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COMMISSION
ON REFORM
AND EFFICIENCY

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**IMPERATIVES
FOR CHANGE**

**AN ASSESSMENT
OF MINNESOTA
STATE GOVERNMENT**

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DECEMBER 1992

THE CORE VISION OF STATE GOVERNMENT

The Commission on Reform and Efficiency envisions a Minnesota state government that is mission driven, oriented toward quality outcomes, efficient, responsive to clients, and respectful of all stakeholders. These goals are defined below.

Mission driven

State government will have clearly defined purposes and internal organizational structures that support the achievement of those aims.

Oriented toward quality outcomes

State government will provide quality services. It will focus its human, technical, and financial resources on producing measurable results. Success will be measured by actual outcomes rather than processes performed or dollars spent.

Efficient

State government will be cost-conscious. It will be organized so that outcomes are achieved with the least amount of input. Structures will be flexible and responsive to changes in the social, economic, and technological environments. There will be minimal duplication of services and adequate communication between units. Competition will be fostered. Appropriate delivery mechanisms will be used.

Responsive to clients

State government services will be designed with the customer in mind. Services will be accessible, located conveniently, and provided in a timely manner, and customers will clearly understand legal requirements. Employees will be rewarded for being responsive and respectful. Bureaucratic approvals and forms will be minimized.

Respectful of stakeholders

State government will be sensitive to the needs of all stakeholders in providing services. It will recognize the importance of respecting and cultivating employees. It will foster cooperative relationships with local units of government, and nonprofit and business sectors. It will provide services in the spirit of assisting individual clients and serving the broader public interest.

— Feb. 27, 1992

IMPERATIVES FOR CHANGE

AN ASSESSMENT OF MINNESOTA STATE GOVERNMENT

**BY THE
MINNESOTA
COMMISSION ON
REFORM AND EFFICIENCY**

DECEMBER 1992

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EXECUTIVE SUMMARY

Minnesota has long had a reputation for being the state that works. But what was good government in the 1980s may not be good enough for the 1990s and beyond. Service delivery systems are often fragmented and ineffective. Meanwhile, the state's chronic budget deficit and demographic trends point to a future of expanding needs and shrinking resources. Maintaining the status quo is no longer an option. State government must change — radically and soon.

This report, issued by the Commission on Reform and Efficiency, presents five significant opportunities for structural and management reform that cut broadly across all areas of state government. The problems underlying these opportunities are not new. However, the commission's investigation revealed them to be chronic and widespread. These imperatives for reform are:

- *Government must be held accountable for results.*
- *Government must have a strong customer focus.*
- *Government must streamline fragmented and overlapping services.*
- *Government must replace outdated, inflexible administrative systems.*
- *Government must be structured to deal more effectively with the frequent turnover of top management.*

The commission is committed to meaningful long-term reform and will develop and report detailed and far-reaching recommendations and action steps. No set of recommendations will solve all the state's problems, but the commission pledges to offer a series of proposals which — if adopted — will vastly improve the quality of state services to customers and increase the value for the dollar to taxpayers.

ABOUT CORE

The Commission on Reform and Efficiency (CORE) was created by Gov. Arne Carlson and the 1991 Legislature (Minn. Laws 1991, Chap. 345, Art. I, Sec. 17, Subd. 9). The 22 commission members appointed by the governor and the legislature were drawn from all walks of life and include leaders in business, education, and labor, as well as former public officials. Arend J. Sandbulte, chair, president and CEO of Minnesota Power, Duluth, heads the commission. Glen Taylor, chair and CEO of Taylor Corp., North Mankato, heads the working committee that developed this introductory report.

The commission began its work in August 1991, addressing its initial charge to identify \$15.7 million in general fund savings during the 1992-93 biennium. The result of CORE's first project was the identification of 23 program and budgetary actions totaling \$17.5 million in general fund savings and \$21 million in total savings. Ultimately, \$11.2 million of CORE's general fund recommendations were adopted by the governor and the legislature.

The commission then turned its attention to its second mandated responsibility: recommending long-term actions for improving state government efficiency and effectiveness. Unlike the commission's initial project, where identifying cost savings was the goal, this project views cost savings as but one outcome of improving the quality of state government. The commission surveyed employees, interviewed agency management, heard comments from those affected by

government programs and the general public, developed case studies of executive branch agencies, and sought advice from the academic community.

Over the next several months, the commission will be issuing a series of challenging and provocative reports and recommendations on a wide variety of key issues in state government: civil service, the budget process, administrative rules, electronic business transactions, quality improvement methodologies, the human services delivery system, the environmental services system, state aid to cities, and the structure and management of the executive branch.

This report takes a first look at state government through a wide-angle lens and identifies five imperatives for reform. Although the identification and diagnosis of the problems begin here, specific strategies and recommendations for improving systems and structures will follow in subsequent reports.

THE CHALLENGE

As the Commission on Reform and Efficiency examined government operations during the past year, it discovered what many Minnesotans have understood or experienced for a long time. While state government has a proud record of achievement, simply put, it is still not as good as it should be. *Confusing, complex, fragmented, inefficient, and inaccessible* are words that citizens, the media, and state employees themselves use to describe much of the state service delivery system.

