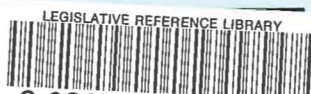


930225



3 0307 00005 1584

ON REFORM
AND EFFICIENCY

C O O R D I N A T E

BUDGETING AND FINANCIAL MANAGEMENT IN MINNESOTA STATE GOVERNMENT

DETAILED
REPORT

HJ
516
.083
1993

JANUARY 1993

Pursuant to 1991 Laws, Chap. 345
Art. 1, Sec. 17, Subd. 9

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

**BUDGETING
AND FINANCIAL
MANAGEMENT
IN MINNESOTA
STATE
GOVERNMENT**

DETAILED REPORT

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

JANUARY 1993

*This report is printed on recycled paper using soy-based ink.
To recycle the paper, remove the reusable plastic binding.*

CONTENTS

EXECUTIVE SUMMARY 1

Budgeting system 1

Control mechanisms 2

Recommendations 3

INTRODUCTION 5

Purpose of the CORE project 5

Problem identification 5

Project work plan and methods 6

Project participants 7

BACKGROUND 9

The budget as a resource allocation tool 9

Evolution of budget structure 9

Minnesota's budget system 10

CORE VISION FOR BUDGETING: PERFORMANCE-BASED BUDGETING 11

Vision methodology 11

Definition of performance-based budgeting 11

CORE vision — implications for the budget 12

Use of performance-based budgeting 14

Minnesota's experience 16

CORE PERFORMANCE-BASED BUDGETING CASE STUDIES 19

Case study methodology 19

Office of Waste Management 20

Community College System 21

Department of Transportation, State Road Construction Program 22

Findings	23
Conclusions	27
Recommendations	30
CONTROL MECHANISMS	35
Need for financial controls	35
Existing financial controls	35
“USE IT OR LOSE IT” PARADOX	37
Prevalence of “use it or lose it” behavior	37
Options for change	39
Current examples of carry-forward authority	40
Findings	43
Conclusions	43
Recommendations	44
LEGAL LEVELS OF CONTROL	45
Transfers between levels of control	45
Current prevalence of levels of control	46
Findings	50
Conclusions	51
Recommendations	52
AGENCY TRANSFER RESTRICTIONS	53
Findings	54
Conclusions	54
Recommendations	55
COMPLEMENT CONTROL	57
Complement control in other states	57
Findings	58
Conclusions	58
Recommendations	59

IMPLEMENTATION STRATEGIES 61

Performance-based budgeting 61

Control mechanisms 62

Implementation cost 62

SUMMARY 65

BIBLIOGRAPHY 67

APPENDICES 69

1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	41	42	43	44	45	46	47	48	49	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67	68	69	70	71	72	73	74	75	76	77	78	79	80	81	82	83	84	85	86	87	88	89	90	91	92	93	94	95	96	97	98	99	100
---	---	---	---	---	---	---	---	---	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	-----

FIGURES

1. Budget System Comparison
2. Example of Emissions of a Hypothetical Pollutant
3. Example of Emissions of a Hypothetical Pollutant Compared to Previously Projected Emissions
4. Performance-based Budgeting Process
5. Performance Accountability System Model
6. Capital Expenditures in Last Two Months of the Year
7. Computer and Office Equipment Expenditures for Cabinet Agencies
8. Alternative Scenarios for "Use It or Lose It" Paradox
9. Amounts Carried Forward from the Previous Fiscal Year
10. Amounts Carried Forward in Authorized Agencies, 1985-1992
11. Levels of Control — General Fund Expenditures
12. General Fund Activity-specific Appropriations
13. Percent of Funds by Type of Appropriation in the Trunk Highway, Game and Fish, and Environmental Funds
14. Legal Levels of Control — Cabinet Agencies
15. Levels of Control — Selected Funds

1

2

3

4

5

6

7

8

9

10

11

12

13

14

15

16

17

18

19

20

EXECUTIVE SUMMARY

The state government budgeting and financial management system fails in several crucial ways to meet the CORE vision of state government as mission-driven, oriented toward quality outcomes, efficient, responsive to clients, and respectful of stakeholders. The system is flawed in that:

- *Instead of being mission driven, state budgets are driven by how much money was spent in the past.* An agency's budget is based on what it has spent, not on what should be spent, to accomplish its mission. Decision makers tend to focus on the budget changes requested by an agency; they do not closely examine the overall level of funding for the mission of the program or agency.
- *Instead of being oriented to quality outcomes, the emphasis is on inputs.* Most budget documentation focuses on how much was spent, not on what was accomplished.
- *Instead of encouraging efficiency, the system encourages managers to spend as much as they can.* Any balance left in a program's account at the end of the fiscal year usually is returned to the fund from which it was allocated. As a result, program managers will spend as much of the appropriation as they can by the end of the fiscal year, regardless of the need to use those funds.
- *Instead of encouraging innovations that meet emerging needs, the system rewards "business as usual."* Existing programs receive base-level funding regardless of their effectiveness. New programs have to be specifically authorized to receive any funding. Managers do not have the flexibility to move funds from a program that is not successful to an innovation designed to achieve the same goal.
- *Instead of getting the information they need to make tough choices, the legislature and the governor are flooded with financial statistics.* The system now gives policy makers budgets that focus on such activities as travel or administration instead of programs. This can cause them to base their decisions on how much an agency spends on a program, rather than on the program's outcomes.

Budgeting system

Seeking to address these differences, CORE examined budgeting systems that emphasize accountability for results instead of controls over inputs. It found that a performance-based budgeting system offers the greatest potential for improving the state's system.

Performance-based budgeting relates resource allocation decisions to measures of program performance.

To evaluate the potential for implementing performance-based budgeting in Minnesota state government, CORE conducted case studies in two state agencies and one program: the Office of Waste Management, the Community College System, and the Department of Transportation's State Road Construction Program.

CORE found that useful data is already being collected, but it is not always configured in a way that makes it useful for measuring outcomes. Efficiency and output measures are easily produced, but outcome measures are more difficult to collect.

A performance-based budgeting system would provide improved accountability information and increased efficiency. Some challenges remain to creating an effective performance-based budgeting system, including trust issues, existing norms of behavior, time investment, and data measurement.

Control mechanisms

The current financial management system is crippled by an abundance of controls. These financial controls make for a slow, expensive bureaucracy hindering managers' ability to implement efficient programs. To be effective, managers need flexibility to allocate resources where they are needed most. The current environment limits managerial incentives with controls that deal only with inputs because elected officials have no other means to gauge the performance of an agency.

Problematic controls include:

- *The "use it or lose it" paradox.* Created by the budgeting system, this reduces the incentives to improve program efficiencies and savings by returning all savings resulting from efficiency gains to the fund out of which the program was financed.
 - *Legal levels of budgetary control.* These controls ensure close legislative monitoring of expenditures within specific programs by restricting spending to the categories for which the monies were approved. If those programs do not require all the funds, however, a complicated and time-consuming process must be used to shift the money elsewhere.
 - *Restrictions on transfers.* Virtually all transfers must be approved by the Department of Finance in a lengthy, unnecessary process that wastes managers' time and energy.
-

- *Complement control.* This mechanism attempts to set limits on an agency's complement of full-time employees. The complement figures, however, are often inaccurate and restrict a manager's ability to make intelligent staffing decisions.

A performance-based budgeting system would decrease the need for many of these financial controls by providing information on the performance of a program. Decision makers would then be able to evaluate a program based on the outcomes it achieves and not just on its financial statistics.

Recommendations

- *The state should adopt a fully performance-based budgeting system for resource allocation.*
- *The performance-based budgeting process should begin broadly with identification of state priorities and agency strategic planning, then be continually narrowed down to specific performance indicators.*

CORE recommends a five-step approach to implementing a performance-based budgeting system:

1. Identify statewide priorities
 2. Complete a strategic plan
 3. Create operational objectives
 4. Develop performance indicators
 5. Incorporate budgetary issues
- *The state should select a single contractor to provide assistance on a fee-for-service basis to help state agencies with the performance budgeting process.*
 - *The concept of performance-based budgeting should be used across the entire state budget, including grants and aid and educational systems.*
 - *Agencies should be permitted to carry forward any savings from the end of one fiscal year into the next. Monies could also be carried forward into the next biennium but would have to be spent by the end of the first fiscal year of that biennium.*
 - *Monies carried forward must be used for investments that enhance the efficiency or improve the effectiveness of the program. Information would be provided to the*

Department of Finance and the chairs of the appropriate legislative committees after savings are spent to show where the money went and document the results of that expenditure.

- *The legislature should evaluate the existing structure of legal levels of budgetary control to eliminate any levels that may no longer be needed.*
 - *Legislation should be drafted that will encourage the inclusion of performance indicators in legislation and rules wherever possible, instead of additional levels of control for program monitoring.*
 - *The transfer process for interfund transfers should remain the same.*
 - *Agencies should be permitted to transfer monies between programs within the same fund without authorization. They would inform the Department of Finance and the chairs of the appropriate legislative committees of the transfer once it is completed.*
 - *All agencies should be given standard transfer authority in statute.*
 - *The complement control system should be replaced with a system of quarterly full-time equivalent reporting, already available through the state payroll system, and used yearly to submit statewide employment counts to the U.S. Department of Commerce for a nationwide comparison of public employment.*
-

INTRODUCTION

In government, the most important lever — the system that drives behavior most powerfully — is the budget. Most managers work in government, after all, not to enrich themselves but to have some positive impact on their community. That opportunity is available only to the degree that they can get control over resources.¹

Purpose of the CORE project

The purpose of the CORE Budgeting and Financial Management Project was to recommend changes in the budget process that:

- create incentives for efficiency and service delivery improvement;
- encourage agencies to evaluate existing programs and determine if those programs are the best means for meeting the needs of target populations; and
- retain needed gubernatorial and legislative control over agency budgets and activities.

Problem identification

To identify the problems of the existing system, a series of interviews and focus groups was conducted with 76 state managers, 21 CORE commissioners, 43 legislators, 30 agency budget directors, and the Budget Division of the Department of Finance in the spring and summer of 1992.

Several specific issues emerged in this process. Some of those consistently cited were:

- *“Use it or lose it” paradox.* If managers save money in their program, such unspent funds are removed from the program’s budget at the end of the fiscal year, and the manager’s base budget allocation for the following year may be reduced by that amount. This creates a disincentive for managers to save money or improve program efficiency because they are penalized for not spending all of the money they are allocated.

¹David Osborne and Ted Gaebler, *Reinventing Government* (Reading, Mass.: Addison-Wellesley, 1992), p. 161.

- *Focus on inputs.* The budget process focuses on how much money is spent in a program and involves little or no information about what the program has done or what it has produced.
- *No link to strategic planning or critical issues.* The focus on a base budget provides no incentive to change or design programs to respond to new issues or policy directions that come out of agency strategic planning initiatives, legislative mandates, or social changes. In fact, if an agency does recommend eliminating an existing base program to implement a new one, it takes the risk of losing both the existing and the proposed programs. On the other hand, if specific items in the base are not highlighted by the agency or the Department of Finance, they will likely not be examined at all in the budget process.
- *Limited information for legislative decision making.* Legislators are effectively limited in their decision making because they are given activity rather than program-level budgets and very little information about program performance or results. Decisions are often made regarding specific activities, such as travel and administration expenditures, without those costs being linked to broader program expenses, such as general assistance or state parks programs. Some managers perceive this as legislative mistrust of their work. However, this type of decision making, rather than a broader, more performance-based evaluation of activity, is encouraged by the kind of information that has historically been presented in the budget.
- *Program accountability.* Elected officials are not given the best information to make well informed resource allocation decisions. The governor and the legislature regularly receive information on inputs, such as how a program spends its money and how many employees are working on it, but they are seldom informed about outcomes, which hinders their ability to prioritize spending.

Project work plan and methods

In an attempt to address as many of the budget system's problems as possible, CORE examined the budget processes of other states and the private sector, along with previous budget reform efforts in Minnesota, and identified components of an effective budgeting model, which CORE then implemented in three case studies.

Based on the case studies and further discussions with stakeholders, CORE identified barriers to using the performance-based budgeting model and recommended changes to eliminate them.

Project participants

Advisory committee

Because the budget process affects everyone in state government, an advisory committee for the project was created to ensure regular input from these stakeholders. The committee consisted of five state agency budget directors and managers, two representatives of the Department of Finance's Budget Division, and two fiscal analysts each from the Minnesota House and Senate. The membership list is in Appendix A.

CORE staff met monthly with advisory committee members to update them on the progress of the project and receive their input on the data collection and recommendations.

Department of Finance

CORE worked closely with the Department of Finance, and its Budget Division was represented on the advisory committee. In addition, CORE staff met several times with the executive budget officers working with the two agencies and one program involved in the case studies, and monthly meetings were held with the state budget director to apprise her of project developments.

State managers

CORE staff met with the Council of Managers to provide regular project updates and held focus group sessions with a subcommittee of the council to receive further input on budgetary and financial management issues.

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29
30
31
32
33
34
35
36
37
38
39
40
41
42
43
44
45
46
47
48
49
50
51
52
53
54
55
56
57
58
59
60
61
62
63
64
65
66
67
68
69
70
71
72
73
74
75
76
77
78
79
80
81
82
83
84
85
86
87
88
89
90
91
92
93
94
95
96
97
98
99
100

BACKGROUND

If politics is regarded in part as conflict over whose preferences shall prevail in the determination of . . . policy, then the budget records the outcome of the struggle.²

The budget as a resource allocation tool

As resources are becoming tighter and the demand for services is increasing, the public is calling for greater accountability in government. Citizens want proof that programs will be effective before they are willing to invest in them, and they want to be assured that policies will be discontinued if they fail.

The budget is the primary accountability tool used by agency managers, the governor, and the legislature. However, the budget form as used in 1992 is not an effective accountability tool. The information provided to the governor and the legislature is primarily financial, with little data relating to outcomes. Decision makers generally receive information from the statewide accounting system on how much a program is spending on salaries vs. how much it is spending on supplies and equipment. This type of information does not allow them to closely monitor program performance. "The majority of legislators and public executives have no idea which programs they fund are successful and which are failing. When they cut budgets, they have no idea whether they are cutting muscle or fat. Lacking objective information on outcomes, they make their decisions largely on political considerations."³

Evolution of budget structure

Budgeting is the procedure used for allocating the state's finite resources, which may be abundant or scarce in any given year. It is a crucial element for planning what services will be delivered, how, and at what cost.

A budget is not only a document, it is a decision-making mechanism. The structure of the budget sets the agenda for budgetary discussions. It can emphasize inputs or outputs and financial control or planning and evaluation.

²Aaron Wildavsky, *The Politics of the Budgetary Process* (Boston: Little, Brown and Co., 1964), p. 4.

³Osborne and Gaebler, 1992, p. 147.

Early models of budgeting stressed control. Control refers to the process of both enforcing the limitations and conditions set forth in the budget and securing compliance with the spending restrictions imposed by central authorities. To achieve this type of control, budgeting and financial management systems emphasized means rather than ends; they used resource inputs and organizational structures as the basis for categorizing financial activities and for reporting.⁴

Line-item budgeting is the format most often used to emphasize control. It focuses on expenses, such as wages, supplies, equipment. Gubernatorial and legislative budget officials usually review what was spent in the last budget cycle and then question the requested changes for the new budget. This format provides no information about the quantity or quality of goods and services produced by the appropriation, the efficiency or effectiveness of a department's service delivery, alternatives, or uncontrollable expenditures.⁵

Over time, decision makers have shifted from an interest only in exercising fiscal control to obtaining program results. In other words, the focus of budgets has changed from control to management efficiency and program planning. Program budgeting has been commonly used since the mid- to late 1970s to focus more broadly on the delivery of program services, rather than on detailed line-item expenditures. Program-based budgets are designed to focus more on programs and program elements, which represent the major activities for which funds are to be spent. This format permits managers, agency heads, and elected officials to judge the appropriate amount of resources that should be devoted to each activity and hence the emphasis to be given to that activity.

Minnesota's budget system

Minnesota used a line-item budget format until Fiscal Year 1974. At that time, the Budget Analysis Division of the Department of Administration (the precursor to the Department of Finance Budget Division) issued instructions changing the budget process from line-item budgeting to a modified program-budgeting system. The modified program budget includes more focused activity, as well as program-level, expenditure data, but it does not include any specific line items. This basic structure is still used.

Many of the financial controls essential for developing a line-item budget were left in place, even though they are less necessary in a program-based budget format. Some of these controls include the "use it or lose it" paradox, legal levels of budgetary control, restrictions on transfers, and complement control.

⁴Kenneth S. Howard, *Changing State Budgeting* (Lexington, Ky.: Council of State Governments, 1973), p. 21.

⁵Susan MacManus, "Why Budget Formats Make a Difference," *Urban Fiscal Leader*, July/August 1986, p. 1.

CORE VISION FOR BUDGETING: PERFORMANCE-BASED BUDGETING

Public entrepreneurs know that when institutions are funded according to inputs, they have little reason to strive for better performance. But when they are funded according to outcomes, they become obsessive about performance.⁶

Vision methodology

CORE chose to examine an “ideal” state budgeting system for comparative purposes. This system — performance-based budgeting — was the most consistent with CORE’s vision of state government as:

- Mission-driven;
- Oriented toward quality outcomes;
- Efficient;
- Responsive to clients; and
- Respectful of stakeholders.

Definition of performance-based budgeting

Performance-based budgeting “is a means of judging policies and programs by measuring their outcomes or results against agreed upon standards. A performance [budgeting] system provides the framework for measuring outcomes — not merely processes or workloads — and organizes the information so that it can be used effectively by political leaders, policy makers, and program managers.”⁷

⁶Osborne and Gaebler, 1992, p. 139.

⁷Jack Brizius and Michael Campbell, *Getting Results: A Guide for Government Accountability* (Washington, D.C.: Council of Governors’ Policy Advisors, 1991), p. 13.

