COMMISSION ON REFORM AND EFFICIENCY

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VOLUME I
APPENDIX

SHORT-TERM COST SAVINGS

DETAILED ANALYSES

COMMISSION ON REFORM AND EFFICIENCY

DECEMBER 1991

Pursuant to 1991 LAws, Chapter 345
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Volume 2, of 2 volumes

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DETAILED ANALYSES

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203 Administration Building, 50 Sherburne Avenue, St. Paul, Minnesota 55155

<u>**TABLE OF CONTENTS**</u>

CORE PROJECT 1 ANALYSIS

PROJECT # 1: Bookstore Revolving Fund Balance Transfer to the General Fund (GF)

IDEA # 635 **FY '92-'93 GF Savings: $300,000**

COMMISSION ACTION: **Approved** **- Vote: 15 to 0.**[1]

RECOMMENDATION: Transfer $250,000 in cash balances from the State Bookstore revolving fund to the General Fund in FY 1992. Beginning in FY 1993, the Bookstore should adjust its financial and operations plans so that $50,000 is transferred annually to the General Fund.

BACKGROUND: The State Bookstore is an element of the Print Communications Division of the Department of Administration. Minnesota Statutes, section 16B.51, gives the Bookstore responsibility for the sale of state documents and publications. The Bookstore's retail outlet is located in the Ford Building at 117 University Avenue in St. Paul. Items sold include copies of rules, laws, court decisions, state agency studies and reports, mailing lists, lake and other maps, federal government documents, flags, and Historical Society and University of Minnesota Press publications.

The Bookstore provides a service to agencies and the public by providing a mechanism for the distribution of various state informational resources. The materials distributed relate to the general operations of state government (such as the publication of laws, court decisions, etc.) or to the sharing of information generated by specific agencies during the course of their business (such as lake maps, reports, etc.) The information in these documents is generated through the use of state resources.

The Bookstore has enjoyed considerable financial success over the years. Analysis of financial statements indicates that the Bookstore operations had a net income of $112,308 (on sales of $2,160,000) for FY 1991, and ended the year with retained earnings of $403,443. Over the past five fiscal years, net income has varied from year to year but averaged around $80,000 annually. During FY 1986-FY 1988, the Bookstore was directed to transfer a total of $175,000 in unneeded cash from the revolving fund to the General Fund as one of the Legislature's budget balancing strategies. Even after this transfer, the operation was able to increase its retained earnings over the past five fiscal years by more than $200,000.

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[1] Vote totals may vary because abstentions were not counted.

RATIONALE: The Bookstore should transfer certain cash balances to the General Fund during FY 1992 and on an ongoing basis because:

1. the excess balances are not required to maintain normal operations; and

2. earnings on the sale of state resources should be shared with the general treasury.

Currently, the Bookstore revolving fund is in excellent financial condition. At the end of FY 1991, the fund had total current assets of $995,324 and current liabilities of $250,130, for a ratio of current assets to current liabilities of almost 4.0. Total cash available totaled over $441,000 and there were $167,000 in accounts receivable. Reducing cash by $250,000 would change the current ratio to about 3.0. Typically, a current ratio of 2.0 indicates an adequate cash position for a state revolving fund.

The Bookstore exists to provide a service to agencies and the public in the dissemination of information on state programs. Because this information was generated through various investments of state resources, the general treasury should reap some financial return on these investments. Furthermore, the Bookstore operation does not need to carry large balances from year to year. Needed investments are routinely built into the operation's spending plans, a practice which can continue even with an annual planned transfer to the General Fund of $50,000.

FISCAL IMPACT:

($ thousands)

	FY 92	FY 93	FY 92-93	FY 94	FY 95
General Fund	$ 250	$ 50	$ 300	$ 50	$ 50

EMPLOYEE IMPACT: None.

IMPACT ON AFFECTED PARTIES: Bookstore management will not like the loss of flexibility caused by transferring these funds.

METHOD AND TIMING OF IMPLEMENTATION: Budget. The Legislature will need to enact rider language directing these transfers to occur. The language should call for review and approval of the transfer by the Department of Finance to allow an adjustment to the amount of funds transferred if warranted by the Bookstore's financial performance.

CORE PROJECT 1 ANALYSIS

PROJECT # 2: Dependent Care Expense Account Administrative Fee Reduction

IDEA # 1585.1 **FY '92-'93 GF Savings: $23,000**

RECOMMENDATION: Decrease the fee charged to state agencies by the Department of Employee Relations (DOER) for administering the Dependent Care Expense Account Program.

OPTION : Assess part or all of the fee to program participants.

COMMISSION ACTION: **Approved - Vote: 14 to 1.** The Commission approved decreasing the administrative fee and capturing the resultant savings but rejected charging administrative costs to the program participants because of concerns about violating the original understanding with employees of how the program would be financed.

BACKGROUND: The current administrative fee charged by DOER to oversee this program is based upon an initial estimate which exceeds the cost of administering the program. The fee should be reduced to more accurately reflect DOER's cost in administering the program.

In addition, the entire administrative fee is currently paid by state agencies. If part or all of this fee were shifted to the employee, savings would accrue to the state.

RATIONALE:

1. A decrease in the fee charged by DOER is recommended because the current fee is higher than the costs of administering the program.

2. Assessing part or all of the fee to participants is recommended to shift the cost of administering the program to the employees who benefit from their participation.

According to DOER, the third-party contractor responsible for these accounts is charging the state $4.50 per employee per month or $49,950 per year, and DOER's costs for one position and related overhead are approximately $27,000 per year. DOER's charges to agencies total $112,758 per year, reflecting an unintentional overcharge of $35,808. If the rates were changed to more accurately reflect costs, the new administrative fee would be $3.14 per employee per pay period, and a savings of $35,808 would accrue to all funds.

Employees participate in this program because they save significant tax dollars by paying for dependent care out of a pre-tax payroll deduction. Since the employees reap the benefits of this program in the form of tax savings, it is reasonable to expect them to help pay the cost of administering it. If one half of the administrative cost were shifted to employees, an additional savings of $38,485 would accrue to all funds. If the entire administrative fee were to be paid by employees, the savings would total $76,969 per year.

FISCAL IMPACT: ($ thousands)

	FY 93	FY 92-93	FY 94	FY 95
Fee Adjustment:				
All Funds	$ 36	$ 36	$ 36	$ 36
Estimated General Fund*	$ 23	$ 23	$ 23	$ 23
Fee Shift to Employee:				
All Funds	$ 77	$ 77	$ 77	$ 77
Estimated General Fund	$ 50	$ 50	$ 50	$ 50
Total				
All Funds	$113	$113	$113	$113
Estimated General Fund	$ 73	$ 73	$ 73	$ 73

*General Fund savings estimates are based on the proportion of general fund dollars to other funds. In the FY 1990-91 biennium, the General Fund constituted 65% of all funds in the state budget.

STAFF IMPACT: No positions are affected by this recommendation. However, if the entire cost of the administration of the Dependent Care Expense Account Program were shifted to participants, then each participant would pay an additional $83.22 per year. If the state and participants share the cost equally, participants would pay an additional $41.61 per year.

IMPACT ON AFFECTED PARTIES: The parties affected by this change are state employees, as previously discussed.

METHOD AND TIMING OF IMPLEMENTATION: Administrative Action and Budget. The Departments of Employee Relations and Finance would work together to calculate the savings accruing to each agency and to process transfers to each direct appropriated fund balance, once rider language authorizing the transfers is approved.

CORE PROJECT 1 ANALYSIS

PROJECT # 3: Emergency Management Division and Emergency Response Commission Consolidation

IDEA # 184 **FY '92-'93 GF Savings: $150,000**

RECOMMENDATION: Combine the Division of Emergency Management (DEM) and the Emergency Response Commission (ERC) into one Emergency Division in the Department of Public Safety. Eliminate duplication of functions between the two agencies, redesign disaster planning and training functions in the combined agency, increase the emergency planning capability of local units of government, and substantially reduce dated national defense activities. Sell the hazardous materials truck and give the supplies to a hazardous materials training organization.

This recommended consolidation and downsizing involves state and federal funds. Funding changes to accomplish this recommendation include reducing the state general funding for emergency services and reallocating the matching federal funds to counties. The state would also discontinue applying for some of the separate unmatched federal funds which fully fund enemy nuclear attack planning and radiological equipment maintenance and reduce the time and effort DEM spends on this activity.

> OPTION: Reduce the state general funding and send the federal matching funds to the counties as recommended, but continue applying for the federal funds requested for enemy nuclear attack planning or radiological equipment maintenance. The state, however, might also request a waiver to allow the state to redirect these federal dollars to more useful emergency management purposes.

COMMISSION ACTION: **Approved** **- Vote: 13 to 2.** The Commission approved the original recommendation.

BACKGROUND: There are two divisions in the Department of Public Safety (DPS) concerned with emergencies: the Division of Emergency Management (DEM) with a staff of 36, and the 6-member staff of the Emergency Response Commission (ERC).

THE DIVISION OF EMERGENCY MANAGEMENT

The mission of the DEM originates from state and national concern with responding to major natural disasters and protecting civilians from enemy nuclear attack. Originally, the Division was set up as part of the Governor's Office and was located in the basement of the Capitol. Fifteen years ago it was moved into the DPS.

The DEM exists to communicate major threats to the safety of state residents to agencies that can provide supplementary assistance to local police and fire response organizations. It also coordinates the plans and response activities of these state and local organizations.

Its mission is grounded in the civil defense system of planning for and responding to the threat of enemy nuclear attack and massive destruction of large civilian centers. The civil defense origins of DEM are apparent in such job descriptions as "radiological instrument maintenance and calibration", "population protection planner", and "radiological protection planner." The Federal Emergency Management Agency (FEMA), which provides substantial funding to the DEM, was created in 1979 as a successor federal agency to the Civil Defense Agency. FEMA's broader mission includes communication of weather disasters, in addition to enemy and nuclear attack response.

In recent years, the state mission of DEM was expanded beyond the federal mission to include environmental emergencies connected with the transportation and spillage of hazardous chemicals; nuclear power plant incidents affecting an area within 50 miles of these plants; and the operation of a 24-hour service center to coordinate communications about emergencies between state agencies.

Staff within the DEM's six regional offices assist counties in the development of emergency plans and respond to the site of emergencies. These county adopted plans at one time focused on the evacuation of residents from the threatened area, the identification and equipping of underground shelters, the operation of siren warnings, and general education regarding what to do in the event of a nuclear attack. The DEM informs local units of changes to federal and state regulations, assists local units of government with developing emergency plans, approves the plans, and allocates federal funds to assist with funding this activity. The DEM is in the process of reducing the number of its regional offices and redesigning its relationships with local units of government.

The DEM's major functions include:

* Operating a 24-Hour Answering and Referral Center. In the past, the DEM required some of its personnel to provide 24-hour phone coverage as an extra duty after working hours. This role was expanded by the 1991 Legislature when it appropriated additional funds for five new positions to staff a 24-hour communications center with full time employees. When the center is operational, staff will be trained to alert various state and federal agencies and the Governor to emergency conditions, and to request supplemental assistance from local response organizations. Part of the service will be paid for by a transfer of funds from several state agencies which have agreed to finance part of the cost of this service. This agreement to fund and improve the 24-hour answering center in DEM indicates many agencies value this service.

* Developing and Implementing Emergency Response Plans for Nuclear Power Plants. This program includes the development of plans and exercises for responding to serious incidents in the areas surrounding nuclear power plants, including warning and evacuating citizens. In 1991, the Legislature increased the level of this activity by adding a position, and changed the financing by creating a special revenue fund

for the fees charged to nuclear power generating utilities and their customers.

* Assessing Natural Disasters and Communicating with Governmental and Support Agencies. DEM staff assess property damage at the site of natural disasters and assist individuals and government units with applications for federal assistance. The activity is funded 75% by the state and 25% by FEMA.

* Planning and Coordinating the Shipment of Hazardous Materials. This activity historically focused on the development and supervision of a hazardous materials response team which used a truck, trailer and equipment to deal with hazardous materials. However, this activity is undergoing review and service redesign from direct service response to pre-incident planning and coordination. The environmental-safety focus of this activity parallels part of the focus of the ERC. This activity is funded entirely by the state from the General Fund since it is beyond the scope of FEMA. Federal environmental funds from the Environmental Protection Agency (EPA) are not designated for this purpose.

* Providing Technical Assistance and Approving Local Emergency Plans. This activity makes up the bulk of the DEM's operation. It is funded 50% by the FEMA and 50% by the General Fund. Slightly more than half of the funds in this activity are given as grants to counties and a few cities.

* Planning for National Civil Defense and Maintaining Radiological Equipment. This activity includes the inspection and calibration of radioactive instruments; population planning; and radiological planning consistent with federal programs concerned with enemy attacks. This activity is entirely funded by FEMA.

The FY 1993 appropriation for the DEM is as follows:

$1,302,000	State General Fund
$ 180,000	Special Revenue
$1,958,000	Federal
$3,440,000	Total

THE EMERGENCY RESPONSE COMMISSION

The Emergency Response Commission (ERC) is a recent addition to the Department of Public Safety. The Minnesota Legislature established the commission in 1989 to respond to federal mandates in the "Community Right to Know Act," which was enacted following the explosion of a large chemical plant in Bhopal, India.

The ERC's 21 members are appointed by the Governor. The primary responsibilities of the ERC include:

* Identifying facilities where toxic chemicals are used or stored, taking inventory of the chemicals and communicating this information to various federal, state, and local agencies. The federal EPA determines which chemicals are to be inventoried. The

ERC then determines where toxic chemicals are located and informs local fire fighters of their whereabouts. It also shares this information with the EPA and state agencies, including the Pollution Control Agency (PCA), Office of Waste Management, and the Department of Agriculture. Additionally, the ERC informs residents in the areas surrounding these facilities about the toxic chemicals used or stored in nearby facilities. This activity is funded by fees charged to those who use or store chemicals. The fees are deposited as non-dedicated receipts in the General Fund.

* <u>Providing assistance to counties and local organizations to ensure that their emergency plans include provisions for handling chemical emissions and spills that endanger large areas.</u> This activity includes the review of county emergency plans to ensure there are provisions for dealing with chemical emergencies. This activity is funded by the General Fund.

The FY 1993 appropriation for the ERC is as follows:

$375,000	State General Fund
$ 41,000	Environmental Fund
$416,000	Total

RATIONALE: This recommendation combines two agencies, eliminates duplication and redesigns activities to increase efficiency and focus on the types of emergencies the state is most likely to face.

Specifically, the recommendation will:

1. Combine the DEM and ERC staffs, strengthening their related areas of interest, and reducing limited duplication of effort in review and approval of local emergency plans.

2. Concentrate state review of local emergency plans and state training efforts in one or a few offices rather than in a network of state regional offices. A reduction or elimination of regional offices and of some central office functions will reduce state costs and free up federal funds for additional emergency planning by local units.

3. Redirect FEMA funds to counties and other local units who may use them for their own planning or for multi-county planning of improved early response. Early response is most effectively performed by local emergency organizations.

4. Halt applications for federal funds which require time and effort spent on nuclear attack planning and radiological instrument equipment maintenance, and refocus emergency planning on hazards that are of more immediate concern.

Combining the DEM and the ERC staff into a single division in the Department of Public Safety would eliminate some limited duplication of efforts, improve efficiency in state emergency planning, and enhance the review of local plans. Local emergency planning organizations would receive information from a single state agency which is familiar with all state emergency programs and services provided by the DPS. The combined organization would continue to be involved in: the review and coordination of local emergency plans; the operation of the 24-hour service center; national disaster assistance; and nuclear plant planning activity. Additionally, the consolidation would give the agency the opportunity to clarify its role in a growing number of environmental safety activities, including data collection and emergency planning and communications.

The role of the state is to provide assistance when local agencies are unable to handle major emergencies. This assistance may include providing pre-incident planning information or training in the use of computer programs. In other cases, it might require contacting other agencies, such as the PCA for spills, or requesting assistance from the National Guard. Most of these activities will not be affected by the recommended reduction in state and federal funding. However, the reductions will require a major overhaul of the state's role in reviewing and approving plans. This may require a reduction or elimination of regional offices and the redesign of some central office activities. Alternative ways of communicating with counties and cities will need to be developed.

The facilities using toxic chemicals and local response organizations--police, fire, ambulance, and the 911 emergency communications network--have the most immediate interest in reporting and responding to various kinds of disasters. This was recognized in the "Spills Bill", Laws of Minnesota 1991, chapter 305, which requires organizations that store or transport large amounts of toxic chemicals to report their plans for spill prevention and response, and to prepare for a worst case discharge. FEMA also recognizes the importance of local response organizations by allowing local funds to match federal funds. Presently, over half of the FEMA funds for Emergency Management Assistance are distributed by the state as grants to counties and a few cities. The planning and training of local groups and neighboring cities and counties linked by mutual assistance agreements is fundamental to effective emergency response. The recommended reduction in use of FEMA funds by the state will make some additional funds available to increase local capability.

The redesign of the state's role in emergency planning and training should strengthen county activity because federal funds no longer used by the state will be available for counties and possibly other local units of government. These funds may be used not only for local work but also for building regional or multi-county networks that may be useful in the development of local plans or in the development of limited specialized assistance.

The reduction in federally-funded enemy nuclear attack planning will enable both state and local emergency planning organizations to concentrate on those emergencies most likely to occur in Minnesota. International developments appear to make the threat of nuclear attack more remote. The maintenance of large numbers of radiological instruments by the state is also questionable. Instruments needed where radiological emissions may occur should be the responsibility of the organizations utilizing or regulating nuclear power generation. This is consistent with current state policy which requires that the cost of planning for nuclear plant incidents be borne by utilities generating nuclear power.

The question of whether the DPS should continue to inventory chemicals and collect related fees might be reviewed in CORE Project 2. The PCA also tracks certain hazardous chemicals and waste products and has considerable expertise in this area.

The most difficult organizational issues in the DEM and ERC consolidation are in the area of emergency planning and training. Some activities, such as those related to enemy nuclear attack, are dated, while others, such as emergency planning, are confusing and do not appear to be cost effective. It is significant, however, that considerable attention is already being devoted to these areas by the relatively new leadership of DEM.

In the past, the state attempted to provide direct specialized assistance for some emergencies such as chemical and hazardous waste spills. The DEM purchased a special truck and trailer which are equipped to fight chemical fires. However, the truck was rarely used outside of parades, due to the reluctance of local fire fighting organizations to go outside of their jurisdictions, OSHA liability questions, and the difficulty of getting a single truck with trained fire fighters to an incident in a timely manner. Today, the truck is housed in the Cottage Grove fire station awaiting a decision on its sale or use by another organization. Selling the truck and giving the equipment to a fire training organization appear to be the most financially responsible steps at this time.

FISCAL IMPACT:

	($ thousands)			
	FY 93	FY 92-93	FY 94	FY 95
General Fund savings	$150	$150	$200	$200
Federal Fund reductions				
a.Transfer 50% of matching funds to counties	$150	$150	$200	$200
b.Reduce funds for enemy attack planning by 100%	$200	$200	$230	$230

Savings to the General Fund are based on a substantial reduction of regional office activity and/or a small reduction in central office staffing. Overall, the reductions could total 6 positions. It is possible this staff reduction could decrease by one depending on the cost savings attributable to reductions in office space and support in regional offices. The savings assume the retirement of one person and payment of severance to five persons. One or two individuals in eliminated clerical jobs may find other employment with the state, thereby reducing the number of persons laid off and severance costs. Savings in FY 1993 also assumes $10,000 from the sale of the truck.

