Consolidation Recommendations *for the* Department *of* Employee Relations

February 14, 2007

OFFICE OF GOVERNOR TIM PAWLENTY

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NEWS RELEASE

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GOVERNOR PAWLENTY, LEGISLATORS, UNION OFFICIALS ANNOUNCE MERGER OF DEPARTMENT OF EMPLOYEE RELATIONS

~ DOER will be eliminated, functions transferred to Finance, Administration and Health ~

Saint Paul – As part of his ongoing effort to make state government more streamlined, efficient and effective, Governor Tim Pawlenty today unveiled details of his proposed elimination of the Department of Employee Relations (DOER). The Governor first announced plans to shut down DOER and merge its operations into the other agencies in December.

"This move will increase efficiency and improve how we manage state government," Governor Pawlenty said. "DOER Commissioner Pat Anderson has excelled at putting together a plan to work herself out of a job. Notably, the merger and elimination of DOER has bipartisan support in the legislature and the backing of important state employee union partners. It's a great example of good government work."

The legislation unveiled by the Governor today will eliminate DOER and transfer its functions to the Departments of Finance, Administration and Health no later than June 30, 2008. Many of the changes would be made even sooner. The bill is chief authored by Sen. Ann Rest (DFL-New Hope) and Rep. Gene Pelowski (DFL-Winona), chairs of the Senate State and Local Government Operations and Oversight Committee, and House Governmental Operations, Reform, Technology and Elections. Co-authors include Senate Minority Leader David Senjem (R-Rochester) and House Minority Leader Marty Seifert (R-Marshall).

Last month, when Governor Pawlenty appointed Pat Anderson DOER Commissioner he asked her to oversee a merger of the agency. Commissioner Anderson and her leadership team have been meeting with state agency commissioners, legislative leaders, union leadership and DOER employees to determine the best fit for DOER's important functions at other agencies.

DOER's main functions include human resource management and the state employee insurance division. It administers eleven labor agreements covering 37,200 state employees and a health insurance plan that serves 129,000 state employees and their dependents.

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Governor Pawlenty is proposing legislation to streamline state government by abolishing DOER and transferring its functions to three other state agencies:

- **Department of Finance: Labor Relations, Human Resources Management, Employee Insurance Divisions and Information Services** – These divisions provide a complete human resource structure for executive branch employees, management, labor unions and employee health plans. Under the Governor's proposal, the functions performed by these divisions will transfer to the Department of Finance. DOER and Finance currently work closely in the areas of personnel, payroll and collective bargaining.

- **Department of Administration: State Employee Workers' Compensation Program** – The workers' compensation program is self-insured and self-administered, providing state agencies with claims management and other services. The Governor is proposing to combine this program with the Department of Administration's Risk Management Division, which handles the state's property and casualty insurance. Combining these efforts will provide a more coordinated approach to workplace safety and risk management.

- **Department of Health: Center for Health Care Purchasing** – This unit works to make the state a more prudent and efficient purchaser of quality health care services. It closely works with staff from the Department of Health and will move to that agency in order to better assist decision makers and health care purchasers by providing information on the current health care market and ensuring the state's health care dollars are spent wisely.

In addition, Governor Pawlenty's budget proposal includes the establishment of a two-person Small Agency Resource Team (SMART) to begin to consolidate and streamline the human resources and financial management activities for the state's small agencies, boards, and councils. DOER will supplement this effort by transferring five staff.

"This proposal represents a streamlined approach to personnel management, increased oversight of human resource functions and will allow for greater accountability in the Pawlenty Administration," Commissioner Anderson said.

"The Department of Finance is known for its integrity in the use of state resources," Finance Commissioner Tom Hanson said. "This merger demonstrates an effective, streamlined approach to state government that will further all of our agencies' missions and goals."

This will be the third state agency eliminated under Governor Pawlenty's watch. In 2003, the Pawlenty/Molnau Administration merged the Minnesota Department of Economic Security (MDES) and the Department of Trade and Economic Development (DTED) to create the new Department of Employment and Economic Development (DEED). Also that same year, the agency known as Minnesota Planning was eliminated and its functions were incorporated into the Department of Administration.