CORE vision — implications for the budget

Significant differences exist between the current budgeting system and a budgeting system that meets CORE's vision for state government. The flaws in the system are:

- *Instead of being mission-driven, state budgets are driven by how much money was spent in the past.* An agency's budget is based on what has been spent, not on what should be spent, to accomplish its mission. The governor and the legislature tend to focus on the budget changes requested by an agency. The overall level of funding for the mission of the program or agency is not closely examined.
- *Instead of being oriented to quality outcomes, agencies concentrate on inputs.* Most budget documentation focuses on how much was spent, not on what was accomplished.
- *Instead of encouraging efficiency, the system encourages managers to spend as much as they can.* In most cases, any balance left in a program's account at the end of the fiscal year is returned to the fund from which it was allocated. As a result, program managers will spend as much of the appropriation as they can by the end of the fiscal year, regardless of the need to use those funds.
- *Instead of encouraging innovations that meet emerging needs, the system rewards "business as usual."* Financial controls affect the amount of flexibility program managers have to implement efficient programs. Program managers are usually the people most capable of knowing the needs of their program or customers. Restricting their flexibility inevitably leads to wastefulness because a better method of accomplishing the same goal would be against the rules.
- *Instead of getting the information they need to make the tough choices, the legislature and the governor are flooded with financial statistics.* The system now gives policy makers budgets that focus on such activities as travel or administration instead of programs. This can make them base their decisions on how much an agency spends on a program, rather than on the outcomes of the program.

The primary differences between the current budgeting system and the proposed performance-based budgeting system can be seen in Figure 1.

Figure 1. Budget System Comparison

Current Budgeting System	Ideal Budgeting System
Driven by prior budgetary spending	Mission-driven
Concentrates on inputs	Oriented toward quality outcomes
Encourages managers to spend as much as they can	Encourages managers to be efficient
Rewards "business as usual"	Rewards successful innovations
Provides financial data to decision makers	Provides outcome and input data to decision makers

Use of performance-based budgeting

Performance-based budgeting is not a new idea. Several states have used aspects of this system. In fact, Minnesota has used performance-based budgeting to some degree in the past.

Other states' experience with performance-based budgeting

Iowa — Iowa's performance-based budgeting system incorporates a scanning network, strategic planning, operational planning, and results management.

The scanning network is fueled by a scanning committee, representing all departments, that identifies issues of concern to the state. These issues are shared with state policy makers.

Interagency meetings are also held to identify statewide critical issues and strategies to resolve them. Agencies then prepare strategies, determine long-term objectives, and develop a strategic plan that prioritizes issues and strategies.

Operational planning involves agencies determining the key result areas and operational objectives and developing action plans. Results management is accomplished by agencies evaluating key outcomes and regularly issuing performance reports. Based on these, corrections needed to improve measures or performance are made.⁸

⁸Patrick Cavanaugh and Gretchen Tegler, *Strategic Planning and Performance Measurement: The Iowa Model*. Paper presented to the National Association of State Budget Officers spring meeting, April 11, 1992.

Oregon — In Oregon, agencies develop measurable performance standards called benchmarks. These benchmarks place priority on: 1) measuring results rather than inputs; 2) using efficiency and effectiveness measures; and 3) measuring group performance rather than individual performance. Two kinds of benchmarks are used: lead benchmarks, which are related to urgent problems in which progress should be made within five years; and key benchmarks, which relate to enduring and fundamental problems that will be measured over the long term.⁹

Agencies are required to reduce their general fund base budget to 80 percent of their current level. They can recapture an additional 10 percent of their current base if they can justify it through their benchmarks.¹⁰

Texas — Starting in 1993, Texas state agencies will be required to develop performance-based budgets and submit a six-year strategic plan with their biennial budget requests. Performance indicators initially are developed by each agency and evaluated jointly by budget officers and the legislature for quality and appropriateness and to make any necessary changes.¹¹

Lessons learned

Several lessons can be learned from these states' experiences:

- Performance-based budgeting initially raised the expectations of program managers, who expected to receive more funds for improving performance, but no additional money was available, due to severe fiscal constraints.
- In early efforts at performance-based budgeting, not all state agencies were willing or able to comply. Many agencies needed help in developing performance-based budgets.
- Lack of legislative involvement impedes budget reforms. Legislative support is needed to effect changes in how resources are allocated.
- Attempting to implement a performance-based budgeting system too quickly or with inadequate preparation for the stakeholders may result in an ineffective system.

⁹Oregon Progress Board, *Oregon Benchmarks: Report to the Legislature* (Salem: Oregon Progress Board, January 1991).

¹⁰Oregon Executive Department, *1993-1994 Budget Instructions* (Salem: Oregon Executive Department, May 1992).

¹¹Lawrence F. Alwin, *Accurate and Appropriate Performance Measures Are the Foundation of Tomorrow's Texas* (Austin, Texas: State Auditor's Office, February 1992).

Private-sector approaches to performance management

Performance management is spreading in the private sector as well. Among the companies using this approach are Xerox Corp., Nordstrom's, United Parcel Service, and Citicorp. Companies such as these have found that by improving service quality and productivity, they can increase demand for their products or services and avoid painful cost-cutting measures.¹²

The characteristics of performance management in the private sector include:

- *Attention focused on customer satisfaction.* Companies using this approach have made delivering quality to their customers a top priority.
- *Active management involvement in the development of performance management systems.* Management leadership is critical for the successful implementation of a performance management system. Chief executive officers often initiate performance improvement processes as a result of competitive pressures. Senior managers demonstrate their commitment to performance improvement through their daily activities, their attention to performance indicators, and their promotion of an open corporate culture.
- *Performance measurements as an integral part of the evaluation process.* Performance measurements are used to identify areas that need improvement. Measurements are taken of product quality and of customer satisfaction.
- *Employee involvement.* Companies try to create an awareness of the importance of each employee's responsibility in ensuring quality outcomes. Employee involvement is promoted through human resources management practices that show respect for employees' well-being and abilities and through ongoing training in the use of performance measures.¹³

Performance-based management systems have been successful in the private sector. Key components of this approach can be used in the public sector, including: broad policy setting, identification of key issues, continuous monitoring of results, and internal and external assessments.¹⁴

¹²James Heskett, W. Earl Sasser, Jr., and Christopher Hart, *Service Breakthroughs: Changing the Rules of the Game* (New York: Free Press, 1990).

¹³General Accounting Office, *Management Practices: U.S. Companies Improve Performance Through Quality Efforts* (Washington, D.C.: General Accounting Office, May 1991).

¹⁴John Bryson and William Roering. "Applying Private Sector Strategic Planning in the Public Sector," *Journal of the American Planning Association*, Winter 1987, pp. 9-27.

Minnesota's experience

1974-75 biennium

In the 1974-75 biennium, the budget instructions to Minnesota state agencies included an emphasis on tracking program performance, rather than just spending. Agencies were required to submit a statement of objectives, performance measures, and an evaluation of accomplishments.

Primarily due to timing, this effort at focusing on planning and performance measurement did not create any permanent changes in the budget process. The 1970s were marked by substantial growth in state revenues. Spending for programs was increasing, and legislators were not especially concerned with accountability. At the time these changes were proposed, they did not receive much attention. Decision makers tend to focus more on innovation when resources are scarce.

1992-93 biennium

Changes in the state's revenue situation in the 1990s led to renewed interest in performance-based budgeting. For the 1992-93 biennium, the Department of Finance issued budget instructions calling for each agency to submit a budget at the program level that included an agency mission statement, the purpose of the program, and performance information.

The CORE Budgeting and Financial Management Project conducted an exploratory analysis of the biennial budget performance measures reported in the 1992-93 budget document in order to identify and classify measures and draw conclusions from the findings.

Ninety-three programs within 23 cabinet-level agencies and two higher education systems were analyzed. Of the 977 performance indicators identified:

- 40 percent were output measures, which report the number of units produced or services provided by a program.
 - 39 percent were explanatory information, which details elements or factors of the environment in which the agency operates that may affect performance.
 - 15 percent were outcome indicators, which report the results or impact of a program.
 - 6 percent were efficiency measures, which report the cost per unit of output or outcome.
-

These findings reveal that all agencies were attempting to measure performance in some way. Many measures, however, were inappropriate or not of high quality. As a whole, the budget document was disorganized, and the quality of the information varied.

The failure of this attempt can largely be attributed to two problems in the budget process:

- *Agencies were not prepared for change.* Agencies were not given enough time and training to prepare this type of budget. Most agencies did not know how to create a strategic plan or develop performance indicators and had never measured program performance. In addition, the Department of Finance was not able to assist agencies in implementing this process.
- *Lack of legislative involvement.* No groundwork had been laid with the legislature. Legislators were not consulted in the development of the new budget format, nor were they given any opportunity to learn about it and its potential as a decision-making tool.

Current efforts

For the 1994-95 biennium, the Department of Finance again emphasized performance- or outcome-based budgeting as a means of conveying important information to decision makers and gave agencies more guidance and instruction on performance-based budgeting than in the prior biennium. The Department of Finance stated in its budget instructions:

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.¹⁵

This budget format emphasizes the broad use of performance information at the agency level. The Department of Finance sees the 1994-95 budget as a first step toward implementing a performance-based budget for the state. The 1994-95 budget was not available for examination before the release of this report.

¹⁵Minnesota Department of Finance, *Biennial Budget Instructions 1994-95* (St. Paul: Department of Finance, June 1992), p. 4.

CORE PERFORMANCE-BASED BUDGETING CASE STUDIES

When goals are vague, circumstances become important. Chief among those circumstances are the situations with which operators must cope on a daily basis.¹⁶

Complementing the Department of Finance's effort to institute the concept of performance-based budgeting, CORE initiated an in-depth examination of how this approach could be implemented for all state agency activities. The project consisted of case studies of the 1994-95 biennial budget preparations of two agencies and one program.

Case study methodology

Two primary criteria were used in selecting the study participants. Each agency had to:

- Have completed or be completing a strategic plan, and
- Be involved and interested in performance measurement.

In addition, CORE sought agencies that reflected a broad array of policy areas.

Chosen to participate in the study were the Community College System, the Office of Waste Management, and the State Road Construction Program of the Department of Transportation.

The study was designed to test the applicability of performance-based budgeting in a government setting, the availability of necessary data, and the development of meaningful performance measures.

Meetings were held with representatives from each agency to study the process of developing performance indicators. Since each study participant was at a different starting point in the process, the length of time and amount of resources needed to develop performance indicators varied.

¹⁶James Q. Wilson, *Bureaucracy* (New York: Basic Books, 1989), p. 36.

Office of Waste Management

The Office of Waste Management (OWM) case study is the most detailed of the three. The small size of the agency combined with the breadth of its mission allowed CORE to deal with global outcome issues. As a result, a performance-based budget was compiled for the entire agency. This is the only case study that includes not only more global outcomes at the agency level but also detailed output, outcome, and efficiency measures in all four of the agency's programs and all seven of its activities.

The OWM mission is to protect the state's environment and conserve resources through the improved management of solid, hazardous, and industrial waste by:

1. Identifying current and evolving critical waste issues facing Minnesota;
2. Researching and promoting practical and cost effective solutions to waste generation, resource recovery, and waste management;
3. Causing visible change in the behavior and values of the people of Minnesota regarding long-term development and protection of the environment; and
4. Recommending policy positions where legislation may be advantageous.

The OWM's main priorities are prevention of waste at the source of generation, recycling and reuse of materials, and recovery of resources from waste in practical and cost-effective ways. The agency does not regulate or enforce environmental laws; it provides assistance, both technical and financial, in recycling, reducing waste at the source, developing county solid-waste plans, building facilities to process solid waste, and reducing and managing hazardous and problem wastes.

OWM has four divisions:

- Local Government Assistance, which distributes grant monies to counties and oversees county solid-waste planning to ensure a unified statewide system of waste management.
 - Solid Waste Grants and Market Development, which makes loans and grants to local governments and businesses to increase demand for recycled products and implement source reduction, recycling, and solid-waste processing methods and facilities.
 - Hazardous and Problem Wastes, which provides grants and technical assistance to businesses seeking to reduce toxic pollutants and better manage hazardous wastes. Some of the technical assistance is provided through a large contract with the Minnesota Technical Assistance Project, which is jointly operated by the OWM and the University of Minnesota School of Public Health.
-

- Information and Education, which is responsible for a wide array of public information functions, including media relations and producing the agency's newsletter. It is also charged with developing curricula for elementary and secondary students on waste and pollution and creating a variety of public educational campaigns and videos.

The OWM's total expenditures for FY 92 amounted to about \$20.5 million, nearly \$14 million of which is composed of pass-through grant monies that the agency distributes to counties. Of the remaining \$6.5 million, \$5.5 million came from the general fund and \$1 million from the environmental fund.

Developing performance indicators

The OWM completed a strategic plan two years ago and was updating it when the case study began. Although the agency's leadership and some of its statutory mandates had changed since the plan was originally developed, the mission and vision provided a framework for developing performance indicators.

In July and early August 1992, CORE held a series of focus groups with agency staff in each of the four operating divisions. These groups concentrated on the mission of the division and on possible success indicators, that is, how the employees knew they had done a good job. At the same time, these groups helped to identify the available data.

Based on the initial focus groups, preliminary indicators were developed and circulated to the staff, supervisors, and agency management for review. The indicators were revised several times until they were determined to be satisfactory. OWM's budget narrative, including its performance indicators, can be found in Appendix B.

Community College System

The Community College System's mission is to offer a variety of postsecondary, occupational, and remedial educational opportunities to students throughout the state. The system is composed of 18 colleges with 21 campuses governed by an appointed nine-member board and a chancellor. FY 91 expenditures for the system were \$150 million, about \$97 million of which was a direct state appropriation. The remainder was made up of tuition receipts and income from other sources.

In addition to their traditional role of providing the first two years of college, the schools in the system also offer two-year associate of arts degrees, associate of applied science degrees (in conjunction with technical colleges), one-year professional certification programs, professional enrichment courses, and general educational opportunities.

Community colleges differ significantly from four-year postsecondary institutions because they have no entrance requirements. Anyone can enter a community college, no matter how they performed in high school. But students do not receive college-level credits unless they do college-level work. Therefore, the colleges offer an array of remedial courses to assist students in reaching the college level.

The type of students going to community colleges has changed dramatically in the last decade. The population is shifting from primarily full-time students who plan to eventually obtain a four-year degree to part-time students taking courses for personal or professional enrichment.

Developing performance indicators

The Community College System is required to complete a strategic plan every two years. CORE staff, along with a consultant from the Department of Administration's Management Analysis Division, assisted the chancellor and college presidents in developing their strategic and operational plans for the 1992-93 biennium. Preliminary measures were developed at the same time, then revised after they had been circulated among selected community college presidents, the chancellor, and staff from the Community College System central office.

Performance indicators for the Community College System are configured for systemwide use. Ideally, there would be indicators not only at the system level but also for each individual college. Although many of the indicators may be useful for more than one college, additional work may be required before they could be applied to all of the colleges. The Community College System's budget narrative is in Appendix B.

Department of Transportation, State Road Construction Program

The mission of the Department of Transportation (MnDOT) is to provide a balanced transportation system that includes aeronautics, highways, motor carriers, ports, public transit, railroads, and pipelines. Due to the department's size, the case study focused only on one program, State Road Construction.

This program is responsible for the construction of trunk highways throughout the state. Its staff designs the highway system and manages the construction contracts. This program is also responsible for maintaining bridges and developing scenic byways and wildflower routes on the trunk highway system. Expenditures in this program amounted to about \$465 million in FY 91.

Developing performance indicators

MnDOT is in the midst of an intensive strategic planning process that is expected to be completed in 1993. As a result, a current strategic plan for the agency was not available. However, elements of the previous strategic plan remain and were used for this process.

The road construction program was selected for the case study because its staff was just completing a two-year planning effort to define the program's goals, objectives, and performance issues for this biennial budget. This effort had involved a wide range of data collection activities, including consulting with experts, program staff, and stakeholders. While the goals and objectives had been developed in detail, the work on the performance indicators was not complete. CORE staff was able to use the goals and objectives defined by the MnDOT process and focus on discussing and developing specific performance indicators. The indicators for this program are in its budget narrative in Appendix B.

Findings

Data availability

- *Useful data is being collected.* Case study participants were collecting a considerable amount of data that can be used to formulate performance indicators. In many cases, the agency or program manager had not realized that the information constituted a potential performance indicator. For example, MnDOT regularly keeps data on the condition of bridges for its own use but did not report it in its budget documents.
 - *Collected data is not always properly configured.* Although study participants do collect a significant amount of information, much of it is not configured in a way to make it useful for measuring outcomes. With some modifications, however, the data can be redirected to support outcome measurement. For example, MnDOT collects data on the number of congested miles on metropolitan freeways. This data is not useful without comparison information. Contrasting the miles of congestion for the Twin Cities with those of similar metropolitan areas would make this data more meaningful.
 - *Some new data will need to be collected.* In some cases, measures were suggested that will require some changes in ongoing data collection efforts. In the community colleges, for example, it is important to determine whether the intent of students entering college matches their outcome. This will require adding a single question to the registration form. At OWM, the Public Information and Education Division analyzes the effect of each campaign or piece it produces. Adding one or two standard questions to each evaluation survey will allow it to develop time-series data.
-

Efficiency and output measures

- *Efficiency and output measures are easily produced.* Due to the availability of data at the agencies, generating efficiency and output measures was relatively easy. However, while these measures are useful as workload indicators, they do not really demonstrate the effectiveness of the program or agency.

Some examples of output measures used in the case studies are:

- Number of phone calls received with questions concerning solid-waste management (OWM).
- Number of clients trained in business programs (Community Colleges).

While these measures give some idea of the workload of agency employees in the case of OWM and the utilization of a certain program for students in the community colleges, they say very little about results. Neither the results of the OWM phone calls nor what students actually achieved by having access to a business program at a community college is known.

Outcome measures

Although agency or program goals and objectives provided the framework, the development of outcome measures was complicated by several significant issues:

- *Determining causality can be a major problem in devising measures.* By far the most difficult problem in devising measures for the pilot agencies was determining causality for outcomes. If the overall production of hazardous waste goes down, is it the result of an OWM initiative, an economic downturn, or a change in consumer demand? If there are fewer delays on the highway system in the Twin Cities, is this the result of initiatives by the State Road Construction Program or better bus service?