This report focuses on problems that need immediate attention. But it is important to acknowledge that problems do not tell the whole story. The commission's examination of state operations revealed pockets of innovation and productivity that survive despite the odds. Most important, it also showed countless state employees with exceptional talent and dedication to public service. Minnesota is frequently cited as a model of good government by national authorities on state government.

But, more than ever, Minnesota cannot become complacent over its past success or enviable national reputation. The demand for government service continues to escalate. This increase in demand is seen in the report of Minnesota Planning's Milestones project, which found, among other signals, that the percentage of children living in poverty has increased and the number of children abused or neglected has grown significantly since 1980; the incidence of violent crime and burglaries is climbing; and the number of

"Superfund" hazardous waste sites has doubled in the last 10 years.

Demographic changes in Minnesota's population also reveal a growing demand for government services. The number of children in elementary and secondary schools, which declined in the 1970s and 1980s, is now increasing. Health care needs will grow because the number of Minnesotans over the age of 65 is rising; by the year 2000, the state will have 30 percent more people over the age of 85. The numbers of children born to teenagers, of homeless persons, and of incarcerated people are all increasing at a rate faster than the overall population growth. Thus, the population of citizens likely to need government services is rapidly rising.

State government has had chronic fiscal problems. During the next biennium, the third budget deficit in three years is expected to exceed \$769 million.

Unless state government changes the way it operates, it will need more money to provide fewer services. The state's income is projected to grow by 9.1 percent during the next two years, while the cost of existing programs is expected to rise by 15.1 percent. Growth in spending for health care and elementary and secondary education is projected to increase 36 and 24 percent, respectively. As commission member John Brandl has written, "[T]here is no real possibility of solving the state's problems by spending more money."

The work of the commission is not the first time that comprehensive reform of state government has been recommended. Minnesota has sponsored 12 major studies of state government organization and management since 1910. Most of these efforts had limited success. A review of past reports shows that in many cases the same recommendations for reform appeared year after year, only to be adopted 10 to 50 years later, if at all. This record is consistent with

the history of reform efforts in other states. The challenge, then, is fundamental and vital. State government must be reformed to provide more effective and efficient services in order to address these organizational, economic, and demographic realities. History shows that reform will be successful only if Minnesotans reach beyond partisanship to seek ways to resolve the critical problems facing our state today. The alternative is failure.

IMPERATIVES FOR REFORM

Government must be held accountable for results.

- *Current performance management systems focus on procedures, not results or customer needs.*
- *Too many layers of management, review, and control prevent accountability.*

Government agencies and their employees are required to answer the question: "How did you spend the public's tax dollar?" But they are seldom required to assess the value that the public received.

The current systems of accountability are designed to protect public money from fraud and abuse. They require, for example, that detailed accounts of expenditures be kept and regularly reviewed, employees be hired only if they can meet stringent job specifications, equipment not be purchased without rigid oversight, salaries be public information, and employee time records receive multiple approvals.

These systems of accountability fail to assess whether the public's money is being spent effectively or to meet current priorities.

Counting procedures vs. measuring results

Neither the governor nor the legislature currently has the tools to hold state agencies

accountable for results. The governor and the legislature know the number of people on agency payrolls; whether an agency has complied with accounting rules, purchasing requirements, and hiring requirements; and how many transactions or procedures were completed by the agency (such as telephone queries answered, applications filed, or permits issued). But the governor and the legislature usually cannot identify or measure the results or outcome of agency actions, nor can they measure changes in the agency's effectiveness in managing its processes. Agency performance measures do not adequately assess the effectiveness of state operations. Most of the indicators used by agencies measure activity or procedures, instead of productivity or successful results. The 1992-93 biennial budget document, the only central, comprehensive management reporting system for the state, contained performance measures submitted by the agencies. The commission's analysis of 977 performance indicators showed that, at most, 21 percent measured program outcomes or efficiencies, while 79 percent measured program activity.

Without measurable results, neither the governor, the legislature, nor the agencies themselves can easily sort out successful programs from ones that have failed.

Agencies do need to know certain facts, such as the number of clients they contacted, applications they processed, or cases they litigated. However, agencies are not measuring how long it takes for a customer to receive a service, how many forms must be completed and the average length of time involved, or how long it takes to process a permit application. Instead, they measure only the number of times processes were completed, providing no benchmark for measuring changes in efficiency.

Cost-effectiveness measures are lacking in state government. There is no central cost-accounting system to identify the per-item cost of delivering a service or program. As a result, managers have little or no information about service costs or how to manage cost effectiveness.

In private enterprise, profitability, market share, and cost accounting systems provide universally accepted information to hold management accountable. There is no similar information for evaluating government performance.

Agencies must change how they measure work. The focus must be on outcomes as well as procedures, and both program results and processes must be evaluated. While it might be easy to evaluate some government services, such as highway pothole repair, it is not as easy to measure the effectiveness of consumer protection regulation or the success of a job training program. Regardless of difficulty, however, results can and should be measured in the public sector.

