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MINNESOTA Management & Budget

January 27, 2009

To the 2009 Minnesota Legislature:

On behalf of Governor Pawlenty, I am pleased to submit the FY 2010-2011 budget recommendation for Minnesota Management & Budget (MMB). Our department was created on June 1, 2008, when the Department of Employee Relations joined the Department of Finance. The Management Analysis and Development Division transferred into the agency from the Department of Administration in August, by executive order.

MMB is responsible for providing leadership, oversight and support in financial management, human resources and enterprise analysis. Our new mission statement – "…to increase state government's capacity to manage and utilize financial, human, information and analytical resources to ensure exceptional service and value for Minnesota's citizens" reflects the broad scope of our combined responsibilities and our commitment to fulfilling these responsibilities creatively and effectively. MMB is the chief human resource and financial office in the executive branch, with responsibility for setting policy, direction and practice in these areas for the executive branch agencies, negotiating contracts for eleven bargaining agreements and plans, and operating the enterprise accounting, budget, payroll and data warehouse systems.

Our agency has been involved in several significant reform efforts, aimed at upgrading the services, analysis, and support that we provide to employees, agencies and the public in a variety of ways.

- MMB is leading a multi-agency team working to replace the state's biennial budget system. We expect that the new system, to be implemented on a trial basis this fall, will be a major improvement in our ability to manage and report budget data.
- The state's insurance program is just now implementing the "Benny" card for pre-tax and health savings accounts, marking a major improvement in the way that employees access these benefits.
- We are in the final stages of testing a "citizen's information" page that will offer a searchable database on state spending, including professional technical contracts
- In February 2007, we completed an upgrade of the state's payroll system (SEMA4), moving it to a new platform. This change has already provided significant savings and funded the most recent version upgrade, in September of 2008.
- MMB provided staff support and original economic research to the Budget Trends Study Commission, with the resulting report offering a more in-depth look at revenue volatility and reserve requirements than has been available in many years.

For FY 2010-2011, the Governor's general fund base budget recommendation totals $39 million, a five percent reduction from forecast base levels. We will manage this budget reduction by eliminating eight positions and reducing administrative and operational costs throughout the department. We have made several investments in FY 2009 – such as space consolidation and IT purchases -- that should yield considerable savings in the next biennium and help us to absorb this reduction while maintaining our successful work in high priority activities.

The Governor's budget also recommends continuing the statewide systems billing authority at the current amount of $13.2 million for the biennium. Billing authority provides the resources for some of the operating costs of the statewide administrative systems. MMB's budget for FY 2010-11 also includes a recommendation for the base amount of $1.5 billion for the State Employee Insurance Program, and $5.2 million in other funds.

The Governor's budget includes two major initiatives intended to provide agencies with the tools, support and analysis needed to ensure that state government operates effectively and efficiently.

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- The first recommendation is to fund replacement of the enterprise accounting and procurement system, with a cost of $17.95 million in FY 2010-11 and later biennia. The existing systems (known collectively as the Minnesota Accounting and Procurement Systems, or MAPS) were first installed in 1995 and are now approaching technical obsolescence. MAPS is increasingly incompatible with the state's newer systems with which it must interface, and also fails to take advantage of the many improvements in business practice and security over the last couple decades. Implementation of the new system would be expected in FY 2012 with the Governor's recommendation. Due to the budget deficit and the urgent need to replace this system, the Governor recommends funding this initiative through a lease purchase arrangement, spreading the cost over 10 years.

- The second initiative is $1.4 million to strengthen the state's financial oversight capabilities by building an internal control team in MMB to augment existing training and support and by expanding oversight of capital projects and debt management. Challenges facing state agencies in this arena have increased, with recent reports by the Office of the Legislative Auditor identifying a varied set of weaknesses in agency financial controls and debt management practices that this initiative will address.

Tight financial circumstances, changing demographics and increasing calls for accountability and transparency will only increase the need for strong support and nimble tools for state government operations and the Governor's recommendation will allow MMB to succeed in our efforts to support and build state government's capacity.

I look forward to working with you on the proposed budget.

Tom J Hanson

Tom Hanson

Agency Purpose

Minnesota Management & Budget (MMB) is responsible for managing and providing leadership in financial management, human resources and enterprise systems and analysis. Our mission is to increase state government's capacity to manage and utilize financial, human, information and analytical resources to ensure exceptional service and value for Minnesota's citizens. MMB was created on June 1, 2008 when a 2007 law went into effect merging most of the Department of Employee Relations with the Department of Finance. In August 2008, the governor signed a reorganization order that moved the Management Analysis & Development (MAD) division to the merged agency from the Department of Administration.

Core Functions

The department provides statewide direction to financial and human resource management processes. This direction ensures adherence to standards, continuity, legal compliance, and financial integrity. Core functions support the policy making process and the resource management of state government. Core functions are:

- Managing state financial and human resource processes and systems;
- Providing historical and projected financial and program information;
- Providing financial analysis;
- Administering the state's merit system;
- Providing recruitment, training and other human resource products and services;
- Negotiating and administering labor agreements;
- Developing and administering compensation plans; and
- Developing, implementing and managing insurance benefits for employees, retirees, and their dependents.

At A Glance

Annual Business Processes:

- Provides accounting and budget management for the state's $56.5 billion two-year budget including the $33.3 billion general fund.
- Provides financial control and human resource management to 130 state agencies.
- Provides consulting and training services to state agencies, the legislature, local governments, higher education and K-12 institutions through Management Analysis & Development.
- Negotiates and administers nine bargaining agreements and two compensation plans affecting 37,300 executive branch employees.
- Processes nearly 100,000 applicant resumes.
- Pays 50,000 employees bi-weekly.
- Develops and manages health, dental, life insurance and other benefits for state employees, retirees, and their families, totaling over 120,000 covered individuals.
- Manages 134 separate state fund classes through 5,500 separate accounts.
- Conducts 4.9 million expenditure transactions
- Processes 1.5 million cash deposits.
- Issues 1.2 million payments.
- Processes 310,000 purchase orders.
- Conducts two bond sales, with about $4.4 billion in outstanding general obligation debt.
- Manages financial transactions totaling $331 billion including investment and reinvestment activity.

Operations

The department operates under two programs:

Statewide Services: state employees, vendors, individuals, financial institutions, school districts, and local governments receive payments through the accounting, payroll, procurement, and human resources business processes and systems. The department also manages systems and processes for the biennial budget, capital budget, fiscal notes, annual spending plans, and performance reporting. As the statewide personnel, insurance benefits and labor relations provider, the department assists all other agencies in issues relating to state employment. Statewide services has nine budget activities:

Accounting Services: provides financial management assistance to agencies, administers the accounting and payroll systems, and reports on the state's financial condition.

Budget Services: coordinates the development and production of the governor's operating and capital budgets and assists legislative committees in their review and deliberations. It also provides financial oversight and technical assistance and support for agencies, and analysis and information for agencies, the governor, the legislature and the public.

Economic Analysis: prepares the financial forecasts that identify projected state revenues and expenditures and related information and analysis.

Information Systems: provides technical support for the state's administrative information systems, which include the accounting and procurement system, the payroll and human resources system and the information access system. It also provides technical support for the budget information systems, treasury investment application and the agency's computer network and infrastructure.

Treasury: performs a variety of daily treasury and cash management functions, establishes banking services for state agencies, accesses the capital markets to provide financing for capital projects and equipment, and administers the state's tax exempt bonding allocation law.

Management Analysis & Development: provides fee-for-service consulting and training services to state and local government, higher education and other public sector organizations.

Human Resource Management: administers the state's merit system and provides a wide variety of human resource products and services including systems, processes and programs for workforce planning, recruiting and selection, applicant support, training, charitable giving, diversity development, affirmative action and compliance with the Americans with Disabilities Act.

Labor Relations: represents the state executive branch in negotiating and administering collective bargaining agreements and compensation plans and in arbitrating employee grievances.

Agency Administration: provides human resources, fiscal and administrative support for the department and includes the agency leadership and staff in the Commissioner's Office.

Statewide Insurance: administers employee insurance benefits for the state of Minnesota's eligible state employees, retirees, and dependents, and other public employees. Statewide Insurance has two budget activities:

State Employee Group Insurance Program (SEGIP): develops and manages insurance benefits for eligible state employees, retirees, and their dependents to help attract and retain a strong and productive workforce.

Public Employee Insurance Program (PEIP): offers local units of government group health, dental, and life insurance for their eligible employees, retirees, and their dependents.

Budget

Approximately 3% of the department's budget is from the general fund. The other 97% is composed of revenues for statewide administrative systems and the various insurance and state employee benefit programs that the department operates. Non-general fund dollars come from a variety of sources. Funds for statewide administrative systems are collected from state agencies based on the volume of transactions generated in the accounting and payroll systems. SEGIP benefits are funded by premiums collected from state agencies, employees, and self-paid participants and by an administrative fee charged to participating employers. PEIP is funded by premiums paid by participating local units of government and their employees. Pre-Tax Program revenue consists of employee contributions and agency fees for medical, dental, transit, and dependent care expense reimbursement accounts.

The number of full-time employees is 286 as of the third quarter of FY 2008, with 202 supported by the general fund and the remainder by the other sources described above.

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Dollars in Thousands

	Current FY2008	Current FY2009	Governor Recomm. FY2010	Governor Recomm. FY2011	Biennium 2010-11
Direct Appropriations by Fund					
General					
Current Appropriation	21,567	20,554	20,554	20,554	41,108
Recommended	**21,567**	**20,554**	**20,218**	**20,218**	**40,436**
Change		0	(336)	(336)	(672)
% Biennial Change from 2008-09					-4%
Expenditures by Fund					
Carry Forward					
Miscellaneous Special Revenue	126	1,249	0	0	0
Direct Appropriations					
General	20,001	22,092	20,218	20,218	40,436
Statutory Appropriations					
General	207	207	9,182	9,182	18,364
Miscellaneous Special Revenue	5,404	7,498	7,337	7,342	14,679
State Employees Insurance	603,180	669,933	707,284	763,210	1,470,494
Miscellaneous Agency	23,645	24,411	24,821	25,812	50,633
Management Analysis	2,084	2,187	2,181	2,197	4,378
New Fund	0	0	32,335	30,305	62,640
Total	**654,647**	**727,577**	**803,358**	**858,266**	**1,661,624**
Expenditures by Category					
Total Compensation	23,509	24,928	30,453	30,666	61,119
Other Operating Expenses	631,138	702,649	763,930	818,625	1,582,555
Other Financial Transactions	0	0	8,975	8,975	17,950
Total	**654,647**	**727,577**	**803,358**	**858,266**	**1,661,624**
Expenditures by Program					
Statewide Services	27,822	33,279	71,253	69,244	140,497
Statewide Insurance	626,825	694,298	732,105	789,022	1,521,127
Total	**654,647**	**727,577**	**803,358**	**858,266**	**1,661,624**
Full-Time Equivalents (FTE)	**272.8**	**274.4**	**338.3**	**333.4**	