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Governor Tim Pawlenty appointed Patricia Anderson as the Commissioner of the Department of Employee Relations (DOER) on January 10, 2007. The Governor instructed Commissioner Anderson to oversee the Administration's efforts to move functions from DOER to other state agencies while continuing to provide efficient and effective services to state agencies and additional stakeholders.

From January 11, 2007 to the present, the Commissioner and the DOER leadership team have met with numerous parties including other state agency commissioners, legislative leaders, union leadership and current DOER employees to solicit input, opinions and advice on the future of DOER. Discussion has centered on where DOER's important functions best fit, relative to each other and other agencies.

This proposal represents the recommendations to Governor Pawlenty on the consolidation of DOER's functions.

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February 14, 2007

The Honorable Tim Pawlenty
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Governor Pawlenty:

I am pleased to present to you the proposed recommendations for the consolidation of the Department of Employee Relations (DOER) functions with other executive branch agencies. This proposal was created by working closely with the staff at DOER, as well as with other stakeholder groups, including key legislators, commissioners and the labor unions representing state employees.

I expressly want to take this opportunity to thank all of the stakeholders, especially the employees at DOER for their professionalism throughout this consolidation process. It is from their hard work and dedication that a firm foundation was built that has enabled the Administration to move towards a stronger and more comprehensive human capital management system.

This proposal represents what I believe is a streamlined approach to human capital management and will allow for greater accountability.

Sincerely,

Patricia Anderson
Commissioner

Executive Summary

In January, 2007 Governor Tim Pawlenty instructed Commissioner Anderson to oversee the Administration's efforts to move functions from the Department of Employee Relations (DOER) to other state agencies while continuing to provide efficient and effective services to state agencies and additional stakeholders.

The result is a proposed plan that melds past policy recommendations with the experience and lessons learned over 35 years, while taking into account the changing nature of state government. We believe that this plan will create a sound base to oversee and advise the Administration on issues relating to the state's financial and human capital management, as well as statewide information systems.

The executive branch will achieve a more coordinated approach to planning and managing agency expenditures in the areas of human resource management and employee compensation. In addition, aligning the State Workers' Compensation Division with the state's internal risk management unit creates a total enterprise-wide view on loss control and safety that results in greater cost control.

Three key agencies are proposed to assume the functions of the Department of Employee Relations (DOER): Finance, Administration and Health. We believe that the strategic realignment of specific units with these agencies best represents the goals of the Pawlenty Administration by creating a more efficient, streamlined state government.

DOER's core personnel functions are kept together as they rely heavily on one another to deliver services to executive branch agencies. The Labor Relations, Human Resources Management (HRMD) and the Employee Insurance Division (EID) provide a complete and cohesive human resource structure that meets the needs and expectations of executive branch employees, management, labor unions and employee health plans. This proposal includes a more effective oversight of state human resource functions.

DOER and Finance are tied together by their joint administration of statewide systems (SEMA4) and their heavy reliance on each other in the areas of personnel, payroll and bargaining which drive a significant portion of the cost of managing state government. Merging these core DOER functions into Finance brings their administration under one entity.

Governor Pawlenty's budget proposal includes the establishment of a Small Agency Resource Team (SMART) to consolidate and streamline the human resources and financial management activities for the state's small agencies, boards and councils. DOER will assist this effort by transferring approximately five full time equivalents when this unit is approved. The staff, proposed to be transferred, are experienced in providing human resource and related transactional services to small agencies.

The State Employee Workers' Compensation Program provides state agencies with a full array of services from claims management to workplace safety efforts. The Department of Administration's Risk Management Division operates as the state's internal insurance company providing property and casualty insurance coverage. By combining these efforts, a more coordinated approach to controlling workplace safety and the state's risk management will be achieved.

