

ANNUAL REPORT TO THE GOVERNOR



December 2008



December 31, 2008

The Honorable Tim Pawlenty, Governor
130 State Capitol
St. Paul, Minnesota

Governor Pawlenty:

It is my privilege to submit to you the *Drive to Excellence 2008 Annual Report*, which summarizes our accomplishments over the past year in advancing your reform agenda.

As you stated earlier this month regarding the state's budget crisis, "this historic budget deficit will be a challenge, but it will also be a further opportunity to reform, prioritize, streamline and shrink state government." Since your launch of the Drive to Excellence on April 4, 2005, we have continually targeted our efforts toward significant reform of state government.

Among our notable successes:

- **Increased Quality via Lean Continuous Improvement Reform** – The State has adopted "Lean Thinking" as its preferred process improvement tool. So far, 18 agencies are actively involved, with 302 staff members participating in 38 Kaizen improvement events. These Kaizens have yielded significant improvements in the delivery of state government services, from issuing duplicate birth certificates to processing State Soldiers Assistance requests.
- **Increased Customer Service via Grants Management Reform** – The establishment of an Office of Grants Management and a grants governance team that collaboratively revised and implemented 11 new statewide grants policies, conducted eight training sessions with 238 participants and created websites for grant information for the public and resources for agency grant managers and non-profits.
- **Reduced Costs via Sourcing Reform** – Standards for common products and services are leveraging volume to lower costs, while a strategy in which the state negotiates every contract is delivering better terms and conditions, including price. Recent contracts for multi-function devices (copy/scan/print/fax), for example, reflect projected savings of \$45 million over the next five years.

These accomplishments, and others in this report, represent the work of over 1,100 people from more than 70 state agencies, boards and commissions, as well as representatives of local governments, MnSCU, non-profit and private organizations. Their efforts demonstrate an unwavering commitment to reforming Minnesota state government as an enterprise focused on serving customers efficiently and effectively.

We have accomplished much over the past year and have set the stage for even more significant reform in the coming years. The Enterprise Geographic Information Services (GIS) initiative, for example, will improve coordination and accountability of state GIS, provide opportunities for consolidated software and equipment investments, standardization, expanded access to GIS resources and enhanced customer services to the citizens of Minnesota. These are truly exciting times for improving state government, and I look forward to sharing our plans and future successes with you.

Sincerely,

A handwritten signature in black ink that reads "Dana B. Badgerow".

Dana B. Badgerow, Chair
Drive to Excellence Sub-Cabinet



Introduction

Since its start in April 2005, the Drive to Excellence has sought to increase quality and customer service and reduce costs in the delivery of government services to Minnesota's 5.2 million citizens.

Because of the Drive to Excellence:

- State and local governments today are paying less for the goods and services they need.
- Citizens can now begin their searches for state licenses, disability information and competitive grants through first-stop web portals.
- The building industry has a convenient “one-stop-shop” in state government for construction codes regulation and information.
- State government is streamlining business processes, often with dramatic results, through the application of Lean principles and tools.
- Police officers and emergency medical technicians will soon be able to complete their state-required licensing online, at any time, from anywhere.

These are only a sampling of the many benefits that state government and Minnesota citizens are realizing today through the Drive to Excellence. Furthermore, they represent what is possible – particularly as Minnesota again faces a serious budget shortfall.

Governor Pawlenty stated on December 4: “Minnesota has overcome tough times in the past, and we will rise to meet the challenges again. Minnesotans are innovative and resilient, and we will solve the problem. This historic budget deficit will be a challenge, but it will also be a further opportunity to reform, prioritize, streamline and shrink state government.”

For nearly four years, Drive has been identifying opportunities and implementing solutions for innovating, reforming and streamlining the business of state government. Led by the Governor's Sub-Cabinet of eight commissioners, chaired by the Commissioner of Administration, Drive has three primary objectives:

- Create a long-term solution for the challenges and opportunities facing the state, from the demands of citizens and business for faster, better and more cost-effective services to the anticipated surge in state worker retirements;
- Refocus state government as a unified entity serving all citizens, rather than as an affiliation of semi-autonomous entities serving their individual constituencies; and
- Serve citizens better through increased quality, improved customer service and reduced costs.

