20% increase over prior years.

During the last biennium the Antitrust Division lost 2.5 positions. The loss of these income generating positions represents not only a reduction in vital law enforcement services, but also a loss of potential income to the state. The lost opportunity costs promise to multiply in the near future. New leadership at the Federal Trade Commission and the Department of Justice promises to invigorate the kind of national antitrust actions which have traditionally resulted in large damage actions for the states. State damage actions following on the heels of U.S. Government prosecutions have been a major source of recoveries which are likely to be resurgent in the years ahead. Due to reduced resources, the length of investigations in the division has increased and potential enforcement

actions are being delayed.

There has been a steady, rapid growth of registered charities and trusts. Since 1986 the number of registered organizations increased from 2,600 to 3,750. Further, the value of assets held by charities which are registered to solicit contributions in Minnesota increased 150% in four years from \$4.6 billion in 1986 to \$11.5 billion in 1990. The value of assets held by Minnesota charitable trusts also increased from \$1.9 billion to \$4.7 billion. Total contributions received by registered charities increased 70% from \$2 billion to \$3.4 billion.

With rapid growth comes the need for more oversight. It is extremely difficult to monitor effectively hundreds of charitable organizations and professional fund-raisers and millions of dollars in charitable assets with only 2 attorneys. This will be especially true in the next biennium in light of the projected growth in the number and size of charities and the public interest in their activities.

The 1990 Legislature significantly increased the regulatory responsibility and staff complement of the Gambling Control Board. The number of legal issues relative to licensing will increase dramatically as the Gambling Control Board implements more restrictive licensing criteria for distributors and manufacturers, begins licensing gambling managers, and completely restructures the process by which organizations are licensed. The Gambling Board received a complement increase of 24 positions for the 1991-1992 biennium. The vast majority of these positions will be devoted to compliance and investigative activities. Conservatively, if each of the 17 compliance officers generates 10 cases per month, 2 of which are significant enough to require attention by an attorney, the Gambling Division can expect to receive a minimum of 34 new lawful gambling cases per month.

The State Lottery has exercised its authority to summarily suspend nearly 100 retail contracts for violations of law. Each summary suspension order entitles the recipient to a contested case hearing before an administrative law judge. To date, the number of hearing requests has been few; however, several suspension orders are outstanding and it is likely that the Lottery's use of its summary suspension authority will continue through the next biennium.

Gambling on Indian lands will continue to generate significant legal responsibilities for the Gambling Division. At least 3 new compacts will be negotiated during F.Y. 1991, requiring the research of complex legal issues in the drafting of the compact provisions. In addition, throughout the next biennium, the regulatory responsibilities of the state under the compacts will increase.

Despite the complement growth of the gambling regulatory agencies and the additional responsibilities imposed by the Indian Gaming Regulatory Act, the Gambling Division did not receive additional staff in 1990. The current complement of 3 attorneys is derived from 1.5 positions appropriated by the 1989 Legislature and 1.5 positions reallocated from other significant areas of the Attorney General's Office. The current complement of attorneys will not meet the demands of the client agencies. The Gambling Division will be unable to process effectively the disciplinary cases generated by the Gambling Control Board and will be without adequate staff to control and regulate gambling on Indian lands.

Several applications will be or have been filed seeking utility rate increases that will impact residential and small business consumers in the next biennium. Those applications include Northern States Power, Minnegasco, Minnesota Power, Midwest Gas and Contel.

The war on crime is an ongoing battle in which there is little prospect of a reduction in caseload. In fact, the anticipated election of a number of new county attorneys in this year's elections will probably increase the number of calls for assistance from this office in prosecuting difficult or complex crimes in cases where the new county attorneys will have little or no experience.

The Medicaid Fraud Division will continue to bring major criminal prosecutions and will also be pursuing civil litigation against fraudulent providers. Since the division continues to receive quality referrals and is able to pursue only a small portion of the fraud and neglect cases available, there will be no decrease in the division's workload. The federal funds for this work are expected to continue at the current matching levels.

PROGRAM: Law Enforcement
(Continuation)
Agency: Attorney General, Office of

1992-93 Biennial Budget

Alternatives Considered

The office anticipates increasing costs in the Law Enforcement Program as a result of increased salary costs. The preferred alternative is a separate salary supplement appropriation as has been the practice for several biennia. Without a salary supplement appropriation alternatives would include no raises, reduced raises, reduced hours, leave without pay, lay offs, or a combination of these measures. Reducing or reallocating staff will cause serious, in some situations, unacceptable delays in enforcing or protecting the state's vital legal interests. The net result will be lost revenue or additional expenditures.

The Consumer Division was forced to cut 1 position in the Duluth Office and transfer the other position to St. Paul to help alleviate the annual 16% increase in consumer complaints and to accommodate budget cuts mandated by the legislature for F.Y. 1991. Further cuts being implemented include elimination of responses to family law inquiries received by the office. Presently .5 mediator is assigned to assist persons with problems ranging from divorce and child support to mental illness and welfare payments. These calls will be referred to the local county authorities who have jurisdiction or to private attorneys. Additional alternatives being considered are to decline handling consumer complaints under a certain dollar level, to require filing fees for written complaints or to implement a 900 number to slow the growth of the 100,000 consumer complaint calls received annually.

Due to the cut of 2.5 positions in the Antitrust Division, sales-below-cost complaints are no longer being handled and investigations are being declined or delayed, including 2 potential damage actions on behalf of the state.

In F.Y. 1989-90, the Charities Division collected fees and costs of \$65.8 and \$71.6 respectively. This amount covered approximately 1/3 of the division's total budget. Additional fees could be assessed to meet other operating costs by increasing registration fees for charities and professional fund raisers and by charging a fee to charitable trusts. However, these additional charges would reduce the amount of dollars available for charitable purposes.

Despite recent resource additions the staff and financial resources devoted to the regulation of gambling remain far below that of other states, while the gross receipts generated from lawful forms of gambling far exceed those of other states. The Attorney General's Office, as a significant component in the regulatory structure, must receive additional resources to represent the various gambling enforcement agencies.

The applicable Minnesota Statutes could be amended to allow the Attorney General's Office to assess the attorney costs and expenses for its public utility related duties for payment by the public utilities. This would require amendment to M.S. 216B.62 and M.S. 237.295.

The Criminal Division can limit the number of conflict cases it handles. There also could be an increase in the charge-back rates to local governments seeking prosecutorial assistance; however, the charge-back limits the ability of lower income, rural counties to obtain prosecutorial assistance, where often the assistance is most needed.

PLAN:

■ Duluth Regional Office F.Y. 1992 \$141 F.Y. 1993 \$141

The Attorney General recommends an increase of 3 complement positions to establish a full-service office located in Duluth. Prior to the F.Y. 1991 cuts mandated by the legislature, the Attorney General's Office historically maintained in Duluth a Consumer Division office staffed with 2 positions

and a separate attorney office associated with the Transportation Division. These positions have been eliminated or transferred and thus there is no office in Duluth being staffed on a full time basis. The proposal of 3 complement positions would include 2 attorneys, and 1 clerical position. These positions would not only handle functions of the Consumer and Transportation Divisions, but also would act as a satellite office for the entire Attorney General's Office. For example, it is anticipated that this office would assume a caseload of implied consent hearings in that area of the state, thus eliminating the necessity of attorneys travelling from the Twin Cities to service that area.

■ Antitrust Enforcement F.Y. 1992 \$61 F.Y. 1993 \$61

The Attorney General recommends restoration of the 1.5 positions. As detailed above, the loss of these income generating positions represents not only a reduction in vital law enforcement services, but also a loss of potential income to the state.

■ Environmental Investigations Division F.Y. 1992 \$119 F.Y. 1993 \$119

The Attorney General recommends the addition of 1 attorney, 1 legal assistant, 1 legal secretary and several unpaid legal interns to 1 existing environmental crimes prosecutor, 1 environmental crimes investigator, and 1 environmental scientist to form a new division that will identify, investigate and prosecute criminal violations of state environmental laws.

GOVERNOR'S RECOMMENDATION:

Recognizing the distinction between separate branches of government, the Governor respectfully acknowledges the right of the Attorney General's Office to present its budgetary needs directly to the legislature for consideration.

1992-1993 B I E N N I A L B U D G E T
(DOLLARS IN THOUSANDS)

AGENCY: ATTORNEY GENERAL
PROGRAM: LAW ENFORCEMENT

				FY 1992			FY 1993		
ACTIVITY RESOURCE ALLOCATION:	FY 1989	FY 1990	Est. FY 1991	Adjusted Base	Agency Plan	Governor Recomm.	Adjusted Base	Agency Plan	Governor Recomm.
LAW ENFORCEMENT	3,510	3,587	4,002	4,971	5,292	4,971	4,967	5,288	4,967
TOTAL EXPENDITURES BY ACTIVITY	3,510	3,587	4,002	4,971	5,292	4,971	4,967	5,288	4,967
DETAIL BY CATEGORY:									
STATE OPERATIONS	3,510	3,587	4,002	4,971	5,292	4,971	4,967	5,288	4,967
TOTAL EXPENDITURES BY CATEGORY	3,510	3,587	4,002	4,971	5,292	4,971	4,967	5,288	4,967
SOURCES OF FINANCING:									
DIRECT APPROPRIATIONS:									
GENERAL	2,961	3,070	3,343	4,219	4,540	4,219	4,215	4,536	4,215
SPECIAL REVENUE	31								
STATUTORY APPROPRIATIONS:									
FEDERAL	413	467	659	752	752	752	752	752	752
AGENCY	105	50							
TOTAL FINANCING	3,510	3,587	4,002	4,971	5,292	4,971	4,967	5,288	4,967

ACTIVITY: Law Enforcement
PROGRAM: Law Enforcement
AGENCY: Attorney General's Office

1992-93 Biennial Budget

DECISION ITEM: Duluth Regional Office

		Dollars in Thousands			
		<u>F.Y. 1992</u>	<u>F.Y. 1993</u>	<u>F.Y. 1994</u>	<u>F.Y. 1995</u>
AGENCY PLAN:					
Expenditures					
General Fund	\$	141	\$ 141	\$ 141	\$ 141
Revenues					
General Fund	\$	-0-	\$ -0-	\$ -0-	\$ -0-

GOVERNOR'S RECOMMENDATION:

Expenditures					
General Fund	\$	-0-	\$ -0-	\$ -0-	\$ -0-
Revenues					
General Fund	\$	-0-	\$ -0-	\$ -0-	\$ -0-

Requires statutory change: _____ Yes X No
Statutes Affected:

ITEM SUMMARY:

The Attorney General recommends an increase of 3 complement positions to establish a full-service office located in Duluth.

RATIONALE:

Prior to the F.Y. 1991 cuts mandated by the legislature, the Attorney General's Office historically maintained in Duluth a Consumer Division office staffed with 2 positions and a separate attorney office associated with the Transportation Division. These positions have been eliminated or transferred and thus there is no office in Duluth being staffed on a full time basis. The proposal of 3 complement positions would include 2 attorneys and 1 clerical position. These positions would not only handle functions of the Consumer and Transportation Divisions, but also would act as a satellite office for the entire Attorney General's Office. For example, it is anticipated that this office would assume a caseload of implied consent hearings in that area of the state, thus eliminating the necessity of attorneys travelling from the Twin Cities to service that area. Attorneys in the Duluth office could also be expected to assist with Iron Range Resources Rehabilitation Board's legal needs, prosecute criminal trials referred to the Attorney General, and represent the state's environmental and natural resource interests in the Arrowhead Region of the state.

GOVERNOR'S RECOMMENDATION:

Recognizing the distinction between separate branches of government, the Governor respectfully acknowledges the right of the Attorney General to present its budgetary needs directly to the Legislature for consideration.

ACTIVITY: Law Enforcement
PROGRAM: Law Enforcement
AGENCY: Attorney General's Office

1992-93 Biennial Budget

DECISION ITEM: Antitrust Enforcement

		Dollars in Thousands			
		<u>F.Y. 1992</u>	<u>F.Y. 1993</u>	<u>F.Y. 1994</u>	<u>F.Y. 1995</u>
AGENCY PLAN:					
Expenditures					
General Fund	\$	61	\$ 61	\$ 61	\$ 61
Revenues					
General Fund	\$	-0-	\$ -0-	\$ -0-	\$ -0-

GOVERNOR'S RECOMMENDATION:

Expenditures								
General Fund	\$	-0-	\$	-0-	\$	-0-	\$	-0-
Revenues								
General Fund	\$	-0-	\$	-0-	\$	-0-	\$	-0-

Requires statutory change: _____ Yes X No

Statutes Affected:

ITEM SUMMARY:

The effectiveness of the Antitrust Division has been hampered by the loss of positions following budget reductions in the 1989 appropriations bill. The Attorney General is requesting money to partially restore the division to its previous level of staffing.

RATIONALE:

The loss of Antitrust Division staff seems peculiarly ironic in light of the fact that antitrust actions make money for the state. Antitrust recoveries since January 1, 1989 show that during the last 2 years, the division has brought in \$780.3 in cash to the state and its consumers, and an additional \$450.0 of guaranteed free medical care to South Central Minnesota residents, for a total contribution of \$1,230.3. There are documented cases and investigations that are potentially revenue producing which are not able to be pursued because of reduced staffing. Such figures do not include the substantial benefit of having a visible, aggressive Antitrust Division to deter anticompetitive activities which take money out of the pocket of the state and its consumers.

GOVERNOR'S RECOMMENDATION:

Recognizing the distinction between separate branches of government, the Governor respectfully acknowledges the right of the Attorney General to present its budgetary needs directly to the Legislature for consideration.

ACTIVITY: Law Enforcement
PROGRAM: Law Enforcement
AGENCY: Attorney General's Office

1992-93 Biennial Budget

DECISION ITEM: Environmental Investigations

	Dollars in Thousands			
	F.Y. 1992	F.Y. 1993	F.Y. 1994	F.Y. 1995
AGENCY PLAN:				
Expenditures				
General Fund	\$ 119	\$ 119	\$ 119	\$ 119
Revenues				
General Fund	\$ -0-	\$ -0-	\$ -0-	\$ -0-

GOVERNOR'S RECOMMENDATION:

Expenditures				
General Fund	\$ -0-	\$ -0-	\$ -0-	\$ -0-
Revenues				
General Fund	\$ -0-	\$ -0-	\$ -0-	\$ -0-

Requires statutory change: _____ Yes X No
Statutes Affected:

ITEM SUMMARY:

The Attorney General, together with the Pollution Control Agency, the Department of Natural Resources, and the Department of Transportation, recently established an Environmental Crimes Team. An Environmental Crimes Division within the Attorney General's Office will assist counties in investigating and prosecuting criminal violations of the state's environmental laws. Three members of the Attorney General's staff will be assigned to this new division. The 3 positions requested in this decision item are needed to raise the division's staffing level to the critical size needed to make it an effective enforcement unit.

RATIONALE:

In 1987, the Legislature adopted the Attorney General's proposals for comprehensive criminal penalties for illegal disposal and handling of hazardous waste. Following the enactment of the penalties, and the appropriation for 1 investigative position, the Attorney General assigned a criminal investigator to environmental cases, and began working with the Pollution Control Agency and county attorneys to investigate instances of possible criminal conduct. Over the past 3 years, our investigations have shown that, while most individuals and businesses try in good faith to comply with environmental laws, some people have knowingly disposed of hazardous wastes at unauthorized locations. Others have forged hazardous waste shipping documents and allegedly falsified reports on discharges of pollutants into state waters. These violations can cause serious environmental and public health problems and are appropriate subjects for criminal prosecution.

Based on the level of criminal activity identified over the past three years, there was a clear need for a more formal environmental crimes investigative effort in the state. To effectively deal with criminal violations of our environmental laws, the Attorney General's Office, together with the

Pollution Control Agency, Department of Natural Resources, and the Minnesota Department of Transportation, recently formed an Environmental Crimes Team. The Team includes environmental inspectors assigned from the Pollution Control Agency, an inspector from the Department of Transportation, a representative of the Department of Natural Resources and a criminal investigator, civil attorney and criminal attorney assigned part-time from the Attorney General's Office. In addition, the Attorney General has formed an Environmental Crimes Coordinating Committee to help ensure the effective use of local, state and federal resources for environmental crimes. Besides the members of the Crimes Team, the County Attorney's Association, the Bureau of Criminal Apprehension, the Department of Agriculture, the Metropolitan Waste Control Commission, the Federal Bureau of Investigation and the United States Attorney's Office, have participated on the Coordinating Committee.

With limited resources, the Environmental Crimes Team is beginning to produce significant results. In a single case it obtained a guilty plea, a \$15,000 maximum criminal fine and \$2 million in civil penalties. The Attorney General has proposed expansion of environmental criminal laws to violations involving toxics illegally discharged into the air and water. The expected increase in hazardous waste cases together with these new responsibilities requires an expansion of the environmental crimes team.

GOVERNOR'S RECOMMENDATION:

Recognizing the distinction between separate branches of government, the Governor respectfully acknowledges the right of the Attorney General to present its budgetary needs directly to the Legislature for consideration.

PROGRAM PURPOSE:

The Legal Policy and Administration Program provides the Attorney General's Office with legal and policy leadership and administrative services.

The Attorney General, his chief deputy, and the executive committee lead and coordinate the legal activity of the office's attorneys. They establish the policies and priorities for the office's 6 sections and 23 divisions. Program staff articulate state legal policy and assign the human and physical resources to ensure effective enforcement of state laws and defense of state interest in all legal matters. They direct personnel, accounting, budgeting, purchasing, library, office automation, records management and space utilization services for all the divisions of the office.

Program staff also coordinate drug and alcohol abuse prevention, education initiatives to prevent sexual violence and harassment against women and environmental policy initiatives. Federal, state, local, public and private funding and personnel have been employed to address these issues.

PERFORMANCE:

The office represented the state's interests in almost 3,000 civil cases and 200 criminal cases each year in F.Y. 1988-90. In addition, the office annually appeared in over 1,500 administrative proceedings, defended the state against 1,000 claims, and conducted 400 civil and criminal investigations. It is difficult to accurately estimate the fiscal results associated with the performance of the staff of the Attorney General's Office but millions of dollars were collected or saved as a direct result of their knowledge and skill. More detailed information is presented at the program level for each section of the office.

As courts and the legislature better define the responsibilities of state government to its citizens, the role of preventive legal advice becomes even more critical. Court decisions can and do decide how public funds are spent. Without quality legal representation, legislative policy choices cannot be achieved or maintained. The office educates client agencies to recognize early those issues which will require the attention of legal counsel, allocates staff to meet client needs and works with them to establish priorities when staff and financial resources are limited.

Alliance for a Drug Free Minnesota

Attorney General Humphrey founded the Alliance For A Drug Free Minnesota in 1987 as a way to encourage Minnesota communities to participate in drug and alcohol abuse prevention. In 4 years, the program has grown from a few concerned individuals to an entire state network mobilized against drug and alcohol abuse. The following programs describe the activities of the Alliance:

- The Prevention Blueprint was developed by the Alliance to help communities' plan and organize local drug and alcohol prevention efforts. The Blueprint is a step-by-step framework for communities to assess their unique problems and to help them begin addressing their needs. The Blueprint was first distributed to 892 Minnesota communities in March 1989 and continues to be used by communities throughout the state.
- In April, 1990, the Alliance sponsored a youth leadership conference (Student Leadership Conference). Four hundred Minnesota high school students and educators gathered in the Twin Cities to discuss drug-and alcohol-related issues.
- The Minnesota Twins joined the Alliance in the spring of 1990 by sponsoring a junior high school drug prevention contest called Grand Slam. The contest encourages junior high students to initiate and participate in anti-drug activities. Over 240 schools and 150,000 students participated this past school year. Grand Slam II is scheduled to begin in February, 1991.

Drug Awareness and Resistance Education, D.A.R.E., is the brainchild of the Los Angeles Unified School District (LAUSD) and the Los Angeles Police Department (LAPD). What started out in September, 1983 as a pilot program in 30 Los Angeles schools is now mandatory in all Los Angeles public schools. Because of the demand that communities have for D.A.R.E., Minnesota has established its own training center from a \$350.0 training-specific allocation to the BCA by the 1989 state legislature. The Minnesota Attorney General's Office played an instrumental role in the passage of this legislation.

In late 1989, statewide implementation of D.A.R.E. began to take place and Minnesota became a leader around the country by establishing the Minnesota D.A.R.E. Advisory Board. Pursuant to 1990 legislation recommended by the Attorney General's Office, the D.A.R.E. Advisory Board became the D.A.R.E. Advisory Council.

The Council is helping to establish D.A.R.E. as a permanent fixture in the state to fight against drugs in our schools and communities. The Council by statute provides advice and guidance in implementation and promotion of D.A.R.E. throughout the state and ensures that standards, policies and implementation of Minnesota D.A.R.E. are consistent with the educational policies of the state and D.A.R.E. America.

Prevention of Sexual Violence

The Attorney General's 1989 Task Force on Sexual Violence Against Women resulted in legislation which significantly increased prison sentences for rapists and expanded judges' ability to provide long-term incarceration for predatory offenders. These comprehensive legislative initiatives also expanded the rights of victims of sexual violence.

To attack the root of the problem of sexual violence, the Attorney General has further championed a public education effort aimed at preventing rape and sexual harassment. The 1989 legislation required schools to develop clear policies on sexual harassment. He is currently working with and visiting colleges and universities urging more active programs to fight sexual harassment, abuse and acquaintance rape.

Environmental Initiatives

Over the past 4 years the office has assumed an increasingly aggressive role on environmental issues. Among the key initiatives are: legislative proposals each year since 1987, including extensive environmental crimes legislation; formulation of the Environmental Crimes Team; successful conclusion of several environmental crimes cases; preparation of an investigative report on medical waste disposal; investigation of environmental marketing; several national projects including the NGA/NAAG Federal Facilities Task Force, the Colloquium on the State/Federal Enforcement Relationship and congressional legislation.

PROSPECTS:

While the 1989 and 1990 Legislatures provided funding for the training of officers, funding for promoting and coordinating the statewide D.A.R.E. program was not funded. Establishing a credible and valuable organizational structure for D.A.R.E. requires a substantial financial commitment. Therefore, the Advisory Council is seeking to establish Minnesota D.A.R.E., a non-profit, 501(C)(3) corporation, which will work aggressively with both private and public sectors, in an effort to provide private sector funding for greater community involvement in the program.

The continuing challenges in sexual violence education and prevention are many. In the spring of 1990, the Attorney General's Office surveyed Minnesota colleges and universities about sexual violence. This questionnaire covered sexual assault, sexual harassment and acquaintance rape and assault. The results of this survey, along with information gathered to date, will assist the Attorney General in focusing on sexual violence education and prevention policy for the 1990s.

PROGRAM: Legal Policy and Administration
(Continuation)
Agency: Attorney General, Office of

1992-93 Biennial Budget

Alternatives Considered

The office anticipates increasing costs in the Legal Policy and Administration Program as a result of increased salary costs. The preferred alternative is a separate salary supplement appropriation as has been the practice for several biennia. Without a salary supplement appropriation alternatives would include no raises, reduced raises, reduced hours, leave without pay, lay offs, or a combination of these measures. Reducing or reallocating staff will cause serious, in some situations, unacceptable delays in enforcing or protecting the state's vital legal interests. The net result will be lost revenue or additional expenditures.

GOVERNOR'S RECOMMENDATION:

Recognizing the distinction between separate branches of government, the Governor respectfully acknowledges the right of the Attorney General's Office to present its budgetary needs directly to the legislature for consideration.

1992-1993 B I E N N I A L B U D G E T
(DOLLARS IN THOUSANDS)

AGENCY: ATTORNEY GENERAL
PROGRAM: LEGAL POLICY AND ADMINISTRATION

				FY 1992			FY 1993		
ACTIVITY RESOURCE ALLOCATION:	FY 1989	FY 1990	Est. FY 1991	Adjusted Base	Agency Plan	Governor Recomm.	Adjusted Base	Agency Plan	Governor Recomm.
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
LEGAL POLICY AND ADMINISTRATION	3,336	3,978	4,115	2,941	2,941	2,941	2,937	2,937	2,937
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL EXPENDITURES BY ACTIVITY	3,336	3,978	4,115	2,941	2,941	2,941	2,937	2,937	2,937
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
DETAIL BY CATEGORY:									
=====									
STATE OPERATIONS	3,336	3,978	4,115	2,941	2,941	2,941	2,937	2,937	2,937
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL EXPENDITURES BY CATEGORY	3,336	3,978	4,115	2,941	2,941	2,941	2,937	2,937	2,937
=====									
SOURCES OF FINANCING:									
=====									
DIRECT APPROPRIATIONS:									
GENERAL	3,254	3,863	3,923	2,749	2,749	2,749	2,745	2,745	2,745
STATUTORY APPROPRIATIONS:									
FEDERAL	60	60	75	75	75	75	75	75	75
AGENCY	5	11							
GIFTS AND DEPOSITS	17	44	117	117	117	117	117	117	117
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL FINANCING	3,336	3,978	4,115	2,941	2,941	2,941	2,937	2,937	2,937

PROGRAM PURPOSE:

The primary purpose of the Business Regulation Program is to represent state agencies in the enforcement of laws that prohibit fraudulent, unfair, unsafe and discriminatory business practices. The health, safety and well being of Minnesota citizens depend on effective enforcement of these laws, which establish standards for health professionals, prohibit deceptive practices in the financial services industry, assure affordable access to quality utility services, ban discrimination in important transactions such as employment and housing and outlaw occupational hazards in the workplace.

- The **Health Licensing Division** investigates complaints against doctors, nurses, dentists, psychologists and other health care professionals on behalf of 13 licensing boards. The most serious complaints allege drug and alcohol addiction, sexual abuse, incompetence and other types of conduct by health professionals that threaten the health and safety of patients. If the complaints are substantiated, the Health Licensing Division acts to restrict or revoke the licensee's authority to practice.
- Fraudulent conduct by insurance agents, real estate brokers and other segments of the financial services industry threatens the financial health of consumers. When investigations by the Department of Commerce establish that illegal conduct has occurred, the **Commerce Division** acts to stop the conduct, discipline those responsible and obtain restitution for injured victims. The Commerce Division also investigates complaints against accountants, architects, engineers, land surveyors and other non-health professions on behalf of the 5 boards responsible for their licensing. Where necessary, the division takes action to discipline the illegal conduct.
- The **Telecommunications and Energy Division**, on behalf of the Department of Public Service, protects consumers from unreasonable or unfair rates and practices by electric, telephone and natural gas utilities. These monopoly services are some of the larger monthly expenses paid by most Minnesotans. The division represents the public interest in cases before the Public Utilities Commission (PUC) and the Federal Energy Regulatory Commission on matters affecting utility rates, quality of service and the need for new power plants.
- Sexual harassment, racial bigotry and other forms of illegal discrimination deprive citizens of access to employment, housing and other fundamental human needs. Minnesotans who are subjected to illegal discrimination can file complaints with the Department of Human Rights, which investigates and tries to informally resolve through settlement negotiations. However, when the department's efforts to obtain relief for victims of discrimination fail, the **Human Rights Division** must seek that relief through litigation. The division may obtain an injunction prohibiting the reoccurrence of a discriminatory practice, compensation for the individual victims of the discrimination and civil penalties, which are paid to the state.
- Occupational hazards in the workplace threaten the safety of Minnesota's working people. The **Labor Law Division** prosecutes employers who violate safety and health standards and, in addition, protects the public from substandard work quality by insisting on the employment of qualified workers in certain occupations such as high-pressure pipefitting. The division also represents the Special Compensation Fund in workers compensation claim litigation. By recovering money for the Fund, from unlawfully uninsured employers and by defending against meritless claims, the division reduces the cost of the Fund's assessments to Minnesota employers and insurers.

In addition to enforcement of these state laws, the Business Regulation Program is responsible for providing a wide array of other legal services to the departments of Commerce, Public Service, Human Rights and Labor and Industry, as well as to professional licensing boards. These services include daily legal advice regarding agencies' responsibilities under state and federal law, contract review, rulemaking and defense of agencies when they are sued in state and federal court. These services are essential to the effective functioning of client agencies and can have a substantial

financial impact on state government. In 1 case, for example, the Commerce Division is currently defending the Commerce Department in a lawsuit challenging the constitutionality of Minnesota's securities registration fee system. If the challenge succeeds, the state will lose approximately \$15,000.0 in the 1991-92 biennium.

PERFORMANCE:

Health Licensing Division

This biennium brought a substantial increase in the number and complexity of complaints received and investigations conducted by the Health Licensing Division. Serious complaints, those alleging conduct that threatens to lead to patient death, permanent disability or serious patient harm, increased from 589 in the previous biennium to 785 in the 1989-90 biennium.

A number of these cases involved improper drug prescription practices by doctors and dentists. The division successfully prosecuted 32 doctors and 6 dentists for prescription violations. These cases were given a high priority because many drugs sold illegally on the street were originally obtained by prescription; in addition, many patients develop their addiction to drugs because of inappropriate physician prescription practices. Professional discipline is a potent tool in addressing this problem. During the biennium the division focused particular attention on doctors and dentists who were giving patients a synthetic amphetamine that had frequently been over-prescribed. As a result, sales of the drug decreased significantly in Minnesota.

Professional incompetence is not limited to prescription practices. The division's investigation of 1 physician revealed that as a result of his lengthy delay in treating an elderly diabetic patient's gangrene the patient's condition worsened and the gangrene spread. Amputation became necessary; the patient died before surgery could begin. The doctor's license was revoked. In another case, a physician was suspended from practice hours before he was scheduled to perform major surgery. Investigators had discovered that the doctor's mental condition had deteriorated to the point that it was unsafe for him to conduct surgery.

Chemically dependent health professionals also present a significant danger to patients. During the biennium, for example, 72 nurses were disciplined for conduct related to their chemical dependency. In several cases investigators found drug-addicted nurses who were stealing drugs such as morphine from patients suffering from post-operative or end-stage cancer pain. To hide their theft the nurses replaced the patients' drugs with a saline solution, thus leaving them to suffer without benefit of pain medication. In most of these cases, the nurses' licenses were suspended and they were required to undergo chemical dependency treatment. Relicensure was conditioned on successful completion of treatment and proof of 1 year of sobriety.

Sexual misconduct was another frequent source of complaint. Health professionals, particularly doctors and psychologists, are in a position of power that facilitates sexual exploitation of their patients. Investigations by the division led to discipline for misconduct ranging from sexual fondling of patients to sexual intercourse with patients.

During the biennium the division increased by 30% the number of investigations completed. However, because the number of cases referred to the division for investigation increased at an even faster rate, the backlog of complaints awaiting investigation grew from 251 at the end of F.Y. 1988 to 386 at the end of F.Y. 1990. Each of these complaints allege conduct that threatens the health or safety of patients. Currently it is taking approximately 16 months before an investigation can be commenced. During that time the professionals who have been accused of misconduct are free to continue to treat patients.

Commerce Division

During the biennium the Commerce Division handled 572 administrative actions against persons regulated by the Commerce Department, e.g., insurance companies and agents, real estate brokers and sales persons and securities broker-dealers and agents. This was a slight increase from the 556 actions handled by the division in the previous biennium. Through its litigation efforts the division obtained over \$11 million in restitution for Minnesota residents and \$175.0 in costs and penalties

PROGRAM: Business Regulation
(Continuation)
Agency: Attorney General, Office of

1992-93 Biennial Budget

paid to the state.

In 1 case, when severe drought had hit much of Minnesota during the summer of 1988, an insurance company that had sold drought insurance to over 1,000 Minnesota farmers refused to pay the farmers' claims. At the request of the Commerce Department, the Attorney General immediately filed charges against the company seeking to revoke its authority to do business in Minnesota. After extensive discovery and pretrial motions, and just as the trial was about to begin, the company finally agreed to pay the farmers' claims in full. That payment amounted to \$5,250.0. In addition the company paid \$100.0 to the state treasury in costs and civil penalties.

In another case the Commerce Department received complaints alleging that a large financial planning agency had employed misrepresentations to persuade its customers to buy the agency's life insurance policies. In a trial, conducted in F.Y. 1989, division lawyers proved that the owner and branch manager of the agency had engaged in fraud. As a result, the licenses of the owner and branch manager were revoked and substantial civil penalties imposed. The companies that had issued the insurance policies refunded over \$2,000.0 to Minnesota consumers.

In 1989 the Commerce Department determined the rates of the state's major medical malpractice insurer were excessive. At the request of the department, in April, 1989, the division initiated administrative proceedings against the company seeking to reduce those rates. Ten days later the insurer decreased its rates by 25%. After the filing of extensive expert testimony, in March, 1990 the company agreed to refund \$1,500.0 to Minnesota policyholders and to institute an additional 15% rate reduction, at an annual savings of nearly \$2,000.0 for Minnesota policyholders.

The other cases handled by the division typically involved smaller dollar amounts. Many of these cases, however, were no less important in terms of public protection. For example, deceptive practices by insurance agents in the sale of medicare supplement insurance continued to victimize senior citizens. By suspending and revoking the licenses of these agents, the division helped to prevent them from continuing to prey on seniors.

In addition to representing the Commerce Department, the Commerce Division also represents 5 licensing boards in the investigation of complaints against the professions they regulate. These include accountants, abstractors, architects, engineers, land surveyors, barbers and electricians. During the biennium the division investigated 362 complaints against licensees, discipline was imposed against 102 individuals and the division recovered \$51.2 in penalties.

As a part of its Business Regulation Program, the Attorney General's Office also investigates all complaints against licensed teachers for the Board of Teaching. From F.Y. 1987-88-89, the Office opened an average of 17 new complaint files each year. In its 1989 session, however, the Legislature expanded reporting requirements to further protect Minnesota's minor students from improper conduct by teachers. The new law requires school districts to report to the Board of Teaching those teachers who may have had improper sexual contact with students. As a result of this reporting requirement, the number of cases being investigated has markedly increased. Forty-eight cases were opened in F.Y. 1990, the year immediately following the new law. Based on the cases opened to date, 50 new cases are anticipated for F.Y. 1991. Investigating these cases is particularly difficult because school districts, subject to the Data Practices Act, cannot provide sufficient information to allow the Office to conduct a meaningful investigation. Consequently, the Board of Teaching must sue the school districts to gain access to the teachers records and the identity of the victims. This effort takes additional staff time, increases costs and delays the investigation. The Office is consistently successful in obtaining the suspension and revocation of the teaching licenses of those who engage in such prohibited and unacceptable conduct.

Telecommunications and Energy Division

During the past biennium actions taken by the Telecommunications and Energy Division, on behalf of its client, the Department of Public Service (DPS), saved Minnesota consumers over \$150 million.

In F.Y. 1989 the division intervened in a Federal Energy Regulatory Commission (FERC) rate case that had been filed by a natural gas pipeline operator. Through protracted negotiations, the division obtained a rate reduction that totaled \$88 million for Minnesota ratepayers during the 1989-90 biennium. An additional \$20 million of savings will be realized in the next biennium.

In 1989 a major electric utility company sought a \$120 million per year rate increase from the Public Utilities Commission. The division, on behalf of the DPS, opposed the increase. After extensive investigation and discovery, and a 3 week trial in March of 1990, division attorneys persuaded the PUC to deny the entire request.

The division's work is not limited to utility rate cases. Recent legislative actions have partially deregulated the telecommunications industry. At the same time, telecommunications technology is rapidly changing. One consequence has been an increase in the number and complexity of legal issues. As new companies enter the marketplace with new services, the division must represent the DPS in protecting the public interest through precedent setting litigation that will determine what types of services consumers will receive in future years. For example, the division represented the DPS in a 3 month long trial concerning the manner in which rural Minnesotans will receive sophisticated telecommunication services in the future. In another case the division handled a proceeding to decide whether a major telephone company should be regulated under an incentive plan rather than traditional rate regulation. Authorization for this incentive plan was established by the 1989 legislature as a means to improve the operating efficiency of telephone companies while at the same time improving the quality of their services. The incentive plan that was approved froze telephone rates for local telephone services for the next 4 years, a significant protection for Minnesota telephone customers.

The division also is responsible for representing the DPS in matters affecting energy policy. The 1989 legislature shifted responsibility for energy conservation decision making to the DPS. The Attorney General now represents the DPS in litigation and decision making that affects utility conservation investments and services.

Human Rights Division

During this biennium the division closed out 208 cases, a 28% increase over the previous biennium. The division was able to reduce the number of pending cases; 125 cases are currently pending. The division obtained \$572.5 in damage awards for individual victims of discrimination. In addition, the division obtained civil penalty awards of \$127.0, which were paid to the state treasury.

In 1 case for example 4 teachers found themselves victimized by age discrimination when a school district refused to hire them. Using a highly subjective selection system, district officials manipulated the employment process to exclude these older job applicants. Following a trial an Administrative Law Judge concluded that the selection procedure was designed to legitimize a predetermined decision not to hire older teachers and that the district had acted in bad faith. The judge awarded \$146.5 in damages to the teachers and a \$10.0 civil penalty to the state. In April of 1990 the Minnesota Court of Appeals affirmed the judge's decision.

The division's success at combatting illegal discrimination, however, cannot be measured solely in monetary terms. In many cases injunctive relief prohibiting discriminatory practices was more significant than the damage award. For example, in 1988 the City of St. Paul conducted a physical ability test for firefighter applicants that had a discriminatory effect on female applicants and was not job related. In early July, 1988, at the request of the Department of Human Rights, the Attorney General sued the city and obtained an order preventing the city from hiring firefighters based on the illegal test. After a lengthy administrative trial conducted in October and November of 1989, an administrative law judge ruled that the test was fatally flawed, prohibited the city from using the test and barred it from hiring firefighters until a new job related test was developed. The City of St. Paul was also ordered to pay a \$25.0 civil penalty to the State of Minnesota.

Retaliatory action against the people who report possible discriminatory conduct strikes at the heart of the state's effort to protect its citizens from discrimination. Two employees complained to the Department of Human Rights that their employer had subjected them to sex discrimination. The department found no merit to those charges and dismissed their case. The company then sued the employees seeking reimbursement of its legal fees for defending the matter in front of the department. Following a hearing, an Administrative Law Judge concluded that the company's lawsuit constituted an illegal reprisal, ordered the company to terminate the proceeding and awarded damages of \$4.3 and a \$.5 civil penalty to the state.

Labor Law Division

The Labor Law Division represents the Department of Labor and Industry in enforcing occupational safety and health standards and labor standards laws. The division also represents the Special Compensation Fund in worker's compensation litigation.

During the biennium, the division handled a significantly increased volume of OSHA cases. Fifty-nine of these involved fatalities. Frequently, investigations revealed that these deaths were caused by lack of proper training for employees who were involved in dangerous work. In 1 case, for example an employee was killed and another seriously injured when disposing of explosives; in another an employee was pulled into a meat fixer and crushed to death; in a third 2 workers died of head injuries after being pinned in conveyor machinery. Several fatality cases were repeat citations, cases in which the employer had been cited more than once within the past 2 years for the same violation. In 1 such case an employee fell to his death because the employer had not provided proper fall protection. In another, a worker was crushed under a stack of wood products that had not been properly secured.

The number of cases referred by the department for prosecution increased from 186 in F.Y. 1988 to 233 in F.Y. 1989 to 296 in F.Y. 1990. While the division increased the rate in which it closed out cases, from 60 in F.Y. 1988 to 105 in F.Y. 1989 to 166 in F.Y. 1990, it was not sufficient to keep pace with the increase in new cases. As a result, a backlog of pending cases developed which stood at 262 at the end of F.Y. 1990.

This is a serious problem. The purpose of Minnesota OSHA is to keep workers safe. To protect workers, employers who repeatedly violate OSHA standards and those who cause conditions leading to death must be quickly cited and prosecuted. The division's increased caseload is delaying prosecution of OSHA cases and thereby endangering workers. When an employer contests citations, even if an employee has been killed or injured, the employer is not required to abate the hazard until the case is resolved. Therefore, when cases drag out employees continue to be exposed to the hazard.

The volume of work for the Department's Labor Standards and Prevailing Wage Division also increased during the biennium. The major increase was in litigation relating to prevailing wages. The Labor Law Division also represents the Department's Code Enforcement Division, which administers laws governing the inspection, licensing and permitting of boilers and high-pressure pipefitting projects, as well as the inspection of elevators. During the last fiscal year department investigators discovered that a number of contractors were using primarily unlicensed apprentices to do high-pressure pipefitting work. Because of the safety risk this posed, the department promulgated a new rule requiring that contractors maintain a minimum licensee to journeymen/unlicensed apprentice ratio. This requirement was challenged by a company engaged in a major expansion project and by the general contractor of the project. Although enforcement of the rule has been stayed pending completion of the appeals process, the division has been successful to date in its defense of the requirement.

Finally, the division represents the Special Compensation Fund in worker's compensation claim

litigation, enforcement of worker's compensation insurance requirements and collection from uninsured employers. By effectively advocating the fund's interest, the division can reduce fund's expenditures and thereby the cost assessed to employers. In 1 case, for example, the fund paid out over \$90.0 in wage loss and medical benefits to an employee who died after being hit by a drunk driver. The division intervened in the subsequent dram shop action against the bars that served the deceased driver and were able to recover over \$40.0 of the benefits previously paid. In another case claimants sought money from the fund to pay medical benefits and attorney's fees to employees who had asbestosis but were not yet disabled or unable to work. The division persuaded the Worker's Compensation Court of Appeals that the fund was not required to assume this liability, thus protecting the fund against approximately \$200.0 of exposure.

At present, the division is handling over 260 cases for the Fund. One area of increased activity is the result of numerous business failures, primarily in the mining and trucking industries. When self insured employers file for bankruptcy the Fund must often pay outstanding claims. These bankruptcies require the division to intervene on behalf of the Fund in bankruptcy court, to take action to collect on outstanding securities such as security bonds, and to defend an increased volume of compensation claims that follow from worker layoffs.

PROSPECTS:

As indicated above, the number of serious complaints filed against health professionals has increased considerably, from 589 in the previous biennium to 785 in the 1989-90 biennium. The Health Licensing Division currently has a backlog of 400 cases awaiting investigation. This translates into, on average, a 16 month lapse between the time a major complaint is received in the division and the commencement of an investigation. Because the division gives prompt attention to the most serious cases, some cases have remained dormant for years while awaiting investigation. As a result, some professionals continue rendering inadequate care, with potential for harm to patients, for years before any attention is given to the matter.

We anticipate that the increase in the number of serious complaints is a trend that will continue. In addition, recently passed laws relating to the Board of Nursing will require health institutions, health professionals, and others to report nurses to the board who may have engaged in conduct requiring discipline. Recent federal legislation will also increase the reporting of errant professionals to state licensing boards. Last, the licensing boards are seeking uniform legislation this session which will increase mandatory reporting for all health professionals, and provide an increase in board disciplinary powers. If passed this legislation will have a significant effect on the workload of the division. Staffing increases will be required if the division is to keep pace with its current workload; further increases will be needed to deal with the increased workload that results from new legislative initiatives.

If the economy remains healthy, the Commerce Division anticipates that the demand for its legal services will remain constant. However, if the economy worsens, we expect 1 consequence to be an increase in efforts to deceive the public because in the past bad economic times have produced an increase in fraud on the part of people offering financial products. Moreover, the consuming public, in its efforts to try to cope with economic adversity, becomes more vulnerable to fraudulent practices. In addition, in the past bad economic times have meant increased bank failures and insurance company insolvencies. These in turn have increased the demand for the division's legal services.

Efforts to implement conservation and renewable energy technologies are expected to increase the demand for the Telecommunications and Energy Division's services during the next biennium. In 1989 the Minnesota Legislature significantly expanded the utility-sponsored Conservation Improvement Program (CIP) and imposed the authority for implementing CIP on the Department of Public Service (DPS). As a result, the division is now responsible for providing advocacy and decision making advice to the DPS on conservation investments and services. Regulation of the telephone industry is also changing. New technologies such as fiber optics and digital switching are changing both market structure and the complexity of filings. As technology becomes more complex, so too does the nature of the work for DPS staff as well as division lawyers who must assure that

quality and affordability of services is not impaired. To meet the increasing demand produced by changes in regulation, technology and market structure, the DPS has asked for additional staff to supply the necessary expertise to handle more complex cases and to provide the resources needed to properly investigate utility companies' rate of return. These developments will each increase the demand for the division's legal services.

The total number of cases referred to the Human Rights Division for litigation has remained fairly stable during the past 5 years. Based on the information currently available, we would expect the demand for legal services to remain about the same over the course of the next biennium.

At the present time, the Labor Law Division's 2 attorneys assigned to the Labor and Industry Department's Occupational Safety and Health Division (OSHA) are responsible for a case load that includes over 260 open litigation files and over 200 files in the settlement process. That caseload is growing at a rate of between 25 and 30 enforcement cases per month. Prior to 8-1-88 the department referred approximately 15 to 20 contested cases per month. In the 1988 legislative session, however, the act was amended to double all OSHA penalties. The immediate result was an increase in the number of contests to the current 25-30 per month figure. More penalty increases are on the way. As part of last fall's budget package, Congress mandated a sevenfold increase in maximum OSHA penalties and ordered federal OSHA to revise its overall penalty structure to bring it into line with that increase. Based on our review of federal OSHA proposals, we anticipate that penalties will, on the average, triple between now and the end of F.Y. 1992. We expect those penalty increases to at least double the current rate of contests as more and more employers make the economic decision to challenge proposed penalties. Enhanced penalties also make employers more reluctant to allow OSHA inspections without search warrants. This requires attorneys to draft search warrants and persuade judges to execute and enforce inspection orders. Recently some employers have begun refusing to honor warrants, which then requires the initiation and completing of contempt proceedings. Even without additional penalties, the demands on the Labor Law Division's OSHA unit will likely increase. The department is issuing more "willful" and "egregious" citations--3 times as many, in F.Y. 1990 as in F.Y. 1989. These citations carry higher penalties, pose a greater likelihood of employer contests, and raise more complicated and legal factual issues.

At current attorney staffing levels we anticipate a rapidly growing backlog of OSHA enforcement and discrimination cases. Even if the Labor Law Division can close 200 contested cases per year, an optimistic projection, the number of contests will far exceed that. Without penalty increases or any other new demands, we project the backlog to be 550 cases by F.Y. 1993. With the impending penalty increase, the backlog will likely be well over 1,000 cases and perhaps close to 2,000 cases by that time. Demand for legal services in other areas is also expected to remain at the increased level of the past biennium. Rulemaking, increased enforcement and defenses against constitutional and statutory challenges are expected to continue to generate an increased volume of work in the prevailing wage area. The Code Enforcement Division is preparing new rules, which are expected to be controversial and generate substantial need for litigation services. Proposed new rules designed to decrease costs to the Special Compensation Fund are also expected to increase the need for legal services. In addition, if Minnesota experiences an economic downturn, the division expects a greater number of claims as employees who have worked with persistent injuries leave the workforce and file for benefits and more employers risk operating without insurance or end up in bankruptcy.

Alternatives Considered

The office anticipates increasing costs in the Business Regulation Program as a result of increased salary costs and enforcement demands in the health licensing and OSHA regulation areas. The preferred alternative is a separate salary supplement appropriation as has been the practice for several biennia. Without a salary supplement appropriation alternatives would include no raises, reduced raises, reduced hours, leave without pay, lay offs, or a combination of these measures.

Reducing or reallocating staff will cause serious, in some situations, unacceptable delays in enforcing or protecting the state's vital legal interests. The net result will be lost revenue or additional expenditures. In order to meet the other costs, the office identified the following alternatives for consideration:

The Health Licensing Division proposes to have 5 investigator positions that are currently filled through agreements funded by licensing boards added to the Attorney General's legislative complement. In addition, the division requests 2 new investigator, 2 paralegal and 1 secretary positions. These positions would enable the division to meet the anticipated new workload through F.Y. 1993. These increases can be funded from appropriations to the Attorney General from the Special Revenue Fund. The costs are paid from fees charged health professionals, not from tax revenues. Several boards have raised their fees or have expressed a willingness to raise their fees in order to pay for more positions than currently exist within the division. The alternative to adding these positions is an increasing backlog of complaints awaiting investigation. The increased delay in investigating complaints will jeopardize the health and safety of patients who use the services of unqualified health professionals.

The Telecommunications and Energy Division needs 1 new attorney position. Adding this position would have a minimal affect on the general fund since approximately 95% of the attorney time in this division is billed directly to utilities, then paid by the utilities to the general fund. If this position is not added, the division will be unable to meet the increased needs of the Department of Public Service in connection with its implementation of its Conservation Improvement Program, its handling of the more complicated telecommunications cases, or its investigation of utility companies' rate of return.

To keep pace with the increased volume of OSHA litigation and to reduce the number of pending OSHA cases, the Labor Law Division requests 2 new attorney positions. Approximately 50% of OSHA costs are reimbursed by the federal government. If these positions are added, the Department of Labor and Industry could request an increase in federal funding to offset 50% of the cost of these positions. However, because recent federal audits have criticized the state for having too few lawyers assigned to OSHA enforcement, if the positions are not added, federal funding of the existing OSHA program may be jeopardized.

PLAN:

■ <u>Health Licensing Enforcement</u>	<u>F.Y. 1992</u>	\$386	<u>F.Y. 1993</u>	\$386
---------------------------------------	------------------	-------	------------------	-------

These dollars are from the state government special fund which is supported by license fees of the health boards.

■ <u>OSHA Enforcement</u>	<u>F.Y. 1992</u>	\$101.6	<u>F.Y. 1993</u>	\$101.6
---------------------------	------------------	---------	------------------	---------

The state will earn reimbursement from the federal government for 50% of these OSHA expenditures.

GOVERNOR'S RECOMMENDATION:

Recognizing the distinction between separate branches of government, the Governor respectfully acknowledges the right of the Attorney General's Office to present its budgetary needs directly to the legislature for consideration.

1992-1993 B I E N N I A L B U D G E T
(DOLLARS IN THOUSANDS)

AGENCY: ATTORNEY GENERAL
PROGRAM: BUSINESS REGULATION

				FY 1992			FY 1993		
ACTIVITY RESOURCE ALLOCATION:	FY 1989	FY 1990	Est. FY 1991	Adjusted Base	Agency Plan	Governor Recomm.	Adjusted Base	Agency Plan	Governor Recomm.
BUSINESS REGULATION	2,989	3,758	3,944	3,849	4,337	3,849	3,842	4,330	3,842
TOTAL EXPENDITURES BY ACTIVITY	2,989	3,758	3,944	3,849	4,337	3,849	3,842	4,330	3,842
DETAIL BY CATEGORY:									
STATE OPERATIONS	2,989	3,758	3,944	3,849	4,337	3,849	3,842	4,330	3,842
TOTAL EXPENDITURES BY CATEGORY	2,989	3,758	3,944	3,849	4,337	3,849	3,842	4,330	3,842
SOURCES OF FINANCING:									
DIRECT APPROPRIATIONS:									
GENERAL	2,087	2,802	2,916	2,809	2,911	2,809	2,807	2,909	2,807
SP REV DIRECT APPROP	902								
STATE GOVT SPEC REV		956	1,028	1,040	1,426	1,040	1,035	1,421	1,035
STATUTORY APPROPRIATIONS:									
TOTAL FINANCING	2,989	3,758	3,944	3,849	4,337	3,849	3,842	4,330	3,842

ACT: Y: Business Regulation
PROGRAM: Business Regulation
AGENCY: Attorney General's Office

1992-93 Biennial Budget

GOVERNOR'S RECOMMENDATION:

Recognizing the distinction between separate branches of government, the Governor respectfully acknowledges the right of the Attorney General to present its budgetary needs directly to the Legislature for consideration.

DECISION ITEM: Health Licensing Enforcement

AGENCY PLAN:	Dollars in Thousands			
	F.Y. 1992	F.Y. 1993	F.Y. 1994	F.Y. 1995
Expenditures				
Special Fund	\$ 386	\$ 386	\$ 386	\$ 386
Revenues				
Special Fund	\$ 386	\$ 386	\$ 386	\$ 386

GOVERNOR'S RECOMMENDATION:

Expenditures				
Special Fund	\$ -0-	\$ -0-	\$ -0-	\$ -0-
Revenues				
Special Fund	\$ -0-	\$ -0-	\$ -0-	\$ -0-

Requires statutory change: _____ Yes X No
Statutes Affected:

ITEM SUMMARY:

The number of complaints referred to the Attorney General's Office by the 13 health licensing boards increases faster than the division can complete investigations. The number of pending investigations rose from 251 at the end of F.Y. 1988 to 386 at the end of F.Y. 1990. This item continues 5 positions funded by the Board of Medical Examiners this biennium and adds 5 additional positions.

RATIONALE:

The number of serious complaints filed against health professionals has increased considerably, from 589 in the previous biennium to 785 in the 1989-90 biennium. The Health Licensing Division currently has a backlog of 386 cases awaiting investigation. This translates into, on average, a 16 month lapse between the time a major complaint is received in the division and the commencement of an investigation. Because the division gives prompt attention to the most serious cases, some cases have remained dormant for years while awaiting investigation. As a result, some professionals continue rendering inadequate care, with potential for harm to patients, for years before any attention is given to the matter.

Recently passed laws relating to the Board of Nursing will require health institutions, health professionals, and others to report nurses to the board who may have engaged in conduct requiring discipline. Recent federal legislation will also increase the reporting of all errant health professionals to state licensing boards. The licensing boards are seeking uniform legislation this session which will increase mandatory reporting for all health professionals, and provide an increase in board disciplinary powers. If passed this legislation will have a significant effect on the workload of the division. Staffing increases are required if the division is to keep pace with its current workload; further increases will be needed to deal with the increased workload that results from new legislative initiatives.

ACTIVITY: Business Regulation
PROGRAM: Business Regulation
AGENCY: Attorney General's Office

1992-93 Biennial Budget

DECISION ITEM: OSHA Enforcement

	Dollars in Thousands			
	F.Y. 1992	F.Y. 1993	F.Y. 1994	F.Y. 1995
AGENCY PLAN:				
Expenditures				
General Fund	\$ 102	\$ 102	\$ 102	\$ 102
Revenues				
General Fund	\$ 51	\$ 51	\$ 51	\$ 51
GOVERNOR'S RECOMMENDATION:				
Expenditures				
General Fund	\$ -0-	\$ -0-	\$ -0-	\$ -0-
Revenues				
General Fund	\$ -0-	\$ -0-	\$ -0-	\$ -0-
Requires statutory change: _____ Yes <u> X </u> No				
Statutes Affected: _____				

ITEM SUMMARY:

To keep pace with the increased volume of OSHA litigation and to reduce the number of pending OSHA cases, the Labor Law Division requests 2 new attorney positions. Approximately 50% of OSHA's current costs are reimbursed by the federal government. If these positions are added, the Department of Labor and Industry could request an increase in federal funding to offset 50% of the cost of these positions. However, because recent federal audits have criticized the state for having too few lawyers assigned to OSHA enforcement, if the positions are not added, federal funding of the existing OSHA program may be jeopardized.

RATIONALE:

Since 1988, the rate of employer contests to OSHA citations has increased significantly, while the number of attorneys available to handle the caseload has remained constant. Prior to 1988, the department of labor and industry referred approximately 15-20 cases per month for prosecution. The 1988 legislature, however, amended the law to double OSHA penalties, and the result was an increase in the number of contests to 25-30 each month.

The U.S. Department of Labor has announced that all state OSHA programs will be required to increase their penalties again, with maximum penalties increasing sevenfold and average penalties increasing by a factor of 3. Based on our historic experience, we anticipate the rate of employer contests to at least double.

The current OSHA backlog is over 260 open litigation files. Optimistically assuming that, at current staffing levels, the Labor Law Division can close 225 cases per year, the backlog will soar to over 1,000 cases by the end of the 1992-93 biennium.

Currently, there is an average 1-year delay between the referral of an OSHA contest and the

scheduling of a hearing and an average 2-year delay between the filing of an OSHA discrimination complaint and trial. With the penalty increases scheduled to go into effect, those delays will also double.

Under the OSHA statute, employers are not obligated to abate or correct any violations until they have exhausted all of their hearing and appeal rights. Therefore, additional delay in handling these files means additional delay in forcing employers to do what is necessary to preserve their employees' safety and health. For employees, delay means greater risk of occupational injury and disease.

In addition, delay makes it more difficult for the state to meet its burden of proof in these cases. Memories fog, documents are mislaid, and witnesses disappear. Otherwise valid citations will be overturned for no reason other than the time that has elapsed. Not only does that undermine the effectiveness of the program, but it undermines the public's confidence in their government.

Because of the unique federal role in state OSHA programs, delay also increases the risk that the federal government will determine that Minnesota's program is no longer "as effective as" the federal program. That means a loss of federal funding (half of OSHA's budget) and ultimately a loss of the federal authority to proceed.

Inability to prosecute OSHA citations promptly also means lost penalty revenue. In F.Y. 1990, Minnesota OSHA assessed \$458.3 in penalties, but \$402.5 were contested, meaning that the Attorney General has to prosecute those cases to a successful conclusion in order to reduce the assessments to judgment or lose the revenue. Because of the penalty increases that are coming, the amount of general fund revenue at stake will likely increase to around \$1,650.0 each year by F.Y. 1992 or F.Y. 1993. Minnesota OSHA cannot simply drop open files without jeopardizing its federal approval and funding. Moreover, the statute requires OSHA to file a complaint within 40 days of an employer contest, so the option of refusing to litigate certain types of cases is not lawfully available.

No other state or federal OSHA jurisdiction in the country handles as many cases with so few attorneys. Most states and federal OSHA regions have at least twice the attorney complement, many have 3 to 4 times as many.

GOVERNOR'S RECOMMENDATION:

Recognizing the distinction between separate branches of government, the Governor respectfully acknowledges the right of the Attorney General to present its budgetary needs directly to the Legislature for consideration.

PROGRAM PURPOSE:

The **Solicitor General's Program** handles much of the state's constitutional defense and personal injury/property damage litigation and coordinates civil litigation throughout the Attorney General's Office. It consists of two of the office's specialized civil litigation divisions, the Civil Litigation Division and the Tort Claims Division, and the Opinions Division which provides Attorney General opinions to state and local officials.

- The **Civil Litigation Division** defends the constitutionality of state statutes, rules and official action. In many of these cases, the State is sued directly. However, Minnesota court rules also require that the Attorney General be notified any time a statute is challenged as unconstitutional in private litigation. The Attorney General may then intervene in the lawsuit or file a "friend of the court" brief to support the statute's constitutionality. The Civil Litigation Division monitors these notices and, when appropriate, participates in the defense of the statute or assists attorneys throughout the office in doing so. It also reviews all major pleadings and significant appeal briefs before they are filed with the court. In addition, the division provides legal advice and representation to the Minnesota judiciary.
- By investigating, settling or litigating tort claims, the **Torts Division** defends the state and its employees in personal injury or property damage suits brought by individuals and corporations. The allegations are most commonly of negligence, but they also involve wrongful death, defamation, excessive force, interference with business relations, and federal civil rights claims.
- Virtually everyone who contacts the office of the Attorney General seeks some type of legal opinion. However, state statutes authorize the Attorney General to issue written legal opinions only to constitutional executive officers, state agencies, committees and commissions of the legislature, and attorneys for local governments or pensions funds. The **Opinions Division** reviews requests, determines whether the request meets jurisdictional requirements and prepares an informal letter of opinion or publishes a formal opinion.

PERFORMANCE:

Successful representation of the state's interests or the significance and impact of a case is not necessarily reflected in the won-lost record of constitutional law defenses or immediately measurable in dollars saved through negotiation and litigation of tort claims.

Civil Litigation Division

For example, the Attorney General, through the Civil Litigation Division, is now defending the constitutionality of the state's education financing laws. The suit Skeen, Sheridan v. Comm. Randall asks the court to strike down laws that enable citizens in individual school districts to choose to raise their own taxes to provide more money for their schools than is received from the state. The state's position is that the Constitution guarantees each child in Minnesota an adequate and sound basic education, not equal funding for every pupil. The education financing case will go to trial in February, 1991, and will ultimately be decided by the appellate courts. Staff of the Attorney General's Office and the Department of Education are working to defend the state's position, and experts and technological resources will be employed on behalf of the state's position. The courts will ultimately decide the constitutionality of the law.

Another example is the 10 year litigation of Hodgson v. Minnesota, challenging the constitutionality of the parental notification statute. Last June, the United States Supreme Court upheld the court by-pass part of the law, but struck down the notification requirement standing alone. Plaintiffs' attorneys are now asking for \$1.2 million in attorneys fees. The matter is currently in litigation in U.S. District Court.

These cases illustrate that, win or lose, the outcome of constitutional litigation is not a measure of performance. Within the limits established by legislative appropriation, and executive decision regarding the distribution of personnel and resources, the state's position has been and will continue to be aggressively asserted. However, as Hodgson graphically demonstrates, this does not assure victory, and it may, even in the event of substantial victory, expose the state to liability for attorneys fees.

In F.Y. 1989-90, the Attorney General's Office defended 61 constitutional challenges to state statutes. Of these, in 38 cases the statutes were upheld or the case was dismissed, and 2 cases settled, 2 statutes were ruled unconstitutional. The others are pending in district court or are on appeal.

Tort Claims Division

During F.Y. 1989-90, the Attorney General's Office handled and closed 127 tort lawsuits and 953 tort claims and paid out \$315.0 on claims with an estimated value of \$6,286.3 thus protecting the state from approximately \$5.9 million in potential claims. In addition, a significant case affecting the state's treasury, the Attorney General's Office successfully defended the constitutionality of the statutory cap on state liability which limits the amount of damages which can be recovered from the state to \$200.0 per individual and \$600.0 per occurrence. This decision will protect the treasury from huge judgments which could be awarded in the event of a catastrophe. In another significant tort case, the Minnesota Court of Appeals was persuaded to apply the doctrine of "discretionary immunity" to protect the state against judgments for accidents related to policy decisions of state agencies.

Opinions Division

The office, through the Opinions Division, issued 159 Attorney General opinions during the biennium, providing advice to state and local units of government on topics ranging from election law to compensation of public officers to collective bargaining in school districts.

PROSPECTS:

The Solicitor General Program can expect to have new constitutional challenges, personal injury and property damage suits and opinion requests in the next biennium. Claims already received, cases in preparation for litigation and the constant stream of opinion requests promise to challenge the limits of staff and current resources.

In the **Civil Litigation Division**, the Skeen case alone will command the time of 2 full time attorneys, a legal assistant and computer resources for several months in F.Y. 1991-92. The demands of the division's constitutional defense responsibilities may inhibit its ability to meet other needs. For example, the constitutional transition of various court personnel from county to state employee status may result in additional requests for assistance from the judiciary. In addition, plaintiff work generated by Legislative Auditor reports consistently receives less attention than it should. Finally, the defense work of the division has delayed worthwhile projects that could be of benefit office-wide. These include creating a computerized form bank and possibly a brief/research bank, as well as exploring more fully and teaching effective ways to use our computer resources in litigation document management.

In the **Torts Division** the Tort Reform Act of 1986, the successful defense of the damage cap in 1988, the repeal of the discount statute, and the upholding of the modified joint and several liability statute for governmental entities in Imlay v. City of Lake Crystal, have not (significantly) decreased the number of tort claims or suits.

Finally, in the **Opinions Division**, application of the chargeback system to political subdivisions requesting Attorney General opinions has created extra work and delay due to corresponding with local government attorneys about the procedures. It has not, however, decreased the divisions opinion workload. Although 5 files were closed when there was no response to the billing letter, the number of opinion requests continues to meet the historical trend.

PROGRAM: Solicitor General
(Continuation)
Agency: Attorney General, Office of

1992-93 Biennial Budget

Alternatives Considered:

The office anticipates increasing costs in the Solicitor General Program as a result of increased salary costs. The preferred alternative is a separate salary supplement appropriation as has been the practice for several biennia. Without a salary supplement appropriation alternatives would include no raises, reduced raises, reduced hours, leave without pay, lay offs, or a combination of these measures. Reducing or reallocating staff will cause serious, in some situations, unacceptable delays in enforcing or protecting the state's vital legal interests. The net result will be lost revenue or additional expenditures.

Adequate legal assistant support is essential to litigating cases effectively. The Civil Litigation and Torts Divisions litigate cases as their sole function. The Civil Litigation Division has only one legal assistant; the Torts Division has none. The current lack of adequate legal assistant support in those divisions compromises the office's ability to provide the state with the most thorough defense possible in lawsuits. If not remedied, it may ultimately result in the unnecessary loss of cases brought against the state.

In Civil Litigation, one major case generally occupies the one legal assistant virtually full-time. That is currently the situation with the Skeen case challenging the education financing system, and was also the situation with DeGidio (TB in the prisons) and Hodgson (parental notification). This means that legal assistant services are for all practical purposes not available for any other cases in the division. This puts the office at a competitive disadvantage in litigating against private firms where those services are available. The office will seek to provide additional assistance through reallocation of current staff.

GOVERNOR'S RECOMMENDATION:

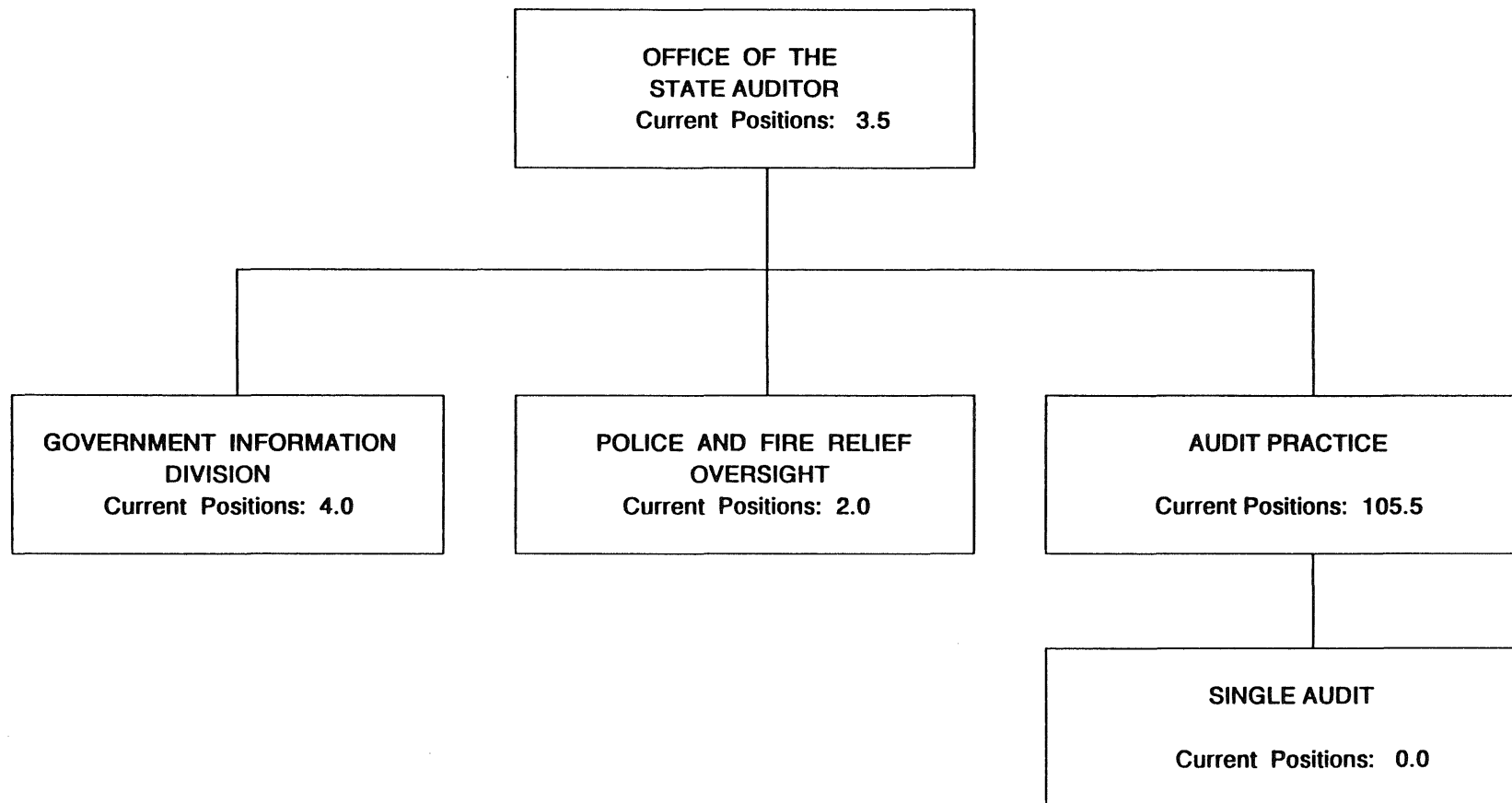
Recognizing the distinction between separate branches of government, the Governor respectfully acknowledges the right of the Attorney General's Office to present its budgetary needs directly to the legislature for consideration.

1992-1993 B I E N N I A L B U D G E T
(DOLLARS IN THOUSANDS)

AGENCY: ATTORNEY GENERAL
PROGRAM: SOLICITOR GENERAL

ACTIVITY RESOURCE ALLOCATION:	FY 1989	FY 1990	Est. FY 1991	FY 1992			FY 1993		
				Adjusted Base	Agency Plan	Governor Recomm.	Adjusted Base	Agency Plan	Governor Recomm.
SOLICITOR GENERAL	1,163	893	945	1,499	1,499	1,499	1,499	1,499	1,499
TOTAL EXPENDITURES BY ACTIVITY	1,163	893	945	1,499	1,499	1,499	1,499	1,499	1,499
DETAIL BY CATEGORY:									
STATE OPERATIONS	1,163	893	945	1,499	1,499	1,499	1,499	1,499	1,499
TOTAL EXPENDITURES BY CATEGORY	1,163	893	945	1,499	1,499	1,499	1,499	1,499	1,499
SOURCES OF FINANCING:									
DIRECT APPROPRIATIONS:									
GENERAL	1,163	893	945	1,499	1,499	1,499	1,499	1,499	1,499
STATUTORY APPROPRIATIONS:									
TOTAL FINANCING	1,163	893	945	1,499	1,499	1,499	1,499	1,499	1,499

Office of the State Auditor Organization Chart 07/01/90



OFFICE OF THE STATE AUDITOR

Position and Employee Status Information

Position Reconciliation:

Authority:	Current FY 91	Requested For 6/30/93
Legislative Complement: General Fund	115.0	115.0
Total Permanent Positions	115.0	115.0
Other Complement (FTE)	19.0	19.0
Total Positions	134.0	134.0
Employees on 6/30/90	105.0	

Employees by Employment Status:

	<u>6/30/90</u>
Full-Time Unlimited	99
Full-Time Temporary	2
Part-Time Unlimited	3
Part-Time Temporary	1
Total	105

MISSION:

The central goal of the Office of the State Auditor is to ensure that local governments throughout the state manage their funds wisely and efficiently. The Office achieves this goal through performing audits of approximately 316 local governments and components of local governments--cities, counties, school districts, and others--and monitoring the audits of other local governments that are performed by independent accounting firms through the statewide single audit. The audits attest to the fairness of the governments' financial statements and to their compliance with the laws and regulations that direct their activities. Accounting for the finances and legal compliance of approximately 4,300 local governments is essential to the state's solvency, as these governments receive the majority of the state's resources in addition to their local resources.

Currently, citizens, the state and the federal government are demanding more accountability for public dollars. The Office of the State Auditor is in a unique position to assure that accountability, not only through the examination of financial reports, but also through educating governments and other concerned parties about financial management practices, reporting standards, and current fiscal trends. The Office uses the data from the audits and financial reports to compile a data base which supplies the information to meet these education needs.

The resulting information enables local governments to improve fiscal practices, to plan for future contingencies, and to prevent fraud, waste, and abuse. The information is also used by the legislature, the federal government, and the public. Communication of fiscal needs and trends is increasingly important in enabling governments to anticipate and thus prevent financial problems and misuse of resources.

Over the past several years much progress has been made in fiscal accountability. Through this Office's efforts, uniform accounting and reporting standards have been implemented virtually statewide. A number of major local governments received the Certificate of Achievement for Excellence in Financial Reporting from the Governmental Finance Officers Association, the highest form of recognition in governmental financial reporting. In cooperation with the Legislative Auditor, the U.S. Department of Agriculture, and the Minnesota Department of Finance, the Office participated in the first statewide single audit, which included the federal grant funds received by the state and passed through to local units of government. The Office has received national recognition for these audit efforts.

In spite of the accomplishments, much remains to be done. Audit and reporting requirements continue to change as set forth by the Government Accounting Standards Board, American Institute of Certified Public Accountants, United States General Accounting Office and Financial Accounting Standards Board. The annual single audits still require adaptations, adjustments, and the incorporation of additional local units of government receiving federal funds that flow through the state finance system. More remains to be done in the improvement of uniformity of financial information from the local units of government.

The legislature has mandated legal compliance audits for all local units of government and through the efforts of the legal compliance task force the Office has issued a legal compliance audit guide for use in all audits of local governments.

Minnesota Laws 1986, Ch. 359, assigned the oversight of the financial reports and accounting systems of Police and Fire Relief Associations to the Office. Proper compliance indicates to the legislature that the officers of the associations are taking appropriate measures to safeguard the assets of the relief associations, qualify for state aid and maintain adequate progress in the funding of pensions of the relief associations.

To achieve its purposes efficiently the Office of the State Auditor is divided into 5 budgetary units: Constitutional Office, Audit Practice, Governmental Information, Single Audit and Police and Fire Relief Association Oversight.

MAJOR POLICY DRIVERS:

The Office of the State Auditor cannot audit every unit of local government, because it simply does not have the staff to do so; but, it can and should monitor the financial viability of all local governments in the state, for 3 reasons:

1. To give the governments an independent assessment of their overall financial condition and likely future trends;
2. To allow comparisons among similar units throughout the state and predict the larger trends, which have widespread effects; and
3. To furnish decision-makers such as the legislature and interested parties, such as taxpayers with relevant and timely information about finances throughout the state.

EXPLANATION OF BUDGET ISSUES AND ALTERNATIVES:

A portion of local governmental aids funds the Government Information Division, a portion of police and fire relief aids funds Police and Fire Relief Oversight activity and the state of Minnesota is reimbursed by the federal government for Single Audit Activity.

A BASE adjustment of \$9,000 each year was made from personnel services to hire professional and technical services when they are needed rather than fund a full-time position. We anticipate the same level of activity.

Agency Allocation:

<u>Audit Practice</u>	<u>F.Y. 1992</u>	\$439,000	<u>F.Y. 1993</u>	\$736,000
The Office of the State Auditor is requesting an increase of 4.5% each year in Audit Practice activity to cover anticipated costs related to performing our current level of audits. All costs are recovered through fees collected from audit clients.				

<u>Personnel Increases & Expense</u>	<u>F.Y. 1992</u>	\$ 117,000	<u>F.Y. 1993</u>	\$145,000
These amounts are requested to fund anticipated personnel increases and enable the State Auditor to maintain mandated functions.				

<u>Increase Research and Analytical Capabilities</u>	<u>F.Y. 1992</u>	\$ 187,000	<u>F.Y. 1993</u>	\$184,000
These amounts are requested to fund 4 full time positions to improve research and analytical capabilities relative to local government operations and state/local relationships.				

GOVERNOR'S RECOMMENDATION:

Recognizing the distinction between separate branches of government, the Governor respectfully acknowledges the right of the State Auditor to present its budgetary needs directly to the legislature for consideration.

1992-1993 B I E N N I A L B U D G E T
(DOLLARS IN THOUSANDS)

AGENCY: STATE AUDITOR
PROGRAM: STATE AUDITOR

ACTIVITY RESOURCE ALLOCATION:	FY 1989	FY 1990	Est. FY 1991	FY 1992			FY 1993		
				Adjusted Base	Agency Plan	Governor Recomm.	Adjusted Base	Agency Plan	Governor Recomm.
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
CONSTITUTIONAL OFFICE	263	209	256	244	266	244	244	276	244
GOVERNMENTAL INFO DIV	207	195	221	217	459	217	217	469	217
AUDIT PRACTICE-REVOLVING	4,452	4,468	5,291	5,368	5,807	5,368	5,355	6,091	5,355
SINGLE AUDIT	77	77	77	77	77	77	77	77	77
POLICE/FIRE RELIEF OVERSITE	78	77	73	71	111	71	71	116	71
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL EXPENDITURES BY ACTIVITY	5,077	5,026	5,918	5,977	6,720	5,977	5,964	7,029	5,964
DETAIL BY CATEGORY:									
=====									
STATE OPERATIONS	5,077	5,026	5,918	5,977	6,720	5,977	5,964	7,029	5,964
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL EXPENDITURES BY CATEGORY	5,077	5,026	5,918	5,977	6,720	5,977	5,964	7,029	5,964
SOURCES OF FINANCING:									
=====									
DIRECT APPROPRIATIONS:									
GENERAL	602	5,026	5,918	5,977	6,720	5,977	5,964	7,029	5,964
STATUTORY APPROPRIATIONS:									
ENTERPRISE	4,475								
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL FINANCING	5,077	5,026	5,918	5,977	6,720	5,977	5,964	7,029	5,964

BASE RECONCILIATION REPORT
for 1992-1993 Biennium

AGENCY: STATE AUDITOR

	ALL FUNDS		GENERAL FUND		OTHER STATE FUNDS		FEDERAL FUNDS	
	F.Y.92	F.Y.93	F.Y.92	F.Y.93	F.Y.92	F.Y.93	F.Y.92	F.Y.93
F.Y.91 FUNDING LEVEL	5,918	5,918	5,918	5,918				
APPROPRIATIONS CARRIED FWD	<30>	<30>	<30>	<30>				
LEG-DIRECTED ADJUSTMENTS	3	3	3	3				
SALARY ANNUALIZATION	79	59	79	59				
DOCUMENTED RENT/LEASE INCR.	7	14	7	14				
TOTAL	5,977	5,964	5,977	5,964				
BIENNIAL TOTAL		11,941		11,941				

ACTI Various
 PROG State Auditor
 AGENCY: Office of the State Auditor

1992-93 Biennial Budget

DECISION ITEM: Personnel Increases and Expenses

	Dollars in Thousands			
	F.Y. 1992	F.Y. 1993	F.Y. 1994	F.Y. 1995
AGENCY PLAN:				
Expenditures				
General Fund	\$ 117	\$ 145	\$ 145	\$ 145
Revenues				
General Fund	\$ -0-	\$ -0-	\$ -0-	\$ -0-

GOVERNOR'S RECOMMENDATION:

Expenditures				
General Fund	\$	\$	\$	\$
Revenues				
General Fund	\$	\$	\$	\$

Requires statutory change: _____ Yes _____ No
 Statutes Affected:

ITEM SUMMARY:

The Office of the State Auditor is requesting funding for anticipated bargaining unit settlements; one new position for the Government Information Division plus \$20,000 per year for printing expenses for the Minnesota Financial Health Program; \$5,000 per year for promotional expenses for the Constitutional Office.

The expenditures by activity are as follows:

	F.Y. 1992	F.Y. 1993	F.Y. 1994	F.Y. 1995
Constitutional Office	\$ 22	\$ 32	\$ 32	\$ 32
Government Information Division	55	68	68	68
Police and Fire Relief Organization	40	45	45	45
Total	\$ 117	\$ 145	\$ 145	\$ 145

RATIONALE:

Constitutional Office: Provide funding for promotional increases and other anticipated salary increases.

Government Information Division: To fund anticipated salary costs and to fund a secretarial position to assist in responding to inquiries from local governments, public accounting firms, the legislature and the public.

Police and Fire Relief Oversight: Train a new auditor in compliance issues and assist in financial reviews of police and fire pensions fund statements.

GOVERNOR'S RECOMMENDATION:

Recognizing the distinction between separate branches of government, the Governor respectfully acknowledges the right of the Office of the State Auditor to present its budgetary needs directly to the legislature for consideration.

ACTIVITY: Office of Policy Research
PROGRAM: State Auditor
AGENCY: State Auditor

1992-93 Biennial Budget

GOVERNOR'S RECOMMENDATION:

Recognizing the distinction between separate branches of government, the Governor respectfully acknowledges the right of the Office of the State Auditor to present its budgetary needs directly to the legislature for consideration.

DECISION ITEM: Increase Research and Analytical Capabilities

Dollars in Thousands				
	F.Y. 1992	F.Y. 1993	F.Y. 1994	F.Y. 1995
AGENCY PLAN:				
Expenditures				
General Fund	\$ 187	\$ 184	\$ 184	\$ 184
Revenues				
General Fund	\$	\$	\$	\$
GOVERNOR'S RECOMMENDATION:				
Expenditures				
General Fund	\$ -0-	\$ -0-	\$ -0-	\$ -0-
Revenues				
General Fund	\$	\$	\$	\$

Requires statutory change: _____ Yes X No
Statutes Affected:

ITEM SUMMARY:

Request funding for four full time positions to improve the research and analytical capabilities of the State Auditor's Office relative to local government operations and state-local relationships. General fund expenditure to be offset by an equivalent reduction in the funds available for aids to local governments.

RATIONALE:

During the past decade, much attention has been focused on the relationships between the state and local governments. As the federal government has reduced its commitment to the provision of domestic services, state and local officials have struggled to fill the void. The increased demand for various public services has placed tremendous fiscal stress on state and local budgets. Since the demand for improved public services is unlikely to subside, and state and local officials can no longer realistically look to the federal government for assistance, Minnesota must do everything possible to improve the efficiency and effectiveness of its existing service delivery structures and processes.

Unfortunately, few individuals fully understand the fiscal and service delivery relationships between the state and its 4300 political subdivisions. While 65 percent of all state tax dollars are spent at the local level, very little is known about the individual units of government. While much fiscal data is gathered, it is most often not detailed and reliable enough to make valid comparisons between local governments. Furthermore, the propensity of the state to impose mandates on local governments, without providing the fiscal resources to fund those relationships.

The State Auditor's Office is in the best position to improve the quality and analysis of local government fiscal data. Improving the quality of the data, and providing meaningful and timely analysis of the data, is a necessary first step toward reforming the fiscal and service delivery relationships between the state and its local governments. By improving the research and analysis capacity of the State Auditor's Office, executive and legislative branch policy makers will be able to formulate policies that help government services.

ACTIV Audit Practice
PROGRAM: State Auditor
AGENCY: Office of the State Auditor

1992-93 Biennial Budget

DECISION ITEM: Audit Practice Expense

		Dollars in Thousands			
		<u>F.Y. 1992</u>	<u>F.Y. 1993</u>	<u>F.Y. 1994</u>	<u>F.Y. 1995</u>
AGENCY PLAN:					
Expenditures					
General Fund	\$	439	\$ 736	\$ 736	\$ 736
Revenues					
General Fund	\$	439	\$ 736	\$ 736	\$ 736

GOVERNOR'S RECOMMENDATION:

Expenditures				
General Fund	\$	\$	\$	\$
Revenues				
General Fund	\$	\$	\$	\$

Requires statutory change: _____ Yes _____ No
Statutes Affected:

ITEM SUMMARY:

The Office of the State Auditor is requesting 5 additional positions to meet changing audit demands/engagements and changing audit standards set forth by the United States Government Accounting Office, Government Audit Standards. To cover increased audit costs including an anticipated 4.5% increase in personnel services for bargaining unit settlements and employee promotions to continue our current level of audits.

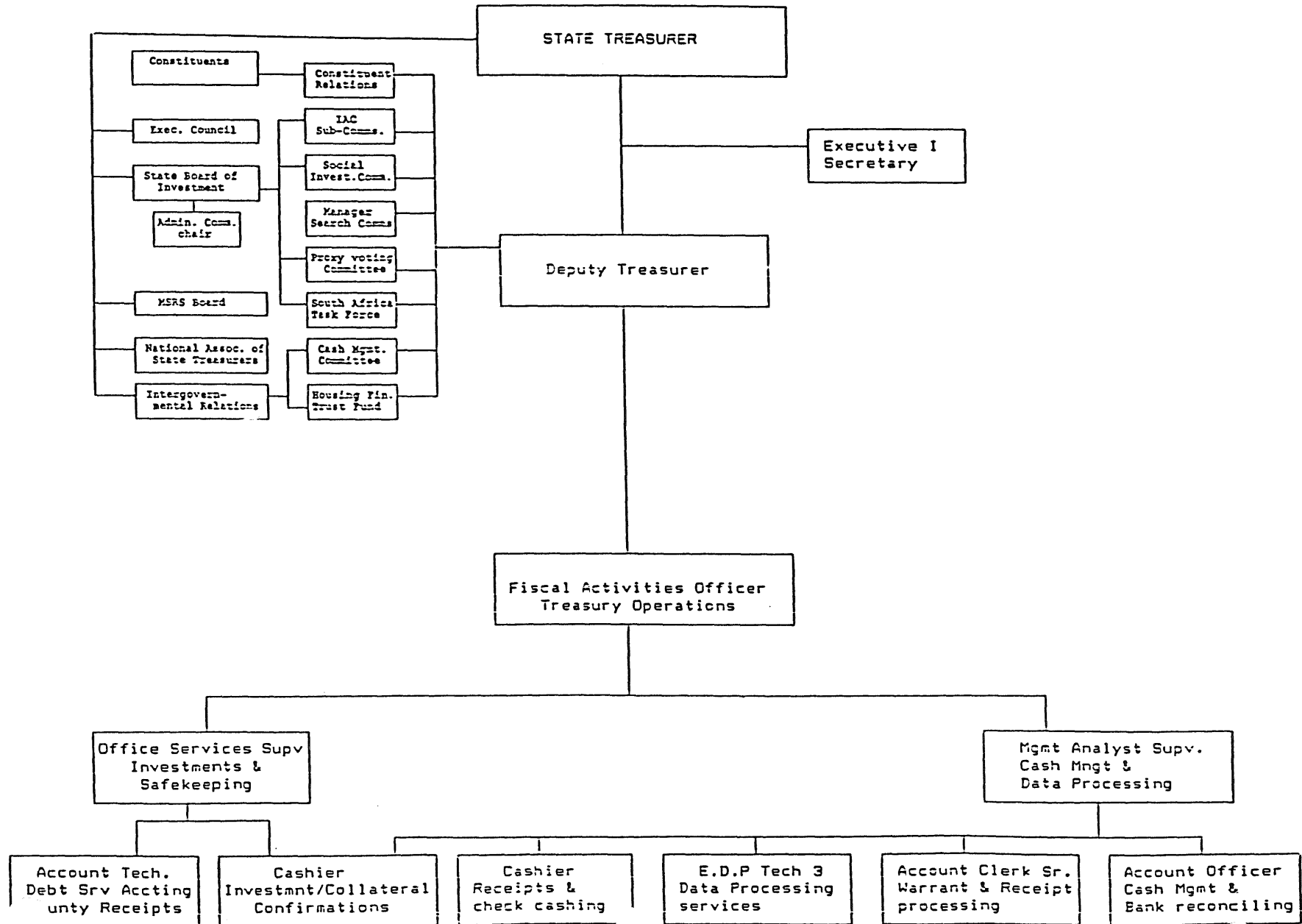
RATIONALE:

To allow the Office of the State Auditor to perform financial and compliance audits of local governments pursuant to statutory mandate.

GOVERNOR'S RECOMMENDATION:

Recognizing the distinction between separate branches of government, the Governor respectfully acknowledges the right of the Office of the State Auditor to present its budgetary needs directly to the legislature for consideration.

OFFICE OF THE STATE TREASURER
ORGANIZATIONAL CHART
NOVEMBER 1, 1990



Office of the State Treasurer

Position and Employee Status Information

Position Reconciliation:

Authority:	Current F.Y. 1991	Requested For 6-30-93
Legislative Complement:		
General Fund	<u>12</u>	<u>12</u>
Total Permanent Positions	12	12
TOTAL Positions	<u>12</u>	<u>12</u>
Employees on 6-30-90	12	

Employees by Employment Status:

	<u>6-30-90</u>
Full-Time Unlimited	<u>12</u>
TOTAL	12

MISSION:

The mission of the Office of State Treasurer (office), the chief elected state financial officer, is to carry out responsibilities in various monetary areas important to the efficient fiscal operation of state government, including: provide a system of checks and balances in the financial affairs of the state, formulate policy for cash control, and maintain sound cash management; debt service accounting; pension investment policy; policy for leasing natural resource sites; policy for state/federal fiscal relations; and coordination of related financial matters with the legislature and state and local agencies.

The Treasurer serves as a member of the State Board of Investment (SBI), the Executive Council, and by Governor's appointment, the Minnesota State Retirement System Board of Directors.

In addition, the incumbent Treasurer is an advocate for public employee pension rights, consumer rights, shareholder rights, democracy in corporate governance and intergovernmental tax immunity. The incumbent is also active in national public finance organizations: National Association of State Treasurers; National Conference on Public Employee Retirement Systems; Public Finance Network; Council of Institutional Investors; and Government Finance Officers Association.

The proper execution of these duties benefit the citizens and government of the state of Minnesota and requires funding at an adequate level.

The operational responsibilities and objectives of the office include:

- Approve an annual total of approximately 4,500,000 state issued warrants and legislative payroll and expenditures as they are presented by banks daily for payment.
- Accurately record daily deposits into 240 banks as reported by approximately 160 Deputy Registrars and 170 state agency accounts throughout the state.
- Maximize investment earnings by determining amounts available for investment twice daily after analyzing receipt and disbursement activity.
- Verify all investment expenditures made by SBI staff and authorize payment to brokers.
- Verify receipts of all investment proceeds earned from investments made on behalf of state agencies.
- Assure each day that all state funds on deposit are properly collateralized.
- Formulate policy for cash management procedures.
- Pay and account for principal and interest due for some 70 state bonded debt issues.
- Receive, account for, and deposit federal and state income tax, medicare and social security taxes for the legislature, boards and commissions, state employees, state universities and community colleges.
- Maintain computerized inventory and activity reports to Department of Commerce for unclaimed property held by the state.
- Receive, account for and deposit the state shares of county receipts, miscellaneous gifts and escheated estates proceeds.
- Operate a cash facility to redeem state warrants, bonds and bond coupons.

MAJOR POLICY DRIVERS:

The state Treasurer receives and accounts for all monies paid into the state treasury and acts as a custodian for the same until lawfully disbursed. The activities described in the mission statement require sound cash management policies and procedures as well as a system of checks and balances internally and among agencies. The result is accountability to taxpayers for safekeeping public funds. The office has been innovative and aggressive in both cash management activities and operationally. Since 1985, the office has endured a staff reduction of 40%, while volumes, programs and responsibilities have increased. During the past year, this office has been working with the Department of Human Services to implement their "MAXIS" project. This project will increase warrant volumes by approximately 50% and double bank account activity. The Treasurer's information system, 10 years old and in constant repair, is essential to fulfilling the needs of: 1) Department of Finance Statewide Accounting System (SWA); 2) cash management, and 3) checks and balances for the state's cash control system. Declining economic conditions will increase our need to maintain a cash management system that maximizes earnings to the General Fund.

Electronic Data Interchange (EDI) and Electronic Fund Transfer (EFT) technology will be incorporated into the state's financial operations in the near future. The Treasurer's office will provide a major role in policy and application decisions as this process is carried out.

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

EXPLANATION OF BUDGET ISSUES AND ALTERNATIVES:

The office is a part of virtually all financial affairs of all agencies in state government; however, its entire operating budget is paid by the General Fund rather than partially offset by the agencies for whom services are provided by the Treasurer.

- We do not have the authority or ability to contract with others for financial services provided;
- We do not maintain revolving fund accounts to recover our costs;
- We do not recover any part of our operating costs from the taxes, fines and fees which we process and which contribute to the General Fund; and,
- We do not receive any portion of the tens of millions of dollars (\$162 million in the last biennium) generated by invested treasurer's cash for the General Fund; however, cash management, investment activity and warrant and receipt processing are continually increasing.

Since the office has only 1 program, our costs are mostly non-discretionary. Personnel costs account for 81% of our budget. Fixed operating contracts account for 14%. Only about 5% (\$25,000) of our budget is left for discretionary expenses such as supplies, printing, equipment, education and travel. Because of low turnover, personnel costs continue to erode each year the amount of the appropriation available for discretionary expenditures. Loss of earnings to the General Fund will be greater than any savings realized by applying the normal base reallocation decision to this office. Full support for the vital financial services provided by the Treasurer's Office is important to the successful financial management and safety of public funds.

GOVERNOR'S RECOMMENDATION:

Recognizing the distinction between separate branches of government, the Governor respectfully acknowledges the right of the Office of the State Treasurer to present its budgetary needs directly to the legislature for consideration.

1992-1993 B I E N N I A L B U D G E T
(DOLLARS IN THOUSANDS)

AGENCY: STATE TREASURER
PROGRAM: STATE TREASURY

				FY 1992			FY 1993		
ACTIVITY RESOURCE ALLOCATION:	FY 1989	FY 1990	Est. FY 1991	Adjusted Base	Agency Plan	Governor Recomm.	Adjusted Base	Agency Plan	Governor Recomm.
TREASURY MANAGEMENT	550	600	664	656	1,441	656	654	1,363	654
TOTAL EXPENDITURES BY ACTIVITY	550	600	664	656	1,441	656	654	1,363	654
DETAIL BY CATEGORY:									
STATE OPERATIONS	550	600	664	656	1,441	656	654	1,363	654
TOTAL EXPENDITURES BY CATEGORY	550	600	664	656	1,441	656	654	1,363	654
SOURCES OF FINANCING:									
DIRECT APPROPRIATIONS:									
GENERAL	550	600	664	656	1,441	656	654	1,363	654
STATUTORY APPROPRIATIONS:									
TOTAL FINANCING	550	600	664	656	1,441	656	654	1,363	654

BASE RECONCILIATION REPORT
for 1992-1993 Biennium

AGENCY: STATE TREASURER

	ALL FUNDS		GENERAL FUND		OTHER STATE FUNDS		FEDERAL FUNDS	
	F.Y.92	F.Y.93	F.Y.92	F.Y.93	F.Y.92	F.Y.93	F.Y.92	F.Y.93
F.Y.91 FUNDING LEVEL	664	664	664	664				
NON-RECURRING EXPENDITURES	<25>	<25>	<25>	<25>				
LEG-DIRECTED ADJUSTMENTS	6	6	6	6				
SALARY ANNUALIZATION	7	5	7	5				
DOCUMENTED RENT/LEASE INCR.	4	4	4	4				
TOTAL	656	654	656	654				
BIENNIAL TOTAL		1,310		1,310				

ACT: Treasury Management
PROGRAM: State Treasurer
AGENCY: State Treasurer

1992-93 Biennial Budget

GOVERNOR'S RECOMMENDATION:

Recognizing the distinction between separate branches of government, the Governor respectfully acknowledges the right of the State Treasurer to present its budgetary needs directly to the Legislature for consideration.

DECISION ITEM: Personal Services Funding

	<u>Dollars in Thousands</u>			
	<u>F.Y. 1992</u>	<u>F.Y. 1993</u>	<u>F.Y. 1994</u>	<u>F.Y. 1995</u>

AGENCY PLAN:

Expenditures							
General Fund	\$	35	\$	64	\$	64	\$ 64
Revenues							
General Fund	\$	-0-	\$	-0-	\$	-0-	\$ -0-

GOVERNOR'S RECOMMENDATION:

Expenditures							
General Fund	\$	-0-	\$	-0-	\$	-0-	\$ -0-
Revenues							
General Fund	\$	-0-	\$	-0-	\$	-0-	\$ -0-

Requires statutory change: _____ Yes X No
Statutes Affected:

ITEM SUMMARY:

This request assumes that negotiated wage increase will not be appropriated to agencies and assumes; 1) 4.5% wage increases in F.Y. 1992 and F.Y. 1993, and; 2) \$28,000 of progression increases for F.Y. 1992 and F.Y. 1993 combined.

RATIONALE:

The Office of the State Treasurer has already absorbed a 40% reduction in staff and related funding over the past 5 years, with no increases in base level funding for operating costs during the same period. Non-discretionary operating costs continue to rise and erode the amount of discretionary funds available to absorb obligations that are required but not appropriated. For example, the anticipated increases represented in this funding request are \$99,000 for the biennium, whereas, our total discretionary funds are only \$50,000 and, must be used to cover all supplies, travel, department head, equipment education required for the office to operate.

ACTIVITY: Treasury Management
PROGRAM: State Treasurer
AGENCY: State Treasurer

1992-93 Biennial Budget

DECISION ITEM: Bank Service Charges

	Dollars in Thousands			
	<u>F.Y. 1992</u>	<u>F.Y. 1993</u>	<u>F.Y. 1994</u>	<u>F.Y. 1995</u>

AGENCY PLAN:

Expenditures					
General Fund	\$ -0-	\$ 645	\$ 645	\$ 645	
Revenues					
General Fund	\$ -0-	\$ 893	\$ 893	\$ 893	

GOVERNOR'S RECOMMENDATION:

Expenditures					
General Fund	\$ -0-	\$ -0-	\$ -0-	\$ -0-	
Revenues					
General Fund	\$ -0-	\$ -0-	\$ -0-	\$ -0-	

Requires statutory change: X Yes No
Statutes Affected: M.S. 16A.27, Subd.5, Ch.7

ITEM SUMMARY:

The Office of the State Treasurer, requests funding of \$645,000 for F.Y. 1993 and 1.0 position to pay banking charges by fees instead of compensating balances.

RATIONALE:

The Office of the State Treasurer is proposing to pay bank service charges by fee rather than the current practice of using compensating balances. Through cash management and the State Board of Investment an additional \$240,000 would be generated annually and added to the General Fund. The reason for this difference is; 1) the State Board of Investment can earn approximately 1% more than the bank; 2) the cost of managing the compensating balances is .5%; and; 3) only 88% of the balances in the bank earn any interest because federal laws require that 12% be retained as a reserve requirement.

GOVERNOR'S RECOMMENDATION:

Recognizing the distinction between separate branches of government, the Governor respectfully acknowledges the right of the State Treasurer to present its budgetary needs directly to the Legislature for consideration.

ACT: Treasury Management
PROGRAM: State Treasurer
AGENCY: State Treasurer

1992-93 Biennial Budget

GOVERNOR'S RECOMMENDATION:

Recognizing the distinction between separate branches of government, the Governor respectfully acknowledges the right of the State Treasurer to present its budgetary needs directly to the Legislature for consideration.

DECISION ITEM: Information System

	Dollars in Thousands			
	<u>F.Y. 1992</u>	<u>F.Y. 1993</u>	<u>F.Y. 1994</u>	<u>F.Y. 1995</u>

AGENCY PLAN:

Expenditures					
General Fund	\$ 750	\$ -0-	\$ -0-	\$ -0-	\$ -0-
Revenues					
General Fund	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-

GOVERNOR'S RECOMMENDATION:

Expenditures					
General Fund	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-
Revenues					
General Fund	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-

Requires statutory change: _____ Yes X No
Statutes Affected:

ITEM SUMMARY:

The 1990 legislature appropriated \$25,000 to study the needs of the Treasurer's Information System. This request is a result of that study. This request is supported by the Information Policy Office, Intertechnologies Group and the Department of Human Services.

RATIONALE:

Estimated hardware costs are \$300,000 to \$350,000 and estimated software costs are \$400,000 to \$425,000. This System must be replaced because of its age and unreliability and also the Department of Human Services' "MAXIS Program" will increase the number of warrants processed by some 50% and the number of bank accounts by as much as 100%. See "Major Policy Drivers" section for full discussion. In addition, an updated system will save the General Fund and the Department of Human Services a minimum of \$300,000 annually in processing costs. This one-time appropriation will satisfy the needs of the Statewide accounting system, cash management, checks and balances and the Department of Human Services for years to come.

PROGRAM STRUCTUREAGENCY: ADMINISTRATION, DEPARTMENT OFPROGRAMPAGE

OPERATIONS MANAGEMENT

173

Risk Management
 Materials Management
 Travel Management
 Print Communications
 State Employee Assistance Program
 Minnesota Office on Volunteer Services

INTERTECHNOLOGIES GROUP

184

Information Services the Public Sector Buys
 Information Support for Agencies and the Public
 9-1-1
 STARS

PROPERTY MANAGEMENT

193

Real Estate Management
 Energy Conservation
 State Building Construction
 Building Codes and Standards
 Plant Management

ADMINISTRATIVE MANAGEMENT

200

Fiscal and Personnel Services
 Executive Support
 Public Broadcasting
 Minnesota Public Radio
 Twin Cities Regional Cable Channel
 Oil Overcharge

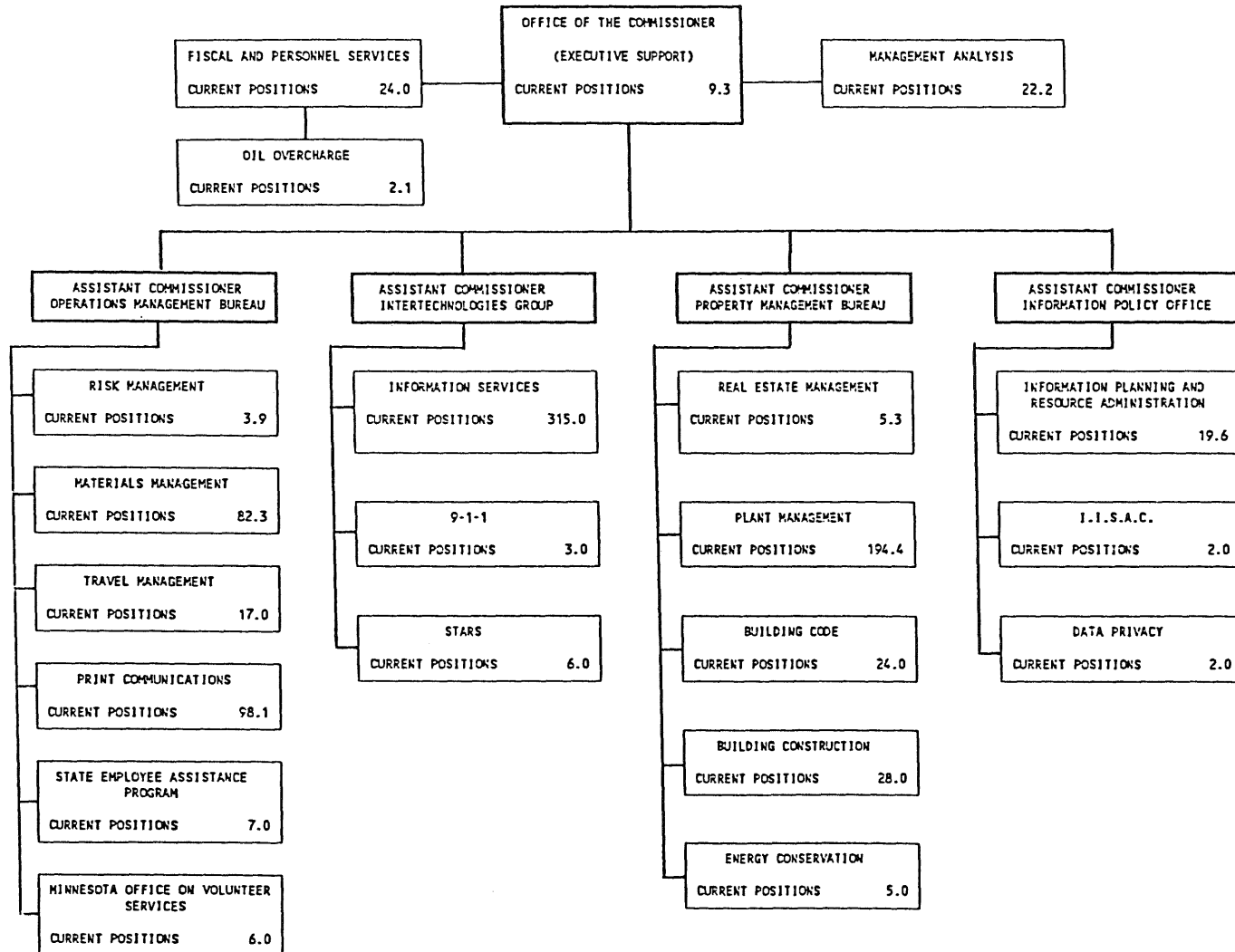
INFORMATION POLICY OFFICE

204

Information Planning and Resource Management
 Data Privacy
 Intergovernmental Information Systems (IISAC)

DEPARTMENT OF ADMINISTRATION

ORGANIZATION CHART
AT 09/30/90



DEPARTMENT OF ADMINISTRATION

POSITION AND EMPLOYEE STATUS INFORMATION

Position Reconciliation:		
Authority:	Current F.Y. 91	Requested For 6/30/93
Legislative Complement:		
General Fund	239.6	240.9
Special Revenue	22.1	24.2
Revolving	611.4	610.1
Gift	1.0	1.0
Budgetary Authorized		
Special Revenue	2.1	
Total Permanent Positions		
	876.2	876.2
Other Complement (FTE)		
	87.0	87.0
TOTAL Positions		
	963.2	963.2
Employees on 6/30/90		
	847.0	

Employees by Employment Status:	
	<u>6/30/90</u>
Full-Time Unlimited	750
Full-Time Temporary	64
Part-Time Unlimited	17
Part-Time Temporary	15
Intermittent Unlimited	1
TOTAL	
	847

MISSION:

The Minnesota Department of Administration (Admin) is the staff agency charged with managing the internal operations of the executive branch of Minnesota state government. It summarizes its purpose in the following mission statement:

We are proud to help meet citizens' needs by providing:

- Technology tools
- Management services
- Operations support
- Working environments

for our partners in Minnesota government.

In carrying out its mission, Admin creates value for taxpayers by helping line agency managers succeed at meeting their program goals. This outlook is part of a changing vision of staff agencies.

In the 1930s, a citizen-based reform movement developed the bureaucratic reform model of government operations which emphasized standardization, efficiency and oversight. Admin, like other staff agencies, was created to carry out the reform.

Over 50 years, the reform vision successfully organized executive branch operations and institutionalized government accountability to the public. But it also developed into a rigid model that cannot completely meet today's challenges. Admin is trying to modify that model to make government more responsive.

Government today operates in a new environment. Institutions, including government, have become larger and more complex. Technological advances have made standardization more cumbersome and customization more cost-effective. Consumers and citizens demand a higher level of accountability -- one that combines service and value.

Admin is working with line agency managers to transform the bureaucratic model of government into one that adapts to new public expectations of service and accountability.

Strategy

Admin strives to accomplish its mission of helping line agency managers by strategically dividing its leadership and service functions under a program called Enterprise Management. The program emphasizes the end product -- the needs of the customer. Accountability for both service and control functions are based on relationships with agency customers, legislators and the governor.

- **Leadership functions** are those which serve a broad public good and whose customers are the governor and the legislature. In its leadership functions, where traditional standards and procedures are necessary, Admin attempts to 'win' compliance through education and incentives rather than punitive sanctions. Leadership functions are paid for through general fund appropriations. To some extent, their performance determines their level of funding from the governor and the legislature. Other accountability relationships include input from agency groups such as:

1. the Information Policy Council, a group of state agency executives which helps establish policies and principles for information management and
2. the Information Policy Advisory Task Force of citizens, businesses, libraries, local governments, education and all 3 branches of government which advises on state information policy from the

citizen and service point of view.

- **Service Functions** have line agencies as primary customers and provide services such as printing, data processing, telephone service, vehicle leasing and management consulting. Through the use of revolving funds, services operate on the fees they generate. Services are further divided into 3 activities: marketplace, utilities, and cooperatives.

1. **Marketplace activities** operate most closely to a private business, operating on their revenues and competing in the open marketplace. Competition and customer satisfaction provide strong accountability.
2. **Utility activities** are "monopolies" much like consumers' water, electric and telephone services. These activities promote efficiency and economy of scale. Since these services are mandated, accountability is ensured through rate panels of customer representatives which determine utility fees. Customers also demonstrate their discretion through the amount of service they use, formalized through service level agreements.
3. **Cooperative activities** are a new category where several agencies see the advantage of jointly providing a service. This category is new and is represented by 2 groups: the InterTechnologies Board and the STARS Advisory Council.

Admin carries out its mission by strategically separating its leadership and service functions and by organizing into the following functional areas:

- **Management** -- the Management Analysis Division (MAD) has both leadership and service functions. Its leadership functions include developing and implementing statewide management and quality improvement programs such as the state's STEP (Strive Toward Excellence in Performance) program, preparing executive orders, and approving agency reorganizations. MAD's service activities include organizational development, management consulting, and legislative studies.
- **Property** -- Admin's Property Management Bureau provides a mix of leadership and service activities. It manages the state's building program, helps develop state building plans, manages the building and land in the Capitol complex, and is responsible for the state building code.
- **Information Policy** -- The Information Policy Office serves a leadership role by developing a statewide information architecture, preparing a strategic information plan, reviewing budgets for information systems, and interpreting and advising on the state's data practices law.
- **Technology** -- Admin's InterTechnologies Group provides an array of technology services to government agencies including data services; network development; telecommunications; and development, implementation and management of STARS (the Statewide Telecommunications Access and Routing System).
- **Operations** -- The Operations Management Bureau provides basic services to government agencies and to the public. They include purchasing, printing, operation of the state motor pool, travel management services, and risk management.

MAJOR POLICY DRIVERS:

Three major factors affect Admin's delivery of services and leadership responsibilities: management challenges, technological change and state policies.

Management Challenges

State government's major challenge of the 1990s will be how to effectively deliver state services with little or no new resources. As a leader in state management, Admin believes that the time has

come for a major new state effort to improve the productivity and quality of government services. In many instances, the best way to do this is to challenge the institutionalized way of doing things and propose innovations which replace those old ways with new efficiencies requiring no new resources.

Admin has sought to improve service delivery through its use of revolving funds in its Enterprise Management program. However, for the program to work most effectively, Admin service managers need more discretion to plan and react to changes in the market. In the area of pricing, for instance, service managers need more flexibility to respond to inflation, competition and outside pressures such as rising fuel costs, which could create a need for price increases. Conversely, investments in technology could create the opportunity for significant productivity and cost improvements which would lead to price decreases.

Another important issue is complement control. Admin's revolving funds play a key role in its separation of service and control functions. By making service activities operate on the revenues they generate, they become more accountable for the end product -- the needs of their customers. But Admin needs the tools to make revolving funds work most successfully. One recommendation is to relax complement control.

Through complement control, the legislature has expressed concern that unnecessary hiring might occur -- with negative effects on the budget. In an enterprise model, however, complement decisions are not made independently of the business activity. Rather, staff additions and reductions reflect the level of business activity. As business needs expand, staff increases may occur. As business activity falls, reductions may occur. Admin believes that for the enterprise model to work successfully, the complement for a revolving fund must have room to fluctuate as business demand rises and falls. Success and accountability should be measured by the quality of its services and health of the revolving fund rather than the number of employees.

Even in general fund activities, complement controls might be unnecessary when budgetary controls by the legislature and Department of Finance are already in place. If general fund managers could determine their own complement levels within their assigned budgets, they could more creatively restructure programs to help hold down budget increases.

Technological Change

During the 1980s, 2 developments changed the way organizations could link themselves together through telecommunications: federal deregulation of the telecommunications industry and rapid new developments in telecommunications technology such as fiber optics. Suddenly the state of Minnesota was forced to look at new ways to provide a statewide telecommunications system for government agencies. The result is STARS (Statewide Telecommunications Access and Routing System), a joint effort of Admin's InterTechnologies Group and the Higher Education Advisory Council.

STARS planning is now completed and Admin is ready to lease the new system. This project is a critical piece of the state infrastructure and has potential to stimulate economic development in Greater Minnesota. For the project to go forward, Admin will need cash flow money for the STARS fund until it can pay its own way -- and repay the cash flow investment. Admin's InterTechnologies Group is also involved in a project which exploits the potential of a new technology known as expert systems.

Expert systems are a promising branch of artificial intelligence which transfer the knowledge of an expert onto a computer software program. The program makes it possible for nonexperts to perform many of the same tasks as the expert -- and at the same high level of quality as the expert. The benefit to the state will be improved service at relatively low cost.

The expert systems project is part of a larger research program in the InterTechnologies group known as AllTech (Alliances for Technology Development). AllTech joins together state government and private companies in researching applications of new technology.

AllTech provides benefits for both the private sector and state government. For the private sector, companies are able to research and develop new products. For state government, we are able to benefit from the newest technologies that specifically address state needs, and we are able to develop the expertise of our employees. In some instances, the state may also receive some royalties from products it has jointly developed.

AllTech attempts to fund its projects through grants, loans and in-kind services from its private sector partners thus freeing up valuable state funds for other uses. While there are no specific requests for funding AllTech, there may be a need in the future to change statutes which restrict the state's ability to develop and market new products.

State Policies

During the next few years, a number of state policy goals will affect how Admin delivers its services and provides leadership as a staff agency.

Increased emphasis on the environment will expand state recycling programs already in place. In the past 2 years, Admin has established a statewide network for collection and disposal of recyclable products used by state agencies. Admin has also requested recycling plans from every major state agency and promoted awareness of recycling efforts. Despite its successes, the state recycling office is understaffed. Future recycling mandates will require additional staff and resources or a restructuring of existing programs.

Environmental and economic concerns will also affect state energy policy, as recent events in the Middle East have demonstrated. Admin is already a key player in the state's energy conservation efforts through its management of state buildings, commuter van pool and the state car fleet.

Admin's Energy Conservation Division has already helped cut energy use in state-owned buildings by 31.4% since 1973. That represents a \$60 million to \$80 million savings. As a lead agency in the Governor's Energy/Environmental Planning Team, Admin can be expected to request legislative changes and appropriations for energy programs that earn long-term state savings.

In the area of building management, Admin is developing a 10-year space plan for providing work and office space for state government. In St. Paul, the current ratio of state-owned vs. state-leased space is 40-to-60. Admin's plan is looking at reversing that ratio to 60-to-40. The plan addresses several major policy issues which will need legislative input including lease vs. build, lease-purchase vs. bonding, and the siting of state office space.

In another major policy area, Admin joined the legislature last year in creating the nation's first response to the U.S. Supreme Court's 1989 Croson decision. The Court's decision had eliminated Minnesota's 14-year-old purchasing set-aside program known as the SED (Socially and Economically Disadvantaged) program.

Admin's new Small Business Assistance Program for Economically Disadvantaged Businesses continues Minnesota's commitment to female- and minority-owned businesses. It also remedies past discrimination without setting quotas and serves as an economic development tool for small businesses throughout most of Greater Minnesota. By using the state's purchasing power to encourage social change, the new program supports Admin's mission of helping to meet citizens' needs.

EXPLANATION OF BUDGET ISSUES AND ALTERNATIVES:

The major budget issue is how Admin will respond if there is no salary supplement to cover the cost

of negotiated salary increases. If there is no salary supplement, the options available to Admin are lower levels of service, terminating lesser-priority programs, charging agencies for services not previously charged and laying off staff. These options are identified in more detail in the program narratives.

