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COMMISSION  
ON REFORM  
AND EFFICIENCY

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SHORT-TERM  
COST SAVINGS  
RECOMMENDATIONS

COMMISSION ON  
REFORM AND  
EFFICIENCY

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# INTRODUCTION

**T**his report describes the short-term cost savings recommendations adopted Dec. 13, 1991, by the Commission on Reform and Efficiency. Twenty-three program and budgetary changes totaling \$20,888,000 are recommended — \$17,509,000 in General Fund savings and \$3,379,000 in other funds for Fiscal Years 1992 and 1993.

Submittal of these recommendations fulfills the initial charge to CORE.

The Commission on Reform and Efficiency was created by Gov. Arne Carlson and the 1991 Legislature (Laws of Minnesota 1991, Chapter 345, Article I, Section 17, Subdivision 9) to lead a comprehensive effort to improve the management of Minnesota state government. The 22 commission members appointed by the governor and legislature represent state employee unions, the legislature, private business, education, and local government. Arend J. Sandbulte, chair, president, and CEO of Minnesota Power, Duluth, heads the commission. Management consultants from the Department of Administration's Management Analysis Division staff the commission.

This report is accompanied by a separate volume, *Short-term Cost Savings: Detailed Analyses*, which explains the rationale behind each recommendation.

CORE's major goal is to build on the strengths of state government to create a

system that works better for everyone, with enhanced services for customers, full value to taxpayers, and an improved work environment for employees. As part of its larger mission, the commission is examining the structure and functions of government and will recommend further changes in organization and program design to achieve cost savings and to improve the quality and efficiency of services. The next report to the governor and legislature will be prepared in December 1992.

The commission began its work in August 1991, addressing its initial legislative charge — to identify \$15.7 million in General Fund savings during the FY 92-93 biennium. This effort was called the short-term cost savings project.

**J**ean L. Harris, M.D., president and CEO of the Ramsey Foundation, chaired the commission's short-term cost savings working committee as it sorted through suggestions from a variety of sources, guided the staff analysis of those suggestions, and developed recommendations to the full commission based on the financial and policy implications identified by the analyses. The working committee will monitor the implementation of the cost-saving recommendations adopted by the governor and legislature.

All of the cost savings proposals fit within a broad framework of reform and

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efficiency. In contrast to recent budget-balancing efforts, no across-the-board cuts were recommended solely for the sake of reducing expenditures. Instead, the proposals are targeted to specific programs and were developed using input from individuals familiar with the workings of these programs.

The commission's decisions were based on the compatibility of the suggestions with the commission's goals. All proposals are intended to create or encourage efficiencies, improve the structure of government, or clarify the role of the state. Most would produce long-term budget improvements as well as short-term savings and would continue to produce savings, efficiencies, or income to program budgets in years after the current biennium.

Among the recommendations that create or encourage efficiencies are proposals for expanding the bulk purchase of medical supplies and for improving the management of freight costs. Examples of restructuring efforts include changes to programs such as liquor control and emergency management in the Department of Public Safety. A small group of proposals clarifies the state's role by eliminating or reducing funding for outdated or less critical programs, such as the state subsidy for a local government public employee insurance plan and grants to operate local labor-management committees.

Approximately a quarter of the proposals could be implemented by administrative action in the executive branch. The others are expected to contribute to a discussion of restructuring, program redesign, and program efficiency during the 1992 legislative session.

To identify areas for analysis, the CORE staff used a variety of methods. First, they conducted extensive interviews with people having expertise or special knowledge in public administration, including:

- private consultants
- private industry executives, including members of the Minnesota Business Partnership
- legislators
- state government program managers and line employees
- fiscal experts.

Staff conducted group interviews or focus groups with members of the commission and employees of the Department of Finance, Management Analysis Division of the Department of Administration, the Minnesota Quality Council, and the Legislative Auditor's Office.

Additional group input was received from state management groups, former STEP (Strive Toward Excellence in Performance) participants, and the Minnesota Taxpayers Association.

In conjunction with the interview process, the staff reviewed more than 129 reports on other states' reorganization efforts, as well as past recommendations made by the Legislative Auditor's Office and the Management Analysis Division. In addition, staff reviewed more than 700 responses to a letter and questionnaire sent to state employees by the governor.

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Approximately 760 ideas were extracted from these sources. Nearly 200 of those ideas were initially selected for analysis, based on their potential for producing short-term savings and their compatibility with criteria set by the commission. The criteria focused on improving state operations, with priority given to changes that had an efficiency or reform aspect. Other criteria included requirements that savings be realized in FY 92 or 93, that savings not result from across-the board cuts, accounting shifts, or transfer of funding of services to local governments, and that savings come from all funds, not solely the General Fund.