Federal funds transferred to the counties under (a) are matching federal dollars used to finance state DEM positions and activities. As the DEM and its activities are redesigned, and state use of these federal dollars declines, federal funds will be granted to the counties and other local emergency planning units. These groups can then use their local funds to match federal funds.

The reductions in Federal Funds for enemy attack planning and radiological equipment maintenance, totaling $230,000 by FY 1994, make up more than half of the $399,000 of federal funds received for this purpose. The reductions are based on the elimination of 5 of 8 fully federally funded positions. Two of these are currently vacant. Consequently, federal fund savings in the first year are reduced to account for the payment of severance for three positions.

The option provided would also reduce the General Fund and reallocate matching federal funds to the counties. However, the state would continue to apply for federal funds for enemy attack planning and radiological equipment maintenance. Alternatively, the state may continue applying for these funds and request permission to redirect the funds to more useful emergency management purposes.

LOCAL GOVERNMENT IMPACT: Counties will receive additional funding for emergency planning from federal emergency management funds no longer used by the state. However, they will also receive less state review and training.

STAFF IMPACT: Implementing the recommendation could lead to the elimination of 11 clerical, administrative, planning and coordinating positions. Three of the federally funded positions are electronic technicians. Transferring federal matching funds to the counties may result in the addition of positions at the local level.

The option provided would eliminate a minimum of six positions.

IMPACT ON AFFECTED PARTIES: There may be some hesitation about returning federal funds or not applying for them, based on the state's determination of the limited utility of enemy nuclear attack planning. Some utilities may be concerned about paying for radiological instrument maintenance which is currently paid for by federal funds. Local governments may be concerned with reductions in direct state assistance and the steps encouraging them to develop cooperative emergency plans with nearby counties or cities.

METHOD AND TIMING OF IMPLEMENTATION: <u>Legislation and Budget.</u> The Commissioner of Public Safety will need to consider these recommendations and prepare a reorganization plan which implements them. This includes the preparation and submission of necessary statutory changes to the 1992 Legislature. The co-location of the combined offices of the DEM and ERC may take some time, delaying a small part of the savings.

CORE PROJECT 1 ANALYSIS

PROJECT # 4: Farm Advocates Program - Institute Sliding Fee Scale

IDEA # 215 **FY '92-'93 GF Savings: $100,000**

RECOMMENDATION: The Department of Agriculture should implement a fee to recover $100,000 of the costs of the Farm Advocates Program beginning in FY 1993.

COMMISSION ACTION: **Approved** **- Vote: 13 to 0.**

BACKGROUND: In 1984, at the peak of the farm debt crisis, a small band of farmers responded to the desperate needs of many Minnesota farmers by forming a voluntary farm advocate organization. What once was a voluntary organization has evolved into a state funded program with paid consultants. The program's annual budget has ranged from a minimum of $100,000 in 1984 to a maximum of nearly $500,000 in 1988. The current appropriation of $200,000 per year for the 1992-93 biennium was approved by the conference committee despite the Governor's recommendation during the 1991 legislative session that the Farm Advocates Program be eliminated.

Farm Advocates are trained to provide information and assistance to farmers in such areas as foreclosure mediation, negotiations with creditors, cash flow management and federal loan applications. The unique contribution of this program is that farm advocates reach out to fellow farmers and provide both one-on-one support and information and tools to help troubled farmers reach self-sufficiency. Under the current administration, the Farm Advocates program has slightly altered its mission. Besides continuing to act as advocates for farmers who are in dire financial straights, Farm Advocates are taking on more proactive activities such as educating individual farmers about farm financial management and the implications of complex state and federal regulations.

There are currently 13 Farm Advocates who contract with the Department of Agriculture to provide financial advice and counseling to farmers under Minnesota Statutes, section 15.061. In 1990, Farm Advocates assisted 1300 farmers. Generally, services are requested by farmers in desperate financial situations.

The Department of Agriculture estimates that the average cost to the state in 1990 (when the budget totalled $400,000) was $250 per client. This $250 worth of assistance can be viewed as an investment for the state, since Farm Advocates often rescue farmers from foreclosures. Farm Advocates also give farmers the tools and information to maintain viable farming operations, keeping farmers off income maintenance programs, and ensuring that financially viable farmers continue to help fuel rural economies.

Other government and nonprofit organizations also serve farmers in need. Some examples are Legal Aid organizations, Adult Farm Management instructors (High School Agriculture instructors), County Extension agents, and Agricultural Information Center staff.

RATIONALE: The state should maintain funding for the Farm Advocates program, but should charge fees to generate revenue for the following reasons.

1. There continues to be a need for this program, despite the fact that the farm crisis has abated somewhat over the past several years.

2. Farm Advocates provide a unique and high quality para-professional service to financially distressed farmers that complements other government and nonprofit services.

3. Despite the continuing difficult economic conditions in this sector, farmers' ability to pay makes a 100 percent subsidization of this program inappropriate.

According to the Department of Agriculture, Farm Advocates are in high demand. Moreover, they intervene in a personal and confidential manner which is very valuable to farmers who are humiliated by their financial situations and are less prone to seek help through conventional channels.

The Department of Agriculture reports that farmers assisted by Farm Advocates typically avoid bankruptcy and are able to stay in business. This being the case, it is reasonable to request that farmers pay what they can for the services of the Farm Advocates. If 1000 clients are served in the next fiscal year, on average clients would be billed $100, or about half of the projected per client cost of the program. The Department of Agriculture agrees that a charging a fee is reasonable. It suggests, however, that farm clients should not be billed for the first 20 to 40 hours of advocacy because this work primarily entails crisis intervention. The Department is also reviewing the possibility of expanding its clientele in order to leverage additional non-government funds.

In recent years, the Farm Advocates program has been criticized by officials in the Agriculture Stabilization and Conservation Service (ASCS) and the Farmers Home Administration (FmHA). These organizations noted that Farm Advocates, when acting as representatives of farmers, sometimes over-represented clients to the detriment of the state. They also believe that a number of clients went bankrupt despite the assistance of a Farm Advocate. Moreover, they note that many farmers would be better off seeking the help of either finance or legal professionals to assist them through mediation and lender negotiations.

The Department of Agriculture admits that some former advocates did overstep professional boundaries in their efforts to serve clients, but that an evolving program mission and the non-renewal of some former contractors has resolved that problem.

FISCAL IMPACT:

($ thousands)

General Fund	FY 93	FY 92-93	FY 94	FY 95
	$ 100	$100	$100	$100

The Department will design a fee to recover $100,000 per year of the costs of the Farm Advocates program.

The Farm Advocates coordinator works for the Department of Agriculture. The coordinator's position is funded through the appropriation. Approximately 20 percent of the grant pays for operating costs including staffing, rent, communications and travel, training and supplies. For FY 1992, advocate contracts amount to $175,000. The Farm Advocate program also receives $30,900 in revenue from non-government sources.

IMPACT ON AFFECTED PARTIES: The recommended change should not have a negative effect on the clientele served. In fact, farmers may be more inclined to take advantage of the service if they don't perceive it as charity.

METHOD OF IMPLEMENTATION: Legislation and Budget. The appropriation for the farm advocate program would remain the same; however, the department would increase its anticipated General Fund non-dedicated receipts estimated for FY 1993 by $100,000. The Department of Agriculture would need statutory authority to establish a fee schedule.

CORE PROJECT 1 ANALYSIS

PROJECT # 5: Freight Expense Reduction Through Cost Management Techniques

IDEA # 761 **FY '92-'93 GF Savings: $1,816,000**

COMMISSION ACTION: Approved **- Vote: 15 to 0.**

RECOMMENDATION: Reduce state purchasing costs by developing an aggressive freight management program using a combination of outside consulting and internal purchasing expertise.

BACKGROUND: Currently, the state has no mechanism for managing the costs of freight associated with the purchase of supplies and equipment. The state purchases over $170,000,000 in goods annually. Approximately $70,000,000 worth are one-time purchases, approved by the Department of Administration, Materials Management Division. The remaining $100,000,000 in purchases are made through long-term commodity contracts which are typically in force for one to five years.

State contracts are bid-based, with the supplier assuming responsibility for arranging and paying for transportation of the goods. For all of the state's purchases, the state accepts bids from vendors on the total price of an item, including the costs of delivery. Because the freight cost is never itemized separately on contracts, it is difficult to estimate current expenditures for freight.

Using a freight management system, the state would accept bids in the form of rate schedules from transportation firms based on distance, weight and value of the item being shipped. When purchases were bid out, vendors would be required to list freight costs separately. Based on vendor bids and the rates of the transportation firms, the Materials Management Division would determine which firm would deliver the item most cheaply and expediently. There could be one invoice for the item including shipping, or separate invoices for the item and for shipping costs.

RATIONALE: Establishment of a freight management program is recommended because of the significant savings which could be realized. Department of Administration (Admin) studies have indicated that the state pays freight costs of approximately $8,500,000 to $13,600,000, or 5% to 8% of the cost of total purchases. A 1987 Admin study concluded that more aggressive management could significantly reduce the costs of freight. During 1991, Admin consulted with a comparably-sized division of Honeywell, Inc. which has shipping needs similar to those of the state. Honeywell was able to reduce its freight charges from 8% to about 3% of total purchase costs through a freight management system. The Department of Administration is seeking to establish a similar program for the state.

Combining outside consulting with internal expertise is recommended because the Materials Management Division is familiar with the intricate details of state purchasing, but needs assistance in learning and implementing the state-of-the-art techniques used to effectively manage freight costs. In the spirit of the public-private partnership of CORE, an outside firm could be found to contribute its expertise in freight management to the state. Work would be performed by a mix of outside consultants and internal staff in fiscal year 1993 and internal staff exclusively commencing in fiscal year 1994.

FISCAL IMPACT:

($ thousands)

	FY93	FY92-93	FY94	FY95
All Funds	$2,925	$2,925	$2,750	$3,250
Estimated General Fund*	$1,816	$1,816	$1,788	$2,113

*General Fund estimates are based on the proportion of General Fund dollars to other funds. In the 1990-91 biennium, the General Fund constituted 65% of all funds.

Not all savings for freight management are immediately realizable. Freight management improvements can be implemented immediately for the $70,000,000 in one-time purchases. However, for the remaining $100,000,000, only 20% of the contracts are renewed each year. Thus, only approximately $90,000,000 in state purchases could be affected by a freight management program in FY 1993.

Of the $90,000,000 worth of purchases which can be addressed in FY 1993, Admin estimates that 5% to 8% or $4,500,000 to $7,200,000 is currently being paid out in freight costs. By applying freight management techniques in cooperation with an outside consulting or freight management firm, Admin estimates that freight costs could be reduced to 2.5% to 4% of total purchases, or $2,500,000 to $3,600,000. Thus, the savings would be between $2,250,000 and $3,600,000. The savings for FY 1993 represents the midpoint of this range, $2,925,000.

In addition, a new computer system will be needed to implement a freight management plan. The cost of the new system would be $85,000. That amount has been subtracted from the total savings projected for FY 1993.

LOCAL GOVERNMENT IMPACT: Local governments may realize some percentage of the cost savings related to their participation in cooperative purchasing contracts with the state.

STAFF IMPACT: No state positions are affected. Staff positions can be re-allocated in the Department of Administration to accommodate the staffing needs of the recommendation.

IMPACT ON AFFECTED PARTIES: The bulk of these savings will accrue to agency budgets. Agency budgets will be reduced by the amount of the savings in order to capture the savings. The Departments of Administration and Finance will need to develop a system for identifying and capturing the savings resulting from freight management techniques.

METHOD AND TIMING OF IMPLEMENTATION: <u>Administrative Action and Budget</u>. To realize fiscal year 1993 savings, the freight management program would have to be operative no later than July 1, 1992. Therefore, the consulting firm would need to be identified and an implementation plan developed beginning in January, 1992.

The Department of Administration would be required to track freight cost savings on an ongoing basis and cooperate with the Department of Finance to identify and capture savings in agencies' supplies and equipment budgets.

In addition, an appropriation of $85,000 to the Department of Administration would be required to fund the costs of the computer system.

CORE PROJECT 1 ANALYSIS

PROJECT # 6: Health Facilities Licensure Fee Recovery

IDEA # 16 **FY '92-'93 GF Savings: $1,481,000**

RECOMMENDATION: Recover past health facility licensure fees through an accelerated rate increase beginning in FY 1993.

Option 1: Collect the entire amount of past licensure fees in FY 1993.

Option 2: Recover the fee deficit in three rather than five years.

COMMISSION ACTION: **Approved** **- Vote: 14 to 0.** The Commission chose to pursue a third option that would recover the fee deficit in two years. The total savings resulting from this option would be $1,481,000 for FY 1993 and the same amount in FY 1994.

BACKGROUND: The Minnesota Department of Health (MDH) is authorized by Minnesota Statutes, section 144.122, to collect fees from health facilities to recover the costs of licensing those facilities. These facilities include nursing homes, intermediate care facilities for the mentally retarded, and hospitals. The bulk of licensure fees is from nursing homes. MDH has not increased licensure fees to keep up with the costs of the licensing activity, and the excess costs have been absorbed by the General Fund. MDH is authorized to collect those fees retroactively to make up for any subsidy received from the General Fund.

The General Fund has been subsidizing licensure since FY 1989. By the end of FY 1992, those subsidies will total $5,592,000. MDH is currently pursuing administrative rulemaking to recover the past fees over a five year period. That involves increasing the fee to 3.57 times its current rate. If the five year plan were accelerated, greater savings would accrue to the General Fund.

RATIONALE: The Health Facility Licensure fee deficit should be recovered because:

1. the licensure fees are intended to recover the full cost of the regulatory activity;

2. addressing the fee deficit results in net savings to the General Fund; and

3. the level of fees is fairly low, as a percentage of total cost for health care facilities.

The costs of regulation are typically recovered from the industry or the consumer of the service. This is currently the case for public utilities, physicians, cosmetologists and most other regulated professions. Cost recovery for regulation is also mandated by law, as stated above. Therefore, it seems clear that the intent of the licensure fee is to pay for the MDH's costs of regulating the industry.

Raising fees to the appropriate level relieves some pressure on the General Fund in difficult financial times. It also transfers some of the cost of regulation to the federal government, since licensure is a recoverable expense under the Medical Assistance Program.

While the percentage increases seem high, the absolute level of fees for each facility is fairly low in nominal terms. For example, the current fee for a nursing home is $68, plus $16 per bed. The proposed three-year plan (discussed under "fiscal impact") would increase that fee to $272, plus $64 per bed, which is still a fairly small expenditure. After the initial 3 year accelerated recovery, the permanent fee level drops to a level sufficient to recover costs on an ongoing basis. The fee is higher the first three years because the facilities have not paid full costs over the past few years.

The fee is also fairly low as a percentage of costs. Based on the financial data submitted by the nursing homes to the Department of Human Services, this increase should not be a financial burden for most facilities. Statewide, the cumulative fees are $881,000 out of a $1,000,000,000 budget or .0881%. Under the proposal to recover costs over three years, projected fee revenue would still be only 0.43% of facility costs. Many facilities are experiencing financial difficulties, but even the most severe increase in licensure fees should not cause them significant financial harm.

FISCAL IMPACT: ($ thousands)

	FY 93	FY 92-93	FY 94	FY 95
General Fund*				
Option One	$3,484	$3,484	$ 0	$ 0
Option Two	$ 843	$ 843	$ 843	$ 843

*The projected savings have been reduced to reflect the state's share of Medical Assistance payments.

Under the five year plan currently being pursued by MDH, the fee would be set at $3,200,000 per year for the next five years. The five-year plan would not only recover the past deficit, but would also set the fees at a rate which recovers full costs through the licensure fee in the future. Since that recovery is already included in the General Fund forecast for FY 1993, that amount was netted out of the savings estimates.

Under the first option, the entire amount of past licensure fees would be collected in FY 1993, and the fees subsequently adjusted to more accurately reflect the cost of the licensing function in the future. For 1993, health care facility licensure rates would increase by 600% to recover all of the fee deficit plus the amount due that year. The permanent rate adjustment would be 122% of the current rates. This plan would recover the full $5,592,000 of the fee deficit in FY 1993. However, the impact of a rate adjustment of this magnitude for the facilities could be fairly severe. (See "Impact on Affected Parties" section for a more detailed discussion of the nursing home reimbursement schedule.)

The second alternative would be to recover the fee deficit in three, rather than five years. The fees charged to health facilities would increase by 400%, and full recovery would be achieved in FY 1995. This would increase the cost recovery for the General Fund for the next three years, and put less of a strain on the finances of the facilities affected.

STAFF IMPACT: None since MDH is already planning to recover these fees.

IMPACT ON AFFECTED PARTIES: Raising the licensure fees to recoup the cost of licensing will have a financial impact on the licensed facilities. The final impact on the facilities is not clear, since they may be allowed to recover licensure costs through the Medical Assistance Program, and may be able to absorb these costs or pass along a portion to private payers. However, since Minnesota has a prospective reimbursement system, the owners will have to cover the increased costs out-of-pocket for some time before the reimbursement schedule catches up to the current costs. This could cause some financial strain, but the strain should not be a severe one since, as noted above, the licensure fees are a very small portion of overall expenses for health care facilities.

The MDH notes that health facilities currently face an uncertain fiscal environment, and that accelerating the fee increase adds to facilities budget problems. Also, the MDH indicated that revised fiscal data from FY 1991 show that the accumulated difference between fees and costs is approximately $600,000 less than previously indicated in fee review documents. If this data is correct it will reduce the amounts recovered by approximately $300,000. Because MDH will need to update all fiscal data in the fee review that must be prepared during rulemaking, the recovery amount previously calculated has not been altered.

The professional associations representing these facilities will oppose the size of the proposed increases.

METHOD AND TIMING OF IMPLEMENTATION: Administrative Action. The Health Department will be required to revise the fee proposal currently being prepared for the administrative hearing process. To realize savings in FY 1993, MDH must have the rule revision completed by August of 1992.

CORE PROJECT 1 ANALYSIS

PROJECT # 7: Indirect Cost Recovery Improvement

IDEA # 636.0 **FY '92-'93 GF Savings: $124,000**

RECOMMENDATION: The Department of Finance should implement a comprehensive review of statewide indirect costs allocation policies and collection methodologies to increase recoveries to the General Fund.

COMMISSION ACTION: <u>**Approved**</u> **- Vote: 15 to 0.**

BACKGROUND: Minnesota Statutes, chapter 16A, requires that non-General Fund programs reimburse the General Fund for the costs of general support services such as accounting, purchasing, and personnel. The total amount of statewide indirect costs for FY 1991 was $11,093,583. Each agency that receives federal funds has an indirect cost plan to calculate an indirect cost rate charged against federal funds. Plans are reviewed and approved each year by the Department of Finance, and, for federally-funded programs, by relevant federal agencies.