In any budget scenario, Admin's extremely low percentage of general fund activity magnifies the effects of general fund decisions. In the current biennium, only \$19.1 million of Admin's \$140 million budget is general fund money. Of that \$19.1 million, \$5.6 million goes to public broadcasting grants, local government grants and legislative rent. These are "pass through" monies controlled by the legislature. The balance of about \$13.5 million comprises less than 10% of Admin's total budget.

In addition, cuts in Admin's general fund activities often mean an increase in state agency expenditures. Admin's general fund activities are centralized functions that improve efficiency and cost-effectiveness. For instance, without the services of Admin's telecommunications analysts, each agency would face developing its own specifications and contracts for telecommunications services. Or without the services of Admin's Real Estate Management Division, each agency would need to develop building specifications and write and negotiate its own leases.

As a staff agency, Admin also has some broad coordinating responsibilities which are supported by the agency's Administrative Management program without appropriate funding. These responsibilities, which cross organizational lines, are often urgent administrative issues which arise and need a response.

Examples include the state's energy policy, security issues for state operations and insurance policies and environmental concerns such as the state's use of 2,4-D in lawn maintenance. Often, as in the case of state energy policies, there are significant long-term savings for properly funded and executed programs.

Throughout the Department of Administration's budget, there are pages highlighting the status of our revolving funds. The term "revolving funds" is used to include both enterprise funds and internal service funds. Definition of both funds appears below:

- **Internal Service Funds:** "A fund used to account for the financing of goods or services provided by 1 department or agency to other departments or agencies of the governmental unit, or to other governmental units, on a cost-reimbursement basis." Examples of internal service funds are travel management, motor pool, and plant management leases.
- **Enterprise Funds:** "A fund used to account for operations a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or b) where the governing body has decided that periodic determination of revenues earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes." The fund for documents or "Minnesota's Bookstore" in the Print Communications Division is an example of an enterprise fund.

All of these funds are accountable to their customers, primarily line agencies, for meeting needs cost-effectively. Funds are held accountable for quality service through meeting customer needs, competitive rates, and a financially viable fund. They are also accountable to the legislature and the governor for solvency and the public good.

Over the past 5 years, Admin has held the average increase of its revolving fund rates to 0.94%. At this same time, the consumer price index (urban wage earners) has increased 3.91%, and the general fund has increased by 5.70%. Between F.Y. 1990 and F.Y. 1991, rates decreased 4.48%.

This means that Admin's customers will pay approximately \$3.6 million less this year than they did in F.Y. 1990 for the same level of services. Factors that contributed to this performance include greater market share, increased productivity, and cost reductions.

Admin's revolving funds have revenues of approximately \$65 million, which represent nearly 46% of Admin's total budget.

Over the past few years, the department has placed heightened emphasis on continued improvement in the financial management of these funds and increasing the level of service expected by our customers. Through the introduction of what Admin calls the "enterprise management" program, our managers have been challenged to find new ways of being competitive with the marketplace, including the investigation of new markets and the development of new products. Enterprise management has introduced marketplace dynamics to the management of our revolving funds, including the use of the following strategies:

- Price comparisons with private sector providers of the same service,
- rate panels comprised of customers to review services and rates,
- service level agreements between the fund management and customers which specify what services the customer will receive at a specific rate based on the customer's demand, and
- innovative customer surveys designed to provide feedback to management.

Most of Admin's revolving funds were originally capitalized in 1979, with additional capital being provided to growing funds from time to time. No general funds have been added to these funds since 1987. The cash position of these funds generally remains very healthy, although the cash flow patterns vary from fund to fund. Good cash position is critical so ongoing business needs can be met, and bills can be paid promptly.

Because fund managers have been able to keep their rates low, one might think that necessary investments to keep business up to date have been delayed. On the contrary, Admin's revolving funds had major investments of \$18,250,748 in F.Y. 1989 and investments in F.Y. 1990 of approximately \$15,985,105. These investments include a new computer in the InterTechnologies Group and a new printing press in the Print Communications Division.

The summary pages for Admin's revolving funds are presented here to provide a complete view of Admin's budget.

1992-1993 B I E N N I A L B U D G E T
(DOLLARS IN THOUSANDS)

AGENCY: ADMINISTRATION,DPT OF

PROGRAM RESOURCE ALLOCATION:	FY 1989	FY 1990	Est. FY 1991	FY 1992			FY 1993		
				Adjusted Base	Agency Plan	Governor Recomm.	Adjusted Base	Agency Plan	Governor Recomm.
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
OPERATIONS MANAGEMENT	12,691	13,290	14,782	14,918	14,898	14,898	14,905	14,942	14,942
INTERTECHNOLOGIES GROUP	5,661	6,051	5,588	5,602	5,604	8,404	5,599	5,431	7,831
PROPERTY MANAGEMENT	8,571	11,434	9,803	10,011	10,021	10,021	10,060	10,125	10,125
ADMINISTRATIVE MANAGEMENT	12,446	8,328	4,238	4,537	4,541	3,370	4,534	4,567	3,396
INFORMATION POLICY OFFICE	1,221	1,730	1,655	1,643	1,686	1,686	1,641	1,704	1,704
MANAGEMENT ANALYSIS	1,174	1,390	1,342	1,350	1,311	1,311	1,349	1,319	1,319
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL EXPENDITURES BY PROGRAM	41,764	42,223	37,408	38,061	38,061	39,690	38,088	38,088	39,317
SOURCES OF FINANCING:									
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
DIRECT APPROPRIATIONS:									
GENERAL	16,006	20,796	20,044	20,697	20,697	22,326	20,724	20,724	21,953
SP REV DIRECT APPROP	1,617								
STATUTORY APPROPRIATIONS:									
GENERAL	95	76							
STATE GOVT SPEC REV		7,219	4,638	4,638	4,638	4,638	4,638	4,638	4,638
SPECIAL REVENUE	13,686	3,164	1,476	1,476	1,476	1,476	1,476	1,476	1,476
HGHWY USER TAX DISTR	1								
FEDERAL	758	1,742	980	980	980	980	980	980	980
WORKERS COMP SPECIAL	284	31							
NE MN ECONOMIC PROT	135	161							
AGENCY	8,828	8,708	10,198	10,198	10,198	10,198	10,198	10,198	10,198
GIFTS AND DEPOSITS	354	326	72	72	72	72	72	72	72
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL FINANCING	41,764	42,223	37,408	38,061	38,061	39,690	38,088	38,088	39,317

AGENCY: ADMINISTRATION, DPT OF

F.Y. 1991 Budget Reductions (Information Only)

Program Management Building Code

Reconciliation totals include internal service fund amounts which are not included on fiscal pages which follow.

**ACTIVITY
PROGRAM.**

1992-93 Biennial Budget

AGENCY: Administration, Department of

DECISION ITEM: Financial Inflationary Costs - Informational

AGENCY PLAN:	Dollars in Thousands			
	F.Y. 1992	F.Y. 1993	F.Y. 1994	F.Y. 1995
Expenditures				
General Fund - Inflation	\$ 385	\$ 570	\$ 570	\$ 570
- Reduction	(385)	(570)	(570)	(570)
	\$ -0-	\$ -0-	\$ -0-	\$ -0-
Revenues				
General Fund	\$ -0-	\$ -0-	\$ -0-	\$ -0-

Requires statutory change: _____ Yes X No
Statutes Affected:

ITEM SUMMARY:

This reduction is needed to fund salary and inflationary increases of 3.76% in F.Y. 1992 and 1.74% in F.Y. 1993.

RATIONALE:

1. Risk Management: A cut of \$18,000 would mean that a coordinated statewide effort for business continuation planning would be discontinued. Lack of this centralized coordination could affect the state's ability to plan for a speedy recovery of critical operations following a disaster.
2. Materials Management: A savings of \$7,300 annually can be achieved by limiting the advertising of bids to the State Register. Advertising used to also be purchased in the Legal Ledger and Commerce Daily, so vendors will have to either subscribe to the State Register or visit their county or local library.
3. Materials Management: An annual reduction of \$75,000 could be achieved by holding open 2 positions, one a purchasing agent which will reduce interaction with vendors to ensure timely delivery of supplies, materials, and other commodities. In addition there would be a reduction in auditing and training in the field. Holding the other position open will reduce our ability to operate the statewide computer purchasing system that is used by all state agencies. This will impede the ability of state agencies to get what they need in time and to receive the assistance they need regarding how to use the purchasing system.
4. Materials Management: An annual reduction of \$19,000 will eliminate student workers which will increase the response time involved in sending bids to vendors and in the handling of bid documents.
5. Minnesota Office on Volunteer Services: This cut of \$10,000 will reduce the office's ability to handle peak workloads by hiring temporary employees which will delay the response to requests from community organizations, state agencies, and other public and public sector customers. In addition, other forms of support to these customers will be reduced such as printed materials and contracted projects.
7. Employee Assistance Program: A cut of \$10,000 will eliminate Admin's contributions of supplies and materials to 2 employee health units.

7. State Building Construction: Two professional positions will be held open through the biennium for a savings of \$86,900 annually. This will increase the workload of management by transferring to them the scheduling duties of project work flow through the office, addressing of technical issues previously handled by the positions, and reducing time available for management to provide guidance, consultation and assistance to client agencies.
8. Energy Conservation: A reduction of \$15,465 each year of the biennium will cut in half the current effort for training the employees in energy conservation methods. This will mean that maintenance staff at facilities statewide may have less knowledge of updated energy conservation strategies.
9. Information Support for Agencies and the Public: Changing the Records Center from general to a revolving fund will save \$187,000 in general fund dollars by the second year of the biennium and will reduce costs to state agencies for storing records, since many records are now stored in premium, expensive office space rather than at storage rates.
10. Management Analysis Division: A cut of \$60,000 annually will be achieved by holding a position vacant. This will reduce the amount of general fund support provided to the Department of Administration by this activity, and will reduce funding for statewide productivity/quality improvement programs.
11. Executive Support: A reduction of \$50,000 annually can be achieved by holding a communications position open and reducing a variety of related line items such as printing and postage.
12. Telecommunications Analyst: A cut of \$34,000 annually can be achieved by holding open a telecommunications analyst position. This will reduce the amount of free consulting provided to state agencies who wish to modify their phone system, or otherwise restructure their communications system. Some agencies may have to use private sector consultants.

GOVERNOR'S RECOMMENDATION:

The Governor concurs with the agency's plan.

PROGRAM: Operations Management
Agency: Administration, Department of

1992-93 Biennial Budget

PROGRAM PURPOSE:

The Department of Administration Operations Management Bureau provides centralized operating support services to the agencies of state government. These services are provided as cost-effective alternatives to decentralized administrative services; as efficient and responsive ways to help other agencies accomplish their missions; as a means to take advantage of economies of scale; as measures of control and oversight for the legislature and the governor; as assurance that high public standards for fairness, openness, and ethics are maintained; and as a means to implement broad public policies and goals. Services are also offered directly to the Minnesota business community and to the public.

The bureau achieves this mission through programs that:

- competitively bid purchases, construction projects, and statewide volume purchase contracts in order to acquire quality products and services at the lowest possible prices while at the same time providing Minnesota businesses with fair and open access to the state's purchasing dollar;
- target purchases toward minority-owned, female-owned, and economically disadvantaged-area small businesses in order to remedy the effects of prior discrimination and to alleviate the impacts of low income and high unemployment;
- provide quality goods and services at low cost to political subdivisions by making state purchasing contracts available to them through the Cooperative Purchasing Venture;
- review and approve professional and technical services contracts in order to assure that proper open process and contract requirements have been followed;
- report and set standards for the management of fixed assets and consumable inventory in the state so that accountability for assets is assured and asset investment practices are cost-efficient;
- encourage recycling and create recycling markets by 1) creating and managing recycling services, 2) promoting recycling and the purchasing of recycled products, 3) providing technical assistance to recyclers and recycling activity managers, and 4) coordinating and creating partnerships with recycling programs at all levels of government and in the private sector;
- manage surplus property for maximum reuse, maximum return of value to the state, and minimum cost of purchase for agencies and citizens;
- provide office supplies to state offices at the lowest possible price and greatest convenience;
- manage the state's fleet of vehicles (with certain agency and system exceptions) for maximum cost-effectiveness by leasing vehicles at very low rates, reviewing private vehicle reimbursement, approving agency vehicle purchases, and matching the peaks and valleys of individual agency needs for maximum vehicle usage;
- assure the availability of the lowest possible commercial air travel costs and related hotel and car arrangements;
- reduce the number of vehicles driven by state employees to their worksites, and the associated energy consumption, by 1) providing vans for commuting and establishing the van pooling routes, 2) providing MTC buscards at a reduced rate to state employees, and 3) promoting the usage of both of these programs;
- provide state agencies with the expertise and printing services needed to produce quality printed documents at competitive prices;

- finance, market, distribute, and provide a return to the state on state agency publications;
- sell official publications, regional publications, and publicly maintained mailing lists to the public;
- provide efficient and cost-saving federal and interoffice mailing and addressing and inserting services;
- save state agencies money by leasing and selling electronic office equipment to state offices at low prices and assure office productivity by training and providing maintenance service on office equipment;
- manage the state's risk by 1) identifying risk management options and selecting the optimal risk management strategy, 2) self-insuring through the Risk Management Fund when purchased insurance policies are more expensive or not available, and 3) purchasing appropriate insurance when prices are reasonable and appropriate policies are available from dependable private companies;
- prepare state operations for a disaster by having disaster recovery plans in place so that the critical business of the state can continue;
- assist state employees to be as personally productive and healthy as possible by 1) confidentially diagnosing, referring and counseling employees whose personal emotional, physical, financial, and family difficulties interfere with their performance in the workplace, 2) advising and assisting managers and supervisors whose difficult or troubled employees detract from their performance in the workplace, 3) providing information and training on the most common stressors for individuals, including chemical abuse, and 4) promoting good health habits and lifestyles;
- enable and empower community organizations to accomplish their missions through the effective mobilization of volunteers;
- mobilize volunteers to address and resolve priority problems facing our communities and our state;
- provide leadership and supportive services that encourage, sustain, and expand volunteer programs, citizen participation efforts, and public/private partnerships that contribute to the quality of life in Minnesota;
- provide information, technical assistance, training, viability and networking that will result in increased utilization and more effective involvement of volunteers; and
- mobilize and effectively involve youth in volunteer community service in order to increase their self-esteem, divert youth from negative activities, supplement traditional modes of learning, and create life-long habits of volunteerism and civic service.

PERFORMANCE:

- In recent years, purchasing and contract activities have kept up with the growth in state spending, improved processing time, become more responsive to agency needs, and saved significant amounts of money by creating volume purchasing contracts. Despite these improvements, certain purchasing areas are not providing sufficient service to agencies in newly developing areas of emphasis in state government. Additional expertise and focus on high technology purchases and contracts are needed. Human service program areas are large expenditure areas where significant additional savings could be accomplished. Freight, packaging, product testing and assurance of product quality, technical specification development, and energy conservation are areas of expertise that are needed to provide additional savings across all purchases and contracts.

- Inventory management has recently implemented savings of \$50,000 per year on the reporting of fixed assets by converting from the mainframe-based program called FARMS to a decentralized PC-based approach. Costs have also been reduced by raising the dollar-value limits of assets which need to be reported. However, declining resources have required the reallocation of funds and have curtailed inventory field audits to help agencies manage their assets and to help maintain inventory management standards statewide.
- Levels of recycling and the emphasis on purchasing recycled products have increased. Over 1,550 tons of state-generated paper are now being annually recycled from the immediate St. Paul area. Offices in Greater Minnesota are now recycling or preparing to start soon. Many recycled products have been added to contracts for agencies and political subdivisions to purchase. Usage of recycled paper has increased substantially. However, the full potential of all of these areas has not yet been attained. More waste needs to be recycled, more recycled paper needs to be used, and more recycled products need to be used.
- Minnesota has led the way among all states in creating a targeted small business purchasing program for minority- and female-owned small businesses that responds to the requirements established by the Supreme Court in the Croson Case. Certification of small businesses has been centralized in Admin. Greater flexibility has been given to agencies as they seek to overcome the effects of prior discrimination by seeking proportional levels of purchasing for all targeted groups in all purchasing areas. It will take time to determine the effectiveness of this new program. Continuous outreach and education about targeted purchasing is necessary in order to reach more companies.
- There has been a marked increase in demand for additional passenger vehicles from state agencies. The department has been able to meet most of this demand and still maintain virtually the same low lease rate. Vehicle needs for new and expanded programs in the Lottery, Human Services, Corrections, and other agencies have been met. However, there are still some justified requests for state vehicles that are not being met, and this means that agencies are spending more on employee travel than is necessary.
- As the demand for printing grows in both volume and complexity, the State Print Shop balances maximizing the usage of state-owned equipment and meeting unique customer needs by utilizing a range of options for getting printing done. The State Print Shop is now financially sound. Increased usage of soybean-based ink and recycled paper provide a focus on environmentally sensitive printing. Productivity and responsiveness to customers are improved. Prices are competitive.
- The State Bookstore has built a successful program by offering a constantly growing customer base and expanding line of publications of relevance to their information needs. The store serves as a source of revenue for the general fund and has developed a range of options which allows state agencies to receive a financial return on the sale of their publications.
- Central Mail has handled a 25% increase in mail volume over the last 10 years with no increase in resources. Service levels have been maintained through creative use of resources. Now, with declining resources and without an additional mailhandler, both first class and third class mail will no longer be assured of being mailed out on the day received. As a result, citizens may not receive payments and information quickly, leaving agencies vulnerable to challenge from dissatisfied citizens.
- Since the advent of the Risk Management Program 4 years ago, state insurance and risk assessment matters are handled professionally. Vehicle liability is self-insured through the Risk Management Fund and costs less than 40% of what private insurance would cost. Previously

uninsured activities are either now self-insured or insured with purchased insurance. When the risk justifies the investment. However, state property and building contents are almost totally uninsured, and good business practice would dictate that the state not leave its property so exposed. Similarly, the state is not well-prepared to recover from a disaster. Disaster recovery and business continuation planning are needed to ensure that vital state services are not needlessly interrupted by uncontrollable events.

- Providing confidential services that have credibility has been the key to developing a successful State Employee Assistance Program (EAP). Usage of EAP in Greater Minnesota and in the metropolitan area has grown from 1.9% of the state workforce per year in 1984 to 4.9% of the workforce per year in 1990. State employees, managers and supervisors rely increasingly on EAP to assist employees in overcoming problems that affect their on-the-job performance. More than 57 different state departments, agencies, and boards requested assistance from EAP last year. The staff presented more than 200 workplace seminars to a total of 10,400 employees. These services are believed to reduce lost work days, increase worker effectiveness and job satisfaction, and encourage healthier lifestyles. Limited budget resources will reduce the availability of EAP services to employees in the next biennium.
- As societal needs increase and public revenues decrease, there is a need to return more responsibility to local communities and individuals. Administration's Minnesota Office on Volunteer Services has helped agencies, organizations, and communities effectively mobilize citizens for problem-solving and service delivery through information, networking, training, visibility, and advocacy relating to volunteerism and citizen participation.

PROSPECTS:

Purchasing and Contracts:

- State purchasing and contracting is becoming increasingly complex. The use of high technology products by all state agencies requires an increasing level of sophistication in the purchasing process. Development of good specifications requires knowledge of technology and high tech industries. Proposals and bids require a more exacting evaluation process. The volume and value of purchases are increasing significantly. The overlay of public policy requirements such as targeting small businesses, requiring affirmative action plans prior to bidding, using recycled products, distributing business throughout the state, and other requirements and expectations add demands to the purchasing process. In order to meet these needs additional expertise is needed. An appropriate way to meet this need and to ensure that state purchases provide the best product for agencies and the most product for the tax dollar is through a small surcharge on requisition and contract purchases.

Central Mail:

- The volume of state mail has grown 25% during the last decade to 30 million pieces per year. With only BASE level resources and without an additional mailhandler position, 1 of the following options will have to be implemented for Central Mail: a) reduce delivery service to 1 pickup/delivery per day, close the Human Services Building satellite mail center, and eliminating interoffice mail; or b) convert Central Mail to a revolving fund by charging for mail service.

Recycling:

- It is the intent of SCORE legislation and a Governor's Executive Order that the state have model recycling activities. In order to recycle additional commodities and to reach locations that are remote from the Capitol complex, a state material recovery facility is needed in the Capitol complex and cost subsidies, transportation networks, and storage opportunities are needed in Greater Minnesota. Providing funding for agencies' costs of containers, collection, and transportation statewide would increase the level of recycling.

PROGRAM: Operations Management
(Continuation)
Agency: Administration, Department of

1992-93 Biennial Budget

Market Development and Purchasing Recycled Products and Materials:

- In order to help develop markets for recyclable materials, reduce the demand for landfill space, and conserve resources public sector agencies are to purchase recycled and recyclable products and materials whenever practicable. In addition, purchasing practices should reduce waste by acquiring products and materials that are durable and repairable. This requires life-cycle costing and sophisticated use of weighting factors in developing specifications and evaluating bids. In order to accomplish these SCORE goals, a materials engineer is needed to handle the technical side of this purchasing. In addition, resources are needed to finance the life-cycle costing in purchasing study mandated in SCORE.

Insuring Property and Preparing to Continue Critical Operations After a Disaster:

- Chapter 506 of the Laws of 1990 repealed an obsolete provision of statute that prohibited the state from insuring property against losses except for in a limited number of exempted situations. It is important that the state now assess where it is important to insure property and to develop a strategy for providing that insurance. It is also important that the state prepare business continuation plans that prepare contingency plans for how critical state business operations will be put back into operation following a disaster. Admin will be addressing these questions during the upcoming biennium.

Employee Assistance:

- Employers are increasingly expected to respond to employee health and behavioral problems and to prevent future problems from occurring. Simultaneously, societal changes are increasing the number of troubled employees in the workforce. As a result, state agencies will become more reliant on employee assistance services to address these needs and to address the growing need for health education throughout the workplace.

PLAN:

Assuming normal inflation and negotiated salary increases, BASE level funding will mean that by the second year of the biennium the Operations Management Bureau will have to absorb a significant level of additional costs. This is not possible without significantly impacting current programs. Two proposals for addressing this shortfall without increasing general fund appropriations to the bureau would be to convert most of Central Mail and a significant portion of Materials Management to a revolving fund basis of operation. In Central Mail, this would be accomplished by adding a small surcharge to the postage billback to agencies. In Materials Management, this would be accomplished by adding a small value-added surcharge to each purchase done pursuant to state contract or material requisition.

Without a significant reduction in the funding gap, action to reduce operations and positions would be required. The likely impacts of absorbing inflation and salary increases are:

1. Risk Management: A cut of \$18,000 would mean that a coordinated statewide effort for business continuation planning would be discontinued. Lack of this centralized coordination could affect the state's ability to plan for a speedy recovery of critical operations following a disaster.
2. Materials Management: A savings of \$7,300 annually can be achieved by limiting the advertising of bids to the State Register. Advertising used to also be purchased in the Legal Ledger and Commerce Daily, so vendors will have to either subscribe to the State Register or visit their county or local library.

3. Print Communications: A reduction of \$40,000 can be achieved by limiting the number of times mail is delivered to state office locations. All buildings will see a reduction to 1 delivery a day from as many as 3 deliveries a day. This will mean that all agencies must plan their mail operations around the 1 pickup/delivery a day. The result will be delays in processing mail and a loss in the flexibility agencies presently have with regard to mail. All first class mail will not be dispatched to the federal postal system each day as is currently the case. There could be legal ramifications to slower mail delivery by state agencies.

4. Materials Management: Holding a position open will save \$40,000 but will reduce our ability to operate the statewide computer purchasing system that is used by all state agencies. This will impede the ability of state agencies to get what they need in time and to receive the assistance they need regarding how to use the purchasing system.

5. Materials Management: A reduction of \$24,000 will eliminate student workers which will increase the response time involved in sending bids to vendors and in the handling of bid documents.

6. Minnesota Office on Volunteer Services: This cut of \$10,000 will reduce the office's ability to handle peak workloads by hiring temporary employees which will delay the response to requests from community organizations, state agencies, and other public and public sector customers. In addition, other forms of support to these customers will be reduced such as printed materials and contracted projects.

7. Employee Assistance Program: A cut of \$10,000 will eliminate Admin's contributions of supplies and materials to 2 employee health units.

GOVERNOR'S RECOMMENDATION:

The Governor concurs with the agency's plan.

1992-1993 B I E N N I A L B U D G E T
(DOLLARS IN THOUSANDS)

AGENCY: ADMINISTRATION,DPT OF
PROGRAM: OPERATIONS MANAGEMENT

ACTIVITY RESOURCE ALLOCATION:	FY 1989	FY 1990	Est. FY 1991	FY 1992			FY 1993		
				Adjusted Base	Agency Plan	Governor Recomm.	Adjusted Base	Agency Plan	Governor Recomm.
RISK MANAGEMENT	141	134	147	149	136	136	148	137	137
MATERIALS MANAGEMENT	2,545	2,886	3,151	3,270	3,251	3,251	3,262	3,283	3,283
TRAVEL MANAGEMENT	196	445	221	221	221	221	221	221	221
PRINT COMMUNICATIONS	9,117	9,056	10,512	10,520	10,534	10,534	10,518	10,538	10,538
STATE EMPLOYEE ASSISTANCE PROGRAM	437	498	438	442	443	443	441	447	447
MINNESOTA OFFICE ON VOLUNTEER SERV	255	271	313	316	313	313	315	316	316
TOTAL EXPENDITURES BY ACTIVITY	12,691	13,290	14,782	14,918	14,898	14,898	14,905	14,942	14,942
DETAIL BY CATEGORY:									
STATE OPERATIONS	12,691	13,290	14,782	14,918	14,898	14,898	14,905	14,942	14,942
TOTAL EXPENDITURES BY CATEGORY	12,691	13,290	14,782	14,918	14,898	14,898	14,905	14,942	14,942
SOURCES OF FINANCING:									
DIRECT APPROPRIATIONS:									
GENERAL	3,757	4,254	4,501	4,637	4,617	4,617	4,624	4,661	4,661
STATUTORY APPROPRIATIONS:									
SPECIAL REVENUE	109	330	83	83	83	83	83	83	83
AGENCY	8,825	8,706	10,198	10,198	10,193	10,198	10,198	10,198	10,198
TOTAL FINANCING	12,691	13,290	14,782	14,918	14,898	14,898	14,905	14,942	14,942

REVOLVING FUND ACTIVITY - CENTRAL STORES
BUDGET ACTIVITY: MATERIALS MANAGEMENT
TYPE OF FUND: INTERMEDIATE SERVICE FUND

BUDGET ACTIVITY FISCAL SUMMARY - BIENNIAL BUDGET
PROGRAM: OPERATIONS MANAGEMENT

OPERATIONS DATA						FINANCIAL DATA		
	ACTUAL FY 1989	ACTUAL FY 1990	ESTIMATED FY 1991	PROJECTED			ACTUAL FY 1989	ESTIMATED FY 1991
				FY 1992	FY 1993			
OPERATING REVENUES:						ASSETS:		
NET SALES	4,371	4,915	4,899	5,940	7,425	CURRENT ASSETS:		
LESS: COST OF SALES	3,518	3,948	4,008	4,945	6,181	CASH	269	222
GROSS PROFIT ON SALES	853	966	871	995	1,244	OTHER CURRENT ASSETS	834	874
OTHER REVENUE	0	0	0	0	0	TOTAL CURRENT ASSETS	1,103	1,047
NET REVENUES	853	966	871	995	1,244	NON-CURRENT ASSETS:	60	58
LESS: OPERATING EXPENSES:						TOTAL ASSETS	1,163	1,105
SALARIES	398	472	452	496	519	LIABILITIES & FUND EQUITY		
SUPPLIES & EXPENSES	224	310	332	531	549	LIABILITIES:		
INTEREST EXPENSE	0	0	0	0	0	CURRENT LIABILITIES:		
INDIRECT COSTS	112	125	137	157	165	DUE GENERAL FUND - CURRENT	0	0
AMORTIZATION & DEPRECIATION	8	7	7	10	10	MASTER LEASE - CURRENT	0	0
TOTAL OPERATING EXPENSES	741	915	928	1,195	1,242	OTHER CURRENT LIABILITIES	253	200
OPERATING INCOME (LOSS)	112	51	(57)	(199)	2	TOTAL CURRENT LIABILITIES	253	200
NON-OPERATING REVENUES (EXPENSE)	0	0	0	0	0	NON-CURRENT LIABILITIES:		
NET INCOME (LOSS)	112	51	(57)	(199)	2	DUE GENERAL FUND - NON-CURRENT	0	0
BEGINNING RETAINED EARNINGS	102	214	265	208	9	MASTER LEASE NON-CURRENT	0	0
PRIOR PERIOD ADJUSTMENT	0	0	0	0	0	OTHER NON-CURRENT LIABILITIES	5	6
ENDING RETAINED EARNINGS	214	265	208	9	11	TOTAL NON-CURRENT LIABILITIES	5	6
FOOTNOTES TO STATEMENTS:						TOTAL LIABILITIES	259	206
32 & 93 biennial numbers are per mgmt.						FUND EQUITY:		
Assumptions: 1) Expansion, add'l staff, automation/.						CONTRIBUTED CAPITAL	691	691
FY92 & 93 sales increase is due to expansion, primarily computer paper.						RETAINED EARNINGS	214	265
Rate charges: % Inc (-Dec)	(9.30%)	(8.00%)	(1.37%)	0.00%	0.00%	TOTAL FUND EQUITY	905	899
Rates - markup	25.0%	23.0%	22.0%	22.0%	22.0%	TOTAL LIABILITIES & FUND EQUITY	1,163	1,105
Five year average increase (decrease):	(3.73%)							

OPERATIONS DATA

FINANCIAL DATA

	PROJECTED					ACTUAL FY 1989	ACTUAL FY 1990	ESTIMATED FY 1991
	ACTUAL FY 1989	ACTUAL FY 1990	ESTIMATED FY 1991	FY 1992	FY 1993			
OPERATING REVENUES:								
NET SALES	3,563.1	3,858.2	4,318.3	4,534.2	4,760.9			
LESS: COST OF SALES	0.0	0.0	0.0	0.0	0.0			
GROSS PROFIT ON SALES	3,563.1	3,858.2	4,318.3	4,534.2	4,760.9			
OTHER REVENUE	44.0	64.4	50.4	60.0	60.0			
NET REVENUES	3,607.1	3,922.6	4,368.7	4,594.2	4,820.9			
LESS: OPERATING EXPENSES:								
SALARIES	498.3	487.8	527.0	553.3	581.0			
SUPPLIES & EXPENSES	1,313.7	1,623.4	1,650.3	1,933.3	2,172.4			
INTEREST EXPENSE	243.9	303.2	518.2	500.0	500.0			
INDIRECT COSTS	155.2	144.4	159.4	160.0	160.0			
AMORTIZATION & DEPRECIATION	1,611.3	1,639.7	2,214.2	2,000.0	2,000.0			
TOTAL OPERATING EXPENSES	3,822.4	4,198.5	5,069.1	5,152.6	5,413.4			
OPERATING INCOME (LOSS)	(215.3)	(275.9)	(700.4)	(558.4)	(592.5)			
NON-OPERATING REVENUES (EXPENSE)	344.9	386.7	548.2	560.0	560.0			
NET INCOME (LOSS)	129.6	110.8	(152.2)	1.6	(32.5)			
BEGINNING RETAINED EARNINGS	54.9	184.5	295.3	143.1	144.7			
PRIOR PERIOD ADJUSTMENT	0.0	0.0	0.0	0.0	0.0			
ENDING RETAINED EARNINGS	184.5	295.3	143.1	144.7	112.2			
FOOTNOTES TO STATEMENTS:								
Rate changes: % Inc (Dec):	(1.14%)	(1.26%)	0.72%	5.00%	5.00%			
Five year average increase/(decrease):	1.66%							
						ASSETS:		
						CURRENT ASSETS:		
						CASH	430.7	352.1
						OTHER CURRENT ASSETS	577.1	858.0
						TOTAL CURRENT ASSETS	1,007.8	1,210.1
						NON-CURRENT ASSETS:	4,384.5	7,869.2
						TOTAL ASSETS	5,392.3	9,079.3
						LIABILITIES & FUND EQUITY		
						LIABILITIES:		
						CURRENT LIABILITIES		
						DUE GENERAL FUND - CURRENT	1,023.4	1,087.4
						MASTER LEASE - CURRENT	1,741.9	2,434.2
						OTHER CURRENT LIABILITIES	168.6	672.7
						TOTAL CURRENT LIABILITIES	2,933.9	4,194.3
						NON-CURRENT LIABILITIES		
						DUE GENERAL FUND - NON-CURRENT	95.1	242.4
						MASTER LEASE NON-CURRENT	2,263.4	3,843.7
						OTHER NON-CURRENT LIABILITIES	7.4	1.6
						TOTAL NON-CURRENT LIABILITIES	2,371.9	4,087.7
						TOTAL LIABILITIES	5,305.8	8,282.0
						FUND EQUITY:		
						CONTRIBUTED CAPITAL	502.0	502.0
						RETAINED EARNINGS	184.5	295.3
						TOTAL FUND EQUITY	686.5	797.3
						TOTAL LIABILITIES & FUND EQUITY	5,992.3	9,079.3

* Difference due to rounding.

BUDGET ACTIVITY: COMPUTER VAN FUND
TYPE OF FUNDS: ENTERPRISE FUNDS

BUDGET ACTIVITY FISCAL SUMMARY - BIENNIAL BUDGET 90 - 91
PROGRAM: OPERATIONS MANAGEMENT

AGENCY: ADMINISTRATION

OPERATIONS DATA

FINANCIAL DATA

	PROJECTED							
	ACTUAL FY 1989	ACTUAL FY 1990	ESTIMATED FY 1991	FY 1991	FY 1992	ACTUAL FY 1989	ACTUAL FY 1990	ESTIMATED FY 1991
OPERATING REVENUES:						ASSETS:		
NET SALES	133.1	121.9	121.9	127.0	127.0	CURRENT ASSETS:		
LESS: COST OF SALES	0.0	0.0	0.0	0.0	0.0	CASH		
GROSS PROFIT ON SALES	133.1	121.9	121.9	127.0	127.0	98.0	82.3	93.6
OTHER REVENUE	0.0	0.0	0.0	0.0	0.0	13.7	18.5	0.9
NET REVENUES	133.1	121.9	121.9	127.0	127.0	TOTAL CURRENT ASSETS		
LESS: OPERATING EXPENSES:						111.7	100.8	94.5
SALARIES	18.3	20.7	20.4	21.5	22.5	NON-CURRENT ASSETS:		
SUPPLIES & EXPENSES	54.1	54.1	51.2	59.2	64.8	236.4	232.4	232.3
INTEREST EXPENSE	0.7	0.0	0.0	0.0	0.0	TOTAL ASSETS		
INDIRECT COSTS	4.6	4.0	4.2	4.2	4.2	348.1	333.2	326.8
AMORTIZATION & DEPRECIATION	44.2	51.3	53.1	53.8	48.9	LIABILITIES & FUND EQUITY		
TOTAL OPERATING EXPENSES	121.9	130.1	128.9	138.7	140.4	LIABILITIES:		
OPERATING INCOME (LOSS)	11.2	(8.2)	(7.0)	(11.7)	(13.4)	CURRENT LIABILITIES		
NON-OPERATING REVENUES (EXPENSE)	13.1	14.2	13.5	13.5	13.5	DUE GENERAL FUND - CURRENT		
NET INCOME (LOSS)	24.3	6.0	6.5	1.8	0.1	0.0	0.0	0.0
BEGINNING RETAINED EARNINGS	58.7	83.0	89.0	95.5	97.3	MASTER LEASE - CURRENT		
PRIOR PERIOD ADJUSTMENT	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
ENDING RETAINED EARNINGS	83.0	89.0	95.5	97.3	97.4	OTHER CURRENT LIABILITIES		
FOOTNOTES TO STATEMENTS:						11.6	8.5	8.5
Rate changes: % Inc (Dec):	0.00%	0.00%	(37.58)%	0.00%	0.00%	TOTAL CURRENT LIABILITIES		
Five year average increase/(decrease):	(7.52)%					11.6	8.5	8.5
						NON-CURRENT LIABILITIES		
						DUE GENERAL FUND - NON-CURRENT		
						0.0	0.0	0.0
						MASTER LEASE NON-CURRENT		
						0.0	0.0	0.0
						OTHER NON-CURRENT LIABILITIES		
						0.2	0.1	0.1
						TOTAL NON-CURRENT LIABILITIES		
						0.2	0.1	0.1
						TOTAL LIABILITIES		
						11.8	8.6	8.6
						FUND EQUITY:		
						CONTRIBUTED CAPITAL		
						200.1	200.1	200.1
						SPECIAL REVENUE FUND - NET		
						53.2	35.5	22.5
						RETAINED EARNINGS		
						83.0	89.0	95.5
						TOTAL FUND EQUITY		
						336.3	324.6	318.1
						TOTAL LIABILITIES & FUND EQUITY		
						348.1	333.2	326.7

* Difference due to rounding.

----- OPERATIONS DATA -----

----- FINANCIAL DATA -----

	PROJECTED					FINANCIAL DATA		
	ACTUAL FY 1989	ACTUAL FY 1990	FY 1991	FY 1992	FY 1993	ACTUAL FY 1989	ESTIMATED FY 1990	ESTIMATED FY 1991
OPERATING REVENUES:						ASSETS:		
NET SALES	5,709	5,799	6,187	6,490	6,800	CURRENT ASSETS:		
LESS: COST OF SALES	4,890	5,054	5,373	5,640	5,920	CASH		
GROSS PROFIT ON SALES	819	745	814	850	880	713	890	905
OTHER REVENUE	1	0	0	0	0	1,105	1,071	1,060
NET REVENUES	820	745	814	850	880	1,818	1,961	1,965
LESS: OPERATING EXPENSES:						TOTAL CURRENT ASSETS		
SALARIES	264	268	327	342	357	497	524	500
SUPPLIES & EXPENSES	98	170	259	270	302	NON-CURRENT ASSETS:		
INTEREST EXPENSE	26	24	20	13	5	TOTAL ASSETS		
INDIRECT COSTS	130	144	181	220	230	2,315	2,485	2,465
AMORTIZATION & DEPRECIATION	4	13	26	27	28	LIABILITIES & FUND EQUITY		
TOTAL OPERATING EXPENSES	522	619	813	872	922	LIABILITIES:		
OPERATING INCOME (LOSS)	298	126	1	(22)	(42)	CURRENT LIABILITIES		
NON-OPERATING REVENUES (EXPENSE)	(17)	36	0	0	0	DUE GENERAL FUND - CURRENT	420	13
NET INCOME (LOSS)	281	162	1	(22)	(42)	MASTER LEASE - CURRENT	93	86
BEGINNING RETAINED EARNINGS	(147)	134	296	297	275	OTHER CURRENT LIABILITIES	763	444
PRIOR PERIOD ADJUSTMENT	0	0	0	0	0	TOTAL CURRENT LIABILITIES	1,276	543
ENDING RETAINED EARNINGS	134	296	297	275	233	NON-CURRENT LIABILITIES		
FOOTNOTES TO STATEMENTS:						DUE GENERAL FUND - NON-CURRENT	49	36
Rate changes: % Inc (Dec):	1.60%	1.60%	0.00%	3.50%	3.50%	MASTER LEASE NON-CURRENT	242	157
Five year average increase/(decrease):	2.04%					OTHER NON-CURRENT LIABILITIES	40	88
						TOTAL NON-CURRENT LIABILITIES	331	281
						TOTAL LIABILITIES	1,607	824
						FUND EQUITY:		
						CONTRIBUTED CAPITAL	573	1,365
						RETAINED EARNINGS	134	296
						TOTAL FUND EQUITY	707	1,661
						TOTAL LIABILITIES & FUND EQUITY	2,314	2,485

* Difference due to rounding.

AGENCY: ADMINISTRATION

OPERATIONS DATA

FINANCIAL DATA

PAGE 181

OPERATIONS DATA

FINANCIAL DATA

	PROJECTED					ESTIMATED		
	ACTUAL FY 1989	ACTUAL FY 1990	FY 1991	FY 1992	FY 1992	ACTUAL FY 1987	FY 1988	FY 1989
OPERATING REVENUES:						ASSETS:		
NET SALES	1,845	1,863	1,813	1,875	1,950	CURRENT ASSETS:		
LESS: COST OF SALES	736	746	684	701	723	CASH		
GROSS PROFIT ON SALES	1,109	1,117	1,129	1,174	1,221	603	454	524
OTHER REVENUE	0	0	0	0	0	485	374	378
NET REVENUES	1,109	1,117	1,129	1,174	1,221	TOTAL CURRENT ASSETS		
LESS: OPERATING EXPENSES:						1,088	828	902
SALARIES	626	683	647	676	707	NON-CURRENT ASSETS:		
SUPPLIES & EXPENSES	366	364	340	357	359	73	170	140
INTEREST EXPENSE	0	0	0	0	0	TOTAL ASSETS		
INDIRECT COSTS	51	61	75	90	110	1,161	998	1,042
AMORTIZATION & DEPRECIATION	25	47	40	42	44	LIABILITIES & FUND EQUITY		
TOTAL OPERATING EXPENSES	1,068	1,155	1,102	1,165	1,220	LIABILITIES:		
OPERATING INCOME (LOSS)	41	(38)	27	9	1	CURRENT LIABILITIES		
NON-OPERATING REVENUES (EXPENSE)	0	6	9	10	11	DUE GENERAL FUND - CURRENT		
NET INCOME (LOSS)	41	(32)	36	19	12	0	0	0
BEGINNING RETAINED EARNINGS	282	323	291	327	346	MASTER LEASE - CURRENT		
PRIOR PERIOD ADJUSTMENT	0	0	0	0	0	343	212	220
ENDING RETAINED EARNINGS	323	291	327	346	358	OTHER CURRENT LIABILITIES		
FOOTNOTES TO STATEMENTS:						343	212	220
Rate changes: increase/(decrease):	(0.68%)	0.00%	3.75%	2.00%	2.00%	TOTAL CURRENT LIABILITIES		
Five year average increase/(decrease):	1.41%					0	0	0
Rate figures apply only to the State Register portion of Documents.						NON-CURRENT LIABILITIES		
						DUE GENERAL FUND - NON-CURRENT		
						0	0	0
						MASTER LEASE - NON-CURRENT		
						0	0	0
						OTHER NON-CURRENT LIABILITIES		
						0	0	0
						TOTAL NON-CURRENT LIABILITIES		
						0	0	0
						TOTAL LIABILITIES		
						343	212	220
						FUND EQUITY:		
						CONTRIBUTED CAPITAL		
						495	495	495
						RETAINED EARNINGS		
						323	291	327
						TOTAL FUND EQUITY		
						818	786	822
						TOTAL LIABILITIES & FUND EQUITY		
						1,161	998	1,042

BUDGET ACTIVITY: CENTRAL MAIL
TYPE OF FUND: INTERNAL SERVICE FUND

BUDGET ACTIVITY FISCAL SUMMARY - BIENNIAL BUDGET
PROGRAM: OPERATIONS MANAGEMENT

AGENCY: ADMINISTRATION

----- OPERATIONS DATA -----

----- FINANCIAL DATA -----

	ACTUAL FY 1989	ACTUAL FY 1990	PROJECTED				ACTUAL FY 1989	ESTIMATED FY 1990	ESTIMATED FY 1991
			FY 1991	FY 1992	FY 1993				
OPERATING REVENUES:						ASSETS:			
NET SALES	287	283	275	312	355	CURRENT ASSETS:			
LESS: COST OF SALES	0	0	0	0	0	CASH	50	45	70
GROSS PROFIT ON SALES	287	283	275	312	355	OTHER CURRENT ASSETS	34	46	55
OTHER REVENUE	0	0	0	0	0	TOTAL CURRENT ASSETS	84	91	125
NET REVENUES	287	283	275	312	355	NON-CURRENT ASSETS:	76	61	43
LESS: OPERATING EXPENSES:						TOTAL ASSETS	160	152	168
SALARIES	199	217	234	245	256	LIABILITIES & FUND EQUITY			
SUPPLIES & EXPENSES	30	35	37	45	53	LIABILITIES:			
INTEREST EXPENSE	2	1	0	0	0	CURRENT LIABILITIES			
INDIRECT COSTS	19	15	18	20	25	DUE GENERAL FUND - CURRENT	0	0	0
AMORTIZATION & DEPRECIATION	16	16	16	18	18	MASTER LEASE - CURRENT	13	13	0
TOTAL OPERATING EXPENSES	266	284	305	328	352	OTHER CURRENT LIABILITIES	21	26	15
OPERATING INCOME (LOSS)	21	(1)	(30)	(16)	3	TOTAL CURRENT LIABILITIES	34	39	15
NON-OPERATING REVENUES (EXPENSE)	2	1	3	0	0	NON-CURRENT LIABILITIES			
NET INCOME (LOSS)	23	0	(27)	(16)	3	DUE GENERAL FUND - NON-CURRENT	0	0	0
BEGINNING RETAINED EARNINGS	20	43	43	16	0	MASTER LEASE NON-CURRENT	13	0	0
PRIOR PERIOD ADJUSTMENT	0	0	0	0	0	OTHER NON-CURRENT LIABILITIES	3	3	3
ENDING RETAINED EARNINGS	43	43	16	0	3	TOTAL NON-CURRENT LIABILITIES	16	3	3
FOOTNOTES TO STATEMENTS:						TOTAL LIABILITIES	50	42	18
						FUND EQUITY:			
RATE INCREASE (DECREASE)	7.14%	7.39%	3.45%	6.50%	6.50%	CONTRIBUTED CAPITAL	67	67	134
5 YEAR AVERAGE	6.20%					RETAINED EARNINGS	43	43	16
						TOTAL FUND EQUITY	110	110	150
						TOTAL LIABILITIES & FUND EQUITY	160	152	168

* Difference due to rounding.

PROGRAM: InterTechnologies Group
Agency: Administration, Department of

1992-93 Biennial Budget

PROGRAM PURPOSE:

The InterTechnologies Group of the Department of Administration is in the business of working with the public sector to satisfy their diverse information services needs. The mission remains "to provide results from information assets that our customers value."

InterTech provides services and support to the public sector including state agencies, the legislature, K-12 education, higher education, cities and counties, public corporations, the courts, and libraries. Our largest processing customers are the departments of Revenue, Public Safety, and Human Services. Our largest telecommunications customers are the State University System, the departments of Natural Resources and Human Services.

InterTech has emphasized being more customer-driven in approach, and the results to-date are excellent. We recognize the need our customers have to evaluate the trade-off between quality and price and to be able to decide what kind of service they can afford. We also take seriously the obligation to stop a line of business that warrants no further support.

Our goals are to continue acting as a shared resource for our customers, to participate in joint decision making with them and to continue satisfying their information services needs. Our strength lies not only in our flexibility to meet their changing needs within a climate of rapid technological change, but also in our ability to respond to their diverse information service requests.

- Information services the public sector buys include: shared processing, network, electronic and voice mail, communications systems and facilities, and micrographics. These revolving fund services recover 90% of total InterTech expenses. Customers and InterTech continuously evaluate whether the cost, benefit, and method of service presents the optimum business solution.

Statewide Telecommunications Access and Routing System (STARS) -- delivering a combined voice, data, and video telecommunications network for the public sector -- beginning phased implementation in F.Y. 1992. Very simply, the goal is to provide a platform for effective, efficient, and affordable information exchange. This service will be paid for by its users on a usage basis. The legislature has yet to determine whether it also wishes to invest in STARS beyond its customers' current needs in order to provide communication highways for the state's future in a global marketplace.

The requirement to provide solutions that optimize and fully leverage technology requires InterTech to focus on applying and integrating emerging technology. Decisions to offer new services are made only after customer input indicates a need. To support innovation, Alliances for Technology Development (AllTech) is setting a framework for joint development or application of new technology by government organizations and private sector firms.

- Information support for agencies and the public includes:

Telephone Communications Center -- delivering public information and telephone referral services, teleconferencing, legislative in-wats, the state directory, and operations and support of communication systems.

Telecommunications Analysts -- providing expertise to plan, design, and implement communications solutions and statewide telecommunications contracts; and partner with telephone companies so that the state's needs are met, often influencing plans to upgrade infrastructure technology (especially in Greater Minnesota), which also benefits the local community.

Records Center -- delivering off-site records storage that saves more expensive office space.

The state's 9-1-1 Program is funded through a special revenue fund derived from a statewide telephone surcharge. This activity sets standards for 9-1-1 technical configurations, provides technical assistance to local government 9-1-1 systems and pays the state's share of 9-1-1 costs. This activity recovers 7% of total InterTech expenses, while the other 3 above represent 3% of InterTech's budget, appropriated from the general fund.

PERFORMANCE:

1. Information Services

Computer Services:

- Overall rate decrease in each of the past 3 years indicates an ongoing ability to leverage the shared technology environment.

Percent of Rate Decrease: F.Y. 1989 - (5%) F.Y. 1990 - (8%) F.Y. 1991 - (4%)

Retained earnings of \$6 million resulting from increased customer demand have been returned to customers. Maintained systems stability and availability while processing annual volume increases range from 12% to 58%. Performance factors such as response time and systems availability are now monitored, reported, and managed using agreed-to service objectives customized to each agency's needs.

	1989	1990	-----Projections-----		
	1991	1992	1993		
Number of Monthly Online Transactions (millions)	9	12	19	26	29

- The speed and ease of day-to-day office communication is improved among government and its customers by the installation of voice and electronic mail using existing telephones, terminals, and personal computers. Since implementation in 1987, the customer base has increased consistently to 2,300 subscriptions in over 40 agencies.
- Approximately 60-70% of the 7,000 monthly customer problem calls are resolved by the Help Desk within 3 to 5 minutes. The remainder are referred to a second level of support and monitored until resolved to the customer's satisfaction.

Telecommunications Services:

- F.Y. 1991 overall rate decrease of 18% after several years of rate increases.

Percent of Rate Change: F.Y. 1989 - 9% F.Y. 1990 - 8% F.Y. 1991 - (18%)

- On target for paying back the deficit incurred while transitioning long distance calls from a general fund to a revolving fund activity.

Micrographics Services:

- Rates have declined over the past 3 years. Rates are comparable or less than outside micrographic services -- while service is better because additional services are offered (such as microfilm storage).

Percent of Rate Decrease: F.Y. 1989 - (4%) F.Y. 1990 - (2%) F.Y. 1991 - 0%

STARS:

- Performance will be measured when phased implementation begins in F.Y. 1992.

- Request for Proposal (RFP) developed based on comprehensive understanding of public sector communications needs.
- RFP sent to vendors 2nd quarter F.Y. 1991 with responses expected from vendors by 4th quarter F.Y. 1991.

2. Information Support

Telecommunications:

- Frequently the public's first point of contact, the Communications Center's staff of 6 operators process 7,000 calls daily. In addition, the Customer Service Unit processes 3,500 agency service requests and 18,000 telephone feature changes annually. Management goals are to maintain an average speed of answer of 5 seconds; to process service requests within 3 days; and to respond to accuracy and service complaints within 24 hours.
- Telecommunications Analysts assure that agency needs are met with the most innovative and affordable telecommunications solutions, done at a cost less than agencies could do themselves. Agencies rarely have the resources to maintain separate voice communications staff who can stay current with the rapidly changing technical environment. Bid specifications and evaluation criteria are clear, which eliminates time-consuming questions and project re-bids. Our custom Centron costs are at least 50% less than for neighboring states.

Records Center:

- Agencies save \$675,000 annually by using less expensive record storage and save a total of \$1,500,000 by not investing in added file cabinets.

9-1-1:

- 99.97% of Minnesota citizens have 9-1-1 service available to them.

PROSPECTS:

A major challenge, today and in the future, is to cost-effectively manage an increasingly complex technical environment. Simple shared processing is being replaced by a myriad of shared, networked, integrated, and interconnected technology solutions that incorporate data, voice, and potentially image technology. To manage and continuously improve this challenging environment, InterTech finds it necessary to:

- Actively involve its customer community in decision-making. Groups such as the InterTech Board, the MIS Directors Group, the Telecommunications Rate Panel, and the STARS Advisory Council provide an essential forum for communication and learning as well as joint decision-making.
- Focus on the cost side of the improvement equation. A Cost and Service Management Study, sponsored by InterTech and its Board in F.Y. 1991, has the goal of determining how to decrease, avoid, and contain the cost of data processing to the Minnesota taxpayer both at InterTech and at its major customers. Improved financial reporting also makes it possible for InterTech cost pool managers to be accountable for both the production and cost of a service.
- Continue to commit resources to learning the technical and practical side of emerging technologies. This fulfills InterTech's responsibility to sort through the vast amount of rapidly

developing new technology and work with customers to identify those technologies at present cost-effective alternatives or opportunities.

- Improve the speed with which shared processing and network capabilities can be recovered in case of disaster. The current physical disaster recovery plan requires 2 months for recovery. This is too long given the dependency of the state on these capabilities to perform necessary public services (i.e., public safety, public assistance distributions, etc.). We are implementing an upgraded plan to solve this critical problem. Increased emphasis on disaster recovery throughout the public sector may cause an otherwise stable volume of micrographics service to increase.
- Focus on implementing STARS and working with customers to better utilize communications technology in support of their programs. STARS will: 1) provide easy access to reliable data communications facilities; 2) provide a teleconferencing alternative to travel for meetings; 3) deliver a communications structure that enables data processing systems to interoperate and supplies the building blocks so customers can evolve toward open systems for data sharing; 4) make public access to public services more readily available, (example: interconnecting regional video systems to provide equal access to learning for students in all Minnesota locations); and 5) help contain the costs for telecommunications services supporting existing and new applications. STARS, with additional investment, could also promote development of communications infrastructure needed to keep all Minnesota sectors competitive.
- Continue to address the demand for assistance in determining the wiring (voice, data, and video) needs for new and existing state-owned and leased buildings as well as developing specifications to be included in requests for bids. This activity is expected to triple in the next biennium.
- Respond to the agencies' increasing statewide telecommunications needs for complex solutions such as integration of voice and data at the desk, such as voice response automation linked to a computer to provide citizens individualized answers to questions, and for innovative technologies to meet their public's demands.
- Encourage effective use of the Records Center as a low cost option for record storage. Microfilming also improves records management by replacing the costly need to store bulky records with a storage medium that takes up little space and assures long-term readability of the documents.
- Support the rising public expectations for improved 9-1-1 services throughout the state. In addition to 9-1-1 maintenance, efforts will be directed toward getting 9-1-1 to the few Minnesotans served by out-of-state telephone exchanges, and upgrading existing systems to provide faster and more efficient service, such as the upgrade to on-line address identification in rural areas.

PLAN:

InterTech plans to continue to closely manage its resources to deliver the essential technology/information services during the biennium.

Computer Services:

- InterTech plans to keep rates stable, make customer costs predictable and use resources generated by these businesses to develop whatever added services the customer marketplace requires.

Telecommunications Services:

- InterTech will continue to negotiate the best volume rates possible and make available the services requested by its customers.
- An average customer using a combination of voice long distance/800 service, local service, and

PROGRAM: InterTechnologies Group
(Continuation)
Agency: Administration, Department of

1992-93 Biennial Budget

data lines should experience flat or slightly lower rates during the biennium. This assumes that the customer continues the same type of service. Customers planning to upgrade their service, especially their data service, should plan appropriate increases.

- Customers may also see an increase in their direct local service (dial tone) costs in 1992 or 1993. This is due to the fact that U S WEST may be filing for a rate increase on some items with the Public Utilities Commission during 1991. If granted, customers could see a 10-15% increase in U S WEST local service bills.

Micrographics Services:

- InterTech anticipates no change in services offered. A slight rate increase of approximately 3% is anticipated each year due to staffing costs.

STARS:

- STARS will begin phased implementation in the next biennium. Voice implementation is scheduled for completion in F.Y. 1992. The additional capability for packet switching will be added into locations throughout a 4-year period ending in F.Y. 1995. Video will be phased in over a longer period with a F.Y. 1996 target of 87 locations for conference video and 13-19 locations for broadcast video. This plan is dependent on solving the cash flow need for loaned resources of \$3.4 million in F.Y. 1992 and \$3.4 million in F.Y. 1993. It is anticipated the STARS fund will break even starting the following biennium. Additional resources from the legislature in the neighborhood of \$5 million per year could stimulate development of a major communications highway for Minnesota's future. The funds would be spent for new uses of STARS, especially high volume data and broadcast quality video.

Telecommunications and Records Center Support:

- Funding at the F.Y. 1991 BASE during the biennium means that normal inflation/salary increases totaling \$63 thousand and \$130 thousand would have to be absorbed in F.Y. 1992 and F.Y. 1993, respectively.
- One way to absorb these costs and continue to provide the necessary services delivered by the Records Center, the Communications Center, and the Telecommunications Analysts is to fund a subset of services via revolving rather than general funds. This change is only applicable to 3 services. In all 3 instances, consistent and cost-effective service is maintained, but the impact is felt for agencies to come up with funds to pay.

The 1st service, Records Center storage, could be provided at a minimal charge per box that is still cheaper than on-site or commercial storage.

The 2nd service, Records Center retrieval, could be provided at a charge similar to commercial services.

The 3rd service, Telecommunications Analysts consulting, could charge a fee for contract specification preparation at a rate cheaper than either outside or agency-resident consultants.

- Another alternative is to reduce the service provided.

This alternative does not seem appropriate for the Communications Center because it provides a basic level of public communication. The cost of this service consists almost entirely of salary and communications costs that cannot be reduced without decreasing the timeliness of service.

We do not think reduced service would benefit the citizens of Minnesota or the image of state government.

The Records Center expense is composed of space rental and a 2-person staff. Good management requires at least a 2-person staff to provide consistent service. At the current pace of usage, the Center will be filled to capacity during 1992. The Center could, however, be closed. Customer's records could be stored at their own office location or at a commercial records center. However, cutting this \$187 thousand appropriation would actually cost the state more money, as agencies move their records to more expensive office space.

Telecommunications Analysts could also reduce their service. The least impact will be felt by engaging consultants for specification writing and charging agencies for this service. Risks involved: 1) This will lower the expertise in technology and knowledge of state organizations that analysts currently provide. 2) Charging for services opens the door to vendors who provide consultants at no charge, which might be very attractive to agencies. The result could be competitive situations where the specifications are written (or coached) by one of the bidders.

9-1-1:

- 9-1-1 emergency service will continue to be funded via special revenue and InterTech will continue to administer the finances.

GOVERNOR'S RECOMMENDATION:

The Governor recommends the funding as requested except for the following; an increase of \$5.2 million as a loan from the General Fund to the STARS Internal Services Fund to be repaid in F.Y. 1996.

1992-1993 B I E N N I A L B U D G E T
(DOLLARS IN THOUSANDS)

AGENCY: ADMINISTRATION,DPT OF
PROGRAM: INTERTECHNOLOGIES GROUP

				FY 1992			FY 1993		
ACTIVITY RESOURCE ALLOCATION:	FY 1989	FY 1990	Est. FY 1991	Adjusted Base	Agency Plan	Governor Recomm.	Adjusted Base	Agency Plan	Governor Recomm.
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
INFORMATION SUPPORT FOR AGENCIES A	1,462	1,534	1,428	1,442	1,444	4,244	1,439	1,271	3,671
9-1-1	4,199	4,517	4,160	4,160	4,160	4,160	4,160	4,160	4,160
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL EXPENDITURES BY ACTIVITY	5,661	6,051	5,588	5,602	5,604	8,404	5,599	5,431	7,831
DETAIL BY CATEGORY:									
=====									
STATE OPERATIONS	5,616	6,019	5,588	5,602	5,604	8,404	5,599	5,431	7,831
LOCAL ASSISTANCE	45	4							
AID TO INDIVIDUALS		28							
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL EXPENDITURES BY CATEGORY	5,661	6,051	5,588	5,602	5,604	8,404	5,599	5,431	7,831
SOURCES OF FINANCING:									
=====									
DIRECT APPROPRIATIONS:									
GENERAL	1,462	1,534	1,428	1,442	1,444	4,244	1,439	1,271	3,671
STATUTORY APPROPRIATIONS:									
STATE GOVT SPEC REV		4,193	4,160	4,160	4,160	4,160	4,160	4,160	4,160
SPECIAL REVENUE	4,154	292							
FEDERAL	45	32							
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL FINANCING	5,661	6,051	5,588	5,602	5,604	8,404	5,599	5,431	7,831

ACTIVITY: STARS
PROGRAM: Intertechnologies
AGENCY: Administration, Department of

1992-93 Biennial Budget

DECISION ITEM: STARS Loan for Network Implementation

	Dollars in Thousands			
	<u>F.Y. 1992</u>	<u>F.Y. 1993</u>	<u>F.Y. 1994</u>	<u>F.Y. 1995</u>

GOVERNOR'S RECOMMENDATION:

Expenditures

General Fund - Loan	\$ 2,800	\$ 2,400	\$ -0-	\$ -0-
---------------------	----------	----------	--------	--------

Revenues

General Fund	\$ -0-	\$ -0-	\$ -0-	\$ -0-
--------------	--------	--------	--------	--------

Requires statutory change: _____ Yes X No

Statutes Affected:

ITEM SUMMARY:

A loan from the cash position of the General Fund will cover a short term negative cash flow as STARS is implemented. Authority is requested to move funds between the 2 years as the implementation schedule requires.

STARS will operate from a revolving fund. In order to develop an operating plan for STARS, expenses and revenues were estimated for a 6 year period. The financial model shows that STARS should reach break even in the 3rd year of operation, and be able to pay back all start-up loans in the 6th year. Estimates show that there will be a gap between revenues and expenses for the first 2 years. This gap between projected revenue and expenses is caused by the normal lag between availability of services, and full utilization of the services.

BACKGROUND:

STARS will: 1) provide easy access to reliable data communications facilities; 2) provide a video conferencing alternative to travel for meetings; 3) deliver a communications structure that enables data processing systems to interoperate and supplies the building blocks so customers can evolve toward open systems for data sharing; 4) make public access to public services more readily available; and 5) help contain the costs for telecommunications services supporting existing and new applications.

STARS has been in planning for more than 2 years. During that period, InterTech has gathered information from potential customers for STARS about their projected needs for telecommunications in the next 5 years. STARS consultants pulled together detailed information about existing networks and looked at the new technologies which are likely to become available in the next 5 years. The results of these efforts are reported in the STARS final report published in March, 1990.

That work formed the information base for developing a Request For Proposal (RFP) for STARS services. The RFP was issued in December, 1990, with responses expected in April, 1991. Following evaluation of responses and contract negotiations, a contract award is anticipated in late 1991. STARS will lease services from the private sector. The STARS network will be built and operated by private sector vendors, and managed by the state.

KEY STATISTICS/FINANCING/IMPACT:

Detailed financial benefits resulting from STARS won't be known until responses to the RFP are received. Costs are expected to be lower than present for each unit of transmission, although overall expenditures for telecommunications are expected to rise as agencies use telecommunications more for improved operations efficiency.

RATIONALE/OPTIONS:

Telecommunications is an essential service for nearly all state agencies. Continued pressure to provide more services to more citizens at lower costs will likely push state agencies to depend even more heavily on telecommunications to support delivery of services. Effective government operations will probably require access to more information, more quickly and with minimum effort. These trends underscore the need for effective, modern, cost effective telecommunications services. STARS is an important step towards meeting those needs.

OPERATIONS DATA						FINANCIAL DATA		
	ACTUAL FY 1989	ESTIMATED FY 1990	PROJECTED			ACTUAL FY 1989	ESTIMATED FY 1990	FY 1991
			FY 1991	FY 1992	FY 1993			
OPERATING REVENUES:						ASSETS:		
NET SALES	26,857.2	26,980.8	41,535.0	47,900.0	50,200.0	CURRENT ASSETS:		
LESS: COST OF SALES	0.0	0.0	0.0	0.0	0.0	CASH	6,354.2	6,287.7
GROSS PROFIT ON SALES	26,857.2	26,980.8	41,535.0	47,900.0	50,200.0	OTHER CURRENT ASSETS	3,644.0	5,679.9
OTHER REVENUE	0.4	43.1	0.0	0.0	0.0	TOTAL CURRENT ASSETS	9,998.2	11,967.6
NET REVENUES	26,857.6	27,023.9	41,535.0	47,900.0	50,200.0	NON-CURRENT ASSETS:	17,873.6	21,654.1
LESS: OPERATING EXPENSES:						TOTAL ASSETS	27,871.8	33,621.7
SALARIES	8,993.7	9,357.7	11,378.0	12,200.0	13,500.0	LIABILITIES & FUND EQUITY		
SUPPLIES & EXPENSES	9,436.2	10,214.2	18,077.0	20,700.0	22,800.0	LIABILITIES:		
INTEREST EXPENSE	894.8	1,095.3	1,713.0	2,100.0	1,900.0	CURRENT LIABILITIES		
INDIRECT COSTS	554.0	500.6	654.0	700.0	700.0	DUE GENERAL FUND - CURRENT	0.0	0.0
AMORTIZATION & DEPRECIATION	5,115.3	7,082.5	10,310.0	12,800.0	11,900.0	MASTER LEASE - CURRENT	1,502.8	2,683.0
TOTAL OPERATING EXPENSES	24,994.0	28,250.3	42,132.0	48,500.0	50,800.0	OTHER CURRENT LIABILITIES	5,814.8	12,258.3
OPERATING INCOME (LOSS)	1,863.6	(1,226.4)	(597.0)	(600.0)	(600.0)	TOTAL CURRENT LIABILITIES	7,317.6	14,941.3
NON-OPERATING REVENUES (EXPENSE)	414.4	650.9	597.0	600.0	600.0	NON-CURRENT LIABILITIES		
NET INCOME (LOSS)	2,278.0	(575.5)	0.0	0.0	0.0	DUE GENERAL FUND - NON-CURRENT	0.0	0.0
BEGINNING RETAINED EARNINGS	3,400.0	5,678.0	5,447.1	5,447.1	5,447.1	MASTER LEASE NON-CURRENT	3,868.2	7,342.5
PRIOR PERIOD ADJUSTMENT	0.0	344.6	0.0	0.0	0.0	OTHER NON-CURRENT LIABILITIES	7,652.0	4,284.8
ENDING RETAINED EARNINGS	5,678.0	5,447.1	5,447.1	5,447.1	5,447.1	TOTAL NON-CURRENT LIABILITIES	11,520.2	11,627.3
FOOTNOTES TO STATEMENTS:						TOTAL LIABILITIES	18,837.8	26,568.6
Rate Increase/(Decrease):	(4.77%)	(8.50%)	(4.27%)	0.00%	0.00%	FUND EQUITY:		
Five year average rate of increase is:	(3.51%)					CONTRIBUTED CAPITAL	3,356.0	1,606.0
						RETAINED EARNINGS	5,678.0	5,447.1
						TOTAL FUND EQUITY	9,034.0	7,053.1
						TOTAL LIABILITIES & FUND EQUITY	27,871.8	33,621.7

BUDGET ACTIVITY: TELECOMMUNICATIONS
TYPE OF FUND: INTERNAL SERVICES FUND

BUDGET ACTIVITY FISCAL SUMMARY - BIENNIAL BUDGET 90 - 91
PROGRAM: INTERTECHNOLOGIES GROUP

AGENCY: ADMINISTRATION

----- OPERATIONS DATA -----

----- FINANCIAL DATA -----

	PROJECTED						ESTIMATED		
	ACTUAL FY 1989	ESTIMATED FY 1990	FY 1991	FY 1992	FY 1993		ACTUAL FY 1989	FY 1990	FY 1991
OPERATING REVENUES:						ASSETS:			
NET SALES	7,388	8,434	7,907	8,900	9,500	CURRENT ASSETS:			
LESS: COST OF SALES	6,421	6,351	6,567	7,500	8,000	CASH	654	1,565	2,237
GROSS PROFIT ON SALES	967	2,143	1,340	1,400	1,500	OTHER CURRENT ASSETS	1,269	2,249	1,422
OTHER REVENUE	0	0	0	0	0	TOTAL CURRENT ASSETS	1,923	3,814	3,659
NET REVENUES	967	2,143	1,340	1,400	1,500	NON-CURRENT ASSETS:	466	74	179
LESS: OPERATING EXPENSES:						TOTAL ASSETS	3,389	3,888	3,838
SALARIES	238	298	176	200	300	LIABILITIES & FUND EQUITY			
SUPPLIES & EXPENSES	244	163	162	200	200	LIABILITIES:			
INTEREST EXPENSE	40	18	0	0	0	CURRENT LIABILITIES			
INDIRECT COSTS	140	267	600	700	700	DUE GENERAL FUND - CURRENT	0	0	0
AMORTIZATION & DEPRECIATION	0	0	0	0	0	MASTER LEASE - CURRENT	0	0	0
TOTAL OPERATING EXPENSES	662	746	938	1,100	1,200	OTHER CURRENT LIABILITIES	2,001	1,819	1,560
OPERATING INCOME (LOSS)	305	1,397	402	300	300	TOTAL CURRENT LIABILITIES	2,001	1,819	1,560
NON-OPERATING REVENUES (EXPENSE)	(98)	6	0	0	0	NON-CURRENT LIABILITIES			
NET INCOME (LOSS)	207	1,403	402	300	300	DUE GENERAL FUND - NON-CURRENT	0	0	0
BEGINNING RETAINED EARNINGS	(1,528)	(1,442)	(128)	274	574	MASTER LEASE NON-CURRENT	0	0	0
PRIOR PERIOD ADJUSTMENT	(121)	(89)	0	0	0	OTHER NON-CURRENT LIABILITIES	1,238	605	412
ENDING RETAINED EARNINGS	(1,442)	(128)	274	574	874	TOTAL NON-CURRENT LIABILITIES	1,238	605	412
FOOTNOTES TO STATEMENTS:						TOTAL LIABILITIES	3,239	2,424	1,972
Rate changes: % Inc (Dec):	9.23%	7.77%	(17.69%)	(1.5%)	(1.5%)	FUND EQUITY:			
Five year average increase/(decrease):	(0.74%)					CONTRIBUTED CAPITAL	592	1,592	1,592
						RETAINED EARNINGS	(1,442)	(128)	274
						TOTAL FUND EQUITY	(850)	1,464	1,866
						TOTAL LIABILITIES & FUND EQUITY	3,389	3,888	3,838

BUDGET ACTIVITY: MICROGRAPHICS
TYPE OF FUND: INTERNAL SERVICES FUND

BUDGET ACTIVITY FISCAL SUMMARY - BIFENNIAL BUDGET
PROGRAM: INTER TECH

AGENCY: ADMINISTRATION

OPERATIONS DATA

FINANCIAL DATA

	PROJECTED							
	ACTUAL FY 1989	ACTUAL FY 1990	FY 1991	FY 1992	FY 1993	ACTUAL FY 1989	ACTUAL FY 1990	ESTIMATED FY 1991
OPERATING REVENUES:								
NET SALES	655.0	776.5	687.9	708.5	742.1			
LESS: COST OF SALES	60.7	80.6	53.0	53.0	53.0			
GROSS PROFIT ON SALES	594.3	695.9	634.9	655.5	689.1			
OTHER REVENUE	0.0	0.0	0.0	0.0	0.0			
NET REVENUES	594.3	695.9	634.9	655.5	689.1			
LESS: OPERATING EXPENSES:								
SALARIES	390.6	469.5	420.2	439.1	458.9			
SUPPLIES & EXPENSES	107.7	138.2	135.2	137.9	140.7			
INTEREST EXPENSE	0.7	1.1	5.6	5.6	5.6			
INDIRECT COSTS	36.4	31.2	74.2	75.7	77.2			
AMORTIZATION & DEPRECIATION	15.7	15.3	24.2	24.2	24.2			
TOTAL OPERATING EXPENSES	551.1	655.3	659.4	682.5	706.6			
OPERATING INCOME (LOSS)	43.2	40.6	(24.5)	(27.0)	(17.5)			
NON-OPERATING REVENUES (EXPENSE)	0.7	0.9	5.4	5.4	5.4			
NET INCOME (LOSS)	43.9	41.5	(19.1)	(21.6)	(12.1)			
BEGINNING RETAINED EARNINGS	(38.7)	5.2	46.7	27.6	6.0			
PRIOR PERIOD ADJUSTMENT	0.0	0.0	0.0	0.0	6.0			
ENDING RETAINED EARNINGS	5.2	46.7	27.6	6.0	(0.1)			
FOOTNOTES TO STATEMENTS:								
Rate changes: % Inc (Dec):	4.0%	1.6%	0.2%	3.0%	4.7%			
Five year average increase/(decrease):	2.7%							
ASSETS:								
CURRENT ASSETS:								
CASH	46.7	27.6	8.5					
OTHER CURRENT ASSETS	114.3	197.2	197.2					
TOTAL CURRENT ASSETS	161.0	224.8	205.7					
NON-CURRENT ASSETS:								
	19.3	72.7	72.7					
TOTAL ASSETS	180.3	298.5	279.4					
LIABILITIES & FUND EQUITY								
LIABILITIES:								
CURRENT LIABILITIES								
DUE GENERAL FUND - CURRENT	0.0	7.5	7.5					
MASTER LEASE - CURRENT	0.0	0.0	0.0					
OTHER CURRENT LIABILITIES	56.3	97.5	97.5					
TOTAL CURRENT LIABILITIES	56.3	105.0	105.0					
NON-CURRENT LIABILITIES								
DUE GENERAL FUND - NON-CURRENT	0.0	31.7	31.7					
MASTER LEASE NON-CURRENT	0.0	0.0	0.0					
OTHER NON-CURRENT LIABILITIES	7.8	4.1	4.1					
TOTAL NON-CURRENT LIABILITIES	7.8	35.8	35.8					
TOTAL LIABILITIES	64.1	140.8	140.8					
FUND EQUITY:								
CONTRIBUTED CAPITAL	111.0	111.0	111.0					
RETAINED EARNINGS	5.2	46.7	27.6					
TOTAL FUND EQUITY	116.2	157.7	138.6					
TOTAL LIABILITIES & FUND EQUITY	180.3	298.5	279.4					

BUDGET ACTIVITY: STARS
TYPE OF FUND: INTERNAL SERVICES FUND

BUDGET ACTIVITY FISCAL SUMMARY - BIENNIAL BUDGET
PROGRAM: INTERTECHNOLOGIES GROUP

AGENCY: ADMINISTRATION

----- OPERATIONS DATA -----

----- FINANCIAL DATA -----

	PROJECTED					ESTIMATED		
	ACTUAL FY 1989	ACTUAL FY 1990	FY 1991	FY 1992	FY 1993	ACTUAL FY 1989	FY 1990	FY 1991
OPERATING REVENUES:						ASSETS:		
NET SALES						CURRENT ASSETS:		
LESS: COST OF SALES						CASH	216	203
GROSS PROFIT ON SALES		0	0			OTHER CURRENT ASSETS	9	9
OTHER REVENUE						TOTAL CURRENT ASSETS	225	212
NET REVENUES		0	0			NON-CURRENT ASSETS:	0	0
LESS: OPERATING EXPENSES:						TOTAL ASSETS	225	212
SALARIES		300	334			LIABILITIES & FUND EQUITY		
SUPPLIES & EXPENSES		235	457			LIABILITIES:		
INTEREST EXPENSE		0	0			CURRENT LIABILITIES		
INDIRECT COSTS		29	110			DUE GENERAL FUND - CURRENT	0	0
AMORTIZATION & DEPRECIATION		0	0			MASTER LEASE - CURRENT	0	0
TOTAL OPERATING EXPENSES		564	901			OTHER CURRENT LIABILITIES	27	27
OPERATING INCOME (LOSS)		(564)	(901)			TOTAL CURRENT LIABILITIES	27	27
NON-OPERATING REVENUES (EXPENSE)		0	0			NON-CURRENT LIABILITIES		
NET INCOME (LOSS)		(564)	(901)			DUE GENERAL FUND - NON-CURRENT	0	0
BEGINNING RETAINED EARNINGS		0	(564)			MASTER LEASE NON-CURRENT	0	0
PRIOR PERIOD ADJUSTMENT		0	0			OTHER NON-CURRENT LIABILITIES	11	900
ENDING RETAINED EARNINGS		(564)	(1,465)			TOTAL NON-CURRENT LIABILITIES	11	900
FOOTNOTES TO STATEMENTS:						TOTAL LIABILITIES	38	927
Rate changes: % Inc (Dec):						FUND EQUITY:		
Five year average increase/(decrease):						CONTRIBUTED CAPITAL	750	750
						RETAINED EARNINGS	(564)	(1,465)
						TOTAL FUND EQUITY	186	(715)
						TOTAL LIABILITIES & FUND EQUITY	225	212

D

PROGRAM: Property Management
Agency: Administration, Department of

1992-93 Biennial Budget

PROGRAM PURPOSE:

The Property Management Bureau is the primary central state entity responsible for overseeing the real property and buildings owned, leased, or managed by the state of Minnesota. It does this through its statutory authority as the owner of record, and by coordinated working relationships with the users and/or those who have custodial control of property.

The mission of the Property Management Bureau is to provide high quality, efficient, responsive, ethical, innovative, and cost-effective property-related services for safe and healthy working environments that influence the quality of services delivered by our partners in Minnesota government.

The bureau is comprised of 5 divisions that provide a wide-range of services that meet the mission. Our goals are to continue as a central resource for our customers, respond to their many diverse needs, provide quality and timely services and work with our customers to ensure their needs are met to their satisfaction.

Real Estate Management

- provide, allocate, and lease state-owned and nonstate-owned real property for state agency use;
- lease out state-owned property not needed for state use to generate revenue for the state;
- assist agencies in identifying space needs and planning the most efficient use of the space leased;
- acquire and dispose of real property for state agencies, grant or deny easements and permits, and transfer custodial control from one agency to another; and
- coordinate state child care activities.

Energy Conservation

- monitor energy usage statewide, identify measures needed to reduce energy usage and costs, and promote the use of alternate fuels such as wood, peat, sawdust, solar, etc.;
- maintain a preventive maintenance program and a computerized data inventory for state institutions on energy usage;
- negotiate prices and administer fuel contracts for the larger state agency energy users; and
- provide training to operating personnel on how to maintain mechanical equipment to reduce down time and emergency breakdown periods.

State Building Construction

- design, prepare plans and specifications for bid, and supervise the construction, alteration, and improvement of state buildings, structures, and grounds or provide supervisory oversight of consultants hired to provide these services;
- provide staff support to ensure the timely selection of designers by the Designer Selection Board; and
- provide consulting services to user agencies for their building-related needs.

Building Codes and Standards

- ensure safeguards for health, safety, welfare, comfort and security for all users of buildings by establishing and administering the state building codes based on national model codes to reduce the loss of life, injury, or property damage associated with buildings of any type;
- inspect and certify residential and commercial prefabricated structures produced in and out of the state to ensure the safety of all users;
- review building plans and provide inspection of state-owned, funded, and public school districts or contract with qualified parties from local government entities or the private sector for these services; and
- provide training and direct assistance to local officials, designers, construction industry, mobile home dealers, installers and manufacturers to ensure uniform administration of the codes.

Plant Management

- provide clean, safe, and healthy building environments for our Capitol complex customers;
- maintain and operate the electrical and mechanical systems in the Capitol complex buildings including air conditioning, heating, ventilation, electrical distribution, and plumbing so working environments are safe and healthy so state agencies can perform their responsibilities efficiently and effectively;
- maintain the Capitol grounds, sidewalks and parking lots and facilities, including snow removal for the safety of all users;
- deliver interoffice mail, office supplies, and printing orders and provide moving services for state agency customers; and
- manage parking in the Capitol complex, administer cafeteria contract, coordinate and issue permits for special events so there is continuity and consistency of service to employees and the public.

PERFORMANCE:

Real Estate Management

- Managed approximately: 1) 200 leases for about 1,520,000 useable square feet of office space in state-owned buildings; 2) 500 leases for about 2,505,000 useable square feet of office space in nonstate-owned buildings; and 3) 300 leases for premises such as warehouse, land, boat slips, monitoring sites, motorcycle skill testing sites, aircraft hangars, parking stalls, stockpile sites, vehicle storage, radio towers, and vehicle inspection sites.
- Facilitated and coordinated agency relocations, consolidations and co-locations for improved agency operations and delivery of services to the public.
- Inspected 113 lease sites, statewide, to verify compliance with lease agreements.
- Analysis of bills and payments made by a state agency resulted in the recovery of \$128,682 in overpayments on behalf of the agency.
- Located space and negotiated the leases for the Minnesota Lottery headquarters and 5 regional offices.
- Lease negotiations for 5 agencies resulted in improvements to leased space, no increase in rates, rate decreases, or a combination at a cost savings of \$126,975 per year for the next 3-5 years.

- Acquired and sold state property to meet agencies' goals to provide convenient service locations within communities.
- Opened the state's first child care center for children of employees in April 1990.

Energy Conservation

- Minnesota has continued to provide and pursue a variety of opportunities to save our dwindling energy resources although such efforts have decreased in other parts of the nation over the last several years.
- The dollar savings for F.Y. 1989 totalled \$8,578,376. Energy conservation measures are paying off to the benefit of our customers. No portion of these savings are returned to this division for providing energy conservation assistance and guidance.
- Savings realized by state institutions as a result of ongoing oil/gas purchase negotiations for F.Y. 1990 totalled \$171,585.
- Conducted 5 different training courses, 3 sessions of each course (total of 15 sessions), 437 operating staff from state institutions attended. The training keeps personnel up-to-date on the latest energy conservation techniques and methods of maintaining equipment in efficient operating condition.
- Participation in rebate and incentive programs offered by the various power companies contribute to energy cost savings.

State Building Construction

- Provided high quality and cost-effective architectural and engineering services in the areas of planning, design, construction and operations of physical facilities at 44 state institution campuses and numerous other individual locations that meet state agency needs so, in turn, they may provide efficient services to those they serve.
- Acted as the "owner's agent" on 229 state projects totalling \$208.5 million in F.Y. 1990 and 201 projects totalling \$168.1 million in F.Y. 1989.
- Designed and managed 525 small-scale projects in-house totalling \$10 million for F.Y. 1989-90.
- Selected designers for major state projects based on selection criteria and previous project performance through the Designer Selection Board. In F.Y. 1990, reviewed 757 proposals and selected 52 designers and in F.Y. 1989 reviewed 387 proposals and selected 30 designers.
- Assisted in environmental clean-up by removing 11 underground storage tanks with a total removal cost of \$398,296 and surveyed 31 additional tanks.
- Abated 64 asbestos projects totalling \$2,691,913 for the safety and health of building occupants and submitted 34 claims against the Johns Manville Trust for a total of \$1,695,310 of which \$305,028 has been returned to the state to date.
- Authored about 170 M-Contracts for such professional and technical services as soil borings, materials testing, architectural and engineering investigations, land/site surveys; and construction M-Contracts for concrete work, painting, glass replacement, electrical work, caulking, and tuckpointing. These contracts are generally for projects under \$10,000 and provide a method

to obtain these services faster and to expedite construction projects in spite of limited funds.

- Established and implemented process to manage the \$2.5 million Capital Asset Preservation and Replacement Account (CAPRA) for the allocation of funds, to show cost savings for preservation measures, and to help improve the allocation of limited resources in the future.

Building Codes and Standards

- Provided increased services based on demand and increased construction activity in both the private and the public sector.
- Consultation and direct assistance requests for all divisional activities totalled 29,151 in F.Y. 1990 and 27,478 in F.Y. 1989.
- Provided 38 days of training instruction with 2,081 participants in F.Y. 1990 and 32 days with 1,835 participants in F.Y. 1989 for those responsible for state building code administration.
- Reviewed final construction documents totalling 808 with an estimated construction value of \$550 million in F.Y. 1990 and 829 documents with a value of \$450 million in F.Y. 1989.
- Decreased activity in manufactured housing and mobile homes is compensated by the increase in manufactured commercial and industrial structures, e.g., gas stations, cellular communication buildings, banks, restaurants, etc.
- Established fees to provide for administrative services for public buildings. The fees are paid to qualified individuals for services in the areas of the state where the code is not presently administered or where local government does not have adequate personnel to provide services. The fees became effective 7-90 and the contractual services program is being implemented in F.Y. 1991.

The results of these efforts are reflected by:

- Improved enforcement of codes and standards being attained at the local level through training, direct assistance, and monitoring efforts.
- Safer buildings being produced, reducing loss of life and personal injury as well as property value loss.
- Energy efficiency levels in buildings maintained as well as improvement in accessibility and usability by the disabled community.
- Public and user complaints involving quality and performance of buildings are decreasing.
- In F.Y. 1990, no formal appeal was filed challenging the performance of local governments' code administration, although the state has taken action against local government for failure to properly administer regulations.

Plant Management

- Stability in lease rates maintained due to efficient management of services and operations related to the Capitol complex buildings and grounds.
- Building environments are clean, safe, and healthy due to efficient cleaning techniques and the monitoring and regulating of air temperatures and moisture content.
- Capitol complex grounds and parking facilities are pleasant and safe due to the quality of care given to the turf, plant life, sidewalks, building entrances, and snow removal.

PROGRAM: Property Management
(Continuation)
Agency: Administration, Department of

1992-93 Biennial Budget

- Safe and convenient parking is provided at reasonable rates for employees, the legislature, constitutional officers, and the public.
- Provided moving, delivery services, and interoffice mail delivery at comparable costs to outside vendors but with greater timeliness and convenience to state agencies.
- Coordinated centralized services for janitorial, grounds, trades, and material allows for stable and consistent levels of service, quick response time, and flexible follow-up.
- Building occupants benefit from such other services as lost and found, meeting room scheduling, cafeteria food service, and event and rally reservations.

PROSPECTS:

Real Estate Management

- To continue offering state agencies comprehensive and meaningful real estate services and to protect them, as well as the citizens of Minnesota, funding to maintain the needed staff and level of expertise is required.
- While state agencies space needs are being met with available funds, many agencies have space needs that require additional funding to optimize the delivery of services and products to the citizens of Minnesota. In many cases, efficiencies can be achieved by consolidating and/or co-locating state agencies. In addition, other real estate issues need to be addressed such as ease of access, available public transportation, parking facilities, adequate work environments, efficient use of space, handicapped accessibility, and quantity of space, so that employees are able to accomplish their job tasks and programs are adequately delivered to the citizens of Minnesota.
- Whenever an agency receives an increase in staff or an additional program, adequate space to office the staff or program is needed. This necessitates a vast amount of work to locate suitable space, program the space need, negotiate lease terms and conditions, and prepare the required documentation to protect the state.
- The above issues need to be addressed in the context of providing space by constructing, purchasing, or leasing it. The ongoing issue of constructing state-owned buildings, purchasing existing buildings, or leasing privately owned space continues to be a concern. Alternative methods for financing the purchase or construction of state-owned space requires further analysis.
- Continuing the activity of land acquisitions, dispositions, transfers of custodial control and the granting of easements and permits for state agencies also allows the delivery of goods and services to the citizens of Minnesota.
- Although the state made a major step forward in providing child care on the Capitol complex, child care issues in other metro locations, as well as in greater Minnesota, still need attention. There is a child care crisis occurring especially for infant/toddler care. The availability of licensed child care has not kept pace with the demand. For example, statewide there are about 105,000 licensed slots for children under age 6, but there are 223,000 children needing care. Providing child care services is a paramount concern throughout the state of Minnesota. The development of policies and procedures, planning, and the implementation of a program will require additional staff and funding.

Energy Conservation

- With the Middle East crisis, we are once again reminded that some of our energy supplies have finite limits. A better understanding of those limits and how fast they are being approached is urgent. Simple inexpensive fuels we have learned to depend upon may sharply increase in cost.
- National policy can have a direct effect on how the state will carry out future energy policies. The state needs to continue to manage and conserve energy resources and look for alternatives.
- Increased monitoring of all energy usage for every state building owned or leased will need additional personnel and funds.
- Indoor air quality and health concerns will become increasingly important issues. The proposal to use more energy to treat the air to a higher standard is in effect the opposite of reducing energy in a period when energy is in short supply. How to administer and comply with federal, state, and local codes will be an issue.
- More training on operating existing equipment is needed at the blue collar level to optimize the efficiency of all existing equipment or to install more efficient control equipment to reduce energy that is needed to operate state-owned and leased buildings. Training funds for the blue collar workers who actually service our buildings has historically not been available. It has only been in the recent years that funding has become available.
- To reduce or eliminate any of these programs would be counterproductive resulting in an increase in fuel and electrical budgets and reducing the life of valuable equipment.

State Building Construction

- The increased staff authorized by the 1987 and 1989 legislatures has allowed the division to increase its hours toward improved consultant project management. The expanded engineering staff now provides some plan review during the planning phases. Additional field supervision of construction and remodeling projects has substantially improved response time to job conditions and thereby reduce the potential for delay claims. The construction management process was used successfully to rebuild the College Center at Inver Hills Community College in time for fall classes. Consultation services to state agencies has expanded and the time spent on construction litigation reduced.
- The 1990 Capital Asset Preservation and Replacement Account (CAPRA) law provides an opportunity to develop a more effective way to manage routine building deficiencies, expose conditions needing further attention, and allow a more immediate response to bona fide emergency situations. The program will foster a stronger partnership between the agencies and the division since both groups will bear responsibility for prioritizing what is sure to be more projects than funds available. The division will provide leadership in the development and application of criteria which must be met for agencies to use the funds. In addition to emergency situations, the fund will enable the state to diminish the need for larger future expenditures by taking care of problems while they are more manageable.

In the short term, the Division of State Building Construction will, out of necessity, provide this additional service with no additional staff.

- Significant progress toward achieving an effective automated building management program has taken place in the last 2 years. Recent statewide legislative action calling for management and development of programs dealing with hazardous materials, Capital Asset Preservation, statewide building classification system, accessibility surveys, and task forces on the study of space and capital needs will require automation assistance. The development of the new Computer Aided Drafting Design (CADD) and building management software systems will effectively support these tasks. Our customers' needs can be served by continuing to respond to the voids facing their operations.

Without additional staff, the Division of State Building Construction can only begin to develop these programs. To bring them to fruition will require additional staff or appropriations to provide consultant services. An undesirable alternative would be to reduce project management time which would negate our effort to provide quality and timely managed projects.

Building Codes and Standards

- Many issues and trends, global, national and international, will affect state's activities, efforts, and regulatory involvement now and in the future.
- Global issues are energy availability and cost, effects of chlorofluorocarbons, water quality/quantity, indoor and outdoor air quality, international trade/standards, i.e., Canada, Europe 92, Pacific Rim, technical advances of equipment, methods and materials, wider application of technology, technological development, and increasing demand for educational opportunities.
- The states will likely assume a larger role in regulatory affairs from the federal government in the area of modular construction and manufactured housing (mobile homes). The trend toward national standardization of codes and standards will continue. A major impact in regulation and application, for instance, is the federal Americans with Disabilities Act.
- Partnerships between state and local communities will increase as the demand for greater regulation of the construction industry occurs. Greater accountability at the local level will place added emphasis on advanced training and continuing education for local code administrators to be provided by the state.
- Current and future trends in state legislation in the areas of radon mitigation, energy, water usage, recycling, indoor air quality, fire safety, human rights issues on disabilities, and interstate and international reduction of regulatory barriers have major impact on the establishment and cost of administering construction regulatory affairs.

Plant Management

- The fixed expenses for operating the buildings in the Capitol complex total \$8,270,834 annually. This includes heat, electric, gas, statewide indirect costs, building depreciation (amortization), equipment depreciation, and building improvement amortization/bond interest.
- The Plant Management Division currently is responsible for providing the custodial, maintenance, and grounds services for the 22 buildings in the Capitol complex, including 1246 University Avenue, Ceremonial House, Health Building in Minneapolis, and the Duluth Government Center.
- A staffing increase is needed to provide the needed services due to the addition of new buildings and spaces to the Capitol complex. Those additions include the Judicial Plaza, History Center, I-94 corridor, etc. The costs of providing these services are paid by the tenants through their lease rates.

With no increase in staff, a noticeable decrease in the quality and quantity of services performed will occur. Customers will notice less cleaning, snow removal will take longer, less care given to the grounds, decrease in the timely delivery of mail, printing orders, and supplies, etc.

- The need to provide safe and secure facilities in the Capitol complex for employees and visitors is an ongoing concern. Tragic crimes in recent years prompted the state to enhance security measures in its operations. Advances have been made, but many concerns remain that must be addressed. Although the complex itself has a relatively low crime rate, in 1989, 2 homicides, 50

rapes, 297 robberies, and 287 aggravated assaults were reported in the surrounding .s.

PLAN:

The demands for the existing programs within the Property Management Bureau preclude reducing them or shifting resources without reducing the current level of services. The bureau anticipates that if no provisions are made to accommodate inflation and the negotiated salary increases, those increases alone will force the bureau to absorb about \$670,000 in extra costs over the next 2 years not including any reduction in appropriation "in lieu of rent" for legislative, ceremonial and services-for-the-blind space. To do this will require reductions in general fund programs and services detrimental to the operations of state agency customers and the public they serve.

Real Estate Management

- Since over 90% of its budget is for salaries and rent, reduction of services in the leasing, land, and child care activities would be necessary. These are services provided to agencies, statewide. Consequences are that all aspects of developing, negotiating, and finalizing leases will take longer. State agencies will need to contract directly with either the Department of Transportation or the Department of Natural Resources for land-related services such as acquisition, disposal, and easement permits across state land.
- Although there is a child care crisis occurring in Minnesota and nationally and the providing of child care services is a concern throughout the state of Minnesota, no consultation services would be provided to interested agencies other than management monitoring of the Capitol Child Care center. To do more will require additional staff and funding.
- An alternative would be to charge for leasing services and spread the costs to other state agencies using those services.
- Until there are other alternatives to providing space such as building new buildings or the ability to enter into lease-purchase options, the division will continue to lease nonstate-owned space at the most economical rental costs in order to meet state agency program needs.

Energy Conservation

- Although the Middle East oil crisis has heightened the need to do more in the area of energy conservation, the bureau will be forced to reduce services provided in the "Training Program for Blue Collar Workers" and in the preventive maintenance program. However, based on past experience, it has been found that the benefits and long-term savings of these programs outweigh any short-term savings that would occur.
- Without the centralized training program and "watchdog" program, most state institutions neglect taking care of their equipment resulting in increased down time and emergency breakdown periods, and premature equipment replacement. The cost of operations to state agency budgets will increase several times and less data will be provided and available to determine the effectiveness of various energy conservation measures. In addition, agencies will need to hire more outside consultants to maintain the same level of operations.
- The department is the only agency monitoring the energy in state buildings in order to effectively manage the \$22 million annual state fuel budget and will continue to provide this leadership. Any additional requirements to provide increased energy monitoring of all state-owned and leased buildings will require the addition of staff and funds and cannot be done at the sacrifice of other programs in this area because they are closely interrelated.

State Building Construction

- In the Building Construction Division, it will be necessary to reduce consultation and project

PROGRAM: Property Management
(Continuation)
Agency: Administration, Department of

1992-93 Biennial Budget

management services provided to agencies, statewide, and defer Repair and Replacement (R & R) projects. The staff is currently carrying an extraordinary heavy load of projects and any increase in workload will be offset by decreases in the quality and timeliness of services provided.

- The R & R fund was established specifically to allow repairs on small-scale projects in the Capitol complex that had been deferred and were competing with major Capital Budget projects. Deferring repairs will result in increased project costs and progress to-date will revert to the type of situations this funding was designed to alleviate.
- For the short-term, the division can only develop automated projects. Additional staff and fundings are needed to manage these statewide programs on an ongoing basis. These programs are the result of recent legislative action calling for the management and development of programs dealing with hazardous materials, Capital Asset Preservation, statewide building classification system, accessibility surveys, and task forces studying space and capital needs.

Revenue Sources

The bureau will continue to provide responsive and high-quality services to its state agency customers through its 2 revenue-generating operations.

Building Codes and Standards

- The division will continue to be a state and national leader in the administering of building codes and standards. Due to current and future issues and trends, its role will continue to expand to meet increased demands and regulatory requirements.
- Income generated from the services provided are deposited into the general fund and historically have exceeded its appropriation and expenditures by 100%. The increased demand for services cannot continue to be met with the same resources. The current sharing, cooperation, partnerships, compacts, reciprocity, etc., are reaching their limits. It is highly desirable that the resources generated by this program be permitted to fund its expanding role. Currently, excess funds are given to local government with no dedicated purposes.

Plant Management

- Rates are scheduled to increase approximately 4% in the next biennium, due in part to higher utility costs.
- With the pending completion of the Minnesota History Center and its grounds and the addition of other grounds such as the Judicial Center Plaza, I-94 corridor, etc., the department needs increased complement to provide the services needed to operate the building systems and to maintain the property. If there is no increase in staff to meet these new requirements, a noticeable decrease in the quality and quantity of services performed will result.
- The providing of safe and secure facilities in the Capitol complex for all who use them is a major concern. The department will continue to coordinate with the Department of Public Safety (Capitol Security) the development of security measures for parking, public events, buildings, and personnel as well as implementing the recommendations contained in the April 1990 Report of the Interagency Security Task Force. The department will again request Capital Budget funds to improve lighting and security.
- An increase in the appropriation for "in lieu of rent" will be needed for space that the congressionally chartered veterans organizations will take over after the Legislative Auditor moves

from the Veterans Service Building. The appropriation will also need to increase to cover about 12,000 square feet of space that the legislature will use in the Capitol due to Judicial's move to its new building.

GOVERNOR'S RECOMMENDATION:

The Governor concurs with the agency's plan.

1992-1993 B I E N N I A L B U D G E T
(DOLLARS IN THOUSANDS)

AGENCY: ADMINISTRATION,DPT OF
PROGRAM: PROPERTY MANAGEMENT

ACTIVITY RESOURCE ALLOCATION:	FY 1989	FY 1990	Est. FY 1991	FY 1992			FY 1993		
				Adjusted Base	Agency Plan	Governor Recomm.	Adjusted Base	Agency Plan	Governor Recomm.
REAL ESTATE MANAGEMENT	390	314	274	280	288	288	280	292	292
ENERGY CONSERVATION	309	378	472	482	475	475	481	478	478
STATE BUILDING CONSTRUCTION	2,736	4,411	3,114	2,942	2,908	2,908	2,937	2,929	2,929
BUILDING CODES AND STANDARDS	1,186	1,387	1,794	1,815	1,858	1,858	1,811	1,875	1,875
PLANT MANAGEMENT	3,950	4,944	4,149	4,492	4,492	4,492	4,551	4,551	4,551
TOTAL EXPENDITURES BY ACTIVITY	8,571	11,434	9,803	10,011	10,021	10,021	10,060	10,125	10,125
DETAIL BY CATEGORY:									
STATE OPERATIONS	8,571	11,434	9,803	10,011	10,021	10,021	10,060	10,125	10,125
TOTAL EXPENDITURES BY CATEGORY	8,571	11,434	9,803	10,011	10,021	10,021	10,060	10,125	10,125
SOURCES OF FINANCING:									
DIRECT APPROPRIATIONS:									
GENERAL	5,191	7,474	8,027	8,235	8,245	8,245	8,284	8,349	8,349
SP REV DIRECT APPROP	1,617								
STATUTORY APPROPRIATIONS:									
STATE GOVT SPEC REV		46	128	128	128	128	128	128	128
SPECIAL REVENUE	632	2,012	668	668	668	668	668	668	668
HGHWY USER TAX DISTR	1								
FEDERAL	711	1,710	980	980	980	980	980	980	980
WORKERS COMP SPECIAL	284	31							
NE MN ECONOMIC PROT	135	161							
TOTAL FINANCING	8,571	11,434	9,803	10,011	10,021	10,021	10,060	10,125	10,125

REVOLVING FUND ACTIVITY - PLANT MANAGEMENT LEASES
 BUDGET ACTIVITY: PLANT MANAGEMENT
 TYPE OF FUND: INTERNAL SERVICE FUND

BUDGET ACTIVITY FISCAL SUMMARY - BIENNIAL BUDGET 90 - 91
 PROGRAM: PROPERTY MANAGEMENT

OPERATIONS DATA						FINANCIAL DATA			
	ACTUAL FY 1989	ACTUAL FY 1990	ESTIMATED FY 1991	PROJECTED FY 1992	PROJECTED FY 1993		ACTUAL FY 1989	ACTUAL FY 1990	ESTIMATED FY 1991
OPERATING REVENUES:						ASSETS:			
NET SALES	13,877.2	14,003.3	16,288.2	20,724.1	24,330.0	CURRENT ASSETS:			
LESS: COST OF SALES	0.0	0.0	0.0	0.0	0.0	CASH	1,187.7	932.9	606.9
GROSS PROFIT ON SALES	13,877.2	14,003.3	16,288.2	20,724.1	24,330.0	OTHER CURRENT ASSETS	1,971.2	1,084.4	931.6
OTHER REVENUE	287.4	327.7	246.7	275.0	300.0	TOTAL CURRENT ASSETS	3,158.9	2,077.3	1,538.6
NET REVENUES	14,164.5	14,331.0	16,534.8	20,999.1	24,630.0	NON-CURRENT ASSETS:			
LESS: OPERATING EXPENSES:						TOTAL ASSETS	4,769.4	3,615.4	3,026.4
SALARIES	4,964.0	5,312.2	6,174.6	6,736.1	7,409.7	LIABILITIES & FUND EQUITY			
SUPPLIES & EXPENSES	6,400.9	6,327.4	6,440.6	7,318.1	9,532.5	LIABILITIES:			
INTEREST EXPENSE	320.4	334.4	1,584.5	3,421.9	4,506.0	CURRENT LIABILITIES:			
INDIRECT COSTS	405.0	345.0	394.9	395.0	395.0	DUE GENERAL FUND - CURRENT	6.3	0.0	0.0
AMORTIZATION & DEPRECIATION	2,041.7	2,064.1	2,326.6	2,679.9	2,886.6	MASTER LEASE - CURRENT	126.5	134.3	124.0
TOTAL OPERATING EXPENSES	14,132.0	14,383.0	16,921.2	21,151.1	24,789.8	OTHER CURRENT LIABILITIES	1,093.9	857.9	789.0
OPERATING INCOME (LOSS)	32.5	(52.1)	(386.4)	(152.0)	(159.8)	TOTAL CURRENT LIABILITIES	1,226.8	992.1	913.0
NON-OPERATING REVENUES (EXPENSE)	13.5	30.6	0.5	0.0	0.0	NON-CURRENT LIABILITIES:			
NET INCOME (LOSS)	46.1	(21.4)	(385.9)	(152.0)	(159.8)	DUE GENERAL FUND - NON-CURRENT	5.3	0.0	0.0
BEGINNING RETAINED EARNINGS	1,686.7	1,661.9	1,642.3	1,258.2	1,108.0	MASTER LEASE NON-CURRENT	309.7	175.7	75.4
PRIOR PERIOD ADJUSTMENT	(70.9)	1.8	1.8	1.8	1.8	OTHER NON-CURRENT LIABILITIES	115.6	148.9	125.3
ENDING RETAINED EARNINGS	1,661.9	1,642.3	1,258.2	1,108.0	950.0	TOTAL NON-CURRENT LIABILITIES	430.6	324.6	200.7
FOOTNOTES TO STATEMENTS:						TOTAL LIABILITIES	1,657.4	1,316.8	1,113.7
Projections assume completions and rental of History Center in Dec, 1991.						FUND EQUITY:			
Rate increase percentages exclude Judicial Bldg and History Center.						CONTRIBUTED CAPITAL			
Rate Increase/(Decrease):							1,450.1	656.3	654.5
Leases	0.00%	1.60%	(1.37%)	6.00%	6.00%	RETAINED EARNINGS			
Material Transfer	0.53%	5.49%	2.46%	12.00%	12.00%		1,661.9	1,642.3	1,258.2
Revolving Repair	3.87%	1.01%	0.64%	10.00%	10.00%	TOTAL FUND EQUITY			
Five year average Increase/(Decrease):							3,112.0	2,298.6	1,912.8
Leases	2.45%					TOTAL LIABILITIES & FUND EQUITY			
Material Transfer	6.50%						4,769.4	3,615.4	3,026.4
Revolving Repair	5.10%								

* Difference due to rounding to the nearest dollar.

* Difference due to rounding to the nearest dollar.

PROGRAM PURPOSE:

The Administrative Management program provides internal management support services to Admin's operating units. The program includes the functions of budget and fiscal services, personnel services, agency relations coordination, grant administration, systems and automation coordination and executive support. The grant administration area includes specific legislative grant administration tasks dealing with public broadcasting, regional cable communications, oil overcharge programs, and the State Band. The results achieved through this program include a well-managed department making the best use of its human, financial and information resources as it fulfills its mission.

More specifically:

- Fiscal Services establishes and maintains a centralized and integrated budget and accounting system for the department, both for general and revolving funds, as well as for the Office of the Governor, Office of the Lieutenant Governor, Capitol Area Architectural and Planning Board, Citizens Committee on Voyageurs National Park, Spanish Speaking Affairs Council, Council on Black Minnesotans, Council on Asian/Pacific Minnesotans and the Boundary Waters Canoe Area Task Force.
- Personnel Services provides personnel services to departmental managers, supervisors and employees. Services include labor relations, employee training and development, performance appraisal assistance, recruitment, affirmative action, classification, safety administration, employee counseling, payroll and personnel transactions.
- Executive Support provides departmental direction, priority and policy setting, short- and long-range planning and problem solving services, public information, and employee communications for the entire department. The program provides secretarial and office support services for the department's executive managers. In addition, statewide coordination on a variety of critical issues ranging from security to state energy policy is included here.
- Public Broadcasting is the grant administration program carried out for the legislature under terms of M.S. Chapter 139.16-21. Legislative allocations are divided among 6 public television and 12 public educational radio stations in the form of block, matching and equipment grants. The bureau oversees the grant program, disbursing funds in accordance with legislative appropriations and direction, and ensures that all statutory requirements and criteria are complied with.
- Public Broadcasting -- Minnesota Public Radio is an additional public broadcasting grant program for establishment, improvement and operation of Minnesota Public Radio's network of 18 stations serving Minnesota. State grants to MPR are also conditioned by eligibility and criteria of M.S. 139.16-21.
- Twin Cities Regional Cable Channel is a grant program based on M.S. Chapter 238.43 which mandates an interconnected regional cable channel to be carried on 7-county metropolitan area cable systems. Legislative appropriations to assist in the establishment and operation of the channel by the nonprofit corporation named as the operating entity are administered by the bureau in accordance with legislative direction.
- Oil Overcharge Administration is the program assigned to the Department of Administration by the legislature in 1988 for management, administration and coordination of programs for which appropriations are made from funds received by the state from settlements with oil companies for violations of pricing regulations from 1973-1981.

PERFORMANCE:

1. Achieved a 4.48% decrease in revolving fund rates for F.Y. 1991;
2. Completed 90% of a strategic information plan for the department;
3. Implemented the state's first on-site child care facility;
4. Administered 69 public radio and television grants to 20 recipients for a total of \$5,762,835 during the biennium;
5. Administered 14 new oil overcharge grants for a total of \$6,611,200 and continued management oversight of 8 earlier grants whose total is \$16,769,000 during the biennium;
6. Implemented a new performance management system for the department developed by employees; and
7. Cooperatively, with the department's InterTechnologies Group, advanced the preparation of the STARS program for implementation and for utilization by state agencies.
8. Provided leadership on a variety of interdepartment issues such as energy and security.

During the past year, Admin's Executive Team worked with employees to re-work the department's mission statement, values statement and its vision for the future. Through these efforts, the efforts of all employees can be focused toward the achievement of shared goals.

Twin Cities Regional Cable Channel

- Recent accomplishments include:

Established its own operating facility;
Doubled weekly broadcasts from 35 to 85 hours;
Opened schedule to broader base of producers;
Developed new graphics and identity;
Arranged schedule in thematic blocks;
Secured experienced, full-time management; and
Gained more audience and producer recognition.

Minnesota Public Radio

- Accomplishments include:

Reporters in all parts of the state;
Distribution of Canadian and British programs;
Distribution of National Public Radio and American Public Radio programs;
Weekly cumulative audience of 320,000;
Financial contributions from 65,000 individuals; and
Support from 400 businesses and foundations.

Public Broadcasting

- Current measurable outputs include:

Total Broadcast Hours (TV)	38,921 hours
Member Contributions (TV)	\$5,400,000
Local Production Hours (TV)	850 hours
Member Contributions (Radio)	\$1,287,800
Volunteer Hours (Radio)	73,230 hours
Local Programming Hours (Radio)	58,400 hours

PROGRAM: Administrative Management
(Continuation)
Agency: Administration, Department of

1992-93 Biennial Budget

GOVERNOR'S RECOMMENDATION:

The Governor recommends the funding as requested except for a biennial reduction of \$2,342,000 for Public Broadcasting and Minnesota Public Radio Grants.

PROSPECTS:

The centralized support functions within this program will experience many of the same trends and issues facing all other state agencies. The future suggests increasing fiscal stringencies, greater demands for improved and speedier service to state agency and citizen customers, and a need for increased productivity. As issues become increasingly complex, often crossing governmental boundaries, Admin will play a continued leadership role in coordinating those involved. Personnel Services must respond to the need for more highly qualified and specially trained personnel, along with the need for work force flexibility to attract and retain them. Their challenge is to create innovation within the values of the merit system and the collective bargaining boundaries. Fiscal Services already has 4 fewer staff and 5 more revolving funds than in F.Y. 1981. If Admin creates more revolving funds as a way to fund its activities, this increased workload will fall on Fiscal Services to manage. The issues facing Admin management can change rapidly. As the department adapts to these changes, the need for responsive and flexible support services increases. In addition, the diversity of Admin presents unique challenges to its own support functions, as it moves from such issues as child care to telecommunications infrastructure.

Public Broadcasting:

Opportunities exist to:

- 1) Export locally produced programs beyond the state to promote Minnesota; 2) Attract and leverage funding from other sources to further enhance service capability; 3) Moderate the escalating costs of providing high quality program services; and 4) Preserve long term progress by restoring previous cuts to block and matching grant areas to meet public educational needs of the 1990s.

Minnesota Public Radio:

- To accomplish its goal of expanded service delivery to all Minnesotans, MPR plans a more complete and technologically updated system, and expects to move rapidly to claim diminishing noncommercial radio frequencies allocated to state communities.

Twin Cities Regional Cable Channel:

- Recent achievements have validated the legislative vision that created the channel and have set it on a course to become a major source of information for 400,000 cable households in the metro area. Continued state assistance will leverage increased private contributions, support and channel use.

PLAN:

Like many of Admin's activities, salaries and rent comprise the major portion of this program's budget, once pass through money is taken out. Specifically, biennial BASE level funding for this program totals \$9,071,000. Of that amount, \$5,442,000 is distributed in oil overcharge and public broadcasting grants. Of the remainder, 86% is salaries and rent. Because of this, it will be difficult to absorb salary and other inflationary increases, without looking at staff reductions.

Admin receives no money for the administration of the public broadcasting grants. A legislative appropriation is received from oil overcharge money which supports staff to administer that program. If that appropriation were not made, this program would have to make a staff reduction of 2.

1992-1993 BIENNIAL BUDGET
(DOLLARS IN THOUSANDS)

AGENCY: ADMINISTRATION, DPT OF
PROGRAM: ADMINISTRATIVE MANAGEMENT

ACTIVITY RESOURCE ALLOCATION:	FY 1989	FY 1990	Est. FY 1991	FY 1992			FY 1993		
				Adjusted Base	Agency Plan	Governor Recomm.	Adjusted Base	Agency Plan	Governor Recomm.
FISCAL & PERSONNEL SERVICES	1,242	1,274	1,088	1,109	1,143	1,143	1,108	1,159	1,159
EXECUTIVE SUPPORT	809	646	737	707	677	677	705	687	687
PUBLIC BROADCASTING	1,986	3,202	2,063	2,271	2,271	1,150	2,271	2,271	1,150
MINNESOTA PUBLIC RADIO		226		100	100	50	100	100	50
TWIN CITIES REGIONAL CABLE CHANNEL	40								
OIL OVERCHARGE	8,369	2,980	350	350	350	350	350	350	350
TOTAL EXPENDITURES BY ACTIVITY	12,446	8,328	4,238	4,537	4,541	3,370	4,534	4,567	3,396
DETAIL BY CATEGORY:									
STATE OPERATIONS	2,049	1,915	1,821	1,812	1,816	1,816	1,809	1,842	1,842
LOCAL ASSISTANCE	10,397	6,413	2,417	2,725	2,725	1,554	2,725	2,725	1,554
TOTAL EXPENDITURES BY CATEGORY	12,446	8,328	4,238	4,537	4,541	3,370	4,534	4,567	3,396
SOURCES OF FINANCING:									
DIRECT APPROPRIATIONS:									
GENERAL	3,675	5,053	3,816	4,115	4,119	2,948	4,112	4,145	2,974
STATUTORY APPROPRIATIONS:									
GENERAL	45								
STATE GOVT SPEC REV		2,980	350	350	350	350	350	350	350
SPECIAL REVENUE	8,369								
AGENCY	3	2							
GIFTS AND DEPOSITS	354	293	72	72	72	72	72	72	72
TOTAL FINANCING	12,446	8,328	4,238	4,537	4,541	3,370	4,534	4,567	3,396

ACTIVITY: Public Broadcasting/MPR
PROGRAM: Administrative Management
AGENCY: Administration, Department of

1992-93 Biennial Budget

DECISION ITEM: Reduce Public Broadcasting/MPR Grants

	Dollars in Thousands			
	<u>F.Y. 1992</u>	<u>F.Y. 1993</u>	<u>F.Y. 1994</u>	<u>F.Y. 1995</u>

GOVERNOR'S RECOMMENDATION:

Expenditures				
General Fund	\$ (1,171)	\$ (1,171)	\$ (1,171)	\$ (1,171)
Revenues				
General Fund	\$ -0-	\$ -0-	\$ -0-	\$ -0-

Requires statutory change: _____ Yes X No
Statutes Affected:

ITEM SUMMARY:

Reduce BASE level funding for public broadcasting operational and equipment grants which will result in a remaining base of \$1,150,000 for Public Broadcasting and \$50,000 for Minnesota Public Radio.

BACKGROUND:

This program provided direct matching, operational and equipment grants to those noncommercial television and radio stations which meet the criteria set forth in the statutes M.S.139.16-19.

Operational grants are used to offset the ongoing costs associated with providing public broadcast services. Equipment grants are used to replace worn out and obsolete equipment and to acquire new equipment.

RATIONALE/OPTIONS:

Support for this type of activity should be dependent upon public contributions.