Two efforts are under way in the executive branch to change agency focus from processes to outcomes or results. The first is a Department of Finance directive that all agencies include outcome measurements in their 1994-95 biennial budget. The budget directions state: "The key to success in this budget process is the ability of each agency to link program and resource allocations to specific results or outcomes. A clear statement of both short and long term objectives is required, as well as key indicators by which effective success can be measured."

The second effort to shift focus to the result or outcome of government's work is Minnesota Milestones. Led by Minnesota Planning, the Milestones project is identifying quantifiable goals for 79 measures of the quality of life in the state. Agencies will then be able to assess progress toward these goals in future biennial budgets. When completed, these two efforts should have the potential to increase the public's ability to hold government accountable for results.

A third initiative could be to expand the use of quality improvement methods and tools in state government. An effort in this area would lead to the continuous improvement of agency outputs and processes. Quality improvement stresses the value of strong worker participation in the production process. By being included in the decision making, employees feel a stronger sense of ownership of their work and are more willing to be held accountable for program outcomes.

While it may take several years for these initiatives to be fully operational, indicators will be used by agencies as ongoing measures of their performance. When completed, they should have the potential to increase

the public's ability to hold government accountable for results.

Complex systems of management impede accountability

Another impediment to holding agencies or employees accountable for results is the complexity of government management systems. Instead of clearly providing responsibility and the tools to achieve results with one branch of government, one agency, or an employee, government's management systems diffuse responsibility among the three branches of government, multiple agencies, and boards and commissions, as well as within agencies.

Front-line workers and supervisors often do not have authority to make decisions and carry out their jobs. Multiple approvals, each representing a different level in the hierarchy, are required for a decision or action. Every additional approval decreases the probability that action will be taken. In addition to reducing the chance for approval, each required step delays the decision.

Accountability is also hampered when more than one agency is responsible for the development and delivery of a service. In some cases, one agency is responsible for planning a service, another for developing operational criteria, and yet another for actually delivering the service. Services to persons with developmental disabilities illustrate this point: 22 programs, 32 funding sources, 8 state agencies, 84 county social service agencies, and 436 school districts are involved in the provision of these services.

Another example of interagency management complexity is the current approval system for transferring funds between programs or within the same program. A transfer requires review at four different steps: internal agency management, an executive budget officer at Finance, the Statewide Accounting System administrator, and the chairpersons of the appropriate fiscal committees of the legislature. After the approval process is complete, a form detailing the actual transfer is required. It would be difficult to hold one individual, one manager, or even one agency accountable, should a transfer fail to occur.

Fiscal decisions are not based on results. Without measured results, employees are often rewarded on the basis of doing business as usual or longevity, and they have few incentives to take risks to solve problems beyond the scope of their job description. Similarly, managers' budgets are not based on performance improvements but on what they spent during the last budget cycle.

In these complex systems, no one agency, single level of management, or individual employee has either the responsibility or the ability to achieve the results in any program. These management systems diffuse responsibility and prevent accountability for results.

Government must have a strong customer focus.

- *State agencies have multiple customers with competing demands.*
- *Customers and their needs are not understood.*

State government's accountability is often questioned by its customers. It happens every time that someone asks why it takes weeks instead of minutes to receive a driver's license. It happens when people find it impossible to locate the right agency in the telephone directory or are transferred six or more times when they do place a call. How government is doing its job is challenged when people need to contact four agencies to get permits for one activity or find the contract application process a barrier to doing business with the state.

State operations are not focused on customer satisfaction or even customer needs. Some agencies appear confused at times about who their customers are, and most have not made a satisfactory effort to understand their customers' concerns and expectations.

Multiple customers with competing demands

Most state services have multiple customers. Some customers are agencies or branches of state government, while others are individual citizens. Agencies also have multiple customers reflecting the multiple roles of the

agency. For example, a regulatory agency may seek to educate as well as enforce. The general public is also a customer in the sense that each regulatory decision will affect the type of services available or the quality of the physical environment.

Some of government's customer-related problems stem from its unenviable obligation to understand and balance special interests with the public interest. When offering direct services, agencies must struggle with conflicting demands that outstrip their limited resources. For example, cross-country skiers and snowmobilers can request incompatible uses for a new recreational trail. Agencies must acknowledge affected constituencies and organized consumer groups as part of their customer base. In the case of the trail, both commercial interests in nearby towns and environmental organizations may insist on having a voice in the final decision.

Unlike in private enterprises, which also deal with multiple customers, service in government often comes in the form of licensing, issuing permits, and other forms of regulation. This unique role carries two potential dangers. One is that the state employees from whom a customer is supposed to seek help with a problem are located in the same department as the people who can penalize

that customer because of the problem. The other danger is that, in regulatory matters, while applicants are customers and deserve good service, the general public is really the primary customer whose interests are paramount. With a permit application, the state is obliged to provide a fair and quick decision but not necessarily to grant the permit.