Beginning with six projects in 2005, Drive has grown to 14 projects, of which five have been completed and nine are underway. Three projects were initiated in 2008: Enterprise Geographic Information Systems, Lean Continuous Improvement and Enterprise Print Strategy.

With Executive Branch leadership setting the course, the grassroots efforts of more than 1,100 individuals are carrying out the work and delivering results for state government and the people of Minnesota. These individuals represent over 70 state agencies, boards and commissions; the University of Minnesota and Minnesota State Colleges and Universities (MnSCU); local governments; and non-profit and private sector organizations.

Drive efforts have been recognized with several prestigious awards and nominations, including:

- The George H. Cronin Gold Award for Procurement Excellence from the National Association of State Procurement Officials (NASPO) for Minnesota's Spend Analysis system. This web-based tool is critical for "best value" procurement and is a building block of Drive's Strategic Sourcing initiative. Spend Analysis uses internationally recognized standards to collect and quantify data from existing state systems. Minnesota's Spend Analysis system was also a semi-finalist for the Ash Institute's 2008 Innovations in American Government Award.
- Enterprise Minnesota's 2008 Best of Manufacturing Award for Best Nontraditional Use of Lean process improvement.
- The 2008 Council of State Governments' Midwestern Region Innovations Award, semifinalist.
- The Council of State Governments' first annual State Transformation Award, nominee.
- The Ash Institute's 2009 Innovations in American Government Award, nominee.

Several publications, including *Enterprise Minnesota*, *The Legal Ledger Capitol Report*, *Government Technology Magazine*, *Finance and Commerce*, *Twin Cities Business* and *Government Procurement Magazine* have also featured the Drive to Excellence or its projects in articles.

This report summarizes Drive's accomplishments over the past year toward achieving increased quality, improved customer service and reduced costs in the Executive Branch of state government.

Increasing Quality

LEAN Continuous Improvement is one of Drive's newest and most successful projects. As of December, 11 state agencies have evaluated and streamlined more than 40 business processes, dramatically reducing wasted time and effort. Additionally, nearly 90 state agency personnel are now trained facilitators fully capable of furthering improvement in their respective organizations.

Launched in January 2008, the initial objective of Lean called for engaging six Executive Branch agencies within the first six months in the use of Lean tools for scrutinizing their business processes and streamlining them to eliminate unnecessary steps or activities (called wastes). By June 2008, 14 agencies were actually involved in Lean training and/or Kaizens. A Kaizen event (Kaizen is Japanese for "change for the better") is an intense and dedicated effort that identifies waste in a given business process and rapidly implements improvements in that process. In the past year, 302 people from multiple agencies have participated in 38 Kaizens events in 11 agencies.



By focusing on a single business function and streamlining its steps, the state has realized phenomenal results with Kaizens:

- The Minnesota Department of Health (MDH) reduced the time it takes to process citizens' requests for duplicate birth certificates by more than 80 percent, from six days to less than one.
- The Department of Human Services (DHS) reduced by 89 percent the amount of time required for processing health care premiums.
- The Minnesota Department of Veterans Affairs (MDVA) reduced by half the time it takes to process veterans benefits.

Details of these, along with many more, are available on the Lean website, www.lean.state.mn.us.

A second objective calls for establishing Lean facilitators within each state agency to encourage, promote and ultimately imbed a culture of continuous improvement in their organizations. In 2008, nearly 300 individuals from 18 state agencies, along with the Board of Aging, Perpich Center for the Arts and MnSCU, have received training as Lean Facilitators or have received training on the benefits of Lean. Additionally, an overview of Lean is now included in the State Supervisory Core training and was featured at the 2008 State Managers Conference. The Department of Administration has also established a master contract for Lean support services for agencies currently lacking trained facilitators.

Several Drive projects have also tapped Lean techniques for improving business processes:

- **Grants Management** – A Kaizen with the Department of Public Safety focusing on grants administration reduced the number of steps involved in the process from eight to five, thereby freeing program staff for essential duties, replacing paper handouts with electronic email, reducing lead time on grant administration by 25 percent and improving customer service. The Office of Grants Management Coordinator, an integral participant in of the Kaizen, has completed facilitator training to further foster future grants-related improvements in state grant-making agencies.