The CORE project did not completely resolve this problem. However, using several measures for each agency and attempting to control for external factors where possible minimizes it. Through using the variety of different measures proposed, a reasonably good indication of agency performance can be gleaned despite questions of causality that could affect some of the individual indicators.

- *External factors can interfere with performance indicators showing an agency's progress toward meeting goals.* The case studies showed that a major challenge was to show progress toward meeting goals when that progress was influenced by forces and factors outside the control of the agency or program. This problem can be resolved by carefully controlling for such factors in measuring performance.
-

In the community colleges, for example, goal achievement is modified by changing student needs. Students are increasingly attending community college to take a few courses that can enhance their career or lead to occupational certification, rather than to receive a degree that will enable them to attend a college that grants bachelor's degrees. If the graduation and retention rates are used as performance indicators, the community colleges will be viewed as being unsuccessful. However, by measuring only the transfer rate of students who *intend* to transfer or the graduation rate of students who *intend* to graduate with an associate's degree, a better evaluation of the community colleges performance is generated.

The Office of Waste Management faces a similar problem in measurement. Much hazardous waste is the result of manufacturing and other economic activity. As the economy grows, so necessarily does the amount of waste produced, unless production methods change. Although the ultimate goal of OWM and other environmental agencies is to eliminate toxic and hazardous wastes, it is more likely that in times of economic growth, their actions would result in slower growth in waste generation and toxic emissions.

By way of illustrating this, Figure 2 shows the emissions of a hypothetical toxic chemical over a six-year period. A simple tracking of emissions would seem to indicate that the agency is not doing its job because more of the chemical is being released. But Figure 3 gives a fairer picture of the outcome of agency activities.

Figure 2. Example of Emissions of a Hypothetical Pollutant

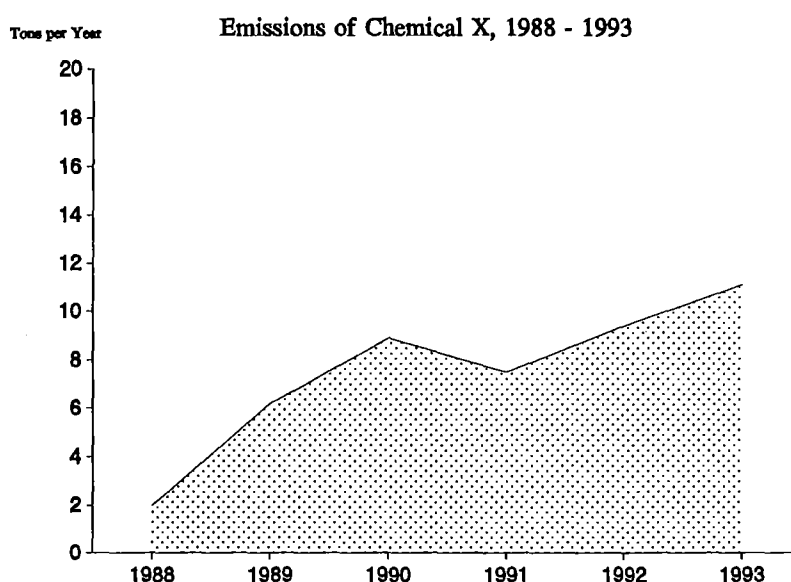
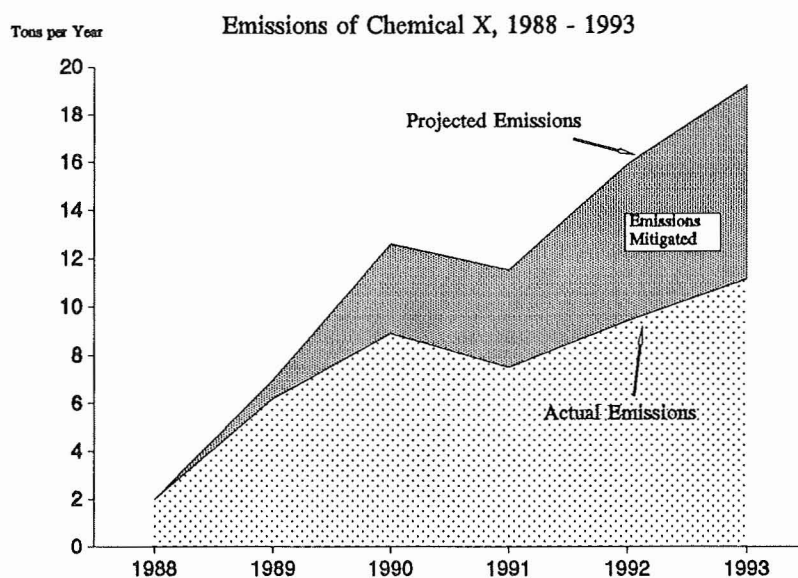


Figure 3. Example of Emissions of a Hypothetical Pollutant Compared to Previously Projected Emissions



In Figure 3, the lower line indicates the total emissions of chemical X over the period in question. The upper line indicates what emissions would have been if the relationship between production and emissions had stayed the same. The true gauge of agency performance should be the dark gray area of the chart — the difference between what is emitted and what would have been emitted without agency action. The proposed indicators for OWM attempt to measure this gap between what is and what would have been in several ways. In the hazardous and problem waste indicators, an attempt is made to control for economic activity and hazardous waste generation by using methodology developed for the capacity assurance plan required by the U.S. Environmental Protection Agency. Although the methodology used to develop these projections was complex, it was already in existence, and its use here requires little additional effort.

Using performance indicators

- *Levels of outcomes must be different for agencies and programs.* The measurements appropriate for a program within an agency and for an agency as a whole differ. An agency is interested in making big changes and implementing broad strategies. An individual program within the agency is one of many tactics by which the agency hopes to achieve those strategic goals.

The Office of Waste Management, for example, has several broad elements in its mission: to reduce hazardous waste, to promote source reduction, and to encourage appropriate management of waste. The overall performance of the agency could be gauged by large-scale indicators, such as total waste generated or percent of all waste going through resource recovery systems.

But the different programs of the agency have more discrete goals. The "Minnesota Fifty" campaign in the Hazardous and Problem Waste Unit is attempting to reduce the emissions of several specific chemicals by industrial generators. The measurement of outcome for that specific program must be narrower than those used for the agency.

- *Different performance indicators should be used for different purposes.* Although many performance indicators were identified for each study participant, not all of these were appropriate for use in the budget document. Some indicators are more useful to program managers for program monitoring and internal decision making. Other indicators are useful to program managers as well as the governor and the legislature in demonstrating the results of program or agency actions. These latter indicators are the ones that should be included in the budget document. The agency must distinguish between broad policy decisions and internal management issues in determining which indicators to include in the budget document.

For example, a performance indicator that tells the length of time it took program staff to administer grants would be useful only to program managers. On the other hand, a performance indicator that demonstrates the effectiveness of these grants in accomplishing a designated objective would be valuable to both program managers and other decision makers.

Conclusions

Benefits of performance-based budgeting

Based on these findings, performance-based budgeting would have these benefits:

- *Improved accountability information for decision making.* The information provided to decision makers can be used to show the effects of a given program and to test the premises of policies. As a result, decision makers can change course when necessary to modify policies and programs and improve performance. Especially in times of fiscal austerity, it is critical for decision makers to realize the potential impacts of their choices.
-

- *Improved efficiency.* Employees typically choose to enhance their performance of a measured objective that is recognized or rewarded. By measuring in high-priority areas, managers can create the right incentives for employee performance. In other words, "what gets measured gets done."¹⁷
- *Long-term evaluation.* Regular measurement of performance objectives can contribute to ongoing evaluation of goals within programs, agencies, and government overall.
- *Wide Applicability.* Although some areas of state government, such as higher education, traditionally have been treated differently from state agencies in the budget process, the Community College System case study shows that performance-based budgeting can be applied to such areas.

These benefits are even greater when performance-based budgeting is used in conjunction with a complete performance-based management system, most notably in human resources management. Adoption of performance-based budgeting in concert with the recommendations of the CORE Human Resources Project would create a stronger, more effective management system.

Challenges remaining

Some challenges remain to creating an effective performance-based budgeting system:

- *Trust.* A fundamental distrust exists between the state's managers and appointed and elected officials. The budget process involves an adversarial relationship between the executive (state agencies) and legislative branches, which results in a great deal of political maneuvering. Agency managers see the legislature's decision-making process as micromanaging their activities, while the legislature sees it as holding agencies accountable for their programs. On the other hand, the legislature is concerned about the possibility of managers inflating their budgets to hedge against fiscal constraints, and the managers feel they must do this to protect the integrity of their programs.

While managers continue to strive for more flexibility to demonstrate their own creativity in managing programs, elected and appointed officials need to be able to hold managers accountable for following the intent of legislation and other mandates. A balance should be achieved whereby legislators and the governor trust managers to administer their programs effectively, while the managers trust the elected officials to wisely use the information provided to them.

¹⁷Osborne and Gaebler, 1992, p. 146.

- *Existing norms of behavior and motivation.* State employees and managers are accustomed to counting only their inputs and rarely measuring project results. Existing management systems reinforce this mindset. Changing this behavior and making employees and managers responsible for the ultimate outcomes of a program are difficult for those who are reluctant to change the status quo.

One way to address this problem would be to provide assistance to state agencies as they begin to develop performance-based management systems. Because this would be a temporary need, the most logical and cost-effective approach is to encourage agencies to contract for this expertise from private or public consultants.

- *Time and resource investment.* Developing performance indicators initially will require some investment of staff time and agency resources. Specifying precisely how much time will be required is difficult due to the varying levels of expertise and experience in state agencies. In the CORE case studies, hours invested in developing indicators varied from fewer than 100 in the State Road Construction Program to about 225 in the Community College System and 364 in the Office of Waste Management.

Some time will also be needed to maintain and refine the performance indicators on an ongoing basis to ensure that they continue to accurately and effectively measure the mission and programs of the agency.

- *Negotiated process for defining desired outcomes.* One potential difficulty, especially in more complex and politically charged policy areas, is determining the desired outcomes for a given program. Sometimes, the governor, the legislature, and the agency may not agree on what the desired effects of a program are.

For instance, the Department of Revenue is charged with collecting the state's taxes. The goal for the agency may be to maximize efficiency by processing returns within a given period of time within a limited margin of error. Legislators, on the other hand, may be most interested in the department's speed in processing returns, so that taxpayers get their refunds as quickly as possible. As a result, they may show less concern about the error rate. At the same time, the governor could be most concerned about getting the revenues into the state's coffers as rapidly as possible. Thus, all three parties would define priorities somewhat differently. Priorities are critical to establishing operational objectives and performance indicators to gauge the success of the program in meeting its goals.

While it is hoped that the process recommended here would build consensus between the parties on program goals, reaching agreement is likely to be difficult and time-consuming. It is, however, critical. In the long run if agencies and elected and appointed officials all agree on the goals of a program, expectations will be clearer and effective administration of programs will be easier.

- *Need for multiple performance indicators.* A number of indicators must be collected to determine an agency's performance. Each of the three case study participants has more than one element to its mission and an array of programs designed to fulfill those elements. In areas where the performance indicators can be affected by factors outside the agency's control, a balanced set of measures is required to get a complete picture. Multiple measures can also dilute the effect of such external factors. Thus, it is important to find the set of measures that would give a good overall view of how well the agency is fulfilling its mission.
- *Accuracy of data.* The choice of how to measure a performance indicator determines the accuracy of the data collected. Poor proxy selection, bad methodology, or inaccurate measures can result in ill-informed or misdirected policy choices and management decisions.
- *Inappropriate incentives.* In a performance management system, employees typically act in accordance with the incentives that are created through the performance indicators. Incentives may be created that are counterproductive to the overall goals of the organization. For example, if a goal is established to find jobs for clients who have received job training, program employees may place their clients in low-paying, low-skill jobs that are easier to locate, rather than concentrating on finding positions that pay higher wages and have a better career path.

These potential problems demonstrate why it is important to develop the *right* performance indicators. Doing so will take effort, and the indicators may not be correct the first time. However, with experience, the indicators can be revised to better reflect the results of agency programs and activities.

Overall, the research and case studies demonstrate that implementing a successful performance-based budgeting system is feasible and there are numerous advantages to achieving this type of system.

Recommendations

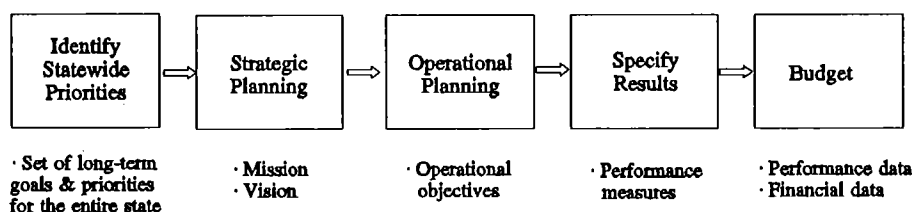
1. *The state should adopt a fully performance-based budgeting system for resource allocation.*

The use of a performance-based budgeting system provides numerous benefits. A performance-based budgeting system is mission-driven, is oriented toward quality outcomes, encourages managers to be efficient, rewards innovation, and provides outcome data to elected and appointed officials.

2. *The performance-based budgeting process should begin broadly with identification of state priorities and agency strategic planning, then be continually narrowed down to specific performance indicators.*

Based on the research and data collected by CORE, a five-step approach to performance-based budgeting, as shown in Figure 4, is recommended.

Figure 4. Performance-based Budgeting Process



Identify state priorities. In CORE's meetings with stakeholders in the budget process, virtually all expressed dissatisfaction with the lack of a vision for state government and its services.

Therefore, to focus attention on the goals and objectives of the state as a whole, it is important to examine the long-range plan and priorities for the entire state over the next 10 to 20 years. The Minnesota Milestones project, led by Minnesota Planning, articulates a set of priorities. The milestones were determined with the advice and consent of stakeholders and citizens around the state. The governor and the legislature will be able to use the content and format of the milestones to formulate and express their own priorities for the state. The combination of the milestones and the priorities of the state's elected officials will establish a clear set of policy goals and objectives.

Complete a strategic plan. As the experiences of other states and private-sector companies have shown, strategic planning is a critical first step in defining a long-term mission for an agency and designing steps to achieve it. The process should set a clear direction for agency policy and programs for the next five to 10 years. Ideally, a strategic planning process should include not only all of the agency staff but also the stakeholders who are involved in or affected by the agency's programs.

The primary product needed from the strategic planning process is the mission statement, which briefly encapsulates the agency's reason for being and its governing philosophy.

Create operational objectives. Operational objectives are the primary means of

linking the long-term vision of the agency (from the strategic plan) to a shorter time frame of approximately one to two years, the length of the state's budget cycle. These objectives are derived in consultation with the staff responsible for program delivery. To create them, the staff must identify its customer and evaluate how it serves that customer.

CORE's experience with the case studies revealed the importance of defining performance measures so that input from all levels of the organization is considered. This not only creates ownership of the measures at all levels of the organization but also takes advantage of the expertise about program goals and operations that lies with line staff, managers, and program clientele. Performance indicators, therefore, should not be determined at the upper levels of management and imposed on managers and employees but rather should be constructed in consultation with staff and customers.

Develop performance indicators. From the operational objectives performance indicators can be developed. A performance indicator is existing data or data that can be collected that will become a method for measuring success in achieving the operational objective.

Incorporate budgetary issues. Performance indicators can help the agency prioritize its activities by pointing out where the agency is doing well and where it should focus its attention to improve performance. As a result, an agency may choose to alter or eliminate a program that is not performing well and reallocate resources to a higher priority activity that has greater success in achieving its goals.

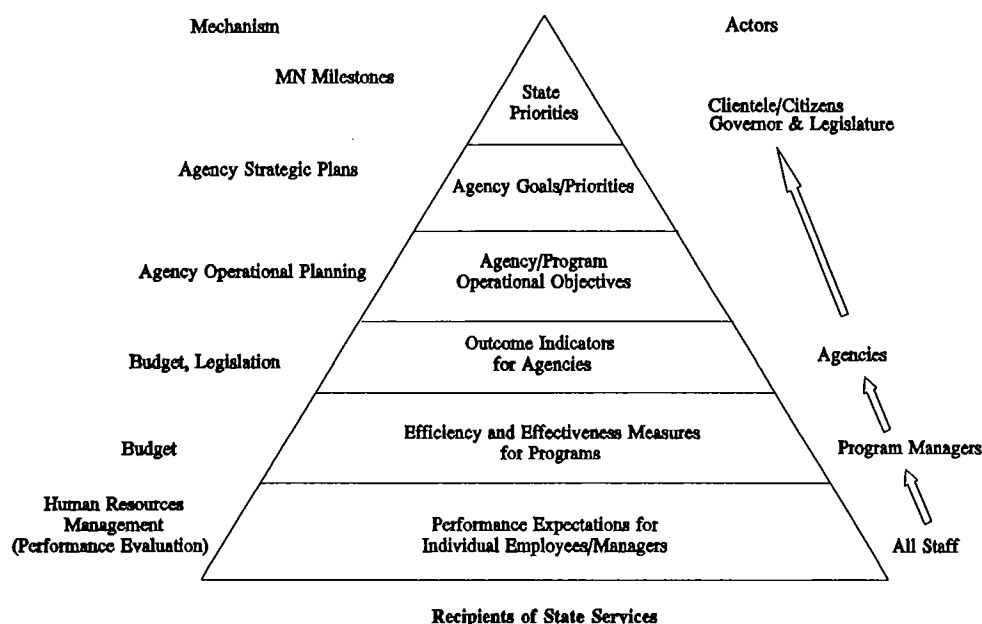
The CORE performance-based budgeting initiative combined with the performance management system of the CORE Human Resources Project creates an outcome-based performance accountability system. This new system will give managers greater flexibility to make decisions about delivering services, while holding them accountable for the end results of the program.

The complete performance accountability system is shown in Figure 5.

First, a set of goals and priorities for the state as a whole will be articulated. Minnesota Milestones provides the mechanism for doing this in a citizen-based, customer-focused manner.