Initial staff investigation resulted in some ideas being abandoned or referred to the long-term redesign effort. Twenty-nine suggestions were subjected to final analysis with the involvement of affected agency managers and staff and a number of other stakeholders.

The working committee review of the final analyses resulted in 23 recommendations submitted to the commission, along with two others forwarded for discussion. The commission approved 21 of the recommendations and endorsed those two which had been forwarded for discussion.

These 23 recommendations will result in total savings to the General Fund of \$17,509,000.

**T**he recommendations will take varying amounts of time to be realized. All of them, however, can be implemented to obtain the savings shown for FY 1993. The commission will continue to work with the Governor's Office, the Department of Finance, and the

legislature on plans to implement the proposals.

The commission faced a difficult charge in identifying \$15.7 million or more in savings for the current biennium.

- The state has faced increasing service demands and decreasing revenues in recent years. Many obvious or painless cuts (as well as some extremely painful ones) were already made in previous budget-cutting exercises.
- With state agencies having to finance negotiated salary increases from existing budgets and expecting additional across-the-board cuts, many of them found it difficult to offer further cost-reduction ideas to the commission.
- The short timetable for this effort precluded detailed analysis of all suggestions that may have yielded savings.

The commission's recommendations are not free of controversy. With the possible exception of ideas involving administrative efficiencies only, each idea will have its critics. However, the commission recognizes the need for bold bipartisan action to resolve the state's financial shortfall. It submits the package of reform- and efficiency-related recommendations as a \$17.5 million contribution toward that larger effort.

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# SUMMARY OF RECOMMENDATIONS

**T**his summary includes only those recommendations producing savings in the General Fund for the 1992-93 biennium. The savings are reported here less any cost of implementation. A table listing the projects and their savings can be found at the end of this summary. More information on each recommendation can be found in the appendix to this report, published separately as *Short-term Cost Savings: Detailed Analysis*.

## 1. Bookstore Revolving Fund Balance Transfer to the General Fund

**Idea No. 635 Savings: \$300,000**

Transfer \$250,000 in accumulated retained earnings from the Minnesota Bookstore revolving fund to the General Fund in FY 1992. Beginning in FY 1993, the bookstore should adjust its financial and operations plans so that \$50,000 is transferred annually to the General Fund. The bookstore should transfer these cash balances to the General Fund in FY 1992, and on an ongoing basis, because the excess balances are not required to maintain normal efficient operations, and earnings on the sale of state resources should be returned to the general treasury.

## 2. Dependent Care Expense Account Administrative Fee Reduction

**Idea No. 1585.1 Savings: \$23,000**

Decrease the fee charged to state agencies by the Department of Employee Relations for administering the Dependent Care Expense Account Program. A decreased fee is recommended because the current fee revenue is greater than the costs of administering the program.

## 3. Emergency Management Division and Emergency Response Commission Consolidation

**Idea No. 184 Savings: \$150,000**

Combine the Division of Emergency Management and the Emergency Response Commission into one Emergency Division in the Department of Public Safety. Eliminate duplication of functions between the two agencies, redesign disaster planning and training functions by consolidating regional offices, increase the emergency planning capability of local units of government, and substantially reduce dated national defense activities. Sell the hazardous materials truck and give the supplies to a hazardous materials training organization. This recommended consoli-

dation and downsizing involves state and federal funds. Funding changes to accomplish this recommendation include reducing the state general funding for emergency management and reallocating the matching federal funds to counties. The state would also discontinue applying for some of the separate unmatched federal funds that fully fund enemy nuclear attack planning and radiological equipment maintenance and would reduce the time and effort the Division of Emergency Management spends on this activity.

#### **4. Farm Advocates Program — Institute Sliding Fee Scale**

**Idea No. 215 Savings: \$100,000**

Have the Department of Agriculture implement a fee to recover \$100,000 of the costs of the Farm Advocates Program, beginning in FY 1993. Need continues for this program, despite the fact that the farm crisis has abated somewhat over the past several years. Farm Advocates provide a unique and high quality paraprofessional service to financially distressed farmers that complements other government and nonprofit services. Despite the difficult economic conditions in this sector, farmers' ability to pay makes a 100 percent subsidy of this program inappropriate.

#### **5. Freight Expense Reduction through Cost Management Techniques**

**Idea No. 761 Savings: \$1,816,000**

Reduce state purchasing costs by developing an aggressive freight management program using a combination of outside consulting and internal purchasing expertise. Such a program could realize significant savings. Department of Administration studies have indicated that the state pays freight costs of approximately \$8.5 to \$13.6 million, or 5 to 8 percent of the cost of total purchases. The Department concurs that more aggressive management can significantly reduce the costs of freight.