Dollars in Thousands

	FY2009	Governor's Recomm. FY2010	Governor's Recomm. FY2011	Biennium 2010-11
Fund: GENERAL				
FY 2009 Appropriations	**20,554**	**20,554**	**20,554**	**41,108**
Technical Adjustments				
Pt Contract Base Reduction		(9)	(9)	(18)
Subtotal - Forecast Base	**20,554**	**20,545**	**20,545**	**41,090**
Change Items				
Financial Oversight and Assistance	0	700	700	1,400
Operating Budget Reduction	0	(1,027)	(1,027)	(2,054)
Total Governor's Recommendations	**20,554**	**20,218**	**20,218**	**40,436**
Fund: GENERAL				
Planned Statutory Spending	**207**	**207**	**207**	**414**
Change Items				
MAPS Replacement	0	8,975	8,975	17,950
Total Governor's Recommendations	**207**	**9,182**	**9,182**	**18,364**
Fund: MISCELLANEOUS SPECIAL REVENUE				
Planned Statutory Spending	**8,747**	**7,337**	**7,342**	**14,679**
Total Governor's Recommendations	**8,747**	**7,337**	**7,342**	**14,679**
Fund: STATE EMPLOYEES INSURANCE				
Planned Statutory Spending	**669,933**	**707,284**	**763,210**	**1,470,494**
Total Governor's Recommendations	**669,933**	**707,284**	**763,210**	**1,470,494**
Fund: MISCELLANEOUS AGENCY				
Planned Statutory Spending	**24,411**	**24,821**	**25,812**	**50,633**
Total Governor's Recommendations	**24,411**	**24,821**	**25,812**	**50,633**
Fund: MANAGEMENT ANALYSIS				
Planned Statutory Spending	**2,187**	**2,181**	**2,197**	**4,378**
Total Governor's Recommendations	**2,187**	**2,181**	**2,197**	**4,378**
Fund: NEW FUND				
Planned Statutory Spending	**0**	**0**	**0**	**0**
Change Items				
MAPS Replacement	0	32,335	30,305	62,640
Total Governor's Recommendations	**0**	**32,335**	**30,305**	**62,640**

Revenue Change Items

Fund: NEW FUND				
Change Items				
MAPS Replacement	0	69,955	0	69,955

Fiscal Impact ($000s)	FY 2010	FY 2011	FY 2012	FY 2013
General Fund				
Expenditures	$8,975	$8,975	$8,975	$8,975
Revenues	0	0	0	0
New Fund				
Expenditures	32,335	30,305	7,315	0
Revenues	69,955	0	0	0
Net Fiscal Impact	$(28,645)	$39,280	$16,290	$8,975

Recommendation

The Governor recommends a new, state-of-the-art, integrated system to replace the existing components of the current statewide accounting and procurement systems, collectively known as MAPS. Total costs to acquire the hardware, software, and implementation services are estimated to be $69.8 million. Because the MAPS system is the core of the state's basic IT infrastructure, and is expected to have a life span longer than many more transitory systems, the Governor recommends spreading the cost over ten years using lease purchase financing. The lease purchase model also allows for this critical project to move forward despite the budget deficit, reducing the FY 2010-11 general fund cost to $17.95 million. This initiative represents an opportunity to improve the effectiveness of government operations by changing business processes and to reduce the risks of operating an antiquated system based on increasingly incompatible technology. The target implementation date for the new system is July 2011.

Background

The State of Minnesota's accounting and procurement systems enable the state to process 1.25 million payment and 300,000 purchasing transactions each year. Currently, over 2,300 agency personnel representing more than 130 agencies are authorized to use these systems. For FY 2008, approximately 25 million transaction lines were entered into the systems to record expenditures of $33 billion and revenue of $36 billion for all funds.

The existing systems are mainframe-based applications selected in 1992, modified, and brought online in 1995. These applications have been heavily customized to meet some of the unique needs of the state and are approaching technical obsolescence. The last application upgrades were made in 1998 to ensure Year 2000 (Y2K) compliance. The systems lag behind advances in information technology and are growing increasingly incompatible with the state's newer systems, and with best practices in information management.

Research has been conducted by looking at other states that have recently implemented, or are in the process of implementing, new financial management systems. In addition to this research a number of alternative approaches were considered and they are discussed below. The analysis shows that the best approach for the State of Minnesota is to replace the components of MAPS with commercially-available, broadly supported software. Buying an "off- the-shelf product" accomplishes several goals:

- It will encourage implementation of "best practices" inherent in the software design by realizing process improvements without the need to extensively modify the system.
- It will also reduce the cost of implementation and future upgrades by avoiding excessive modifications.
- Finally, it will allow us to maintain an upgrade path that will keep the application current for newly available functionality or evolving technical requirements.

Under the current plan for the replacement project, a contract would be signed with a vendor in early FY 2010. The project is expected to take two years to complete, with a planned implementation date of FY 2012.

Lease Purchase Financing – This change item requests a total of $69.8 million for development and implementation of the new system during FY 2010-12. To reduce the budgetary impact during the current biennium, this proposal spreads the cost over 10 years using lease purchase financing. Under a lease purchase arrangement, the state would secure up-front project capital in exchange for regular lease payments. The state would incur an estimated $155,000 in lease administration expenses, which would be added to the principal on the lease. Including interest at an estimated rate of 5%, the lease payments on the total principal of $69.955 million are estimated to be $8.975 million per year over 10 years. Lease payments would be funded with a

general fund standing appropriation of $8.975 million per year. Proceeds from the lease purchase arrangement would be deposited and spent from a new fund dedicated to the project.

Relationship to Base Budget

The FY 2010-11 base budget for Minnesota Management & Budget (MMB) is $1.578 billion all funds, including $1.521 billion for insurance and $14.7 million special revenue funds, of which $13.9 million is used exclusively for statewide administrative systems. Approximately $19 million was spent in the early 1990s to create the current accounting and procurement systems.

Costs of similar projects in various stages of development in other states and Hennepin County are as follows:

State or County	Implementation Date	Anticipated Cost	Acct/Procurement Portion (est.)
Connecticut	2003	$102 million	$68 million
Ohio	2007	$158 million	$105 million
Pennsylvania	2004	$212 million	$141 million
Tennessee	2008	$130 million	$87 million
Wisconsin	Planning	$90 million	$60 million
Hennepin County	2010	$43 million	$29 million

Key Goals and Measures

Replacing the existing components of the current statewide accounting and procurement systems with a state-of-the-art integrated system supports MMB's goal of maintaining and improving the operations of the state's financial management infrastructure by enhancing the reliability and functionality of statewide administrative systems.

The key benefits of a new system are:

Stable Technical Infrastructure

- Compatible with current technology
- Ongoing vendor support
- Ongoing staff support available
- Greatly improved security environment

Better Decisions

- Enhanced decision-making because information would be more detailed and accessible
- Improved statewide reporting
- More detail for better purchasing decisions
- Enhanced ability to aggregate purchasing for increased volume discounts
- Better data for spend analysis to use in contract negotiations
- Improved tools for managing contracts
- Designed to collect and provide access to data on state purchases, contracts and grants

Greater Efficiency

- Better tools for more effective and efficient management of state resources
- Streamlined, standardized processes
- Better vendor pricing with e-procurement
- Added functionality and a web-based system will increase efficiency and flexibility
- Web-based so much less desktop support required
- Re-engineered workflow patterns
- Self service options

Alternatives Considered

Each of the following alternatives was evaluated. None are considered viable because of their unacceptable levels of risk and/or cost.

Enhance Existing Systems and Processes – enhance the existing statewide legacy systems through development of additional functionality or additional integration of systems. This alternative fails to provide sufficient efficiencies and process improvements and would not address the technical obsolescence risk associated with the existing system. Making any significant modification to the State's dated administrative systems would subject the state to high risk.

Custom Development – develop a new, fully integrated, web-centric application in-house that would meet the state's functional and technical system requirements. This alternative carries unacceptably high risk due to the size, complexity, likely project duration and funding requirements associated with such a project.

Vendor Hosting – contract with an independent supplier(s) that would provide and operate a solution meeting the State's systems needs for a subscription fee. This alternative would cause the state to be excessively dependent on the hosting vendor, which would subject the State to unacceptable pricing risk as vendors tend to increase the overall cost of service over time. No other state has had long-term success in pursuing a vendor-hosting strategy of this magnitude.

Status Quo – keep the existing statewide legacy systems in place, while making no significant enhancements in functionality, or new integration among those systems or between the statewide systems and agency systems. This alternative places the state at ever-increasing risk by failing to address technical obsolescence issues associated with MAPS. Additionally, it places the state's accounting and procurement strategic direction on hold and delays the realization of anticipated benefits of a new statewide system.

Statutory Change: Not Applicable.

Technology Funding Detail*

(dollars in thousands)

* Table displays direct project expenditures only, not including debt service and lease costs

Funding Distribution	FY 2010-11 Biennium		FY 2012-13 Biennium		FY 2014-15 Biennium	
	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Personnel	$5,050	$5,050	$0	$0	$0	$0
Hardware	2,000	2,000	0	0	0	0
Software	5,000	0	0	0	0	0
Facilities	500	500	0	0	0	0
Services	19,630	17,555	7,315	0	0	0
Training	0	5,200	0	0	0	0
TOTAL	**$32,180**	**$30,305**	**$7,315**	**$0**	**$0**	**$0**

Fiscal Impact ($000s)	FY 2010	FY 2011	FY 2012	FY 2013
General Fund				
Expenditures	$700	$700	$700	$700
Revenues	0	0	0	0
Net Fiscal Impact	$700	$700	$700	$700

Recommendation

The Governor recommends $700,000 each year to strengthen the state's financial oversight capabilities. This initiative will build an internal control team in Minnesota Management & Budget (MMB) to augment existing training and support for all state agencies. An element of this initiative will also enable the state to better oversee and deliver the state's expanding instruments, ensuring that funds are used according to statute, policy and legal covenants. Finally, the Governor's budget also recommends that funding be enhanced for the Small Agency Resource Team (SmART) in the Department of Administration (Admin) to improve the services available for small agencies. That funding recommendation is carried in Admin's budget submission.

Background

For quite some time, the Department of Finance (now becoming MMB) has emphasized "front end" assistance and training to agencies as the primary method for ensuring sound financial management practices. Working closely with experienced finance, budget and accounting professionals in the agencies, this approach resulted in well functioning and stable financial management.

The challenges facing state agencies in this arena have increased. Recent reports by the Office of the Legislative Auditor (OLA) have identified a disparate set of weaknesses in agency financial controls. With state government experiencing more turnover due to market and demographic pressures, increasingly complex procedures and tight operational budgets, agencies are looking for more training and support for their accounting functions. Changes are necessary to enhance the support available to agencies and provide more robust training and support on a more consistent basis. This initiative would complement the existing training efforts, and also provide additional review and oversight of financial policies and practices.

Internal Control Unit

The first element of this initiative would create a new internal control unit in MMB to support and oversee state financial services. Public expectations for financial controls and reporting have increased in recent years, but the state has not yet responded with an internal control capacity to fulfill these expectations. Recent OLA reports underscore the need for a consolidated approach to financial controls to ensure that any real or potential weaknesses are addressed.

This portion of the initiative would create a six person internal control support unit (ICSU). The ICSU would assist agencies at various points in time, both in addressing questions that agencies have as they implement enacted budgets as well as identifying and fulfilling training needs. This unit would be specifically responsible for working with agencies to follow up on audit findings, and to ensure that statewide training or policies were developed and delivered to respond to any trends or common issues identified by the OLA. The cost of the internal control portion of the initiative is $512,000/year or $1.024 million for the biennium.

Bonding Oversight

The second element of this initiative would significantly expand the state's capacity to manage state bond authorizations and the projects that they fund. Minnesota has not changed its staffing for debt management in several decades, despite the rise in state bonding issues, growth in project complexity, and expansion into new financial tools. The December 2008 OLA report on general obligation bonding highlighted the need for a fresh review of the implementation of bond appropriations. The cost of the bonding oversight portion of the initiative is $188,000/year or $376,000 for the biennium.