Due to staff shortages, improving the review of indirect cost plans to increase recoveries has not been a high priority within the Department of Finance in recent years. Approximately ten years ago, the department hired a consultant to review the statewide indirect cost allocation plan submitted to the federal government, but has made no significant revisions to the plan since that time. Using available staff, the Department of Finance has been able to review the departmental plans only to insure that they include all the required elements. The department has not been able to further review each agency's plan to make sure, for example, that all allowable costs reimbursable by federal programs are included to maximize reimbursement.

The Finance Department routinely grants waivers in cases where charging indirect costs would be inappropriate, such as to gift funds. It has also occasionally exempted other programs from paying indirect costs because of unique circumstances. One example is a program that unexpectedly lost revenue as a result of federal action, and payment of indirect costs to the General Fund would have required the program to reduce client services late in the fiscal year. Over time, more and more of these waivers have been granted, often by legislative action. The department has not had time to review long-standing waivers, whether granted by Finance or the Legislature, to ensure that the purpose continues to be valid and they meet an agreed upon set of waiver criteria.

RATIONALE: It is recommended that a position be funded in the Department of Finance to improve indirect cost recovery for the following reasons.

1. The full costs of programs should be reflected in the proper fund; the General Fund should not subsidize activities paid for by other funds because of inaccurate accounting of indirect costs.

2. Federally funded programs should bear full costs, including appropriate statewide overhead, wherever allowed by federal law.

With close attention to agency indirect cost plans, the department feels it could generate at least a 1 1/2% increase in reimbursements to the General Fund in the first year. This savings would be offset by first year staff costs of $42,300, generating a total savings of $124,103 in the first year, and approximately $126,100 per year thereafter.

The focus would first be on reviewing waivers granted to programs. Between September 1990 and October 1991, 258 waivers of statewide indirect costs were granted. Although information on the total dollar amount of waivers was not collected systematically, the department estimates it to be at least $250,000. This figure probably represents less than 10% of the total. Some waivers will continue to be approved based on the special circumstances of programs. However, the department is confident that this examination will produce significant additional revenue to the General Fund in FY 1993. In addition, early review of plans will eliminate some accounts receivable problems, in which agencies delay paying the quarterly indirect cost billings, and find themselves at the end of the fiscal year with insufficient funds to cover those costs.

The department would also begin to carefully review federal requirements to increase reimbursements to the state for allowable indirect costs. Although some large agencies have a great deal of experience and expertise on staff, others are less sophisticated in working with the federal agencies to negotiate appropriate levels of reimbursement. The department feels this added review will provide a real benefit to the agencies and yield a substantial increase in federal funds to the state. Because federal agencies' programs, rules and staff change regularly, this review process should be ongoing. Maximizing federal reimbursement requires constant vigilance.

FISCAL IMPACT: ($ thousands)

	FY 93	FY 92-93	FY 94	FY 95
General Fund				
Increased Revenues:	$166.4	$166.4	$166.4	$166.4
Staff Costs:	$(42.3)	$(42.3)	$(40.3)	$(40.3)
Net Savings:	$124.1	$124.1	$126.1	$126.1

STAFF IMPACT: No impact on existing staff is anticipated.

IMPACT ON AFFECTED PARTIES: It is possible that some programs that have received long-standing waivers of indirect costs will no longer qualify. This would result in some reduction in the amount of funds available for direct program costs.

METHOD AND TIMING OF IMPLEMENTATION: Administrative Action and Budget. The Department of Finance has authority to begin this review as soon as staff can be made available. Recommended changes to legislative waivers in statute would be brought to the Legislature in the future by the Department of Finance.

CORE PROJECT 1 ANALYSIS

PROJECT # 8: Labor/Management Grant Phase-Out

IDEA # 189 **FY '92-'93 GF Savings: $119,000**

RECOMMENDATION: Eliminate the appropriation to the Bureau of Mediation Services for Labor/Management Cooperative (LMC) Grants.

Option: Phase out appropriation for the LMC grants over the next two years.

COMMISSION ACTION: **Approved** - **Vote: 8 to 4.** Commission members expressed two main concerns about the elimination of Labor/Management Grants: first, that the reduction could be interpreted as decreasing the state's commitment to labor-management cooperation; and second, that the labor-management committees might not be able to continue without state support. The final recommendation phases out the grants over two years, saving $119,000 in FY 1993 and $270,000 in FY 1994. The phased reduction is designed to allow the labor-management committees time to pursue other financing to continue their work.

BACKGROUND: Begun in 1987, Labor/Management Cooperative (LMC) Grants are intended to fund activities which foster cooperation, prevent disputes and enhance productivity in private sector labor/management relations. These grants generally are used by recipients to pay for conferences, training, education materials and staff. The intent of the LMC grant program was to pilot innovative ways for labor and management to work together. Once the concept had been accepted, the grants were expected to be phased out.

Grants are awarded on a matching basis through the Bureau of Mediation Services, Office of Labor Management programs. Minnesota Statutes, chapter 179, authorizes LMC grants and establishes percentages for the matching of grants. Matching percentages are 10 percent the first year, 20 percent the second year and 50 percent the third year. The escalation of the match requirement indicates the intent of the Legislature that there be a greater financial commitment by grantees during subsequent years. A total of six grants were awarded to the same recipients in each of the last three years. These recipients are: Area/Industry Labor-Management Committees (ALMC) in the Twin Cities, Duluth, St. Cloud, and on the Iron Range; the Labor User Building Trade Council; and, the Minnesota Schools Council. In FY 1991, there were 12 grant applications. Six grants were awarded totalling $238,000.

RATIONALE: Elimination or phase out of the Labor/Management Cooperative (LMC) Grant Program is recommended because labor/management cooperative grants have substantially accomplished their goal. Pilot grants are no longer necessary. Ongoing support should come from the private beneficiaries: labor and management.

In the last three years, grants of between $3,800 and $60,000 have been awarded to the same six labor/management entities. In FY 1992, the number of grantees will increase to eight. According to the Bureau of Mediation Services, the greatest proportion of the funding will be allocated to ALMCs that have previously received the grants, even though other programs may deserve consideration. Because of the increase in the percentage of matching funds required, it is likely that the grants were viewed by the Legislature as start-up funding for ALMCs, which would later be self-sufficient. However, because certain organizations rely on funds from these grants, an argument can be made for a phase out of funding.

There is a substantial willingness and interest among unions and management to improve the collaborative nature of their relationships with one another through the establishment of Area Labor/Management Committees (ALMC). However, the grants are awarded to only six entities within the State, with no quantifiable evidence that they foster any better labor/management relations. The Bureau of Mediation Services has not done a formal evaluation of the effectiveness of the grants program to determine whether the state-funded ALMCs have had measurable impacts in reducing disputes between labor and management. If the ALMCs do improve dialogues and are cost beneficial, perhaps the programs should be underwritten by the private sector entities involved or by nonprofit organizations. It can also be argued whether $238,000 divided among six entities can accomplish any quantifiable measure of success.

FISCAL IMPACT:

($ thousands)

	FY 93	FY 92-93	FY 94	FY 95
General Fund (Recommendation - Elimination)	$270	$270	$270	$270
(Option - Phase Out)	$119	$119	$270	$270

STAFF IMPACT: Reduction of one position in the Bureau of Mediation Services, Office of Labor/Management. Salary for this position is $32,000 annually. No severance cost are included in this calculation because the position would be absorbed within the structure of the Bureau of Mediation Services.

IMPACT ON AFFECTED PARTIES: The strongest opposition to the elimination or phase out of the Labor/Management Cooperative grants program will come from the ALMCs which feel that, without the grants, committees will not be viable. However, without quantitative data, the case for retaining the grants has not been shown.

METHOD AND TIMING OF IMPLEMENTATION: Budget. The elimination or phase out of the LMC Grants program would require an appropriation reduction in the 1992 session.

CORE PROJECT 1 ANALYSIS

PROJECT # 9: Liquor Control Division Elimination

IDEA # 166 **FY '92-'93 GF Savings: $260,000**

RECOMMENDATION: Eliminate the Liquor Control Division in the Department of Public Safety. Transfer the licensing and regulatory function of Liquor Control to the Licensing and Enforcement Division within the Department of Commerce. The remaining criminal investigatory function should be absorbed by the Bureau of Criminal Apprehension (BCA).

COMMISSION ACTION: **Approved** **- Vote: 14 to 0.**

BACKGROUND: The central purpose of the Liquor Control Division (LCD) is to protect the public interest by uniformly administering the Liquor Act, Minnesota Statutes, chapter 340A. The Liquor Control Division's history is rooted in the 19th century and prohibition. The division continues to act on the temperance movement's philosophy that controlling the sale and distribution of liquor will control both corruption in the industry and consumption habits of the drinking public. Liquor Control was an autonomous department until 1976, when it became a division under the jurisdiction of the Commissioner of Public Safety. The Division's FY 1992 operating budget is $811,000 and its staff complement is 17. For FY 1992, receipts from non-dedicated fees are projected at $490,000, recovering approximately 60% of the division's annual costs.

The LCD is charged with controlling liquor sales between the manufacturer or importer and the wholesaler; and between the wholesaler and the retailer. Manufacturers, importers, and wholesalers of wine, beer, or spirits apply for licenses with the LCD which has the authority to approve and issue licenses if statutory eligibility requirements are met and appropriate fees are remitted.

According to Minnesota Statutes, chapter 340A, cities and counties have *primary* authority for issuing retail liquor licenses and for enforcing all state criminal laws applying to retail liquor establishments. Local units of government and the LCD are responsible for ensuring that every retail liquor outlet has Dram Shop liability insurance, which guarantees a source of funds to compensate the losses of any innocent person harmed from an illegal sale of intoxicating beverages. The state, in order to keep track of liquor licenses issued by cities and counties, monitors all on-sale licenses and approves all off-sale retail liquor licenses. To recover its costs for this service, the state charges a $12 fee for the Retail Identification Card issued to retail licensees.

The LCD is fundamentally an economic regulatory agency, not a criminal enforcement agency. It monitors intoxicating beverages from the time they enter or are manufactured in the state, to the time they are either exported from the state or consumed. Under statute, the LCD's primary function is to regulate the liquor industry. The LCD attempts to maintain a balance between the different tiers of the industry, neutralizing the capacity for any one manufacturer, wholesaler or retailer to gain a significant share of the industry. The LCD's enforcement of the state's exclusive sales or "Tied House" laws (Minnesota Statutes, section 340A.309) helps prevent the formation of vertical and horizontal monopolies. Areas that the division investigates in its regulatory capacity include: liquor advertising and promotional violations; sale or purchase of liquor that is illegal due to the tax delinquent status of the wholesaler or retailer; tests for purity of content; background checks for licensing eligibility; and Tied House violations. LCD personnel performed 122 and 210 regulatory investigations in FY 1990 and FY 1991, respectively.

Besides its statutory responsibilities, the LCD performs a secondary function by assisting local law enforcement agencies in their investigations of criminal liquor violations. Such violations include sales to minors, after hour sales, bootlegging and illegal gambling. In these cases, local police and sheriffs may request the assistance of the LCD to provide undercover surveillance of liquor establishments. According to the LCD, local (primarily rural) law enforcement agencies often ask for this free service to avoid involving locally-elected law enforcement officers in issues that are too politically sensitive. LCD personnel performed 30 and 84 criminal investigations in FY 1990 and FY 1991, respectively.

The LCD also serves as a public clearinghouse for information such as: the permitted hours and days of sales; the legal age for employees of liquor establishments; the application process for one- to three-day permits; and requests for delinquency postings (wholesalers and retailers who are forbidden to sell). Division staff receive calls requesting advice and information on the interpretation of liquor laws from wholesalers, licensees, city clerks, insurance companies, investigators and attorneys, and law enforcement officials.

Other state and federal organizations operate in the same area as the LCD. The Attorney General's office, as the chief authority on the interpretation of state liquor laws, reportedly receives approximately three calls per week requesting clarification of state liquor laws. The federal Bureau of Alcohol, Firearms and Tobacco (BAFT) regulates federal liquor laws that affect the state liquor industry. BAFT's duties includes: enforcing trade practices under the Federal Alcohol Administration Act; issuing permits to manufacturers and wholesalers of liquor (not including brewers); auditing for tax liability at the manufacturing level; and issuing a $250 special occupational tax stamp to liquor retailers. The BAFT staff works once or twice per year with the LCD on regulatory investigations. Its interaction with the LCD is mostly limited to the use of LCD records for tax collection purposes.

RATIONALE: The Liquor Control Division should be abolished and its economic and criminal enforcement activities divided between the Department of Commerce and the Bureau of Criminal Apprehension, because:

1. analysis suggests there is no compelling reason for funding a single state agency specifically for the purpose of ensuring compliance with the Minnesota Liquor Act;

2. the licensing and economic regulatory activities necessary under Minnesota Statutes, chapter 340A can be performed by the Licensing and Enforcement Division of the Department of Commerce; and

3. enforcement of state criminal statutes is primarily the responsibility of local law enforcement agencies, and secondarily the responsibility of the BCA.

The Liquor Control Division's statutory responsibility is to license and monitor the liquor industry. Acting in this capacity, the division's main objective is to ensure that antitrust laws pertaining to this area are not violated and that clear boundaries exist between the three tiers of actors in the industry. The licensing and enforcement role of the LCD keeps businesses from engaging in unfair practices that could endanger the competitive nature of the industry and negatively affect the habits of the consuming public.

The players within the trade argue that the liquor industry needs a single agency devoted to antitrust compliance and control of the sale of intoxicating beverages. However, industries with more complicated economic regulations and more intense business activity are monitored and regulated by the Department of Commerce. Given that department's vast experience and responsibilities in the areas of licensing, regulation, and consumer protection, it could take on the economic regulatory function of the LCD with minor impact.

Besides its regulatory function, the LCD also does undercover work in primarily rural areas, helping local law enforcement organizations develop a case for potential liquor-related violations. According to LCD personnel, the state assists in the investigation of these cases because rural law enforcement agencies do not have the time or expertise to do investigations of liquor sales to minors or intoxicated persons. Another reason cited is that it is often politically unpopular for the local sheriff to be heading up an investigation of illegal liquor sales in the county. Nevertheless, local law enforcement officials must make the arrests. Given the secondary authority of Liquor Control's special investigators, it is unclear why their presence is necessary. In specific local criminal cases where a state police presence is critical, the BCA investigators are the appropriate state force to assist local law enforcement agencies.

Local law enforcement officials also suspend or revoke all on-sale retail liquor licenses. However, the LCD does have the authority to suspend or revoke off-sale licenses and all county retail liquor licenses.

According to the Liquor Control Division, requests for assistance with criminal investigations are rising. This information runs counter to the sentiments of representatives of both the Sheriffs' Association and the Police Chiefs' Association, who feel that investigations of liquor violations should be handled by local law enforcement units and that the actual incidence of such violations is dropping. A Sheriffs' Association representative commented that, with training, local officers have improved their ability to investigate such matters; consequently, they are able to rely less on LCD assistance.

According to data provided by the Department of Public Safety, in FY 1991 a total of 294 criminal and regulatory investigations were performed by the LCD's six investigators. On average, each investigator performed one investigation per week. The small caseload of the investigators seems to indicate that there are possible efficiencies to be gained in this area.

FISCAL IMPACT:

($ thousands)

	FY 93	FY 92-93	FY 94	FY 95
General Fund	$ 260	$ 260	$ 350	$ 350

These savings are based on the LCD's FY 1993 budget appropriation of $759,000. To arrive at the General Fund savings, the following assumptions were made.

1. When the Liquor Control Division is eliminated, approximately eight positions and $409,000 would transfer to the Department of Commerce, and nine positions would be eliminated. Only seven LCD employees will actually be displaced since the division currently has two vacant positions.

2. The salary packages of the potentially terminated employees total approximately $350,000. It is estimated that these savings will be reduced by approximately $90,000, which is the sum needed to cover severance and retirement costs. The net savings of $260,000 assumes that two terminated employees will be absorbed elsewhere within state government.

3. This reduction of positions should be completed in FY 1992 if possible, so that severance costs are covered by any excess funds available at the end of FY 1992. To the extent that this is possible, net General Fund savings in FY 1993 will be higher.

STAFF IMPACT: The recommendation calls for the transfer of eight LCD employees to the Department of Commerce. The remaining nine positions of the LCD will be eliminated. The department currently operates with one director (who is near retirement), one assistant director, five special investigators, and seven clerical staff, three of whom work in the licensing area and four on support functions. The special investigators do not have the status of peace or police officers and may not find alternative state employment. Clerical workers who are laid off may find comparable positions with the state.

IMPACT ON AFFECTED PARTIES: The Liquor Control Division has strong allies in the liquor industry who will lobby to keep a single state agency responsive to its needs. These special interests, namely the Beer Wholesalers Association, and the Minnesota Licensed Beverage Association, Inc., will argue that the state needs a liquor-specific agency to keep a close eye on state regulations and liquor laws in order to keep a "level playing field" for industry businesses. These associations fear that the loss of a regulating agent will increase the number of unfair practices in the liquor industry, will negatively impact competition, will open the industry to "gangsters", and will increase liquor prices for consumers. However, this fear appears to be unwarranted because licensing and regulation of the liquor industry will be performed by experts in commercial transactions and antitrust regulation within the Department of Commerce. Moreover, since the recommended change includes a provision that current LCD staff transfer to the Department of Commerce, those staffers' special expertise will continue to be applied to the regulation of the liquor industry.

The loss of the special investigative activities of the LCD may have a slight impact on local and rural law enforcement agencies' abilities to enforce the state liquor laws. If a local law enforcement unit could not perform an undercover investigation of an alleged criminal violation, it could involve the Bureau of Criminal Apprehension (BCA). The BCA's mission is to provide professional investigative support services to all law enforcement and criminal justice agencies in the state. BCA investigators are fully vested with enforcement powers, unlike the special investigators of the LCD, assuring local law enforcement units of more thorough and higher quality investigations of criminal liquor violations.

The BCA may be unwilling to absorb the LCD's criminal investigatory case load without additional funds. However, analysis indicates that the need for the state to provide local law enforcement organizations with this type of assistance is diminishing.

METHOD OF IMPLEMENTATION: Legislation and Budget. This recommendation does not propose the repeal of any current Minnesota Statutes concerning the sale or consumption of liquor. It changes only liquor economic regulatory authority, moving it from the Commissioner of Public Safety to the Commissioner of Commerce.

Necessary budget changes include decreasing LCD's FY 1993 General Fund appropriation of $759,000 to $90,000, and adding $409,000 to the Department of Commerce FY 1993 base appropriation to cover the salary packages and the added operating costs of eight new staff.

In FY 1993 the Department of Commerce should review Minnesota Statutes, chapter 340A, and revise it as needed. The Commerce Department may wish to consider whether certain regulatory functions are more appropriately handled by the federal government. At that time, the Department of Commerce may also review the fee schedule to ensure that the fees generated from the liquor manufacturers and wholesalers fully recover the state's costs of licensing and regulating the industry.

PROJECT # 10: Medical Assistance: Bulk Purchasing of Medical Supplies

IDEA # 67.1 **FY '92-'93 GF Savings: $407,000**

RECOMMENDATION: Expand volume purchasing of medical goods and services under the Medical Assistance Program.