Lastly, the recently created Center for Health Care Purchasing is joining the Department of Health. This combination of mission and expertise in the area of health care policy will assist decision makers and health care purchasers by providing information on the current health care market and the developing trends ensuring that the state's health care dollars are wisely spent.

We believe the realignment of DOER's functions will result in greater efficiencies and synergy that will carry our human capital management into the 21st century.

History
The Department of Employee Relations dates its origins to 1973. The Loaned Executive Action Program (LEAP) convened by Governor Wendell Anderson was a significant impetus behind the creation of the department. LEAP was a group of 100 business executives who were assigned to scrutinize all aspects of state government from a businessperson's standpoint.

One of the LEAP recommendations was the creation of a Commissioner of Personnel. That commissioner was envisioned to have responsibility over personnel matters, pay plans and retirement provisions for state employees and assuming various duties then met by the Civil Service Department, Department of Administration and five retirement boards. The LEAP Central Management [Personnel] task force recommendation dated November 20, 1972 advocating the creation of the Commissioner of Personnel post stated that "we anticipate no major dollar savings [in the creation of a government personnel department]." In 1973, the legislature passed enacting legislation for the Commissioner of Personnel position as recommended by the LEAP group, with the modification that public pensions were removed from the new commissioner's jurisdiction. That legislation is the statutory basis for the agency now known as the Department of Employee Relations.

In February 1993, another government reform study group called the Commission on Reform and Efficiency (CORE) issued a detailed report on public sector human resources management in Minnesota. One of the report's recommendations was that the state's human resources function be decentralized in face of the changing workforce characteristics, rapidly evolving technology, and differing agency needs. The state's human resource system became decentralized, enabling state agencies to make broad business decisions, while DOER continued to establish and enforce human resource policy.

There were recommendations made in both of these reports that were never implemented. This proposed plan melds past policy recommendations with the experience and lessons learned over 35 years, while taking into account the changing nature of state government, its services, and constituencies.

Lastly, the Office of the Legislative Auditor released a report in January of 2007 recommending that the departments of Employee Relations and Finance work more closely together to develop a comprehensive plan to manage personnel and payroll-related risks, which will enable the departments to strengthen the human capital management system.

This proposal helps accomplish those goals.

Current Structure

DOER is currently composed of several divisions related to the human resource management of the state's employees. The main divisions are:

- Labor Relations/Compensation
- Human Resources Management
- Employee Insurance Division
- Workers' Compensation
- Information Systems
- Center for Health Care Purchasing

All parties strongly agree that it is imperative to keep DOER's core personnel functions together as they rely heavily on one another to deliver services to executive branch agencies. These personnel divisions, Labor Relations, Human Resources Management (HRMD) and the Employee Insurance Division (EID) are relatively small having only 82.7 FTEs combined. Together they provide a complete and cohesive human resource structure that meets the needs and expectations of executive branch employees, management, labor unions and employee health plans.

Any one piece is less effective without the expertise of the other two functions. The Labor Relations Bureau works intricately with HRMD on statewide policies and procedures as they relate to bargaining agreements and pay plans. Labor Relations and HRMD also work closely with the EID relative to bargaining agreements, plan and benefit design, contracts with the health plans, as well as accessing and managing statewide systems. Finally, the Total Compensation unit within the Labor Relations Bureau works side by side with other Labor Relations and HRMD staff to ensure that all employees are compensated fairly and equitably.

Three key agencies are proposed to assume the functions of the Department of Employee Relations (DOER). These agencies are: **Finance, Administration and Health**. We believe that consolidation with these agencies best represents the goals of the Pawlenty Administration in creating a more efficient, streamlined state government while providing better services in the important area of Human Relations.

Department of Finance – State Personnel Functions

Merging Labor Relations, Human Resources Management and the Employee Insurance Division into the Department of Finance will create a sound base within the executive branch to oversee and advise the Administration on issues relating to the budget and human capital management, as well as statewide Information Systems (IS).