<u>BASE:</u>	<u>F.Y. 1990</u>	<u>F.Y. 1991</u>	<u>F.Y. 1992</u>	<u>F.Y. 1993</u>
General Fund Expenditures (000's)				
Public Broadcasting	\$ 3,102	\$ 1,963	\$ 2,271	\$ 2,271
MPR Grants	100	100	100	100
Total	\$ 3,202	\$ 2,063	\$ 2,371	\$ 2,371

PROGRAM PURPOSE:

The Information Policy Office (IPO) is charged with assuring the legislature and governor that all major state government information management activities are coordinated and well managed. IPO is unique in that it takes a statewide view of the public's information systems, provides the vision beyond that of the functional agency, and acts as an information technology leader for the state. IPO assists state agencies by developing an information architecture, and implementing management disciplines that allow agencies to be effective in using information resources to achieve their objectives. IPO has a diverse range of responsibilities, including:

- Developing a statewide information architecture;
- Selecting and coordinating implementation of hardware and software standards to ensure compatibility among public sector information systems;
- Ensuring vendor compliance with standards and guidelines;
- Developing techniques to improve management of state records;
- Developing information system needs assessment methodologies for use by state agencies;
- Developing, promoting and coordinating education for state personnel on information system issues;
- Reviewing and approving all information system requests to be included in the governor's budget;
- Supporting local governments as they encounter information system issues; and
- Promoting compliance with and understanding of the Minnesota Government Data Practices Act.

To achieve its objectives, IPO is organized into 4 basic activities. 1) Planning produces guidelines, standards, and models that provide the design and direction for the effective use of information technology in state government. This activity also develops strategic plans that direct how the state will migrate to conformance with those standards. 2) Information Resources Management ensures conformance to standards, guidelines, and principles by providing education, training, and communications to state agencies; reviewing agency information technology budgets, strategic information plans, and systems performance; and administering agency information technology contracts and procurement. 3) Data Practices provides consulting, education, legislative drafting, evaluation, and mediation services within the public policy framework that balances the contending interests of privacy and due process rights of citizens on whom the government maintains data. Also at stake here are the public's right to get access to government information, and the agencies need to collect and use data to carry out government programs. 4) IPO also includes the legislatively created Intergovernmental Information Systems Advisory Council (IISAC).

PERFORMANCE:

Minnesota is experiencing a technological revolution. The growth of computer use has fueled dramatic changes in the workplace, which in turn have resulted in equally striking changes in the way we live. Information is now the driving force behind much of our economic and social activity, and is a growing, pervasive influence on all aspects of governmental activity.

The legislature requires that IPO set priorities on all major information system requests, and ensure that individual systems do not duplicate or conflict with other agencies' systems. Because information systems and the needs they are designed to serve are complex, IPO requires long-term planning by agencies before they purchase and use information systems. To properly budget for and use a system, agencies must consider more than the price of the hardware and software and more than just the immediate information needs. IPO encourages a big picture approach so that all aspects of expense and utilization are fully understood before any money is spent. This helps ensure system success and efficiency.

A critical part of this process is the strategic information plan. A strategic information plan is a broad, long-term view of the organization's mission and how it can be achieved. It is not deciding what computers to buy or what software to run on them; instead, it's a process used to understand the agency's business, its functions, and the information used by those functions. The strategic information plan identifies the role information will play in achieving the agency's mission, and the initiatives to be undertaken that will enhance the agency's information resources. Along with the technology to be employed, the plan accounts for all forms of information management and addresses the human resources to be used.

IPO has introduced the concept of life-cycle costing into the planning process. The life-cycle methodology illustrates the costs, benefits, and risks of a system over time. It allows planners to examine present needs and peer into the future so they can prepare a systematic economic analysis of any proposed system and the demands that will be placed upon it.

IPO has also created a process for a performance review of system expectations (PROSE). PROSE follows the budget review process and continues throughout the life of the system. At important periods during system life cycle, PROSE asks questions designed to illuminate system and user performance. PROSE is another aspect of the planning process that creates understanding of information needs and how an agency can meet them.

IPO continues to develop a statewide information architecture. The information architecture is a framework that will allow us to develop more efficient and flexible handling of the state of Minnesota's complex information needs. An important part of this process is selection and implementation of standards that deal with hardware and software features, ranging from plug design to the way in which computers send data to each other. IPO selects appropriate international and national standards to help ensure compatibility between information systems and computer networks. As the foundation on which to base future standards, IPO has chosen the U.S. government's Government Open Systems Interconnection Profile, or GOSIP. GOSIP provides interconnectivity of electronic mail, file transfers, wide-area networks, and local area networks. The first GOSIP standard chosen for implementation is called X.25, which allows the free flow of information between local area networks and wide-area networks.

Projects designed to deal with specific aspects of critical information management issues are another important part of the IPO architecture development process. These projects have addressed such issues as geographic information systems, building wiring, data modeling, 2-way interactive video, records management, automated systems development tools, and the development of a state information infrastructure. The thinking required to successfully conclude these projects contributes to both resolving the immediate issues and ongoing development of the statewide architecture. The IPO architecture development process allows the state the potential of not being simply reactive to information technology change, and gives agencies support in managing how that change affects their activities.

PROSPECTS:

Minnesota is becoming an information society. To meet new and evolving citizen needs, government must also change. To operate effectively in this new age, Minnesota government must be more flexible and responsive to change. This process is made more complex because these demands on government are growing at the same time that its resources are shrinking, which requires large improvements in productivity. This trend will not change in the foreseeable future. Successful government agencies in this new environment will be identified by their effective use of productivity-enhancing information technology. That will require a fundamental restructuring of how they do their work.

Experience has shown that the new technologies can enable new and more productive work methods. However, they can also lead to long-term losses in productivity potential. Evidence is growing that simply automating existing processes can achieve only limited gains in productivity. Any improvement is important, but simple automation of the old way of doing the job is the poorest way to use new

PROGRAM: Information Policy Office
(Continuation)
Agency: Administration, Department of

1992-93 Biennial Budget

technology and offers the least gain in productivity. The heavy investment in new technology to automate existing work can also lock an agency into inefficient processes and further damage productivity potential by making it much more difficult to change.

The best gains in productivity are achieved by re-engineering work processes in order to optimize applications of new information technologies. That level of change doesn't happen naturally. It requires a thorough examination of how the work is done, how new technology might improve it and how new ways of utilizing the technology might improve it still further. To successfully complete these detailed examinations agencies will need to create detailed business plans followed by equally detailed strategic information plans as a foundation for re-engineering. The Information Policy Office will be actively promoting re-engineering activities and encouraging agencies to make use of the opportunities that information technology affords.

PLAN:

If we assume normal inflation and negotiated salary increases BASE level funding for the Information Policy Office, the salary and benefits portion of the total IPO budget will increase from 75% to 82%. This will decrease IPO's operating budget 30% over the biennium. Also, given the absorption of the Data Protection Division within the office, by the end of the biennium the office will have effectively lost \$250,000 in operating revenue (approximately 18% of the F.Y. 1991 BASE).

There are 3 options to respond to this funding gap:

1. Discontinue all staff training, retraining, travel, and no longer contract for outside expertise. The consequences will be a staff that is becoming more and more out-of-date with information technology. We estimate this would be the equivalent of losing 8 experienced staff over the course of the biennium.
2. Continue our leadership function and discontinue the bureaucratic review processes. We would no longer review procurement nor budget requests. We would also not have resources to support active involvement in standards implementation and migration. The consequences will be a loss of the "watch dog" role for the legislature over agencies' information technology activities.
3. Continue the "watch dog" role and discontinue the activities which support agency information management. We would no longer guide and support agency strategic information planning; act as an intermediary between state agencies and local government; publish training, research, and development material, nor develop programs for agencies to improve management of their information resources. The consequences will be a loss to state government of the resources needed to help state agencies move effectively into the information age.

GOVERNOR'S RECOMMENDATION:

The Governor concurs with the agency's plan.

1992-1993 B I E N N I A L B U D G E T
(DOLLARS IN THOUSANDS)

AGENCY: ADMINISTRATION,DPT OF
PROGRAM: INFORMATION POLICY OFFICE

ACTIVITY RESOURCE ALLOCATION:	FY 1989	FY 1990	Est. FY 1991	FY 1992			FY 1993		
				Adjusted Base	Agency Plan	Governor Recomm.	Adjusted Base	Agency Plan	Governor Recomm.
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
INFORMATION PLANNING AND RESOURCE	1,009	1,536	1,343	1,362	1,397	1,397	1,360	1,412	1,412
DATA PRIVACY	45	54	93	94	98	98	94	100	100
INTERGOVERNMENTAL INFORMATION SYST	167	140	219	187	191	191	187	192	192
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL EXPENDITURES BY ACTIVITY	1,221	1,730	1,655	1,643	1,686	1,686	1,641	1,704	1,704
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
DETAIL BY CATEGORY:									

STATE OPERATIONS	1,007	1,555	1,557	1,578	1,621	1,621	1,576	1,639	1,639
LOCAL ASSISTANCE	214	175	98	65	65	65	65	65	65
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL EXPENDITURES BY CATEGORY	1,221	1,730	1,655	1,643	1,686	1,686	1,641	1,704	1,704
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
SOURCES OF FINANCING:									

DIRECT APPROPRIATIONS:									
GENERAL	1,152	1,654	1,655	1,643	1,686	1,686	1,641	1,704	1,704
STATUTORY APPROPRIATIONS:									
GENERAL	50	76							
SPECIAL REVENUE	17								
FEDERAL	2								
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL FINANCING	1,221	1,730	1,655	1,643	1,686	1,686	1,641	1,704	1,704

PROGRAM PURPOSE:

The Department of Administration's Management Analysis Division (MAD) is state government's in-house management consulting unit.

The mission of the division is to improve the productivity, quality, and cost-effectiveness of government services. The division provides management consultation to the governor, legislature, commissioner of administration, state agencies, and local units of government.

Work requested by the governor, legislature, and commissioner of administration and statewide productivity/quality improvement efforts are funded by the general fund. The division charges fees for work requested by state agencies and local units of government.

The division strives to achieve its mission by:

- providing objective information to the legislature on management and public policy issues confronting the state;
- advising and acting for the governor and his cabinet on issues related to the overall management of state government;
- developing, piloting, and disseminating innovative ways to improve government productivity and quality;
- providing consultation and technical assistance on department operations to the commissioner of administration; and
- providing affordable, quality management consulting services on productivity and quality improvement to state agencies and local units of government.

PERFORMANCE:

MAD has conducted 5 legislative studies during the F.Y. 1990-91 biennium: an analysis of the need for additional veterans homes in the state, a cost/benefit analysis of consolidating the state air fleets, an analysis of the state's set-aside purchasing programs, an analysis of performance incentives for state managers, and an assessment of the state's prevailing wage law.

MAD serves as staff to the Executive Council, prepares gubernatorial executive and reorganization orders, approves agency reorganizations, staffs the governor's subcabinets, handles the administrative affairs of agencies that are abolished or temporarily suspended, prepares contingency plans for state government operations in case of disasters or employee strikes, assists new agencies in setting up operations, and handles the administrative details of gubernatorial and attorney general transitions.

MAD has developed an innovative productivity and quality improvement program -- Strive Toward Excellence in Performance (STEP) -- with over 60 pilot projects in 24 state agencies. The division has recruited over 200 public and private sector partners to assist the pilot projects. The Urban Institute has recently published the STEP program guide for sale nationally to government managers.

MAD provides a variety of assistance to the Department of Administration. In F.Y. 1990-91 the division, for example, staffed an interagency task force on security in the Capitol complex and is revising the Department of Administration's operating policies and procedures in order to streamline and simplify them.

Since 1985, the division has charged for consulting services provided to state agencies and local units of government. Demand for MAD's services has increased dramatically. In F.Y. 1986, MAD devoted 3 full-time positions to this activity. In F.Y. 1991, the demand has grown to support 9 positions.

MAD does not have a monopoly on state government contracts. State managers are free to contract with private consultants if they wish. This means that MAD must be able to compete on price and quality. MAD's F.Y. 1991 rates are \$60 per hour, less than half the rate of outside consulting firms. Rates include all costs including salaries, benefits, expenses, supplies, equipment, secretarial support, and overhead. MAD's consulting services include strategic and operational planning assistance, cost/benefit analysis, systems analysis, organizational design, work simplification and redesign, and organizational development. MAD's staff bring years of practical, hands-on experience working with government agencies. The division has a reputation for objective, thorough analysis and workable solutions to management problems.

MAD's principal clients are state agencies. MAD had 67 consulting contracts in F.Y. 1990. In F.Y. 1991, MAD's business plan calls for a 19% increase in demand.

PROSPECTS:

The division's general fund work plan changes depending on the priorities of the legislature, governor, commissioner of administration, and the cabinet. The division's staff are experienced consultants who can be assigned a variety of work. Although its general fund complement has remained the same since 1981, demand for MAD's services has increased substantially.

Given the increasing demand for state services and a tight state budget, the division can provide useful advice, consultation, and assistance to the legislature, governor, and state agencies on ways to increase the productivity and quality of state services.

The department believes that the time has come for a major new state effort to improve the productivity and quality of government services. The department has formed a working group of state agency heads, business leaders, and labor to examine the issue. The STEP program focuses on management innovation. The committee has recommended that in addition to the STEP program, the state should undertake a comprehensive service redesign initiative, targeting those services which cut across state agencies and levels of government. The redesign initiative would involve not only improving the management of a service but also redesigning policy and restructuring service delivery systems.

PLAN:

The division's F.Y. 1992-93 general fund work plan allocates staff time as follows:

Legislative Studies**	15%
Ongoing Statewide Management Responsibilities	30%
Statewide Productivity/Quality Improvement Initiatives	30%
Department of Administration Assistance	25%

** Our F.Y. 1992-93 plan assumes that, as in the past, the legislature will appropriate supplemental funds for major studies.

Salaries account for over 80% of the division's budget; rent and other fixed expenses account for an additional 6%. Any salary increases, not covered by a salary supplement, can only be managed through staff reductions.

PROGRAM: Management Analysis
(Continuation)
Agency: Administration, Department of

1992-93 Biennial Budget

If there is no salary supplement to cover increased salary costs, we would eliminate most general fund services to the department of administration and would reduce funding for statewide productivity/quality improvement initiatives. We would scale back the STEP program. If the division were directed to begin even a very modest service redesign effort, the STEP program would be closed down. There would be insufficient funds for both efforts.

We would continue our current level of effort for legislative studies and ongoing statewide management responsibilities. Our efforts in these areas were reduced to minimal levels as part of earlier budget reductions.

In F.Y. 1992-93, we predict demand for our fee-based services will increase between 5 and 10% per year. We estimate our rates will increase at or below the rate of inflation.

GOVERNOR'S RECOMMENDATION:

The Governor concurs with the agency's plan.

1992-1993 B I E N N I A L B U D G E T
(DOLLARS IN THOUSANDS)

AGENCY: ADMINISTRATION,DPT OF
PROGRAM: MANAGEMENT ANALYSIS

ACTIVITY RESOURCE ALLOCATION:	FY 1989	FY 1990	Est. FY 1991	FY 1992			FY 1993		
				Adjusted Base	Agency Plan	Governor Recomm.	Adjusted Base	Agency Plan	Governor Recomm.
MANAGEMENT ANALYSIS	1,174	1,390	1,342	1,350	1,311	1,311	1,349	1,319	1,319
TOTAL EXPENDITURES BY ACTIVITY	1,174	1,390	1,342	1,350	1,311	1,311	1,349	1,319	1,319
DETAIL BY CATEGORY:									
STATE OPERATIONS	1,174	1,390	1,342	1,350	1,311	1,311	1,349	1,319	1,319
TOTAL EXPENDITURES BY CATEGORY	1,174	1,390	1,342	1,350	1,311	1,311	1,349	1,319	1,319
SOURCES OF FINANCING:									
DIRECT APPROPRIATIONS:									
GENERAL	769	827	617	625	586	586	624	594	594
STATUTORY APPROPRIATIONS:									
SPECIAL REVENUE	405	530	725	725	725	725	725	725	725
GIFTS AND DEPOSITS		33							
TOTAL FINANCING	1,174	1,390	1,342	1,350	1,311	1,311	1,349	1,319	1,319

PROGRAM STRUCTURE

AGENCY: OFFICE OF ADMINISTRATIVE HEARINGS

PROGRAM

PAGE

Administrative Hearings

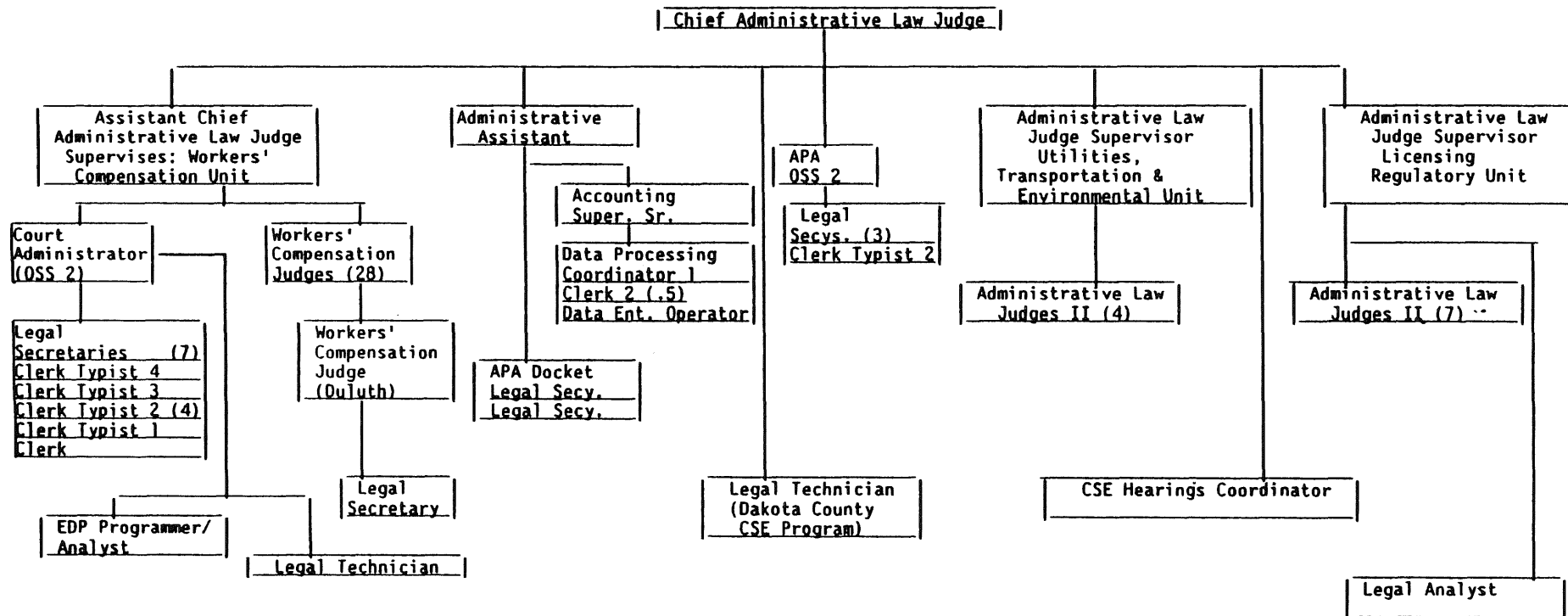
216

Workers' Compensation

219

MINNESOTA OFFICE OF ADMINISTRATIVE HEARINGS
ORGANIZATION STRUCTURE

July, 1990



Administrative Hearings, Office of
Position and Employee Status Information

Position Reconciliation:

Authority:	Current F.Y. 1991	Requested For 6-30-93
Legislative Complement:		
Revolving Fund	25.5	25.5
Workers' Comp. Special	52.0	52.0
Total Permanent Positions	<u>77.5</u>	<u>77.5</u>
Other Complement (FTE)	<u>2.0</u>	<u>-0-</u>
TOTAL Positions	79.5	77.5
Employees on 6-30-90	79.5	

Employees by Employment Status:

	<u>6-30-90</u>
Full-Time Unlimited	77.5
Full-Time Temporary	<u>2.0</u>
TOTAL	79.5

AGENCY: Administrative Hearings, Office of

1992-93 Biennial Budget

MISSION:

The mission of the Office of Administrative Hearings is to conduct contested case and rulemaking hearings for state agencies, child support enforcement hearings for 17 Minnesota counties, hearings for political subdivisions, and all workers' compensation trials for the state. The office conducts the hearings, compiles the official records of the hearings, and issues recommendations for action or final orders.

The primary aim of the office is to provide fair and expeditious administrative hearings at the lowest possible cost to all participants.

MAJOR POLICY DRIVERS:

The primary clients of the office are state agencies, political subdivisions injured workers and their dependents, employers and their workers' compensation carriers, attorneys, and other citizens of the state whose rights may be affected by state action. While the office operates out of a main location in Minneapolis, where 17 hearing rooms are located, the office conducts hearings in every county of the state, the specific locations being selected on the basis of convenience to the parties involved in the hearings.

The office is divided into 2 program areas, administrative procedure act hearings and workers' compensation hearings. The workers' compensation program is funded by a direct legislative appropriation from the special workers' compensation fund, while the Administrative Procedure Act program is funded through a revolving account.

The demand for the offices' services are significant and require the provision of timely hearings particularly in the areas of workers' compensation and child support enforcement. The office must be prepared to assign judges to handle 700 administrative procedure act cases per year, 6,000 worker's compensation cases per year, and 4,000 child support enforcement matters.

The goal with respect to all hearings is to increase the efficiency of the hearing process while ensuring that all parties are provided due process. A reduction in the time required to conclude the hearing process has been a primary objective.

Resource allocation has been made very conservatively. There is a very low level of support staff with 33.5 supporting 44 full-time judges and 25 part-time judges. This is far less than any judicial and most quasi-judicial systems. Emphasis has been placed on working environment and technological improvements.

EXPLANATION OF BUDGET ISSUES AND ALTERNATIVES:

The Administrative Procedures Act change level is to fill vacancies and to cover salary increases; workers compensation change request is for anticipated salary increases only.

Reallocation by Program

	<u>F.Y. 1991</u>	<u>F.Y. 1992</u> Change From <u>F.Y. 1991</u>	<u>F.Y. 1993</u> Change From <u>F.Y. 1992</u>
Administrative Procedure Act	1,688	205	283
Worker's Compensation	3,298	193	352

1992-1993 B I E N N I A L B U D G E T
(DOLLARS IN THOUSANDS)

AGENCY: ADMINISTRATIVE HRNGS

				FY 1992			FY 1993		
PROGRAM RESOURCE ALLOCATION:	FY 1989	FY 1990	Est. FY 1991	Adjusted Base	Agency Plan	Governor Recomm.	Adjusted Base	Agency Plan	Governor Recomm.
ADMINISTRATIVE HEARINGS OFFICE	1,276	1,590	1,688	1,688	1,893	1,893	1,688	1,971	1,971
WORKERS COMPENSATION	2,923	3,150	3,316	3,364	3,476	3,476	3,353	3,635	3,635
TOTAL EXPENDITURES BY PROGRAM	4,199	4,740	5,004	5,052	5,369	5,369	5,041	5,606	5,606
SOURCES OF FINANCING:									
DIRECT APPROPRIATIONS:									
WORKERS COMP SPECIAL	2,889	3,146	3,298	3,346	3,458	3,458	3,335	3,617	3,617
STATUTORY APPROPRIATIONS:									
ENTERPRISE	1,310	1,594	1,706	1,706	1,911	1,911	1,706	1,989	1,989
TOTAL FINANCING	4,199	4,740	5,004	5,052	5,369	5,369	5,041	5,606	5,606

BASE RECONCILIATION REPORT
for 1992-1993 Biennium

AGENCY: ADMINISTRATIVE HRNGS

	ALL FUNDS		GENERAL FUND		OTHER STATE FUNDS		FEDERAL FUNDS	
	F.Y.92	F.Y.93	F.Y.92	F.Y.93	F.Y.92	F.Y.93	F.Y.92	F.Y.93
F.Y.91 FUNDING LEVEL	5,004	5,004			5,004	5,004		
SALARY ANNUALIZATION	41	30			41	30		
DOCUMENTED RENT/LEASE INCR.	7	7			7	7		
TOTAL	5,052	5,041			5,052	5,041		
BIENNIAL TOTAL		10,093				10,093		

PROGRAM: Administrative Procedure Act
Agency: Administrative Hearings, Office of

1992-93 Biennial Budget

PROGRAM PURPOSE:

The Office of Administrative Hearings' Administrative Procedure Act Program is required, by statute, to conduct contested case and rulemaking hearings for the state, child support enforcement hearings for 17 Minnesota counties, and trial type hearings for political subdivisions when the subdivision requests that an administrative law judge preside. These matters are to be heard and decided in a fair and expeditious manner and at the lowest possible cost to all participants.

The administrative law judges conduct all prehearing conferences and hearings, complete all necessary legal research with some assistance from a legal analyst, and issue recommendations for final agency action. In cases involving OSHA, the human rights act, special education, personnel disciplinary actions, child support enforcement hearings, and certain other cases the reports are final decisions and are appealable directly to the courts.

The hearings conducted involve the rights, duties or privileges of the state's citizens and those doing business within the state. Contested case hearings are typically in the areas of human rights, employee discipline, public utilities, professional licensure, securities regulation, transportation regulation and environmental quality. Examples include the Beverly Nursing Homes licensing case, the St. Paul Fire Chief discharge matter, the Flying Cloud Landfill permit case, the licensing of those in the medical profession, the NSP rate case, the Minnesota equal access telephone network system matter, the St. Paul firefighters hiring practices case, and all contested rulemaking hearings for state agencies. The program also conducts approximately 4,000 child support enforcement hearings per year in 17 Minnesota counties.

PERFORMANCE:

The office has been successful in conducting the hearings as required and issuing fair and timely decisions. The hearings conducted span such lengthy and extensive proceedings as an environmental or utility case which may require months of hearing to a child support matter which may be concluded in less than 1 hour.

An example of how successful an expedited administrative process can be was the child support enforcement proceedings conducted in Dakota County which commenced in 1988. In that county, child support orders per year went from 335 in 1987 under the district court process to 960 in 1989 under the administrative law process and collections increased from \$4.4 million in 1987 to \$6.8 million in 1989. The objective and effectiveness measures for the Administrative Procedure Act Program are as follows:

Objective: To complete hearings and issue final decisions or recommend final action in state agency contested cases, rulemaking proceedings, child support enforcement proceedings, and hearings conducted for political subdivisions.

	Actual F.Y. 1989	Actual F.Y. 1990	Estimate F.Y. 1991	Request F.Y. 1992	Request F.Y. 1993
Effectiveness Measures:					
Hearings Completed and Reports/Decisions Issued	490	506	510	560	560
Average No. of Days After Hearing to Issue Report/Decision	18	19	19	19	19
No. of Child Support Enforcement Cases Brought Before ALJs	960	3,000	4,000	4,000	4,000
Total Hours of Hearings Conducted by ALJS	2,652	3,245	3,250	3,575	3,575
Total Hours Billed By ALJS	16,599	19,230	19,250	21,175	21,175

PROSPECTS:

This program is funded through a revolving account. The entities which use its services are charged an hourly rate for services performed. That hourly rate is approved each fiscal year by the Department of Finance and reflects the actual expenses of the program.

The primary objective is to provide quality hearing services at a minimum of cost. Use of settlement and alternative dispute resolution techniques has and will continue to be emphasized to resolve disputes without requiring lengthy hearings and decision-making. The prospect of more hearings occurring in Greater Minnesota has resulted in the employment of qualified attorneys from local areas to serve as administrative law judges. This can reduce travel and resultant costs for clients in these areas.

PLAN:

The program intends to continue to provide quality hearing services at a competitive price and with the intent of minimizing costs by the prudent use of support staff, the use of alternative dispute resolution techniques, the use of contract administrative law judges as appropriate, and the retention and employment of competent, knowledgeable and fair judges who can perform these responsibilities in a thorough and expeditious manner.

The office is not requesting a direct appropriation for this activity as it operates on a revolving fund. Dedicated revenue obtained through the approved rate structure will be used to cover the costs of providing the hearing services.

Agency Reallocation:

<u>Salary Increases</u>	<u>F.Y. 1992</u>	\$205,000	<u>F.Y. 1993</u>	\$283,000
--------------------------------	-------------------------	------------------	-------------------------	------------------

The administrative procedures activity anticipates a 10% increase in hearings during the next biennium. We anticipate that we would be required to fill the 2 remaining vacant administrative law judge positions and 1 vacant legal secretary to meet that increased volume. Salary increases for F.Y. 1992 and F.Y. 1993 will be funded by additional revenue generated by increased billable hours and a possible rate increase.

Since this program is not on a direct or fixed appropriation, but rather it charges for the hourly services of employees, a cut of positions or reallocation of resources will not save money for the revolving fund.

GOVERNOR'S RECOMMENDATION:

The Governor concurs with the agency's plan.

1992-1993 B I E N N I A L B U D G E T
(DOLLARS IN THOUSANDS)

AGENCY: ADMINISTRATIVE HRNGS
PROGRAM: ADMINISTRATIVE HEARINGS OFFICE

ACTIVITY RESOURCE ALLOCATION:	FY 1989	FY 1990	Est. FY 1991	FY 1992			FY 1993		
				Adjusted Base	Agency Plan	Governor Recomm.	Adjusted Base	Agency Plan	Governor Recomm.
ADMINISTRTRV HEARINGS	1,276	1,590	1,688	1,688	1,893	1,893	1,688	1,971	1,971
TOTAL EXPENDITURES BY ACTIVITY	1,276	1,590	1,688	1,688	1,893	1,893	1,688	1,971	1,971
DETAIL BY CATEGORY:									
STATE OPERATIONS	1,276	1,590	1,688	1,688	1,893	1,893	1,688	1,971	1,971
TOTAL EXPENDITURES BY CATEGORY	1,276	1,590	1,688	1,688	1,893	1,893	1,688	1,971	1,971
SOURCES OF FINANCING:									
DIRECT APPROPRIATIONS:									
STATUTORY APPROPRIATIONS:									
ENTERPRISE	1,276	1,590	1,688	1,688	1,893	1,893	1,688	1,971	1,971
TOTAL FINANCING	1,276	1,590	1,688	1,688	1,893	1,893	1,688	1,971	1,971

ACTIVITY: Administrative Hearings
PROGRAM: Administrative Hearings
AGENCY: Office of Administrative Hearings

1992-93 Biennial Budget

DECISION ITEM: Fill Three Vacancies and Salary Increases

Dollars in Thousands			
<u>F.Y. 1992</u>	<u>F.Y. 1993</u>	<u>F.Y. 1994</u>	<u>F.Y. 1995</u>

AGENCY PLAN:

Expenditures					
Enterprise Fund	\$	205	\$	283	\$ 283
Revenues					
Enterprise Fund	\$	205	\$	283	\$ 283

GOVERNOR'S RECOMMENDATION:

Expenditures					
Enterprise Fund	\$	205	\$	283	\$ 283
Revenues					
Enterprise Fund	\$	205	\$	283	\$ 283

Requires statutory change: _____ Yes X No
Statutes Affected:

ITEM SUMMARY:

This program anticipates a 10% increase in hearings during the next biennium. This would require the filling of 3 vacancies and the absorption of salary adjustments through revenue generated by fees charged for billable hours.

RATIONALE:

This item requires no direct appropriation. It simply anticipates an increased need for the hearing services of the office for which hourly fees are charged for services provided. This would occur if additional child support hearing responsibilities and/or state agency hearing requirements are added to the agency's workload as has been the case during the current biennium.

GOVERNOR'S RECOMMENDATION:

The Governor concurs with the agency's plan.

PROGRAM: Workers' Compensation
Agency: Administrative Hearings, Office of

1992-93 Biennial Budget

PROGRAM PURPOSE:

The Office of Administrative Hearings' Workers' Compensation Program is required to conduct all workers' compensation trials for the state. Disputed workers' compensation claims which are not settled at the Department of Labor and Industry are referred to the Office of Administrative Hearings for resolution.

Once a matter is referred to the office, the workers' compensation judges and their support staff are required to decide and issue orders granting and denying motions, issue pretrial orders schedule and conduct pretrial hearings and settlement conferences, review all settlement agreements and issue awards on those agreements, conduct all trials and issue final decisions, award attorney fees, process all appeals and handle cases remanded from the workers' compensation court of appeals.

PERFORMANCE:

The office has been successful on reducing the time which it takes to obtain a hearing once a workers' compensation case has been referred to the office from the Department of Labor and Industry. In 1988, that could have taken up to 18 months. Today, it stands at 6 to 7 months. Cases are finally decided within 30 days of the hearing and, if the matter settles, an order approving the stipulation is issued within 3.2 days of the receipt of the signed stipulation by the office.

The objectives and effectiveness measures for the Workers' Compensation Program are as follows:

Objective: To adjudicate all workers' compensation cases referred to the office from the Department of Labor and Industry.

Effectiveness Measures:	Actual F.Y. 1989	Actual F.Y. 1990	Estimate F.Y. 1991	Request F.Y. 1992	Request F.Y. 1993
Files Received For Hearing at OAH	4,620	5,909	5,900	5,900	5,900
Files Disposed Of By OAH	5,347	5,657	5,700	5,700	5,700

Objective: To reduce time delays in providing an opportunity for a hearing and the issuance of a decision on a disputed workers' compensation claim.

Effectiveness Measures:	Actual F.Y. 1989	Actual F.Y. 1990	Estimate F.Y. 1991	Request F.Y. 1992	Request F.Y. 1993
No. of Months Between Filing a Claim At DOLI To Hearing Date	10.6	10.3	11.0	11.0	11.0
No. of Months Between Receipt of Claim Petition At OAH and Hearing Date	6.4	6.1	7.0	7.0	7.0
Average No. of Days To Issue Decision On Claim Petition After Hearing	28.3	29.0	29.0	29.0	29.0
No. of Findings and Orders Issued	1,354.0	1,364.0	1,370.0	1,370.0	1,370.0
No. of Months Between Receipt of Petition to Discontinue Compensation Or An Objection To Such Discontinuance and a Final Decision	2.0	2.0	2.0	2.0	2.0

Objective: To provide for the settlement of workers' compensation cases with a minimum of delay.

Effectiveness Measures:	Actual F.Y. 1989	Actual F.Y. 1990	Estimate F.Y. 1991	Actual F.Y. 1992	Actual F.Y. 1993
No. of Awards Issued On Settlements	3,571	3,779	3,779	3,779	3,779
Average No. of Days From Receipt of Stipulation to Issuance of Award	3.4	3.2	3.0	3.0	3.0

PROSPECTS:

There has been a significant increase in files referred to the office from the Department of Labor and Industry during F.Y. 1990. Total cases referred in F.Y. 1989 were 4,620, while total cases referred in F.Y. 1990 were 5,909, a 28% increase.

With our current staffing and with a consistent flow of cases from the department, we will continue to be able to provide reasonable time frames for the conduct of hearings and issuance of decisions. The danger would be a significant influx of cases from the Department of Labor and Industry as was experienced during F.Y. 1990. The agencies are communicating on a routine basis in order to provide for an orderly case flow.

PLAN:

The program intends to provide quality and timely workers' compensation proceedings and to do so within its current resource allocation. However, the continued increase in files referred has led to an increase in the time it takes to obtain a hearing during the first half of F.Y. 1991, and it is anticipated this will continue.

The office has and will continue to emphasize settlement of these matters which saves the clients both time and expense. Technological innovations have been introduced with respect to the processing of cases and the use of personal computers by judges. Of paramount importance will be continued cooperation with the Department of Labor and Industry on the numbers and types of cases referred to the office for hearing.

Agency Reallocation:

Salary Increases **F.Y. 1992** **\$193,000** **F.Y. 1993** **\$352,000**
Base level increases for anticipated salary increases must be funded from the workers' compensation special fund rather than funded by cuts in staff or services. A cut in resources will cause an increase in case processing time. While there has been a significant increase in activity in the workers' compensation area, this program can accomplish its goals with existing complement. However, a continued increase in cases would lead to an increase in the time required to obtain a workers' compensation hearing. M.S.1990, 15A.083, subd. 7, requires that workers' compensation judges be paid 75% of district court judges and in the past these raises were funded by salary supplement transfers from the special workers' compensation fund. We have calculated these increases at 6% annually for workers' compensation judges in accord with what has occurred for district court judges and 4.5% for support staff and incorporated these increases into the budget as a change level. Additional cost of leased office and courtroom space for \$7,000 per year is also included in the Base level adjustment.

GOVERNOR'S RECOMMENDATION:

The Governor concurs with the agency's plan.

1992-1993 BIENNIAL BUDGET
(DOLLARS IN THOUSANDS)

AGENCY: ADMINISTRATIVE HRNGS
PROGRAM: WORKERS COMPENSATION

ACTIVITY RESOURCE ALLOCATION:				FY 1992			FY 1993		
	FY 1989	FY 1990	Est. FY 1991	Adjusted Base	Agency Plan	Governor Recomm.	Adjusted Base	Agency Plan	Governor Recomm.
WORKERS COMPENSATION ACTIVITIES	2,889	3,146	3,298	3,346	3,458	3,458	3,335	3,617	3,617
WORKERS COMP. APPEAL FEES	34	4	18	18	18	18	18	18	18
TOTAL EXPENDITURES BY ACTIVITY	2,923	3,150	3,316	3,364	3,476	3,476	3,353	3,635	3,635
DETAIL BY CATEGORY:									
STATE OPERATIONS	2,923	3,150	3,316	3,364	3,476	3,476	3,353	3,635	3,635
TOTAL EXPENDITURES BY CATEGORY	2,923	3,150	3,316	3,364	3,476	3,476	3,353	3,635	3,635
SOURCES OF FINANCING:									
DIRECT APPROPRIATIONS:									
WORKERS COMP SPECIAL	2,889	3,146	3,298	3,346	3,458	3,458	3,335	3,617	3,617
STATUTORY APPROPRIATIONS:									
ENTERPRISE	34	4	18	18	18	18	18	18	18
TOTAL FINANCING	2,923	3,150	3,316	3,364	3,476	3,476	3,353	3,635	3,635

ACTIVITY: Workers' Compensation
PROGRAM: Workers' Compensation
AGENCY: Office of Administrative Hearings

1992-93 Biennial Budget

DECISION ITEM: Statutory Salary Increases for Workers' Compensation Judges and Support

Dollars in Thousands			
<u>F.Y. 1992</u>	<u>F.Y. 1993</u>	<u>F.Y. 1994</u>	<u>F.Y. 1995</u>

AGENCY PLAN:

Expenditures					
W.C. Special Fund	\$	112	\$	282	\$ 282

Revenues					
W.C. Special Fund	\$	112	\$	282	\$ 282

GOVERNOR'S RECOMMENDATION:

Expenditures					
W.C. Special Fund	\$	112	\$	282	\$ 282

Revenues					
W.C. Special Fund	\$	112	\$	282	\$ 282

Requires statutory change: _____ Yes X No
Statutes Affected:

ITEM SUMMARY:

This would require an increased appropriation from the Workers' Compensation Special Fund to meet the projected salary adjustment requirements for workers' compensation judges and their support staff.

RATIONALE:

M.S. 15A.083, Subd.7, requires that workers' compensation judges, of which there are 29 in the office, be paid at 75% of a district court judge's salary. This increase is required to comply with the statute if increases in district court judges' salaries this biennium parallel the increase provided last year which was 6%. Support staff increases are anticipated at 4.5% per year. Support staff ratio to judges is less than 1 to 1 in the office which is very low for a judicial or quasi-judicial operation and all positions are currently filled.

GOVERNOR'S RECOMMENDATION:

The Governor concurs with the agency's plan.

Amateur Sports Commission

Position and Employee Status Information

Position Reconciliation:

Authority:	Current <u>F.Y. 1991</u>	Requested <u>For 6-30-93</u>
Legislative Complement:	<u>7.0</u>	<u>7.0</u>
Total Permanent Positions	7.0	7.0
Other Complement (FTE)	<u>2.0</u>	<u>2.0</u>
TOTAL Positions	9.0	9.0
Employees on 6/30/90	9.0	

Employees by Employment Status:

	<u>6-30-90</u>
Full-Time Unlimited	7.0
Full-Time Temporary	<u>2.0</u>
TOTAL	9.0

MISSION:

The Minnesota Amateur Sports Commission (MASC) is the principal agency of state government involved in amateur sports program, event and facility development.

The Mission of the MASC is to promote the social and economic benefits of sport for all Minnesotans as a national model. The MASC strives to achieve this mission through programs that:

1. Attract major sport events to Minnesota that draw out-of-state visitors to expand our tourism economic development.
2. Assist state agencies, counties and cities in the development of sport and recreational facilities to strengthen Minnesota's infrastructure of buildings that provide both increased recreational benefits to Minnesotans and an enhanced ability to host sport tourism events.
3. Increase sport and recreational participation by Minnesotans by developing and supporting amateur sport events and programs.
4. Promote Minnesota as a national model to gain regional, national and international recognition for Minnesota as an excellent quality and healthy state.

MAJOR POLICY DRIVERS:

1. Economic Impact

Several national studies demonstrate that the collective economic benefits from amateur sport events has a value of almost \$400 million annually. The work of the MASC and other sports event organizations in Minnesota have planned over \$180 million worth of economic benefits from sporting events in Minnesota between the years of 1990 and 1994. It is clear from the number of events secured that Minnesota can sustain an economic benefit of \$30 million from sport on an annual basis.

2. Facilities

It is important that to maintain Minnesota's position in the marketplace, we must have a high quality portfolio of amateur sport facilities located in the state. The facilities that were approved in 1987 and 1989 clearly make it possible for Minnesota to host a significant level of higher activity including U.S. Olympic Festival-90 and the International Special Olympics-1991. Continued improvements and additions will be required to maintain the state's ability to host major sport competitions.

The MASC has set a goal to develop an Olympic-class facility for each of the 32 Summer Olympic sports and 11 Winter Olympic sports. MASC staff studies indicate that the greatest economic benefits in the future are for those marketplaces that can host winter or summer multi-sport events. Currently, Minnesota has, or is in the process of establishing, state-of-the-art facilities for 30 of the 32 Summer Olympic sports and 7 of the 11 Winter Olympic sports.

3. Participation Programs

To increase sport participation for all citizens, the MASC has identified successful models. In a comparative study between Minnesota and Norway, both with approximately 4 million people, similar climate and comparable sports played, it was discovered that Minnesota can do more to increase sport participation. For example, Minnesota has 1.1 million sport memberships while Norway has 1.4 million. Moreover, Minnesota has approximately 330,000 female registrants and

Norway has 504,000. Minnesota also has a challenge to increase sport participation for the economically disadvantaged, the elderly and those in greater Minnesota.

4. Recognition

The purpose of the MASC in expanding social and economic benefits through sport activity relates well to Minnesota's future. Numerous studies indicate that the international and national market for leisure activities such as sport spectators or sport participants is on the increase. The MASC's role in developing further programs and facilities will bode well for increased opportunity for our state in the future.

PERFORMANCE INDICATORS:

In general terms, since the creation of the MASC in 1987, Minnesota has gone from a non-ranked status to one of the top 3 states in the nation as a model for amateur sports state.

1. Economic Impact

Prior to 1988, Minnesota averaged approximately \$10-15 million of annual economic impact due to sporting events. With the advent of new facilities and programs, Minnesota experienced \$30-40 million of economic impact due to sports in 1990. The MASC has established a goal of \$30 million of economic benefit annually. It is, also, a goal to develop annually 1 new major statewide event and 2 major events at each of the 5 MASC facilities.

2. Facility Development

The Minnesota legislature appropriated \$29.4 million in 1987, \$1.1 million in 1989 and \$13.5* in 1990 for a total of \$44.0 million in amateur sport facility construction. The MASC has established a goal of 3 new facilities in 1992 and 3 in 1994.

3. Program Development

- Star of the North State Games: Now in its 4th year, the Star of the North State Games is recognized as the largest winter and summer multi-sporting events staged in Minnesota annually. The Games, with an average of 10,000 participants, is an olympic-style event open to all Minnesota residents. The goal is to maintain 10,000 participants in the Summer events and 1,500 participants in the Winter events.
- Minnesota Amateur Sports Congress: The Minnesota Amateur Sports Congress, an annual comprehensive workshop designed to address current issues facing the amateur sports movement in our state, is attended by Minnesota's sport associations, park and recreation planners and community sport groups.
- Women's Leadership Conference on Physical Fitness and Sports: This annual conference focuses on the promotion of sport and fitness for women. It is designed to appeal to women of all ages and background, with an emphasis on increasing participation for all girls and women. As part of the commitment to increase participation by of women in sports, a full-time women's sport director position will be established.
- Governor's Council on Physical Fitness and Sport: The Governor's Council includes representatives from academic, medical and health fields who study and recommend programs to enhance general fitness, awareness and sports participation.
- The Minnesota Sport Event Program Board: As one of the statewide committees of the MASC, the Sport Event Promotion Board was formed to enhance Minnesota's ability to attract major sport events and to work with existing events to advance tourism and derive economic impact from amateur sports.

EXPLANATION OF BUDGET ISSUES AND ALTERNATIVES:

The MASC has determined that current program objectives, statutory requirements, and projected increase in the costs of goods and services excluding salaries, will result in funding demands that can be met by the current base F.Y. 1991 through economizing measures. The agency plan assumes annual inflationary costs of 4.5%. Funding for estimated salary increases for full-time positions has been adjusted by reducing the budgets for part-time positions and capital equipment. However, the notable exception is the cost of fiscal services.

Fiscal services have been provided to the MASC by DTED in F.Y. 1988, F.Y. 1989 and F.Y. 1990 at no cost to the MASC. A report by the Legislative Auditor in 1989 confirmed the MASC as an independent agency and recommended the agency now pay for its related fiscal cost incurred by Department of Trade and Economical Development beginning in F.Y. 1991. Currently, the MASC is negotiating with DTED for payment of fiscal and personnel services. It is not determined how the MASC will seek these services in the future.

A second major issue relates to the 1992 NCAA Final Four National Men's Basketball Championships.

The 1992 NCAA Final Four - National Men's Basketball Championships is the premier collegiate sporting event in the United States. The event is the nation's highest rated collegiate television event and has a significant economic impact for the host community.

In 1986, a Minnesota delegation headed by Governor Rudy Perpich successfully persuaded the NCAA to award the event to Minnesota. As part of the Bid specifications and Minnesota's proposal, the state of Minnesota pledged \$500,000 to the NCAA governing body for the NCAA Twin Cities Organizing Committees budget. All state of Minnesota pledged funds are to be spent in Minnesota as part of the Minnesota Local Organizing Committee budget.

This event plays a major role in our state's master plan to be a national sports center. In 1990 we played host to the nation's number 1 amateur sport event - the U.S. Olympic Festival. In 1991, we will host the number 1 disabled sport event - International Special Olympics. In 1992, we will host the number 1 professional sport event - the Super Bowl and the number 1 collegiate event - the NCAA Final Four will be hosted by Minnesota.

The Minnesota Amateur Sports Commission strongly supports the state of Minnesota's financial commitment to the NCAA Final Four. The state will receive an excellent return on investment because of the economic impact, sales tax proceeds, national recognition, Minnesota Amateur Sports legacy fund, and will increase opportunities to host future events.

Past hosts of the NCAA Final Four Men's National Basketball Championships estimate the economic impact to be \$92.1 million. As a national event that attracts thousands of out-of-state visitors, the event will have a significant impact on Minnesota tourism. The new net sales tax proceeds from out-of-state visitors is expected to be \$3.6 million.

In 1990 the event had a television rating of 20.1 for the final game which translates to 18,752,000 million viewers. The 2 semi-final games had a television rating of 13.2 which translates to 12,376,320 million viewers. The combined viewership of all 4 games will be a 31,128,320 million television audience. In addition, this event will generate significant radio and print media.

Contingent on NCAA approval, the Minnesota Local Organizing Committee has pledged that proceeds from the practice sessions will be awarded to the MASC Foundation. These monies will be a Minnesota Amateur Sport Legacy Fund from the NCAA Final Four. The Minnesota Amateur Sports Commission will utilize these funds to promote amateur sports in Minnesota with a special

emphasis on providing sport opportunities for disadvantaged youth.

Currently, the University of Minnesota has submitted bids for the men's 1st and 2nd round basketball tournament and women's final 4 in 1994. In addition, we will also be preparing a bid for the 1994 NCAA hockey final four.

It can be demonstrated by past hosts of the NCAA Final Four that a successful hosting of this event will generate future events. The profound level that this event brings will enable Minnesota to host many subsequent events.

The Minnesota Amateur Sports Commission has determined that a contribution of \$500,000 is consistent with current program objectives and statutory requirements.

GOVERNOR'S RECOMMENDATION:

The Governor concurs with the agency BASE level including internal adjustments to absorb projected inflationary costs for the 1992-93 biennium. No funding is recommended for the NCAA basketball championships.

1992-1993 B I E N N I A L B U D G E T
(DOLLARS IN THOUSANDS)

AGENCY: MN AMATEUR SPORTS COMMISSION
PROGRAM: AMATEUR SPORTS COMMISSION

				FY 1992			FY 1993		
ACTIVITY RESOURCE ALLOCATION:	FY 1989	FY 1990	Est. FY 1991	Adjusted Base	Agency Plan	Governor Recomm.	Adjusted Base	Agency Plan	Governor Recomm.
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
AMATEUR SPORTS COMMISSION	476	1,340	493	447	447	447	446	446	446
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL EXPENDITURES BY ACTIVITY	476	1,340	493	447	447	447	446	446	446
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
DETAIL BY CATEGORY:									
=====									
STATE OPERATIONS	461	1,153	493	447	447	447	446	446	446
LOCAL ASSISTANCE	15	187							
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL EXPENDITURES BY CATEGORY	476	1,340	493	447	447	447	446	446	446
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
SOURCES OF FINANCING:									
=====									
DIRECT APPROPRIATIONS:									
GENERAL	453	702	443	447	447	447	446	446	446
SPECIAL REVENUE		225							
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
STATUTORY APPROPRIATIONS:									
SPECIAL REVENUE	6	5							
GIFTS AND DEPOSITS	17	408	50						
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL FINANCING	476	1,340	493	447	447	447	446	446	446

BASE RECONCILIATION REPORT
for 1992-1993 Biennium

AGENCY: MN AMATEUR SPORTS COMMISSION

	ALL FUNDS		GENERAL FUND		OTHER STATE FUNDS		FEDERAL FUNDS	
	F.Y.92	F.Y.93	F.Y.92	F.Y.93	F.Y.92	F.Y.93	F.Y.92	F.Y.93
F.Y.91 FUNDING LEVEL	493	493	443	443	50	50		
SALARY ANNUALIZATION	4	3	4	3				
DEDICATED RECEIPTS AND FUNDS	<50>	<50>			<50>	<50>		
TOTAL	447	446	447	446				
BIENNIAL TOTAL		893		893				

AGENCY: Capitol Area Architectural and
Planning Board (CAAPB)

1992-93 Biennial Budget

MISSION:

To preserve and enhance the Capitol Area's unique aesthetic and historic character, and to plan and guide its future development.

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 areas.

In coordinating and overseeing development in the Capitol Area, the CAAPB works closely with the Departments of Administration and Transportation; with the City of St. Paul; with planning district and neighborhood development groups, and with architects and developers from the private sector.

MAJOR POLICY DRIVERS:

As overseer of Capitol Area development, CAAPB's responsibility for public projects begins with sponsorship of architectural design competitions and continues through all phases of design and construction. Five major design competitions have been conducted since 1985 (for the Judicial Center, Capitol Mall, History Center, State Office Building parking ramp, Minnesota Vietnam Veterans Memorial); of these, only the State Office Building (SOB) ramp has been completed.

These major construction projects have more than quadrupled the agency's workload. At least 2 more design selections will be held during the coming biennium based on appropriations in 1989 (for an office building in the Capitol Area to house executive-branch agencies) and 1990 (for a Roy Wilkins memorial in the Capitol Area). When construction funds are made available, CAAPB expects to add to its continuing-oversight list renovation of the Capitol Building's East Wing, a Labor History Center, Light Rail Transit, and 1 or more new state office buildings.

EXPLANATION OF BUDGET ISSUES AND ALTERNATIVES:

CAAPB's increased level of responsibility and overall workload has outpaced its BASE budget for several years. The agency's complement was increased from 3 to 5 by the 1989 legislature, and its annual BASE raised to \$229,000. The 1990 legislature cut the agency's second-year BASE by \$13,000. This cut has imperiled agency effectiveness in terms of its ability to meet a continuing demand for services. This budget cut already threatens a staff reduction that would increase the workload for the complement employees; it would prevent hiring temporary help for overload periods as well as overtime pay for present employees.

Besides paying salaries for its complement employees (the executive secretary, 2 planners, 2 clerical support staff), the BASE budget buys the required advice of 3 architectural professionals. The board is also authorized by statute to contract for other consultant services as required. Some of these services can be charged back to CAAPB project budgets. Often, however, no project planning funds have been made available to CAAPB. This has significant consequences for the board's operations. For example, CAAPB staff and architectural advisors have devoted hundreds of hours in 1990 to review of plans for light rail transit (LRT) as it will affect the Capitol Area. The Advisors' review time for this one project alone cost the CAAPB over \$6,300 during the past 6 months; this is almost 32 percent of the advisor "services" annual allocation in the operating budget. Because no project funds were allocated to the CAAPB by any of the LRT planning entities, this money must be taken from the agency's already shrunken BASE budget.

CAAPB's responsibility for design review of private-sector projects in the Capitol Area also can be costly in terms of Advisors' fees. Under CAAPB's permitting process, that expenditure could be recovered in the cost of construction permits issued; by law, however, such fees are currently credited to the general fund, not to the CAAPB.

The CAAPB sees no possibility of cutting services; on the contrary its statutorily defined responsibilities for Capitol Area planning and development oversight have increased yearly. Plan review for projects in the Capitol Area is mandatory; unfortunately, funds to pay for review and advisory services are not. One solution to this recurring problem would be a required budget set-aside for the CAAPB for its involvement in any state projects affecting the Capitol Area.

GOVERNOR'S RECOMMENDATION:

The Governor concurs with the agency's plan.

1992-1993 B I E N N I A L B U D G E T
(DOLLARS IN THOUSANDS)

AGENCY: CAPTL AREA ARCH/PLNG
PROGRAM: CAPTL ARCH/PLAN COMM

				FY 1992			FY 1993		
ACTIVITY RESOURCE ALLOCATION:	FY 1989	FY 1990	Est. FY 1991	Adjusted Base	Agency Plan	Governor Recomm.	Adjusted Base	Agency Plan	Governor Recomm.
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
CAPTL ARCH/PLAN COMM	619	291	234	236	236	236	236	236	236
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL EXPENDITURES BY ACTIVITY	619	291	234	236	236	236	236	236	236
DETAIL BY CATEGORY:									

STATE OPERATIONS	619	291	234	236	236	236	236	236	236
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL EXPENDITURES BY CATEGORY	619	291	234	236	236	236	236	236	236
SOURCES OF FINANCING:									

DIRECT APPROPRIATIONS:									
GENERAL	619	239	234	236	236	236	236	236	236
STATUTORY APPROPRIATIONS:									
GENERAL		52							
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL FINANCING	619	291	234	236	236	236	236	236	236

BASE RECONCILIATION REPORT
for 1992-1993 Biennium

AGENCY: CAPTL AREA ARCH/PLNG

	ALL FUNDS		GENERAL FUND		OTHER STATE FUNDS		FEDERAL FUNDS	
	F.Y.92	F.Y.93	F.Y.92	F.Y.93	F.Y.92	F.Y.93	F.Y.92	F.Y.93
F.Y.91 FUNDING LEVEL	234	234	234	234				
SALARY ANNUALIZATION	2	2	2	2				
TOTAL	236	236	236	236				
BIENNIAL TOTAL		472		472				

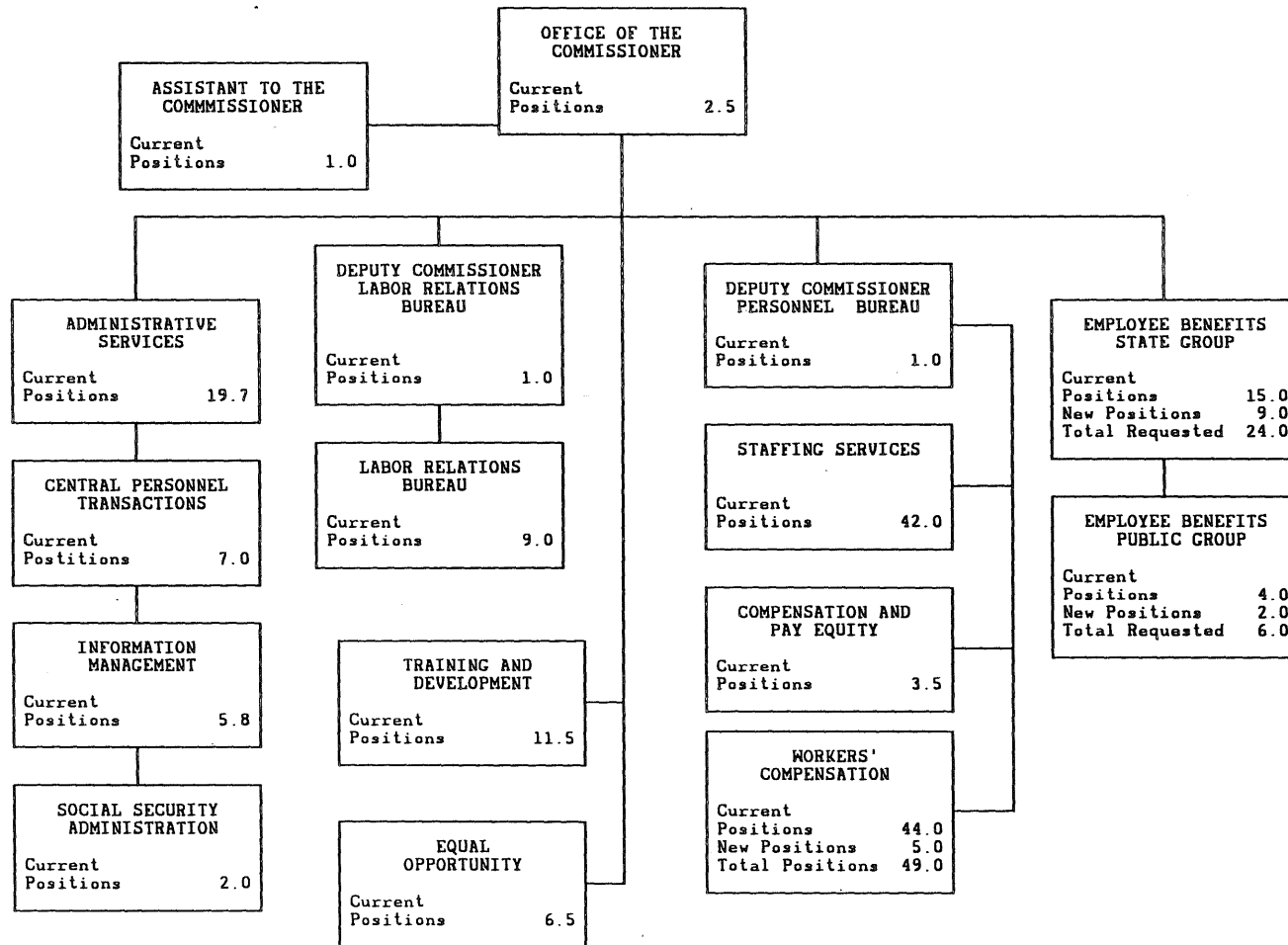
1992-93 BIENNIAL BUDGET

PROGRAM STRUCTURE

AGENCY: EMPLOYEE RELATIONS, DEPARTMENT OF

<u>PROGRAM</u>	<u>PAGE</u>
ADMINISTRATION	240
Administration	
Central Personnel Transactions	
Information Management	
Social Security Administration	
Administration Non-Operating	
EMPLOYEE HEALTH AND BENEFITS	244
State Group Insurance	
Public Employees Insurance	
Insurance Non-Operating	
LABOR RELATIONS	249
Labor Relations	
STAFFING AND COMPENSATION	252
Staffing Services	
Compensation and Pay Equity	
SAFETY AND WORKERS' COMPENSATION	255
Safety and Workers' Compensation	
Workers' Compensation Non-Operating	
TRAINING AND DEVELOPMENT	259
Training and Development	
EQUAL OPPORTUNITY	263
Equal Opportunity	
GENERAL REDUCTION	265A

Department of Employee Relations Organization Chart 7/1/90



Department of Employee Relations

Position and Employee Status Information

Position Reconciliation:		
Authority:	Current	Requested
Legislative Complement:	FY 91	For 6/30/93
General Fund	112.0	109.0
Special Revenue Fund	46.0	52.8
Insurance Trust Fund	17.5	29.5
Total Permanent Positions	175.5	191.3
Other Complement(FTE)		
Total Positions	175.5	191.3
Employees on 6/30/90	229	

Employees by Employment Status:	
	6/30/90
Full-Time Unlimited	156
Full-Time Temporary	19
Full-Time Emergency	0
Full-Time Seasonal	0
Part-Time Unlimited	15
Part-Time Temporary	7
Intermittant Unlimited	32
TOTAL	229

MISSION:

The Department of Employee Relations serves as the employer for the executive branch of Minnesota state government. DOER gives unity and consistency to the management of state government by directing and coordinating human resource management systems and labor relations programs.

The department pursues its mission by administering a fair personnel system which places jobs into a consistent class framework, fills those jobs through an open and objective process, and assures that the jobs are equitably compensated. The department further assures that the state work force reflects the diversity of the state, that employees are well-trained for the work they do, that the work life of employees is enhanced and supported, and that relationships between the state and its workers are stable and constructive.

The department is organized into 7 programmatic areas: administration, which includes establishment of policy, administrative support, information management and payroll certification; the statewide affirmative action program; employee health and benefits; labor relations, which includes negotiation of biennial collective bargaining agreements, contract administration and grievance management; safety and workers' compensation; staffing and compensation, which includes recruitment, examination, selection, classification and compensation; and employee training.

The department's objectives are:

- To develop and foster a strong, single employer perspective to personnel and labor relations decision-making and administration,
- To provide policy leadership and policy direction for the state's human resource management and labor relations functions,
- To maintain a well qualified and stable work force so that state agencies can accomplish their missions,
- To provide managerial flexibility for state agencies,
- To ensure constructive and effective labor-management relationships,
- To ensure that the state work force is representative of Minnesota's population and remains free of discrimination and harassment,
- To build the productive capacity of state employees through training and development,
- To provide quality, cost effective benefits package for state employees,
- To ensure that state employees work in a safe and healthy environment and that costs due to work-related injuries and illness are minimized.

MAJOR POLICY DRIVERS:

Demographic trends are changing the state's work force. In the 1990's it will contain more non-traditional workers, and be made up of an increasing number of single parent families and families in which both parents work. The state must respond to the special needs of this changing work force through policies which provide flexible hours of work and leave policies which respect family commitments.

The state government work force is also aging, a factor which can put pressure on benefit and retirement plans, restrict upward mobility for workers, and reduce opportunities to recruit protected group members.

Pressures are created in the compensation structure as workers move to the top of the salary structure. The cost of state government increases without a corresponding increase in the number of personnel. And when upward mobility is limited, there is pressure at the bargaining table to inflate salary ranges and there is pressure from employees to reallocate jobs to higher levels.

At the same time that the existing work force is becoming static, the state is experiencing a substantial increase in applications for state positions due to reduced opportunities in the private job market. While this creates opportunities to be more selective in the appointment process, it creates significant workload problems for the personnel function and additional pressure on the testing and screening of applicants.

A dynamic change in the nature of state jobs is also taking place. State programs are added, changed and deleted. Changes in technology and job design occur at a rapid rate. The public demands more from government as well as a different mix of state services.

To respond to the changing nature of work the state will need to increase its training and retraining efforts. It can no longer rely on new workers to bring expertise to the work place, but will have to build its own expertise from within. The state must also train managers to deal with the changing work force and changing jobs, with particular emphasis on motivating employees and improving the quality of state services.

The classification system must also keep up with the changes in state jobs. It has to respond to rapidly changing technology, be flexible enough to meet the needs of state agencies, and aid in salary administration by providing career mobility to state workers.

The cost of providing health care to state employees has a major impact on the work of the department. Medical inflation is the highest factor in the consumer price index. Group insurance rates have increased an average of 27% over the past 3 years due to higher costs of medical care, increasing utilization, and technologically advanced and costly new medical procedures. Increased medical costs place substantial pressures on collective bargaining since health insurance premiums are consuming a larger share of compensation costs. Nationally, health insurance is the biggest cause of labor strikes. Employees have the expectation that employers will pay the total cost for health care and workers continue to demand unrestricted access to seek care wherever they choose.

The state workers' compensation program must also address the rising cost of health care. Currently, the cost of providing health care to injured state employees is significantly more than health care provided through employee plans, and there is no managed care. Further, the cost of injuries and illnesses resulting from improper work station design, environmental exposures, communicable diseases and occupational stresses are unknown but could be potentially high.

Finally, the diversity of the work force of the 1990's will require changing strategies to insure that protected group members have access to the state work force and find a hospitable work environment. Training must be provided to managers and supervisors so that diversity is valued and the unique talents of all workers can be put to work for the state. Yet reduced attrition rates will reduce employment and promotion opportunities, and it will be difficult to bring protected group members into state service and to promote them.

EXPLANATION OF BUDGET ISSUES AND ALTERNATIVES:

The department must continue to administer each of its legislatively mandated programs. Cost increases attributable to salaries and supply/expense items will be managed by reducing personnel costs. All vacancies will be carefully reviewed before positions are filled and salary savings will be reallocated. The department has reallocated monies within its base to fund the cost of operating the employee and position portions of the Personnel/Payroll system which was transferred from the Department of Finance in F.Y. 1991 without sufficient resources to operate the system.

AGENCY: Employee Relations, Department of
(Continuation)

1992-93 Biennial Budget

Reallocation by Program
(Dollars in Thousands)

	<u>General Fund</u> <u>F.Y. 1991</u>	<u>F.Y. 1992</u> <u>Change From</u> <u>F.Y. 1991</u>	<u>F.Y. 1993</u> <u>Change From</u> <u>F.Y. 1991</u>
Administration Program	\$2,239	\$100	\$100
Staffing Services and Compensation	\$4,042	(100)	(100)

GOVERNOR'S RECOMMENDATION:

The Governor concurs with the overall agency plan, with the exception of a general reduction of \$973,000 for the biennium (See Decision Item page below).

1992-1993 BIENNIAL BUDGET
(DOLLARS IN THOUSANDS)

AGENCY: EMPLOYEE RELTNS,DPT

PROGRAM RESOURCE ALLOCATION:	FY 1989	FY 1990	Est. FY 1991	FY 1992			FY 1993		
				Adjusted Base	Agency Plan	Governor Recomm.	Adjusted Base	Agency Plan	Governor Recomm.
ADMINISTRATION	1,887	2,342	2,641	2,586	2,686	2,686	2,521	2,621	2,621
EMPLOYEE HEALTH AND BENEFITS	132,264	161,085	175,946	204,545	204,693	204,693	236,783	236,948	236,948
LABOR RELATIONS	470	493	497	517	517	517	528	528	528
STAFFING AND COMPENSATION	2,119	3,812	4,269	3,152	3,052	3,052	3,158	3,058	3,058
SAFETY AND WORKERS' COMPENSATION	18,739	23,397	25,271	25,422	25,638	25,847	25,422	25,638	26,172
TRAINING AND DEVELOPMENT	805	1,002	1,204	955	955	955	955	955	955
EQUAL OPPORTUNITY	224	276	330	320	320	320	327	327	327
GENERAL REDUCTION						<422>			<551>
TOTAL EXPENDITURES BY PROGRAM	156,508	192,407	210,158	237,497	237,861	237,648	269,694	270,075	270,058
SOURCES OF FINANCING:									
DIRECT APPROPRIATIONS:									
GENERAL	7,706	10,335	9,914	8,808	8,808	8,811	8,805	8,805	9,004
STATUTORY APPROPRIATIONS:									
SPECIAL REVENUE	16,933	21,538	24,138	24,150	24,366	24,150	24,168	24,384	24,168
EMPLOYEE INS TRUST	131,039	157,877	172,756	201,464	201,612	201,612	233,696	233,861	233,861
AGENCY	830	2,657	3,350	3,075	3,075	3,075	3,025	3,025	3,025
TOTAL FINANCING	156,508	192,407	210,158	237,497	237,861	237,648	269,694	270,075	270,058

BASE RECONCILIATION REPORT
for 1992-1993 Biennium

AGENCY: EMPLOYEE RELTNS,DPT

	ALL FUNDS		GENERAL FUND		OTHER STATE FUNDS		FEDERAL FUNDS	
	F.Y.92	F.Y.93	F.Y.92	F.Y.93	F.Y.92	F.Y.93	F.Y.92	F.Y.93
F.Y.91 FUNDING LEVEL	210,158	210,158	9,914	9,914	200,244	200,244		
ONE-TIME APPROPRIATIONS	<1,394>	<1,394>	<1,394>	<1,394>				
SALARY ANNUALIZATION	114	93	114	93				
DOCUMENTED RENT/LEASE INCR.	174	192	174	192				
DEDICATED RECEIPTS AND FUNDS	28,445	60,645			28,445	60,645		
TOTAL	237,497	269,694	8,808	8,805	228,689	260,889		
BIENNIAL TOTAL		507,191		17,613		489,578		

ACTIVITY:**1992-93 Biennial Budget****PROGRAM:** Agency-wide Decision**AGENCY:** Employee Relations, Department of**DECISION ITEM:** Financing Inflationary Costs - Informational

	<u>Dollars in Thousands</u>			
	<u>F.Y. 1992</u>	<u>F.Y. 1993</u>	<u>F.Y. 1994</u>	<u>F.Y. 1995</u>
AGENCY PLAN:				
Expenditures				
General Fund (Salaries)	\$ 78	\$ 174	\$ 174	\$ 174
Various expenditures	\$ (78)	\$ (174)	\$ (174)	\$ (174)

Requires statutory change: _____ Yes X No**Statutes Affected:****ITEM SUMMARY:**

The Department of Employee Relations provides for inflation through reallocation among a number of operational and other expenditure items.

RATIONALE:

Through technical adjustments to the base the agency will be able to cover inflation without impacting upon any program severely. Any projected shortfalls that arise due to general inflationary cost increases will be remedied through allotment adjustments, maintaining vacancies, reductions in travel, membership and subscription expenditures.

Other anticipatory actions that have been taken include the buyout in F.Y. 1991 of an equipment lease and requests for complement adjustments among programs.

GOVERNOR'S RECOMMENDATION:

The Governor concurs with the agency strategy for managing inflationary costs. Some details will need to be further refined as funds are allotted during spending plan development.

ACTIVITY
PROGRAM: Agency-wide decision
AGENCY: Employee Relations, Department of

1992-93 Biennial Budget

GOVERNOR'S RECOMMENDATION:

The Governor concurs with the agency's plan.

DECISION ITEM: Complement Reallocations

	Dollars in Thousands			
	<u>F.Y. 1992</u>	<u>F.Y. 1993</u>	<u>F.Y. 1994</u>	<u>F.Y. 1995</u>
AGENCY PLAN:				
Expenditures				
General Fund	\$ 0	\$ 0	\$ 0	\$ 0
Revenues				
General Fund	\$ 0	\$ 0	\$ 0	\$ 0

GOVERNOR'S RECOMMENDATION:

Expenditures				
General Fund	\$ 0	\$ 0	\$ 0	\$ 0
Revenues				
General Fund	\$ 0	\$ 0	\$ 0	\$ 0

Requires statutory change: _____ Yes X No
Statutes Affected:

ITEM SUMMARY:

The Department proposes to make incremental reallocations to complement in order to reflect changing levels of workload among activities. This includes an increase in workload in the Compensation Division for the administration of our non-represented employee plans and a reduction in workload for the Social Security Administration activity within Administrative Services.

RATIONALE:

The following position changes are proposed :

<u>Activity</u>		<u>Fund</u>	
Employee Benefits - Gen Fund	(1.5)	Position to Revolving Fund	
Staffing Services	(0.5)	To Compensation	
Social Security Administration	(0.8)	Reduction to Activity (Special Revenue Fund)	
Compensation	<u>1.0</u>	From Staffing & Benefits	
NET	(1.8)		

The Employee Benefits position move reflects the transfer of complement to the Revolving Fund. The program manager is the last remaining complement for this program funded out of the General Fund. The Social Security Administration position decrease reflect a decline in workload to about one-fifth FTE equivalent.

ACTIVITY:

1992-93 Biennial Budget

PROGRAM: Agency-wide decision**AGENCY:** Employee Relations, Department of**DECISION ITEM:** General Reduction to Agency Funding**GOVERNOR'S RECOMMENDATION:**

The Governor recommends a General Fund reduction of \$973,000 to the Department of Employee Relations for the 1992-93 biennium.

	<u>Dollars in Thousands</u>			
	<u>F.Y. 1992</u>	<u>F.Y. 1993</u>	<u>F.Y. 1994</u>	<u>F.Y. 1995</u>
AGENCY PLAN:				
Expenditures				
General Fund	\$ 0	\$ 0	\$ 0	\$ 0
Revenues				
General Fund	\$ 0	\$ 0	\$ 0	\$ 0

GOVERNOR'S RECOMMENDATION:

Expenditures				
General Fund	\$ (422)	\$ (551)	\$ (551)	\$ (551)
Revenues				
General Fund	\$ 0	\$ 0	\$ 0	\$ 0
Positions	(4.1)	(5.1)	(5.1)	(5.1)

Requires statutory change: _____ Yes X No

Statutes Affected:

ITEM SUMMARY:

The proposal represents a general biennial reduction to the Department of Employee Relations of \$973,000.

RATIONALE:

This proposal represents a 6% reduction to the department's General Fund operating budget for the biennium. Constraints in funding for 1992-93 dictate that serious reductions be made wherever possible within State government operations in order to minimize the impacts of the budget problem on welfare of the citizens of the State.

To implement this reduction would be extremely difficult under ordinary conditions. Due to the financial condition of the state, DOER will be reviewing its priorities, along with its mix and level of services.

The Commissioner of Employee Relations is best-qualified to identify how these efficiencies can be realized.

PROGRAM PURPOSE:

The Administration program manages all activities within the agency and provides overall policy direction for the state's personnel and labor relations functions. The program, which includes the Commissioner's Office, manages department resources, coordinates office automation, integrates information resources, and provides administrative services such as budget, accounting, personnel, files, and word processing. The program is also responsible for certifying the state's payroll and final reconciliation of Social Security records.

The objectives of the program are:

- To provide direction to each of the department's functions and to coordinate the department's programs so that the state acts as a single employer consistent with the values of a merit system, collective bargaining, and affirmative action.
- To administer the state's personnel system consistent with the policies and goals of the Governor's office and to represent the interests of the state as an employer to the Legislature and the general public.
- To provide administrative support to department managers and supervisors so that they can effectively manage their programs.
- To develop and maintain information systems which provide ready access to the information necessary to effectively administer each of the department's programs.
- To maintain accurate records on state employees and to ensure that employees are paid accurately and on time in accordance with law, collective bargaining agreements, and plans.
- To fulfill the state's obligation to provide Medicare coverage for state and local government employees as authorized by state and federal law.

PERFORMANCE:

Administrative Services

1. The Administrative Services Unit has been reorganized to improve financial management of department programs. New methods of doing business allow staff to develop expertise which produces efficiency in the system.

Management Information Systems

1. As a result of a major upgrade to the agency's internal computer system, virtually 100% of staff have computer terminals, giving them ready access to an office system and to the information needed to carry out their responsibilities.
2. Special reports for information requests are provided within the timeframes established by the requestor. Requests are completed within the deadline established by the requestor on average 95% of the time. The unit responds to approximately 55 requests each month.
3. The first information plan has been produced and will be used to help guide the department in future information technology issues.
4. Working with other divisions, the MIS Unit modifies, improves and enhances statewide human resource systems including the Personnel/Payroll System, insurance, staffing information,

Central Personnel Transactions

1. In late 1989, the responsibility for management and maintenance of the employee and position portions of the system was transferred from the Department of Finance to the Department of Employee Relations where an on-line employee and position history in the Personnel/Payroll System data base was developed and implemented. State agencies now have on-line access to personnel data on their employees without the need for further manual recordkeeping.
2. The Central Personnel Transactions Unit, in conjunction with the Department of Finance, accomplished the conversion to the new file structure without interruption to the payroll process and all state employees were paid legally, timely and accurately.
3. The Legislative Audit Report of the Personnel/Payroll System covering Fiscal Year 1989, resulted in no audit recommendations.

Social Security Administration

1. In accordance with state laws, the Social Security Administration conducted a referendum in late 1989 permitting basic members of public pension plans to select Medicare-only coverage on an individual basis. Modifications to the state agreement with the Secretary of Health and Human Services were completed in order to provide this coverage.

PROSPECTS:

1. Human resource information is critical to agencies as they adapt to changing workforce dynamics. The processes of reporting and recording human resource information on employees must be streamlined so that this information is easily accessible to state agencies. Within limited resources, the program will begin to provide agencies with on-line access to Grievance Tracking/Contract Management and Personnel/Payroll data.
2. Existing human resource systems have untapped capacity to produce data and they present technical opportunities for improved management of information. However, staff must be trained to fully utilize data and equipment. Data protection measures must be developed and off-site storage provided to safeguard data. Staff must also be cross-trained to provide back-up support in critical areas.
3. The automation of routine processes and support services can lead to efficiencies in managing department programs and must be implemented.
4. Following enactment of a federal law which was effective 1-1-87, collection of Social Security contributions was transferred to the Internal Revenue Service. It was anticipated that the activity would be phased out by April, 1990. However, reconciliation of the state's records with the Federal Social Security Administration for calendar years 1985 and 1986 has not been completed, so the activity will continue until the end of F.Y. 1993. Staff has been reduced to 1 clerical employee and an intermittent employee.

PLAN:

Cost increases attributable to salaries and supplies/expense items will be managed within base level funding and by allocating funds across programs. Strategies will include reducing personnel costs, travel, memberships, subscriptions, and other expense items. Sufficient vacancies to cover the amounts needed do not currently exist, so it is difficult to predict what parts of the operation will be affected. As vacancies occur, they will be held open and funds reallocated where necessary.

PROGRAM: Administration
(Continuation)

1992-93 Biennial Budget

Agency: Employee Relations, Department of

During F.Y. 1991, the department assumed sole responsibility for the employee and position portions of the Personnel/Payroll System along with funding from the Department of Finance. However, the current level of funding is not sufficient to cover the costs associated with maintenance and operation of the system. The department proposes to reallocate \$200,000 over the biennium from funds in the BASE of the Staffing and Compensation program.

Agency Reallocation

<u>Central Personnel Transactions</u>	<u>F.Y. 1992</u>	<u>F.Y. 1993</u>
	\$100,000	\$100,000

The department proposes reallocating \$100,000 in each year of the biennium to meet anticipated operating expenses for the Personnel/Payroll System. Not funding this activity would result in the department's inability to process payroll.

GOVERNOR'S RECOMMENDATION:

The Governor concurs with the agency's plan.

1992-1993 BIENNIAL BUDGET
(DOLLARS IN THOUSANDS)

AGENCY: EMPLOYEE RELTNS,DPT
PROGRAM: ADMINISTRATION

ACTIVITY RESOURCE ALLOCATION:	FY 1989	FY 1990	Est. FY 1991	FY 1992			FY 1993		
				Adjusted Base	Agency Plan	Governor Recomm.	Adjusted Base	Agency Plan	Governor Recomm.
ADMINISTRATION	1,224	1,409	1,409	1,620	1,620	1,620	1,622	1,622	1,622
CENTRAL PERSONNEL TRANSACT	233	435	325	328	428	428	335	435	435
INFORMATION MANAGEMENT	294	324	505	518	518	518	509	509	509
SOCIAL SECURITY ADMINISTR'N	73	65	52	45	45	45	30	30	30
ADMINISTRATION NON-OPERATING	63	109	350	75	75	75	25	25	25
TOTAL EXPENDITURES BY ACTIVITY	1,887	2,342	2,641	2,586	2,686	2,686	2,521	2,621	2,621
DETAIL BY CATEGORY:									
STATE OPERATIONS	1,887	2,267	2,641	2,586	2,686	2,686	2,521	2,621	2,621
AID TO INDIVIDUALS		75							
TOTAL EXPENDITURES BY CATEGORY	1,887	2,342	2,641	2,586	2,686	2,686	2,521	2,621	2,621
SOURCES OF FINANCING:									
DIRECT APPROPRIATIONS:									
GENERAL	1,751	2,168	2,239	2,466	2,566	2,566	2,466	2,566	2,566
STATUTORY APPROPRIATIONS:									
SPECIAL REVENUE	73	65	52	45	45	45	30	30	30
AGENCY	63	109	350	75	75	75	25	25	25
TOTAL FINANCING	1,887	2,342	2,641	2,586	2,686	2,686	2,521	2,621	2,621

ACTIVITY: Central Personnel Transactions **1992-93 Biennial Budget**
PROGRAM: Administration
AGENCY: Employee Relations, Department of

DECISION ITEM: Personnel/Payroll - Transfer From Staffing

	<u>Dollars in Thousands</u>			
AGENCY PLAN:	<u>F.Y. 1992</u>	<u>F.Y. 1993</u>	<u>F.Y. 1994</u>	<u>F.Y. 1995</u>
Expenditures				
Administration	\$ 100	\$ 100	\$ 100	\$ 100
Staffing & Compensation	\$ (100)	\$ (100)	\$ (100)	\$ (100)

GOVERNOR'S RECOMMENDATION:

Expenditures				
Administration	\$ 100	\$ 100	\$ 100	\$ 100
Staffing & Compensation	\$ (100)	\$ (100)	\$ (100)	\$ (100)

Requires statutory change: _____ Yes X No
Statutes Affected:

ITEM SUMMARY:

The Department proposes a biennial reallocation of \$200,000 from the Staffing and Compensation Division to the Administrative Services Division in order to cover the costs of operation for the State Personnel/Payroll System.

RATIONALE:

In F.Y. 1991, the department assumed responsibility for the employee and position portions of the Personnel/Payroll System along with funding from the Department of Finance. Cost of operating and maintaining the system are greater than current funding, however. The Department seeks a base reallocation from the Staffing and Compensation program in order to operate the system.

GOVERNOR'S RECOMMENDATION:

The Governor concurs with the agency's plan.

PROGRAM PURPOSE:

The goal of the Benefits Program is to address the insurance needs of state and public employees by providing quality, cost-effective benefit programs, health promotion programs and employee education/communication. The Benefits Division develops, administers and manages the State Group Insurance Plan and the Public Employees Insurance Plan (PEIP). The division provides policy guidance and technical expertise in the areas of employee insurance and benefits to the Commissioner of Employee Relations, labor relations and the collective bargaining process, and state agencies. In addition, the division negotiates insurance and third-party-payer contracts to provide for appropriate coverage levels and efficient claims administration.

State Group Insurance Plan

The objectives of the State Group Insurance Plan are:

- To provide a quality, comprehensive benefit program for over 52,000 state, university and legislatively authorized employees, 7,500 retired employees, and an estimated 120,000 dependents and 1,500 former employees.
- To manage and contain rising health insurance costs through appropriate plan design changes, contract negotiations, and plan administration.
- To ensure that all offerings conform with state and federal laws and the provisions of the state's collective bargaining labor agreements and plans.
- To provide statewide communication to employees, former employees, labor and management to educate employees on health/wellness issues and their rights and responsibilities.
- To coordinate health promotion programs to assist employees and their dependents to maintain and enhance their health and to make appropriate use of the health care system.

Public Employees Insurance Plan

The objectives of PEIP are:

- To provide employees of school district, cities, counties and towns with access to quality medical, life and dental insurance on a cost-effective basis, regardless of the employer's size or geographic location.
- To provide pooling arrangements advantageous to public employers.
- To negotiate and administer vendor contracts to ensure quality, cost-effective services to members.
- To provide opportunities for retired employees to participate in a group insurance program.

PERFORMANCE:

State Group Insurance Plan

Cost Containment

1. Implementation and development of a statewide preferred provider network for the self-insured health plan resulted in an estimated \$8.5 million in cost savings for 1990 and approximately \$6 million savings for 1991 in the State Health Plan.
2. Successful negotiations with the HMOs that provide services to state employees resulted in lessening of the overall rate increases proposed for the 1991 plan year by 8%.
3. Introduction of a 3-phased health promotion program for all state agencies resulted in an increase in agency level participation from 25% to 94% over a 2-year period.

1. In order to meet federal, state and labor contract requirements, the program increased statewide communication efforts to employees, labor and management by using a variety of medium, including videotape, home mailings, newsletters, training seminars and instruction manuals. This has resulted in better employee understanding of the importance of wisely choosing and using benefits as well as maintaining good health.

2. In order for employees to have information related to individual plan quality as well as price when making their health plan choices, a pilot study of employee satisfaction with their health plan is being conducted during 1990. After validation of the survey instrument used in the pilot, the study will be rerun and the results will be used in communications to employees prior to the 1991 open enrollment.

Health Promotion

1. Development of a pilot study with Public Safety to implement a health risk assessment program for State Troopers, resulted in significant improvements in Trooper health and fitness as well as disease identification and control.

Administration

1. Successful partnership between management and labor regarding health care issues resulted in the Joint Labor-Management Committee on Health Plans receiving a 1990 Governor's Labor-Management Award.

2. Clarification of discrepancies in health plan and contract interpretations by increased focus on conformity of language and contract provisions resulting in simplified administration and monitoring of health plan activity.

3. Over 650 employees enrolled in the dependent care spending account benefit plan during F.Y. 1990, the plan's first year; enrollment increased to 820 for year 2.

Public Employees Insurance Plan

1. A self-funded health plan was developed and 12 contracts were negotiated with vendors who provide health, dental and life coverage for employees which resulted in a plan being successfully implemented on 1-1-90.

2. A successful marketing/communications strategy was designed and executed which resulted in requests for PEIP rate proposals from over 550 jurisdictions between November 1989 and September 1990 and enrollment of over 30 employer/exclusive representative member groups including 11 School districts, 14 cities, 3 townships, 2 counties, and 1 hospital district.

PROSPECTS:

State Group Insurance Plan

To ensure that the goal of providing a quality, cost-effective benefit program is met, several specific programs will be implemented:

Cost Containment

1. Rebid disability plans. Currently, the state provides disability plans from three carriers. By consolidating these plans under 1 carrier the state anticipates that it can provide these benefits at more cost-effective premiums, with more efficient administration and greater employee understanding.

PROGRAM: Employee Health and Benefits
(Continuation)
Agency: Employee Relations, Department of

1992-93 Biennial Budget

2. Implement an internal COBRA administration system to reduce potential liability to the state and provide more efficient enrollment and billing when employees transfer between plans.
3. Develop provider and utilization tracking mechanisms for improved network development and data analysis, as part of the health care cost containment strategy.
4. Ensure all state agencies complete implementation of the 3-phased health promotion program, as part of the health care cost containment strategy.

Communication

1. Expand the patient satisfaction pilot survey and develop an evaluative tool to assess quality outcomes from medical intervention. The resulting information will encourage employees to compare the value not just cost when selecting 1 of the various health plans offered by the state.
2. Develop evaluative tools to measure the effectiveness of existing and future employee communications materials, to ensure employees know their rights and responsibilities. Improve employee understanding and decision making through more individualized communications materials such as interactive videos.

Health Promotion

1. Implement a health promotion Endorsed Vendor program which will give employees the chance to improve their health and ultimately contain rising health insurance costs by attending approved classes (i.e., smoking cessation, stress management, weight management) conducted by health experts from throughout Minnesota.
2. Establish a data base to analyze the effectiveness of health promotion programs on health care utilization and claims costs by tracking sick leave usage, workers compensation claims, health care claims and employee attitudes.

Public Employees Insurance Plan

During the next biennium, the PEIP will continue to concentrate on increasing membership through effective marketing/communication efforts and providing quality, cost-effective benefits. To ensure these goals are met, the following programs will be implemented:

Plan Development and Management

1. Expand the existing preferred provider network and utilization review services throughout the state, emphasizing quality of care standards and cost-effective delivery mechanisms.
2. Negotiate and administer vendor contracts to ensure customer satisfaction and prudent use of financial resources.
3. Continue working with the Labor-Management Committee, local jurisdictions and public sector member organizations to analyze alternatives to contain health care costs.
4. Provide assistance to participating jurisdictions in analyzing and implementing health promotion programs to reduce costs.

5. Cost-effectively implement the individual retiree program in 1992 by working with the public pension plans to successfully develop the communication and administrative requirements of the program.

Marketing and Communications

1. Execute a comprehensive marketing/publicity program to encourage new membership, through the use of public sector journals, newsletters and member publications.
2. Develop communication materials such as newsletters and plan booklets for existing participants to ensure greater understanding and appropriate use of the plan.

PLAN:

All current functions and activities of the Benefits Program will be maintained in F.Y. 1992-93. Any increased costs will be managed by careful review and assessment prior to filling any vacancies, plus more critical analysis of out-of-state travel, subscriptions, and membership expenses.

During the current biennium, the Department of Finance authorized an additional 10.0 positions in the Trust Fund and .5 in the Special Revenue Fund to administer the State Group Insurance Program. These positions have been funded with no increase in fees. The department requests that these positions be made permanent. Minnesota Laws 1990, Chapter 589 requires that the PEIP program be expanded to allow individual participation by retirees beginning in 1992. This expansion increases the administrative costs of the program by \$133,000 and 1.8 positions in F.Y. 1992, and \$135,000 and 2.0 positions in F.Y. 1993. The department requests that this additional amount and positions be authorized from the PEIP Trust Fund.

GOVERNOR'S RECOMMENDATION:

The Governor concurs with the agency's plan.

1992-1993 BIENNIAL BUDGET
(DOLLARS IN THOUSANDS)

AGENCY: EMPLOYEE RELTNS,DPT
PROGRAM: EMPLOYEE HEALTH AND BENEFITS

ACTIVITY RESOURCE ALLOCATION:	FY 1989	FY 1990	Est. FY 1991	FY 1992			FY 1993		
				Adjusted Base	Agency Plan	Governor Recomm.	Adjusted Base	Agency Plan	Governor Recomm.
STATE GROUP INSURANCE	1,675	2,490	2,990	2,681	2,681	2,681	2,687	2,687	2,687
PUBLIC EMPLOYEES INS	245	372	300	315	463	463	315	480	480
INSURANCE NON-OPERATING	130,344	158,223	172,656	201,549	201,549	201,549	233,781	233,781	233,781
TOTAL EXPENDITURES BY ACTIVITY	132,264	161,085	175,946	204,545	204,693	204,693	236,783	236,948	236,948
DETAIL BY CATEGORY:									
STATE OPERATIONS	132,264	161,085	175,946	204,545	204,693	204,693	236,783	236,948	236,948
TOTAL EXPENDITURES BY CATEGORY	132,264	161,085	175,946	204,545	204,693	204,693	236,783	236,948	236,948
SOURCES OF FINANCING:									
DIRECT APPROPRIATIONS:									
GENERAL	439	569	37						
STATUTORY APPROPRIATIONS:									
SPECIAL REVENUE	19	91	153	81	81	81	87	87	87
EMPLOYEE INS TRUST	131,039	157,877	17,756	201,464	201,612	201,612	233,696	233,861	233,861
AGENCY	767	2,548	3,000	3,000	3,000	3,000	3,000	3,000	3,000
TOTAL FINANCING	132,264	161,085	175,946	204,545	204,693	204,693	236,783	236,948	236,948

ACTIVITY: Public Employee Insurance
PROGRAM: Employee Health and Benefits
AGENCY: Employee Relations, Department of

1992-93 Biennial Budget

DECISION ITEM: Increase for PEIP Administration

Dollars in Thousands				
	<u>F.Y. 1992</u>	<u>F.Y. 1993</u>	<u>F.Y. 1994</u>	<u>F.Y. 1995</u>
AGENCY PLAN:				
Expenditures				
General Fund	\$ 0	\$ 0	\$ 0	\$ 0
Public Employee Insurance Trust	148	165	165	165
Positions				
Public Employee Insurance Trust	1.8	2.0	2.0	2.0

Requires statutory change: _____ Yes X No
Statutes Affected:

ITEM SUMMARY:

The Department requests the authorization of the funds and positions as detailed above to meet anticipated workload and expense increases due to legislated activities in administering the Public Employees Insurance Plan in the 1992-93 biennium.

RATIONALE:

Minnesota Laws 1989, Chapter 589 requires that the PEIP program be expanded to allow individual participation by retirees beginning in 1992. Plan administration and casework are expected to increase considerably. This request is based on estimated cost increases for staff, claims communications, professional/technical services and counseling. Included in this request is \$15,000 in F.Y. 1992 and \$30,000 in F.Y. 1993 for general inflation. The Department requests that funds be authorized from the Public Employee Insurance Trust Fund, and the addition of 1.8 positions in F.Y. 1992 and 2.0 positions in F.Y. 1993.

GOVERNOR'S RECOMMENDATION:

The Governor concurs with the agency's plan.

ACTIV Employee Health & Benefits
PROGE Employee Health & Benefits
AGENCY: Employee Relations, Department of

1992-93 Biennial Budget

DECISION ITEM: Benefits Position Increase

AGENCY PLAN:	Dollars in Thousands			
	F.Y. 1992	F.Y. 1993	F.Y. 1994	F.Y. 1995
Expenditures				
General Fund	\$ 0	\$ 0	\$ 0	\$ 0
Employee Benefits Trust Fund	\$ 0	\$ 0	\$ 0	\$ 0
Revenues				
General Fund	\$ 0	\$ 0	\$ 0	\$ 0

Requires statutory change: _____ Yes X No
Statutes Affected:

ITEM SUMMARY:

This proposal seeks permanent status for 10.5 temporary positions currently in the Employee Health and Benefits program. To the Employee Benefits Trust Fund, the agency seeks permanent status for 10.0 positions, and to the Special Revenue Fund, 0.5 positions.

RATIONALE:

The positions for which the Department seeks approval are temporary positions that received interim approval from the Department of Finance. These positions were necessary to facilitate operations as the State Group Insurance Plan and Benefits administration in general have expanded over the biennium. These positions are not paid out of the General Fund, but rather the Employee Benefits Trust and Special Revenue Funds.

The positions are currently allocated as follows:

Activity		Fund	
Support Service - State	2.0	Employee Benefits Trust Fund	
Insurance Administration	6.5	"	"
DCEA Administration	0.5	"	"
Health Promotion	1.0	"	"
Contracts & Planning	<u>0.5</u>	Special Revenue Fund	
TOTAL	10.5		

GOVERNOR'S RECOMMENDATION:

The Governor concurs with the agency's plan.

PROGRAM PURPOSE:

The Labor Relations program seeks to ensure a constructive and effective set of labor-management relationships within the executive branch of the state consistent with the objectives of the Public Employment Labor Relations Act.

The objectives of the program are:

- To successfully complete the negotiation of 10 collective bargaining agreements for the 1992-93 biennium such that they conform with pay equity requirements, contribute to a constructive labor-management relationship, maintain equitable internal relationships among bargaining units, maintain appropriate compensation relationships with relevant external job markets and public/private employees, preserve management rights, and are within the budgetary resources of state government.
- To represent the state as the employer in labor relations policy issues.
- To administer collective bargaining agreements as a single, unified employer in a manner consistent with their negotiated intent.

PERFORMANCE:

Contract Negotiations

1. Collective bargaining agreements with all exclusive representatives have been negotiated within targeted financial resources and without adversely affecting other budgeting priorities of the state. The costs of these settlements have been covered by a combination of the biennial salary supplement and internal budgetary resources of state agencies.
2. Agreements have been reached without work stoppages since 1981. For essential units without the right to strike, voluntary agreements have been reached without resorting to impasse arbitration since 1987.
3. Negotiated contracts have retained all necessary management rights required by agencies to effectively manage their operations.
4. Through the collective bargaining process, the state and exclusive representatives have negotiated a new state medical insurance plan for state employees that held cost increases to 5.8% for 1991, compared to double-digit increases for HMO's in 1991. This plan was achieved through a process of coalition bargaining, i.e., all 10 state unions negotiated it jointly with the state in 1989, the first time such a procedure has been accomplished in state government.
5. Negotiated settlements have maintained equitable relationships between salaries and benefits among the 16 bargaining units. Such settlement patterns have prevented union whipsawing between bargaining units, contributing to stability of labor-management relationships.

Labor-Management Relationships

There are several indications of substantially improved and constructive labor-management relationships in state service:

1. Labor-Management Committees. At a statewide level, 10 joint labor-management committees have been established to address issues such as health insurance, child care, affirmative action, job safety, and employee assistance programs.

At agency levels, joint labor-management committees were established in collective bargaining

agreements. These committees are resolving local problems and improving communications at the workplace levels.

2. Other Joint Efforts. Cooperative labor-management efforts in 1988-89 to restructure the Regional Treatment Centers (RTC) and design effective downsizing plans for RTC workforces were successful due, in large part, to constructive statewide labor-management relationships. In addition, the Department of Transportation has successfully piloted an employee involvement project involving cooperative efforts between management and labor unions representing supervisory and non-supervisory employees. Though only a pilot project on a relatively small scale, this kind of effort requires overall constructive union relationships at the statewide level.
3. Unfair Labor Practices. The state has had no litigation with unions over the past 4 years involving allegations of unfair labor practices. Only 2 charges were filed, both of which were settled out of court. In many public jurisdictions comparable to the state in complexity and size, a heavy volume of alleged unfair labor practices is routine.
4. Grievance Activity. Use of grievance data is always problematic in assessing labor-management relationships. There is a wide variety of causes of grievances, many of them are outside the employer's control. However, there has been an overall reduction in the number of grievances filed in the past several years. For example, since F.Y. 1986, the number of non-faculty grievances has steadily declined from about 800 to about 600 for F.Y. 1990. During the same time period, the total number of employees in bargaining units has increased by about 3,000.
5. Unit Determination. Bargaining unit determination disputes have declined. This means that agencies, the Department of Employee Relations, and unions are resolving such disputes voluntarily and without contested hearings. It also indirectly suggests a reduction in inter-union rivalry, which is partly a result of contract negotiation results that have minimized whipsawing between unions, and successful inter-union labor-management committees.

Services to Agencies

Over 90% of the state's workforce is represented for purposes of collective bargaining. The Labor Relations Bureau devotes most of its time and resources to assisting agencies in administering labor contracts, developing labor relations policy, solving technical problems and responding to local labor-management issues. Important agency services include:

1. Training. The demand for labor relations training is growing. To meet this need, 4 new training courses have been offered to agencies since F.Y. 1988 (labor-management committees; sick leave administration; understanding collective bargaining agreements; labor relations for managers and supervisors). Further, offerings of all labor relations training courses increased from 21 sessions in F.Y. 1989 to 34 sessions in F.Y. 1990, covering about 400 participants in F.Y. 1989 to about 900 participants in F.Y. 1990.
2. Advising. Labor relations staff provide daily technical advice and counsel to agencies. A coordinated statewide labor relations program requires close consultation with agency personnel/labor relations representatives. The objectives of this effort are timely resolution of local disputes, consistent contract interpretation, and improved labor-management relationships.

Demand by agencies for technical data is increasing. Quarterly grievance activity reports, arbitration award summaries, and surveys/feedback regarding collective bargaining proposals are examples of information disseminated to agencies. A computerized contract management tracking system implemented in 1989-90 by the Labor Relations Bureau has the potential of providing much of this kind of data to agencies, but financial resources will be required to place the system on-line.

Statewide program results have important benefits at the operating agency level. Work stoppages over contract disputes affect productivity of the workforce. Constructive labor-management relationships at the statewide level also mean fewer agency level labor disputes. State agencies must

PROGRAM: Labor Relations
(Continuation)

1992-93 Biennial Budget

Agency: Employee Relations, Department of

be able to rely upon a constructive statewide labor relations climate to build effective local relationships. The end result for the state is uninterrupted service delivery, greater employee support for the management process, and enhanced productivity of the workforce.

PROSPECTS:

Negotiations

Successful contract negotiations for 1991-93 will depend on the following factors:

1. **Financial Resources.** A major issue confronting the legislature and state management will be determining the level of financial support for costs of possible negotiated wage/benefit adjustments in state labor contracts. This is a statewide budget issue.
2. **Economy and Inflation.** Expectations of state employees regarding compensation are affected by economic conditions, settlement patterns of other employers, and the cost-of-living.
3. **Health Care Cost.** Continued spiraling medical cost inflation, if not substantially slowed, will exert strong financial pressures on state bargaining.

Labor-Management Relationships

The ability to maintain the kind of positive relationships developed thus far, and to make even further progress in this area, will require at least the following:

1. Successful biennial contract negotiations for 1991-93. This will require a full complement of labor relations staff positions to handle the bargaining workload while continuing to provide other important services of the Bureau.
2. Creation of additional joint labor-management cooperative projects, such as Labor-Management Committees, employee involvement projects, and jointly sponsored training programs. This will require additional staff time and resource support from the Labor Relations Bureau.
3. Continued and even stronger coordination among executive branch agencies on contract administration programs to ensure that all negotiated contracts are applied uniformly and in keeping with negotiated intent.

Services to Agencies

1. More extensive labor relations information to state agencies is needed for purposes of grievance management and contract administration.
2. Demand for labor relations training programs for agency managers and supervisors will probably increase in the coming biennium.
3. Procedures for communicating labor relations policy decisions and program issues to Labor Relations Directors/Designees must be made more timely to ensure that they are well-informed of technical policy issues.

PLAN:

Expenditures in this program are relatively low, leaving little latitude for internal absorption of salary and inflation costs. Base level funding for this program for the 1992-93 biennium will require a combination of the following:

1. The filling of vacancies, if any, will be delayed to the extent practicable.
2. Travel, both in-state and out-of-state, will be carefully limited.

GOVERNOR'S RECOMMENDATION:

The Governor concurs with the agency's plan.

1992-1993 B I E N N I A L B U D G E T
(DOLLARS IN THOUSANDS)

AGENCY: EMPLOYEE RELTNS,DPT
PROGRAM: LABOR RELATIONS

				FY 1992			FY 1993		
			Est.	Adjusted	Agency	Governor	Adjusted	Agency	Governor
ACTIVITY RESOURCE ALLOCATION:	FY 1989	FY 1990	FY 1991	Base	Plan	Recomm.	Base	Plan	Recomm.
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
LABOR RELATIONS	470	493	497	517	517	517	528	528	528
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL EXPENDITURES BY ACTIVITY	470	493	497	517	517	517	528	528	528
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
DETAIL BY CATEGORY:									
=====									
STATE OPERATIONS	470	493	497	517	517	517	528	528	528
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL EXPENDITURES BY CATEGORY	470	493	497	517	517	517	528	528	528
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
SOURCES OF FINANCING:									
=====									
DIRECT APPROPRIATIONS:									
GENERAL	470	493	497	517	517	517	528	528	528
STATUTORY APPROPRIATIONS:									
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL FINANCING	470	493	497	517	517	517	528	528	528

PROGRAM PURPOSE:

The Staffing and Compensation Program works to maintain a well qualified and stable workforce so that state agencies can accomplish their legislatively defined missions. The program offers services in the recruitment, testing and referral of applicants, assigns positions to classifications within a statewide framework, and sets equitable compensation for job classes. The objectives of the program are:

- To effectively and efficiently operate a merit-based personnel system that:
 1. provides a well-qualified workforce for all state agencies;
 2. ensures a stable and motivated workforce by compensating employees equitably; and
 3. is responsive to the diverse and changing business needs of the executive branch as an employer.
- To eliminate sex-based pay disparities in the public sector employment in Minnesota by enforcing the Local Government Pay Equity Act.

PERFORMANCE:

Qualified Productive Workforce for All State Agencies

The state government workforce in Minnesota is among the smallest per capita of all the states, yet, according to national ratings, the quality of state services consistently rates among the best in the nation. The Staffing and Compensation program has concentrated its efforts on sustaining this record of excellence.

1. Maintaining a quality workforce requires extensive activity in the recruitment and screening of applicants. Annually program staff:
 - Provide information to over 150,000 individuals,
 - Process over 80,000 applications,
 - Announce over 700 different exams,
 - Distribute announcements to over 2,000 locations throughout Minnesota,
 - Review and authorize approximately 10,000 appointments.
2. To provide the applicant public with information on state job opportunities, the program has installed a new 24-hour job information line. Minnesota citizens use this service, which is available 7 days a week, to learn about state job openings and request application forms.
3. The program is completing an extensive revision and enhancement of its automated information system to insure that more exams can be open on a continuous basis. This new system will give applicants more opportunities to apply for state positions. A high number of applicants assures hiring authorities of quality candidates from diverse backgrounds. Having exams open on a continuous basis also insures that hiring authorities will have lists of candidates ready as positions become vacant.

The new information system will also give agencies access to all stored applicant information. This will eliminate the need for duplication of records in agency personnel offices, increase the department's ability to delegate authority to agencies, and speed up both the exam announcement and scoring processes. The system will also provide applicants with test scores more quickly.

4. The department has installed fax machines to improve communications with greater Minnesota and to mitigate the problem of late applications due to mail delays. Applicants outside the metro area no longer have to rely on mail and thus have access equal to that available to applicants in the Twin Cities.
5. Ever changing policies and procedures will be available and updated on computer screens for staff in the department and in agencies.

Agencies' managers have indicated through surveys their increased satisfaction with the shorter response time to receive lists and the improved access to the exam process. Additionally, managers and supervisors have reacted positively to the "Smart Staffing" newsletter which gives them insight into how to make the system work most efficiently for them.

Fair and Equitable Compensation

The cornerstone of equitable compensation for a large employer is its classification system. The state's classification system, which places the state's 36,000 positions into 2,000 classes, ensures that similar pay is provided for similar work. State compensation practices also ensure that work of equal value is provided equal compensation. Minnesota was among the first in the nation to implement pay equity for state employees. These policies combine to create a work climate of fairness and equity which allows employees to concentrate on being productive and not be distracted or demoralized by the employer's pay practices.

1. During the biennium, 33% more positions (4,000 total) were reviewed for appropriate classification than in the previous 2 years. This review process assures the integrity and consistency of classifications across state departments.
2. Major class studies encompassing 850 positions were completed in the Department of Natural Resources, Department of Transportation, and Department of Corrections. These studies sorted job responsibilities within each agency and adjusted compensation levels appropriately.
3. The ability of the classification system to effectively determine relative salary relationships was validated in a 1990 correlation study in which outside experts re-evaluated and checked program staff decisions. These experts found a near perfect correlation.
4. In July of 1990, authority to determine appropriate classification for 106 agency-specific classes was delegated to the agencies. Some agencies were also delegated the authority to determine if positions could be reallocated to a higher level. Through these efforts, program staff eliminated duplication and speeded up the classification process.
5. Compensation practices continue to be progressive and successful in attracting and retaining employees. The state's employee turnover rate is 4.9% as compared to an industry average of 10.8%.

Response to Needs of the Executive Branch

1. In the past biennium, program staff has emphasized service to state management by providing increased flexibility in the hiring process. Legislative authority was granted to the department to conduct experiments in ways to select employees for jobs. These experiments were shown to improve the speed and quality of the selection process and have been granted permanent status. Examples of these experiments include using the state's Job Service offices to more efficiently fill entry clerical jobs, and doubling the number of candidates referred to agencies from large and often used lists such as Highway Maintenance Worker and advanced clerical positions.
2. Exams for classes such as Highway Technicians, Corrections Counselors, EDP Programmer and Systems Analysts were revised to keep our screening mechanisms up to date as jobs and technology change.

PROGRAM: Staffing and Compensation
(Continuation)
Agency: Employee Relations, Department of

1992-93 Biennial Budget

3. Three hundred new classes were created and 150 abolished to reflect the evolution of state jobs.
4. Turnaround standards for the completion of staffing transactions were established to manage efficiency. As an example, eligible lists are provided in 24 hours and classification audits for vacant positions are provided in 14 days. Standards were published and made available to all managers and supervisors. Within this biennium, the division completed 93% of all transactions within those standards.
5. Formal training through presentations and a statewide newsletter has given state managers and supervisors a better understanding of the personnel system and the ability to work more effectively with it.
6. System procedures and rules have been examined and authority delegated to the most practical levels. This enhances turnaround time and produces better quality decisions. Both agency personnel staff and front-line DOER staff are now making decisions that used to require higher level approval.
7. Program staff were trained in customer service and interest-based negotiations to become more effective problem-solvers.

Local Government Pay Equity

The department has increased the flow of information and communications between the department and the jurisdictions covered by the law, which in turn will improve the rate of compliance. Specific strategies include assisting local governments in working toward compliance by publishing and distributing a compliance guidebook and other written materials to more than 2,000 jurisdictions, by making more than 100 training presentations to employer and employee groups, and by responding to over 400 requests for additional information including booklets and computer software.

PROSPECTS:

Economic Slowdown. Trends indicate a multi-industry slowdown throughout the country, which will result in an increased interest in state positions. The program will be challenged to effectively screen a larger volume of applications to reach those best-qualified.

Demographic Trends. As the country moves out of the baby boom and into the baby bust generation, there will be fewer highly trained entry-level professionals available. As a result, the program will need to place more emphasis on the recruitment of skilled entry-level professionals. At the same time, there will be a larger percentage of the entry workforce which will be untrained. This will require new methodologies for evaluating an individual's performance potential so that state service will capture the capabilities of this diverse applicant group.

Government Reduction. In an economic slowdown, government often restructures its organizations and becomes smaller. The program will oversee employee layoffs and manage the movement of employees within and between agencies in order to prevent layoffs.

New Trends in Management. Management trends in the 1990's include matrix organizations and flatter organizations which both provide reduced managerial and supervisory oversight. New types of classifications and new management structures will require changes in the traditional job based evaluation system and will create complex compensation issues.

Changing Nature of the Work. It is essential that new classes, which are created as a result of new programs, changes in technology or the restructuring of work, be evaluated in objective ways to

insure continuation of equitable compensation across state service.

Effective and Efficient Hiring. Delegation of hiring authority to the lowest appropriate level will increase the efficiency of state services. Training will need to be conducted and guidelines put in place to maintain statewide consistency as an employer. Even more information will need to be automated and accessible to all decision-makers.

Local Government Pay Equity. In this biennium, the local government pay equity program will change its focus from a technical assistance function to an enforcement function, as deadlines and penalties are phased in beginning in December 1991. Throughout the enforcement phase, the department will maintain open communications with local governments to ensure that their special circumstances and the requirements of the law are fully understood.

Beginning in 1992, the pay equity program will develop systems to assist local governments in maintaining pay equity once it has been achieved. The department expects to establish a monitoring cycle in which each local jurisdiction reports every 3 or 4 years.

The department will need to develop and maintain sophisticated computerized recordkeeping and analysis capabilities for pay equity information, for 2 reasons. First, a large volume of data for the enforcement function will need to be analyzed. Second, an increased interest in the pay equity program from other employers and organizations, both within and outside Minnesota, will generate requests for information in future years.

PLAN:

The Staffing and Compensation program will be participating in a department-wide effort to manage costs. Management strategies will include filling program vacancies at a slower rate, holding positions vacant in F.Y. 1993, limiting out-of-state travel and eliminating memberships and professional journals.

<u>Staffing & Compensation</u>	<u>F.Y. 1992</u>
	<u>(\$100,000)</u>

<u>F.Y. 1993</u>
<u>(\$100,000)</u>

The department proposes to reallocate \$100.0 each year to the administration program to fund the cost of operating the personnel/payroll system. A reduction in the Staffing and Compensation program will require deferment of previously anticipated software development and equipment purchases.

GOVERNOR'S RECOMMENDATION:

The Governor concurs with the agency's plan.

1992-1993 B I E N N I A L B U D G E T
(DOLLARS IN THOUSANDS)

AGENCY: EMPLOYEE RELTNS,DPT
PROGRAM: STAFFING AND COMPENSATION

				FY 1992			FY 1993		
ACTIVITY RESOURCE ALLOCATION:	FY 1989	FY 1990	Est. FY 1991	Adjusted Base	Agency Plan	Governor Recomm.	Adjusted Base	Agency Plan	Governor Recomm.
STAFFING SERVICES	1,983	3,600	4,042	2,912	2,812	2,812	2,914	2,814	2,814
COMPENSATION AND PAY EQUITY	136	212	227	240	240	240	244	244	244
TOTAL EXPENDITURES BY ACTIVITY	2,119	3,812	4,269	3,152	3,052	3,052	3,158	3,058	3,058
DETAIL BY CATEGORY:									
STATE OPERATIONS	2,119	3,812	4,269	3,152	3,052	3,052	3,158	3,058	3,058
TOTAL EXPENDITURES BY CATEGORY	2,119	3,812	4,269	3,152	3,052	3,052	3,158	3,058	3,058
SOURCES OF FINANCING:									
DIRECT APPROPRIATIONS:									
GENERAL	2,119	3,812	4,269	3,152	3,052	3,052	3,158	3,058	3,058
STATUTORY APPROPRIATIONS:									
TOTAL FINANCING	2,119	3,812	4,269	3,152	3,052	3,052	3,158	3,058	3,058

PROGRAM PURPOSE:

The Safety and Workers' Compensation Program seeks to ensure that state employees work in a safe and healthy environment and that costs due to work-related injuries and illness are minimized. The objectives of the program are:

- To design and implement proactive strategies to prevent injury and illness;
- To maintain employee productivity through an aggressive return-to-work and rehabilitation program;
- To contain costs by effectively managing workers' compensation claims; and
- To minimize fiscal impacts on agencies.

The division has 2 primary activities, a preventative safety program and a workers' compensation claims management program. The activities in the Safety Services Program include providing leadership and training to agencies in the development of proactive safety programs and conducting site investigations and environmental analysis to identify and correct hazards. Claims management activities include: determining liability for claims submitted by workers; efficiently processing claims and paying bills related to valid claims; providing rehabilitation and return-to-work programs to injured employees; and representing the state in the defense of contested claims.

As an employer, the state has chosen to be self-insured for workers' compensation. The program serves the executive branch and the University of Minnesota workforce for a total of 68,000 people. The state administers this program through a Revolving Fund, charging agencies directly for the actual cost of benefits paid to state and University of Minnesota workers, along with an additional fee for claims administration and for the safety services offered by the department.

Injuries and illnesses resulting from employment with the State of Minnesota cost state agencies and the University of Minnesota \$15,996,104 in F.Y. 1990 for benefits paid. The total cost of administration, reinsurance, special assessment by the Department of Labor Industry, and benefits paid in F.Y. 1990 was \$22,347,378.

