

	PAGE
Agency Profile	2
Agency Fiscal Page (Gov Rec)	5
Change Summary	6
Agency Change Items	
⇒ Results Management.....	7
⇒ Task Force on Small Agencies And Boards	8
⇒ Operating Budget Reduction	9
⇒ Statewide Systems Billing Authority.....	10
Programs	
Statewide Services	11
Program Summary	12
Budget Activities	
Accounting Services.....	13
Budget Activity Summary	15
Budget Services	16
Budget Activity Summary	19
Economic Analysis	20
Budget Activity Summary	22
Information Systems.....	23
Budget Activity Summary	26
Treasury	27
Budget Activity Summary	29
Management Analysis & Devlpmnt.....	30
Budget Activity Summary	33
Human Resource Management.....	34
Budget Activity Summary	36
Labor Relations	37
Budget Activity Summary	38
Agency Administration.....	39
Budget Activity Summary	41
Statewide Insurance Programs	42
Program Summary	43
Budget Activities	
State Employee Group Ins Pgrm.....	44
Budget Activity Summary	51
Public Employees Insurance Pgrm.....	52
Budget Activity Summary	54
Agency Revenue Summary Fiscal Page	55

⇒ Designates that this item is a change item

Agency Purpose

Minnesota Management & Budget (MMB) is responsible for managing and providing leadership in state finances, human resources, 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.

At A Glance

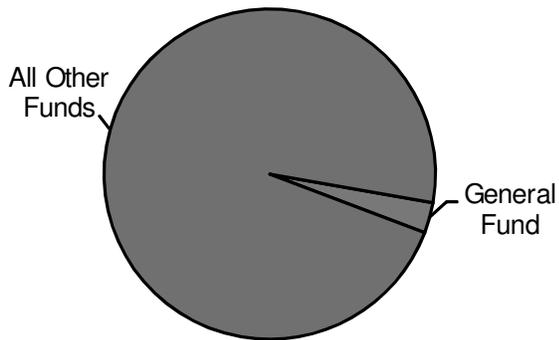
Statewide Services:

- Provides accounting and budget management for the state’s \$59.8 billion two-year budget
- Provides financial control and human resource management to 130 state agencies
- Provides consulting and training services to state agencies and other public entities
- Negotiates and administers nine bargaining agreements and two compensation plans affecting 38,300 executive branch employees
- Processes nearly 100,000 applicant resumes annually
- Pays on average 50,000 employees bi-weekly
- Manages 139 separate state fund classes through 5,200 separate accounts
- Processes 1.1 million cash deposits and issues 1.2 million payments each year
- Conducts bond sales and manages about \$5.7 billion in outstanding general obligation debt
- Manages financial transactions totaling \$53 billion including investment and reinvestment activity

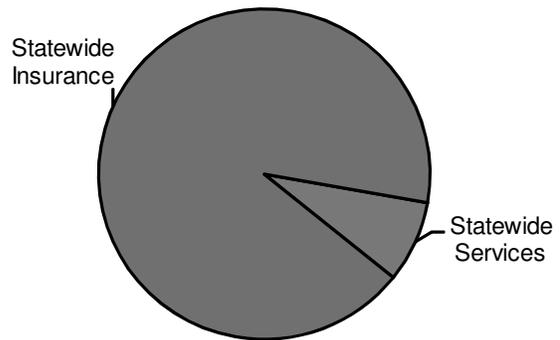
Insurance Services:

- Develops and manages health, dental, life insurance and other benefits for state employees, retirees, and their families, totaling over 120,000 covered individuals

Est. FY 2010-11 Expenditures by Fund



Est. FY 2010-11 Expenditures by Program



Source: Minnesota Accounting & Procurement System (MAPS)

Source: Minnesota Accounting & Procurement System (MAPS)

Strategies

The department utilizes several strategies to address its mission. These include:

- Management of accounting and human resources systems necessary to support daily activities of the state
- Reporting and forecasting needed to understand state activities and anticipate issues
- Oversight, controls, and outreach needed to ensure overall integrity of state operations
- Negotiation and decision-making support required in collective bargaining and budget processes

- Direct service delivery to meet enterprise requirements including state banking transactions, employee health insurance, and management consulting

Operations

Minnesota Management and Budget is the result of a merger and reorganization that went into effect in 2008. The merger combined the former departments of Finance and Employee Relations and the Management Analysis Division from the Department of Administration. Only 3% of the new entity's on-going budget comes from the General Fund and is used to support the agency's statewide activities. This share of the agency budget has been declining over time.

The remaining 97% of the agency's budget is composed of non-general fund dollars from state employee benefit programs and billings for statewide administrative systems that are used specifically for those functions. SEGIP benefits are funded by premiums collected from state agencies, employees, and self-paid participants and by an administrative fee charged to participating employers. Funds for statewide administrative systems are collected from state agencies based on the volume of transactions generated in the accounting and payroll systems. Insurance revenues (and spending) have increased each year but statewide system billings have been relatively stable.

In the current biennium, an additional, non-recurring part of the department budget is the SWIFT project which will replace the state's accounting and procurement systems. This effort, which is expected to be concluded in FY 2012, was authorized in the 2009 legislative session and funded through lease-purchase financing.

The number of full-time employees is 327 on July 1, 2010, with 181 supported by the General Fund and the remainder by the other sources described above.

The department operates under two programs, Statewide Services and Statewide Insurance. They are described below.

Statewide Services: Includes all financial, human resources, and management activities except for insurance and has nine 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 and 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.

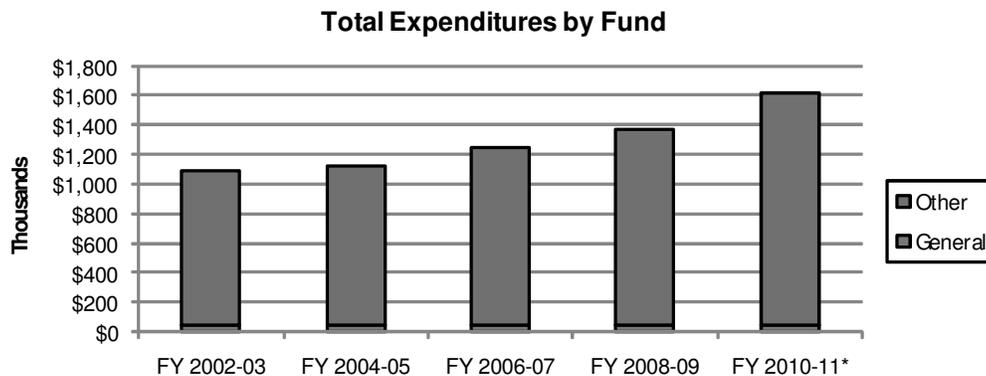
Agency Administration: provides human resources, fiscal and administrative support for the department and includes the agency leadership and staff in the Commissioner’s Office.

Statewide Insurance: Administers employee insurance benefits for the state of Minnesota and 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 Trends



* FY 2010-11 is estimated, not actual. Source data for the previous chart is the Minnesota Accounting and Procurement System (MAPS) as of 08/23/10.

Several external factors impact the agency’s operations. These include:

1. Technology changes. The agency can collect more data and manage it better than in the past. Since MMB maintains statewide business systems along with smaller technology applications, it has a responsibility for adopting new applications that can help provide better information or support other agencies operations.
2. Aging workforce. The state has a workforce in which nearly 3,000 employees are expected to retire in the next two years. This presents agency and statewide human resources challenges to ensure that new employees have the knowledge and skills necessary to maintain state functions.
3. Health care market. Employer sponsored health insurance costs are rapidly increasing. MMB has a statewide obligation to continue searching for strategies that slow health care cost growth for the state employees and manage a plan within the rules of the changing marketplace.

Contact

Office of the Commissioner: 651-201-8024
<http://www.mmb.state.mn.us/home>

<i>Dollars in Thousands</i>					
	Current		Governor Recomm.		Biennium
	FY2010	FY2011	FY2012	FY2013	2012-13
<u>Direct Appropriations by Fund</u>					
General					
Current Appropriation	23,421	22,224	28,128	28,129	56,257
Recommended	23,421	22,224	27,450	27,401	54,851
Change		0	(678)	(728)	(1,406)
% Biennial Change from 2010-11					20.2%
 <u>Expenditures by Fund</u>					
Direct Appropriations					
General	19,229	20,467	18,482	18,432	36,914
Statutory Appropriations					
General	191	207	207	207	414
Miscellaneous Special Revenue	6,613	7,421	11,684	12,114	23,798
Building	20,813	33,970	11,017	0	11,017
State Employees Insurance	673,551	741,622	803,084	859,804	1,662,888
Miscellaneous Agency	30,714	32,220	33,187	34,183	67,370
Management Analysis	2,261	2,487	2,605	2,697	5,302
Total	753,372	838,394	880,266	927,437	1,807,703
 <u>Expenditures by Category</u>					
Total Compensation	26,947	30,131	30,073	26,720	56,793
Other Operating Expenses	726,425	808,263	850,193	900,717	1,750,910
Total	753,372	838,394	880,266	927,437	1,807,703
 <u>Expenditures by Program</u>					
Statewide Services	49,107	64,552	43,995	33,450	77,445
Statewide Insurance Programs	704,265	773,842	836,271	893,987	1,730,258
Total	753,372	838,394	880,266	927,437	1,807,703
 Full-Time Equivalents (FTE)	 290.1	 323.8	 299.2	 286.1	

MINNESOTA MANAGEMENT & BUDGET

Change Summary

<i>Dollars in Thousands</i>				
	FY2011	Governor's Recomm.		Biennium
		FY2012	FY2013	2012-13
Fund: GENERAL				
FY 2011 Appropriations	22,224	28,128	28,129	56,257
Technical Adjustments				
Operating Budget Reduction		(21)	(21)	(42)
Subtotal - Forecast Base	22,224	28,107	28,108	56,215
Change Items				
Results Management	0	250	250	500
Task Force on Small Agencies and Boards	0	50	0	50
Operating Budget Reduction	0	(957)	(957)	(1,914)
Total Governor's Recommendations	22,224	27,450	27,401	54,851
Fund: GENERAL				
Planned Statutory Spending	207	207	207	414
Total Governor's Recommendations	207	207	207	414
Fund: MISCELLANEOUS SPECIAL REVENUE				
Planned Statutory Spending	7,421	11,684	12,114	23,798
Total Governor's Recommendations	7,421	11,684	12,114	23,798
Fund: BUILDING				
Planned Statutory Spending	33,970	11,017	0	11,017
Total Governor's Recommendations	33,970	11,017	0	11,017
Fund: STATE EMPLOYEES INSURANCE				
Planned Statutory Spending	741,622	803,084	859,804	1,662,888
Total Governor's Recommendations	741,622	803,084	859,804	1,662,888
Fund: MISCELLANEOUS AGENCY				
Planned Statutory Spending	32,220	33,187	34,183	67,370
Total Governor's Recommendations	32,220	33,187	34,183	67,370
Fund: MANAGEMENT ANALYSIS				
Planned Statutory Spending	2,487	2,605	2,697	5,302
Total Governor's Recommendations	2,487	2,605	2,697	5,302

MINNESOTA MANAGEMENT & BUDGET

Change Item: Results Management

Fiscal Impact (\$000s)	FY 2012	FY 2013	FY 2014	FY 2015
General Fund				
Expenditures	\$250	\$250	\$250	\$250
Revenues	0	0	0	0
Net Fiscal Impact	\$250	\$250	\$250	\$250

Recommendation

The Governor recommends \$250,000 per year for a Results Management Initiative for the executive branch of state government. Data management and staffing costs requested for the initiative are to be used to develop and implement a process of public program review and improvement.

Rationale

This initiative creates a data driven, process to ensure that state agencies clearly identify their performance objectives and are held accountable for achieving results on critical initiatives. The Results Management Initiative will be a collaborative effort of the Governor's office, Minnesota Management & Budget, the Department of Administration, and the Office of Enterprise Technology.

The efficient and effective use of limited state resources is a critical need and each state activity should be carefully scrutinized for its contribution to the overall goals of the state. However, current data, and by extension public debates, tend to focus on outputs of dollars spent or clients served. This leaves little time to assess how a program functions and whether its strategies are effective. Exacerbating the problem are high level, infrequently updated outcome measures that are difficult to link to the day-to-day work of state government agencies.

The Results Management Initiative is based on well-demonstrated efforts at many local units of government. The City of Baltimore has pioneered this approach and its influence is found in cities across the country including Minneapolis. Fewer states have adopted this strategy, but early adopters include Maryland and Washington. This initiative will:

- 1) identify (or confirm) agencies' high-level performance measures and data;
- 2) commit state agencies to strategies for achieving key outcomes;
- 3) select a core set of strategic initiatives and outcomes of enterprise-wide importance;
- 4) drive results on these strategic initiatives with focused and frequent review of progress; and
- 5) redirect strategies when data indicates a need for course correction to better achieve outcomes

The Results Management Initiative is based on the notion that improving performance of state government requires information, consistent and frequent review of data, and clear priorities. This will create a stable, focused place for priority issues to be addressed. Performance review meetings will be open to the public.