Then, strategic and operational planning at the agency level will enable agencies to better articulate their long- and short-term goals and objectives. These goals and objectives can then become the desired outcomes for the agency, stated in measurable terms. The outcomes, therefore, are a measure of program effectiveness.

Figure 5. Performance Accountability System Model



Output and efficiency measures may then be used to evaluate how efficiently programs are being administered.

Finally, the human resources performance management recommendations establish the link between the performance of individual staff members and managers and the efficiency and effectiveness of the program and the agency in achieving their desired outcomes. This is a critical step in connecting more global outcomes to true accountability at the individual level.

3. *The state should select a single contractor to provide assistance on a fee-for-service basis to agencies in adopting the performance-based budgeting process.*

Some agencies may be able to undertake the performance measurement process with their current resources. However, many others, especially smaller agencies, may not have this expertise. Such agencies should be permitted to obtain help from a contractor either inside or outside of state government.

Having a single provider for these services would help ensure a standard process with similar results for all agencies and would make the contracting process simpler.

4. *Performance-based budgeting should be used across the entire state budget, including grants and aid and educational systems.*

Performance-based budgeting provides a way to increase accountability. This is important for all state activities, not just agencies. The educational systems, such as the university and the community colleges, and the grant and aid systems should also be required to submit a performance-based budget.

These systems historically have been separate from the budget process used for state agencies because they are funded by formula and funding levels are generally only incrementally changed from year to year. They are, however, capable of compiling a performance-based budget and would benefit from doing so. The CORE case study in the Community College System shows that performance-based budgeting can be applied to such areas.

CONTROL MECHANISMS

Control over revenues, productive factors, and agency goals is all vested to an important degree in entities external to the organization — legislatures, courts, politicians, and interest groups. Given this, agency managers must attend to the demands of these external entities. As a result, government management tends to be driven by the constraints on the organization, not the tasks of the organization.¹⁸

Need for financial controls

The successful implementation of a performance-based budgeting system inherently decreases the need for many of the financial controls currently in place. Performance-based budgeting creates accountability by providing performance data for managers, agency heads, and elected officials. They can then determine resource allocation based on priorities and on agencies' performance. They are also able to compare the success of programs with past performance and the results of one program with those of other programs.

Existing financial controls

In CORE's initial data collection and discussions with the advisory committee and Council of Managers, it became clear that as budgeting has evolved to a more program-focused system, many financial restrictions remain that echo the traditional command-and-control mechanisms of the past.

CORE identified four primary controls that impair managers' flexibility to administer programs efficiently: the "use it or lose it" paradox, legal levels of budgetary control, restrictions on transfers, and complement control.

- *The "use it or lose it" paradox.* This reduces incentives to improve program efficiencies and savings because any savings resulting from efficiency gains are returned to the fund out of which the program was financed.
- *Legal levels of budgetary control.* This control ensures close legislative monitoring of expenditures within specific programs by restricting spending to the categories for which the monies were approved.

¹⁸Wilson, 1989, p. 115.

- *Restrictions on transfers.* Virtually all transfers must be approved by the Department of Finance in a lengthy and unnecessary process.
- *Complement control.* This mechanism attempts to establish a limit on an agency's complement of full-time employees.

Each of these controls is examined in detail in the following four sections of this report.

'USE IT OR LOSE IT' PARADOX

The current budget management system supports inefficiencies. Managers learn early in their careers not to save resources because the resources "will likely be used to make up deficits incurred by other less efficient and self-sacrificing units and managers."¹⁹ This disincentive for savings is often referred to as the "use it or lose it paradox."

The paradox of "use it or lose it" was the budgeting problem cited most often by managers in CORE's initial data collection. Agency managers felt that the practice penalizes them for good management practices. Many managers may make expenditures at the end of the fiscal year because any money left in an appropriation at the end of a fiscal year is returned to the fund from which it was allocated and the agency's base level for the following year may be reduced.

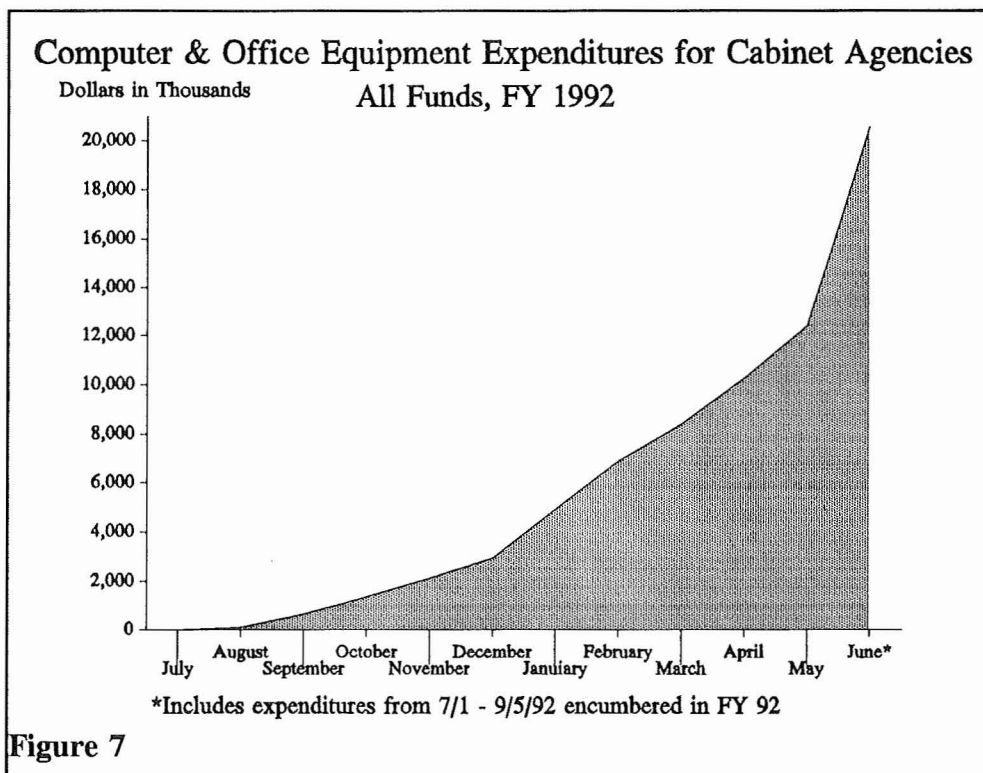
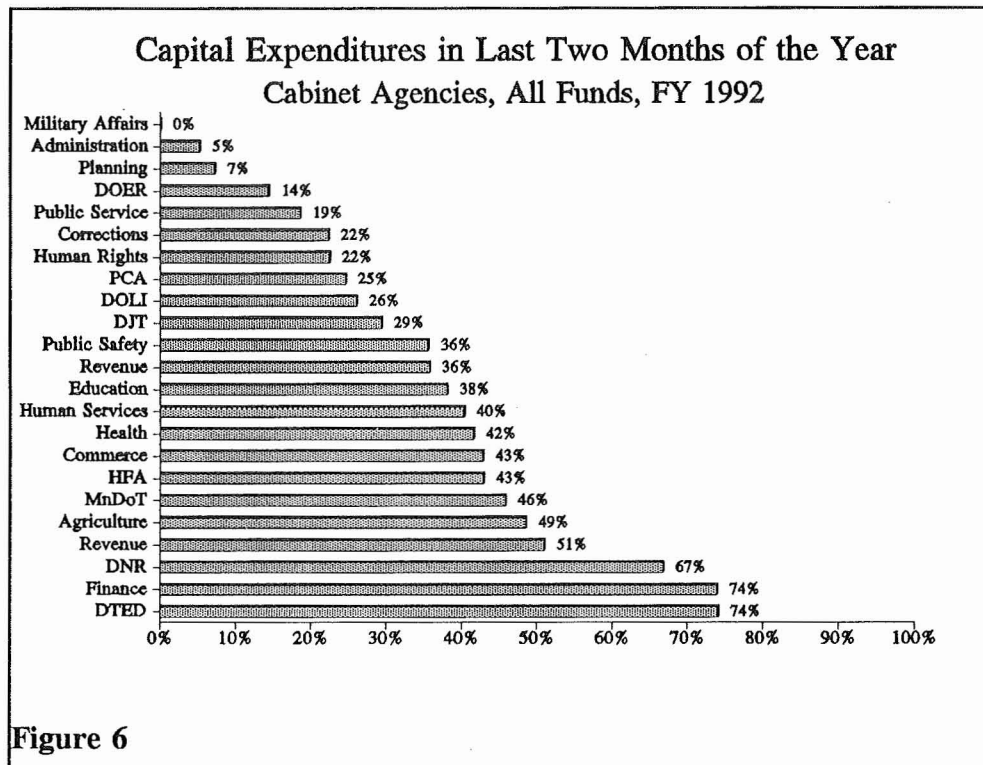
Prevalence of 'use it or lose it' behavior

To determine the extent of the inefficiency caused by the "use it or lose it" paradox, CORE examined the last-quarter expenditures by state agencies. It was hypothesized that the threat of losing current and future monies might encourage managers to encumber funds for expenditure at the end of the fiscal year. In this case, capital equipment expenditures should increase since they are discretionary and one-time occurrences. Making expenditures in the line item for computer and office equipment of more than \$500 is often cited as the most frequent means for using dollars before losing them.

CORE found that many agencies made the majority of their capital expenditures in the last two months of the fiscal year (Figure 6). The trend for the computer and office equipment line item shows an even steeper increase in expenditures in the last month of the year (Figure 7).

These results support the hypothesis that capital expenditures increase during the end of the fiscal year. Some of these expenditures, however, may not be attributable to the "use it or lose it" paradox. Because capital equipment is a discretionary item, many agencies and managers are encouraged to wait to make purchases until the end of the fiscal year, when they are certain they have enough money left in the budget for them. Therefore,

¹⁹Charles Levine, "More on Cutback Management: Hard Questions for Hard Times." In *Public Budgeting: Program Planning and Implementation*, eds. Fremont Lyden and Ernest Miller (Englewood Cliffs, N.J.: Prentice-Hall, 1982), p. 327.



part of the spike in spending during the last months of the year might be a result of prudent financial planning and not the “use it or lose it” paradox.

Options for change

To address the negative incentives in the “use it or lose it” paradox, a system needs to be put into place that allows programs to carry forward into the next biennium money that has not been used at the end of the current biennium. Several options exist for accomplishing this, as outlined in Figure 8. Each of these options differs based on its treatment of four issues:

- *Unlimited or limited carry forward.* A choice must be made between allowing a program to use all of the monies carried forward or restricting expenditures to either an amount or a percentage of the unspent monies. Unlimited carry forward gives agencies complete control over managing their finances. Allowing agencies to retain savings may also create an incentive for them to request more money than they actually need to deliver a program in the most efficient manner.
- *Reduction or nonreduction of the next biennium’s base level.* Current budget policy assumes that any unspent monies remaining in an agency budget at the end of the fiscal year are the result of permanent cost savings. Therefore, the agency’s base for subsequent years is reduced by the amount of the savings. This policy does not take into account, however, the possibility of temporary or one-time cost savings. For example, a program may receive a one-time donation of services or money from a volunteer. Although this would result in cost savings for the program, the savings would not be permanent. Reducing the next biennium’s base would, therefore, result in a reduction of services provided by the program.
- *Limited or unlimited use of carry-forward monies.* Allowing monies carried forward to be spent on any expenditure a program manager feels appropriate allows for the greatest amount of flexibility. Permitting the unlimited use of such funds, however, likely would affect the next biennium’s base level. If the agency’s base is to be reduced by some or all of the amount saved, it would be counterproductive to spend the savings on recurring expenditures that could have the effect of building up the agency’s base. Thus, it may be more fiscally prudent to limit spending to nonrecurring expenditures.
- *Oversight by decision-making bodies.* Decision-making entities, such as the Department of Finance, a legislative commission, or a group designated by the agency, could be used to monitor and/or approve the spending of carry-forward monies. This issue rests on the question of whether the power to make decisions about spending carry-forward money more appropriately rests with the agency or

Figure 8. Alternative Scenarios for the "Use It or Lose It" Paradox

Carry Forward	Affect Next Year's Base	Permitted Uses	Oversight
Unlimited	No	Nonbase expenditures	None
Unlimited	No	Any purpose	Decision-making body
Unlimited	Yes	Nonbase expenditures	None
Unlimited	Yes	Any purpose	Decision-making body
Limited	No	Nonbase expenditures	None
Limited	No	Any purpose	Decision-making body
Limited	Yes	Nonbase expenditures	None
Limited	Yes	Any purpose	Decision-making body
Unlimited (enterprise fund)	No	Any purpose	Subject to a decision by the agency on how to allocate the fund.

another decision-making body, whether inside or outside of the agency. The appropriate level of authority should ideally achieve an equitable balance between agency decision makers, the Department of Finance, and elected officials.

Another alternative would be to establish an enterprise fund in each agency to contain year-end savings. Managers would then offer proposals for using some of the funds; these proposals would be analyzed by a body established by the agency and given the power to allocate the monies in the fund. Although managers could receive more from the fund than the amount they saved, they also might receive nothing. This risk could reduce managers' incentive to create savings, thereby nullifying the reform.

Current examples of carry-forward authority

Six budget areas in the state have been granted authority by the legislature to carry forward an unlimited amount of money between fiscal years and biennia. The systems with this authority are: the Higher Education Coordinating Board, community colleges, technical colleges, state universities, the University of Minnesota, and the legislature.

Higher education

In the higher education systems, unlimited carry-forward authority was granted to all of the systems for two primary reasons.

- The timing of expenses in an academic year is different from that in a fiscal year. Although the systems have year-round fixed costs, such as utilities, tuition revenues are received only two or three times a year. As a result, much of the amount shown as carry forward in the accounting system is actually committed for anticipated expenses, such as utilities, union contract settlements, and pending lawsuits.
- The appropriation to the higher education systems is determined by an average cost funding formula and is not discretionary, thus the legislature has allowed these systems greater flexibility in carrying forward monies at the end of the biennium.

As shown in Figures 9 and 10, virtually all of the systems show a significant increase in carry-forward funds since 1990. In 1990, the governor vetoed part of the legislature's budget for higher education institutions, but the amount vetoed was later restored by the Minnesota Supreme Court, which declared the veto unconstitutional. As a result, carry-forward amounts may have increased somewhat for FY 90.

The exception to these trends is the University of Minnesota. This is mainly due to a difference in accounting. The university does not carry forward the bulk of its monies in the general fund but rather in other funds that are not accessible through the statewide accounting system. The other higher education systems also have funds that are allocated specifically to colleges and do not show up in these numbers, but they tend to show their carry-forward amounts in the general fund.

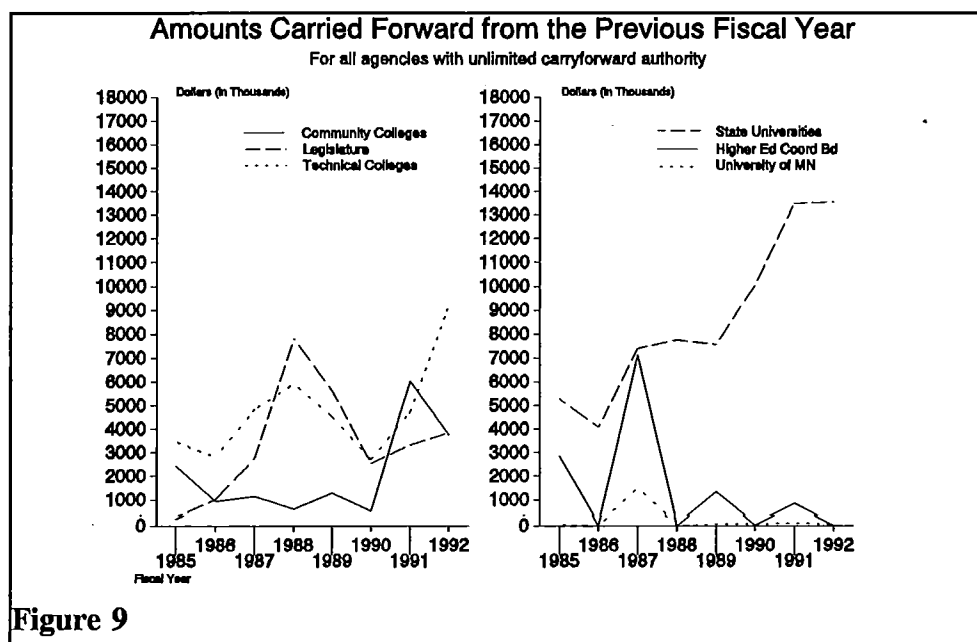


Figure 10. Amounts Carried Forward in Authorized Agencies, 1985-1992, in Thousands

Agency	FY 85	FY 86	FY 87	FY 88	FY 89	FY 90	FY 91	FY 92	Percent of total budget
LEGISLATURE	\$2,437	\$944	\$1,146	\$617	\$1,284	\$530	\$6,034	\$3,777	7.63%
HIGHER EDUCATION SYSTEMS									
Higher Education Coordinating Board	2,843	0	7,127	0	1,330	12	849	0	0%
Technical Colleges	300	1,022	2,756	7,792	5,631	2,550	3,341	3,836	1.76%
Community Colleges	3,468	2,824	4,834	5,930	4,508	2,708	4,734	9,206	6.2%
State Universities	5,280	4,085	7,399	7,761	7,563	10,046	13,484	13,558	5.2%
University of Minnesota	47	0	1,511	0	75	75	100	75	.01%

Legislature

The legislature also has the statutory authority to carry forward its monies without restrictions, which gives it as much flexibility as possible. The average amount carried forward is about 8 percent of the legislature's total budget.

Findings

- *Most budget areas are not allowed carry-forward capabilities.* Only six budget areas have been granted authority by the legislature to carry forward an unlimited amount of money between fiscal years and biennia: the legislature, the Higher Education Coordinating Board, community colleges, technical colleges, state universities, and the University of Minnesota.
- *Agencies that are allowed carry-forward capabilities generally use them appropriately.* Monies carried forward are primarily used for reasonable expenses that simply cross fiscal years. The amount of money involved is relatively small. The percentages vary fairly widely, from less than 2 to more than 7 percent, but none is greater than 8 percent of the total budget. These agencies do not appear to be building a substantial reserve or discretionary fund for their own benefit.