#### **6. Health Facilities Licensure Fee Recovery**

**Idea No. 16 Savings: \$1,481,000**

Recover past health facility licensure costs through an accelerated rate increase, beginning in FY 1993 and resulting in the full recovery of past costs in two years. Fees have not kept pace with the costs of licensing; the deficit should be recovered because the fees are intended to recover the full cost of the regulatory activity. It is expected that providers will object to the level of the increases because of the accelerated recovery. The facilities should be able to absorb the increases, however, given that the level of fees is a fairly low percentage of total cost for these health care facilities.

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## **7. Indirect Cost Recovery Improvement**

**Idea No. 636      Savings: \$124,000**

Have the Department of Finance implement a comprehensive review of statewide indirect cost allocation policies and collection methods to increase recoveries to the General Fund. It is recommended that a position be funded in the Department of Finance to improve indirect cost recovery.

## **8. Labor/Management Grant Phase-out**

**Idea No. 189      Savings: \$119,000**

Phase out the appropriation to the Bureau of Mediation Services for Labor/Management Cooperative grants. The grants have substantially accomplished their goal, and pilot grants are no longer necessary. Ongoing support should come from the private beneficiaries of the current system — labor and management.

## **9. Liquor Control Division Elimination**

**Idea No. 166      Savings: \$260,000**

Eliminate the Liquor Control Division in the Department of Public Safety. Transfer the licensing and regulatory functions to the Licensing and Enforcement Division of the Department of Commerce and the criminal investigatory function to the Bureau of Criminal Apprehension. Analysis suggests there is no compelling reason for funding a single state agency specifically to ensure

compliance with the Minnesota Liquor Act. The licensing and economic regulatory activities necessary under Minnesota Statutes, Chapter 340A, can be performed by the Department of Commerce. Enforcement of state criminal statutes is primarily the responsibility of local law enforcement agencies, and secondarily of the BCA.

## **10. Medical Assistance: Bulk Purchasing of Medical Supplies**

**Idea No. 67.1      Savings: \$407,000**

Expand volume purchasing of medical goods and services under the Medical Assistance Program. Expansion of volume purchasing would enable the state to use its purchasing power more effectively to control the cost and quality of goods and services purchased.

## **11. Medical Assistance: Primary Care Utilization Review Expansion**

**Idea No. 54.1      Savings: \$288,000**

Expand the Primary Care Utilization Review program to reduce state-paid Medical Assistance expenditures. The program identifies clients who use medical services inappropriately and provides for management of their care through designated providers. Expansion of the program would result in additional savings for both the state and federal Medical Assistance budgets and improve coordination and overall quality of care for participating clients.

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**12. Parking Fee Increase for State-owned Parking Facilities****Idea No. 311 Savings: \$268,000**

Improve management of state-owned parking lots by increasing employee parking rates to cover the cost of operating, maintaining, and repairing parking lots in the Capitol Complex; reducing the number of rates charged from seven to two; and providing for a reserve for replacement or repairs. This change would decrease the demand for funds for repairs to parking facilities appropriated from either the General Fund or bonded funds; improve the Department of Administration's ability to adequately maintain and repair parking lots and ramps when needed; and encourage state employees to use alternative transportation.

**13. PEIP Insurance Subsidy Elimination****Idea No. 190 Savings: \$1,600,000**

Eliminate the state subsidy to the Public Employees Insurance Plan. The subsidy, never intended to be a permanent financial resource, has been accrued in the plan as an unneeded reserve fund. If additional resources are required for marketing the program, the present reserve would be adequate.

**14. Political Campaign Contribution Refund Reduction****Idea No. 3 Savings: \$1,400,000**

Reduce the political campaign contribution refund to 50 percent of the contribution up to a maximum contribution of \$50 on a single return or \$100 on a joint return. The current practice of refunding political contributions at 100 percent makes the state, not individual citizens, the supporter of political candidates. Contributors who are refunded 100 percent of their donations have not shared in the cost of the political process. Because no records are kept on contributions specific to candidates or political parties, it is not possible to determine if the refund is achieving its purpose of reducing candidates' reliance on large contributors.

**15. Post-Secondary Enrollment Options Program — Marginal Cost Funding****Idea No. 362 Savings: \$3,400,000**

Simplify and approach full marginal cost funding for the Post-Secondary Enrollment Options (PSEO) program by taking PSEO students' costs out of the higher education cost funding formula. The higher education appropriation should be reduced so that all funding for PSEO students is paid through the K-12 General Revenue program. This change conforms to the legislative intent to cover marginal costs to post-secondary institutions for PSEO students. Without the suggested funding policy change, beginning in FY 1993,

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public post-secondary institutions could receive amounts of up to one and one half times their marginal costs of serving a PSEO student.