PERFORMANCE:

Since assuming responsibility for this program in 1987, the Division has changed the focus of activity from reactive claims processing to a proactive, preventative safety program with a sound claims management function. As a result of this focus, the program has accomplished the following:

Strategies to Prevent Injury and Illness

1. A staff of safety and industrial hygiene professionals helps agencies correct problems and develop prevention strategies. Consulting services are provided in areas such as Video Display Terminal (VDT) safety, ergonomics, indoor air quality, safety inspections, asbestos concerns, and heat and cold stress; special training is provided on a wide variety of health and safety topics. Equipment is available to monitor contaminants in the work place. This assistance has prevented work stoppage and grievances and provided assurance to employees that they work in a safe and healthy environment.
2. The safety program has facilitated labor and management cooperation by moving safety and health issues into a non-adversarial situation and resolving them in a consistent manner. A joint labor/management effort has resulted in the development of a training manual and on-site training for agency safety committees.
3. More information about potential environmental hazards in the work place is available. The program has collected data about hazardous substances, harmful physical agents, and infectious

disease in the work place, and provides right-to-know information through the St. Paul Ramsey Poison Control Center. Each state agency or state employee has immediate access to accurate information regarding hazardous substances, harmful physical agents, and infectious diseases.

Rehabilitation and Return-to-work Programs

1. One hundred and three injured employees have been appointed to new permanent jobs as a result of aggressively administering a strategy to return employees to the work place. This saves state dollars, and has proven to be key in minimizing the length of time employees stay off the job due to an injury.
2. Rehabilitation services have been streamlined and better coordinated. The department reduced the amount of direct caseload assistance it provides to agencies and instead advises and trains agencies on how to maximize rehabilitation vendor services and reduce associated costs.

Managing Workers' Compensation Claims

Three specific cost containment strategies were implemented.

1. Settlement of long term claims. Workers' compensation costs which have been rising since 1975, have finally begun to level off. An aggressive, proactive workers' compensation program, a more focused partnership with agencies, and a change in the law are responsible for this change. In F.Y. 1990 there was a sharp increase in dollars spent on workers' compensation benefits, not because costs went unchecked, but because agencies began to settle claims and reduce their future liability.
2. Better claims management decisions. Key to the success of this cost containment strategy is a new computerized claims management system, which began operating in May of 1990 after successfully converting 65,000 claims and associated cost data from the old computer system at the Department of Labor and Industry. The new system assists in better claims management in the following ways:
 - a. It provides the total liability estimate for the State of Minnesota which was previously unknown. Based on this information, all claims were given an estimated reserve value. This allows agencies to plan for future budget obligations and develop strategies to contain costs over a long period of time.
 - b. It provides an accurate count of active claims in staff workload. Over the past 6 months, division staff closed 7,669 lost time and medical-only claims and reduced the open claim volume to 8,400.
 - c. It provides information necessary to assure that only statutorily authorized medical services and rates are paid. In F.Y. 1989, 18,393 bills were processed and of this number, 2,846 bills were adjusted downward, resulting in a savings of \$126,608. In F.Y. 1990, 22,894 bills were processed and 3,384 were adjusted downward, resulting in a savings of \$202,604. It is estimated that this automated review and adjustment process will result in an additional 40% savings to the agencies.
3. Information for better cost containment decisions on local level. State agencies and the University of Minnesota have been linked to the new computer system. This claims data and cost information will aid in responding to employee questions, determining the status of payments, and assisting agency management in making informed decisions about agency level cost containment programs.

Managing the Fiscal Impact on Agencies and the State

During the past year, the costs incurred by the self-insurance program, such as benefits paid, administrative expenses, and reinsurance have been identified in detail to provide a clear picture of

the true cost of the self-insurance program. This has allowed stabilization of the administrative fee structure, and better agency budgeting for this portion of the program. In addition, a careful review of our reinsurance premium has resulted in a \$146,000 reduction in premium and a more accurate assessment of our costs for reinsuring through the Workers' Compensation Reinsurance Association.

PROSPECTS:

Strategies to Prevent Injury or Illness

If resources are scarce in the next biennium, agencies will likely reduce their own staff who are dedicated to safety programs and seek services from DOER. As a result, the demand for safety service from the Safety and Workers' Compensation Division will increase. In addition, the demand for safety services will increase as agencies learn that proactive safety programs can reduce workers' compensation costs. Also, with a possible reduction in workforce size, labor relations issues often become more sensitive and there may be more reliance on the Safety and Workers' Compensation staff to provide technical analysis to help mediate safety disputes between labor and management. Consequently, program staff will have to respond to a larger volume of requests about more sophisticated and sensitive issues.

Rehabilitation and Return-to-Work Programs

Keeping injured employees working sustains productivity, contains costs and enhances employee self-esteem. If government downsizes during the next biennium, the opportunity to place injured workers in alternative work situations will be very limited. Agencies will already be moving people between positions to avoid layoff and workers will not be voluntarily leaving state employment because of fewer job opportunities in the job market in general. Placement staff will face severe challenges when assisting agencies in finding places for injured workers to return to work.

Managing Workers' Compensation Claims

1. Better management of the claims workload will reduce costs. The workload is approximately 325 lost time claims per specialist. The industry average is 175 claims per specialist. Because of the heavy workload, specialists are unable to manage claims effectively. If claims specialists have a more reasonable number of claims to manage, workers' compensation costs could be reduced because liability determinations would be more accurate, employees and vendors would be paid promptly, litigation would be minimized and penalties could be avoided.

By spending \$128,000 on 4 more claims specialist positions, the state could potentially save \$840,000 each year of the next biennium and decrease the state's future liability by an estimated 10%.

2. Prompt payment of medical bills will reduce costs. The volume of medical bills has increased over the past 2 years so that staff frequently cannot pay bills within 30 days. In addition, more detailed information is being collected to fully analyze and verify claims so bills take longer to process. When bills are not paid in 30 days, vendors send duplicate bills. This increases the work even though the number of claims does not increase. One additional data entry operator would result in 90% of bills being paid in 30 days. Prompt payment of bills will avoid potential penalties of approximately \$3,500,000 in the next fiscal year.
3. The purchase of the claims management computer system has been financed through a loan from the Department of Finance and is being paid back through an increase in the revolving fund fee charged to agencies. To maintain the system and to meet the demands for changes and increased access to information during the next biennium, an additional \$40,000 each year is needed. The

revolving fund rate will need to be adjusted to absorb these costs.

Managing the Fiscal Impact on Agencies and the State

1. The fiscal management of funds must be improved if costs are to be contained. Implementation of new strategies will require the assistance of actuarial and consulting services to verify reserves, develop and design fiscal management strategies, and investigate reinsurance opportunities. Twenty thousand dollars in additional administrative money is needed for this purpose.
2. Stabilize the revolving fund rate. Prior to 1990, the revolving fund rate charged to agencies for administration of the self-insurance program was based on a percentage of workers' compensation benefits paid. However, the amount of benefits to be paid each year was unknown. Consequently, the agency did not know what the revolving fund rate was going to be, nor did the division know what its budget would be. The rate structure has been adjusted to charge agencies based on a formula which includes past workers' compensation experience, and numbers of employees in each agency. Now the rate is fixed for the fiscal year. This formula needs to be further refined to reflect other factors but will remain predictable and help agencies better manage administrative costs.
3. Workers' compensation benefit costs are not predictable. To make agency workers' compensation budget more manageable, the department is exploring the idea of charging each agency a premium for benefit costs rather than having agencies pay direct dollar for dollar reimbursement to the fund. The premium option would provide flexible alternative funding options that will better fit an agency's need and would stabilize agency budgets by pooling risk.
4. By reclassifying the fund so that it can earn interest, the division can maximize the assets of the fund to reduce the estimated \$104,000,000 incurred future liability against existing claims.

PLAN:

Workers' Compensation	F.Y. 1992	F.Y. 1993
	\$216,000	\$216,000
	5.0 positions	5.0 positions

The department requests authority to increase the base level of spending for this program by \$216,000 and 5.0 positions. These dollars will fund 4 claims specialist and 1 data entry position; support the claims management computer system; and fund actuarial services. This additional expenditure will result in an estimated annual savings of \$840,000 and a 10% decrease in the state's future liability. No increase in fees will be necessary to fund this request. Current fees to agencies are based on total F.Y. 1991 program costs which include base level administrative costs and a 1-time assessment to agencies to offset an interim advance from the General Fund to this program. Those total costs exceed the total F.Y. 1992-1993 administrative budget request, including the requested increase. Because the total 1991 administrative expenditures exceed the total administrative request for F.Y. 1992-93, agencies will experience a reduction in their fees.

GOVERNOR'S RECOMMENDATION:

The Governor recommends BASE level funding for this activity.

1992-1993 B I E N N I A L B U D G E T
(DOLLARS IN THOUSANDS)

AGENCY: EMPLOYEE RELTNS,DPT
PROGRAM: SAFETY AND WORKERS' COMPENSATION

				FY 1992			FY 1993		
			Est.	Adjusted	Agency	Governor	Adjusted	Agency	Governor
ACTIVITY RESOURCE ALLOCATION:	FY 1989	FY 1990	FY 1991	Base	Plan	Recomm.	Base	Plan	Recomm.
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
SAFETY AND WORKERS' COMPENSATION	1,971	2,206	1,949	2,100	2,316	2,100	2,100	2,316	2,100
WORKERS' COMP NON-OPERATING	16,768	21,191	23,322	23,322	23,322	23,747	23,322	23,322	24,072
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL EXPENDITURES BY ACTIVITY	18,739	23,397	25,271	25,422	25,638	25,847	25,422	25,638	26,172
DETAIL BY CATEGORY:									
=====									
STATE OPERATIONS	18,739	23,397	25,271	25,422	25,638	25,847	25,422	25,638	26,172
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL EXPENDITURES BY CATEGORY	18,739	23,397	25,271	25,422	25,638	25,847	25,422	25,638	26,172
SOURCES OF FINANCING:									
=====									
DIRECT APPROPRIATIONS:									
GENERAL	2,184	2,327	1,807	1,807	1,807	2,232	1,807	1,807	2,557
STATUTORY APPROPRIATIONS:									
SPECIAL REVENUE	16,555	21,070	23,464	23,615	23,831	23,615	23,615	23,831	23,615
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL FINANCING	18,739	23,397	25,271	25,422	25,638	25,847	25,422	25,638	26,172

ACTIVITY: Safety & Workers' Compensation
PROGRAM: Safety & Workers' Compensation
AGENCY: Employee Relations, Department of

1992-93 Biennial Budget

DECISION ITEM: Increase to Administration

	Dollars in Thousands			
	<u>F.Y. 1992</u>	<u>F.Y. 1993</u>	<u>F.Y. 1994</u>	<u>F.Y. 1995</u>
AGENCY PLAN:				
Expenditures				
General Fund	\$ 216	\$ 216	\$ 216	\$ 216
Positions	5.0	5.0	5.0	5.0
Revenues	216	216	216	216

GOVERNOR'S RECOMMENDATION:

Expenditures				
General Fund	\$ -0-	\$ -0-	\$ -0-	\$ -0-
Positions	-0-	-0-	-0-	-0-
Revenues	-0-	-0-	-0-	-0-

Requires statutory change: _____ Yes X No
Statutes Affected:

ITEM SUMMARY:

DOER requests authority to spend in addition to the BASE level for this program \$432,000 in the 1992-93 biennium, and request an additional 5.0 complement.

RATIONALE:

The increase in spending would fund 4 claims specialists and 1 data entry position. Also included is funding for actuarial services and computer system enhancements. The additional expenditure would result in estimated annual savings of \$840,000 and a 10% decrease in the State's future liability. The additional funding and positions would speed up claims processing and payment.

GOVERNOR'S RECOMMENDATION:

Given the constraints for funding of new programs, the Governor does not recommend funding for this request.

1992-93 Biennial Budget

ACTIVITY: Workers' Comp Non-operating
PROGRAM: Safety and Workers' Compensation
AGENCY: Employee Relations, Dept. of

DECISION ITEM: WCRA Premium Adjustments

	Dollars in Thousands		
	F.Y. 1991	F.Y. 1992	F.Y. 1993
AGENCY REQUEST:			
Expenditures			
General Fund	\$ 486	\$ 425	\$ 750

	Dollars in Thousands		
	F.Y. 1991	F.Y. 1992	F.Y. 1993
GOVERNOR'S RECOMMENDATION:			
Expenditures			
General Fund	\$ 486	\$ 425	\$ 750

Requires statutory change: _____ Yes ☒ No
Statutes Affected:

ITEM SUMMARY:

This proposal is to increase the appropriations for the WCRA premium to meet FY 1991 costs and fund projected adjustments for the 1992-93 biennium.

RATIONALE:

The state "re-insures" for workers' compensation claims through the Workers' Compensation Reinsurance Association (WCRA). The WCRA is a not-for-profit public corporation created to provide reinsurance (insurance for claims that exceed a designated "retention threshold"). The current retention threshold for state worker claims is \$410,000. That is, the state is self-insured for claims up to that level. For any particular claim that should exceed total costs of \$410,000, WCRA assumes liability. Membership is mandatory for all self-insured employers in Minnesota.

Annual premiums paid to the WCRA are based on previous payroll levels and job risk classifications. The actual salary paid during a calendar year is multiplied by the risk factors associated with state occupations. This estimate is based on historical payroll data. Once actual payroll data for the

premium year are calculated by the Department of Employee Relations, adjustments are then made for the relevant period. Adjustments to FY 1989 premiums have been added to quarterly billings for FY 1991. The result is a deficiency in the appropriation for the current year of \$486,000.

Projected payroll and premium rate increases indicate costs for WCRA premiums in excess of BASE level expenditures for FY 1992 and FY 1993. The additional amounts required to meet the full projected premium are \$425,000 and \$750,000 respectively. The chart below details the premium cost history and projected 1992-93 biennial obligations:

	Dollars in Thousands						
	Actual 1987	Actual 1988	Actual 1989	Est. 1990	Est. 1991	Est. 1992	Est. 1993
WCRA pure prem.	26,413	28,261	28,348	31,271	34,398	35,946	37,743
% Increase		7.0%	0.31%	10.31%	10.00%	4.50%	5.00%
% Adjustments	18.10%	18.78%	13.41%	18.44%	-	-	-
Total paid	1,289	1,409	1,384	1,448	2,036	2,128	2,453
Adjustments	233	265	182	267	-	-	-
Prior year liability					153	-	-
Appropriation required (est.)					2,189	2,128	2,453
Less: Current BASE					(1,703)	(1,703)	(1,703)
Additional appropriation required:					\$ 486	425	750

GOVERNOR'S RECOMMENDATION:

The Governor recommends \$486,000 to fund the FY 1991 deficiency, \$425,000 in FY 1992 and \$750,000 in FY 1993 to cover projected premium adjustments.

1992-1993 B I E N N I A L B U D G E T
(DOLLARS IN THOUSANDS)

AGENCY: EMPLOYEE RELTNS,DPT
PROGRAM: TRAINING AND DEVELOPMENT

ACTIVITY RESOURCE ALLOCATION:	FY 1989	FY 1990	Est. FY 1991	FY 1992			FY 1993		
				Adjusted Base	Agency Plan	Governor Recomm.	Adjusted Base	Agency Plan	Governor Recomm.
TRAINING AND DEVELOPMENT	805	1,002	1,204	955	955	955	955	955	955
TOTAL EXPENDITURES BY ACTIVITY	805	1,002	1,204	955	955	955	955	955	955
DETAIL BY CATEGORY:									
STATE OPERATIONS	805	879	1,072	955	955	955	955	955	955
LOCAL ASSISTANCE		121	132						
AID TO INDIVIDUALS		2							
TOTAL EXPENDITURES BY CATEGORY	805	1,002	1,204	955	955	955	955	955	955
SOURCES OF FINANCING:									
DIRECT APPROPRIATIONS:									
GENERAL	522	699	744	555	555	555	528	528	528
STATUTORY APPROPRIATIONS:									
SPECIAL REVENUE	283	303	460	400	400	400	427	427	427
TOTAL FINANCING	805	1,002	1,204	955	955	955	955	955	955

ACTIVITY: Training and Development
PROGRAM: Training and Development
AGENCY: Employee Relations, Department of

1992-93 Biennial Budget

DECISION ITEM: Request Positions from General to Revolving Fund

	Dollars in Thousands			
	<u>F.Y. 1992</u>	<u>F.Y. 1993</u>	<u>F.Y. 1994</u>	<u>F.Y. 1995</u>

AGENCY PLAN:

Expenditures

Training - General Fund	\$	(7)	\$	(46)	\$	(46)	\$	(46)
Other Programs		7		46		46		46

Positions

General Fund	(1.0)	(2.0)	(2.0)	(2.0)
Revolving Fund	1.0	2.0	2.0	2.0

Requires statutory change: _____ Yes X No

Statutes Affected:

ITEM SUMMARY:

The Department of Employee Relations proposes moving 2 positions into the Training Revolving Fund.

RATIONALE:

DOER plans to use the savings in the General Fund toward expected cost increases which DOER estimates at about \$74,000 and \$174,000 for the two years in the coming biennium. This one portion of the agency's overall strategy, which includes adjustments to allotments for inflation costs, such as limiting travel, subscriptions and memberships.

GOVERNOR'S RECOMMENDATION:

The Governor does not recommend the agency's plan for this item. The positions should remain in and funded out of the General Fund. The Revolving Fund, with variable revenue and expenditure levels through the fiscal year, should be used for operational expenditures that vary with the level of program activity.

PROGRAM PURPOSE:

The Equal Opportunity Program works to ensure that the executive branch workforce and the metropolitan agencies are representative of Minnesota's population and remain free of discrimination and harassment.

The major objectives of the program are:

- To assist under-represented group members (people of color, women and disabled) in gaining access to state jobs.
- To encourage state hiring authorities to recognize the value of a diverse workforce.
- To ensure the work environment is free from discrimination and harassment through training and education.
- To conduct investigations of discrimination complaints and mediate conflicts caused by or resulting from situations in the workplace.

PERFORMANCE:

Agency Affirmative Action Plans

1. The EOD staff establishes rules and guidelines, provides consultation, technical support and training for operating state and metropolitan area agencies in development of their annual affirmative action plans. A total of 123 state agencies and 7 metropolitan area agencies must have an approved affirmative action plan that demonstrate commitment to hiring protected groups. Hiring trends in state service indicates a small but steady growth in the representation of protected groups.
2. The division provides agencies with quantitative measures that must be pursued in order to reach parity in state job groups. A monitoring system measures progress toward goals. All agencies were found in compliance in the 1990-91 biennium.

Recruitment and Selection

1. Representation of persons with disabilities has increased by 10% on an annual basis during the current biennium as a result of modifying written exams to remove barriers which contribute to exam failure, and accommodating special needs of applicants with disabilities in the written examination process.
2. Partnerships were established with 5 protected group community-based organizations to conduct on-site testing. This method of testing reduces the potential for adverse impact on testing of protected groups and provides an information base on state testing of minorities.
3. The development of a resume skills bank, an automated method of identifying available protected group members who have requisite skills for skilled state positions, provides state agencies with potential applicants on 1 day's notice.
4. The division initiated the first public employers job fair, which includes state, county and city employers. Workshops on resume writing and application processing give protected group members better understanding of the process of employment within a civil service system. Through the fair, public employers have the opportunity to act affirmatively in their recruitment efforts.
5. Research conducted on the adverse impact of the states' testing process resulted in the modification of 3 frequently used major exams.

1. Working through the departments advisory committee, 3 joint programs with agencies have been designed to eliminate the effects of discrimination: the mentor program, on-site testing, and community test tutoring.
2. The division worked towards resolving conflict in the workplace in state and metropolitan agencies by providing mediation and consultation with employees and supervisors on performance appraisals and job restructuring.

Training

1. An Annual Affirmative Action Training Conference was conducted for 150 state and metropolitan agency Affirmative Action Officers to train them on program changes or new initiatives which effect affirmative action and equal employment opportunity. A structured statewide program which has evolved from this conference requires that all executive branch agencies apply affirmative action policy in a consistent, equitable manner and that all employees are treated fairly.
2. In cooperation with the department's Training Division, the division designed workshops and training programs in the following areas: affirmative action, valuing diversity, harassment and discrimination, complaint investigation, performance appraisals and special training requested by agencies. Agency requests for training on sexual harassment has increased by 25% during the current biennium.
3. General training programs for state and metropolitan agencies on the state's affirmative action program in the areas of workforce analysis, affirmative action goal setting, and reasonable accommodation are conducted on an annual basis.

Discrimination Complaint Investigation

1. Investigations of affirmative action complaints which are filed based on protected characteristic; i.e. race, sex, age, disability, sexual preference, marital status, and religion have increased by 15% in the past 2 years. Agency intervention and problem solving in the early stages of complaint processing has had 2 positive results: 1) complaints have been quickly resolved in a less hostile environment for employees, and 2) the potential for large litigation costs to agencies has been reduced.

PROSPECTS:

Successful program activity implementation for 1991-93 will depend on the following factors:

1. The recent Supreme Court decisions on affirmative action programs, sexual harassment and discrimination, and revisions to the American Disabilities Act of 1990 continue to change affirmative action programs throughout the country. These recent decisions suggest an increase in the processing of complaints in these areas and the division must administer a state monitoring program and a state agency assistance program which is consistent with the new interpretations in order to resolve potential discriminating practices.
2. Periodic surveying and progress reports to agencies during the fiscal year will assist them in meeting compliance requirements.
3. The increase in applications from persons with disabilities through the supported work program and rigorous recruitment outreach has increased the demands for administration of testing and recruitment procedures.
4. An awareness of affirmative action issues coupled with a greater diversity of the workforce has increased the need for service to agencies. EOD must continue to provide agencies and the

PROGRAM: Equal Opportunity
(Continuation)
Agency: Employee Relations, Department of

1992-93 Biennial Budget

general public with the information necessary to implement a state affirmative action program. Training in the areas of preventing sexual harassment, managing a diverse workforce, grievance handling and reasonable accommodations are ongoing training needs in every agency. Without these services, agencies are in a vulnerable situation for potential risks of discrimination.

5. Recent Supreme Court decisions require that an affirmative action program have accurate and defensible data as it relates to implementing a goal oriented hiring program. Minnesota's affirmative action law requires the EOD to define goals to all of the state's job categories; therefore the program requires up-to-date methods of conducting workforce analysis and the usage of data that defends a numerical based hiring process, so as to assure a sound and legitimate goal setting program.

PLAN:

All current functions and activities of the Equal Opportunity Program will be maintained in F.Y. 1992-93. Increased costs will be managed within base level funding by managing personnel costs, out-of-state travel, subscriptions, and membership fees.

GOVERNOR'S RECOMMENDATION:

The Governor concurs with the agency's plan.

1992-1993 B I E N N I A L B U D G E T
(DOLLARS IN THOUSANDS)

AGENCY: EMPLOYEE RELTNS,DPT
PROGRAM: EQUAL OPPORTUNITY

				FY 1992			FY 1993		
ACTIVITY RESOURCE ALLOCATION:	FY 1989	FY 1990	Est. FY 1991	Adjusted Base	Agency Plan	Governor Recomm.	Adjusted Base	Agency Plan	Governor Recomm.
EQUAL OPPORTUNITY	224	276	330	320	320	320	327	327	327
TOTAL EXPENDITURES BY ACTIVITY	224	276	330	320	320	320	327	327	327
DETAIL BY CATEGORY:									
STATE OPERATIONS	224	276	330	320	320	320	327	327	327
TOTAL EXPENDITURES BY CATEGORY	224	276	330	320	320	320	327	327	327
SOURCES OF FINANCING:									
DIRECT APPROPRIATIONS:									
GENERAL	221	267	321	311	311	311	318	318	318
STATUTORY APPROPRIATIONS:									
SPECIAL REVENUE	3	9	9	9	9	9	9	9	9
TOTAL FINANCING	224	276	330	320	320	320	327	327	327

1992-1993 B I E N N I A L B U D G E T
(DOLLARS IN THOUSANDS)

AGENCY: EMPLOYEE RELTNS,DPT
PROGRAM: GENERAL REDUCTION

ACTIVITY RESOURCE ALLOCATION:	FY 1989	FY 1990	Est. FY 1991	FY 1992			FY 1993		
				Adjusted Base	Agency Plan	Governor Recomm.	Adjusted Base	Agency Plan	Governor Recomm.
GENERAL REDUCTION						<422>			<551>
TOTAL EXPENDITURES BY ACTIVITY						<422>			<551>
DETAIL BY CATEGORY:									
STATE OPERATIONS						<422>			<551>
TOTAL EXPENDITURES BY CATEGORY						<422>			<551>
SOURCES OF FINANCING:									
DIRECT APPROPRIATIONS:									
GENERAL						<422>			<551>
STATUTORY APPROPRIATIONS:									
TOTAL FINANCING						<422>			<551>

1992-93 BIENNIAL BUDGET

PROGRAM STRUCTURE

AGENCY: FINANCE, DEPARTMENT OF

PROGRAM

PAGE

MANAGEMENT AND ADMINISTRATIVE SERVICES

273

Commissioner's Office
Administrative Services

STATE ACCOUNTING SYSTEM

275

Accounting Operations
Central Payroll
Systems Support
Financial Reporting

BUDGET ANALYSIS AND OPERATIONS

279

Analysis and Control
Budget Support

CASH AND DEBT MANAGEMENT

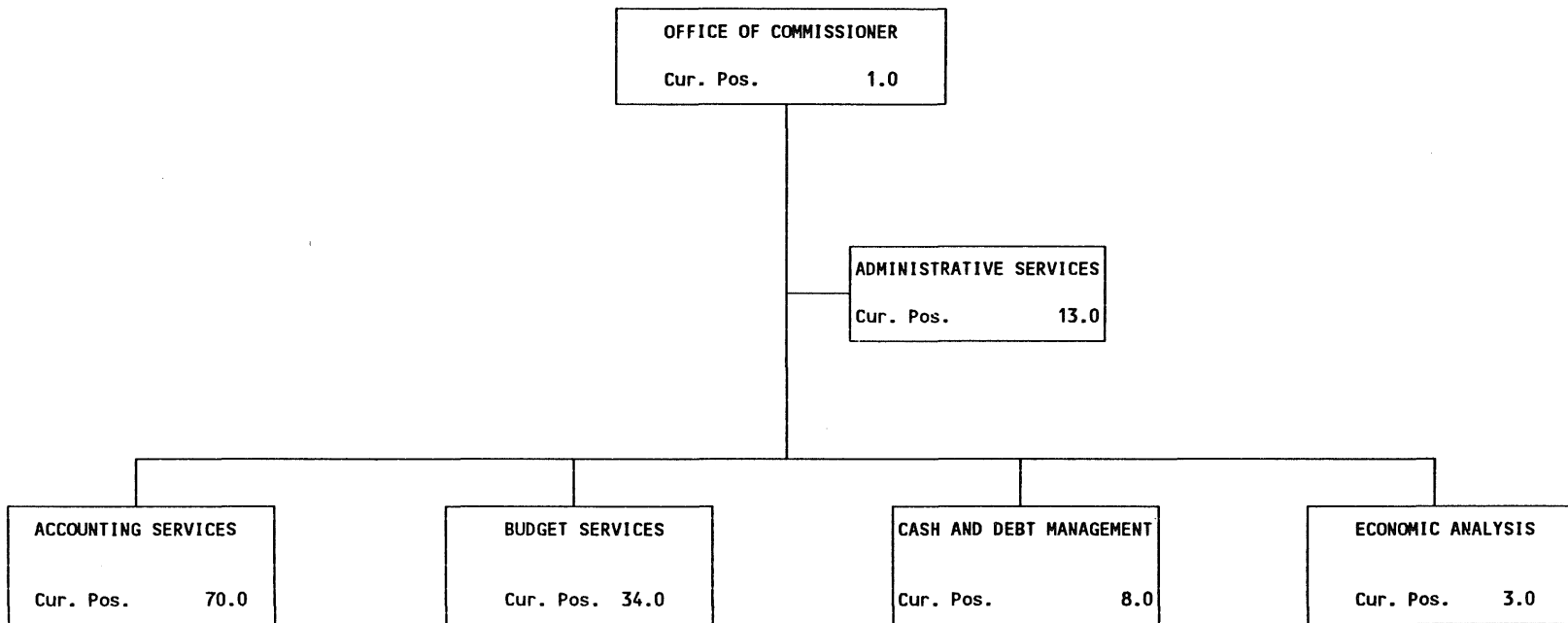
282

Cash and Debt Management
Rural Finance Authority

ECONOMIC ANALYSIS

285

Department of Finance Organization Chart 7/1/90



Department of Finance

Position and Employee Status Information

Position Reconciliation:

Authority:	Current F.Y. 1991	Requested For 6-30-93
Legislative Complement:		
General Fund	<u>129.0</u>	<u>129.0</u>
Total Permanent Positions	129.0	129.0
Other Complement (FTE)	<u>10.0</u>	<u>10.0</u>
TOTAL Positions	139.0	139.0

Employees
on 6-30-90

125

Employees by Employment Status:

	<u>6-30-90</u>
Full-Time Unlimited	121
Part-Time Unlimited	1
Part-Time Temporary	1
Intermittent	<u>2</u>
TOTAL	125

MISSION:

The Department of Finance is an executive branch staff agency. Its mission is to facilitate continuous improvement in the performance of state government for the people of Minnesota through the provision of information, analysis and financial management services designed to:

- assure the integrity of the state's finances
- monitor and report performance of state activities
- communicate priorities and values
- coordinate and facilitate policy development and implementation from a "whole state" perspective

The Department serves the executive branch and, through the Governor, the other branches and governing units of the state.

The Department provides the following services:

- accounting
- budgeting
- cash management
- debt management
- economic analysis
- financial consulting
- financial reporting
- payments
- policy analysis

The Department's success depends on its staff and their ability to manage information resources - to efficiently and accurately collect data, process it into useful information, and effectively apply that information to continuously improving the performance of the State.

Credibility is the measure of the Department's success.

MAJOR POLICY DRIVERS:

The department receives its authority from the legislature through the statutes (primarily M.S. 16A) and session laws. Since legislative actions establish, modify and eliminate state funded programs, the department must constantly take its direction from the laws. In addition, the department actively provides information to lawmakers in terms of the fiscal impact of pending legislation. Through these interactive process the legislature is a major user of department services. Conversely, the department must facilitate legislative intent as state funded activities are implemented.

Administrative policies and procedures developed by other state agencies (including collective bargaining agreements) often become major factors driving policy decisions. Often these actions are required by statute and are beyond the control of the department. As these actions are implemented, the department may modify its procedures and practices significantly.

The economic forecast, relating expected revenues and projected expenditures of state funds, continue to be a major policy driver for the Department and the state. The availability of funding for state and local programs and legislative initiatives is a key factor for all state policy makers in both the executive and legislative branches. Analysis of the major factors driving the economy, projections of expected revenues and expenditures, and close monitoring of the performance of both the economy and state revenues are essential to the forecast. Both executive and legislative branch decision makers use this information to determine the kinds and extent of state funded services that will be provided.

Apart from the obvious economic considerations, actions by the federal government often drive major policy decisions. Changes in Federal funding often require major policy decisions at the state and local level.

Various agencies with strong constituents provide considerable pressure for advancing their agendas. In addition, agencies demand fiscal services from the department that shape policy and system development. The accounting system, a major source of financial information is driven in part by the need to provide accurate and up to date information to all levels of management in the state. These internal pressures create policy directions the department must respond to.

A major driver of not only department policy but state policy is the ratings given out by the various bond rating agencies. Actions by the department and the legislature are evaluated in terms of the security of state issued bonds. Actions the department (and legislature) take directly affect the interest rate on state bonds, and the corresponding cost of debt service. Obviously, the lower the rating of our bonds, the more the state pays in interest.

Finally, perceptions of our major customers, the governor, legislature, the executive branch agencies and others become major policy drivers for the department. With commitment to integrity, professionalism, mutual respect, and our other values we clearly seek to provide the best information to policy makers to ensure continued improvement in the performance of the state.

EXPLANATION OF BUDGET ISSUES AND ALTERNATIVES:

The primary emphasis for the Department of Finance is to enhance its information and knowledge capabilities by investing in system improvements creating improved statewide financial management capabilities to better serve the people of Minnesota.

To accomplish this emphasis the department will:

- Manage within its resources by redesigning and realigning services in several areas;

Within available resources the department will manage its internal operations during the biennium through equalizing workloads between various internal divisions, cutting costs through investments in technology already made, and redesigning departmental services in line with our stated mission.
- Conduct an internally funded evaluation of the state's accounting and financial management systems and make appropriate recommendations to implement proposed changes;

The statewide accounting system is 20 years old, well past the age when technological advances suggest redesign. We are currently looking at the accounting system and the overall financial management systems used in state government. We intend to allocate F.Y. 1992 funds towards beginning to redesign the Statewide Accounting System and Personnel Payroll System. Building on the evaluation conducted in F.Y. 1992 we will make specific proposals to the legislature. An alternative is to continue with the current systems, however, as systems age, it becomes more difficult to maintain them with older technology.
- Increase the share of staff devoted to creating and applying information vs gathering data; and
- Define department services and performance standards from a line agency perspective with emphasis on continuous improvement, simplification and a redefinition of controls and application of those standards to the fiscal challenge of F.Y. 1992-93.

1992-1993 BIENNIAL BUDGET
(DOLLARS IN THOUSANDS)

AGENCY: FINANCE, DEPT OF

PROGRAM RESOURCE ALLOCATION:	FY 1989	FY 1990	Est. FY 1991	FY 1992			FY 1993		
				Adjusted Base	Agency Plan	Governor Recomm.	Adjusted Base	Agency Plan	Governor Recomm.
MANAGEMENT & ADMINISTRATIVE SERVIC	1,483	1,226	1,273	1,258	1,148	1,148	1,268	1,205	1,205
ECONOMIC ANALYSIS	257	259	271	277	287	287	280	300	300
STATE ACCOUNTING SYSTEM	4,550	4,478	4,699	4,708	4,872	5,122	4,692	4,813	5,063
BUDGET ANALYSIS & OPERATIONS	2,037	1,938	2,773	2,312	2,318	2,318	2,304	2,286	2,286
CASH & DEBT MANAGEMENT	281	295	308	308	273	273	307	282	282
TOTAL EXPENDITURES BY PROGRAM	8,608	8,196	9,324	8,863	8,898	9,148	8,851	8,886	9,136
SOURCES OF FINANCING:									
DIRECT APPROPRIATIONS:									
GENERAL	8,268	8,196	9,324	8,863	8,898	9,148	8,851	8,886	9,136
STATUTORY APPROPRIATIONS:									
AGENCY	340								
TOTAL FINANCING	8,608	8,196	9,324	8,863	8,898	9,148	8,851	8,886	9,136

BASE RECONCILIATION REPORT
for 1992-1993 Biennium

AGENCY: FINANCE, DEPT OF

	ALL FUNDS		GENERAL FUND		OTHER STATE FUNDS		FEDERAL FUNDS	
	F.Y.92	F.Y.93	F.Y.92	F.Y.93	F.Y.92	F.Y.93	F.Y.92	F.Y.93
F.Y.91 FUNDING LEVEL	9,324	9,324	9,324	9,324				
BIENNIAL APPROPRIATIONS	<235>	<235>	<235>	<235>				
APPROPRIATIONS CARRIED FWD	<288>	<288>	<288>	<288>				
SALARY ANNUALIZATION	81	60	81	60				
DOCUMENTED RENT/LEASE INCR.	<19>	<10>	<19>	<10>				
TOTAL	8,863	8,851	8,863	8,851				
BIENNIAL TOTAL		17,714		17,714				

ACTIV
PROGRAM

1992-93 Biennial Budget

GOVERNOR'S RECOMMENDATION:

AGENCY: Finance, Department of

The Governor concurs with agency's plan with the exception of the four week payroll from this proposal of \$70,000 in F.Y. 1992 and \$175,000 in F.Y. 1993 savings must be reallocated from other department resources for this item.

DECISION ITEM: Financing Inflationary Costs - Informational

Dollars in Thousands			
<u>F.Y. 1992</u>	<u>F.Y. 1993</u>	<u>F.Y. 1994</u>	<u>F.Y. 1995</u>

AGENCY PLAN:

Expenditures

General Fund - Inflation	\$ 305	\$ 654	\$ 654	\$ 654
- Reallocations	(207)	(619)	(619)	(619)
	\$ 35	\$ 35	\$ 35	\$ 35

Revenues

General Fund	\$ 35	\$ 35	\$ 35	\$ 35
--------------	-------	-------	-------	-------

Requires statutory change: X Yes No

Statutes Affected: M.S. 16A.17 and 474A

ITEM SUMMARY:

Following the Biennial Budget instructions salary projections assumed a 4.5% across the board increase for all employees. Salary costs were fully funded, assuming no vacancies. In addition, postal increases were projected at 20% to account for anticipated postal rate increases. Finally, changes in other department costs reflect an estimated 4.5% increase in rates and/or modest changes in anticipated volumes. Data processing operating costs reflect increases in expected transaction volumes with no anticipated rate changes.

RATIONALE:

The department reallocated funds by holding positions vacant; paying off a lease purchase agreement out of FY 1991 funds; redesigning certain internal procedures and lowering computer costs made possible by productivity investments in FY 1991; proposing state employees be paid every four weeks instead of every two weeks; and proposing an administrative fee to be paid by applicants for bond allocations. Most of these actions or proposed actions have no impact outside of the agency. However, two actions have legislative implications:

1. Four week payroll: A proposal for paying state employees every four weeks instead of every two weeks would save \$70,000 in FY 1992 and \$175,000 in FY 1993. In addition, agency personnel would have to enter payroll half as often saving staff time. Most of the direct agency savings would be in computer operating costs as this system would be run only half as often. Computer system modifications would require some programming costs in FY 1992 offsetting some of the potential savings. Current law would have to be changed.
2. Bond Allocation Administrative Fee: The department is responsible for the administration of the Minnesota Tax Exempt Bonding Allocation law. This responsibility was transferred to the department in FY 1990 costing approximately \$40,000 per year. The department proposes to establish an administrative fee payable by issuers who are applying for a bond allocation. The amount of the fee would be \$100 for each \$500,000 in allocation received, rounded to the nearest \$500,000. The minimum fee would be \$100. Enabling legislation would have to be passed.

PROGRAM: Management and Administrative Services
Agency: Finance, Department of

1992-93 Biennial Budget

PROGRAM PURPOSE:

The Management and Administrative Services Program provides agency leadership and administrative support enabling the other department programs to serve state agencies, the Governor and the Legislature.

PERFORMANCE:

This program provides: departmental leadership, payroll, personnel, training, budgeting and control, legislative liaison, office management, purchasing, clerical support, mail, statewide fiscal note coordination, state budget preparation, telecommunications, security, printing, and a host of administrative coordination with various agencies. Under current staffing levels the program meets only the basic department needs while using office automation extensively.

Measurable results of these activities are:

Effective departmental leadership: A current mission statement, a strategic plan and an annual departmental work plan will be in place at the beginning of each fiscal year

	<u>F.Y. 1989</u>	<u>F.Y. 1990</u>	<u>F.Y. 1991</u>
Plan in Place	Yes	Yes	Yes

Prompt payment of agency bills and staff: The agency will exceed the 98% goal for prompt payment of its bills, and all staff will be paid on time

	<u>F.Y. 1989</u>	<u>F.Y. 1990</u>
Prompt Payment	94%	98.8%
Employees Paid on Time	100%	100%

Timely processing of fiscal notes: Executive branch fiscal notes will be delivered to the appropriate legislative committees within acceptable time frames.

	<u>F.Y. 1986</u>	<u>F.Y. 1987</u>	<u>F.Y. 1988</u>	<u>F.Y. 1989</u>	<u>F.Y. 1990</u>
Bills Introduced	1645	3254	2175	3468	2008
Fiscal Notes Requested	233	1985	351	1929	380

PROSPECTS:

The agency continues to review all of its administrative systems to ensure that they are effective, efficient and meet the department's needs. Future developments in technology will provide opportunities for improved, less costly and better services and products. As appropriate and within funding limits, we will continue to incorporate these advancements into the office systems.

Two alternatives for providing administrative services are: combining the administrative services of two or more staff agencies, possibly gaining some economies of scale and secondly, combining two or more staff agencies centralizing both the administration and management functions.

PLAN:

In order to manage within available resources for the biennium, we will not fill a current vacancy in the General Support section, saving \$32,000 in each year. We expect to be able to continue

supplying basic clerical services through the application of improvements in office technology such as the Local Area Network, and other productivity improvements. In addition, we will reallocate funds from a variety of areas saving \$27,000 and \$7,000 in FY 92-93 respectively. Finally, we will attempt to prepay our outstanding balance on equipment and furniture leases using FY 1991 funds, saving an additional \$87,000 in FY 1992 and \$81,000 in FY 1993. These funds will be reallocated to cover anticipated increased costs in other areas.

GOVERNOR' RECOMMENDATION:

The Governor concurs with the agency's plan.

1992-1993 BIENNIAL BUDGET
(DOLLARS IN THOUSANDS)

AGENCY: FINANCE, DEPT OF
PROGRAM: MANAGEMENT & ADMINISTRATIVE SERVIC

ACTIVITY RESOURCE ALLOCATION:	FY 1989	FY 1990	Est. FY 1991	FY 1992			FY 1993		
				Adjusted Base	Agency Plan	Governor Recomm.	Adjusted Base	Agency Plan	Governor Recomm.
MANAGEMENT & ADMINISTRATIVE SERVIC	1,483	1,226	1,273	1,258	1,148	1,148	1,268	1,205	1,205
TOTAL EXPENDITURES BY ACTIVITY	1,483	1,226	1,273	1,258	1,148	1,148	1,268	1,205	1,205
DETAIL BY CATEGORY:									
STATE OPERATIONS	1,482	1,226	1,273	1,258	1,148	1,148	1,268	1,205	1,205
LOCAL ASSISTANCE	1								
TOTAL EXPENDITURES BY CATEGORY	1,483	1,226	1,273	1,258	1,148	1,148	1,268	1,205	1,205
SOURCES OF FINANCING:									
DIRECT APPROPRIATIONS:									
GENERAL	1,143	1,226	1,273	1,258	1,148	1,148	1,268	1,205	1,205
STATUTORY APPROPRIATIONS:									
AGENCY	340								
TOTAL FINANCING	1,483	1,226	1,273	1,258	1,148	1,148	1,268	1,205	1,205

PROGRAM PURPOSE:

The Accounting Services Division provides statewide accounting and payroll systems and services to process, record and report agency financial transactions. These systems and services incorporate a system of internal controls to assist in assuring compliance with appropriate financial principles, policies and legal requirements.

PERFORMANCE:

The department has maintained controls to assure the integrity of the state's financial operations and financial information. The state's comprehensive annual financial reports have earned unqualified audit opinions and have received the Certificate of Achievement for Excellence in Financial Reporting for the past five years. Other measures of the division's success in meeting key performance objectives are shown in the following table.

	F.Y. 1988	F.Y. 1989	F.Y. 1990
Major control weaknesses reported in audits of the division's statewide systems or operations	None	None	None
Percent of time vendor and payroll warrants produced when scheduled	100%	100%	100%
Percent of time on-line systems are available during working hours	98.9%	99.2%	98.5%

Although the division has provided a great deal of financial information to many users and in many forms, many users have said that their information needs for managing and decision making are not being met by the current systems. The accounting system was not designed in a way that facilitates its use as a management decision support system. In addition, the system does not collect and report some needed information. For example, decision makers are unable to get state expenditure information by function from the system.

The systems do not provide the ease of use and user efficiencies that newer systems provide. For example, several agencies would like to be able to electronically feed payment and other transactions from their own systems to the accounting system, rather than manually enter data. The current system does not provide this capability, except in limited circumstances. There is much other manual work that could be reduced by system edits, reconciliations, and report flexibility in more up-to-date systems.

The Personnel/Payroll System generally meets users' needs for information. However, the system is at risk because many changes, mandated by law or by collective bargaining agreements, have been made by using side processes that are not part of the payroll system itself. Rather, they interface with the payroll system during payroll calculation. The requirements were met in this way because of a lack of both time and resources to modify the main payroll system. The increasing number of these processes, as more and more requirements are added, increases the risk that the state will not be able to pay its employees on time.

The Statewide Accounting System is almost 20 years old, and the Personnel/Payroll System is over 10 years old. Although the systems have been updated over the years, funds have not been available in more recent years to modify or replace the systems to take advantage of newer technology and meet changing needs.

The department's strategic information plan, based on the results of interviews with 72 people from 22 organizations, concluded that the Statewide Accounting System continues to perform its basic accounting functions well, but does not fulfill all user needs for management and analytical information. It is based on older technology, is inflexible and difficult to change, and will not interface well with modern applications such as electronic data interchange and imaging. The plan says that because this system "represents the primary infrastructure for financial information for the state, and because the system is nearly 20 years old and technically very out-of-date, serious consideration should be given to setting in motion a financial information system redesign and development project."

The plan says the Personnel/Payroll System "is highly rated in terms of the information that it provides to users but ... is time consuming and difficult to operate and maintain and may be in danger of crashing." It also says that the external modules attached to PPS over the years "are destabilizing the system and creating a need for major modification or redesign."

PROSPECTS:

The department has been able to operate the systems, produce the payroll and vendor payments, maintain financial controls and provide information to users in the past. Current trends suggest challenges to its ability to continue to do so in the future. In recent years, as the department's Statewide Accounting System (SWAS) and Personnel/Payroll System (PPS) have experienced steadily increasing volumes, the department has managed to carry out its responsibilities, in spite of staff reductions, by becoming more efficient and by taking advantage of automation, both in the mainframe systems and by using personal computers.

Examples of Increases in Volumes in Recent Years (Percentages are increases over prior year)

	F.Y. 1985	F.Y. 1986	F.Y. 1987	F.Y. 1988	F.Y. 1989	F.Y. 1990
SWAS System						
Transmissions	7.63%	9.64%	3.70%	3.77%	15.80%	11.41%
Appropriation Accounts	5.05%	4.05%	-.22%	13.47%	8.09%	10.45%
Warrants per Pay Day	0.75%	0.69%	0.31%	1.39%	3.97%	3.58%
SWAS Payment						
Summary Records	16.07%	10.71%	11.44%	7.64%	13.50%	12.74%

Increasing transaction volumes resulting from more use of the systems by agencies, requests for information, and new requirements that are becoming more complex, combined with limited resources, will mean that the department will have to increase productivity further in order to maintain services and controls. The statewide financial systems must be operated to pay employees and vendors, and must meet legal requirements. If the department cuts back on reports and information, managers and decision makers in other agencies either will not get the information they need to manage and to make good decisions, or they will develop duplicative systems to provide the information.

The lack of adequate resources to meet the increasing demands for system use and functionality, creates a risk of not being able to provide needed information and having to cut back on internal financial controls designed to assure the integrity of the state's financial operations and information.

PROGRAM: State Accounting System
(Continuation)
Agency: Finance, Department of

1992-93 Biennial Budget

PLAN:

A major objective of the department is to improve the management of state government through the redesign of the state's financial management principles, policies, operations and systems. The department has started to work towards this objective, and plans to continue to do so in the 1992-93 biennium. To assist in meeting this objective, the department has reallocated \$166,000 in F.Y. 1992 to the redesign of the Statewide Accounting System.

The department must continue to operate the statewide accounting and payroll systems, produce warrants (checks) to pay vendors and employees, and comply with increasingly complex legal requirements.

In order to provide resources for the redesign of the Statewide Accounting System, and to cover cost increases in salaries and supply/expense items, increasing volumes and growing complexities in the systems, other program costs will have to be reduced.

In order to manage within the BASE level funding, the department will:

1. Reduce data processing costs by paying all state employees that are on the central payroll system every four weeks rather than every two weeks.

Statutory changes are required to change the frequency of state employee payroll payments, authorize a transition period and transition plan, and adjust payroll deductions to the transition schedule and new four-week schedule.

All impacts on state employees can be mitigated by providing for payroll advances to employees at the beginning of the transition period, to be paid back through the payroll during the transition period.

2. Reduce salary costs by reducing the number of positions. This will include leaving vacant a number of positions that were recently vacated or that will become vacant prior to or during the biennium, realigning work loads, and redesigning work.

Since staff reductions could result in decreasing the Department of Finance's direct financial control of agencies, emphasis will be placed on enhancing the quality of controls within agencies. In this way the integrity of the state's finances can be maintained.

3. Reduce other costs by presorting vendor payment warrants by zip code before mailing for postage savings, and by discontinuing some reports produced by the systems.

GOVERNOR'S RECOMMENDATION:

The Governor recommends the funding as requested except for the following; a biennial increase of \$500,000 to begin to redesign the Statewide Accounting System. In addition, the Governor does not recommend reducing payroll costs by paying employees on a 4-week payroll rather than every 2-weeks.

1992-1993 B I E N N I A L B U D G E T
(DOLLARS IN THOUSANDS)

AGENCY: FINANCE, DEPT OF
PROGRAM: STATE ACCOUNTING SYSTEM

				FY 1992			FY 1993		
ACTIVITY RESOURCE ALLOCATION:	FY 1989	FY 1990	Est. FY 1991	Adjusted Base	Agency Plan	Governor Recomm.	Adjusted Base	Agency Plan	Governor Recomm.
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
STATE ACCT SYSTEM	4,550	4,478	4,699	4,708	4,872	5,122	4,692	4,813	5,063
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL EXPENDITURES BY ACTIVITY	4,550	4,478	4,699	4,708	4,872	5,122	4,692	4,813	5,063
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
DETAIL BY CATEGORY:									
=====									
STATE OPERATIONS	4,550	4,478	4,699	4,708	4,872	5,122	4,692	4,813	5,063
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL EXPENDITURES BY CATEGORY	4,550	4,478	4,699	4,708	4,872	5,122	4,692	4,813	5,063
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
SOURCES OF FINANCING:									
=====									
DIRECT APPROPRIATIONS:									
GENERAL	4,550	4,478	4,699	4,708	4,872	5,122	4,692	4,813	5,063
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
STATUTORY APPROPRIATIONS:									
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL FINANCING	4,550	4,478	4,699	4,708	4,872	5,122	4,692	4,813	5,063
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====

ACTIVITY: State Accounting System
PROGRAM: State Accounting System
AGENCY: Finance, Department of

1992-93 Biennial Budget

DECISION ITEM: Redesign Statewide Financial Systems

	Dollars in Thousands			
	F.Y. 1992	F.Y. 1993	F.Y. 1994	F.Y. 1995
GOVERNOR'S RECOMMENDATION:				
Expenditures				
General Fund	\$ 250	\$ 250	\$ 14,500	\$ -0-
Revenues				
General Fund	\$ -0-	\$ -0-	\$ -0-	\$ -0-

Requires statutory change: _____ Yes X No
Statutes Affected:

ITEM SUMMARY:

Funds are requested to begin to redesign the state's key financial information and operating systems, the Statewide Accounting and Personnel/Payroll Systems. The redesign of these systems will facilitate improved management accountability and provide a foundation for the development of a statewide Executive Information System. Funds are needed in F.Y. 1992 and F.Y. 1993 to develop a detailed plan, including development and operating cost estimates, for new systems. Authority is requested to move funds between the 2 years. This request includes 1 position in F.Y. 1992 and 2 additional positions in F.Y. 1993. Funds will be requested for F.Y. 1994 for design, development and implementation of the new systems. The additional \$14.5 million is estimated at this time and will be refined as part of the plan. There is a potential need for approximately an additional \$5 million to complete the project in F.Y. 1995.

The new systems will be based on the Department of Finance's Principles of Financial Management. The systems must be flexible, meet both statewide needs and the common needs of individual state agencies, and interface efficiently with other state financial systems. They must also provide managers and other decision makers with the information they need to manage their budgets and their operations.

The Information Policy Office supports funding this planning effort and considers strategic planning as the first step in the process.

BACKGROUND:

The department's strategic information plan, based on the results of interviews with 72 people from 22 organizations, concluded that the Statewide Accounting System does not fulfill all user needs for management and analytical information. It is based on older technology, is inflexible and difficult to change, and will not interface well with modern applications such as electronic data interchange and imaging. The plan says that because this system "represents the primary infrastructure for financial information for the state, and because the system is nearly 20 years old and technically very out-of-date, serious consideration should be given to setting in motion a financial information system redesign and development project." The plan says the Personnel/Payroll System "is time consuming and difficult to operate and maintain and may be in danger of crashing." It also says that the external modules attached to PPS over the years "are destabilizing the system and creating a need for major modification or redesign."

<u>KEY STATISTICS/FINANCING/IMPACT:</u>	<u>F.Y. 1990</u>	<u>F.Y. 1991</u>	<u>F.Y. 1992</u>	<u>F.Y. 1993</u>
Accounting System Transmissions	8,180,754	9,000,000	10,000,000	11,000,000
Warrants per Pay Day (Average)	39,802	41,200	42,600	44,100

RATIONALE/OPTIONS:

The state depends on its statewide accounting and payroll systems to pay vendors and employees, comply with

related legal provisions, control spending within budgets, and provide information on the state's financial condition and financial operations. The existing systems are old and are built on old technology. They require much manual intervention to operate and use. They do not meet the operational and information needs of state government. The state needs up-to-date systems to enable it to meet continually changing requirements and to provide needed financial information to the Governor, Legislature, citizens, management and others. New systems become increasingly important to facilitate management accountability as state government is restructured. The successful development of an Executive Information System for use by key state decision-makers depends upon the replacement of these old systems.

<u>BASE:</u>	<u>F.Y. 1990</u>	<u>F.Y. 1991</u>	<u>F.Y. 1992</u>	<u>F.Y. 1993</u>
General Fund Expenditures (000's)	\$ 4,478	\$ 4,699	\$ 4,708	\$ 4,692
General Fund Positions	67.0	67.0	62.0	62.0

PROGRAM PURPOSE:

This program serves the Governor and Legislature by coordinating budget development communicating and monitoring compliance with appropriation laws and fiscal policy. The Budget Services Division is responsible for developing and managing budget policy for state finances within a framework of statewide financial management principles. Services provided are unique and integral to achievement of the agency's strategic goals and attainment of statewide financial objectives. Major program objectives relate to the agency's mission as follows:

1. Assure the integrity of the state's finances:

- Monitor and project operating fund balances, focusing on current and future expenditure commitments and revenue changes;
- Analyze the impact on state finances of various proposals, track fiscal legislation and coordinate the fiscal notes process;
- Develop, communicate and ensure compliance with state laws and policy relating to spending, accounting and financial reporting;
- Review annual spending plans for conformity with legislative intent and monitor current year spending;
- Providing financial reports and other information as required to ensure accountability.

2. Communicate financial priorities and expectations:

- Develop options and recommendations for the Governor's operating and capital budgets;
- Communicating executive branch fiscal and budget policy to governmental entities and monitor compliance with established policy;
- Explain fiscal issues to the public.

3. Monitor and report on the cost, performance and value of state activities:

- Provide fiscal, fund and budget analyses to the Governor, legislators and agencies;
- Conduct program and policy evaluations and recommend financial and policy changes when warranted.

4. Facilitate consideration of policy agendas within a "whole state" perspective:

- Communicating policy governing financial outlook, budget development and annual spending plans so that the process is clear and equitably applied across all entities.
- Assist in representing the Governor's budget recommendations and initiatives, review proposed legislation and agency initiatives, and identify budgetary implications.

PERFORMANCE:

Budget Development: Producing the Governor's biennial and supplemental budgets is the program's highest priority function. The fiscal outlook for the next biennium required significant changes to the traditional budget process. The Division succeeded in implementing substantive changes to the budget process and budget format. The on-line budget information system (BIS) was also modified to support revised information requirements. Managing changes within this new process will provide the Governor and Legislature information appropriate to the fiscal outlook enabling priority setting and results-oriented resource allocation decisions. Consideration of capital budget reforms suggested by the Department of Finance package are currently under joint executive and legislative branch review.

Financial and budgetary reporting: Critical and timely information is provided to policymakers through projections of revenues and expenditures for a minimum of two biennia. The Division's forecast of general fund baseline finances in February, 1990, identified future problems and resulted in 1990 legislative action to eliminate shortfalls in the current and next biennium while preserving the budget reserve.

	Actual F.Y. 1989	Actual F.Y. 1990	Actual F.Y. 1991
Size of General Fund budget reviewed:	\$ 6M	\$ 6.7M	\$ 7.4M
Formal forecasts / updates released:	9	6	8
Number of state funds monitored:	85	80	80
Summary historical data (years maintained):	13	14	15

Minnesota's ability to respond prudently to fiscal requirements is a primary determinant of how the state's fiscal management is viewed in the financial community. Minnesota's general obligation bond ratings (Aa, AA+) are among the 10 highest in the nation. High positive national rankings for financial management are directly related to activities of this Division.

Financial Analysis: The division routinely contributes program and policy analysis options to meet Executive and legislative needs. Financial analysis and coordination within the Division contributed directly to development of inter-agency initiatives. Examples include the Governor's 1990 Crime Package and children's initiative, and Year of the City proposals.

	Actual F.Y. 1989	Actual F.Y. 1990	Actual F.Y. 1991
Number coordinated fiscal initiatives:	10	11	10
Budget decision items reviewed:	1,127	199	600
Fiscal Notes reviewed:	1,929	514	1,929

The Legislative Advisory Commission and fiscal note processes are coordinated by this Division. Analyses and recommendations on issues governing agencies' funding or position requests streamlines the normal scheduled and interim legislative processes. The Division also analyses all fees and rates for reasonableness and cost recovery, prepares an annual Fee Report to the Legislature, and produces the statewide indirect cost plan which recovers more than \$8 million annually for the state.

	Actual F.Y. 1989	Actual F.Y. 1990	Actual F.Y. 1991
Number LAC items reviewed:	87	115	135
Rate Packages reviewed:	15	15	15
Fee reviews conducted:	225	230	230
Indirect Cost Recoveries	\$9.8M	\$11.2M	\$9.0M

Implementing Statewide Financial policy: Frequent contact with agency management and accounting personnel ensures budget oversight and enhances financial accountability, policy communication and identifying service needs of agencies. The division continuously monitors state spending and advises on legislative intent and legality of transfers and expenditures. Monitoring legal and policy compliance requires a substantial portion of the division's resources.

	Actual F.Y. 1989	Actual F.Y. 1990	Actual F.Y. 1991
Annual spending Plans reviewed:	3,600	3,700	3,600
Number agencies/entities:	135	137	138
Budget riders enacted:	60	37	60
Appropriation accounts monitored:	3,400	3,460	3,370

PROGRAM: Budget Analysis and Operations
(Continuation)
Agency: Finance, Department of

1992-93 Biennial Budget

No independent objective standards to assess performance exist, however service standards are being developed. Production of annual budget policies and instructions, consistent and equitable application of stated policies, and early problem resolution are essential to effective budget implementation.

Client satisfaction: Results and effectiveness of division activities are measured by considering the appropriateness, timeliness and value to external clients including the Governor, Legislature, agencies, other governmental units, the media and the public. Results produced are commonly in the form of information, judged by accuracy and credibility. Value added to the financial management processes which is evidenced by a high level of acceptance and action on resulting proposals. The division maintains a high reputation for professionalism and reliability.

PROSPECTS:

Funding constraints: The department's budget was reduced by 2.5% in F.Y. 1991. Considering the implications of baseline budget constraints, the department faces an implicit additional 10 percent reduction over the 1992-93 budget period. Many of the activities are determined by statutory requirements (M.S.16A and others) which limit options for changes and reductions in workload.

Budget process: The budget process implemented significant changes this biennium to provide a results-oriented focus and to direct attention to baseline funding and value added of underlying programs. This represented a significant departure from past incremental budget practices, where minimal attention was given to base requests and emphasis was on new programs and "change levels." Next steps in continued implementation and improvement need to be addressed. A more functional reporting and review process would benefit both the Executive and Legislative branches.

Budget and financial management systems: The last biennium saw the development of 4 new cost systems: The biennial budget system (BBS), the Fiscal Note System (FNS), the Education System and the Education Aids System. Each contains data used by the others, and the systems require better integration. Mainframe usage costs have risen considerably and a minicomputer/LAN system to replace or supplement mainframe usage is under evaluation.

Small agency needs: Financial management assistance needs of smaller agencies is often inversely related to size; smaller, less experienced, staffs require greater assistance. The division has centralized small agency support services and reduced executive budget officer roles in providing technical assistance. At the same time, changes in procedures have been implemented to reduce the work required by small agencies in preparing budget requests and annual budget submissions.

Fund and fee proliferation: The creation of special funds and dedicated user fees to finance government activities has also affected the workload of the Division, as monitoring other funds, rates and fees requires effort that might be directed to more proactive evaluation of government activities. Sustaining the momentum of the fund consolidation begun in 1991, and continued scrutiny of any new fee proposals are priorities for the coming biennium.

PLAN:

■ **Constraints**

Substantive changes will be accomplished without additional resources. Latitude for initiatives is limited due to reductions to the agency's base by the 1990 Legislature. All increased funding requirements will be financed through internal reallocation among programs.

Two positions will be eliminated for F.Y. 1991, and will remain vacant for the biennium. In

Budget Planning, a professional level Inter-Governmental Coordinator position will not be filled. This position would coordinate information on federal and state-local finances. A second management level position, which prepared the indirect cost plan, reviewed and approved rates and fees, will be eliminated in Budget Operations. The work associated with this position will be distributed to other divisions to equalize workloads.

In addition, 1 executive budget officer position will be reduced. The impact will be less policy analysis, most likely in the areas of pension and salary compensation issues which should be assumed by the Department of Employee Relations.

■ **Data processing**

High mainframe system operating costs create budget constraints within the division. Budget support faces a contradiction in attempting to encourage unlimited agency and legislative access to budget information systems within fixed appropriation limits. The division has redirected \$250,000 in current year spending to implement a proposal for a minicomputer/LAN network. This implementation would result in long-term savings of in excess of \$100,000 in F.Y. 1993 compared to current operating costs and provide unlimited access to executive and legislative branch users.

■ **Better budgeting and accountability**

The division will implement changes designed to modify current approaches to the application of financial management controls and accountability. Reexamination of current responsibilities will be accompanied by delegation of some financial management responsibilities to agencies and levels having direct responsibility for spending and accountability. Executive budget officer functions will be directed to examination of financial issues and base resource allocation decisions, clarifying fiscal implications of policy choices, and facilitating better long-term planning. These changes are consistent with an application of financial management principles to activities throughout the department.

Proposed changes to M.S. 16A will be submitted to reflect this reduction in activities relating to control. These changes will place accountability in agencies at corresponding levels where spending decisions are made and implemented. Alternative methods will be proposed in complement control, rate reviews and fee approval activities.

■ **Legislative/agency assistance**

Modification of the fiscal notes process is a service re-design initiative begun in 1991, which will continue to be refined through the 1992-93 biennium. Quicker response to Legislators through less paper work and access to on-line information will improve the timeliness and utility of data provided.

Periodic surveys of clients will be developed and refined during the 1992-93 biennium. Efforts will be targeted to enhancing services directed to agencies and the legislature and to achieve greater efficiency in operations.

GOVERNOR'S RECOMMENDATION:

The Governor concurs with the agency's plan.

1992-1993 BIENNIAL BUDGET
(DOLLARS IN THOUSANDS)

AGENCY: FINANCE, DEPT OF
PROGRAM: BUDGET ANALYSIS & OPERATIONS

				FY 1992			FY 1993		
			Est.	Adjusted	Agency	Governor	Adjusted	Agency	Governor
ACTIVITY RESOURCE ALLOCATION:	FY 1989	FY 1990	FY 1991	Base	Plan	Recomm.	Base	Plan	Recomm.
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
BUDGET ANALYSIS & OPERATIONS	2,037	1,938	2,773	2,312	2,318	2,318	2,304	2,286	2,286
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL EXPENDITURES BY ACTIVITY	2,037	1,938	2,773	2,312	2,318	2,318	2,304	2,286	2,286
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
DETAIL BY CATEGORY:									

STATE OPERATIONS	2,037	1,938	2,773	2,312	2,318	2,318	2,304	2,286	2,286
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL EXPENDITURES BY CATEGORY	2,037	1,938	2,773	2,312	2,318	2,318	2,304	2,286	2,286
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
SOURCES OF FINANCING:									

DIRECT APPROPRIATIONS:									
GENERAL	2,037	1,938	2,773	2,312	2,318	2,318	2,304	2,286	2,286
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
STATUTORY APPROPRIATIONS:									
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL FINANCING	2,037	1,938	2,773	2,312	2,318	2,318	2,304	2,286	2,286
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====

PROG: Cash and Debt Management
Agency: Finance, Department of

1992-93 Biennial Budget

PROGRAM PURPOSE:

The Division establishes banking services for state agencies, accesses the capital markets to provide financing for capital projects and capital equipment, administers the state's tax exempt bonding allocation law and provides the administration for the Rural Finance Authority's farm real estate loan programs.

PERFORMANCE:

The division has provided:

1. Continuous, efficient, convenient, effective banking services.

All bank accounts are competitively bid every bid three years. Accounts are awarded to banks based upon the lowest cost to the state. Payments to the banks are made through leaving compensating balances with the banks.

	Current Biennium		Previous Biennium	
	No.	Compensating Balance	No.	Compensating Balance
Depository Accounts	335	\$2 Million	310	\$1 Million
Revenue Accounts	15	\$21 Million	16	\$19 Million

2. Capital financing on time at the lowest possible cost.

State general obligation bonds are sold by competitive bid.

The Delphis Hanover Scale is a daily index of tax exempt bond interest rates for each bond credit rating. The table below shows a comparison of the average rate to investors on the state's bonds compared to the Delphis Hanover rates on AA+ and AA bonds on the date of the bond sale.

(\$ in Millions)						
	Amount	Coupon Rate	State's Bond Rating	Investors' Rate	Delphis Hanover Scale AA+	AA
July, 1987	\$200	6.42%	Aa/AA+	6.28%	6.28%	6.43%
July, 1988	200	6.64	Aa/AA+	6.48	6.56	6.70
August, 1989	225	6.64	Aa/AA+	6.52	6.55	6.65
July, 1990	200	6.90	Aa/AA+/AA+	6.77	6.75	6.85

The Master Lease Program and the individual Lease Purchase financings are all competitively bid with the financing awarded to the bidder with the lowest rate of interest.

	F.Y. 1990	F.Y. 1989	F.Y. 1988
Master Lease	\$10 million	\$4.3 million	\$5.0 million
Lease Purchase	\$1.90 @ 7.11%	\$.34 @ 7.18%	\$5.10 @ 6.58%
	.27 @ 7.48%	.78 @ 7.35%	1.10 @ 6.69%
	2.70 @ 7.39%	3.00 @ 7.58%	
	.19 @ 7.63%		
	\$5.06 million	\$4.12 million	\$6.20 million

3. Applicants for tax exempt bonding allocation received current and accurate information.

Applications and Allocations (Calendar Year):

1989 Received 64 applications. Allocated \$215,300,000 to 57 issuers. Seven applications were denied totaling \$47,538,000.

1990 Received 55 applications. Allocated \$217,650,000 to 53 issuers. Two applications were denied totaling \$5,925,000.

4. Open communication, flexibility and expedient responses to informational request and financial proposals for the RFA loan programs.

Loan Volume

FY89 Received 106 applications. Approved 91 loans funding \$9,306,000 of sales. Disapproved 15 applications on \$1,551,000 of sales.

FY90 Received 82 applications. Approved 73 loans funding \$7,635,000 of sales. Disapproved 9 applications on \$931,000 of sales.

FY91 Estimate 75 to 80 applications under current programs.

PROSPECTS:

1. State agencies will continue to need their existing banking services. Electronic banking provides an opportunity to improve how the state does it's banking.
2. There are currently \$500 million in authorized but unissued bond authorizations to be financed in future years. An additional \$200 million in bonds are estimated to be sold in both fiscal years 1992 and 1993. State agencies will continue to purchase capital equipment on a lease purchase basis.
3. The dollar amount of the tax exempt bonding allocation will grow about \$2 million per year. The number of applications received is expected remain at about the current level.
4. Demand for the Rural Finance Authority's loan programs is based upon overall agricultural economics and certain federal farm programs. The number of loan applications now being received is below expectations.

PLAN:

1. Applicants for tax exempt bonding allocation will be charged an administrative fee. This fee is expected to generate \$35,000 annually. The legislature must pass enabling legislation to implement this provision.
2. The duties of the indirect cost and the rate review functions of the Budget Division will be transferred to the Cash and Debt Management Division. This is a reassignment of work to existing employees.

PROGRAM: Cash and Debt Management
Agency: Finance, Department of

1992-93 Biennial Budget

PROGRAM PURPOSE:

The Division establishes banking services for state agencies, accesses the capital markets to provide financing for capital projects and capital equipment, administers the state's tax exempt bonding allocation law and provides the administration for the Rural Finance Authority's farm real estate loan programs.

PERFORMANCE:

The division has provided:

1. Continuous, efficient, convenient, effective banking services.

All bank accounts are competitively bid every bid three years. Accounts are awarded to banks based upon the lowest cost to the state. Payments to the banks are made through leaving compensating balances with the banks.

	Current Biennium		Previous Biennium	
	No.	Compensating Balance	No.	Compensating Balance
Depository Accounts	335	\$2 Million	310	\$1 Million
Revenue Accounts	15	\$21 Million	16	\$19 Million

2. Capital financing on time at the lowest possible cost.

State general obligation bonds are sold by competitive bid.

The Delphis Hanover Scale is a daily index of tax exempt bond interest rates for each bond credit rating. The table below shows a comparison of the average rate to investors on the state's bonds compared to the Delphis Hanover rates on AA+ and AA bonds on the date of the bond sale.

(\$ in Millions)						
	Amount	Coupon Rate	State's Bond Rating	Investors' Rate	Delphis Hanover Scale AA+	AA
July, 1987	\$200	6.42%	Aa/AA+	6.28%	6.28%	6.43%
July, 1988	200	6.64	Aa/AA+	6.48	6.56	6.70
August, 1989	225	6.64	Aa/AA+	6.52	6.55	6.65
July, 1990	200	6.90	Aa/AA+/AA+	6.77	6.75	6.85

The Master Lease Program and the individual Lease Purchase financings are all competitively bid with the financing awarded to the bidder with the lowest rate of interest.

	F.Y. 1990	F.Y. 1989	F.Y. 1988
Master Lease	\$10 million	\$4.3 million	\$5.0 million
Lease Purchase	\$1.90 @ 7.11%	\$3.34 @ 7.18%	\$5.10 @ 6.58%
	.27 @ 7.48%	.78 @ 7.35%	1.10 @ 6.69%
	2.70 @ 7.39%	3.00 @ 7.58%	
	.19 @ 7.63%		
	\$5.06 million	\$4.12 million	\$6.20 million

3. Applicants for tax exempt bonding allocation received current and accurate information.

Applications and Allocations (Calendar Year):

1989 Received 64 applications. Allocated \$215,300,000 to 57 issuers. Seven applications were denied totaling \$47,538,000.

1990 Received 55 applications. Allocated \$217,650,000 to 53 issuers. Two applications were denied totaling \$5,925,000.

4. Open communication, flexibility and expedient responses to informational request and financial proposals for the RFA loan programs.

Loan Volume

FY89 Received 106 applications. Approved 91 loans funding \$9,306,000 of sales. Disapproved 15 applications on \$1,551,000 of sales.

FY90 Received 82 applications. Approved 73 loans funding \$7,635,000 of sales. Disapproved 9 applications on \$931,000 of sales.

FY91 Estimate 75 to 80 applications under current programs.

PROSPECTS:

1. State agencies will continue to need their existing banking services. Electronic banking provides an opportunity to improve how the state does it's banking.
2. There are currently \$500 million in authorized but unissued bond authorizations to be financed in future years. An additional \$200 million in bonds are estimated to be sold in both fiscal years 1992 and 1993. State agencies will continue to purchase capital equipment on a lease purchase basis.
3. The dollar amount of the tax exempt bonding allocation will grow about \$2 million per year. The number of applications received is expected remain at about the current level.
4. Demand for the Rural Finance Authority's loan programs is based upon overall agricultural economics and certain federal farm programs. The number of loan applications now being received is below expectations.

PLAN:

1. Applicants for tax exempt bonding allocation will be charged an administrative fee. This fee is expected to generate \$35,000 annually. The legislature must pass enabling legislation to implement this provision.
2. The duties of the indirect cost and the rate review functions of the Budget Division will be transferred to the Cash and Debt Management Division. This is a reassignment of work to existing employees.

GOVERNOR'S RECOMMENDATION:

The Governor concurs with the agency's plan.

1992-1993 B I E N N I A L B U D G E T
(DOLLARS IN THOUSANDS)

AGENCY: FINANCE, DEPT OF
PROGRAM: CASH & DEBT MANAGEMENT

				FY 1992			FY 1993		
ACTIVITY RESOURCE ALLOCATION:	FY 1989	FY 1990	Est. FY 1991	Adjusted Base	Agency Plan	Governor Recomm.	Adjusted Base	Agency Plan	Governor Recomm.
CASH & DEBT MANAGEMENT	281	295	308	308	273	273	307	282	282
TOTAL EXPENDITURES BY ACTIVITY	281	295	308	308	273	273	307	282	282
DETAIL BY CATEGORY:									
STATE OPERATIONS	281	295	308	308	273	273	307	282	282
TOTAL EXPENDITURES BY CATEGORY	281	295	308	308	273	273	307	282	282
SOURCES OF FINANCING:									
DIRECT APPROPRIATIONS:									
GENERAL	281	295	308	308	273	273	307	282	282
STATUTORY APPROPRIATIONS:									
TOTAL FINANCING	281	295	308	308	273	273	307	282	282

PROGRAM: Economic Analysis
Agency: Finance, Department of

1992-93 Biennial Budget

PROGRAM PURPOSE:

The Economic Analysis Section provides the Commissioner of Finance with information about expected state revenues. A key part of that mission is anticipating and informing the Commissioner about risks to the forecast due to changes in the national or state economy.

PERFORMANCE:

The quality of the information provided in the periodic revenue forecasts is the key criterion for judging the performance of the Economic Analysis Section. This includes more than the accuracy of the forecast. Informal updates on the economy and revenues, explanations of how changes in the economy are likely to affect revenues, and most important, information on the risk involved in the forecast are essential items of information provided by EAS staff.

Economic Analysis Section normally produces two forecasts each year. This biennium revenue estimates have changed only slightly between forecasts. Revenues for FY 1990-91 were estimated to total \$12.267 billion in March, 1989 after adjusting for legislative action in the special legislative session. The November, 1989 revenue forecast was for \$12.229 billion--a reduction of \$38 million or 0.3 percent. The February, 1990 forecast was for \$12.263 billion--an increase of \$34 million or 0.3 percent. Actual receipts for FY 1990 were \$28.3 million (0.5 percent), above forecast. A stable tax system and the absence of a large national economic fluctuations have contributed greatly to the accuracy of recent forecasts. But, a number of states, many with much larger revenue forecasting staffs than Minnesota, were faced with revenue shortfalls of \$300 million or more in 1990.

PROSPECTS:

1. Two revenue forecasts per year plus quarterly comparisons of actual receipts and estimated revenues will continue to be required.
2. Economic analysis staff will continue to provide data and economic assistance to other state agencies when requested.

PLAN:

The Department of Finance will continue to produce the state revenue forecast.

The state economist position will remain a half-time contract position.

GOVERNOR'S RECOMMENDATION:

The Governor concurs with the agency's plan.

1992-1993 B I E N N I A L B U D G E T
(DOLLARS IN THOUSANDS)

AGENCY: FINANCE, DEPT OF
PROGRAM: ECONOMIC ANALYSIS

				FY 1992			FY 1993		
			Est.	Adjusted	Agency	Governor	Adjusted	Agency	Governor
ACTIVITY RESOURCE ALLOCATION:	FY 1989	FY 1990	FY 1991	Base	Plan	Recomm.	Base	Plan	Recomm.
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
ECONOMIC ANALYSIS	257	259	271	277	287	287	280	300	300
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL EXPENDITURES BY ACTIVITY	257	259	271	277	287	287	280	300	300
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
DETAIL BY CATEGORY:									
=====									
STATE OPERATIONS	257	259	271	277	287	287	280	300	300
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL EXPENDITURES BY CATEGORY	257	259	271	277	287	287	280	300	300
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
SOURCES OF FINANCING:									
=====									
DIRECT APPROPRIATIONS:									
GENERAL	257	259	271	277	287	287	280	300	300
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
STATUTORY APPROPRIATIONS:									
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL FINANCING	257	259	271	277	287	287	280	300	300
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====

AGENCY: Tort Claims

1992-93 Biennial Budget

MISSION:

To pay tort claim judgements against a state agency which cannot be paid from that agency's appropriate accounts.

MAJOR POLICY DRIVERS:

As specified in M.S. 3.736, subdivision 7, a state agency, including an entity defined as part of the state in Section 3.732, Subdivision 1, 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.

EXPLANATION OF BUDGET ISSUES AND ALTERNATIVES:

The budget request is based on the historical trend of tort claim payments.

GOVERNOR'S RECOMMENDATION:

The Governor concurs with the agency's plan.

1992-1993 B I E N N I A L B U D G E T
(DOLLARS IN THOUSANDS)

AGENCY: TORT CLAIMS
PROGRAM: FIN MISC NON OPERATING

				FY 1992			FY 1993		
ACTIVITY RESOURCE ALLOCATION:	FY 1989	FY 1990	Est. FY 1991	Adjusted Base	Agency Plan	Governor Recomm.	Adjusted Base	Agency Plan	Governor Recomm.
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
NON-PROGRAMMATIC	629	768	1,070	919	919	919	919	919	919
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL EXPENDITURES BY ACTIVITY	629	768	1,070	919	919	919	919	919	919
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
DETAIL BY CATEGORY:									
=====									
STATE OPERATIONS	629	768	1,070	919	919	919	919	919	919
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL EXPENDITURES BY CATEGORY	629	768	1,070	919	919	919	919	919	919
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
SOURCES OF FINANCING:									
=====									
DIRECT APPROPRIATIONS:									
GENERAL	450	49	557	303	303	303	303	303	303
GAME AND FISH	15		32	16	16	16	16	16	16
TRUNK HIGHWAY	164	719	481	600	600	600	600	600	600
STATUTORY APPROPRIATIONS:									
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL FINANCING	629	768	1,070	919	919	919	919	919	919
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====

BASE RECONCILIATION REPORT
for 1992-1993 Biennium

AGENCY: TORT CLAIMS

	ALL FUNDS		GENERAL FUND		OTHER STATE FUNDS		FEDERAL FUNDS	
	F.Y.92	F.Y.93	F.Y.92	F.Y.93	F.Y.92	F.Y.93	F.Y.92	F.Y.93
F.Y.91 FUNDING LEVEL	1,070	1,070	557	557	513	513		
BIENNIAL APPROPRIATIONS	<16>	<16>			<16>	<16>		
APPROPRIATIONS CARRIED FWD	<135>	<135>	<254>	<254>	119	119		
TOTAL	919	919	303	303	616	616		
BIENNIAL TOTAL		1,838		606		1,232		

MISSION:

Contingent accounts are appropriations made from several state funds to provide supplemental funding for emergencies or other stipulated 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.

EXPLANATION OF BUDGET ISSUES AND ALTERNATIVES:

These appropriations shall be expended with the approval of the Governor after consultation with the LAC pursuant to M.S. 3.30.

If an appropriation in this request for either year is insufficient, the appropriation for the other year is available for it.

(Dollars in Thousands)

<u>General Purpose Contingent Accounts</u>	<u>F.Y. 1992</u>	<u>F.Y. 1993</u>
General Fund	\$1,250	\$1,250
Workers Compensation Special Fund	100	100
Special Revenue Fund	250	250
Trunk and Highway Fund	200	200
Highway User Tax Distribution Fund	125	125

GOVERNOR'S RECOMMENDATION:

The Governor concurs with the agency's plan to provide an additional 2 million for the biennium to provide for unforeseen emergencies in the General Fund.

1992-1993 B I E N N I A L B U D G E T
(DOLLARS IN THOUSANDS)

AGENCY: CONTINGENT ACCOUNTS
PROGRAM: NON PROGRAMATIC

				FY 1992			FY 1993		
ACTIVITY RESOURCE ALLOCATION:	FY 1989	FY 1990	Est. FY 1991	Adjusted Base	Agency Plan	Governor Recomm.	Adjusted Base	Agency Plan	Governor Recomm.
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
NON PROGRAMATIC			1,923	925	925	1,925	925	925	1,925
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL EXPENDITURES BY ACTIVITY			1,923	925	925	1,925	925	925	1,925
DETAIL BY CATEGORY:									
=====									
STATE OPERATIONS			1,923	925	925	1,925	925	925	1,925
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL EXPENDITURES BY CATEGORY			1,923	925	925	1,925	925	925	1,925
SOURCES OF FINANCING:									
=====									
DIRECT APPROPRIATIONS:									
GENERAL			659	250	250	1,250	250	250	1,250
STATE GOVT SPEC REV			414	250	250	250	250	250	250
TRUNK HIGHWAY			400	200	200	200	200	200	200
HGHMY USER TAX DISTR			250	125	125	125	125	125	125
WORKERS COMP SPECIAL			200	100	100	100	100	100	100
STATUTORY APPROPRIATIONS:									
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL FINANCING			1,923	925	925	1,925	925	925	1,925

BASE RECONCILIATION REPORT
for 1992-1993 Biennium

AGENCY: CONTINGENT ACCOUNTS

	ALL FUNDS		GENERAL FUND		OTHER STATE FUNDS		FEDERAL FUNDS	
	F.Y.92	F.Y.93	F.Y.92	F.Y.93	F.Y.92	F.Y.93	F.Y.92	F.Y.93
F.Y.91 FUNDING LEVEL	1,923	1,923	659	659	1,264	1,264		
ONE-TIME APPROPRIATIONS	<180>	<180>	<180>	<180>				
APPROPRIATIONS CARRIED FWD	<818>	<818>	<229>	<229>	<589>	<589>		
TOTAL	925	925	250	250	675	675		
BIENNIAL TOTAL		1,850		500		1,350		

ACTIVITY: LAC Contingency
PROGRAM: LAC Contingency
AGENCY: Legislative Advisory Committee

1992-93 Biennial Budget

DECISION ITEM: Legislative Advisory Commission Increase

Dollars in Thousands			
<u>F.Y. 1992</u>	<u>F.Y. 1993</u>	<u>F.Y. 1994</u>	<u>F.Y. 1995</u>

GOVERNOR'S RECOMMENDATION:

Expenditures

General Fund	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000
--------------	----------	----------	----------	----------

Revenues

General Fund	\$ -0-	\$ -0-	\$ -0-	\$ -0-
--------------	--------	--------	--------	--------

Requires statutory change: _____ Yes X No
Statutes Affected:

ITEM SUMMARY:

Request for additional funding for the Legislative Advisory Commission (LAC).

BACKGROUND:

Contingent accounts are appropriations made from several state accounts to provide supplemental funding for emergencies.

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, emergency funding for specific purposes is transferred to individual agency budgets, by the Department of Finance.

RATIONALE/OPTIONS:

General Fund contingent appropriations have decreased significantly in the last 10 years from \$8,300,000 per biennium in 1980-1981 to the present \$500,000 in 1990-1991, during this same period General Fund expenditures increased from \$7 billion in 1980-1981 to approximately \$14 billion in 1990-1991. Additional contingent funds will provide a greater flexibility to the executive branch in providing emergency support to agencies, especially in a time of downward adjustments to agency's budgets.

AGENCY: Employee Pension Contributions

1992-93 Biennial Budget

PURPOSE:

Governor Carlson believes that during periods of economic recession, when the citizens of Minnesota are less able to afford higher taxes, and private sector employees risk pay reductions, government must find a way -- a fair and just way -- for public employees to contribute toward the solution of the state's temporary, but serious financial circumstances.

Compensation to Minnesota's approximately 245,000 state and local public employees is about \$7 billion annually. Personnel costs will, inevitably, be included in any resolution to the budget problem: But reductions in force are only one way, and a crude way, of factoring those costs into the solution.

The Governor feels strongly that an equitable means of allowing public employees to participate in the current budget adjustment process must be found. Mass layoffs, while they would certainly drive down costs, are neither equitable, nor in the long-run, effective. Layoffs impact most severely those least able to recover from the financial shock. For those who find alternative employment, government would lose many talented individuals in whose professional development it has a considerable investment. While some layoffs may indeed occur, the Governor believes that a more just policy would involve some contribution toward the budget adjustment by all public employees in the state.

GOVERNOR'S RECOMMENDATION:

The Governor recommends that for the next two years only, while the state is working its way out of its fiscal problems, employer contributions to public employee retirement plans be reduced and employee contributions be increased.

The impact of these adjustments on employer pension costs for state agencies, higher education institutions, school districts, and other local governments is summarized in the following table:

<u>State Agencies</u>	<u>F.Y. 1992</u>	<u>F.Y. 1993</u>	<u>Biennium</u>
General Fund	\$ (10,301)	\$ (10,301)	\$ (20,602)
State Govt. Special Revenue	(78)	(78)	(156)
Natural Resources	(74)	(74)	(148)
State Airports	(41)	(41)	(82)
Game & Fish	(391)	(391)	(782)
Trunk Highway	(3,693)	(3,693)	(7,386)
Highway User Distrib.	(91)	(91)	(182)
Workers' Compensation Special	(215)	(215)	(430)
Environmental	(115)	(115)	(230)
Sub-Total	\$ (14,999)	\$ (14,999)	\$ (29,998)
<u>Post-Secondary Education</u>	(18,679)	(18,679)	(37,358)
<u>School Districts</u>	(58,886)	(58,886)	(117,772)
<u>Other Local Governments</u>	(33,138)	(33,138)	(66,276)
TOTAL	\$(125,702)	\$(125,702)	\$(251,404)

Amounts reflected above for state agencies will be reduced from the agency appropriations. The Governor recommends that the savings for post-secondary education, school districts, and other governmental units be retained by those units to fund their priorities.

REVISED GOVERNOR'S RECOMMENDATION:

As of March 28, 1991, the Governor does not recommend this proposal. The most recent forecast indicates that obligations in the coming biennium can be met through other expenditure adjustments.

RE ED 3/28/91

1992-1993 B I E N N I A L B U D G E T
(DOLLARS IN THOUSANDS)

AGENCY: EMPLOYEE PENSION CONTRIBUTIONS

				FY 1992			FY 1993		
			Est.	Adjusted	Agency	Governor	Adjusted	Agency	Governor
	FY 1989	FY 1990	FY 1991	Base	Plan	Recomm.	Base	Plan	Recomm.
PROGRAM RESOURCE ALLOCATION:									
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL EXPENDITURES BY PROGRAM									
SOURCES OF FINANCING:									

DIRECT APPROPRIATIONS:									
STATUTORY APPROPRIATIONS:									
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL FINANCING									

Human Rights Department of
Position and Employee Status Information

Position Reconciliation:

Authority:	Current <u>F.Y. 1991</u>	Requested <u>For 6-30-93</u>
Legislative Complement:		
General Fund	68.5	68.5
Federal	<u>1.5</u>	<u>1.5</u>
Total Permanent Positions	70.0	70.0
Employees on 6-30-90	65.0	

Employees by Employment Status:

	<u>6-30-90</u>
Full-Time Unlimited	63.0
Part-Time Unlimited	<u>2.0</u>
TOTAL	65.0

MISSION:

The Minnesota Department of Human Rights is the state agency charged with administering and enforcing the Minnesota Human Rights Act, Minnesota Statutes, Chapter 363. The mission of the department is to effectuate the public policy of the State of Minnesota, stated in M.S. 363, to secure, for persons in it, freedom from discrimination.

To implement this mission, the department has 3 goals.

1. To eliminate unfair discriminatory practices by investigating charges of discrimination to determine whether there is probable cause to believe a violation of the law has occurred and resolving complaints by agreement of the parties or through litigation.
2. To promote voluntary compliance with the Minnesota Human Rights Act by educating the public about the law, the practices it prohibits, and individual rights, responsibilities, and remedies under it.
3. To encourage the creation of employment opportunities for minorities, women, and persons with disabilities by reviewing and approving affirmative action plans of bidders for public contracts as specified in the Minnesota Human Rights Act and monitoring the implementation of such plans for covered contractors.

The department works cooperatively with federal, state, and local human rights agencies and organizations to meet a common mission with mutual goals and shared responsibilities. It also works cooperatively with state and local agencies, as well as private business entities, to assist them in meeting their obligations under M.S. 363. Finally, it assists individual residents of the state in securing their rights under the law.

MAJOR POLICY DRIVERS:

The major policy driver is the Minnesota Human Rights Act. It clearly establishes the purpose of the department. Most of the policies, procedures, and practices of the department are defined by M.S. 363 or derived from it. Section 12 of M.S. 363 states the public policy of the State of Minnesota. It declares:

1. It is the public policy of this state to secure for persons in this state, freedom from discrimination:
 - a. in employment because of race, color, creed, religion, national origin, sex, marital status, disability, status in regard to public assistance, and age;
 - b. in housing and real property because of race, color, creed, religion, national origin, sex, marital status, disability, status with regard to public assistance, and familial status;
 - c. in public accommodations because of race, color, creed, religion, national origin, sex, and disability;
 - d. in public services because of race, color, creed, religion, national origin, sex, marital status, disability, and status with regard to public assistance; and
 - e. in education because of race, color, creed, religion, national origin, sex, marital status, disability, status with regard to public assistance, and age.

Such discrimination threatens the rights and privileges of the inhabitants of this state and menaces the institutions and foundations of democracy.

2. It is also the public policy of this state to protect all persons from wholly unfounded charges of discrimination. Nothing in the law shall be interpreted as restricting the implementation of positive action programs to combat discrimination.
3. The opportunity to obtain employment, housing and other real estate, and full and equal utilization of public accommodations, public services, and education institutions without such discrimination as is prohibited by the law is hereby recognized as and declared to be a civil right.

The department's activities are also influenced by federal civil rights legislation. Under work sharing agreements with the U.S. Equal Employment Opportunity Commission and the U.S. Department of Housing and Urban Development, the department investigates jointly filed cases. The General Fund is partially reimbursed for the department's costs when such cases are investigated according to time lines, rules and procedures established by the federal agencies.

The Contract Compliance provisions of M.S. 363 encourage the creation of employment opportunities for minorities, women, and disabled persons by requiring that state agencies do business only with equal opportunity/affirmative action employers. Under rules adopted in June 1985, the Contract Compliance Unit must review and approve affirmative action plans of business entities before they are certified to bid on state contracts or receive state funds. It provides technical assistance to help businesses prepare or revise affirmative action plans to meet certification requirements and correct problems in employment policies and practices. The Contract Compliance Unit also monitors the implementation of approved plans after certification.

RECENT BUDGET HISTORY:

Over a period of years prior to F.Y. 1985, a large backlog of cases developed because more charges were filed than were closed. In F.Y. 1985, the legislature authorized a staff increase to eliminate the backlog and maintain the caseload at an acceptable level. Since F.Y. 1985, there has been a net increase of only 1 position in the department's authorized staffing level. More resources have been devoted to enforcement during that time but only by making internal reallocations of positions, staff, and assignments.

In eliminating the backlog and trying to close cases expeditiously, the department was subject to complaints that it accepted too many cases because potential charges were not being carefully screened and that its investigations were not thorough enough to appropriately resolve all cases. Beginning in F.Y. 1987, the department placed a higher priority on the quality and thoroughness of screening and investigation. A separate intake unit was created and staffed by some of the most experienced investigators so potential charges could be screened more carefully and accurately. Investigative procedures have also been revised to increase productivity.

1. At Tier 1, or intake, the department responds to over 550 individuals per week who contact the department for information or assistance. About 15% of these contacts are potential charges from persons believing that they may have been subjected to illegal discrimination. Potential charges are screened to promptly identify and dispose of complaints which are not in the jurisdiction of the department and to prioritize charges to allow concentration of limited public resources on cases that warrant substantial inquiry. When appropriate, potential charging parties are referred to a local human rights commission, which attempts to resolve the dispute using the no-fault grievance process, or to a dispute resolution service, where voluntary mediation is attempted, prior to the filing of a formal charge.
2. All charges docketed by the department, other than those taken in by the Mobile Unit, are sent to Tier 2. The purpose of Tier 2 is to give immediate attention to all new charges, so they do not risk getting stale in the investigative queue and to attempt to resolve cases with simple issues or little merit as soon as possible so they leave the system quickly. The Tier 2 unit provides up to 3 hours of processing per charge within the first 45 days. If a charge cannot be resolved by settlement or disposition within this time, the charge is sent to 1 of 4 Tier 3 units responsible for the investigation of more complex cases.
3. Each Tier 3 unit specializes in investigating 1 or more of the areas of discrimination prohibited by M.S. 363. Enforcement Officer (EO's), in Tier 2 and Tier 3, investigate charges of discrimination and attempt to resolve charges through a variety of techniques, including negotiation and conciliation. If probable cause is found to believe that illegal discrimination has occurred and attempts at conciliation fail, the commissioner may issue a complaint and begin litigation using legal services provided by the Attorney General's office. Each investigative unit has education and outreach responsibilities for its specialty area issues. Productivity of EO's has been increased by increasing the involvement of the supervisory staff in the day-to-day

management of investigations. The supervisor works with the investigator to detail a series of tasks that need to be accomplished within a specific time frame. The supervisor monitors all cases assigned to his/her unit to ensure that they progress appropriately through the investigative process.

In 1986, the department has established the Mobile Unit to provide comprehensive enforcement services throughout Minnesota. The unit maintains regularly scheduled office hours in Mankato, Rochester, Willmar, Bemidji, Moorhead, and Duluth. The Mobile Unit, while processing charges in all areas of discrimination, spends roughly equal portions of its time in education and outreach as in investigation.

Legislative amendments to the contract compliance portion of the M.S. 363 have expanded and clarified the scope of this effort which has resulted in an increased workload for the Contract Compliance Unit. In addition, M.S. 363 requires companies to provide data on their operations both within Minnesota and outside of it. This has increased the number of companies requiring certificates and the amount of data they must supply. The workload in this unit is such that monitoring of plan implementation suffers in order for the unit to provide timely review of applications for new and renewed certificates of compliance.

Performance Indicators:	F.Y. 1990	F.Y. 1991	F.Y. 1992	F.Y. 1993
CHARGE INVESTIGATION				
Inquiries/Assistance Requests Handled				
Information Only	13,145	14,460	15,900	17,500
Potential Charges	3,887	4,535	5,000	5,500
Other Assistance/Referrals	4,105	4,805	5,300	5,800
Total	21,137	23,800	26,200	28,800
Charges Filed				
With Department	1,675	2,000	2,200	2,420
With Federal or Local Agencies	480	400	400	400
Total	2,155	2,400	2,600	2,820
Cases Closed				
By Department	1,527	1,644	1,644	1,540
By Federal or Local Agencies	270	300	300	300
Total	1,797	1,944	1,944	1,804
Caseload at end of Fiscal Year				
Department	1,608	1,964	2,520	3,400
Federal or Local Agencies	676	776	876	976
Total	2,284	2,740	3,396	4,376
Cases open over 6 Months				
Department Only	771	964	1,419	2,190
CONTRACT COMPLIANCE				
Tech. Assistance Contacts Handled	8,000	8,000	8,000	8,000
Affirm. Action Plans Review/Cert of Compliance Issued	1,032	1,000	1,000	1,000
Certified Contractors at end of Fiscal Year	1,980	2,000	2,000	2,000
Contract Compliance Reports				
Number Received	4,000	4,000	4,000	4,000
Number Reviewed	2,000	2,000	2,000	2,000
On-site Compliance Reviews Conducted	10	10	10	10

As described above, the department carries out 2 statutorily mandated activities: investigation of charges of illegal discrimination and the certification of bidders for state contracts. In both these areas, the demand for services is anticipated to increase or remain constant while the department's resources will probably decrease. This will cause significant workload problems during the next biennium.

A continuing strain on department investigative resources is anticipated. Even conservative projections indicate the department's caseload will increase by about 10% per year through F.Y. 1993. (To date in F.Y. 1991, charges are being filed at a rate 25% higher than at the same time in F.Y. 1990.) And an increasing number of cases are complex, resource demanding cases such as the St. Paul Firefighters and the Greater Minnesota Corporation cases. Through changes in organization, procedures, and technology, the department has increased and will continue to increase the productivity of its employees. Realistically, however, there is a limit to how many investigations can be conducted in a comprehensive and conscientious manner by even the most productive investigator. Trying to push employees to produce past this level is counterproductive because it decreases morale of the department's skilled and committed staff and increases staff frustration and turnover. Therefore, unless the number of investigators is increased, the department also has a productivity ceiling. Thus, the department must maintain or, ideally, increase its investigative staff if it is to effectively manage its workload, given the increasing demand for its services in combating illegal discrimination.

In the contract compliance area, the department is able to review affirmative action plans submitted by contractors, requesting certification or recertification, on a comprehensive and timely basis. However, a recent Legislative Auditor's report criticized the level of monitoring conducted on construction and other contracts during the time those contracts are in effect, to ensure that stated goals are being achieved. Yet the department does not have the resources to increase its monitoring efforts without decreasing its efforts in other areas, such as reviewing plans or providing technical assistance. All these are equally important facets of the contract compliance effort, but the monitoring has to be sacrificed. Creating delays in the certification process by taking resources away to increase monitoring would have a significant detrimental impact on all purchasing and contracting done by state and local agencies.

In spite of a desperate need for additional resources, this budget request was prepared under the assumption that no additional funding will be available and the department will have to absorb ordinary cost increases due to inflation or employee salary increases. The amount the department anticipates a need to absorb is about \$80,000 in the first year and \$200,000 in the second.

The department will attempt to manage its litigation budget in such a manner that \$50,000 can be taken from this budget in each year of the biennium to manage the anticipated salary inflation. Because litigation is a crucial component in effectively enforcing Minnesota's antidiscrimination laws, such a reduction would be carried out through judicious management of the reduced litigation resources and innovative efforts to develop alternative legal research and litigation resources to augment those of the department. This will be possible only if 2 assumptions are proven true over the biennium. The first assumption is that the number cases the department will be attempting to litigate remains relatively constant and that none of the cases involve extremely lengthy or complex litigation. If it becomes necessary to litigate another case on the scale of the one involving the Saint Paul Firefighters, the budget will be insufficient to generate any savings. The second assumption involves a legislative rider the department received during the last biennium, which exempted it from being required to reimburse the Attorney General for legal services rendered for the department directly on behalf of individual residents or groups of residents of the state seeking enforcement of their rights under the law. Like other state agencies, the department pays the attorney general for department administrative services, but the rider recognizes that services for individuals are a unique obligation of the state not intended to be borne solely by the department. The Legislature enacted the rider because it recognized that the requirement to pay for Attorney General services was inappropriate for this situation, and because the department was never appropriated adequate funding after this requirement was enacted in 1985. If this rider is not reenacted, the department will face

The Governor concurs with the agency's plan.

a \$300,000 financial obligation it cannot possibly absorb without disastrous consequences to its ability to meet its statutory responsibilities.

The only other viable means of alleviating the shortfall, is through salary reductions by eliminating positions or holding them vacant. The balance of \$30,000 in the first year and \$150,000 in the second year will have to be generated in this manner. However necessary it may be, generating savings in this manner has a detrimental impact on the department's ability to provide services mandated by statute or public policy. In the first year, the department will generate the required savings by eliminating or holding vacant a professional level or higher management or administrative position. This will require the placing of additional burdens on the remaining staff, as the functions of the position eliminated cannot be eliminated and must be reassigned to others who already have multiple responsibilities. The Department is required by statute to have a Deputy Commissioner. In spite of this, it has been previously suggested that this position be eliminated. Currently, that position's responsibilities include receiving and recommending the disposition of appeals, reviewing recommended determinations, coordinating legislation and policy development, etc. These responsibilities would fall back on the Commissioner and other members of the management team who already have a variety of responsibilities of their own. If the eliminated position is one of the others that fit the administrative/management definition, the issues are similar.

The problem in the second year is even harder to deal with. It is anticipated that 3 or 4 additional positions will have to be held vacant. One position in management or administration will be held vacant. This position will probably be a temporary, unclassified systems analyst. This position was established to replace the department's computer system which currently utilizes University of Minnesota hardware and software that the University is discontinuing. This project will take until late F.Y. 1992 to complete, so the position cannot be eliminated before then without facing the risk of having no computer system. Once the project is completed, however, the department anticipates an annual saving in computer charges of about \$20,000 per year. This saving will be used to offset inflationary cost increases in office rent and litigation.

Unfortunately, at least 2 of the other position reductions will have to come from enforcement staff. This means that, at a time when the department is experiencing a dramatic increase in charge filings, it will be reducing the staff needed to resolve these cases. This will compound anticipated problems managing the caseload. If the department must live with reduced resources over the next biennium, its caseload problems at the end of the biennium will be enormous. The open caseload will nearly double between F.Y. 1990 and F.Y. 1993, and the number of cases taking more than 6 months to investigate will nearly triple.

Since F.Y. 1985, when the department received its last significant staff increase, the number of charges filed has increased by over 60% annually. It has not been easy, but the department has increased productivity and avoided a backlog of uninvestigated cases. This year, for the first time, charges filed will so far outstrip the department's capacity, that the caseload will be at a critical level. In reality, the department needs 10 additional positions in the next biennium to ensure the caseload can be reduced to a manageable level, given anticipated increases in charges filed and projected ability to close cases at differing staff levels. The problems the department was created to address are difficult and will be continuing. The outlook, based on this budget request, has severe implications which endanger the State of Minnesota's ability to continue its role as an enlightened national leader in the encouragement of human rights and equal opportunity and in the combat of illegal discrimination.

1992-1993 B I E N N I A L B U D G E T
(DOLLARS IN THOUSANDS)

AGENCY: HUMAN RIGHTS, DPT OF
PROGRAM: HUMAN RIGHTS ENFORCEMENT

ACTIVITY RESOURCE ALLOCATION:	FY 1989	FY 1990	Est. FY 1991	FY 1992			FY 1993		
				Adjusted Base	Agency Plan	Governor Recomm.	Adjusted Base	Agency Plan	Governor Recomm.
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
INVESTIGATION/EDUC/OUTREACH	1,426	1,874	1,821	1,855	1,855	1,855	1,856	1,856	1,856
LITIGATION	272	191	201	201	201	201	201	201	201
CONTRACT COMPLIANCE	204	182	202	205	205	205	204	204	204
ENFORCEMENT SUPPORT	400	359	418	425	425	475	423	423	473
MANAGEMENT SERVICES & ADMIN	503	419	446	453	453	453	450	450	450
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL EXPENDITURES BY ACTIVITY	2,805	3,025	3,088	3,139	3,139	3,189	3,134	3,134	3,184
DETAIL BY CATEGORY:									
=====									
STATE OPERATIONS	2,805	3,025	3,088	3,139	3,139	3,189	3,134	3,134	3,184
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL EXPENDITURES BY CATEGORY	2,805	3,025	3,088	3,139	3,139	3,189	3,134	3,134	3,184
SOURCES OF FINANCING:									
=====									
DIRECT APPROPRIATIONS:									
GENERAL	2,797	3,023	3,080	3,131	3,131	3,181	3,126	3,126	3,176
FEDERAL	8	2	8	8	8	8	8	8	8
STATUTORY APPROPRIATIONS:									
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL FINANCING	2,805	3,025	3,088	3,139	3,139	3,189	3,134	3,134	3,184

BASE RECONCILIATION REPORT
for 1992-1993 Biennium

AGENCY: HUMAN RIGHTS, DPT OF

	ALL FUNDS		GENERAL FUND		OTHER STATE FUNDS		FEDERAL FUNDS	
	F.Y.92	F.Y.93	F.Y.92	F.Y.93	F.Y.92	F.Y.93	F.Y.92	F.Y.93
F.Y.91 FUNDING LEVEL	3,088	3,088	3,080	3,080			8	8
SALARY ANNUALIZATION	41	31	41	31				
DOCUMENTED RENT/LEASE INCR.	10	15	10	15				
TOTAL	3,139	3,134	3,131	3,126			8	8
BIENNIAL TOTAL		6,273		6,257				16

ACTIVITY:

1992-93 Biennial Budget

PROGRAM:**AGENCY:** Human Rights, Department of**DECISION ITEM:** Financing Inflationary Costs - Informational

Dollars in Thousands			
<u>F.Y. 1992</u>	<u>F.Y. 1993</u>	<u>F.Y. 1994</u>	<u>F.Y. 1995</u>

AGENCY PLAN:**Expenditures**

General Fund - Inflation	\$ 112	\$ 226	\$ 226	\$ 226
- Reductions	(112)	(226)	(226)	(226)
	\$ 0	\$ 0	\$ 0	\$ 0

Requires statutory change: _____ Yes X No**ITEM SUMMARY:**

Following the Biennial Budget instructions, salary projections assumed a 4.5% across the board increase for all employees. Salary costs were fully funded, assuming no vacancies. Other costs were not inflated.

RATIONALE:

The department will generate required savings in the first year of the biennium by eliminating or holding vacant a professional or higher management level position and utilizing \$50,000 in litigation activity funds which would be available assuming no large scale case occurs. In the second year, it is anticipated that 3 to 4 additional positions will be held vacant, and \$50,000 in litigation funds would again be transferred. These reductions will have the following impact: The number of open cases at the end of the biennium will be approximately 3,403. It will take 26.5 months to close a case and 64% of the caseload will be over 6 months old. (In 1990, cases were closed in 12.6 months and 48% of the caseload was over 6 months old.)

GOVERNOR'S RECOMMENDATION:

The Governor concurs with the agency's plan.

ACTIVITY: Enforcement Support
PROGRAM: Human Rights Enforcement
AGENCY: Human Rights, Department of

1992-93 Biennial Budget

DECISION ITEM: Information, Innovation, and Improvement Projects

Dollars in Thousands			
<u>F.Y. 1992</u>	<u>F.Y. 1993</u>	<u>F.Y. 1994</u>	<u>F.Y. 1995</u>

GOVERNOR'S RECOMMENDATION:

Expenditures

General Fund

Enforcement Support	\$	50	\$	50	\$	50	\$	50
---------------------	----	----	----	----	----	----	----	----

Requires statutory change: _____ Yes X No

Statutes Affected:

ITEM SUMMARY:

The Governor proposes an increase of \$50,000 in F.Y. 1992 and \$50,000 in F.Y. 1993 to undertake special projects which will: (1) promote awareness of and voluntary compliance with the law; or (2) improve the efficiency and effectiveness of the enforcement process.

RATIONALE:

The agency currently allocates virtually its entire budget to the enforcement function. This must be done to keep on top of the complaint workload. Little funding has been available for cost effective investments which would: (1) encourage voluntary compliance with the law; (2) support analyses (incidence and prevalence of discrimination, etc.) which are required in order to assess the impact of jurisdictional, legislative, and policy changes regarding the Human Rights Act and agency operations; (3) support studies of possible policy or operational changes which can improve the efficiency and effectiveness of the agency.

This initiative would earmark funding for the type of investments described above. A multi-year plan identifying the highest pay-off projects would be implemented with detailed annual plans. The status and impact of projects would be reported in the agency's F.Y.s 1994-95 budget request.

1992-93 BIENNIAL BUDGET

PROGRAM STRUCTURE

AGENCY: HOUSING FINANCE AGENCY

PROGRAM

PAGE

Appropriated Programs

313

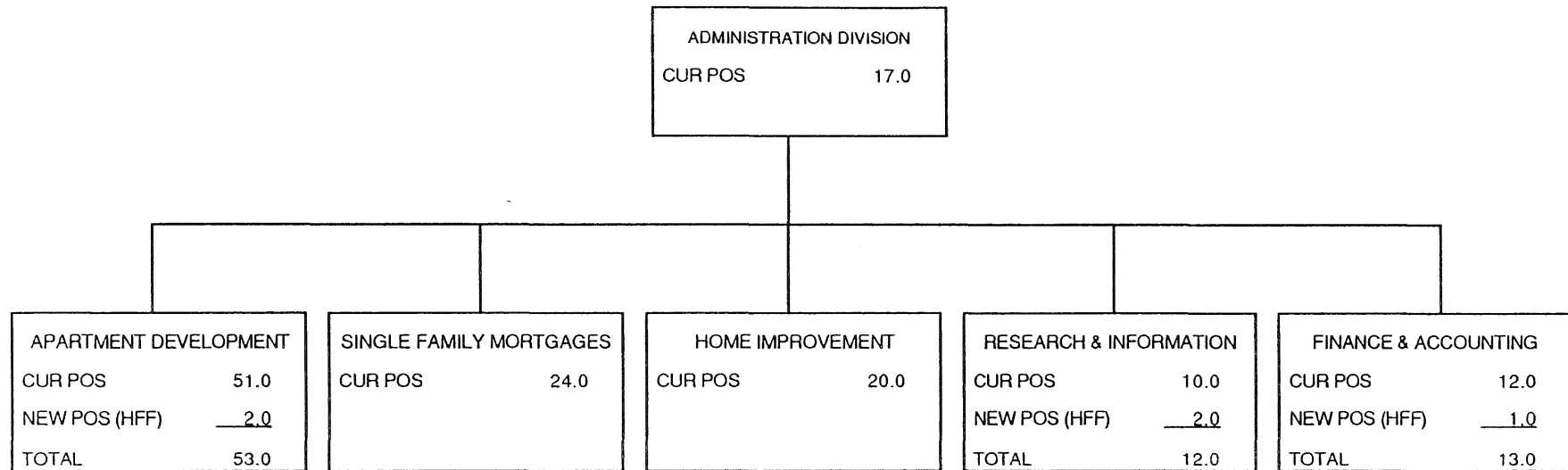
Non-Appropriated Programs

320

Administrative Cost Ceiling

324

Housing Finance Agency
Organization Chart
July 1, 1990



Housing Finance Agency
Position and Employee Status Information

Position Reconciliation:		Requested
Authority:	<u>Current FY 91</u>	<u>for 6/30/93</u>
Legislative Complement:		
Housing Finance Fund	<u>134.0</u>	<u>139.0</u>
Total Permanent Positions	134.0	139.0
Other Complement (FTE)	<u>21.0</u>	<u>21.0</u>
TOTAL Positions	155.0	160.0
Employees on 6/30/90	140	

Employees by Employment Status	
	<u>6/30/90</u>
Full-Time Unlimited	115
Full-Time Temporary	10
Part-Time Unlimited	4
Part-Time Temporary	<u>11</u>
TOTAL	140

MISSION:

The Minnesota Housing Finance Agency (MHFA) was created to ensure the availability of housing-related financial services that will provide safe, decent, energy efficient, and affordable housing primarily for low and moderate income Minnesotans. To accomplish this agenda, the MHFA provides affordable financing and technical assistance for the purchase, construction, or improvement of decent, safe, and energy efficient housing. This assistance is provided to people for whom conventional market rate financing is unaffordable or unavailable.

PROGRAM PURPOSE:

In order to achieve its purpose, the MHFA has been active in:

- Lending and financing
- Allocating housing grants and subsidies
- Advocating for affordable housing
- Establishing state housing policies

Housing programs are established and evaluated based upon the MHFA's mission statement and all of the following general objectives. All activities of the MHFA must:

- Benefit low and moderate income households or promote energy conservation
- Provide financing not available on equivalent terms from the private sector
- Contain procedures for fair housing and equal opportunity
- Maintain fiscal integrity of the program and of the MHFA

Specific program objectives, which are considered on a program-by-program basis, are to:

- Preserve the existing supply of affordable housing
- Preserve long-term federal rent subsidy contracts
- Provide a statewide distribution of housing funds
- Provide opportunities to combine funds from various sources
- Provide social services in conjunction with housing
- Demonstrate new and innovative concepts
- Increase the supply of affordable housing
- Create partnerships with the private, nonprofit, and public sectors
- Create economic activity for the state

MAJOR POLICY DRIVERS:

Many events have taken place over the past several years which have expanded the MHFA's role in providing affordable housing. Demographic and socioeconomic factors, as well as federal, state, and local policies have, and will continue to affect the way in which the MHFA can meet the housing needs of Minnesota's low and moderate income households.

Demographic Factors

Minnesota will undergo dramatic demographic changes during the decade of the 90's. The number of middle-aged and elderly households will increase while the number of young households is projected to decrease. These changes have important implications for housing and need to be considered when developing new housing policies and programs for Minnesota.

The aging of the baby boom generation (those born between 1946 and 1964), and the ensuing increase in the number of households headed by someone between the ages of 35 and 54, begins in the 1990's. By the year 2000, the 35-54 year age group will increase by 69%.

In 1990, the second (and largest) half of the baby boom (born between 1956 and 1964) will comprise Minnesota's 25 to 34 year old age group (770,000 households). In contrast, household formation by the baby bust generation (born between 1965 and 1976) ensures a slowdown in the growth of new households. Between 1990 and 2000 a 21% decline is projected to occur in the population age 25-34, the years when households are typically renters and first-time homebuyers.

Demographic changes among the elderly will be less dramatic than among baby boom and baby bust cohorts, but Minnesota's population 65 and older is projected to increase 25% between 1980 and 2000. Of particular importance will be the projected 72% increase in the number of Minnesotans 85 and older.

Socioeconomic Factors

A combination of social and economic changes have affected the incomes, poverty status, and housing cost burden of many households. Prevailing ratios of housing costs to income are a special problem for first time homebuyers and renters.

- Between 1974 and 1988, the constant dollar median income of U.S. households with heads under age 25 declined 28%; for 25 to 34 year olds the decline was 6%.
- Between 1973 and 1986 the constant dollar median income of young families (those headed by someone aged 20 to 24) dropped by 27% (equal to the drop that occurred during the Great Depression) while the rate for all families dropped by only 1%. Throughout their lives, those in this age cohort will earn an average of 25% less than the same generation of 10 years ago.
- The typical 30 year old buyer purchasing the median priced home under typical mortgage terms would have incurred carrying costs equal to 14% of his income in 1949, 16% in 1959, 21% in 1973 and 44% in 1983.
- Between 1978 and 1985 the number of poor households in the United States rose 27%, from 10,500,000 households to 13,300,000 households.
- Nationally the average income of poor families has declined. In 1978 the typical poor family's income was \$3,362 below the poverty line. By 1985, this difference had increased to \$3,999.
- According to 1986 Minnesota state income tax returns, 86,482 married couple households (10% of all filers) had annual incomes under \$9,074 and 216,206 married couple households (25% of all filers) had annual incomes under \$17,955. Tax filer data on other types of households are not available, but unmarried couples and other types of family and nonfamily households generally have lower incomes than married couples.
- Recent survey data indicate that between 1985 and 1990 the number of individuals seeking housing in Minnesota's temporary shelter system increased 138%. In May, 1990, women and children constituted the majority of shelter residents (25% and 35%, respectively).