Also distinguishing public-sector work from private is the fact that the recipient of the service is not necessarily the person paying for the service. For example, the need for costly treatment by a recipient of medical assistance may differ sharply from the desire of the taxpayer for lower taxes. Similarly, the request for government assistance to a business in return for a promise of new jobs may conflict with a variety of taxpayer interests. The taxpayer is a critical stakeholder in any decision made by government. The conflicting demands of the recipient of the service, other stakeholders, and the taxpayer must be balanced.

While agencies have multiple customers, there are also customers who need to be served by multiple agencies. The problem here is not necessarily that more than one agency is providing services to a customer; rather, there is little coordination among them. Typically, staff are limited to their own agency's operation in assisting customers; no one employee acts as a "case manager" to stay with customers as they move to and from other agencies. If agencies do not have synchronized systems or fail to cooperate with each other, no office below that of governor is accountable for resolving these issues.

If agencies cooperated from a customer perspective, there would be much less confu-

sion caused by similar-sounding agency names, multiple seals and symbols, differing office hours and locations, and internal ignorance about other agencies' activities. Instead of presenting customers with an apparently seamless system, agency operations usually confuse customers and force them to become experts on bureaucracy.

Customers are not understood

During the commission's focus groups with cabinet-level agencies, managers often asserted that they knew their customers' needs, since they often heard from dissatisfied customers. While this method gives them an understanding of their most vocal customers' expectations, very few agencies have attempted to gather information about all of their current and potential customers. This lack of understanding is underscored by the agency performance indicators in the 1992-93 biennial budget. Only 16 percent of all measures make even passing reference to customer satisfaction.

Some agencies are adjusting their practices based on customer research. For example, the Department of Natural Resources developed a marketing strategy to increase the use of state parks by determining who the parks' customers are and what improvements they would like.

The lack of strong customer focus that characterizes most agencies adversely affects both the legislative process and executive branch relations. Because of this void, individual legislators often become customer representatives attempting to influence agen-

cy operations. Legislative micromanagement is one result as legislators seek to override agency management decisions through narrow, operation-level legislation. This distracts the legislature from its role as policy maker and, at times, reduces it to a program manager working in conflict with the executive branch.

The legislative and executive branches have both attempted to increase customer visibility and influence by creating approximately 275 boards, commissions, councils, and advisory task forces. While there is real value in having forums for customer participation, the diffusion of roles and power among multiple organizations adds to the difficulty in holding government accountable for results and increases the fragmentation of policy making and service delivery. Another problem is that customer-based boards

and task forces sometimes become the captives of organized special interests and lose a broader customer perspective.

Customer satisfaction is the basic tenet of the quality improvement philosophy. Quality concepts and tools help structure incentives so that employees are encouraged to meet the needs and expectations of their internal and external customers. Studies indicate that organizations that identify their customers and design services according to their customers' expectations are more productive and cost-effective.

If agencies were able to analyze their work flow from a customer perspective, they would be able to identify and eliminate steps that do not add value to the product or service.

Government must streamline fragmented and overlapping services.

- *Government structure is complex.*
- *Service delivery is fragmented.*
- *Government has multiple levels.*

There is no simple “one-stop shopping” for state services. Motor vehicle and other licenses may be purchased at locations throughout the state; business licensing occurs elsewhere; tourist information, tax information, small business assistance, consumer protection information, and job training information are all available from separate offices.

This dispersal of responsibility is illustrated by the *Minnesota Guidebook to State Agency Services*. In its 710 pages, the 1992-95 edition of this book provides cursory information on topics ranging from the hours of the state law library to where artists may apply for career opportunity grants. The burden of identifying what services are offered and where to obtain them falls on the citizen.

State government, however, is only one aspect of the system of governing. Federal, regional, and local governments also play major roles in this system. The result of this fragmented and multileveled system is a confusing array of services and agencies that is difficult both to manage and to comprehend.

Complexity of state government

State services are delivered by a myriad of agencies, boards, commissions, councils, and task forces. Adding to the confusion is the fact that many “state” services are actually delivered by local governments and private organizations.

This complex system was developed over many years as new agencies, offices, and programs were created to address pressing problems. For example, in response to the energy crisis of the 1970s, Minnesota created a state energy agency; in response to fears of pipeline explosions during the 1980s, the Office of Pipeline Safety was created. Most recently, in response to rising numbers of individuals unable to afford health insurance, MinnesotaCare was created. The increasing complexity of state government is seen in the fact that in 1950, there were 105 agencies in the executive branch: 35 major departments; 58 boards, commissions and committees; and 12 semi-official agencies. Today, the number exceeds 300. This process of adding structures to

address specific problems, without efforts to consolidate and integrate services, has resulted in fragmented services delivered through a highly complex government structure.

Executive, legislative, and judicial branches

The complexity of state government begins with its division into three branches: executive, legislative, and judicial. This separation of powers, found in every state constitution, parallels the federal constitution, which limits the concentration of government power through a system of checks and balances between the branches. Each branch of government springs independently from the constitution. As a result, each has guarded its independence by developing its own complex organizational structure, as well as separate administrative, personnel, and financial systems. But these independent branches of government are also very interdependent. If the judicial branch determines it needs additional judges, it must seek legislative authorization and the governor must make the appointments. The legislature may create a new program, but the governor may veto the legislation. The governor may want to streamline state government by eliminating agencies but can do so only with legislative approval.