Conclusions

- *The "use it or lose it" paradox creates inefficiency.* An incentive exists for program managers not to save resources because they are penalized for having excess funds left in their account.
 - *A balance needs to be struck between managerial flexibility and legislative control.* Managers need flexibility to meet the changing needs of their programs, but they must also be accountable to elected and appointed officials for the results of their actions.
 - *The current system overemphasizes control.* In a performance-based budgeting system, accountability can be achieved by monitoring performance. Thus, certain financial controls currently in place would be unnecessary.
-

Recommendations

5. *Agencies should be permitted to carry forward any savings from the end of one fiscal year into the next. Monies could also be carried forward into the next biennium but would have to be spent by the end of the first fiscal year of that biennium.*

The return of all savings to the general fund at the end of the fiscal year constitutes a significant disincentive for agencies to save money or encourage efficiencies. However, it is also important to retain the accountability that ensures that agencies are not simply building "rainy day" reserve accounts within their budgets.

Agencies should be allowed to retain any unspent monies between fiscal years and even between biennia, but such monies would have to be spent by a certain deadline.

- *All monies carried forward must be used for investments that enhance the efficiency or improve the effectiveness of the program. Information would be provided to the Department of Finance and the chairs of the appropriate legislative committees after savings are spent to show where the money went and document the results of the expenditure.*

While providing more flexibility for managers is important, steps also would have to be taken to ensure that unspent monies retained into the next fiscal year were spent responsibly and for the good of the citizens of the state. One way to ensure this would be to control the purposes for which the monies carried forward could be used. These monies should be used only to improve program effectiveness and efficiency. In some cases, the use of these savings could help to generate future cost savings.

LEGAL LEVELS OF CONTROL

State managers often face difficulty in deploying financial resources where they are needed. Funds frequently are appropriated by the legislature for one particular program within the agency. If that program does not require all the funds, a complicated and time-consuming process is required to shift the monies elsewhere. This restricts the flexibility of managers to set priorities and to reallocate resources where needed to provide services effectively and efficiently.

The legal level of budgetary control is the level at which a decision to reallocate appropriated funds can be made. In some cases, funds can be shifted from one program to another within an agency by the manager or commissioner. In others, different levels of approval must be obtained from the commissioner of finance, the governor, or the legislature.

The legislature makes three types of appropriations:

- *Department appropriations* are general appropriations made to an agency. These appropriations are used by the agency to carry out many different programs. For example, the Department of Public Safety received a general fund department appropriation of \$22.5 million in FY 1991 for use in all of its programs. Department appropriations make up the majority of most agency's operating budgets.
- *Activity-specific appropriations* are appropriated for a specific activity within a program or an agency. In FY 91, the secretary of state received \$135,000 to administer the Minnesota Non-profit Corporation Act. This money can be used only for the program specified in the appropriation, although some mechanisms for transferring the funds do exist (see below).
- *Grants and aids* are appropriated to individual agencies for distribution to third parties. Examples of these would be local government aids distributed by the Department of Revenue to cities or market development grants given to counties and private companies by the Office of Waste Management.

Transfers between levels of control

Agencies are generally not permitted to transfer monies between legal levels of control without specific authority. Agencies may be granted the authority to transfer monies between levels in a rider to an appropriation bill.

The transfer authority given in riders differs significantly among state agencies. While

some departments are able to move money around fairly freely, others are extremely restricted in how their appropriation may be used. For example, the Department of Health has a relatively restrictive budget rider that says that the commissioner of health, with the approval of the commissioner of finance, may transfer appropriated funds between fiscal years and from supply and expense categories to the salary account in order to avoid layoffs. In other words, although monies can be carried forward from the first fiscal year of the biennium to the second, transfers cannot be made between programs, unless the shift is from a program into the salary account to avoid layoffs.

On the other hand, the Department of Corrections appropriation has rider language that allows it a great deal more flexibility. It states, "Positions and administrative monies may be transferred within the Department of Corrections as the Commissioner considers necessary, upon the advance approval of the Commissioner of Finance." Corrections is also permitted to transfer funds to or from the salary account.

These variations make it nearly impossible for agency budget officers and the Department of Finance to administer agency budgets consistently.

In addition, because even the agencies with broad transfer authority get their authority from biennial appropriations bills, they are vulnerable every session to having that authority altered. This makes it more difficult for agencies to do long-term fiscal planning because their authority over their own budgets could be substantially altered in two years.

Current prevalence of levels of control

The level of control managers have over their budget affects the flexibility they have to create an efficient program because it restricts their ability to make resource reallocations according to program priorities.

To determine the current prevalence of legal levels of budgetary control, CORE analyzed FY 91 appropriations and expenditures of the 23 cabinet-level agencies in the general, game and fish, environmental, and trunk highway funds.²⁰ The results show a wide degree of variance between departments in the levels of budgetary control with which managers must deal.

²⁰These funds account for the bulk of appropriated spending in the state. This analysis does not include entitlement spending. Data for this analysis came from the Department of Finance's *Legal Levels of Budgetary Control* report for FY 1991 and the applicable session laws and statutes.

General fund

Figure 11 shows that the vast majority of expenditures in the general fund were from department or grants appropriations. Only 2 percent of cabinet-level agency general fund spending came from activity-specific appropriations. But that 2 percent is under relatively strict control.

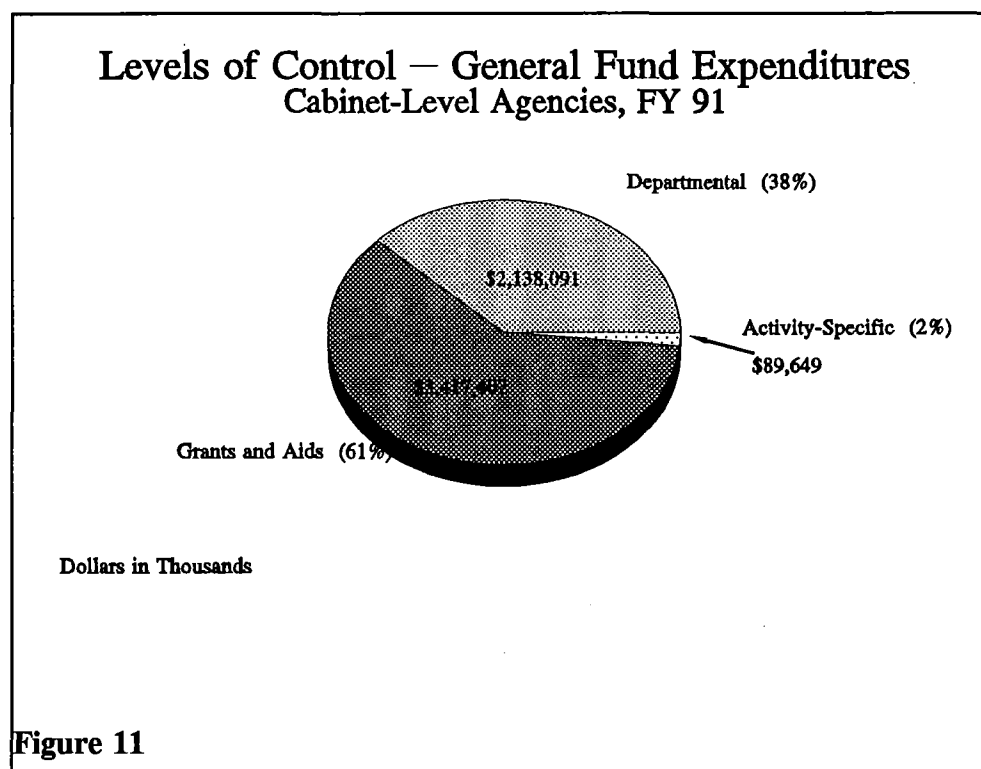
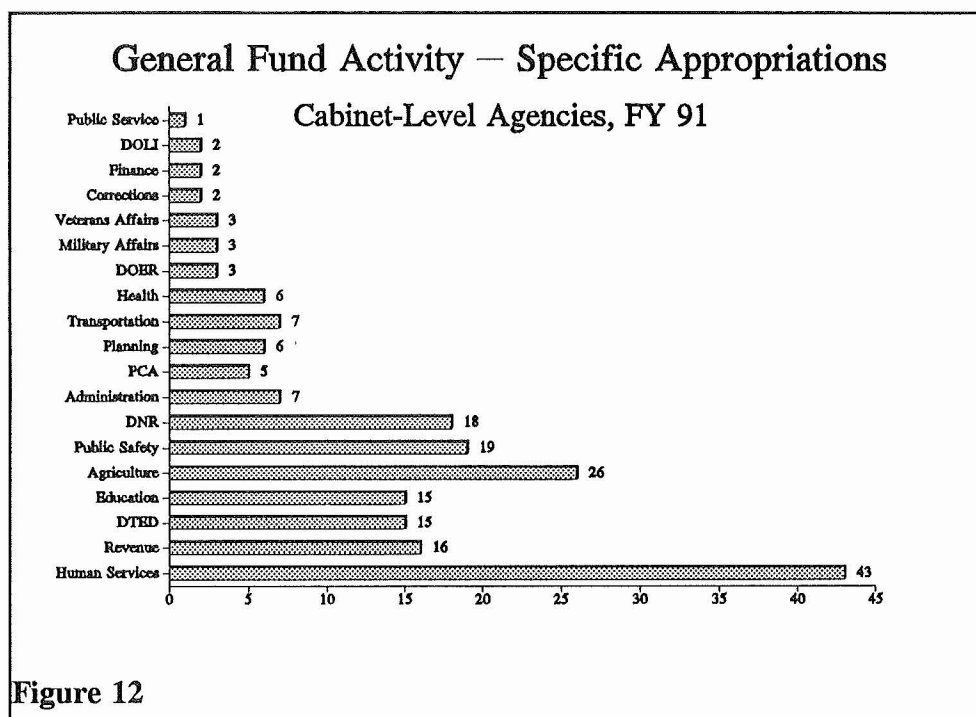


Figure 12 shows the total number of activity-specific appropriations. Of the 201 appropriations, the average activity-specific appropriation was \$446,000.

To determine the extent that budgetary fragmentation was caused by allocations to new programs, the general fund budgets of nine state agencies were examined.²¹ Twenty-two percent of the dollars appropriated directly to programs and 36 percent of the number of programmatic appropriations were for new initiatives. The proportion varied significantly from agency to agency.

Thus, it would appear that new initiatives account for a minority of activity-specific

²¹The agencies examined were the departments of Administration, Education, Human Services, Natural Resources, Public Safety, Revenue, and Trade and Economic Development and Minnesota Planning.



appropriations, both in terms of dollar amount and number of levels. The proliferation of activity-specific appropriations in the general fund is probably due more to legislative desire for control over existing programs rather than an increase in new programs.

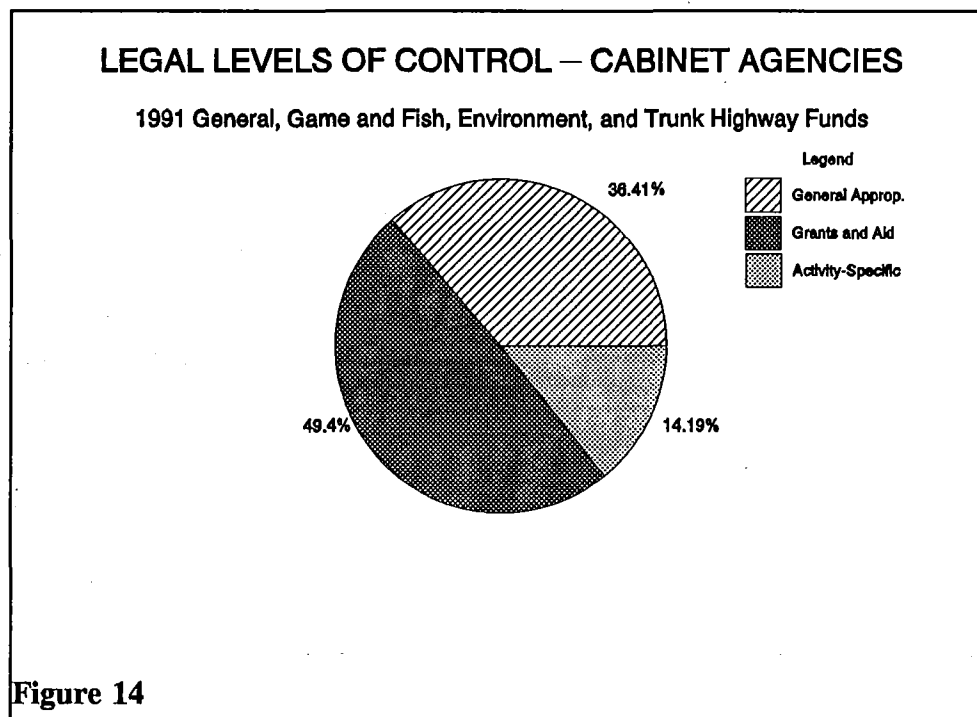
Other funds

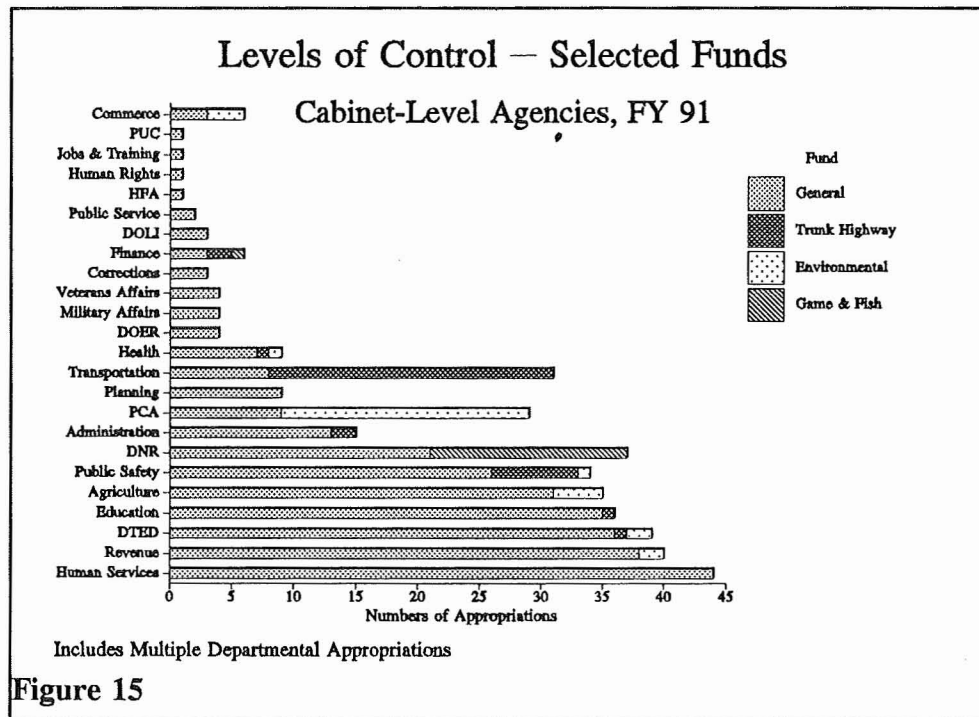
Dedicated funds generally show a greater proportion of activity-specific appropriations. This may be because these funds are directed specifically at certain types of activities. The trunk highway fund is for state road construction and maintenance, the game and fish fund is a natural resource fund, and the environmental fund is for environmental programs. Figure 13 shows the amount of each type of appropriation in each of these funds.

Figure 13. Percent of Funds by Type of Appropriation in the Trunk Highway, Game and Fish, and Environmental Funds

Fund	Department Appropriations	Activity-specific Appropriations	% Funds for Activity-specific Appropriations
Trunk Highway	\$ 348,481,000	\$ 409,365,000	54%
Game and Fish	\$ 36,656,000	\$ 10,871,000	22%
Environmental	\$ 128,000	\$ 38,080,000	99%

Figure 14 shows the results of combining the four funds examined by CORE. While almost half of the money in the selected funds goes out in grants and aids, roughly 14 percent of the total amount — or 28 percent of non-grant money — is appropriated to specific programs by the legislature and not to the departments generally. This funding fragmentation affects agencies differently (Figure 15).





Findings

- *More than a third of the cabinet-level agencies have more than 25 separate appropriations.* This profusion of appropriations is not the result of new initiatives.
- *Agencies with many different grant and aid programs have more activity-specific appropriations.* The departments of Revenue, Education, and Trade and Economic Development receive numerous activity-specific appropriations.
- *Areas with direct services have more activity-specific appropriations.* Many of the agencies with a high level of control are those that provide direct service to citizens — the Department of Human Services runs regional treatment centers, the Department of Natural Resources (DNR) operates state parks, and the Department of Transportation builds roads. Programs within these areas are more visible to voters. Therefore, they may attract more legislative interest than programs that provide services to other parts of state government, such as the departments of Administration and Employee Relations.
- *Areas with significant public interest have more activity-specific appropriations.* Areas that are the focus of political interest also are likely to attract specific

appropriations. For example, the Pollution Control Agency and the DNR deal with the environment, which has been the subject of significant public and legislative interest the past several years. Large numbers of activity-specific appropriations could be the result of two different factors arising out of intense interest in certain areas: legislators want to keep greater control over such areas, and more new programs are begun to address them. In the Department of Public Safety, for example, 84 percent of the general fund activity-specific appropriations were for new programs. There is significant political capital in keeping control over programs and starting new initiatives in popular issue areas.

- *New programs often have activity-specific appropriations.* The appropriation for a new program can be based only on the legislature's or agency's estimate of how much it will cost. Making a separate appropriation for the program allows actual costs to be tracked easily. It also serves as a check on the overestimation of costs by ensuring that any overestimation does not disappear into the agency's base budget for the next biennium.
- *Activity-specific appropriations are sometimes created to enhance legislative control.* For example, if an agency suggests dropping a program in its budget submission and the legislature disagrees, an activity-specific appropriation might be made. Legislators may fear that unless they dictate that the dollars appropriated will be used for a specific program, the program may not be carried out or may be poorly managed due to apathy on the part of the agency or the executive branch.

