



July 15, 2015

The Honorable Sarah Anderson
Chair, House State Government Finance Committee
Minnesota House of Representatives
453 State Office Building
St. Paul, MN 55155

The Honorable Tom Saxhaug
Chair, State Department
and Veterans Budget Division
328 State Capitol
St. Paul, MN 55155

RE: Gainsharing: Report to the Legislature

Dear Representative Anderson and Senator Saxhaug:

In accordance with Minnesota Session Laws 2015, Chapter 77, Article 1, Section 13, the Commissioner of Minnesota Management and Budget (MMB) is required to report on the status of the gainsharing program required under Minnesota Statutes, Section 16A.90. The attached report is ordered to the House of Representatives State Government Finance Committee and the Senate State Departments and Veterans Budget Division and is due by July 15, 2015.

Further questions may be directed to John Pollard, Director of Legislative and Intergovernmental Affairs at john.pollard@state.mn.us or (651) 201-8039.

Sincerely,

A handwritten signature in cursive script, appearing to read "Myron Frans".

Myron Frans
Commissioner

Attachment

GAINSHARING: REPORT TO LEGISLATURE

I. OVERVIEW

This report is being submitted in accordance with Minnesota Session Laws 2015, Chapter 77, Article 1, Section 13, requiring the Commissioner of Minnesota Management and Budget (MMB) to report on the status of the program required under Minnesota Statutes, Section 16A.90. The report is ordered to the House of Representatives State Government Finance Committee and the Senate State Departments and Veterans Budget Division and is due by July 15, 2015. Further questions may be directed to John Pollard, Director of Legislative and Intergovernmental Affairs.

II. STATUTE AND BACKGROUND

Initially enacted in 2011, Minnesota Statutes Section 16A.90 requires the Commissioner of MMB to establish an employee gainsharing system to provide bonus compensation to state employees for efforts made to reduce the cost of operating state government or to provide better or more efficient state services. As originally drafted, the program provided that employees involved may be authorized to receive a cash award of up to ten percent of the savings realized, but no more than \$50,000.

In general, gainsharing is a system of management in which an organization seeks higher levels of performance or increased efficiencies through the involvement and participation of its people. The "gains" achieved through improved performance or increased savings are shared financially with the employee or group of employees according to a predetermined formula. The concept enables employees to participate in the improvement of government services and share in the rewards.

III. SHARING GAINS IN THE PUBLIC SECTOR

Gainsharing is similar to other profit sharing initiatives that have been used in the private sector to incentivize employees to increase productivity, create efficiencies, and save money for their organization. Public sector jurisdictions, including state governments, are beginning to explore budget and recognition practices that financially reward employees for their innovative ideas to lower government costs or improve service quality.

Programs in Other States

Alabama Employees' Suggestion Incentive Program: A State employee may submit a suggestion to reduce expenditures or increase efficiency within the State of Alabama. The program will make financial incentive awards to State employees whose adopted suggestions result in substantial financial savings or improvement in the efficiency of State operations. Employees may receive a one-time cash award of \$1,000. In exceptional situations, the Board may award up to \$5,000.

California Department of Human Resources Employee Suggestion Program: Formal system for rewarding employees who submit ideas that reduce or eliminate State expenditures or improve the safety or operation of State government. Awards range from \$50 to \$50,000.

Indiana State Personnel Department Employee Suggestion Programs: An opportunity for state employees to be recognized for their suggestions. Employees can earn cash and/or recognition for quality improving thoughts and cost saving ideas.

Illinois State Government Suggestion Award Board: Employees may submit ideas that will make government more efficient and effective. If the employee's suggestion results in financial savings to the state and taxpayers, the employee could receive an award ranging from \$50 to \$5,000.

Maine Employee Suggestion Awards Program: Designed to improve Maine State Government by identifying ways to improve operations, reduce or eliminate expenditures and improve morale. Employees may receive cost savings and/or efficiency awards for their suggestion.

New Hampshire State Employee Suggestion and Extraordinary Service Award Program: Recognizes state employees who perform a service in their jobs that goes above and beyond the call of duty or who make suggestions that raise revenue or save costs. The Legislature appropriates \$10,000 in the governor's budget each fiscal year to provide such awards.

New York State Employee Suggestion Program: Accepts suggestions that are unusual or meritorious in nature and result in significant cost savings to the State's taxpayers and/or dramatically improve efficiency. Employees whose suggestions save a determinable amount of money may be eligible for a monetary award.

North Carolina Office of State Human Resources NC Thinks! Program: Rewards state employees for providing innovative solutions to pressing organizational challenges, paying cash incentives to state employees whose money-saving suggestions are approved.