Key Goals and Measures

This initiative is intended to make statewide goals relevant to the day to day management of state government. Initial benchmarks for this initiative are:

- Assess, in partnership with agency leaders, the relevance of key performance measures and agency initiatives to improve performance
- Emphasize use of data to measure progress toward achieving outcomes
- For selected enterprise-wide priorities, conduct frequent reviews of progress toward milestones and improvement in performance indicators
- Redirect strategies and course correct as data indicates in order to reach priority outcomes

The outcome of this initiative is to increase managers' data orientation, speed the pace of project delivery and accomplish the identified key initiatives and priorities. As a result, three proposed evaluative measures for this initiative are:

- 1) Survey of state agency leadership involved in results management efforts to determine the degree to which data influences day to day management activities
- 2) Success rate of priority initiatives and progress toward identified goals
- 3) Extent to which risk factors for strategic initiatives are mitigated and addressed during the course of the project.

Statutory Change: None.

MINNESOTA MANAGEMENT & BUDGET

Change Item: Task Force on Small Agencies & Boards

Fiscal Impact (\$000s)	FY 2012	FY 2013	FY 2014	FY 2015
General Fund				
Expenditures	\$50	0	0	0
Revenues		0	0	0
Net Fiscal Impact	\$50	0	0	0

Recommendation

The Governor recommends a one-time appropriation of \$50,000 for a task force to review the operations and services of the smallest state agencies, boards, and commissions. The task force will consider whether any of these organizations should be eliminated or merged, and will make recommendations to ensure that small agencies have adequate operational capacity so that they are achieving the highest value for the public dollar.

Rationale

The state's smallest agencies, boards, and commissions were each created to serve the unique needs of their specific constituencies. Small entities with focused missions may be more nimble in serving their constituents' needs, but they also lack the economies of scale necessary to operate efficiently as a state agency. For this reason, the state's smallest agencies, boards, and commissions face continuing challenges in managing state budget, accounting, and human resources requirements. They also have less flexibility and fewer tools for managing budget reductions and rising compensation costs. With limited budgetary and staff resources, small agencies struggle to incorporate new technology. These agencies often have mission-oriented management from the private or non-profit sectors who feel burdened by state regulations designed for larger government entities. The result is frequent audit findings and heavy reliance on state administrative agencies, as well as frustration on the part of small agency management when operating like a state agency interferes with achieving their missions.

Many small agencies have achieved greater economies of scale by using the Department of Administration's Small Agency Resource Team (SmART) services, implementing new technology, consolidating back-office functions with a cluster of related agencies, or partnering with a larger agency on administrative matters. However, not all of the smallest agencies are using these options, and there may be cases where elimination, merger, or conversion to a non-state entity is appropriate.

The task force shall:

- Identify and describe the purpose of each agency, board, and commission with 10 or fewer FTE
- Review the missions, services, and operations of the those organizations
- Make recommendations on whether any of these organizations should be eliminated or merged, and any other changes necessary to ensure that small agencies have adequate operational capacity and are achieving the highest value for the public dollar

Similar to the federal Base Closure and Realignment Commission, all task force recommendations will be sent to the legislature for final review and approval in a single, up or down vote package. It is recognized that these small agencies have dedicated constituencies and part of this group's charge is to find a solution that is best for everyone, even if there are some individual winners and losers.

The task force will consist of nine public members, with five appointed by the Governor and two appointed by each chamber of the legislature. Management Analysis & Development (MAD) within Minnesota Management & Budget (MMB) will provide facilitation and fiscal agent services for the task force. Recommendations will be due to the legislature by January 15, 2012.

Key Goals and Measures

This initiative serves the Minnesota Milestones goal of "Government in Minnesota will be cost-efficient, and services will be designed to meet the needs of the people who use them." The goal of the task force is to evaluate whether the state's smallest agencies, boards, and commissions are operating in a cost-effective manner that best serves the state, and to make recommendations where missions, operational structures, or service delivery can be improved. Success will be measured by the extent to which:

- The task force recommendations ensure adequate operational capacity for all small agencies, boards and commissions
- Where structural changes to some small agencies would yield higher value for the public dollar, the task force has recommended that these organizations be eliminated, merged, or converted to non-state entities
- The task force recommendations are sufficiently detailed and actionable so that small agencies and lawmakers can swiftly implement the changes
- **Statutory Change:** Not Applicable.

MINNESOTA MANAGEMENT & BUDGET

Change Item: Operating Budget Reduction

Fiscal Impact (\$000s)	FY 2012	FY 2013	FY 2014	FY 2015
General Fund				
Expenditures	\$(957)	\$(957)	\$(957)	\$(957)
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	\$(957)	\$(957)	\$(957)	\$(957)

Recommendation

The Governor recommends a reduction of \$957,000 in FY 2012 and \$957,000 in FY 2013 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.

This proposal represents a 5% reduction to MMB's General Fund budget.

Rationale

MMB's total base forecast General Fund operating budget is \$19.1 million for FY 2012 and \$19.1 million for 2013 and includes amounts for all functions of the department. MMB has no pass through grants so all reductions will reduce operating expenditures and positions during the FY 2012-13 biennium.

This reduction will eliminate 11 positions across MMB through layoff and attrition and would produce biennial savings of \$1.9 million. Reductions in positions and services would be made across the department because eliminating an entire function or unit did not appear feasible. Typically, program integrity functions such as financial controls and human resources have to happen somewhere and eliminating the centralized activities would further shift responsibility as well as costs to state agencies.

Reductions would impact state operations in the areas of accounting assistance for state agencies, state budget development and implementation, internal control activities, budget oversight for capital projects, state bonding and treasury activities, labor relations, human resources, and management analysis. The department will do what it can to manage the impact of reductions to operations and support when conversion to the new statewide accounting and procurement system starts in July 2011. During the transition time, which will stretch into calendar year 2012, increased level of support will be needed at MMB and throughout state government to utilize new software, adopt new business processes, and avoid conversion related disruption.

Statutory Change: Not Applicable.

MINNESOTA MANAGEMENT & BUDGET

Change Item: Statewide Systems Billing Authority

Fiscal Impact (\$000s)	FY 2012	FY 2013	FY 2014	FY 2015
General Fund				
Expenditures	\$0	\$0	\$0	\$0
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	2,480	2,480
Revenues	0	0	2,480	2,480
Net Fiscal Impact	\$0	\$0	\$2,480	\$2,480

Recommendation

The Governor recommends an increase of \$2.48 million each year beginning in FY 2014 to Minnesota Management & Budget's (MMB) billing authority for statewide systems services. This increase is needed to meet the expected additional costs in operating the statewide systems. This proposal represents a 33% increase in MMB's current billing authority.

Rationale

In M.S. 16A.1286, the commissioner of Minnesota Management & Budget has the authority to bill up to \$7.52 million each fiscal year for statewide systems services provided to state agencies, judicial branch agencies, the Minnesota State Colleges and Universities (MnSCU), and other entities that utilize these services. These services include operation of the state's accounting, payroll, human resources, benefits administration, procurement, and information access systems.

In recent years, the department has managed system costs without fully utilizing this billing authority. For instance, the last three fiscal years—2009, 2010, and 2011--MMB billed \$6.6 million each year. MMB plans to manage within the existing billing authority for the FY 2012-13 biennium. Per an agreement with the legislature in 2009 when the overall project funding was reduced by \$4 million, proceeds of this billing authority will also be used in the event of the need for contingencies for the conversion to SWIFT.

Over time, the base technology of the statewide systems has evolved. Major version updates have been completed for the human resource, payroll, and benefits administrations system, functionality has been expanded, and OET services have been modified. This has resulted in staff support changes and additional changes are expected as the new SWIFT system is implemented including increased license and staffing costs. Additional billing authority will be needed to maintain this level of service. At this point, the account will be spending more than it takes in and an adjustment is required. An increase of \$2.48 million, taking this billing authority up to a maximum of \$10 million, will provide MMB the means to meet these needs.

Statutory Change: M.S. 16A.1286

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

MINNESOTA MANAGEMENT & BUDGET

Program: STATEWIDE SERVICES

Program Summary

<i>Dollars in Thousands</i>					
	Current		Governor Recomm.		Biennium
	FY2010	FY2011	FY2012	FY2013	2012-13
<u>Direct Appropriations by Fund</u>					
General					
Current Appropriation	23,421	22,224	28,128	28,129	56,257
Technical Adjustments					
Operating Budget Reduction			(21)	(21)	(42)
Subtotal - Forecast Base	23,421	22,224	28,107	28,108	56,215
Governor's Recommendations					
Results Management		0	250	250	500
Task Force on Small Agencies and Boards		0	50	0	50
Operating Budget Reduction		0	(957)	(957)	(1,914)
Total	23,421	22,224	27,450	27,401	54,851
<u>Expenditures by Fund</u>					
Direct Appropriations					
General	19,229	20,467	18,482	18,432	36,914
Statutory Appropriations					
General	191	207	207	207	414
Miscellaneous Special Revenue	6,613	7,421	11,684	12,114	23,798
Building	20,813	33,970	11,017	0	11,017
Management Analysis	2,261	2,487	2,605	2,697	5,302
Total	49,107	64,552	43,995	33,450	77,445
<u>Expenditures by Category</u>					
Total Compensation	23,148	25,660	25,350	21,825	47,175
Other Operating Expenses	25,959	38,892	18,645	11,625	30,270
Total	49,107	64,552	43,995	33,450	77,445
<u>Expenditures by Activity</u>					
Accounting Services	24,712	38,077	14,789	3,772	18,561
Budget Services	3,367	3,707	3,448	3,448	6,896
Economic Analysis	530	475	475	475	950
Information Systems	9,509	10,302	14,940	15,414	30,354
Treasury	1,685	1,906	1,906	1,906	3,812
Management Analysis & Devlpmnt	1,988	2,272	2,402	2,411	4,813
Human Resource Management	2,885	2,974	2,997	2,987	5,984
Labor Relations	1,166	1,156	1,154	1,153	2,307
Agency Administration	3,265	3,683	1,884	1,884	3,768
Total	49,107	64,552	43,995	33,450	77,445
Full-Time Equivalent (FTE)	245.3	272.2	247.6	234.5	

Activity at a Glance

- Provide direction and control of statewide accounting and payroll functions.
- Maintain integrity of statewide accounting, procurement, and employee management systems—activities with more than 15 million transactions every year.
- Prepare Minnesota's financial statements and federal compliance reports, compiling data from more than 5,000 accounts.
- Provide training on multiple statewide systems.

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). Accounting Services will also provide functional support to the new Statewide Integrated Financial Tools (SWIFT) system that will go live on July 1, 2011. This system replaces MAPS.

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/SWIFT 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 to base their accounting and payroll operations. Instructions take the form of written policies, system design, and instruction on best practices. The activity strives to balance the tension between agency needs for flexibility and 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 problems arise. In addition, Accounting Services works with our customers to ensure their system-related needs are being met whether through system modifications or data interfaces.

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 & Measures

Activity goals fall under the Minnesota Milestone goal #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:

Meet agency needs while maintaining the integrity of MAPS/SWIFT and SEMA4 systems

- 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 24 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 25 years.

Activity Funding

This activity is funded by a general fund appropriation. Debt service payments for the SWIFT project will be paid each year through FY 2019 with a separate general fund appropriation for that purpose.

Contact

Assistant Commissioner, Accounting Services

(651) 201-8012

www.finance.state.mn.us

MINNESOTA MANAGEMENT & BUDGET

Program: STATEWIDE SERVICES

Activity: ACCOUNTING SERVICES

Budget Activity Summary

<i>Dollars in Thousands</i>					
	Current		Governor's Recomm.		Biennium
	FY2010	FY2011	FY2012	FY2013	2012-13
<u>Expenditures by Fund</u>					
Direct Appropriations					
General	3,634	3,772	3,772	3,772	7,544
Statutory Appropriations					
Miscellaneous Special Revenue	265	335	0	0	0
Building	20,813	33,970	11,017	0	11,017
Total	24,712	38,077	14,789	3,772	18,561
<u>Expenditures by Category</u>					
Total Compensation	7,410	9,697	7,577	3,547	11,124
Other Operating Expenses	17,302	28,380	7,212	225	7,437
Total	24,712	38,077	14,789	3,772	18,561
Full-Time Equivalents (FTE)	84.7	106.3	69.7	50.0	

Activity at a Glance

- Coordinated the biennial and supplemental budget development, monitoring and implementation process that resulted in enactment of a \$59 billion all funds FY 2010-11 biennial budget for Minnesota during the 2009 and 2010 legislative sessions.
- Coordinated the 2010 capital budget development, monitoring and implementation process that resulted in enactment of \$812 million in new general obligation bonding authorization for Minnesota state and local government.
- Worked with state agencies to complete 813 fiscal notes during the 2009 legislative session and 622 fiscal notes during the 2010 legislative session.
- Provides oversight and monitoring of the budgets of more than 100 state agencies, boards and commissions.
- Provides central coordination and oversight of over \$5 billion in federal American Recovery and Reinvestment Act (ARRA) funding awarded to Minnesota state agencies.

Activity Description

Budget Services seeks to ensure that objective and relevant fiscal information is readily available for decision-makers throughout the year but especially when budget decisions are being made. Budget Services promotes sound fiscal policy in decision-making and a statewide view in the management of state resources.

Population Served

Primary customers are the governor, state agencies, legislators, legislative staff and their committees. The division also serves citizens interested in understanding the state budget.