Federal/State/Local Policies

The ability of state and local governments to provide affordable housing is heavily dependent upon federal housing and tax policies. The period of 1976 to 1981 was the high point for federal support of housing programs. Federal housing assistance peaked in 1981 when budget authority for the U.S. Department of Housing and Urban Development (HUD) was \$38,000,000,000. In 1990, HUD budget authority is \$18,000,000,000 which is 53% lower than in 1981.

Federal support of housing was further eroded by the Tax Reform Act of 1986, which eliminated significant tax advantages for ownership of rental properties and placed additional restrictions on the use of tax-exempt bonds for housing. The urgent need for affordable housing has become a national issue, and the MHFA is preparing to take full advantage of current and future opportunities. However, it is not likely that Congress will ever fund housing at the levels provided in the 1970's.

- Since the federal government has reduced its support for housing, remaining resources must be allocated and used effectively to meet public policy objectives.
- Expiring contracts threaten the availability of federally subsidized housing for low and

moderate income renters. Preservation of existing subsidized housing will be a top priority. This involves the expiration of existing rent subsidy contracts as well as the potential for early terminations of Section 8 contracts and prepayment of rental housing mortgage loans insured by the Federal Housing Administration.

Renewed support by the federal government will be distinctly different from previous federal programs because it will require a joint investment by federal, state, and local governments. State and local governments will need to provide matching funds in order to qualify for federal funds. Furthermore, because existing state and local administrative and program capacity will be important criteria for federal program dollars, those states with active and successful programs are more likely to capture whatever federal funds become available. The MHFA has and will continue to work with local governments and the legislature in establishing an allocation plan for federal resources. Information on the new federal housing legislation will be available for the legislative session.

Demand/Need for Services

In 1987 the MHFA estimated that by 1990 there would be 68,460 households in need of home mortgage loan assistance, 330,560 households in need of home improvement loan assistance, and 113,860 households in need of rental housing assistance. In spite of the continuing efforts of the MHFA and various local housing agencies, a combination of federal and state appropriations, tax-exempt bond financing, and MHFA reserves has met the housing needs of only a small percentage of all eligible households. In the 1990's, eligible households not served in the last half of the 1980's will be joined by new low and moderate income households in need of homeowner and rental housing assistance.

Homeownership

Between 1990 and 2000, national projections anticipate a 19% decline in the number of households headed by someone age 25-34. The loss of these 3,900,000 households will affect the single family housing industry, but while the need for new units will diminish, the need for homeownership assistance will not. The number of households in need of affordable housing remains high. Potential first time homebuyers must pay interest rates determined by the national financial markets and accumulate adequate cash to pay for closing costs and a downpayment amount.

Since 1980, the national homeownership rate for 25 to 34 year olds, the primary group served by the MHFA, has declined from 52% to 45%, a decrease of nearly 14%. The homeownership rate of 25 to 34 year old married couples with children fell from 71.1% to 62.7%; for young married couples without children the rate fell from 58.3% to 53.5%. In 1986 only 11.5% of all renter households aged 25 to 34 had both the income and wealth needed to buy a representative starter home priced at \$69,154 (1988 dollars). Eighty-one percent of these renters could not meet the up front cash costs (downpayment and closing costs) while 64% did not have income sufficient to qualify for the mortgage.

- The MHFA estimates that as many as 70,000 Minnesota households will need assistance to purchase a home between 1990 and 1995. Furthermore, a potential deterioration of single family homes is possible in Minneapolis/St. Paul and first-ring suburbs as these communities compete for first time homebuyers. Homeownership assistance is important for the stability and preservation of neighborhoods.
- Large losses in the private mortgage insurance industry have prompted stricter home loan underwriting criteria. For many areas of Minnesota, private mortgage insurance companies now require a minimum downpayment equal to 10% of the purchase price. Risk sharing programs with the private sector will need to be examined in order to provide affordable financing alternative to inner-city neighborhoods and small rural communities in Greater Minnesota.

- A growing population of older and more frail elderly may need additional resources to cover living expenses, health care, long term care, and home maintenance. Enabling the elderly to unlock accumulated home equity will need to be examined to see if it is a viable alternative.
- Slower growth in the formation of new households will reduce the demand for housing. Consequently, preservation of existing housing and existing neighborhoods will become increasingly important. MHFA home improvement programs are available and neighborhood preservation programs are being developed to maintain or improve neighborhoods.

Rental Housing

Changes in the availability of affordable rental units, rent levels, and renter incomes have adversely affected the housing situation of renter households in general and of poor renter households in particular.

- Nationally, the number of privately owned, unsubsidized housing units renting for less than \$300 (constant 1988 dollars) declined by 33% between 1974 and 1985 (from 8,500,000 units to 5,700,000 units); 54% of this decline occurred between 1980 and 1985.
- From 1983 to 1988, constant dollar rents in Minneapolis/St. Paul increased by 10%, 11.8%, and 5% for one-bedroom, two-bedroom, and three-bedroom units, respectively.
- In the Minneapolis/St. Paul Metropolitan Area in 1985, over 30% of all renter households (77,000 households) spent more than 30% of their income for housing.
- Nationally, almost half of all poor renter households spent at least 70% of their income for housing costs; two of every 3 poor renters spent at least 50% and 5 of every 6 poor renters spent at least 30%.
- In the United States in 1985 over 40% of all renters spent more than 30% of their income on rent and over 20% spent more than 50% of their income on rent.
- Rising poverty rates among non-elderly households and drastic declines in the number of affordable rental units will require new ways of creating and preserving affordable housing, especially among renters with low incomes.
- Homelessness, an indicator of the shortage of permanent affordable housing, has appeared as a major national and state problem at levels not seen since the 1930's. Available resources must be appropriately employed to address the temporary, transitional, and permanent housing needs of homeless families and individuals.
- Slower growth in the formation of new households will reduce the demand for housing. Consequently, preservation of existing housing and existing neighborhoods will become increasingly important. MHFA rental housing improvement programs are available and neighborhood preservation programs are being developed to maintain or improve neighborhoods.

MHFA's Response

The new realities characterizing federal housing assistance, certain population subgroups, and private lending required new responses from the MHFA. In 1990, these new realities were met with the expansion of MHFA activities to include: purchasing, originating, and insuring loans; administering grant funds; developing state housing policies; advocating affordable housing; and providing technical assistance to housing sponsors. More specifically:

- Through its Preservation of Subsidized Housing Program, the MHFA has the authority to purchase and maintain as affordable housing those rental developments where owners have indicated a desire to terminate their federal contract to provide subsidized housing.
- The MHFA has implemented 3 new programs to provide rental housing or homeownership opportunities for very low income families and individuals (Housing Trust Fund, HUD Dollar Set-Aside, and Intermediate Care Facilities for Persons with Developmental Disabilities).
- By the end of 1990, 3 additional programs will be underway for those with very low incomes (Urban and Rural Homesteading, Migrant Housing, and Housing for Persons Who Are Mentally Ill).

- The MHFA has also provided more than \$500,000 in matching funds for 4 qualified projects funded by the federal Supportive Housing Demonstration Program. Through the MHFA's McKinney Transitional Housing Program \$200,000 in matching funds has been awarded for permanent housing for the handicapped homeless. Approximately \$330,000 has been used to provide money for emergency housing shelters and for transitional housing projects serving homeless women and children, the chemically dependent homeless, and single parents with chemical dependency problems.
- MHFA's Home Equity Conversion Counseling Program was launched in July, 1990. The counseling is to be conducted by the Metropolitan Senior Federation.
- The MHFA has developed risk sharing programs with the private sector in order to ensure the availability of affordable financing alternatives. In inner-city neighborhoods where private sector loans are unavailable, the MHFA is already serving as a direct originator of home mortgage loans (the Purchase Plus Program).
- the MHFA is developing new rental housing programs for very low income households and has launched a program to purchase and maintain as affordable housing apartment buildings whose owners fail to renew expiring federal subsidy contracts.

Additional resources for housing are being provided from the MHFA's Housing Affordability Fund, Housing Investment Fund, and Housing Trust Fund. The MHFA's Board of Directors created the Housing Affordability and Housing Investment Funds using reserves based on MHFA earnings and recycled bond leverage funds (initially funded with state appropriations). In F.Y. 1990-91 the Housing Affordability Fund will provide \$31,000,000 for interest rate subsidies, zero interest rate loans, insurance funds, and bond leverage funds for 13 programs so that the MHFA can provide housing assistance at the lowest possible cost to income-eligible households. Through programs as diverse as the Apartment Renovation Mortgage Program, the Home Energy Loan Program, and the New Construction Tax Credit Mortgage Loan Program, the Housing Investment Fund provides funds for housing loans at interest rates which are up to 3% below market rates.

In 1990 the Housing Trust Fund has funded transitional housing for homeless families and individuals; affordable rental housing for low income families; affordable housing for families with a physically impaired member or individuals with physical impairment; affordable housing and social services for single parent families headed by an American Indians; community based assisted living in a residence for individuals living with AIDS; and permanent housing for single women exiting transitional housing programs.

EXPLANATION OF BUDGET ISSUES AND ALTERNATIVES:

APPROPRIATED PROGRAMS (SUMMARY)

MHFA's budget request reflects the increased need for affordable rental housing and the need to maintain existing homes generally occupied by low income elderly persons. In order to provide funds for these programs, the appropriation request for the Homeownership Assistance Fund, which makes housing affordable to first time homebuyers, has been reduced from the current biennium amount. A recap of the \$22,018,900 appropriation request follows:

F.Y. 1992-93 Budget Request (Dollars in Thousands)

<u>Homeownership</u>	
Homeownership Assistance Fund	\$ 750
Tribal Indian Housing	2,975
Urban Indian Housing	450
Urban and Rural Homesteading	375
Home Equity Counseling	50
	<u>\$ 5,000</u>

<u>Home Improvement</u>	
Rehabilitation/Accessibility	\$8,600
<u>Rental/Special Needs</u>	
Rental Housing	\$ 4,168
Special Needs Housing	1,750
Home Sharing Program	500
Non-Profit Capacity Building	200
	<u>\$ 6,618</u>

The rehabilitation/accessibility program for the maintenance of existing housing represents approximately 45% of the total. The average income of households receiving assistance is \$7,376 and the average age of the borrower is 55 years old. Basic improvements to the home allow elderly people in many cases to continue to live independently in their home. The rental housing and special needs programs represent 27% of the total. It was only in the current biennium that resources have been shifted to these programs as the federal government has significantly reduced their funding and as the remaining federal resources require state and local matching funds.

A formal program assessment is prepared annually to evaluate the effectiveness of programs based upon predetermined criteria. Specifically, each program is evaluated based upon income levels of households served, price and rent levels of housing, geographic distribution of households, the increase in supply of housing, preservation of existing housing, types of improvements to existing housing, ability to serve special populations, and ability to leverage other funds. The MHFA's allocation of resources is based upon the review. Current program evaluation data will be provided at the time of legislative budget review.

These funding figures reflect a biennial reduction of \$800,000 in the Tribal Indian Housing Program and \$1,400,000 in the Rehabilitation/Accessibility program.

NON-APPROPRIATED PROGRAMS (SUMMARY)

Housing programs in this category for the next biennium will decrease by approximately 30% in comparison to the current biennium. Total activity will decrease from \$259,000,000 to \$184,000,000. Non-appropriated programs are funded from the federal government, the state's Housing Trust Fund, the MHFA's Housing Investment Fund, and the MHFA's Housing Affordability Fund.

During the current biennium, the MHFA's Housing Investment Fund and the Housing Affordability Fund provided \$98,000,000 and \$27,000,000, respectively, of housing loans and subsidies. The use of these funds was a one-time opportunity; the funds are not available at these levels on a continuous basis. Housing Investment Fund dollars will be revolved into new loans as the current loans are repaid. Housing Affordability Fund dollars have generally been expended and a new source of funds will be needed to continue programs currently funded from this source.

ADMINISTRATIVE COST CEILING (SUMMARY)

An increase in the MHFA's total assets and bonds outstanding, along with the increased responsibilities for federal housing programs requires an increase in the MHFA's complement by 5 positions and an increase in the cost ceiling.

From 6-30-88 to 6-30-90, total assets have increased 13% from \$2,100,000,000 to \$2,370,000,000. Loans outstanding have increased 12% from \$1,370,000,000 to \$1,530,000,000. Bonds payable have increased 11% from \$1,590,000,000 to \$1,770,000,000. The responsibilities for loan portfolio management, investment management, and debt management have increased and will continue to increase as the agency grows.

New housing programs require additional staff. The Federal Low Income Housing Tax Credit Program is administered by the MHFA for a major portion of the state. In addition to the allocation of the credit, Congress has recently made the credit allocator responsible for monitoring the compliance of the project for 15 years. The issue of homelessness requires a full time person for the state. This position is needed for the coordination of federal McKinney programs along with other programs addressing this population. Another program which requires additional staff is housing financed through the Housing Trust Fund which has a legislatively mandated advisory council staffed by the MHFA.

The MHFA is requesting a 15% increase in its cost ceiling over the biennium. This increase will not be funded from state appropriations. Approximately 7% (\$550,000) of the current cost ceiling is funded from state appropriations and the remainder is funded from MHFA's earnings.

1992-1993 BIENNIAL BUDGET
(DOLLARS IN THOUSANDS)

AGENCY: HOUSING FINANCE AGCY

				FY 1992			FY 1993		
ACTIVITY RESOURCE ALLOCATION:	FY 1989	FY 1990	Est. FY 1991	Adjusted Base	Agency Plan	Governor Recomm.	Adjusted Base	Agency Plan	Governor Recomm.
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
APPROP PROGRAMS	12,887	9,104	20,847	13,756	12,656	15,156	14,830	13,730	16,230
NON-APPROP PROGRAMS	95,379	101,216	158,316	91,431	91,431	91,431	92,691	92,691	92,691
ADMIN COST CEILING	5,689	7,034	7,560	8,305	8,305	8,305	8,686	8,686	8,686
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL EXPENDITURES BY ACTIVITY	113,955	117,354	186,723	113,492	112,392	114,892	116,207	115,107	117,607
DETAIL BY CATEGORY:									
=====									
STATE OPERATIONS	41,115	47,963	106,526	45,401	44,301	46,801	46,856	45,756	48,256
AID TO INDIVIDUALS	72,840	69,391	80,197	68,091	68,091	68,091	69,351	69,351	69,351
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL EXPENDITURES BY CATEGORY	113,955	117,354	186,723	113,492	112,392	114,892	116,207	115,107	117,607
SOURCES OF FINANCING:									
=====									
DIRECT APPROPRIATIONS:									
GENERAL				11,009	9,909	12,409	11,009	9,909	12,409
STATUTORY APPROPRIATIONS:									
SPECIAL REVENUE	1,203	844	696						
MN HOUSING FINANCE	112,752	116,510	186,027	102,483	102,483	102,483	105,198	105,198	105,198
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL FINANCING	113,955	117,354	186,723	113,492	112,392	114,892	116,207	115,107	117,607

BASE RECONCILIATION REPORT
for 1992-1993 Biennium

AGENCY: HOUSING FINANCE AGCY

	ALL FUNDS		GENERAL FUND		OTHER STATE FUNDS		FEDERAL FUNDS	
	F.Y.92	F.Y.93	F.Y.92	F.Y.93	F.Y.92	F.Y.93	F.Y.92	F.Y.93
F.Y.91 FUNDING LEVEL	186,723	186,723			186,723	186,723		
BIENNIAL APPROPRIATIONS	750	750	750	750				
BASE TRANSFER (BTWN FUNDS)			10,259	10,259	<10,259>	<10,259>		
DEDICATED RECEIPTS AND FUNDS	<73,981>	<71,266>			<73,981>	<71,266>		
TOTAL	113,492	116,207	11,009	11,009	102,483	105,198		
BIENNIAL TOTAL		229,699		22,018		207,681		

F.Y. 1991 Budget Reductions (Information Only)

The following F.Y. 1991 reductions were implemented in Laws 1991, Chapter 2. These reductions are not reflected as changes to F.Y. 1991 or F.Y. 1992-93 BASE Levels within the budget documents.

	<u>General Fund</u>
Appropriated Programs	\$ (600)
Total F.Y. 1991 Adjustments	\$ (600)

ACTIVITY:
PROGRAM:
AGENCY: Housing Finance Agency

1992-93 Biennial Budget

DECISION ITEM: Salary Supplement and Inflation - Informational
Item

	Dollars in Thousands			
	<u>F.Y. 1992</u>	<u>F.Y. 1993</u>	<u>F.Y. 1994</u>	<u>F.Y. 1995</u>

AGENCY PLAN:

Expenditures

General Fund	\$ -0-	\$ -0-	\$ -0-	\$ -0-
--------------	--------	--------	--------	--------

Revenues

General Fund	\$ -0-	\$ -0-	\$ -0-	\$ -0-
--------------	--------	--------	--------	--------

Requires statutory change: _____ Yes X No
Statutes Affected:

ITEM SUMMARY:

Operating costs for the Housing Finance Agency are not paid for with General Fund dollars. The Housing Finance Agency has never received any salary supplement money from the General Fund. The Agency has already begun to make substantial adjustments in its operating expenditures to enable it to manage its activities with lower costs.

The cost established by the Legislature for administrative expenses is funded entirely with Agency resources and there is no adjustment necessary to reflect lower General Fund dollars.

The cost ceiling numbers in the Agency's budget request does reflect a salary adjustment for employees and is computed in the way in which these adjustments have always been made in past bienniums.

Necessary changes resulting from increased office space rent, etc., have also been built into the cost ceiling number.

In summary, the Housing Finance Agency does not use General Fund dollars for the operation of the Agency and the cost ceiling as requested in the budget document reflects necessary expenditure increases including salary adjustments for the biennium.

GOVERNOR'S RECOMMENDATION:

The Governor concurs with the agency's plan.

PROGRAM PURPOSE:

APPROPRIATED PROGRAMS (DETAILED DESCRIPTION)

(1) Homeownership Assistance Fund

The Homeownership Assistance Fund (HAF) has been uniquely designed to decrease the entry costs (downpayment and closing costs) and large monthly payments for first time homebuyers. HAG was first authorized and funded by the legislature in 1977. Since that time, 5,897 households have received monthly payment and/or downpayment assistance in a total amount of \$20,273,228 through HAF. HAF assistance has been offered in conjunction with below market interest rate mortgage loans offered under the MHFA's mortgage revenue bond program. The combination of these two funding sources greatly enhances borrower affordability.

Use of the Homeownership Assistance Fund has allowed selective targeting of mortgage revenue bond program funds to lower income individuals whose adjusted incomes currently may not exceed \$26,000 in the Twin Cities metropolitan area, \$19,000 in 6 designated urban outstate counties, and \$17,000 in all other counties. HAF has been used to assist these individuals in making monthly mortgage payments during the early years of the loan and/or to assist them in paying their entry costs. The monthly mortgage payment supplement has been granted based upon the borrower's monthly house payment, income levels and the amount needed to qualify under mortgage industry accepted underwriting standards. HAF assistance is provided to the borrower in the form of an interest free mortgage loan, declines yearly on a predetermined schedule and must be repaid on a predetermined schedule or when the borrower sells or no longer occupies the home. Repayments are recycled into new loans. Without HAF assistance, these low income individuals could not afford to buy their first home even with the below market interest rate offered by MHFA mortgage revenue bond programs.

The amount of the appropriation request for HAF has been reduced from \$2,730,000 (net of \$1,500,000 recision) in the current biennium to \$750,000 for the next biennium. This shift was required in order to obtain additional resources for affordable rental housing. Scheduled payments and prepayments of existing HAF loans and interest earnings will also be used to make new loans.

Homeownership Assistance Fund
 (Dollars in Thousands)

Activity Summary	F.Y. 1990	F.Y. 1991	F.Y. 1992	F.Y. 1993
No. HAF Loans	337	650	400	400
Dollar HAF Loans	\$1,073	\$2,860	\$1,760	\$1,760
Scheduled Repayment	\$ 145	\$ 150	\$ 155	\$ 165
Average HAF Loan	\$ 3.2	\$ 4.4	\$ 4.4	\$ 4.4

Homeownership Assistance Fund
 (Dollars in Thousands)

Recipient Data	F.Y. 1988	F.Y. 1989	F.Y. 1990
Average Borrower Income	\$ 18.9	\$ 19.6	\$ 18.4
Percent Statewide Median Income	55%	55%	45%
Average Home Purchase Price	\$ 51.0	\$ 51.2	\$ 48.2
Percent Statewide Home Purchase Price	68%	66%	63%
Average Household Size	2.3	2.7	2.4

The legislature has created two housing programs to deal with the housing needs and problems of American Indians: the Tribal Housing Program and the Urban Indian Housing Program. The Tribal Housing Program was created by the legislature in 1976 pursuant to a study which revealed a severe shortage of decent, affordable housing for Indian families on and near Minnesota Indian reservations. Further, it was noted that the title status of reservation lands virtually precluded traditional sources of housing capital. Pursuant to the legislation creating the program, the MHFA contracts with tribal housing corporations established by the 3 tribal organizations specified in the statute to administer the program. These 3 organizations administer programs in 11 Minnesota Indian reservations/communities.

The contract entered into between the MHFA and the tribal housing corporations to administer a revolving loan fund to finance home mortgage loans and rehabilitation loans to Indian families meeting specified income requirements. The MHFA funds new loans, and loan repayments are made into a revolving fund which is used for other new loans and administrative costs. Interest rates vary from 4% to 5% and transactions require little, if any, cash investment by the homebuyer. Since 1976, loans in the amount of \$42,749,780 have been made to 963 American Indian households through funds appropriated by the legislature for the program and the revolving fund. One tribal housing corporation also administers a rental program through which it rents out and manages units for low income Indian families living on the reservation.

The appropriation request in the amount of \$2,975,000 equals the current biennium appropriation for the Tribal Housing Program, reflecting a reduction of \$800,000 as part of the agency's plan.

Tribal Indian Housing Program
 (Dollars in Thousands)

Tribal Program	F.Y. 1990	F.Y. 1991	F.Y. 1992	F.Y. 1993
No. Mortgage Loans	46	68	42	42
Dollar Mortgage Loans	\$ 2,005	\$ 2,989	\$ 1,869	\$ 1,854
No. Rehab Loans	6	4	5	6
Dollar Rehab Loans	\$ 68	\$ 60	\$ 75	\$ 90
No. Rental Housing Loans	0	10	0	0
Dollar Rental Housing Loans	\$ 0	\$ 390	\$ 0	\$ 0
No. Loans Total	52	82	47	48
Dollar Loans Total	\$ 2,073	\$ 3,439	\$ 1,944	\$ 1,944

Recipient Data	F.Y. 1988	F.Y. 1989	F.Y. 1990
Average Borrower Income	\$ 16.9	\$ 18.7	\$ 20.0
Percent Statewide Median Income	49%	53%	53%
Average Home Mortgage	\$ 43.5	\$ 43.9	\$ 43.6
Percent Average Greater MN Purchase Price	58%	57%	57%
Average Household Size	3.0	2.9	3.3
Percent New Construction	58%	66%	43%

In 1978, it was noted that a significant percentage (currently 60%) of American Indians lived in urban areas of the state and this population had unique housing problems due to typically large and extended households and cultural difficulties in dealing successfully with established institutional housing providers. As a result, the legislature appropriated funds for the Urban Indian Housing Program. A fund allocation formula for the Urban Indian Housing Program is set by the MHFA based upon Indian population estimates so that an equitable amount of funds is distributed in the urban areas of Minneapolis, St. Paul, Duluth and the Twin Cities suburbs.

The Urban Indian Housing Program requires that appropriated funds be leveraged with funds from other sources to provide for the most efficient use of program funds.

PROGRAM: Appropriated Programs
(Continuation)
Agency: Housing Finance Agency

1992-93 Biennial Budget

The Urban Indian programs have been devised to be flexible in meeting urban Indian housing needs. The program is delivered through 2 program components. First, the MHFA directly administers a program to provide homeownership opportunities to low and moderate income urban Indian households. Second, the MHFA may provide program funds as available to non-profit housing providers to address specific urban Indian housing needs.

In F.Y. 1990, the MHFA did not operate its homeownership opportunity program so that it could aggregate the F.Y. 1990-91 appropriations and fund repayments to operate a program of reasonable size in F.Y. 1991. It is anticipated that Urban Indian Housing program proceeds will be leveraged with mortgage revenue bonds to provide \$3,800,000 in 7% mortgage loans to low and moderate income households during this fiscal year. During the last phase of this program in F.Y. 1989, 47 loans in an amount of \$2,950,000 were made. The average income of a program recipient was \$18,827, which was 44% of Minnesota metropolitan area median income as estimated by the Department of Housing and Urban Development.

In F.Y. 1990, the MHFA maintained a \$300,000 commitment to provide a transitional housing facility containing 13 rental units for Indian women with children. These funds are leveraged with \$800,000 in funds from outside sources. The MHFA also set aside \$40,000 for a scattered site rental program in Duluth that will provide for rental units. This program is leveraged with \$122,000 from outside sources. Both of these initiatives require that program recipients meet HUD Section low income requirements.

The previous biennial appropriation for the Urban Indian Housing Program was \$466,000. An appropriation of \$450,000 is needed to provide adequate program activities.

(3) Rural and Urban Homesteading

The Minnesota Rural and Urban Homesteading Program was appropriated \$375,000 for the F.Y. 1990-91 biennium. This program was a legislative initiative to provide grants to non-profit housing providers to acquire single family residences which are vacant, condemned or abandoned, rehabilitate those properties and then sell them by way of contract for deed to first-time homebuyers who are defined as "at risk". The program is designed to arrest or prevent the spread of blight and preserve the existing housing stock by providing a financing mechanism through which properties may be purchased and rehabilitated and then sold to homebuyers who will stabilize the neighborhood by following a "good neighbor" policy.

In May, 1990, administrators for the program were selected in 2 separate communities. It is anticipated that 10 total units will be provided under the program to homebuyers earning less than 70% of area median income. In both cases, program funds are being leveraged with "in kind" labor and materials from neighborhood organizations and both services and funds are being donated by public and private entities to stretch program funds. The program initially appears to be very effective at providing homeownership opportunities to individuals that would clearly be unable to achieve them otherwise and in fostering neighborhood based initiatives to strengthen the housing stock within the community.

The grant of \$375,000 provides the minimum funds necessary to support an initiative of this nature and same level appropriation is recommended.

(4) Home Equity Counseling

The Home Equity Conversion Counseling Program provides a grant to an eligible non-profit organization to provide counseling to senior homeowners considering a home equity conversion loan plan. The program was a legislative initiative and an appropriation of \$50,000 was provided for F.Y.

1990-91.

The program was initiated in response to the development and growth of home equity conversion loan programs, which enable senior homeowners to convert the equity in their homes into spendable funds while still retaining title to the home. The Department of Housing and Urban Development has recently sponsored a home equity conversion demonstration program to provide 1,500 loans nationally. Many other states have also developed program initiatives, and the MHFA has been authorized to develop such a program in Minnesota. Finally, many private sector entities are developing such programs for profit.

Virtually all public sector home equity conversion programs mandate that potential recipients receive counseling from an independent source prior to entering into a home equity conversion loan transition, and it is deemed advisable for potential private sector participants also to receive such counseling. Home equity conversion loan products are a relatively new concept and they encumber what is typically the largest asset of a senior homeowner. It is important that an independent source assist senior homeowners so they may ascertain whether it is appropriate to meet their needs through a home equity conversion loan or whether an alternative form of financial assistance may meet their needs.

An appropriation of \$50,000 is being requested to continue this program on a statewide basis.

(5) Rehabilitation/Accessibility Loans

The Rehabilitation Loan Program provides deferred loans of up to \$9,000 to very low income homeowners for the purpose of correcting health and safety hazards within their homes and improving their habitability, accessibility, and energy efficiency. Loans are repaid only if the property is sold or ceases to be the borrower's principal residence within 10 years from the date of the loan. Repayments are recycled into new loans.

Recent demographics relating to this program are as follows:

Rehabilitation Loan Program - Recipient Data (Dollars in Thousands)

Average gross household income	\$7.6
Average market value of home before improvements	31.3
Average age of home	58 years
Average age of borrower	55 years
Average years borrower has lived in home	18 years
Average cost of improvements	\$7.7

As of 6-30-90, local program administrators report over 2,300 applicants on waiting lists. This is in spite of the fact that most local administrators have not advertised the program during the past 8 years. At present funding levels, it would take over 3 1/2 years to serve just the people who are on waiting lists today.

Appropriations totalling \$500,000 were allocated to the Accessibility Loan Fund in the last biennium. This is a fund within the Rehabilitation Loan Program which has as its sole purpose the modification of housing to make it accessible to disabled family members. The maximum accessibility loan is \$10,000. Accessibility loans are repaid only if the property is sold or ceases to be the borrower's principal residence within 5 years of the date of the loan. Repayments are recycled into rehabilitation loans or accessibility loans. The average gross income of beneficiaries of the Accessibility Program is \$8,720 and the average household size is 2. The average age of the disabled household member is 46.

Both rehabilitation loans and accessibility loans are delivered by a statewide network of local agencies. These agencies are partially reimbursed for their expenses in processing the loans through an administrative fee, which is paid out of the appropriation. Administrative fees for rehabilitation

10% of the housing units would have their cost written down to zero, therefore allowing the units to be rented for the cost of operation.

loans equal 14% of the appropriation that is dedicated to rehabilitation loans. Administrative fees for accessibility loans equal 16% of each approved loan amount, or \$400, whichever is greater.

Since the program's inception, 7,290 loans totalling \$40,800,000 have been made. The predecessor of this loan program was a grant program which provided \$46,500,000 in grants to 12,479 households. An appropriation of \$8,600,000 is being requested for the F.Y. 1992-93 biennium, reflecting the agency's plan for program reductions.

Rehabilitation/Accessibility Loan Program
(Dollars in Thousands)

	F.Y. 1990	F.Y. 1991	F.Y. 1992	F.Y. 1993
Rehabilitation Loans				
Administrative Fees	\$ 687	\$ 927	\$ 826	\$ 826
Amount of New Loans	4,514	5,691	5,073	5,073
No. of New Loans	588	739	650	650
Average Loan Amount	7.7	7.7	7.8	7.8
Loan Repayments	938	1,000	1,000	1,000
Accessibility Loans				
Administrative Fees	\$ 38	\$ 48	\$ 35	\$ 35
Amount of New Loans	242	300	216	216
No. of New Loans	31	38	28	28
Average Loan Amount	7.8	7.8	7.8	7.8

(6) Rental Housing

The 1989 State Affordable Housing Law appropriated \$3,000,000 for rental housing in recognition of the scarcity of affordable rental housing especially for families. Family rental housing is to be occupied by families with incomes up to 60% of area median income. Individual rental housing, including individuals with mental illness, is to be occupied by individuals with incomes up to 30% of area median income.

The Low Income Large Family Rental Program was created to provide long term gap financing for the construction or rehabilitation of large (predominantly 3 bedroom or larger) units to be rented by families with low and moderate incomes. The program was designed to be used in conjunction with the Federal Low Income Housing Tax Credit Program and the MHFA's New Construction Tax Credit Mortgage/Bridge Loan Program.

Low Income Rental Housing - Large Families
(Dollars in Thousands)

Statistics	F.Y. 1990	F.Y. 1991	F.Y. 1992	F.Y. 1993
No. of Units	0	88	39	39
Maximum Loan Amount	\$ -0-	\$ 360	\$ 360	\$ 360
Maximum Cost/Unit	-0-	24	24	24
Average Rent (3 Bedroom)	-0-	0.55	0.56	0.57
Total Loan Amount	\$ -0-	\$2,074	\$ 925	\$ 925

The Low Income Family Rental Housing Program was created to rehabilitate existing housing units suitable for rental to small families and individuals with low incomes. The program was designed to be used in conjunction with the MHFA's Apartment Renovation Mortgage Program where up to

Low Income Rental Housing - Small Families/Individuals
(Dollars in Thousands)

Statistics	F.Y. 1990	F.Y. 1991	F.Y. 1992	F.Y. 1993
No. of Units	0	52	26	25
Cost per Unit	\$ -0-	\$ 17.5	\$ 17.5	\$ 18.0
Average Rent (1 Bedroom)	\$ -0-	\$ 0.21	\$ 0.21	\$ 0.22
Total Loan Amount	\$ -0-	\$ 900	\$ 450	\$ 450

The Rental Assistance Program for Persons With Mental Illness will award \$250,000 for making voucher payments to landlords on behalf of persons with mental illness. Two or more local public or nonprofit agencies will be chosen in the fall of 1990 to administer this demonstration effort, which is expected to run for 3 years. Participants must have incomes not exceeding 30% of area median income, and will receive voucher assistance of up to \$150 per month. It is expected that a minimum of 40-50 persons will be assisted during the demonstration.

Low Income Rental Housing - Mentally III
(Dollars in Thousands)

Statistics	F.Y. 1990	F.Y. 1991	F.Y. 1992	F.Y. 1993
No. of Grants Made	0	3	0	0
No. of Persons Served	0	45	0	0

An appropriation in the amount of \$4,168,000 is being requested for the biennium for rental housing programs. This is an increase of \$1,168,000. The additional funding will likely be used for the preservation of existing affordable rental housing under the MHFA's Apartment Renovation Mortgage Loan Program, but the MHFA would like to have the flexibility to use these funds for other rental housing needs as requested.

(7) Special Needs Housing

This program has had 3 components. Through the "Temporary Housing" component, grants are made to nonprofit and other sponsors to construct or rehabilitate properties in order to provide temporary housing for up to 2 years to persons and families with low and moderate incomes having an immediate need for temporary housing as a result of displacement, lack of habitable housing, or other causes.

Through the "Low Income Persons Living Alone" component, grants are made to nonprofit and other sponsors to assist in the development of housing for low income persons living alone who do not qualify for other low income housing as elderly, handicapped or disabled.

Through the "Housing for the Homeless Persons" component, grants are made to sponsors to assist in the development of housing for rent or sale to homeless individuals and families. (The appropriation request for the F.Y. 1990-91 biennium combined the 3 components to simplify administration of the program. In the F.Y. 1992-93 biennium, the 3 separate sets of legislative guidelines for the 3 programs may be combined into one Special Needs Housing Program).

A fourth component is being added to the special housing needs category for the next biennium.

The 1989 legislature also created a program for Migrant Housing which is designed to encourage growers to either acquire, rehabilitate or construct housing for migrant farm workers on their property. The objective is to make new units of housing available for migrant farm worker families either by allowing growers to purchase mobile homes to put on their property or rehabilitate existing unused farmsteads. The housing provided may be either single family or multifamily and may be for either year round or seasonal use. A single administrator was selected to allocate the funds to individual growers and to administer the program locally.

PROGRAM: Appropriated Programs
(Continuation)
Agency: Housing Finance Agency

1992-93 Biennial Budget

Growers must match the grant with \$2 of their own funds for every \$1 of grant funds. Funds are in the form of a deferred loan forgiven at 20% each year for 5 years if the housing remains for migrant workers. The housing must meet migrant housing standards established by the Minnesota Department of Health (MDH) and be inspected by MDH prior to the grower receiving the grant funds.

An appropriation for the special housing needs category in the amount of \$1,750,000 is being requested for the biennium. This is an increase of \$412,000 over the current biennium. These funds are highly leveraged with non-state funds and address the needs of homeless and near homeless persons.

Special Needs Housing (Dollars in Thousands)

Statistics	F.Y. 1990	F.Y. 1991	F.Y. 1992	F.Y. 1993
Applications Received	21	26	30	30
Applications Selected	8	16	20	20
Capacity Created	176	335	280	280
Grants Awarded	\$600	\$989	\$901	\$901

(8) Homesharing

Under this program, grants are provided to nonprofit organizations for the development and/or operation of elderly homesharing programs throughout Minnesota. These programs match low and moderate income elderly homeowners with homeseekers who will contribute rent or services in exchange for sharing a home.

This income and these services help elderly homeowners stay in their homes longer than would be possible without this assistance, thus deferring institutionalization and the high public subsidy costs it entails. The quality of life of both the homeowner and the homeseeker should be improved under this arrangement with very minimal public costs.

There is a growing interest in this housing option and a statewide association of homesharing providers has been formed. Most of these organizations depend upon funding from this program for continued operation.

Of the homeowners in these arrangements, 81% are female heads of household, the average income is \$15,347 and the average age is 72. Of the renters, 64% are women, the average income is \$10,455, and the average age is 33.

Elderly Homesharing (Dollars in Thousands)

Statistics	F.Y. 1990-91	F.Y. 1992-93
Applications Received	9	10
Amount Requested	\$572	\$650
Applications Selected	9	8
Population Served	930	860
Estimated Cost Per Match	\$1.2	\$1.2
Grant Amounts	\$561	\$516

(9) Nonprofit Capacity Building

The Capacity Building Grant Program provides grants to nonprofit organizations and units of local government to expand their capacity to provide housing and housing related services to low income persons within the organization's service area. Grants may be used for staff training, needs assessments, strategic planning, and other activities which will enable the organization to better address local housing needs.

There is great interest in this housing program. A Request For Proposal was issued in May, 1990. Fifty applications requesting a total of \$560,000 were received in response to the RFP. Twenty-three applicants were selected to receive Capacity Building Grant funds. This is a category of special activity in the new federal housing legislation and state dollars will likely be an important source of matching funds for federal dollars.

Capacity Building Grants (Dollars in Thousands)

Statistics	F.Y. 1990	F.Y. 1991	F.Y. 1992	F.Y. 1993
Applications Receive	0	50	55	60
Amount Requested	\$-0-	\$560	\$620	\$670
# of Grants Made	0	25	23	23
Total Grant Amount	\$-0-	\$109	\$103	\$103
Average Grant Amount	\$-0-	\$4.4	\$4.5	\$4.5

GOVERNOR'S RECOMMENDATION:

The Governor recommends an increase of \$2,500,000 each year of the biennium for a rental assistance program to promote neighborhood stabilization. In addition, the Governor recommends program reductions of \$400,000 each year to the Tribal Indian Housing program and \$700,000 each year to the Rehabilitation Loan program.

1992-1993 B I E N N I A L B U D G E T
(DOLLARS IN THOUSANDS)

AGENCY: HOUSING FINANCE AGCY
PROGRAM: HOUSING FINANCE
APPROP PROGRAMS

				FY 1992			FY 1993		
ACTIVITY SUMMARY	FY 1989	FY 1990	Est. FY 1991	Adjusted Base	Agency Plan	Governor Recomm.	Adjusted Base	Agency Plan	Governor Recomm.
DETAIL BY CATEGORY:									
STATE OPERATIONS	9,199	8,536	17,521	12,275	11,175	13,675	13,349	12,249	14,749
AID TO INDIVIDUALS	3,688	568	3,326	1,481	1,481	1,481	1,481	1,481	1,481
TOTAL EXPENDITURES BY CATEGORY	12,887	9,104	20,847	13,756	12,656	15,156	14,830	13,730	16,230
SOURCES OF FINANCING:									
DIRECT APPROPRIATIONS:									
GENERAL				11,009	9,909	12,409	11,009	9,909	12,409
STATUTORY APPROPRIATIONS:									
MN HOUSING FINANCE	12,887	9,104	20,847	2,747	2,747	2,747	3,821	3,821	3,821
TOTAL FINANCING	12,887	9,104	20,847	13,756	12,656	15,156	14,830	13,730	16,230

ACTIVITY: Appropriated Programs
PROGRAM: Appropriated Programs
AGENCY: Housing Finance Agency

1992-93 Biennial Budget

DECISION ITEM: Budget Reductions in Appropriated Programs

	<u>Dollars in Thousands</u>			
	<u>F.Y. 1992</u>	<u>F.Y. 1993</u>	<u>F.Y. 1994</u>	<u>F.Y. 1995</u>
AGENCY PLAN:				
Expenditures				
General Fund	\$ (1,100)	\$ (1,100)	\$ (1,100)	\$ (1,100)

GOVERNOR'S RECOMMENDATION:

Expenditures				
General Fund	\$ (1,100)	\$ (1,100)	\$ (1,100)	\$ (1,100)

Requires statutory change: _____ Yes X No

Statutes Affected:

ITEM SUMMARY:

The proposed reduction consists of \$700,000 per year for the Rehabilitation Loan Program and \$400,000 per year for the Tribal Indian Housing Program. The reduction in the Rehabilitation Loan Program would result in 90 fewer loans per year to very low income households who have homes that are in need of essential improvements. The reduction in the Tribal Indian Housing Program would result in 9 fewer home mortgage loans per year.

RATIONALE:

These are the 2 largest appropriation items and a reduction of this size is best handled in these items.

GOVERNOR'S RECOMMENDATION:

The Governor concurs with the agency plan to reduce the Tribal Indian Housing Program by \$400,000 each year of the biennium. This will reduce the biennial appropriation for that program to \$2,975,000 for the biennium.

The Governor also concurs with the agency's planned reduction of \$700,000 each year of the biennium. This will reduce the biennial appropriation for that program to \$8,600,000.

ACTIVITY:
PROGRAM: Appropriated Programs
AGENCY: Housing Finance Agency

1992-93 Biennial Budget

the Children's Health Plan, Early Childhood and Family Education and Family Planning Grants will help to ensure that the children of Minnesota can look forward to a stable, healthy, and economically secure future.

DECISION ITEM: Rental Assistance for Neighborhood Stabilization

	Dollars in Thousands			
	F.Y. 1992	F.Y. 1993	F.Y. 1994	F.Y. 1995

GOVERNOR'S RECOMMENDATION:

Expenditures				
General Fund	\$ 2,500	\$ 2,500	\$ 2,500	\$ 2,500

Requires statutory change: _____ Yes _____ No
Statutes Affected:

ITEM SUMMARY:

The Governor recommends a funding increase of \$2,500,000 each year of the biennium for a rental assistance program.

RATIONALE:

The Rent Assistance for Family Stabilization Program would provide a rental subsidy for participants in programs providing self sufficiency training, post-secondary education, or job training. Joint applications would be required from cities, community action programs or nonprofit housing organizations, and training and education programs.

The rent subsidy may be provided as a direct rent subsidy for existing property that meets the federal housing quality standards or may be tied to rental rehabilitation efforts in targeted neighborhoods. Funding will also be set-aside for project-based subsidies for rehabilitation projects in neighborhoods, targeted by cities, with a substantial percentage of deteriorated rental housing and family instability. Cities must consult with school districts in identifying neighborhoods with a high rate of turnover in student enrollment as one indicator of neighborhood instability.

The rent subsidy would be limited to counties with high average housing costs and would be structured to provide only the necessary subsidy.

The high cost of rental housing undermines efforts made by families receiving public assistance to achieve self-sufficiency and stability. It is not uncommon for families on public assistance to pay in excess of 70% of their income for rent and or live in severely deteriorated, but relatively affordable housing. These families move frequently in search of more affordable housing, more decent housing, or acceptable shared living arrangements. Family members whose time and attention are thus focused on their family's essential shelter needs are less effective participants in education, training, and other self-sufficiency programs.

A rental assistance program for participants in self-sufficiency programs will help stabilize families by providing decent and affordable housing. The program will both contribute to the family's stability and well being, as well as increase the effectiveness of the state's education, training, and self-sufficiency programs.

The Governor believes that this initiative, in addition to recommendations in the areas of Head Start,

PROGRAM: Non-Appropriated Programs
Agency: Housing Finance Agency

1992-93 Biennial Budget

PROGRAM PURPOSE:

NON-APPROPRIATED PROGRAMS (DETAILED DESCRIPTION)

(1) Single Family Mortgage Loans

The MHFA's Single Family Mortgage Revenue Bond Program has a proven record of addressing this need. It was established to provide mortgage funds at below market interest rates to low and moderate income Minnesotans. Since first authorized by the legislature in 1971, this program has provided 27,673 mortgage loans in an amount of \$1,209,672,508 through 6-30-1990. Mortgage funds are provided through the sale of tax-exempt mortgage revenue bonds, the proceeds of which are combined with bond leverage funds. Bond market conditions and financial constraints imposed by federal law necessitate a contribution to the bond sale to strengthen the security to bondholders. The effect of this contribution is to provide for the reduction of mortgage interest rates to levels that are more affordable by low and moderate income first time homebuyers.

Generally, the MHFA's mortgage revenue bond (MRB) programs are provided in cooperation with private mortgage lenders throughout the state. Currently 149 lenders deliver the program in 278 locations throughout the state. The MHFA also uses mortgage revenue bond proceeds to deliver "special assistance" mortgage programs that address specific housing needs. For example, in F.Y. 1990, the MHFA set aside \$10,500,000 to assist local communities in addressing their specific housing needs and \$4,000,000 to non-profit housing providers to enable them to provide housing for very low income individuals.

The affordability comparisons below reveal the difference that MHFA financing has in terms of the income needed to qualify for the average mortgage loan at the average program interest rate during each noted fiscal year. In all markets during the past 3 fiscal years, MHFA financing has maintained an interest rate spread of at least 1 1/4% on market rate mortgage financing.

Recipient data clearly demonstrates that the MHFA is meeting its objectives of providing affordable mortgage financing to low and moderate income households. During the fiscal years compared, average MHFA borrower income has been between 68% and 75% of statewide median income. The average price of a home purchased with MHFA financing has been approximately 75% of the statewide average home purchase price.

Notwithstanding the above, steps have been taken during F.Y. 1991 to even more closely target the program. The MHFA has significantly limited the circumstances under which newly constructed homes may be financed to both encourage preservation of the existing housing stock and assure that more modest income borrowers who typically purchase existing homes have a greater opportunity to secure MHFA financing. The MHFA has also taken steps to set aside a greater percentage of mortgage funds for more modest income borrowers in need of the MHFA's Homeownership Assistance Fund, minority borrowers, disabled borrowers, and borrowers who are single heads of household.

Single Family Mortgage Loans
(Dollars in Thousands)

	<u>F.Y. 1988</u>	<u>F.Y. 1989</u>	<u>F.Y. 1990</u>
Affordability Comparison			
Average MRB Mortgage	\$54.8	\$51.6	\$51.6
Average Market Interest Rate	10.70%	10.25%	9.75%
Average MRB Interest Rate	8.84%	8.45%	8.25%
Market Monthly Payment	\$0.51	\$0.46	\$0.44
MRB Monthly Payment	\$0.44	\$0.40	\$0.39
Lesser Amount of Monthly Income Needed	\$0.27	\$0.24	\$0.20
Lesser Amount of Annual Income Needed	\$3.22	\$2.92	\$2.40

	<u>F.Y. 1988</u>	<u>F.Y. 1989</u>	<u>F.Y. 1990</u>
Recipient Data			
Average Borrower Income	\$25.7	\$26.1	\$25.7
% Statewide Median	75%	74%	68%
Average Home Purchase Price	\$58.0	\$55.9	\$55.9
% of Statewide Average Purchase Price	78%	72%	72%
Average Household Size	2.2	2.3	2.1
% New Construction	27%	30%	30%

	<u>F.Y. 1990</u>	<u>F.Y. 1991</u>	<u>F.Y. 1992</u>	<u>F.Y. 1993</u>
Activity Summary				
No. Mortgage Loans	1,796	2,403	2,307	2,307
Dollar Mortgage Loans	\$92,760	\$125,000	\$120,000	\$120,000
Average Mortgage Loan	\$51.6	\$52.0	\$52.0	\$52.0

(2) Home Improvement Loans

The Home Improvement Loan Program was established for the purpose of providing home improvement financing with affordable interest rates and terms to persons and families with low and moderate incomes. The loans may be used to bring homes into compliance with building and housing codes and standards, to accomplish energy conservation related improvements, to make housing more desirable to live in and to improve the quality of the existing housing stock. The purchase or installation of luxury items, recreational facilities and personal property are not eligible uses of loan funds.

Affordability of financing depends on 2 factors: interest rate and loan term. Recognizing that loan affordability is dependent on income, the program offers interest rates of 3%, 5%, 7%, 9% and 9.75%, with the households with the lowest incomes receiving the lowest interest rates. Borrowers may take up to 15 years to repay the loan. This compares to typical market financing of 12% to 13% interest rates and loan terms of about 1 year per \$1,000 borrowed. The monthly payment on the average MHFA loan of \$7,429 at 7% over 10 years is 34% less than the payment on a \$7,429 loan made under typical market conditions of 12% interest over 7 years.

Not only does the Home Improvement Loan Program provide affordable home improvement financing, it provides financing in areas of the state where lending institutions do not have the capital to lend for home improvements.

The Home Improvement Loan Program serves the target group of persons and families of low and moderate income, as defined by the MHFA. Effective 5-1-90, low and moderate income is defined as household gross annual income of \$36,000 or less. Since 5-1-90, the average gross annual income was \$22,863.

Since the program's inception in 1975, approximately 53,400 low interest rate home improvement loans totalling \$300,000,000 have been purchased by the MHFA.

Loan funds are used for the following major improvement types:

	<u>Types of Improvements</u>
Improvements % of Dollars	
Additions and alterations	29.0%
Exterior finishing	16.5
Interior finishing	16.5
Roofing	7.7
Plumbing	6.3
Heating, Cooling, Ventilating	6.6
Insulation and Energy Conservation	12.7
Miscellaneous	4.7

Energy conservation continues to be a priority improvement for borrowers as 19.3% of loan funds are used to upgrade heating and cooling systems and to install insulation and storm doors and windows. The program also provides an affordable alternative to purchasing a larger, more expensive home in that 19.4% of borrowers use the funds to increase their living space.

Program statistics below reflect increased loan volume resulting from the May, 1990 increase in income limits, and anticipated increase in the maximum loan amount to \$25,000.

Home Improvement Loans
(Dollars in Thousands)

Statistics	F.Y. 1990	F.Y. 1991	F.Y. 1992	F.Y. 1993
No. of Loans	2,206	2,593	2,680	2,680
Dollar Loans	\$16,181	\$21,000	\$22,000	\$22,000
Average Loan Size	\$7.3	\$8.1	\$8.2	\$8.2

(3) Home Energy Loans

This program provides subsidized financing for the purpose of increasing the energy efficiency of owner-occupied, single family properties.

Loans for the installation of energy conservation items tend to be small and expensive to originate and service. Therefore, this program provides a means to finance energy improvements which lenders are not generally willing to provide on a conventional basis. The program also provides an incentive to make energy improvements through the subsidized interest rate of 8.875%.

Since 1987, the MHFA has used \$3,675,000 of Exxon funds, \$3,100,000 of Stripper Well funds, \$1,950,000 of state appropriations and \$500,000 of local government funds in conjunction with \$54,050,000 of bond sales to purchase approximately \$54,000,000 of energy loans. Approximately \$16,000,000 of the bond sales were made possible through the recycling of \$4,000,000 of contributed funds.

The MHFA expects that an additional \$4,000,000 can be recycled during the next biennium.

Home Energy Loans
(Dollars in Thousands)

Statistics	F.Y. 1990	F.Y. 1991	F.Y. 1992	F.Y. 1993
No. of Loans	3,526	3,726	1,860	1,860
Dollar of Loans	\$11,347	\$12,000	\$6,000	\$6,000
Average Loan Size	\$3.2	\$3.2	\$3.2	\$3.2

(4) Housing Assistance Payments

The MHFA, using bond proceeds, has financed 363 rental housing developments containing 20,120 units located in 76 of the 87 Minnesota counties, with mortgages totalling \$590,000,000. For 234 of these developments, the U.S. Department of Housing and Urban Development (HUD) makes Section 8 housing assistance payments through the MHFA to tenants in order to reduce their monthly housing expenditures to approximately 30% of their income.

Housing assistance payments are made to MHFA financed developments in order to provide rent subsidies for tenants of low and moderate income. Eligible tenants for rental units assisted under the Section 8 program are those with family incomes not in excess of 80% of the median income for

the county in which a development is located, as determined by HUD. At least 30% of all units must be rented to families of "very low" income, which HUD defines as families with incomes less than 50% of the median income. For developments entering into contracts in 1981 and later, at least 95% of the units must be rented to "very low" income families.

In 1982, the federal government discontinued the Section 8 Program; however, assistance payments are committed to the MHFA's developments for the remainder of their mortgages (30 to 40 Years), and, therefore, must continue to be administered by the MHFA. The security for repayment of the MHFA's bonds depends on the MHFA's continued administration of these funds.

This is a federal program. No state appropriations are used.

Housing Assistance Payments
(Dollars in Thousands)

Statistics	F.Y. 1990	F.Y. 1991	F.Y. 1992	F.Y. 1993
Section 8 Developments	234	234	234	234
Section 8 Households	13,691	13,691	13,691	13,691
Annual Housing Assistance Payments	\$60,700	\$61,900	\$63,100	\$64,400

(5) Rental Rehabilitation

This program is a federally funded program designed to increase the supply of decent, safe and sanitary rental housing that is affordable to lower income families.

Up to 50% of the cost of rehabilitation is provided to the owner in the form of a federal grant. Federal rent subsidies are provided to eligible low and very low income families.

Rental Rehabilitation
(Dollars in Thousands)

Statistics	F.Y. 1990	F.Y. 1991	F.Y. 1992	F.Y. 1993
Units Rehabilitated	221	400	300	300
Households Subsidized	64	90	90	90
Grant Amounts	\$1,104	\$2,000	\$1,500	\$1,500

(6) Housing Trust Fund

This program is funded with interest earnings from real estate trust accounts and interest accrued on revenue bond application fees, forfeited fees, and fees which are not returned. Request for Proposals (RFP's) are issued twice each year for approximately \$500,000. An 8 member advisory committee assists the MHFA in reviewing applications and selecting projects for funding. The Housing Trust Fund provides zero interest deferred loans for financing affordable rental housing, limited equity cooperative housing, and homes for ownership for very low income persons and families. Seventy percent of the units must be occupied by households up to 30% of the Twin Cities area median income. There has been high demand for funds from the Housing Trust Fund and potential additional sources of funds are being studied.

Housing Trust Fund
(Dollars in Thousands)

Statistics	F.Y. 1990	F.Y. 1991	F.Y. 1992	F.Y. 1993
Applications Received	48	50	60	70
Amount Requested	\$3,800	\$4,000	\$4,000	\$5,000
Applications Funded	16	17	16	20
Amount Funded	\$1,100	\$1,300	\$1,000	\$1,000
No. of Units	210	260	200	200

PROGRAM: Non-Appropriated Programs
(Continuation)
Agency: Housing Finance Agency

1992-93 Biennial Budget

(7) Low Income Housing Tax Credit Loans

Direct federal rent subsidies for newly constructed housing and indirect federal tax subsidies for rental housing have been eliminated and replaced with the Low Income Tax Credit Program. Developments which meet the rent and tenant income requirements among other requirements are eligible for the credit.

Three sources of funds are used to finance the project. The first source is debt financing which the MHFA provides. The second source is equity financing which is raised from the sale of the project to an owner who receives the tax credit which may also be financed by the MHFA through this program. The third source is grants or deferred loans from local governments, private foundations and the MHFA's Low Income Large Family Rental Housing Program.

The MHFA invested \$40,000,000 of its Housing Investment Fund into this program. The MHFA is exploring alternative financing alternatives for the next biennium since only a small portion of these funds are recycled any one year.

Low Income Housing Tax Credit Loans
(Dollars in Thousands)

Statistics	F.Y. 1990	F.Y. 1991	F.Y. 1992	F.Y. 1993
No. of Units	438	1,111	107	103
Average Loan/Unit	\$27.4	\$27.0	\$28.0	\$29.0
Average Cost/Unit	\$62.5	\$65.0	\$67.0	\$68.0
Total Loans	\$12,000	\$30,000	\$3,000	\$3,000

(8) Apartment Renovation Mortgage Loans

This program provides 30 year fixed rate mortgage loans at 9.5% in the Twin Cities and 8.5% in Greater Minnesota for the purchase or refinancing and renovation of existing rental housing. Rehabilitation incentive loans at 0% interest are also provided to encourage additional rehabilitation. In order to be eligible, rents can not exceed Section 8 rents for existing buildings.

Taxable bonds are sold for this program and the subsidy has been provided from the MHFA's Housing Affordability Fund. The MHFA needs to find a new source of subsidy to continue this program. The average income of assisted households is \$17,591.

Apartment Renovation Mortgage Loans
(Dollars in Thousands)

Statistics	F.Y. 1990	F.Y. 1991	F.Y. 1992	F.Y. 1993
No. of Units	770	960	570	556
Per Unit Loan	\$17.7	\$17.5	\$17.5	\$18.0
Per Unit Rehabilitation	\$3.3	\$3.4	\$3.4	\$3.4
Average Rent (1 Bedroom)	\$0.38	\$0.38	\$0.39	\$0.40
Total Loans	\$13,573	\$16,768	\$10,000	\$10,000

(9) Intermediate Care Facilities for the Mentally Retarded

The MHFA makes mortgage funds available from the sale of tax exempt bonds for the development of group homes for the developmentally disabled. This is done to assist the State of Minnesota in its continuing effort to reduce the population in state hospitals and related institutions. Mortgage funds are not to exceed the lesser of the cost of the development or the maximum development cost

allowed by the Minnesota Department of Human Services (DHS). Eligible applicants are nonprofit sponsors who have received a final Determination of Need approval from DHS and an Interim Per Diem rate. The housing will be in the form of group living facilities constructed in accordance with the Minnesota Department of Health design guidelines.

Alternative Care Facilities of the Mentally Retarded
(Dollars in Thousands)

Statistics	F.Y. 1990	F.Y. 1991	F.Y. 1992	F.Y. 1993
No. of Loans	2	10	24	24
Mortgage Amount	\$200	\$2,300	\$5,000	\$5,000
Persons Served	8	60	120	120

(10) Other Programs

The MHFA is actively involved in additional programs. The MHFA is one of the allocators of credits for the Federal Low Income Housing Tax Credit Program, administers a \$750,000 revolving loan fund for nonprofit organizations, administers a \$250,000 revolving loan fund for rental properties in receivership, has provided matching funds for projects receiving assistance under the federal Stewart B. McKinney Homeless Assistance Act, and administers the allocation of state general obligation bond proceeds for publicly owned transitional housing.

GOVERNOR'S RECOMMENDATION:

The Governor concurs with the agency's plan.

NONAPPPR.HF
2-14-91 1:29pm jms

1992-1993 B I E N N I A L B U D G E T
(DOLLARS IN THOUSANDS)

AGENCY: HOUSING FINANCE AGCY
PROGRAM: HOUSING FINANCE
NON-APPROP PROGRAMS

ACTIVITY SUMMARY	FY 1989	FY 1990	Est. FY 1991	FY 1992			FY 1993		
				Adjusted Base	Agency Plan	Governor Recomm.	Adjusted Base	Agency Plan	Governor Recomm.
DETAIL BY CATEGORY:									
STATE OPERATIONS	26,227	32,393	81,445	24,821	24,821	24,821	24,821	24,821	24,821
AID TO INDIVIDUALS	69,152	68,823	76,871	66,610	66,610	66,610	67,870	67,870	67,870
TOTAL EXPENDITURES BY CATEGORY	95,379	101,216	158,316	91,431	91,431	91,431	92,691	92,691	92,691
SOURCES OF FINANCING:									
DIRECT APPROPRIATIONS:									
STATUTORY APPROPRIATIONS:									
SPECIAL REVENUE	1,203	844	696						
MN HOUSING FINANCE	94,176	100,372	157,620	91,431	91,431	91,431	92,691	92,691	92,691
TOTAL FINANCING	95,379	101,216	158,316	91,431	91,431	91,431	92,691	92,691	92,691

PROGRAM: Administrative Cost Ceiling
Agency: Housing Finance Agency

1992-93 Biennial Budget

PROGRAM PURPOSE:

ADMINISTRATIVE COST CEILING (SUMMARY)

An increase in the MHFA's total assets and bonds outstanding, along with the increased responsibilities for federal housing programs requires an increase in the MHFA's complement by 5 positions and an increase in the cost ceiling.

From 6-30-88 to 6-30-90, total assets have increased 13% from \$2,100,000,000 to \$2,370,000,000. Loans outstanding have increased 12% from \$1,370,000,000 to \$1,530,000,000. Bonds payable have increased 11% from \$1,590,000,000 to \$1,770,000,000. The responsibilities for loan portfolio management, investment management, and debt management have increased and will continue to increase as the agency grows.

New housing programs require additional staff. The Federal Low Income Housing Tax Credit Program is administered by the MHFA for a major portion of the state. In addition to the allocation of the credit, Congress has recently made the credit allocator responsible for monitoring the compliance of the project for 15 years. The issue of homelessness requires a full time person for the state. This position is needed for the coordination of federal McKinney programs along with other programs addressing this population. Another program which requires additional staff is housing financed through the Housing Trust Fund which has a legislatively mandated advisory council staffed by the MHFA.

The MHFA is requesting a 15% increase in its cost ceiling over the biennium. This increase will not be funded from state appropriations. Approximately 7% (\$550,000) of the current cost ceiling is funded from state appropriations and the remainder is funded from MHFA's earnings.

GOVERNOR'S RECOMMENDATION:

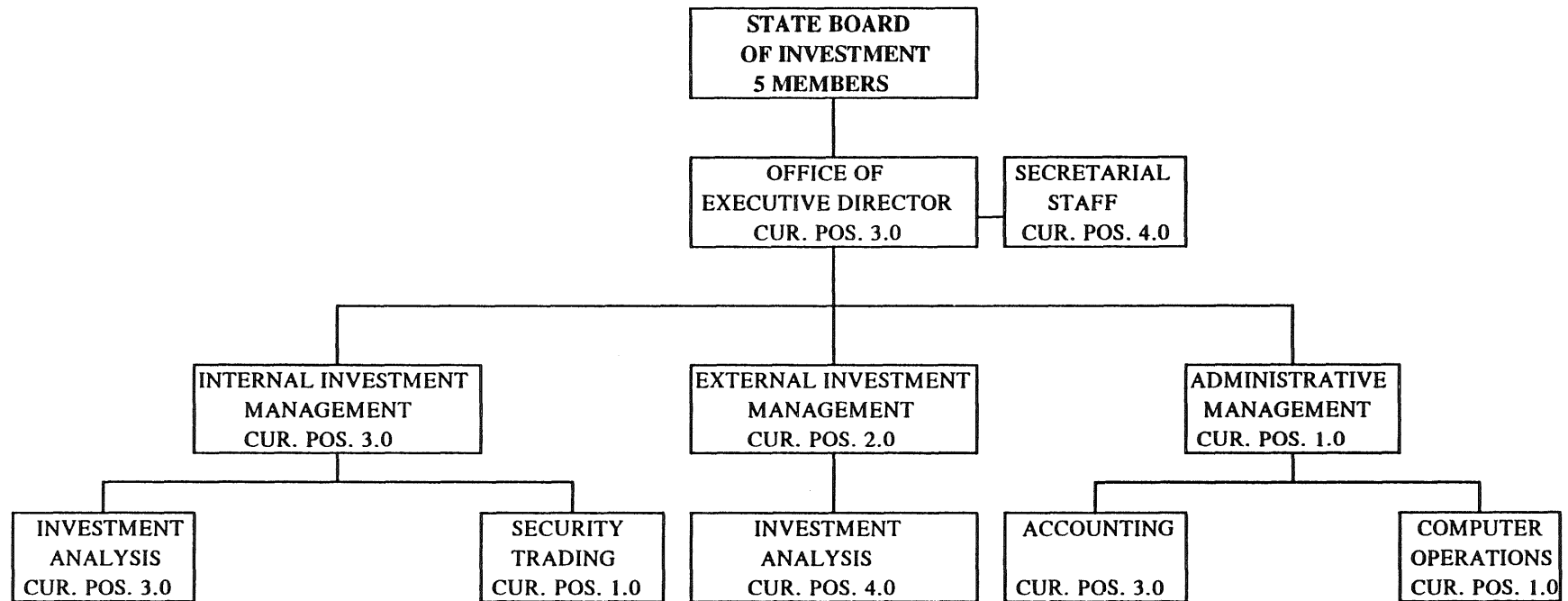
The Governor concurs with the agency's plan.

1992-1993 B I E N N I A L B U D G E T
(DOLLARS IN THOUSANDS)

AGENCY: HOUSING FINANCE AGCY
PROGRAM: HOUSING FINANCE
ADMIN COST CEILING

ACTIVITY SUMMARY	FY 1989	FY 1990	Est. FY 1991	FY 1992			FY 1993		
				Adjusted Base	Agency Plan	Governor Recomm.	Adjusted Base	Agency Plan	Governor Recomm.
DETAIL BY CATEGORY:									
STATE OPERATIONS	5,689	7,034	7,560	8,305	8,305	8,305	8,686	8,686	8,686
TOTAL EXPENDITURES BY CATEGORY	5,689	7,034	7,560	8,305	8,305	8,305	8,686	8,686	8,686
SOURCES OF FINANCING:									
DIRECT APPROPRIATIONS:									
STATUTORY APPROPRIATIONS:									
MN HOUSING FINANCE	5,689	7,034	7,560	8,305	8,305	8,305	8,686	8,686	8,686
TOTAL FINANCING	5,689	7,034	7,560	8,305	8,305	8,305	8,686	8,686	8,686

**STATE BOARD OF INVESTMENT
ORGANIZATION CHART JULY 1, 1990**



STATE BOARD OF INVESTMENT

POSITION AND EMPLOYEE STATUS INFORMATION

POSITION RECONCILIATION:		
AUTHORITY:	CURRENT FY. 91	REQUESTED FOR 6/30/93
Legislative Complement General Fund	25	25
Total Permanent Positions	25	25
TOTAL POSITIONS	25	25
Employees on 6/30/90	24	

EMPLOYEES BY EMPLOYMENT STATUS:	
	<u>6/30/90</u>
Full-Time Unlimited	25
TOTAL	<u>25</u>

MISSION:

The State Board of Investment (SBI) develops and implements investment policies and strategies for the state's retirement funds, trust funds and cash accounts. The statutory goal of SBI is "to establish standards which will ensure that state and pension assets.....will be responsibly invested to maximize the total rate of return without incurring undue risk." (M.S. Chapter 11A.01)

The SBI, composed of 5 constitutional officers, provides investment management for the Basic Retirement Funds, the Post Retirement Fund, the Permanent School Fund, and the Supplemental Investment Fund. In addition, the SBI manages Invested Treasurer's Cash and approximately 50 other state cash accounts. On 6-30-90, assets managed through the board totaled \$16.3 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 works in conjunction with the Investment Advisory Council, 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 approximately 50% of the board's assets, 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 85%). Primary clients are the current and retired members of the 3 statewide retirement systems - PERA, TRA, MSRS. For cash accounts, the board's largest clients are the State Treasurer and the Department of Finance.

MAJOR POLICY DRIVERS:

All activities of the board are governed under M.S. Chapters 11.A and 356.A. To meet the goals therein established, the SBI must:

- Establish and periodically update the investment objectives, asset allocation and investment management structure for each of the funds. Seek and retain superior money managers to manage the assets of each fund.
- Monitor and evaluate investment performance to insure investment objectives are met.
- Assess developments in the broad financial markets and evaluate their potential impact on SBI operations and policies.
- Communicate its investment policies to clients and constituents.

Investment activity is divided into 2 major areas; externally and internally managed funds. Each requires different strategies and investment vehicles.

Externally managed funds. Assets of the Basic Retirement Funds and the Supplemental Investment Fund (approximately 50% of the total) are under external management.

The Basic Retirement Funds invest the contributions of public employees and employers during the employees' years of public service. Approximately 312,000 public employees in 8 statewide retirement funds participate in the Basic Funds. The purpose is to function in a fiduciary capacity, investing pension contributions to provide sufficient funds to finance promised benefits at retirement.

The Supplemental Investment Fund is a multi-purpose investment program that offers a range of investment options to state and local employees. It serves a wide range of participants and investment goals, and is, therefore, structured much like a family of mutual funds.

Internally managed funds. The SBI directly invests about 50% of the assets with which it is entrusted. This includes the assets of the Post Retirement Fund and all money market cash accounts.

The Post Retirement Fund contains the assets of approximately 59,000 retired public employees covered by 9 statewide retirement plans. Upon retirement, money sufficient to finance fixed monthly annuities for the life of the retiree are transferred from the Basic Funds to the Post Fund.

The Post Fund's main purpose is to ensure that each retiree's initially promised benefit is paid. Benefit increases are granted if earnings exceed the statutory 5% required income.

State Cash Accounts represent the cash balance in more than 400 separate accounts that flow through the Minnesota State Treasury. These accounts, ranging from \$5,000 to over \$400 million, are invested by SBI through 2 commingled short-term investment pools. The objectives are to preserve capital, 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.

EXPLANATION OF BUDGET ISSUES AND ALTERNATIVES:

In the past biennium SBI absorbed the inflation cost increases in all areas except salaries. By re-prioritizing expenditures, SBI should be able to absorb 1992-93 non-salary inflationary costs without impacting programs dramatically. The SBI cannot, however, absorb projected salary increases within its current structure. If a salary supplement is not available, SBI will be forced to move internally managed stock and bond portfolios to external money management firms and reduce 3 staff positions. The additional costs associated with external management would be paid from the assets of the retirement funds. The General Fund dollars associated with the 3 positions would be used to fund F.Y. 1992-93 salary increases for the remaining 22 positions.

By statute, SBI bills the statewide retirement funds and non-General Fund cash accounts for approximately 90% of its General Fund appropriations. These receipts are deposited in the General Fund as non-dedicated revenue. The General Fund appropriation not recovered (approximately 10%) represents that part of SBI's budget associated with investment of the General Fund portion of the Invested Treasurer's Cash Fund.

PERFORMANCE MEASURES:

Statutes establish investment goals for the Basic and Post Retirement funds. In addition, the board has set more exacting standards for investment returns. The table below reflects that short and long-term performance has generally exceeded both statutory requirements and the board's investment performance targets.

AGENCY: Investment, State Board of
(Continuation)

1992-93 Biennial Budget

Basic Retirement Funds
(Status as of 6-30-90)

Market Value	\$7.1 billion	
Total Return - Annualized		
Total Fund over 10 years	<u>Actual</u> 13.0%	<u>Compared to Objective</u> 8.4% over inflation
Total Fund over 5 years	13.0%	equals Market composite
Stocks/Bonds/Cash over 5 years	14.0%	1.2% over median fund
Liquidity		
Minimal cash	0.8%	less than 1.0% ceiling

Post Retirement Fund
(Status as of 6-30-90)

Market Value	\$5.3 billion	
Realized Earnings-Annualized	\$458 million - F.Y. 1990	
1 Year	<u>Actual</u> 10.0%	<u>Compared to Objective</u> 5.0% over required
5 Year	11.3%	6.3% over required
Liquidity	5.9%	4.9% over 1.0% ceiling

Supplemental Investment Fund
(Period ending 6-30-90)

	<u>F.Y. 1990</u>	<u>3 Year</u>	<u>Annualized</u> <u>5 Year</u>
Income Share Account			
Total Account	11.1%	9.1%	11.7%
TUCS Median Balanced Fund	10.0	8.4	12.7
Market Composite	11.0	9.1	13.8
(60% Wilshire 5000/35% Solomon Broad/5% T-Bills)			
Growth Share Account			
Total Account	14.2	7.2	12.3
TUCS Median Equity manager	12.4	8.8	15.8
Market Composite	12.6	8.3	15.2
(95% Wilshire 5000/5% T-Bill)			
Common Stock Index Account			
Total Account	12.5	8.1	13.2
Wilshire 5000 Stock Index	12.7	8.2	13.1
Bond Market Account			
Total Account	7.3	9.6	9.1
Solomon Broad Bond Index	7.7	9.3	10.6

	<u>F.Y. 1990</u>	<u>Annualized</u> <u>3 Year</u>	<u>5 Year</u>
Money Market Account			
Total Account	8.9	8.5	8.0
91 Day U.S. T-Bills	8.2	7.5	7.0

Guaranteed Return Account
On 6-30-90, the market value of the Guaranteed Return Account was \$60 million.

State Cash Accounts (Year Ending 6-30-90)

	<u>Market Value</u>	<u>Return</u>
Treasurer's Cash Pool	\$2.655 billion	9.0%
Trust Fund Cash Pool	0.333 billion	8.8
91 Day U.S. T-Bills		8.2

Some accounts within the Supplemental Investment Fund have not experienced the same high returns associated with retirement funds. However, the primary objectives of these accounts are capital preservation and current income. Returns for the State Cash Accounts, were well over target return levels. Overall, most funds managed by the SBI have met or exceeded their performance objectives.

GOVERNOR'S RECOMMENDATION:

The Governor recommends an additional \$380 for the biennium to cover salary and inflation cost increases, due to considerations discussed in the Decision Item page that follows:

1992-1993 BIENNIAL BUDGET
(DOLLARS IN THOUSANDS)

AGENCY: BOARD OF INVESTMENT

PROGRAM RESOURCE ALLOCATION:	FY 1989	FY 1990	Est. FY 1991	FY 1992			FY 1993		
				Adjusted Base	Agency Plan	Governor Recomm.	Adjusted Base	Agency Plan	Governor Recomm.
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
INVESTMENT OF FUNDS	1,693	1,741	1,793	1,812	1,812	1,992	1,806	1,806	2,006
REFUNDS/RETIRE FUNDS	10,753	12,061	13,900	13,900	13,900	13,900	13,900	13,900	13,900
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL EXPENDITURES BY PROGRAM	12,446	13,802	15,693	15,712	15,712	15,892	15,706	15,706	15,906
SOURCES OF FINANCING:									
=====									
DIRECT APPROPRIATIONS:									
GENERAL	1,693	1,741	1,793	1,812	1,812	1,992	1,806	1,806	2,006
STATUTORY APPROPRIATIONS:									
SUPP INVEST INDEX	1	1	1	1	1	1	1	1	1
STATE SUPPL BOND		1	1	1	1	1	1	1	1
SUPP INVEST G I C	5	7	8	8	8	8	8	8	8
MN SUPPL RETR FXD RE	150	20	20	20	20	20	20	20	20
MN SUPPL RETIR INCOM	150	60	100	100	100	100	100	100	100
MN SUPPL RETIR GRNTH	150	50	200	200	200	200	200	200	200
POST RETIREMENT	980	750	1,000	1,000	1,000	1,000	1,000	1,000	1,000
MN VARIABLE ANNUITY	100								
MONEY MGR FIXED INC	3,232	3,800	3,500	3,500	3,500	3,500	3,500	3,500	3,500
MONEY MGR EQUITY	5,985	7,372	9,070	9,070	9,070	9,070	9,070	9,070	9,070
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL FINANCING	12,446	13,802	15,693	15,712	15,712	15,892	15,706	15,706	15,906

BASE RECONCILIATION REPORT
for 1992-1993 Biennium

AGENCY: BOARD OF INVESTMENT

	ALL FUNDS		GENERAL FUND		OTHER STATE FUNDS		FEDERAL FUNDS	
	F.Y. 92	F.Y. 93	F.Y. 92	F.Y. 93	F.Y. 92	F.Y. 93	F.Y. 92	F.Y. 93
F.Y. 91 FUNDING LEVEL	15,693	15,693	1,793	1,793	13,900	13,900		
SALARY ANNUALIZATION	19	13	19	13				
TOTAL	15,712	15,706	1,812	1,806	13,900	13,900		
BIENNIAL TOTAL		31,418		3,618		27,800		

ACT 1: Post Fund and Cash Investment
 PROGRAM: Investment of Funds
 AGENCY: Investment, State Board of

1992-93 Biennial Budget

Eliminate 3 staff positions
 Amount billed to other funds
 Net General Fund savings

F.Y. 1992
 \$193,337 (salary increases, severances, unemployment)
 174,003 (receipts returned to General Fund)
 \$ 19,334

DECISION ITEM: Increase to Cover Salary Costs

Net result if appropriation increased:

	F.Y. 1992	F.Y. 1993
Proposed increase	\$ 180	\$ 200
Less bill-back to other funds	162	180
Net cost to General Fund	\$ 18	\$ 20

GOVERNOR'S RECOMMENDATION:

	Dollars in Thousands			
	F.Y. 1992	F.Y. 1993	F.Y. 1994	F.Y. 1995
Expenditures				
General Fund	\$ 180	\$ 200	\$ 200	\$ 200
Revenues				
General Fund	\$ 162	\$ 180	\$ 180	\$ 180

Requires statutory change: _____ Yes X No
 Statutes Affected:

ITEM SUMMARY:

A special exemption for the State Board of Investment from the Budget Instructions requirement that all inflationary and salary increases be absorbed within the operating budget would avoid a serious decline in service and prevent the shifting of operating costs from the General Fund to pensions and other non-General Funds.

BACKGROUND:

The State Board of Investment (SBI) is responsible for the management of over \$16 billion in assets in retirement system money and state cash accounts. About 50% of all money is invested by external money management firms under contract with the board. The other half is managed internally by analysts within SBI. Roughly 90% of the General Fund appropriation to SBI is billed back to the statewide retirement systems, and returned to the General Fund as non-dedicated receipts.

M.S.11.A assigns SBI with responsibilities for investing state and retirement system funds. The workload is exogenous to the agency, and must therefore be allocated either internally or externally. An implicit reduction of 10% in the General Fund appropriation for this agency reduces both expenditures and revenues from bill-backs to pension and non-General Funds at a ratio of 1: 0.9.

Assuming there is no salary supplement, as is provided in the current executive budget process, the board would need to layoff at least 3 persons involved in internal management of the Post Retirement Investment Fund, invested Treasurer's cash and other state cash accounts. The activity would then be transferred to external managers, and layoffs, severance and unemployment costs would be incurred as a result of the reduced activity.

STATISTICS:	F.Y. 1991	F.Y. 1992	F.Y. 1993
BASE:			
General Fund	\$ 1,793	\$ 1,817	\$ 1,811
Statutory Appropriations	15,698	15,717	15,711

Net result of implicit 10% cut:

RATIONALE:

For F.Y. 1992, the net result of a General Fund implicit reduction of \$193,337 is only \$19,334. The savings are immaterial compared to the effect on operations.

Though positions could be reduced, the funds requiring investment would not. Moving this activity to external money managers merely shifts the costs of investing State Treasurer's Cash and other cash accounts to the various pension and other non-General Funds. Critical functions would be curtailed, including the elimination of important analytic and internal control operations (SBI's) bond lending program alone generates approximately \$3 million per year).

Because SBI returns to the General Fund non-dedicated receipts equal to 90% of its General Fund appropriation, the budget instruction rules requiring reallocation within the BASE do not apply under these circumstances.

GOVERNOR'S RECOMMENDATION:

Increase over the BASE of \$180,000 in F.Y. 1992, and \$200,000 in F.Y. 1993 to offset costs of increased salary costs. The continuity and effectiveness of critical investment operations would be assured at a very small net cost to the General Fund.

1992-93 BIL BUDGET

PROGRAM STRUCTURE

AGENCY: MEDIATION SERVICES, BUREAU OF

PROGRAM

PAGE

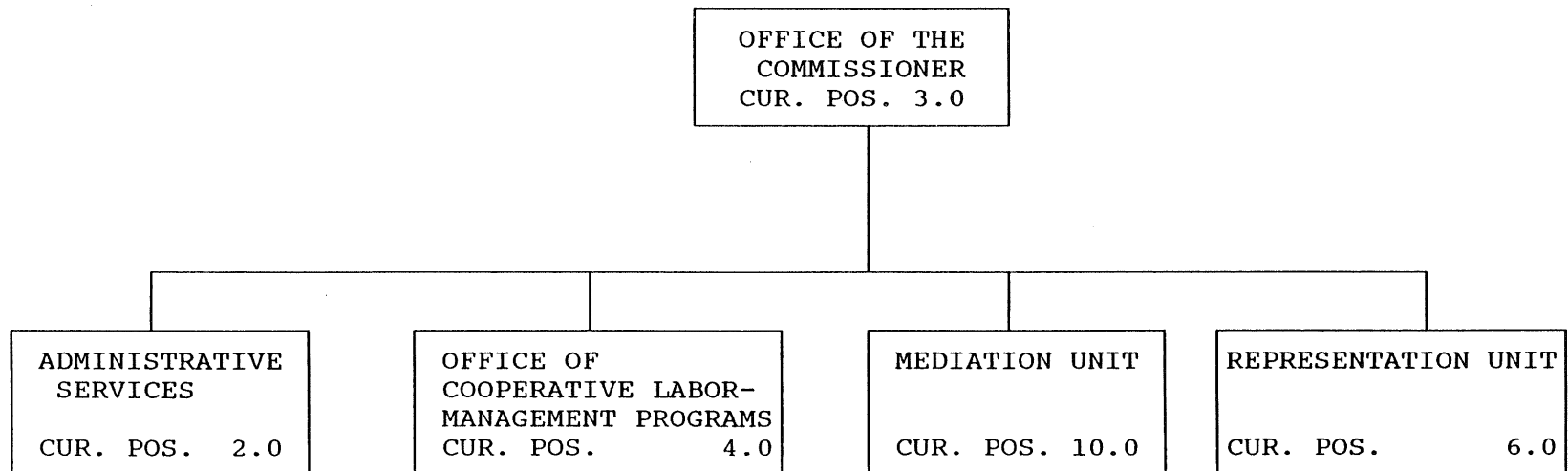
Representation/Mediation

339

Labor-Management Cooperation

341

BUREAU OF MEDIATION SERVICES
ORGANIZATION CHART 7-1-90



Mediation Services, Bureau of
Position and Employee Status Information

Position Reconciliation:

Authority:	Current <u>F.Y. 1991</u>	Requested <u>For 6-30-93</u>
Legislative Complement:		
General Fund	25.0	25.0
 Total Permanent Positions	 25.0	 25.0
 TOTAL Positions	 <u>25.0</u>	 <u>25.0</u>
 Employees on 6-30-90	 24.0	

Employees by Employment Status:

	<u>6-30-90</u>
Full-Time Unlimited	22.0
Part-Time Temporary	2.0
 TOTAL	 <u>24.0</u>

AGENCY: Mediation Services, Bureau of

1992-93 Biennial Budget

Reallocation by Program
(Dollars in Thousands)

MISSION:

The mission of the Minnesota Bureau of Mediation Services is to enhance the quality and character of union-management relationships so that labor disputes are reduced or eliminated. We fulfill this mission by anticipating, as well as responding to, needs and opportunities in the field of union-management relations in competent, proactive and innovative ways which lead to improved union-management relationships:

- Contract and grievance mediation assistance to union/management teams in both public and private sectors.
- Appropriate unit determinations and clarifications.
- Resolution of questions of union representation.
- Consultation and technical assistance in programs designed to improve the character of union-management relationships at the work-site, in regions, and in specific industries.
- Administration of labor arbitration roster and services for both public and private sector clients.
- Determination of fair share fee challenges.
- Public information programs, including conferences, symposia, and the publication of subscription services on bureau and arbitrator decisions.

MAJOR POLICY DRIVERS:

Requests for unit determination and clarification services have remained relatively constant over recent years; mediation activities have declined slightly. Changes in school district bargaining, including establishment of the January 15 deadline for teacher contracts, have increased demands on bureau staff during teacher bargaining years.

Increased competitiveness and the globalization of the economy, as well as a desire to avoid the conflict inherent in traditional collective bargaining, continues to drive labor and management in a search for alternative problem-solving methods. Requests for bureau leadership and assistance in building collaborative labor-management relationships, from both the public and private sectors, have resulted in the establishment of the Minnesota Labor-Management Partnership Program.

EXPLANATION OF BUDGET ISSUES AND ALTERNATIVES:

To provide statutorily required services, meet the expanding expectations of labor and management representatives at reasonable levels, and meet projected increases in the costs of goods and services (including salaries) would require an increase in the bureau's base funding of \$114,000 in F.Y. 1992 and \$211,000 in F.Y. 1993. To meet priority service needs and stay within BASE level funding, the bureau is reallocating within its BASE by decreasing funds available for grants to Area Labor-Management Committees and transferring funds to the Labor-Management program. To achieve necessary services within these limits, it will be necessary for the bureau to maintain 1.0 vacant positions for the full biennium. The breakdown by program is as follows:

	General Fund F.Y. 1991	F.Y. 1992 Change From F.Y. 1991	F.Y. 1993 Change From F.Y. 1991
Representation/Mediation	\$ 1,508.0	\$ (57.0)	\$ (34.0)
Labor-Management Cooperation	347.0	57.0	34.0

1992-1993 BIENNIAL BUDGET
(DOLLARS IN THOUSANDS)

AGENCY: MEDIATION SERVICES

PROGRAM RESOURCE ALLOCATION:	FY 1989	FY 1990	Est. FY 1991	FY 1992			FY 1993		
				Adjusted Base	Agency Plan	Governor Recomm.	Adjusted Base	Agency Plan	Governor Recomm.
MEDIATION SERVICES	1,408	1,378	1,508	1,523	1,466	1,523	1,520	1,486	1,520
CO-OP LABOR-MGMT PROGRAMS	283	340	351	352	409	233	352	386	83
TOTAL EXPENDITURES BY PROGRAM	1,691	1,718	1,859	1,875	1,875	1,756	1,872	1,872	1,603
SOURCES OF FINANCING:									
DIRECT APPROPRIATIONS:									
GENERAL	1,691	1,718	1,859	1,875	1,875	1,756	1,872	1,872	1,603
STATUTORY APPROPRIATIONS:									
TOTAL FINANCING	1,691	1,718	1,859	1,875	1,875	1,756	1,872	1,872	1,603

1992-1993 BIENNIAL BUDGET
(DOLLARS IN THOUSANDS)

AGENCY: MEDIATION SERVICES
PROGRAM: MEDIATION SERVICES

ACTIVITY RESOURCE ALLOCATION:	FY 1989	FY 1990	Est. FY 1991	FY 1992			FY 1993		
				Adjusted Base	Agency Plan	Governor Recomm.	Adjusted Base	Agency Plan	Governor Recomm.
REPRESENTATION MEDIATION	1,408	1,378	1,508	1,523	1,466	1,523	1,520	1,486	1,520
TOTAL EXPENDITURES BY ACTIVITY	1,408	1,378	1,508	1,523	1,466	1,523	1,520	1,486	1,520
DETAIL BY CATEGORY:									
STATE OPERATIONS	1,408	1,378	1,508	1,523	1,466	1,523	1,520	1,486	1,520
TOTAL EXPENDITURES BY CATEGORY	1,408	1,378	1,508	1,523	1,466	1,523	1,520	1,486	1,520
SOURCES OF FINANCING:									
DIRECT APPROPRIATIONS:									
GENERAL	1,408	1,378	1,508	1,523	1,466	1,523	1,520	1,486	1,520
STATUTORY APPROPRIATIONS:									
TOTAL FINANCING	1,408	1,378	1,508	1,523	1,466	1,523	1,520	1,486	1,520

PROGRAM: Representation/Mediation
Agency: Mediation Services, Bureau of

1992-93 Biennial Budget

PLAN:

Proposed BASE level funding within this program represents a reduction of \$57,000 in F.Y. 1992 and \$34,000 in F.Y. 1993, allowing for cost increases attributable to salaries and other expenses. This reduction would be accomplished through a series of modifications including the shift of 2 mediator positions, which have actually been assigned to the Labor-Management Cooperation program for the past several years, to that funding program; and elimination of non-essential services including termination of the 2 summary services (arbitrator awards and bureau decisions) provided for clients. Although bureau clients generate \$27,800 annually in general funds for these subscription services, the loss of a vacant staff position used by the bureau to offset the costs of their production during the 1989 appropriation process makes continuation of these publications impossible if the bureau is to meet more critical service demands in the areas of mediation, representation and labor-management programs.

PROGRAM PURPOSE:

The Mediation and Representation program provides necessary ministerial functions in the administration of state labor relations statutes such as unit determinations, fair share fee challenges, and union representation elections. Additionally, this program provides mediation assistance to help eliminate the adverse social and economic consequences of labor disputes, as well as general purpose information programs and administrative services related to maintaining a stable and effective labor-management climate.

PERFORMANCE:

Delays in responding to requests for mediation services and/or representation decisions can result in increased tensions and prolong the time required to resolve a dispute. Accordingly, the bureau attempts to schedule its work and activity to meet the real demands for its services in a timely fashion. While the number of representation cases (unit determinations/clarifications and representation elections) have remained constant, the number of mediation cases has declined slightly. However, those parties requiring mediation services present the more difficult range of problems or issues and require a higher degree of mediation effort as a result of greater complexity, economic impact, and tension between the parties. In addition, the establishment of a January 15 teacher bargaining deadline creates an extraordinary burden during the fall preceding the deadline. While staff, including those mediators reassigned from the Cooperative Labor Management Program, put in consistently long weeks and week-ends during such periods, ad hoc contract mediators are necessary just to insure that all districts receive at least minimal mediation services prior to the January 15 deadline. Case load during the past 3 years is as follows:

	<u>F.Y. 1989</u>	<u>F.Y. 1990</u>	<u>F.Y. 1991</u>
Active Mediation Cases	613	714	600
Representation Petitions (including Fair Share)	370	314	350
Arbitration Panel Referrals	289	323	300

Because of the extremely diverse variables which impact the number, frequency, magnitude and complexity of labor disputes, traditional numeric indicators are impractical and irrelevant indicators of bureau performance. A more reasonable measure is client satisfaction. Because the bureau lacks resources to conduct formal measurement or analysis, we rely upon more subjective evaluations based upon informal and formal contacts by bureau managers with key representatives of the community we serve. Although unit and representation functions are more amenable to quantifiers such as time required and appeal reversal rates, here too client satisfaction and continued client confidence in the bureau are more significant indicators.

Within this program, the bureau also provides clients with 2 monthly subscription services summarizing arbitrator awards and bureau decisions.

PROSPECTS

The services provided through this program are statutorily required. Absent massive change in the form of collective bargaining, which is not likely within the foreseeable future, requests for services should continue at the same level as in past years. While the staffing level being maintained in this program will be able to meet the "normal" workload, difficulty may again be experienced in meeting the need for mediator services during F.Y. 1992 teacher bargaining period.

GOVERNOR'S RECOMMENDATIONS:

The Governor does not concur with the agency plan regarding the proposed reallocation of \$91,000 to the Labor-Management Cooperation program. The Governor recommends phasing out the ALMC matching grant portion of that program.

1992-1993 B I E N N I A L B U D G E T
(DOLLARS IN THOUSANDS)

AGENCY: MEDIATION SERVICES
PROGRAM: MEDIATION SERVICES

				FY 1992			FY 1993		
			Est.	Adjusted	Agency	Governor	Adjusted	Agency	Governor
ACTIVITY RESOURCE ALLOCATION:	FY 1989	FY 1990	FY 1991	Base	Plan	Recomm.	Base	Plan	Recomm.
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
REPRESENTATION MEDIATION	1,408	1,378	1,508	1,523	1,466	1,523	1,520	1,486	1,520
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL EXPENDITURES BY ACTIVITY	1,408	1,378	1,508	1,523	1,466	1,523	1,520	1,486	1,520
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
DETAIL BY CATEGORY:									
=====									
STATE OPERATIONS	1,408	1,378	1,508	1,523	1,466	1,523	1,520	1,486	1,520
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL EXPENDITURES BY CATEGORY	1,408	1,378	1,508	1,523	1,466	1,523	1,520	1,486	1,520
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
SOURCES OF FINANCING:									
=====									
DIRECT APPROPRIATIONS:									
GENERAL		1,378	1,508	1,523	1,466	1,523	1,520	1,486	1,520
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
STATUTORY APPROPRIATIONS:									
GENERAL	1,408								
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL FINANCING	1,408	1,378	1,508	1,523	1,466	1,523	1,520	1,486	1,520
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====

PROGRAM: Labor-Management Cooperation
Agency: Mediation Services, Bureau of

1992-93 Biennial Budget

PROGRAM PURPOSE:

It is the goal of the Office of Labor-Management Programs to reduce the adversarial nature of the collective bargaining process and foster the establishment of voluntary, collaborative partnerships between unions and managements where requested. To accomplish this goal, the program offers:

- technical and matching fund grant support for the establishment and continued operation of joint Area/Industry Labor-Management Committees (ALMC's);
- consultant/facilitation services to assist employers and unions in jointly improving union-management relationships at the work-site;
- conferences/symposia on public policy topics in the field of union-management relations.

PERFORMANCE:

During its relatively short history, this office has been involved in the establishment of and on-going technical assistance for seven area/industry ALMC's. Matching fund grants have been provided to 6 ALMC's: Twin Cities; Duluth; St. Cloud; Iron Range; and the construction, and public school "industries". In addition, the grant program and Bureau support have been instrumental in the establishment of a council for the hospital industry in the Twin City area. These ALMC's, in turn, assist in the development of work-site committees and other projects which bring the emphasis on union-management cooperation and collaboration down to operational levels.

Growing client demand and expectations for staff support from the bureau in the development and implementation of proactive means for avoiding labor-management tensions have caused increased focus upon efforts to establish work-site programs. Currently 24 work-site committees (including counties, public health care facilities, public utilities, cities, and school districts) are operating with various levels of Bureau support.

PROSPECTS:

There is substantial willingness and interest among labor-management teams to improve the collaborative nature of the union-management relationship, both locally and across the country. The use of professional labor mediators in programs which reduce the prospects of unmanageable conflict has clear benefit in terms of enhanced work place productivity, as well as in the more obvious reduction of labor disputes. As a result, many other states are also involved in efforts to establish proactive approaches to labor-management relations: California, Idaho, Illinois, Indiana, Iowa, Kansas, Kentucky, Massachusetts, Michigan, New York, Ohio, Oregon, Pennsylvania, Tennessee, Washington, West Virginia, Wisconsin and Wyoming.

Because of current staff limitations, the bureau has been unable to meet all requests for assistance in this area in a timely fashion. About 12 unmet requests are currently pending and it is expected that demand for services in this program area will increase.

Although for reporting and structure reasons a total of 4.0 staff positions are allocated to the Cooperative Labor-Management Program, these remain mediator positions which are essential to meet even minimal demand during peak contract negotiating periods. The modest decline in mediation case load may or may not be a result of the efforts of the bureau to change to a proactive rather than reactive intervention. It has, however, allowed a flexibility in the assignment of staff without reducing our crisis response.

Reductions in this program will not only curtail efforts to shift the culture of labor-management relations from confrontation to collaboration, with attendant "messages" to the labor relations

community, it will cripple the bureau's ability to respond to legitimate and unavoidable disputes. Mediators are essentially "firefighters" who must be able to respond when needed -- and who are now being deployed for "fire" prevention purposes when the alarms are not ringing. It will simply not be possible to respond to situations like teacher bargaining "fires" with reductions in this program.

PLAN:

Proposed BASE level funding within this program represents an increase of \$57,000 in F.Y. 1992 and \$34,000 in F.Y. 1993 by reallocation of funds from the Representation/Mediation program. In addition, reallocation of \$62,500 in F.Y. 1992 and \$87,500 in F.Y. 1993 from funds presently appropriated for grants to area/industry labor-management committees is recommended, resulting in the following:

	<u>F.Y. 1992</u>	<u>F.Y. 1993</u>
Grants to Area/Industry Labor-Management Comm.	\$ 175.0	\$ 150.0
Operating expenses including staff	228.5	230.5

Although the grant program continues to provide an important means for providing information and support regarding cooperative labor-management efforts, it is clear that this program does not satisfy the needs of bureau clients for ongoing professional staff consultation and assistance in effecting meaningful change in the nature of their relationship. Because environmental, economic, and productivity returns from cooperative efforts are most directly felt and observed at the work-site level, the agency has determined that it is crucial to maintain existing levels of support for this phase of program activity through the reallocation of existing levels of grant funds.

GOVERNOR'S RECOMMENDATIONS:

The Governor does not recommend the agency's plan for this program. Instead, the Governor recommends phasing out the Grants to Area/Industry Labor Management Committee grants portion of the program, and reducing 1 position in F.Y. 1993 (See Decision Item below).

**1992-1993 BIENNIAL BUDGET
(DOLLARS IN THOUSANDS)**

AGENCY: MEDIATION SERVICES
PROGRAM: CO-OP LABOR-MGMT PROGRAMS

				FY 1992			FY 1993		
ACTIVITY RESOURCE ALLOCATION:	FY 1989	FY 1990	Est. FY 1991	Adjusted Base	Agency Plan	Governor Recomm.	Adjusted Base	Agency Plan	Governor Recomm.
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
CO-OP LABOR-MGMT PROGRAMS	283	340	351	352	409	233	352	386	83
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL EXPENDITURES BY ACTIVITY	283	340	351	352	409	233	352	386	83
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
DETAIL BY CATEGORY:									
=====									
STATE OPERATIONS	95	102	113	114	171	114	114	148	114
LOCAL ASSISTANCE	188	238	238	238	238	119	238	238	<31>
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL EXPENDITURES BY CATEGORY	283	340	351	352	409	233	352	386	83
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
SOURCES OF FINANCING:									
=====									
DIRECT APPROPRIATIONS:									
GENERAL	283	340	351	352	409	233	352	386	83
STATUTORY APPROPRIATIONS:									
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL FINANCING	283	340	351	352	409	233	352	386	83

PROGRAM: Administration
Agency: Revenue, Department of

1992-93 Biennial Budget

PROGRAM PURPOSE:

For the purpose of this budget narrative, the Administration Program includes the Commissioner's Office, the Internal Audit Office, and the following divisions: Administrative Services, Fiscal Services, Human Resources Management, Information Access and Security, and Information Systems. The divisions and units described here are grouped together for purposes of convenience and historical comparison.

This program affects, and is affected by, many of the department's strategies for the future. We have 3 primary resources for carrying out our mission and strategies: people, funds, and information. Although our operating managers have primary responsibility for managing our human, financial, and information resources, these managers rely on the Administration Program for service, support, and expertise. The customers of the Administration Program include both taxpayers (individually and collectively) and department managers and employees.

The people in this program work toward our goal that all employees be properly trained, equipped, and capable of performing their duties properly; that they have the information and logistical support they need; and that they have the service delivery systems that facilitate their interaction with their customers.

The Commissioner's Office includes the Commissioner, the Deputy Commissioner, the Affirmative Action Officer and the Taxpayer Rights Advocate. They provide overall leadership to the department by:

Leading the effort to develop sound tax policy for the state of Minnesota:

- Managing the state tax and revenue system on behalf of the people of Minnesota,
- Developing and implementing policies and procedures to ensure equal opportunity to all employees,
- Developing policies and procedures that ensure fair and equitable treatment for all citizens, and
- Providing an advocate for all citizens who have grievances against the department.

The Administrative Services Division provides administrative and support services to all areas of the department, and acts as the "single point of contact" with other state agencies, private vendors, and other organizations that provide services or materials to the department.

The Fiscal Services Division serves all areas of the department by:

- Providing financial information and financial management advice to all managers in the department,
- Maintaining and monitoring the department's budget and spending plans, accounts payable and payroll system, and
- Providing financial reports and information to managers.

The Internal Audit Office ensures that the department is using its resources effectively by monitoring internal controls for all areas of the department.

The Human Resources Management Division ensures that our workforce is technically competent and confident by providing high quality human resource management and training services, products, consultations, and controls to all managers, supervisors and employees in the department.

The Information Access and Security Division encourages information exchange within an environment which is that Federal, state, and departmental data security requirements are met.

The Information Systems Division provides the department with timely, accurate information needed to effectively operate the tax system. This division has responsibility for planning, designing and implementing new information systems and for operating and maintaining new and existing systems.

PERFORMANCE:

During F.Y. 1990-91, the Administration Program implemented a variety of technical changes in the Department of Revenue. These included the implementation of the Taxpayer Registration (Individual) and Computer Assisted Compliance System (CACS) systems, resulting in making more timely, accurate information available to department employees and taxpayers. The Taxpayer Accounts System (TPA) begun in November 1990 is expected to further improve these outcomes.

The Taxpayer Registration System (TPR) provides all department employees with on-line taxpayer profiles as well as current and past histories for all business and individual taxpayers. The CACS contains a repository of taxpayer information on all taxpayers that owe the state money on past due taxes. In addition, it contains information on taxpayers who have not filed returns. This information allows the department to more effectively pursue taxpayers who are remiss in their filings and payments. The TPA provides an on-line, centralized repository of all transactions that affect the balance of a taxpayer's account. This system provides accurate, timely information for taxpayers, employees and other agencies.

Other F.Y. 1990-91 projects are:

- Development of the DOR Infrastructure
- Completion of the Business Model and initiation of the design phase of the Sales Tax Processing System
- Enhancement of the CACS System
- Pilot System for Electronic Filing of Individual Income tax returns
- Pilot of Optical Character Recognition (OCR) application
- Implementation of a Sales Tax Coupon Booklet process
- Design and initial development of a Refunds Payable system
- Implementation, maintenance and enhancement of a repository of baseline data
- Feasibility study of an Electronic Funds Transfer System
- Completion of Strategic Information Systems Plan
- Legislatively mandated modification and systems development related to the new Entertainer tax, Political Contribution refunds, Non-resident Partnership/Shareholder tax, Lawful Gaming, Taxpayer Rights, and Corporation Income tax.

Changing technology along with the increased emphasis on productivity, customer service and partnerships has created an increasing need for management services, training, and consultations. Requests for management services have ranged from individual consultations to facilitation of group meetings and conferences. During F.Y. 1990-91, over 300 training sessions that involved more than 7,000 employees were presented. Consultation services were provided to over 80 individuals and work groups in areas of management and supervisory responsibility. While it is difficult to measure the impact of these services, anecdotal evidence suggests that they have played a role in promoting more effective working relationships and clearer understanding among employees of the department's mission and goals.

We have worked to improve state cash flow by processing 77% of funds received the same day they are received. We are also identifying high dollar returns for priority processing. New OPEX mail openers delivered in December 1990 will further expedite the mail opening process.

PROSPECTS:

The implementation of the TPR, CACS, and TPA systems has greatly improved the quality and timeliness of the information available to taxpayers, employees, and other agencies. Further changes in the amount of information needed and improvements in technology will require even greater development of information systems.

1992-93 BIENNIAL BUDGET

PROGRAM STRUCTURE

AGENCY: MILITARY AFFAIRS, DEPARTMENT OF

PROGRAM

PAGE

ENLISTMENT INCENTIVES

352

Cash Bonus/Tuition Reimbursement

MAINTENANCE OF TRAINING FACILITIES

355

Camp Ripley-Holman Field

Armory Maintenance

Air Base Maintenance-Twin Cities and Duluth

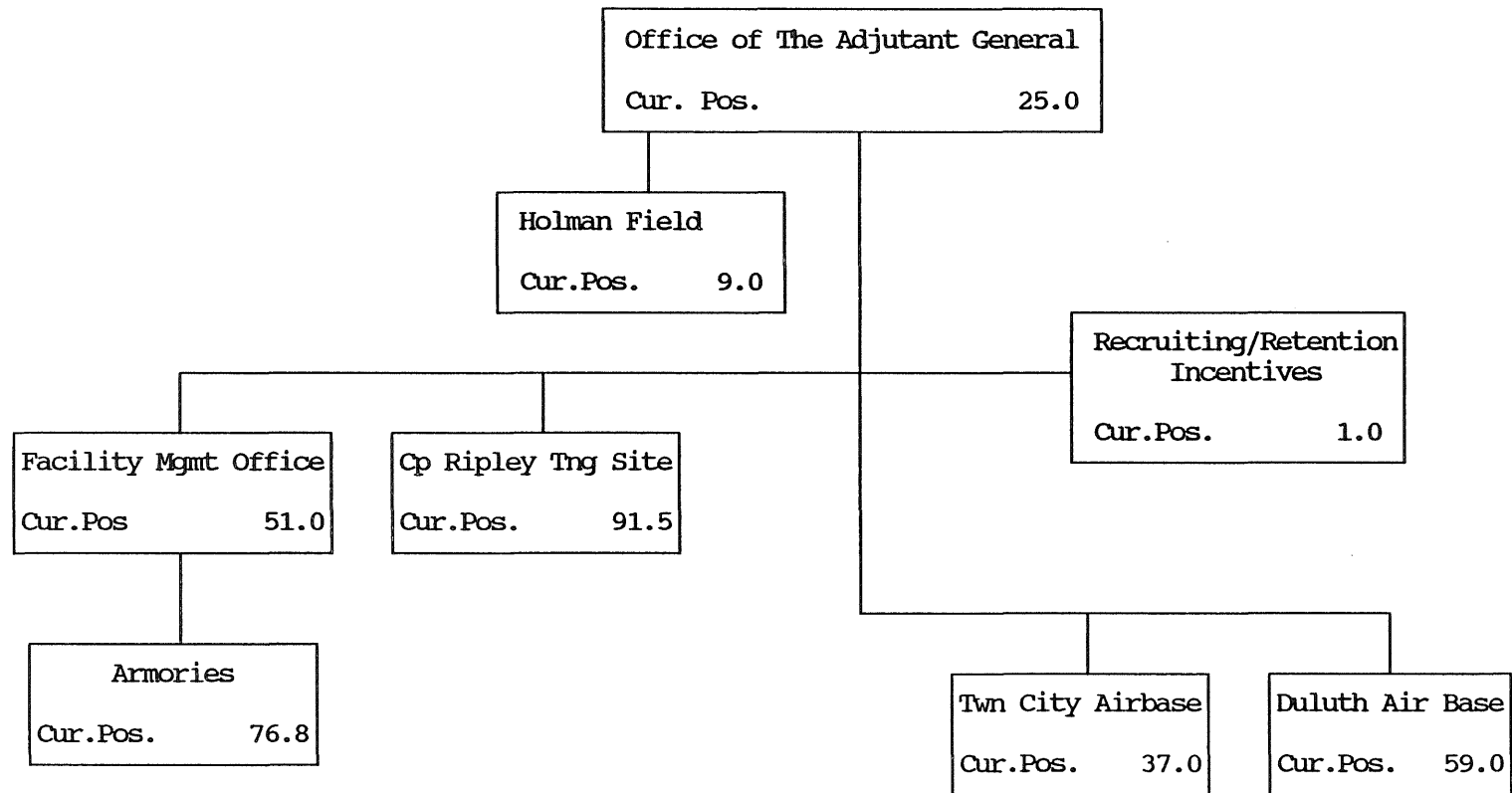
GENERAL SUPPORT

358

Administrative Services

Auxiliary Services

DEPARTMENT OF MILITARY AFFAIRS ORGANIZATIONAL CHART



DEPARTMENT OF MILITARY AFFAIRS
Position and Employee Status Information

POSITION RECONCILIATION		
Authority:	Current FY 91	Requested For 6/30/93
Legislative Complement		
General Fund	137.8	135.8
Federal Fund	203.0	214.5
Legislative Authorized		
Federal Fund	11.5	
Total Permanent Positions	352.3	350.3
Other Complement (Full-time Equivalency)		
General Fund	.2	.2
Federal Fund	30.0	30.0
TOTAL Positions	382.5	380.5
Employees on 6/30/90	394	

EMPLOYEES BY EMPLOYMENT STATUS:	
	6/30/90
Full-Time Unlimited	317
Full-Time Temporary	19
Full-Time Seasonal	12
Part-Time Unlimited	29
Part-Time Temporary	1
Intermittent Unlimited	6
Intermittent Seasonal	10
TOTAL	394

MISSION:

Mission Statement: The Department of Military Affairs is responsible to provide personnel and units that are trained, equipped and supported by facilities to meet all Federal and State missions. The department consists of the military forces of the State of Minnesota, hereinafter called the National Guard, the Office of The Adjutant General and all military reservations, military installations, armories, air bases and other facilities owned or controlled by the state for military purposes. The military forces of the state include the Army National Guard, Air National Guard, and when organized, the Minnesota State Guard.

- The federal mission of the Minnesota National Guard is to be available to augment the active forces in time of war or national emergency with personnel and units trained, qualified and equipped. More specifically, the Army National Guard is continually trained to augment the U.S. Army in time of war or national emergency. The Duluth Air National Guard organization performs it's federal mission on a daily basis: Provide detection and interception of hostile forces entering United States airspace. The Twin Cities Air National Guard organization also performs it's federal mission on a daily basis: Provides tactical airlifts of personnel and cargo around the world.
- The state mission of the Minnesota National Guard is to provide units that are equipped and trained to support local law enforcement agencies in the protection of life and property and the preservation of peace, order and public safety, under orders of the Governor.
- If the Minnesota National Guard were mobilized for federal service, it could be replaced by a then organized local militia called the State Defense Force. The State Defense Force, under the control of the Governor, would assume the state emergency duties formerly required of the National Guard. Currently, no State Defense Force is in existence.

MAJOR POLICY DRIVERS:

In peacetime, the Governor of the state of Minnesota is the Commander-In-Chief of the Minnesota National Guard and is the only person who may authorize their employment for the defense or relief of the state, the enforcement of its law, and the protection of life and property therein. Such employment would be in answer to a request for assistance from local law enforcement agencies. Included in the training program for National Guard troops are tactical and philosophical doctrine to prepare them to support, protect and assist their fellow citizens in time of emergency or natural disaster. This training cannot occur without the support of the legislature to insure adequate facilities and other support requirements are in place.

Also in peacetime, the Minnesota National Guard is required to train for and be prepared to execute their federal mission. In this regard, M.S. 190.04 states that "All matters relating to the organization, discipline and government of the military forces not otherwise provided for in the military code shall be decided by the custom, regulations and usage of the armed forces of the United States". The State of Minnesota is the tremendous benefactor of these "customs, regulations and usage". The staggering amount of federal fiscal support comes to the state in the form of command guidance and supervision, equipment, training opportunities, leadership development and construction. The ability of the National Guard citizen soldiers to respond to a call to service by their governor is primarily the result of their federally supported training.

As stated in the department's biennial report for the biennium ending 6-30-89, during the period of 10-1-87 to 9-30-89, the federal government contributed \$320,497,000 to the operation of the Minnesota National Guard. During the state fiscal biennium 7-1-87 to 6-30-89, the legislature appropriated \$17,687,000 for the operation of the Minnesota Army and Air National Guard. Of the combined amounts, the federal share was 94.5% of the total. Federally paid salaries for full-time

and part-time employees and soldiers was nearly \$204,030,000. We estimate that the federal contribution resulted in over \$12,000,000 in state income taxes or nearly two thirds of the total state appropriation.

It has long been the policy of the Department of Defense and the National Guard Bureau that to be effective, any National Guard organization must operate at or above their authorized strength ceiling. The federal government supports nearly 100 full-time Army and Air National Guard recruiting and retention personnel. Their job is to recruit new members for the Guard and retain those quality members eligible for reenlistment. Their efforts have been generously supported by the legislature with the tuition reimbursement and reenlistment bonus laws passed last session. Those state provided benefits have not only attracted hundreds of quality recruits, but has afforded higher education opportunities for some people who may not have had the financial resources to pursue post-secondary education.

The Minnesota National Guard construction program is designed to meet the continuing need for expanded and upgraded facilities for its soldiers and airmen as they prepare to serve the needs of both the State of Minnesota and the United States. Funding for construction comes from both federal and state sources, reflecting the dual-mission nature of our militia. The ratio of federal/state contributions is as follows:

New construction (except armories): 100% federal
New construction of armories: 75% federal, 25% state, county, local

The maintenance, betterment, and repair of armories is the total responsibility of the state with no federal fund provided for this purpose. Maintenance, betterment, and repair of facilities at Camp Ripley and the Army Aviation Support Facility are shared between state and federal funds.

The maintenance, betterment, and repair of facilities at the Duluth and St. Paul Air National Guard bases are shared by the federal and state governments at a current ratio of 80% federal and 20% state. In the federal fiscal year beginning 10-1-91, a significant shift in that ratio will take place. At that time, because of reduction in military mission requirements, the ratio will become 75% federal and 25% state.

EXPLANATION OF BUDGET ISSUES AND ALTERNATIVES:**Federal Funding Change**

A most critical budget issue for the department is the pending reduction in federal support for facilities repair and maintenance at the Air National Guard bases in Duluth and St. Paul. As stated above, the current ratio of support of 80% federal versus 20% state is being changed, effective 10-1-91 to 75% federal versus 25% state. To maintain only the current level of maintenance and repair at those 2 bases, \$259,500 in additional state funding would be needed for the biennium. Without additional state funding, layoffs are probable. To avoid layoffs, an increase in complement of 1.7 positions would be required. An addition of 1.7 positions would actually save the jobs of 12 individuals as this would make up the difference in state contribution from the current 20% share to the 25% share. It is likely that if layoffs occurred, it would hinder the ability of the Air National Guard to meet it's mission requirements. It would be nearly impossible to divert other positions for this purpose.

Another budget issue resulted from the loss of 4 positions because of the early retirement provision. The positions were in the Maintenance of Training Facilities program. The positions were General Maintenance Worker positions at 2 armories, a Building Maintenance Supervisor and an Engineering Specialist Senior at Camp Ripley. The General Maintenance Workers were the only state employees at those armories and the only one performing those duties. The services they performed are essential to the mission requirements of National Guard organizations in those armories. We found it necessary to contract for those services with the maintenance and repair funds being used to pay for maintenance and repair materials to pay personnel costs.

The department has projected a substantial salary shortfall during the next biennium. The Department of Finance has indicated that no salary supplement should be expected during the biennium, however, we are anticipating a 4.5% raise each year and must plan a course of action. The total amount of the shortfall is estimated to be \$399,131 in F.Y. 1992 and \$609,817 in F.Y. 1993. These amounts include approximately \$165,000 in unfunded workers compensation payments and \$17,000 for insurance benefits for employees receiving workers compensation. Four employees took advantage of the early retirement program offered, their insurance costs approximately \$36,000 per year which also is unfunded. The salary shortfall results from previous cost of living increases being funded from 65-85% during the past 10 years. We also don't have much of an employee turnover and with workers compensation insurance benefits and unemployment compensation coming from "salary savings", there isn't enough left to cover unfunded salary increases. When the change in the federal support ratios occurs in October of 1991, an additional shortfall will be even greater, adding approximately \$65,189 in F.Y. 1992 and approximately \$79,481 in F.Y. 1993. There are not enough projected vacancies within the next two years to make up the shortfall and the layoff of up to 12 employees is anticipated.

Another budget issue is the gradual decline in the dollars available for maintenance and repair of facilities. For several years, certain categories of maintenance and repair items have been either connected to the operating budget or the capital budget. The seemingly yearly change in policy on what is to be included where has resulted in basically no funding for larger projects needed to maintain structural integrity, operating efficiency, and environmental soundness. In the last biennial budget, the department requested nearly \$2.8 million dollars in CHANGE REQUESTS for such projects that were, historically, supported by the capital budget. None of those CHANGE REQUESTS were funded nor were they allowed to be included in the subsequent capital budget.

The elimination of a mechanism to request needed funds above the base level is of concern to this department. The need for additional dollars in some areas still exists as it did during the last biennium when only 1 small CHANGE REQUEST for \$6,000 was funded. We continue to deny requests for employee training and travel. Employee safety and health programs and equipment must be funded but no additional dollars were provided for that purpose. We are continually asked to provide the same or better service with base level amounts in some activities that haven't changed in 6 years. Any savings generated are either taken by a budget reduction, workers compensation costs, or unfunded wages increases. We feel that our commitment to the enlistment incentives package during the last biennium overshadowed critical needs in other areas.