This initiative would add two positions: one to complete periodic audits of selected capital projects, as well as work with current staff to ensure that projects are implemented in accordance with state law and departmental policy, and the second to assume day to day management of some of the existing finance programs and provide assistance to develop new ones.

Relationship to Base Budget

Functions related to internal control and bonding are largely contained within the accounting services and treasury services activities in MMB. Base funding for these activities in FY 2010-11 is $12.094 million.

Key Goals and Measures

This initiative provides capacity so that all state funds are used toward reaching key goals. Taken separately, this initiative would contribute to the department's goal for highly rated financial reporting and overall ranking when compared with other public entities. The most specific measure of this funding will be the number of repeat audit findings.

Alternatives Considered

The primary alternative would be to call on existing staff for the ICSU's potential duties. While MMB would continue to strive to develop training and provide support that would address and mitigate financial management concerns, our ability to make significant improvements would be limited.

Statutory Change: Not Applicable.

Fiscal Impact ($000s)	FY 2010	FY 2011	FY 2012	FY 2013
General Fund				
Expenditures	$(1,027)	$(1,027)	$(1,027)	$(1,027)
Revenues	0	0	0	0
Net Fiscal Impact	$(1,027)	$(1,027)	$(1,027)	$(1,027)

Recommendation
The Governor recommends a reduction of $1.027 million in FY 2010 and $1.027 in FY 2011 to Minnesota Management & Budget's (MMB) general fund operating budget. The Governor intends that MMB should focus its operating funds on maintaining its highest priority services. In addition, the Governor intends to provide as much flexibility as possible to the agency for the implementation of these reductions.

Background
MMB is proposing to reduce operating expenditures and positions during the FY 2010-11 biennium. MMB's operating budget includes amounts budgeted for statewide services, including these activities:

- Accounting Services
- Budget Services
- Economic Analysis
- Information Systems
- State Treasury
- Human Resource Management
- Labor Relations
- Agency Administration

This budget is the first to reflect the merged agency made up of the former Department of Finance, much of the former Department of Employee Relations (DOER) and the Management Analysis and Development division from the Department of Administration.

The specific items proposed for reduction include:

- Elimination of eight positions throughout the department, involved in agency support and assistance, budget support, human resources management, administrative support, technical management and operations. These changes save $1.4 million for the biennium.
- Reduction or elimination of various administrative and operational items, such as space consolidation, reducing employee development and consolidating IT servers. These changes net a total reduction of $654,000 for the biennium.

Relationship to Base Budget
This proposal represents a 5% base level reduction to the direct appropriated general fund budget.

Through 2009, appropriations for DOER and Finance, now merged in MMB, have been reduced by 20% since FY 2000. The net reductions recommended in this change item reflect a 5% decrease to the FY 2010-2011 general fund operating base budget.

The eight positions eliminated in this plan reflect a 4% decrease in our staffing levels, from 274 FTEs to 266 FTEs. For context, staffing levels in DOER and Finance, now merged as MMB, have decreased from 370 FTEs in 2000, a decrease of 28%.

Key Goals and Measures
This change item will affect MMB's goals and measures in the following ways both internally and externally:

- Decreased and delayed support and analysis
- Reduced training and support services
- Increased risk of errors, audit findings, grievances, and inconsistencies

These affects will be felt by those we serve on a daily basis: state agencies, boards, and councils, the Governor, the legislature, other governmental and private entities, and the citizens of Minnesota.

Alternatives Considered

We examined the programs MMB's currently operates to determine if there were opportunities for streamlining, downsizing, or total elimination. Previous rounds of budget cuts and our overriding goal to increase operational efficiency have already led MMB to institute ongoing reviews of all operations and implementation of cost-saving technological changes and streamlining of our operations. We will continue to review opportunities as they arise. Reducing MMB's operating budget beyond the recommended level would likely shift costs or responsibilities to agencies and increase their operating costs, or impose unacceptable levels of risk to state government operations.

Statutory Change: Not Applicable.

Program Description

The purpose of the Statewide Services program is to provide a variety of services, manage and support systems, and develop information for the executive, legislative and judicial branches of state government.

Budget Activities

⇒ Accounting Services
⇒ Budget Services
⇒ Economic Analysis
⇒ Information Systems
⇒ Treasury
⇒ Management Analysis & Development
⇒ Human Resource Management
⇒ Labor Relations
⇒ Agency Administration

Dollars in Thousands

	Current FY2008	Current FY2009	Governor Recomm. FY2010	Governor Recomm. FY2011	Biennium 2010-11
Direct Appropriations by Fund					
General					
Current Appropriation	21,567	20,554	20,554	20,554	41,108
Technical Adjustments					
Pt Contract Base Reduction			(9)	(9)	(18)
Subtotal - Forecast Base	21,567	20,554	20,545	20,545	41,090
Governor's Recommendations					
Financial Oversight and Assistance		0	700	700	1,400
Operating Budget Reduction		0	(1,027)	(1,027)	(2,054)
Total	**21,567**	**20,554**	**20,218**	**20,218**	**40,436**
Expenditures by Fund					
Carry Forward					
Miscellaneous Special Revenue	126	1,249	0	0	0
Direct Appropriations					
General	20,001	22,092	20,218	20,218	40,436
Statutory Appropriations					
General	207	207	9,182	9,182	18,364
Miscellaneous Special Revenue	5,404	7,498	7,337	7,342	14,679
Miscellaneous Agency	0	46	0	0	0
Management Analysis	2,084	2,187	2,181	2,197	4,378
New Fund	0	0	32,335	30,305	62,640
Total	**27,822**	**33,279**	**71,253**	**69,244**	**140,497**
Expenditures by Category					
Total Compensation	19,958	20,439	25,596	25,614	51,210
Other Operating Expenses	7,864	12,840	36,682	34,655	71,337
Other Financial Transactions	0	0	8,975	8,975	17,950
Total	**27,822**	**33,279**	**71,253**	**69,244**	**140,497**
Expenditures by Activity					
Accounting Services	4,354	4,879	46,150	44,120	90,270
Budget Services	2,249	2,459	2,459	2,459	4,918
Economic Analysis	471	511	511	511	1,022
Information Systems	9,878	13,635	11,857	11,859	23,716
Treasury	1,600	1,690	1,844	1,844	3,688
Management Analysis & Devlpmnt	2,440	2,528	2,522	2,538	5,060
Human Resource Management	1,979	2,521	2,209	2,212	4,421
Labor Relations	1,221	1,065	1,062	1,062	2,124
Agency Administration	3,630	3,991	2,639	2,639	5,278
Total	**27,822**	**33,279**	**71,253**	**69,244**	**140,497**
Full-Time Equivalents (FTE)	**229.5**	**225.7**	**289.4**	**284.5**	

Activity Description

The Accounting Services division provides financial management systems and services that support state operations in the following areas: accounting, payroll, and financial reporting. This includes functional support of the Minnesota Accounting and Procurement System (MAPS), and the Statewide Employee and Management System (SEMA4).

Activity at a Glance

- Provide direction and control of statewide accounting and payroll functions by working with those we serve
- Prepare Minnesota's financial statements and federal compliance reports.
- Provide training on multiple statewide systems
- Maintain integrity of MAPS and SEMA4

Population Served

Primary customers include state agencies, the governor and executive branch management, and the legislature and its staff. Other customers include governmental and non-governmental organizations, financial institutions, the media, and the public. State employees, vendors, individuals, school districts, and local units of government receive payments through MAPS and SEMA4.

Services Provided

The Accounting Services division provides direction and support at a statewide level to help agencies meet their financial needs. This includes establishing policies to ensure the necessary internal controls are in place to safeguard assets and to comply with appropriate financial principles, policies, and legal requirements. The MAPS and SEMA4 systems are valuable tools necessary to help meet these objectives. Over 15 million transactions are processed in these systems to account for over $30 billion in both expenditures and revenue on an annual basis.

Sets statewide accounting and payroll policies and procedures. This activity establishes statewide policies, procedures and guidelines for agencies as they develop internal policies and procedures for accounting and payroll operations. Instructions in system use, policy application, and financial management best practices are provided. The activity also facilitates agency participation in developing statewide accounting and payroll policies and procedures striving for a balance between agency needs for flexibility with statewide needs for consistency and accountability.

Provides training and assistance to agencies on the state's financial systems. This activity provides training and assistance to agency staff on the effective and efficient use of the statewide systems to meet their objectives. This includes educating agency staff in accounting and payroll system functionality as well as individualized assistance when needed in policy interpretation and application, problem solving, and transaction processing. In addition, Accounting Services works with our customers to ensure their system-related needs are being met. Modifications to the MAPS and SEMA4 systems are made when determined to be appropriate.

Directs and maintains integrity of the accounting and payroll systems. This activity is responsible for directing the operation of the statewide accounting and payroll systems and maintaining the integrity of the information contained in the systems. These systems provide the actual payment of state obligations to vendors and employees by either issuing a warrant (check) or an electronic funds transfer. Program controls assure the integrity of the data and of the internal operations of the accounting and payroll systems.

Prepares statewide financial reports. This activity acts as the state lead in the preparation of the state's portion of the federal single audit report, reporting for federal cash management activities, indirect cost allocations, and other statewide compliance monitoring and reporting. The activity also prepares the state's Comprehensive Annual Financial Report (CAFR). The CAFR is an audited report of all state activities and is prepared in accordance with generally accepted accounting principles.

Historical Perspective

By statute, the commissioner is the state's controller, treasurer, and chief accounting and financial officer. The commissioner fulfills statutory responsibility for the state's accounting, payroll, and financial reporting functions through the Accounting Services division.

Key Activity Goals

Program goals fall under the Minnesota Milestone statewide goal number 36: Government in Minnesota will be cost-efficient, and services will be designed to meet the needs of the people who use them. Minnesotans expect their state and local governments to spend money carefully and effectively. This goal will be accomplished by:

- Maintain Minnesota's national rating as a well-managed state by the Governing Performance Project
- Maintain integrity of MAPS and SEMA4 systems

Key Activity Measures

- Receive the annual Certificate of Achievement for Excellence in Financial Reporting, awarded by the Government Finance Officers Association (GFOA). The department has received this certificate the last 22 years for its work on Minnesota's CAFR.
- Maintain an annual unqualified audit opinion from the office of the Legislative Auditor. The department has earned this achievement for its work on the CAFR the last 23 years.
- Meet agency needs while maintaining the integrity of the MAPS and SEMA4 systems

Activity Funding

This activity is funded by a general fund appropriation. A planning project to replace the statewide accounting and procurement system is funded through a one-time general fund appropriation.