North Dakota State Employee Suggestion Incentive Program: State employees may submit a recommendation or proposal to reduce expenditures within the employee's agency. If the recommendation or proposal is approved, the state employee is entitled to receive 20 percent of the first year's savings realized, up to a maximum of \$4,000.

Tennessee Department of Human Resources Employee Suggestion Award Program: Provides a way for state employees to submit their good ideas and suggestions to improve state government operations or services and reduce costs. Cash awards are available for adopted and approved suggestions up to \$10,000.

Washington Secretary of State Productivity Board Employee Suggestion Program: Provides cash incentives and recognition for state employees who submit suggestions to save the state money, generate revenue, and/or improve services or processes within state government. Cash award may equal 10% of the first year net savings (maximum \$10,000).

West Virginia Employee Suggestion Program: Created to stimulate creative and innovative thinking, and reward State workers who suggest cost-saving ideas. Monetary awards of up to 20% of the first year's savings (up to a maximum of \$10,000) are possible.

Wisconsin Employee Suggestion Program: The Employee Suggestion Board has three members appointed to evaluate employee suggestions that improve the quality of state government operations and services. Employees recognized for saving money may be eligible for a cash award.

Florida: Florida's Innovation Funds lend state agencies money to front expenses associated with a new practice or technology. Agencies are then expected to use their savings to repay the interest-free loan.

Georgia and California: These two states have devised programs to allow agencies to retain a percentage of savings from innovation. Georgia's program rewards innovation that yields ongoing savings for the State. If the cost savings accumulate over a number of years, agencies may keep a portion of what is saved each year.

Mississippi: The state finance director identifies programs with innovative actions that merit reward. The finance director then makes a recommendation to the Legislature of an award amount and how the agency will be allowed to apply the award.

Texas: The state of Texas provides financial rewards to agencies that meet or exceed specific performance expectations. The rewards may take the form of increased transfer authority, contract authority, appropriations, or may involve a bonus for key staff.

Massachusetts and Oklahoma: These two states have developed programs that allow agencies to carry forward funds saved through efficiency into the next fiscal year.

Source: National Conference of State Legislatures, *Fundamentals of Sound State Budgeting Practices*.

IV. SHARING GAINS IN THE STATE OF MINNESOTA

Achievement Awards

The State of Minnesota executive branch agencies have approached gainsharing through Achievement Awards. Achievement Awards are monetary awards granted throughout the State to recognize outstanding employee achievement and can be used in situations where financial savings have been achieved. Achievement awards may be granted for team recognition, project recognition, and individual recognition. MMB sets the foundation for Achievement Awards in statewide Human Resource/Labor Relations Policy #1420, but each state agency granting Achievement Awards must develop their own policy, including agency-specific criteria, processes and requirements. Notably, the MMB Employee Recognition and Achievement Award Policy and Procedures promote achievement awards as an essential element for creating and maintaining a culture that recognizes innovation and creativity, reduces waste, creates cost savings, makes government work better, and recognizes the outstanding work of State employees.

The funding for Achievement Awards is included in an agency's annual operating budget. They are typically granted in the form of a lump-sum payment, unless a collective bargaining agreement allows otherwise. Achievement Awards may be granted quarterly, or as frequently as practical for an agency. Employees are nominated for Achievement Awards by their co-workers or managers/supervisors, and each award must be approved by the recipient's manager/supervisor.

Collective bargaining agreements and compensation plans place limits on the number/value of Achievement Awards that employees may receive each fiscal year. For example, under the current MAPE contract, employees are limited to one Achievement Award per fiscal year, not to exceed \$1,000. The MAPE agreement limits the number of employees who can receive an Achievement Award to no more than 35% of those authorized at the start of the fiscal year. These limits may vary by collective bargaining agreement or compensation plan.

In Fiscal Year 2014, the state rewarded employees with a total of 2,659 individual and team achievement awards valued at over \$2.7 million. See the chart below for an agency-specific breakdown.

Executive Branch Agency Fiscal Year 2014 Achievement Award Activity

Department	Total # of Awards	Aggregate \$ Value of Awards
Agriculture	11	\$10,500
Animal Health Board	7	\$9,100
Barber Examiners Board	1	\$2,000
Behavioral Health & Therapy Board	2	\$3,000
Bureau of Mediation Services	6	\$7,500
Campaign Finance & Public Discl Bd	1	\$1,000
Capitol Area Architect	1	\$1,200
Commerce Dept.	64	\$27,850
Cosmetologist Exam Board	3	\$4,600
Court Of Appeals	15	\$3,650
Dentistry Board	10	\$7,600
Department of Human Services	610	\$686,500
Dietetics & Nutrition Practice	1	\$2,000
Disability Council	2	\$1,000
Education Department	37	\$31,800
Emergency Medical Services Bd	6	\$3,500
Employ & Econ Development Dept	74	\$69,400
Explore Minnesota Tourism	9	\$9,100
Health Department	56	\$62,500
Higher Ed Facilities Authority	2	\$2,000
Housing Finance Agency	89	\$72,945
Investment Board	5	\$2,250
Labor & Industry Dept	21	\$24,400
Legislative Auditor	7	\$6,000
Medical Practice Board	4	\$6,600
Minnesota Zoological Garden	12	\$20,400
Mn Management & Budget	59	\$40,075