Services Provided

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

Budget Process – Coordinates the development of the governor's biennial, capital and supplemental budget recommendations, including providing budget development instructions to state agencies. The resulting products include both budget background information on agencies and detailed governor's recommendations that are provided to the legislature for review and consideration. After submission of the governor's budget, Budget Services staff supports the legislative process by responding to

information requests, providing testimony, and operating the fiscal notes and local note process as requested by the legislature. Additional analysis and assistance are provided throughout the year, including staff support during legislative hearings and coordination of the Legislative Advisory Commission (LAC) process.

Information and 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, and other reports such as the Consolidated Fund Statement and the Fastest Growing Expenditures Report.

Oversight - Provides oversight and monitoring of budget implementation by agencies, evaluation and approval of annual spending plans, and provides financial information and analysis of state spending to the governor, legislature, press and citizens. Budget Services also monitors the state's cash position and actively manages cash flow across the state's funds and accounts.

Key Activity Goals & Measures

Budget Service's work is guided by the mission of Minnesota Management & Budget (MMB) to increase state government's capacity to manage and utilize financial, human, information and analytical resources in order to provide exceptional service and value for Minnesota's citizens. While no single entity can claim to be responsible for Minnesota's budget and financial position, having timely, relevant and objective fiscal information available to decision makers is fundamental to having a financially well managed state. Budget Services monitors a number of broad statewide financial management indicators to help track these goals.

Bond rating:

Minnesota's general obligation bond issues are rated by three national rating firms: Moody's, Standard and Poor's and Fitch. When rating bond issues, each rating agency looks at a number of factors such as the state's economy, its financial health and its financial management. Under financial management practices, the rating

MINNESOTA MANAGEMENT & BUDGET

Program: STATEWIDE SERVICES

Activity: BUDGET SERVICES

Narrative

agencies look at such things as revenue and expenditure assumptions, effectiveness of budget processes, use of long-term financial planning and long-term capital planning, reserve policies and debt and investment management policies.

Currently, Minnesota has the highest rating possible – AAA – from two of the rating agencies and the second highest rating – Aa1 – from the third agency for its general obligation debt. There are currently ten states with bond ratings equal to or higher than Minnesota's.

Price of Government:

According to Minnesota Milestone Indicator 37, Minnesotans expect their state and local governments to spend money carefully, efficiently and effectively. To help decision makers with one view of the cost-effectiveness of state and local government, the budget division monitors the price of government. This is a measure of total government revenues relative to state personal incomes. Although there is not a universally accepted target for this measure, knowing the current statistics informs state budget decisions.

Minnesota Price of Government State and Local Revenues as % of Personal Income End of 2010 Session	
FY 2013	15.8% (est.)
FY 2012	15.8% (est.)
FY 2011	16.1% (est.)
FY 2010	15.6%
FY 2009	15.0%
FY 2008	15.8%

Government Performance Project:

In 2005 and 2008, the Pew Charitable Trusts conducted a national project called "Grading the States." Each state was graded on four important aspects of government operations: Money, People, Infrastructure, and Information. Most relevant to Budget Services at MMB was the Money category. In the Money category, Pew staff evaluated the degree to which a state takes a long-term perspective on fiscal matters, the timeliness and transparency of the budget process, the balance between revenues and expenditures, and the effectiveness of a state's contracting, purchasing, financial controls and reporting mechanisms. In 2008, Minnesota received a B+ while the average for all states was B-.

Grading the States (Pew Charitable Trusts)		
Money category	2005	2008
Long-Term Outlook	Strength	Strength
Budget Process	Mid-level	Strength
Structural Balance	Strength	Mid-level
Financial Controls/Reporting	Strength	Mid-level

Other Goals & Measures:

Another central goal for Budget Services is to provide decision makers with high quality, accurate and timely information in order to make informed decisions.

- In 2010 Budget Services completed 622 fiscal notes. The average time from request of a fiscal note to completion of the note was nine days.
- Budget Services also provided expenditure forecast information, base budget information, governor's budget information and other summary state fiscal data in a timely manner and in accordance with statute.

The goal of Budget Services' work with the American Recovery and Reinvestment Act is to ensure compliance with federal reporting requirements and transparency expectations associated with the federal funding.

MINNESOTA MANAGEMENT & BUDGET

Program: STATEWIDE SERVICES

Activity: BUDGET SERVICES

Narrative

- Budget Services worked with agencies to ensure timely and accurate submission of over 200 ARRA related federal reports each quarter.
- The MMB transparency website for ARRA is ranked 4th in the nation by a non-profit research center.

Activity Funding

Base funding in the Budget Services activity has historically been from a general fund appropriation. A small amount of division resources comes from the county program aid appropriation (general fund) to support the local impact note process.

In FY 2010-11, one-time resources were used to support a separate project to modernize the state's biennial budget system (MMB carry forward and financial assistance from other agencies) and to support statewide ARRA monitoring, reporting and financial control activities (one-time general fund appropriation). Work on the budget system will continue into FY 2012 and 2013 with a specific focus on aligning with the changes in the statewide accounting system.

Contact

State Budget Director

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MINNESOTA MANAGEMENT & BUDGET

Program: STATEWIDE SERVICES

Activity: BUDGET SERVICES

Budget Activity Summary

<i>Dollars in Thousands</i>					
	Current		Governor's Recomm.		Biennium
	FY2010	FY2011	FY2012	FY2013	2012-13
<u>Expenditures by Fund</u>					
Direct Appropriations					
General	2,364	3,500	3,241	3,241	6,482
Statutory Appropriations					
General	191	207	207	207	414
Miscellaneous Special Revenue	812	0	0	0	0
Total	3,367	3,707	3,448	3,448	6,896
<u>Expenditures by Category</u>					
Total Compensation	2,404	2,464	2,239	2,239	4,478
Other Operating Expenses	963	1,243	1,209	1,209	2,418
Total	3,367	3,707	3,448	3,448	6,896
Full-Time Equivalents (FTE)	25.2	26.1	23.0	23.0	

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.
- Provide customers with information and analysis on the state's economy and economic outlook.

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 staff and other interested parties on the state's economy and the general economic environment and outlook.

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

Economic Analysis prepares revenue forecasts two times each year in November and 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 combined 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 & Measures

Minnesota Milestones Indicators 36 and 37: Satisfaction with Government Services and 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.

Economic Analysis 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 Measures

In 2005 and 2008, the Pew Charitable Trusts conducted a national project called “*Grading the States.*” Each state was graded on important aspects of government operations relating to money. In that category, Pew staff evaluated the degree to which a state takes a long-term perspective on fiscal matters, the timeliness and transparency of the budget process, the balance between revenues and expenditures, and the effectiveness of a state’s contracting, purchasing, financial controls and reporting mechanisms. Minnesota’s government operations relating to money received the ratings in the chart set out below.

Grading the States (Pew Charitable Trusts)		
Money category	2005	2008
Long-Term Outlook	Strength	Strength
Budget Process	Mid-level	Strength
Structural Balance	Strength	Mid-level
Financial Controls/Reporting	Strength	Mid-level

(Strength=High, Mid-level=Medium, Weakness=Low)

Activity Funding

This activity is funded through a general fund appropriation.

Contact

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MINNESOTA MANAGEMENT & BUDGET

Program: STATEWIDE SERVICES

Activity: ECONOMIC ANALYSIS

Budget Activity Summary

<i>Dollars in Thousands</i>					
	Current		Governor's Recomm.		Biennium
	FY2010	FY2011	FY2012	FY2013	2012-13
<u>Expenditures by Fund</u>					
Direct Appropriations					
General	530	475	475	475	950
Total	530	475	475	475	950
<u>Expenditures by Category</u>					
Total Compensation	363	306	306	306	612
Other Operating Expenses	167	169	169	169	338
Total	530	475	475	475	950
Full-Time Equivalents (FTE)	4.0	4.0	4.0	4.0	

Activity at a Glance

Information Systems provides technical support for major statewide applications:

- Minnesota Accounting and Procurement System (MAPS)—2,200 total users
- Statewide Employee Management System (SEMA4)—45,250 total users
- Information Access (IA) data warehouse—1,600 total users
- Budget information systems—430 total users
- Resumix (hiring support system)—250 total users

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 Data Warehouse (IADW), 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.

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
- Provides systems support and development resources for all systems projects of MMB.

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.

SWIFT: A majority of the IS staff are involved with the Statewide Integrated Financial Tools (SWIFT) project that will replace MAPS and the IA warehouse. In July, 2011, this project will result in implementation of a new financial system and a new information warehouse utilizing state of the art software and technology. The SWIFT system will utilize Oracle's PeopleSoft financials and data warehousing software—software within the same family of products as the SEMA4 system. A significant benefit of using similar products is that IS is able to leverage existing technical infrastructure investments and more readily move technical staff between application support areas as needs arise.

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 was 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 the SWIFT project was approved in 2009 to replace MAPS.

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 and budgets. Modifications to integrate SEMA4 with the SWIFT project are underway.

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 about 1,900 users. This system will continue to be available for historical data after the new SWIFT and warehouse systems come online July 1, 2011.

MINNESOTA MANAGEMENT & BUDGET

Program: STATEWIDE SERVICES

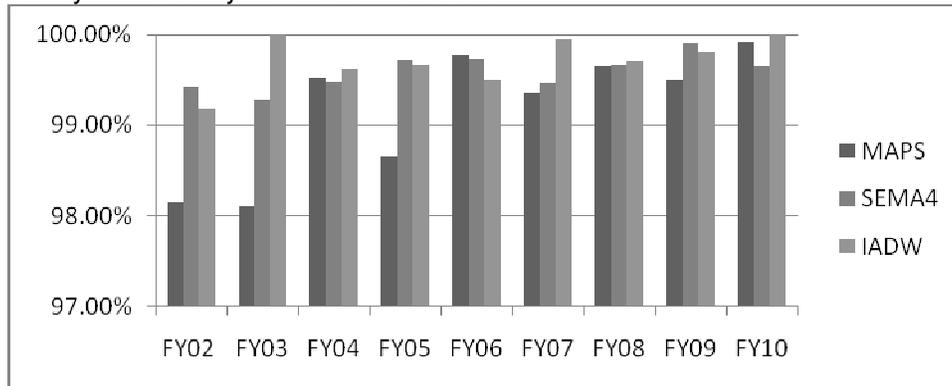
Activity: INFORMATION SYSTEMS

Narrative

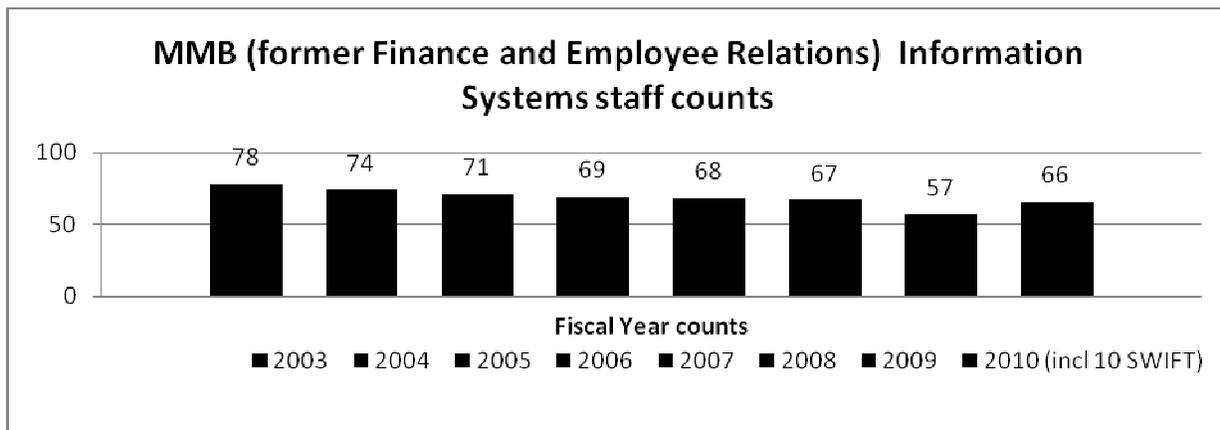
IS also provides application development and support for the budget systems (Capital Budget, Biennial Budget, and Fiscal Note Tracking), applicant/hiring systems (Resumix and Onboarding), various treasury applications, and other internal systems to support the agency's management and staff needs.

Key Activity Goals & Measures

Information Systems strives to provide reliable and available statewide systems. The chart below highlights the percentage of time key statewide systems were available.



Information Systems strives to obtain efficiencies in the delivery of services. The chart below highlights reduced staffing that has been implemented through efficiencies in the IS areas of the former two agencies (departments of Employee Relations and Finance) and the consolidated agency.



MMB has a departmental governance process for information systems through the Information Resources Steering Committee (IRSC). The IRSC is responsible for creation and maintenance of the agency's Strategic Information Plan. This document outlines the committee's high level strategic information plans and goals. As shown below in the chart titled Primary Information Systems, IRSC's assessment of existing applications provides clear information of the high priority systems that are in need of attention (e.g., MAPS and budget systems). IRSC's top priority goals are to replace MAPS, the Budget Systems, Treasury systems, and Resumix; to increasingly provide transparency and accessibility improvements to the state's public information; 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.