COMMISSION ACTION: Approved - **Vote: 15 to 0.**

BACKGROUND: The Materials Management Division of the Department of Administration (Admin) has developed and maintains contracts for the volume purchasing of $182,000,000 in general supplies, services, and equipment. The savings from using these contracts are estimated to exceed $41,000,000 or 23%. Savings on first time contracts are generally much higher. For example, the cost of hearing aids dropped 30% the first year the volume purchasing contract was in effect.

Over the last several years, the Department of Human Services (DHS) has been working with Admin to develop contracts for volume purchasing of medical goods and services paid for through the Medical Assistance Program. Contracts have been developed for wheelchairs, oxygen, hearing aids, and eyeglasses. The estimated savings to the Medical Assistance Program for one year under the eyeglass contract alone is $5,200,000--$80 per pair for 65,000 pairs of eyeglasses.

DHS and Admin agree that volume purchasing of enteral nutritional products, incontinence supplies, independent lab services, vaccines, and hearing aid supplies and repairs will result in additional savings of approximately 20%. However, the Departments have not had the time and resources to put the necessary contracts in place.

RATIONALE: Expansion of volume purchasing is recommended because purchasing in bulk enables the state to use its purchasing power more effectively to control the cost and quality of goods and services purchased.

As mentioned above, Admin's efforts to date in the area of volume purchasing have resulted in substantial savings to the state. The savings continue to increase as Admin becomes more involved in multi-state contracts. For example, before entering into a multi-state contract for flu vaccine, the state paid $22.00 per vial for the vaccine. Under the current contract, the vaccine is purchased at $13.15 per vial for a savings of $8.85 per vial or 40%.

By making better use of the state's purchasing power and contracting expertise, this proposal reduces costs without decreasing services to clients. In fact, the quality of goods and services is frequently improved because medical professionals are used in developing criteria for evaluating the bids. Expansion of this process can be seen as a first step in positioning the Medical Assistance Program as a purchaser of services rather than merely a payer.

FISCAL IMPACT: Total savings to the state for FY 1993, less staff costs, are estimated at $406,837. These savings are continued into the next biennium. The estimates for the biennium do not include the benefits of program expansion that should be possible if funding for the positions is continued.

Table 1 illustrates the savings to the state based on estimated 1991 expenditures.

TABLE 1 - SAVINGS

PRODUCT	EXPENDITURES 1991 BASE[1]	SAVINGS = 20%[2]	STATE SHARE[3] SAVINGS
Enteral Nutritional Products	$932,271	$186,454	$84,967
Incontinence Supplies	$1,527,878	$305,575	$139,251
Independent Laboratory Services	$1,343,207	$268,641	$122,420
Vaccines: Flu, DPT, Polio	$645,129	$129,026	$58,797
Hearing Aids: batteries, ear molds, repair labor, parts	$386,094	$77,219	$35,189
Total	$4,834,579	$966,915	$440,624

1. Expenditures are based on 1989 figures with a 7.5% increase added annually. No additional compounding has been added to anticipate the savings that may occur in FY 1993.

2. Admin estimates that the state saves at least 20% on all bulk purchases, from road salt to eyeglasses. Cost savings for the proposed group of medical goods and services may well be higher.

3. The state share of Medical Assistance expenditures is 45.57%.

To realize the savings described in Table 1, Admin would need to add a full-time Contract Administrator and DHS would need an additional half-time Attorney One. Table 2 describes the costs associated with these staffing needs.

TABLE 2 - STAFF COSTS

Position	FY 93 State Cost[1]	FY 94 State Cost	FY 95 State Cost
Contract Admin	$23,056	$22,145	$22,145
1/2 Attorney One	$10,731	$10,731	$10,731
Total	$33,787	$32,876	$32,876

1. Staff cost is based on the midpoint of the salary range for the position plus 20% for benefits. In addition, $2,000 for a computer has been added to the first year cost for the full-time position.

NET SAVINGS TO MA DUE TO BULK PURCHASING OF MEDICAL SUPPLIES

($ thousands)

	FY 93	FY 92-93	FY 94	FY 95
General Fund	$407	$407	$408	$408

LOCAL GOVERNMENT IMPACT: In FY 1991, there were 291 local units of government participating in cooperative purchasing ventures with the state. To the extent that these units of government use the goods and services available under the state's contracts, they will benefit from this project. The greatest benefits will probably accrue to county-run hospitals or nursing homes, and local Health Departments.

STAFF IMPACT: Additional staffing is required.

IMPACT ON AFFECTED PARTIES: Owners of small medical clinics that count on lab charges as part of their profits may oppose volume purchasing of lab services. Clients and physicians may feel the contracts restrict their choices of products. However, the items under consideration do not seem to be ones for which clients are likely to have strong preferences.

METHOD AND TIMING OF IMPLEMENTATION: Administrative Action and Budget. To expand the contracting into these areas, Admin would have to add one full-time contracts administrator to work specifically on Medical Assistance volume purchasing. To maximize savings for FY 1993, the position should be staffed in January by a state employee on a mobility assignment, possibly someone from one of the Regional Treatment Centers. A full-time permanent position would be filled after the legislative session.

DHS has a part-time person who is responsible for volume purchasing. To handle the increased workload associated with the expansion of contracting, another half-time position would be needed.

To ensure that the staff costs qualify for federal financial participation under the Medical Assistance Program, DHS should contract with Admin for the services of the contracts administrator. This contract would be similar to the DHS contract with the Department of Health for surveyors for nursing home certification.

Medical Assistance client expenditures are entitlements financed by open appropriations from the General Fund. To capture these savings, the Department of Finance will have to reduce the Medical Assistance expenditure forecast by the amount of the anticipated savings.

CORE PROJECT 1 ANALYSIS

PROJECT # 11: Medical Assistance: Primary Care Utilization Review Expansion

IDEA # 54.1 **FY '92-'93 GF Savings: $288,000**

RECOMMENDATION: Expand the Primary Care Utilization Review (PCUR) program to reduce state-paid Medical Assistance Program expenditures.

COMMISSION ACTION: Approved - **Vote: 14 to 0.**

BACKGROUND: The Department of Human Services (DHS) initiated the PCUR program in August of 1976, to comply with federal and state laws. The primary purpose of the program is to identify clients who use services at a frequency or amount that is not medically necessary and to restrict these individuals to obtaining medical services from designated providers for a limited period of time. Individuals are identified for the program based on a review of their claims history by DHS staff. The staff review the claims submitted for the clients to determine if the clients are using services appropriately. Medical experts are consulted to evaluate the medical necessity of the services provided. Individuals who have been inappropriately using medical services are restricted to using only one pharmacy and one primary care provider. To receive services from a specialist, they must be referred by their primary care providers.

As of August 1, 1991, there were 251 Medical Assistance (MA) and General Assistance Medical Care (GAMC) clients on the PCUR program. An assessment of the program was completed during the month of August. The claims histories of 25 clients who had been on the program for 12 to 14 months were reviewed. A comparison was made of the client claims made during the 12 months under the program and those made during the 12 months prior to placement on the program. The assessment showed a 56.3% reduction in claims paid for clients whose care was managed under the PCUR program. The average savings per PCUR client was $2,836.

The Legislative Auditor's Office has been recommending expansion of the PCUR program since 1984. In a review of the program conducted in 1988, the auditors found the program, which at that time focused only on abusers, had a benefit-to-cost ratio of over 4 to 1. They concluded that the DHS could save state money by expanding the number of utilization reviews conducted and by increasing the number of clients in the program.

Although the number of clients placed in the program has increased since the 1988 report, the DHS staff indicated that an additional 330 clients could be served if additional staffing were provided.

RATIONALE: Expansion of the PCUR program is recommended because increasing the number of clients in the program would:

1. result in additional savings for both the state and federal MA budgets; and

2. improve coordination and overall quality of care for participating clients.

As previously stated, the average annual state savings per client placed on the PCUR program is $2,836. If an additional 330 clients were placed on the program, the total federal and state savings to the MA program for each full year these 330 clients are on the program would be approximately $935,880.

Clients are placed on the PCUR program for a number of reasons including drug-seeking behavior, over-utilization of emergency room services, and use of multiple providers for the same services. Requiring these clients to obtain services from designated providers will enable the providers to more readily detect unlawful or unhealthy treatment patterns and improve the continuity of the care provided. Establishing a relationship with a primary care giver who can oversee the client's medical care is consistent with recommendations given to participants in private health plans such as health maintenance organizations.

FISCAL IMPACT: The PCUR program is labor intensive. To expand the program by 330 clients, it would be necessary to add five staff at the DHS. Some additional physician consulting time would also be needed. The federal government will pay for 75% of the costs of the nursing staff and the physician, leaving 25% of the total salary costs to be funded out of the General Fund. The federal financial participation for clerical staff is lower, with the state covering 45.57% of the cost. Total state costs for staff are estimated at $52,800.

Because the DHS will have to wait until the positions are approved to begin the hiring process and because it will take some time to identify clients and get them on the program, the potential savings per client have been reduced by 20%, yielding per client savings of $2,269 for a total of $748,770. The state share of these savings minus staffing costs would be approximately $288,000 in FY 1993. Savings per client in FY 1994 and FY 1995 would be approximately 20% higher for a total savings of approximately $373,000.

($ thousands)

	FY 92	FY 93	FY 92-93	FY 94	FY 95
General Fund		$288	$288	$373	$373

LOCAL GOVERNMENT IMPACT: Clients placed on the program may appeal through their local social service agency. Some additional staff time may be required to handle the increase in client appeals.

EMPLOYEE IMPACT: Additional staffing is required.

IMPACT ON AFFECTED PARTIES: Clients on the program will have some restrictions placed on their use of health care services and providers.

METHOD AND TIMING OF IMPLEMENTATION: Budget. The Legislature will need to approve full funding for the additional positions. The federal financial participation (FFP) will be returned to the General Fund.

CORE PROJECT 1 ANALYSIS

PROJECT # 12: Parking Fee Increase for State-Owned Parking Facilities

IDEA # 311 **FY '92-'93 GF Savings: $268,000**

RECOMMENDATION: Improve management of state owned parking lots by:

1. increasing employee parking rates to cover the cost of operating, maintaining and repairing parking lots in the Capitol Complex;
2. reducing the number of rates charged from seven to two; and
3. providing for a reserve for replacement or major repairs.

COMMISSION ACTION: **Approved** **- Vote: 14 to 1.** The Commission approved Option 1.

BACKGROUND: Minnesota Statutes, section 16B.58, provides that the Commissioner of Administration shall operate and supervise all state parking lots and facilities, except those whose control is vested in another agency by law. Money collected for parking charges is appropriated to the Commissioner for the purpose of operating, maintaining and improving parking lots and facilities owned and operated by the state.

The Commissioner is required by law to charge a surcharge of 25% on vehicles occupied by one person. A sliding fee is charged for parking based on the number of passengers in the vehicle. There are seven different rates charged depending upon the number of passengers in a vehicle. The sliding fee has been difficult to administer and enforce. Changing the number of rates to two - one for individual drivers and one for car pools and those who are protected by law because they are unable to carpool - would simplify administration of the parking system.

Parking rates have not been increased since 1984. Currently, revenues are adequate to cover operations and minor repairs, but they do not cover major repairs. In the past, major projects have been financed by requesting funds from the Capital Budget. Increasing the parking rates by 30% over a three year period will allow a reserve to accumulate from a portion of the additional revenues to provide for capital replacement and major repairs.

A portion of the increase could be used to repay the General Fund for major repairs financed out of the Capital budget. Two options for repayment are described below.

Option 1:
Use a portion of the increased revenues to repay the General Fund for construction costs of the State Office Building ramp and improvements and the additional lighting and security measures which will be installed in this fiscal year. The total costs for these projects were:

State Office Building Ramp	$3,100,000
State Office Building Ramp	$ 675,000
Parking Security	$ 865,000
TOTAL	$4,640,000

If these costs are amortized over twenty-five years, the annual amount repaid to the General Fund will be $185,600. This amount will not include a payment for interest costs. The balance of the increased revenues will be accumulated in the Capitol Group parking account as a reserve to fund repairs.

Option 2:
Make an annual payment to the General Fund for depreciation equal to 50% of the additional revenues generated by the rate increase or $100,000, whichever is less. This payment is less than the actual cost of depreciation, but will allow more funds to accumulate to cover major repair costs. Scheduled major repairs include:

92/93 Centennial Ramp Project	$1,200,000
92/93 Lot F & Fuller Street	$350,000
92/93 Lot G	$125,000
93/94 Resurface & regrade Lot K	$30,000
93/94 Curbs & landscape Lot R	$30,000
93/94 Aurora Street & Drive	$100,000

RATIONALE: Increasing parking rates for all facilities under the jurisdiction of the Plant Management Division of the Department of Administration is recommended because this change will:

1. encourage state employees to use alternative transportation;

2. adjust rates to more closley approximate the cost of providing parking facilities;

3. decrease the demand for funds for major repairs to parking facilities appropriated from either the General Fund or from bonded funds; and

4. improve the Department of Administration's ability to adequately maintain and repair parking lots and ramps when needed.

FISCAL IMPACT:

	FY 92 (+20%)	FY 93 (+25%)	FY 92-93	FY 94 (+30%)	FY 95

Option 1 - Annual payment to the General Fund of $185,600.

	FY 92 (+20%)	FY 93 (+25%)	FY 92-93	FY 94 (+30%)	FY 95
General Fund	$ 82,500	$185,600	$268,100	$185,600	$185,600
Parking Fund	______	$ 73,151	$ 73,151	$121,901	$121,901
TOTAL	$ 82,500	$258,751	$341,251	$307,501	$307,501

Option 2 - Payment of 50% of increased fees or $100,000 whichever is less.

	FY 92 (+20%)	FY 93 (+25%)	FY 92-93	FY 94 (+30%)	FY 95
General Fund	$ 41,250	$100,000	$141,250	$100,000	$100,000
Parking Fund	$ 41,250	$158,751	$200,001	$207,501	$207,501
TOTAL	$ 82,500	$258,751	$341,251	$307,501	$307,501

EMPLOYEE IMPACT: All employees who park in lots and ramps under the jurisdiction of Administration will have their parking rates increased by 20% in FY 1992, an additional 5% in FY 1993, and another 5% in FY 1994. Some employees may choose alternative forms of transportation as a result of the increase in rates.

IMPACT ON AFFECTED PARTIES: Parking rates are a potential meet and confer item with the unions.

METHOD AND TIMING OF IMPLEMENTATION: Administrative Action. Parking rates will be increased on a gradual basis. All changes to parking rates require the review and approval of the Finance Department.

CORE PROJECT 1 ANALYSIS

PROJECT # 13: PEIP Insurance Subsidy Elimination

IDEA # 190 **FY '92-'93 GF Savings: $1,600,000**

RECOMMENDATION: Eliminate the subsidy given to the Public Employees Insurance Plan (PEIP).

Option: Phase out the subsidy to the Public Employees Insurance Plan over the next three years.

COMMISSION ACTION: **Approved** - **Vote: 14 to 0.** The Commission approved the recommendation to eliminate the subsidy.

BACKGROUND: The Minnesota Public Employees Insurance Plan (PEIP) was created to provide a stable source of affordable employee benefit coverage to public employees of Minnesota cities, towns, counties, schools, and other non-state governmental entities. PEIP began operations in January, 1990 and currently has an enrollment of 44 groups with approximately 2,500 members.

Since inception, PEIP has received an annual General Fund subsidy of between $1,500,000 and $1,700,000. Initially, the subsidy was intended to assist in underwriting the cost associated with start-up of the program. In addition, if needed, the subsidy would help in the purchasing of insurance so that the cost would be comparable to the cost paid by other large public employers. However, PEIP has been able to offer insurance at comparable levels without use of the subsidy. Based on data and projections from the Department of Finance, PEIP will have accumulated a cash balance of $5,555,289 by the end of FY 1992. A summary of the cost data since January, 1990 indicates the following:

FINANCIAL CONDITION FOR PEIP

Account	FY 1990	FY 1991	FY 1992
Balance Forward	-0-	$1,826,093	$3,720,696
Subsidy	$1,666,000	$1,522,645	$1,700,000 (est.)
Premiums	$ 257,100	$2,278,535	$2,486,560 (est.)
Expenses	$ 97,007	$1,906,577	$2,354,967 (est.)
Ending Balance	$1,826,093	$3,720,696	$5,552,289 (est.)

The combined subsidy for the three years is approximately $4,800,000. The estimated balance at the end of FY 1992 is more than $5,500,000.

RATIONALE: Elimination or phase out of the subsidy for the Public Employees Insurance Plan is recommended for the following reasons.

1. The subsidy was never intended to be a permanent financial resource.

2. The subsidy has been accrued as an unnecessary reserve fund.

3. If additional resources are required for marketing the program, the present reserve would be adequate.

As illustrated in the table, "Financial Condition For PEIP," the subsidy has been used exclusively as a reserve fund for this insurance program, which has been self-sufficient since its inception. The growth of the reserve raises a question of whether the subsidy is justifiable or required for the program's continued success.

When the PEIP program was begun, it was never intended that the subsidy be a permanent financial resource beyond the start-up phase of the plan. According to PEIP's staff, the subsidy has been needed to insure against catastrophic claims and to mitigate unexpected escalations of premiums. However, PEIP <u>is</u> <u>not</u> held solely liable for extraordinary catastrophic claims, because the program has both secondary claims coverage and a $1,000,000 lifetime capitation. In addition, basic actuarial principles for accumulating reserves for catastrophic claims dictate accrual of reserves through conventional premium collections and not through a fluctuating, repealable subsidy. Actuarial principles also provide that premiums be negotiated on the basis of competitive cost, and not be artificially supported by a subsidy. To the credit of the PEIP staff, the rates negotiated are competitive without the need of a subsidy.

The staff of PEIP noted that, because the program is less than three years old and is still in a developmental and growth stage, additional resources may be needed for marketing in order for the program to expand. The program, marketed by Sedgwick James & Company, a Twin Cities insurance broker, enrolled 33 groups in 1990 and 10 groups to date in 1991. Sedgwick James' fee for service has been covered through the normal administrative cost collected as a percentage of premiums. If additional marketing efforts are needed, the estimated $5,500,000 in reserves should be adequate to pay for additional developmental resources.

FISCAL IMPACT: ($ thousands)

	FY 93	FY 92-93	FY 94	FY 95
General Fund Recommendation - Elimination	$1,600	$1,600	$1,600	$1,600
Option - Phase Out	$ 400	$ 400	$ 600	$ 600

LOCAL GOVERNMENT IMPACT: None. From all indications, the subsidy has no impact on the performance of the program. Insurance coverage and the premiums paid would not be affected by the elimination of the subsidy.

STAFF IMPACT: None. The cost of salaries and benefits for the four PEIP employees is recovered through the premiums paid to PEIP.

IMPACT ON AFFECTED PARTIES: The strongest opposition to the elimination or phase out of the subsidy will come from groups that feel the program will not be viable without the subsidy. However, its current financial condition indicates that the program is viable and can continue without the subsidy.

METHOD AND TIMING OF IMPLEMENTATION: Budget and Legislation. The elimination or phase out of the subsidy could begin with the appropriate legislative/budget approvals prior to FY 1992. The language that must be amended to eliminate the subsidy is found in Minnesota Statutes, section 69.031, subdivision 5, paragraph 3.