GOVERNOR'S RECOMMENDATION:

The Governor concurs with the agency's plan.

1992-1993 BIENNIAL BUDGET
(DOLLARS IN THOUSANDS)

AGENCY: MILITARY AFFAIRS,DPT

				FY 1992			FY 1993		
			Est.						
PROGRAM RESOURCE ALLOCATION:	FY 1989	FY 1990	FY 1991	Adjusted	Agency	Governor	Adjusted	Agency	Governor
				Base	Plan	Recomm.	Base	Plan	Recomm.
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
ENLISTMENT INCENTIVES	1,992	1,192	3,070	2,350	2,350	2,350	2,350	2,350	2,350
MAINT-MILIT TRNG FAC	14,532	16,320	17,198	17,780	17,780	17,780	17,920	17,920	17,920
GENERAL SUPPORT	1,956	6,021	1,640	1,763	1,763	1,763	1,760	1,760	1,760
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL EXPENDITURES BY PROGRAM	18,480	23,533	21,908	21,893	21,893	21,893	22,030	22,030	22,030
SOURCES OF FINANCING:									
=====									
DIRECT APPROPRIATIONS:									
GENERAL	8,424	8,517	10,426	10,100	10,100	10,100	10,237	10,237	10,237
STATUTORY APPROPRIATIONS:									
GENERAL	447	645	495	495	495	495	495	495	495
SPECIAL REVENUE	565	4,450							
FEDERAL	9,044	9,921	10,987	11,298	11,298	11,298	11,298	11,298	11,298
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL FINANCING	18,480	23,533	21,908	21,893	21,893	21,893	22,030	22,030	22,030

BASE RECONCILIATION REPORT
for 1992-1993 Biennium

AGENCY: MILITARY AFFAIRS,DPT

	ALL FUNDS		GENERAL FUND		OTHER STATE FUNDS		FEDERAL FUNDS	
	F.Y.92	F.Y.93	F.Y.92	F.Y.93	F.Y.92	F.Y.93	F.Y.92	F.Y.93
F.Y.91 FUNDING LEVEL	21,908	21,908	10,921	10,921			10,987	10,987
ONE-TIME APPROPRIATIONS	311	311					311	311
BIENNIAL APPROPRIATIONS	62	62	62	62				
APPROPRIATIONS CARRIED FWD	<588>	<588>	<588>	<588>				
SALARY ANNUALIZATION	67	48	67	48				
DOCUMENTED RENT/LEASE INCR.	133	289	133	289				
TOTAL	21,893	22,030	10,595	10,732			11,298	11,298
BIENNIAL TOTAL		43,923		21,327				22,596

F.Y. 1991 Budget Reductions (Information Only)

The following F.Y. 1991 reductions were implemented in Laws 1991, Chapter 2. These reductions are not reflected as changes to F.Y. 1991 or F.Y. 1992-93 BASE Levels within the budget documents.

Military Affairs

General Fund
\$ (458)

ACTIV
PROG

1992-93 Biennial Budget

AGENCY: Military Affairs, Department of

DECISION ITEM: Financing Inflationary Costs-Informational

	Dollars in Thousands			
	F.Y. 1992	F.Y. 1993	F.Y. 1994	F.Y. 1995

AGENCY PLAN:

Expenditures

General Fund-Inflation	\$ 177	\$ 361	\$ 361	\$ 361
Reduction	(177)	(361)	(361)	(361)
	\$ -0-	\$ -0-	\$ -0-	\$ -0-

Revenues

General Fund	\$ -0-	\$ -0-	\$ -0-	\$ -0-
--------------	--------	--------	--------	--------

Requires statutory change: _____ Yes X No

ITEM SUMMARY:

Following the Biennial Budget instructions salary projections assumed a 4.5% across the board increase for all employees for an amount of \$177,000 in F.Y. 1992 and \$361,000 in F.Y. 1993. Salary costs were fully funded assuming no vacancies.

RATIONALE:

- Depending on location and position, vacancies caused by employee attrition will be closely scrutinized to determine if significant savings could be realized by staff reorganization.
- Reduction in the level of programmed maintenance at training facilities is being studied to determine potential savings that will not significantly effect structural integrity or efficiency of operation.
- Studies are currently underway to determine permanent savings that may be realized from the closure of 2-4 training facilities. Military force structure needs of the National Guard are paramount in these studies. Readiness of National Guard personnel and units cannot be degraded by any facility closures.
- Staffing of the central office is being reviewed to determine if consolidation of duties may be possible in case personnel layoffs are required.
- We may need to require a greater contribution to basic operating costs from state-owned armory funds and Minnesota State Armory Building Commission funds.

GOVERNOR'S RECOMMENDATION:

The Governor concurs with the agency's plan.

PROGRAM: Enlistment Incentives
Agency: Military Affairs, Department of

1992-93 Biennial Budget

PROGRAM PURPOSE:

This budget program consists of a Tuition Reimbursement program based on 50% of the tuition charged at the University of Minnesota and a Reenlistment Bonus program. Both incentives are designed to:

- Increase the number of qualified recruits into the Minnesota National Guard so as to meet strength maintenance targets established by the National Guard.
- Attain and maintain 98% to 100% of authorized strength by reducing the number of Guard members electing to terminate their service.
- Improve the educational level of those citizens of Minnesota who are also members of the National Guard by offering financial assistance to those who attend a post-secondary educational institution. A better educated soldier is a better soldier.
- Increase the number of medical doctors in the Minnesota Army National Guard.

PERFORMANCE:

In a short phrase, both programs have given far greater results than were expected in the relatively short period of time they have existed. In the spring of 1990, the Minnesota Army National Guard reached 100% of its authorized strength, a plateau that has not been reached since the early 1970s. This is the most vivid evidence of program success. Keeping in mind the main objective of both parts of this program, the following measures of effectiveness graphically show their impact.

Effectiveness Measures	Actual F.Y. 1989	Actual F.Y. 1990	Actual F.Y. 1991	Estimate F.Y. 1992	Estimate F.Y. 1993
Assigned Strength (July 1)	10,337	10,486	10,865	10,900	10,900

Effectiveness Measures	Actual F.Y. 1989	Actual F.Y. 1990	Actual F.Y. 1991	Estimate F.Y. 1992	Estimate F.Y. 1993
# Medical Students in Tuition Reimbursement	NA	3	6	8 (MAX)	8 (MAX)

Participation of medical students who will become medical officers is capped at 8 individuals per department policy.

Effectiveness Measures	Actual F.Y. 1989	Actual F.Y. 1990	Actual F.Y. 1991	Estimate F.Y. 1992	Estimate F.Y. 1993
Tuition Program Participants	2209	2747	3200	3800	3800

The number of participants in the Tuition Reimbursement program is approximately 25% of the total assigned strength of the Minnesota National Guard.

In today's technical world, the majority of soldiers must possess a higher level of intelligence than was required in the past. The Tuition Reimbursement program allows Minnesota National Guard members to attend public or private institutions including vocational-technical schools. It has been the major incentive for quality personnel to join the Minnesota National Guard. Leaders at all levels

have commented on the number of young, quality, soldiers joining their ranks and what a difference it is making in the unit and the community. The program administrator has received numerous letters commending the program and the benefits derived from it. In many instances, these soldiers are able to pursue educational endeavors that would not have been available to them due to financial reasons.

Effectiveness Measures	Actual F.Y. 1989	Actual F.Y. 1990	Estimate F.Y. 1991	Estimate F.Y. 1992	Estimate F.Y. 1993
Reenlistment Rate	78.5%	85.8%	86.0%	86%	86%

It should be noted that the average reenlistment rate for all states is only 72.9%. Minnesota has the 12th highest reenlistment rate in the nation. For every soldier who is retained (reenlists), that is one less new recruit we need.

Reenlistment is a measure of our ability to keep members once they have joined. All enlisted members are contractually obligated to serve in the National Guard for a variable, but specific, number of years. At the completion of a contractual obligation, a Guard member has an option of either continuing as an active Guard member or terminating their membership. The reenlistment rate is the percentage of all members who have completed their contractual obligation and are eligible for continued membership. Reenlistment periods can be for a minimum of 1 year and a maximum of 6 years, however, to be eligible for the Reenlistment Bonus, a minimum reenlistment period of 3 years is required. Eighty-seven percent of all members reenlisting this past fiscal year, did so for 3 or more years. The dramatic improvement of the reenlistment rate is directly attributed to this program.

PROSPECTS:

TUITION REIMBURSEMENT PROGRAM:

From the inception of the pilot program on 7-1-88, the strength of the Minnesota National Guard has steadily increased. In April of this year, the Minnesota Guard reached 100% of its authorized strength, a feat that had not been accomplished since the early 1970s when the draft was still motivating people to join the Guard. A state which maintains its strength at or near 100% is considered for additional federal funds which can be utilized for training, new construction projects, and new equipment.

During F.Y. 1990, administrative procedures were streamlined to decrease the amount of processing time required for each application. During F.Y. 1990, a single Clerk/Typist I processed nearly 6,000 applications and associated follow-up/payment documents. If participation continues to increase at its current pace, the increased workload could not be handled by a single employee. Combination of the administration of the Tuition Reimbursement and Reenlistment Bonus program may reduce some duplication of effort.

The Tuition Reimbursement program was to assist members of the Minnesota National Guard to enroll and complete an educational program at a college or university. To this purpose we are dedicated. If funding levels decline in the future, the scope of the program may have to be reduced, making assistance available to a lesser number of soldiers and airmen. Currently, individuals must pass courses to be reimbursed.

REENLISTMENT BONUS PROGRAM:

Depending upon strength maintenance guidance from the National Guard Bureau, our primary goal will remain to place maximum effort to entice quality soldiers and airmen to remain in the National Guard after their first term of enlistment. There must, however, be some attrition at the top to make room for new, young, lower ranked individuals. During the first 6 years of the program the total numbers of participants will grow until those reenlisting in F.Y. 1990 lose their eligibility in F.Y. 1996. It is estimated that the number of program participants will steadily increase during the

PROGRAM: Enlistment Incentives
(Continuation)
Agency: Military Affairs, Department of

1992-93 Biennial Budget

first 6 years of the program as follows. The appropriation to meet potential commitments is shown parenthetically where it applies. F.Y. 1990: 42; F.Y. 1991: 1032 (\$258,000); F.Y. 1992: 2045 (\$511,250); F.Y. 1993: 3044 (\$761,000); F.Y. 1994: 3692 (\$923,000); F.Y. 1995: 3363 (\$840,750). The leveling off that becomes evident in F.Y. 1995 is a result of the "pipeline" being full and participants should be at the maximum.

PLAN:

TUITION REIMBURSEMENT PROGRAM:

At this time, the base level funding for F.Y. 1991 will be sufficient to operate the Tuition Reimbursement program at its current level for fiscal years 1991, 1992 and 1993. There are opportunities to expand the program to include reimbursement for GED programs, commercial flight training programs, graduate level programs, Guard member dependent assistance programs and continuing education courses. Program expansion will depend on future strength maintenance considerations and progress of current tuition reimbursement participant trends.

REENLISTMENT BONUS PROGRAM:

The BASE LEVEL will have to grow in this program with each year until F.Y. 1996 because we are now just "filling the pipeline" and it won't be full until then. Should this not be possible, the program will have to be scaled down to stay within available dollars.

Agency Reallocations:

Tuition Reimbursement: F.Y. 1992: (\$132,000) F.Y. 1993: (\$132,000)

Estimates of the number of participants in the Reenlistment Bonus program is going to be less than expected in F.Y. 1991 offering an opportunity to reallocate dollars to the Maintenance of Training Facilities Program. This was the only source for reallocation.

GOVERNOR'S RECOMMENDATION:

The Governor concurs with the agency's plan.

1992-1993 B I E N N I A L B U D G E T
(DOLLARS IN THOUSANDS)

AGENCY: MILITARY AFFAIRS,DPT
PROGRAM: ENLISTMENT INCENTIVES

				FY 1992			FY 1993		
ACTIVITY RESOURCE ALLOCATION:	FY 1989	FY 1990	Est. FY 1991	Adjusted Base	Agency Plan	Governor Recomm.	Adjusted Base	Agency Plan	Governor Recomm.
CASH BONUS/TUITION REIMB	1,992	1,192	3,070	2,350	2,350	2,350	2,350	2,350	2,350
TOTAL EXPENDITURES BY ACTIVITY	1,992	1,192	3,070	2,350	2,350	2,350	2,350	2,350	2,350
DETAIL BY CATEGORY:									
STATE OPERATIONS	1,035	34	923	335	335	335	335	335	335
AID TO INDIVIDUALS	957	1,158	2,147	2,015	2,015	2,015	2,015	2,015	2,015
TOTAL EXPENDITURES BY CATEGORY	1,992	1,192	3,070	2,350	2,350	2,350	2,350	2,350	2,350
SOURCES OF FINANCING:									
DIRECT APPROPRIATIONS:									
GENERAL	1,992	1,192	3,070	2,350	2,350	2,350	2,350	2,350	2,350
STATUTORY APPROPRIATIONS:									
TOTAL FINANCING	1,992	1,192	3,070	2,350	2,350	2,350	2,350	2,350	2,350

PROGRAM PURPOSE:

To repair, replace, maintain and control Minnesota National Guard training, administrative and storage facilities, with minimum essential custodial service. Facilities must be maintained in a manner to insure structural integrity, general appearance, safe condition, energy efficiency, security and continued usefulness for effective mission training of Minnesota National Guard units and personnel. Many of the armories and some Camp Ripley facilities are utilized by other state agencies, community organizations and governmental units, businesses and individuals on a rental basis. Rental proceeds remain at the local armory level for minor, day-to-day maintenance requirements. The program serves three major activities:

1. **ARMORY MAINTENANCE:** Provides utility services, materials and personnel to operate and repair the facilities systems for 71 single and multiple unit Army National Guard armories, 19 Organizational Maintenance shops, and 5 Motor Vehicle Storage buildings located in 67 separate localities. Each armory has a General Maintenance Worker assigned, many of whom are less than full-time. They perform daily maintenance activities and perform minor repair and betterment duties. Most repairs and betterment, other than minor repairs, are accomplished by the department's "Armory Crew" which consists of 2 Carpenters, 1 Roofer, 1 Plumber, 1 Electrician, 1 Mason and 1 Painter. Nearly all fuel and utility costs are paid from this program.
2. **AIR BASE MAINTENANCE:** Serves 2 Air National Guard bases located in Duluth and St. Paul at the Twin Cities International Airport. The key mission at both bases is to provide training to it's members in a wide range of skills that are necessary to support the operations of their units. Much of that training is conducted at the respective bases and must be supported by adequate facilities and utility services. The state dollars provided for this activity are for utility services, joint utilization agreements with appropriate airport authorities, refuse collection, and material and personnel to operate the facility systems and provide small maintenance and repair services to the facilities. This state support amounts to only 20% of the total facilities requirements with the federal government providing the remaining 80%. During the biennium ending 6-30-89, federal dollars invested in the 2 air bases amounted to \$25,467,000 which state dollars invested amounted to \$2,106,000.
3. **CAMP RIPLEY/HOLMAN FIELD:** Provides buildings, grounds, and physical maintenance for the 53,000 acre, state-owned, training site at Camp Ripley and the Army Aviation Support Facility at the St. Paul Downtown Airport. Through the investment of primarily federal dollars, Camp Ripley has become a model National Guard year around training site well known as such through the nation. It has many of the same type training areas, facilities and equipment found only at large active army installations. Minnesota is only one of 4 states without a federal military installation. It is equipped and staffed to support all type of training at any time of the year under all weather conditions. For this reason, it is a much sought after training facility for National Guard and Army Reserve units from other states as well as active duty units from around the country. New weapon firing ranges allow training on the most sophisticated and modern light and heavy weapons. The aviation support facility at Camp Ripley has a 5,000 foot asphalt runway, a 3,000 foot dirt tactical runway and modern support buildings. It is a full fledged airport capable of handling all type of military aircraft. Camp Ripley is also the site of the Minnesota National Guard officer and non-commissioned officer training academies. Most of the Camp Ripley facilities are supported 100% by the federal government, however some minor construction on non-military mission related facilities are supported with state dollars. To place the support ratio in perspective, the department biennial report to the governor and legislature for the biennium ending 6-30-89, listed \$17,096,000 in federal dollars that went directly into STATE OWNED Camp Ripley facilities while only \$97,000 in state dollars were committed.

1. **ARMORY MAINTENANCE:** During the last biennium, the Facilities Management Office at Camp Ripley initiated 1038 facilities maintenance and repair work orders, completing 946 of them. Over the last 3 years, the number of work orders has declined, however, the armory crew has been able to increase it's work order completion rate from 73% in 1987 to 91% in 1989. During the last 6 years, with a combination of capital budget money and biennial budget money we have replaced windows in 31 facilities, new insulated roofs in 38 facilities, garage and entry doors in 31 facilities and completed tuckpointing in 18 facilities.
2. **AIR BASE MAINTENANCE:** The civil engineers at both air bases were able to maintain base facilities and provide necessary services to allow both Air National Guard organizations to satisfy mission requirements with the highest degree of competence. The numerous training and mission essential testing standards applied to both organizations are the true measure of performance. It is difficult to quantify with numbers. The bottom line is with adequate training facilities and service support, mission capabilities would be reduced to an intolerable level.
3. **CAMP RIPLEY/HOLMAN FIELD:** The ability of Camp Ripley to support troops in training is the greatest measure of performance and effectiveness. In F.Y. 1990, Camp Ripley supported just over 318,000 mandays of training. It is anticipated that in F.Y. 1991 the number could grow to 329,600. Each manday of training is compensated for with a paycheck much of which is spent either in the Camp Ripley locality or other localities within the state. Nearly all supplies and equipment required to support their training is purchased within the state. Another measure of performance is the large amounts of federal construction dollars given for construction within Camp Ripley. State dollars pay salaries of some personnel who manage and maintain Camp Ripley. Their professionalism and ability to maintain an attractive Camp Ripley has drawn thousands of out of state troops to the training site. Holman Field in St. Paul is the site of the Army Aviation Support Facility. It is a simple, single facility that adequately supports the Army National Guard aviation program.

PROSPECTS:

ARMORY MAINTENANCE: It appears now that there will be fewer federal dollars available in coming years for new armory construction. Energy cost are likely to rise and remain at a high level pending resolution of the current world situation. It is uncertain what the planned reorganization and restructuring of the reserve forces will mean for Minnesota armories. It is most crucial to maintain what we have.

Federal Funding Change

AIR BASE MAINTENANCE: As discussed on the agency page, beginning 10-1-91, the federal government will support only 75% of these facility related expenses. The remaining 25% will become the responsibility of the state. This is a significant shift in federal policy. The reason for a reduction in federal support at both the Duluth and Twin Cities air bases is a change in mission requirements. The Duluth air base no longer has a 24 hour alert requirement. The Twin Cities air base no longer conducts certain types of training for the Air Force as it did in the past. If no further state dollars are made available, maintenance and repairs services will have to be cut and some buildings may be closed, seriously effecting Air National Guard mission requirements: \$259,500 in additional state dollars would be required for the biennium just to maintain the current level of services. The loss of federal dollars will have a significant impact on base operations if the state of Minnesota does not provide the additional funding. Should no additional state funds be made available, the first step would be to close buildings at the bases which would diminish the mission capability of the Air National Guard units. It is now anticipated that layoffs would occur, 6 employees in Duluth and 6 employees in St. Paul. The major share of dollars in this activity are for personnel costs: There aren't enough other areas to realize significant savings. Layoff would actually cost the department and the state dollars with unemployment compensation and retraining costs. These potential layoffs at both bases would strip approximately 1/3 of civil engineering staff which would render their function almost useless.

PROGRAM: Maintenance of Training Facilities
(Continuation)
Agency: Military Affairs, Department of

1992-93 Biennial Budget

GOVERNOR'S RECOMMENDATION:

The Governor concurs with the agency's plan.

PLAN:

Continuous maintenance, repair and selective replacement of training and administrative facilities insures a longer useful facility life and reduces the need for major renovations. A well maintained facility attracts quality recruits, motivates personnel to perform their duties and displays a favorable image in the local community. Facility condition and location directly impacts on the ability of the Minnesota National Guard to train for it's mission as assigned by the Department of Defense through the National Guard Bureau.

ARMORY MAINTENANCE: The plan is to continue to upgrade the building envelope on 64 facilities that are 30 years or older and maintain other facilities at their current level of maintenance. This plan will improve energy efficiency and prolong the useful life of the building. The goal of this plan is to use the revenues saved to improve the usefulness of the building interiors by upgrading mechanical systems, electrical service, food service areas and office space. If resulting savings from good facilities management result in a reduced base level in future years, the incentive for managing and maintaining facilities in an efficient manner will be greatly reduced. Reduction in state support for armory maintenance will most definitely result in possible closure of facilities, therefore, impacting adversely on members of the National Guard and citizens of the local community. Due to a reduction in complement because of early retirements, we have been forced to contract for daily armory maintenance in two armories. It appears that this is an area where significant savings could result, however, we need additional funds to pay the contract costs. Because of previous budget reductions and other unfunded costs, we have no salary savings to cover contract costs. If contract maintenance is not performed, there will be no janitorial service at either armory. We cannot take maintenance and repair dollars to pay for personnel type costs.

AIR BASE MAINTENANCE: If additional state funding is provided to make up for the change in federal/state ratio, it now appears that the bases could maintain an acceptable level of operations through F.Y. 1991. If the state does not provide the additional dollars, the majority of the impact will be on the civilian workforce. It is anticipated that the bases would be looking at laying off approximately 1/3 of their base engineering staff. The best that could be done under these circumstances is to just keep the systems operating and provide quick repairs for failed systems. The potential for long term damage to the infrastructures is enormous. There are minimal savings that could be generated in non-personnel areas as utility and airport use charges are, for the most part, beyond our control. We are facing sharply rising energy and material costs which we can't control. It is imperative that we not reduce our services to the members of the Air National Guard to a point where they could not accomplish their missions.

CAMP RIPLEY/HOLMAN FIELD: With our aggressive approach to the Minnesota congressional delegation in Washington, we continue to gain substantial federal dollars to build training facilities at Camp Ripley. With each new facility built the need for routine maintenance increases. Only so much maintenance and repair can be performed by our current complement. As an example, the new Camp Ripley armory will be completed in the spring of 1991. It is estimate that 3 additional General Maintenance Workers will be needed to support that 100,000 square foot facility. Reductions to our complement due to early retirement provisions makes it difficult to support additional facilities. Our plan is to seek contract maintenance service which will come from repair projects money, thus reducing much needed funds in that area.

Underfunding of Ssalaries:

Salaries: F.Y. 1992: \$132,000 F.Y. 1993: \$132,000

Due to a shortfall in salary money in this program, the department reallocated the amount shown from the Enlistment Incentives Program.

1992-1993 B I E N N I A L B U D G E T
(DOLLARS IN THOUSANDS)

AGENCY: MILITARY AFFAIRS,DPT
PROGRAM: MAINT-MILIT TRNG FAC

				FY 1992			FY 1993		
ACTIVITY RESOURCE ALLOCATION:	FY 1989	FY 1990	Est. FY 1991	Adjusted Base	Agency Plan	Governor Recomm.	Adjusted Base	Agency Plan	Governor Recomm.
CAMP RIPLEY/HOLMAN	5,922	6,822	7,198	7,378	7,378	7,378	7,375	7,375	7,375
ARMORY MAINTENANCE	4,592	5,254	5,228	5,482	5,482	5,482	5,627	5,627	5,627
AIR BASE MAINT-TWIN	1,507	1,551	1,920	1,795	1,795	1,795	1,794	1,794	1,794
AIR BASE MAINT-DULUT	2,511	2,693	2,852	3,125	3,125	3,125	3,124	3,124	3,124
TOTAL EXPENDITURES BY ACTIVITY	14,532	16,320	17,198	17,780	17,780	17,780	17,920	17,920	17,920
DETAIL BY CATEGORY:									
STATE OPERATIONS	14,532	16,320	17,198	17,780	17,780	17,780	17,920	17,920	17,920
TOTAL EXPENDITURES BY CATEGORY	14,532	16,320	17,198	17,780	17,780	17,780	17,920	17,920	17,920
SOURCES OF FINANCING:									
DIRECT APPROPRIATIONS:									
GENERAL	5,041	5,754	5,716	5,987	5,987	5,987	6,127	6,127	6,127
STATUTORY APPROPRIATIONS:									
GENERAL	447	645	495	495	495	495	495	495	495
FEDERAL	9,044	9,921	10,987	11,298	11,298	11,298	11,298	11,298	11,298
TOTAL FINANCING	14,532	16,320	17,198	17,780	17,780	17,780	17,920	17,920	17,920

PROGRAM: General Support
Agency: Military Affairs, Department of

1992-93 Biennial Budget

PROGRAM PURPOSE:

To provide supervisory and technical support services in the areas of training, maintenance, logistical support, personnel procurement, and administration of elements within the Minnesota Army and Air National Guard. The program includes employee costs and supplies and expenses for activities of the Office of the Adjutant General and the command headquarters of the Minnesota Army and Air National Guard so that they, and their subordinate organizations, may attain and maintain the high standards of military readiness required by federal and state laws and regulations.

The support provided by this program encompasses operations at the department headquarters in St. Paul, Air National Guard bases in Duluth and the Twin Cities, the Army Aviation Support Facility in St. Paul, the Camp Ripley training site just north of Little Falls, and armories throughout the state.

PERFORMANCE:

The major thrust of this program is directed at: 1) Improved staff supervision and support to elements of the Minnesota National Guard by all staff sections within the office of The Adjutant General; and 2) Preparing units and members of the National Guard for mobilization in the event of a national emergency or call to duty by the Governor in the event of a natural disaster or civil emergency. Although dollars to accomplish the program purpose are primarily federal dollars it is the responsibility of The Adjutant General and Department of Military Affairs to implement, plan, manage, and evaluate those programs. The Department of Military Affairs is unique in state government: A total of 1,769 federal employees assist The Adjutant General in completing his missions. They include civilians, excepted civil service employees who must maintain National Guard membership as a condition of employment, and active duty National Guard personnel.

Most methods of evaluation and judgement are military inspection and testing programs that signal the ability of military units and larger organizations to complete missions to certain standards. The Air National Guard has an advantage over the Army National Guard in that most of their duties are directed at actually accomplishing their federally assigned mission. The 148th Fighter Interceptor Group in Duluth has aircraft standing by and has, on several occasions, been "scrambled" to intercept unidentified aircraft approaching US air space. The 133rd Tactical Airlift Wing actually delivers cargo and personnel to different parts of the world on a daily basis. The Army National Guard, on the other hand, is always practicing to accomplish their assigned mission. The only time Army National Guard soldiers are called to perform their federal mission is in time of war or national emergency.

Some of the administrative services performed in this program and associated activities are: 1) Budget and accounting functions; 2) Securing reimbursement from the federal government under various Federal/State Cooperative Funding Agreements; 3) Internal audit and control functions; 4) Personnel, logistical and payroll support to call to state duty for emergency aid to local law enforcement agencies; 5) coordinate with the federal congressional delegation and the state legislature to gain additional support for Minnesota National Guard programs and facilities

PROSPECTS:

As the world situation changes, national defense needs also change. With the easing of tensions between the United States and eastern block nations, there appears to be congressional initiatives to reduce military spending and defense manpower authorizations and structure. These changes in policy have a "trickle down" effect on the reserve components, specifically the National Guard. As this budget is being prepared, there are proposals to restructure the size of the Minnesota Army National Guard which could result in an increased need for supporting state dollars. We feel that as the active force structure is reduced, reliance on the reserve components can only increase. We

see no immediate reduction in administrative support requirements as they do not always become proportionately less with changes in troop structure.

This program is continually beset with costs that need to be taken "out of hide". There were 5 CHANGE REQUESTS amounting to \$631,000 submitted with this program in the last budget cycle, and only 1 was partially funded for \$6,000. We continue to strive towards more automation so future personnel costs can be controlled but we are forced to do this at the expense of other programs. Because the department does not provide direct services to the citizens of Minnesota or other state agencies, we have no way to recover costs we incur, except through legislative appropriation.

PLAN:

This program is 1 that normally is not effected by minor changes in military organizational structure. We still need to pay employees, procure goods and services, pay bills, perform internal audits, manage facilities and recruit personnel. It will be most difficult to accomplish this program within the BASE level. We tried to address our shortfalls in the last budget request but we were not successful in obtaining additional appropriation. We do continually look for ways of doing more with less. Some internal staff reorganizations are planned to consolidate duties or shift responsibilities to federal employees. If the no BASE level growth trend continues, layoffs are almost certain.

GOVERNOR'S RECOMMENDATION:

The Governor concurs with the agency's plan.

1992-1993 B I E N N I A L B U D G E T
(DOLLARS IN THOUSANDS)

AGENCY: MILITARY AFFAIRS,DPT
PROGRAM: GENERAL SUPPORT

				FY 1992			FY 1993		
			Est.	Adjusted	Agency	Governor	Adjusted	Agency	Governor
ACTIVITY RESOURCE ALLOCATION:	FY 1989	FY 1990	FY 1991	Base	Plan	Recomm.	Base	Plan	Recomm.
ADMIN SERVICES	1,284	1,357	1,427	1,488	1,488	1,488	1,485	1,485	1,485
AUXILIARY SERVICES	672	4,664	213	275	275	275	275	275	275
TOTAL EXPENDITURES BY ACTIVITY	1,956	6,021	1,640	1,763	1,763	1,763	1,760	1,760	1,760
DETAIL BY CATEGORY:									
STATE OPERATIONS	1,901	5,969	1,588	1,711	1,711	1,711	1,708	1,708	1,708
LOCAL ASSISTANCE	55	52	52	52	52	52	52	52	52
TOTAL EXPENDITURES BY CATEGORY	1,956	6,021	1,640	1,763	1,763	1,763	1,760	1,760	1,760
SOURCES OF FINANCING:									
DIRECT APPROPRIATIONS:									
GENERAL	1,391	1,571	1,640	1,763	1,763	1,763	1,760	1,760	1,760
STATUTORY APPROPRIATIONS:									
SPECIAL REVENUE	565	4,450							
TOTAL FINANCING	1,956	6,021	1,640	1,763	1,763	1,763	1,760	1,760	1,760

Public Employment Relations Board

Position and Employee Status Information

Position Reconciliation:

Authority:	Current F.Y. 1991	Requested For 6-30-93
Legislative Complement:		
General Fund	1.0	1.0
Budgetary Authorized		
General Fund	1.0	1.0
Total Permanent Position	1.0	
TOTAL Positions	<u>1.0</u>	<u>1.0</u>
Employees on 6-30-90	1.0	

Employees by Employment Status:

	<u>6-30-90</u>
Full-Time Unlimited	1.0
TOTAL	<u>1.0</u>

MISSION:

The Public Employment Relations Board (PERB) promotes consistent and orderly labor relations between public employers and employee organizations by assisting in the resolution of disputes arising under the Public Employment Labor Relations Act (PELRA - M.S. 179). The Board is comprised of five members, appointed by the Governor to four-year terms representing public employers, employees and the public at large. A quasi-judicial entity, its purposes include promoting fair public sector labor-management relations and minimizing the social and economic costs of disputes. It provides this service through four major activities.

Hearing Appeals

The Board hears appeals from the Bureau of Mediation Services (BMS) relating to unit determinations, unit clarifications and fair share fee challenges. A matter relating to a unit clarification may involve a determination as to whether an employee is "supervisory," "confidential," or "essential" within the meaning of PELRA.

The Board decides appeals based on records established by the BMS. It reviews the record, conducts deliberation sessions and issues decisions. These decisions establish precedent and lend interpretation to statute.

Arbitration

The Board maintains a roster of qualified arbitrators from which it proposes panels of arbitrators to the parties in both interest and grievance arbitration. Interest arbitration relates generally to wage issues, while grievance arbitration concerns interpretation of existing contract language generally unrelated to wage issues.

The Board conducts annual evaluations of its arbitrators based upon information relating to each arbitrator's timeliness in issuing awards and their acceptability to the parties.

Independent Review

The Board provides independent review to public employees who do not have access to a grievance procedure by a disinterested party. For the Board to claim jurisdiction, the grievant's dispute must be over the interpretation of a written term and condition of employment.

Rule-making

The Board promulgates rules and regulations to facilitate orderly and uniform execution of its responsibility.

MAJOR POLICY ISSUES:

The Board initiates little activity of its own, and primarily fulfills statutory mandates as prescribed in M.S. 179A. It responds to requests from employers and employees, or their advocates, seeking resolution of disputes. This clientele consists of employer and employee organizations, arbitrators and individual public employees.

The Board endeavors to streamline its operations by finding more efficient ways to submit referral arbitration panels, provide qualified arbitrators, and expedite the decision-making process. The Board conducts an annual evaluation of its arbitrator roster and through its rules, has criteria governing appointment and removal from the roster. To improve the composition of its panels and speed the arbitrator selection process, the Board plans to develop more efficient selection procedures that will generate more panels while allowing easier administration.

Fair Share Fee appeals and conducting evidentiary hearings involving independent review petitions have increased in recent years. In the case of independent reviews, the Board has found that a

public employer cannot be considered a disinterested party for the purpose of resolving an employee grievance arising from the interpretation or implementation of a term and condition of employment. Therefore, the Board must more frequently arrange for independent review services -- this is projected to cost about \$5,000 per year.

EXPLANATION OF BUDGET ISSUES AND ALTERNATIVES:

PERB's budget was insufficient to cover expenditures in F.Y. 1991 by an estimated \$15,000. The Board submitted a request to the Legislative Advisory Commission, but was denied because the issue was not one of new, interim expenses, but rather ongoing costs, which might imply that the more appropriate route would be a deficiency request to the Legislature. Current program guidelines and statutory requirements will result in funding demands which exceed the agency's base funding by \$15,000 in each of the fiscal years in the next biennium. Operating within the BASE will make delivery of services very difficult.

Laws of Minnesota, 1989, Ch. 335, Art. I, Sec 56, requires the Attorney General to charge agencies a fee for legal services. While relying upon the Attorney General's Office for advice in performing its functions, the Board has never been appropriated funds to cover these costs, requiring that they be absorbed within the operating budget.

Independent review cases have increased significantly. These cases require an evidentiary hearing, which in the past the Board has conducted. The Board has the authority to appoint an administrative law judge to conduct the hearings and provide recommended findings. This option, while it would expedite the review process, has not been utilized due to insufficient funds.

Currently staffed by one full-time Executive Director, the Board has four members that are reimbursed on a per diem basis at the rate of \$55/day. This reflects two increases since the previous biennium's rate of \$35/day, for which the Board has not been adequately funded.

The Executive Director has only a typewriter with which to process the many documents required for the Board's business. Acquisition of a personal computer would greatly enhance operations through more effective Board-staff communications, access to case records prepared by the Bureau of Mediation Services, maintenance and selection of arbitrator lists, writing of agendas, rules, decisions, dockets and other documents. The Board has submitted a strategic information plan to the Information Policy Office in the Department of Administration on this item, and plan met all of requirements. The Board estimates that the purchase of a PC, along with training and other costs, would require roughly \$8,000.

AGENCY PLAN:

The Board will continue to manage costs within the BASE budget as required in the F.Y. 1992-93 budget instructions. This would entail curbing printing and travel expense, and perhaps reducing the frequency of meetings.

GOVERNOR'S RECOMMENDATIONS:

The Governor recommends a biennial appropriation of \$170,000 for this agency which includes an increase to the operating budget of \$15,000 each fiscal year.

1992-1993 BIENNIAL BUDGET
(DOLLARS IN THOUSANDS)

AGENCY: PUBL EMPL REL BRD
PROGRAM: PUB EMP REL BD

ACTIVITY RESOURCE ALLOCATION:	FY 1989	FY 1990	Est. FY 1991	FY 1992			FY 1993		
				Adjusted Base	Agency Plan	Governor Recomm.	Adjusted Base	Agency Plan	Governor Recomm.
PUB EMP REL BD	63	65	69	70	70	85	70	70	85
TOTAL EXPENDITURES BY ACTIVITY	63	65	69	70	70	85	70	70	85
DETAIL BY CATEGORY:									
STATE OPERATIONS	63	65	69	70	70	85	70	70	85
TOTAL EXPENDITURES BY CATEGORY	63	65	69	70	70	85	70	70	85
SOURCES OF FINANCING:									
DIRECT APPROPRIATIONS:									
GENERAL	63	65	69	70	70	85	70	70	85
STATUTORY APPROPRIATIONS:									
TOTAL FINANCING	63	65	69	70	70	85	70	70	85

BASE RECONCILIATION REPORT
for 1992-1993 Biennium

AGENCY: PUBL EMPL REL BRD

	ALL FUNDS		GENERAL FUND		OTHER STATE FUNDS		FEDERAL FUNDS	
	F.Y.92	F.Y.93	F.Y.92	F.Y.93	F.Y.92	F.Y.93	F.Y.92	F.Y.93
F.Y.91 FUNDING LEVEL	69	69	69	69				
SALARY ANNUALIZATION	1	1	1	1				
TOTAL	70	70	70	70				
BIENNIAL TOTAL		140		140				

ACTIVITY
PROGRAM: Agency-wide
AGENCY: Public Employment Relations Board

1992-93 Biennial Budget

DECISION ITEM: Increase to the BASE budget

	Dollars in Thousands			
	<u>F.Y. 1992</u>	<u>F.Y. 1993</u>	<u>F.Y. 1994</u>	<u>F.Y. 1995</u>

AGENCY PLAN:

Expenditures				
General Fund	\$ 15	\$ 15	\$ 15	\$ 15
Revenues				
General Fund	\$ -0-	\$ -0-	\$ -0-	\$ -0-

GOVERNOR'S RECOMMENDATION:

Expenditures				
General Fund	\$ 15	\$ 15	\$ 15	\$ 15
Revenues				
General Fund	\$ -0-	\$ -0-	\$ -0-	\$ -0-

Requires statutory change: _____ Yes X No
Statutes Affected:

ITEM SUMMARY:

The Board proposes an increase to the BASE of \$30,000 for the biennium to cover operational costs.

RATIONALE:

The Board is currently under-funded for estimated costs of \$15,000, associated with carrying out its required functions as defined in M.S. 179. It has not realized increases to the BASE for such increases to costs as Attorney General billings, printing, and per diem. In addition, the Board does not have adequate funds for travel, training and professional development for members or staff.

GOVERNOR'S RECOMMENDATION:

The Governor concurs with the agency plan.

1992-93 BIENNIAL BUDGET

PROGRAM STRUCTURE

AGENCY: MINNESOTA STATE RETIREMENT SYSTEM (MSRS)

PROGRAM

PAGE

MINNESOTA STATE RETIREMENT SYSTEM

367

State Employees Retirement
Correctional Employees Retirement Plan
State Patrol Retirement Fund

JUDGES RETIREMENT PLAN

371

LEGISLATORS RETIREMENT PLAN

373

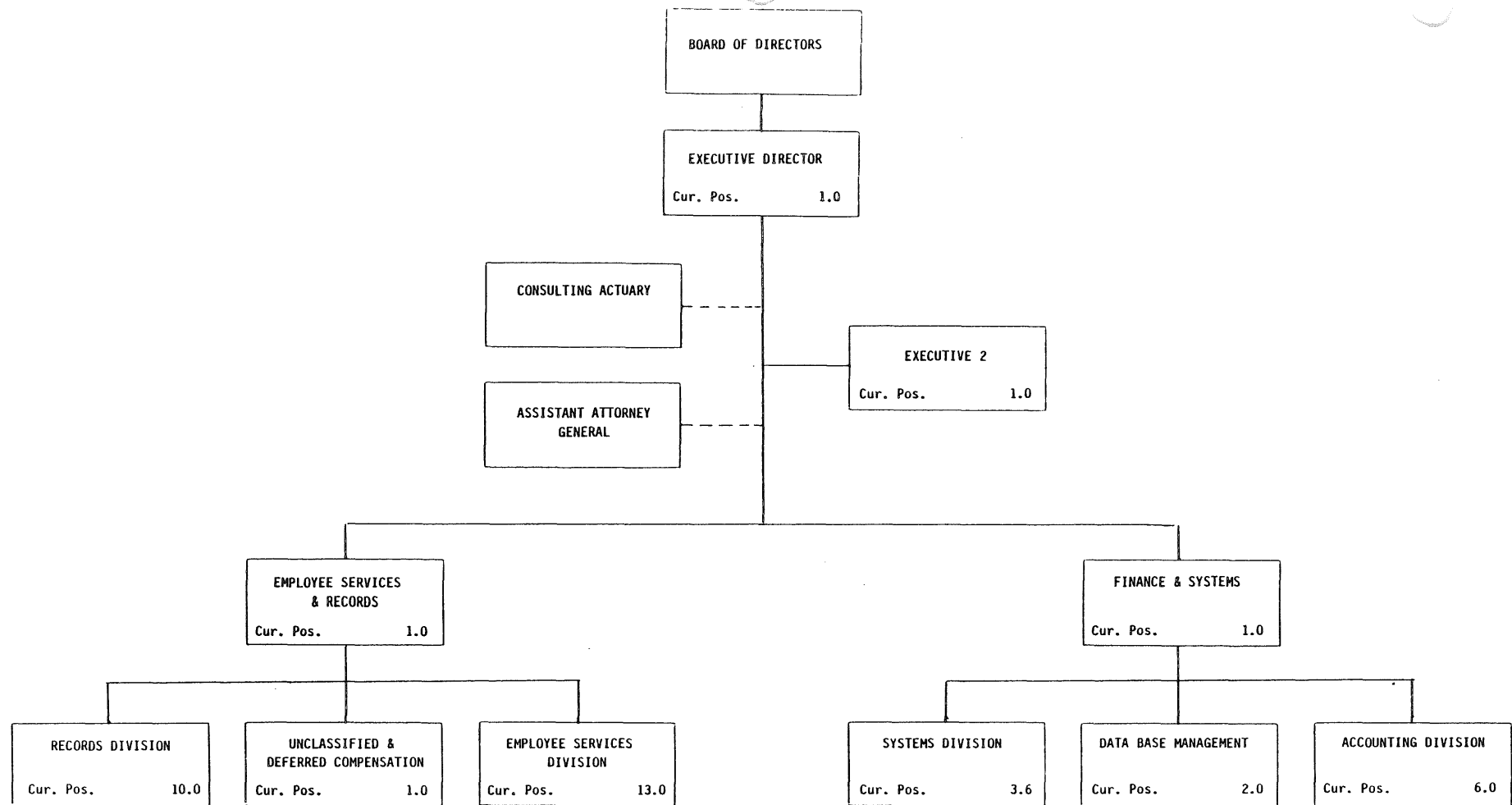
ELECTIVE OFFICERS RETIREMENT PLAN

375

MSRS.PRG

2-14-91 12:27pm jms

MINNESOTA STATE RETIREMENT SYSTEM ORGANIZATION CHART 7/1/90



MISSION:

The MSRS is a service agency that provides a comprehensive retirement program for public employees working throughout the state. Membership is comprised mainly of state employees, state law enforcement officers, constitutional officers, legislators, judges, employees from the University of Minnesota, the Metropolitan Transit Commission and employees from other designated public agencies. In total, the system provides an overall retirement program for 185 agencies. In addition, MSRS also manages a tax-deferred income plan that is available to all public employees in Minnesota.

Membership in F.Y. 1988 was over 66,000 persons. Another 14,000 received monthly retirement payments or survivor benefits. Over 4,400 refunds were paid during the year to members terminating their public service and withdrawing from the retirement program.

Operations of the MSRS retirement plans is based on a computerized system that maintains an individual account for every participating member. The system maintains a complete record of each member's contributions, refunds, years of employment, current status, and other program information.

MAJOR POLICY DRIVERS:

1. To provide guidance through individual and group counseling, handbooks, and other methods, so that members are informed of current retirement programs and income deferral options.
2. To make the monthly retirement disability, and survivor benefit payments on an accurate, efficient basis.
3. To make refunds on a timely basis for members withdrawing from the system.
4. To maintain minimal cash balances so that investment returns are maximized.

Membership in F.Y. 1990 was over 73,000 persons. Another 14,000 received monthly retirement payments or survivor benefits. Over 3,700 refunds were paid during the year to members terminating their public service and withdrawing from the retirement program.

The retirement programs are operated from retirement trust funds with employee contributions, employer contributions and investment income. Expenditure levels are determined by employee numbers, salary, turnover, retirements, and the investment return on assets. Those expenditures and our clientele are determined by law and reflect the long-term nature of retirement programs with little short-term spending discretion. No significant operating changes and no new positions are anticipated for the 1990-91 biennium.

EXPLANATION OF BUDGET ISSUES AND ALTERNATIVES:

Because expenditures are driven by outside factors, mainly long-term in nature, short-term budget issues are limited. The single overriding issue is the long-term maintenance and enhancement of financial stability in the funds administered.

AGENCY PRIORITIES:

1. To provide guidance through individual and group counseling, handbooks, and other methods, so that members are informed of current retirement programs and income deferral options.
2. To make the monthly retirement disability, and survivor benefit payments on an accurate, efficient basis.

3. To make refunds on a timely basis for members withdrawing from the system.

4. To maintain minimal cash balances so that investment returns are maximized.

ACTIVITY STATISTICS:

	F.Y. 1989	F.Y. 1990	PROJECTED		
			F.Y. 1991	F.Y. 1992	F.Y. 1993
Total Membership	71,008	73,656	74,000	74,500	75,000
Refunds Paid to Members	3,929	3,784	3,700	3,600	3,500
New Retirees Added During the Year	871	955	1,100	900	900
Retired Members or Survivors Paid Monthly	14,261	14,628	15,000	15,200	15,400
Investments (\$'s in millions)	2,750	2,940	3,200	3,500	3,800

GOVERNOR'S RECOMMENDATION:

The Governor concurs with the agency's plan.

1992-1993 BIENNIAL BUDGET
(DOLLARS IN THOUSANDS)

AGENCY: MINN STATE RET SYST

PROGRAM RESOURCE ALLOCATION:	FY 1989	FY 1990	Est. FY 1991	FY 1992			FY 1993		
				Adjusted Base	Agency Plan	Governor Recomm.	Adjusted Base	Agency Plan	Governor Recomm.
MN STATE RETIREMENT SYSTEM	108,454	117,323	133,374	138,567	138,567	138,567	143,965	143,965	143,965
JUDGES RETIREMENT PLAN	2,875	5,500	5,900	7,200	7,200	7,200	7,800	7,800	7,800
LEGISLATIVE RETIREMENT PLAN	533	456	950	2,400	2,400	2,400	2,600	2,600	2,600
ELECTIVE OFFICERS RETIREMENT PLAN	106	112	116	200	200	200	220	220	220
TOTAL EXPENDITURES BY PROGRAM	111,968	123,391	140,340	148,367	148,367	148,367	154,585	154,585	154,585
SOURCES OF FINANCING:									
DIRECT APPROPRIATIONS:									
STATUTORY APPROPRIATIONS:									
GENERAL	3,514	6,068	6,966	9,800	9,800	9,800	10,620	10,620	10,620
CORR EMPL RET	3,304	3,539	3,952	4,105	4,105	4,105	4,264	4,264	4,264
AGENCY	1,056	1,089	1,220	1,269	1,269	1,269	1,320	1,320	1,320
MN STATE RETIRMT SYS	79,749	86,662	96,081	99,816	99,816	99,816	103,700	103,700	103,700
STATE PATROL RETIREMENT	7,349	7,952	8,827	9,176	9,176	9,176	9,539	9,539	9,539
STATE UNCL EMP RETIR	2,029	2,306	5,388	5,596	5,596	5,596	5,812	5,812	5,812
DEFERRD COMPENSATION	11,457	11,875	13,571	14,099	14,099	14,099	14,647	14,647	14,647
JUDGES RETIREMENT	3,510	3,900	4,335	4,506	4,506	4,506	4,683	4,683	4,683
TOTAL FINANCING	111,968	123,391	140,340	148,367	148,367	148,367	154,585	154,585	154,585

BASE RECONCILIATION REPORT
for 1992-1993 Biennium

AGENCY: MINN STATE RET SYST

	ALL FUNDS		GENERAL FUND		OTHER STATE FUNDS		FEDERAL FUNDS	
	F.Y. 92	F.Y. 93	F.Y. 92	F.Y. 93	F.Y. 92	F.Y. 93	F.Y. 92	F.Y. 93
F.Y. 91 FUNDING LEVEL	140,340	140,340	6,966	6,966	133,374	133,374		
DEFINED BENEFITS/ MGMT AUTH	8,027	14,245	2,834	3,654	5,193	10,591		
TOTAL	148,367	154,585	9,800	10,620	138,567	143,965		
BIENNIAL TOTAL		302,952		20,420		282,532		

1992-1993 B I E N N I A L B U D G E T
(DOLLARS IN THOUSANDS)

AGENCY: MINN STATE RET SYST
PROGRAM: MN STATE RETIREMENT SYSTEM

				FY 1992			FY 1993		
ACTIVITY RESOURCE ALLOCATION:	FY 1989	FY 1990	Est. FY 1991	Adjusted Base	Agency Plan	Governor Recomm.	Adjusted Base	Agency Plan	Governor Recomm.
MSRS ADMINISTRATION	108,454	117,323	133,374	138,567	138,567	138,567	143,965	143,965	143,965
TOTAL EXPENDITURES BY ACTIVITY	108,454	117,323	133,374	138,567	138,567	138,567	143,965	143,965	143,965
DETAIL BY CATEGORY:									
STATE OPERATIONS	108,454	117,323	133,374	138,567	138,567	138,567	143,965	143,965	143,965
TOTAL EXPENDITURES BY CATEGORY	108,454	117,323	133,374	138,567	138,567	138,567	143,965	143,965	143,965
SOURCES OF FINANCING:									
DIRECT APPROPRIATIONS:									
STATUTORY APPROPRIATIONS:									
CORR EMPL RET	3,304	3,539	3,952	4,105	4,105	4,105	4,264	4,264	4,264
AGENCY	1,056	1,089	1,220	1,269	1,269	1,269	1,320	1,320	1,320
MN STATE RETIRMT SYS	79,749	86,662	96,081	99,816	99,816	99,816	103,700	103,700	103,700
STATE PATROL RETIREMENT	7,349	7,952	8,827	9,176	9,176	9,176	9,539	9,539	9,539
STATE UNCL EMP RETIR	2,029	2,306	5,388	5,596	5,596	5,596	5,812	5,812	5,812
DEFERRD COMPENSATION	11,457	11,875	13,571	14,099	14,099	14,099	14,647	14,647	14,647
JUDGES RETIREMENT	3,510	3,900	4,335	4,506	4,506	4,506	4,683	4,683	4,683
TOTAL FINANCING	108,454	117,323	133,374	138,567	138,567	138,567	143,965	143,965	143,965

PROGRAM: Judges Retirement Plan
Agency: Minnesota State Retirement System (MSRS)

1992-93 Biennial Budget

PROGRAM PURPOSE:

The Judges Retirement Plan administered by MSRS is designed to provide retirement benefits to members and their survivors. The state funds the plan as assets are needed for retirements and benefits.

RECENT BUDGET HISTORY:

General Fund appropriations by fiscal year:

<u>1989</u>	<u>1990</u>	<u>1991</u>
\$2,875,000	\$5,500,000	\$5,900,000

GOVERNOR'S RECOMMENDATION:

The Governor concurs with the agency's plan.

1992-1993 B I E N N I A L B U D G E T
(DOLLARS IN THOUSANDS)

AGENCY: MINN STATE RET SYST
PROGRAM: JUDGES RETIREMENT PLAN

				FY 1992			FY 1993		
ACTIVITY RESOURCE ALLOCATION:	FY 1989	FY 1990	Est. FY 1991	Adjusted Base	Agency Plan	Governor Recomm.	Adjusted Base	Agency Plan	Governor Recomm.
JUDGES RETIREMENT PLAN	2,875	5,500	5,900	7,200	7,200	7,200	7,800	7,800	7,800
TOTAL EXPENDITURES BY ACTIVITY	2,875	5,500	5,900	7,200	7,200	7,200	7,800	7,800	7,800
DETAIL BY CATEGORY:									
STATE OPERATIONS	2,875	5,500	5,900	7,200	7,200	7,200	7,800	7,800	7,800
TOTAL EXPENDITURES BY CATEGORY	2,875	5,500	5,900	7,200	7,200	7,200	7,800	7,800	7,800
SOURCES OF FINANCING:									
DIRECT APPROPRIATIONS:									
STATUTORY APPROPRIATIONS:									
GENERAL	2,875	5,500	5,900	7,200	7,200	7,200	7,800	7,800	7,800
TOTAL FINANCING	2,875	5,500	5,900	7,200	7,200	7,200	7,800	7,800	7,800

PROGRAM: Legislative Retirement Plan
Agency: Minnesota State Retirement System (MSRS)

1992-93 Biennial Budget

PROGRAM PURPOSE:

The Legislative Retirement Plan administered by MSRS is designed to provide retirement benefits to members and their survivors.

RECENT BUDGET HISTORY:

General Fund appropriations by fiscal year:

<u>1989</u>	<u>1990</u>	<u>1991</u>
\$2,161,000	\$2,258,000	\$2,371,000

GOVERNOR'S RECOMMENDATION:

The Governor concurs with the agency's plan.

1992-1993 B I E N N I A L B U D G E T
(DOLLARS IN THOUSANDS)

AGENCY: MINN STATE RET SYST
PROGRAM: LEGISLATIVE RETIREMENT PLAN

				FY 1992			FY 1993		
			Est.	Adjusted	Agency	Governor	Adjusted	Agency	Governor
ACTIVITY RESOURCE ALLOCATION:	FY 1989	FY 1990	FY 1991	Base	Plan	Recomm.	Base	Plan	Recomm.
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
LEGISLATIVE RETIREMENT PLAN	533	456	950	2,400	2,400	2,400	2,600	2,600	2,600
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL EXPENDITURES BY ACTIVITY	533	456	950	2,400	2,400	2,400	2,600	2,600	2,600
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
DETAIL BY CATEGORY:									
=====									
STATE OPERATIONS	533	456	950	2,400	2,400	2,400	2,600	2,600	2,600
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL EXPENDITURES BY CATEGORY	533	456	950	2,400	2,400	2,400	2,600	2,600	2,600
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
SOURCES OF FINANCING:									
=====									
DIRECT APPROPRIATIONS:									
STATUTORY APPROPRIATIONS:									
GENERAL	533	456	950	2,400	2,400	2,400	2,600	2,600	2,600
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL FINANCING	533	456	950	2,400	2,400	2,400	2,600	2,600	2,600
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====

PROGRAM: Elective Officers Retirement Plan
Agency: Minnesota State Retirement System (MSRS)

1992-93 Biennial Budget

PROGRAM PURPOSE:

The Elective Officers Retirement Plan administered by MSRS is designed to provide retirement benefits to members and their survivors.

RECENT BUDGET HISTORY:

General Fund appropriations by fiscal year:

<u>1989</u>	<u>1990</u>	<u>1991</u>
\$157,000	\$168,000	\$180,000

GOVERNOR'S RECOMMENDATION:

The Governor concurs with the agency's plan.

1992-1993 BIENNIAL BUDGET
(DOLLARS IN THOUSANDS)

AGENCY: MINN STATE RET SYST
PROGRAM: ELECTIVE OFFICERS RETIREMENT PLAN

				FY 1992			FY 1993		
			Est.	Adjusted	Agency	Governor	Adjusted	Agency	Governor
ACTIVITY RESOURCE ALLOCATION:	FY 1989	FY 1990	FY 1991	Base	Plan	Recomm.	Base	Plan	Recomm.
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
ELECTIVE OFFICERS RETIREMENT PLAN	106	112	116	200	200	200	220	220	220
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL EXPENDITURES BY ACTIVITY	106	112	116	200	200	200	220	220	220
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
DETAIL BY CATEGORY:									
=====									
STATE OPERATIONS	106	112	116	200	200	200	220	220	220
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL EXPENDITURES BY CATEGORY	106	112	116	200	200	200	220	220	220
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
SOURCES OF FINANCING:									
=====									
DIRECT APPROPRIATIONS:									
STATUTORY APPROPRIATIONS:									
GENERAL	106	112	116	200	200	200	220	220	220
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL FINANCING	106	112	116	200	200	200	220	220	220

Public Employees Retirement Association

Position and Employee Status Information

Position Reconciliation:

Authority:	Current F.Y. 1991	Requested For 6-30-93
Legislative Complement:		
General Fund	<u>71</u>	<u>71</u>
Total Permanent Positions	71	71
Other Complement (FTE)		
Authorized Emergency Positions	<u>5</u>	<u>5</u>
TOTAL Positions	76	76
Employees on 6-30-90	65	

Employees by Employment Status:

	<u>6-30-90</u>
Full-Time Unlimited	63
Full-Time Temporary	1
Full-Time Emergency	<u>1</u>
TOTAL	65

AGENCY: Public Employees Retirement Association (PERA)

1992-93 Biennial Budget

MISSION:

PERA is a service organization whose purpose is the administration and maintenance of a retirement system for the employees of governmental units within the state of Minnesota. PERA serves over 2,250 separate units of government including cities, counties, townships, school districts, and other units of government whose revenue is derived from taxation, fees or assessments. PERA was created by legislative act on 4-24-31, and administers its funds in accordance with M.S. Ch. 353 to 353D and 356. The administration of PERA is under the direction of a 9 member board of trustees who appoints an executive director to serve as the statutory head of the agency. Through legislation, PERA became a state agency on 7-1-85. Financial activities of the association are recorded in funds 75, 76 and 04 of the statewide accounting system.

Monthly retirement, survivor and disability payments are issued by PERA to annuitants and beneficiaries who may reside within or outside of the state. Revenues are derived from employee and employer contributions and from income earned on investments. All employees of governmental units within the state are required by law to be members of PERA unless they do not meet criteria for membership or they are included in another retirement system. There are 3 major categories of membership within the association:

1. Coordinated--employees who are also covered under social security;
2. Basic--employees not covered by social security, employed prior to 1968;
3. Police and Fire--police officers, fire fighters and others authorized by statute.

OPERATION AND CLIENTELE:

1. Collect payroll contributions from each eligible employee and employer among 2,250 units.
2. Issue monthly payments to benefit recipients on the first day of the month.
3. Maintain the PERA Regular Fund (basic and coordinated plans) of over \$3.3 billion in assets and a Police and Fire Fund in excess of \$740 million in assets.
4. Maintain accounts for each of approximately 109,000 active members, 3,100 deferred members, 28,000 retirees, and 4,000 disabilitants and survivors.
5. Advise and provide information to members and employers in a timely manner.
6. Immediately invest all available funds to maximize investment income.
7. Obtain annual actuarial valuations which accurately assess the financial condition of the association's assets and liabilities.

MAJOR POLICY DRIVERS:

(As of 6-30 annually, combination of Regular, Police and Fire Funds)

	F.Y. 1990	F.Y. 1991	F.Y. 1992	F.Y. 1993
Contributions (in millions)				
Employee	\$ 103.3	\$ 109.4	\$ 116.0	\$ 120.6
Employee	118.1	125.2	132.7	140.7
Active Contributing Member	109,089	113,450	118,000	122,000
Retirees, Survivors & Disabilitants	31,322	32,880	34,200	35,600
Average Monthly Annuity	552	565	580	600
Filled position vs. Authorized	65/71	65/71	66/71	66/71
Ratio of Staff to Members	1/2160	1/2251	1/2306	1/2388
Administrative Costs per Account	29	30	30	31
Total Investments (in millions)	\$ 4,023	\$ 4,125	\$ 4,250	\$ 4,325

Two of PERA's primary objectives relating to overall member services are:

1. Providing contribution, refund, annuity and benefit information and explanation, and;
2. Providing pre-retirement counseling and financial planning services.

To aid public employees in planning for their financial futures, especially in retirement, PERA is committed to the goal of disseminating information that is complete, accurate, timely and understandable. To achieve this goal, PERA assesses on an ongoing basis, its constituent group's needs, packages the information in a format that is the easiest to access and comprehend, and establishes a planned cycle for the gathering and dissemination of financial data and contribution/benefit information to the various constituent groups.

The principal vehicles used by PERA to communicate with its constituency are:

1. The annual personal benefit statement;
2. Periodic PERA newsletters;
3. Comprehensive annual financial report;
4. Various other publications and notices, including tax information;
5. Pre-retirement groups and individual counseling sessions;
6. Pre-retirement financial planning seminars;
7. Employer information workshops; and
8. Regional town meetings.

PERA has also instituted an Information Forum for the exchange of communications among the PERA constituent groups regarding legislative proposals that could affect PERA's funds, members or beneficiaries. PERA also establishes its own agenda of legislative proposals in order to improve service delivery and benefits for its constituency.

In order to enhance the quality of service, PERA is currently in the process of implementing a redesign of its automated systems.

EXPLANATION OF BUDGET ISSUES AND ALTERNATIVES:

The projected increase to the administrative costs budgeted for F.Y.'s 1992 and 1993 over 1991 are in anticipation of known and contingent costs for inflation, expansion of services, and enhancements to the automated systems. Total benefit payments are budgeted at an annual increase of 20%.

GOVERNOR'S RECOMMENDATION:

The Governor concurs with the agency's plan.

1992-1993 B I E N N I A L B U D G E T
(DOLLARS IN THOUSANDS)

AGENCY: PUBL EMPL RET ASSOCN
PROGRAM: PUBLIC EMPLOYEES RETIREMENT ASSOCIA

				FY 1992			FY 1993		
			Est.	Adjusted	Agency	Governor	Adjusted	Agency	Governor
ACTIVITY RESOURCE ALLOCATION:	FY 1989	FY 1990	FY 1991	Base	Plan	Recomm.	Base	Plan	Recomm.
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
PERA ADMINISTRATION	186,266	210,314	233,845	234,445	234,445	234,445	246,645	246,645	246,645
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL EXPENDITURES BY ACTIVITY	186,266	210,314	233,845	234,445	234,445	234,445	246,645	246,645	246,645
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
DETAIL BY CATEGORY:									
=====									
STATE OPERATIONS	186,266	210,314	233,845	234,445	234,445	234,445	246,645	246,645	246,645
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL EXPENDITURES BY CATEGORY	186,266	210,314	233,845	234,445	234,445	234,445	246,645	246,645	246,645
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
SOURCES OF FINANCING:									
=====									
DIRECT APPROPRIATIONS:									
STATUTORY APPROPRIATIONS:									
PUBLIC EMP RETR ASSO	167,996	188,774	206,777	207,377	207,377	207,377	217,577	217,577	217,577
PUBLIC EMP POLC/FIRE	18,270	21,540	27,068	27,068	27,068	27,068	29,068	29,068	29,068
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL FINANCING	186,266	210,314	233,845	234,445	234,445	234,445	246,645	246,645	246,645
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====

BASE RECONCILIATION REPORT
for 1992-1993 Biennium

AGENCY: PUBL EMPL RET ASSOCN

	ALL FUNDS		GENERAL FUND		OTHER STATE FUNDS		FEDERAL FUNDS	
	F.Y. 92	F.Y. 93	F.Y. 92	F.Y. 93	F.Y. 92	F.Y. 93	F.Y. 92	F.Y. 93
F.Y. 91 FUNDING LEVEL	233,845	233,845			233,845	233,845		
DEDICATED RECEIPTS AND FUNDS	600	800			600	800		
OPEN APPROPRIATIONS		12,000				12,000		
TOTAL	234,445	246,645			234,445	246,645		
BIENNIAL TOTAL		481,090				481,090		

AGENCY: Amortization Aid to the Minneapolis Employees
Retirement Fund

1992-93 Biennial Budget

PURPOSE:

M.S. 422.A established a state obligation to assist the city of Minneapolis in financing the unfunded liabilities of the Minneapolis Employees' Retirement Fund.

The annual state obligation is specified in statute as:

- A. The total annual level dollar contribution needed to amortize the unfunded liability by the year 2017. This amount is estimated by the actuary for the Legislative Commission on Pensions and Retirement in the annual valuation of the Fund.

Less,

- B. a contribution from the city equal to:

1. 2.5% of payroll, plus
2. \$3,900,000.

The actuarial valuation completed at the close of F.Y. 1990 estimated the Fund's liabilities at \$1,088,255,000 and assets at \$828,509,000. The unfunded actuarial accrued liability of the Fund was \$259,746,000. The State's share of this unfunded liability is about 60%.

This, however, does not include a potentially large, future write-down on the value of assets as a result of recent adverse investment performance. Assuming a \$10,000,000 write-down to the Fund's assets in 1991 as a result of those investment losses, the projected State obligation to the Fund would increase in the next calendar year by \$475,000.

Under current statutes, the State obligation over the calendar year 1991 is \$10,843,000. Relying upon this figure, projecting for payroll increases, and the potential asset write-down discussed above, the State's obligation to the Fund is \$10,962,000 for F.Y. 1992 and \$11,338,000 for F.Y. 1993.

GOVERNOR'S RECOMMENDATION:

The Governor recommends capping this subsidy to the Minneapolis Employees Retirement Fund, and a 1992-93 biennial appropriation of \$21,910,000.

1992-1993 B I E N N I A L B U D G E T
(DOLLARS IN THOUSANDS)

AGENCY: MPLS PENSION RETRMNT
PROGRAM: FIN MISC NON OPERATING

ACTIVITY RESOURCE ALLOCATION:	FY 1989	FY 1990	Est. FY 1991	FY 1992			FY 1993		
				Adjusted Base	Agency Plan	Governor Recomm.	Adjusted Base	Agency Plan	Governor Recomm.
NON-PROGRAMMATIC	9,854	10,531	10,955	10,962	10,962	10,955	11,338	11,338	10,955
TOTAL EXPENDITURES BY ACTIVITY	9,854	10,531	10,955	10,962	10,962	10,955	11,338	11,338	10,955
DETAIL BY CATEGORY:									
LOCAL ASSISTANCE	9,854	10,531	10,955	10,962	10,962	10,955	11,338	11,338	10,955
TOTAL EXPENDITURES BY CATEGORY	9,854	10,531	10,955	10,962	10,962	10,955	11,338	11,338	10,955
SOURCES OF FINANCING:									
DIRECT APPROPRIATIONS:									
STATUTORY APPROPRIATIONS:									
GENERAL	9,854	10,531	10,955	10,962	10,962	10,955	11,338	11,338	10,955
TOTAL FINANCING	9,854	10,531	10,955	10,962	10,962	10,955	11,338	11,338	10,955

BASE RECONCILIATION REPORT
for 1992-1993 Biennium

AGENCY: MPLS PENSION RETRMNT

	ALL FUNDS		GENERAL FUND		OTHER STATE FUNDS		FEDERAL FUNDS	
	F.Y.92	F.Y.93	F.Y.92	F.Y.93	F.Y.92	F.Y.93	F.Y.92	F.Y.93
F.Y.91 FUNDING LEVEL	10,955	10,955	10,955	10,955				
OPEN APPROPRIATIONS	7	383	7	383				
TOTAL	10,962	11,338	10,962	11,338				
BIENNIAL TOTAL		22,300		22,300				

ACT: 1
PROG: 1

1992-93 Biennial Budget

GOVERNOR'S RECOMMENDATION:

AGENCY: Minneapolis Employees Pension Retirement

The Governor recommends amending M.S. 422.A to limit the State's annual obligation at the F.Y. 1991 appropriation level, and a biennial appropriation of \$21,910,000.

DECISION ITEM: Cap MERF Amortization Aid at F.Y. 1991
Appropriation Level

	Dollars in Thousands			
	F.Y. 1992	F.Y. 1993	F.Y. 1994	F.Y. 1995
AGENCY PLAN:				
Expenditures				
General Fund	\$ 10,962	\$ 11,338	\$ 11,338	\$ 11,338
Revenues				
General Fund	\$ -0-	\$ -0-	\$ -0-	\$ -0-

GOVERNOR'S RECOMMENDATION:

Expenditures				
General Fund	\$ 10,955	\$ 10,955	\$ 10,955	\$ 10,955
Revenues				
General Fund	\$ -0-	\$ -0-	\$ -0-	\$ -0-

Requires statutory change: X Yes No
Statutes Affected: M.S. 422.A

ITEM SUMMARY:

The Governor recommends capping the amortization subsidy to the Minneapolis Employees' Retirement Fund (MERF) at the F.Y. 1991 appropriation level.

RATIONALE:

The State, by current statutes, assumes roughly 60% of the contribution required to amortize the unfunded liabilities of the MERF Fund by the year 2017. This is an open-ended obligation for the State driven largely by factors more under the control of the City of Minneapolis, the Board of Trustees for the Fund, and the Executive Director for the Fund. Such factors include plan changes, payroll growth, and investment performance of the Fund.

Payments to MERF from the State's General Fund have swelled from approximately \$1 million in F.Y. 1980 to almost \$11 million in F.Y. 1991. The Governor recommends modifying M.S. 422.A, adding language to cap what is currently an unlimited obligation, and preventing further increases in the pensions subsidy. (In addition to this amortization aid, the State has been paying roughly \$900,000/yr. for Pre-1973 supplemental benefits to MERF, whereas the statewide retirement systems are now paying for these benefits out of their own funds).

This cap would also insure that the State is not exposed to increases in the Fund's liabilities generated by any poor investment performance. Estimates of possible write-downs to assets due to recent investment losses could, under current formula and assumptions, cost the State an additional \$475,000 in F.Y. 1993.

PURPOSE:

M.S. 423A.02 established a State obligation to provide aid 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.

Current statute established the aid for each of the associations at a fixed amount until the association ceases to exist.

At the close of calendar year 1989, the actuarial liability of these funds was \$1,104,626,000. Assets stood at \$710,172,000, leaving an unfunded liability of \$394,454,000.

GOVERNOR'S RECOMMENDATION:

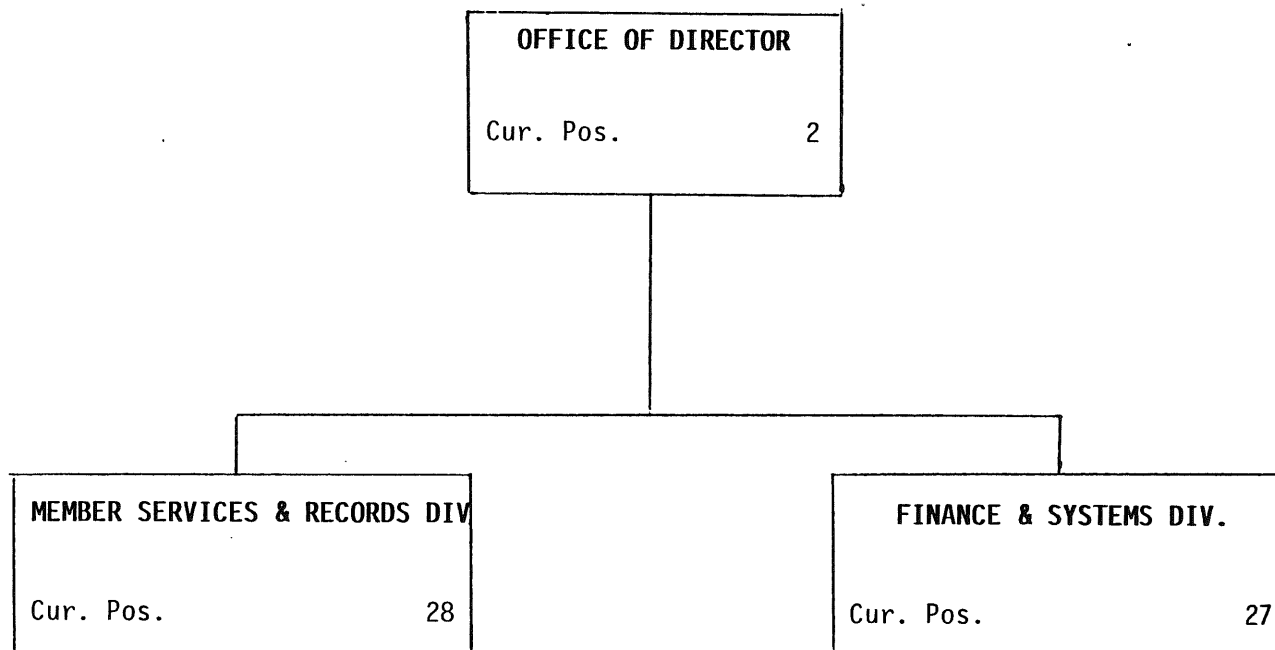
The Governor recommends: 1) a biennial appropriation of \$7,048,000; 2) amending M.S. 423A and M.S. 69, to permanently cap the State's obligation for this amortization subsidy at the F.Y. 1991 expenditure level of \$3,524,000.

1992-1993 B I E N N I A L B U D G E T
(DOLLARS IN THOUSANDS)

AGENCY: LOCAL POL-FIRE AMORT

				FY 1992			FY 1993		
PROGRAM RESOURCE ALLOCATION:	FY 1989	FY 1990	Est. FY 1991	Adjusted Base	Agency Plan	Governor Recomm.	Adjusted Base	Agency Plan	Governor Recomm.
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
NON PROGRAMATIC		3,824	3,524	3,524	3,524	3,524	3,524	3,524	3,524
FIN MISC NON OPERATING	7,600								
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL EXPENDITURES BY PROGRAM	7,600	3,824	3,524	3,524	3,524	3,524	3,524	3,524	3,524
SOURCES OF FINANCING:									
=====									
DIRECT APPROPRIATIONS:									
STATUTORY APPROPRIATIONS:									
GENERAL	7,600	3,824	3,524	3,524	3,524	3,524	3,524	3,524	3,524
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL FINANCING	7,600	3,824	3,524	3,524	3,524	3,524	3,524	3,524	3,524

TEACHERS RETIREMENT ORGANIZATION CHART 7/1/90



TEACHER RETIREMENT ASSOCIATION

Position and Employee Status Information

Position Reconciliation:		
Authority:	<u>Current FY 91</u>	<u>Requested For 6/30/93</u>
Legislative Complement:		
Special Revenue	57.0	57.0
Total Permanent Positions	57.0	57.0
TOTAL Positions	57.0	57.0
Employees on 6/30/90	51	

Employees by Employment Status:	
	<u>6/30/90</u>
Full-Time Unlimited	<u>51</u>
TOTAL	51

MISSION:

The primary purpose of the Teachers Retirement Association (TRA) is to provide to eligible members a monthly retirement annuity benefit. In addition, refunds to former members and benefits as a result of death or disability are also provided.

MAJOR POLICY DRIVERS:

Membership is compulsory for all public school teachers in Minnesota except those in the cities of Duluth, Minneapolis, St. Paul and the University of Minnesota system.

General information is provided to approximately 64,800 active and 16,000 inactive teachers by various means. Individual counseling is provided in response to individual requests. This service is available at the TRA State Office or at 15 out-state counseling centers provided on a regular schedule at a number of facilities "counseling services were provided to 2,829 members" in F.Y. 1990.

A computerized statement of account, including projected retirement benefits, is provided annually for each active member of the fund. In addition, timely memos and newsletters are transmitted to the reporting units and members explaining TRA services and benefit programs. Annuity, disability and survivor benefit checks are paid to approximately 17,000 recipients each month. Annually approximately 3,000 members who have ceased to teach request a refund of their accumulated contributions plus interest.

Employee and Employer contributions are paid as a percent of payroll at rates established by statute. An annual valuation is performed by the actuary of the Legislative Commission on Pensions and Retirement to determine if the contribution rates are sufficient. If the rates need to be changed, legislative action is required.

EXPLANATION OF BUDGET ISSUES AND ALTERNATIVES:

This budget request will permit approximately the BASE level of services to be provided during the F.Y. 1992-93 biennium. Funding is provided from employee contributions withheld from salaries and employer contributions paid by employer reporting units.

GOVERNOR'S RECOMMENDATION:

The Governor concurs with the agency's plan.

1992-1993 B I E N N I A L B U D G E T
(DOLLARS IN THOUSANDS)

AGENCY: TCHRS RET ASSOCN
PROGRAM: TEACHERS RETIREMENT ASSOCIATION

ACTIVITY RESOURCE ALLOCATION:	FY 1989	FY 1990	Est. FY 1991	FY 1992			FY 1993		
				Adjusted Base	Agency Plan	Governor Recomm.	Adjusted Base	Agency Plan	Governor Recomm.
TEACHERS RETIRE ASN	167,196	186,099	212,885	232,885	232,885	232,885	254,885	254,885	254,885
TOTAL EXPENDITURES BY ACTIVITY	167,196	186,099	212,885	232,885	232,885	232,885	254,885	254,885	254,885
DETAIL BY CATEGORY:									
STATE OPERATIONS	167,194	186,098	212,882	232,882	232,882	232,882	254,882	254,882	254,882
LOCAL ASSISTANCE	2	1							
AID TO INDIVIDUALS			3	3	3	3	3	3	3
TOTAL EXPENDITURES BY CATEGORY	167,196	186,099	212,885	232,885	232,885	232,885	254,885	254,885	254,885
SOURCES OF FINANCING:									
DIRECT APPROPRIATIONS:									
STATUTORY APPROPRIATIONS:									
TEACHERS RETIREMENT	163,830	182,756	208,757	228,757	228,757	228,757	250,757	250,757	250,757
TEACHER SUPPL RETIRE	3,366	3,343	4,128	4,128	4,128	4,128	4,128	4,128	4,128
TOTAL FINANCING	167,196	186,099	212,885	232,885	232,885	232,885	254,885	254,885	254,885

BASE RECONCILIATION REPORT
for 1992-1993 Biennium

AGENCY: TCHRS RET ASSOCH

	ALL FUNDS		GENERAL FUND		OTHER STATE FUNDS		FEDERAL FUNDS	
	F.Y.92	F.Y.93	F.Y.92	F.Y.93	F.Y.92	F.Y.93	F.Y.92	F.Y.93
F.Y.91 FUNDING LEVEL	212,885	212,885			212,885	212,885		
DEDICATED RECEIPTS AND FUNDS	20,000	42,000			20,000	42,000		
TOTAL	232,885	254,885			232,885	254,885		
BIENNIAL TOTAL		487,770				487,770		

1992-93 BIENNIAL BUDGET

PROGRAM STRUCTURE

AGENCY: REVENUE, DEPARTMENT OF

PROGRAM

PAGE

REVENUE ADMINISTRATION

400

Revenue Administration
Information Systems
Administrative Services
Information Access and Security

TAX POLICY

403

Appeals and Legal Services
Tax Research

PROPERTY AND SPECIAL TAXES

405

Communications
Local Government Services
Special Taxes
Petroleum Taxes

CUSTOMER SERVICE AND INFORMATION

408

Document Processing
Revenue Accounting
Data Management
Taxpayer Information

TAX COMPLIANCE

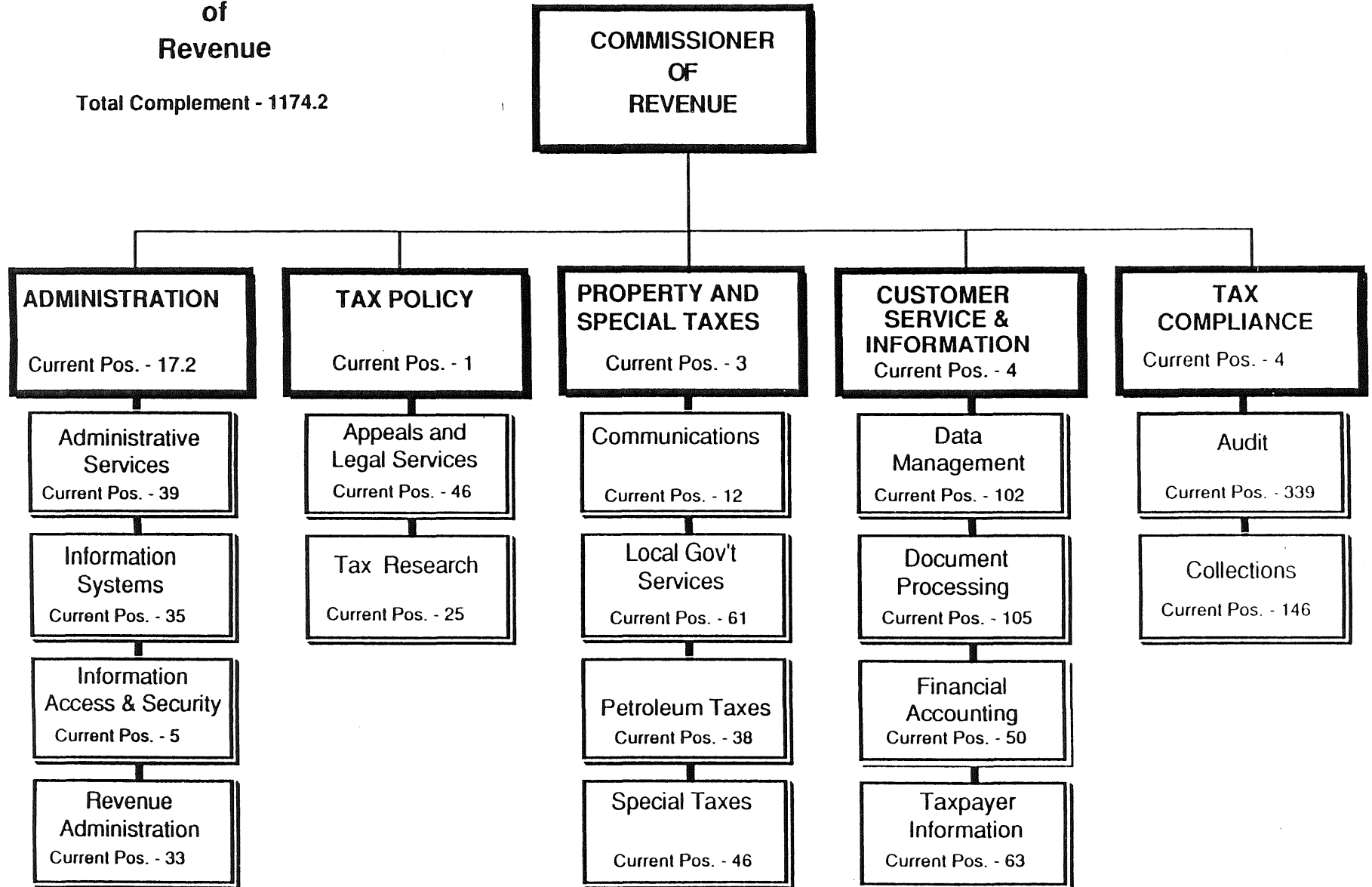
411

Audit
Collection

REVENUE.PRG
2-14-91 12:21pm jms

**Minnesota Department
of
Revenue**

Total Complement - 1174.2



Revenue, Department of

Position and Employee Status Information

Position Reconciliation:

Authority:	Current <u>F.Y. 1991</u>	Requested <u>For 6-30-93</u>
Legislative Complement:		
General Fund	1,134.2	1,134.2
Highway User Fund	38.0	38.0
Landfill Abatement	1.0	1.0
Landfill Contingency	1.0	1.0
Total Permanent Positions	1,174.2	1,174.2
Other Complement (FTE)	<u>68.0</u>	<u>68.0</u>
TOTAL Positions	1,242.2	1,242.2
Employees on 6-30-90	1,242.0	

Employees by Employment Status:

	<u>6-30-90</u>
Full-Time Unlimited	1,063.2
Full-Time Temporary	22.0
Full-Time Emergency	4.0
Full-Time Seasonal	77.0
Part-Time Unlimited	42.0
Part-Time Temporary	1.0
Part-Time Seasonal	<u>33.0</u>
TOTAL	1,242.2

MISSION:

The Department of Revenue is in transition. Through an extensive strategic planning process completed in June 1990, we have significantly refined our mission, priorities, and expectations.

Our mission statement now reads:

Our mission is to serve Minnesotans by making our state and local revenue system work well, in structure and in operation. To accomplish this mission, we:

- Facilitate payment of revenues to fund public services
- Help citizens to comply with the tax laws
- Firmly enforce the tax laws, collecting no more and no less than taxpayers owe
- Lead in shaping a sound revenue system
- Earn public confidence through our integrity, our responsiveness to those we serve, and the high quality of our results.

These activities occur in an ongoing cycle of policy development, taxpayer education and service, filing and payment operations, feedback, enforcement and reporting. The goal for all of these activities is to maximize voluntary compliance with the tax laws. Our budget and organizational structure previously reflected this cycle: programs focused on the department's role in the tax system, with divisions organized along functional lines.

As a result of the strategic planning process, we have redefined our service focus, substantially altered our decision-making process and de-emphasized traditional hierarchy in favor of project- and team-based leadership. One significant change dissolved our 5 programs based on internal functions. Operational decision making now is centered in our 17 divisions. Our executives (assistant commissioners) no longer focus on the day-to-day operations of multi-division programs; now each one heads a tax system and focuses on leading us to implement our strategic plan. This focus on tax systems—a product-line focus—arose from our growing realization that, to improve its performance, we must examine the system from beginning to end from the taxpayer's perspective.

We hope to implement a new program structure, centered on tax-system-based programs, for the 1994-95 biennium. The current biennium will be used to track activities, refine unit identities, determine whether we really need to account formally by tax system, and complete structural and informational transitions.

One of the benefits of this process has been increased clarity in setting objectives, identifying customer needs, and establishing the critical indicators of our performance. Tied to our restated mission and organization are a series of high-level measures that are central to successful accomplishment of our mission. We have also identified the strategic outcomes for our agency.

MAJOR POLICY DRIVERS:

The Department of Revenue's performance in each of the major mission areas—tax management, taxpayer service, enforcement and tax policy—depends on the interaction of 5 principal variables in our operating environment:

The economy has a major impact on both the absolute amount of tax dollars we collect through voluntary compliance and on the cost and yield of enforced compliance measures. The impact of expenditures falls mainly in the areas of taxpayer assistance, audit, and collections, with collateral impacts throughout the supporting organization.

Changes in state and federal tax laws affect both the level and distribution of the tax burden, and affect our progress towards our goal of a balanced revenue system. Primary budget impact areas

include taxpayer information and service operations, processing activities, training, and compliance functions.

Changes in technology, including the methods and costs for collecting, storing and delivering information, have a major impact on service levels and compliance success. Quality, availability and utility of information are factors affecting data both as input and as a product of our operations. As our methods of communicating with and meeting the needs of our customers change, the quality of service and cost of operations will be affected. These changes will also make new demands on our customers; a fact that we will take into consideration in our policy decision making.

Compliance levels for various tax types significantly affect our costs of collection and dollars available to fund public programs. Voluntary compliance—the source of most of our revenue—is least expensive and most desirable for many reasons. Enforced compliance, which comes as a result of department action, costs more per dollar collected, with increasingly higher costs associated with progressively higher absolute levels of compliance.

Funding levels have a direct impact on service levels and, we believe, compliance levels. Generally speaking, the more funding we get, the more we can do to improve revenue system performance and to increase tax revenues. Nevertheless, a hard look at our operations in austere times may lead us to make changes that will improve our (and the revenue system's) efficiency. To the extent that we are unable to improve efficiency, we will significantly reduce discretionary activities where the level of performance is variable according to resources, and where impacts on our customers are least significant. This includes lower-yield audit and collections areas, optional information services, and internal service functions.

EXPLANATION OF BUDGET ISSUES AND ALTERNATIVES:

The department anticipates that the cost of current activities, new requirements, and increases in operating costs would exceed calculated budget base by \$8.5 million for the biennium if we were to continue doing what we now do in the same way we now do it. In addition, significant increases will also occur for postage, systems operating costs, and printing (a total of \$1.571 million for the biennium).

Because we cannot continue to do what we have done in the past in the same manner, we are reallocating our existing base to fund those activities identified in our strategic plan as being most central to our mission and in such a way as to be least damaging to our customers.

We have been, and will continue to be, engaged in a major effort to improve the quality of the work we do and the services we provide. Reducing errors—ours and the taxpayer's—eliminate the work that goes into correcting them. We will also be taking a close look at ways to reduce our escalating printing and postage costs without doing significant damage to the tax system performance. And we will aggressively seek ways to minimize system operating costs.

Because we have just begun to implement our strategic plan, the process of identifying specific targets that will be divested, redesigned or reassigned will continue throughout the year. We expect to continue refining right up to the time of adoption of our annual spending plan. The general character of these base reallocations will be:

- For activities that are central to our mission, we will work to consolidate similar functions, re-engineer or privatize certain secondary operations so as to accomplish desired results more efficiently, reduce lower-yield compliance activity, reduce costs for certain limited-impact types of central services, and impose fees for specialized supplemental services.
- We will divest of functions that are discretionary, have limited impact on our customers, do not create an imbalance in resources or workload, and have the least long-term negative consequences for department outcomes and services. This includes selectively eliminating some functions and doing less of others.

- We will seek constructive ways to minimize our operational costs through partnerships with other agencies and levels of government and with the private sector.

The focal point for these reallocations will be to improve service to our customers. That will prove very difficult in a time of budget austerity. Because the productivity of our employees is the most important factor in our performance, we will continue to move aggressively in the direction of doing well that which we do. We believe that we can improve in that respect by reducing the level of our discretionary activities to whatever level we can support effectively with the resources available to us in light of whatever gains in efficiency we are able to make. Our major concern is that such reductions will bring with them worsened revenue system performance, and a revenue loss to the state.

1992-1993 BIENNIAL BUDGET
(DOLLARS IN THOUSANDS)

AGENCY: REVENUE, DEPT OF

PROGRAM RESOURCE ALLOCATION:	FY 1989	FY 1990	Est. FY 1991	FY 1992			FY 1993		
				Adjusted Base	Agency Plan	Governor Recomm.	Adjusted Base	Agency Plan	Governor Recomm.
REVENUE ADMIN	17,815	19,940	23,118	21,453	21,453	22,853	21,820	21,820	21,820
TAX POLICY PROGRAM	3,427	3,696	3,666	4,041	4,041	4,041	4,050	4,050	4,050
PROP SPEC TX & COMM	8,572	9,106	10,148	10,292	10,292	10,292	10,267	10,267	10,267
CUSTOMER SERV & INFO	11,599	12,114	12,978	13,505	13,505	13,505	13,475	13,475	13,475
COMPLIANCE PROGRAM	21,700	21,922	23,372	23,780	23,780	23,780	23,724	23,724	23,724
REVENUE REFDS & AIDS	4,000								
TOTAL EXPENDITURES BY PROGRAM	67,113	66,778	73,282	73,071	73,071	74,471	73,336	73,336	73,336
SOURCES OF FINANCING:									
DIRECT APPROPRIATIONS:									
GENERAL	59,735	64,686	69,992	69,963	69,963	71,363	70,233	70,233	70,233
SP REV DIRECT APPROP	4,669								
SPECIAL REVENUE	390								
HGHWY USER TAX DISTR	1,589	1,670	1,735	1,720	1,720	1,720	1,715	1,715	1,715
ENVIRONMENTAL		43	45	46	46	46	46	46	46
INFRA STRUCTURE DEV	40								
METRO LANDFILL CONTN	41	42	45	46	46	46	46	46	46
STATUTORY APPROPRIATIONS:									
GENERAL	402	237	1,100	1,100	1,100	1,100	1,100	1,100	1,100
SPECIAL REVENUE	157	100	365	196	196	196	196	196	196
AGENCY	90								
TOTAL FINANCING	67,113	66,778	73,282	73,071	73,071	74,471	73,336	73,336	73,336

BASE RECONCILIATION REPORT
for 1992-1993 Biennium

AGENCY: REVENUE, DEPT OF

	ALL FUNDS		GENERAL FUND		OTHER STATE FUNDS		FEDERAL FUNDS	
	F.Y.92	F.Y.93	F.Y.92	F.Y.93	F.Y.92	F.Y.93	F.Y.92	F.Y.93
F.Y.91 FUNDING LEVEL	73,282	73,282	71,092	71,092	2,190	2,190		
APPROPRIATIONS CARRIED FWD	<1,599>	<1,586>	<1,599>	<1,586>				
NON-RECURRING EXPENDITURES	<860>	<702>	<860>	<702>				
FUND CHANGE/CONSOLIDATION			169	169	<169>	<169>		
LEG-DIRECTED ADJUSTMENTS	<38>	<38>			<38>	<38>		
SALARY ANNUALIZATION	740	566	715	546	25	20		
ANNUALIZG NEW PROG COST	1,220	1,220	1,220	1,220				
DOCUMENTED RENT/LEASE INCR.	326	594	326	594				
TOTAL	73,071	73,336	71,063	71,333	2,008	2,003		
BIENNIAL TOTAL		146,407		142,396		4,011		

F.Y. 1991 Budget Reductions (Information Only)

The following F.Y. 1991 reductions were implemented in Laws 1991, Chapter 2. These reductions are not reflected as changes to F.Y. 1991 or F.Y. 1992-93 BASE Levels within the budget documents.

	<u>General Fund</u>	<u>Other Funds</u>
Program name: Several		
Activity name: Not filling F.Y. 1991 Vacancies	\$ (1,000)	\$ -0-
Program name: Several		
Activity name: Purchasing Deferral	(500)	-0-
Total F.Y. 1991 Adjustment	\$ (1,500)	\$ -0-

ACTIV
PROGR

1992-93 Biennial Budget

AGENCY: Revenue, Department of

DECISION ITEM: Financing Inflationary Cost - Informational

	Dollars in Thousands			
	<u>F.Y. 1992</u>	<u>F.Y. 1993</u>	<u>F.Y. 1994</u>	<u>F.Y. 1995</u>

AGENCY PLAN:

Expenditures

General Fund-Inflation	\$ 2,700	\$ 5,800	\$ 5,800	\$ 5,800
General Fund-Reallocations	(2,700)	(5,800)	(5,800)	(5,800)

Revenues

General Fund	\$ -0-	\$ -0-	\$ -0-	\$ -0-
--------------	--------	--------	--------	--------

Requires statutory change: _____ Yes X No

Statutes Affected:

ITEM SUMMARY:

The Department of Revenue's inflation calculations were based on assumed increases in the areas of communication, printing, systems and other costs. An annual average increase of 20% was used for postage, discrete increases for operations of various computer systems depending upon their resource utilization and usage profiles, and about 4% for other items.

RATIONALE:

The department will accommodate the cost of inflation by a combination of specific actions against selected lower-priority activities. We will divest of certain discretionary services, publications and compliance activities. We will also reduce response time for service requests, postpone planned investments in replacement and new systems, and adjust processing thresholds and compliance support activities. Other low-return areas will be reallocated to higher return activities on an accelerated basis.

While these reallocations may have some impact on compliance revenues, estimates of the magnitude of that impact cannot be firmly established until the department's study of compliance costs and yields is completed later this year.

GOVERNOR'S RECOMMENDATION:

The Governor concurs with the agency's plan.

PROGRAM PURPOSE:

For the purpose of this budget narrative, the Administration Program includes the Commissioner's Office, the Internal Audit Office, and the following divisions: Administrative Services, Fiscal Services, Human Resources Management, Information Access and Security, and Information Systems. The divisions and units described here are grouped together for purposes of convenience and historical comparison.

This program affects, and is affected by, many of the department's strategies for the future. We have 3 primary resources for carrying out our mission and strategies: people, funds, and information. Although our operating managers have primary responsibility for managing our human, financial, and information resources, these managers rely on the Administration Program for service, support, and expertise. The customers of the Administration Program include both taxpayers (individually and collectively) and department managers and employees.

The people in this program work toward our goal that all employees be properly trained, equipped, and capable of performing their duties properly; that they have the information and logistical support they need; and that they have the service delivery systems that facilitate their interaction with their customers.

The **Commissioner's Office** includes the Commissioner, the Deputy Commissioner, the Affirmative Action Officer and the Taxpayer Rights Advocate. They provide overall leadership to the department by:

Leading the effort to develop sound tax policy for the state of Minnesota:

- Managing the state tax and revenue system on behalf of the people of Minnesota,
- Developing and implementing policies and procedures to ensure equal opportunity to all employees,
- Developing policies and procedures that ensure fair and equitable treatment for all citizens, and
- Providing an advocate for all citizens who have grievances against the department.

The **Administrative Services Division** provides administrative and support services to all areas of the department, and acts as the "single point of contact" with other state agencies, private vendors, and other organizations that provide services or materials to the department.

The **Fiscal Services Division** serves all areas of the department by:

- Providing financial information and financial management advice to all managers in the department,
- Maintaining and monitoring the department's budget and spending plans, accounts payable and payroll system, and
- Providing financial reports and information to managers.

The **Internal Audit Office** ensures that the department is using its resources effectively by monitoring internal controls for all areas of the department.

The **Human Resources Management Division** ensures that our workforce is technically competent and confident by providing high quality human resource management and training services, products, consultations, and controls to all managers, supervisors and employees in the department.

The **Information Access and Security Division** encourages information exchange within an environment which ensures that Federal, state, and departmental data security requirements are met.

The **Information Systems Division** provides the department with timely, accurate information needed to effectively operate the tax system. This division has responsibility for planning, developing and implementing new information systems and for operating and maintaining new and existing systems.

PERFORMANCE:

During F.Y. 1990-91, the Administration Program implemented a variety of technical changes in the Department of Revenue. These included the implementation of the Taxpayer Registration (Individual) and Computer-Assisted Compliance System (CACS) systems, resulting in making more timely, accurate information available to department employees and taxpayers. The Taxpayer Accounts System (TPA) begun in November 1990 is expected to further improve these outcomes.

The Taxpayer Registration System (TPR) provides all department employees with on-line taxpayer profiles as well as current and past histories for all business and individual taxpayers. The CACS contains a repository of taxpayer information on all taxpayers that owe the state money on past due taxes. In addition, it contains information on taxpayers who have not filed returns. This information allows the department to more effectively pursue taxpayers who are remiss in their filings and payments. The TPA provides an on-line, centralized repository of all transactions that affect the balance of a taxpayer's account. This system provides accurate, timely information for taxpayers, employees and other agencies.

Other F.Y. 1990-91 projects are:

- Development of the DOR Infrastructure
- Completion of the Business Model and initiation of the design phase of the Sales Tax Processing System
- Enhancement of the CACS System
- Pilot System for Electronic Filing of Individual Income tax returns
- Pilot of Optical Character Recognition (OCR) application
- Implementation of a Sales Tax Coupon Booklet process
- Design and initial development of a Refunds Payable system
- Implementation, maintenance and enhancement of a repository of baseline data
- Feasibility study of an Electronic Funds Transfer System
- Completion of Strategic Information Systems Plan
- Legislatively mandated modification and systems development related to the new Entertainer tax, Political Contribution refunds, Non-resident Partnership/Shareholder tax, Lawful Gaming, Taxpayer Rights, and Corporation Income tax.

Changing technology along with the increased emphasis on productivity, customer service and partnerships has created an increasing need for management services, training, and consultations. Requests for management services have ranged from individual consultations to facilitation of group meetings and conferences. During F.Y. 1990-91, over 300 training sessions that involved more than 7,000 employees were presented. Consultation services were provided to over 80 individuals and work groups in areas of management and supervisory responsibility. While it is difficult to measure the impact of these services, anecdotal evidence suggests that they have played a role in promoting more effective working relationships and clearer understanding among employees of the department's mission and goals.

We have worked to improve state cash flow by processing 77% of funds received the same day they are received. We are also identifying high dollar returns for priority processing. New OPEX mail openers delivered in December 1990 will further expedite the mail opening process.

PROSPECTS:

The implementation of the TPR, CACS, and TPA systems has greatly improved the quality and timeliness of the information available to taxpayers, employees, and other agencies. Further changes in the amount of information needed and improvements in technology will require even greater development of information systems.

PROGRAM: Administration
(Continuation)
Agency: Revenue, Department of

1992-93 Biennial Budget

During F.Y. 1992-93, to the extent that funding is available, we will develop and implement a backbone communications system that will provide an infrastructure for linking DOR employees with one another through electronic networks. This information network will provide ongoing support to users in the implementation and maintenance of their own local area networks and their linkage to the departmental network. The use of this information will provide the capability to move beyond merely transferring data to using data for the creation of comprehensive, pertinent information that will result in more accurate, timely and relevant measuring and reporting.

PLAN:

In planning for the increasing costs and decreasing resources of the next biennium, we will look for opportunities to reduce costs by reducing support services, reducing the number of transactions and subcontracting with outside sources to do some functions.

Administrative service costs will be minimized by divesting of discretionary functions and cutting back on expenditures for non-critical activities.

The new postal rate increase has several incentives for cost savings, such as ZIP4, barcoding, presorting and saturation mailings. We are studying these methods to determine the best alternative for cost savings.

The redesign of the sales tax system is a top priority and we will divest in other areas in order to fund this system.

As the department moves away from hierarchy to a more team- and project-based management, consulting and training needs will continue to increase. We will meet these needs by reducing duplication and prioritizing our requirements. We will invest in those areas that support our strategic plan and divest of those that don't. Training in customer service, technical cross-training and technological preparation will be priorities. Traditional classroom training will be complemented with on-the-job coaching and mentoring.

INFORMATION POLICY OFFICE'S RECOMMENDATION:

The Information Policy Office recommends continued funding of the sales tax/document processing system.

GOVERNOR'S RECOMMENDATION:

The Governor recommends increasing the department's F.Y. 1992 General Fund appropriation by \$1,400,000 in recognition of general inflation pressures on the department.

In addition, the Governor recommends allowing the department, after approval by the LAC, to move money between appropriations. This change should provide more flexibility to the department in managing its many activities and in meeting its compliance revenue targets.

Further adjustments for F.Y. 1993 may be recommended to the 1992 Legislature pending the results of a department study of the relationship between investments in compliance activities and compliance yields.

1992-1993 B I E N N I A L B U D G E T
(DOLLARS IN THOUSANDS)

AGENCY: REVENUE, DEPT OF
PROGRAM: REVENUE ADMIN

ACTIVITY RESOURCE ALLOCATION:	FY 1989	FY 1990	Est. FY 1991	FY 1992			FY 1993		
				Adjusted Base	Agency Plan	Governor Recomm.	Adjusted Base	Agency Plan	Governor Recomm.
REVENUE ADMIN	2,498	2,564	3,795	2,970	2,970	4,370	2,963	2,963	2,963
INFORMATION SYSTEMS	10,934	10,304	12,662	11,475	11,475	11,475	11,601	11,601	11,601
ADMIN SERVICES	4,287	6,885	6,449	6,787	6,787	6,787	7,036	7,036	7,036
INFO ACC & SECUR MGT	96	187	212	221	221	221	220	220	220
TOTAL EXPENDITURES BY ACTIVITY	17,815	19,940	23,118	21,453	21,453	22,853	21,820	21,820	21,820
DETAIL BY CATEGORY:									
STATE OPERATIONS	17,815	19,940	23,118	21,453	21,453	22,853	21,820	21,820	21,820
TOTAL EXPENDITURES BY CATEGORY	17,815	19,940	23,118	21,453	21,453	22,853	21,820	21,820	21,820
SOURCES OF FINANCING:									
DIRECT APPROPRIATIONS:									
GENERAL	17,508	19,940	23,118	21,453	21,453	22,853	21,820	21,820	21,820
SP REV DIRECT APPROP	85								
SPECIAL REVENUE	222								
STATUTORY APPROPRIATIONS:									
TOTAL FINANCING	17,815	19,940	23,118	21,453	21,453	22,853	21,820	21,820	21,820

PROGRAM: Tax Policy
Agency: Revenue, Department of

1992-93 Biennial Budget

PROGRAM PURPOSE:

This program plays a major role in implementing our strategies for improving the tax system and placing the needs and interests of taxpayers first. Drawing on many sources of information and working with other executive branch agencies, the legislature, and representative interest groups, this program works to promote a sound revenue system through programs of research, analysis, legal and educational service activities. In addition, the program provides informal avenues for taxpayers to pursue resolution of problems with the department and to obtain facts about our tax laws. This appeal process (together with the information gathered from other parts of the department and our customers) provides direct feedback about the practical impact of tax laws which can be used to improve the quality of the administration of those laws and of the laws and rules themselves.

The Tax Policy Program leads in shaping a sound revenue system through fair and effective tax laws. Services are provided to the legislature, the governor, executives and other divisions in the department, other state agencies and governmental units and to outside organizations and the general public.

The Tax Policy Program includes 2 divisions: Appeals and Legal Services, and Tax Research.

The **Appeals and Legal Services Division** provides the department, the executive branch and the legislature with legal analysis of existing and potential legislation. It also provides taxpayers with a forum for resolving disputes arising out of the audit, assessment and collection of state taxes. The Criminal Investigation Unit investigates and refers for prosecution those people who criminally violate our tax laws.

The **Tax Research Division** creates and exchanges information on state and local finances, and provides a wide range of research services on state and local tax topics to legislative officials and tax policymakers. It creates statistical and summary information on taxes, and maintains, updates and enhances tax computer models to provide an ongoing tax research and policy analysis information base.

PERFORMANCE:

Our goal is to support the development of a revenue system that is fair, efficient, reliable, competitive, and understandable. Our progress towards this goal can be measured against a model tax system that has been developed to provide an objective standard of comparison.

The Department of Revenue receives over 5 million taxpayer returns each year for the various state taxes it administers. The department typically audits over 30,000 of these returns each year. During F.Y. 1990, 1,429 administrative appeals were filed. The Appeals Section resolved 1,643 taxpayer appeals including some from prior years. Approximately one-third were resolved in the taxpayer's favor, in one-third the taxpayer's claim was rejected and in one-third there was a compromise agreement.

The Attorney General staff assigned to the Department of Revenue currently has 650 open cases representing potential litigation for the state. The Appeals Section selected 57 of these cases to review under Alternative Dispute Resolution (ADR) procedures. Of these, 31 were settled to the satisfaction of both parties without the need for litigation.

In 1989, over 100 written legal opinions on significant issues were issued by the Legal Services Section to department employees. Twice as many informal legal opinions were issued in response to less significant questions. The Legal Services Section drafts and promulgates rules on behalf of the department as necessary to clarify taxpayer and department legal rights and obligations under the statutes. In F.Y. 1990, 2 rules were rewritten and the new forms promulgated. At the same time,

Legal Services conducted 20 case hearings on behalf of the department when requested by taxpayers prior to either a sales tax permit revocation or a license clearance denial. Nineteen training sessions were held to keep department staff apprised of new legal and statutory developments. Four bills were drafted incorporating well over 100 statutory changes and enhancements.

The Criminal Investigation Unit received 129 cases in F.Y. 1990 and referred 25 cases to county attorneys for prosecution. During this time, 21 criminal complaints were prepared by county attorneys based on our referrals. Also during F.Y. 1990, 22 defendants appeared for sentencing as a result of state tax violations.

The Tax Research Division measures effectiveness by improvements in tax policies demonstrated by legislation passed such as the property tax reform and new gambling taxes in 1989 and the corporate alternative minimum tax and local aid payment restructuring in 1990. It also measures improvements in comparison to the department's "model" revenue system. Customer surveys to obtain feedback on the timeliness and accuracy of research products and library services are conducted. Regular interactions are made with customers to measure satisfaction and current service needs. Improvements in tax information that is created and the ability to effectively analyze that information are planned for and evaluated annually.

PROSPECTS:

The work of this program is directly affected by changing economic conditions, federal law changes and adjustments in the revenue needs and tax- and service-policy directions of both the legislature and executive branch. We work with others and lead the way to craft a revenue system that provides the revenue needed to fund state and local programs; changes in the economic climate and citizen demands for service require careful monitoring of the system and thoughtful refinements to its structure and operations. With our new organizational structure we believe that feedback into tax policy from customer service and operational units of the department will be enhanced, expanding citizen access to the tax policy process and helping make the department and the revenue system more responsive.

The pressures generated by the budget outlook on the revenue structure and the need for local aid payment changes will require increased efforts for tax research and policy analysis to deal with these issues. The strategic plan will require broader research efforts to serve the tax type, functional and management needs of the department.

PLAN:

Expected budget cuts will reduce the levels of service that both divisions can provide. Reductions will have to result in eliminating some functions now done. This will be accomplished during the spending plan process after consultation with customers and evaluation of reduction impacts on services provided.

GOVERNOR'S RECOMMENDATION:

The Governor concurs with the agency's plan.

1992-1993 B I E N N I A L B U D G E T
(DOLLARS IN THOUSANDS)

AGENCY: REVENUE, DEPT OF
PROGRAM: TAX POLICY PROGRAM

ACTIVITY RESOURCE ALLOCATION:	FY 1989	FY 1990	Est. FY 1991	FY 1992			FY 1993		
				Adjusted Base	Agency Plan	Governor Recomm.	Adjusted Base	Agency Plan	Governor Recomm.
TAX POLICY ADMIN	210	95	86	89	89	89	89	89	89
APPEALS & LEGAL SVS	2,114	2,410	2,342	2,716	2,716	2,716	2,708	2,708	2,708
TAX RESEARCH	1,103	1,191	1,238	1,236	1,236	1,236	1,253	1,253	1,253
TOTAL EXPENDITURES BY ACTIVITY	3,427	3,696	3,666	4,041	4,041	4,041	4,050	4,050	4,050
DETAIL BY CATEGORY:									
STATE OPERATIONS	3,427	3,696	3,666	4,041	4,041	4,041	4,050	4,050	4,050
TOTAL EXPENDITURES BY CATEGORY	3,427	3,696	3,666	4,041	4,041	4,041	4,050	4,050	4,050
SOURCES OF FINANCING:									
DIRECT APPROPRIATIONS:									
GENERAL	3,427	3,696	3,666	4,041	4,041	4,041	4,050	4,050	4,050
STATUTORY APPROPRIATIONS:									
TOTAL FINANCING	3,427	3,696	3,666	4,041	4,041	4,041	4,050	4,050	4,050

PROC : Local Government Services, Special Taxes and Com- 1992-93 Biennial Bud;
munications
Agency: Revenue, Department of

PROGRAM PURPOSE:

The Local Government, Special Taxes and Communication Program include 4 divisions that share an external customer focus: **Local Government Services** works closely with cities, towns, and school districts to ensure uniform and fair administration of local property taxes, and makes payments of state aids to local governments; the **Special Taxes** and **Petroleum** divisions each work to provide specialized taxpayers with the information and means to comply with the tax laws, and audits their activities to ensure compliance; the **Communications** division provides the state's 1.9 million individual taxpayers and 150,000 businesses with printed information on how to voluntarily comply with the state's tax laws.

The **Local Government Services Division** serves local units of government by assisting them in accurately administering the property tax to achieve a uniform statewide property tax system. It also ensures the timely and accurate payment of state aid payments to local governments. It includes the Minerals Unit, which administers occupation, production, royalty and gross earnings taxes and distributes taconite production tax revenue to 74 local units of government.

The **Special Taxes Division** collects taxes, maintains records, conducts audits, and ensures that taxpayers meet statutory bonding, licensing, and pricing requirements for these taxes:

1. State cigarette and tobacco tax from distributors and sub-jobbers,
2. Gross earnings tax from telephone, telegraph and trust companies,
3. State tax on the generation of solid waste,
4. Tax on the disposal of solid waste in the 7-county metro area,
5. Liquor, wine and beer taxes,
6. Controlled substance tax,
7. Insurance tax,
8. Lawful Gambling taxes.

The **Petroleum Division** collects the per-gallon taxes on gasoline and aviation fuel and on diesel fuel and propane gas used in motor vehicles and administers the interstate road tax program. It issues and renews licenses and permits, issues refunds to end users of the products and audits returns, refund applications, and other records of taxpayers.

The **Communications Division** coordinates communications with the public and with the media. It develops and produces tax information materials, including pamphlets and newsletters; designs tax forms and instructions; sends out news releases; handles all printing requests for the department; and serves all units of the department by assisting them to assess and meet their communications needs.

PERFORMANCE:

During F.Y. 1990, the Local Government Services Division made aid payment determinations totalling \$1,273,581,501. Certifications were made for these areas:

Local government aid and levy limits
Values for the 1987 and 1988 assessments for the Department of Education
Changes in truth in taxation explanation sent to cities, counties and school districts
HACA amounts for 3,500 taxing districts
Disparity reduction aid certified to auditors
Farm land value study and farm rent study for assessors
List of individuals eligible for special homestead treatment for counties
Values reviewed in 2,700 assessment jurisdictions
State Board of Equalization orders issued for 1990

Values for railroads, pipelines and utilities for counties
Police and fire aids
1989 adjusted tax capacities certified to Department of Education and school districts.

To ensure that the tax laws were administered uniformly and fairly enforced, information has been provided to taxpayers and local units of government in a variety of ways. LGS held meetings throughout Minnesota to explain tax law changes from both sessions; answered 17,000 phone calls from local governments and taxpayers; and evaluated 147,000 certificates of real estate value for the assessment/sales ratio study, which resulted in the distribution of \$1.3 billion dollars in school aids and local government aids. It also identified 25,000 duplicate and 5,000 invalid social security numbers on homestead applications and referred them to counties for investigation.

During F.Y. 1990-91 the **Special Taxes** and **Petroleum** divisions have worked to improve customer service through better forms, customer surveys, meetings with the industries we regulate, and by empowering our front-line employees. We have developed a return processing and accounting system using local area network (LAN) computer systems to enhance our internal controls, develop better audit selection criteria and allow us to meet the requirements of the Legislative Auditor. In addition, it will provide us with the capability to better communicate with our divisions and the department.

During F.Y. 1990 **Special Taxes** conducted 156 field audits of Lawful gambling Organizations, Hazardous Waste, Solid Waste, Alcoholic Beverages, Pull-Tab and Tipboards, Gross Earnings, Insurance and Cigarette and Tobacco taxes. During F.Y. 1991, we expect to increase that number to 415 field audits, including 150 retail inspections.

Petroleum currently audits approximately 20% of its 12,000 licensed accounts on an annual basis. The new computer technology should provide the means to better identify those accounts that should be looked at.

One successful project in F.Y. 1990 was the education of the farm community to facilitate voluntary payment of taxes on gasoline withdrawn from farm storage and used in licensed vehicles. The number of voluntary filers increased in 1 year from 1,000 filers to 5,000 filers, and resulted in additional revenues of over \$500,000.

The **Communications** division prepared forms and instructions to serve 2.7 million individual income tax filers, 59,000 corporate tax filers, 102,000 employers, 138,000 sales tax permit holders and 12,000 practitioners.

PROSPECTS:

During F.Y. 1992 the Lawful Gambling cross-check system will be completed, which will allow the state to receive manufacturers' monthly reports electronically, and will allow the department to take gambling product inventories with bar-code scanning devices. In F.Y. 1993, efforts will be directed to the design of artificial intelligence audit programs to enhance the audit efforts. At the same time, all taxes administered by the Special Taxes division will have their service and processing functions reviewed to determine areas that need modification.