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 by 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

MINNESOTA MANAGEMENT & BUDGET

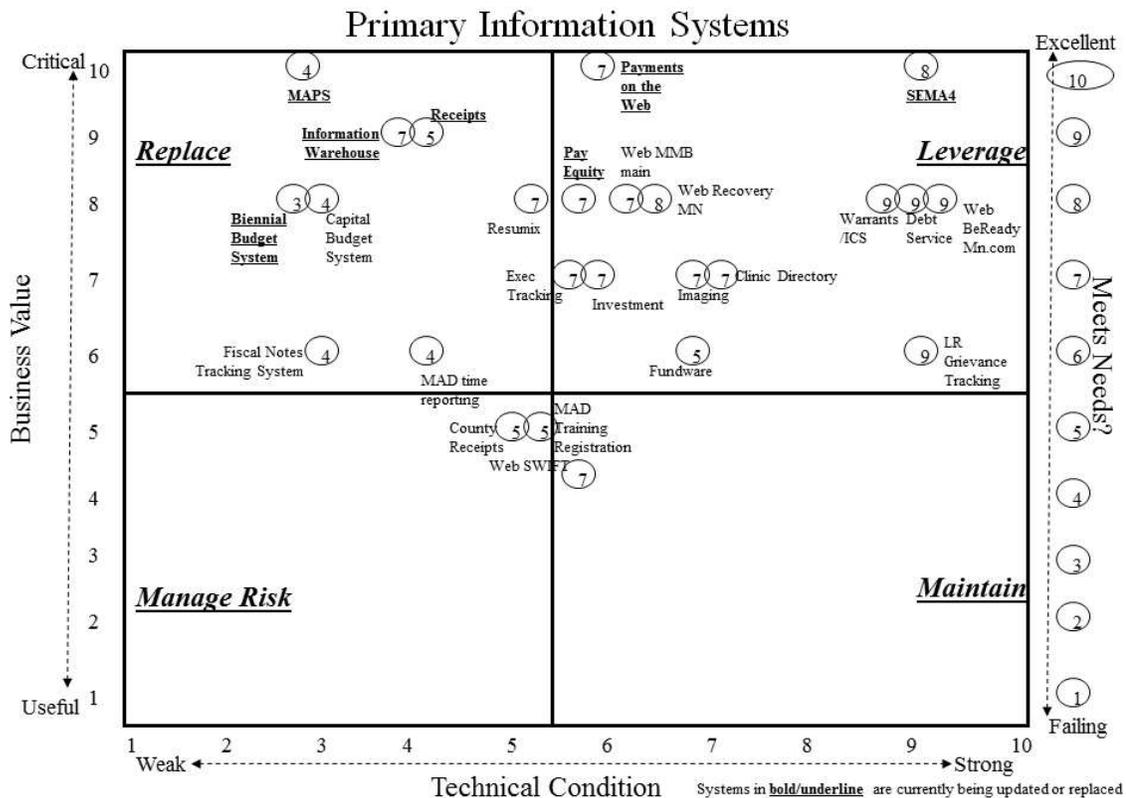
Program: **STATEWIDE SERVICES**

Activity: **INFORMATION SYSTEMS**

Narrative

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 receives 45% of its funding from a general fund direct appropriation and 55% through special revenue funds. The special revenue funds include the chargeback to agencies through the “statewide systems billing account” and through insurance administrative fees charged to agencies. These special revenue charges to agencies draw against state agencies’ General Fund and other accounts.

Contact

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MINNESOTA MANAGEMENT & BUDGET

Program: STATEWIDE SERVICES

Activity: INFORMATION SYSTEMS

Budget Activity Summary

<i>Dollars in Thousands</i>					
	Current		Governor's Recomm.		Biennium
	FY2010	FY2011	FY2012	FY2013	2012-13
<u>Expenditures by Fund</u>					
Direct Appropriations					
General	4,270	3,645	3,645	3,645	7,290
Statutory Appropriations					
Miscellaneous Special Revenue	5,239	6,657	11,295	11,769	23,064
Total	9,509	10,302	14,940	15,414	30,354
<u>Expenditures by Category</u>					
Total Compensation	5,019	4,568	8,069	8,567	16,636
Other Operating Expenses	4,490	5,734	6,871	6,847	13,718
Total	9,509	10,302	14,940	15,414	30,354
Full-Time Equivalents (FTE)	47.2	44.3	59.4	66.0	

Activity at a Glance

- Average amount of cash invested daily is \$485 million
- Over 650 bank accounts reconciled each month
- Current state general obligation bond ratings are Aa1 (Moody's)/AAA (Fitch)/AAA (Standard & Poor's)
- Total general obligation debt outstanding (various purpose and trunk highway) is \$5.7 billion
- Amount of general obligation debt authorized and unissued is \$2.6 billion
- Local government debt enhanced under state credit enhancement programs totals approximately \$12.5 billion

Activity Description

The Treasury Division is responsible for three functional areas: cash management, debt management and capital budget implementation. The cash management unit is responsible for processing receipts and warrants, determining daily cash balances available for investment, and paying debt service on state general obligation bonds, certain revenue bonds and other obligations supported by General Fund appropriations. The debt management unit manages the issuance of state debt in accordance with the agency's capital investment 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. The capital budget unit is responsible for assisting state agencies and local governments in implementing capital budget appropriations in accordance with both state and federal law.

Population Served

Principal clientele include the governor and his staff, the legislature and its staff, staff in other divisions of MMB, other state agencies, local/regional governments, financial institutions, credit rating agencies, investors, and individuals and groups concerned with cash, debt and capital budget issues.

Services Provided**Cash Management:**

- Manage deposit activity in over 650 state depository accounts in 240 banks
- Provide daily settlement with banks for warrants presented for payment
- Manage the state's Electronic Government Services (EGS) financial applications
- Determine on a daily basis the state's cash position to maximize investment earnings
- Verify all investment purchases made by the State Board of Investment and authorize all payments to brokers; verify receipt of the appropriate amount of proceeds from investments that have matured
- Ensure on a daily basis that all state funds are properly collateralized or insured
- Receive, account for, and deposit all payments for federal and state income taxes, Medicare and Social Security taxes for the legislature, boards and commissions, state employees and state colleges and universities

Debt Management:

- Manage the state's general obligation and certain revenue bond financing programs
- Administer the state's lease purchase financing programs
- Ensure that all tax-exempt debt obligations comply with all federal tax regulations
- Manage certain federal bond authorizations in accordance with state and federal laws
- Conduct the bid process for all state depository bank accounts
- Work cooperatively with the departments of Education and Employment and Economic Development to administer the state's bond credit enhancement programs for schools, counties and cities

Capital Budget Administration:

- Work cooperatively with executive branch agencies to compile and review capital budget requests during each biennium
- Work with executive and legislative branches to ensure that proposed capital projects are eligible to be funded with proceeds of state general obligation bonds
- Provide written guidance, as well as on-site training, to state agencies and local governments to assist them in implementing capital budget appropriations in accordance with state and federal law

MINNESOTA MANAGEMENT & BUDGET

Program: STATEWIDE SERVICES

Activity: TREASURY

Narrative

- Act as a resource to state agencies and local governments that have questions about enacted capital budget appropriations
- Review the use of capital appropriations for selected projects upon project completion

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 (now Minnesota Management & Budget) on January 6, 2003, by administrative order.

Key Activity Goals & Measures

Safeguard state funds until legally disbursed:

- **Measure:** Percentage of debt service payments made as scheduled in FY 2010: 100%
 - Accurately assess the state's cash position on a daily basis in order to help manage liquidity and maximize investment earnings
- **Measure:** System failures that caused delays in withdrawing funds to invest in state depositories in FY 2010: 0%
 - Maintain strong internal controls to assure accurate accounting of state funds, both for operating and capital purposes
- **Measure:** Federal and state withholding payments made on scheduled due dates in FY 2010: 100% (No penalties assessed)
 - Obtain and maintain the highest possible credit ratings from the three major rating agencies for state general obligation bonds
 - Effective debt management
- **Measure:** Net present value of debt service savings realized on refunding of state general obligation bonds in FY 2010 due to taking advantage of favorable market conditions: \$34.6 million
- **Measure:** Percentage of state general obligation bonds sold to Minnesota retail investors in inaugural negotiated sale in October 2009: 20% (\$116 million)
- **Measure:** State new money general obligation bonds are 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	1/13/09	1/13/09	8/11/09	8/11/09	10/22/09	8/3/10	8/3/10
Index Rate	4.80%	4.80%	4.65%	4.65%	4.31%	4.16%	4.16%
Actual Rate	3.50%	3.47%	3.40%	3.41%	3.25%	3.16%	3.12%
Variance	(1.30%)	(1.33%)	(1.25%)	(1.24%)	(1.06%)	(1.00%)	(1.04%)

Activity Funding

The Treasury Division is funded by a direct appropriation from the general fund. The costs of issuing bonds, except those related to personnel, are funded from bond proceeds.

Contact

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MINNESOTA MANAGEMENT & BUDGET

Program: STATEWIDE SERVICES

Activity: TREASURY

Budget Activity Summary

<i>Dollars in Thousands</i>					
	Current		Governor's Recomm.		Biennium
	FY2010	FY2011	FY2012	FY2013	2012-13
<u>Expenditures by Fund</u>					
Direct Appropriations					
General	1,685	1,906	1,906	1,906	3,812
Total	1,685	1,906	1,906	1,906	3,812
<u>Expenditures by Category</u>					
Total Compensation	1,019	1,102	1,102	1,102	2,204
Other Operating Expenses	666	804	804	804	1,608
Total	1,685	1,906	1,906	1,906	3,812
Full-Time Equivalents (FTE)	12.6	14.0	14.0	14.0	

MINNESOTA MANAGEMENT & BUDGET

Program: STATEWIDE SERVICES

Activity: MANAGEMENT ANALYSIS & DEVLPMNT

Narrative

Activity at a Glance

- 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 139 engagements per year.
- Provides consulting services at lower cost than comparable external providers.

Activity Description

The Management Analysis and Development (MAD) Division is the state'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.

Population Served

MAD consultants have worked on hundreds of projects with state agencies, 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
- 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. From FY 2006 through FY 2010, the number of projects per year averaged 139. General Fund support for MAD has decreased from 61% in FY 1990 to 15% in FY 2010, with increased funding from fee revenue.

Key Activity Goals & Measures

Activity goals fall under the Minnesota Milestone statewide goal #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.

MAD's key measure is customer satisfaction. The services provided by MAD staff 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 MAD's 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 2010, 96% of clients responding indicated that they were satisfied or very satisfied with the overall engagement.

Activity Funding

The majority (85%) of MAD's operations are supported from fee revenue collected for its services in an internal service fund. The remaining 15% 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, and 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 retained earnings level.

History of Rate Changes:

Fiscal Year	2005	2006	2007	2008	2009	2010	2011
Hourly Rate	\$103	\$115	\$120	\$125	\$125	\$125	\$125
Change	5%	12%	4%	4%	0%	0%	0%

Contact

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MINNESOTA MANAGEMENT & BUDGET

Program: STATEWIDE SERVICES

Activity: MANAGEMENT ANALYSIS & DEVLPMNT

Narrative

**Internal Service Fund
Financial Statement**

	ACTUAL FY 2010	ESTIMATED FY 2011	PROJECTED FY 2012	PROJECTED FY 2013
OPERATING REVENUES:				
NET SALES	1,775.0	1,942.0	2,000.0	2,060.0
LESS: COST OF SALES	0.0	0.0	0.0	0.0
GROSS PROFIT ON SALES	1,775.0	1,942.0	2,000.0	2,060.0
OTHER REVENUE	0.0	0.0	0.0	0.0
NET REVENUES	1,775.0	1,942.0	2,000.0	2,060.0
LESS: OPERATING EXPENSES:				
SALARIES	970.0	1,248.0	1,285.0	1,323.0
SUPPLIES & EXPENSES	681.0	674.0	692.0	711.0
INDIRECT COSTS	39.0	50.0	52.0	54.0
AMORTIZATION & DEPRECIATION	0.0	0.0	0.0	0.0
TOTAL OPERATING EXPENSES	1,690.0	1,972.0	2,029.0	2,088.0
OPERATING INCOME (LOSS)	85.0	(30.0)	(29.0)	(28.0)
NON-OPERATING REVENUES (EXPENSES)	0.0	0.0	0.0	0.0
NET INCOME (LOSS)	85.0	(30.0)	(29.0)	(28.0)
BEGINNING RETAINED EARNINGS	439.0	400.0	370.0	341.0
PRIOR PERIOD ADJUSTMENT	(124.0)	0.0	0.0	0.0
ENDING RETAINED EARNINGS	400.0	370.0	341.0	313.0
RATE INCREASE/(DECREASE):	0.00%	0.00%	0.00%	0.00%
FTE	15.65	16.5	16.5	16.5
Expenditure Reconciliation to BBS				
Operating Expenses			2,029.0	2,088.0
Less amortization & depreciation (non cash)			0.0	0.0
Total cash payments			2,029.0	2,088.0
BBS Amounts - Financing by Fund				
Management Analysis			2,029	2,088
Receipt Reconciliation to BBS				
Net Revenues			2,000.0	2,060.0
Interest Income from Non operating revenue/expenses			0.0	0.0
Total cash receipts			2,000.0	2,060.0
BBS Amounts - Revenue Collected				
Management Analysis			2,000	2,060