CORE PROJECT 1 ANALYSIS

PROJECT # 14: Political Campaign Contribution Refund Reduction

IDEA # 3 **FY '92-'93 GF Savings: $1,400,000**

RECOMMENDATION: Eliminate the Political Campaign Contribution Refund.

Option 1: Reduce the refund to 50% of the campaign contribution up to a maximum contribution of $50 on a single return; $100 on a joint return.

Option 2: Reduce the refund to 25% of the campaign contribution up to a maximum contribution of $50 on a single return; $100 on a joint return.

COMMISSION ACTION: **Approved** **- Vote: 9 to 4.** The Commission adopted Option 1. Some Commission members were concerned about including this item in the cost savings recommendations because of its perceived political sensitivity and because of the strong opinions many members had both in favor of and against the campaign contribution refund. Those in favor of the refund feel it encourages political participation by people who would otherwise not be involved in the system and that it is a part of a strategy of public financing of campaigns. Those opposed to the refund argue that, with a 100% refund, the state, not the individual, is actually supporting political candidates and question whether this role is an appropriate one for the state. The majority of the Commission members felt that keeping the refund in place, but at 50% of the contribution up to the previous limits, continued the policy of state support of campaign financing but at a more appropriate level given current budget constraints. This proposal also allows the individual contributor to share in the financing of the candidates' campaigns.

BACKGROUND: Minnesota Statutes, section 290.06, subdivision 23, allows taxpayers a refund of 100% of their political campaign contributions: up to $50 for a single person or $100 for a married couple. Prior to 1987, credits of 50% for political contributions up to $50 on individual returns and $100 on married returns were available, both on state and federal income tax returns. In 1987, the federal government eliminated the credit on the federal return. The state followed suit in 1987 and eliminated the 50% credit on the state income tax return. In 1990, new legislation provided for the 100% political contribution refund but kept the collection and administration of the refund separate from the income tax return.

The Political Campaign Contribution Refund is intended to encourage candidates for public office to solicit donations from small contributors and stay within campaign spending limits. Refunds are given only for contributions to candidates who have signed an agreement with the Minnesota Ethical Practices Board to observe campaign spending limits.

It is not possible to verify whether the political contribution refund is achieving its purpose of increasing the number of small donations. Minnesota Statutes, section 290.06, subdivision 23, paragraph (e) forbids disclosure of the identities of individuals claiming a credit, the identities of candidates to whom those individuals have made contributions, and the amount of each contribution. Consequently, no breakdown exists by candidate or party affiliation of the amount of money paid out.

Last year, 45,000 individuals received $2,500,000 in political contribution refunds. The only information collected is the contributor's name and address and the amount of the contribution refunded.

Minnesota and Oregon are the only two states that refund 100% of political contributions. Alaska has a similar provision but has suspended its refunds through 1/1/93. Three other states - California, Iowa and Rhode Island - provide for much smaller credits against state income taxes. Montana and Michigan allow a deduction on their income tax returns. Forty-two states have no provision for deducting or crediting political contributions.

In addition to the Political Campaign Contribution Refund, Minnesota also has the State Elections Campaign Fund to support political campaigns. Every individual who files an income tax return or property tax return may designate that $5 shall be paid from the General Fund into the state elections campaign fund. The taxpayer may designate that the amount be paid into the account of a political party or into the general account.

For 1989, 379,845 Minnesota residents, or 15.2% of all tax filers, generated $1,892,365 for the campaign fund through their tax return check-offs.

RATIONALE: Eliminating the Political Campaign Contribution Refund is recommended because:

1. The current practice of refunding political contributions at 100% makes the state, not individual citizens, the supporter of political candidates. Contributors who have 100% of their donations refunded have not shared in the cost of the political process.

2. Reducing the amount refunded to 25% or 50% of the contribution would retain the incentive for small donors to contribute to political campaigns and would save $1,400,000 to $2,000,000 dollars in FY 1993.

3. Because no records are kept on contributions specific to candidates or political parties, it is not possible to determine if the refund is achieving its purpose of reducing candidates' reliance on large contributors.

FISCAL IMPACT:

($ thousands)

General Fund	FY 93	FY 92-93	FY 94	FY 95
Eliminate refund	$2,700	$2,700	$2,700	$3,200
Reduce refund to 25% of contribution	$2,000	$2,000	$2,000	$2,400
Reduce refund to 50% of contribution	$1,400	$1,400	$1,400	$1,600

Possible alternatives include reducing the amount of the refund to 50% or 25% of the contribution. Reducing the refund to 50% of the amount contributed would save the state $1,400,000. Changing the refund to 25% of the amount contributed would save the state $2,000,000. The reduced refund would still provide an incentive for small donors but would remove the state from the role of primary supporter of political campaigns.

ASSUMPTIONS: This analysis assumes that the cap on campaign contributions remains the same: $50 for individuals and $100 for couples. Thus an individual's maximum refund will be $25 or 50% of $50; a couple's maximum refund will be $50 or 50% of $100.

This analysis also assumes that reducing the percentage of the contribution refunded will not change the number of people who apply for the refund or the amount of the contributions made. However, if either the number of contributors or the amount of the contributions decreases, additional savings will be available in the General Fund.

EMPLOYEE IMPACT: None.

OTHER CONSIDERATIONS: Eliminating the refund entirely would likely be politically difficult and would eliminate incentives for small contributors. Reducing the refund to 50% or 25% of the amount contributed would leave some incentive intact.

METHOD AND TIMING OF IMPLEMENTATION: Legislation. Contributions made in calendar year 1992 can be refunded from 9/1/92 through 4/15/93. Because 1992 is an election year for the Legislature, fundraising may begin before the end of the session. As a result, funds would have to be set aside to provide for any contributions made in 1992 before the law could be changed. Consequently, it would be important for legislation to be enacted early in the 1992 session to provide for maximum savings.

Minnesota Statutes, section 290.06, subdivision 23 would have to be modified or eliminated depending on whether the refund is adjusted or canceled.

CORE PROJECT 1 ANALYSIS

PROJECT # 15: Post-Secondary Enrollment Options Program - Marginal Cost Funding

IDEA # 362 **FY '92-'93 GF Savings: $3,400,000**

RECOMMENDATION: Simplify and approach full marginal cost funding for the Post-Secondary Enrollment Options (PSEO) program by taking the PSEO students out of the higher education cost funding formula.

COMMISSION ACTION: Approved - **Vote: 13 to 0.**

BACKGROUND: The Post-Secondary Enrollment Options Program allows high school students to take classes at public and private higher education institutions. The post-secondary institutions have the option of accepting PSEO students. Both the K-12 and the higher education funding bills have provided funding for students enrolled in the PSEO program. In 1991, both bills made changes to the PSEO program. The changes reflected concerns that the funding through these two bills lacked coordination, and that the state spent more on PSEO students than justified by the estimated cost of serving them. While the changes made in 1991 put the funding more in line with costs, improved coordination can generate additional savings.

Prior to the 1991 legislative changes, the K-12 funding formula did not acknowledge the difference between high school students who participated in the PSEO program and those who did not. Each full-time high school student generated approximately $3,965 in General Education Revenue for his/her school district. Secondary schools used those funds to pay for PSEO students' post-secondary tuition and book expenses, which ranged from $1,900 to $3,150 assuming a full class load (45 credit hours per quarter). Essentially, the school districts purchased instruction services for PSEO students from public colleges for less than the amount of General Education Revenue received by the school districts.

On the post-secondary side, PSEO students were also counted in the average cost funding formula in the higher education bill.

The 1991 legislature expressed concern that both high schools and public post-secondary institutions received excess funding for PSEO students. Legislators asserted that high schools were reimbursed for more than their costs. In addition, legislators noted that marginal costs more accurately reflected the costs of educating these students in post-secondary institutions than full average costs.

As a result of these discussions, the 1991 Legislature changed the higher education funding formula for PSEO students effective in FY 1992, recognizing marginal costs, rather than full average costs. (For funding purposes, the defined marginal cost is approximately equal to 65% of full average cost.)

In addition, the K-12 bill included a provision, effective in FY 1993, that would pay post-secondary institutions an amount from the General Education Revenue appropriation an amount approximately equal to the marginal costs of PSEO students. The Department of Education will reimburse the post-secondary institution at the rate of $78 per credit hour. This is approximately equal to the marginal cost in at least three of the public post-secondary systems. The Legislature expects the reimbursement to cover the cost of tuition, books, and the remaining marginal costs.

RATIONALE: The higher education appropriation should be reduced so that all funding for PSEO students is paid through the K-12 General Revenue program. This change conforms to the legislative intent to cover marginal costs to post-secondary institutions for PSEO students. Without the suggested funding policy change, beginning in FY 1993, public post-secondary institutions could receive amounts of up to one and one half times their marginal costs of serving a PSEO student. (The combined legislative changes affect only public post-secondary institutions. Private post-secondary institutions will receive only the $78 per credit hour funding from the Department of Education and nothing from the Higher Education appropriation.)

Because the effect of the two appropriation bills will not be felt until FY 1993, the educational systems will not feel a budget cut during FY 1992. Instead, the savings will come from reductions in the amount of money appropriated for the higher education systems for FY 1993. As the chart in the attached Appendix shows, since the PSEO activities will continue to be funded at approximately the marginal cost of serving PSEO students, this change should not affect the ability of post-secondary systems to serve these students.

FISCAL IMPACT:

($ thousands)

	FY 92	FY 93	FY 92-93	FY 94	FY 95
General Fund	$ 0	$3,400	$3,400	$3,400	$3,400

OTHER CONSIDERATIONS: Since this proposal is not a significant change from current practice, it should not act as a barrier to higher education institution participation. The PSEO program is well established and higher education institutions receive approximately marginal cost funding for students under the recommendation.

This recommendation has the potential of being perceived as reduced support for the post-secondary option program. However, the program is not being changed from current practice, because institutions will continue to receive marginal cost funding for the program.

METHOD AND TIMING OF IMPLEMENTATION: Legislation and Budget. This requires changes in the higher education legislation in the 1992 session.

Appendix

POST SECONDARY ENROLLMENT OPTIONS PROGRAM SUMMARY

Post Secondary Institutions: Simplified Revenue Analysis	FY 92	FY 93 Current Law	FY 93 Proposed Change
COSTS:			
Estimated at approximately Marginal Costs*	YES	YES	YES
REVENUE:			
K-12 General Revenue $78 per credit hour reimbursement	NO	Approx. 100% Marginal Cost	Approx. 100% Marginal Cost
Higher Education Appropriation	Approx. 50% Marginal Cost	Approx. 50% Marginal Cost	NO
Secondary School Tuition Reimbursement	Approx. 50% Marginal Cost	NO	NO
APPROXIMATE MARGINAL COST IMPACT	Approx. 100% Marginal Cost	Up to 150% Marginal Cost	Approx. 100% Marginal Cost

* It is important to note that Marginal Costs are 65% of Average Costs and vary between systems.

CORE PROJECT 1 ANALYSIS

PROJECT # 16: Pre-Tax Expense Account Savings Transfer to the General Fund

IDEA # 1585 **FY '92-'93 GF Savings: $631,000**

RECOMMENDATION: Reduce agency budgets to account for FICA and Medicare savings accruing to state agencies as a result of employee participation in pre-tax expense account programs.

COMMISSION ACTION: **Approved - Vote: 14 to 1.**

BACKGROUND: State employees with dependents are permitted to establish pre-tax expense accounts to pay for insurance and dependent care. The insurance pre-tax fund is used to pay the employee's portion of health and dental insurance costs for the employee and any dependents. The dependent care account is used to pay for services for dependents, such as day care for children or a nursing home for aging parents.

Employee contributions to these accounts reduce the amount of salary obligations for which the state must pay FICA and Medicare fees. The current employer contribution to FICA is 6.20%, and the contribution for supplemental Medicare is 1.45% of taxable wages. Thus, the state saves $.0765 for each pre-tax salary dollar employees contribute to these funds.

The Insurance Trust Fund:
The Department of Employee Relations (DOER) estimates the FICA and Medicare savings attributable to the Insurance Trust Fund are approximately $1.26 per employee per pay period. There are approximately 35,000 employees on the state's insurance plans, and 70% or 24,500 of them have insurance coverage for dependents deducted from their paychecks. Thus, the total savings accruing to the state as a result of the pre-tax deductions is $811,563 per year for all funds. There are no additional administrative costs associated with this fund.

The Dependent Care Expense Account:
On average, 925 employees participate in the Dependent Care Expense Account Program. Each participant deducts an average of $145 per pay period for a total pre-tax deduction of $3,842.50 per participant per year. Therefore, the state's total gross FICA and Medicare savings is $271,905 per year.

State agencies pay an administrative fee to DOER for the costs associated with maintaining the accounts. The current fee is $4.60 per employee per pay period for a total administrative charge of $112,758 per year. After paying the administrative charges, state agencies net $159,147 in FICA and Medicare savings per year.

RATIONALE: Agency budgets should be reduced to account for the FICA and Medicare savings due to the pre-tax expense accounts because:

1. The salary savings are a direct result of programs the state established to benefit employees. Failing to account for the savings during the planning stages for these programs was merely an oversight.

2. The savings are being used by state agencies to offset salary increases not included in their appropriations. The Legislature did not appropriate these savings to agencies to offset unfunded salary increases.

As explained above, the FICA and Medicare savings accruing to state agency budgets are a direct result of pre-tax expense accounts established for employees by their employer, the state. The FICA and Medicare savings were not included in DOER's original calculations due to an apparent oversight.

State agencies may intend to use these savings to their salary budgets to offset unfunded salary costs for FY 1993. The Legislature did not fund salary increases in agency budgets for the 1992-93 biennium, requiring agencies to absorb salary increases of approximately 5% in FY 1993. However, the Legislature did not anticipate the FICA and Medicare savings and did not direct the agencies to use the savings in this way. Therefore, while funding salary increases may be a desirable use of the FICA and Medicare savings, it was not the Legislature's original intention.

FISCAL IMPACT:

($ thousands)

	FY 93	FY 92-93	FY 94	FY 95
The Insurance Trust Fund:				
All Funds	$812	$812	$812	$812
Estimated General Fund*	$528	$528	$528	528
Dependent Care Expense Accounts:				
FICA Savings				
All Funds	$159	$159	$159	$159
Estimated General Fund	$103	$103	$103	$103
Total				
All Funds	$971	$971	$971	$971
Estimated General Fund	$631	$631	$631	$631

*General fund savings estimates are based on the proportion of General Fund dollars to other funds. In the 1990-91 biennium, the General Fund constituted 65% of all funds.

STAFF IMPACT: None.

IMPACT ON AFFECTED PARTIES: This recommendation would affect agency budgets. Agencies which are currently using the FICA and Medicare savings to offset unfunded salary increases will now have to absorb those increases within their existing budgets.

METHOD AND TIMING OF IMPLEMENTATION: Administrative Action and Budget. The Departments of Employee Relations and Finance would work together to calculate the savings accruing to each agency and to process transfers to each direct appropriated fund balance, once rider language authorizing the transfers is approved.

CORE PROJECT 1 ANALYSIS

PROJECT # 17: Public Assistance Client Transfers to Supplemental Security Income

IDEA # 415 **FY '92-'93 GF Savings: $1,108,000**

RECOMMENDATION: Develop a process to ensure that all clients currently receiving General Assistance (GA) benefits, who also qualify for Supplemental Security Income (SSI), complete applications for SSI benefits.

COMMISSION ACTION: **Approved - Vote: 15 to 0.**

BACKGROUND: The General Assistance (GA) program is a state-funded income-maintenance program for indigent people who are not eligible for cash benefits from other sources. As a condition of eligibility, GA clients are required to apply for other maintenance benefits for which they may be eligible. One such program is the SSI program, which is a federally funded program for the aged or disabled who are not eligible for Social Security retirement, survivors or disability insurance. Putting GA clients on SSI transfers them from a 100% state funded program to a 100% federally funded program. Because there is a lag between the date of application and the actual receipt of benefits, the state provides interim public assistance for these individuals. Once the client is approved for SSI, the federal government refunds the state's interim support payments through an Interim Assistance Reimbursement (IAR).

According to the Department of Human Services (DHS), a significant number of public assistance clients are eligible for SSI. In addition to giving these clients more income and better access to health services, the conversion recovers the public assistance funds paid by the state for those clients. County caseworkers, who have fairly frequent, direct contact with GA clients, previously performed the function of converting public assistance clients to SSI. In addition, a portion of most public assistance programs was paid by counties, so there was a financial incentive for counties to process SSI applications.

However, in 1989, the state assumed responsibility for paying 100% of non-federal public assistance costs. Therefore, the counties were no longer responsible for paying a portion of GA or other public assistance programs. Also, due to recent budget cuts and reprioritization in the counties, many counties have reassigned caseworkers who had previously specialized in SSI conversion. As a result, the volume of SSI applications processed this year has declined significantly in some counties.

The Department of Human Services, in an effort to increase conversions of clients to SSI, arranged for counties to keep 25% of the total amount the state recovered for interim assistance reimbursement. In addition, the counties were fully reimbursed for any staff resources spent assisting clients with the application process. It was hoped that this would create an incentive for county caseworkers to assist clients in the SSI application process.

However, over the last year in some of the larger counties in the state, including Hennepin, Ramsey and St. Louis, most or all of the caseworkers assigned to SSI conversion have been reassigned to higher priority activities. As a result, fewer clients are applying for SSI because they are not aware of their eligibility or because they are unable to complete the necessary paperwork without assistance.

RATIONALE: The new system for SSI conversion of GA clients would encompass the following.

1. In counties where SSI applications are not being processed, DHS would contract with local nonprofit social service agencies to assist GA clients in applying for SSI.

2. The state would monitor the contracting agencies as it currently monitors counties.

3. Counties that are currently processing SSI applications would have the option of continuing to do so and receiving 25% of the IAR.

Removing the responsibility from the counties may be the best way to ensure that SSI eligible clients will be converted from other forms of public assistance. DHS is currently considering contracting out the SSI application process to nonprofit social service agencies, an approach already being used in many counties in greater Minnesota. In these cases, the counties have been responsible for monitoring their contracts with social service agencies. Administering contracts with the social service agencies may be a new function for the SSI Coordinator within DHS, but it is a function currently performed by other divisions within the Department. The contracting arrangement would be cost neutral since the agencies will be receiving reimbursement only for their costs in working with SSI applicants. The state would save the 25% of IAR currently paid to the counties.

FISCAL IMPACT:

($ thousands)

	FY 93	FY 92-93	FY 94	FY 95
General Fund	$1,108	$1,108	$1,108	$1,108

It is difficult to quantify the savings to the state resulting from the conversion. The state's accounting system does not track the total amount of dollars reimbursed to counties for their assistance with the GA/SSI transfers. Also, some counties may want to continue with the current arrangement. If they are actively pursuing conversions, they will be permitted to do so. Finally, the overhead and staff costs of the nonprofit social service agencies are yet to be determined.

However, DHS estimates that under the new system, an additional one hundred GA recipients per month would enroll in SSI, saving the state approximately $243,600 annually.

Converting what DHS estimates as 25% of the GA clients in long-term care facilities who are eligible for SSI would further reduce state expenditures by $864,000 per year for a total savings of $1,107,600.