Contact

Assistant Commissioner, Accounting Services
Phone: (651) 201-8012
Website: www.mmb.state.mn.us

MINNESOTA MANAGEMENT & BUDGET

Program: STATEWIDE SERVICES

Activity: ACCOUNTING SERVICES

Budget Activity Summary

Dollars in Thousands

	Current		Governor's Recomm.		Biennium
	FY2008	FY2009	FY2010	FY2011	2010-11
Expenditures by Fund					
Direct Appropriations					
General	4,354	4,879	4,840	4,840	9,680
Statutory Appropriations					
General	0	0	8,975	8,975	17,950
New Fund	0	0	32,335	30,305	62,640
Total	**4,354**	**4,879**	**46,150**	**44,120**	**90,270**
Expenditures by Category					
Total Compensation	4,050	4,166	9,665	9,665	19,330
Other Operating Expenses	304	713	27,510	25,480	52,990
Other Financial Transactions	0	0	8,975	8,975	17,950
Total	**4,354**	**4,879**	**46,150**	**44,120**	**90,270**
Full-Time Equivalents (FTE)	**51.3**	**52.0**	**121.5**	**119.5**	

Activity Description

Budget Services seeks to ensure that objective and relevant fiscal information is readily available for decision-makers. The division keeps track of the state's budget balance, coordinates and creates budget options and resulting documents reflecting the governor's recommendations, answers questions about the impact of legislative proposals, and helps to prepare the state budget forecast. Budget Services seeks to promote sound fiscal policy in decision-making and promotes a statewide view in the management of state resources.

Activity at a Glance

- Coordinated and supported development of $56.5 billion all-funds budget for FY 2008-09.
- Worked with executive branch agencies to complete 729 fiscal notes during the 2008 legislative session and 1,081 fiscal notes during the 2007 legislative session.
- Provides oversight and monitoring of the budgets at more than 100 state agencies, boards and commissions.

Population Served

Primary customers are the governor, state agencies, legislative staff and committees, and citizens interested in understanding the state budget.

Services Provided

The work of Budget Services can be divided into three broad categories:

Budget Process – Provides the instructions for agency budget planning and coordinates the development of the governor's biennial, capital and supplemental budget recommendations. The resulting products include budget background information and detailed governor's recommendations that are provided to the Legislature for review and consideration. Additional analysis and support are provided throughout the year, including support of legislative hearings and coordination of the Legislative Advisory Commission (LAC) process.

Information & Analysis – Develops and publishes budgetary information for use by decision-makers, staff and citizens. These products include reports on the current budget condition; agency expenditure forecasts and state budget planning estimates; fiscal notes and local impact notes requested by the Legislature; and other reports such as the Consolidated Fund Statement, analysis such as the Fastest Growing Expenditures Report, and budget planning projections.

Oversight - Provides oversight and monitoring of budget implementation by agencies; and provides financial information and analysis of state spending to the governor and legislature.

Key Activity Goals

Minnesota Milestones Indicator 37: Price of government

- Goal: Government in Minnesota will be cost-efficient, and services will be designed to meet the needs of the people who use them. Minnesotans expect their state and local governments to spend money carefully and effectively.
- Rationale: This indicator indirectly measures progress toward this goal by tracking how much the government spends compared to how much people earn.

Key Activity Measures

Government Performance Project: Grading the States (Strength=High, Mid-level=Medium, Weakness=Low)

Money	2005	2008
Long-Term Outlook	Strength	Strength
Budget Process	Mid-level	Strength
Structural Balance	Strength	Mid-level
Financial Controls/Reporting	Strength	Mid-level

(Omits Contracting/Purchasing)

Activity Funding

This activity is primarily funded through a general fund appropriation. A small amount of funds come from county program aid to support the local impact note process.

A separate project to modernize the state's biennial budget system is funded through one-time agency carry-forward funds and other state agency funds.

Contact

State Budget Director
Phone: (651) 201-8011
Website: www.mmb.state.mn.us

Dollars in Thousands

	Current FY2008	Current FY2009	Governor's Recomm. FY2010	Governor's Recomm. FY2011	Biennium 2010-11
Expenditures by Fund					
Direct Appropriations					
General	2,042	2,252	2,252	2,252	4,504
Statutory Appropriations					
General	207	207	207	207	414
Total	**2,249**	**2,459**	**2,459**	**2,459**	**4,918**
Expenditures by Category					
Total Compensation	2,202	2,344	2,344	2,344	4,688
Other Operating Expenses	47	115	115	115	230
Total	**2,249**	**2,459**	**2,459**	**2,459**	**4,918**
Full-Time Equivalents (FTE)	**23.6**	**21.8**	**22.1**	**22.1**	

Activity Description

The Economic Analysis section prepares periodic forecasts of state revenue as required by state law. These forecasts provide the governor and legislature with a starting point for the biennial budget process as well as for making mid-biennium adjustments as warranted. Revenue planning estimates are also prepared for future biennia. These estimates provide guidance for future spending decisions, and signal when long-term spending commitments may exceed projected future revenue. On an ongoing basis, Economic Analysis also provides information and analysis to the public, the media, elected officials and their staff, and other interested parties on the state's economy and the general economic environment and outlook.

Activity at a Glance

- Prepare revenue forecasts in February and November of each year.
- Prepare economic updates in January, April, July and October of each year.

Population Served

Primary customers include the governor and executive branch management, the legislature and its staff, state agencies, bond agencies, governmental and nongovernment organizations, the media, and the public.

Services Provided

The Economic Analysis section prepares two revenue forecasts each year--one in November and the other in February. The February forecast serves as the basis for executive and legislative budget decisions. The forecasts provide revenue projections for the current biennium based on the most recent information about the national and state economic outlook and recent revenue collection experience. The forecasts are also the basis for revisions to the revenue planning estimates provided for future biennia. The Economic Analysis section focuses on the revenue side of the forecast, while the expenditure side is prepared by state agency and Budget Services staff.

The revenue forecast is prepared based on a national economic forecast provided by Global Insight Inc. (GII). The national forecast is then reviewed by Minnesota's Council of Economic Advisors. After the Council's review, the national economic outlook is joined with state-level indicators to forecast the Minnesota economy using an econometric model developed and maintained by Economic Analysis staff. The projections obtained from the model of the Minnesota economy are then used as inputs into other models used to compute projected state revenues. Revenue planning estimates for the following biennium are obtained from the same revenue models but are driven entirely by the long term national economic outlook of GII.

The Economic Analysis section also prepares economic updates in January, April, July and October of each year. These economic updates compare how actual revenue collections for the current year compare to the forecast as well as provide notes on changes in the national economic outlook.

Key Activity Goals

Minnesota Milestones Indicator number 36: Satisfaction with government services; and 37: Price of government & Indicator.

Goal: Government in Minnesota will be cost-efficient, and services will be designed to meet the needs of the people who use them. Minnesotans expect their state and local governments to spend money carefully and effectively.

Economic Analysis Division underlying principle: Sound revenue forecasts make government more efficient by reducing uncertainty for public sector managers and by reducing the need to make short term adjustments in program activities due to unanticipated fluctuations in revenues.

Key Activity Measures

Government Performance Project: Grading the States (Strength=High, Mid-level=Medium, Weakness=Low)

Money	2005	2008
Long-Term Outlook	Strength	Strength
Budget Process	Mid-level	Strength
Structural Balance	Strength	Mid-level
Financial Controls/Reporting	Strength	Mid-level

Activity Funding

This activity is funded through a general fund appropriation.

Contact

State Economist
Phone: (651) 201-8013
Website: www.mmb.state.mn.us

Dollars in Thousands

	Current		Governor's Recomm.		Biennium
	FY2008	FY2009	FY2010	FY2011	2010-11
Expenditures by Fund					
Direct Appropriations					
General	471	511	511	511	1,022
Total	**471**	**511**	**511**	**511**	**1,022**
Expenditures by Category					
Total Compensation	317	344	344	344	688
Other Operating Expenses	154	167	167	167	334
Total	**471**	**511**	**511**	**511**	**1,022**
Full-Time Equivalents (FTE)	**3.8**	**4.0**	**4.0**	**3.8**	

Activity Description

The Information Systems (IS) section is responsible for the design, maintenance, and operation of the statewide administrative, budget, and hiring support systems, as well as the treasury investment system, computer network, and web services.

Population Served

The IS section delivers core infrastructure services to state agencies and employees, vendors, individuals, school districts, and many other entities. Through the Information Access (IA) data warehouse, IS provides information to state agencies, the governor, the legislature, other governmental and private sector organizations, the media, and the public. This section also supports several internal systems used throughout the department for analysis and oversight.

Activity at a Glance

Information Systems provides technical support for major statewide applications:

- MAPS (accounting and procurement) — 2,400 total users
- SEMA4 (HR, Benefits, and Payroll) — 45,000 total users
- IA data warehouse — 1,900 total users
- Budget Information systems (BIS) — 450 total users
- Resumix (hiring support system) — 250 total users

Services Provided

IS manages the following:

- Computer software applications that provide the state's accounting and procurement functions (MAPS), statewide human resources, insurance, and payroll processes (SEMA4), statewide budget planning (BIS), statewide applicant and hiring (Resumix), and treasury functions.
- The state's information access (IA) data warehouse that provides access to detailed statewide accounting, procurement, payroll, insurance, and human resources data used by agencies for operations, analysis, and reporting.
- The department's computer network, infrastructure, security, desktop computers, and web services

Historical Perspective

The statewide administrative systems (MAPS, SEMA4, and IA data warehouse) were fully implemented in 1995. These systems support statewide processing of accounting, procurement, payroll, insurance, and human resource transactions, and provide operational information and ad hoc reporting capability to support agencies in their decision-making processes.

Minnesota Accounting and Procurement System (MAPS)

A MAPS upgrade was completed in November 1998 that moved MAPS to a Year 2000-compliant version of the software. Since then, additional functionality has been added for Electronic Funds Transfer (EFT) and the MAPS vendor payments web site. The system has reached the end point of its life cycle and is in need of replacement.

Statewide Employee Management System (SEMA4)

SEMA4 is in very good condition, with upgrade projects in 2001 (technical software upgrade); 2003 (upgraded to current software, reduced the amount of customizations made to the base product, added the insurance administration application, and implemented an online paycheck/advice system and other employee self service functionality); 2007 (moved to a lower cost operational environment); and in 2008 (upgraded to the latest version of software to maintain vendor support and tax upgrades). These projects were all completed within the established timelines (or sooner), and within (or below) the established budgets.

Information Access (IA) Warehouse

The IA data warehouse is the state repository for current and historical data from MAPS and SEMA4, and it provides agencies with both ad hoc and operational reporting capabilities. Since 1995 use of the data warehouse has grown significantly to 1,860 users in 2008. Due to the increase in users and requests for access to additional data, the warehouse platform was upgraded in 1999 and again in 2003. The warehouse will continue to play a key role in delivery of information to its ever-increasing customer base.

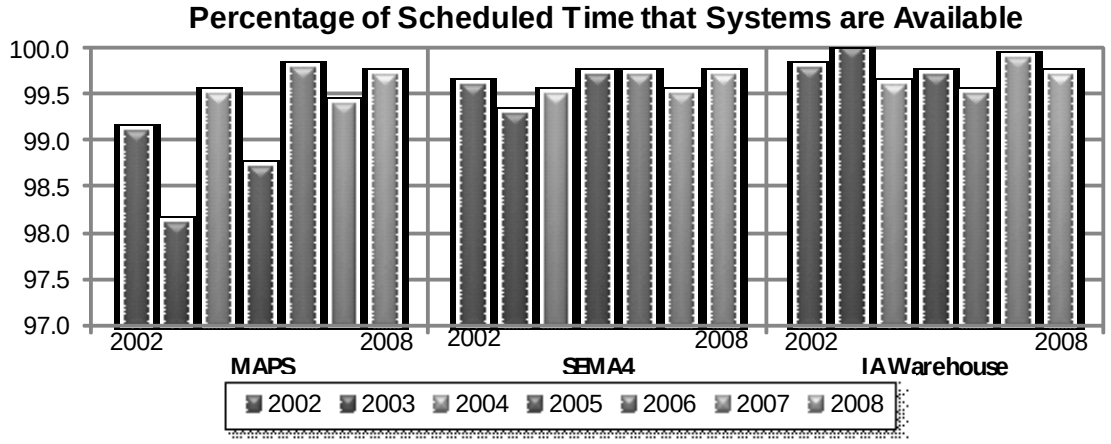
Information Systems also provides application development and support for the budget systems (Capital Budget, Biennial Budget, and Fiscal Note Tracking), applicant/hiring systems (Resumix and Onboarding), various Treasury applications, and other internal systems to support the agency's management and staff needs.