MINNESOTA MANAGEMENT & BUDGET

Program: STATEWIDE SERVICES

Activity: MANAGEMENT ANALYSIS & DEVLPMNT

Narrative

	ACTUAL FY 2010	ESTIMATED FY 2011
ASSETS:		
CURRENT ASSETS:		
CASH	404.0	381.0
OTHER CURRENT ASSETS	244.0	239.0
TOTAL CURRENT ASSETS	648.0	620.0
NON-CURRENT ASSETS:		
TOTAL ASSETS	648.0	620.0
LIABILITIES & FUND EQUITY:		
LIABILITIES:		
CURRENT LIABILITIES:		
DUE GENERAL FUND - CURRENT	0.0	0.0
MASTER LEASE - CURRENT	0.0	0.0
OTHER CURRENT LIABILITIES	109.0	110.0
TOTAL CURRENT LIABILITIES	109.0	110.0
NON-CURRENT LIABILITIES:		
DUE GENERAL FUND - NON-CURRENT	0.0	0.0
MASTER LEASE - NON-CURRENT	0.0	0.0
OTHER NON-CURRENT LIABILITIES	139.0	140.0
TOTAL NON-CURRENT LIABILITIES	139.0	140.0
TOTAL LIABILITIES	248.0	250.0
FUND EQUITY:		
CONTRIBUTED CAPITAL-GENERAL FUND	0.0	0.0
RETAINED EARNINGS	400.0	370.0
TOTAL FUND EQUITY	400.0	370.0
TOTAL LIABILITIES & FUND EQUITY	648.0	620.0

MINNESOTA MANAGEMENT & BUDGET

Program: STATEWIDE SERVICES

Activity: MANAGEMENT ANALYSIS & DEVLPMNT

Budget Activity Summary

<i>Dollars in Thousands</i>					
	Current		Governor's Recomm.		Biennium
	FY2010	FY2011	FY2012	FY2013	2012-13
<u>Expenditures by Fund</u>					
Direct Appropriations					
General	310	300	373	323	696
Statutory Appropriations					
Management Analysis	1,678	1,972	2,029	2,088	4,117
Total	1,988	2,272	2,402	2,411	4,813
<u>Expenditures by Category</u>					
Total Compensation	1,269	1,548	1,645	1,642	3,287
Other Operating Expenses	719	724	757	769	1,526
Total	1,988	2,272	2,402	2,411	4,813
Full-Time Equivalents (FTE)	14.0	16.0	16.0	16.0	

Activity at a Glance

- Directs statewide human resource policy that serves all state agency human resource personnel, managers and supervisors in all executive branch agencies.
- Guides, monitors and ensures gender-based pay equity system for hundreds of units of local government.
- Impacts information access and learning opportunities to more than 30,000 state employees and manages jobseeker employment application system.

Activity Description

The Human Resources Management (HRM) section provides leadership and strategic direction in the recruitment, hiring and retention of the state's human capital so that the state has a skilled, effective workforce. This includes providing infrastructure support and policy frameworks in staffing, compensation, workforce planning, employee development, pay equity and diversity; as well as technical administration of various human resources systems.

Population Served

HRM provides the foundational statewide human resource policy framework, human resource information systems and other human resource infrastructure services to serve state employees, state agencies, individuals seeking state employment, and units of local government.

Services Provided

HRM directs the state's efforts in attracting, developing and retaining the state's workforce. HRM provides services that create, administer and monitor statewide human resource programs including: classification, recruitment, assessments, selection, compensation, learning and development, pay equity, diversity, workforce planning, and human resource information systems. HRM increases capacity of agencies and individuals by providing an effective employment framework for job seekers and state employees that is free from discrimination and bias and supports the merit system, while still balancing state agencies' human resource needs. HRM also supports and provides services to agencies which do not have the resources necessary to perform human resource functions or where statewide coordination of services may be necessary.

HRM service deliverables are described as follows:

HRM Business and Policy Administration

- Create and maintain an efficient and effective system that allows for the recruitment and hiring of individuals with the appropriate skills and abilities.
- Administer an effective compensation system that allows positions to be paid based on their skill, effort and responsibility.
- Ensure compliance with federal and state requirements for state agency recruiting and hiring practices within the Americans with Disabilities Act and with veterans, minorities and people with disabilities for inclusion of a diverse workforce.
- Administer pay equity review, reporting and compliance procedures, in conjunction with local governments and jurisdictions, to ensure gender-based equity in compensation.
- Deliver enterprise wide learning and development opportunities for state agencies and employees to develop a skilled and effective workforce that can adapt to the needs of changing technologies and work environments.
- Lead enterprise and agency design and application of strategic workforce planning and reporting, which incorporates headcount planning with workforce analytics as part of a decision framework for informing organizational strategy.

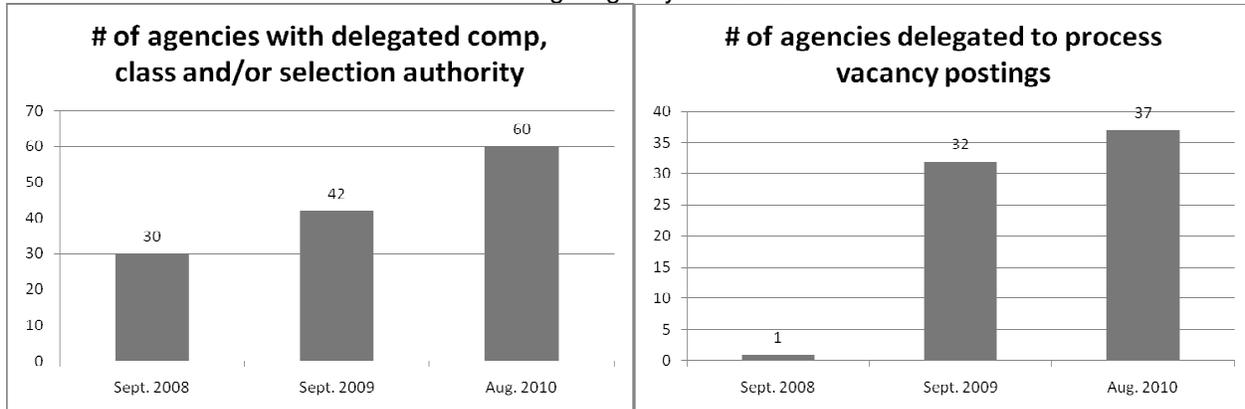
HRM Technology Systems Administration

- Manage the state's web-based applicant tracking system (Resumix), which is the state's electronic job posting and application system that links job seekers with state employment opportunities.
- Oversee administration of the human resources information system (SEMA4 HR) and provide the resources necessary to ensure consistency and data integrity through audits, instruction and end user documentation.
- Administer the Enterprise Learning Management (ELM) system, which enables users to manage, track, deliver and report on employee development and credentials via a web-based central repository that links to the SEMA4 HR information system.

Key Activity Goals & Measures

Activity goals fall under the Minnesota Milestones statewide goal #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:

- Direct and deliver services and systems that provide state agencies with a sound human resource infrastructure that leads to strategic human resource decisions. This infrastructure includes; policies, procedures, information, instruction, guidelines, auditing and monitoring.
- Increase agency involvement in HR decisions by granting delegation of authority for classification, compensation and selection decisions. Provide agencies with instruction, tools and resources to establish and maintain a consistent foundation for strategic agency decisions.



- Increase state agency capacity to deliver effective human resource programs within their agency by delivering information in classification, Pay job evaluation, selection, assessments and compensation. HRM has issued three classification selection guides, three compensation guides, a comprehensive electronic based SEMA4 transaction and audit guide, and guidance on layoffs.
- Conduct comprehensive audits of state agencies with delegated human resource authority that incorporates feedback and identifies opportunities for improvements. Audits have been conducted and communicated to eight agencies in 2008, eight agencies in 2009, and one agency in 2010 with six pending audits.
- Create opportunities for customer feedback that assess agency needs and identify statewide issues. Identify and coordinate improved services and systems that support the statewide human resource infrastructure.
- Coordinate and participate in workgroups to solicit customer feedback regarding statewide human resource program services and systems. Information is gathered through collaborative workgroups that meet monthly and address the needs of the statewide human resource system. Both formal feedback, which includes the Alliance for Cooperation and Collaboration in Employment and State Service (ACCESS) and the Human Resource Directors Partnership (HRDP), and informal feedback approaches are utilized.
- Publish state employment workforce report, analyze career families, and develop enterprise talent management strategy.
- Increase state agency capacity to effectively conduct workforce planning that links human resource needs with financial and organization goals; produce annual state workforce reports; and implement enterprise talent management strategies for attracting, developing and retaining state employees in vital roles.
- 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 for human resources.

Activity Funding

This activity is funded by an appropriation from the general fund, with the exception of the employee development unit that is supported by fee revenue collected for its services in an internal service fund.

Contact

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MINNESOTA MANAGEMENT & BUDGET

Program: STATEWIDE SERVICES

Activity: HUMAN RESOURCE MANAGEMENT

Budget Activity Summary

	<i>Dollars in Thousands</i>		<i>Dollars in Thousands</i>		<i>Biennium 2012-13</i>
	<i>Current FY2010</i>	<i>Current FY2011</i>	<i>Governor's Recomm. FY2012</i>	<i>Governor's Recomm. FY2013</i>	
<i>Expenditures by Fund</i>					
Direct Appropriations					
General	2,203	2,335	2,335	2,335	4,670
Statutory Appropriations					
Miscellaneous Special Revenue	99	124	86	43	129
Management Analysis	583	515	576	609	1,185
Total	2,885	2,974	2,997	2,987	5,984
<i>Expenditures by Category</i>					
Total Compensation	2,486	2,596	2,613	2,623	5,236
Other Operating Expenses	399	378	384	364	748
Total	2,885	2,974	2,997	2,987	5,984
Full-Time Equivalents (FTE)	29.2	30.6	30.6	30.6	

MINNESOTA MANAGEMENT & BUDGET

Program: STATEWIDE SERVICES

Activity: LABOR RELATIONS

Narrative

Activity at a Glance

- Serves over 33,000 of the executive branch's state employees.
- Negotiates nine collective bargaining agreements biennially, and oversees and administers two unrepresented employee plans.

Activity Description

The Labor Relations Division performs the duties assigned to the commissioner under the Public Employment Labor Relations Act (PELRA, M.S. Chapter 179A). Its primary responsibility is to negotiate and administer the collective bargaining contracts with state employee unions.

Population Served

The Labor Relations Division provides guidance on a variety of employee and labor relations topics, to human resources personnel and upper-level 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

- Establish statewide policy for management's relationship with labor;
- Negotiate collective bargaining contracts with the labor unions representing executive branch state employees assigned to 14 bargaining units (except the faculty agreements for the Minnesota State Colleges and Universities (MnSCU));
- Implement and interpret collective bargaining agreements and advise agency management on labor contract administration;
- Advise state agency management in their ongoing relationships with the exclusive representatives for state employees;
- Provide investigative services and assistance to state agencies on allegations of employee misconduct;
- Train supervisors and managers in labor contract administration and Minnesota's code of ethics provisions;
- 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;
- Represent state agencies' positions in interest arbitration proceedings for essential bargaining units that do not have the right to strike;
- 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 on issues under Minnesota's code of ethics as outlined in M.S. 43A.38.

Key Activity Goals & Measures

- Reach agreement with the employee labor unions on the provisions of fiscal years 2012-2013 labor agreements within the financial parameters established by the administration and the legislature;
- Maintain stable and productive labor relations between the agencies and the unions representing state employees;
- Ensure that managers, supervisors and human resources personnel have the skills and knowledge to implement productive labor/management relations;
 - Success in settling labor contracts within the budget parameters set forth by the administration and the legislature;
 - Resolution of day-to-day labor relations issues through ongoing relationships with union leaders, officers and stewards, meet-and-confer meetings, and joint labor-management committees;
 - Provide training and information to managers, supervisors and human resources personnel on labor relations issues with the goal of reducing employee grievances and increasing workplace productivity.

The number of grievances appealed to Minnesota Management & Budget (MMB) has decreased in the last fiscal year, and Labor Relations staff has worked cooperatively with the unions to significantly increase the number of grievances settled and withdrawn. This activity has resulted in the lowest number of active grievances in six years as described in the chart below.

Grievance Status	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
New Appeals to Arbitration	382	316	301	276	354	287
Arbitrated	20	13	11	14	12	16
Settled	91	54	68	84	76	106
Withdrawn	283	219	224	245	130	345
Active at year end	486	516	514	447	430	366

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.

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MINNESOTA MANAGEMENT & BUDGET

Program: STATEWIDE SERVICES

Activity: LABOR RELATIONS

Budget Activity Summary

<i>Dollars in Thousands</i>					
	Current		Governor's Recomm.		Biennium
	FY2010	FY2011	FY2012	FY2013	2012-13
<u>Expenditures by Fund</u>					
Direct Appropriations					
General	968	851	851	851	1,702
Statutory Appropriations					
Miscellaneous Special Revenue	198	305	303	302	605
Total	1,166	1,156	1,154	1,153	2,307
<u>Expenditures by Category</u>					
Total Compensation	952	832	832	832	1,664
Other Operating Expenses	214	324	322	321	643
Total	1,166	1,156	1,154	1,153	2,307
Full-Time Equivalents (FTE)	9.6	8.0	8.0	8.0	

Activity at a Glance

- Provides administrative, strategic, and technical guidance for the department
- Directly serves more than 300 employees
- Communicates department information, including the content management for nine different websites
- Coordinates emergency business continuity planning for Minnesota Management & Budget (MMB)
- Monitors state financial processes and controls

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 and communications, and agency strategic direction and leadership through the commissioner's office. The internal control and accountability unit was added in 2009 to improve internal controls throughout state government.