Incorporating these core functions of DOER with the Department of Finance's budgeting function provides the administration an integral and valuable tool. The executive branch will have a method to coordinate agencies in relation to budget planning and will be able to more closely manage agency expenditures in the area of employees and compensation.

Further, we will work to strengthen human resource business and policy oversight and will work with their stakeholders to provide policy solutions that are consistent, collaborative, strategic and responsive to its customers.

DOER and Finance are currently closely linked by their joint administration of statewide systems (SEMA4) and their heavy reliance on each other in the areas of personnel and bargaining, which drive a significant part of the costs of managing state government.

Merging those core DOER functions into Finance brings their administration under one entity. Since it is the core functions of both agencies that come together to drive, populate, and make the systems what they are, merging these functions is a logical, positive and beneficial move. SEMA4 will become stronger which, in turn, will streamline the administration of both DOER's and Finance's core objectives: budget and human capital management.

General Technology: Both agencies work in similar business and technology environments and they are both pursuing options to move some functions to the Office of Enterprise Technology (OET). In addition, they jointly maintain overlapping information systems. Because of the similarities, the two agencies already have a close relationship in day-to-day technology areas:

- DOER and Finance have linked email systems. Although each agency has a separate server, their email systems are linked because of the close working relationship the SEMA4 staff have developed. Linking the email systems has already made coordinating schedules and contacting each other easier and more efficient.
- IT staff from both agencies work closely and learn from each other. Specifically this synergy has worked on desktop, server and day-to-day office technology issues.

SEMA4: Is currently run jointly by Finance and DOER. SEMA4 is a Peoplesoft product programmed for the state's needs to administer payroll, human resource and benefits administration. Both agencies have distinct but intertwined roles. Staff has already developed highly successful working relationships that include exchanging coordinated pieces of jointly developed projects. Additionally:

- There are 11 Finance staff located in DOER. These staff work on SEMA4 and are paid by and use Finance equipment and software. DOER supplies their office space and connectivity. Moreover, they are supervised by DOER management and work hand-in-hand with DOER staff.

- DOER and Finance functional and technical staff meet every day at 8:30 to discuss operations issues. There they discuss nightly batch cycles, projects for that day and other issues associated with jointly managing a large and complex information system.

- DOER and Finance work closely to ensure that upgrades and enhancements to the SEMA4 system are coordinated. These teams have worked together on many projects, most recently to move SEMA4 from a mainframe to a server platform. This project was successfully implemented over the weekend of February 2-4, 2007. It is imperative that these teams continue to work together to ensure that all parts of the system are coordinated and integrated appropriately.

- DOER and Finance staff work together to ensure that communications to SEMA4 end users are coordinated. SEMA4 also houses an extensive user on-line help feature that is jointly maintained by DOER and Finance. It is not uncommon to share draft policies to ensure that new or changed functionality is coordinated across HR and payroll activities.

- Generally, the roles for the various SEMA4 sections are:

  Payroll: State agencies have decentralized authority to enter HR transactions into the SEMA4 system. DOER works with agencies to assist them in ensuring that accurate data is entered. This includes information such as pay rate, retirement plan, funding source and so forth. The employing agency enters employee hours worked; Finance pays the employees, calculates and withholdings.

Human Resources: DOER staff conducts the business analysis associated with HR data in SEMA4. They audit HR transactions to ensure that data is accurate and within the parameters supported by collective bargaining agreements and other compensation plans. When new bargained contracts are settled and approved, DOER ensures the SEMA4 system is updated with the correct compensation structure and new rates of pay. There is also tight coordination with Finance to ensure that all aspects of the new contracts are coordinated. DOER handles the pay rate adjustments; Finance handles the retroactive pay and other changes associated with pay differentials and leave accrual.

Benefits Administration: DOER ensures employees receive accurate and timely insurance benefits. They ensure the correct benefits begin and end on the appropriate date. This function is coordinated with Finance to ensure that accurate insurance deductions are taken from employee paychecks.

Security: DOER staff centrally administers user security for the SEMA4 system. This position coordinates with Finance to ensure that new or changed system functionality is rolled out to end users.