Petroleum plans to improve the understandability of the tax requirements for remitting state gasoline and special fuel taxes among distributors, special fuel dealers, and bulk purchasers of petroleum products.

Local Government Services will work to provide all local units of government with the information necessary to have tax statements sent out by March 31. They will monitor the work of local taxing officials to ensure that the state's property tax laws are being uniformly and fairly administered and that assessment and levy practices meet statutory requirements.

The changes and innovations in technology that are planned for F.Y. 1992-93, such as electronic filing, electronic funds transfer and scanning mean the **Communications** division must "sell" these services to the public and inform them how to use them. During F.Y. 1990, more than 15

PROGRAM: Local Government Services, Special Taxes and Com- 1992-93 Biennial Budget
munications

(Continuation)

Agency: Revenue, Department of

publications were prepared for external use. Continued technological changes will require more of these services.

In February, 1991, a postal increase will go into effect. We will look at alternative ways of delivering our information through privatizing forms ordering to preparers, charging others for postage, and eliminating forms.

PLAN:

As with all programs in the department, we will have to make difficult choices among departmental functions to maintain our quality of service with fewer resources. Cost increases to salary and expense budget lines will be managed by a combination of new technologies, reduced service levels, and privatizing or divesting of peripheral functions.

Typical of other ideas under consideration are reducing mailing costs by sending out labels only (rather than whole income tax instruction booklets) to taxpayers who use practitioners, reducing the printing cost of our tax booklets, using only 1 individual return and not requiring a copy of the federal return with the individual income tax return.

Decisions on these issues and other options will be made during the spending plan process after further study and consultation with customers.

GOVERNOR'S RECOMMENDATION:

The Governor concurs with the agency's plan.

1992-1993 B I E N N I A L B U D G E T
(DOLLARS IN THOUSANDS)

AGENCY: REVENUE, DEPT OF
PROGRAM: PROP SPEC TX & COMM

ACTIVITY RESOURCE ALLOCATION:	FY 1989	FY 1990	Est. FY 1991	FY 1992			FY 1993		
				Adjusted Base	Agency Plan	Governor Recomm.	Adjusted Base	Agency Plan	Governor Recomm.
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
PROP ST & COMM ADMN	153	176	200	165	165	165	164	164	164
COMMUNICATIONS	2,237	2,468	2,621	2,636	2,636	2,636	2,634	2,634	2,634
LOCAL GOVT SERVICES	2,903	2,958	3,258	3,384	3,384	3,384	3,374	3,374	3,374
SPECIAL TAXES	1,690	1,834	2,334	2,387	2,387	2,387	2,380	2,380	2,380
PETROLEUM TAXES	1,589	1,670	1,735	1,720	1,720	1,720	1,715	1,715	1,715
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL EXPENDITURES BY ACTIVITY	8,572	9,106	10,148	10,292	10,292	10,292	10,267	10,267	10,267
DETAIL BY CATEGORY:									
=====									
STATE OPERATIONS	8,571	9,105	10,146	10,290	10,290	10,290	10,265	10,265	10,265
AID TO INDIVIDUALS	1	1	2	2	2	2	2	2	2
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL EXPENDITURES BY CATEGORY	8,572	9,106	10,148	10,292	10,292	10,292	10,267	10,267	10,267
SOURCES OF FINANCING:									
=====									
DIRECT APPROPRIATIONS:									
GENERAL	6,398	7,251	7,958	8,284	8,284	8,284	8,264	8,264	8,264
SP REV DIRECT APPROP	297								
SPECIAL REVENUE	50								
HIGHWAY USER TAX DISTR	1,589	1,670	1,735	1,720	1,720	1,720	1,715	1,715	1,715
ENVIRONMENTAL		43	45	46	46	46	46	46	46
INFRA STRUCTURE DEV	40								
METRO LANDFILL CONTN	41	42	45	46	46	46	46	46	46
STATUTORY APPROPRIATIONS:									
SPECIAL REVENUE	157	100	365	196	196	196	196	196	196
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL FINANCING	8,572	9,106	10,148	10,292	10,292	10,292	10,267	10,267	10,267

PROGRAM PURPOSE:

The Customer Service and Information Program does not exist except for this budget document. The 4 divisions—Taxpayer Information, Data Management, Document Processing and Revenue Accounting—are grouped together here for purposes of convenience and historical comparison.

These divisions provide direct, fundamental tax services to our customers. These include taxpayers; the state treasury, which depends on prompt deposit of all remittances; other state agencies, which rely on this program for accurate information about the health of Minnesota's economy; and other units of government, for which this program provides direct administration of tax-related laws such as local option sales taxes and revenue recapture programs.

The services they provide are central to all other department functions: they process information about each taxpayer's filing and remittance status, and provide secure, timely and accurate management of each taxpayer's accounts. The integrity of this information is essential for compliance activities, for economic forecasting, and for policy development. They also provide direct assistance to individual and business taxpayers to help them determine and understand their correct tax liability, interpretations of tax laws and the options and consequences available to them in their transactions with the department.

The Taxpayer Information Division serves taxpayers by resolving taxpayer account problems and by providing timely, accurate information and services that help them comply with the tax laws, including:

- State and local tax information to individual and business taxpayers, tax practitioners and the general public, and
- Education and support services to specific audiences, including information on tax law changes and technical information to department employees.

The Data Management Division serves taxpayers by:

- Maintaining individual and business taxpayer registration and information systems, and Managing the retention, retrieval, and disposal of all taxpayer and tax administration records.

The Document Processing Division serves taxpayers and local governments by:

- Managing the automated information functions,
- Processing all tax returns, depositing cash remittances and coding remittances and refund claims to the correct state fund,
- Examining returns for data entry accuracy, and
- Processing local option sales tax remittances for political subdivisions.

The Revenue Accounting Division provides financial information regarding the overall performance of the tax system to supporting systems, such as Computer Assisted Compliance System (CACS) taxpayers and the department by:

- Maintaining accurate and timely financial information for each individual and business taxpayer required to file returns with the Department of Revenue,
- Issuing timely refunds,
- Collecting money owed the state through revenue recapture and enforcing business liabilities against their owners when necessary.

These divisions operate in an environment where customer expectations for service delivery are changing rapidly. Much of this change comes as a result of the electronic information explosion; the taxpaying public has learned to use 24-hour cash machines and electronic funds transfer instead of in-person banking for other financial transactions, and they now expect the same sophisticated level of service from the Revenue Department.

By the same token, businesses now rely on fax machines, OCR (optical character recognition), and other electronic information processing tools to serve their other reporting and information needs; the Customer Service and Information Program must be able to accept filing and reporting from these business taxpayers in these new formats, or risk alienating taxpayers and ultimately reducing voluntary compliance with the tax laws.

They are working to meet these challenges by adopting improved technologies and business management techniques for the timely processing of returns, remittances, and refunds and in order to maintain accurate financial and information systems.

Processing has been handled effectively by:

- Depositing all payments over \$100,000 within 1/2 day of receipt,
- Issuing refunds within 30 days,
- Providing the Audit Division with return information within 20 days for 90% of returns and within 30 days for all returns.
- Providing the Collection Division with Collection Information within 20 days for 90% of returns and within 30 days for all returns.

Revenue Recapture payments have been increasing 5% per year. In F.Y. 1990, 4,065 payments were made totalling \$6,389,308.

PROSPECTS:

The development of effective electronic networks for communicating data and remittances opens new opportunities for better cash management for both state and individual taxpayers. Development of Electronic Funds Transfer (EFT), Electronic Data Interchange (EDI), OCR, scanning, and on-line processing systems are under way. They hold great promise for faster, more accurate processing of payments and returns, quicker turnaround for refunds and quicker identification of payment delinquencies or errors on returns.

Similar advances in record management technology will permit electronic or optical disk storage of the images and data from documents, diminishing our reliance on expensive and slow manual filing systems.

We are continuing to explore alternatives to the present methods of operating our records management and processing functions, to see if some portions might be more effectively or inexpensively performed offsite by another agency, by the private sector, or through investments in less labor-intensive methods.

As aging processing systems are replaced, improvements in taxpayer accounts management will be possible, and errors (regardless of source) and misunderstandings presently caused by records which are not timely or accurate will be reduced.

We hope that these new systems will also allow us to handle cash and/or document processing operations for other agencies or to expand the operations of the successful Revenue Recapture program to other areas.

Revenue information systems have been greatly improved with the implementation of Taxpayer Registration (TPR) and CACS. Customer Service and Information provides support to both these

PROGRAM: Customer Service and Information
(Continuation)
Agency: Revenue, Department of

1992-93 Biennial Budget

systems, allowing taxpayers and employees access to timely accurate information.

The Taxpayer Accounts System (TPA), begun in late November 1990, will allow department personnel to adjust taxpayers accounts, provide additional information about returns, and increase our financial reporting capability.

The telephone assistance area continues to show a demand for service in excess of what can be met with existing resources, even during periods when seasonal help is available. Advances in telephone technology and training support make the use of employees in other units during peak periods a possible solution.

A major focus of the correspondence areas will be the distribution of current tax and operational/procedural information to employees throughout the department.

We also will seek to provide more effective ways of communicating with portions of the taxpaying public who require special assistance in establishing and maintaining healthy tax management practices. These special audiences include startup businesses, new residents, young people entering the work force, and non-English speaking taxpayers.

PLAN:

Cost increases to salaries and supply and expense will be managed by introducing new technologies, divesting low priority functions and forming partnerships with other areas of the department, other states agencies and outside agencies.

The implementation of TPA in F.Y. 1991 should reduce the need for making many adjustments to the taxpayers' accounts. These resources will be shifted to support the growing need for additional financial information which measures the performance of the tax systems and Revenue department.

During F.Y. 1992-93 we intend to invest in a 4-pronged project for improvement in document processing. The document processing project will include: a pilot project for electronic filing of individual income tax returns, a pilot study of the feasibility of Optical Scanning, developing efforts to handle EFT for business taxes, and developing and implementing new sales tax information and processing systems.

Expected improvements in document processing include:

- Providing an alternative method of filing taxes for individual tax filers,
- Providing a base for expanding electronic filing into other tax types,
- Eliminating many manual data entry activities and processing errors,
- Providing taxpayers with an alternative method of paying business taxes and at the same time providing the state additional interest income of 2 to 3 million dollars annually, and
- Providing for the effective management of the sales tax line of business for the department, the State and for Minnesota sales taxpayers.

INFORMATION POLICY OFFICE'S RECOMMENDATION:

The Information Policy Office recommends continued funding of the sales tax/document processing system.

GOVERNOR'S RECOMMENDATION:

The Governor concurs with the agency's plan and the Information Policy Office's recommendation.

1992-1993 BIENNIAL BUDGET
(DOLLARS IN THOUSANDS)

AGENCY: REVENUE, DEPT OF
PROGRAM: CUSTOMER SERV & INFO

ACTIVITY RESOURCE ALLOCATION:	FY 1989	FY 1990	Est. FY 1991	FY 1992			FY 1993		
				Adjusted Base	Agency Plan	Governor Recomm.	Adjusted Base	Agency Plan	Governor Recomm.
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
CUST SERV & INFO ADM	379	300	323	329	329	329	328	328	328
DOCUMENT PROCESSING	4,372	4,654	5,251	5,452	5,452	5,452	5,446	5,446	5,446
REVENUE ACCOUNTING	1,757	1,735	1,824	1,881	1,881	1,881	1,877	1,877	1,877
DATA MANAGEMENT	2,716	2,813	2,979	3,082	3,082	3,082	3,070	3,070	3,070
TAXPAYER INFORMATION	2,375	2,612	2,601	2,761	2,761	2,761	2,754	2,754	2,754
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL EXPENDITURES BY ACTIVITY	11,599	12,114	12,978	13,505	13,505	13,505	13,475	13,475	13,475
DETAIL BY CATEGORY:									
=====									
STATE OPERATIONS	11,599	12,114	12,978	13,505	13,505	13,505	13,475	13,475	13,475
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL EXPENDITURES BY CATEGORY	11,599	12,114	12,978	13,505	13,505	13,505	13,475	13,475	13,475
SOURCES OF FINANCING:									
=====									
DIRECT APPROPRIATIONS:									
GENERAL	11,467	12,114	12,978	13,505	13,505	13,505	13,475	13,475	13,475
SPECIAL REVENUE	42								
STATUTORY APPROPRIATIONS:									
AGENCY	90								
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL FINANCING	11,599	12,114	12,978	13,505	13,505	13,505	13,475	13,475	13,475

PERFORMANCE:

PROGRAM PURPOSE:

The Compliance Program does not exist except for this budget document. The 2 divisions that are primarily responsible for compliance activities - Audit and Collections - are grouped together here for purposes of convenience and historical comparison. These divisions exist to provide feedback to taxpayers about their performance in meeting the requirements of our tax laws, assist them in meeting their requirements if they are unable to do so, and work with them to ensure that they pay no more and no less than they owe under the law. The goal is not simply to raise more money for state and local programs (through voluntary and enforced compliance) but to maintain the integrity of Minnesota's voluntary tax system.

We recognize that these audit and collection activities are necessary to maintain quality control. They support the revenue stream anticipated by the tax system and provide assurance to the majority of Minnesotans who routinely comply with the laws that those who do not will be helped to file and strongly encouraged to pay their fair share of the tax burden.

The Audit Division audits individual, corporate, fiduciary, small business and partnership income tax returns as well as withholding tax returns, sales and use tax returns and estate tax returns filed by Minnesota taxpayers. It has 6 sections:

Audit Plans increase audit production and effectiveness by developing and updating audit selection criteria, and exchanging information with other states and the IRS.

Audit Quality coordinates technical information and training and identifies and summarizes information on audit quality to detect trends and identify problems in performance.

Corporate Audit performs on-site audits of corporate income tax returns and claims for refund filed by large corporations and unitary companies.

Regional Audit performs on-site audits of individual income, sales and use and corporate income tax returns.

Individual Audit performs office audits of individual, estate, fiduciary, partnership and small business income tax returns. It also identifies and requests returns from individual non-filers.

Business Trust Tax Audit performs office audits of withholding and sales tax returns, claims for refund, and requests for tax liability adjustments. It administers business nonfiler projects such as the nexus project for sales tax.

The Collection Division collects delinquent taxes through the effective and efficient identification and processing of delinquent tax cases. It includes 4 sections:

Central Collections provides taxpayer service on collection cases and takes enforced collection actions against non-cooperative taxpayers through programs that include periodic billing, telephone collections, asset investigation, corporate officer liability, match warrant, vendor set-off and use of collection agencies.

CACS manages and oversees the operation of the Computer Assisted Compliance System.

Collection Enforcement oversees cases involving bankruptcy, license clearance, liquor posting and controlled substance tax.

Regional Collections handles difficult collection cases requiring on-site efforts.

Goals are set for the Compliance Program in terms of assessments made, dollars collected and cases completed. These are the measurable criteria we use to gauge our success at creating an audit and collections presence to encourage voluntary compliance, at providing taxpayers with feedback in areas where errors occurred and feedback is required, at identifying under-reporters and obtaining their compliance, at detecting non-filers and taking necessary enforcement measures to see that required returns are filed, and at collecting delinquent tax payments.

Direct Compliance Production (In Millions)

	F.Y. 1989	F.Y. 1990	F.Y. 1991 (Projected)
Individual	\$48.9	\$57.0	\$49.0
Sales and Use	52.2	57.2	54.0
Corporations	40.0	73.2	38.0
Total	\$155.7	\$202.0	\$156.0

(F.Y. 1990 compliance production was considerably higher than expected. Because this was the result of a few, large, unusual corporate income tax cases, we do not expect to repeat this success in F.Y. 1991.)

Direct compliance production includes both payments received and funds retained as a result of audit or collection action. Due to the expected budget constraints during the 1992-93 biennium, we are not projecting any increases in our production.

Audit Division assessment of additional taxes:

Additional Liabilities Established (In Millions)

	Actual F.Y. 1990	Goal F.Y. 1991	Estimate F.Y. 1992	Estimate F.Y. 1993
Individual	\$ 24.0	\$ 17.0	\$ 18.0	\$ 19.0
Corporate	49.6	28.1	29.6	31.1
Trust Tax	35.7	34.7	35.7	36.7
Regional Audit	38.9	22.1	24.1	26.1
Total	\$ 148.2	\$101.9	\$107.4	\$112.9

CASES COMPLETED

	F.Y. 1990	F.Y. 1991	F.Y. 1992	F.Y. 1993
Individual	32,033	26,115	27,000	28,000
Corporate	8,053	7,273	7,400	7,600
Trust Tax	101,571	132,321	150,000	170,000
Regional Audit	2,162	2,001	2,100	2,200
Total	143,819	167,710	186,500	207,800

For the Collection Division, the return on investment is calculated by dividing the total dollars collected by the cost of operating the Collection Division:

	F.Y. 1989	F.Y. 1990
Total Dollars Collected	\$48.5	\$59.9
Operations Cost	5.5	5.9
Return On Investment	8.8:1	10.2:1

PROGRAM: Tax Compliance
(Continuation)
Agency: Revenue, Department of

1992-93 Biennial Budget

The revenue received from bills and the cost of operating the CACS system are not included in the above amounts because our operations are currently measured by divisions. In the future we will be able to measure return on investment by tax system and include the revenues and costs from all areas of the department.

PROSPECTS:

We are continuing to expand our use of technology to identify errors in filing and paying obligations. We will also use this technology positively to help taxpayers and tax practitioners anticipate problems and misunderstandings and avoid unnecessary taxes or filing and payment problems. In conjunction with the department's taxpayer information and service activities, we hope to assist new businesses to learn to understand their tax responsibilities and to manage their filing and payment requirements correctly.

Although both audit and collection activities are theoretically discretionary, experience has indicated that compliance efforts, when properly balanced with support and service, produce significant positive results for the state. These results include better information for tax policy decisions as well as revenue that would otherwise have been unavailable because of non-compliance. Changes in the level of compliance - which correlates highly with funding for activities in this program - can produce correspondingly varying revenues.

PLAN:

As noted above, budget constraints during the 1992-93 biennium will cause us to eliminate certain audit areas. The decisions as to which areas to eliminate will be based on analysis of which areas produce the lowest return on investment and which areas have the lowest rate of voluntary compliance. The cost of collections for F.Y. 1990 was 10¢ for every dollar collected. Reductions in this area are not likely to improve this ratio; rather we are likely to see a corresponding drop in state revenues.

GOVERNOR'S RECOMMENDATION:

The Department of Revenue is currently undertaking a study of the costs and benefits associated with its various compliance activities. When the study is completed in early July, 1991, it will provide information that will help the department decide what types of compliance investments will yield the most revenue.

The Governor believes that the results of this study should be the basis for determining the department's total budget for F.Y. 1992 and F.Y. 1993. However, since the study will not be completed until after the legislature adjourns, the Governor recommends creating a special account to fund additional compliance activities. Expenditures from this fund would be limited to no more than the smaller of:

- a. 20% of the additional target compliance revenue to be generated, or
- b. \$500,000 per year.

Decisions on this target would be made in consultation with the Legislative Advisory Commission after the cost/benefit study is completed, and after the Department of Revenue and the Department of Finance jointly develop a system for monitoring the results of the additional compliance activities.

The Governor's budget assumes that the Department of Revenue will, through internal reallocation, minimize to the extent possible, any negative impact on the compliance revenue targets reflected in the tables on the preceeding page.

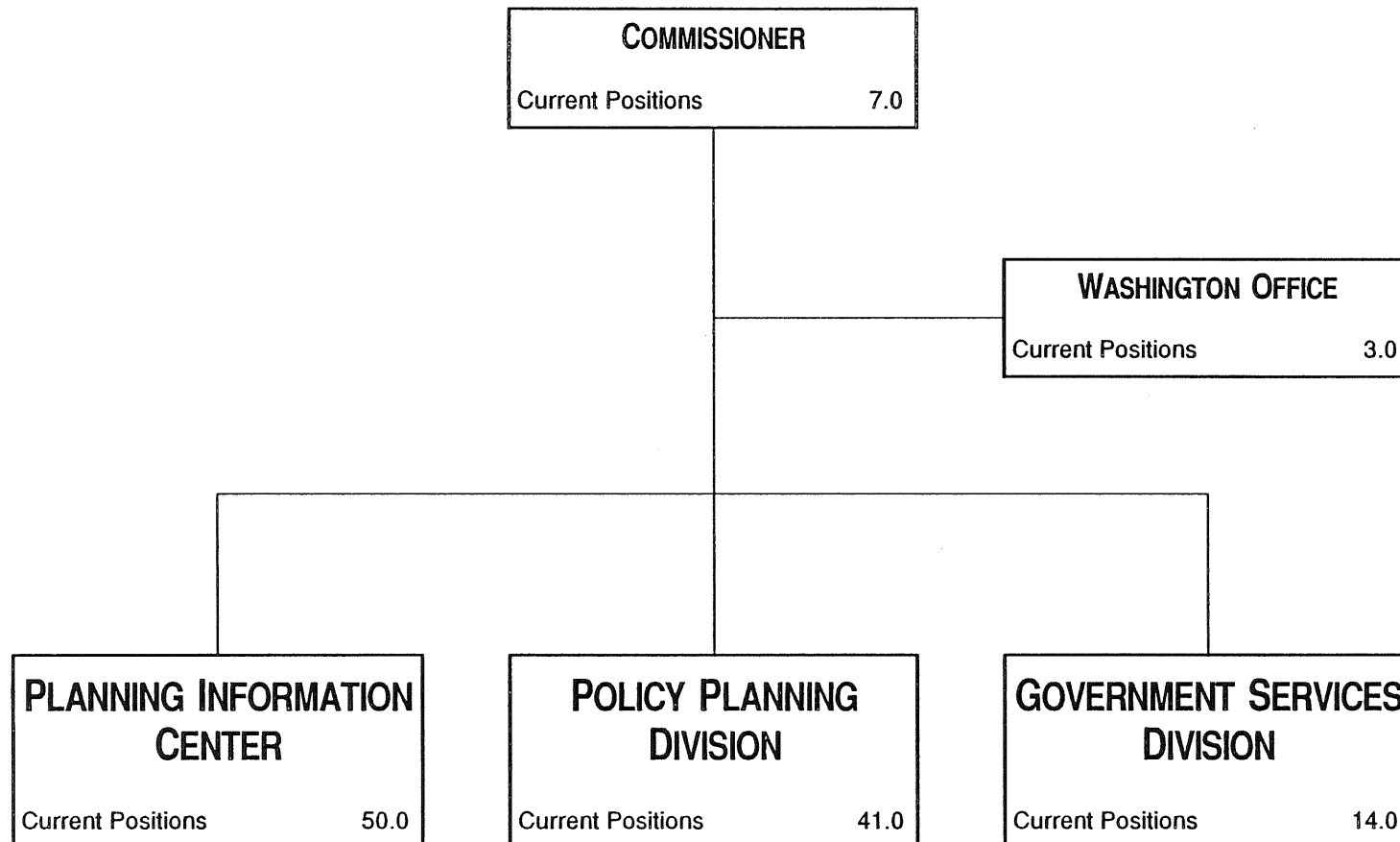
1992-1993 B I E N N I A L B U D G E T
(DOLLARS IN THOUSANDS)

AGENCY: REVENUE, DEPT OF
PROGRAM: COMPLIANCE PROGRAM

ACTIVITY RESOURCE ALLOCATION:	FY 1989	FY 1990	Est. FY 1991	FY 1992			FY 1993		
				Adjusted Base	Agency Plan	Governor Recomm.	Adjusted Base	Agency Plan	Governor Recomm.
TAX COMPLIANCE ADMIN	868	923	791	501	501	501	500	500	500
AUDIT	14,605	14,844	15,351	16,041	16,041	16,041	16,008	16,008	16,008
COLLECTIONS	6,227	6,155	7,230	7,238	7,238	7,238	7,216	7,216	7,216
TOTAL EXPENDITURES BY ACTIVITY	21,700	21,922	23,372	23,780	23,780	23,780	23,724	23,724	23,724
DETAIL BY CATEGORY:									
STATE OPERATIONS	21,700	21,922	23,372	23,780	23,780	23,780	23,724	23,724	23,724
TOTAL EXPENDITURES BY CATEGORY	21,700	21,922	23,372	23,780	23,780	23,780	23,724	23,724	23,724
SOURCES OF FINANCING:									
DIRECT APPROPRIATIONS:									
GENERAL	16,935	21,685	22,272	22,680	22,680	22,680	22,624	22,624	22,624
SP REV DIRECT APPROP	4,287								
SPECIAL REVENUE	76								
STATUTORY APPROPRIATIONS:									
GENERAL	402	237	1,100	1,100	1,100	1,100	1,100	1,100	1,100
TOTAL FINANCING	21,700	21,922	23,372	23,780	23,780	23,780	23,724	23,724	23,724

Minnesota State Planning Agency

7/1/90



Minnesota State Planning Agency

Position and Employee Status Information

Position Reconciliation:

Authority:	Current <u>FY 91</u>	Requested <u>For 6/30/93</u>
Legislative Complement:		
General Fund	85	85
Revolving	22	22
Federal	<u>8</u>	<u>8</u>
Total Permanent Positions	115	115
Other Complement (FTE)	<u>24</u>	<u>20</u>
TOTAL Positions	139	135
Employees on 6/30/90	127	

Employees by Employment Status:

	<u>6/30/90</u>
Full-Time Unlimited	95
Full-Time Temporary	10
Full-Time Seasonal	2
Part-Time Unlimited	9
Part-Time Temporary	<u>11</u>
TOTAL	127

MISSION:

The State Planning Agency identifies problems and develops policy alternatives that affect Minnesota's citizens and their resources.

By working with the Governor, the Legislature and local units of government, the agency helps implement innovative public policy solutions.

A long range perspective and a multidisciplinary approach to policy development give the State Planning Agency a unique ability to develop public policy options.

To achieve its mission, the agency has 3 areas of emphasis -- planning information, policy planning and government services.

- Planning information gathers data and puts it in a useful form for decision-makers. It also develops trend analysis that serves as the basis for policy planning and analysis.
- Policy planning integrates information and develops policy options addressing both ongoing and long-range issues facing the State of Minnesota.
- Government services works in partnership with all levels of government to understand policy concerns and to bring these concerns back to the agency for development. Government services also provides planning assistance to all levels of government and strives to stimulate interest in major policy issues.

In addition, the agency fulfills its mission by conducting programs that involve the coordination of multiple agencies (e.g., the Environmental Quality Board and the Governor's Council on Developmental Disabilities). The agency serves as the incubator for demonstration programs (e.g., the Center for Alternative Dispute Resolution and the Council on Technology for the Disabled).

The agency also has an administrative support unit that serves to assure the appropriate allocation of resources to achieve the agency's mission.

MAJOR POLICY DRIVERS:

Major factors that will influence the data development and distribution, policy analysis, and planning assistance functions of the agency in the 1992-93 biennium will include:

- The completion of the 1990 Census. First, the agency serves as the state repository for Census data. This data must be incorporated into agency programs and distributed to users. Second, the Census data provides a wealth of new information for analysis of trends in respect to the development and effective use of the state's resources.
- Demographic shifts. Geographic changes in the state's population will continue to give rise to issues in educational and economic equity that will require careful analysis. The issue of rural-urban economic growth will continue to require attention, as will the distribution of health care services in rural areas. The larger percentage growth of racial minorities and ethnic populations in urban areas is likely to have impacts on education and social service delivery; policy alternatives must be considered. The changing nature of the family will draw attention to the needs of children.
- Income distribution. Regional income differences within the state are large. Although the gap between regions does not appear to be growing the gap between the rich and poor does. As federal programs are reduced, agricultural income concerns are likely to grow. Income disparities will emerge in concerns such as access to health care, the ability to pay for child care, access to higher education, and similar issues. These problems are exacerbated by projections of an economic downturn in the economy, that will affect Minnesota.

- Environmental awareness/concern for natural resource protection. Poll results show that Minnesotans desire still stronger environmental protection efforts. Concern for protection of biological diversity is evident in demands to protect old growth forest, wetlands, and native prairies. Yet, development is essential to the economic well-being of the state and to generate revenues for environmental and natural resource protection programs. This dichotomy will require growing attention in the 1992-93 biennium and beyond.

- Technology change. Such change will drive policy in several areas. First, new technologies will provide economic opportunities for Minnesota; we must plan to take advantage of opportunities in areas such as telecommunications, technology to aid the disabled, and environmental technology. Second, technological advances will yield new information that must be used to revise state policy and program directions, such as in respect to health risks. Third, new technology will affect the development of information systems within the agency; the agency must adapt to these changes to meet its service mission.

In an effort to meet these demands with constrained resources, the agency made use of two management tools. In the summer of 1990, the agency was reorganized to better meet its mission within the constraint of limited resources. Management positions were reduced. The agency entered into cooperative arrangements in an effort to achieve mutual goals at the least cost; these efforts are expected to continue in the biennium.

PERFORMANCE:

Technological advances in the ability to integrate data for use in planning and decision-making helped drive an increasing demand for automated geographic and summary data. A centralized geographic information system capability within the agency helped the State of Minnesota avoid a costly duplication of GIS systems. Where supplementary systems are being developed (e.g., within the Forestry Division of the Department of Natural Resources), the agency assisted in their development to assure compatibility. Approximately \$750,000 per year in contractual services are provided to other government agencies. The state is recognized as a national leader in GIS capability.

Technological advances developed within the agency brought the ability to access summary data and to map this information to personal computers. The agency developed and marketed EPPL-7, which provides geographic desktop mapping capability. This system is in use by 138 purchasers in the United States and 29 purchasers in nine foreign countries.

Through the development of DATANET (an interactive system through which planners and decision-makers can access data from over 2,000 individual data files) and DATANET-PLUS (the addition of the ability to map data in the DATANET system), planners and decision-makers have on-line access to both data and mapping at individual work stations. There are over 300 subscriptions to DATANET services. DATANET services are an integral part of projects such as the analysis of rural physician shortages and in local area economic studies.

The agency also supplied the demographic statistics which aid in projecting trends in employment, rural development, population growth and distribution, and retail sales. The agency's analysis of rural-urban differences and emergence of regional economic centers influenced policies to support Greater Minnesota.

The policy planning activities of the agency have a major impact in supporting executive and legislative action. Environmental education, adult literacy, criminal justice, telecommunications, water resource protection, teen pregnancy, and energy conservation policies have been effected by policy planning.

Legislation creating an office of environmental education, a revised state water plan, executive branch energy saving policies, and grants to improve adult literacy are examples of significant actions resulting from agency activities.

The 1990 reorganization renewed the agency's emphasis on long-range policy studies. The agency conducted a major integrated study examining urban and rural Minnesota in respect to (1) growth and areawide planning to meet the demands of growth and (2) public service expectations and entitlements. In addition, policy planning is focusing on sustainable growth and the relationship of the environment and the economy, the changing nature of the Minnesota family, and the development of social and environmental indicators. Consensus has been achieved on the scope of a generic Environmental Impact Statement on timber harvesting.

The agency had a major impact on community services, educational readiness, youth employment, and adult literacy through grant programs it administers. In addition, the coordination and integration of environmental and natural resources programs was enhanced through the Environmental Quality Board; service to the developmentally disabled was improved through the Governor's Council on Developmental Disabilities and the Council on Technology for the Disabled.

Intergovernmental services supplied by the agency provided planning assistance and supported the achievement of common objectives. Governmental services included planning assistance to local units of government and regional development commissions, coordination of state interests with the federal government, support for alternative forms of dispute resolution, and coordination of the development of an Executive Branch legislative program.

The impact of the agency's service efforts included federal funds for projects such as an Air Traffic Control Training Center; guidelines for locating recycling facilities; continued functions of the Advisory Council on State-Local Relations; training seminars in conflict management for over 200 public employees and resolution of disputes in respect to highways, air toxics rules, and trucking; and a coordinated legislative program that reduced Executive Branch legislative proposals from about 350 bill drafts per year to 114 in 1990.

PROSPECTS:

The changes which the state is experiencing in the geographic, age, and ethnic distribution of its population; demands for and on its physical resources; and a global economy signal the need for an ongoing planning process which will identify emerging issues, recommend options for addressing these issues before they reach a crisis stage, and assure that planning and policy development are conducted with the best available information and in an integrated manner. The agency was re-structured to meet this challenge.

The rapidly expanded demand for automated summary information and for the ability to display and analyze this information in geographic terms is outpacing the ability to sponsor the incorporation of data into existing systems. A data clearinghouse is the next step in the evolution of planning information services, but this step will require that costs be recovered through either a direct appropriation or a broad-based subscription fee, rather than through a fee-for-product approach.

For adequate service delivery at the minimum cost, a continuum of governmental services involving all levels of government will be required to assure the provision of needed services at a minimum cost. The agency must play a major role in improving the coordination of local assistance, state-federal communication, and planning and policy development services to the Executive and Legislative branches of state government.

EXPLANATION OF BUDGET ISSUES AND ALTERNATIVES:

Although the agency has important unmet funding needs, with careful management it can meet its core responsibilities within its base budget. Shifts in priorities necessary to achieve the agency's mission within this level of funding were accomplished with the reorganization of the agency in 1990. Major unmet needs in a base level budget include funding to create an information clearinghouse

function, for completion of the generic Environmental Impact Statement on timber harvesting in Minnesota, and for ongoing staff training.

GOVERNOR'S RECOMMENDATION:

The Governor recommends the funding as requested except for the following: a biennial reduction of \$7,130,000 for Community Resource Grants and a biennial reduction of \$834,000 for Regional Development Commission Grants.

1992-1993 B I E N N I A L B U D G E T
(DOLLARS IN THOUSANDS)

AGENCY: STATE PLANNING
PROGRAM: STATEWIDE PLANNING

ACTIVITY RESOURCE ALLOCATION:	FY 1989	FY 1990	Est. FY 1991	FY 1992			FY 1993		
				Adjusted Base	Agency Plan	Governor Recomm.	Adjusted Base	Agency Plan	Governor Recomm.
PLANNING INFORMATION	1,911	2,399	3,039	2,441	5,250	5,250	2,438	2,545	2,545
POLICY PLANNING	11,794	10,479	7,343	8,438	8,349	4,784	8,378	8,199	4,634
GOVERNMENTAL SERVICES	1,336	1,341	1,423	1,429	1,459	1,042	1,422	1,466	1,049
ADMINISTRV SUPPORT	708	998	842	761	767	767	761	789	789
TOTAL EXPENDITURES BY ACTIVITY	15,749	15,217	12,647	13,069	15,825	11,843	12,999	12,999	9,017
DETAIL BY CATEGORY:									
STATE OPERATIONS	6,879	7,648	8,706	7,968	10,293	10,293	7,898	7,948	7,948
LOCAL ASSISTANCE	8,870	7,569	3,941	5,101	5,532	1,550	5,101	5,051	1,069
TOTAL EXPENDITURES BY CATEGORY	15,749	15,217	12,647	13,069	15,825	11,843	12,999	12,999	9,017
SOURCES OF FINANCING:									
DIRECT APPROPRIATIONS:									
ENVIRONMENT TRUST					2,100	2,100			
GENERAL	4,976	12,086	9,264	10,628	10,628	6,646	10,619	10,619	6,637
SP REV DIRECT APPROP	239								
MN RESOURCES	493	282	614		656	656			
STATUTORY APPROPRIATIONS:									
GENERAL	271	264	285	119	119	119	118	118	118
SPECIAL REVENUE	778	954	899	765	765	765	765	765	765
FEDERAL	8,972	1,534	1,508	1,492	1,492	1,492	1,492	1,492	1,492
GIFTS AND DEPOSITS	20	97	77	65	65	65	5	5	5
TOTAL FINANCING	15,749	15,217	12,647	13,069	15,825	11,843	12,999	12,999	9,017

BASE RECONCILIATION REPORT
for 1992-1993 Biennium

AGENCY: STATE PLANNING

	ALL FUNDS		GENERAL FUND		OTHER STATE FUNDS		FEDERAL FUNDS	
	F.Y.92	F.Y.93	F.Y.92	F.Y.93	F.Y.92	F.Y.93	F.Y.92	F.Y.93
F.Y.91 FUNDING LEVEL	12,647	12,647	9,549	9,549	1,590	1,590	1,508	1,508
ONE-TIME APPROPRIATIONS	<393>	<393>	<393>	<393>				
BIENNIAL APPROPRIATIONS	1,988	1,988	1,988	1,988				
APPROPRIATIONS CARRIED FWD	<85>	<85>	<85>	<85>				
BASE TRANSFER (BTWN AGENCIES)	<200>	<200>	<200>	<200>				
SALARY ANNUALIZATION	67	48	67	48				
ANNUALIZG NEW PROG COST	7	7	7	7				
DOCUMENTED RENT/LEASE INCR.	<19>	<10>	<19>	<10>				
LCMR FUNDED PROJECTS	<614>	<614>			<614>	<614>		
DEDICATED RECEIPTS AND FUNDS	<313>	<373>	<167>	<167>	<146>	<206>		
FEDERAL RECEIPTS	<16>	<16>					<16>	<16>
TOTAL	13,069	12,999	10,747	10,737	830	770	1,492	1,492
BIENNIAL TOTAL		26,068		21,484		1,600		2,984

1ACTIV Agency-wide Decision
PROGR Statewide Planning
AGENCY: State Planning Agency

1992-93 Biennial Budget

DECISION ITEM: Financing Inflationary Costs - Informational

Dollars in Thousands			
<u>F.Y. 1992</u>	<u>F.Y. 1993</u>	<u>F.Y. 1994</u>	<u>F.Y. 1995</u>

AGENCY PLAN:

Expenditures

General Fund - Inflation	\$ 160	\$ 326	\$ 326	\$ 326
- Reduction	<u>(160)</u>	<u>(326)</u>	<u>(326)</u>	<u>(326)</u>
	-0-	-0-	-0-	-0-

Revenues

General Fund	\$ -0-	\$ -0-	\$ -0-	\$ -0-
--------------	--------	--------	--------	--------

Requires statutory change: _____ Yes X No

Statutes Affected:

ITEM SUMMARY:

To cover estimated salary increases of 4.5% each year of the biennium in the absence of a salary supplement appropriation.

RATIONALE:

In order to cover estimated salary increases, in F.Y. 1992, the agency would reduce expenditures for Environmental Conservation Library expenses/contractual services and supplies to cover the \$160,000 estimated increase in salary costs. For F.Y. 1993, the agency would continue the reductions from Environmental Conservation Library and supplies, but increase reductions in expenses/contractual services and add savings from refilling positions at lower classifications. These reductions from the agency's base level budget would cover the anticipated salary increase of \$326,000 for F.Y. 1993.

GOVERNOR'S RECOMMENDATION:

The Governor concurs with the agency's plan.

ACTIVITY: Governmental Services
PROGRAM: Statewide Planning
AGENCY: State Planning Agency

1992-93 Biennial Budget

DECISION ITEM: Discontinue Regional Development Commission
and Government Training Service Grants

Dollars in Thousands			
<u>F.Y. 1992</u>	<u>F.Y. 1993</u>	<u>F.Y. 1994</u>	<u>F.Y. 1995</u>

GOVERNOR'S RECOMMENDATION:

Expenditures

General Fund	\$	(417)	\$	(417)	\$	(417)	\$	(417)
--------------	----	-------	----	-------	----	-------	----	-------

Revenues

General Fund	\$	-0-	\$	-0-	\$	-0-	\$	-0-
--------------	----	-----	----	-----	----	-----	----	-----

Requires statutory change: _____ Yes X No

Statutes Affected:

ITEM SUMMARY:

Discontinue grants to the Regional Development Commissions (RDC) for an amount of \$377,000 per year and Government Training grants for a total of \$40,000 per year.

BACKGROUND:

Regional Development Commissions were authorized by the Regional Development Act of 1969, M.S. 462.381 to 462.398. Currently RDC's are organized in 9 of the 12 planning regions of the state. Funding is passed through SPA to the RDC's.

RDC's are an extension of local government and are principally governed by local elected officials. They are charged with facilitating intergovernmental cooperation to ensure the orderly coordination of the state, federal and local programs for the solution of economic, social, physical and governmental problems of the state and its citizens.

Government Training Service mission is to meet the changing management and leadership needs of policymakers, staff and appointed officials by providing innovative, comprehensive, practical training and consulting to publicly funded organizations in Minnesota

RATIONALE:

Although these grants provide benefits and services to citizens of Minnesota, direct support is not necessary on a permanent basis for their continued existence. In many respects this is a duplicative service provided by other entities within the state.

ACT: Policy Planning
PROGRAM: Statewide Planning
AGENCY: State Planning Agency

1992-93 Biennial Budget

DECISION ITEM: Community Resource Grant - Year of the Cities

	Dollars in Thousands			
	<u>F.Y. 1992</u>	<u>F.Y. 1993</u>	<u>F.Y. 1994</u>	<u>F.Y. 1995</u>

GOVERNOR'S RECOMMENDATION:

Expenditures

General Fund	\$ (3,565)	\$ (3,565)	\$ (3,565)	\$ (3,565)
--------------	------------	------------	------------	------------

Revenues

General Fund	\$ -0-	\$ -0-	\$ -0-	\$ -0-
--------------	--------	--------	--------	--------

Requires statutory change: _____ Yes X No

Statutes Affected:

ITEM SUMMARY:

Discontinue community resource grants for funding assistance to the cities of Minneapolis, St. Paul and Duluth.

BACKGROUND:

In 1987, the Legislature established the Community Resource Program to complement the Urban Revitalization Action Plan (URAP). While URAP is aimed at physical deterioration in targeted neighborhoods, the Community Resource Program (CRP) focuses on services needed to enhance community viability.

As part of the administration's "Year of the Cities" package, this program was to address many of the unique human development needs of the intercity neighborhoods. Eligible applicants are public or private non-profit entities which include neighborhood coalitions, city department and agencies, law enforcement agencies, parents groups, community health and social service organizations. The purpose of the program is to provide services in distressed neighborhoods in the cities of Duluth, St. Paul and Minneapolis.

RATIONALE:

This is a new program established in the previous biennium. This assistance is similar to other statewide low income maintenance programs that are available to the inner cities.

ACTIVITY: Planning Information
PROGRAM: Statewide Planning
AGENCY: State Planning Agency

1992-93 Biennial Budget

DECISION ITEM: Stream and Water Information System

	Dollars in Thousands			
	<u>F.Y. 1992</u>	<u>F.Y. 1993</u>	<u>F.Y. 1994</u>	<u>F.Y. 1995</u>

AGENCY PLAN:

Expenditures					
Environmental Trust	\$ 200	\$ -0-	\$ -0-	\$ -0-	
Revenues					
Environmental Trust	\$ -0-	\$ -0-	\$ -0-	\$ -0-	

GOVERNOR'S RECOMMENDATION:

Expenditures					
Environmental Trust	\$ 200	\$ -0-	\$ -0-	\$ -0-	
Revenues					
Environmental Trust	\$ -0-	\$ -0-	\$ -0-	\$ -0-	

Requires statutory change: _____ Yes X No
Statutes Affected:

ITEM SUMMARY:

This activity will develop the framework for computerized information systems on the state's streams and their associated watersheds.

RATIONALE:

The activity will identify the most critical pieces of water information and integrate those into a master database. As a result, common integrated data will be available for state and local government water planning efforts.

GOVERNOR'S RECOMMENDATION:

Recognizing the authority of the LCMR to make budget recommendations for projects funded by the Environmental Trust Fund, the Governor makes no specific recommendations.

ACT: Planning Information
PROGRAM: Statewide Planning
AGENCY: State Planning Agency

1992-93 Biennial Budget

DECISION ITEM: State Land Use

		Dollars in Thousands			
		F.Y. 1992	F.Y. 1993	F.Y. 1994	F.Y. 1995
AGENCY PLAN:					
Expenditures					
MN Resources	\$	338	\$ -0-	\$ -0-	\$ -0-
Revenues					
MN Resources	\$	-0-	\$ -0-	\$ -0-	\$ -0-

GOVERNOR'S RECOMMENDATION:

Expenditures					
MN Resources	\$	338	\$ -0-	\$ -0-	\$ -0-
Revenues					
MN Resources	\$	-0-	\$ -0-	\$ -0-	\$ -0-

Requires statutory change: _____ Yes X No
Statutes Affected:

ITEM SUMMARY:

This funding is for the second biennium of a 4-year effort to build a statewide land use inventory. All of the funds will be transferred to the International Coalition for data production.

RATIONALE:

The current land use information is over 20 years old and much more generalized than data from this current effort. The data will be used by a great variety of governmental agencies at all levels.

GOVERNOR'S RECOMMENDATION:

Recognizing the authority of the LCMR to make budget recommendations for projects funded by the Minnesota Resources Fund, the Governor makes no specific recommendations.

ACTIVITY: Planning Information
PROGRAM: Statewide Planning
AGENCY: State Planning Agency

1992-93 Biennial Budget

DECISION ITEM: Local Geographic Information System

	Dollars in Thousands			
	<u>F.Y. 1992</u>	<u>F.Y. 1993</u>	<u>F.Y. 1994</u>	<u>F.Y. 1995</u>

AGENCY PLAN:

Expenditures					
MN Resources	\$	143	\$	-0-	\$ -0-
Revenues					
MN Resources	\$	-0-	\$	-0-	\$ -0-

GOVERNOR'S RECOMMENDATION:

Expenditures					
MN Resources	\$	143	\$	-0-	\$ -0-
Revenues					
MN Resources	\$	-0-	\$	-0-	\$ -0-

Requires statutory change: _____ Yes X No
Statutes Affected:

ITEM SUMMARY:

This funding will be transferred to the Intentional Coalition to develop means to move geographic information systems (GIS) technology to local governmental agencies.

RATIONALE:

State and federal agencies have developed tremendous amounts of GIS data and technology. This information and technology must be useful for local governments, which are likely to be the data producers of the future.

GOVERNOR'S RECOMMENDATION:

Recognizing the authority of the LCMR to make budget recommendations for projects funded by the Minnesota Resources Fund, the Governor makes no specific recommendations.

ACTIV Planning Information
PROGR Statewide Planning
AGENCY: State Planning Agency

1992-93 Biennial Budget

DECISION ITEM: GIS Control Point Inventory

	Dollars in Thousands			
	<u>F.Y. 1992</u>	<u>F.Y. 1993</u>	<u>F.Y. 1994</u>	<u>F.Y. 1995</u>

AGENCY PLAN:

Expenditures

MN Resources	\$ 175	\$ -0-	\$ -0-	\$ -0-
--------------	--------	--------	--------	--------

Revenues

MN Resources	\$ -0-	\$ -0-	\$ -0-	\$ -0-
--------------	--------	--------	--------	--------

GOVERNOR'S RECOMMENDATION:

Expenditures

MN Resources	\$ 175	\$ -0-	\$ -0-	\$ -0-
--------------	--------	--------	--------	--------

Revenues

MN Resources	\$ -0-	\$ -0-	\$ -0-	\$ -0-
--------------	--------	--------	--------	--------

Requires statutory change: _____ Yes X No
Statutes Affected:

ITEM SUMMARY:

State Planning will coordinate an effort between state, federal, local and private surveyors to build a database of public land survey (PLS) records.

RATIONALE:

All of the state's land ownership records are based on the public land survey system. No statewide data base exists for PLS location. This is vital to producing accurate maps of our land via computerized mapping techniques.

GOVERNOR'S RECOMMENDATION:

Recognizing the authority of the LCMR to make budget recommendations for projects funded by the Minnesota Resources Fund, the Governor makes no specific recommendations.

ACTIVITY: Planning Information
PROGRAM: Statewide Planning
AGENCY: State Planning

1992-93 Biennial Budget

DECISION ITEM: Base Maps

	Dollars in Thousands			
	<u>F.Y. 1992</u>	<u>F.Y. 1993</u>	<u>F.Y. 1994</u>	<u>F.Y. 1995</u>

AGENCY PLAN:

Expenditures

Environmental Trust	\$ 1,900	\$ -0-	\$ -0-	\$ -0-
---------------------	----------	--------	--------	--------

Revenues

Environmental Trust	\$ -0-	\$ -0-	\$ -0-	\$ -0-
---------------------	--------	--------	--------	--------

GOVERNOR'S RECOMMENDATION:

Expenditures

Environmental Trust	\$ 1,900	\$ -0-	\$ -0-	\$ -0-
---------------------	----------	--------	--------	--------

Revenues

Environmental Trust	\$ -0-	\$ -0-	\$ -0-	\$ -0-
---------------------	--------	--------	--------	--------

Requires statutory change: _____ Yes X No
Statutes Affected:

ITEM SUMMARY:

This activity will fund the state's share of a matching (50-50) federal program to provide air photo and orthographic base map coverage of the state.

RATIONALE:

The present air photo and base map coverage is nearly obsolete for the state's geographic information system efforts. This activity will greatly expand the amount of information that can be collected because federal matching funds are available.

GOVERNOR'S RECOMMENDATION:

Recognizing the authority of the LCMR to make budget recommendations for projects funded by the Environmental Trust Fund, the Governor makes no specific recommendations.

MISSION:

The Minnesota Tax Court is a specialized trial court with statewide jurisdiction providing timely and equitable disposition of taxpayer cases involving Minnesota's tax laws, including orders of the Commissioner of Revenue and local property tax assessments (valuation, classification and/or exemption of real and personal property).

Hearings are held throughout the state and decisions are published as referential information for the tax related community.

MAJOR POLICY DRIVERS:

The Tax Court is a court of record (M.S. 271.01, subd.1 (1989 Supp.)) directed by law to hear and determine matters arising out of the tax laws of the state (M.S. 271.01, subd.5 (1989 Supp.)). The Tax Court's hearings are to be held "without delay" (M.S. 278.05, subd. 1) and in a place which is convenient for the taxpayer. (M.S. 271.04 (1989 Supp.)).

These requirements mean that the court must be prepared to handle all appeals from orders of the Commissioner of Revenue, and any cases transferred to it by the district courts. The district courts routinely transfer all Chapter 278 property tax petitions and occasionally some miscellaneous tax cases to the Tax Court. The Tax Court must have the capability to docket, track, schedule and dispose of all cases filed. When a hearing is held the Tax Court must provide a judge at the place in the state where the hearing will be held, a court reporter, and the support functions to issue and disseminate a written decision after the hearing.

As economic factors drive more taxpayers to challenge their tax assessments, as the legislature creates new taxes as additional sources of revenue (e.g., the controlled substance tax. M.S. 297D), and as the taxing authorities seek increased enforcement of tax laws, the caseload of the Tax Court increases. That increase has averaged 15% per year each year since 1980. The number of cases filed in 1990 was 255% greater than the number of cases filed in 1980. A significant increase in pre-trial discovery practice and a growing number of complex cases also has added to the court's workload recently.

In spite of these increases, the Tax Court still has the same complement of judges and support staff as when it was made a full time court in 1977.

In order to meet the increasing demands upon the court and to fulfill our legislative directives, an increase in our BASE level budget is necessary. Our current appropriated BASE level will fall short of the funds needed to fulfill our mission.

EXPLANATION OF BUDGET ISSUES AND ALTERNATIVES

The Tax Court has determined that increases in the number of tax cases filed, increases in the number of hearings held, projected increases in costs of goods and services (including salaries) and statutory requirements will result in funding demands which exceed the agency's BASE level funding and will require additional personnel and automation of information initiatives.

The Tax Court will require an additional \$12,000 in F.Y. 1992 and \$35,000 in F.Y. 1993 to sustain the agency as it exists today. But the case backlog will continue to increase unless additional funds are appropriated for additional staff and office automation.

<u>Adjustment for Increased Personnel Costs</u>	<u>F.Y. 1992</u>	<u>F.Y. 1993</u>
	\$10,000	\$30,000

The Tax Court proposes that funding be adjusted in order to cover anticipated increases in salaries for the 6 full time employees.

<u>Elimination of Salaries Supplies and Expense</u>	<u>F.Y. 1992</u>	<u>F.Y. 1993</u>
	(\$10,000)	(\$30,000)

In an effort to meet anticipated increases in salaries the Tax Court proposes to eliminate salaries at \$10,000 in F.Y. 1992 and \$12,000 in 1993 for a part-time student law clerk and the use of retired judges. In addition to the cut in salaries an \$18,000 reduction of funds for supplies and expenses is proposed.

Funding at the BASE level in F.Y. 1992 will result in the loss of our part-time student law clerk, the use of retired judges and shortages of funds for fees and outstate travel.

Funding at the BASE level in F.Y. 1993 will result in the elimination of the part-time student law clerk and the use of retired judges as well as crucial expenses for:

- The partial funding of communication expenses for mail and telephone service for all clientele, including litigants, the public, and the district courts;
- Any printing needs, including tax appeal forms for taxpayers and district courts and any function requiring copying, such as trial notices and Tax Court decisions, for the litigants or interested parties;
- All supplies expenses, including all office supplies and law reference publications and materials.
- All repairs and maintenance of office equipment;
- Fees for inservice training for agency personnel and judges' professional memberships;
- Outstate travel for judges' judicial training.

The impact of eliminating our part-time student law clerk will be:

- The loss of legal research assistance to the 3 judges. This will result in an increase in the time needed for the issuance of decisions and an increase in the backlog of tax cases;
- No indexing of Tax Court decisions; and
- No maintenance of the law library.

The impact of eliminating funding for crucial supplies and expenses will be:

- The loss of required services to our clientele;
- An increase to the case backlog;
- The violation of our legislative directives to hear cases in a timely and equitable manner;
- The Tax Court mission not being attainable; and
- The loss of career and skill development for judges and staff. This training is needed to keep current with evolving issues and technologies.

PERSONNEL NEEDS

The Tax Court has had the same total complement since it became a full time court in 1977; 3 judges and 3 support staff. This court has always been frugal in its allocation and use of limited resources. But the Tax Court has now reached the point of needing additional staff because of the growing caseload being brought to the court.

Additional funds are needed for a 4th Tax Court judge, (\$90,300 in F.Y. 1992 and \$94,800 in F.Y. 1993), and a 4th support staff member, (\$23,300 in F.Y. 1992 and \$24,500 in F.Y. 1993).

SUMMARY:

Any of the above alternatives will result in:

- an increase in the backlog of tax cases;
- the loss of required services to our clientele;
- all or most hearings being held in St. Paul;
- the violation of our legislative directives; and
- the Tax Court mission not being attainable.

An increase in funds is needed just to sustain the agency as it exists today. It cannot be emphasized enough that additional funds are also needed for more personnel and for automation to continue to handle the current backlog and expected growth.

LEGISLATIVE INITIATIVE

The Tax Court has been assigned a legislative directive to carry out the judicial process regarding Minnesota's tax laws. M.S. Ch. 271.

Under M.S. 271.01 (creation), the "tax court shall consist of 3 judges..." The Tax Court now recognizes the need for an additional judge in order to efficiently and effectively carry out this legislative directive.

	Actual F.Y.1989	Actual F.Y.1990	Estimate F.Y.1991	Estimate F.Y.1992	Estimate F.Y.1993
Number of Cases Filed					
Revenue Dept. Orders	229	284	327	376	432
Local Property Tax	2,902*	2,828	3,252	3,740	4,301

Since 1980 the total number of cases filed with the Tax Court has increased 255%. On average, the number of filings has increased 15% per year since 1980.

* 1989 includes approximately 200 more cases than normal due to Commissioner of Revenue revaluation action in Wabasha County.

INFORMATION POLICY OFFICE (IPO) RECOMMENDATION:

The Information Policy Office supports the Tax Court request and recommends funding if money is available. Money is not available through BASE budget reallocation. Large workload increases have resulted in a backlog of cases. Automation is required to handle the backlog and to sustain the Tax Court's ability to respond to continuously growing caseloads. The Tax Court should develop and implement a method to measure both the effects of technology changes and any efforts to reengineer the workplace for increased productivity.

GOVERNOR'S RECOMMENDATION:

The Governor concurs with the agency's plan.

AUTOMATION NEEDS

Additional funds are also needed for the automation of our information initiatives (\$109,500 in F.Y. 1992 and \$15,000 in F.Y. 1993), including a central network that will allow for officewide access to case information, a case management support system and officewide wordprocessing capabilities.

ANTICIPATED RETIREMENT

Additional funds (approximately \$60,000) are needed for F.Y. 1993 due to the anticipated retirement of a Tax Court Judge who will have accumulated a large amount of vacation and sick leave.

BUDGET HISTORY

In F.Y. 1991 the Tax Court experienced a \$9,000 reduction in its original appropriation and an \$11,000 reduction in its salary supplement. This resulted in a \$20,000 decrease in the F.Y. 1991 BASE level which is resulting in a lower BASE for the biennia. This occurred at the same time the caseload has significantly increased.

ALTERNATIVE FUNDING CUTS:

Cutting funds for instate travel will eliminate the judges' ability to travel to the county where the case is venued. This will prohibit the setting of trials for counties other than Ramsey County, in violation of M.S. 271.04, which provides:

Hearings. The tax court shall hold hearings at any other place within the state, so that the taxpayers may appear before the court with as little inconvenience and expense to the taxpayer as is practicable.

Cutting funds for professional/technical services (court reporters) will result in a smaller number of cases being scheduled for trial. The Tax Court is a "court of record." M.S. 271.01, subd. 1 (1989 Supp.) There must be a record of all regular division hearings (M.S. 271.07). Regular division decisions of the Tax Court are appealable to the Minnesota Supreme Court (M.S. 271.10) and, if appealed, a transcript of the trial court's proceeding must accompany the file to the Supreme Court. Because of this requirement, a court reporter must be used at all regular division hearings. Once the funds are depleted no trials can be held except small claims, where court reporting is not used. Small claims cases are only a very small portion of our caseload.

Cutting funds from rent is not considered at this time because it would require breaking the lease negotiated by the Department of Administration, Real Estate Management Division. Our current lease expires 8-31-93.

Cutting of support staff will result in the loss of services to taxpayers and other clientele. The scheduling of cases will decrease, creating an additional backlog. Court orders and decisions will require additional time beyond the 90-day limit allowed (M.S.271.20) for issuance in order to process them administratively. Administrative functions will require more assistance from the Departments of Administration, Finance, and Employee Relations.

Reducing the number of judges from 3 to 2 will result in a one-third increase in the backlog of cases. (M.S. 271 provides for 3 judges on the court). Our mission of providing timely and equitable disposition of cases will not be attained.

1992-1993 BIENNIAL BUDGET
(DOLLARS IN THOUSANDS)

AGENCY: TAX COURT
PROGRAM: TAX COURT

				FY 1992			FY 1993		
			Est.	Adjusted	Agency	Governor	Adjusted	Agency	Governor
ACTIVITY RESOURCE ALLOCATION:	FY 1989	FY 1990	FY 1991	Base	Plan	Recomm.	Base	Plan	Recomm.
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TAX COURT	427	455	463	480	480	480	482	482	482
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL EXPENDITURES BY ACTIVITY	427	455	463	480	480	480	482	482	482
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
DETAIL BY CATEGORY:									
=====									
STATE OPERATIONS	427	455	463	480	480	480	482	482	482
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL EXPENDITURES BY CATEGORY	427	455	463	480	480	480	482	482	482
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
SOURCES OF FINANCING:									
=====									
DIRECT APPROPRIATIONS:									
GENERAL	427	455	463	480	480	480	482	482	482
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
STATUTORY APPROPRIATIONS:									
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL FINANCING	427	455	463	480	480	480	482	482	482
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====

BASE RECONCILIATION REPORT
for 1992-1993 Biennium

AGENCY: TAX COURT

	ALL FUNDS		GENERAL FUND		OTHER STATE FUNDS		FEDERAL FUNDS	
	F.Y. 92	F.Y. 93	F.Y. 92	F.Y. 93	F.Y. 92	F.Y. 93	F.Y. 92	F.Y. 93
F.Y. 91 FUNDING LEVEL	463	463	463	463				
SALARY ANNUALIZATION	5	3	5	3				
DOCUMENTED RENT/LEASE INCR.	12	16	12	16				
TOTAL	480	482	480	482				
BIENNIAL TOTAL		962		962				

ACT: Minnesota Tax Court
PROG: Minnesota Tax Court
AGENCY: Minnesota Tax Court

1992-93 Biennial Budget

DECISION ITEM: Financing Inflationary Costs - Informational

	Dollars in Thousands			
	F.Y. 1992	F.Y. 1993	F.Y. 1994	F.Y. 1995
AGENCY PLAN:				
Expenditures				
General Fund - Inflation	\$ 10	\$ 30	\$ 30	\$ 30
- Reduction	\$ (10)	\$ (30)	\$ (30)	\$ (30)
	\$ -0-	\$ -0-	\$ -0-	\$ -0-

Revenues				
General Fund	\$ -0-	\$ -0-	\$ -0-	\$ -0-

Requires statutory change: _____ Yes X No
Statutes Affected:

ITEM SUMMARY:

In accordance with the Department of Finance's instructions in an effort to meet anticipated inflationary increases in the salaries of the 6 full-time staff persons, the Tax Court proposes to eliminate salaries at \$10,000 in F.Y. 1992 and \$12,000 in F.Y. 1993 for a part-time student law clerk and the use of retired judges. In addition to the cut in salaries, an \$18,000 reduction of funds for supplies and expenses is proposed. Inflation adjustments for all supplies and expense funds is not possible because of the shortage of funds.

RATIONALE:

Funding at the BASE level in F.Y. 1992 will result in the loss of our part-time student law clerk, the use of retired judges and shortages of funds for fees and outstate travel.

Funding at the BASE level in F.Y. 1993 will result in the elimination of the part-time student law clerk and the use of retired judges as well as crucial expenses for:

- The partial funding of communication expenses for mail and telephone service for all clientele, including litigants, the public, and the district courts;
- Any printing needs, including tax appeal forms for taxpayers and district courts and any function requiring copying, such as trial notices and Tax Court decisions, for the litigants or interested parties;
- All supplies expenses, including all office supplies and law reference publications and materials;
- All repairs and maintenance of office equipment;
- Fees for inservice training for agency personnel and judges' professional memberships; and
- Outstate travel for judges' judicial training.

The impact of eliminating our part-time student law clerk will be:

- The loss of legal research assistance to the 3 judges. This will result in an increase in the time needed for the issuance of decisions and an increase in the backlog of tax cases;
- No indexing of Tax Court decisions; and
- No maintenance of the law library.

The impact of eliminating funding for crucial supplies and expenses will be:

- The loss of required services to our clientele;
- An increase to the case backlog;
- The violation of our legislative directives to hear cases in a timely and equitable manner;
- The Tax Court mission not being attainable; and
- The loss of career and skill development for judges and staff. This training is needed to keep current with evolving issues and technologies.

GOVERNOR'S RECOMMENDATION:

The Governor concurs with the agency's plan.

1992-93 ANNUAL BUDGET

PROGRAM STRUCTURE

AGENCY: TRADE AND ECONOMIC DEVELOPMENT, DEPARTMENT OF

PROGRAM

PAGE

COMMUNITY DEVELOPMENT

440

MINNESOTA TRADE OFFICE

451

OFFICE OF TOURISM

457

Tourism Administrative Services
Customer Services
Marketing Services

BUSINESS DEVELOPMENT AND ANALYSIS

462

Business Development and Analysis
Celebrate Minnesota 1990 (Historical Only)

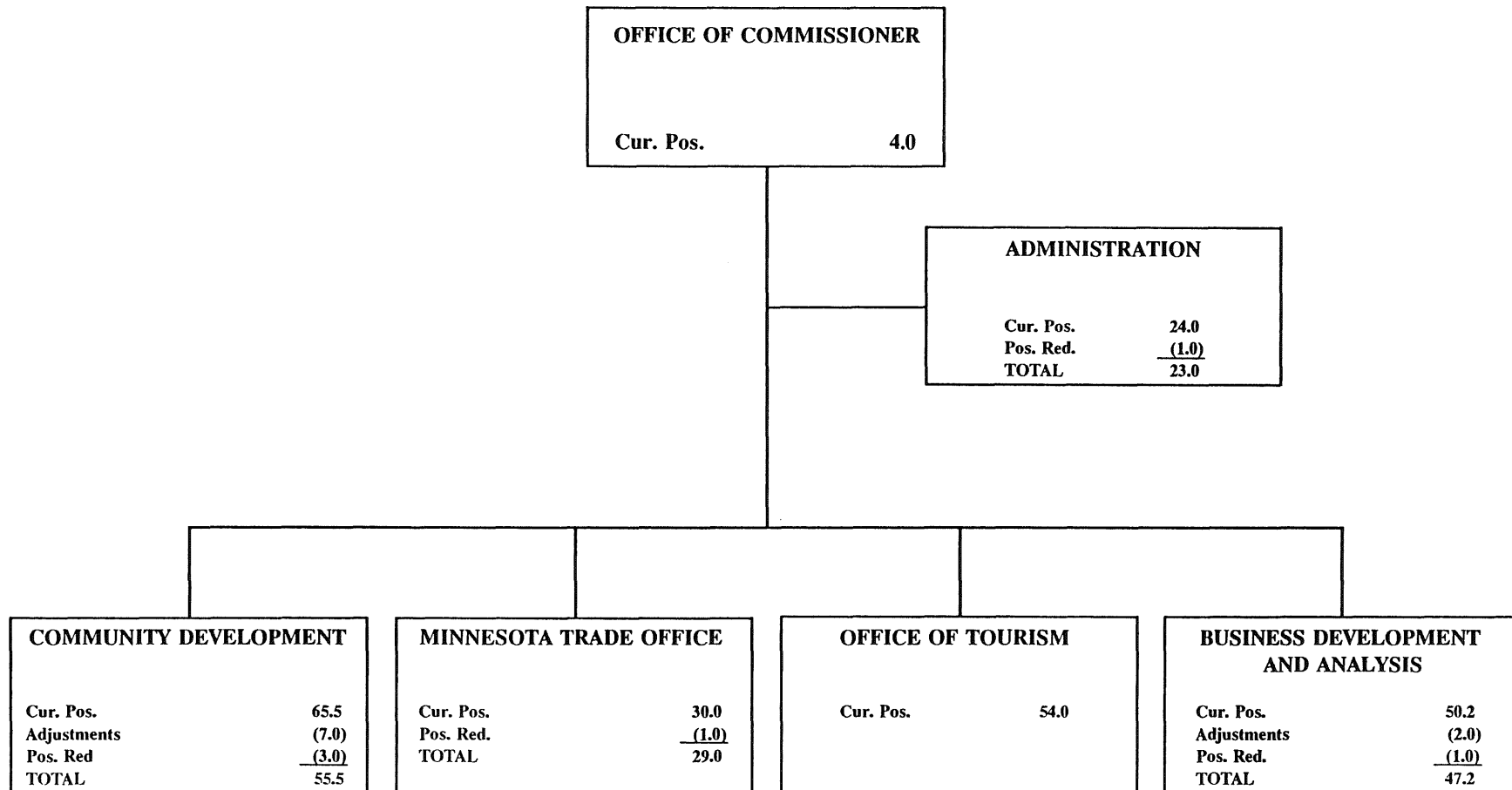
ADMINISTRATION

469

Commissioners Office
Administrative Services
Communications Office

DTED.STR
2-14-91 12:17pm jms

Department of Trade and Economic Development Organization Chart 10-1-90



Department of Trade Economic Development

Position and Employee Status Information

Position Reconciliation:		
Authority:	Current <u>F.Y. 1991</u>	Requested <u>For 6-30-93</u>
Legislative Complement:		
General Fund	181.7	172.7
Special Revenue	3.0	3.0
Trunk Highway	16.0	16.0
Federal	21.0	18.0
Environmental	3.0	3.0
LAC Approved:		
Federal	<u>3.0</u>	<u> </u>
Total Permanent Positions	227.7	212.7
Other Complement (FTE)	<u>50.2</u>	<u>50.2</u>
TOTAL Positions	277.9	262.9
Employees on 6-30-90	290.0	

Employees by Employment Status:	
	<u>6-30-90</u>
Full-Time Unlimited	192.0
Full-Time Temporary	26.0
Full-Time Emergency	1.0
Full-Time Seasonal	3.0
Part-Time Unlimited	37.0
Part-Time Temporary	18.0
Part-Time Emergency	1.0
Part-Time Seasonal	<u>12.0</u>
TOTAL	290.0

MISSION:

The Department of Trade and Economic Development is the lead agency in state government's commitment to be a catalyst in the development of a balanced and competitive state-wide economy by identifying issues and opportunities, development of policies, partnerships and programs, and implementation strategies to promote economic development of the state through diversification and maximum use of resources in domestic and international markets.

Based on an understanding of regional and structural economic strengths, the department develops and implements programs that enhance a favorable environment for economic development.

The Department of Trade and Economic Development is organized into 5 divisions that serve communities, local units of government, commercial, industrial and agricultural sectors and consumers in meeting shared goals for economic growth and development in domestic and international markets. The responsibilities of the various divisions are as follows:

- **Community Development Division:** The Community Development Division provides comprehensive planning and economic development assistance to local communities and businesses by providing grants for housing rehabilitation, recreational facilities, public facility improvements and economic development projects. Local elected officials, community development agencies, local economic development corporations, executive and legislative branches, and businesses are the primary clientele of this division.
- **Minnesota Trade Office:** The Minnesota Trade Office assists small- and medium-sized businesses and those new to exporting through general export and market specific education programs; a network of public/private supported individualized foreign trade offices; foreign export counseling, export financing, trade shows and foreign trading delegations; targeted market research and selective reverse investment strategies to identify and expand export markets for Minnesota products. Small and medium-sized businesses, foreign buyers and investors, foreign trade delegations and ranking international governmental officials are the primary clientele of this office.
- **Office of Tourism:** The Office of Tourism markets Minnesota's products and services that relate to travel, provides joint venture marketing grants to organizations and tourist information through a statewide network of travel information centers. Travel related organizations, small family-owned tourism businesses, and tourists are the clientele of this division.
- **Business Development and Analysis Division:** The Business Development and Analysis Division promotes economic development growth and healthy, self-sustaining communities through marketing, technical assistance, analysis, evaluation, publications and information services, training assistance and partnership activities. Businesses, communities and other department programs are the primary customers of the division.
- **Administration Division:** The Administration Division provides administrative and management support to departmental operating divisions through policy development, management assistance, fiscal services, personnel, and the department's Communications Office. Departmental employees, local elected officials and the executive, legislative and federal governmental branches are the primary clients of this division.

PROGRAM CHANGES:

The 1990 legislatively mandated general complement (7) and budget reductions (\$1,040,000) for the department were implemented through a departmental reorganization which merged 2 divisions, the Policy Analysis and Science and Technology Division and the Business Promotion Division, into a new Business Development and Analysis Division. Seven general complement positions were eliminated, and 6 management level positions were reclassified to the supervisory and professional

class. The reorganization was approved by the Department of Administration contingent on the department seeking statutory authorization during the 1991 legislative session. The goal of the reorganization during a time of budget reductions and increased demands for improved and quantifiable program results was to ensure that the plan developed would address the legislative requirements without diminishing the ability to deliver quality program services to department clients.

MAJOR POLICY DRIVERS:

Guided by a strategic planning process which identifies priority strategies to make the department's programs more accessible and relevant to the needs of its customers, the department has been able to successfully increase program quality, accurately measure customer satisfaction, improve analytic support for program design and policy decisions and develop department-wide accountability measures. This has resulted in a tremendous increase in public awareness and corresponding increases in both the demand and sophistication level of services requested at a time of necessary budget and human resource reductions.

The department will continue examining ways of leveraging public resources, evaluating the scope of its mission and purpose, and working towards continuous improvement of program quality, productivity and service delivery. Predictions of an economic slow down and the projected need for further reductions in state spending will require concerted cooperative efforts to coordinate and avoid duplicative functions to succeed with an effective government economic development plan of action.

GOALS AND OBJECTIVES:

The ultimate measurement of the department's success is the retention and stimulation of job creation. All of the department's programs, priorities and expenditures will be ultimately assessed in terms of this goal. Longer term, the department will provide leadership in developing a blueprint for Minnesota's economic growth in the decade of the 1990's. This blue-print will reflect the input and consensus of a broad range of the state's interests.

During the coming biennium, the department will concentrate in 3 fundamental objectives:

1. Focus - to realign the efforts of all DTED staff to concentrate on activities which directly impact upon meaningful job creation.
2. Quality - to ensure that our sources and programs represent the department's best efforts and are perceived by our clients as qualitatively superb.
3. Doing More For Less - to acknowledge that this decade will require cultural changes and paradigm shifts reflecting the transition from excess to balance.

GOVERNOR'S RECOMMENDATION:

The Governor supports the agency's plan to concentrate on 3 key objectives: to focus the activities of the agency, continue to improve the quality of services, and to do more with less. In redefining the mission of state economic development, many of the subsidy payments for programs which are not state mandated have been recommended for elimination. Reductions are also recommended in agency operated programs as fiscal constraints require a refocusing of services to the public. See the individual decision pages for specific program recommendations.

1992-1993 B I E N N I A L B U D G E T
(DOLLARS IN THOUSANDS)

AGENCY: TRADE & ECONOMIC DEVELOPMENT

PROGRAM RESOURCE ALLOCATION:	FY 1989	FY 1990	Est. FY 1991	FY 1992			FY 1993		
				Adjusted Base	Agency Plan	Governor Recomm.	Adjusted Base	Agency Plan	Governor Recomm.
COMMUNITY DEVELOPMENT	47,119	100,247	120,086	47,491	42,132	42,132	47,571	39,569	39,569
MN TRADE OFFICE	2,042	2,350	2,347	2,349	2,149	2,149	2,358	2,158	2,158
TOURISM	7,347	8,629	9,248	8,626	7,874	7,874	8,609	7,857	7,857
BUSINESS DEVELOPMENT & ANALYSIS	5,726	7,179	7,542	5,963	5,863	5,863	5,957	6,057	6,057
ADMINISTRATION	1,913	1,759	1,968	1,857	2,079	2,079	1,852	2,395	2,395
TOTAL EXPENDITURES BY PROGRAM	64,147	120,164	141,191	66,286	60,097	60,097	66,347	58,036	58,036
SOURCES OF FINANCING:									
DIRECT APPROPRIATIONS:									
GENERAL	28,170	36,717	38,207	35,708	29,519	29,519	35,186	26,875	26,875
MN RESOURCES		1,250							
TRUNK HIGHWAY	288	673	719	729	729	729	722	722	722
ENVIRONMENTAL		204	283	215	215	215	214	214	214
MOTOR VEHICLE TRANS	180								
STATUTORY APPROPRIATIONS:									
PFA BOND FUND		50,860	76,714	8,234	8,234	8,234	9,027	9,027	9,027
SPECIAL REVENUE	833	4,466	6,062	1,827	1,827	1,827	1,837	1,837	1,837
FEDERAL	26,985	25,952	19,165	19,546	19,546	19,546	19,334	19,334	19,334
RURAL REHABILITATION	2,056								
GIFTS AND DEPOSITS	10	42	41	27	27	27	27	27	27
ENERGY ECONOMIC DEVL	5,625								
TOTAL FINANCING	64,147	120,164	141,191	66,286	60,097	60,097	66,347	58,036	58,036

BASE RECONCILIATION REPORT
for 1992-1993 Biennium

AGENCY: TRADE & ECONOMIC DEVELOPMENT

	ALL FUNDS		GENERAL FUND		OTHER STATE FUNDS		FEDERAL FUNDS	
	F.Y. 92	F.Y. 93	F.Y. 92	F.Y. 93	F.Y. 92	F.Y. 93	F.Y. 92	F.Y. 93
F.Y. 91 FUNDING LEVEL	141,191	141,191	38,207	38,207	83,819	83,819	19,165	19,165
ONE-TIME APPROPRIATIONS	<3,062>	<3,062>	<2,492>	<2,492>	<570>	<570>		
APPROPRIATIONS CARRIED FWD	<456>	<456>	<456>	<456>				
SUNSET PROGRAMS	<192>	<192>	<192>	<192>				
LEG-DIRECTED ADJUSTMENTS	500		500					
SALARY ANNUALIZATION	140	96	128	92	12	4		
DOCUMENTED RENT/LEASE INCR.	13	27	13	27				
DEDICATED RECEIPTS AND FUNDS	<72,229>	<71,426>			<72,229>	<71,426>		
FEDERAL RECEIPTS	381	169					381	169
TOTAL	66,286	66,347	35,708	35,186	11,032	11,827	19,546	19,334
BIENNIAL TOTAL		132,633		70,894		22,859		38,880

F.Y. 1991 Budget Reductions (Information Only)

The following F.Y. 1991 reductions were implemented in Laws 1991, Chapter 2. These reductions are not reflected as changes to F.Y. 1991 or F.Y. 1992-93 BASE Levels within the budget documents.

	<u>General Fund</u>	<u>Other Funds</u>
Community Development		
Capital Access Account		\$ (500)
Celebrate Mn 1990	\$ (10)	
CANDO Grants	(85)	
Mn Trade Office		
Reduce Canadian Office	\$ (15)	
Reduce Other Operations	(110)	
Office of Tourism		
Reduce Computer Appropriation	\$ (30)	
Reduce Other Operations	(124)	
Business Development and Analysis		
Reduce Operations	\$ (100)	
Administration		
Reduce Printing, Pub., Operations	\$ (85)	
Total F.Y. 1991 Adjustments	\$ (559)	\$ (500)

ACT 17:

PROCEDURE:

AGENCY: Trade and Economic Development, Department of

DECISION ITEM: Financing Inflationary Costs - Informational

1992-93 Biennial Budget

AGENCY PLAN:

Expenditures

General Fund

- Inflation

- Reallocations

Dollars in Thousands			
F.Y. 1992	F.Y. 1993	F.Y. 1994	F.Y. 1995
\$ 347	\$ 693	\$ 693	\$ 693
(347)	(693)	(693)	(693)
\$ -0-	\$ -0-	\$ -0-	\$ -0-

Revenues

Trunk Highway Fund

- Inflation

- Reallocations

\$ 33	\$ 65	\$ 65	\$ 65
(33)	(65)	(65)	(65)
\$ -0-	\$ -0-	\$ -0-	\$ -0-

Environmental Fund

- Inflation

- Reallocations

\$ 10	\$ 10	\$ 10	\$ 10
(10)	(10)	(10)	(10)
\$ -0-	\$ -0-	\$ -0-	\$ -0-

Requires statutory change: _____ Yes X No

Statutes Affected:

ITEM SUMMARY:

Following the Biennial Budget instructions, salary projections assumed a 4.5% increase in F.Y. 1992 and 9.0% in F.Y. 1993 across the board salary increases for all employees. Based on these projected increases, \$347,000 in F.Y. 1992 and \$693,000 in F.Y. 1993 would be needed to meet anticipated salary costs.

RATIONALE:

Due to budget constraints and projected salary increases, the department has submitted specific budget reductions in all programs of the department. These projected salary increases would be funded from the budget reductions. The funding requested for the salary increases would be distributed to the various department programs as follows:

AGENCY REQUEST:

Expenditures:

General Fund

Community Development

Minnesota Trade Office

Office of Tourism

Business Development and Analysis

Administration

Trunk Highway Fund

Office of Tourism

Environmental Fund

Business Development and Analysis

Dollars in Thousands
F.Y. 1992 F.Y. 1993 F.Y. 1994 F.Y. 1995

\$ 88	\$ 177	\$ 177	\$ 177
56	112	112	112
69	138	138	138
85	169	169	169
49	97	97	97
33	65	65	65
10	20	20	20

GOVERNOR'S RECOMMENDATION:

The Governor concurs with the agency's plan.

DTED.09

02/09/91 12:55 pm cm

PROGRAM PURPOSE:

The development of all Minnesota's communities, including the continued recovery and development of rural Minnesota as well as depressed intercity neighborhoods, depends on the ability to meet a wide range of desired and essential, and many times critical, community needs. These needs include expanded job opportunities, parks and recreational facilities, adequate and dependable water supply systems, safe sewage treatment facilities, commercial/industrial development and expansion, renovated residential and downtown areas and other development projects. Each are important components of a healthy community environment. In combination with broadened citizen participation in the community development process, they form the basis for growth and stability.

Financial assistance needed for projects designed to meet these needs is available to communities from diverse programs administered by the Community Development Division. Through a consolidated community development application process which has combined and vastly simplified application procedures, communities are encouraged to address overall needs. With an increased emphasis on customer service and technical assistance, the community development application process offers many significant advantages. Since its implementation in late March, 1989, over 675 community development applications, each able to accommodate up to 6 projects, have been received through November, 1990, representing more than 1,460 proposed projects. As part of the process, meetings have been held with each applicant to evaluate their needs and proposed projects, match them with potential financial resources and to provide technical assistance.

The overall goal of the Community Development Division is enhancement through a community-based approach--assisting Minnesota's communities to create an environment conducive to attracting and retaining businesses while creating desirable places for homes and families.

PERFORMANCE:

Community-based development covers a broad range of government programs and activities. The Community Development Division offers communities assistance from its following units:

1. The Community Assistance unit currently administers the U. S. Housing and Urban Development Small Cities Development Program (SCDP); the Urban Revitalization Action Grant Program (URAP); the Community Development Corporations Program (CDC's); the Enterprise Zone Program; and the County Capital Improvement Program (CIP).
2. The Outdoor Recreation unit administers the Outdoor Recreation Grant Program, including the federal Land and Water Conservation Fund (LAWCON) Program and the Tourism Loan Program.
3. The Economic Development unit administers the Economic Recovery Fund; the federal SCDP economic development "set-aside" and special appropriation projects assigned to the division. This unit is also responsible for contractual enforcement, monitoring and closeout activities of all Celebrate Minnesota 1990 grant awards made during F.Y. 1990.
4. The Public Facilities Authority (PFA) administers the State Independent Grant Program; Water Pollution Control Revolving Fund (SRF); and the Energy Conservation Investment Loan Program.
5. The Rural Development Board administers the Challenge Grant Program and the Rural Rehabilitation Pilot Project Program. The board is also charged with preparation of the Rural Investment Guide to advise the Legislature regarding state policy relating to greater Minnesota; and the development, testing, and implementation of a Community Needs Assessment Model to assist communities in identifying needs.

6. The Agricultural and Economic Development program unit administers the Business Development Loan Program, the Agriculture Resource Project, and the Opportunity Minnesota, Inc. (OMNI) program.

The Community Development Division has set and met the highest standards for operational efficiency, cost-effectiveness and service to constituents. This has been accomplished through innovations such as the community development application process, integration of assistance programs, and centralized operational support functions. In addition, the Community Development Division has continued to develop and maintain close working relationships with a wide variety of constituent organizations.

Significant program achievements have been accomplished that have provided direct benefit to the communities of the State of Minnesota. Included in these achievements is the AA+ credit rating of the Minnesota Public Facilities Authority for its SRF Program. Minnesota has the honor of being the only state in the country with this rating for a comparable program. In fact, only 2 other states have a AA rating for a comparable program. Many other accomplishments have also been achieved and are described more fully in the narratives of the programs administered by the Community Development Division.

PROSPECTS:

The demand for community development assistance has grown consistently and has continually surpassed available resources at both federal and state levels. For a vigorous state economy, successful communities must offer safe and dependable water supplies, adequate waste water treatment facilities, recreational opportunities, attractive housing and commercial districts, and economic incentives.

Through a consolidated community development application process, the division will focus on assisting communities to identify and prioritize their overall needs and coordinate them with available resources (state, federal and other) to achieve their goals and objectives.

COMMUNITY ASSISTANCE UNIT:

1. Small Cities Development Program

PROGRAM PURPOSE:

This program assists Minnesota communities by providing federal Community Development Block Grant (CDBG) funds to rehabilitate owner-occupied or rental housing; construct new or rehabilitate public facilities; and expand economic opportunities by rehabilitating commercial structures. The program must primarily benefit people of low and moderate income. The Small Cities Development Program administers grants to non-entitlement townships and cities of under 50,000 population and to counties of under 200,000 population. Congress has recognized both the strong local support for and the impressive results of the CDBG program. A state match for the administration of the federal allocation is required by federal law.

PROGRAM: Community Development
(Continuation)

1992-93 Biennial Budget

Agency: Trade and Economic Development, Department of

PERFORMANCE:

	<u>F.Y. 1991</u>	<u>F.Y. 1992</u>	<u>F.Y. 1993</u>	<u>F.Y. 1994</u>	<u>F.Y. 1995</u>
Rehabilitation Projects:					
Housing units rehabilitated	725	725	725	725	725
Commercial units rehabilitated	90	90	90	90	90
Public Facility Projects:					
Water systems	9	9	9	9	9
Sewer systems	5	5	5	5	5
Storm sewer systems	3	3	3	3	3
Street projects	3	3	3	3	3
Clearance:					
Dilapidated structures cleared	23	23	23	23	23
Households relocated	9	9	9	9	9

PROSPECTS:

The Small Cities Development Program is a very visible and highly competitive program. The program is flexible enough to finance a variety of community development activities - frequently simultaneously. As a result, the program can stimulate dramatic community improvements that are apparent to both local residents and neighboring communities. Visible improvements in one community tend to generate interest in using SCDP funds to finance similar improvements in other communities.

SCDP funds are frequently used in conjunction with other public funds to complete a project, including funds administered by the U.S. Farmers Home Administration, Housing Finance Agency, U.S. Economic Development Administration, Department of Natural Resources, and U.S. Army Corps of Engineers. Other funds administered by the Community Development Division including funds from the Public Facilities Authority and the Outdoor Recreation Program are also frequently used by local governments in conjunction with SCDP funds.

The extensive and visible improvements made possible by the SCDP, combined with the compatibility of these funds with funds from other public agencies, make the program very attractive to local governments. The elimination of federal revenue sharing and the constraints associated with local levy limits make the SCDP one of few sources to finance important, expensive local public improvements.

PLAN:

	<u>F.Y. 1991</u>	<u>F.Y. 1992</u>	<u>F.Y. 1993</u>	<u>F.Y. 1994</u>	<u>F.Y. 1995</u>
Grants by Fund					
Federal (000's)	\$15,700	\$15,700	\$15,700	\$15,700	\$15,700

2. County Capital Improvement Review Program

PROGRAM PURPOSE:

This program provides for the review and approval of Capital Improvement Programs (CIPs) and CIP amendments from those counties that choose to bond for capital improvements without conducting a local referendum. Each Capital Improvement Program is reviewed in accordance with criteria established by the 1988 Legislature. The authorization for this method of revenue raising is due to sunset at the end of F.Y. 1993.

PERFORMANCE:

	<u>F.Y. 1991</u>	<u>F.Y. 1992</u>	<u>F.Y. 1993</u>	<u>F.Y. 1994</u>	<u>F.Y. 1995</u>
Number of CIP's/amendments approved	10	10	10	--	--

PROSPECTS:

Before a county may bond for capital improvements via the process identified in Chapter 519, the county must submit the proposed CIP to the Community Development Division for analysis and approval. To be approved, each CIP must contain documentation of the county's needs, anticipated capital expenditures, available public resources, debt, alternatives to bonding, and operating costs. In addition, counties must follow a strict public participation process. Both metro and greater Minnesota counties have utilized this program. We expect continued participation until the program sunsets.

3. Enterprise Zone Program

PROGRAM PURPOSE:

This program was created to address fiscal disparities in Minnesota border cities and other targeted areas of economic distress in urban, agricultural, and iron mining areas. State and local tax credits and refunds are used to stimulate job creation and retention in designated areas. In border city enterprise zones, the purpose is to create an economic environment conducive to retaining existing businesses and jobs. In non-border city (or "competitive") enterprise zones, the purpose is to stimulate new business investment in distressed areas.

PERFORMANCE:

	<u>F.Y. 1991</u>	<u>F.Y. 1992</u>	<u>F.Y. 1993</u>	<u>F.Y. 1994</u>	<u>F.Y. 1995</u>
Number of border city zones	6	*5	5	5	5
Number of competitive zones	10	5	0	0	0
Total	16	10	5	5	5
Number of businesses awarded tax credits	450	350	80	15	15

PROSPECTS:

- Five of the non-border city (or "competitive") enterprise zones expired on October 30, 1990.
- The remaining five non-border city enterprise zones will expire on October 30, 1991.
- * By law, border city zones will not expire until all remaining enterprise zone credits have been awarded to businesses. The City of Duluth has awarded all of its credits and is currently the only expired border city zone.
- After enterprise zone tax credits are awarded, businesses have up to 5 years to claim them.
- Enterprise zone tax credits are frequently used in conjunction with other economic development tools to retain jobs in border cities and create jobs in competitive zones. It is misleading to attribute absolute job creation or retention figures to the program because of the compatibility of this program with other economic development programs. Job creation and retention figures have been estimated and can be reported on businesses that have received enterprise zone credits, however.

PLAN:

	<u>F.Y. 1991</u>	<u>F.Y. 1992</u>	<u>F.Y. 1993</u>	<u>F.Y. 1994</u>	<u>F.Y. 1995</u>
State tax credits awarded (000's)	\$4,300	\$2,600	\$800	\$180	\$150
Local tax credits awarded (000's)	\$2,600	\$1,500	\$460	\$100	\$60

The state tax credits to be awarded to businesses in F.Y. 1991 through F.Y. 1995 have been awarded to enterprise zone communities and are currently contractually obligated.

4. Neighborhood Revitalization Program (NRP)

PROGRAM PURPOSE:

This program financially assists Minneapolis, St. Paul and Duluth to physically revitalize distressed neighborhoods by rehabilitating existing housing and commercial buildings, replacing infrastructure, and clearing blighted property for commercial, residential, and industrial development. Cities must present a certified plan to the department before funds are allocated.

PERFORMANCE:

	<u>F.Y. 1991</u>	<u>F.Y. 1992</u>	<u>F.Y. 1993</u>	<u>F.Y. 1994</u>	<u>F.Y. 1995</u>
Mpls./St. Paul/Duluth NRP plans submitted	3	3	3	3	3
Plans approved and agreements executed	3	3	3	3	3
Neighborhoods impacted	23	23	23	23	23
Owner-occupied housing units created	65	65	65	65	65
Rental housing units created	73	73	73	73	73
Owner-occupied housing units rehabilitated	185	185	185	185	185
Rental housing units rehabilitated	66	66	66	66	66
Demolition of dilapidated buildings	40	40	40	40	40
Child care facilities created/rehabilitated	14	14	14	14	14
Commercial units acquired and rehabilitated	7	7	7	7	7

PROSPECTS:

To date Duluth has received money both F.Y. 1990 and F.Y. 1991. Minneapolis and St. Paul will be receiving F.Y. 1991 funds sometime during the spring of 1991.

PLAN:

A phase-down of this program is recommended to begin in F.Y. 1992 and F.Y. 1993 to allow for a reassessment of goals and objectives that have been met by these communities.

	<u>F.Y. 1991</u>	<u>F.Y. 1992</u>	<u>F.Y. 1993</u>	<u>F.Y. 1994</u>	<u>F.Y. 1995</u>
General Fund (000's)	\$5,947	\$4,397	\$2,500	\$0-	\$0-

OUTDOOR RECREATION GRANT PROGRAM:

PROGRAM PURPOSE:

The purpose of the program is to help local governments meet the outdoor recreation needs of their citizens, and the state as a whole, in accordance with the recreational priorities and goals established in the State Comprehensive Outdoor Recreation Plan (SCORP). The program recognizes outdoor recreation and open space protection as vital assets to a healthy community and as important

components to an overall community development strategy. Cities, counties, townships, and recognized Indian tribal governments are eligible to receive matching grants, subject to a competitive evaluation and ranking of their proposals. The program is administered in coordination with, and receives additional federal funding from, the U. S. Department of the Interior's Land and Water Conservation Fund (LAWCON). The funded parks and recreational facilities are administered at the community level by local governments, in contrast to state parks which are administered by the State of Minnesota.

PERFORMANCE:

During its 25-year history, this program has helped fund outdoor recreation projects in every county and in hundreds of cities and townships throughout the state. Grants have been provided to communities ranging in size from Wolf Lake (pop. 67) to Minneapolis. Over 1,600 local park projects have been completed.

These projects have varied widely in nature and scope, from small neighborhood playgrounds to large county parks, from athletic complexes to nature study areas. During recent years, the state required funds to be distributed evenly between the twin cities metropolitan area and the non-metro areas.

The state's investment in local government outdoor recreation areas through this program has amounted to about \$49 million. This, however, has been well-leveraged by over \$44 million in federal funds and over \$56 million in local government matching funds.

PROSPECTS:

	<u>F.Y. 1991</u>	<u>F.Y. 1992</u>	<u>F.Y. 1993</u>	<u>F.Y. 1994</u>	<u>F.Y. 1995</u>
Park areas acquired	34	34	34	34	34
Facilities by Type:					
Camping areas	3	3	3	3	3
Trails	10	10	10	10	10
Water-oriented (boat accesses, beaches, fishing piers, etc.)	7	7	7	7	7
Picnic areas	15	15	15	15	15
Athletic fields/courts	10	10	10	10	10
Number of grants awarded	24	24	24	24	24

During the past decade, federal Land and Water Conservation Fund allocations have declined drastically. State funding has also decreased from previous levels. As a result, the competition for the available funding has increased and there has been a slight decrease in the number of applications submitted by local governments.

While federal Land and Water Conservation Fund allocations in 1990 were the lowest since 1965, efforts are underway in Congress to increase allocations for the coming year. In addition, demand for assistance in acquisition and development of outdoor recreation areas is evident at even a national level as reflected by the proposed American Heritage Trust, which would create a permanent trust fund that would greatly increase federal funding for state and local government park projects. The proposal has had hearings in both the House and Senate but is presently stalled.

PLAN:

	<u>F.Y. 1991</u>	<u>F.Y. 1992</u>	<u>F.Y. 1993</u>	<u>F.Y. 1994</u>	<u>F.Y. 1995</u>
Funding Sources:					
Bonding Authority (000's)	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000
Federal (000's)	\$164	\$164	\$164	\$164	\$164

- The 1990 Legislature has authorized \$2,000,000 in bonding authority to be awarded during F.Y. 1991 and 1992. Met Council also received an authorized \$5,000,000 by the 1990 Legislature for infrastructure development of the Metropolitan Park System.
- Federal funding amounts are actual based on current level funding.

PROGRAM: Community Development
(Continuation)

1992-93 Biennial Budget

Agency: Trade and Economic Development, Department of

TOURISM LOAN PROGRAM:

PROGRAM PURPOSE:

The purpose of the program is to provide otherwise unavailable low-interest financing to existing tourism-related businesses that provide overnight lodging so that Minnesota tourism businesses, particularly smaller scale operations, can continue to provide high quality facilities and services to their customers. This will enable Minnesota tourism business operators to maintain attractive and competitive operations. The program can provide either direct loans or, more commonly, participation loans in cooperation with local banks. Loans can be used for building construction and renovation; site preparation; septic system replacement; equipment purchase; and other construction that will enhance property value and increase customer satisfaction. Loans cannot be used for the purchase of land, purchase of existing businesses or for new business start-ups. The new program functions as a revolving loan fund whereby interest and principle payments by borrowers are made available for additional tourism loans.

PERFORMANCE:

This program is a revised version of a similar program that operated during the mid-1980's. The new program was authorized by the 1989 Legislature. New program rules were developed and adopted and the first loan was approved in January, 1990. Over 500 inquiries and consultations were handled during the first year of operation. As of October 31, 1990, loan applications received represented almost \$2.7 million in state loan requests and over \$6.25 million in combined state/bank financing. A total of 35 loans had been approved. Approved loans included \$1,368,315 in bank financing and \$1,093,063 in state loans for a total financing of \$2,461,378. The size of the state loans ranged from \$6,500 to \$50,000. Funded projects were well distributed throughout the state ranging from locations in Worthington and Marshall in southwestern Minnesota to Baudette and Grand Marais in the northern part of the state. Businesses assisted included 29 resorts and lodges, 5 motels and 1 bed-and-breakfast inn.

During the first 9 months from the approval of the first loan approximately 80% of the available loan funds were allocated and receipts deposited in the revolving fund totaled almost \$24,000.

PROSPECTS:

	<u>F.Y. 1991</u>	<u>F.Y. 1992</u>	<u>F.Y. 1993</u>	<u>F.Y. 1994</u>	<u>F.Y. 1995</u>
Loans approved	3	3	3	3	3
Loans in portfolio	43	46	49	52	55

The state has an obligation to maintain the existing loan portfolio to ensure contractual compliance, including enforcement of the terms of the loan agreements, assistance to loan recipients with any problems that may arise, restructuring of loans if required, and proper closeout of loans. There is also a need to review and approve a limited number of new loans consistent with the funding available through the revolving fund.

PLAN:

	<u>F.Y. 1990</u>	<u>F.Y. 1991</u>	<u>F.Y. 1992</u>	<u>F.Y. 1993</u>	<u>F.Y. 1994</u>	<u>F.Y. 1995</u>
General Fund (000's)	\$756	\$584	--	--	--	--
Revolving Fund (000's)	--	\$58	\$100	\$110	\$120	\$120

- The 1989 Legislature approved \$1,340,000 in General Fund money to capitalize the revolving tourism loan fund. Revolving fund budget estimates assume no new allocations but are based on use of repayments from previous loans.

ECONOMIC DEVELOPMENT UNIT:

1. Economic Recovery Fund and Small Cities Development Program (Economic Development Set-Aside)

PROGRAM PURPOSE:

This program awards state and federal grants to communities that may be used to provide loans to community-based businesses and/or for public improvements necessary to support business expansion or start-up of new business enterprises. All approved projects must meet at least 2 of the following state objectives:

1. Retain or create permanent private sector jobs primarily for low- and moderate-income persons;
2. Leverage new private investments in economic development activities; and
3. Increase a community's tax base through new business development.

Grant recipients may retain all or a portion of loan repayments to establish a locally-administered economic development revolving loan fund.

PERFORMANCE:

In F.Y. 1991, the department will award \$5,517,000 Economic Recovery Fund grants and Economic Development Set-Aside grants totaling \$2,556,000. These projects are designed to create more than 2,000 new jobs principally for low- and moderate-income persons. Without state assistance, many of these projects would have taken place outside of Minnesota while others would have been down-sized significantly or eliminated completely.

PROSPECTS:

This program has established a unique partnership between the state and local units of government to help address critical local economic development needs. The program has been particularly helpful in small rural communities where conventional business financing is difficult to obtain or may be severely limited. With high demands for economic development assistance and the limited grant funds available, many eligible applications submitted by local governments in F.Y. 1991 could not be funded. The need for this type of assistance will continue into the next biennium.

PLAN:

In an effort to assist communities in meeting immediate economic development needs, an increase of \$1,000,000 each year is requested for economic recovery grants.

	<u>F.Y. 1991</u>	<u>F.Y. 1992</u>	<u>F.Y. 1993</u>	<u>F.Y. 1994</u>	<u>F.Y. 1995</u>
General (000's)	\$6,517	\$6,517	\$6,517	\$6,517	\$6,517
Federal (Set-Aside) (000's)	\$2,556	\$2,556	\$2,556	\$2,556	\$2,556

2. Celebrate Minnesota 1990 Grant Program

PROGRAM PURPOSE:

This program provided financial assistance to communities to help them prepare for participation in the 1990 statewide celebration. Grants were used for undertaking cleanup, beautification and/or community improvement projects associated with locally-sponsored celebrations planned as part of Celebrate Minnesota 1990.

PERFORMANCE:

1. 184 grants were awarded to communities during F.Y. 1989 and 1990 totaling \$1,553,000.
2. More than 175 different communities throughout Minnesota participated and benefitted from this program.
3. Grants stimulated more than \$6,000,000 in non-state public and private expenditures for 1990 celebrations.

PLAN:

All Celebrate Minnesota 1990 grant funds were awarded during F.Y. 1989 and 1990. All projects will be completed, and monitoring and closeout activities concluded by June 30, 1991. No further funding is being requested for this program.

3. Minnesota Marketplace Program

PROGRAM PURPOSE:

This program is intended to assist Minnesota businesses in locating goods and services from suppliers in Minnesota before seeking suppliers from a wider marketplace outside the state. The program is intended to increase business and employment opportunities within Minnesota.

PERFORMANCE/PROSPECTS:

1. A statewide Marketplace organization was selected to lead and manage the program.
2. Seven regional Marketplace Service Centers were created and selected to provide statewide coverage.
3. The statewide organization established an extensive listing of Minnesota manufacturers and a computer system to match buyers with sellers on a statewide basis.

PLAN:

Minnesota Marketplace was a pilot program and all funds will be expended by June 30, 1991. No additional funding is requested for this program.

4. Special Appropriation Administration

PROGRAM PURPOSE:

This program provides administrative support to assure proper management, contractual negotiation and enforcement, and monitoring of all special appropriations assigned to the Community Development Division. Special appropriations have been approved to help finance a broad range of activities including local government enterprises, public service projects and the development of recreational areas.

PLAN:

With the state facing a \$1.2 billion shortfall, a decision was made to continue funding broader economic development projects that would help the entire state and not just specific communities.

Funding for specific debt service is recommended for phase down in F.Y. 1992 and eliminated in F.Y. 1993. Funding for the metropolitan parks maintenance is recommended for elimination starting in F.Y. 1992.

	F.Y. 1991	F.Y. 1992	F.Y. 1993	F.Y. 1994	F.Y. 1995
State (000's)	\$11,153	\$1,003	\$-0-	\$-0-	\$-0-
Bonding (000's)	\$5,500	\$5,500	\$5,500	\$5,000	\$5,000
Total	\$16,653	\$10,422	\$10,422	\$9,922	\$9,922

PUBLIC FACILITIES AUTHORITY:

PROGRAM PURPOSE:

The Public Facilities Authority (PFA) unit is responsible for providing financial assistance to communities through the Water Pollution Control Revolving Fund and the State Independent Grant Program for the construction of essential treatment facilities and to communities and school districts through the Energy Conservation Investment Loan Program for cost-effective energy improvements to publicly-owned structures. Financial packaging for waste water treatment is the highest priority of the PFA because it is a vital and essential infrastructure for the residential, commercial, and industrial areas of communities throughout the state. Because waste water treatment projects involve significant costs, the PFA uses the community development application process to identify other forms of assistance available from the division in addition to the PFA programs in order to help communities design affordable financing for the construction of these basic but critical community infrastructures. The PFA (responsible for financing of projects) works closely with the Pollution Control Agency (responsible for environmental and regulatory compliance).

PERFORMANCE:

Since its establishment in 1987, the PFA has emerged as a highly effective source of financial assistance for waste water treatment and energy conservation projects in cooperation with the Pollution Control Agency and the Department of Public Service. Combining the programs of the PFA with other financial assistance programs of the Community Development Division has contributed to its high level of performance providing direct benefit to participating communities.

1. State Water Pollution Control Revolving Fund (SRF)

PROGRAM PURPOSE:

The SRF was created by the 1987 Rural and Economic Development Act to provide a continuing source of financing for waste water treatment facilities, replacing direct assistance from the U. S. Environmental Protection Agency (EPA) terminated in F.Y. 1990.

Recognized and heralded as a national model by the EPA, the PFA's SRF was designed to provide eligible communities with long-term, below-market rate loans from the proceeds of bonds issued by the PFA and capitalized by federal grants received annually from 1989-1994. Interest rates charged to loan recipients are set according to indicators of their ability to repay the loans.

PERFORMANCE:

Since established in 1987, the PFA's SRF has leveraged the grants from the EPA Capitalization (CAP) Grant Program through two bond sales creating the nation's first aggressively leveraged program for financing waste water treatment projects. Its first issue of revenue bonds of nearly \$47 million received a AA rating from Standard and Poor's in 1989; no other state received a higher rating for such an issue. In 1990, the PFA received an unprecedented rating of AA+ for a \$71 million issue following an extensive review and analysis of the structure and performance of the SRF and evaluation of the PFA's management practices. Minnesota's program is the only one in the nation to have received a AA+ rating; the practical effect has been to minimize the cost of borrowing from the SRF to communities for these expensive

PROGRAM: Community Development
(Continuation)

1992-93 Biennial Budget

Agency: Trade and Economic Development, Department of

but critical facilities.

	<u>F.Y. 1990</u>	<u>F.Y. 1991</u>
Number of loans made	6	*9
Number of projects funded	9	*13
Revenue bonds issued (000's)	\$46,698	\$71,030
Amount of loans (000's)	\$48,953	*\$74,341
Funds expended (000's)	*\$47,201	*\$58,769

* Projected figures through 12/31/90

** Some borrowers have multiple projects (i.e., Metropolitan Waste Control Commission)

PROSPECTS:

As a result of the extraordinary high costs of waste water treatment projects and also the scarcity of grant dollars, communities often times wait years to qualify for waste water treatment grants. The SRF offers low-interest, affordable financing to communities enabling them to proceed with meeting their community needs rather than waiting years for grant dollars. Financing waste water treatment projects for communities who can afford low-cost loans can enable grant dollars to be targeted to smaller communities who are unable to afford low-interest loans without some grant assistance.

During the next 2 fiscal years, the department anticipates a greater number and dollar amount of loans will be made. The federal appropriations for CAP grants will double in F.Y. 1991. However, it will decline by 25% each year thereafter. Current projections assume a CAP grant in the amount of \$37 million this year for projects ready to proceed in early F.Y. 1992 and \$27 million in the following year. State matching funds were appropriated in the 1990 capital budget.

In order for the PFA to continue the program, its bonding authority will need to be increased from \$150 million to at least \$300 million. With continued legislative support, adequate funding from EPA, and continued sound management practices, the PFA can continue to maintain its unprecedented credit rating and work to improve it. In F.Y. 1992, we anticipate making 12 loans for 16 projects totaling \$70 million and 12 loans for 14 projects totaling \$65 million in F.Y. 1993.

PLAN:

The PFA anticipates receiving capitalization grants as estimated through federal F.Y. 1994, which would be received in state F.Y. 1995. After that time, the PFA will have received sufficient funds from EPA to continue to provide low-interest loans through issuance of revenue bonds.

Source of Funds	<u>F.Y. 1991</u>	<u>F.Y. 1992</u>	<u>F.Y. 1993</u>	<u>F.Y. 1994</u>	<u>F.Y. 1995</u>
Federal (000's)	\$17,900	\$37,000	\$27,000	\$18,000	\$9,000
State match (000's)	\$4,100	\$7,400	\$5,400	\$3,600	\$1,800
Total (000's)	\$22,000	\$44,400	\$32,400	\$21,600	\$10,800

2. State Independent Grant Program

PROGRAM PURPOSE:

As a result of a decline in federal funds beginning in 1978, the State Independent Grant Program was created in 1984 to provide assistance for waste water treatment projects. The declining federal funds were eventually eliminated in 1990. Unless other sources of financing can be secured, it is not uncommon for communities to wait to over 10 years to become eligible for a grant from the State Independent Grant Program. The State Independent Grant Program awards grants for waste water treatment facilities contingent on community need and are referred to as State Independent Grants,

Capital Cost Component Grants, Individual On-Site Grants, Corrective Action Grants, Reimbursement Grants and Continuation Grants.

PERFORMANCE:

Type of State Independent Grant	# in F.Y. 1990	Amount Awarded in F.Y. 1990	# in F.Y. 1991	Amount Awarded in F.Y. 1991
State Independent	2	\$1,360	--	--
Capital Cost	2	\$1,467	--	--
Ind. On-Site	2	\$112	--	--
Corrective Action	1	\$500	--	--
Reimbursement	6	\$2,000	7	\$8,245
Continuation	4	\$2,617	5	\$5,436
Total	17	\$8,056	12	\$13,681

Actual Figures as of 10/1/90

PROSPECTS:

There is a steadily increasing demand for financial assistance for the construction and upgrading of waste water treatment facilities by communities statewide. Essential to a community's very existence, these projects are extremely costly and represent one of the largest community expenditures. Alternative financing such as low-interest loans through the SRF Program is recommended for communities who are able to afford loans. This would enable State Independent Grant funds to be targeted for those very small communities who are simply unable to afford loans without some grant assistance. This approach could significantly reduce the overall amount of grant funds that the state would have to award and would enable those smaller needy communities to be assisted sooner. Communities borrowing money through the SRF Program would be able to proceed with their projects as soon as a financial package could be arranged thus eliminating a frequently lengthy waiting period of sometimes up to 15 years.

PLAN:

(without change to current State Independent Grant Program)

Funding Source:	<u>F.Y. 1992</u>	<u>F.Y. 1993</u>	<u>F.Y. 1994</u>	<u>F.Y. 1995</u>
State (000's)	--	\$500	\$500	\$500
Bonding Authority (000's)	\$15,000	\$14,500	\$14,500	\$14,500
Total (000's)	\$15,000	\$15,000	\$15,000	\$15,000

3. Energy Conservation Investment Loan Program

PROGRAM PURPOSE:

The Energy Conservation Investment Loan Program was created to reduce energy consumption in publicly-owned buildings through providing low-interest loans to municipalities and school districts for energy-efficient capital improvement projects. Borrowers must demonstrate that proposed projects will have a payback within ten years. Program funding has been provided by the sale of State General Obligation Bonds and is supplemented by Exxon restitution funds authorized by the 1987 Legislature.

PERFORMANCE:

Prior to the PFA's involvement in this loan program, only school districts were eligible for funding. Since the program has extended eligibility from school districts to local units of government in 1989, the PFA has made loans to 6 counties and 6 cities in addition to 47 school districts. In F.Y. 1990, a total of 28 loans were approved for \$1,506,566. During the first 5 months of F.Y. 1991, 14 loans totaling \$804,085 have been approved by the PFA. Given the recent increase in the cost of fuel

products, the department expects a sharp increase in interest in this program for the balance of the fiscal year.

PROSPECTS:

Depending on the continued use of oil and oil products for heating, cooling and electrical consumption, this program is expected to see increased use as school districts and local units of government undertake energy-saving measures to reduce their operating budget that is attributable to higher energy costs. The projections for F.Y. 1992 and F.Y. 1993 assume 25 loans for \$2 million each year.

PLAN:

	F.Y. 1991	F.Y. 1992	F.Y. 1993	F.Y. 1994	F.Y. 1995
Bonding authority (000's)	\$1,800	\$2,000	\$2,000	\$2,000	\$2,000

No additional state funds are being requested to administer this program.

RURAL DEVELOPMENT BOARD:

PROGRAM PURPOSE:

The Rural Development Board was created by the 1987 Rural and Economic Development Act to give rural Minnesota a voice in the executive branch of state government. Comprised of 7 rural community leaders, selected state agency directors, the heads of the four post-secondary education systems, and the president of the Greater Minnesota Corporation, the board's primary responsibilities include the Rural Investment Guide and the Challenge Grant Program. It is also assigned responsibility for the Rural Rehabilitation Pilot Project Program, the Degradable Plastics Task Force, and the Community Needs Assessment Model. Board activities emphasize state partnerships with local and regional citizens and entities to bring about improvements in the rural economy.

1. Challenge Grant Program

PROGRAM PURPOSE:

This program established 6 regional revolving loan funds to stimulate job creation and private investment through low-interest loans to new and expanding businesses in rural Minnesota. These 6 loan funds were capitalized by \$6 million in grants from the board matched by \$6 million provided by the McKnight Foundation. State funds were derived through the Rural Rehabilitation Revolving Fund. The 6 regional Minnesota Initiative Funds share responsibility with the board for administration of the loan funds.

PERFORMANCE:

During F.Y. 1990, 92 projects received assistance, with loan amounts totalling \$2,878,306; of the 92 assisted businesses, 31 were start-ups and 61 were expansions. Typically, the projects which have been assisted involve significant levels of private investment. However, they cannot finance all start-up or expansion needs with private funds due to private sector lending requirements.

Repayments of the state's share of each loan are being returned to the state to be used for additional loans. At the end of F.Y. 1990, repayment of funds to the state (plus investment income) from all 6 regions totalled \$451,072. Those regions which have used their \$1 million initial allocation will begin drawing on the repaid funds for additional loans.

PROSPECTS:

All \$12 million of initial state and McKnight Foundation funds will have been allocated by the start of the next biennium. Loan repayments during the biennium will permit further loans in each region but at a reduced level.

2. Rural Investment Guide

PROGRAM PURPOSE:

Designed as a comprehensive analysis of rural Minnesota and a review of state rural development programs, the guide will be submitted to appropriate legislative committees as a resource for the formulation of rural development strategies and programs.

PERFORMANCE:

The board prepared and presented a first draft of the guide to the 1990 Legislature. Regional public hearings were conducted in 6 rural Minnesota locations, to solicit ideas and reactions from an extremely involved rural citizenry. Their views are influencing the content of the final draft which represents an incorporation of citizen input and recommendations into the work of the board. The board is presenting the final draft to the 1991 Legislature.

PROSPECTS:

The board anticipates annual updates and revisions in the guide to accommodate changes in rural Minnesota, accurate representation of the views of rural citizens, and the Legislative need for information on rural problems and opportunities.

3. Rural Rehabilitation Pilot Project Program

PROGRAM PURPOSE:

Formation of innovative methods to achieve rural development and solve rural problems is the goal of this program.

PERFORMANCE:

Twelve rural citizens, appointed by local elected officials and serving in an advisory capacity to the Board, oversee funds for innovative rural development projects. A \$500,000 legislative appropriation from the Rural Rehabilitation Revolving Fund will be used in each region according to locally established priorities. All funds will be awarded by the end of F.Y. 1991.

PROSPECTS:

The effectiveness of the innovative methods which result from the pilot projects will be evaluated by the board during F.Y. 1992 - 1993.

4. Community Needs Assessment Model

PROGRAM PURPOSE:

Due to the Community Development Division's extensive work with local government, business, and volunteer groups, it was recognized that many small communities need basic techniques and procedures to examine and act on local needs. The simple, straight-forward process embodied in the Community Needs Assessment Model will be organized so that much of the work can be done by the communities themselves in cooperation with the board.

PROGRAM: Community Development
(Continuation)

1992-93 Biennial Budget

Agency: Trade and Economic Development, Department of

PERFORMANCE:

The model was developed and tested with a \$150,000 appropriation. By the end of F.Y. 1991, the model will have been tested in 15 small, rural communities so that the board can perform a thorough evaluation. This is the first time a model of its kind has been available to communities in rural Minnesota.

PROSPECTS:

By the start of the next biennium, the refined model will be made available for wide distribution to rural Minnesota communities.

AGRICULTURAL AND ECONOMIC DEVELOPMENT:

PROGRAM PURPOSE:

The Agricultural and Economic Development Program was created by the 1987 Rural and Economic Development Act of 1987. Through the Agricultural and Economic Development account, the Agricultural and Economic Development Board administers the Agriculture Resource Project and the Small Business Development Loan Program. These programs make direct loans, participate in loans and purchase and guarantee loans utilizing tax-exempt revenue bonds issued by the board. Loan funds may be used for the acquisition of land, building and machinery for the development or expansion of agri-processing businesses and for fish and turkey production. The objective of the program is to strengthen and diversify the economic profiles of Minnesota's communities statewide, with particular emphasis in the rural areas, by stimulating employment and assisting in utilization, expansion, and diversification of Minnesota's agricultural products. This program is designed to meet the needs of larger businesses that require more funds than are available from other financial assistance programs. Typically, loans over \$500,000 are made under this program. The Agricultural and Economic Development unit also administers the Opportunities Minnesota Incorporated (OMNI) Loan Program and the Capital Access Program.