**16. Pre-tax Expense Account Savings  
Transfer to the General Fund**

**Idea No. 1585      Savings: \$631,000**

Reduce agency budgets to account for FICA and Medicare savings accruing to state agencies as a result of employee participation in pre-tax expense account programs. The salary savings are a direct result of programs the state established to benefit employees. Failing to account for the savings during the planning stages for these programs was an oversight. The savings are being used by state agencies to offset salary increases not included in their appropriations.

**17. Public Assistance Client Transfers to  
Supplemental Security Income**

**Idea No. 415      Savings: \$1,108,000**

Develop a process to ensure that all General Assistance (GA) clients who also qualify for Supplemental Security Income (SSI) complete applications for SSI benefits. Putting GA clients on SSI transfers them from a 100 percent state-funded program to a 100 percent federally funded program. In addition, SSI gives the clients more income and better access to health services.

**18. Travel: Preferred Provider Rebates  
Transfer to the General Fund**

**Idea No. 634      Savings: \$85,000**

Transfer the preferred travel provider rebate from the Central Motor Pool revolving fund to the General Fund annually, beginning in FY 1992. The rebate is the result of the state's negotiating power as a large buyer of travel services, a benefit that should accrue to the general state treasury rather than to the Central Motor Pool Fund. No relationship exists between the operation of the Central Motor Pool and the preferred provider travel rebate arrangement that would justify retaining the excess within the revolving fund.

**19. University of Minnesota Hospital  
Indigent Care Subsidy Elimination**

**Idea No. 364      Savings: \$330,000**

Eliminate the funding for indigent care at the University of Minnesota Hospital. This County Papers Program duplicates services available under other medical assistance programs to meet the needs of this population and unfairly subsidizes the University of Minnesota Hospital for providing services similar to those provided free by other hospitals.

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**20. Voyageurs National Park Citizens Council State Subsidy Elimination****Idea No. 396 Savings: \$59,000**

Eliminate state funding for the Voyageurs National Park Citizens Council to cut costs and reduce the number of state agencies. The subsidy gives the council and the interests it represents an advantage over other groups in influencing the National Park Services' plans for Voyageurs National Park and the rationale for state support of this effort is arguable.

**21. Workers' Compensation (All): Expanded Medical Fee Schedule****Idea No. 117 Savings: \$570,000**

Reduce the cost of medical services for Workers' Compensation by implementing legislation to change to a "relative value medical fee schedule" for Workers' Compensation. The relative value fee schedule includes more medical procedures and is expected to be more effective in controlling costs. This recommendation would affect all employers.

**22. Workers' Compensation (State Only): Case Management****Idea No. 193.2 Savings: \$1,650,000**

Have the Safety and Workers' Compensation Division in the Department of Employee Relations begin an active medical cost management program and

improve claims administration internally, especially by improving staff training and computer usage. These management techniques promise significant cost reductions for the state and higher quality care for injured workers. This recommendation would apply only to the state as an employer.

**23. Workers' Compensation (State Only): Special Compensation Fund Reimbursement****Idea No. 193.1 Savings: \$1,340,000**

Improve the procedures used by state agencies and the Department of Employee Relations related to the submission of requests for second injury reimbursements from the Special Compensation Fund and to the establishment of "permanent/total" disability for injured workers classified as "temporary/total" for many years. This change would allow the state to take better advantage of offsets and reimbursements available under current Workers' Compensation law. Implementation would require changes to the registration and claims processes and work flow and would yield savings for years. This recommendation would apply only to the state as an employer.

# Commission recommendations

PROJECT NUMBER	SHORT TITLE	IDEA NUMBER	GENERAL FUND SAVINGS (000s)
1.	Bookstore Revolving Fund	635	\$300
2.	Dependent Care Expense Account Savings	1585.1	23
3.	Emergency Management	184	150
4.	Farm Advocates	215	100
5.	Freight Cost Management	761	1,816
6.	Health Facility Fees	16	1,481
7.	Indirect Costs	636	124
8.	Labor-management Grants	189	119
9.	Liquor Control Division	166	260
10.	M.A.: Bulk Purchasing of Medical Supplies	67.1	407
11.	M.A.: Primary Care Utilization Review	54.1	288
12.	Parking Fee Increase	311	268
13.	PEIP Insurance Subsidy	190	1,600
14.	Political Contribution Refund	3	1,400
15.	Post-secondary Option Financing	362	3,400
16.	Pre-tax Expense Account Savings	1585	631
17.	Public Assistance Clients to SSI	415	1,108
18.	Travel Rebate	634	85
19.	U. Hospital Subsidy for Indigent Care	364	330
20.	Voyageurs National Park Council	396	59
21.	Workers' Comp. (All): Medical Fees	117	570
22.	Workers' Comp. (State): Case Management	193.2	1,650
23.	Workers' Comp. (State): Special Comp. Fund	193.1	1,340
<b>TOTAL</b>			<b>\$17,509</b>

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