Labor Relations and Compensation: This DOER division tracks associated statewide employee costs affected by bargained contract language. They also work with Finance and other DOER staff to discuss potential bargaining proposals and the impact such proposals may have on the SEMA4 system, Finance or DOER workloads.

Information Warehouse (IA): This system is maintained by Finance, but contains human resources and payroll data. DOER works with the IA warehouse staff to ensure that necessary reporting data is available in the warehouse. DOER and Finance staff have worked together on several SEMA4 upgrades which have required the revision of many of these warehouse tables.

Many DOER functions require coordination and integration with the Payroll Services unit at Finance. The work does not overlap and there is a well defined distinction between the functions that Finance performs and the functions that DOER performs. These distinctions must be kept in place to ensure that the proper independent oversight is maintained. This audit control ensures that no one entity has the power to enter human resources transactions and payroll transactions without independent controls and oversight.

Department of Administration – Shared Services Center

The Department of Administration is creating a Small Agency Resource Team (SMART) which will provide shared human resources and financial management services for small agencies, boards and councils. We believe this is a necessary direction for the state to move and that some human resource functions performed by current DOER staff are a good fit for the human resource transactional work to be performed by this envisioned unit. These functions include:

Classification and vacancy filling for small agencies: This task is transactional and does not support the strategic mission of DOER. This work can be more economically performed by staff with state classification and selection expertise in a shared services environment.

General Human Resource management counseling and advising: Most of the smaller agencies need ongoing assistance on a variety of HR issues. Agencies can effectively receive this type of guidance and counsel by consulting with a knowledgeable human resource professional located in a shared services center.

Incompatible payroll and personnel security profiles: The Legislative Auditor has identified over 120 state employees with the ability to perform incompatible functions in SEMA4. Small agencies have created incompatible SEMA4 security profiles because there simply are not enough individuals in the agency to allow for a separation of the functions.

SEMA4 data entry and general help-desk assistance: DOER provides assistance and information to small agencies with regard to the proper entry of transactions into the SEMA4 system. This type of transactional service can be more effectively provided by a shared service center. This, in fact, would be an improvement over the current system. DOER does not generally enter transactions on behalf of agencies. However, it would be beneficial to have a knowledgeable individual who can enter transactions and serve as a resource to assist small agencies with questions on the proper entry of transactions.

Department of Health – Center for Health Care Purchasing

The Center for Health Care Purchasing was created as a unit of DOER to support the state in its efforts to be a more prudent and efficient purchaser of quality health care services. The Center assists the state in developing and using more common strategies for health care performance measurement and health care purchasing, to promote greater transparency of health care costs and quality, and greater accountability for health care results and improvement.

The center works closely with the Department of Health and their staff analyzing health care performance management. By merging the center into the Department of Health, it will give more credibility and expertise enabling the goals of the center to be more comprehensively met.

The Governor's Health Cabinet has reviewed and supports this recommendation.

Department of Administration – Workers' Compensation

The State Employee Workers' Compensation Program is a self insured, self administered program. It provides and coordinates claims management, disability management, safety and industrial hygiene services and managed health care for state workers who are injured on the job. The program also offers workers' compensation legal services for state agencies.

Currently, there are 34 employees in the Workers' Compensation Division who:

- Investigate and determine compensability for approximately 2,800 new workers' compensation claims per year.
- Manage approximately 2,200 active state employee workers' compensation claims.
- Process payments, seek reimbursements, complete required forms, process First Reports of Injury from SEMA4, provide W/C data reports, and provide required reporting for the Workers' Compensation Reinsurance Association and Labor and Industry.
- Represent state agencies and defend the State against claims made by injured state employees for payment of benefits that have been denied.
- File responses, take depositions, settle litigated claims, and present the State's case at Office of Administrative Hearings and the Minnesota Supreme Court.
- Provide legal advice on a case-by-case basis to the Claims Management Unit.
- Help state workers who have been injured or disabled on the job to return to active employment as quickly and safely as possible.
- Address workplace safety and health issues.
- Establish and promote statewide safety and industrial hygiene services.
- Provide direct services for materials handling, air quality, hazardous materials, blood-borne pathogens, biological hazards, office ergonomics, and others.