Conclusions

- *Activity-specific appropriations provide an incentive to spend unnecessarily.* This type appropriation makes the "use it or lose it" paradox even more intense. When programs are funded from department appropriations, a savings in one program can be used to make up a deficit in another. With activity-specific appropriations, savings cannot be used anywhere else without specific permission. Moreover, if a program does not spend its entire appropriation, that appropriation may be more likely to be reduced in the subsequent budget.
 - *Activity-specific appropriations cause administrative confusion and increased overhead costs.* The plethora of different accounts and appropriations adds significantly to the confusion of governmental finances. It also adds to administrative costs. While those have not been quantified for the agencies, the Department of Finance estimates that one full-time-equivalent employee spends more than eight weeks compiling the information for the annual legal levels of budgetary control report. The amount spent by the agencies responsible for the ongoing tracking is likely to be significantly more.
-

- *Legal levels of control are another mechanism of command and control.* The behavior of managers is dictated by up-front controls, which restrict their flexibility and lessen the opportunities for fraud and abuse.
- *Performance-based budgeting decreases the need for legal levels of control.* While performance-based budgeting does not help to address the need for tracking grants and aids appropriations, it has the potential to replace details of financial inputs with performance data that measures the results of a program.

The legislature and the governor do receive some specific performance information from some programs because the authorizing legislation requires the submission of periodic performance reports. However, performance-based budgeting could make it easier for the elected officials and the agencies to focus on results regularly through the budgeting process. As a result, the legislature could appropriate monies at fewer levels of budgetary control while retaining control over the translation of legislative intent by monitoring the program's outcomes through the biennial budget process.

Recommendations

7. *The legislature should evaluate the existing structure of legal levels of budgetary control to eliminate any levels that are no longer needed.*

Legal levels of budgetary control are often created when a program itself is created or some occurrence seems to require more active monitoring of certain activities. As appropriation bills are written, they are often based on the structure of previous bills, and as a result, the levels of control remain. Because some of these levels may no longer be needed due to changing environments and circumstances, the bill structure should be examined and any levels that the legislature no longer desires eliminated.

8. *Legislation should be drafted that will encourage the inclusion of performance indicators in legislation and rules wherever possible, instead of creating additional levels of budgetary control for program monitoring.*

Performance-based budgeting should provide information on the performance of a program. As a result, legislators and the governor would be able to evaluate a program based on the outcomes it achieves and not just on its financial information.

AGENCY TRANSFER RESTRICTIONS

Legal levels of budgetary control are not the only restriction on agencies' financial management capabilities. Agencies given authority by the legislature to transfer monies between programs within their budget still cannot do so without written approval from the Department of Finance. To obtain this approval, agencies must fill out a request form documenting the need and amount to be transferred. The executive budget officer assigned to the agency then reviews the request and, if it is approved, sends a copy to the legislative finance committees to inform them of the change.

The Department of Finance processes three types of transfers:

- *Interfund transfers.* These transfers occur between funds and can include transfers between and within agencies. For example, MnDOT may want to transfer some of its general fund appropriation into the trunk highway fund, because the majority of programs in the department's budget are in that fund. In FY 92, there were about 871 interfund transfers, the majority of which took place in MnDOT.

The rationale for monitoring interfund transfers is to establish an audit trail. All changes in the level of a fund need to be recorded. Thus, maintaining a record of interfund transfers is justified.

- *Intrafund transfers.* These transfers occur within the same fund in an agency. These are the most common type of transfer in the cabinet-level agencies. In FY 92, more than 3,456 intrafund transfers were approved by the Department of Finance. The use of intrafund transfers varied by agency. The Department of Human Services requested the most transfers, 714, while the Department of Human Rights asked for three. The transfers varied in amount from \$1.64 to \$80,556,700.

The processing of such a large number of transfers requires a significant amount of time and paperwork from program managers, agency management, and Department of Finance staff. According to the Department of Finance, these requests are almost always approved. Because the monies are being transferred between activities in the same fund, they should not require the intense approval process used for interfund transfers.

- *Reprogramming transfers.* These transfers are requested when an agency undergoes a change in structure or programming so that the budget allocation no longer matches the structure of the agency. Some appropriation bills are written in which funds do not match the agency's program structure.
-

In FY 92, the Department of Finance processed 31 reprogramming transfers that involved a total of 145 transactions and \$18,651,070. Seventy-three percent of these transfers were already authorized by statutory or rider language; the remaining 27 percent were for restructuring of the organization.

Because so many were already approved, these reprogramming transfers are an unnecessary step, particularly as a control. If the Department of Finance and the legislature need to be informed when the transfers actually took place, this could be done after the transfers are made. Seeking approval from the Department of Finance and informing the legislature prior to transferring these funds is a duplicative process.

Findings

- *The use of transfers differs widely across state agencies.* While such agencies as MnDOT make many transfers every year, others, such as Human Rights, use transfers only rarely. This discrepancy can be attributed largely to the size and complexity of the agency's budget. However, all cabinet agencies had some transfer activity during the last fiscal year.
- *The number and size of transfers make them a significant issue.* Although this issue may not appear to be significant when compared with complement control or the "use it or lose it" paradox, transfers are important because of their number and the time spent processing them.
- *Most transfers require less strict monitoring.* Monitoring of interfund transfers is needed for the yearly audit of accounts, but the bulk of transfers, which are intrafund and reprogramming transfers, can be monitored less strictly.

Conclusions

- *Transfer restrictions represent an excessive amount of control.* The difficulty in transferring money demonstrates an excessive and unnecessary amount of multilayered control over the manager's flexibility in managing program resources. The legislature controls the manager's actions by appropriating money at several different levels of budgetary control. The Department of Finance and the legislature further control the manager's actions by requiring that all transfers go through the Department of Finance approval process before they can occur.
 - *Control, instead of accountability, is stressed.* Transfer restrictions are another example of using up-front controls instead of end accountability. Providing the
-

needed transfer information to elected and appointed officials should be possible without using these time-consuming and inefficient control systems.

Recommendations

9. The transfer process for interfund transfers should remain the same.

Because it is important to establish an audit trail for all state funds, monitoring interfund transfers should continue in the same way. This provides sufficient information on the flow of monies between funds for the yearly audit.

10. Agencies should be permitted to transfer monies between programs within the same fund without authorization. The agency could inform the Department of Finance and the chairs of the appropriate legislative committees of the transfer once it is completed.

Requiring agencies that have already received intrafund transfer authorization in riders to their appropriation bill to go through the approval process is duplicative and unnecessary. Agencies that have such legislative authorization should be able to make those transfers without any further approval process.

11. All agencies should be given standard transfer authority in statute.

Providing transfer authority in riders to the appropriations bills results in different agencies having different authority to transfer monies within their budgets. To standardize financial management across the state, all agencies should be given a standard authority to transfer monies at a level determined by the legislature.

COMPLEMENT CONTROL

Complement control is a mechanism that establishes a limit on the approved number of complement employees an agency may have at any time. The complement includes all full-time, permanent positions, expressed as full-time equivalents (FTEs), regardless of which fund or appropriation pays for them. An agency may exceed its complement only in cases of public necessity or emergency, and to do so, it must obtain written approval from the Legislative Advisory Committee.

According to M.S. 16A.123, the complement does not include part-time employees, seasonal or intermittent positions, summer student workers, service employees, preservice trainees, repair or construction employees, employees with a pending workers' compensation claim, or employees in the Department of Military Affairs paid entirely by federal funds.

Complement control was originally established when agency rosters were fully funded. Agencies received one appropriation for salaries and another for supplies and expenses, along with a few separate appropriations for special items. The budget for salaries was developed by annualizing the cost for each position on the roster for the next biennium, including any new positions that have been approved. At that time, this served as a control on the actual number of staff in an agency.

When the state switched from using a line-item expenditure budget to a modified program budget in the mid-1970s, the staff roster was no longer funded separately. Thus, complement control is no longer a useful tool. It is not used by the legislature for determining an agency's budget, nor is it an accurate count of the number of employees in an agency. The control of the number of staff at an agency is now more directly affected by available funding than by the authorized positions in the appropriations bills.

Complement control in other states

In 1989, the DNR contacted several other midwestern states to determine how their employment levels were controlled.²² It found that:

- Iowa and Wisconsin have a complement control similar to Minnesota's: specific limits are set that can be adjusted only by the legislature.
- In Ohio, the Office of Budget Management can approve incremental increases, but

²²Minnesota Department of Natural Resources, *Department of Natural Resources Use of Complement* (St. Paul: Minnesota Department of Natural Resources, 1989), p. 23.

legislative approval is needed to create major new programs.

- Michigan has no restrictions on complement. Only funding limitations determine an agency's staffing.

Findings

- *The complement number includes only full-time permanent employees. It excludes part-time, seasonal, and temporary hires.* Many agencies, however, have a significant number of part-time, seasonal, or temporary employees.
- *The control is related to an established number of positions and has no relationship to the funds available.* Although the complement number is part of the budget, it is not directly related to funding decisions.
- *Complement figures are not an accurate reflection of the number of employees in an agency.* These figures often do not reconcile with the Department of Employee Relations rosters because the rosters include all positions within an agency, while complement includes only full-time, permanent positions.

Conclusions

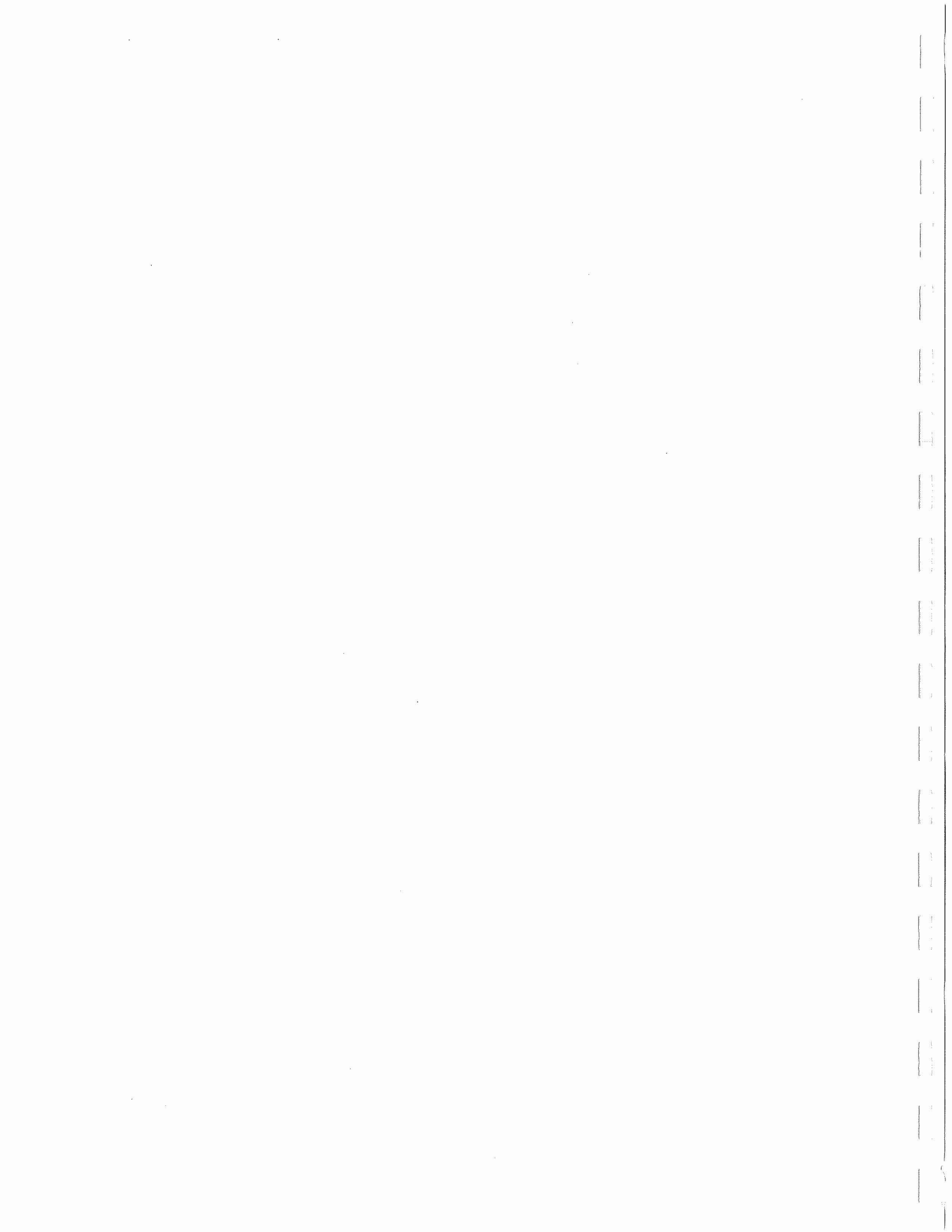
- *Complement does not reflect real employment levels.* Agencies can use temporary and part-time positions to inflate their roster despite complement control. Agencies can also have vacant positions without eliminating the complement associated with those vacancies. Holding complement positions open in this way can allow agencies to hire in the future without having to go through the process of requesting a change in their complement numbers.
 - *Complement control restricts a manager's ability to make staffing decisions.* A manager's flexibility is limited when he or she does not have the ability to hire an employee when he or she deems it necessary. Even if an agency can afford an additional full-time position and it may be efficient to have that position, it cannot create that position if it would result in exceeding the agency's approved complement.
-

Recommendation

12. *The complement control system should be replaced with a system of quarterly full-time equivalent reporting, already available through the state payroll system and used yearly to submit state employment counts to the U.S. Department of Commerce for a nationwide comparison of public employment.*

The benefits to this approach are :

- Employment levels are more accurately portrayed than with complement control.
 - Regular information for a good comparison of employment data is provided without an up-front control mechanism.
 - A better link is established with work force planning.
 - Control of agencies' work force growth is by their budget rather than by an artificial limit on complement.
-



IMPLEMENTATION STRATEGIES

Performance-based budgeting

1. *A performance-based budgeting system for the state should be endorsed by the 1993 Legislature so that the system can be fully implemented for the 1996-97 biennial budget.*

Performance accountability is a lengthy process. In order to submit the best possible performance data to the governor and the legislature next biennium, agencies would need time to continue to do strategic planning and develop performance indicators. If agencies were to know in 1993 what they are expected to do for the next biennium, they would have enough time to develop and use good performance indicators both in internal decision-making processes and in the biennial budget submitted to elected officials.

2. *A request for proposal should be prepared as soon as possible to contract for performance-based budgeting planning and development services.*

Many agencies would need help in developing a performance-based budget. The degree and type of assistance needed would differ based on each agency's experience with planning and measurement and its available internal resources to do the work. Some agencies are relatively well situated to do performance-based budgeting. Others may not have even completed a strategic planning process. To give the least experienced agencies adequate time to develop their performance accountability systems, the available resources should be identified as soon as possible.

3. *Legislators should be briefed on the development and use of a performance-based budget.*

Because the legislature makes the ultimate decisions on resource allocation, it must be involved in any discussion of the process and/or use of performance measures. To facilitate that involvement, legislators should be regularly briefed on the use and status of performance-based budgeting.

4. *Agency managers and other staff members should receive training on the development and use of performance-based budgeting and the performance accountability system.*

Agency managers and other staff members are responsible for articulating their goals and objectives and then measuring their program results. They must, therefore, fully

understand performance budgeting and how to implement it. This process was begun by the Department of Finance and Minnesota Planning training sessions for 1994-95 biennial budget preparation. The process should be expanded to include more agency staff for more intensive hands-on training.

Control mechanisms

5. *The legislature should pass legislation that eliminates complement control and allows agencies to carry forward monies across fiscal years when such funds are to be used for investments that would result in increased efficiency or effectiveness.*

These control mechanisms create a disincentive for efficient program management. They should be eliminated from the statutory language, and the more flexible system recommended by CORE should be established.

6. *Restrictions on intrafund and reprogramming transfers should be eliminated immediately.*

These transfers involve a cumbersome and duplicative process for agencies that are already authorized by the legislature to carry them out. Eliminating these restrictions would require a change in regulations developed and enforced by the Department of Finance but no statutory change.

7. *The legislature should decrease the number of legal levels of budgetary control as the performance-based budget develops.*

Because performance-based budgeting is being implemented only at the agency level in the 1994-95 biennial budget, legislators may not be entirely confident of the capabilities of this new method of resource allocation. As a result, they may want to eliminate antiquated levels of budgetary control immediately and maintain others until performance-based budgeting begins to provide them with the kind of information they need to make decisions.

Implementation cost

The CORE recommendations would require increased effort as budgetary processes were redirected towards planning and measuring results. Some agencies, such as the Department of Revenue, are already undertaking performance-based budgeting efforts within their current budgetary constraints.

Case studies show that where agencies do need assistance in establishing a performance-based budget, the costs involved are minimal.

Based on current Management Analysis Division consulting rates of \$66 per hour, the consulting costs for each of the case study agencies would be \$24,000 for the Office of Waste Management, \$6,000 for the Department of Transportation State Road Construction Program, and \$14,850 for the Community College System. The majority of these costs would be temporary. Once a planning process was laid out and structures designed to create performance measures, the ongoing costs of agency staff time to maintain the system would be significantly less than the initial costs.