Key Activity Goals

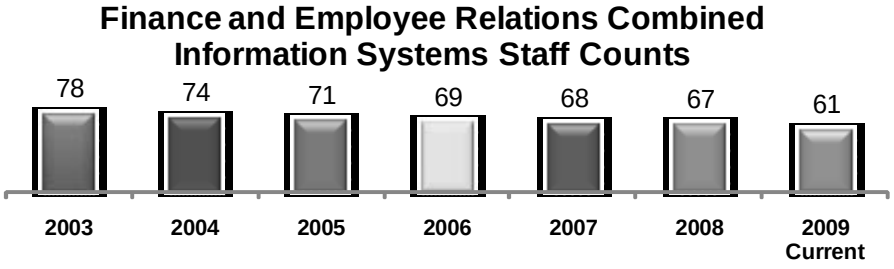
The merger of the Departments of Finance and Employee Relations created opportunities to consolidate technology resources. It also created an opportunity to review the technology goals and strategies of the combined department. These efforts are being led by the department's Information Resources Steering Committee (IRSC). An initial effort of this group was to create a Strategic Information Survey submitted to the Office of Enterprise Technology. This document outlines our high level strategic information plans and goals. As shown below in the chart titled Primary Information Systems, our assessment of our existing applications provides clear information of the high priority systems that are in need of attention (e.g., MAPS and budget systems). Our top priority goals are to replace MAPS, the Budget Systems, and Resumix; to utilize workflow and other productivity enhancements in SEMA4; and to maintain, upgrade, and leverage the technology of the agency to enhance productivity of the agency's employees.

Key Activity Measures

Information Systems have provided reliable and available statewide systems.

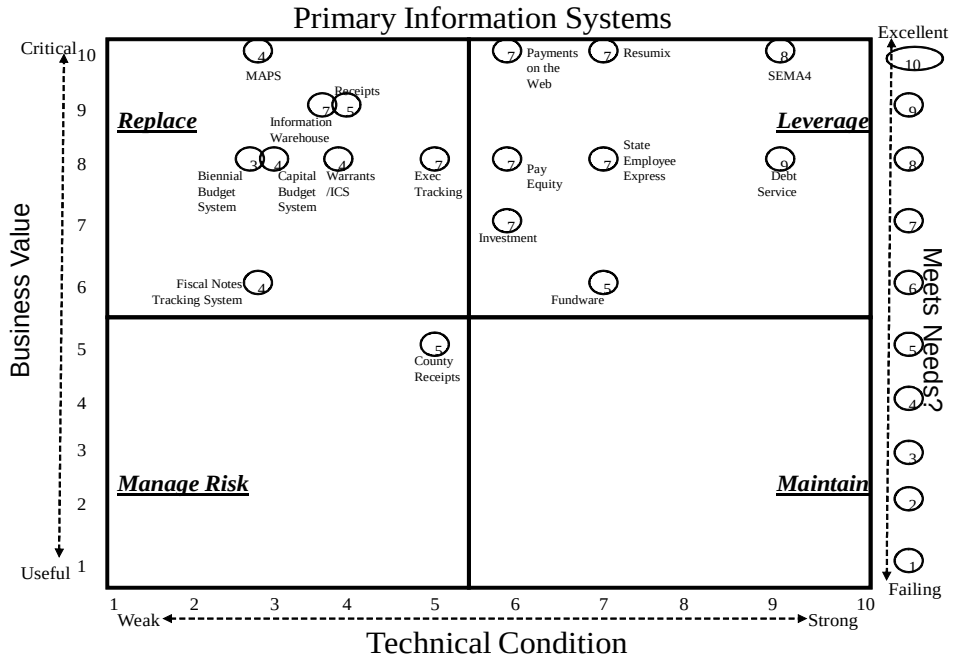


The chart below highlights the staffing changes that have been implemented in the Information Systems areas of the former two agencies (Employee Relations and Finance) to result in the present decreased staffing level in the consolidated agency's Information Systems Division.



The following chart highlights some of the major applications supported by IS, primarily those that are used by external users. The chart does not show the many internal support applications in use in the department. The chart is divided into four quadrants (see notes below chart). In the upper left quadrant (the "Replace" quadrant) are the applications most in need of attention and improvement. Definitions for the chart:

- **Leverage** — Systems in this quadrant have high business value and high technical condition. Typically, they are our most recently updated or implemented systems. They offer advanced capabilities, such as employee self service and are consistent with state technology architecture. We view these systems as the architectural foundation and would plan to leverage the investments and technology for new and replacement systems.
- **Maintain** — Systems in this quadrant are technically sound, but which have relatively low business value. Our objective is to maintain them in proper working order, but not to make major new investments to improve or extend them.
- **Manage Risk —** Systems in this quadrant have relatively low business value and are in marginal or poor technical condition. Typically, systems in this category are needed for ongoing business functions, but use outdated technology or require significant support to accomplish their objectives. While investments may need to be made, often our choice will be to manage risks associated with the system rather than large scale new investment.
- **Replace —** Systems in this quadrant need to be replaced. They have high business value and are in marginal or poor technical condition. These systems are our highest priority for investment and effort. Some use software that is no longer supported. Others have simply reached the end of their effective life cycle and must be redesigned. In both cases, we try to go beyond simple replacement, and add value by improving performance and functionality. Systems in this category include our MAPS and Budget Systems.



Activity Funding

The Information Systems Division is 40% funded from a general fund direct appropriation and 60% by special revenue funds. The special revenue funds include the chargeback to agencies through the "statewide systems billing account" and through administrative fees charged to agencies though the insurance administration fee. These special revenue charges to agencies draw against both general fund and non-general fund agency accounts.

Contact

Chief Information Officer
Phone: (651) 259-3699
Website: www.mmb.state.mn.us

MINNESOTA MANAGEMENT & BUDGET

Program: STATEWIDE SERVICES

Activity: INFORMATION SYSTEMS

Budget Activity Summary

Dollars in Thousands

	Current		Governor's Recomm.		Biennium
	FY2008	FY2009	FY2010	FY2011	2010-11
Expenditures by Fund					
Carry Forward					
Miscellaneous Special Revenue	126	1,249	0	0	0
Direct Appropriations					
General	4,719	5,343	4,918	4,918	9,836
Statutory Appropriations					
Miscellaneous Special Revenue	5,033	7,043	6,939	6,941	13,880
Total	**9,878**	**13,635**	**11,857**	**11,859**	**23,716**
Expenditures by Category					
Total Compensation	5,128	5,695	5,890	5,890	11,780
Other Operating Expenses	4,750	7,940	5,967	5,969	11,936
Total	**9,878**	**13,635**	**11,857**	**11,859**	**23,716**
Full-Time Equivalents (FTE)	**53.1**	**54.9**	**49.8**	**48.5**	

Activity Description

The Treasury Division is responsible for processing receipts and warrants, determining daily cash balances available for investment, and paying debt service on state general obligation bonds and certain other revenue bonds. The division also manages the issuance of debt in accordance with debt management guidelines and maintains a debt capacity model that is used to estimate the state's debt capacity and forecast debt service costs of future capital budgets.

Population Served

Principal clientele include staff in other divisions of the department, the governor and his staff, the legislature and their staff, other state agencies, local/regional governments, financial institutions, credit rating agencies, investors, and individuals and groups concerned with treasury and debt management issues.

Activity at a Glance

- Average amount of cash invested daily is $615 million
- Approximately 400 bank accounts reconciled each month
- Current state general obligation bond ratings are Aa1 (Moody's)/AAA (Fitch)/AAA (Standard and Poor's)
- Total general obligation debt outstanding (various purpose and trunk highway) is $4.7 billion
- Amount of general obligation debt authorized and unissued is $2.7 billion
- Total CY08 tax-exempt bond volume available for allocation under federal law is $609 million
- Local government debt enhanced under state credit enhancement program totals approximately $10.7 billion

Services Provided

- Manage deposit activity in approximately 400 state depository accounts in 240 banks.
- Provide daily settlement with banks for warrants presented for payment.
- Manage the state's Electronic Government Services (EGS) internet financial applications.
- On a daily basis, determine the state's cash position to maximize investment earnings.
- Verify all investment expenditures made by State Board of Investment staff and authorize payments to brokers.
- Verify receipt of all investment proceeds earned from investments made on behalf of state agencies.
- Each day, assure that all state funds on deposit are properly collateralized or insured.
- Receive, account for, and deposit all payments for federal and state income taxes, and Medicare and Social Security taxes, for the legislature, boards and commissions, state employees and state colleges and universities.
- Receive, account for and deposit the state's share of county receipts, miscellaneous gifts and escheated estates proceeds.
- Establish all state depository bank accounts.
- Manage the state's general obligation and certain revenue bond financing programs.
- Administer the state's lease purchase financing programs.
- Provide advice with respect to capital budget issues and projects, including working with state agencies and local governments to implement capital bonding appropriations.
- Manage the annual tax-exempt bond allocation in accordance with state and federal laws.
- Work cooperatively with the Departments of Education and Employment and Economic Development to administer the state's bond credit enhancement program for schools, counties and cities.

Historical Perspective

The elected office of State Treasurer was abolished on January 6, 2003, as a result of a constitutional amendment that was approved by the voters in the November 1998 general election. The duties and responsibilities of the former State Treasurer were transferred to the Commissioner of Finance on January 6, 2003, by administrative order.

Key Activity Goals

- Safeguard state funds until legally disbursed;
- Maintain internal controls to assure accurate accounting of state funds; and
- Obtain and maintain the highest possible credit ratings from the three major rating agencies for state general obligation bonds.

Key Activity Measures

- Percentage of debt service payments made as scheduled in FY08: 100%.
- System failures that caused delays in withdrawing funds to invest from state depositories in FY08: 0%.
- Federal and state payroll withholding payments made on due dates in FY08: 100% (No penalties incurred).
- Sell state new money general obligation bonds at or below market index rates published the week of each sale (the target rate is the index rate, which is *The Bond Buyer* weekly 20-Bond G.O. Index).

Sale Date	7/20/04	10/19/04	9/21/05	7/18/06	10/24/06	7/24/07	7/22/08	7/22/08
Index Rate	4.84%	4.43%	4.30%	4.59%	4.30%	4.47%	4.77%	4.77%
Actual Rate	4.03%	3.55%	3.82%	4.35%	4.11%	4.30%	4.10%	4.12%
Variance	(0.81)%	(0.88)%	(0.48)%	(0.24)%	(0.19)%	(0.17)%	(0.67)%	(0.65)%

Activity Funding

The Treasury Division is funded by a direct appropriation from the general fund.