- **Fleet Management** – Using a Lean tool called Value Stream Mapping, Admin’s Fleet and Surplus Services eliminated four unnecessary handoffs, reducing time spent on preparation for the disposal of surplus vehicles.
- **Enterprise Print** – With the consolidation of the Office of Enterprise Technology’s printing operations at other state agencies, many state departments leveraged the Enterprise Print Project as an opportunity for reviewing their printing needs and demands. As a result, agencies have eliminated numerous printed reports or converted them to electronic reports.

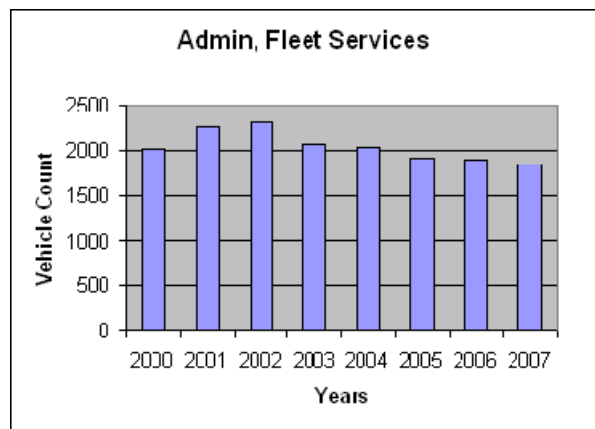
The **Enterprise Email** project is an outgrowth of Drive’s IT Governance project (Executive Order 05-04), which established the Office of Enterprise Technology (OET) and, through legislation, granted the new organization greater authority over statewide technology policy and assets. OET is currently focusing significant effort on enterprise solutions for state technology needs. Enterprise solutions reduce redundancy, ensure compatibility across state government and leverage purchasing volume.



The Enterprise Email project will replace 26 agency-based email systems on four platforms with one statewide system by the end of 2010. This single system will improve and simplify communications and calendaring through a statewide directory and a highly secure and redundant email system. The state’s total cost of ownership for messaging will decrease and it will be easier to implement new functions.

Five pilot agencies and several smaller state entities, with more than 5,000 email boxes, were successfully migrated to the new system in late 2008.

The **Fleet Management** project is realizing better utilization of the state’s approximately 8,000 on-road passenger vehicles. Semi-annual vehicles usage reports flag underutilized vehicles, which agency heads can then decide to discontinue. For example, the Department of Administration’s Fleet Services vehicle count has decreased by 8.7 percent since 2000 (see chart). Statewide, the fleet has been reduced 19.7 percent since 2003.



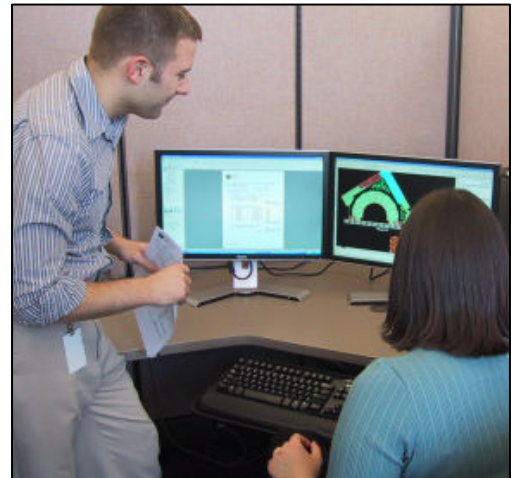
As of late 2008, 92 percent of the state’s vehicles are monitored in a statewide vehicle information system, called M5. Data from the system is helping improve the management of vehicles, infrastructure and personnel and opening opportunities for sharing facilities and tasks.

Additionally, quarterly fuel reports help managers monitor fuel usage and progress toward the Governor’s goal of reducing state government’s reliance on petroleum products. The state’s use of

alternative fuels, such as E85 and bio-diesel, is growing. In the third quarter of FY09, E85 accounted for 12.1 percent of overall non-diesel fuel purchases from retailers, nearly a 10-fold increase from three years ago.

The **Enterprise Real Property** project achieved a critical milestone in 2008 with the selection of an enterprise platform for managing the state's 5,000-plus buildings and associated real estate. When fully implemented, the state for the first time will be able to "see," at an enterprise level, what it owns and more efficiently manage assets through reduced operating costs, a smaller footprint, better preventive maintenance programs and more.