1	1
2	2
3	3
4	4
5	5
6	6
7	7
8	8
9	9
10	10
11	11
12	12
13	13
14	14
15	15
16	16
17	17
18	18
19	19
20	20
21	21
22	22
23	23
24	24
25	25
26	26
27	27
28	28
29	29
30	30
31	31
32	32
33	33
34	34
35	35
36	36
37	37
38	38
39	39
40	40
41	41
42	42
43	43
44	44
45	45
46	46
47	47
48	48
49	49
50	50
51	51
52	52
53	53
54	54
55	55
56	56
57	57
58	58
59	59
60	60
61	61
62	62
63	63
64	64
65	65
66	66
67	67
68	68
69	69
70	70
71	71
72	72
73	73
74	74
75	75
76	76
77	77
78	78
79	79
80	80
81	81
82	82
83	83
84	84
85	85
86	86
87	87
88	88
89	89
90	90
91	91
92	92
93	93
94	94
95	95
96	96
97	97
98	98
99	99
100	100

SUMMARY

CORE's recommendations, if adopted, would produce an improved budgeting and financial management system for the state that emphasizes accountability for results instead of control over inputs. Rather than dealing with process, this new system would focus on the outcomes of state services and the end users of state systems. The new system would include the following elements:

- A continuous performance management system that supports performance-based budgeting. Instead of focusing on inputs, such as dollars spent, the performance management system would make state government accountable for the ultimate results of its programs. It would also facilitate comparison of cost vs. outcome for various programs.
- The elimination of impediments to managerial flexibility, including limits on carrying forward monies between fiscal years, numerous and inconsistent legal levels of budgetary control, and the lack of investment incentives.
- Increased managerial accountability through regular, periodic performance and financial management reporting.
- The replacement of outdated administrative systems for complement control with work force planning and FTE reporting.

By turning the state's budgeting and financial management systems away from outdated and unnecessary command-and-control provisions and toward end-result accountability, the actions recommended here would make the state's financial systems more consistent with CORE's vision for state government as mission-driven, outcome-oriented, efficient, responsive to clients, and respectful of stakeholders.



BIBLIOGRAPHY

Alwin, Lawrence F. *Accurate and Appropriate Performance Measures Are the Foundation of Tomorrow's Texas*. Austin, Texas: State Auditor's Office, February 1992.

Brizius, Jack, and Michael Campbell. *Getting Results: A Guide for Government Accountability*. Washington, D.C.: Council of Governor's Policy Advisors, 1990.

Bryson, John, and William Roering. "Applying Private Sector Strategic Planning in the Public Sector." *Journal of the American Planning Association*, Winter 1987.

Cavanaugh, Patrick, and Gretchen Tegler. *Strategic Planning and Performance Measurement: The Iowa Model*. Paper presented to the National Association of the State Budget Officers spring meeting, April 11, 1992.

General Accounting Office. *Management Practices: U.S. Companies Improve Performance through Quality Efforts*. Washington, D.C.: General Accounting Office, May 1991.

Heskett, James, Earl Sasser, and Christopher Hart. *Service Breakthroughs: Changing the Rules of the Game*. New York: Free Press, 1990.

Howard, Kenneth S. *Changing State Budgeting*. Lexington, Ky.: Council of State Governments, 1973.

Levine, Charles. "More on Cutback Management: Hard Questions for Hard Times." In *Public Budgeting: Program Planning and Implementation*, eds. Fremont Lyden and Ernest Miller. Englewood Cliffs, N.J.: Prentice-Hall, 1982.

MacManus, Susan. "Why Budget Formats Make a Difference." *Urban Fiscal Leader*, July-August, 1986.

Minnesota Department of Finance. *Biennial Budget Instructions 1994-95*. St. Paul: Department of Finance, June 1992.

Minnesota Department of Finance. *Legal Levels of Budgetary Control*. St. Paul: Department of Finance, 1991.

Oregon Executive Department. *1993-1994 Budget Instructions*. Salem: Executive Department, May 1992.

Oregon Progress Board. *Oregon Benchmarks: Report to the Legislature*. Salem: Oregon Progress Board, January 1991.

Osborne, David, and Ted Gaebler. *Reinventing Government*. Reading, Mass.: Addison-Wesley, 1992.

Wildavsky, Aaron. *The Politics of the Budgetary Process*. Boston: Little, Brown & Co., 1964.

Wilson, James Q. *Bureaucracy*. New York: Basic Books, 1989.

APPENDICES

A. CORE BUDGETING ADVISORY COMMITTEE 71

B. CASE STUDY AGENCY BUDGETS 73

1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	41	42	43	44	45	46	47	48	49	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67	68	69	70	71	72	73	74	75	76	77	78	79	80	81	82	83	84	85	86	87	88	89	90	91	92	93	94	95	96	97	98	99	100
---	---	---	---	---	---	---	---	---	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	-----

APPENDIX A

CORE BUDGETING ADVISORY COMMITTEE

Peggy Adelman, Fiscal Analyst, Minnesota Senate
Debra Bean-Johnson, Fiscal Analyst, Minnesota House of Representatives
Mike Berthelsen, Fiscal Analyst, Minnesota House of Representatives
Charlie Bieleck, Director of Budget Planning and Operation, Department of Finance
Karen Carpenter, Director, Administrative Services Bureau,
Department of Administration
Larry Dowdle, Fiscal Services, Department of Administration
Dennis Erickson, Budget Analysis Director, Department of Human Services
Shirley Flekke, Director of Fiscal Services, Department of Corrections
Gene Gere, Assistant Commissioner, Department of Natural Resources
Peggy Ingison, Chief Fiscal Analyst, Minnesota Senate
Rob Super, Executive Budget Office, Department of Finance

APPENDIX B

CASE STUDY AGENCY BUDGETS

AGENCY: Office of Waste Management

MISSION STATEMENT:

The mission of the Office of Waste Management (OWM) is to protect the environment and conserve resources by planning and facilitating management of solid, hazardous and industrial waste in Minnesota. The OWM strives to be the most responsive and farsighted agency in state government.

The OWM accomplishes its mission by:

- Identifying current and evolving critical waste issues facing Minnesota.
- Researching and promoting practical and cost-effective solutions to waste generation and waste management.
- Causing visible change in the attitudes and behavior of the people of Minnesota regarding waste and waste management.
- Recommending policy positions where legislation may be advantageous.

The office seeks to help Minnesotans to reduce waste at its source, to reuse wherever possible, to recover resources from waste in practical and cost-effective ways, and to deal responsibly with the residuals.

MINNESOTA MILESTONES:

The 5 general themes of the Minnesota Milestone vision and how they are supported by the Minnesota OWM.

1. A Caring and Secure Community — People want to live in neighborhoods and communities where they and their families are physically and emotionally secure.

While strides in technology have yielded the most enjoyable creature comforts the earth has ever known, these advancements have sometimes created threats to the physical security of our people by polluting our environment.

- The OWM's mission includes changing consumer behavior to promote behavior that will protect our environment.
- Minnesotans will have the best possible chance for a healthy life as it is affected by their environment, if we improve our waste management systems.

2. Our Surroundings — Minnesotans hope for an attractive, healthy and sustainable world.

The mission, existing programs and future agenda of the OWM are focused on:

- Working with business and industry to reduce negative impacts on the environment.
- Providing education and leadership to potential new businesses to help them minimize their future impacts on the environment.
- Educating Minnesotans about how their purchasing choices affect the environment.
- Working with local waste managers to assist them with managing the heavy environmental burdens they have inherited due to poor choices of the past, and reducing or eliminating any burden we leave to our children.
- Ensuring our outdoor recreational resources will not be scarred or polluted by improperly disposed of waste.

3. A Prosperous People — People want a state where all can attain a livelihood and many can prosper.

The future presents opportunities to harmonize global economic development and environmental protection goals. Many of these opportunities are in the area of pollution prevention. Pollution prevention differs from pollution control and waste management. It involves addressing pollution at its source of generation and eliminating wastes and pollutants before they are created.

Compelling economic reasons for shifting the emphasis from control to prevention include:

- reduced raw material usage and costs,
- reduced liabilities associated with landfill cleanups and human health-related lawsuits,
- reduced treatment and disposal costs, and
- increased willingness on the part of banks to lend to "clean companies" and insurance companies to provide coverage to companies with few environmental compliance problems.

Market development activities also promote "a prosperous people" by fostering development of new businesses and growth of established companies as the OWM helps find ways to use secondary (recycled) materials in their products.

4. Learning — People want Minnesotans of all ages to be able to develop their talents to their fullest potential.

The OWM provides ongoing public education to inform the public of prudent waste management measures, and new concepts regarding how they can exercise more environmentally conscious decisions in the marketplace.

By emphasizing leadership and education in these areas, rather than regulation and enforcement, the OWM will:

- Internalize lifelong skills for good citizenship in areas that relate to proper stewardship and conservation of our natural resources.
- Create a base of technical know-how in Minnesota that can position Minnesota businesses at the forefront of environmental engineering economic opportunities nationwide.

AGENCY: Office of Waste Management
(Continuation)

5. *We the People — Minnesotans want government and political processes that are responsive, cost-effective, and able to solve problems.*

Minnesotans want a customer and service oriented government:

- Our mission requires the OWM staff and management to be in person-to-person contact with members of the public and local officials in courthouses, town halls and city council chambers throughout the state.
- The OWM places high priority on soliciting citizen input and being responsive to the needs of our constituents. This office is served by 4 advisory committees with a total membership of over 60 Minnesotans from diverse walks of life. These committees review and offer insight on office policy and decisions regarding solid and hazardous waste management, grants to local government, market development and waste education.

CLIMATE:

The OWM provides technical, financial, educational and informational services to improve waste management.

Shifts in demographics and technology, and the costs of that technology, create significant challenges for Minnesota as we deal with waste management.

Minnesotans have made great strides in the beginning stages of recycling. Attitudes are changing. Collection of "post-consumer" products is impressive. The problem is one of effective, long-term market development. Great progress has been made in collecting recyclables; the challenge is to market them. One of the OWM's missions is to assist the marketplace in the development of viable post-consumer product markets.

History has proven that regulation is not the only answer. Business and industry want to do the right thing. Often, the problem is one of lack of information and assistance. The OWM effectively addresses that problem.

In order to effectively address the reality of the growing solid waste management problem, we must continue to influence the beliefs as well as the everyday practices of the person on the street. We must influence both industry and private citizens by educating them to make wise purchasing and manufacturing decisions that result in reduced waste and toxicity of waste.

Because the OWM is non-regulatory in nature, it is well positioned to work in partnership with business, industry, other government agencies, and the general public to manage change in a

complex and critical problem area.

AGENCY BUDGET PLAN:

Over the past decade, Minnesota has made significant strides in the field of waste management. Counties are developing extensive and successful recycling programs. Over half of the counties in the state are utilizing solid waste processing facilities for some portion of their waste. Increasingly, counties are working together cooperatively in regional solid waste management activities. The state is developing sophisticated industrial and hazardous waste management systems and is moving towards achieving a successful integrated waste management system which provides economic and environmental security to its citizens.

As improvements are made in the state's solid, industrial, and hazardous waste management infrastructure, the technical and financial assistance needed to develop and sustain that infrastructure change. The OWM intends to modify its programs to recognize and build upon past success and recognize and address areas of current need.

The OWM will restructure its internal organization and staffing allocations in order to best meet the current needs of its customers:

- Continue to re-focus county solid waste management planning and technical assistance activities to simplify county planning requirements and OWM review procedures, and redirect staff efforts to other OWM program areas.
- Provide greater staffing emphasis for OWM program areas such as source reduction, problem materials management, toxic materials management, and pollution prevention.
- Dedicate staff to a policy development unit to coordinate the reporting, policy development, and legislative needs on the state and federal level; provide research and data enhancement, and to lead and coordinate office cross unit teams.
- Our studies show the value of technical assistance to our customers. Therefore we recognize that the provision of technical services by OWM staff to clients is a high priority activity, and need to ensure that staff resources are sustained and fostered.
- Focus on providing technical assistance to those local governments most in need of help in order to achieve program success for all counties.
- Develop internal graphics capability in order to save contract fees and provide more efficient and timely service.

OUTCOMES:

- The state of Minnesota is known as a leader in waste management, specifically in the area of recycling. Three counties in Minnesota have won national recycling awards.
- The OWM is appreciated by our constituents for our quality of service.
- Relationships with all our constituents are open, expeditious and constructive.
- OWM constituents play an active role in our decision making process.
- The resources the state of Minnesota appropriates to support our agency are spent as efficiently and effectively as possible while achieving our mission.

1994-95 Biennial Budget

AGENCY: Office of Waste Management
(Continuation)

	<u>F.Y. 1991</u>	<u>F.Y. 1992</u>	<u>F.Y. 1993</u>	<u>F.Y. 1994</u>	<u>F.Y. 1995</u>
Percentage of solid waste recycled	33	35	38	40	42
Solid waste generated (millions of tons)	4.46	4.48	4.5	4.55	4.6
Percentage of counties participating in formal multi-county processing or disposal systems	36	47	57	68	73
A 10% reduction in reported toxic chemical releases or transfers in each year of the biennium (In millions of pounds) (Based on calendar year)	36.4	29.1	26.2	23.6	21.2

406-agy.wat
10-29-92 1:08pm cnh

1994-95 Biennial Budget

PROGRAM: Business Assistance
AGENCY: Office of Waste Management

PROGRAM PURPOSE:

The Business Assistance program exists to provide technical and financial assistance to commercial and industrial businesses to promote prevention of pollution at the source of generation, use of recycled materials, and improved management of solid and hazardous waste.

This program addresses to the Minnesota Milestones theme of "Our Surroundings" within this theme, the program contributes directly to the attainment of 2 goals: 1) Minnesotans will respect the natural world; and 2) We will improve the quality of the air, water, and earth.

Under the first goal, the Office of Waste Management's (OWM) solid waste source reduction, recycling market development, and problem materials management activities contribute directly to the attainment of the indicator: "Solid waste not recycled (tons per person)." [Note: the OWM has recommended that this indicator be revised; believing that measurement of other solid waste aspects would more effectively measure progress.]

Under the second goal, the OWM's pollution prevention and Minnesota Technical Assistance Program (MnTAP) activities contribute directly to the attainment of the following indicators: 1) Toxic chemicals released or transferred, and 2) Quantity of hazardous waste generated and properly managed.

In addition, the office uses other indicators to measure progress toward these Milestones goals. These are described under the "Outcomes" and Objectives" sections.

PROSPECTS:

- Minnesotans generate approximately 4.3 million tons of solid waste per year. This amount has increased dramatically in recent years and is projected to increase to approximately 6 million tons per year by 2020. Effective measures to reduce the amount of solid waste generated are needed. The OWM will increase its technical assistance efforts to help solve this problem.
- Minnesota collects 33% of its solid waste for recycling. While private sector markets exist for most collected materials, the economic recession and low prices for virgin raw materials continue to cause recyclable materials to have little monetary value. More competitive markets and other strategic measures are needed to solve this problem.
- Recent federal laws requiring the reporting of toxic chemicals released to the environment of major businesses have indicated the 66 million pounds of toxics are released in Minnesota per year. The goal of the OWM's pollution prevention activities to work with business to reduce the amount of toxic releases through in-plant procedural and engineering improvements.

OUTCOMES:

Source Reduction	F.Y. 1991	F.Y. 1992	F.Y. 1993	F.Y. 1994	F.Y. 1995
Number of practical cost effective source reduction methods defined as a result of this program	5	10	20	35	50

Recycling Market Development

Increased market capacity for recyclables resulting from technical assistance and grant/loans already awarded (in tons/year)*	3,500	6,200	29,500	169,000	*
---	-------	-------	--------	---------	---

Increased market capacity for recyclables resulting from technical assistance only: 40,000 tons/year established in 1991 and 120,000 tons/year scheduled to come on line in 1994.

Client satisfaction: Based on CORE September 1992 survey results: 100% clients surveyed felt services received were important. 93.1% of respondents rated quality of technical assistance good, very good or excellent.

* The F.Y. 1993 funding round's, objective is to fund 3 to 5 projects to come on line F.Y. 1995. Plan to open one more funding round in 1994-95 with the goal of funding 3 to 5 capacity related projects for materials with minimal existing market capacity.

Pollution Prevention and MnTAP

	C.Y. 1991	C.Y. 1992	C.Y. 1993	C.Y. 1994	C.Y. 1995
A 10% reduction in reported toxic chemical releases or transfers in each year of the biennium. (in millions of pounds)	36.4	29.1	26.2	23.6	21.2
A reduction in the manifested amount of hazardous industrial waste (in tons)**	69,047	70,400	71,800	73,200	74,600
A 2% reduction in the amount of manifested hazardous waste that is managed at a hazardous waste landfills	17%	16%	15%	14%	13%
A 3% increase in the amount of manifested hazardous waste that is recovered for reuse	65%	66%	67%	68%	70%

** Assumes that economic growth, more stringent regulations, and increased enforcement will force more hazardous waste into the state's management system. Therefore, although an increase is shown, this increase is much smaller than if no pollution prevention activities occurred.

1994-95 Biennial Budget

PROGRAM: Business Assistance
AGENCY: Office of Waste Management
(Continuation)

5. MnTAP

- A 10% reduction in reported toxic chemical releases or transfers in each year of the biennium.
- A reduction in the generation of hazardous industrial waste that is consistent with the state's goal of a 39% reduction (adjusted for increased economic growth) by 2009. Analysis will be carried out during the coming biennium to assure that the state is on target to achieve this overall goal.
- A 50% reduction in the release of 17 target toxic chemicals reported by companies participating in the Minnesota 50 project, to be accomplished by the end of the biennium.
- 80% of the businesses and other organizations that contact MnTAP for technical assistance will use the assistance they receive to either reduce their waste generation, prevent releases of toxic pollutants, or improve their hazardous or industrial waste management methods.

406-pr01.wat
10-29-92 1:09pm cnh

OBJECTIVES:

1. Solid waste source reduction

- Amount of reduction in statewide generation of solid waste.
- Amount of source reduction achieved by projects receiving grant and loan awards.
- Number of new practical, cost effective source reduction techniques identified through grant and loan awards.
- Number of organizations and companies that adopt source techniques identified with the assistance of the office of waste management.
- The progress of Minnesota in meeting its goal of a 25% reduction in packaging sent to landfill, waste-to-energy, and municipal solid waste (msw) composting facilities by 1995.

2. Recycling market development

- Increased market capacity for recyclables resulting from grant and loan awards.
- Increased market capacity for recyclables resulting from technical assistance.
- Amount of increase in procurement of recycled products by Minnesota state government.
- Amount of increase in procurement of recycled products by local governments in total and through use of the state's Cooperative Purchasing Program.
- Amount of increase in procurement of recycled products by Minnesota's private and non-profit sector.

3. Problem Materials Management

- A 20% increase in the amount of problem materials separated from solid waste and properly recycled or otherwise managed.