The executive branch of government, headed by the governor, includes 26 cabinet-level agencies and about 275 boards, councils, commissions, and advisory task forces. The executive branch also includes five other elected officials: the lieutenant governor, the attorney general, the secretary of state, the state treasurer, and the state auditor. The executive branch employs approximately

41,000 people (including those in higher education).

The legislative branch is composed of 201 members; 134 in the House and 67 in the Senate. The legislature operates through 21 full committees in the House and 18 full committees in the Senate. In addition, the legislature has 11 commissions on such topics as the economic status of women, and the review of administrative rules. The legislative branch of government employs 581 full-time employees: 268 in the House, 212 in the Senate, and 101 in the 11 legislative commissions, the revisor of statutes, and the Legislative Reference Library. The total, 581, does not include employees hired temporarily during legislative sessions.

The judicial branch of government has more than 2,300 personnel. The state's 265 judges and 800-plus judicial support personnel are included in the state budget. Another 1,300 judicial system support personnel are funded by county budgets. The Minnesota Supreme Court and the Court of Appeals have responsibility for the review of appeals from the lower courts. There are ten district courts of general jurisdiction, each with three or more judges, and separate conciliation courts for small claims in Hennepin and Ramsey counties.

Service delivery is fragmented

Examples of fragmented service delivery abound:

There are 250 separate children's programs spread among 33 state boards and agencies.

At the state level alone, more than 30 agencies have environmental responsibilities, including 11 cabinet-level agencies and several boards and commissions.

Day-care centers are regulated by the departments of Administration, Human Services, Health, and Public Safety, each of which has its own rules and enforcement staffs.

A veteran seeking financial assistance for education or for health problems can turn to the Department of Veterans Affairs. Help finding work is offered by the Department of Jobs and Training, Veteran's Employment Division, while participation in an apprenticeship program is handled by the Department of Labor and Industry.

Since government has been organized around narrowly defined functions, professional disciplines, interest groups, or funding sources, rather than customer needs, services have become isolated and splintered. The burden is on the customer to coordinate and integrate fragmented service delivery.

Government has multiple levels

Any efforts to reorganize this fragmented system of service delivery must recognize that state government is only one part of the system of governing in Minnesota.

Regional and local governments establish programs, raise taxes, and fund a wide range of activities. Simultaneously, the federal government regulates, funds, and

conducts activities throughout the state. These multiple levels also create many funding sources to address a problem. Money for drug-use prevention is available from several different federal, state, and local sources. Because they are administered separately, the funds have varying eligibility requirements, further undercutting the ability to provide integrated services to individuals.

These levels of government are independent, but their activities are extensively intertwined. Both federal and state governments have separate constitutions that recognize the authority of each to decide certain issues. Local governments were created by the state but have been granted specific independent powers. Each level of government has its own elected officials and taxing and spending authorities.

A number of efforts have been made to develop coordinated planning or operations among the different levels of government. The Metropolitan Council was created as a regional agency to address regional problems formerly left to cities and counties. Many local governments have developed joint-powers agreements that let them work together on common problems. The federal government attempted to increase coordination under the Intergovernmental Coordination Act, which allows states to comment on federal actions proposed within the state and requires the federal agency to either accommodate state concerns or explain why it cannot do so. While these and other means to improve coordination among the levels of government have provided opportunities to better link some policy decisions, they have also increased government's complexity.

Federal government

At the national level, federal agencies fund, regulate, or promote activities in Minnesota ranging from small business development and agricultural exports to hazardous waste regulation and highway construction. The federal government mandates some state and local actions, such as through the Americans with Disabilities Act, which requires buildings to be retrofitted and sets standards for construction; encourages other actions by providing funding, such as 90 percent funding for certain highway projects; and directly conducts some activities in the state, such as controlling and managing of national forests.

One aspect of the complex federal-state-local relationship can be seen in the regulation of hazardous waste. Federal law establishes a system of hazardous waste regulation to be enforced by the U.S. Environmental Protection Agency. States may be delegated authority to run their own hazardous waste program so long as it is at least as stringent as the federal program. Minnesota has qualified to establish and enforce its own program. However, the federal government may bring separate enforcement actions without state concurrence and may override any state or local regulation it concludes will interfere with implementation of the federal goals.

Local and regional government

Minnesota has 855 city governments, 1,800 township governments, and 436 school districts, each with taxing and spending authority. It also has numerous regional and special-purpose governments. Regional development commissions, designed to coordinate planning and development activities, operate in nine of the 12 designated

regions of the state. The Metropolitan Council and its related agencies plan and operate transportation, sewer, park, airport, solid waste, health, housing, and aging services in the seven-county metro area. There are also 317 special-purpose districts in the state, including lake improvement and conservation districts, sanitary districts, storm sewer districts, mosquito control districts, regional railroad authorities, hospital districts, and a pedestrian mall district.