The State Employee Workers' Compensation Program was housed in the Department of Labor and Industry prior to 1987. At that time, the needs of state agencies shifted to require an aggressive disability management program. The logic was that a more effective return-to-work program was one of the most significant tools for cost containment. It was argued that the success for a disability management program was dependent on full coordination with the human resources systems, policies, procedures and laws through a connection to the central human resources agency and to the agency human resources offices. In addition, a tension had developed between those employees who worked to protect the interests of state agencies and those employees who worked to protect employees. Based on these arguments, the program was moved to DOER in 1987.

Currently, the Department of Labor and Industry houses the Workers' Compensation Division which regulates the workers' compensation insurance industry in the State of Minnesota. This division oversees and administers the workers' compensation claims, benefit payments and vocational rehabilitation to injured workers. And, while the option of placing the State Employee Workers' Compensation Program at the Department of Labor and Industry was thoroughly reviewed and believed to have no legal barriers, we found that the best fit from an enterprise-wide view is to place the Division at the Department of Administration.

The Department of Administration currently has a Risk Management Division which operates as the state's internal insurance company providing property and casualty insurance coverage. In addition, the division offers other miscellaneous lines that provide coverage that meet specific agency needs (i.e. providing workers' compensation insurance for state volunteers, etc.). They also have extensive claims management experience.

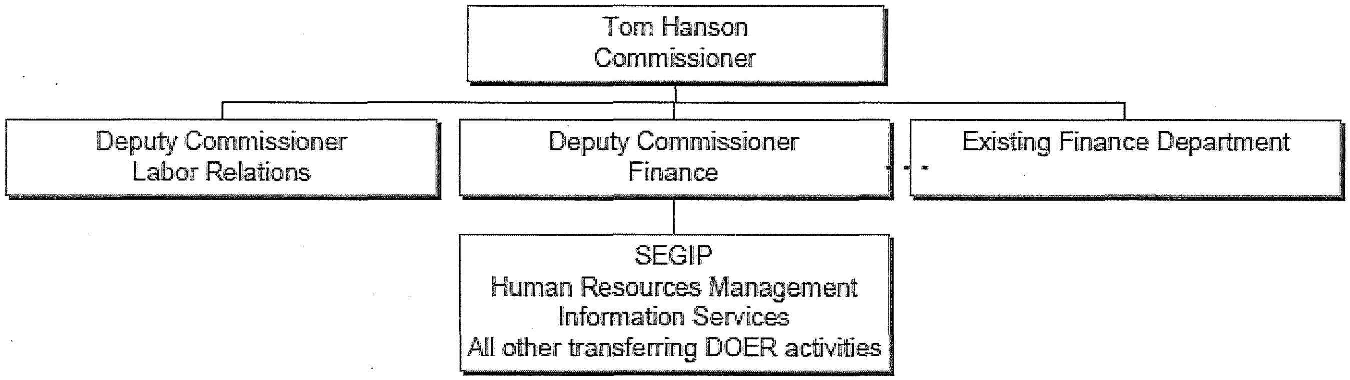
The Risk Management division has worked closely with DOER's Worker's Compensation Program in developing certain programs (the small agency workers' compensation pool). The firewall and separations of powers and duties that would need to exist at the Department of Labor and Industry would not need to exist at the Department of Administration. In addition, creating a total enterprise view on loss control, safety, property, workers' compensation and reinsurance would be beneficial and cost effective for state government.