The Department of Administration received a \$2.5 million appropriation from the 2007 legislature for the acquisition of software and initial system implementation. Additionally, agencies contributed \$1.8 million in carry-forward funds for the development of the first four functional modules of the system: Space Management, Building Operations, Fixed Assets and Moves/Additions, with completion anticipated by mid-2009. The benefits of this enterprise system include:



Square footage data, including building schematics, are now being entered into the Real Property Management system.

- More efficient space management, including an anticipated minimum 6 percent reduction in leased space.
- Quicker responses to on-demand work through prioritizing tasks and avoiding work backlogs and, ultimately, reducing and/or eliminating on-demand work through orderly, planned and cost-effective facilities maintenance.
- Quicker identification of vacant or potentially vacant state-owned space for re-tasking or disposal.
- Capturing and retaining facilities-related staff knowledge, saving significant time for training and re-training personnel and searching for information.
- Lower costs for goods and services by identifying common needs, then leveraging the state's volume purchasing power for their acquisition.

Implementation of the initial system is now at its midpoint, while a projected 57 percent of the state's square footage data is on schedule for entry into the system by December 2009.

Real Property remains a challenging project because of a lack of dedicated resources for ongoing maintenance and support and the failure to fund ongoing system operations in the base budget. Further funding is necessary to continue implementation and operation of this single system, rather than the plethora of disparate systems that are now in use.

More than 80 percent of the data that state agencies collect today has a “spatial” component – that is, it can be plotted on a map. Not only are maps more intellectually stimulating than a list, they can be critical to disaster and security planning, flood mitigation, building and resource location and more.

The **Enterprise GIS** (Geographic Information Systems) project, initiated earlier this year by the state GIS community, calls for an organizational framework for coordinating GIS across state government as an enterprise activity. The new Minnesota Geographic Information Office will help agencies control the costs of implementing GIS technology in the future and create efficiencies by expanding capacities to identify and jointly pursue strategic projects.



The Enterprise GIS Steering Team includes representation from across the state GIS community.

The Drive to Excellence Sub-Cabinet in September approved a governance structure for the new organization. The base budget of the Land Management Information Center would be transferred to the new organization, along with any new appropriations.

Leaders must seek cost-effective training and development services for their employees, particularly during difficult times. The **Enterprise Training** initiative finished work in June 2008 with a proposal for a structure that would provide agencies with the tools and resources necessary to offer all state employees training opportunities that will enable them to perform their jobs optimally and efficiently. The program will be the responsibility of Minnesota Management and Budget (MMB). After the end of the 2009 legislative session, MMB will be in a better position to evaluate the resources, priorities and needs of state agencies, and will then take steps to implement the program to deliver common training standards, accountability and a curriculum for current high-priority training needs.

The Minnesota Accounting and Procurement System (MAPS) is the mission-critical system that supports the daily operations of state government. MAPS, based on 1980s information technology, is obsolete and has surpassed its useful life. There is an increasing likelihood of failure, which would severely affect state operations.

An interagency **MAPS** project team led by the Department of Administration and Minnesota Management & Budget conducted preliminary research and prepared a feasibility study on a possible upgrade of the accounting system, along with a technical risk assessment on the entire MAPS. Given the state's fiscal situation, the MAPS Steering and Executive teams agreed in April to postpone the release of a request for proposal for a replacement. The project team is continuing its work on compiling statewide reporting requirements and is updating the risk mitigation plan and its related costs. The unfortunate economic realities, however, do not diminish the necessity of replacing MAPS.

Increasing Customer Service

The **Office of Grants Management**, established in late 2007, is working with 30 Executive Branch agencies, boards and commissions, along with the non-profit community, to standardize and simplify grants procedures in state government and improve the public's access to grants information.



Over the past year, the office has developed and implemented 11 statewide grants policies and created a new website, www.grants.state.mn.us, which provides a single entry point for citizens and non-profits to State of Minnesota competitive grant opportunities. Visitors can search for grant opportunities by state agency, subject area or key word.

The office also opened a second website, www.admin.state.mn.us/ogm, as a resource for state employees responsible for grant processing. In addition to statewide policies and statutes, the site includes training and development opportunities, best practices and links to federal grant information.