Cities and counties have also created hundreds of special-purpose regional organizations under the authority of the Joint Powers Act. This act allows governments to join with neighboring county or city governments to work together to provide services. There are, for example, multicounty solid waste commissions, watershed management organizations, and a health services planning commission.

Some of these local and regional programs are independent of state authority, while others are the result of legislative or state agency mandates and the sharing of state revenues.

Government must replace outdated, inflexible administrative systems.

- *Rigid administrative systems prevent effective management and foster waste and inefficiency.*

Effective management of state agencies is hindered by outdated, inflexible, and overly centralized administrative systems. Budget systems were designed for legislative oversight, not to provide cost information for management. The personnel system limits management's ability to hire and develop employees to address changing needs. The state's purchasing system is difficult to use and does not provide consistent value. All rule-making activities are treated the same way, whether changes are minor or the rule establishes a new program.

These administrative systems were designed to minimize abuse, reduce political favoritism, and develop economies of scale. As currently structured, these systems no longer meet the needs of state government. In addition to preventing abuse of the public trust, these systems must add value to the services they support to ensure that government works more effectively in the future.

Administrative systems

Budgeting

The state budgeting process sends a signal to agency management: "Use it or lose it."

There are few incentives to save. Monies not spent at the end of the biennium must be returned to the general fund. If the money is returned, the agency's budget base frequently is reduced for the next biennium. This process discourages efficiency and encourages waste.

Another problem for managers is that it is often difficult to transfer funds from one program to another as needs change. Funds are frequently designated by the legislature for a particular program. Shifting some funds to other agency uses can be done but only with Department of Finance or, in some cases, legislative approvals. This system not only restricts management's ability to move resources to meet needs, it also adds to the administrative costs of government.

Human Resources

The state personnel system controls the state's 2,179 job classifications. Agency managers want more control over job classifications and requirements, arguing that the existing system makes it difficult to hire the most qualified applicants and results in hiring delays. The average time between an agency request to hire and the completed hire when

no list of available applicants exists exceeds 12 weeks.

The current compensation system makes it difficult to reward good performance and motivate employees to develop new skills. Promoting an individual to a supervisory position has often been the only way to reward a valuable employee. At the same time, little emphasis is placed on skill development to help employees adapt to changes in their work.

When people who may have been very good at their job are placed without appropriate training in a managerial or supervisory position that is perhaps beyond their capabilities, the delivery of state services suffers. The lack of management and supervisory training results in poor decisions and more bureaucracy. Poor management demoralizes employees and creates an atmosphere where successes are not rewarded and failures go uncorrected.

Procurement

State agency managers have long criticized the state's purchasing system, which remains highly centralized and rigid despite increased delegation to state agencies over the years. The system was originally designed to prevent abuse and political favoritism and to secure lower prices through bulk purchasing. It has also become responsible for ensuring that the state meets a number of social goals in its purchasing, such as buying goods made in the United States; products and services from small businesses, especially those owned by women and minorities; and environmentally sound, energy-efficient products.

Managers complain that the documentation required to make a purchase is too detailed and that the bureaucratic system of approvals moves too slowly. Many also say that lower prices and better quality are available in the open market than under state contracts. For example, by the time some computer purchases are approved and completed, the market already offers better and less expensive technology.

Administrative rule making

The system by which agencies must adopt rules is also cumbersome and time-consuming. A 1987 report of the Minnesota House of Representatives Research Department indicated that, not counting extensive preparation time, which can take years, or the required public notice, noncontroversial rules took between nine and 44 weeks to be adopted.

The system treats all rules the same. This means that the same process must be used for new rules, amendments, suspensions, or repeals of existing rules. This inflexible and time-consuming process results in rules that are often outmoded or not enforced and new agency programs either being implemented without legally adopted rules or being delayed, no matter how urgently they are needed.

Government must be structured to deal more effectively with the frequent turnover of top management.

- *State government structure turns administration changes into problems, instead of opportunities.*

Change in the leadership of state government is the norm. As often as every four years, a new governor brings new priorities and a new public mandate to the executive branch. Legislative leadership changes as new House or Senate members are elected and committee chairs move or are replaced.

This change provides opportunities to realign agency priorities to reflect changes in public expectations. However, state government is not structured to move smoothly from one administration to the next. The new governor must develop a budget and appoint key administrators. The complexity of government makes it difficult for new administrators, often coming from the private sector, to learn quickly about budgeting, the legislative process, rule making, and open-meeting laws, as well as their agency's mission, goals, strategy, structure, style, and relationships with other agencies. The first months are spent putting together management teams, learning agency programs, setting priorities, and understanding the processes.

The time spent in transition and learning how to operate in this complex system often means that addressing the priorities of the new administration is delayed. Delays in implementing previously planned agency action also frequently occur during these transitions, and productivity may drop. Some

veteran employees described their reaction to the constant change as "hunkering down," since before one major reorganization is completed, a new management team begins another. The trade-off for gaining new direction from a new management team can be a loss of efficiency, credibility, and trust.