Contact

Assistant Commissioner, Treasury Division
Phone: (651) 201-8030
Website: www.mmb.state.mn.us

Dollars in Thousands

	Current		Governor's Recomm.		Biennium
	FY2008	FY2009	FY2010	FY2011	2010-11
Expenditures by Fund					
Direct Appropriations					
General	1,600	1,690	1,844	1,844	3,688
Total	**1,600**	**1,690**	**1,844**	**1,844**	**3,688**
Expenditures by Category					
Total Compensation	892	938	1,126	1,126	2,252
Other Operating Expenses	708	752	718	718	1,436
Total	**1,600**	**1,690**	**1,844**	**1,844**	**3,688**
Full-Time Equivalents (FTE)	**11.8**	**12.0**	**13.9**	**13.5**	

Activity Description

The Management Analysis & Development (MAD) Division is the state of Minnesota's management consulting and training organization. MAD offers a wide range of consulting and training services to state and local governments and higher education in accordance with M.S.16B.36.

Activity at a Glance

Management Analysis & Development:

- Provides consulting and training services to state agencies, the legislature, local governments, the University of Minnesota, Minnesota State Colleges and Universities (MnSCU), and public K-12 institutions.
- Averages 132 engagements per year.
- Provides consulting services at lower cost than comparable external providers.

Population Served

MAD consultants have worked on hundreds of projects with all state agencies, many boards and councils, the governor, the legislature, local units of government, and higher education institutions. The division's services are available to all public sector organizations on a fee-for-service basis. The direct recipients are public sector managers and executives; however, the ultimate beneficiaries are the state agencies, other public entities, and the end users whose services are improved.

Services Provided

- organizational improvement
- performance measurement
- service quality improvement
- customer relations
- mediation
- facilitation
- contingency planning
- evaluation
- training and development
- strategic planning
- process mapping & redesign
- legislative studies
- grant writing
- surveys
- transition services

Clients see improvements such as increased productivity, clearer direction, better working relationships, additional grant income, better data for decision making, and increased cooperation with stakeholders and partners.

Historical Perspective

MAD began consulting activities in 1985, with seven engagements in that year. Since that time, the requests for services have become increasingly complex and reflect the funding, societal, and policy pressures on public entities. Budget pressures and public expectations have increased the necessity for accountability, streamlining, and cooperation. Over the five fiscal years from FY 2004 through FY 2008, the number of projects per year averaged 123.

In FY 2004, the state's centralized training function, the Training and Development Resource Center merged with MAD, which significantly increased MAD's ability to respond to and provide training services and classes to its clients.

Key Activity Goals

Activity goals fall under the Minnesota Milestone statewide goal number 36: Government in Minnesota will be cost-efficient, and services will be designed to meet the needs of the people who use them. Minnesotans expect their state and local governments to spend money carefully and effectively.

Key Activity Measures

MAD's key measure is customer satisfaction. The services MAD staff provide are designed to address each specific client's needs. The degree to which those needs are satisfied is a critical measure. Some work is quantifiable, but other efforts, such as getting diverse and competing stakeholders to come to consensus, are immeasurable (and critically important to our clients). MAD's goal is to achieve at least a 95% overall satisfaction rate on an annual basis, as measured by a post-engagement survey of clients; in FY 2008 ,100% of clients responding indicated that they were satisfied or very satisfied with the overall engagement.

Activity Funding

The majority (86%) of MAD's operations are supported from fee revenue collected for our services in an internal service fund. The remaining 14% is from an appropriation made from the general fund. This appropriation covers activities such as: legislative mandates (testimony on topics as requested by the legislature); cross-agency management improvement projects; and work on behalf of the state as a whole (supporting statewide productivity improvement initiatives; conducting contingency planning for state operations; establishing a gubernatorial transition office).

Operating Losses/Increases in Retained Earnings:
The division's approved rate increases are helping return the division to the recommended minimum retained earnings level.

History of Rate Changes:

Fiscal Year	2003	2004	2005	2006	2007	2008
Hourly Rate	$98	$98	$103	$115	$120	$125
Change	0%	0%	5%	12%	4%	4%

Contact

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MINNESOTA MANAGEMENT & BUDGET

Program: STATEWIDE SERVICES

Activity: MANAGEMENT ANALYSIS & DEVLPMNT

Budget Activity Summary

Dollars in Thousands

	Current		Governor's Recomm.		Biennium
	FY2008	FY2009	FY2010	FY2011	2010-11
Expenditures by Fund					
Direct Appropriations					
General	356	341	341	341	682
Statutory Appropriations					
Management Analysis	2,084	2,187	2,181	2,197	4,378
Total	**2,440**	**2,528**	**2,522**	**2,538**	**5,060**
Expenditures by Category					
Total Compensation	1,821	2,072	1,885	1,903	3,788
Other Operating Expenses	619	456	637	635	1,272
Total	**2,440**	**2,528**	**2,522**	**2,538**	**5,060**
Full-Time Equivalents (FTE)	**25.7**	**22.7**	**22.7**	**22.7**	

Activity Description

The Human Resource Management (HRM) unit provides state agencies with strategic direction by developing and maintaining a comprehensive hiring process and classification and compensation program. These efforts support state agency efforts to attract, hire, and retain a diverse and skilled workforce. In addition, HRM monitors local government subdivisions to ensure their compliance with the Local Government Pay Equity Act. Finally, HRM is responsible for managing the technology that supports agencies hiring (Resumix) and employee data (SEMA4 HR).

Activity at a Glance

- Serves human resource personnel, managers and supervisors in all executive branch agencies.
- Maintains a classification and compensation policy framework to guide all executive branch state agencies.
- Provides training, documentation, and support for over 1,900 SEMA4 users and 250 Resumix users who serve state agencies managers and supervisors.

Population Served

HRM's primary service recipients are state agencies including human resource (HR) personnel, managers, supervisors, and lead workers and all employees through the use of employee self-service in SEMA4. In addition, it serves individuals seeking employment within the executive branch of state government (about 250,000 since 2002).

Services Provided

HRM supports agencies in making strategic hiring, classification, and compensation decisions by providing an effective framework that is free from discrimination and bias and supports the merit system while balancing the needs of state agencies. HRM retains responsibility for classification, compensation and hiring services for agencies that do not have the resources necessary to handle HR functions or where statewide coordination of services may be necessary. HRM holds these responsibilities:

- Manage Resumix--the state's resume-based application process to link job seekers with job openings
- Administer a statewide classification and compensation program
- Coordinate and improve HR functions on a statewide basis in collaboration with the Human Resource Directors Partnership (HRDP) and the Alliance for Cooperation and Collaboration in Employment and State Service (ACCESS)
- Develop and oversee a policy framework in which state agencies work to attract, hire, retain and compensate their workforce
- Provide executive branch state agencies with information and services necessary to ensure their compliance with state and federal laws governing affirmative action, ADA, and equal employment opportunity
- Identify, develop, and implement changes and enhancements to technology systems and provide the resources necessary to ensure consistency and data integrity through audits, training and end user documentation
- Administer the compliance process for the Local Government Pay Equity Act, ensuring that all political subdivisions (including cities, counties, school districts, and others) report to confirm elimination of sex-based wage inequities
- Provide guidance and assistance to agencies in their workforce planning and development efforts

Key Activity Goals

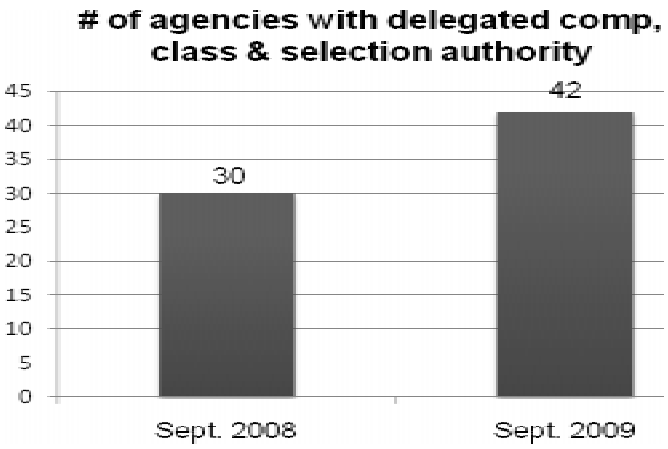
Activity goals fall under the Minnesota Milestone statewide goal number 36: Government in Minnesota will be cost-efficient, and services will be designed to meet the needs of the people who use them. This goal is supported by the following initiatives:

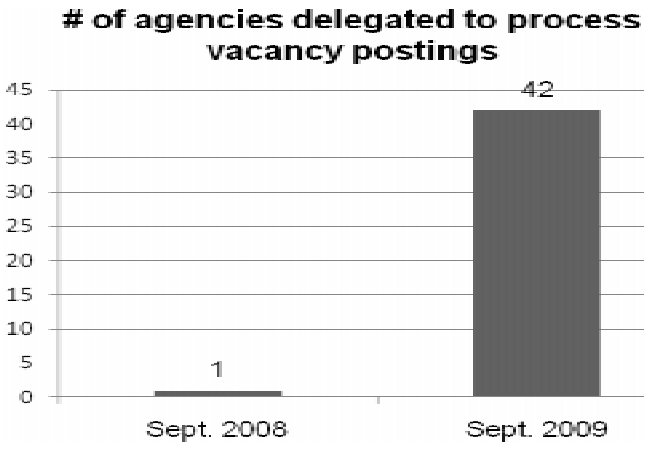
- Increase agency involvement in HR decision management and corresponding transactional activities
- Provide agencies with proper training, guidelines and monitoring to ensure appropriate and consistent compensation and staffing decisions are made

- Create an informative HRM newsletter highlighting key program area functions and distribute it to HR stakeholders.
- Create opportunities for customer feedback that assess agency needs and interests and determine how services and support can be improved.
- Compile agency workforce plans and begin developing an enterprise workforce and development action plan.
- Develop and implement a plan to replace the Resumix system and related software with a value-added and cost effective system that meets the needs of agencies, applicants and other stakeholders.

Key Activity Measures

- Increase agency involvement in HR decisions that results in a 40% increase in the percentage of agencies delegated for class, selection and compensation and a 420% increase in the percentage of agencies delegated to process vacancy postings.
- Deliver state agency training on these topics: classification, Hay job evaluation, vacancy posting and compensation.
- Establish a newsletter early in 2009 for all stakeholders, highlighting human resource management program areas.
- Complete timely and comprehensive audits on the use of classification, selection and compensation delegation of authority to agencies.
- Solicit customer feedback and use it to improve services through strategic solutions to meet agency staffing and compensation needs.
- Convene stakeholder groups to review agency workforce data and to develop and implement an enterprise workforce plan to ensure every executive branch agency has an approved affirmative action plan in place that meets legal requirements and ties to the agency's workforce plan.
- Examine statewide needs and business processes and ultimately replace Resumix.





Activity Funding

This activity is funded by an appropriation from the general fund.

Contact

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Dollars in Thousands

	Current		Governor's Recomm.		Biennium
	FY2008	FY2009	FY2010	FY2011	2010-11
Expenditures by Fund					
Direct Appropriations					
General	1,905	2,326	2,114	2,114	4,228
Statutory Appropriations					
Miscellaneous Special Revenue	74	149	95	98	193
Miscellaneous Agency	0	46	0	0	0
Total	**1,979**	**2,521**	**2,209**	**2,212**	**4,421**
Expenditures by Category					
Total Compensation	1,912	2,254	2,043	2,043	4,086
Other Operating Expenses	67	267	166	169	335
Total	**1,979**	**2,521**	**2,209**	**2,212**	**4,421**
Full-Time Equivalents (FTE)	**20.9**	**29.5**	**26.5**	**25.5**	

Activity Description

The Labor Relations division performs the duties assigned to the commissioner under the Public Employment Labor Relations Act (PELRA, M.S. 179A). Its primary responsibility is to conduct contract negotiations with state employee unions.