The office received a one-time appropriation of \$125,000 in 2007. In order to build on the initial momentum generated by the project, several agencies willingly made one-time contributions in 2008 to continue office operations and to reap the benefits of the state's investment. However, the office is unfunded beyond FY09.

The **e-Licensing** project is nearing completion of its pilot phase with the implementation of online licensing for the Peace Officers Standards & Training Board (POST) and the Emergency Medical Services Regulatory Board (EMS).

E-Licensing is an online "one-stop shop" where citizens and businesses can quickly, easily and securely obtain occupational, professional, business and commercial licenses or permits, or renew an existing license or permit.



The e-Licensing Project celebrated its midway milestone in July 2008, with pilot users beginning the move to the new electronic online licensing system later in the year.

Minnesota has one of the highest costs for license processing of any state in the country. Currently, the state's regulated licensing and permitting activities consist of at least 320 types of licenses and

permits. More than 800 state employees in over 40 agencies and boards, using at least 60 independent systems, at a cost of over \$60 million, currently administer these licenses and permits. It is also a cumbersome system that applicants cannot avoid. For example, opening a restaurant requires 11 separate licenses from a variety of state agencies.

The Office of Enterprise Technology in 2007 received a one-time, \$7.5 million appropriation for e-licensing. Without further funding or funding mechanisms, for ongoing operation and maintenance costs, the project will be suspended after its first phase.

The **Every Employee Counts/Workforce Planning** project, completed earlier this year, developed and delivered an enterprise State Workforce Planning Policy and Guidelines in anticipation of the pending wave of “baby boom” state worker retirements and a projected shortage of future workers. The policy and guidelines establish consistent workforce plan development practices across all agencies, which have expressed that the exercise of developing a workforce plan in itself has helped analyze the strengths and weaknesses of their workforces.

Minnesota Management and Budget is responsible for analyzing all agency workforce plans and developing an enterprise plan with an implementation strategy and set of priorities.

Reducing Costs

Strategic Sourcing, broadly defined, utilizes best-practice procurement strategies such as product standardization, contract consolidation, multi-jurisdiction purchasing and negotiations to achieve efficiencies and cost savings. Through the work of more than 200 individuals, Minnesota state agencies and local governments will be paying at least \$210 million less for goods and services, through FY11, than they would have without the Strategic Sourcing project.

Some Minnesota specifics include:

- Personal computer hardware and software, \$40 million in cost reductions realized the first year through standards and negotiations, with an additional \$55 million in anticipated cost reductions through FY11, with 88 percent of these reductions accruing to local governments, school districts and colleges and universities.
- Multi-function (copy/print/scan/fax) devices, \$45 million over five years.
- Computer business recovery sites and services, \$5.9 million.
- Scanning and imaging systems, \$1.34 million.

NEW! State of Minnesota
Systems Furniture Contract
—Environmentally friendly and competitively priced—



- ✓ **Sustainable!** Made of recycled materials and provides energy efficient lighting.
- ✓ **Quality!** Rated high on ergonomics, suitability, design and performance.
- ✓ **Competitively priced!**
- ✓ **Available to all public entities** – State agencies, counties, cities, schools, colleges!

For an even more environmentally friendly, low-cost option, consider purchasing used or re-manufactured furniture.

For more information:
Visit www.mmb.admin.state.mn.us
and link to Contract Release F-522(5).
Contact Lea Halverson: (651) 201-2444



- License agreement for statistical analysis system software, \$1.6 million.
- Electronic finger-printing equipment for BCA and local governments, \$405,000.
- Business intelligence software tools, \$330,799.
- Fleet card contract, \$185,000 from increased rebate and lower administrative fees.

The components of Minnesota's Strategic Sourcing strategy, based on the new paradigm of working with customers to get them what they *need*, rather than whatever they *want*, are:

- Developing standards for common products and limiting agency choice;
- Increasing the emphasis on price in the scoring equation to at least 30 percent to 40 percent of the total of all evaluation factors; and
- Negotiating every contract proposal.

Standards adopted so far include desktop and laptop computers and monitors, office supplies, office chairs, cell phones and service plans, computer storage and routers and multi-function (printer/copier/scanner/fax) devices. Through standardization, state agencies and CPV members are projected to avoid costs of nearly \$155 million over five years.

Simply increasing the emphasis given to pricing when evaluating contract bids has reduced costs by \$518,616 since 2006, with anticipated savings of more than \$2 million over five years.