LOCAL GOVERNMENT IMPACT: This proposal eliminates the requirement for the county caseworker to manage SSI conversions. It also removes the county's share of the IAR reimbursement, which was intended only as an incentive for counties to perform the activity. Counties where SSI applications are not being processed will see no loss in funding. Counties which are making the appropriate recoveries and wish to continue operating under the current system will be allowed to do so. On the whole, adopting the recommendation should not have a negative effect on the counties.

EMPLOYEE IMPACT: None. The SSI Coordinator in the DHS who currently monitors county reporting would continue to monitor SSI activity, whether the conversion is performed by the county or a social service agency.

IMPACT ON AFFECTED PARTIES: GA clients and their advocates should see an increase in benefits due to converting from GA to SSI. Thus, the recommendation benefits not only the state, but public assistance clients as well.

METHOD AND TIMING OF IMPLEMENTATION: Legislation. The Department should begin work to accelerate SSI conversions immediately. Some relatively minor changes should be made during the 1992 legislative session to make counties and nonprofits permissible providers of this service. The Legislature has supported the initiatives to further efforts at converting clients and recovering the IAR. It approved an additional staff person to act as the SSI Coordinator at DHS in order to ensure that conversion activity was taking place statewide.

CORE PROJECT 1 ANALYSIS

PROJECT # 18: Travel: Preferred Provider Rebates Transfer to the General Fund

IDEA # 634 **FY '92-'93 GF Savings: $85,000**

RECOMMENDATION: Transfer the preferred travel provider rebate from the Central Motor Pool revolving fund to the General Fund annually, beginning in FY 1992.

COMMISSION ACTION: **Approved - Vote: 15 to 0.**

BACKGROUND: The Department of Administration has developed and executed a contract for a preferred provider of travel arrangements for state employees on state business. This contract was awarded to Carlson Co. Travel. Travel services include reserving airline flights and accommodations and making in-state travel arrangements.

Part of the contract requires the travel agent to assist the state in informing employees about the service to encourage its use. The agent also provides regular reports to each department, profile cards on travelers and supplies information on the travel industry to the Travel Management Division of the Department of Administration. In addition, the preferred provider rebates a portion of the bookings to the state based on the amount of travel and average ticket prices. This rebate is currently paid into the Central Motor Pool revolving fund. Under Minnesota Statutes, section 16B.531, any surplus travel rebate income remaining after the Division's expenses are paid is to be transferred to the General Fund.

The Travel Management Division does incur some expenses associated with the preferred provider contract. Division staff review the contract and solicit bids every two years, handle questions and complaints about the service, explain travel reports to departments, and assist the travel agent with informational travel seminars in the first six months of the contract. Travel Management Division expenses for this program appear to be fairly small. The tasks required to administer the preferred travel program are performed by employees whose primary duties relate to the operation of the central motor pool. It appears that roughly 10 to 15 percent of two people's time and a smaller amount of support time are related to this activity. Salary costs total approximately $15,000 to $20,000.

RATIONALE: The net revenue resulting from the preferred provider travel rebate should be transferred to the General Fund because the rebate is the result of the state's negotiating power as a large buyer of travel services and this benefit should accrue to the general state treasury rather than to the Central Motor Pool Fund. No relationship exists between the operation of the Central Motor Pool and the preferred provider travel rebate arrangement that would justify retaining the excess within the revolving fund.

All hospitals are required by federal law to administer urgent care to anyone requiring it, regardless of financial or insurance status. Given that more than one facility in every region of the state writes off a significant amount of indigent care every year, it appears that hospitals are complying with this requirement. Therefore, at least the urgent care needs of indigents should be met at local hospitals.

In fact, it appears that other hospitals are providing at least as much indigent care as the University of Minnesota Hospital. According to a Department of Health report from January of 1990 (Charity Care Provided by Minnesota Hospitals), the University Hospital absorbs less charity care as a ratio of charity care to total patient charges than most other major medical facilities in the seven-county metro area. The University's write-offs in 1987 totalled 1.7% of total patient charges, compared with 2.0% at Abbott-Northwestern, 9.4% at Hennepin County Medical Center, and 3.9% at St. Paul-Ramsey Medical Center. However, the University is the only institution which receives a subsidy through the County Papers Program for indigent care. There seems to be some inequity in the state providing a subsidy to the University of Minnesota Hospital for an activity others in the market are forced to simply absorb.

The County Papers Program subsidy might be warranted if the type of services provided by the University were not available from other hospitals. The University is qualified to provide certain types of complex diagnostic services and treatments which are not available elsewhere. However, based on the average total costs of the services provided, it does not appear that the subsidy is used to fund complex services or treatments. According to performance data submitted to the Department of Finance, in 1990, the subsidy provided care for 400 in-patients and 1,600 out-patients. With the $330,800 appropriation, plus county contributions of $259,000 and $328,000 in unrecovered costs, the average per patient expenditure was $458.90. This level of expenditure is fairly small in the medical field. $458.90 is unlikely to fund any major, complicated treatment or diagnostic procedure only available through a research facility like the University Hospital. Therefore, it would seem that the services provided were more likely fairly minor ones, not the complex medical procedures only the University can perform.

The County Papers Program subsidy comprises a very small portion of the University of Minnesota Hospital's total budget and the Hospital has substantial reserves; therefore, elimination of the $330,800 subsidy for indigent care is unlikely to have a significant impact on the Hospital's financial stability. According to the University Hospital's 1991 Annual Report to the Regents, the indigent care subsidy is a relatively small amount, .1% of the total budget for the Hospital. As of 1992, the Hospital will have $34,851,000 in a reserve fund (11.5% of the total budget). This amount does not include $13,000,000 in cash reserves for internal debt service or $16,000,000 in working capital reserves. In addition to the reserve fund, the Hospital also has a balance of uncommitted cash from 1991 operations of $5,061,000 and interest income of $8,909,000, leaving net cash from hospital operations of $13,970,000.

CORE PROJECT 1 ANALYSIS

PROJECT # 19: University of Minnesota Hospital Subsidy for Indigent Care Eliminated

IDEA # 364 **FY '92-'93 GF Savings: $330,000**

RECOMMENDATION: Eliminate the funding for indigent care at the University of Minnesota Hospital.

COMMISSION ACTION: Approved - **Vote: 15 to 0.**

BACKGROUND: The state currently allocates $330,800 per year to fund indigent care expenses at the University of Minnesota Hospital through the County Papers Program. This subsidy is in addition to the educational subsidies provided by the state, which total approximately $15,000,000 per year.

The County Papers Program enables state residents referred by county social service agencies to receive care at the University Hospital at the expense of the county and the state. The county's exposure is limited to 40% of the total charges, with the state making up the remaining 60% up to the appropriated level of expenditure.

The County Papers Program was first funded in 1925 to help cover the health care costs of the indigent in the state. Since that time, a network of health care programs for the indigent has been created, including Medical Assistance (MA), General Assistance Medical Care (GAMC), and the Children's Health Plan (CHP). However, the need for the County Papers Program has never been re-evaluated. Given the growth in alternative programs to serve this population, the County Papers Program appears to no longer be needed.

RATIONALE: Elimination of the County Papers Program is recommended because the program:

1. duplicates services currently available under other medical assistance programs to meet the needs of this population;

2. unfairly subsidizes the University of Minnesota Hospital for providing services similar to services provided for free by other hospitals; and

3. does not appear to be essential to the University of Minnesota Hospital operations.

According to the University of Minnesota Hospital staff, the County Papers Program does not duplicate other county programs because it serves individuals who would otherwise not receive health care services. However, there are other hospitals currently providing services to this population and other resources are available to finance the cost of care.

All hospitals are required by federal law to administer urgent care to anyone requiring it, regardless of financial or insurance status. Given that more than one facility in every region of the state writes off a significant amount of indigent care every year, it appears that hospitals are complying with this requirement. Therefore, at least the urgent care needs of indigents should be met at local hospitals.

In fact, it appears that other hospitals are providing at least as much indigent care as the University of Minnesota Hospital. According to a Department of Health report from January of 1990 (Charity Care Provided by Minnesota Hospitals), the University Hospital absorbs less charity care as a ratio of charity care to total patient charges than most other major medical facilities in the seven-county metro area. The University's write-offs in 1987 totalled 1.7% of total patient charges, compared with 2.0% at Abbott-Northwestern, 9.4% at Hennepin County Medical Center, and 3.9% at St. Paul-Ramsey Medical Center. However, the University is the only institution which receives a subsidy through the County Papers Program for indigent care. There seems to be some inequity in the state providing a subsidy to the University of Minnesota Hospital for an activity others in the market are forced to simply absorb.

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The subsidy is an insignificant amount as a portion of the total indigent care provided at the Hospital. According to the Health Department, the University Hospital provided $4,134,482 worth of unreimbursed health care for the indigent. Thus, the amount of the subsidy is not sufficient to cover a significant portion of the total amount expended for this activity.

Further, the County Papers Program does not appear to be a high priority for the University Hospital. Over the last several years as general state allocations to the University have been cut, the University has reduced the County Papers Program. The appropriation for the County Papers was as high as $2,000,000 in the early 1980s and has been reduced to $330,800 for fiscal year 1993.

FISCAL IMPACT: ($ in thousands)

	FY 93	FY 92-93	FY 94	FY 95
General Fund	$330	$330	$330	$330

EMPLOYEE IMPACT: None. According to the University budget, no salaries are currently paid out of this state subsidy.

LOCAL GOVERNMENT IMPACT: This reduction should be implemented so that impact on county budgets is minimal. To the extent possible, counties should enroll eligible recipients in state-funded medical programs like Medical Assistance, General Assistance Medical Care, and the Children's Health Plan. For the remaining uninsured population, counties would have primary responsibility for acquiring care for patients (as they do now).

According to the University's program utilization data, 46% of the billed charges for County Papers patients were for residents of the seven-county metropolitan area. The bulk of these patients (approximately 95%) were from Hennepin County, whose residents already have unrestricted access to a large public hospital, Hennepin County Medical Center. Thus, the counties may be referring patients to UMHC only to capitalize on the state funding available for indigent care under this program. However, if referrals are still deemed necessary by county social service agencies, the University of Minnesota Hospital is required by Minnesota Statutes, section 158.02, to provide care for any resident of the state of Minnesota, regardless of their ability to pay. Therefore, counties could continue to refer appropriate patients to local medical facilities or to the University Hospital under the same circumstances as the County Papers Program now allows.

IMPACT ON AFFECTED PARTIES: The University, as a whole, has already absorbed fairly severe budget cuts this year. However, the bulk of the cuts were in academic affairs and did not have a severe impact on the operation of the University Hospital. Further, this program is a relatively small source of income for the Hospital, and is therefore unlikely to have a significant impact on its day-to-day operations.

This recommendation should have little impact on patient care because patients could be enrolled in public assistance programs, referred to local facilities, or continue to receive free treatment at local hospitals or University Hospital as appropriate.

METHOD AND TIMING OF IMPLEMENTATION: Budget and Legislation. An appropriation reduction will be required during the 1992 legislative session to realize FY 1993 savings. Language regarding state payment to the University for County Papers expenses will need to be repealed.

CORE PROJECT 1 ANALYSIS

PROJECT # 20: Voyageurs National Park Citizens Council State Subsidy Elimination

IDEA # 396 **FY '92-'93 GF Savings: $59,000**

RECOMMENDATION: Eliminate state funding for the Voyageurs National Park Citizens Council.

COMMISSION ACTION: **Approved - Vote: 15 to 0.**

BACKGROUND: The Voyageurs National Park Citizens Council ("the Council") was established by Minnesota Statutes, section 84B.11 in 1971 and was directed to "conduct meetings and research into all matters related to the establishment and operation of the Voyageurs National Park, and shall make such recommendations to the United States National Park Service and other federal and state agencies concerned, regarding operation of the park as the committee deems advisable." The original law established a sunset date for the Council of 1985. This date was extended to 1989, and subsequently abolished in the 1989 legislative session.

Throughout most of its existence, the Council has acted primarily on behalf of economic development interests in the region. As a result, the Council has opposed plans developed by the United States Park Service which would designate parts of the park as wilderness, and therefore off-limits for motorized recreation. Such a restriction, the Council argues, would inhibit use of the park and retard development within the region. In response to the views expressed by the Council, residents of the area and users of the park formed a non-profit agency to represent the interests of environmentalists in land use planning in the park, the Voyageurs Region National Park Association ("the Association").

The Council and the Association have clashed repeatedly over the appropriate use for the lands in the park. They are currently engaged in debate about how much park land should be made available for snowmobiling. The Association advocates a wilderness designation for the Kabetogama Peninsula, maintaining that snowmobiling in that area would disrupt the quiet and wildlife enjoyed by naturalists. The Council maintains that more people will use the Park if motorized recreation is permitted within a greater area. The National Park Service has offered two compromises which would allow snowmobile trails and wilderness areas to coexist in the park, but neither was acceptable to both parties.

RATIONALE: The funding for the Voyageurs National Park Citizens Council should be eliminated to reduce the number of small agencies within state government and because the subsidy gives the Council and the interests it represents an advantage over other groups such as the Voyageurs Region National Park Association in influencing the National Park Services' land use plans for Voyageurs National Park. The rationale for state support of this effort is arguable.

One of CORE's goals is to examine the large number of small state funded agencies and begin the process of clarifying the state's role. The Council is not a direct service delivery agency, but rather was designed to provide input into the development of the Park. Many interests have opinions on these topics and express them directly to the National Park Service, which then makes final decisions, subject to Congressional oversight. Given the difficult fiscal situation in the state, this function is one the state can no longer afford to support.

The debate over snowmobile use within the park illustrates the conflict between the region's economic development interests and its environmental activists. Both the Council and the Association function primarily as interest groups in this process, yet only the Council receives a subsidy. Given the environment of this conflict, it seems inappropriate for the state to take a side on the issue by funding one interest group and not the other.

In the Council's defense, Milton Knoll, the Council Chairman, maintains that the Council serves a crucial function in guarding resources which really belong to the state. Knoll feels that activities and policies regarding Voyageurs National Park have a significant impact on the economic climate and development of the entire region. The Council looks out for those economic interests, but is by law designed to be representative of all interested parties. Knoll also noted that, although Voyageurs National Park has been a national park for over 20 years, there has been very little development of the park up to this point. Because the National Park Service is still creating its facilities development plan, members of the Council believe that its activities are crucial during this planning phase. However, one reason for the delay in accomplishing these planning tasks is the ongoing conflict between the interest groups involved and their inability to agree on the appropriate uses for park lands.

Withdrawing the funding for the Council would not necessarily result in its dissolution. It could re-form as a non-profit organization with the same mission, and could solicit operating funds from a variety of sources including private individuals and resorts or other businesses in the region. This new organization may also be eligible for tourism grants through the Department of Trade and Economic Development.

FISCAL IMPACT:

($ thousands)

	FY 93	FY 92-93	FY 94	FY 95
General Fund	$59	$59	$72	$72

STAFF IMPACT: There is a part-time clerical staff person allocated to the Council who would presumably be laid off if state funding is discontinued. The costs of severance have been subtracted from the total amount saved for fiscal year 1993.

IMPACT ON AFFECTED PARTIES: The impact on economic development interests of the elimination of state funding for this activity would be minimal providing that the Council chose to create a nonprofit entity to continue its activities. However, if the Council were to cease operations, the Council's goals for economic development and motorized recreation in the Park may not be adequately addressed by the National Park Service in its land planning process.

The Association and the interests it represents would benefit if funding for the Council were eliminated. Without the rebirth of the Council, the Association would be the only organized group in the region expressing priorities for land use within the Park. If the Council were re-created as a nonprofit, then the interplay between the two is likely to continue as it has for the last twenty years.

The impact on park users, local citizens and environmentalists is unclear. These groups would clearly be affected once the Park Service implements a land use plan for Voyageurs National Park. However, once again, the influence of the Council in the process depends on whether or not a nonprofit organization is created to continue the Council's functions.

METHOD AND TIMING OF IMPLEMENTATION: Legislation. To generate savings in fiscal year 1993, the Legislature would have to withdraw the funds from this activity during the next session, as well as repeal Minnesota Statutes, section 84B.11, which establishes the Council.

CORE PROJECT 1 ANALYSIS

PROJECT # 21: Workers' Compensation (All): Expanded Medical Fee Schedule

IDEA # 117 **FY '92-'93 GF Savings: $570,000**

RECOMMENDATION: Reduce the cost of medical services for Workers' Compensation by:

1. implementing legislation to change to a "Relative Value Medical Fee Schedule" for Workers' Compensation; and

2. creating a preferred medical provider network for state employees injured on the job.

COMMISSION ACTION: **Approved** - **Vote: 13 to 2.** The Commission approved recommendation number one, relating to the medical fee schedule. The Commission declined to recommend implementation of a preferred provider network because of concerns that it would single out state employees by restricting their freedom of choice in selecting care providers. Current law allows all work injured employees unrestricted choice in selecting medical care providers.

BACKGROUND: Minnesota Statues, section 176.136, empowers the Department of Labor and Industry (DOLI) to establish medical fee payment schedules for Workers' Compensation benefits. The State of Minnesota, as a major employer, is affected by the medical costs and fee schedules related to Workers' Compensation.

Relative Value Medical Fee Schedule

In permanent rules, five specific criteria have been codified for establishing a data base for the creation of the current medical fee schedule. These criteria include parameters such as the number of providers, the number of similar billable services from that provider, the acceptable sources for that data, and the acceptable standard deviations for the data. However, the most restrictive parameter for creating a fee for a given procedure is whether the fee being proposed is no lower than the 75th percentile of all billings for that procedure. DOLI has determined that only 20% of the medical procedures performed on Workers' Compensation clients are statutorily eligible for fee scheduling because of this 75th percentile requirement. In addition, because of the 75th percentile requirement, hospital room charges are not fee-scheduled. Under the current medical fee schedule, approximately 50% of the dollars paid in medical costs are on the fee schedule.

In 1991, the Department of Labor and Industry presented to the legislature a bill which would have changed the fee schedule to a "Relative Value Fee Schedule". The Relative Value Fee Schedule includes more medical procedures and is expected to be more effective in controlling costs. The language authorizing the establishment of the Relative Value Fee Schedule was similar in all four versions of the Workers' Compensation bills submitted in the 1991 legislative session. DOLI plans to reintroduce "Relative Value Fee Schedule" legislation in the 1992 session.

The specific language for instituting a Relative Value Fee Schedule was analyzed by Senate Counsel and Research. Their analysis shows that the adoption of the Relative Value Fee Schedule would effect a 12-13% reduction in medical fee payments. The State of Minnesota is self-insured for Workers' Compensation and has designated the Department of Employee Relations (DOER) to provide claims management. In FY 1991, DOER paid medical claims of $9,272,906. The paid claims were then billed to the various departments and agencies which reimburse the DOER revolving account for their respective costs. Of that FY 1991 total, approximately 68% of the costs are assessed to the General Fund accounts and 32% to "Other Funds" accounts.

Preferred Medical Provider Network

The Department of Employee Relations (DOER) is proposing through legislation to allow the state to negotiate with a Preferred Provider Organization (PPO) for the delivery of services to state employees with Workers' Compensation injuries. A variety of organizations currently use some sort of Preferred Provider Organization (PPO) for the managing of health care costs. Some local units of government are using a modified, non-binding, referral PPO for their Workers' Compensation claims. By permitting the state to change the law and use the PPO concept for Workers' Compensation claims, additional savings could be realized beyond those generated through a Relative Value Fee Schedule alone.