Closing

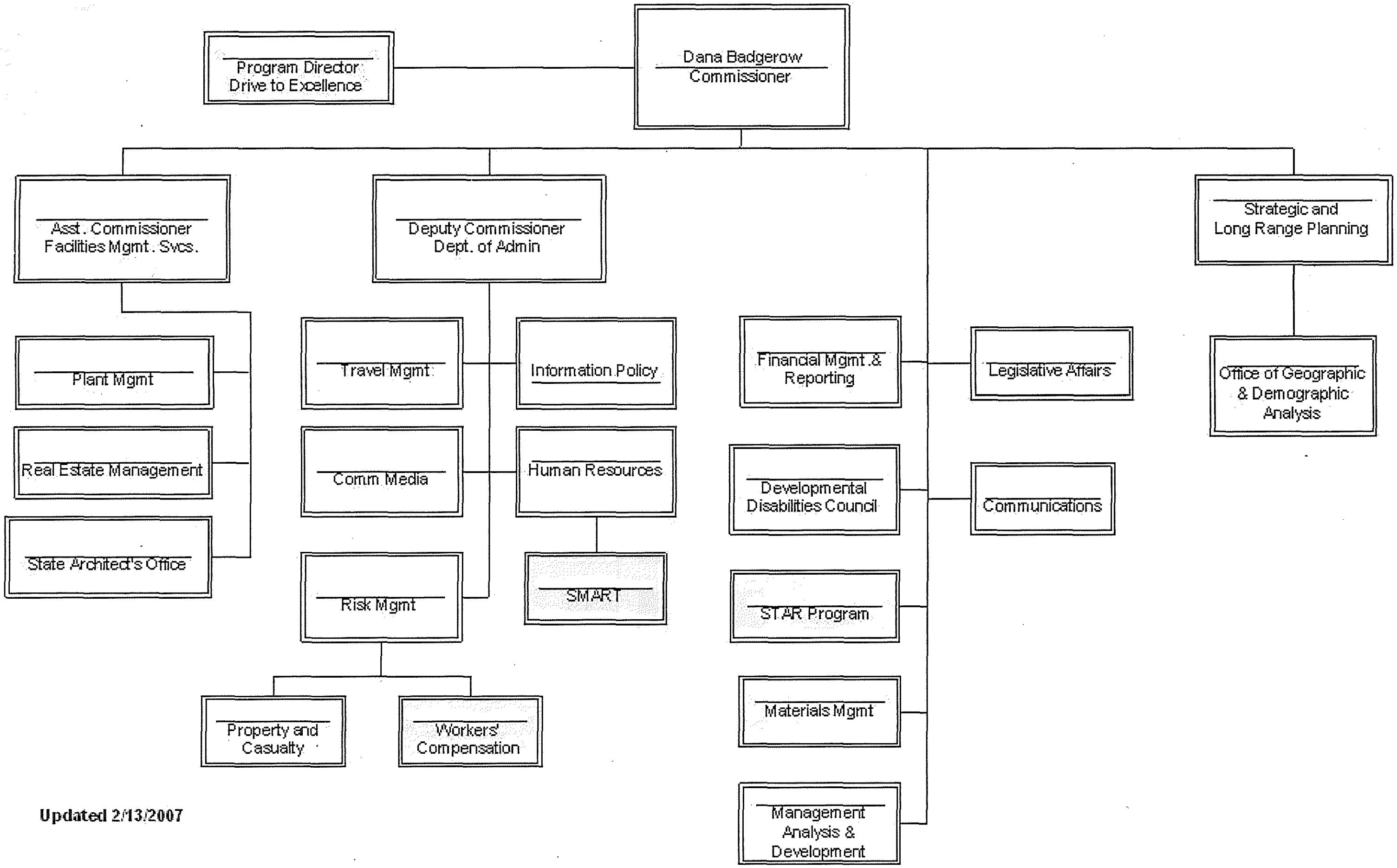
The combination of these new workgroups will broaden and strengthen the state's ability to respond to the changing environments that state government faces. The continued fast-paced changing of technology as well as changes to the state workforce demographics and increased global competition can be met by a more focused alignment of state resources. We believe that the recommendations in this report will meet these challenges.

February 14, 2007

Minnesota Department of Finance



Department of Administration



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Attachment C

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