Negotiations have realized more than \$26.3 million in savings on goods and services for contracts approved between July 2006 and September 2008, with an additional \$28.5 million in potential savings by extending the original contracts beyond their initial terms. Based on this history, potential cost reductions could surpass \$54 million for all purchasers on just these transactions alone.

Other strategic sourcing achievements within the past year include:

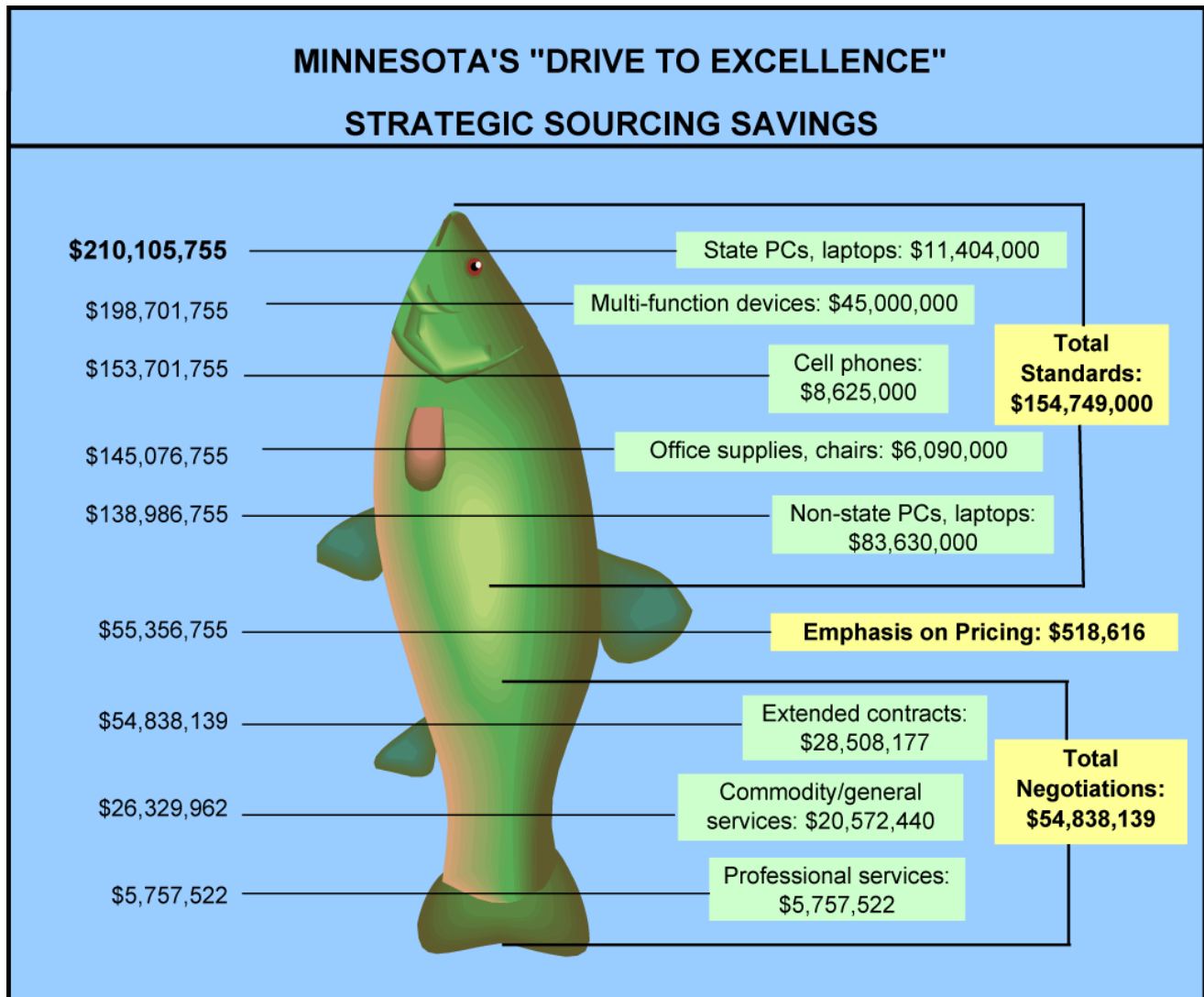
- An online construction bid-document system features immediate access to specifications, drawings and other materials, which previously were available only in paper form at substantial cost. The state incurred no costs in the development of the system and, in return, the vendor receives a required \$10 download fee payable by the interested party. The Department of Administration estimates that prospective bidders will save nearly \$179,000 a year and are expected to increase as more agency projects move to the online system. The online availability of construction documents has also eliminated the need for state employees to print and mail the documents, saving time and money.
- An enterprise contract for 100 percent recycled-content copier paper, at a cost lower than 30-percent recycled content paper, is helping reduce greenhouse gas emissions by the equivalent of removing 90 vehicles from the road. Purchasers also saved almost 8,000 trees, over 3.5 million gallons of water and enough energy to power nearly 80 homes.
- A new enterprise contract for products that meet the "Green Seal" environmental standard for cleaning and degreasing agents.
- A waiver of the annual fee of \$500 for membership in the state's Cooperative Purchasing Venture (CPV), which now includes more than 800 local governments, school districts, colleges and universities and other eligible entities, such as scouting groups. CPV members can make purchases from about 800 state contracts. In just one case, a college saved \$18,000