RATIONALE: The state should establish a Relative Value Fee Schedule and a PPO referral network because:

1. given the competitive nature of medical pricing, medical services provided to Workers' Compensation claimants should be delivered as cost effectively as those in other medical delivery services; and

2. the state, as a major purchaser of Workers' Compensation medical services, should be free to negotiate the best package of services based on quality and price.

While over the last three years the number of claims has increased 13%, the cost of medical claims has increased 101%. This disproportionate increase in the cost of medical claims is striking evidence of the need for some type of cost containment. In 1979, creating a fee schedule was envisioned as a means of containing costs. However, use of the criteria specified in the current laws has not yielded the intended cost containment.

DOER staff projects that the PPO option, combined with other initiatives being considered by CORE, will save an additional 4% on medical claims costs. By changing the law and allowing the state to use PPOs for Worker's Compensation cases, the state would be granting itself an exception which is not permitted to other employers. The Legislature could choose to allow all employers in the state the same option to set up Preferred Provider Organizations.

The success of Health Maintenance Organizations (HMOs), Preferred Provider Organizations (PPOs), and other health care cost containment initiatives has shown that quality of care does not have to be compromised. There is no evidence that paying a larger amount for Workers' Compensation medical care results in a higher quality of services. For similar procedures, amounts paid to Workers' Compensation providers average 57% more than amounts paid through other state-funded medical programs.

Under the Relative Value Fee Schedule, medical procedures exempt from current fee scheduling criteria will be reevaluated. A significant item that would be added to the new fee schedule is hospital room cost.

It must be stressed that in no way would the Relative Value Fee Schedule diminish the quality of care for the claimants or the payment of necessary and appropriate medical cost. Employees requiring medical care through Workers' Compensation would still be entitled to the same level of care from providers as before implementation of the fee schedule.

FISCAL IMPACT: ($ thousands)

	FY 93	FY 92-93	FY 94	FY 95
1. Fee Schedule [Estimated 12% of FY 91 Medical Costs]				
General Funds	$570	$570	$ 756	$ 756
All Other Funds	$266	$266	$ 356	$ 756
2. Implement PPO [Estimated 4% of Medical Costs]				
General Fund	$190	$190	$ 252	$ 252
All Other Funds	$ 89	$ 89	$ 119	$ 119
Combined 1 & 2				
General Fund	$760	$760	$1,000	$1,000
All Other Funds	$355	$355	$ 475	$ 475

The fiscal impact outlined above includes the following assumptions:

- FY 1993 savings are projected on the basis of an October 1, 1992 implementation date.
- The savings projected have been compared to the effect of other "managed care" initiatives from CORE to assure that double counting has not occurred.
- The savings projected, based on medical costs paid, have not been inflated from the 1991 cost data.

STAFF IMPACT: From discussions with DOER and the Department of Finance, it has been determined that the new GenComp Claims Information System at DOER will compare medical claims to the fee schedule upon entry, thus eliminating the need for manual comparisons or additional staff.

IMPACT ON AFFECTED PARTIES: For recipients of Workers' Compensation, there should be no identifiable difference in levels and quality of care received. Under proposal 2, an employee would use a PPO network for care. Since most state employees now have health coverage through some kind of HMO or PPO arrangement, this will not create a significant change from how employees currently receive medical care. As with most organizations of this sort, referrals would be made through a designated provider, with appeals being handled first by the PPO, then by the employer (in this case, the state).

Medical provider groups and hospitals may oppose the establishment of a Relative Value Fee Schedule for Workers' Compensation because the schedule will no longer be based on historical charges but on a reasonable cost associated with relative value.

Employees may oppose allowing employers to set up PPOs because of the belief that employers will sacrifice the quality of care for low price. However, if unions and employees are included in the selection of a PPO, as they have been in the past with voluntary referral networks, those fears could be allayed.

METHOD AND TIMING OF IMPLEMENTATION: Budget and Legislation. The Department of Labor and Industry (DOLI) will be submitting legislation on a Relative Value Fee Schedule in the 1992 legislative session. The Department of Employee Relations will also be submitting legislation to allow a PPO network to be established. The DOLI's legislation will amend Minnesota Statutes, section 176.136 and DOER's legislation will create a new section in Minnesota Statutes, chapter 176. According to the language, the fee schedule will be implemented on October 1, 1992. The PPO legislation also projects an October 1, 1992 implementation date.

The Department of Finance and the Department of Employee Relations will need to work out a method to recapture the savings that result from the options. Because agencies would otherwise be liable for the higher cost of medical services, a reduction from agencies in the amount they would have paid in FY 1993 without this change will not substantially affect agency budgets.

CORE PROJECT 1 ANALYSIS

PROJECT # 22: Workers' Compensation (State Only): Case Management

IDEA # 193.2 **FY '92-'93 GF Savings: $1,650,000**

RECOMMENDATION: Have the Safety and Workers' Compensation Division in the Department of Employee Relations (DOER) begin an active medical cost management program and improve claims administration internally, especially by improving staff training and computer usage.

To improve medical cost management, DOER should use a vendor to audit billings and conduct targeted care reviews, pre-authorize hospital admissions, and develop a network of medical providers that can be recommended to injured employees on the basis of quality of care. Moreover, three managed care professionals should be hired on a temporary (pilot) basis to assist the agencies in managing their claims and in developing and implementing return-to-work plans.

Furthermore, the Safety and Workers' Compensation Division should use its computer system more effectively, implement more rigorous training procedures for staff, and develop a quality assurance and accountability program. (See Appendix for details.)

COMMISSION ACTION: **Approved** - **Vote: 14 to 1.** The Commission made two modifications to the staff analysis. A provision that would have required work-injured state employees to call a 24-hour number to receive pre-authorization for nonemergency hospital admission was not recommended (Item C in the attached Appendix). This change was made because of concerns expressed that this proposal was more restrictive on state employees than current law allows for all employees.

The Commission also declined to recommend a provision to develop a network of medical providers to which work-injured employees could be recommended for care (Item D in the attached Appendix). Concerns were expressed about the ability of the state to accurately identify high quality providers.

The net impact of these changes to the initial proposal reduce the FY 1993 savings (shown in the Fiscal Impact section of this analysis) by $250,000 to $1,350,000. The total biennial savings attributable to this revised recommendation are $1,650,000.

BACKGROUND: Workers' Compensation provides cash benefits, medical care and rehabilitation to employees who are injured on the job. Employers assume the full costs of occupational disabilities in return for being relieved of legal liability. Benefits to the injured employee include payment of all medical bills plus indemnity, where indemnity includes continuing payments to replace lost wages and, possibly, a lump sum payment to compensate for a work-related disability. A lost-time claim is one in which both medical and indemnity payments are made.

The State of Minnesota is self-insured for Workers' Compensation claims, and the Safety and Workers' Compensation Division in the Department of Employee Relations (DOER) manages claims for state agencies. All state agencies, including the executive, judicial and legislative branches of state government, the University of Minnesota, and the semi-state entities, purchase claims management services from DOER. Consequently, DOER has responsibility for all claims filed by the state's 67,000 employees.

There are currently about 7,500 open claims. DOER must accept or deny all lost-time claims within 14 days of employee notification, and must pay medical bills within 30 days. The division authorizes payment on 600 to 700 bills per week. There are 14 Claims Specialists in the division who manage claims. There are 132 Workers' Compensation Coordinators in the agencies whose job it is to transmit claims information to DOER, to manage the agency's Workers' Compensation situation, and to coordinate agency safety and return-to-work programs. Less than half a dozen of these Coordinators work in this capacity full-time.

The division is advised by two committees: a Steering Committee, made up of higher-level agency representatives who provide policy advice and guidance to the division, and an Advisory Committee, consisting of the Workers' Compensation Coordinators in the agencies, which provides advice and guidance on the administration of claims.

Claims management entails assessing and monitoring claims, and making claims payments. Claims assessment and monitoring involves 1) ensuring that only valid claims are accepted, 2) monitoring claims so that only appropriate amounts are paid on valid claims at appropriate times, and 3) challenging claims believed false. DOER has developed a list of 223 activities involved in managing a Workers' Compensation claim, though not every claim requires all steps. Examples of these activities are: contacting employees to discuss their claims, contacting the treating doctors to get substantiation, determining if rehabilitation is necessary, determining the need for independent medical examinations, and conducting legal research.

DOER manages and pays Workers' Compensation claims out of a revolving fund and then bills agencies for their individual claims. An additional administrative charge, currently about 10.25%, is added to each bill. This administrative charge pays for the division's overhead, including such things as computer system upgrades and software customization. The division can spend less than the sum of all administrative charges in a year and have the surplus carry over to the following year. This carryover is reserved in an administrative fund. The size of this fund at the start of FY 1991 was about $284,500 and at the start of FY 1992 was about $321,500. Thus, $37,000 in excess administrative charges were brought forward from FY 1991 to 1992.

General Fund Executive Branch spending on Workers' Compensation was just over $11,000,000 in FY 1991. Neither DOER's claims management computer nor the State-Wide Accounting (SWA) system is able to break this figure down into medical and indemnity payments. Below is an estimated breakdown, based on numbers for all funds:

General Fund Executive Branch Spending on Workers' Compensation

Medical benefits	$ 4,091,797
Indemnity benefits	5,659,202
Other benefits	384,357
Administration	1,051,003
Total	$ 11,186,359

Minnesota employers have only limited ability to control Workers' Compensation medical costs. Minnesota Statutes, section 176.136, grants the Department of Labor and Industry limited powers to establish a medical fee schedule for Workers' Compensation benefits. Minnesota case law forbids employers from restricting injured workers to a network of health care providers.

RATIONALE: This program is recommended for the following reasons.

1. The cost of treatment is currently the most critical area of concern in Workers' Compensation claims administration and is generally considered to be the most significant driver of claims costs. To date, the state has not adopted the kind of claims management practices now becoming common in the private sector. These management techniques (outlined in the appendix) promise significant cost reductions for the state and higher quality care for injured workers. A number of recent publications have suggested that self-insurers can achieve 15 to 30% savings by using "state of the art" medical cost management techniques.

2. Currently, insufficient efforts are directed toward returning injured employees to work. Reform entails both increased coordination between agencies and increased training of Workers' Compensation Coordinators.

3. The administration of claims in the Safety and Workers' Compensation Division at DOER, while adequate, operates less efficiently than it could with current resources. Agencies served by the division deserve better service for their administrative dollar.

Recently, the University of Minnesota, as a client of the Safety and Workers' Compensation Division, commissioned a review of claims administration at DOER. This review was carried out by Milliman and Robertson, Inc., a private consulting firm. The review team recommended that the University begin evaluating other claims administration means unless DOER implements a program similar to that recommended here within three to six months.

FISCAL IMPACT:

($ in thousands)

	FY 92	FY 93	FY 92-93	FY 94	FY 95
General Fund	$ 300	$ 1,600	$ 1,900	$ 1,600	$ 1,600
All Other Funds	$ 150	$ 800	$ 950	$ 800	$ 800

These savings are projected as a result of the active medical cost management program recommended (points A-E in the appendix). The other recommendations will be financed from existing reserves and/or existing administrative charges. These remaining recommendations represent organizational efficiencies that will yield savings, but they are not included in the estimates because of difficulty in getting reliable numbers on which to make estimates and because of a concern that savings be conservatively estimated.

The totals given for the General Fund are presented in greater detail in the appendix. These savings estimates are equal to about 16.5% of General Fund Executive Branch spending for FY 1991 Workers' Compensation costs for medical plus indemnity benefits.

STAFF IMPACT:

Injured Employees will:

- receive more communications regarding their injuries and related treatment,
- return to work more quickly following the injuries,
- receive more appropriate medical services,
- need to make phone calls prior to non-emergency hospitalization, and
- be encouraged to use a network of quality medical care providers.

Agency managers will:

- be more active in managing cases,
- be responsible for creating more return-to-work opportunities,
- receive more complete and timely information about open cases,
- receive more training in case management techniques and procedures, and
- have fewer agency injuries and reduced costs over the long run.

DOER employees will:

- have less responsibility for reviewing medical treatment and billing but more responsibility for other claims management processes, and
- receive more training in case management.

IMPACT ON AFFECTED PARTIES: Medical providers will be subjected to increased review of their decisions regarding injured employees, which will entail increased correspondence with medical reviewers. Medical providers will not be reimbursed for services determined to be unrelated to the injury, unreasonable or unnecessary, not usual or customary, or excessive.

METHOD AND TIMING OF IMPLEMENTATION: Administrative Action and Budget. DOER should begin a Request-for-Proposal (RFP) process immediately to find a vendor to provide utilization review. Utilizing a vendor would not entail additional budget or legislative action. This process is expected to take 2 to 3 months because the Department of Labor and Industry has already prepared an RFP for medical review, much of which can be used for this purpose. In the interim, before a vendor is chosen by the RFP process, it is recommended that the division proceed with its current plans to retain a vendor on a temporary basis.

The Legislature should be requested to appropriate funds to hire three managed care professionals on a pilot basis to be housed in the Department of Labor and Industry.

The one-time investments necessary for activities G, H, I1, I3 and J in the "administrative improvements" section of the appendix should be implemented immediately using existing reserves. Furthermore, activities F and I2, both of which entail on-going expenditures, should be financed through the reserve fund in conjunction with the current administrative fees.

DOER and the Department of Finance will determine how the savings can be captured from agency budgets for the General Fund. Because agency costs will be reduced by the same amount that budgets are cut, program budgets will not be affected by this proposal.

APPENDIX

This appendix describes CORE's recommendation for changes in the Safety and Workers' Compensation Division in DOER. On this page the program is described in brief. On subsequent pages, each recommendation is described in more detail.

The Safety and Workers' Compensation Division in DOER should begin the following medical cost management program.

A. Employ a vendor to provide an after-the-fact review of all medical provider and hospital inpatient billings.

B. Employ a vendor (or contract with medical professionals) to assist with targeted care review on a pay-per-case basis.

C. Employ a 24-hour vendor to pre-authorize admission to hospitals.

D. Develop, in conjunction with union representatives, a network of medical providers that can be recommended to injured employees on the basis of the quality of care.

The Department of Labor and Industry should establish the following program.

E. Hire three managed care professionals to assist the agencies in managing their Workers' Compensation claims and in developing and implementing return-to-work plans.

Furthermore, the Safety and Workers' Compensation Division should undertake the following administrative programs:

F. Develop and provide an annual training workshop for Workers' Compensation Coordinators in the agencies and claims adjusters in DOER, provide manuals to the agencies, and use the Advisory Board as a means of providing continuing education.

G. Hire temporaries to review all open cases in order to 1) close inactive files and 2) set up flags in the computer system that would automatically notify Claims Specialists of actions that should be taken.

H. Establish a connection between DOER's claims management computer system and 1) the payroll/personnel system and 2) the State-Wide Accounting system.

I. Implement a more rigorous training procedure for Claims Specialists.

J. Develop a quality assurance and accountability program.

A. Use a vendor to provide an after-the-fact review of all medical provider and hospital inpatient billings.

Bills will be screened for 1) appropriate application of the fee schedule, 2) duplicate payments, 3) coding errors, 4) whether treatment is usual and customary, 5) whether treatment is related to injury, 6) whether treatment is reasonable and necessary to cure and relieve, 7) whether there is excessive use of services, and 8) whether there is indication of non-provision of services. Currently, only some hospital inpatient billings and some provider billings are sent for review.

Use of a vendor for this purpose will free up about 5% of Claims Specialists' time because Specialists have been doing (5) above to some extent. Claims Specialists could spend more time doing other activities related to claims management, e.g., checking cases in which the individual is classified as "Temporarily Totally Disabled" for possible conversion to "Permanent Totally Disabled." Such conversions lead to savings for the state. (See idea #193.1.)

Net savings for hospital bill review are predicted as follows: vendors have indicated 7-8% net savings on hospital bills, and FY 91 General Fund Executive Branch spending on hospital bills was $1,527,667; thus savings between $106,937 and $122,213 are predicted.

Net savings for medical bill review are predicted as follows: vendors have indicated 15-17% net savings on medical bills, and FY 91 General Fund Executive Branch spending on medical bills was $4,091,797; thus savings between $613,770 and $695,605 are predicted.

B. Use a vendor (or contract with medical professionals) to assist with targeted care review on a pay-per-case basis.

Targeted care review entails intervention with doctors/chiropractors on an exception basis while treatment is ongoing. For chiropractic cases, the review involves oversight of chiropractic service provision from the start of treatment. The aim is to reduce chiropractic spending while keeping all interested parties informed of reimbursement evaluations and decisions during treatment. For non-chiropractic medical cases, the review consists of one or more care evaluation sessions involving a medical professional, a claims adjuster, an agency representative and/or the employee. The outcome of such sessions, besides increased awareness and information sharing, may be communication between the medical professional involved in the review and the treating doctor. Targeted chiropractic review is recommended on a limited basis only: DOER must establish criteria for selecting cases for this type of review, keeping in mind that the potential benefit must exceed the per-case charge. Cursory analysis suggests that it would be adequate to select 10 cases per year for this review. Cursory analysis also suggests that 4 hours per month of care evaluation sessions would be sufficient.

Net savings for targeted chiropractic review are predicted as follows: 5-10% gross savings are predicted on chiropractic bills. Fiscal year 1991 General Fund Executive Branch spending on chiropractic bills was about $800,000 on about 3100 bills, for an estimated 100 cases. If ten cases per year are selected, gross savings are thus projected to be between $4,000 and $8,000. Assuming a $250 per case charge by vendors, net savings would thus be $1500-$5500.

Net savings for the care evaluation sessions are predicted as follows: using 4 hours of physician time per month at between $125 and $160 per hour, and assuming 1% savings on FY 1991 Workers' Compensation medical plus indemnity costs ($9,750,000), net savings between $90,000 and $91,000 are estimated.

C. Use a 24-hour vendor to pre-authorize admission to hospitals.

In order to control costs by assuring that only medically necessary hospitalizations occur, many medical benefit plans now ask enrollees to make a phone call before non-emergency admittance to a hospital. Like targeted care review, this program entails intervention while treatment is ongoing. The vendor would review the case to determine whether hospitalization is usual and customary, related to the injury, and reasonable and necessary to cure and relieve.

Net savings for pre-certification of hospitalization are predicted as follows: vendors indicated costs for this service ranging from 0 (if other services were purchased) to $165 per case. They further indicated a $3 to $4 gross return for every dollar spent; thus we estimated 200 admissions and between $99,000 and $132,000 gross savings. Net savings thus would be between $66,000 and $132,000.

D. Develop a network of medical providers that can be recommended to injured employees on the basis of the quality of their care for occupational illness.

Use of providers known to give high-quality occupationally-focused health care can reduce Workers' Compensation costs by reducing the amount of redundant procedures provided and increasing the use of procedures known to return people to working status quickly, thus reducing payments for lost-time. If injured employees trust that network health care providers were chosen on the basis of quality, and not because of low-cost, use of the network should be quite high. Agency representatives (including Safety Officers and Workers' Compensation Coordinators) in conjunction with union and DOER representatives should be appointed to develop such a network.