MN St Colleges & Universities	340	\$386,758
MN State Retirement System	37	\$32,733
MN.IT Services	116	\$65,500
Natural Resources Dept	33	\$14,600
Nursing Board	7	\$4,500
Nursing Home Admin Board	1	\$2,000
Office of Higher Education	10	\$10,000
Optometry Board	1	\$2,000
Perpich Ctr For Arts Education	1	\$2,000
Pharmacy Board	5	\$7,500
Physical Therapy Board	1	\$2,000
Podiatric Medicine Board	1	\$2,000
Pollution Control Agency	55	\$42,300
Psychology Board	4	\$4,600
Public Employees Retire Assoc	2	\$2,334
Public Safety Dept	29	\$15,000
Revenue Dept	138	\$103,075
Social Work Board	4	\$4,600
Teachers Retirement Assoc	28	\$27,733
Transportation Dept	653	\$895,250
Trial Courts	67	\$47,100
Veterinary Medicine Board	1	\$2,000
Water & Soil Resources Board	10	\$8,300
Totals	2,659	\$2,787,768

Employee Recognition

In addition to granting Achievement Awards, state agencies have developed other monetary and non-monetary employee recognition practices specifically aimed at encouraging innovative cost savings and increasing productivity.

Office of Enterprise Technology (MN.IT Services) Living the Mission Recognition Award: A peer-to-peer recognition program to recognize and reward outstanding work of employees that reinforces MN.IT's stated values, including: Can-do!; Respect; Work Smart (efficiency, productivity, cost savings); or Practice Leadership.

Iron Range Resources & Rehabilitation Board Above & Beyond Employee Recognition Program: Recognizes employees who exhibit excellence in a variety of areas, emphasizing contributions and accomplishments on the job which represent dedication, innovation, creativity, cooperation and excellent customer service.

Minnesota Lottery Employee Recognition Program: Quarterly recognition of individuals and groups for excellence in fulfilling the Lottery's mission. Employees nominate other employees for achievements in the following categories: Money-saving process; Work productivity; Quality and effort; Customer service; Time-saving process; or other. The program also recognizes employees on a quarterly basis for the best new employee idea or concept.

Department of Natural Resources Commissioner's Awards: Designed to recognize the exceptional accomplishments of DNR staff, focusing on achievements that reflect DNR's mission and values in the following areas: Conservation Enhancement; Customer Assistance; Behind the Scenes; Leadership; and Innovation.

Minnesota Pollution Control Agency Staff Voyageur Award: Recognizes staff excellence in five categories that reflect agency values and support agency mission: Teamwork; Environmental Improvement; Leadership; Customer Assistance/Service; Keeping the Ship Afloat. Additionally, the Gordie Memorial Award is presented in honor of former employee Gordie Wegwart, recognizing and thanking individual staff or teams whose continuous improvement or innovation efforts have made a difference in the effectiveness of MPCA.

Minnesota Department of Revenue Division Recognition Award Programs: Encourages divisions to recognize employees for significant accomplishments, such as agency cost savings, efficiency ideas, savings to the division, change in the way business process is completed, or customer satisfaction increase.

Department of Transportation We Are MnDOT Recognition: Co-workers nominate employees who amaze, astound and impress in the following categories: Demonstrating adaptability; Expressing care and appreciation; Maintaining integrity; Creating accountability; Building community; Modeling trust; Exhibiting phenomenal communication; or Instituting quality and innovation.

Continuous Improvement Initiatives

Minnesota Office of Continuous Improvement: A division of the Department of Administration with the mission to improve Minnesota government every day by leading and supporting government agencies as they build continuous improvement (CI) into their organizational culture and day-to-day business practices. The office empowers employees and improves organizational performance through use of time-tested CI tools and methodologies, including Lean, Six Sigma, Total Quality Management, and more.