on its first purchase from a cleaning chemicals contract. CPV members help the state by increasing purchasing volumes. This enhances the state's bargaining position during negotiations, leading to better terms and conditions for all contract users.

- Implementation of a state Fleet Card Use policy, which improves management of vehicles and vehicle-assigned credit cards. The policy identifies permissible and prohibited purchases and establishes agency reporting and audit requirements.

Minnesota government is paying less for the goods and services necessary for serving citizens. Equally important – and among the greatest success stories yet for strategic sourcing – is the unquantifiable savings resulting from the adoption of standards. Standardized personal computers, for example, reduce costs for maintenance, technical support, help desk, parts inventories and training because agencies and vendors are working with a narrow product line, rather than a diverse portfolio.

The following chart summarizes Strategic Sourcing savings. Savings from the adoption of standards are over five years; savings from the increased emphasis on pricing and negotiations are for the terms of the contracts, which vary from one to three years.



The new **Enterprise Print** project evolved from a decision by the Office of Enterprise Technology (OET) to discontinue its printing service in order to focus on its core responsibilities. In a “win-win” for state government, the Department of Employment and Economic Development (DEED) assumed responsibility for warrant (check) printing, while the Department of Human Services (DHS) picked up the remainder of OET’s printing work. In addition to providing the same high-quality printing service at an equal or lower cost, DEED and DHS have been able to expand their print volumes to optimize existing capacities. Outcomes of the project include the redesign of all warrants for printing on one standard warrant stock form, reducing paper costs through volume discounting, and the redesign of seven Department of Public Safety postcards (renewal notices, etc.) to a standard size, reducing postage costs and optimizing paper stock volume discounts.

Conclusion – Looking to the future

Drive to Excellence is delivering results for state government and for citizens. Today:

- State agencies are streamlining business processes and delivering services to citizens faster, better and at less cost by utilizing Lean principles and tools. Additionally, these changes enable the redeployment of employees to higher value activities and can reduce the need for hiring replacement workers for retirees.
- State and local governments are paying less for goods and services.
- Minnesotans can more easily access information about state licenses, grant opportunities and disability information through first-stop Internet portals.
- Minnesota has one agency setting statewide technology policy and direction and a single agency “one-stop shop” for construction codes oversight.
- The state now has well-defined workforce planning policy that is helping agencies prepare for the smaller workforce of the future.
- Agencies are working together on solutions that are delivering effective, efficient and economical delivery of government services, whether in managing real estate, issuing licenses online or providing employees with the training and resources they will need for operating the government of tomorrow.

Further benefits, including work efficiencies, customer service improvements and reducing costs are yet to be realized through Drive. With additional dedicated human and financial resources, the state will accomplish more, including:

- Continuation of the Office of Grants Management with its policy guidance and clarity for grants-making to state agencies;
- Further integration of licensing agencies onto electronic licensing;
- Realization of the enterprise real property system to “see” and manage statewide property;
- Creation of a Minnesota Geographic Information Office to plan, coordinate and provide GIS services on a statewide level; and
- Replacement of the state’s obsolete accounting and procurement systems.