Activity at a Glance

- Serves 37,300 of the executive branch's 52,100 state employees.
- Negotiates nine collective bargaining agreements biennially, (for 35,100 executive branch state employees) and oversees and administers two unrepresented employee plans (for 2,200 executive branch state workers).

Population Served

The Labor Relations division provides guidance on a variety of labor relations topics such as: labor contract interpretations, employee discipline, Family Medical Leave Act (FMLA), code of ethics, Fair Labor Standards Act (FLSA) and others, to the management of over 100 state agencies, boards, and councils. The Labor Relations division also participates in policy discussions on proposed legislation as well as specific employment related bills as they are being discussed within the executive branch and in legislative committees.

Services Provided

- Negotiate and oversee collective bargaining with the exclusive representatives for executive branch state employees assigned to 14 bargaining units (except the faculty agreements for the Minnesota State Colleges and Universities (MnSCU)).
- Represent state agencies' positions in interest arbitration for essential bargaining units that do not have the right to strike.
- Advise state agency management in their relationships with the exclusive representatives for state employees and set statewide policy for management's relationship with labor.
- Implement significant portions of collective bargaining agreements, interpret collective bargaining agreements, and advise agency management on contract administration.
- Train supervisors and managers in contract administration.
- Represent state agency management on all grievances appealed to arbitration by exclusive representatives, including the evaluation of the merits of the grievance, and determination as to whether the grievance should be arbitrated or settled.
- Provide investigative services and assistance to state agencies on allegations of employee misconduct.
- Oversee the drug and alcohol testing program as required by federal law for 2,500 state employees required to have a commercial driver's license to perform their job duties.
- Advise agency management and employees on issues under the State's Code of Ethics.

Key Activity Goals

- Ensure that the grievances are appealed within the time limits of the labor agreement.
- Settle the 2009-2011 labor agreements and pay plans within the financial parameters established by the administration and the legislature.
- Ensure that the settlement agreements maintain a high level of flexibility for management.

Key Activity Measures

- Success in settling labor contracts within the budget parameters set forth by the administration and the legislature.
- Continue to increase the knowledge of supervisors and human resources personnel on labor relations issues with the goal of reducing employee grievances and increasing workplace productivity.

Grievance Status	FY 2005	FY 2006	FY 2007	FY 2008
New Appeals to Arbitration	382	316	301	276
Arbitrated	20	13	11	14
Settled	91	54	68	84
Withdrawn	283	219	224	245
Active at year end	486	516	514	447

Activity Funding

The activity is funded by an appropriation from the general fund. The division also collects a small amount of fees from agencies that request training and consultation.

Contact

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MINNESOTA MANAGEMENT & BUDGET

Program: STATEWIDE SERVICES

Activity: LABOR RELATIONS

Budget Activity Summary

Dollars in Thousands

	Current		Governor's Recomm.		Biennium
	FY2008	FY2009	FY2010	FY2011	2010-11
Expenditures by Fund					
Direct Appropriations					
General	924	759	759	759	1,518
Statutory Appropriations					
Miscellaneous Special Revenue	297	306	303	303	606
Total	**1,221**	**1,065**	**1,062**	**1,062**	**2,124**
Expenditures by Category					
Total Compensation	901	740	740	740	1,480
Other Operating Expenses	320	325	322	322	644
Total	**1,221**	**1,065**	**1,062**	**1,062**	**2,124**
Full-Time Equivalents (FTE)	**10.6**	**8.5**	**8.5**	**8.5**	

Activity Description

Agency Administration provides leadership and operational support to the department. These activities include: administrative and technical support, human resources, fiscal services, information management & communications, and agency strategic direction and leadership through the commissioner's office.

Activity at a Glance

- Provides strategic and administrative support and guidance for the department
- Serves more than 280 employees
- Creates and manages the content for nine different websites
- Coordinates business continuity planning for MMB in the case of an emergency or disaster

Population Served

The primary customers served by this activity are the staff of the department. Other customers include the governor and members of executive branch management, the legislature and its staff, state agencies, the media, and the public.

Services Provided

This activity is carried out through the work of the following units:

Administrative Services. This unit is responsible for managing production of several key documents of statewide significance including the governor's budget, economic forecasts and revenue updates, and the state's Comprehensive Annual Financial Report (CAFR). Other services include addressing facility issues, conducting training on Microsoft Office Suite, and several other general support related tasks.
Fiscal Services. This unit ensures that the department's financial integrity is maintained through activities such as preparing and managing the department's budget, coordinating contracting functions and the fiscal note process, managing accounts payable and receivable, auditing the department's payroll, and preparing the Office of Enterprise and Technology usage forecasts for the statewide systems the department maintains.
Human Resources. The agency's HR unit provides support and assistance to the department's employees and works with management to find and retain the staff needed to meet MMB's mission. It also ensures that employees obtain the terms and conditions of employment due to them, such as pay and benefits. Human Resources also maintains compliance with applicable laws and rules such as the Family and Medical Leave Act, discrimination and harassment laws, and the Immigration Reform and Control Act.
Information Management and Communications. This unit manages the nine department websites, and also provides design and graphic, publication layout, editing, and technological assistance. This unit also coordinates the agency's data practices work and business continuity planning.
Technical Services Unit (TSU). This unit establishes and maintains the technical infrastructure that meets the business needs of the department. It also applies security-related best practices to reduce hardware and software vulnerabilities to prevent the department's data and systems from being compromised.
Commissioner's Office. This unit provides the strategic direction for the department, and works to support and link all the units in the agency.

Key Activity Goals

Activity goals fall under the Minnesota Milestone statewide goal number 36: Government in Minnesota will be cost-efficient, and services will be designed to meet the needs of the people who use them. Minnesotans expect their state and local governments to spend money carefully and effectively.

Key Activity Measures

To meet these goals the department will:

- Encourage employees to learn and further their understanding of the department's activities and state government in general;
- Provide a useful, accurate and timely response to requests for information from other agencies, the legislature and the public;
- Complete performance evaluations for all employees on a timely basis; and
- Continually explore and evaluate opportunities to modify and change departmental policies and processes in order to ensure that resources are used most effectively.

Activity Funding

This activity is funded primarily through a general fund appropriation. A small portion of funding comes from the special revenue fund for those costs associated with the support of SEGIP.

Contact

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Dollars in Thousands

	Current		Governor's Recomm.		Biennium
	FY2008	FY2009	FY2010	FY2011	2010-11
Expenditures by Fund					
Direct Appropriations					
General	3,630	3,991	2,639	2,639	5,278
Total	**3,630**	**3,991**	**2,639**	**2,639**	**5,278**
Expenditures by Category					
Total Compensation	2,735	1,886	1,559	1,559	3,118
Other Operating Expenses	895	2,105	1,080	1,080	2,160
Total	**3,630**	**3,991**	**2,639**	**2,639**	**5,278**
Full-Time Equivalents (FTE)	**28.7**	**20.3**	**20.4**	**20.4**	

Program Description

The purpose of the Statewide Insurance program is to administer employee insurance benefits for the state of Minnesota's eligible state employees, retirees, and dependents (SEGIP), and other public employees (PEIP).

Budget Activities

⇒ State Employee Group Insurance Program (SEGIP)
⇒ Public Employees Insurance Program (PEIP)

Dollars in Thousands

	Current		Governor Recomm.		Biennium
	FY2008	FY2009	FY2010	FY2011	2010-11
Expenditures by Fund					
Statutory Appropriations					
State Employees Insurance	603,180	669,933	707,284	763,210	1,470,494
Miscellaneous Agency	23,645	24,365	24,821	25,812	50,633
Total	**626,825**	**694,298**	**732,105**	**789,022**	**1,521,127**
Expenditures by Category					
Total Compensation	3,551	4,489	4,857	5,052	9,909
Other Operating Expenses	623,274	689,809	727,248	783,970	1,511,218
Total	**626,825**	**694,298**	**732,105**	**789,022**	**1,521,127**
Expenditures by Activity					
State Employee Group Ins Pgrm	613,477	680,669	717,943	774,305	1,492,248
Public Employees Ins Pgrm	13,348	13,629	14,162	14,717	28,879
Total	**626,825**	**694,298**	**732,105**	**789,022**	**1,521,127**
Full-Time Equivalents (FTE)	**43.3**	**48.7**	**48.9**	**48.9**	

Activity Description

The commissioner is authorized by Minnesota statute to administer the State Employee Group Insurance Plan (SEGIP). The program is managed by the Employee Insurance Division (EID) which maintains revenue and expenditure accounts for insurance benefits as well as non-operating accounts to support the programs. The revenue and expenditure accounts are primarily pass-through funds paid by agencies and employees.

Population Served

SEGIP provides benefits to eligible employees, retirees, and dependents in all three branches of state government, Minnesota State Colleges and Universities (MnSCU), and certain quasi-state agencies. This activity covers over 120,000 individuals statewide.

Services Provided

Current employee insurance benefits administered through SEGIP include health, dental, life, long and short-term disability, and long-term care coverage, as well as pre-tax accounts. To administer these benefits, SEGIP provides the following services:

- planning, design, and implementation of benefits;
- actuarial and audit services;
- support of the collective bargaining process;
- policy analysis;
- billing and enrollment;
- vendor selection and contract management;
- customer service; and
- health risk services.

Activity at a Glance

- SEGIP is the largest single employer group health purchaser in the state, serving all three branches of state government, Minnesota State Colleges and Universities, and quasi-state agencies such as the Minnesota Historical Society.
- SEGIP provides employee insurance to state employees, retirees, and dependents – over 120,000 covered lives statewide.
- The overall cost of administering SEGIP health benefits is approximately 7.0% of total premium costs versus the industry standard of 10-15%. SEGIP receives 1% for internal administrative costs and the remainder is health plan fees.
- SEGIP spends over $600 million in insurance benefits for state of Minnesota employees.
- In 2008 the Advantage program implemented a single Pharmaceutical Benefit Manager (PBM) saving $7 million.

The Minnesota Advantage Health Plan is a cost-tiered employee health benefits plan serving the 120,000 members of SEGIP. The program creates new levels of competition and incentives for efficiency in the health care market.

From the non-operating accounts, payments are made to third party administrators, insurance carriers, and other vendors who are under contract to pay claims and provide networks and related services. Benefit costs funded through this activity include:

- Employee insurance program: premiums contributed by agencies and employees for health, dental, life, long-term care, and long and short-term disability benefits; and
- Pre-tax programs: pass-through employee contributions allowing pre-tax expenditures for medical, dental, transit, and dependent care expenses.

These programs are funded primarily by payments collected from state agencies, other participating groups, employees, and retirees which are then passed through to insurance carriers, third party administrators, and other vendors. In addition, the funds are used to pay employee pre-tax benefits. See the table below in the Activity Funding section for additional information.

Historical Perspective

The state of Minnesota is the largest single employer group health purchaser in the state, and it has long played an important role in benefits design, purchasing, and administration. In 1989, SEGIP helped pioneer the health care delivery and financing concept of "managed competition" among competing health plans. Beginning in FY 2000, SEGIP's health benefits program became fully self-insured. In 2002, it implemented a new employee health benefits concept known as Advantage. Advantage's use of a tiered cost structure provides signals and incentives to the health care system to contain costs and improve value, while maintaining choices, options, and access to a large network of available health care providers statewide. The Minnesota Advantage Health Plan earned the 2004 Innovations Award by The Council of State Governments as recognition for its innovation and ability to save money while changing the health care marketplace in Minnesota.