Documented CI success stories throughout the state include: An estimated annual savings of \$255,000 and 5,000 staff hours at the DNR as a result of new web-based improvements to the process of obtaining water permits; An estimated 60+ percent reduction in the time it takes the Department of Labor and Industry to issue licenses for individuals and contractors seeking construction licenses; An annual savings of \$16,000 at the Minnesota Housing Finance Agency as a result of improvements in distributing Housing Assistance Payment Vouchers; and an estimated annual savings of \$960,000 at the Department of Human Services due to efficiencies that reduced staff time for personal care attendant appeals.

In addition, the Office of Continuous Improvement partners with the Governor to present the Governor's Continuous Improvement Awards annually. These awards recognize significant individual and organizational achievements from across Minnesota government that have increased the efficiency, quality and value of State government services.

Better Government Initiatives

Better Government for a Better Minnesota: A series of initiatives to support Governor Dayton's efforts to cultivate change throughout the state by saving money, reducing waste, and making government work better for the people of Minnesota. These efforts are aimed at changing the way we do business in Minnesota by updating systems, reforming programs, and eliminating bureaucratic layers of process that no longer work.

Current Program Improvements and Reform:

- Buy health not sickness: Reform how Minnesota delivers and pays for health care.
- Develop a business plan to grow Minnesota jobs and competitiveness.
- Make Minnesota's tax system more fair and put Minnesota's fiscal house in order.
- Deliver better schools for a better Minnesota.
- Health Aging: Connect Minnesota seniors with services and their community.
- Infrastructure: Build the roads, bridges, broadband network and other connections that create jobs.

Current System Improvements and Reform:

- Regulatory Reform: Streamline business permitting and licensing
- LEAN: Continuously improve business processes
- Performance improvement: Reward performance and results
- Technology: Improve how technology works for state government and our citizens
- Sustainability: Reduce state energy consumption, waste, and greenhouse gas emissions.
- Improve how state government buys stuff and manages its assets.

State Agency Value Initiative (SAVI)

In 2011, the Minnesota Legislature established the State Agency Value Initiative (SAVI) under M.S. 15.76. This program may allow agencies to retain up to 50% of unspent appropriations resulting from unanticipated innovation, efficiencies and creative cost savings. The agencies may use these funds on one-time items or short-term initiatives to support the performance of the agency's mission.

The legislation became effective on June 30, 2013 and MMB has developed and implemented a process for review of SAVI-eligible appropriations carryover requests. As of June 2015, one SAVI request has been received, submitted by the Department of Administration. The single submission was for money saved due to activities conducted by the Office of Continuous Improvement. The Department of Administration reinvested these funds in its continuous improvement division.

V. CHALLENGES WITH GAINSHARING

Measuring gains is at times an imperfect exercise that could lead to inequitable results and rewards or, at the very least, could open the door to unnecessary employee disputes or appeals of rewards in which the employee feels entitled to a greater share of the gain. Programs within the state agencies vary greatly in terms of size, scope, structure, purpose and performance measurements. A uniform method to document savings across dissimilar programs is challenging.

The statute states that if an employee's job is to explicitly find efficiencies within state programs, the statute exempts the employee from the program. Sound fiscal management, however, generally assumes that it is every employee's responsibility to explore and develop efficiencies within the state program where they are employed.

Legal or budget constraints limit the state's ability to use savings for gainsharing. Funds provided by another level of government or an external source must often be used for a specific purpose. For example, the state's use of federal funds is governed by cooperative and grant agreements, and any plan to change the use of these funds, or to retain savings for another purpose, is subject to federal review and approval. The same kind of constraint may apply to transfers between funds within a jurisdiction. For example, if savings are generated in a fund that receives transfers from another fund, any savings may need to be returned to the originating fund to comply with appropriations law.

The terms of collective bargaining agreements and compensation plans enable the employer to grant Achievement Awards to certain represented employees. Employees represented by AFSCME are generally ineligible to receive achievement awards because the AFSCME contract does not authorize them.

It is important to note that the State of Minnesota currently provides monetary and non-monetary recognition to those employees who go above and beyond to deliver outstanding results in the workplace. These rewards and awards encourage exceptional employee performance. Monetary awards are generally capped at a range from \$1,000 to \$2,000 under the applicable collective bargaining agreement or compensation plan, which is an amount sufficient to provide adequate recognition for those who go beyond their day-to-day performance requirements and motivate others to do the same, without the likelihood of causing significant concerns to taxpayers.

While state employees appreciate recognition of the good work they do this appreciation need not be in the exclusive form of bonus compensation. In fact, social science studies repeatedly conclude that for all but simple and routine tasks, financial rewards designed to motivate performance actually have the opposite effect. Public recognition by the legislature and/or the public for good work, for example, would be a welcome, motivating and appreciated form of employee acknowledgement.