While new management teams develop long-range strategies, frequent turnover can prevent them from acting with the long term in mind. The time span for developing a major new program initiative typically is several years, going from concept to public proposal to legislation to implementation. Too often, by the time a major initiative is ready to be implemented, the agency leaders who sponsored it are gone, and the new leaders have new priorities.

Frequent transitions also inhibit cross-agency problem solving. The need to understand and lead one agency focuses management attention internally, rather than on problems that involve multiple agencies.

Current organization impairs effectiveness

To make change more of an opportunity, agencies and their management must be able to quickly identify new directions and strate-

gies and move to implement them. However, the complexity of the state's structure, fragmented and confusing lines of authority, and inflexible system thwart quick action. A new management team may spend its initial year securing the necessary approvals to reorganize to better meet the new agency direction through changing personnel classifications or qualifications for new hires.

Unlike major corporations or the military, which regularly rotate top managers within their organizations, top agency management often does not have prior experience in managing state government. Instead, many commissioners and their deputies are talented individuals from the private or nonprofit sector who come to state government for a limited period of time. Their need to learn about state government also reduces the ability of agencies to take advantage of opportunities presented by management changes. Although turnover is a permanent

characteristic of many agencies, formal transition planning, management orientation programs, or other permanent programs to shorten the learning curve do not generally exist.

The governor appoints new agency management to reflect the electoral mandate. His team includes commissioners of 26 major agencies and many of the members of more than 275 boards, commissions, councils, and advisory task forces. This wide span of executive control combined with rapid turnover of the appointees can result in an executive branch of government lacking cohesion and constancy of purpose.

Frequent changes in top agency management ensure that government can respond to the voters' mandate. However, state government currently is not organized to take advantage of the opportunities presented by this regular change.

OPPORTUNITIES FOR CHANGE

These five major imperatives for reform address broad conclusions about state government. The commission identified several issues worthy of more detailed analysis. Individual reports on these issues are being prepared that will identify opportunities for change and offer specific recommendations.

Opportunities include:

- *Consolidated funding* — Human services programs are funded from many different “pockets” of money, each with its own eligibility criteria. Consolidating funding and eligibility may allow more effective service delivery and lower overall costs.
- *Eliminated or combined agency functions* — Opportunities may exist to eliminate redundant activities, to gain efficiencies by combining programs or departments, or to restructure programs to be more customer-oriented.
- *Federal requirements waivers* — Some state processes are required by federal rules. The federal government can grant waivers of requirements when conditions in one state differ from the national norm. Federal waivers may lower costs or allow improved service delivery.
- *Pilots and experimentation* — Another opportunity for change is through encouraging demonstration pilots or experimental projects. Efforts such as these can provide trial runs for new ideas that, if successful, may be more widely adopted.
- *Privatized services* — Government provides services ranging from libraries and road repair to hazardous waste regulation and prisons. One opportunity for reform may be to change government’s role from direct service provider to contract manager. Services now provided by state employees would be provided by private firms working under contract with the state.
- *Quality improvements* — Initiatives to improve the quality of government service can move decision making closer to state customers, eliminate processes lacking in value, and create incentives for employee quality improvement.
- *State service centers* — Agencies could combine operations to provide “one-stop shopping” for citizens.
- *Technology investments* — Developments in technology allow easier storage, retrieval, and sharing of information. Investments in such technology could lower the cost of providing some services and increase productivity.

These are some of the opportunities for reform identified during the commission’s work. Opportunities such as these are constantly developing, and government needs to find ways to take advantage of them. While CORE’s subsequent projects cannot address all opportunities for reform, they will gener-

ate many recommendations for improving state government. A synopsis of those projects follows.

CORE projects

Quality initiatives

One of CORE's goals for state government is to provide more cost-effective services to better satisfy customers. To reach this goal, the commission is seeking ways to transform traditional one-size-fits-all service delivery methods to more customer-driven approaches. Employing the concepts and techniques of quality improvement is one way to facilitate this change. The commission believes quality improvement practices should be incorporated into the state's reform agenda for several compelling reasons: quality will foster a focus on customer service, improve process efficiency and effectiveness, initiate a healthy cultural transformation in state agencies, and encourage continuous long-term reform.

The commission's quality improvement initiative has four facets: completing a benchmarking demonstration project; assisting two state agencies as they conduct self-assessments based on the Malcolm Baldrige National Quality Award criteria; sponsoring a quality seminar for the governor and his cabinet; and forging a partnership between the public and private sectors based on sharing expertise in quality management.

Budgeting and financial management systems

CORE's vision statement calls for efficiency, an emphasis on mission, and a quality orien-

tion, but the state's current budget system is a formidable barrier to those goals. Instead of being mission-driven, agency budgets are driven by how much money was spent in the past. Instead of being oriented to quality outcomes, the system concentrates on inputs. Instead of encouraging efficiency, it encourages managers to spend as much as they can. Instead of encouraging innovations that meet emerging needs, the system rewards "business as usual."