SEGIP added optional employee long-term care insurance in 2001 and implemented a disease management function in 2003 to improve employee health and productivity while reducing claims costs. By working with its business partners, SEGIP has increased the use of technology to more efficiently process transactions and serve its customers.

In 2005 the program implemented quality provisions including Centers of Excellence for Bariatric and Cardiac services and integrated the Advantage tiering directly to Community Measurements, a leading industry evaluator of quality in the Minnesota marketplace. Other programs were implemented in 2007 to increase access to preventative services including free smoking cessation programs and drugs and a Medical Therapy Management program to provide better access to diabetic medications and services.

The average premium increase from 2006-2008 was 6% each year, well below the industry average. The projected increase for the 2009 medical premium is 3.5%.

Key Activity Goals

Government in Minnesota will be cost-efficient, and services will be designed to meet the needs of the people who use them. To meet those goals, the State of Minnesota's SEGIP program will be recognized as a national model for cost effective delivery of employee benefits. The State will be a demanding buyer that sets clear specifications for providers, buys selectively and holds providers accountable for value-based results.

Key Activity Measures

- Cost effectiveness:
  - ⇒ Plan administration costs for 2009 are projected at 7%, well below industry norms of 10%+;
  - ⇒ 2009 premiums for the advantage health plan are projected at 3.5%. Current industry estimates for 2009 are 8-10% for both regional and national programs;
  - ⇒ Over 99% of open enrollment activity occurs online;
  - ⇒ 73% of plan participants elect to take a health assessment. Since 70% of all health care costs are related to modifiable behaviors, strong health assessment participation presents a greater opportunity to prevent the onset of chronic disease and avoidance of acute care services.
- Accountability/performance measures for the State and providers:
  - ⇒ 80% of plan participants seek care from high quality/low cost providers;
  - ⇒ The state of Minnesota, along with six large private employers — 3M, Carlson Companies, Medtronics, Wells Fargo, GE, and Honeywell — known as the Champions of Change, rewarded provider groups for meeting or exceeding a minimum standard of care for diabetics in an effort known as Bridges to Excellence. Bridges to Excellence is a national program that provides pay for performance in health care.

- Choice/flexibility for members
  - ⇒ The SEGIP medical program makes available all provider groups within the state of Minnesota and surrounding communities
  - ⇒ The SEGIP medical program implemented a Medical Therapy Management program in 2007 which improves quality by removing financial barriers to receiving care, improving both the quality of care for the member and savings on the overall cost to the program.

Activity Funding

SEGIP insurance and claims costs are funded through premiums collected from state agencies and other participating groups, and from employees and retirees. In principal, these are pass-through funds to insurance carriers, third party administrators, and other vendors. SEGIP's administrative revenues are collected primarily through direct, per employee charges to state agencies and other groups.

The Insurance Division's non-operating revenue and expenditures are shown in the table below. Excess revenue and investment earnings for insurance and pre-tax accounts are applied to the respective program to help minimize future increases.

	FY 2008		Projected FY 2009		Projected FY 2010		Projected FY 2011	
(Dollars in Thousands)	**Revenue**	**Expended**	**Revenue**	**Expended**	**Revenue**	**Expended**	**Revenue**	**Expended**
Insurance Admin	$6,306	$6,231	$7,064	$7,095	$6,839	$7,486	$6,839	$7,724
Insurance Other	$71,794	$66,444	$63,465	$70,532	$81,790	$73,246	$84,828	$76,459
Minnesota Advantage Plan	$562,776	$515,213	$529,503	$576,402	$625,241	$610,141	$677,594	$661,983
Risk Management Unit	$300	$543	$757	$760	$785	$785	$815	$815
Sub Total	**$641,176**	**$588,431**	**$600,789**	**$654,789**	**$714,655**	**$691,658**	**$770,076**	**$746,981**
Pre-Tax Admin	$1,286	$1,402	$1,512	$1,515	$1,462	$1,464	$1,509	$1,512
Pre-Tax Deposits	$23,723	$23,645	$21,865	$24,365	$24,821	$24,821	$25,812	$25,812
Sub Total	**$25,009**	**$25,047**	**$23,377**	**$25,880**	**$26,283**	**$26,285**	**$27,321**	**$27,324**
Total Budget Activity	**$666,185**	**$613,478**	**$624,166**	**$680,669**	**$740,938**	**$717,943**	**$797,397**	**$774,305**

Contact

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MINNESOTA MANAGEMENT & BUDGET

Program: STATEWIDE INSURANCE

Activity: STATE EMPLOYEE GROUP INS PGRM

Budget Activity Summary

Dollars in Thousands

	Current		Governor's Recomm.		Biennium
	FY2008	FY2009	FY2010	FY2011	2010-11
Expenditures by Fund					
Statutory Appropriations					
State Employees Insurance	589,832	656,304	693,122	748,493	1,441,615
Miscellaneous Agency	23,645	24,365	24,821	25,812	50,633
Total	**613,477**	**680,669**	**717,943**	**774,305**	**1,492,248**
Expenditures by Category					
Total Compensation	3,399	4,285	4,645	4,831	9,476
Other Operating Expenses	610,078	676,384	713,298	769,474	1,482,772
Total	**613,477**	**680,669**	**717,943**	**774,305**	**1,492,248**
Full-Time Equivalents (FTE)	**41.6**	**47.2**	**47.4**	**47.4**	

Activity Description

The Public Employees Insurance Program (PEIP) is a statewide health, dental, and life insurance pool managed by Minnesota Management & Budget (MMB) and offered to local units of government. The program is defined in M.S. 43A.316 and provides Minnesota's public employers with the option to purchase an affordable, uniform package of health care and other benefits for employees, their dependents, and retirees.

Population Served

PEIP is available to local units of government within Minnesota including counties, cities, townships, school districts, and other jurisdictions.

Activity at a Glance

- 83 public employer groups solicited bids from PEIP during FY 2008.
- As of July 2008, 73 public sector employer groups in Minnesota participated in PEIP. These include 12 school districts, 44 cities and townships, three counties, and 14 other units of government (watershed districts, Housing Redevelopment Authorities, etc.).
- The average number of employees per group is 19, with groups ranging from one to over 300 members.

Services Provided

The availability of PEIP helps public sector employers obtain competitive health insurance rates. In some cases, PEIP provides the lowest bid. In other cases, PEIP offers a bid that competing insurers will then attempt to match or improve upon in order to be selected. In these instances, even when PEIP is ultimately not the successful bidder, it helps local units of government negotiate with other carriers to obtain the best rates possible. In addition, PEIP offers public sector employers and their employees a choice of health plans wherever possible — unlike the majority of employers in the state that contract with a single carrier or health plan for health insurance.

Historical Perspective

PEIP was launched in 1989. In 1998, PEIP experienced a downturn in enrollment when the program was perceived as no longer being competitive in the market. This was addressed by altering the program design from an insured model to a self-insured model. After peaking in FY 2001, membership has steadily declined as premium rates have risen to meet anticipated claims and costs. In an effort to continue to meet market demands and best serve Minnesota's public employers, MMB developed the PEIP Advantage Health Plan, patterned after the highly successful Minnesota Advantage Health Plan provided to state employees.

Key Activity Goals

Government in Minnesota will be cost-efficient, and services will be designed to meet the needs of the people who use them. To meet those goals, local units of government in Minnesota will be provided with the opportunity to participate in a statewide pool of employee health, dental and life insurance benefits for their employees and dependents. The PEIP will leverage the buying power of the State of Minnesota's SEGIP, otherwise unavailable to smaller local units of government.

Key Activity Measures

- In 2007, the program implemented PEIP Advantage, modeled after the Minnesota Advantage plan offered to state employees. Approximately 35% of PEIP's membership is enrolled in the Advantage plan.
- PEIP provided 83 local units of government with quotes for coverage during FY 2008. While only a few of these resulted in the group participating in the PEIP, these employer groups were provided with an assessment of their anticipated insurance costs, helping them in negotiations with employee groups and other carriers.
- PEIP's viability and overall impact in the market are determined to a large extent by the number of participating employee groups and the number of individuals covered by the program. Because the program is not mandatory, membership fluctuates. At present, approximately 4,500 employees, retirees and dependents are covered under PEIP.

This table shows participating groups and employees for the past eight years:

PEIP	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
# of groups	129	137	137	123	107	89	85	73
% change vs. previous year	36%	6%	0%	(10%)	(13%)	(17%)	(4%)	(14%)
# of employees	4,158	3,926	3,632	2,950	2,304	1,671	1600	1400
% change vs. previous year	55%	(6%)	(7%)	(19%)	(22%)	(27%)	(4%)	(12%)

Activity Funding

PEIP is funded by employer group premiums. Premiums collected in excess of expenses are used to minimize the rates charged to employer groups. Premium investment income is used to offset administrative expenses.

PEIP's revenue and expenditures are shown in the table below.

	FY 2008		Projected FY 2009		Projected FY 2010		Projected FY 2011	
(Dollars in Thousands)	Revenue	Expended	Revenue	Expended	Revenue	Expended	Revenue	Expended
PEIP Administration (Fund 511)	$244	$543	$110	$498	$310	$506	$310	$515
PEIP Plan	$12,740	$12,805	$11,518	$13,131	$13,852	$13,656	$14,407	$14,202
Total	$12,984	$13,348	$11,628	$13,629	$14,162	$14,162	$14,717	$14,717

Contact

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Dollars in Thousands

	Current		Governor's Recomm.		Biennium
	FY2008	FY2009	FY2010	FY2011	2010-11
Expenditures by Fund					
Statutory Appropriations					
State Employees Insurance	13,348	13,629	14,162	14,717	28,879
Total	**13,348**	**13,629**	**14,162**	**14,717**	**28,879**
Expenditures by Category					
Total Compensation	152	204	212	221	433
Other Operating Expenses	13,196	13,425	13,950	14,496	28,446
Total	**13,348**	**13,629**	**14,162**	**14,717**	**28,879**
Full-Time Equivalents (FTE)	**1.7**	**1.5**	**1.5**	**1.5**	

Dollars in Thousands

	Actual FY2008	Budgeted FY2009	Governor's Recomm. FY2010	Governor's Recomm. FY2011	Biennium 2010-11
Non Dedicated Revenue:					
Other Revenues:					
General	51	30	30	30	60
Total Non-Dedicated Receipts	**51**	**30**	**30**	**30**	**60**
Dedicated Receipts:					
Departmental Earnings (Inter-Agency):					
State Employees Insurance	6,883	7,109	7,284	7,331	14,615
Management Analysis	1,500	1,585	1,586	1,626	3,212
Departmental Earnings:					
Miscellaneous Special Revenue	4	4	4	4	8
State Employees Insurance	367	300	550	550	1,100
New Fund	0	0	69,955	0	69,955
Other Revenues:					
Miscellaneous Special Revenue	7,490	7,674	7,694	7,714	15,408
State Employees Insurance	10,085	9,860	6,920	6,920	13,840
Management Analysis	593	594	594	594	1,188
Other Sources:					
State Employees Insurance	638,112	596,228	705,117	761,119	1,466,236
Miscellaneous Agency	23,723	21,865	24,821	25,812	50,633
Total Dedicated Receipts	**688,757**	**645,219**	**824,525**	**811,670**	**1,636,195**
Agency Total Revenue	**688,808**	**645,249**	**824,555**	**811,700**	**1,636,255**