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 usage forecasts for the statewide systems the department maintains.
- **Human Resources (HR).** 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 by providing design and graphics, publication layout, editing, and technological assistance. The unit also coordinates the agency's business continuity planning.
- **Internal Control and Accountability.** This unit provides direction on statewide internal control policies and standards. It coordinates enterprise-wide assistance, resource sharing and training. The unit also monitors Office of Legislative Auditor reports and related action plans, and prepares biennial reports on the system of internal controls and auditing in executive branch agencies.
- **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 & Measures

Activity goals fall under the Minnesota Milestone statewide goal #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.

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

MINNESOTA MANAGEMENT & BUDGET

Program: STATEWIDE SERVICES

Activity: AGENCY ADMINISTRATION

Narrative

- 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
- Continually explore and evaluate opportunities to modify and change departmental policies and processes in order to ensure that resources are used most effectively
- Coordinate the adoption of statewide internal control standards and monitor that past audit findings are corrected

Activity Funding

This activity is funded primarily through a general fund appropriation. A small portion of funding comes from insurance administrative fees for costs associated with supporting the State Employee Group Insurance Plan (SEGIP).

Contact

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MINNESOTA MANAGEMENT & BUDGET

Program: STATEWIDE SERVICES

Activity: AGENCY ADMINISTRATION

Budget Activity Summary

<i>Dollars in Thousands</i>					
	Current		Governor's Recomm.		Biennium
	FY2010	FY2011	FY2012	FY2013	2012-13
<u>Expenditures by Fund</u>					
Direct Appropriations					
General	3,265	3,683	1,884	1,884	3,768
Total	3,265	3,683	1,884	1,884	3,768
<u>Expenditures by Category</u>					
Total Compensation	2,226	2,547	967	967	1,934
Other Operating Expenses	1,039	1,136	917	917	1,834
Total	3,265	3,683	1,884	1,884	3,768
Full-Time Equivalents (FTE)	18.8	22.9	22.9	22.9	

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)

MINNESOTA MANAGEMENT & BUDGET

Program: STATEWIDE INSURANCE PROGRAMS

Program Summary

<i>Dollars in Thousands</i>					
	Current		Governor Recomm.		Biennium
	FY2010	FY2011	FY2012	FY2013	2012-13
<u>Expenditures by Fund</u>					
Statutory Appropriations					
State Employees Insurance	673,551	741,622	803,084	859,804	1,662,888
Miscellaneous Agency	30,714	32,220	33,187	34,183	67,370
Total	704,265	773,842	836,271	893,987	1,730,258
<u>Expenditures by Category</u>					
Total Compensation	3,799	4,471	4,723	4,895	9,618
Other Operating Expenses	700,466	769,371	831,548	889,092	1,720,640
Total	704,265	773,842	836,271	893,987	1,730,258
<u>Expenditures by Activity</u>					
State Employee Group Ins Pgrm	682,074	738,299	798,027	852,977	1,651,004
Public Employees Insurance Pgrm	22,191	35,543	38,244	41,010	79,254
Total	704,265	773,842	836,271	893,987	1,730,258
Full-Time Equivalent (FTE)	44.8	51.6	51.6	51.6	

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 118,000 covered lives statewide.
- The overall cost of administering SEGIP health benefits is approximately 6.0% of total premium costs versus the industry standard of approximately 10%. SEGIP receives less than 1% for internal administrative costs and the remainder is health plan fees.
- SEGIP spends over \$620 million in insurance benefits for state of MN employees.
- In 2008, the Advantage program implemented a single Pharmaceutical Benefit Manager (PBM) saving \$7M.

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 118,000 individuals statewide

Services Provided

SEGIP administers all its insurance benefits through a combination of its own staff and contracted vendors. SEGIP is comprised of three primary areas: Contracts and Networks, Benefits Administration, and Health Risk Management. Contracts and Networks manages SEGIP's purchasing functions by negotiating contracts with vendors

and monitoring them for compliance with collective bargaining agreements, plan contracts, and federal and state requirements. Annually, they renew contracts with each carrier including medical, dental, life and optional coverages. Every two years the unit prepares labor contract proposals for management and cost estimates for labor negotiations. During the legislative session, they provide information for legislative initiatives. The unit also manages medical and dental provider networks.

Benefits Administration is responsible for enrollment and billing services for the nearly 118,000 participants. The unit's primary task is processing transactions for the program, including the enrollment of newly eligible employees and changes to existing coverage. To accomplish this task the unit provides support for the information system insurance application and supporting software tools. This unit also hosts the annual Open Enrollment during which members are allowed to make certain changes to their benefit set.

Health Risk Management provides programs and benefits that focus on helping members achieve healthy and productive lifestyles. In doing so, the unit focuses on strategies and interventions that reduce employee absenteeism, increase employee productivity, reduce claims costs and other factors that influence plan costs within all Minnesota state agencies.

SEGIP's administrative fee, which covers the cost of its administrative operations, is assessed to state agencies and certain members who are not active employees. State agencies pay \$4.02 per employee per month while members who are not active employees pay two percent of premiums as their administration fee.

The Minnesota Advantage Health Plan is the state's employee health benefits plan serving the 118,000 members of SEGIP. The hallmark of the plan is its cost tier feature which creates new levels of competition and incentives for efficiency in the health care market. Advantage is fully self-insured meaning that the state is responsible for paying its own claims and administrative expenses. The program contracts with three health insurance carriers: BlueCross BlueShield of Minnesota, HealthPartners and PreferredOne. The state also contracts with Navitus as its pharmacy benefit manager. These four carriers are responsible for processing claims so the state does not have access to the protected health information of its employees or their dependents. The three health carriers also provide medical networks, and disease management services.

MINNESOTA MANAGEMENT & BUDGET

Program: STATEWIDE INSURANCE PROGRAMS

Activity: STATE EMPLOYEE GROUP INSURANCE PROGRAM

Narrative

A high deductible, consumer-directed health plan was introduced in 2010 and is available for non-bargaining employees. The Advantage Consumer Driven Health Plan (ACDHP) is based on the standard Advantage plan and features a health savings account. This offering incents members to be informed consumers of health care. In 2011, the program will feature a health biometric screening program that further empowers members to take control of their health.

State agencies pay approximately 86% of the premium costs, while employees and retirees contribute approximately 11.5 %, and quasi-state agencies and their employees and retirees pay the rest. Advantage members with single coverage do not pay a premium, while members with family coverage pay a portion of the premium.

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
- 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 MN 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.

SEGIP participates in the Depression Improvement Across Minnesota, Offering a New Direction (DIAMOND) project. DIAMOND changes the way depression care is delivered and paid for in Minnesota. Of those members contacted six months after being activated in DIAMOND, 43% are in remission and an additional 17% have seen at least a 50% reduction in the severity of their depression.

SEGIP has a comprehensive Employee Assistance Program (EAP) in which employees and their families have 24/7 confidential access to EAP counselors. The state's internal EAP consultants are available to provide confidential consultation to department leadership and human resource staff.

MINNESOTA MANAGEMENT & BUDGET

Program: STATEWIDE INSURANCE PROGRAMS

Activity: STATE EMPLOYEE GROUP INSURANCE PROGRAM

Narrative

SEIGIP implemented Health Care Homes on July 1, 2010. This is a model of primary care in which primary care providers, families and patients work in partnership to improve the health and quality of life for individuals – especially those with chronic and complex conditions. Members are stratified based on the complexity of their illness burden. Ultimately, this will reduce costs in the health care system by reducing redundancies in treatment, allowing for appropriate prescribing of medication, and a coordinated treatment plan for the member.

As part of Open Enrollment, SEIGIP encourages its members to use MN Community Measurements (MNCM) to help select a health care provider. MNCM is a non-profit organization formed by all of Minnesota's health plans and the Minnesota Medical Association. Its purpose is to improve the quality of health care for Minnesota consumers by monitoring and reporting on the provider groups' performance.

SEIGIP's Worksite Wellness program (Work Well) is designed to enhance the health of state employees through a variety of programs. Some of the goals of Work Well are to modify employees' skills, knowledge and attitudes toward nutrition, physical activity, tobacco use, and stress management – the overall goal being healthier state employees.

Advantage premiums increases were 3.5% from 2008 to 2009 while the 2009 premium was 0% in 2010. The projected increase for the 2011 medical premium is 6.7%, well below the projected national increase in premiums of 9-11% for 2011.

Key Activity Goals & Measures

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's SEIGIP 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.

- Cost effectiveness
 - Plan administration costs for 2011 are projected at 5.7%, well below industry norms of 10% or more
 - 2011 premiums for the advantage health plan are projected at 6.7%. Current industry estimates for 2011 are 9-11% for national programs
 - Over 99% of open enrollment activity occurs online
 - Over 69% 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
 - 85% of plan participants seek care from high quality/low cost providers
 - The state of Minnesota, along with six large private employers--3M, Carlson Companies, Medtronic, 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, cardiac and depression care 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 SEIGIP medical program makes available all provider groups within the state and surrounding communities.
 - The SEIGIP 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. This program was expanded in 2010 to manage medications for employees with at least two chronic conditions taking four or more medications. There are 10,000 SEIGIP members that meet these criteria.
 - A MinuteClinic opened in the Centennial Office Building in 2006 to provide quality medical care for minor illnesses to state employees and to the public. Services are available to state employees at reduced co-pay, with no charge for preventive care.

MINNESOTA MANAGEMENT & BUDGET**Program: STATEWIDE INSURANCE PROGRAMS****Activity: STATE EMPLOYEE GROUP INSURANCE PROGRAM**

Narrative

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 2010		FY 2011		FY 2012		FY 2013	
(Dollars in thousands)	Revenue	Expended	Revenue	Expended	Revenue	Expended	Revenue	Expended
Insurance Adm	\$5,843	\$5,554	\$5,855	\$6,751	\$5,855	\$7,191	\$5,855	\$7,405
Insurance Other	\$73,192	\$70,443	\$74,181	\$73,284	\$76,142	\$75,482	\$78,407	\$77,747
MN Advantage Plan	\$600,065	\$571,371	\$623,678	\$621,591	\$645,793	\$678,453	\$689,341	\$730,694
Risk Management Unit	\$0	\$644	\$0	\$1,298	\$0	\$1,337	\$0	\$1,377
Sub Total	\$679,100	\$648,012	\$703,714	\$702,924	\$727,790	\$762,463	\$773,603	\$817,223
Pre-Tax Adm	\$1,509	\$3,348	\$1,504	\$3,155	\$1,504	\$2,377	\$1,504	\$1,571
Pre-Tax Deposits	\$27,471	\$30,714	\$35,380	\$32,220	\$29,386	\$33,187	\$31,014	\$34,183
Sub Total	\$28,980	\$34,062	\$36,884	\$35,375	\$30,890	\$35,564	\$32,518	\$35,754
Total Budget Activity	\$708,080	\$682,074	\$740,598	\$738,299	\$758,680	\$798,027	\$806,121	\$852,977

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MINNESOTA MANAGEMENT & BUDGET