The commission is trying to find ways to allocate resources more efficiently by emphasizing accountability for results and by eliminating unnecessary financial control. The goal is a budgeting system that gives managers the flexibility to meet changing demands, policy makers the information they need, and Minnesotans the best return on their tax dollars.

Human resources system

The management of a skilled and productive work force is essential for the state to effectively deliver services in a dynamic environment. Unfortunately, human resource management is held captive by an inadequate civil service system that has remained basically unchanged for at least 20 years.

The commission will recommend solutions to the following major personnel-related impediments: State agencies perform no strategic work force planning, nor do they have the proper information to make such projections. Current hiring methods do not meet the needs of the agencies. Generally, the hiring process is too slow, not user friendly, and does not provide managers with adequate authority to effectively execute their hiring responsibilities. The layoff pro-

cess is too complicated and often results in placing people into positions for which they are ill-prepared. The classification and compensation system is cumbersome, inconsistent, and yields uneven results. Compensation practices and rates ignore the differences in local job markets. The state's system of job evaluation is difficult to understand, very slow to respond to new needs, and inadequate for measuring important job factors, such as team work and customer service.

Administrative rule-making process

The system by which agencies must adopt rules is cumbersome and time-consuming. Rules can take up to 44 weeks to adopt after publication. This does not include the extensive negotiation time, which can amount to years, that is spent by agencies and the affected parties before formal notice to adopt is published.

The cost of rule making is high. Larger agencies involved in extensive rule making must have staff devoted exclusively to this activity; others must transfer staff from programs to rule making. Rules also impose a high cost on those being regulated.

The system treats all rules the same. This inflexibility does not provide incentives to keep agency rules updated. As a result, some agency rules are outmoded and others may be selectively enforced.

The commission will recommend approaches to reforming the rule-making process to improve the efficiency and effectiveness of state government.

Local services funding

General-purpose state aids to cities are at the heart of the relationship between state and city governments, but little consensus exists on policy goals of the aid, whether cities are spending the money efficiently, or whether the aid given reflects the actual needs of the recipient cities.

The commission is examining problems inherent in the system, such as the lack of accountability and a rational basis for the distribution of funds. About \$300 million in local government aid was distributed to cities this year, but a recent study estimates that only about a tenth of that aid was distributed according to need. This lack of connection between aid and need leads to such irrational consequences as 14 small cities receiving more aid than their total expenditures.

The commission has determined that the goal of state aid should be to provide basic, minimal support for necessary, adequate, and efficient services to cities whose needs are in excess of their revenue-raising capacity. It will recommend changes in the existing aid system to support that goal.

Environmental service system

Citizens have expressed frustration with the way the environmental service system works — or doesn't work. The system is fragmented: various state agencies have overlapping jurisdictions, conflicting requirements, and different approaches. As regulatory agencies multiply, decision making slows and citizen access becomes more complicated. Agency processes need to be streamlined and more responsive to citizens. The system is overly prescriptive, and dispute resolution processes are too time-consuming and costly.

The commission's goal is to outline a new approach that brings the expertise and perspectives of different state agencies into a system that works for the citizens of Minnesota. It will include recommendations to put the burden of coordinating the system on government, rather than on citizens. The commission wants to focus on the ultimate outcome of regulatory compliance, instead of the specific procedural steps to reach a given outcome.

Human services delivery system

Each year, about one in eight Minnesotans receives help from the Department of Human Services. Human services programs in other state agencies, such as the Department of Jobs and Training and the Housing Finance Agency, bring that number even higher. Given the size and significance of these programs, it is critically important to make the system more accountable, customer-focused, and outcome-driven.

The commission has identified three primary barriers that prevent the human services system from achieving the above-stated principles: a lack of clear and coordinated vision, mission, and leadership; a fragmented, prescriptive system; and inappropriate incentives. Programs emphasize process, not outcomes; for the Human Services Department alone, there are 1,268 pages of administrative rules. The system is not responsive to customer needs; it is a confusing maze of overly specialized programs that make it difficult to serve a person with multiple needs.

Electronic business transactions

The state's use of electronic business transactions is very limited. Through the use of

private-sector consultants who have contributed their time to CORE, the commission will assess the current use of technology, identify opportunities for expanded use, and recommend implementation strategies.

State government reorganization

The commission will return to an overview of state government in its final report. The report will reexamine the basic systems and structures that affect service delivery; identify ways to make immediate and long-term improvements; consolidate the findings, conclusions, and recommendations of the specific projects; and provide a framework for comprehensive reorganization.

While the commission will not provide a cure-all, it will recommend means of providing state government with the accountability and flexibility it needs to continually move toward the ideal articulated in the CORE vision statement (presented on the inside of the front cover of this report): a Minnesota state government that is mission driven, oriented toward quality outcomes, efficient, responsive to clients, and respectful of all stakeholders.

These projects will be controversial. Administrators, legislators, public employees, constituencies, and organized interest groups may be tempted to protect the status quo. The need to overhaul archaic procedures, remove barriers, reduce time-consuming processes, and respond to customer needs is compelling, however. Minnesota's citizens and elected officials must reach beyond partisanship and narrow, special interests to find the political will to champion real reform.

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