Anoka County (with an average of 16 claims/month) encourages injured employees to use a designated clinic for both medical and chiropractic care. About 95% of the medical cases now use the clinic and chiropractic usage has fallen to zero since adoption of this system.

This success rate is attributed to 1) the personal attention given each injured employee by the Workers' Compensation manager, 2) the fact that he advises them of their right to go where they like, but asks them to try the clinic first, 3) the fact that he advises them that the clinic does not give the county a discount, that it was chosen because of its expertise with occupational health, and 4) the fact that the clinic averages about a one-half hour wait time.

If use of the network is less than expected, the state could consider giving employees some sort of incentive to stay in the network.

Net savings on a provider network are predicted as follows: assuming that savings equalling 1-2% of Workers' Compensation medical plus indemnity benefits can be achieved, net savings of between $90,000 and $91,000 are estimated.

E. Hire three managed care professionals, housed in the Department of Labor and Industry, to assist the agencies in managing their Workers' Compensation claims and in developing and implementing return-to-work plans.

Although there are 132 Workers' Compensation Coordinators among the agencies, only a few work full-time in this capacity. Furthermore, in the Safety and Workers' Compensation Division, there is only one person assigned to assist agencies with return-to-work plans.

The Department of Labor and Industry should establish a pilot project wherein three full-time, unclassified managed care professionals are hired to assist the agencies with the management of their case loads and to develop and implement effective return-to-work programs. These professionals, together with the current return-to-work counselor in DOER, would be housed in the Department of Labor and Industry. This separate housing will make it easier for the unit to broker between agencies and DOER and between agencies both inside and outside the executive branch. Moreover, there are a number of Qualified Rehabilitation Counselors already housed in Labor and Industry to give the unit additional professional support.

Net savings on this pilot project are projected as follows: the cost of 3 positions plus overhead are estimated to be $200,000 and assuming 7.5% savings on FY 1991 medical plus indemnity costs ($9,750,000), net savings are estimated at about $500,000.

F. Develop and provide an annual training workshop for Workers' Compensation Coordinators in the agencies and claims adjusters in DOER, provide manuals to the agencies, and use the Advisory Board as a means of providing continuing education.

The aim of the workshop would be to establish a common understanding and sense of mission between DOER and agency staff, establish lines of communication between all parties, provide information about operation of the Workers' Compensation system, and improve the trust- and morale-building skills of the Coordinators.

The information portion of the workshop should:

1. familiarize staff with the law (types of benefits, etc.) and provide legal updates,
2. explain benefits: who is eligible, how benefits are determined, how costs are charged back to the agencies,
3. describe methods for monitoring claims that can be used at the agency level and suggest uses of DOER-provided information,
4. explain claims forms and different processes for handling them (e.g., by modem),
5. explain the Second Injury registry and actions that should be taken at the agency level to increase Second Injury registration (see idea #193.1),
6. explain employees' rights and responsibilities, and
7. help staff design safety and loss prevention programs for their agencies.

The information portion of the workshop should be provided partly by DOER staff and partly by outside experts. The trust- and morale-building portion should be provided by someone skilled in helping organizations develop a service-delivery orientation. The remainder of the workshop should be facilitated by an organization skilled in helping individuals develop a common mission and improving communications.

For on-going education, the division should provide the agencies with a manual, similar to its "Safety Saves" manual, regarding agency-level claims administration. Advisory Board meetings should be used for education and to follow up on workshop issues.

Staff in the Training and Development Division of DOER estimated that the cost of the proposed workshop would be less than $5,000. This workshop and ongoing training recommended here can be funded from current administrative charges.

G. Hire temporaries to review all open cases in order to 1) close inactive files, and 2) set up flags in the computer system that would automatically notify Claims Specialists of actions that should be taken.

The University of Minnesota report suggested that up to a third of all open cases currently at DOER are inactive and should be closed. Managers must have an accurate accounting of open claims in order to make informed decisions about how to use resources.

The Safety and Workers' Compensation Division at DOER has a new Unisys 5095 computer and a new claims management software package called GenComp. The system began working approximately one year ago. Although much information was transferred to the computer at the time of purchase, much was not. Furthermore, the computer's diary facility, which flags Claims Specialists of actions to be taken on a case, is not being adequately used. Diaries can be entered that are peculiar to a particular case and/or the system can be programmed for automatic diaries. Currently, there are two automatic diaries: 1) on medical-only claims, a 180 day review of reserves and the possibility of closing the case, and 2) on lost-time claims, a 30-day review for whether a rehabilitation consultation is necessary.

Additionally, GenComp currently cannot produce the kinds of summary reports that agency representatives need to control injuries and Workers' Compensation claims. For example, GenComp cannot now produce, by agency and facility, 1) a breakdown of benefits by medical/indemnity/legal/other costs, 2) all penalties applied, 3) the names of employees with open claims by classification, or 4) all open claims, by status and amount paid.

An additional use of GenComp that should be programmed is a status line for Second Injury registration that transfers to ALL CASES on that employee. (See idea #193.1 for a description of Second Injury registration and potential cost savings attached.)

Temporary Claims Specialists should be hired to close inactive files and enter non-automatic diaries on all open claims. Additionally, GenComp should be customized to allow the summary reports production described above and to include more automatic diaries.

Specifically, there should be automatic diaries for:

- 30 and 60 day rolling reviews for reserve levels, possible return-to-work, and permanency status,
- Medical Target Date Guide dates, and
- filing for reimbursement from the Special Compensation Fund for second-injury claims.

The Medical Target Date Guide is a reference for claims adjusters suggesting lengths of treatment for different injuries. Such flags on the computer system will assure that claims are reviewed at proper intervals and thus managed more appropriately.

Given that there are about 7,500 open claims at any moment, that a temporary Claims Specialist can close or diary active files at a rate of 50-100 files per day, and that temporary services cost $240 per day, the cost of this activity is estimated at $18-36,000. Programming of automatic diaries is done by California Interactive Computing (CIC) at either a $100 or $200 per hour rate, depending on difficulty. DOER has estimated the cost of all GenComp customization described here at between $15,000 and $50,000. Thus the cost of this project is estimated between $33,000 and $86,000. This project can be funded from existing reserves.

H. Establish a connection between DOER's claims management computer system and both the payroll/personnel system and the SWA system.

This will assure that employees are appropriately paid, but not overpaid, for salary loss and will prevent the double entry of data (and associated errors).

The current process for Workers' Compensation check issuance takes 5 working days and involves entry once onto GenComp and once onto SWA. Following the entry process, there is a tape transfer between the two systems to verify that the two systems have the same data. Errors occur because 1) salary and sick leave data is entered manually on each claim, often using out-dated information, and 2) data is entered twice. Direct GenComp interface with the payroll computer (to get wage rate and vacation/sick-leave accrual data) and with the SWA system could reduce errors significantly. Furthermore, a data entry position could be eliminated. The interface with payroll could be done using magnetic tape and some GenComp customization. The interface with SWA would require purchase of a significant amount of hardware.

The estimated cost of establishing an interface with the payroll computer is $20,000 because a similar GenComp customization was completed in early 1990 for that cost. The estimated cost of establishing an interface with SWA is $33,000, broken down as follows:

7 PCs @ $3,500	$ 24,500
7 copies of one software program @ $700	4,900
7 copies of another software program (free)	0
7 copies of another software program @ $200	1,400
GenComp customization	2,000
TOTAL	$ 32,800

This activity can be funded from existing reserves.

I. Implement a more rigorous training procedure for Claims Specialists.

DOER has no formal claims management training program, and all training is provided primarily by on-the-job coaching. The University of Minnesota study found that the authority of Claims Specialists was unusually high given the inexperience of the staff and the Supervisor/Specialist ratio. Furthermore, the division pays the producer of GenComp substantial sums for even the smallest software customization when a rather inexpensive course is available that would train an internal systems person to make such changes. (Currently, changing even one word in a form letter costs DOER a minimum of $200.)

DOER should 1) provide Claims Specialists with outside courses in basic insurance operations, 2) provide Claims Specialists with seminars on pertinent issues using outside experts once per quarter, and 3) provide a systems person with GenComp training.

The outside courses recommended here are expected to cost ($250/course/student) x (15 students) x (2 courses each) = $7,500. The estimated cost of the seminars is ($250/seminar/student) x (15 students) x (4 seminars each) = $15,000 per year. The GenComp course costs $1,000 per student, including travel. Recommendations 1 and 3 above can be funded from existing reserves. The ongoing training recommended in 2 should be funded from current administrative charges.

J. Develop a quality assurance and accountability program.

The program should include:

1. The establishment and monitoring of comprehensive claims adjustment procedures that include use of a check list of things to be done for every new case that comes in and referral of cases outside the norm for review by supervisors. Monitoring should include: a) random case review by supervisors, b) surveys of service satisfaction sent to injured employees and agencies, and surveys of outside legal help as a source of recommendations for improvement, and c) managerial review of all reports of overpayment and every case on which a penalty is assessed.
2. Improved complaint handling procedures.
3. Increased use of the Steering Committee and Advisory Board.

The only potential cost to the division may arise in the development of a survey tool. It appears that $2,000 is the outside limit on this cost. This cost can be funded from existing reserves. The rest of the program represents a priority use of supervisor time.

CORE PROJECT 1 ANALYSIS

PROJECT # 23: Workers' Compensation (State Only): Special Compensation Fund Reimbursement

IDEA # 193.1 **FY '92-'93 GF Savings: $1,340,000**

RECOMMENDATION: Improve the procedures used by state agencies and the Department of Employee Relations related to 1) the submission of requests for Second Injury reimbursements from the Special Compensation Fund, and 2) the establishment of "permanent total" disability for injured workers, to take better advantage of offsets and reimbursements available under the current Workers' Compensation laws. See appendix for details.

COMMISSION ACTION: <u>**Approved**</u> **- Vote: 15 to 0.**

BACKGROUND: The Special Compensation Fund (SCF) in the Department of Labor and Industry is a revolving fund into which all insurance companies and self-insured employers (such as the state) pay a bi-annual assessment. The SCF uses about 80% of this assessment to reimburse employers for Supplemental Benefit or Second Injury benefits paid. (The remainder covers administrative costs and benefits paid to employees injured while working for uninsured employers or self-insured employers who subsequently went bankrupt.) The SCF assessment on employers equals 31% of indemnity payments* in the previous half year.

The State of Minnesota, as an employer, is self-insured for Workers' Compensation. The Safety and Workers' Compensation Division of the Department of Employee Relations (DOER) manages those claims for the individual state agencies. DOER pays Workers' Compensation claims and bills agencies for these payments, as well as for administrative costs and the SCF assessment. The difference between administrative fees collected and actual costs stays in a fund which can be used for special projects.

<u>Second Injury Reimbursements</u>

Second Injury benefits are reimbursable from the SCF to employers for certain Workers' Compensation benefit payments and do not affect the amount of benefits received by injured employees. Through the Second Injury program, employers can be reimbursed for Workers' Compensation payments made to employees who 1) are registered prior to injury, and 2) have received either 52 weeks of indemnity payments or $2,000 in medical payments. This reimbursement may continue for the life of the injury, often until the death of the employee.

***There are two types of indemnity payments: 1) continuing payments to replace lost wages, and 2) a lump sum payment to compensate the employee for the fact of a disability.**

Employers receive 100% reimbursement for payments on injuries that would not have occurred but for the previously registered condition. For injuries that are deemed more serious due to the registered condition, the percent of payments reimbursable is based on a medically-determined assessment of the portion of the disability due to the second injury alone.

Any employee who has one of a number of permanent disabilities (e.g., diabetes or epilepsy) or a permanent partial disability covering more than 10% of the body can be registered. Registration is voluntary on the part of the employee, who can refuse to provide supporting medical documents. In order to receive these reimbursements an employer must 1) file a Notice of Intent to Recover with the SCF no later than 1 year after reaching the 52 week/$2,000 threshold, and 2) file for reimbursement annually. ***Thus, employers need to be diligent in registering employees, in filing an Intent to Recover, and in filing for reimbursement.*** The process is summarized below.

Registration--> Injury--> Intent to Recover--> 52 wk/$2,000 threshold--> Reimbursement Request--> Annual Reimbursement Requests

<u>Conversion to Permanent Total Disability Status</u>

Employees who cannot work at all following their injuries are normally classified as "temporarily totally disabled" (TT) until there is evidence that the disability is permanent. The length of time preceding reclassification of an individual as "permanently totally disabled" (PT) varies depending on the injury. Rehabilitation experience indicates that the probability of returning to work decreases substantially after 2-3 years have passed since the injury occurred.

Conversion to PT status is a process that involves 1) the employee and his/her legal representation, 2) the insurer (DOER), and 3) the Department of Labor and Industry (DOLI). DOLI oversees the conversion process as a neutral party and to assure that PT is not declared too soon. After an employee is converted to PT, and after $25,000 in PT benefits have been paid, the insurer may reduce Workers' Compensation payments dollar-for-dollar for any Social Security and Minnesota State Retirement System benefits the employee receives. ***Reduced claims payments by agencies can be captured for the General Fund.*** It is also permissible, when there is just cause, to back date an employee's conversion from TT to PT, which reduces claims payment by pushing back the date after which the claim can be offset for Social Security and retirement benefits.

RATIONALE: Adoption of the program is recommended for the following reasons.

1. It requires changes only to the registration and claims processes and work flow.

2. The initial effort will yield years of savings.

The proposed changes address the critical junctures where the state may be missing the opportunity to claim funds for which it is eligible under the current laws. Adopting these management improvements will increase the percentages of:

1. eligible employees who register Second Injuries;
2. employees on the DOLI register whose registration is on file at DOER;
3. cases involving injuries to registered employees for which a Notice of Intent to Recover form is filed;
4. eligible cases for which annual reimbursement is filed; and
5. cases successfully defended when appealed or questioned by the SCF.

Savings from increased diligence are potentially significant. For example, a worker at DOER who was reviewing files for closure recently uncovered a file which has generated a SCF reimbursement for the state of $78,000 to date. Because benefit payments in both Second Injury and PT cases often continue until the death of the employee (20 years on average for Second Injury cases), the overall cost savings due to initial diligence may be extremely large.

Average reimbursement value is difficult to assess because such records are not kept, and because of the number of variables involved in the calculation of benefits: injury type, treatment and length of recovery; pre-wage earnings; and age of recipient. Individuals at DOER and DOLI estimate that the typical annual reimbursement for Second Injury medical and benefits may be $30,000, and for the PT offset, $7,500.

FISCAL IMPACT:

($ thousands)

	FY 92	FY 93	FY 92-93	FY 94	FY 95
General Fund	$875	$465	$1,340	$465	$465

Fiscal Year 1992 savings reflect the results of the intense review of over 7,500 active files, and the reimbursements that will be made retroactively to the date of eligibility. Review of a 190-file intermediate caseload has uncovered 3 Second Injury cases which are eligible for reimbursement and 3 cases for which PT conversion is recommended. Using this sample, it is reasonable to predict an additional $930,000 in Second Injury reimbursement and $187,500 in PT conversion offsets. An additional amount is projected to be saved due to retroactive reimbursements. Total predicted savings from the initial review should reach $1,250,000, of which the General Fund share is estimated to be $875,000.

Annual, recurring savings are the result of improved practices, including coding files in a diary system, informing employees, and more diligently monitor Second Injury registrations. DOER estimates an annual General Fund savings of $168,000. Based on historical trends, the General Fund savings calculated for PT offsets is $297,000.

The cost of implementing all of the recommended administrative changes is minimal, and can be funded by DOER's surplus administrative fees. Costs are less than $2,000 for forms creation and distribution, medical records payments and filing of Notice of Intent to Recover documents. It will cost $15,000 to $50,000 for modifications to computer software and $25,000 to hire claims management temporaries to review all active files and set up diary entries for future reviews. (This activity can be done simultaneously with other activities recommended in Idea #193.2, where these two costs are addressed.)

STAFF IMPACT: The impact on staff will be minimal. Trained temporary workers with Workers' Compensation claims management expertise will handle the review of active files. The responsibility for the administrative changes will fall on employees of the agencies and of DOER, but should not significantly increase the workload of any individuals. Customizing DOER computer software should make the overall process more efficient.

IMPACT ON AFFECTED PARTIES: Generally, employees converted from TT to PT have increased their take-home pay. Some, however, depending on the employee's pre-injury wage rate and eligibility for Social Security benefits, see decreased take-home pay. Minnesota ensures a base level of benefits through the Supplemental Benefits program. Because of the number of variables and the complex criteria involved in calculating benefit levels, the percentage of recipients in each category is unknown.

Some employees believe that, because names on the Second Injury registry are public information, registration may reduce their future employability. Ironically, this program was set up to help injured or disabled workers by providing an incentive to employers to hire them. As long as registration remains voluntary, employees with this concern retain the option to decline to participate. Workers for whom the state is receiving Second Injury reimbursement will see no change in their benefits.

METHOD OF IMPLEMENTATION: Administrative Action. Individuals within agencies will be responsible for making changes to the current processes. To realize the savings for the General Fund, the Department of Finance and DOER will establish a procedure to identify and capture these savings from agency budgets. Agencies, which would otherwise have continued to pay for benefits to these injured workers, should not feel a negative effect on their budgets.

APPENDIX

To achieve the savings and the resulting benefits defined in the text, the following actions are necessary:

Second Injury Cases

I.A. DOER will undertake a review of all active files to determine if any are eligible for Second Injury reimbursement.

I.B. DOER will create a simpler, more "user-friendly" form for registration of Second Injuries, and an accompanying medical records release form to be processed by agency personnel offices. Agencies will mail the release form to the employee's doctor, and pay any fees for record retrieval and photocopying.

I.C. DOER will initiate a public information campaign. Training classes for supervisors and managers (who should be alerting employees who develop eligible illnesses) will include a discussion of the Second Injury program. DOER will also place articles in the DOER health newsletter at least annually.

I.D. At least once every two years, agencies will distribute a registration form and an explanation of the program to solicit registration of new conditions which may have developed due to the aging process (eg. diabetes, heart disease).

I.E. Agency Workers' Compensation Coordinators will maintain a list of registered employees, and cross check that list at least every six months with new injury files. DOER will obtain a similar list from DOLI and cross-reference it as well.

I.F. DOER will modify both the back of the First Report of Injury form and the on-line database entry screen to include a field for indicating whether the employee is registered with the SCF. DOLI anticipates introducing within several months a new format for information on the front of the form, making revision of the DOER version of the form necessary anyway.

I.G. As a matter of procedure, Claims Specialists at DOER will file with DOLI a Notice of Intent to Recover immediately upon receipt of the First Report of Injury form for a registered employee.

I.H. Claims Specialists at DOER will use the existing computer diary capability to flag cases of registered employees for review at least once a year for eligibility for SCF reimbursement, and file claims promptly.

Permanent Total Cases

II.A. DOER will review immediately all active TT cases to determine whether conversion to PT status is appropriate and whether the date of conversion can be back-dated.

II.B. DOER will modify its computer software to program the computer diary to flag all TT cases for evaluation on their anniversary date.

II.C. DOER will modify its computer software to use information on the average length of injuries from the Medical Target Date Guide to set up additional diary dates for file review.