Program: STATEWIDE INSURANCE PROGRAMS

Activity: STATE EMPLOYEE GROUP INSURANCE PROGRAM

Narrative

State Employees' Group Insurance Program (SEGIP)								
Self funded Medical Plans - Plan Year Basis								
2004 to 2010 Plan Years								
Report Date - November 2010								
(SEGIP2010 Audit IS Report)	Actual	Actual	Actual	Actual	Actual	Actual	Actual	(A) Projected
	12 Months	12 Months	12 Months	12 Months	12 Months	12 Months	12 Months	12 Months
	12/31/04	12/31/05	12/31/06	12/31/07	12/31/08	12/31/09	12/31/09	12/31/10
Income (Premiums)	409,721,979	470,917,583	475,632,616	530,671,700	570,711,698	596,965,546	599,867,712	
Expenditures								
Claims Paid & Incurred	362,768,653	397,397,129	435,354,910	470,800,913	487,647,098	523,266,630	561,210,158	
Claims Paid & Incurred as % of Premiums	89%	84%	92%	89%	85%	88%	94%	
Admin & Reinsurance (Paid to Carriers)	27,874,333	29,402,553	30,923,152	30,340,823	33,664,288	30,517,856	30,840,104	
(Includes Risk Mgt Programs)								
Admin & Rein. As % of Prem.	6.8%	6.2%	6.5%	5.7%	5.9%	5.1%	5.1%	
Gain or (Loss)	19,078,993	44,117,901	9,354,554	29,529,964	49,400,312	43,181,060	7,817,450	
Gain (Loss) as % of Prem.	4.7%	9.4%	2.0%	5.6%	8.7%	7.2%	1.3%	
Other Expenses, Settlements, and Adjustments								
Employee Health Account					(16,318,750)	0	(9,500,000)	
Consulting, EAP and Other Costs	(876,182)	(955,888)	(858,284)	(1,025,155)	(432,814)	(424,841)	(1,100,000)	
Federal Liability on Fund Transfers	(1,500,000)	(3,100,000)		(446,628)				
Prior years - Settlements Received (Paid)	767,291	0	3,069,534	(6,223,149)	4,260,598	(569,263)	(2,200,000)	
Premium Holiday			(19,902,735)					
Total - Other	<u>(1,608,891)</u>	<u>(4,055,888)</u>	<u>(17,691,485)</u>	<u>(7,694,932)</u>	<u>(12,490,966)</u>	<u>(994,104)</u>	<u>(12,800,000)</u>	
Adjusted Gain or Loss Before Interest Income	17,470,102	40,062,013	(8,336,931)	21,835,032	36,909,346	42,186,956	(4,982,550)	
Adj. Gain (Loss) as % of Prem.	4.3%	8.5%	-1.8%	4.1%	6.5%	7.1%	-0.8%	
Interest Income	1,980,735	4,591,227	7,489,989	8,905,293	8,092,692	5,178,986	3,800,000	
Gain or Loss After Interest Income	<u>19,450,837</u>	<u>44,653,240</u>	<u>(846,942)</u>	<u>30,740,325</u>	<u>45,002,038</u>	<u>47,365,942</u>	<u>(1,182,550)</u>	
Funds Received (Transferred To) General Fund		(23,000,000)						
Contingency Reserves - End of Plan Year	<u>70,637,965</u>	<u>92,291,205</u>	<u>91,444,263</u>	<u>122,184,588</u>	<u>167,186,626</u>	<u>214,552,568</u>	<u>213,370,018</u>	
Contingency Reserves as % of Annual Expenses	<u>18.1%</u>	<u>21.6%</u>	<u>19.6%</u>	<u>24.4%</u>	<u>32.1%</u>	<u>38.7%</u>	<u>36.0%</u>	
(A) - Actual results for 6 months ending 06/30/10, and Projected results for the 6 months ending 12/31/10.								
Note: The above Income Statement(s) have not been Independently Audited.								

MINNESOTA MANAGEMENT & BUDGET

Program: STATEWIDE INSURANCE PROGRAMS

Activity: STATE EMPLOYEE GROUP INSURANCE PROGRAM

Narrative

State Employees' Group Insurance Program (SEGIP) Self funded Medical Plans - Plan Year Basis

Definitions

(SEGIP2010Audit IS Report)

Income (Premiums)

Total Premiums received from Employees (Current and Retirees) and Agencies (including quasi- state agencies).

Exception - Reported Premiums also include uncollected premiums related to "Premium Holiday." (See 2006 Plan Year). The uncollected premium is reflected as an Adjustment on the Financial Statement. This method is used to provide a more accurate comparison of Premiums from one plan year to the next. (Per Member Per Month, PMPM, and percent change from prior Plan Year).

Claims Paid & Incurred

Claims incurred (medical visit occurred) during the 12 month period ending on December 31st and which have been, or will be, paid by the state. (Does not include employee cost sharing provisions.)

Depending on when the Financial Statement is prepared an estimate of incurred claims that have not yet been paid by the state needs to be included. (At 6/30/10, unpaid claims were estimated to be \$42.2 million.)

As accurately as possible, we are trying to compare 12 months of medical premiums, with the same 12 months of medical claims.

Claims Paid & Incurred as % of Premiums

This percentage illustrates the percentage of Premiums, from one Plan Year to the next, used to pay medical claims.

A percentage of 93% means 93% of premiums pays for claims and 7% of the premium pays for

Administration, Reinsurance, and any needed increase in the Contingency Reserve.

Admin & Reinsurance (Paid to Carriers)

Payments made to the Carriers/Plan Administrators to manage the health care needs and administrative costs of employees. (Carriers include Blue Cross Blue Shield of Minnesota, HealthPartners, Preferred One and Navitus).

The state purchases Aggregate Stop Loss Insurance, which provides the state financial protection if total claims exceed a certain threshold. The premium is less than \$150,000 per year.

The Admin Fees to carriers is paid from premiums. A separate admin fee of \$8.02 per employee per month is collected by SEGIP to fund internal MMB admin costs. This fee is used to support the administration of SEGIP benefits (medical, dental, LTD, STD, life) and is not specific to Medical. This administration fee has not increased since 1998.

Admin & Rein. As % of Prem.

This percentage illustrates what percentage of Premiums, from one Plan Year to the next, is used to pay Admin and Reinsurance costs.

Gain or (Loss)

Reflects the difference between Premiums collected by the state, and what was spent by the state for Medical claims and Admin/Reinsurance cost. (Premiums - claims - admin fees.)

Gain (Loss) as % of Prem.

This percentage illustrates, as a percentage of Premiums, what the state "made" or "lost," during the Plan Year.

MINNESOTA MANAGEMENT & BUDGET

Program: STATEWIDE INSURANCE PROGRAMS

Activity: STATE EMPLOYEE GROUP INSURANCE PROGRAM

Narrative

While the "needed" percentage varies between Plan Years, 1% could be used as a benchmark, as the needed revenue to maintain the proper contingency reserve.

Other Expenses, Settlements, and Adjustments

Employee Health Account: the 2008 \$250 HRA offered to all employees of the MN Advantage Health Plan, and the 2010 \$125 HRA were intended to offset reserves and reward members for seeking high quality/low cost care.

"Consulting, EAP and Other Costs" included in the 2009 Plan Year:

Bridges to Excellence Programs (Diabetes / Cardiovascular)	165,435
Cost of Maintaining the Data Warehouse (Deloitte)	208,655
Cost of Maintaining Centennial Office Building MinuteClinic	50,751
	<u>\$424,841</u>

Federal Penalty on General Fund Transfers: Penalty incurred as a result of legislative action transferring SEGIP funds to the General Fund.

Prior years - Settlements Received (Paid): Yearly process by where program incentives and record keeping are finalized between the program and plan administrators.

Premium Holiday: Uncollected premium to reduce contingency reserve.

Interest Income

Interest earned on accounts through the State Board of Investments (SBI). Primarily money invested from the contingency reserve.

Funds Received (Transferred To) General Fund

Funds taken from SEGIP medical program and transferred to general funds. Federal penalties were also incurred at about 14%, and reflected in the Federal Penalty on General Fund Transfer under "Other Expenses".

Contingency Reserves as % of Annual Expenses

Often referred to as Reserves. This figure is a percentage of Contingency Reserves compared to Claims Paid & Incurred plus Admin & Reinsurance (Paid to Carriers).

Example of Fiscal year vs. Calendar year			
Gain or Loss - Self funded Medical Program (Does not reflect General Fund Transfers)			
	Fiscal Year	Plan Year	
	Ending	Ending	
Year	June 30th	December 31st	
2004	4,789,770	19,450,837	
2005	29,897,231	44,653,240	
2006	38,728,349	(846,942)	
2007	(1,328,709)	30,740,325	
2008	55,575,834	45,002,038	
2009	34,340,791	47,365,942	
2010	30,848,874	(1,182,550)	
		(June '10 projections)	
Total	192,852,140	185,182,890	

MINNESOTA MANAGEMENT & BUDGET
Program: STATEWIDE INSURANCE PROGRAMS
 Activity: STATE EMPLOYEE GROUP INS PGRM

Budget Activity Summary

<i>Dollars in Thousands</i>					
	Current		Governor's Recomm.		Biennium
	FY2010	FY2011	FY2012	FY2013	2012-13
<u>Expenditures by Fund</u>					
Statutory Appropriations					
State Employees Insurance	651,360	706,079	764,840	818,794	1,583,634
Miscellaneous Agency	30,714	32,220	33,187	34,183	67,370
Total	682,074	738,299	798,027	852,977	1,651,004
<u>Expenditures by Category</u>					
Total Compensation	3,650	4,248	4,490	4,653	9,143
Other Operating Expenses	678,424	734,051	793,537	848,324	1,641,861
Total	682,074	738,299	798,027	852,977	1,651,004
Full-Time Equivalents (FTE)	43.3	49.0	49.0	49.0	

Activity at a Glance

- 62 public employer groups, representing more than 11,000 employees, solicited bids from the Public Employees Insurance Program (PEIP) during FY 2010.
- As of July 2010, 67 public sector employer groups in Minnesota participated in PEIP. These include 21 school districts, 32 cities and townships, two counties, and 12 other units of government (watershed districts, Housing Redevelopment Authorities, etc.).
- The average number of employees per group is 48, with groups ranging from one to more than 1,400.

Activity Description

The Public Employees Insurance Program (PEIP) is a statewide health, dental, and life insurance pool and is 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. The Employee Insurance Division (EID) manages the program.

Population Served

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

Services Provided

The availability of PEIP helps public sector employers obtain competitive health insurance rates. PEIP offers prospective groups a "snapshot" of their current health plan risk which helps public employers to assess various bids in the marketplace. While PEIP may not always be the successful bidder, it helps local units of government negotiate with other carriers and helps to facilitate discussions on how to deliver the best possible products to employees for the right price. In addition, PEIP offers public sector employers and their employees a choice of health plans wherever possible, which is 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 no longer perceived as being competitive in the market. This was addressed by altering the program design from a fully-insured model to a self-insured model. After peaking in FY 2001, membership declined as premium rates increased 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. The introduction of PEIP Advantage has provided public employers with a high quality, cost effective program that can be tailored to suit their specific needs.

Key Activity Goals & Measures

Activity goals fall under the Minnesota Milestones statewide goal #36: 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.

- In 2007, the program implemented PEIP Advantage, modeled after the Minnesota Advantage Health Plan offered to state employees. Approximately 86% of PEIP's membership is enrolled in PEIP Advantage.
- PEIP provided 62 local units of government and their 11,000 employees with quotes for coverage during FY 2010. While only 12 of these resulted in the group joining PEIP, the remaining employer groups were provided with an assessment of their anticipated insurance costs, helping them in negotiations with their employee groups and other potential 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 8,500 employees, retirees and dependents are covered under PEIP.

MINNESOTA MANAGEMENT & BUDGET**Program: STATEWIDE INSURANCE PROGRAMS****Activity: PUBLIC EMPLOYEES INSURANCE PGRM**

Narrative

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

PEIP	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
# of groups	137	123	107	89	85	73	57	67
change vs. previous year	0%	(10%)	(13%)	(17%)	(4%)	(14%)	(22%)	17%
# of employees	3,632	2,950	2,304	1,671	1,600	1,400	1,257	3,258
change vs. previous year	(7%)	(19%)	(22%)	(27%)	(4%)	(12%)	(10%)	159%

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 2010		FY 2011		FY 2012		FY 2013	
(Dollars in thousands)	Revenue	Expended	Revenue	Expended	Revenue	Expended	Revenue	Expended
PEIP Adm (Fund 551)	\$511	\$513	\$545	\$543	\$684	\$684	\$694	\$694
PEIP Plan	\$24,749	\$21,678	\$35,000	\$35,000	\$37,560	\$37,560	\$40,316	\$40,316
Total Budget Activity	\$25,260	\$22,191	\$35,545	\$35,543	\$38,244	\$38,244	\$41,010	\$41,010

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MINNESOTA MANAGEMENT & BUDGET

Program: STATEWIDE INSURANCE PROGRAMS

Activity: PUBLIC EMPLOYEES INSURANCE PGRM

Budget Activity Summary

<i>Dollars in Thousands</i>					
	Current		Governor's Recomm.		Biennium
	FY2010	FY2011	FY2012	FY2013	2012-13
<u>Expenditures by Fund</u>					
Statutory Appropriations					
State Employees Insurance	22,191	35,543	38,244	41,010	79,254
Total	22,191	35,543	38,244	41,010	79,254
<u>Expenditures by Category</u>					
Total Compensation	149	223	233	242	475
Other Operating Expenses	22,042	35,320	38,011	40,768	78,779
Total	22,191	35,543	38,244	41,010	79,254
Full-Time Equivalents (FTE)	1.5	2.6	2.6	2.6	

Dollars in Thousands

	Actual FY2010	Budgeted FY2011	Governor's Recomm. FY2012 FY2013		Biennium 2012-13
<u>Non Dedicated Revenue:</u>					
Other Revenues:					
General	46	40	40	40	80
Total Non-Dedicated Receipts	46	40	40	40	80
<u>Dedicated Receipts:</u>					
Departmental Earnings (Inter-Agency):					
State Employees Insurance	6,799	6,686	6,686	6,686	13,372
Management Analysis	1,812	1,942	2,000	2,060	4,060
Departmental Earnings:					
Miscellaneous Special Revenue	4	4	4	4	8
State Employees Insurance	811	797	936	946	1,882
Other Revenues:					
Miscellaneous Special Revenue	7,993	7,398	7,399	7,399	14,798
State Employees Insurance	6,418	4,558	4,094	3,694	7,788
Management Analysis	540	586	592	595	1,187
Other Sources:					
Building	65,800	0	0	0	0
State Employees Insurance	691,841	728,722	755,822	804,791	1,560,613
Miscellaneous Agency	27,471	35,380	29,386	31,014	60,400
Total Dedicated Receipts	809,489	786,073	806,919	857,189	1,664,108
Agency Total Revenue	809,535	786,113	806,959	857,229	1,664,188

	PAGE
Agency Profile	2
Agency Change Items	
⇒ Cash Flow Account Temporary Reduction	4
⇒ Increase Maximum Budget Reserve.....	5
⇒ Repeal Of Land Sales Requirement	6
⇒ Use Of General Obligation Bond Premium	7
⇒ Designates that this item is a change item	

By statute, Minnesota Management & Budget manages several special statewide accounts that are not a part of its day-to-day operations. These responsibilities include the statutory requirement to receive the state's share of various monies collected by the counties and judicial districts as fees, fines, assessments and surcharges. As a group, these accounts are referred to as non-operating accounts. These accounts deal with a broad range of subjects, including local pensions, debt service, tort claims and general contingency accounts. The non-operating account also serves as a pass through for federal funding for payments in lieu of taxes to local units of government where national forests are located.