1. Opportunities Minnesota Incorporated (OMNI) Loan Program

PROGRAM PURPOSE:

This program provides loans, guaranteed by the U. S. Small Business Administration, to support the expansion or start-up of businesses. Projects must meet the federal objective to create or retain one job for every \$35,000 of OMNI program assistance.

PERFORMANCE/PROSPECTS/PLAN:

	<u>F.Y. 1991</u>	<u>F.Y. 1992</u>	<u>F.Y. 1993</u>	<u>F.Y. 1994</u>	<u>F.Y. 1995</u>
OMNI funds approved (Federal) (000's)	\$7,200	\$7,200	\$7,200	\$7,200	\$7,200
# of loans approved	22	20	20	20	20
Private funds committed by businesses (000's)	\$11,800	\$11,800	\$11,800	\$11,800	\$11,800

COMMUNITY AND NEIGHBORHOOD DEVELOPMENT ORGANIZATION:

PROGRAM PURPOSE:

The Community and Neighborhood Development Organization (CANDO) Program was a pilot program that provides leadership training and technical assistance to eligible citizen groups throughout Minnesota. The unit prepared a CANDO Resource Guide which details public and private available resources to community and neighborhood groups. The overall goal of the CANDO program was to mobilize community residents to participate in and contribute to community development at a grass roots level.

PERFORMANCE:

All start-up activities including research, document preparation, and development of training tools, have been completed. The first edition of the CANDO Resource Guide was published and widely distributed during F.Y. 1991.

GOVERNOR'S RECOMMENDATION:

The Governor concurs with the agency's plan for this program. See the following decision pages for the specific recommended changes.

1992-1993 B I E N N I A L B U D G E T
(DOLLARS IN THOUSANDS)

AGENCY: TRADE & ECONOMIC DEVELOPMENT
PROGRAM: COMMUNITY DEVELOPMENT

				FY 1992			FY 1993		
ACTIVITY RESOURCE ALLOCATION:	FY 1989	FY 1990	Est. FY 1991	Adjusted Base	Agency Plan	Governor Recomm.	Adjusted Base	Agency Plan	Governor Recomm.
COMMUNITY DEVELOPMENT	47,119	100,247	120,086	47,491	42,132	42,132	47,571	39,569	39,569
TOTAL EXPENDITURES BY ACTIVITY	47,119	100,247	120,086	47,491	42,132	42,132	47,571	39,569	39,569
DETAIL BY CATEGORY:									
STATE OPERATIONS	4,594	57,063	84,619	12,947	12,587	12,587	13,527	13,167	13,167
LOCAL ASSISTANCE	42,525	43,184	35,467	34,544	29,545	29,545	34,044	26,402	26,402
TOTAL EXPENDITURES BY CATEGORY	47,119	100,247	120,086	47,491	42,132	42,132	47,571	39,569	39,569
SOURCES OF FINANCING:									
DIRECT APPROPRIATIONS:									
GENERAL	13,315	20,020	20,208	19,937	14,578	14,578	19,426	11,424	11,424
MN RESOURCES		1,250							
STATUTORY APPROPRIATIONS:									
PFA BOND FUND		50,860	76,714	8,234	8,234	8,234	9,027	9,027	9,027
SPECIAL REVENUE	96	3,547	5,149	924	924	924	934	934	934
FEDERAL	26,660	24,570	18,015	18,396	18,396	18,396	18,184	18,184	18,184
RURAL REHABILITATION	2,056								
ENERGY ECONOMIC DEVL	4,992								
TOTAL FINANCING	47,119	100,247	120,086	47,491	42,132	42,132	47,571	39,569	39,569

ACTIVITY:

1992-93 Biennial Budget

PROGRAM: Community Development**AGENCY:** Trade and Economic Development, Department of**DECISION ITEM:** General Fund Reductions

Dollars in Thousands

	F.Y. 1992	F.Y. 1993	F.Y. 1994	F.Y. 1995
--	-----------	-----------	-----------	-----------

AGENCY PLAN:**Expenditures**

General Fund

Reduce/Eliminate Debt Service Payments	\$ (1,003)	\$ (2,006)	\$ (2,006)	\$ (2,006)
Eliminate Metro Parks Maintenance	(2,916)	(2,916)	(2,916)	(2,916)
Phase Out URAP	(1,507)	(3,404)	(5,904)	(5,904)
Eliminate St. Paul Depot Grant	(500)	-0-	-0-	-0-
Eliminate Grants for CDC's	-0-	(243)	(243)	(243)
Eliminate CANDO Program	(360)	(360)	(360)	(360)
Eliminate Grant to Minnesota Inventors' Congress	(73)	(73)	(73)	(73)
Total Community Development	\$ (6,359)	\$ (9,002)	\$ (11,502)	\$ (11,502)

Revenues

General Fund

	\$	\$	\$	\$
--	----	----	----	----

GOVERNOR'S RECOMMENDATION:**Expenditures**

General Fund

	\$ (6,359)	\$ (9,002)	\$ (11,502)	\$ (11,502)
--	------------	------------	-------------	-------------

Revenues

General Fund

	\$	\$	\$	\$
--	----	----	----	----

Requires statutory change: _____ Yes X No

Statutes Affected:

ITEM SUMMARY:

Throughout the division there are several programs which pass through monies for specific local projects. Among these programs are debt service payments for various Twin Cities parks, Twin Cities parks maintenance, community and neighborhood revitalization money specifically earmarked for Minneapolis, St. Paul and Duluth, and money for the St. Paul Depot reconstruction.

The division is also responsible for pass-through money to several non-profit entities. Several of these groups target specific populations or types of business. Examples include the Community Development Corporations (CDC's), the Community and Neighborhood Development Organizations (CANDO), the Minnesota Inventors' Congress and the High Tech Corridor.

RATIONALE:

Reduction of Specific Local Parks and Beautification Dollars: With the state facing a \$1.2 billion shortfall, a decision was made to continue funding broader economic development projects that would help the entire state and not just specific communities. The state has not traditionally funded local projects. The metropolitan park system may be eligible for other state funding through the department's outdoor recreation grant program.

The Urban Revitalization Assistance Program (URAP) was designated through the 1987 Rural Development Act to specifically target money to Minneapolis, St. Paul and Duluth. Projects have been funding in F.Y. 1990 and F.Y. 1991. A phase-down of this program should begin in F.Y. 1992 and F.Y. 1993 to allow for a reassessment of goals and objectives that have been met by those communities.

Elimination of public subsidy for private non-profit groups: Private non-profit groups will need to re-examine alternative funding sources for continued subsidy. The Community Development Corporations targets businesses with five employees or less. The average loans are \$10,000 per business and results of state investment are difficult to measure.

The Community and Neighborhood Development Organizations were initiated as pilot programs to encourage residents to take greater leadership responsibility in shaping their communities and neighborhoods through community-based development organizations. The training manual and a class for selected pilot communities has been completed. Coordination and continuation of these programs should continue within the organizations to assess the success of this pilot program before continuing state subsidy.

The Minnesota Inventor's Congress provides technical and information assistance to inventors from Minnesota and the surrounding area. Technology transfer has become the bench mark for rural development through the Greater Minnesota Corporation. Funds could be made available to the Inventors' Congress from the Greater Minnesota Corporation or the State University System.

GOVERNOR'S RECOMMENDATION:

The Governor concurs with the agency's plan.

ACT:
PROG: Community Development
AGENCY: Trade and Economic Development, Department of

1992-93 Biennial Budget

GOVERNOR'S RECOMMENDATION:

The Governor concurs with the agency's plan.

DECISION ITEM: Economic Recovery Grants Increase

	Dollars in Thousands			
	<u>F.Y. 1992</u>	<u>F.Y. 1993</u>	<u>F.Y. 1994</u>	<u>F.Y. 1995</u>

AGENCY PLAN:

Expenditures				
General Fund	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000
Revenues				
General Fund	\$	\$	\$	\$

GOVERNOR'S RECOMMENDATION:

Expenditures				
General Fund	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000
Revenues				
General Fund	\$	\$	\$	\$

Requires statutory change: _____ Yes X No
Statutes Affected:

ITEM SUMMARY:

Economic recovery grants are the only direct monetary tool for the department to retain or create jobs, stimulate private investment and to increase the tax base. Grants are made to local units of government and Indian reservations to be used for business loans and/or public improvements need to retain and attract growing companies.

RATIONALE:

In an effort to assist communities statewide in meeting immediate economic development needs, funding for economic recovery grants should be increased. These funds are available to any Minnesota community that can demonstrate a job related economic need and a willingness to contribute to meeting that need. Grants are made to the local government or Indian reservations, which in turn can provide loans to retain an expanding business or attract new businesses. The loans are then repaid to the local government or Indian reservations by the borrower. The loans may then be placed in a revolving loan fund for future economic development by the community.

Emphasis will remain on the creation of new jobs through expansion of existing Minnesota companies and the establishment of new businesses to maintain our regional competitive advantage.

PROGRAM PURPOSE/PERFORMANCE/PROSPECTS:

The Minnesota Trade Office (MTO) is the export and foreign investment development division of the Department of Trade and Economic Development.

The mission of the Minnesota Trade Office is to serve as the state's primary advocate and lead provider of services, events and projects which promote and assist in the development of business exports and foreign investment which have the most positive impact on the Minnesota economy. Business export development is carried out by providing small to mid-size Minnesota businesses with coordinated basic and specialized foreign export training, information, financial assistance and counseling. Foreign investment is carried out by identifying foreign investment opportunities and facilitating their development in cooperation with the Business Development and Analysis Division.

The MTO strives to achieve its mission by pursuing the following objectives:

1. increase Minnesota business awareness of export trade, available trade assistance and knowledge of export trade opportunities;
2. improve Minnesota business export-related knowledge, skills and abilities;
3. improve and enhance Minnesota business access to foreign market information and export assistance;
4. remove financial barriers to potentially successful foreign trade opportunities; and
5. expand foreign investment promotion efforts.

Progress towards these objectives is realized through the services provided by the MTO's Export Outreach and Education (OEO) program and International Marketing and Investment (IMI) program. According to national statistics, Minnesota's performance in national manufactured export rankings has been successful. The state's ranking among all states has risen from 20th to 16th during the period from 1983 to the present. In addition to MTO programs, many factors have contributed to this improved ranking including the quality of Minnesota manufactured goods, progressive state trade policies, aggressive internationally visible trade promotion by state policy leaders and increased awareness of the value of international trade in expanding export markets.

With the assistance of the Urban Institute, the MTO began surveying sample groups of its Minnesota business clients to quantitatively and qualitatively measure the effectiveness and results of its services this past biennium. Nearly 600 Minnesota firms receiving a cross-section of MTO services were surveyed in 1989.

In summary, the Urban Institute survey reflects:

- Nearly 50% of the responding firms reported achieving an export-related result (e.g., increased pre-export activity, increased export sales, exports to new countries, increased export-related employment, and signed license or joint-venture agreements) after receiving MTO services; and
- Nearly one-third, 29%, reported increased export sales after receiving MTO services. The total value of increased export sales reports by surveyed firms, alone, grew between \$19.3 million to \$69.7 million, a range substantially in excess of the MTO's annual budget of \$2.3 million.

The results of this survey guided the MTO in its recent reorganization and are referenced throughout the following performance and prospect evaluations of the Export Outreach and Education and International Marketing and Investment programs.

EXPORT OUTREACH AND EDUCATION (EOE) PROGRAM:

The objectives of the Export Outreach and Education program are to: increase Minnesota business awareness of export trade, available trade assistance and knowledge of export trade opportunities; and to improve Minnesota business export-related knowledge, skills and abilities. Achievement of these objectives are required precursors to successful export trade for new-to-export companies, as well as long-term expansion of trade among existing Minnesota exporters. The major EOE service components which address these objectives are outreach to increase export awareness, export training, trade information (international library) and one-on-one counseling.

The following is an evaluation of the performance of each of these EOE service components and their future prospects.

1. Increased Export Awareness

Awareness of international trade opportunities and available trade assistance are necessary for successful trade exploration and development for the new-to-export business. In F.Y. 1990, the MTO reorganized its programs in order to further maximize statewide business awareness of international trade opportunities, export trade options and export services available from the MTO and other service providers. Actions undertaken in F.Y. 1990 included:

- increasing staff resources for export outreach and education to heighten trade awareness among a greater number of businesses and business intermediaries (chambers of commerce and development groups) and conducting export training and development programs statewide;
- creating and extensively promoting the services and resources available in an expanded and more comprehensive international trade library;
- creating, publishing and distributing a monthly statewide international trade calendar announcing MTO-sponsored and co-sponsored training and development seminars, workshops, trade shows and trade missions;
- entering a cooperative effort with the Minneapolis/Hennepin County International Trade Office to collect and prepare materials for international business service directories which identify private sector vendors of international trade services; and
- researching and preparing for high-profile trade-related meetings between trade delegations accompanying President Gorbachev and Chairman Alexander Dubcek and Minnesota businesses.

The promotional international awareness value of these activities, coupled with major international events such as the political and economic changes internationally, has resulted in:

- a 90% increase (approximately 3,400 to 6,800) in the number of firms and individuals expressing an interest in international trade and receiving a monthly calendar of MTO events;
- a 254% increase (141 to 500+) in the number of monthly users of international trade data in the MTO's international library;
- approximately 2,900 attendees to 54 MTO-sponsored and co-sponsored trade development workshops, seminars and training sessions; and
- approximately 2,640 trade-related business inquiries received and responded to by MTO staff.

Nearly one-third of Minnesota firms possessing export potential are located in rural Minnesota. The remaining two-thirds are located in the metropolitan area. Twenty-eight percent of the MTO's clients are located in rural Minnesota. Seventy-two percent are located in the metropolitan area. It is a high priority of the MTO to serve a client base which reflects the geographic dispersion of export potential firms throughout the State. To accelerate achievement of this objective, while maintaining current levels of service, EOE trade representatives

have increased the number and frequency of rural Minnesota promotional and training activities, working in tandem with local Small Business Development Centers (SBDCs) and chambers of commerce. Working partnerships with these and other local groups have been and are being developed to obtain input at local levels on the kinds of export information and services needed by the business community.

2. Improved Minnesota Business Export-Related Knowledge, Skills and Abilities

- **Export Seminars/Workshop Training:** Once aware of their opportunity to export, the EOE program is structured to increase a firm's export-related knowledge, skills and abilities through formal basic export training seminars and workshops. The past fiscal year has marked a significant increase in the number, quality and benefit of formal export-related training programs. Approximately 2,900 individuals attended 54 MTO-sponsored and co-sponsored trade development workshops, seminars and training sessions in F.Y. 1990. The Urban Institute results indicate that of the businesses surveyed:
 - 81% rated the seminars/workshops as good to excellent, based on timeliness, relevance/accuracy and professionalism;
 - 66% indicated that all services, including training, contributed to increasing their pre-export activities; and
 - 70% reporting an export-related result indicated that seminars/workshops contributed to their result (e.g., increased pre-export activity, exports to new countries, increased export sales, increased export-related employment and signed license or joint-venture agreements).

While approximately 20% of Minnesota's manufacturers are currently exporting, rising demands for pre-export training is reflected by an approximately 52% increase in training workshop attendees.

In order to meet this growing demand, and also maintain quality, the prospects for EOE's training component require continual exploration of ways to creatively delivery quality service. EOE is currently exploring the feasibility of two-way tele-conferencing capabilities that will allow the office to reach larger, more dispersed audiences. The MTO has also expanded efforts to leverage resources by increasing efforts to work in conjunction with other trade service providers and business associations; increasing reliance on external experts for topical workshops; and increasing our sophistication in targeting training to Minnesota businesses depending on their export status, location and product.

International Library: A cornerstone component of the EOE program to improve business export-related knowledge is the export information and assistance available to Minnesota firms in the International Library. Urban Institute results indicate that 90% of the businesses surveyed ranked the International Library service as good to excellent, based on timeliness, relevance/accuracy and professionalism in F.Y. 1990. Reopened in March 1990, the International Library has now witnessed an increase of 254% over the previous year in monthly users (141 to 500+). As an established repository for state international trade information, the library information budget has been supplemented by trade, cultural and market information sources by the public and private sector. A full-time international librarian has been hired to complete the reorganization of the facility, identify needed information sources and insure that they are up-to-date. As a satellite of the department library, the MTO International Library has electronic access to national sources of trade information. It is a high priority of the MTO to obtain access to national trade information being assembled by the U.S. Department of Commerce on compact disk for dissemination to the business community.

One-on-One Export Counseling: The export status (e.g., never exported, new-to-export, seasoned exporter) of Minnesota firms determines the appropriateness of the variety of training and development events sponsored by the MTO and/or available from other service providers. Through one-on-one client counseling, MTO staff assess a client's needs and recommend possible courses of action ranging from responding to a single

information need and facilitating referrals where appropriate to counseling clients on the development of an effective export strategy.

In F.Y. 1990, the MTO staff received, recorded and responded to approximately 2,640 businesses requiring individual assistance. 80% of the surveyed firms ranked the quality of this service as good to excellent. Nearly two-thirds (64%) of those reporting an export-related result, indicated that export counseling contributed to their result.

In order to achieve greater effectiveness and efficiencies in the delivery of counseling assistance, the client intake-assessment has been modified to improve internal referrals of clients to appropriate MTO services. In addition, internal client information hard file systems have been developed to supplement the existing electronic database. On-going evaluation of these systems will be conducted in order to insure optimum client service turn-around time; minimize any duplication of effort; and continually improve internal client communications.

INTERNATIONAL MARKETING AND INVESTMENT PROGRAM:

Once a firm has received sufficient information to make a decision to export, EOE staff refer them to the International Marketing and Investment program. IMI staff provide individualized assistance on specific export opportunities through targeted international marketing information and trade events. The major service components of the IMI program are: export-related information; catalog shows, trade shows and trade missions; foreign offices; agent/distributor lists; introductions to foreign buyers; the Minnesota Export Finance Authority (MEFA); and foreign investment assistance.

These services are designed to address the MTO objectives of: improved and enhanced Minnesota business access to foreign market information and export assistance; removal of financial barriers to potentially successful foreign trade opportunities; and expansion of foreign investment promotion efforts.

The following is an evaluation of the service components of IMI and their future prospects.

1. Improved and Enhanced Minnesota Business Access to Foreign Marketing Information and Export Assistance

Export-Related Information (Publications and Trade Leads): During the past biennium, the MTO organized, collected data and published trade directories of Minnesota agriculture, medical and electronics businesses. Of the businesses surveyed, 83% rated MTO publications as good to excellent. Of those businesses achieving an export-related result, 63% indicated that MTO publications made a contribution to their result.

In a continuing effort to leverage private resources, the medical and electronics directories have now been spun off to the private sector. Demand for the agriculture directory and emerging industries, such as pollution control manufacturers, continues because comparable collections of this kind of Minnesota trade data do not exist. IMI will continue to target needed directories for under-exporting Minnesota industries, with the intent to spin them off to the private sector.

A recent MTO assessment indicated that MTO resource expenditures required to search and disseminate trade leads have achieved some positive results. Urban Institute results indicate that 57% of the businesses surveyed rated this service as good to excellent; 50% achieving an export-result attributed some contribution to the trade lead service offered by the MTO.

The MTO is pursuing the prospect of more cost-effective methods in providing quality trade lead information to Minnesota businesses, including:

- using exclusive trade leads from Minnesota overseas foreign offices and by making those offices more proactive;
- training businesses on how to review and respond to trade leads distributed by the U.S. Department of Commerce; and
- exploring other sources of quality trade leads.

visits, the MTO is exploring ways to consolidate this activity as a specific staff function to improve coordination with externally generated sources of delegation visits.

2. Removal of Financial Barriers to Potentially Successful Trade Opportunities

Minnesota Export Finance Authority (MEFA): The Minnesota Export Finance Authority, a service component of IMI, is the MTO's vehicle for providing Minnesota firms with export finance assistance. Applications for MEFA guarantees are reviewed by MEFA board members which are appointed to staggered four-year terms by the Governor and approved by the Senate.

Access to export financing options and technical counseling continues to be a significant need for small exporters. Due to the savings and loan crisis, traditional sources of bank financing for exports are likely to be reduced in the coming biennium. Through MEFA, the MTO expects to offer continued support to businesses in obtaining financing through working capital guarantees as well as appropriate federal financing sources. Eighty-one percent of surveyed businesses rate financial counseling as good to excellent. The actual financing provided by MEFA also received a good to excellent rating of 71%. The MTO plans to amend certain MEFA rules to make the working capital guarantee program more responsive to business needs.

Also, the need for technical financing counseling is expected to grow, particularly in barter/counter-trade and joint venture financing. The MTO will enhance expertise levels in these areas to maintain competent financial service and assistance.

3. Expanded Foreign Investment Promotion Efforts

With the exception of Canadian investment, Minnesota is under represented in its attraction of foreign investment to the State. A well-qualified foreign investment prospect is a company that is seriously considering an expansion into Minnesota, is well established in its own and other markets and whose expansion into Minnesota will have a positive economic impact on the State. Two well-qualified foreign investment prospects were added to our portfolio of foreign prospects during F.Y. 1990 and continued efforts to expand our investment attraction efforts are being undertaken.

Prospects are routinely served by IMI staff in the MTO, and Business Development and Analysis Divisions. The MTO has primary responsibility for identifying new prospects and developing external promotions. The most effective promotional activities are seminars held in target countries to inform companies of the benefits of locating in Minnesota. Regular, long-term follow-up is also essential, given the relatively long decision-making time associated with investment attraction.

The MTO will continue building the state's resource networks through our foreign offices for investment promotion with individuals and organizations that can make company referrals to Minnesota. The promotional brochures and Profile Minnesota video will be used extensively.

PLAN:

Building upon the reorganized MTO as a base, achievement of the EOE and IMI program prospects outlined above will require continued development and reliance upon:

- private and public sector partnerships to increase export awareness;
- private and public sector partnerships to achieve optimal service delivery economies to increase Minnesota business export-related knowledge through training workshops and seminars which reach a greater audience (e.g., via two-way tele-conferencing);
- local development organizations to obtain input on the kinds of export information and services needed by their business communities;
- leveraging private sector resources in developing needed business directories which identify Minnesota product manufacturers for foreign buyers;

Catalog Shows, Trade Shows and Trade Missions: Participation in these events provides excellent opportunities for Minnesota companies to promote their products to foreign buyers. Through catalog shows, an IMI staff person can undertake preliminary market introduction for selected Minnesota companies. Organized trade show participation gives Minnesota businesses an opportunity to reach a large number of potential buyers. Trade missions also provide focused opportunities for selected Minnesota companies to meet with buyers.

In F.Y. 1990, 189 Minnesota companies participated in IMI-organized foreign shows and missions. These events provided Minnesota companies with an opportunity to gain experience in international marketing in a supportive and supervised activity and opportunities to meet directly with prospective agents and distributors. Survey results (77-89%) rated these services as good to excellent. Of those firms reporting increased sales and exports to new countries, 52% indicated that these and other services made some contribution to their export results.

Based on the success of these activities, IMI will plan to participate in targeted external activities that support MTO objectives in our focus countries and target industries. Several activities are planned internationally in the pollution control area, agriculture and in the medical industry. With the legislative financial support of \$50,000 per year for the Canadian program and the recent opening of the office in Toronto in cooperation with the Great Lakes Association of Governors, broader industry promotions are planned for Canada in F.Y. 1991 than were possible in previous years.

Foreign Offices: MTO foreign offices earned high marks by our clients in the Urban Institute survey for professional and timely service to Minnesota client companies (79% good to excellent). These offices served 651 clients in F.Y. 1990. Foreign offices are critical in providing local business contacts, agent/distributor lists and current market information. They are also able to provide on-the-spot in-country service to traveling Minnesota company representatives.

During F.Y. 1990, the MTO expanded its private sector-supported foreign offices and currently maintains 10 foreign offices in target countries around the world on a very cost-effective partnership basis in all locations. Total MTO contributions are \$203,000 for offices valued at approximately \$550,000. (\$203,000 - MTO and \$347,000 - partnerships = \$550,000.) The State of Illinois, for example, expends approximately \$1 million, alone, for its office in Brussels. The MTO offices are currently located in: London, Stockholm, Oslo, Brussels, Rennes, Osaka, Tokyo, Taipei, Costa Rica and Toronto. No other changes are planned for expansion or within current offices.

Agent/Distributor Lists: Successfully matching a Minnesota company with a foreign agent or distributor is the final step in successful pre-export service; the next step is an actual export sale. IMI provided this matchmaking service to 68 Minnesota companies in F.Y. 1990. Sixty-three percent of the businesses surveyed ranked this service as good to excellent. IMI international trade reps plan to increase their resource networks in targeted international markets through our foreign offices to identify those who can provide in-country assistance with the identification of reliable local agents and distributors for Minnesota client companies. This is an extremely important service of the MTO, as good agents and distributors, identified by MTO foreign offices, are critical to the success of international marketing efforts.

Introduction to Foreign Buyers: The MTO has facilitated and participated in an increasing number of foreign delegation visits and introductions to Minnesota business. (22 delegations in F.Y. 1990; 22 delegations during the first quarter of F.Y. 1991.) Of those firms reporting an export result, 38% indicated that their introduction to foreign buyers by MTO staff contributed to their result (e.g., increased export sales).

Historically, resource demands for incoming delegations has typically required 25% of the time of 4 department staff members (the MTO, the Communications Office, the Administration Division and the Business Development and Analysis Division). To capitalize on the export benefits of the increasing number of these

PROGRAM: Minnesota Trade Office
(Continuation)

1992-93 Biennial Budget

Agency: Trade and Economic Development, Department of

- leveraging private sector resources to maintain the state's network of foreign offices which provide a critical overseas presence and access to vital trade information (e.g., agent/distributors);
- greater internal capabilities in identifying a business's export status, location and product to enhance the targeting and delivery of needed export assistance and services; and
- continued acquisition and monitoring of MTO client feedback to guide resource allocations, service modifications and related staff development.

GOVERNOR'S RECOMMENDATION:

The Governor concurs with the agency's plan for this program. See the following decision page for the specific recommended changes.

1992-1993 B I E N N I A L B U D G E T
(DOLLARS IN THOUSANDS)

AGENCY: TRADE & ECONOMIC DEVELOPMENT
PROGRAM: MN TRADE OFFICE

ACTIVITY RESOURCE ALLOCATION:	FY 1989	FY 1990	Est. FY 1991	FY 1992			FY 1993		
				Adjusted Base	Agency Plan	Governor Recomm.	Adjusted Base	Agency Plan	Governor Recomm.
MN TRADE OFFICE	2,042	2,350	2,347	2,349	2,149	2,149	2,358	2,158	2,158
TOTAL EXPENDITURES BY ACTIVITY	2,042	2,350	2,347	2,349	2,149	2,149	2,358	2,158	2,158
DETAIL BY CATEGORY:									
STATE OPERATIONS	2,042	2,350	2,267	2,299	2,149	2,149	2,308	2,158	2,158
LOCAL ASSISTANCE			80	50			50		
TOTAL EXPENDITURES BY CATEGORY	2,042	2,350	2,347	2,349	2,149	2,149	2,358	2,158	2,158
SOURCES OF FINANCING:									
DIRECT APPROPRIATIONS:									
GENERAL	2,025	2,213	2,324	2,326	2,126	2,126	2,335	2,135	2,135
STATUTORY APPROPRIATIONS:									
SPECIAL REVENUE	17	137	23	23	23	23	23	23	23
TOTAL FINANCING	2,042	2,350	2,347	2,349	2,149	2,149	2,358	2,158	2,158

ACTIVITY:**PROGRAM:** Minnesota Trade Office**AGENCY:** Trade and Economic Development, Department of**1992-93 Biennial Budget****DECISION ITEM:** General Fund Reductions

	Dollars in Thousands			
	<u>F.Y. 1992</u>	<u>F.Y. 1993</u>	<u>F.Y. 1994</u>	<u>F.Y. 1995</u>

AGENCY PLAN:**Expenditures**

General Fund

Eliminate Cultural and Exchange Grants Program	\$	(50)	\$	(50)	\$	(50)	\$	(50)
--	----	------	----	------	----	------	----	------

Eliminate Two Foreign Offices	(105)	(105)	(105)	(105)
-------------------------------	-------	-------	-------	-------

Reduce MN Trade Office Operations	(45)	(45)	(45)	(45)
-----------------------------------	------	------	------	------

Total MN Trade Office	\$	(200)	\$	(200)	\$	(200)	\$	(200)
-----------------------	----	-------	----	-------	----	-------	----	-------

Revenues

General Fund	\$		\$		\$		\$	
--------------	----	--	----	--	----	--	----	--

GOVERNOR'S RECOMMENDATION:**Expenditures**

General Fund	\$	(200)	\$	(200)	\$	(200)	\$	(200)
--------------	----	-------	----	-------	----	-------	----	-------

Revenues

General Fund	\$		\$		\$		\$	
--------------	----	--	----	--	----	--	----	--

Requires statutory change: _____ Yes X No

Statutes Affected:

ITEM SUMMARY:

The Minnesota Trade Office is continually seeking internal efficiencies to maintain and enhance client services, while meeting budget constraints.

The Minnesota Trade Office currently funds cultural and educational exchange grants through a state match program with private non-profit organizations. The match requires three dollars raised for every one state dollar. The projects typically funded would attempt to lead to cultural ties to promote long-term trading relations.

The Minnesota Trade Office also has several trade offices located around the world. To date, the trade offices in other countries have been seemingly passive in trade representation, rather than proactive. The department recommends closing the trade offices in Taiwan and Brittany.

RATIONALE:

Part of the reduction in the Minnesota Trade Office reflects efficiencies and operations reductions such as printing and publications. The office is currently examining the charging of fees for several of the services it provides.

The Cultural and Education Grants Program was funded in F.Y. 1991. The department will attempt to define the success of the program to date before further state match is provided.

The department proposes the development of a five-year trade plan by the Minnesota Trade Office to focus and direct Minnesota's foreign trade activities. Closing of the two offices will result in budgetary savings while representation can be accomplished through auxiliary efforts.

GOVERNOR'S RECOMMENDATION:

The Governor concurs with the agency's plan.

PROGRAM: Office of Tourism
Agency: Trade and Economic Development, Department of

1992-93 Biennial Budget

PROGRAM PURPOSE:

The Office of Tourism's primary purpose is to generate travel and tourism into the state, to provide information to travelers and to provide support services for the state's communities and tourism industry with the objective of increasing gross sales and market share. The office is divided into 3 major service areas: Administrative Services, Customer Services and Marketing Services.

Tourism Administrative Services

The Administrative Services area is comprised of 2 units: the Office of the Director the Administrative Services Unit. These units coordinate the Office of Tourism's management and support services. In addition, multi-state marketing initiatives are the responsibilities of these units, including the Great Lakes, Mississippi River and Provincial programs encompassing 3 provinces and 17 states.

The major responsibilities are designed to:

- Plan and coordinate fiscal, personnel and administrative systems of the office to ensure compliance with state and federal laws, rules, policies and guidelines.
- Distribute printed materials dealing with travel in Minnesota.
- Develop programs and initiatives that address travel and tourism industry needs.
- Leverage human and financial resources through multi-state agreements.
- Develop methods and approaches to coordinate all 16 locations currently operated by the Office of Tourism.
- Develop cohesive office programs through implementation of a 5 year strategic plan.
- Coordinate programs of marketing services and customer services.
- Represent and articulate Minnesota's positions with national and international travel organizations.
- Establish policy and procedures that ensure improved productivity.

Tourism Customer Services

This program covers 3 areas of the Office of Tourism: 1) Minnesota Industry Services, 2) Travel Trade Services and 3) Travel Information Services. Each unit represents a specific clientele of the office. The Minnesota Industry Services provides programs and contact with the businesses and organizations that make up the Minnesota travel industry. The Travel Trade Services provides programs and services to businesses that sell travel products as brokers, i.e., tour operators, travel agents and meeting planners, both in North America and other parts of the world. The Travel Information Services unit provides detailed travel planning and literature for consumers by phone, mail or in person.

Basic areas of responsibility are designed to:

- Develop, monitor and administer joint venture funding programs.
- Act as primary contact and facilitator for the state's travel industry through regional offices in Duluth, Brainerd, Thief River Falls, Mankato and St. Paul for access to state programs.
- Develop and coordinate educational opportunities for the travel industry and the Tourism Center at the University of Minnesota.

- Market Minnesota's travel products to take advantage of the growing markets for group tours, meetings and conventions and international travel.
- Develop additional new travel receipts by including new tours or extending existing tours.
- Provide direct access to information about Minnesota's public and private travel opportunities through an extensive computer/phone system as well at 12 sites located at strategic points in Minnesota.
- Market Minnesota through sales opportunities presented at various trade and consumer shows.

Tourism Marketing Services

This program covers 3 areas: 1) Advertising and Public Relations, 2) Research and Computer Services and 3) Creative Services.

The program's basic areas of responsibility are designed to:

- Generate greater visibility for travel opportunities available in Minnesota.
- Maximize advertising budgets to generate inquiries for travel information.
- Generate private-sector partnerships that leverage public funds to support travel and tourism marketing initiatives.
- Create and utilize technologies for the conveyance of travel information.
- Identify and prioritize travel industry needs in the areas of marketing.
- Track all marketing ventures and provide feedback and analysis of effectiveness.
- Monitor changes in the travel industry including market trends, consumer behavior and economic impact.
- Provide high quality efficient services to the office in the areas of computer systems needs.
- Produce high quality travel information for all customer groups.
- Produce the Minnesota Explorer newspaper.
- Develop customized materials to meet specific needs.
- Produce and provide film, slide and other audio-visual services to the office as well as extended customer groups.

PERFORMANCE:

Tourism Administrative Services

The office has traditionally used industry gross sales figures as indicators of performance. Under the current set of prerequisites for the biennial budget, most 1992-93 biennial budget performance indicators will be stagnate even if no major fuel disruption occurs.

Minnesota Gross Sales
(Millions)

	F.Y. 1989	F.Y. 1990	F.Y. 1991	F.Y. 1992	F.Y. 1993
Lodging	\$614.8	\$639.4	\$665.0	\$665.0	\$665.0
Food and Beverage	\$2,755.0	\$2,865.2	\$2,979.8	\$2,979.8	\$2,979.8
Amusement and Recreation	\$514.8	\$535.4	\$556.8	\$556.8	\$556.8

The office began collecting data over the past 18 months in a different way and will be implementing performance indicator changes during the biennium. The shift will measure performance based on market share and sales figure indicators. An example of new performance indicators is as follows:

North Central United States Market Share (%)

Example Only	F.Y. 1989	F.Y. 1990	F.Y. 1991	F.Y. 1992	F.Y. 1993
Iowa (Growth Market)	13.1	13.3	13.5	14.2	14.6
North Dakota (Maintenance Market)	33.6	33.6	33.6	33.6	33.6

This example allows us to set goals to maintain or expand our market share if funds are available. Each percentage point represents "X" thousands of people travelling and will provide for a much more accurate measurement for tourism programs.

Tourism Customer Services

The tourism industry in Minnesota includes more than 6,000 businesses, a significant number of which enter and withdraw from the market each year. The bed and breakfast industry has been expanding for a number of years while the number of resorts continues to decline. The number of rooms and overall capacity within the lodging industry, however, continues to grow. Gross lodging sales have increased from \$192 million in 1973 to \$591 million in 1988. The number of lodging establishments decreased from 3,956 in 1973 to 2,663 in 1988. Attractions grew from \$185 million in sales for 1973 to \$495 million in 1988 while the number of establishments has increased only from 2,125 to 2,129. Sales for food and beverage establishments have correspondingly risen from \$752 million to \$2,648 million and the number of establishments from 7,580 to 8,257 (Source: Minnesota Department of Revenue). Other areas of the industry are experiencing similar trends as a result of deregulation and other factors. Office of Tourism staffing to address the development function was added in September, 1990 and this year will provide a base level for determining future performance.

The group tour industry is big business. The economic impact of group tours in North America for 1988 was over \$12.7 billion. In Minnesota, the impact exceeded \$23.8 million, a growth of 35% since 1985. Each bus tour staying over night in a community spends an average of \$3,500, which indicates the potential economic impact group tours could bring to Minnesota.

1988 marked the third consecutive year of increased overseas visitation to the United States. Total visitors rose from 10.5 million in 1987 to 12.5 million in 1988. Growth in overseas visitors to Minnesota has also increased steadily since 1983, with a current market share of 2.7% of all visitors to the U.S. The average expenditure per international visitor to Minnesota is \$1,271. Although it is difficult to determine the exact number of meeting and convention attendees to the state, the economic impact is significant. A survey conducted by the International Association of Convention and Visitors Bureau revealed that each convention/trade show attendee spends an average of \$660.57 in the host community. Furthermore, meeting and convention visitors can be converted to leisure travelers in Minnesota.

The total number of customers served by the Office of Tourism continued to expand through the 1980's. Significant customer contact increased to the point where we looked for alternative servicing methods while working within funding limitations. In 1990 we delivered the Minnesota Explorer to 91% of all Minnesota

households rather than soliciting inquiries. The strategy worked in that we maintained non-resident inquiries but had a sharp drop in Minnesota inquiries, thus reaching many more people for the same amount of funds.

Contacts Made (In Thousands)

	F.Y. 1989	F.Y. 1990	F.Y. 1991	F.Y. 1992	F.Y. 1993
Number of mail/phone inquiries	640	*266	535	556	579
Number of customer visits	467	479	498	518	539
Total	1,107	745	1,033	1,074	1,118

* Plus an additional 1.5 million Explorers distributed without inquiry to 91% of Minnesota households.

Tourism Marketing Services

Maximizing the number of inquiries for the lowest cost per inquiry is a primary measurement of results.

	F.Y. 1989	F.Y. 1990	F.Y. 1991	F.Y. 1992	F.Y. 1993
Cost per inquiry	\$1.63	\$.74	\$1.79	\$1.97	\$2.17

There is, however, a direct relationship between funds available and the cost of generating each inquiry, and we must take into account the point of diminishing return where we can get more inquiries but the cost per inquiry will go up.

Computer applications have allowed us to expand services and be more efficient in tracking and monitoring efforts. Fully integrating a computer system in all 16 locations will allow us to continue to maximize staff and financial resources to major clients.

Customer feedback and follow-up surveys convincingly show the Minnesota Explorer to be a highly regarded publication and unit costs remain very low, (under \$.20) However, overall postage costs continue to increase.

Key to any of these marketing strategies is the ability to produce and distribute publications in a timely manner closely tied to advertising schedules and staffing for responses.

PROSPECTS:

Tourism Administrative Services

Following an 18 month internal strategic planning process, the office now develops programs and concepts in a structure that meets its overall objectives. By structuring the office around 2 primary services, marketing services and customer services, we meet the needs of the travel industry in the 1990's. The key here is to maximize resources.

Minnesota's competitive position relative to other states in tourism marketing has been slipping for the last 4 years to where Minnesota now ranks in the lower third of the 50 states. Flexibility will be the key to maintain market share. In addition, coordination of marketing resources will play a significant role. Greater cooperative programs need to be developed with all agencies that relate to tourism, especially various programs of the Departments of Natural Resources and Transportation, the Historical Society, the State Arts Board and others.

If investments cannot be increased, Minnesota's tourism industry will find it difficult to remain competitive, especially with projected bleak economic conditions over the next few years. Of greater concern are the potential disruption in fuel availability and fuel price increases. Since 80% of Minnesota's multi-billion dollar travel industry is dependent on automobile transportation, a major shift in fuel allocations could have a very devastating impact on thousands of businesses, especially in rural Minnesota. In such an event, the Office of Tourism would shift programs to ensure, that fuel is available for travel and focus the marketing to Minnesota and bordering states to minimize the negative impacts. A similar program implemented during the 1973-1974 oil embargo was very successful.

PROGRAM: Office of Tourism
(Continuation)

1992-93 Biennial Budget

Agency: Trade and Economic Development, Department of

Tourism Customer Services

Expanding technology and more effective staffing in information centers may allow us to maintain our current level of services. All of these areas would be altered with sharp spikes in the price of fuel or its availability. Continuing demands to improve local marketing activities will add more pressure to a staff that is already at capacity, especially in coverage and services in southern Minnesota. Developing and enhancing partnerships with other state agencies will be key to maintaining services at the present level within budgetary constraints.

Tourism Marketing Services

Developing a greater understanding of markets through research and quantitative data collection and moving to market share evaluation should position Tourism better in the years ahead. In addition, consumer research on publications will allow us to refocus on customer information needs. By 1992 the prospect is to develop comprehensive and effective data bases which allow the office to reduce dependence on printed materials.

The ability to create new and enhance current information systems will be the key to gaining competitive advantage over other states. The accessibility to the Statewide Telecommunications Access and Routing System (STARS) network is critical to our long-term systems development and to creating information systems and services in the area of vacancy reporting and lead sharing with the industry.

PLAN:

Tourism Administrative Services

Focus will be placed on further integration of the office and industry's strategic plans and on greater utilization of existing resources, especially in the customer service areas of the office. The office will continue applications of new technology to provide travel information to the public. With the improvements implemented in the last 18 months, the current structure of the office is reflected in this BASE level funding request.

Tourism Customer Services

BASE level funding with no reallocation change is being requested under this area. With the potential for very rapid change in the travel industry, the entire customer service group needs to be ready to respond, but at the present, a reallocation to one group would seriously detract from meeting the overall agency and office objectives.

Tourism Marketing Services

There are no reallocation changes presented as part of this plan. The request is for BASE level funding based on a 5 year strategic plan.

GOVERNOR'S RECOMMENDATION:

The Governor concurs with the agency's plan for this program. See the following decision page for the specific recommended changes.

ACTIVITY:**PROGRAM:** Office of Tourism**AGENCY:** Trade and Economic Development, Department of**1992-93 Biennial Budget****RATIONALE:**

The Joint Venture grants are match monies designed to stimulate the expansion of private sector marketing to generate increased travel into and throughout Minnesota. The remaining program funding will be refocused in areas which maximize benefits by attracting new travelers into the state in partnership with the tourism industry.

Office of Tourism operations will be reduced mainly by taking steps to further reduce the printing and production costs of publications.

GOVERNOR'S RECOMMENDATION:

The Governor concurs with the agency's plan.

DECISION ITEM: General Fund Reductions**AGENCY PLAN:****Expenditures**

General Fund

	Dollars in Thousands			
	F.Y. 1992	F.Y. 1993	F.Y. 1994	F.Y. 1995
Reduce Joint Venture Grants	\$ (480)	\$ (480)	\$ (480)	\$ (480)
Reduce Office of Tourism Operations	(272)	(272)	(272)	(272)
	—	—	—	—
Total Office of Tourism	\$ (752)	\$ (752)	\$ (752)	\$ (752)

Revenues

General Fund

\$ -0-	\$ -0-	\$ -0-	\$ -0-
--------	--------	--------	--------

GOVERNOR'S RECOMMENDATION:**Expenditures**

General Fund

Reduce Joint Venture Grants	\$ (480)	\$ (480)	\$ (480)	\$ (480)
Reduce Office of Tourism Operations	(272)	(272)	(272)	(272)
	—	—	—	—
Total Office of Tourism	\$ (752)	\$ (752)	\$ (752)	\$ (752)

Revenues

General Fund

\$ -0-	\$ -0-	\$ -0-	\$ -0-
--------	--------	--------	--------

Requires statutory change: _____ Yes _____ No

Statutes Affected:

ITEM SUMMARY:

The Minnesota Office of Tourism is continually finding ways to maintain the quality of service to its clientele while recognizing budget constraints. The Joint Venture grants are being reduced and refocused. Printing and production costs of publications remain a large part of the tourism budget and economies will be sought in this area.

1992-1993 BIENNIAL BUDGET
(DOLLARS IN THOUSANDS)

AGENCY: TRADE & ECONOMIC DEVELOPMENT
PROGRAM: TOURISM

ACTIVITY RESOURCE ALLOCATION:	FY 1989	FY 1990	Est. FY 1991	FY 1992			FY 1993		
				Adjusted Base	Agency Plan	Governor Recomm.	Adjusted Base	Agency Plan	Governor Recomm.
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOURISM ADMINISTRATIVE SERVICES	650	970	979	985	978	978	984	977	977
CUSTOMER SERVICES	2,831	3,814	4,363	3,850	3,360	3,360	3,837	3,347	3,347
MARKETING SERVICES	3,866	3,845	3,906	3,791	3,536	3,536	3,788	3,533	3,533
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL EXPENDITURES BY ACTIVITY	7,347	8,629	9,248	8,626	7,874	7,874	8,609	7,857	7,857
DETAIL BY CATEGORY:									
=====									
STATE OPERATIONS	6,723	7,352	7,727	7,646	7,374	7,374	7,629	7,357	7,357
LOCAL ASSISTANCE	624	1,277	1,521	980	500	500	980	500	500
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL EXPENDITURES BY CATEGORY	7,347	8,629	9,248	8,626	7,874	7,874	8,609	7,857	7,857
SOURCES OF FINANCING:									
=====									
DIRECT APPROPRIATIONS:									
GENERAL	6,471	7,332	7,874	7,242	6,490	6,490	7,232	6,480	6,480
TRUNK HIGHWAY	288	673	719	729	729	729	722	722	722
STATUTORY APPROPRIATIONS:									
SPECIAL REVENUE	588	624	655	655	655	655	655	655	655
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL FINANCING	7,347	8,629	9,248	8,626	7,874	7,874	8,609	7,857	7,857

PROGRAM PURPOSE:

The Business Development and Analysis Division promotes economic growth and healthy, self-sustaining communities through marketing, technical assistance, analysis, evaluation, publications and information services, training assistance and partnership activities. The primary customers of the division are businesses, communities and other department programs.

The services provided by this division are designed to:

- promote business investment and expansion in Minnesota by demonstrating the state's comparative advantages;
- provide information necessary for small businesses to make decisions about start-up, operation or expansion in Minnesota;
- promote business expansion and growth through business/education partnerships in order to facilitate needed changes in the state educational system and continuing education and training of the state's work force;
- assist communities to more effectively market their economic strengths and create an environment most conducive to economic growth;
- enhance department-wide quality, program effectiveness and decision-making through analysis, evaluation and computer support services; and
- fulfill legislative mandates by administering grants to designated economic development organizations.

PERFORMANCE:

Business Investment and Expansion

"Forward Minnesota" will be a public-private partnership program to actively promote and market Minnesota among in-state and out-of-state companies and to create a positive image of the state, conducive to economic growth and business opportunity. To fund the public section of the partnership, \$250,000 is requested for F.Y. 1992 and \$500,000 is requested for F.Y. 1993. These dollars will be leverage with nonstate funds.

The State of Minnesota has been subject to intense marketing programs from neighboring states to attract movement to or expansion in non-Minnesota locations. Wisconsin has been most notable in its activities. "Forward Minnesota" will direct a pro-business effort to convince Minnesota-based companies to expand in Minnesota, and non-Minnesota based companies to locate and grow in Minnesota.

Most of Minnesota's economic growth comes from investment and expansion by businesses already in the state. It is important for the state to be proactive in retaining businesses, encouraging expansions within the state and aggressively competing for business investment when opportunities arise.

The core of Minnesota's business marketing strategy is to identify the state's comparative advantages and to demonstrate to businesses these strengths when an expansion opportunity arises. (Although Minnesota's tax costs are somewhat above average, the state offers many advantages to business in terms of a skilled labor force, education system, transportation, electricity and land costs, cost of living and access to markets). The central document used to promote this approach is Compare Minnesota, an economic and statistical fact book, which has been recognized as best of its kind by other economic development professionals in the region. This award-winning document is a cost effective means of initially responding to the many business inquiries received both from within the state and outside state borders each year. In addition, for specific expansion opportunities, division staff will prepare proposals with detailed information about Minnesota and competing states.

Roughly 15 companies, that had contacted the department's industrial recruitment staff for site selection assistance, made decisions in 1989 to build or locate in Minnesota. At least \$100 million in new capital investment in 1989 resulted from firms that had worked with recruitment staff. The staff receive information requests weekly from companies considering site selection decisions. These inquiries range from preliminary requests for basic information about the state to very complex questions covering a range of topics on the economy, labor force, taxes and regulation. Virtually all of the information requests come from firms considering both Minnesota and non-Minnesota locations. It is important that department staff respond thoroughly and thoughtfully because many businesses, both Minnesota-based and non-Minnesota firms, form their first impressions about Minnesota and state government from these inquiries.

Another approach is to actively seek business investment in specific, targeted industries. Minnesota has industry specialists in wood products, medical and high-technology industry. These specialists develop significant expertise about their designated industry and the companies involved.

Small Business Assistance

The department's small business assistance staff provide information to individuals and firms to make decisions about the start-up, operation or expansion of a small business in Minnesota in three ways: 1) through publications such as A Guide To Starting A Business In Minnesota; 2) through direct one-on-one counseling and assistance to businesses through the network of 29 Small Business Development Centers (SBDC's) and in-house staff; and 3) by conducting workshops and seminars on topics important to small business.

There are 3 performance measures which can be used to assess the effectiveness of these efforts.

- The degree to which the information is indeed used by recipients in making decisions about business start-up or operation. According to a 1989 customer survey done jointly by the Department and the Urban Institute, the Small Business Assistance Office's (SBAO) services do produce direct results.

Twenty-seven percent of the program users made a decision to go into business; further, 20% of these users had actually started a business. Twenty-eight percent expanded operations, while 31% made a significant change in the nature of their business or markets. Twenty-one percent had used Small Business Assistance office services in solving a specific operational problem. Eighty percent of all responding users had experienced at least one of the above positive outcomes.

- The degree to which the information and services provided contributed to these positive outcomes.

In that same survey, 48% of those starting a business indicated that SBAO services were critical to or helpful to their decision-making. Those services were likewise ranked critical to decisions made by those expanding current operations (37%), those remedying specific business problems (42%) and those who had improved business operations (51%).

- The degree to which customers were satisfied with services.

Ninety percent of clients surveyed would recommend the Small Business Assistance office to other small business persons seeking assistance.

Developing Business Work Force

The Job Skills Partnership program provides grants-in-aid to a consortia of businesses, educational institutions and labor organizations to assist in new business development and expansion. These partnerships develop training programs which result in businesses obtaining needed employees, persons being trained and employed in skilled and technical jobs and market responsive change in the education systems.

Performance measures for the Job Skills Partnership are:

- The degree to which businesses received workers with proper training.

PROGRAM: Business Development and Analysis
(Continuation)
Agency: Trade and Economic Development, Department of

1992-93 Biennial Budget

To date the program has provided 125 different businesses with over 6,000 trained individuals. These 65 projects involved 50 educational institutions from all state systems.

- The degree to which individuals trained have found real job placements.

Nearly 100% of trainees are placed in jobs with wages at least 140% above the minimum wage at time of placement.

- The degree to which local educational institutions have changed their course/training offerings to be more market responsive.

Ten new curricular offerings have resulted from Job Skill Partnership projects with programs being implemented in 3 new occupational areas.

Community Assistance

The department's marketing and business promotion programs provide technical assistance to help Minnesota communities market their economic strengths and become healthy and self-sustaining.

Ongoing community assistance programs are:

- Star Cities - increased the capacity of over 100 Minnesota cities in 10 years to be more competitive in attracting businesses and expanding the economic competitiveness of the community.
- Business retention surveys - conducted annually by local communities and tabulated and analyzed by department staff to help in business marketing, retention of local firms and identifying prospects for expansion.
- Community Profiles - practical, four-page information sheets, containing essential data for business location decisions for each of 247 Minnesota cities.

Surveys conducted of Star City program participants and Star City activity logs reveal that the program has significant impact and helps achieve economic development outcomes:

- Star Cities are twice as likely to actively work with new businesses to get them to locate in their cities than are non-Star Cities.
- Economic development marketing materials are available from all Star Cities while only 24% of non-Star Cities have them. More than 90% of Star Cities compile economic development facts needed for industrial recruitment, compared to 54% for non-Star Cities.
- More than 90% of Star Cities said the program improved their capacity to provide business assistance.
- More than 70% of Star Cities took an active part in helping businesses to expand while fewer than 30% of non-star cities did.

Quality and Program Effectiveness

As a support or staff unit, the Information, Analysis and Evaluation office undertakes activities to help focus departmental resources and improve the efficiency of line programs.

- In 1988, the office undertook a department-wide effort with the assistance of the Urban Institute to

implement performance monitoring systems designed to improve program quality by seeking customer feedback. The office has developed program evaluation systems for 7 department programs reaching nearly 1,200 department clients. These performance monitoring systems have been recognized as models by the National Conference of State Legislatures and the National Association of State Development Agencies as prototypes.

- The office developed and enhanced an integrated computer information system for the Minnesota Trade Office which is used by all staff. The system features custom designed international trade data bases providing current information on 3,500 Minnesota firms with export capability and over 400 firms offering international business services. These automated data bases allow the Minnesota Trade Office to conduct targeted educational seminars and workshops and help identify and track potential exporters.
- The office trained 100 departmental staff to use various computer word processing, spreadsheet, graphic and data base software to increase use by staff of computer hardware and software. The training has resulted in significantly improved productivity and quality of work in the department.
- The office provides impact analysis to help ensure that the economic benefits of projects outweigh the potential costs.

The office's information and analysis is also used strategically to help target departmental resources by improving understanding of economic trends and conditions, helping in the formulation of management decisions and program design.

- The office acts as lead agency in the coordination and the production of the Economic Report to the Governor. The international trade chapter of the 1990 report was used to identify under-exporting industries to be addressed by Minnesota Trade Office outreach programs.
- In the past biennium the office prepared strategic analyses for the wood products and health/medical industry specialist programs. These have been used to ensure that marketing activities are directed toward export-based, value-added activities. In addition, the office conducted a major business issues survey in 1990, the Enterprise 1990 Business Survey, to help direct the department business assistance activities and to identify business concerns and plans for the 1990's.

External Grant Administration

The state legislature appropriated funding for designated organizations within the department's budget appropriation. While the activities of these organizations are related to the department's economic development mission, the programs are not managed by department staff. A grant agreement between the Minnesota Project Outreach Corporation and the department was consummated in F.Y. 1990 for the development, implementation and operation of a technology and business assistance database and information system as required by Laws of 1989. The Minnesota Film Board received annual grants through the department to encourage the production of feature films in Minnesota. Minnesota Project Innovation received annual grants to assist Minnesota businesses in obtaining federal small business innovation research grants. The Minnesota Council for Quality received funding to provide grants for community quality councils and to develop a Minnesota Quality Award.

PROSPECTS:

The economy continues to change and become more complex, posing significant challenges for Minnesota state government in the next biennium. For example:

- The typical Minnesota business birth rate over a 2 year period is more than 30%.
- A national recession or economic slowdown is forecasted in 1991.
- Minnesota's computer industry continues to restructure, declining by 4,000 jobs in 1990.
- High levels of corporate debt are likely to reduce total new investments, further increasing competition for

PROGRAM: Business Development and Analysis

1992-93 Biennial Budget

(Continuation)

Agency: Trade and Economic Development, Department of

remaining investments.

- Unfilled commercial and industrial properties nationally and in Minnesota are fostering increased competition for business expansion projects.
- Business birth, death and expansion and contraction occurs at a phenomenal rate. Over a 2 year period, new business formations account for nearly one-third of the business base.
- Demographic patterns and technological changes may result in skill mismatches, with labor force shortages in some skills and surpluses in others.

Given state budget constraints as well as a continued priority on economic development in 1990, the Business Promotion Division and the Policy Analysis and Science and Technology Division were reorganized and consolidated into the Business Development and Analysis Division. In addition to streamlining and reducing budget costs, the reorganization has increased flexibility to respond to customers, clarified program functions, integrated and redefined services to meet the department's mission, increased teamwork and created an environment for continuous improvement. The restructured division should be more effective in responding to economic change and complexity and meeting the needs of its business, community and internal customers.

Small Business Support

Future prospects of the small business assistance program are directly affected by 3 major factors:

1. Changes in the overall level of demand for services. According to the U.S. Small Business Administration, new, small firm creation will increase in the decade of the 1990's in response to factors like: the internationalization of business opportunities (especially in light of recent changes in Eastern Europe and the 1992 implementation of the European Economic Community); the continuation of technological change; the increased consolidation (downsizing) of certain industries with resultant unemployment of skilled workers and managers; the increased ownership of businesses by women and efforts at all levels of government to promote rural economic growth.
2. Changes in the level of demand for new or sophisticated services. Individuals and firms are turning to the Small Business Assistance office with increasingly sophisticated business planning and management issues in areas like taxation, regulation, new product introduction and technology transfer. As products and markets become more complex and competition for initial financing and on-going profits become stronger, this demand for second-order, sophisticated services can be expected to increase.
3. Changes in federal or state priorities for service delivery and funding of that delivery. Under funding guidelines in proposed federal regulation re-authorizing the SBDC program, Minnesota would receive a modest increase in federal funds (less than \$200,000). Any other new initiatives or expansions of existing initiatives must come from leveraged state, local and private sources.

Demand for specialized training to meet business skills needs will continue to expand in the future as entry level labor pool shrinks, and technological changes result in new labor skill needs. Job Skills Partnership grants will become increasingly important in leveraging private sector educational institution investments in the kind of training needed for economic growth.

Internal Customers

The success of the department's programs depends on quality information, analysis and evaluation, which are provided department-wide by this division. Future prospects which need to be addressed in meeting these needs of are as follows:

- In addition to current work load, the high-technology industry specialist, the international initiatives and the local labor supply are emerging issues and programs that require strategic information and analysis.
- Major business expansion projects will continue to rely on analytic information about Minnesota's comparative advantages and strategic information about our competitive weaknesses.
- The need for customer feedback on desired/useful programs and services will require expanding performance monitoring systems. Systems for 5 additional departmental performance monitoring systems are under development at this time, with a departmental goal to add 1 new program per division, per year.
- Further improvements to the department's management information systems will need to be made to continue productivity and efficiency improvements. Development of networks and electronic databases will reduce staff time requirements and improve communication and quality of services.

PLAN:

In order to meet anticipated needs without additional resources, the division will:

Seek Customer Feedback to Establish Office Priorities

- All of the community assistance functions now include a customer feedback component. Formal quality surveys, in part designed by the Urban Institute, go to all department technical assistance community customers. This feedback will be used to modify functions and activities based on what our customers say. Educational activities, printed materials including program manuals and outreach activities were modified based on customer feedback and this trend will continue.
- The Information, Analysis and Evaluation office implemented performance monitoring for its own projects and services in 1990. Business promotion activities rated the highest scores in terms of both usefulness and service quality. These services will continue to receive top priority status. In addition, the Enterprise 1990 Business Survey will be used to help prioritize future analytic activities.
- The office will continue to expand performance monitoring to other division programs.

Reallocate Internal Resources

- In making worker training grants-in-aid, the Job Skills Partnership program will focus activities on immediate benefits to business through worker training. Consultation and technical assistance to educational institutions and the development of policy to increase educational capacity will take a secondary role.
- The department's centralization of industrial and commercial marketing has created economies of scale in administering the program.
- In the past biennium, in order to meet the needs for international trade analysis, internal resources were reallocated so that an additional analyst was assigned to international trade activities. In order to meet the needs for performance monitoring system development, a divisional clerical position was reclassified to a program evaluation specialist. This internal reallocation of resources to respond to customer needs will continue.

Automate Systems/Improve Efficiency

- In order to increase staff productivity and effectiveness, data base development and information systems automation will continue. This will allow analysts and other staff to respond to business requests for information more quickly, freeing up time for in-depth analytic questions. Data bases that have been targeted for development and refinement over the biennium:

PROGRAM: Business Development and Analysis
(Continuation)

1992-93 Biennial Budget

Agency: Trade and Economic Development, Department of

- a) County/community data base;
- b) Electronic industry employment data base;
- c) Minnesota Trade Office exporters/client tracking data base;
- d) High-Technology data base; and
- e) Economic information help desk.

These 6 data bases, along with our already existing data bases, will be collectively housed as a part of the department's computerized Minnesota economic development information system. The system will ultimately contain all the data bases and software tools staff use for report writing and analytic purposes.

- The Small Business Assistance program will further explore economies in publishing (through consolidations of publications) and in day-to-day operations through joint and shared efforts with other departmental offices in areas of clerical support and mailing.

Leverage Resources

- The agency relies on corporate support for virtually all of its marketing activities and this trend is expected to continue. In general, corporate support will provide increased resources for program activity. During the past biennium, corporations such as Minnegasco, NSP, Minnesota Power, Norwest Banks, Short Elliot Hendrickson, Valspar Paints and Land O'Lakes donated cash or products to support department-sponsored programs or activities. Many other firms supplied in-kind support and dozens of firms were charged fees to participate in activities.
- Increased partnership activity with communities, other economic development organizations and industry will be used to increase quality and quantity of services because increased resources are not available inside the agency. For example, communities and other economic development organizations attending department-sponsored trade show trips are charged a fee. More than \$100,000 in cash was raised by these methods in 1990.
- The Small Business Assistance office will continue to aggressively seek contributed resources through joint ventures with private sector firms. In 1989, contributed services for publication development totaled \$125,000.
- The Small Business Assistance program will also seek contributed cash resources for support of direct service counseling. A new small business development center advisory committee will have as one of its roles to seek out the contributed resources of the private sector.

GOVERNOR'S RECOMMENDATION:

The Governor concurs with the agency's plan for this program. See the following decision pages for the specific recommended changes.

1992-1993 BIENNIAL BUDGET
(DOLLARS IN THOUSANDS)

AGENCY: TRADE & ECONOMIC DEVELOPMENT
PROGRAM: BUSINESS DEVELOPMENT & ANALYSIS

ACTIVITY RESOURCE ALLOCATION:	FY 1989	FY 1990	Est. FY 1991	FY 1992			FY 1993		
				Adjusted Base	Agency Plan	Governor Recomm.	Adjusted Base	Agency Plan	Governor Recomm.
BUSINESS DEVELOPMENT & ANALYSIS	5,476	6,979	7,406	5,963	5,863	5,863	5,957	6,057	6,057
CELEBRATE MN 1990 (HISTORICAL ONLY)	250	200	136						
TOTAL EXPENDITURES BY ACTIVITY	5,726	7,179	7,542	5,963	5,863	5,863	5,957	6,057	6,057
DETAIL BY CATEGORY:									
STATE OPERATIONS	4,256	4,894	4,689	4,474	4,557	4,557	4,468	4,801	4,801
LOCAL ASSISTANCE	1,470	2,285	2,853	1,489	1,306	1,306	1,489	1,256	1,256
TOTAL EXPENDITURES BY CATEGORY	5,726	7,179	7,542	5,963	5,863	5,863	5,957	6,057	6,057
SOURCES OF FINANCING:									
DIRECT APPROPRIATIONS:									
GENERAL	4,495	5,445	5,918	4,431	4,331	4,331	4,426	4,526	4,526
ENVIRONMENTAL		204	283	215	215	215	214	214	214
MOTOR VEHICLE TRANS	180								
STATUTORY APPROPRIATIONS:									
SPECIAL REVENUE	132	106	150	140	140	140	140	140	140
FEDERAL	276	1,382	1,150	1,150	1,150	1,150	1,150	1,150	1,150
GIFTS AND DEPOSITS	10	42	41	27	27	27	27	27	27
ENERGY ECONOMIC DEVL	633								
TOTAL FINANCING	5,726	7,179	7,542	5,963	5,863	5,863	5,957	6,057	6,057

ACTIVITY:
PROGRAM: Business Development and Analysis
AGENCY: Trade and Economic Development, Department of

1992-93 Biennial Budget

DECISION ITEM: General Fund Reductions

	Dollars in Thousands			
	F.Y. 1992	F.Y. 1993	F.Y. 1994	F.Y. 1995
AGENCY PLAN:				
Expenditures				
General Fund				
Phase Out Grant to the Minnesota Motion Picture Board	\$ (66)	\$ (116)	\$ (166)	\$ (166)
Eliminate Grant to Minnesota Project Innovation	(117)	(117)	(117)	(117)
Reduce Business Development and Analysis Operations	(167)	(167)	(167)	(167)
Total Business Development and Analysis	\$ (450)	\$ (450)	\$ (450)	\$ (450)

Revenues				
General Fund	\$	\$	\$	\$

GOVERNOR'S RECOMMENDATION:

Expenditures				
General Fund	\$ (450)	\$ (450)	\$ (450)	\$ (450)
Revenues				
General Fund	\$	\$	\$	\$

Requires statutory change: _____ Yes X No
Statutes Affected:

ITEM SUMMARY:

The Business Development and Analysis Division is continually seeking internal efficiencies to maintain and enhance client services, while meeting budget constraints.

The division is responsible for several pass-through grant programs to non-profit organizations. The Minnesota Motion Picture Board has received a state subsidy since 1985. The purpose of the program is to attract out-of-state film production.

The division also provides matching funds to Minnesota Project Innovation (MPI), a non-profit corporation designed to provide services to Minnesota businesses seeking federal research grants.

RATIONALE:

The emphasis of the Business Development and Analysis Division should be on promoting Minnesota businesses and providing information for those businesses to aid in efforts of expansion and job creation. Subsidies, such as the Motion Picture Board will take a lower priorities due to budget constraints.

Minnesota Project Innovation currently receives funding through the Small Business Development Centers (SBA money) and state money. In addition to the funds it receives from legislative appropriations, Minnesota Project Innovation receives federal dollars as a Small Business Development Center (SBDC). The amount of those federal dollars is negotiated each calendar year with the department in its role as administer of the SBDC program in Minnesota. For calendar year 1991, MPI is scheduled to receive \$85,545 as a SBDC. It must match that award dollar-for-dollar, with half the match in cash.

MPI should continue to receive its SBDC funding and it is recommended that MPI secure additional funding (including any match) by contracting to sell its services to other SBDCs (there are 29 sites in Minnesota) and other public and private organizations like the Greater Minnesota Corporation, Minnesota Project Outreach, or the Minnesota High Technology Corridor.

GOVERNOR'S RECOMMENDATION:

The Governor concurs with the agency's plan. The Governor also recommends that the Greater Minnesota Corporation (GMC) consider funding for Minnesota Project Innovation.

1992-1993 B I E N N I A L B U D G E T
(DOLLARS IN THOUSANDS)

AGENCY: TRADE & ECONOMIC DEVELOPMENT
PROGRAM: BUSINESS DEVELOPMENT & ANALYSIS

ACTIVITY RESOURCE ALLOCATION:	FY 1989	FY 1990	Est. FY 1991	FY 1992			FY 1993		
				Adjusted Base	Agency Plan	Governor Recomm.	Adjusted Base	Agency Plan	Governor Recomm.
BUSINESS DEVELOPMENT & ANALYSIS	5,476	6,979	7,406	5,963	5,863	5,863	5,957	6,057	6,057
CELEBRATE MN 1990 (HISTORICAL ONLY)	250	200	136						
TOTAL EXPENDITURES BY ACTIVITY	5,726	7,179	7,542	5,963	5,863	5,863	5,957	6,057	6,057
DETAIL BY CATEGORY:									
STATE OPERATIONS	4,256	4,894	4,689	4,474	4,557	4,557	4,468	4,801	4,801
LOCAL ASSISTANCE	1,470	2,285	2,853	1,489	1,306	1,306	1,489	1,256	1,256
TOTAL EXPENDITURES BY CATEGORY	5,726	7,179	7,542	5,963	5,863	5,863	5,957	6,057	6,057
SOURCES OF FINANCING:									
DIRECT APPROPRIATIONS:									
GENERAL	4,495	5,445	5,918	4,431	4,331	4,331	4,426	4,526	4,526
ENVIRONMENTAL		204	283	215	215	215	214	214	214
MOTOR VEHICLE TRANS	180								
STATUTORY APPROPRIATIONS:									
SPECIAL REVENUE	132	106	150	140	140	140	140	140	140
FEDERAL	276	1,382	1,150	1,150	1,150	1,150	1,150	1,150	1,150
GIFTS AND DEPOSITS	10	42	41	27	27	27	27	27	27
ENERGY ECONOMIC DEVL	633								
TOTAL FINANCING	5,726	7,179	7,542	5,963	5,863	5,863	5,957	6,057	6,057

ACTIVITY:
PROGRAM: Business Development and Analysis
AGENCY: Trade and Economic Development, Department of

1992-93 Biennial Budget

DECISION ITEM: General Fund Reductions

AGENCY PLAN:	Dollars in Thousands			
	F.Y. 1992	F.Y. 1993	F.Y. 1994	F.Y. 1995
Expenditures				
General Fund				
Phase Out Grant to the Minnesota Motion Picture Board	\$ (66)	\$ (116)	\$ (166)	\$ (166)
Eliminate Grant to Minnesota Project Innovation	(117)	(117)	(117)	(117)
Reduce Business Development and Analysis Operations	(167)	(167)	(167)	(167)
Total Business Development and Analysis	\$ (350)	\$ (400)	\$ (400)	\$ (400)

Revenues				
General Fund	\$	\$	\$	\$

GOVERNOR'S RECOMMENDATION:

Expenditures				
General Fund	\$ (350)	\$ (400)	\$ (400)	\$ (400)

Revenues				
General Fund	\$	\$	\$	\$

Requires statutory change: _____ Yes X No
Statutes Affected:

ITEM SUMMARY:

The Business Development and Analysis Division is continually seeking internal efficiencies to maintain and enhance client services, while meeting budget constraints.

The division is responsible for several pass-through grant programs to non-profit organizations. The Minnesota Motion Picture Board has received a state subsidy since 1985. The purpose of the program is to attract out-of-state film production.

The division also provides matching funds to Minnesota Project Innovation (MPI), a non-profit corporation designed to provide services to Minnesota businesses seeking federal research grants.

RATIONALE:

The emphasis of the Business Development and Analysis Division should be on promoting Minnesota businesses and providing information for those businesses to aid in efforts of expansion and job creation. Subsidies, such as the Motion Picture Board will take a lower priorities due to budget constraint

Minnesota Project Innovation currently receives funding through the Small Business Development Centers (SBA money) and state money. In addition to the funds it receives from legislative appropriations, Minnesota Project Innovation receives federal dollars as a Small Business Development Center (SBDC). The amount of those federal dollars is negotiated each calendar year with the department in its role as administrator of the SBDC program in Minnesota. For calendar year 1991, MPI is scheduled to receive \$85,545 as a SBDC. It must match that award dollar-for-dollar, with half the match in cash.

MPI should continue to receive its SBDC funding and it is recommended that MPI secure additional funding (including any match) by contracting to sell its services to other SBDCs (there are 29 sites in Minnesota) and other public and private organizations like the Greater Minnesota Corporation, Minnesota Project Outreach, or the Minnesota High Technology Corridor.

GOVERNOR'S RECOMMENDATION:

The Governor concurs with the agency's plan. The Governor also recommends that the Greater Minnesota Corporation (GMC) consider funding for Minnesota Project Innovation.

ACT Y: 1992-93 Biennial Budget
PROGRAM: Business Development and Analysis
AGENCY: Trade and Economic Development, Department of

DECISION ITEM: New Initiative to Promote Minnesota's Business Climate

	Dollars in Thousands			
	<u>F.Y. 1992</u>	<u>F.Y. 1993</u>	<u>F.Y. 1994</u>	<u>F.Y. 1995</u>

AGENCY PLAN:

Expenditures				
General Fund	\$ 250	\$ 500	\$ 500	\$ 500

Revenues				
General Fund	\$	\$	\$	\$

GOVERNOR'S RECOMMENDATION:

Expenditures				
General Fund	\$ 250	\$ 500	\$ 500	\$ 500

Revenues				
General Fund	\$	\$	\$	\$

Requires statutory change: _____ Yes X No

Statutes Affected:

ITEM SUMMARY:

"Forward Minnesota" will be a public-private partnership program to actively promote and market Minnesota among in-state and out-of-state companies and to create a positive image of the state, conducive to economic growth and business opportunity. To fund the public section of the partnership, \$250,000 is requested for F.Y. 1992 and \$500,000 is requested for F.Y. 1993. These dollars will be leveraged into non-state funds.

RATIONALE:

The State of Minnesota has been subject to intense marketing programs from neighboring states to attract movement to or expansion in non-Minnesota locations. Wisconsin has been most notable in its activities. "Forward Minnesota" will direct a pro-business effort to convince Minnesota-based companies to expand in Minnesota, and non-Minnesota based companies to locate and grow in Minnesota.

GOVERNOR'S RECOMMENDATION:

The Governor concurs with the agency's plan.

PROGRAM: Administration
Agency: Trade and Economic Development, Department of

1992-93 Biennial Budget

PROGRAM PURPOSE:

Administration provides centralized administrative, management, communications and legislative, executive branch and federal liaison support to departmental operating divisions by developing and directing the implementation of organizational policies, providing management direction, fiscal services, personnel/employee relations services, departmental publications and marketing materials.

1. The Commissioner's Office is responsible for overall department policy and management systems development in order to ensure that department resources are effectively and efficiently utilized, that individual and divisional roles and responsibilities for accomplishing departmental mandates are clear and that accountability, productivity and program effectiveness can be accurately measured.
2. The Administrative Services activity provides and coordinates the department's management support services through 3 sections: The Fiscal Services Unit, the Office Services Unit and the Personnel Services Office.
 - The Fiscal Services Unit provides the budgeting, accounting, financial reporting, purchasing, payroll processing, accounts payable and general accounting functions and ensures compliance with state and federal laws, rules, policies and guidelines for appropriate use of fiscal resources.
 - The Office Services Unit is responsible for staffing the department's reception area and responding to general information inquiries, departmental records management, fixed asset inventory management, mail processing and distribution, equipment leasing and maintenance, telecommunications order processing, supplies purchasing and distribution of supplies and space allocation.
 - The Personnel Services Office administers the department's personnel and labor relations program including recruitment, selection classification, and compensation, benefits administration, labor contract administration, affirmative action, employee development, health and safety. The office works to support management's maximum utilization of the human resources required to fulfill the mission and achieve the goals of the department.
3. The Communications Office coordinates the department's communications efforts so its many communication tools have an integrated appearance, which in turn, enhances the department's identity as a well-managed and effective deliverer of state programs; increases public awareness of the department's programs and activities by producing high quality and informative publications and producing trade show displays and audio-visual presentations; and communicates Minnesota's economic strengths to the state's residents through the mass media by writing and disseminating news releases and public service announcements and by holding news conferences.

PERFORMANCE:

1. Planned and directed the implementation of a departmental reorganization which consolidated 2 divisions, reduced the number of managerial plan positions and reduced the department's complement positions by 7. The reorganization was accomplished with no grievances, and only one permanent layoff from state service which reduced salary, unemployment and severance costs.
2. Introduced the state's primary economic development publication, Profile Minnesota, in March, 1988, and more than 110,000 copies have been distributed throughout the state. Its popularity prompted the communications office to create a separate, quality publication, Minnesota Living, which was introduced for the first time in March, 1990. Minnesota Living, with more than 10,000 copies already sold through an agreement with the Minnesota Bookstore, has been publicly endorsed by the Minnesota Chamber of Commerce as a "valuable resource for any business, institution or individual who wishes to introduce out-of-state prospects or employees to the advantages of Minnesota living." The quality of the Profile Minnesota and Minnesota Living and many of the office's other publications has resulted in the communications office receiving 14 awards from national, international and regional professional

organizations during the past 2 years.

3. Disseminated over 150 news releases annually on new data regarding Minnesota's business strengths and on subjects related to the department's programs and services. The stories are mailed to weeklies, dailies, radio and TV statewide and releases through the News Wire Central to the Twin Cities media. The communications office enjoys a record high 82% usage of stories we release.
4. Received delegated authority from the Department of Employee Relations in both the classification and examining areas resulting in faster turnaround on vacancy filling and reclassification request.
5. Initiated classification studies of professional positions to enable management to recognize the worth of work performed, recruited candidates with the requisite skills for restructured positions and created an equitable classification structure within and between divisions.
6. Maintained the percentage of bills paid within 30 days at an average over 98% which exceeded the Department of Finance's goal for the State of Minnesota thus reducing interest penalties for late payments and maintaining a positive relationship with vendors.
7. Prepared financial statements and financial summaries promptly and accurately for the Public Facilities Authority Water Pollution Control Revolving Fund, the Rural Rehabilitation Revolving Account, the Agricultural and Economic Development Account, the Opportunities Minnesota, Inc. (OMNI) Program, the federal single audit reporting requirements and other internal department reporting needs to ensure that management has an effective method of evaluating fiscal resources available for making sound financial decisions and to assist in the preparation of the state's comprehensive annual report.
8. Established and maintained an accounting system as required under the Bond Resolution for the revenue bond sales of the Public Facilities authority to ensure that all funds are administered, invested and accounted for to ensure that the bond holders are protected, federal requirements are maintained and all other provisions are met.

PROSPECTS/PLAN:

The Administration program is continually searching for ways to provide prompt and quality services to the people it services while recognizing budget constraints. Personnel, fiscal and office services need to be provided in an effective and efficient manner in order to maintain the operations of the department. The Administration program has also made budget reductions and will be challenged to provide the necessary services.

GOVERNOR'S RECOMMENDATION:

The Governor concurs with the agency's plan for this program. See the following decision page for the specific recommended changes. In addition, the amount of money the agency reallocated from the BASE for funding increased salary costs has been budgeted here for later distribution to the programs.

1992-1993 BIENNIAL BUDGET
(DOLLARS IN THOUSANDS)

AGENCY: TRADE & ECONOMIC DEVELOPMENT
PROGRAM: ADMINISTRATION

				FY 1992			FY 1993		
ACTIVITY RESOURCE ALLOCATION:	FY 1989	FY 1990	Est. FY 1991	Adjusted Base	Agency Plan	Governor Recomm.	Adjusted Base	Agency Plan	Governor Recomm.
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
COMMISSIONERS OFFICE	420	163	170	172	160	160	171	156	156
ADMINISTRATIVE SERVICES	730	811	1,040	923	1,211	1,211	920	1,543	1,543
COMMUNICATIONS OFFICE	763	785	758	762	708	708	761	696	696
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL EXPENDITURES BY ACTIVITY	1,913	1,759	1,968	1,857	2,079	2,079	1,852	2,395	2,395
DETAIL BY CATEGORY:									
=====									
STATE OPERATIONS	1,913	1,759	1,968	1,857	2,079	2,079	1,852	2,395	2,395
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL EXPENDITURES BY CATEGORY	1,913	1,759	1,968	1,857	2,079	2,079	1,852	2,395	2,395
SOURCES OF FINANCING:									
=====									
DIRECT APPROPRIATIONS:									
GENERAL	1,864	1,707	1,883	1,772	1,994	1,994	1,767	2,310	2,310
STATUTORY APPROPRIATIONS:									
SPECIAL REVENUE		52	85	85	85	85	85	85	85
FEDERAL	49								
=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
TOTAL FINANCING	1,913	1,759	1,968	1,857	2,079	2,079	1,852	2,395	2,395

ACTIVITY: 1992-93 Biennial Budget
PROGRAM: Administration
AGENCY: Trade and Economic Development, Department of

DECISION ITEM: General Fund Reductions

	<u>Dollars in Thousands</u>			
	<u>F.Y. 1992</u>	<u>F.Y. 1993</u>	<u>F.Y. 1994</u>	<u>F.Y. 1995</u>

AGENCY PLAN:

Expenditures				
General Fund				
Reduce Administration Operations	\$ (125)	\$ (150)	\$ (150)	\$ (150)

Revenues				
General Fund	\$	\$	\$	\$

GOVERNOR'S RECOMMENDATION:

Expenditures				
General Fund	\$ (125)	\$ (150)	\$ (150)	\$ (150)

Revenues				
General Fund	\$	\$	\$	\$

Requires statutory change: _____ Yes X No
 Statutes Affected:

ITEM SUMMARY:

The Commissioner has consolidated two senior positions in the Commissioner's Office and other reductions in the Administration Program.

RATIONALE:

Due to budget constraints, the Commissioner's Office, the Communications Office and the Administrative Services Unit have made budget reductions.

GOVERNOR'S RECOMMENDATION:

The Governor concurs with the agency's plan.

Veterans Affairs

Position and Employee Status Information

Position Reconciliation:

Authority:	<u>Current F.Y. 1991</u>	<u>Requested For 6-30-93</u>
Legislative Complement:		
General Fund	<u>37</u>	<u>35</u>
Total Permanent Positions	<u>37</u>	<u>35</u>
TOTAL Positions	<u>37</u>	<u>35</u>
Employees on 6-30-90	38	

Employees by Employment Status:

	<u>6-30-90</u>
Full-Time Unlimited	38
TOTAL	38

MISSION:

The Minnesota Department of Veterans Affairs (MDVA) is the lead veterans agency in Minnesota. In cooperation with federal and county governmental units, the department coordinates the delivery of state and federal veterans benefits to the 500,000 veterans in the state and their more than 700,000 dependents.

The department is the lead state agency for the formulation of veterans policy. The Commissioner's office coordinates activities between the commanders of the Congressionally chartered veterans organizations, the County Veterans Service Officers (CVSOs), the legislature and state and federal agencies which serve veterans and their dependents. Veterans not aligned with any organization are provided access to information and assistance through the CVSO system and a series of informational meetings held across the state.

The department provides advocacy services to the state veterans and their dependents to ensure that the maximum amount of federal veterans benefits flow into the state. Last fiscal year these benefits measured in excess of \$600 million dollars.

The department is divided into 3 divisions: Veterans Benefits and Services, Claims and Branch Offices and Administrative Services. These divisions address the following objectives:

- to coordinate the delivery of state and federal veterans benefits to veterans and their dependents;
- to ensure that Minnesota's veterans and their dependents receive the maximum amount of federal veterans benefits;
- to coordinate planning for the future needs of Minnesota's veterans and their dependents, particularly in the areas of health care delivery and income maximization;
- to foster and maintain cooperative working relationships between state, county and federal agencies which provide veterans benefits and services;
- to cooperate with other state and federal agencies in the referral of clients between agencies, to ensure that clients receive all rights, benefits and services to which they are entitled;
- to educate Minnesota's veterans and their dependents regarding the availability of veterans benefits and services to which they might be entitled;
- to enforce state veterans preference statutes, which are designed to protect veterans employment rights;
- to cooperate with the congressionally chartered veterans organizations on legislative issues important to the veteran community; and
- to provide educational assistance opportunities to war orphans and certain veterans who have exhausted their federal educational benefits.

MAJOR POLICY DRIVERS:

Minnesota's veteran population is placing an increasing amount of strain upon an already strained benefits delivery system. Budget reductions at the federal level have resulted in the reduction of services to the State's veterans and dependents, particularly in the area of health care. As Minnesota's veteran population continues to age and to mirror the national veteran population, an ever increasing number of veterans will be competing for access to an ever decreasing supply of services.

The department's claims offices carried an active caseload of more than 126,000 cases in F.Y. 1990. This caseload increased by 2,000 powers-of-attorney, which resulted in 7,000 separate claims for benefits totaling in excess of \$600 million.

The issue of veterans benefits has become increasingly complicated; with the increasing age of veterans, more veterans will be competing for a fixed or reduced amount of benefits. The recent creation of the Court of Veterans Appeals (COVA) by Congress has created an entirely new level of review and appeal for veterans seeking benefits. While non-attorneys can argue cases before this court, federal court procedures will govern all proceedings, which in turn will require that the department provide increasingly sophisticated educational opportunities to veterans and others involved in the veterans claims process.

While Minnesota's veterans and their dependents currently receive in excess of \$600 million dollars in direct federal payments, this amount might be improved upon with an increased awareness on the part of Minnesota's veterans community. Under-utilization of federal benefits and payments may be costly, both in terms of real dollars not realized and in terms of demands upon the system for services which are more appropriately the responsibility of the federal government.

While World War II veterans are rapidly aging they are placing demands upon the current system that were not evidenced only a short time ago, particularly in the area of health care needs. More veterans than ever are forced to choose between maintaining health care coverage and other necessities. Like many other residents, veterans also find other demands which take priority over health care insurance. The limited amount of assistance available through the department to assist with health care costs often times means the difference between maintaining financial stability or ruin.

In F.Y. 1990 the benefits division processed 1,752 applications for assistance. The average family size of the applying household was 1.7 members; the average age of the veteran applicant was 51 years. More than 60% of all applications were received from veterans residing outside of the metropolitan area.

The major driving factor in this program is to temporarily assist the veteran and the veterans dependents while the veteran is disabled and until the veteran can return to work.

If the prognosis indicates that the veteran will be permanently or long term unemployable due to physical disability, veterans are assisted with applications for long term benefits, such as social security disability, veterans pension or other programs.

Demand for assistance with medical care has increased; in F.Y. 1990 expenditures in this area totalled 28% of benefits expenditures. This appears to bear out studies which indicate that more Minnesotans are without adequate medical insurance. Indications are that demand will continue to grow over the next several years. A further reduction in federal outlays for veterans health care, coupled with restrictions on eligibility, will drive demand higher still.

Agent Orange related issues are of paramount importance to the majority of the 68,000 Minnesotans who served in Southeast Asia during the Vietnam War. The long-term health effects of exposure to the defoliant Agent Orange remain hotly contested and disputed; numerous studies of the effects of this chemical, on the federal level, have done little to allay the fears or answer the questions of Vietnam veterans. Most recently, the federal government has been sued by major veterans organizations over its' decision to terminate a congressionally mandated study on the effects of Agent Orange.

The agent orange program provides assistance to veterans and their families who are attempting to come to grips with the issue. Minnesota's agent orange program continues to be recognized as the leading program in the nation.

The department provides guardianship services, under court appointment, to veterans through the guardianship process. This program controls monetary assets of incompetent veterans totalling in

excess of \$2.4 million. Personal and real property under the control of the guardianship program stands in excess of \$300,000. Veterans are under court appointed guardianship to the department to ensure that their physical well-being is monitored and that their assets are protected.

The veterans preference caseload continues to grow yearly. Petitions from veterans seeking enforcement of the veterans preference statutes have increased by more than 200% from F.Y. 1989 to F.Y. 1990. The department bears the administrative costs of managing this program, in addition to the expense of staff time. With the increasing caseload in this area, expenses will continue to escalate.

The increase in activity in the veterans preference area, both in total number of contacts and the number of cases, can be attributed to either an increase in the number of actual violations or to an increased awareness by veterans of their employment rights under state statute.

EXPLANATION OF BUDGET ISSUES AND ALTERNATIVES:

The department has consistently demonstrated the ability to serve the veterans of Minnesota and their dependents with reduced resources and increasing obligations. This position is no longer tenable. Recent BASE level budget reductions have resulted in decreased funding for programs and positions; increased obligations which were not funded (attorney general fees, sales tax, workers compensation assessments) further strained the department's budget. Reductions in staffing levels have resulted in increased workload levels for remaining staff. In 1989 4 administrative staff positions in the central office were transferred to the veterans home to meet urgent health care needs of veteran residents. When the homes were created as a separate entity these positions were left at the homes.

The department is required to allocate funding for current salary expenses plus a 4.5% increase for each year of the 1992-93 biennium, within current base level funding. Continued unfunded liabilities have greatly curtailed the ability of the department to meet unfunded salary increases.

Currently, the department is required to hold positions open in order to meet these unfunded liabilities. This results in a salary roster which is actually 92% funded. If the department is required to absorb projected salary increases from current budget levels, the department would have no alternative but to lay off personnel, which would result in significant service delays, and possible reductions in federal revenues received in Minnesota.

The requirements of a zero growth budget necessitate that staff positions within the department be held open. The department proposes to vacate 2 staff positions in the first year of the biennium. In the second year 2 additional positions will be kept vacant. The positions would be taken from a combination of the 3 divisions within Veterans' Affairs.

These additional reductions in staffing will result in a decrease in the training available to County Veterans Service Officers, and Department of Veterans Affairs staff, who represent veterans and their dependents in their claims for federal benefits. A subsequent reduction in the amount of federal dollars received in Minnesota may be experienced along with potential increased demand for state funded assistance programs.

Branch office reductions will result in the elimination of services to veterans and their dependents in the service area. Referrals for federal medical and benefit services will not be available and will result in a loss of federal benefits in this area. An increase in the application for state funded assistance programs may take place.

Processing of state benefits applications will be delayed. These delays will affect local vendors who provide services (i.e. food, heating fuel) directly to the veteran. Every attempt will be made to make

payments in a timely fashion and avoid interruption or curtailment of service. Responses to requests for information from various sources (i.e. veterans, legislators, members of Congress) will be delayed as a result of staff reductions.

Annual expenditures under the relief program are driven by several factors beyond the control of the department. Severely cold winter weather drives up the total cost for heating commodities under the veterans assistance program within the veterans benefits division. Cutbacks in federal funding of veterans health care have resulted in increased demand for health care assistance under the benefits program.

The department proposes that any grant-in-aid funds not expended on programs be freed up to meet other budgetary needs within the department. This would not result in an increased appropriation; rather it would allow the department to expand scarce allocations effectively to meet the needs of Minnesota's veterans and their dependents.

The department must bear the costs associated with preparation and certification of veterans preference cases, conducting hearings and providing supporting documentation for these cases; yet this function is not funded separately. In previous years it has been possible to fund these functions through other programs. Repeated BASE level funding cuts and increases in unfunded, mandated programs have removed the ability of the department to adequately fund these required programs.

The veterans preference caseload is expanding dramatically. The department can no longer adequately staff this position part-time, as it is now staffed, nor can the continually increasing expenses of this operation be funded internally through the re-direction of funds from other programs.

GOVERNOR'S RECOMMENDATION:

The Governor concurs with the agency's plan.

1992-1993 BIENNIAL BUDGET
(DOLLARS IN THOUSANDS)

AGENCY: VETERANS AFFAIRS,DPT OF
PROGRAM: BENEFITS & SERVICES

ACTIVITY RESOURCE ALLOCATION:	FY 1989	FY 1990	Est. FY 1991	FY 1992			FY 1993		
				Adjusted Base	Agency Plan	Governor Recomm.	Adjusted Base	Agency Plan	Governor Recomm.
VETERANS BENEFITS	1,275	1,268	1,058	1,048	1,048	1,048	1,048	1,048	1,048
VETERANS SERVICES	1,250	1,587	1,610	1,632	1,632	1,632	1,626	1,626	1,626
DEDICATED ACCOUNTS	1,690	2,000	4,398	2,087	2,087	2,087	2,087	2,087	2,087
TOTAL EXPENDITURES BY ACTIVITY	4,215	4,855	7,066	4,767	4,767	4,767	4,761	4,761	4,761
DETAIL BY CATEGORY:									
STATE OPERATIONS	3,144	3,565	5,999	3,700	3,700	3,700	3,694	3,694	3,694
LOCAL ASSISTANCE		200							
AID TO INDIVIDUALS	1,071	1,090	1,067	1,067	1,067	1,067	1,067	1,067	1,067
TOTAL EXPENDITURES BY CATEGORY	4,215	4,855	7,066	4,767	4,767	4,767	4,761	4,761	4,761
SOURCES OF FINANCING:									
DIRECT APPROPRIATIONS:									
GENERAL	2,525	2,855	2,668	2,680	2,680	2,680	2,674	2,674	2,674
STATUTORY APPROPRIATIONS:									
AGENCY	1,690	2,000	4,087	2,087	2,087	2,087	2,087	2,087	2,087
GIFTS AND DEPOSITS			311						
TOTAL FINANCING	4,215	4,855	7,066	4,767	4,767	4,767	4,761	4,761	4,761

BASE RECONCILIATION REPORT
for 1992-1993 Biennium

AGENCY: VETERANS AFFAIRS,DPT OF

	ALL FUNDS		GENERAL FUND		OTHER STATE FUNDS		FEDERAL FUNDS	
	F.Y.92	F.Y.93	F.Y.92	F.Y.93	F.Y.92	F.Y.93	F.Y.92	F.Y.93
F.Y.91 FUNDING LEVEL	7,066	7,066	2,668	2,668	4,398	4,398		
ONE-TIME APPROPRIATIONS	<10>	<10>	<10>	<10>				
LEG-DIRECTED ADJUSTMENTS		1		1				
SALARY ANNUALIZATION	22	15	22	15				
DEDICATED RECEIPTS AND FUNDS	<2,311>	<2,311>			<2,311>	<2,311>		
TOTAL	4,767	4,761	2,680	2,674	2,087	2,087		
BIENNIAL TOTAL		9,528		5,354		4,174		

ACT: :
PROGRAM:

AGENCY: Veterans Affairs, Department of

1992-93 Biennial Budget

GOVERNOR'S RECOMMENDATION:

The Governor concurs with the agency's plan.

DECISION ITEM: Financing Inflationary Costs - Informational

Dollars in Thousands			
F.Y. 1992	F.Y. 1993	F.Y. 1994	F.Y. 1995
AGENCY PLAN:			
Expenditures			
General Fund-Inflation	\$ 65	\$ 131	\$ 131
Reduction	\$ (65)	\$ (131)	\$ (131)
	\$ -0-	\$ -0-	\$ -0-
Revenues			
General Fund	\$ -0-	\$ -0-	\$ -0-

Requires statutory change: _____ Yes X No
Statutes Affected:

ITEM SUMMARY:

Following the Biennial Budget instructions, salary projections assumed a 4.5% across the board increase for all employees. Salary costs were fully funded, assuming no vacancies. Other costs were not inflated.

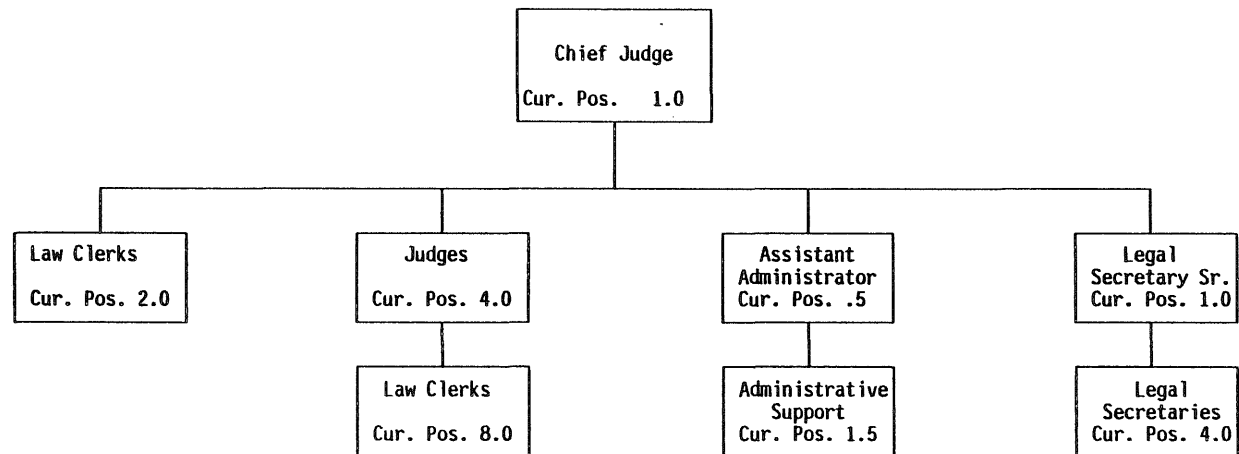
RATIONALE:

The department will eliminate 2 positions in the first year of the biennium. In the second year, 2 additional positions will be held vacant. These reductions will have the following impacts:

- Training for county and department staff will be reduced, thereby possibly reducing federal benefits received by veteran clients.
- Branch office referrals for medical aid benefits will not be available, with a possible resulting loss of benefits.
- Processing of state benefit applications will be delayed, possibly interrupting or curtailing some services.
- Responses to requests for information from veterans and legislators may be delayed.

The department proposes, in order to minimize service reductions, that it be given authority to transfer any unexpended grant-in-aid funds to other activities within the department.

WORKERS' COMPENSATION COURT OF APPEALS ORGANIZATION CHART 7/1/90



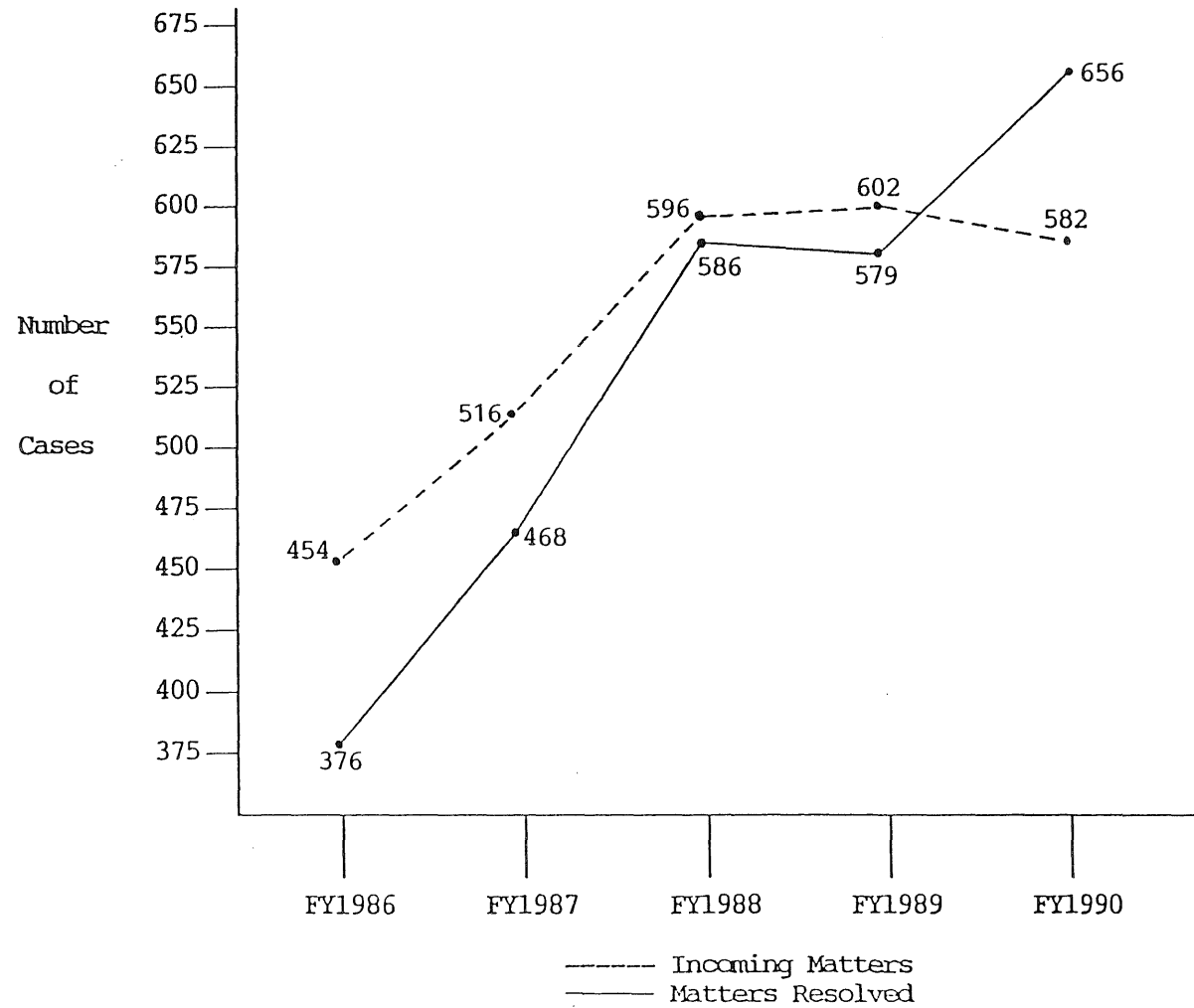
WORKERS' COMPENSATION COURT OF APPEALS
Position and Employee Status Information

Position Reconciliation:		
Authority	Current <u>FY 91</u>	Requested <u>For 6/30/93</u>
Legislative Complement:		
Workers' Comp.		
Special Fund	<u>22.0</u>	<u>22.0</u>
Total Perm. Positions	<u>22.0</u>	<u>22.0</u>
TOTAL Positions	22.0	22.0
Employees on 6/30/90	23	

Employees by Employment Status:	
	<u>6/30/90</u>
Full-Time Unlimited	19
Part-Time Unlimited	<u>4</u>
TOTAL	23

WORKERS' COMPENSATION COURT OF APPEALS

CASELOAD



MISSION:

The Workers' Compensation Court of Appeals has been established by the legislature as the exclusive statewide authority to decide all questions of law and fact in workers' compensation disputes within the court's appellate jurisdiction as provided by M.S. Chap 175A and 176.

Decisions are written to inform the court's clientele of the basis of the decisions and to create a body of law pertaining to these workers' compensation issues. The court's principal objective is to deliver its services as expeditiously as possible while maintaining the integrity and expertise of the judicial decision-making function.

The Court consists of five judges appointed by the Governor and confirmed by the state Senate. The Governor designates a Chief Judge from among the judges, who has responsibility for the administration of the court. The court performs an appellate function reviewing decisions of the Workers' Compensation Division of the Department of Labor and Industry and the Office of Administrative Hearings. The judges review the evidentiary record created by the initial decision-making body; preside over oral arguments; conduct necessary legal research; decide the issues; and issue appropriate written orders, decisions and memoranda. Decisions of this court are appealable directly to the Supreme Court.

Clients served by the above-stated operational procedures are injured workers, employers, insurance companies, attorneys, medical and rehabilitation providers, the Minnesota Supreme Court, Department of Labor and Industry, and the Office of Administrative Hearings.

MAJOR POLICY DRIVERS:

The primary factors influencing program policy and service delivery continue to be the number of work-related injuries sustained by Minnesota employees and the extent of litigation in such matters. Related factors include safety at the workplace, new legislative and administrative enactments, increasing insurance and medical costs, economic conditions, etc.

EXPLANATION OF BUDGET ISSUES AND ALTERNATIVES:

The significant increase in caseload during recent years requires adequate funding for the Workers' Compensation Court of Appeals to accomplish its statutory mission and objectives. The court is requesting the "same" level funding for the 1992-93 biennium.

PERFORMANCE INDICATORS

The court's objective is to increase the number of matters resolved while maintaining the quality of the services performed as indicated by the rate of affirmance from the Minnesota Supreme Court.

	<u>Actual F.Y. 1989</u>	<u>Actual F.Y. 1990</u>	<u>Estimate F.Y. 1991</u>	<u>Request F.Y. 1992</u>	<u>Request F.Y. 1993</u>
Total incoming matters for resolution	602	582	611	642	674
Total matters resolved	579	656	685	716	748
Affirmed by Supreme Court	79%	87%	90%	90%	90%

GOVERNOR'S RECOMMENDATION:

The Governor concurs with the agency's plan.

1992-1993 B I E N N I A L B U D G E T
(DOLLARS IN THOUSANDS)

AGENCY: WORKERS COMP CRT APP
PROGRAM: WORKERS COMPENSATION COURT OF APPE

				FY 1992			FY 1993		
ACTIVITY RESOURCE ALLOCATION:	FY 1989	FY 1990	Est: FY 1991	Adjusted Base	Agency Plan	Governor Recomm.	Adjusted Base	Agency Plan	Governor Recomm.
WORKERS COMPENSATION COURT OF APPE	784	1,072	1,183	1,229	1,284	1,284	1,255	1,363	1,363
TOTAL EXPENDITURES BY ACTIVITY	784	1,072	1,183	1,229	1,284	1,284	1,255	1,363	1,363
DETAIL BY CATEGORY:									
STATE OPERATIONS	784	1,072	1,183	1,229	1,284	1,284	1,255	1,363	1,363
TOTAL EXPENDITURES BY CATEGORY	784	1,072	1,183	1,229	1,284	1,284	1,255	1,363	1,363
SOURCES OF FINANCING:									
DIRECT APPROPRIATIONS:									
WORKERS COMP SPECIAL	784	1,072	1,183	1,229	1,284	1,284	1,255	1,363	1,363
STATUTORY APPROPRIATIONS:									
TOTAL FINANCING	784	1,072	1,183	1,229	1,284	1,284	1,255	1,363	1,363

BASE RECONCILIATION REPORT
for 1992-1993 Biennium

AGENCY: WORKERS COMP CRT APP

	ALL FUNDS		GENERAL FUND		OTHER STATE FUNDS		FEDERAL FUNDS	
	F.Y.92	F.Y.93	F.Y.92	F.Y.93	F.Y.92	F.Y.93	F.Y.92	F.Y.93
F.Y.91 FUNDING LEVEL	1,183	1,183			1,183	1,183		
SALARY ANNUALIZATION	20	23			20	23		
DOCUMENTED RENT/LEASE INCR.	12	42			12	42		
BASE TECHNICAL ADJUSTMENTS	14	7			14	7		
TOTAL	1,229	1,255			1,229	1,255		
BIENNIAL TOTAL		2,484				2,484		

ACT: Agency-wide
 PROGRAM: Agency-wide
 AGENCY: Workers' Compensation Court of Appeals

1992-93 Biennial Budget

RATIONALE:

The proposed increase breaks out as follows:

DECISION ITEM: Salary and other cost increases

AGENCY PLAN:

Dollars in Thousands				
	F.Y. 1992	F.Y. 1993	F.Y. 1994	F.Y. 1995
Expenditures				
General Fund	\$ 0	\$ 0	\$ 0	\$ 0
Workers Comp Special Fund	\$ 55	\$ 108	\$ 108	\$ 108
Revenues				
General Fund	\$ 0	\$ 0	\$ 0	\$ 0
Workers Comp Special Fund	\$ 55	\$ 108	\$ 108	\$ 108

GOVERNOR'S RECOMMENDATION:

Expenditures				
General Fund	\$ 0	\$ 0	\$ 0	\$ 0
Workers Comp Special Fund	\$ 55	\$ 108	\$ 108	\$ 108
Revenues				
General Fund	\$ 0	\$ 0	\$ 0	\$ 0
Workers Comp Special Fund	\$ 55	\$ 108	\$ 108	\$ 108

Requires statutory change: _____ Yes X No
 Statutes Affected:

ITEM SUMMARY:

The proposal is for an increase of \$55,000 in F.Y. 1992 and \$108,000 in F.Y. 1993, to cover increased salary costs, including conversion of annual leave to deferred compensation, and supplies and expense inflation.

	F.Y. 1992	F.Y. 1993
Operations (Supplies, communications)	\$ 3	\$ 7
Conversion of annual leave to deferred compensation	5	5
Salaries - bargained and mandated increases	47	96
Total	\$ 55	108

These funds are requested from the Workers' Compensation Special Fund. No General Fund money is included in this request. The proposal conforms to Department of Finance instructions regarding salary and inflation costs, where they can be funded by new revenue.

GOVERNOR'S RECOMMENDATION:

The Governor concurs with the agency's plan.

MISSION:

The Governor proposes to create a 2-year public/private sector commission to identify immediate cost savings in state government and to recommend long-term actions for improving state government efficiency and effectiveness. The title of this organization will be the Commission on Reform and Efficiency (CORE).

CORE will undertake 3 major tasks:

1. Develop recommendations for changes to state government operations that will generate immediate savings (within the 1992-93 biennium).
2. Propose investments in new systems and technology to improve state management and produce long-term savings.
3. Develop a restructuring plan for state government to streamline service delivery and reduce costs of operation.

GOVERNOR'S RECOMMENDATION:

The Governor recommends funding for the commission through direct General Fund appropriations and through matching contributions from private sources. Contributions will be made to and expended from the State Gift Fund. The appropriations will be to the Commissioner of Administration for the purposes of funding the activities of the commission.

CORE.AGY
2-15-91 8:49am jms

1992-1993 BIENNIAL BUDGET
(DOLLARS IN THOUSANDS)

AGENCY: CORE COMMISSION
PROGRAM: CORE COMMISSION

ACTIVITY RESOURCE ALLOCATION:	FY 1989	FY 1990	Est. FY 1991	FY 1992			FY 1993		
				Adjusted Base	Agency Plan	Governor Recomm.	Adjusted Base	Agency Plan	Governor Recomm.
CORE COMMISSION						2,000			<11,000>
TOTAL EXPENDITURES BY ACTIVITY						2,000			<11,000>
DETAIL BY CATEGORY:									
STATE OPERATIONS						2,000			<11,000>
TOTAL EXPENDITURES BY CATEGORY						2,000			<11,000>
SOURCES OF FINANCING:									
DIRECT APPROPRIATIONS:									
GENERAL						1,000			<11,000>
STATUTORY APPROPRIATIONS:									
GIFTS AND DEPOSITS						1,000			
TOTAL FINANCING						2,000			<11,000>

ACTIVITY: Reform/Efficiency Commission
PROGRAM: Management Analysis
AGENCY: Administration, Department of

1992-93 Biennial Budget

DECISION ITEM: Fund a 2-Year Commission to Examine State Operations

	Dollars in Thousands			
	F.Y. 1992	F.Y. 1993	F.Y. 1994	F.Y. 1995
AGENCY PLAN:				
Expenditures				
General Fund	\$ 1,000	\$ (11,000)	\$ (10,000)	\$ (10,000)
Gift Fund	\$ 1,000	\$	\$	\$
Revenues				
Gifts Fund	\$ 1,000	\$	\$	\$
GOVERNOR'S RECOMMENDATION:				
Expenditures				
General Fund	\$ 1,000	\$ (11,000)	\$ (10,000)	\$ (10,000)
Gift Fund	\$ 1,000	\$	\$	\$
Revenues				
Gift Fund	\$ 1,000	\$	\$	\$

Requires statutory change: _____ Yes X No
Statutes Affected:

ITEM SUMMARY:

The Governor proposes to create a 2-year public/private sector commission to identify immediate cost savings in state government and to recommend long-term actions for improving state government efficiency and effectiveness. It will be titled: The Commission on Reform and Efficiency (CORE).

BACKGROUND:

The commission will undertake 3 major tasks:

1. Recommend changes in current state government operations that will produce immediate savings and improved accountability.

Teams of representatives of business and government will identify areas for reducing operating costs within and across agencies. The commission's goal is to generate \$11 million of savings during the 1991-93 biennium. If this goal is not met, the Commissioner of Finance would, at the Governor's direction, unallot from agency budgets to meet the goal, possibly imposing across-the-board cuts.
2. Recommend investments in new systems and technology to improve state government management and operations and produce long-term savings. Examples include improved cost accounting and improved performance management systems.
3. Recommend alternative strategies for delivering government services, a major restructuring of state government, to streamline service delivery, reduce costs and improve accountability.

The scope of the commission's activities will include the following:

- Examine state government services to determine if they meet current needs; are redundant, competitive, or contradictory; and are delivered cost effectively. The commission will examine whether services would best be delivered by state government, local governments, or the private for-profit and not-for-profit sectors.
- Oversee an analysis of state government, evaluation of key programs, development of strategic plans for state services, a reorganization plan for streamlined delivery, and redesign and reengineering of management and operational systems.
- The commission will be comprised of representatives of state government, local government, business, and labor. It will be staffed by the Department of Administration. Other agencies will assign staff to work with the Department of Administration.
- The commission will work in 7 functional committees: health and human services, environment and natural resources, general government, education, economic development and infrastructure, criminal justice, and business regulation and enforcement. It will involve employees of affected agencies in all phases of its work to ensure successful implementation.

RATIONALE:

For 6 years during the 1980's Minnesota ranked 3rd in total government spending. Spending grew at rates 35% higher than personal income, 42% higher than the gross state product, and 57% higher than inflation.

Current delivery systems for most government programs are complex, cumbersome; and fragmented, often imposing multiple, and at times conflicting, requirements on service providers and citizens. Managers and line workers are held accountable for meeting bureaucratic requirements rather than meeting the service needs of citizens.

Minnesota must manage its limited resources wisely by examining costs and redesigning services to better meet the needs of its citizens, by continuing to adopt modern management practices, and by utilizing current technology to enhance quality and efficiency.

The state faces a long-term structural imbalance between revenues and expenditures. A partnership between government, business, and labor will provide the necessary perspective and expertise for a fundamental reshaping of Minnesota's public services.

GOVERNOR'S RECOMMENDATION:

The Governor recommends a General Fund appropriation of \$1,000,000 to the Commissioner of Administration to be used to fund the activities of the commission. This appropriation must be matched by private contributions on a one-to-one basis, with these funds being collected and spent from the State Expendable Trust Gift Fund. The commission will make recommendations to produce savings of at least \$11,000,000 in the 1992-93 biennium. If the goal is not reached, the Governor will direct the Commissioner of Finance to unallot from agency budgets the balance required to meet this goal.

CORE.01
2-15-91 8:47am jms

ACT:
PROGRAM:
AGENCY: Finance Non-Operating

1992-93 Biennial Budget

GOVERNOR'S RECOMMENDATION:

The Governor recommends that the law be amended to recreate the company as a private legal entity. However, it is recommended that any change in the legal status of the company be conditioned upon first repaying the state loan in full.

DECISION ITEM: State Fund Mutual Insurance Company Loan
Repayment

	Dollars in Thousands			
	<u>F.Y. 1992</u>	<u>F.Y. 1993</u>	<u>F.Y. 1994</u>	<u>F.Y. 1995</u>

GOVERNOR'S RECOMMENDATION:

Expenditures				
General Fund	\$ -0-	\$ -0-	\$ -0-	\$ -0-
Revenues				
General Fund	\$ 5,444	\$ (600)	\$ (600)	\$ (600)

Requires statutory change: X Yes _____ No
Statutes Affected: M.S. 176A.11

ITEM SUMMARY:

The State Mutual Fund Insurance Company owes the State of Minnesota \$6,044,000 on a loan that was made to them in the 1980's. The November 1990 forecast assumed principal and interest payments on this loan of \$600,000 annually. The above amounts represent full repayment of the loan in F.Y. 1992 as follows:

	<u>F.Y. 1992</u>
Total amount owed on loan	\$ 6,044,000
Less F.Y. 1992 P & I payments	<u>(600,000)</u>
Net change to General Fund	\$5,444,000

RATIONALE:

In 1983, the Legislature created the State Fund Mutual Insurance Company, a nonprofit independent public corporation, as part of the workers' compensation rate deregulation legislation. The purpose of the fund was to compete with private insurers, to gauge whether rates charged by private insurers were reasonable to cover losses, and to assure that workers' compensation insurance would be available.

The company secured a loan from the general fund so that it could begin business and compete with companies in the private sector. The terms of the state loan are very favorable to the company. The interest rate is eight percent annually, and the scheduled principal repayments can be deferred solely at the discretion of the company.

The president of the State Mutual Fund believes that the company has accomplished its original goals, and that there is no reason to continue it as a public entity. He has proposed to change the legal status from a non-profit public entity, controlled by the state, to a fully private insurance company. If approved, the company proposes to accelerate the loan repayment, with the option to completely repay the loan at any time. However, the company claims that private lenders will not commit to making a loan to them until the composition of the board of directors is changed to remove control from the state government.