These accounts are not included in the agency wide financial summary presented earlier.

Core Functions

Contingent Accounts: Contingent accounts are appropriations made from several state funds to provide supplemental funding for emergencies and other legally authorized purposes. The release and expenditure of this funding requires the approval of the governor after consultation with the Legislative Advisory Commission (LAC). The LAC provides legislative review of the use of these funds during interim periods when the legislature is not in session. With the approval of the governor, supplemental funding for specific purposes is transferred to individual agency budgets; thus, expenditure history appears in the affected agency's budget.

FUND (Dollars in Thousands)	FY 2010		FY 2011	FY 2012-13
	Appr.	Spent	Appr.	Rec. Appr.
General Fund (100)	500	0	500	500
State Government Misc. (170)	400	0	400	400
State Airports (220)	50	0	50	50
Trunk Highway (270)	200	0	200	200
Highway User Tax Distribution (280)	125	0	125	125
Workers Compensation (320)	100	0	100	100
Total All Funds	1,375	0	1,375	1,375

Tort Claims: This account pays tort claim judgments against a state agency that cannot be paid from that agency's appropriated accounts. As specified in M.S. 3.736, subd. 7, "a state agency, including an entity defined as part of the state in Section 3.732, subd. 1, incurring a tort claim judgment or settlement obligation shall seek approval to make payment by submitting a written request to the commissioner of Minnesota Management & Budget. If the commissioner of Minnesota Management & Budget determines that the agency has sufficient money in its appropriation accounts, the claim will be paid from these accounts. Otherwise, the payment will be made from the appropriation made to the commissioner of Minnesota Management & Budget for tort claim payments.

FUND (Dollars in Thousands)	FY 2010		FY 2011	FY 2012-13
	Appr.	Spent	Appr.	Rec. Appr.
General Fund (100)	161	0	161	161
Trunk Highway (270)	600	311	600	600
Total All Funds	761	311	761	761

Additional funding was appropriated to MMB in Minnesota Laws of 2008, Chapter 288, Section 6, for I-35W bridge special compensation payments. The following table summarizes the activity to date in these appropriations.

Appropriation Name	Appropriation Amount	Amount Expended Through 11/30/10
Compensation to Survivors	\$24,000,000	\$24,000,000
Supplement Payments	\$12,640,000	\$12,640,000
Administrative Expenses	\$ 750,000	\$ 750,000
Special Master Panel Services \$624,999		
Special Master Expenses/Staff Costs \$118,920		
Administrative Costs - Printing, Website, Communications, Postage and Supplies \$ 6,081		
Total \$750,000		
Waite House/Pillsbury United Communities	\$ 610,000	\$ 610,000
TOTALS	\$38,000,000	\$38,000,000

Indirect Costs: Under M.S. 16A.127, state agency operating activities with non-General Funds (primarily federal) are obligated to prepare an agency wide cost allocation plan and submit it to their appropriate federal agency for approval. This plan must include agency indirect costs, which are administrative support costs that are not directly charged to a specific program. Agencies are required to reimburse the General Fund for any portion of these costs that were originally funded by the General Fund and that were used to support non-General Fund activities. In addition, these non-General Fund activities also rely on support from some of the centralized statewide systems financed by the General Fund. The non-General Fund activities must also reimburse the General Fund for these statewide indirect costs. The commissioner of MMB prepares a plan each year that identifies the sources and amounts of each agency’s statewide indirect costs. The commissioner submits this plan to the appropriate federal agency for approval, and notifies the governor and legislature. The commissioner also records all of the agency and statewide indirect cost reimbursements to the General Fund.

Debt Service: This account pays principal and interest on the state’s general obligation long-term debt. On December 1 of each year, the commissioner of Minnesota Management & Budget (MMB) must transfer to the Debt Service Fund an amount sufficient (with balance on hand and interest income) to pay all principal and interest on bonds due in the following 19 months. The Minnesota Constitution requires the state auditor to annually levy a statewide property tax sufficient to pay debt service through this 19-month period if sufficient funds are not available. Historically, the legislature has made specific debt service appropriations to the commissioner of MMB in order to eliminate the need for levying the statewide property tax. Debt service appropriations are broken down into two categories: existing debt and new issues.

(Dollars in Thousands)

	Actual FY2010	Projected FY2011	Projected (Gov Rec) FY2012	Projected (Gov Rec) FY2013
<i>Outstanding Debt</i>				
Total	4,961,875	5,480,935	5,773,246	6,032,631
General Fund Debt Service Appropriation				
Existing Bond Authorizations	429,123	401,265	563,594	516,174
New Bond Authorizations	<u>0</u>	<u>0</u>	<u>7,681</u>	<u>62,057</u>
Total	429,123	401,265	571,275	578,231

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MINNESOTA MANAGEMENT & BUDGET

Change Item: Cash Flow Account Temporary Reduction

Fiscal Impact (\$000s)	FY 2012	FY 2013	FY 2014	FY 2015
General Fund				
Expenditures	\$(136,000)	\$0	\$0	\$0
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	\$(136,000)	\$0	\$0	\$0

Recommendation

The Governor recommends temporarily reducing the balance in the General Fund cash flow account by \$136 million as part of the FY 2012-13 budget solution. This will leave a balance of \$130 million in the cash flow account at the end of FY 2012.

Rationale

M.S. 16A.152 establishes a cash flow account to help the state meet cash flow deficiencies resulting from the uneven distribution of revenue collections to the state and payments the state is required to make. The current forecasted \$399 million budgetary balance for FY 2011, coupled with an improvement in daily cash flow projections, including administrative actions, indicate the state will have sufficient cash balances to avoid payment disruptions through the remaining months of FY 2011. This would allow a temporary reduction in the amount reserved in the cash flow account.

The Governor supports the current mechanism for restoring the cash flow account under M.S. 16A.152. This mechanism would allocate any future forecast balance in FY 2012-13 to restoring the cash flow account to \$350 million. Additionally, in the event the February 2011 forecast results in an improvement in the FY 2011-13 outlook, the Governor has identified as a priority restoring the cash flow account to its statutory maximum amount of \$350 million in FY 2012.

Statutory Change: None.

MINNESOTA MANAGEMENT & BUDGET

Change Item: Increase Maximum Budget Reserve

Fiscal Impact (\$000s)	FY 2012	FY 2013	FY 2014	FY 2015
General Fund				
Expenditures	\$0	\$0	\$0	\$0
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	\$0	\$0	\$0	\$0

Recommendation

The Governor recommends increasing the state budget maximum reserve level in M.S. 16A.152, subdivision 2, from \$653 million to 4.1% of biennial resources. Given the state's current budget deficit, the Governor does not recommend immediately increasing the budget reserve to this level; rather, this would become the goal for full funding of the reserve when budget conditions improve. This recommendation is in line with the work of the recent Budget Trends Study Commission and will help to maintain the structural balance of the state's budget.

Rationale

The state has two distinct General Fund reserve accounts, for which maximum levels for are set in Minnesota Statutes 16A.152. The largest is the \$653 million budget reserve account, sometimes referred to as the "rainy day fund." A separate cash flow account of \$350 million is designed to offset potential cash shortages caused by the mismatch of monthly revenue collections and expenditure payments.

At the current level of \$653 million, the maximum budget reserve represents approximately 1.8% of proposed FY 2012-13 biennial resources. Nationally, 5% of *annual* spending is generally regarded as a prudent level of rainy day funds for state budgets. The state's Council of Economic Advisers has consistently recommended that policymakers consider establishing a reserve as high as 5% of *biennial* revenues as a conservative cushion against economic downturns and unanticipated budget shortfalls. The recent Budget Trends Study Commission found that the state's budget reserve ceiling is not high enough to adequately manage the underlying risks in our volatile tax system. The Budget Trends Study Commission recommended a budget reserve based on 2.9 to 3.3% of resources for two consecutive biennia, an even higher threshold than 4.1% of biennial resources, which was another option provided in the report.

The budget reserve was depleted in the 2008 legislative session to solve a budget shortfall and remained close to zero in the November 2010 forecast. Based on the Governor's proposed \$36.572 billion budget for FY 2012-2013, the new goal for full funding of the budget reserve would be approximately \$1.5 billion, an increase of \$847 million over the current statutory maximum of \$653 million.

Currently, M.S. 16A.152 subdivision 2, allocates any forecast surplus revenues to first replenish the cash flow account and budget reserve up to the statutory maximum levels before repaying accounting shifts and becoming available for spending by the Governor and legislature. The Governor recommends that this statutory language be changed so forecast surplus revenue would be allocated in the following manner:

1. Replenish the cash flow account up to \$350 million.
2. Replenish the budget reserve up to \$653 million.
3. Any additional forecast surplus revenue allocated 50% to school aid repayment and 50% to meeting a new budget reserve maximum of 4.1% of biennial resources.
4. Additional forecast surplus allocated to other priorities as outlined in M.S. 16A.152, subdivision 2.

Statutory Change: M.S. 16A.152, subdivisions 1 and 2.

MINNESOTA MANAGEMENT & BUDGET

Change Item: Repeal of Land Sales Requirement

Fiscal Impact (\$000s)	FY 2012	FY 2013	FY 2014	FY 2015
General Fund				
Expenditures	\$0	\$0	\$0	\$0
Revenues	(2,135)	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	\$(2,135)	\$0	\$0	\$0

Recommendation

The Governor recommends repealing the land sales requirement from 2005, which included a requirement to reduce agency operating budgets if proceeds from land sales are less than \$6.44 million. This initiative reduces general fund revenue in FY 2011 by \$2.135 million, the amount of the targeted sales revenue that has not been realized.

Rationale

The requirement to identify and sell at least \$6.44 million of state-owned land was originally enacted in Laws of 2005, Chapter 156, Article 2, Section 45. This initiative is proposed because the deadline for selling land has been extended twice since then and the targeted sales have not been realized. These are significant factors affecting the feasibility of selling state-owned land and its reduced value in the current real estate market. Further, the state generally does not own land that has commercial or residential value.

The initiative also proposes to eliminate the requirement to allocate the remaining targeted amount as reductions to operating budgets of agencies. This requirement is difficult to implement at the end of a biennium and gives no opportunity for citizens and other stakeholders to comment on the specific agency reductions. Another reason for eliminating the requirement is that land holdings are concentrated in a small number of agencies, so these few agencies would receive significant budget reductions. For example, allocating operating reductions based on acreage would result in an operating reduction in excess of \$2 million to the Department of Natural Resources.

This initiative would need an effective date before June 30, 2011, because that is the date sales or operating reductions are to be recognized.

Statutory Change: Laws of 2009, Chapter 37, Article 1, Section 59.

MINNESOTA MANAGEMENT & BUDGET

Change Item: Use of General Obligation Bond Premium

Fiscal Impact (\$000s)	FY 2012	FY 2013	FY 2014	FY 2015
General Fund				
Expenditures	\$0	\$0	\$4,797	\$2,768
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	4,797	2,768
Net Fiscal Impact	\$0	\$0	\$4,797	\$2,768

Recommendation

The Governor recommends a change to MS 16A.641, subdivision 7, to provide that premiums received on the sale of bonds may be used to reduce the principal amount of the bonds issued. This is a common practice elsewhere that, if adopted, would ensure that the state does not borrow more than it needs to.

Rationale

This initiative changes how the state treats premiums offered by bond buyers. When interest rates are low, bond buyers pay the state a premium at the time of sale to reduce the long-term cost or interest expense of the bonds. Currently, the state is required to deposit the premium in the debt service fund and is used to defray the cost of repaying the bonds in the first year of debt payments.

Under this proposal, the state would have the option to deposit the premium into the bond proceeds fund to reduce the total amount of bonds sold. Depending on bond market conditions, premiums could be deposited to either the bond proceeds fund to reduce the principal amount of the bonds issued or to the state bond fund to be used to reduce the debt service transfer requirement.

Providing flexibility in how bond premiums are treated costs the state in the short run, but significantly reduces debt service cost in the long run. The initial cost of debt service would not be artificially reduced because receipt of the premium would not be used to offset the general fund transfer to the debt service fund in those years. Over time, the proposal reduces debt service costs because the total amount of bonds sold would be less, reducing interest owed over the life of the bonds. Allowing the proposal's options for the treatment of the premium also would increase the marketability of state general obligation bonds.

This initiative would be implemented after FY 2013 and would increase costs by about \$7.6 million in the FY 2014-15 biennium.

Statutory Change: M.S. 16A.641.