4. Pollution Prevention

- A reduction in the generation of hazardous industrial waste that is consistent with the state's goal of a 39% reduction (adjusted for increased economic growth) by 2009. Analysis will be carried out during the coming biennium to assure that the state is on target to achieve this overall goal.
- A 50% reduction in the release of 17 target toxic chemicals reported by companies participating in the Minnesota 50 project, to be accomplished by the end of the biennium.
- At least 50% of the state agencies named in Governor's Executive Order 91-17 will have implemented at least one specific pollution prevention project.
- A 20% reduction in pollution caused by state and local government agencies.
- At least 80% of the projects awarded pollution prevention grants by the OWM will accomplish a reduction in pollution as a result of grant-funded activities.

1994-95 Biennial Budget

BUDGET ACTIVITY: Market Development
PROGRAM: Business Assistance
AGENCY: Office of Waste Management

ACTIVITY DESCRIPTION:

The Office of Waste Management's (OWM) Recycling Market Development activity is intended to assist in the development of a sustainable recycling infrastructure in Minnesota. Minnesota collects over 30% of its solid waste for recycling. However, new markets and policies are needed to ensure the use of these materials in the manufacturing of new products and justify the past, present and future citizen investments in recycling.

The OWM's focus in developing markets has been to provide financial, technical, and educational assistance to clients to increase the use of recyclable materials and demand for recycled products. In addition, this program coordinates other market development activities within the state.

There are high expectations and strong demand for the services provided by this program from a wide variety of clientele. Clients include: local government, private businesses, non-profit organizations, state officials, industry associations, and citizens. Increased focus on technical assistance and the development of supportive incentives is proposed for the future.

BUDGET ISSUES:

Minnesota has been and continues to be a national leader in recycling and market development activities. One result of these efforts is new manufacturing expansion in Minnesota. Having a combination of strong state policies, technical assistance and the capability for financial assistance has allowed OWM to secure new and expanded remanufacturing businesses in Minnesota.

The OWM uses market development grants and loans to promote private investment in this area. The critical elements of this financial aid program are: 1) systematic and in-depth analysis of private sector market proposals; 2) prioritization of materials requiring market expansion; and 3) contributing sufficient capital to leverage final commitments and actual facility development in the state.

EFFICIENCY/EFFECTIVENESS MEASURES:

Outcomes measured by the OWM for this activity area relate to the number of grants and loans awarded and resultant projects successfully implemented. In addition, the OWM measured improvements in recycling markets through new market capacity developed with the benefit of technical assistance from the OWM, and through qualitative reports from program customers. Market development staff provide extensive technical expertise support to local and state government staff, private businesses and the general public. Effectiveness of this assistance is measured by daily responses to requests for information, public presentations to clientele, and extensive information development and dissemination.

	F.Y. 1991	F.Y. 1992	F.Y. 1993	F.Y. 1994	F.Y. 1995
--	-----------	-----------	-----------	-----------	-----------

Increased market capacity resulting from technical assistance and grant/loans already awarded	3,500	6,200	29,500	169,000	*
---	-------	-------	--------	---------	---

Increased market capacity for recyclables resulting from technical assistance only: 40,000 tons/year established in 1991 and 120,000 tons/year scheduled to come on line in 1994.

No. of requests for information per year	4,000	4,800	4,800	4,800	4,800
--	-------	-------	-------	-------	-------

No. of presentations per year	48	48	48	48	48
-------------------------------	----	----	----	----	----

No. of funded applied research\ feasibility study projects completed	3	1	7	4-10	5-10
--	---	---	---	------	------

Client satisfaction: Based on CORE September 1992 survey results: 100% clients surveyed felt services received were important. 93.1% of respondents rated quality of technical assistance good, very good, or excellent.

REVENUE:

This activity does not generate revenues. Loan repayments will be returned to the general fund.

GRANTS:

This activity administers 3 financial assistance programs authorized in M.S. Section 115A.48 (1990), administered under Minnesota Rules 9210.0600 to 9210.0645:

The county grant/loan program provides grants to counties and non-profit organizations for up to 75% of costs for non-capital projects and loans to private business for up to 50% of costs for capital projects.

The Capital Loan program provides low-interest loans to businesses and non-profit organizations for up to 50% of costs for eligible capital projects.

406-ac01.wat
 10-29-92 1:05pm cnh

1994-95 Biennial Budget

BUDGET ACTIVITY: Source Reduction
PROGRAM: Business Assistance
AGENCY: Office of Waste Management

ACTIVITY DESCRIPTION:

Reducing the amount of waste produced by business and households is one of our highest waste management priorities. Source Reduction programs merit top priority. By reducing the amount of solid waste requiring management, generators as well as the state will enjoy both economic and environmental benefits. Reduction will also help conserve natural resources and energy.

The Office of Waste Management (OWM) will provide technical assistance to commercial and manufacturing businesses to demonstrate the numerous benefits and variety of approaches to source reduction. OWM also provides source reduction assistance to local units of government and institutions.

EFFICIENCY/EFFECTIVENESS MEASURES:

	<u>F.Y. 1991</u>	<u>F.Y. 1992</u>	<u>F.Y. 1993</u>	<u>F.Y. 1994</u>	<u>F.Y. 1995</u>
No. of business, institutional, and government source reduction programs permanently adopted	5	11	40	100	250
Percentage of Minnesota's solid waste reduced through the adoption of specific source reduction methods	<1	2	3	4	5
No. of projects successfully implemented	10	20	40	80	130

REVENUE:

None

GRANTS:

Solid waste reduction grants

Statutory Authority: M.S. 115A.55

Purpose of grant: Provision of financial assistance for the purpose of implementing projects or practices to prevent or reduce the generation of solid waste. Grants may also be used to fund studies needed to determine the financial feasibility of a source reduction project.

Recipients: Eligible applicants to the program include businesses, institutions, local units of government, and persons in Minnesota.

Eligibility criteria: Submitting of proposal satisfying the rules of the program.

1994-95 Biennial Budget

BUDGET ACTIVITY: Pollution Prevention
 PROGRAM: Business Assistance
 AGENCY: Office of Waste Management

ACTIVITY DESCRIPTION:

This activity accomplishes state pollution prevention goals through technical and financial assistance to individuals and organizations that use, generate or release toxic pollutants, hazardous substances, or hazardous wastes, as well as citizens concerned about toxic or hazardous pollution in their locale. Technical assistance includes assembling, cataloging and disseminating information on pollution prevention; performance of technical research on pollution prevention methods; and outreach programs including conferences, workshops, and training programs. The activity also includes collection of annual pollution prevention fees totaling approximately \$1 million; grants to organizations for pollution prevention programs; awards to clientele for excellence in pollution prevention; and preparation of an annual Pollution Prevention Evaluation Report.

EFFICIENCY/EFFECTIVENESS MEASURES:

	<u>C.Y. 1991</u>	<u>C.Y. 1992</u>	<u>C.Y. 1993</u>	<u>C.Y. 1994</u>	<u>C.Y. 1995</u>
A 50% reduction in the release of 17 target toxic chemicals reported in calendar year 1988 by companies participating in the Minnesota 50 project, to be accomplished by the end of the biennium (in millions of pounds)	24.5	23.5	22.5	21.5	20.5
■ At least 50% of the state agencies named in governor's Executive Order 91-17 will have implemented at least one specific pollution prevention project.					
Percentage of named state agencies that implement at least 1 pollution prevention project	10	20	30	40	50

REVENUE:

The office's pollution prevention activity has collected an annual fee that is dedicated to the Environmental Fund. The fee is charged to certain companies that release toxic pollutants or generate hazardous waste. The amount collected in F.Y. 1991 was \$1.164 million. The office's current base level appropriation from the Environmental Fund is \$997,000. Thus, not all of the fees collected are appropriated to the office for pollution prevention activities. The office anticipates that the fee amount collected will change in future years because the fee is based upon amounts of

pollutants released or wastes generated, and these amounts should decrease due to the success of the pollution prevention activity. The decreased pollution amounts will, however, be counteracted by recent changes to federal law that have increased, and will likely continue to increase, the number of companies subject to the fee. Further, the 1992 Minnesota Legislature has removed, effective F.Y. 1994, the current cap of \$30,000 on fees paid by any one company. See M.S. 115D.12, subd. 2(a). The office is currently developing estimates of pollution prevention fees to be collected in F.Y.s 1993-94, and 1995. The office is also considering entering into an agreement with the Minnesota Emergency Response Commission (ERC) in which ERC would collect pollution prevention fees along with other related fees already collected by ERC. This would allow fee payers to receive only 1, rather than 3 or 4, fee invoices.

	<u>Dollars in Thousands</u>				
Type of Revenue:	<u>F.Y. 1991</u>	<u>F.Y. 1992</u>	<u>F.Y. 1993</u>	<u>F.Y. 1994</u>	<u>F.Y. 1995</u>
Non-dedicated - Gen'l					
Dedicated - Special	\$1,164	\$1,100	\$1,100	\$1,100	\$1,100
Dedicated - Federal					

GRANTS:

The office provides pollution prevention grants to assist clientele in achieving pollution prevention goals identified by the office, including pollution prevention research and implementation activities. The grants are authorized under M.S. 115D.04, subd. 3(b) and 115D.05. Eligible recipients are persons who use, generate or release toxic pollutants, hazardous substances, or hazardous wastes. Criteria for selecting grant recipients are outlined in Minn. Rules pts. 9205.0400 - .0445, as well as in detailed Request for Proposals (RFPs) issued for targeted grant projects.

406-ac03.wat
 10-29-92 1:05pm cnh

1994-95 Biennial Budget

BUDGET ACTIVITY: Minnesota Technical Assistance Program (MnTAP)
PROGRAM: Business Assistance
AGENCY: Office of Waste Management

ACTIVITY DESCRIPTION:

The Minnesota Technical Assistance Program (MnTAP) is operated by the University of Minnesota through an annual grant from the office. The program, which has 15 staff members, provides free, non-regulatory technical and research assistance to Minnesota businesses and other organizations in preventing toxic pollution and ensuring proper management of hazardous and industrial waste. MnTAP's major services include: telephone assistance, on-site visits, a student intern program, technical and educational resources, and workshops and seminars.

EFFICIENCY MEASURES:

	<u>C.Y. 1991</u>	<u>C.Y. 1992</u>	<u>C.Y. 1993</u>	<u>C.Y. 1994</u>	<u>C.Y. 1995</u>
A 50% reduction in the release of 17 target toxic chemicals reported by companies participating in the Minnesota 50 project, to be accomplished by the end of the biennium. (in millions of pounds per year)	24.5	23.5	22.5	21.5	20.5
Percentage of businesses and other organizations receiving MnTAP technical assistance that act upon the assistance	75%	80%	80%	80%	80%

REVENUE:

None

GRANTS:

None

1994-95 Biennial Budget

PROGRAM: Citizen Outreach
AGENCY: Office of Waste Management

PROGRAM PURPOSE:

The citizen outreach program exists to inform and educate Minnesotans about:

- Sound waste management practices.
- The programs and assistance offered by the Office of Waste Management (OWM) to improve those practices.
- The economic and environmental issues faced by individuals and communities in making personal, corporate or public policy decisions about solid and hazardous waste management.

PROSPECTS:

- Recycling — at least the individual's role in source-separation and collection — is generally well understood and accepted in Minnesota. Less well understood are:
 - What happens after recyclables are collected.
 - How markets for recyclables are developed.
 - Why it is important to buy recycled-content products.
 - Why recycling is expensive.
- Waste generation in Minnesota continues to rise. Source reduction, the best means of slowing or stopping the increase in solid waste, is a relatively new concept to most Minnesotans.
- More environmentally protective waste management systems are increasingly expensive to build, operate and maintain. At the same time, public resistance to siting new facilities is likely to continue or increase, as is public concern about the rising costs of waste management.
- Business and industry concern about government regulation regarding use of toxic materials, and product labeling and packaging, among other issues, is likely to continue or increase, making it difficult to pass laws or mandates in these areas. This will elevate the role of educated consumer choice (the marketplace) in addressing these issues.
- Educating children and college students, the decision-makers of the next generation, is the key to an environmentally and economically sound waste management future.
- The general public is still critically uninformed about waste management technology including landfills, incinerators and composting facilities.

OUTCOMES:

- K-12 education: A curriculum developed and field-tested in Minnesota was distributed to Minnesota schools in the fall of 1992. Hard copies of the curriculum will be available in limited numbers. Schools will be able to get the curriculum in its entirety or access its information on a subject by subject basis through use of the statewide educational computer network known as "Minnesota Quick-Link". In addition, the curriculum will be available on computer disks. This use of technology will result in a major savings in resources and approximately \$50,000 in printing and distribution costs.

Teacher interest expressed at workshops, education conventions and other presentations was high.

An evaluation form with each copy of the curriculum will serve as a measure of teachers' view of its effectiveness.

- Teacher and student workshops: Teacher training sessions and presentations in schools and classrooms have been given both by request from schools and by initiation from the Office of Waste Management. More than 50 were conducted during 1992, reaching hundreds of teachers and thousands of students.
- Public education campaign: The SMART (Saving Money and Reducing Trash) Shopping Campaign was developed in early 1992 to fulfill a legislative mandate to provide statewide public education on waste management and source reduction. Research on the waste and cost of different types of packaging was conducted by the citizen outreach program. Information was provided to consumers through materials designed to be displayed in grocery stores.

The campaign has appeared in several stores, and many more are poised to begin it in coming months, including a campaign at Cub Foods. Target stores will display materials created for retail stores. Executives of these organizations believe the campaign will be effective and will enhance their own images.

Surveys conducted in the stores that have used the campaign have shown that most shoppers were aware of the theme (SMART) and could remember some of the main points. The campaign has involved local organizations and communities in both putting on the campaign and helping to pay for it.

- Conferences: In cooperation with other sections of the OWM, the citizen outreach program put on 3 conferences and numerous workshops on pollution prevention and buying recycled products during the past 2 years. The events were attended by thousands of representatives of business, government, environmental organizations and the general public.
- Bi-monthly newsletter: The citizen outreach program publishes a bi-monthly newsletter called "The Resource" with a current mailing list of more than 5,300, including local and state officials, waste management companies and professionals, schools, environmental groups and interested individuals. Reader surveys from the last year indicate that the publication is widely considered as an important communications tool. An average of 20 people a month ask to be added to the mailing list.
- Special projects are an important medium for reaching large numbers of people. The public information's 10,000 square-foot building at the state fair reached over 300,000 people during the 1992 twelve (12) day run. The exhibit will also be available for civic and educational tours during the fall and spring of 1993-94.

OBJECTIVES:

Since the heart of the Citizen Outreach Program is communication, indicators are qualitative rather than quantitative. The number of news releases, for example, can't be used as a sole indicator of effectiveness; their quality and the reaction to the information contained in the news releases would, if they could be measured. Success towards the goal of educating Minnesotans can be quantitatively measured only over time, as behaviors and attitudes regarding waste are seen to change. In the short term, then, it is impossible to measure the ultimate effectiveness of communication; but it is possible to see whether the program is using methods that are known to be effective means of communicating.

The Citizen Outreach program main objectives for 1994-95 are to:

1994-95 Biennial Budget

PROGRAM: Citizen Outreach
AGENCY: Office of Waste Management
(Continuation)

-
- Increase public exposure to the services offered by the OWM.
 - Continue to use publications and proactive media relations to provide timely and accurate waste management information to the public.
 - Broaden the scope of efforts to include business and industry.
 - Promote the K-12 curriculum.
 - Increase involvement of civic organizations in dissemination of waste management information.
 - Address integrated solid waste management issues.
 - Develop professional video programming for statewide use.
 - Increase the use of computer technology for dissemination of information and thereby reduce the amount of paper used.

EFFICIENCY/EFFECTIVENESS MEASURES:

- News Releases: In the past year, the Citizen Outreach program developed over 50 news releases. The majority of the releases were distributed statewide to over 400 individual media outlets. A significant number of the releases resulted in media inquiries or interviews.
- Media relations: The communications philosophy of the OWM is to be aggressively proactive. As a result both of contacts made with media and of our growing reputation as an accurate source on waste management issues, the office received more than 55 media inquiries resulting in television, radio or newspaper interviews in the last 6 months. These inquiries included national organizations such as CBS-TV, all of the Twin Cities outlets and news organizations from Greater Minnesota.
- An average of 20 people per month ask to be added to the "Resource" mailing list.

GRANTS:

Statutory Authority: M.S. 115A.072

Purpose of grant: To increase the creation and dissemination of educational materials concerning waste management issues and to facilitate the development of comprehensive waste management programs within educational facilities.

Recipients: Individuals, political subdivisions, business and industry, schools, and non-profit organizations, excluding the Metropolitan Council and other state agencies.

Eligibility criteria: Grant proposals must demonstrate a creative and comprehensive approach to the management of solid waste.

Factors used to determine amount of aid to recipient: Grant limits have been set at \$10,000 for a single project and a maximum of \$20,000 for district-wide projects. Grant amounts were determined by research of average solid waste management program costs.

1994-95 Biennial Budget

PROGRAM: Local Government Assistance
AGENCY: Office of Waste Management

PROGRAM PURPOSE:

Provide technical and financial assistance to counties, cities, and other clients to promote the development of economically sound and environmentally protective solid waste management systems. Oversee local solid waste management activities to ensure compliance with state goals and policies.

PROSPECTS:

A number of factors impact the short term and long term program strategies and goals:

- Ongoing strong public support for the development of improved solid waste reduction, recycling, processing, and special wastes management systems;
- Increasing development of innovative waste management techniques and public/private management partnerships;
- Ongoing concerns on the state and local levels regarding the practical feasibility of developing solid waste composting and incineration projects;
- Ongoing negative impacts due to the availability of relatively inexpensive land disposal capacity in first generation landfills and in out-of-state facilities which do not meet Minnesota standards;
- Diminishing financial resources on the state and local levels; and
- County clientele getting more sophisticated in their expectations.

OUTCOMES:

	<u>F.Y. 1991</u>	<u>F.Y. 1992</u>	<u>F.Y. 1993</u>	<u>F.Y. 1994</u>	<u>F.Y. 1995</u>
Percentage of counties served by processing facility	41	51	52	59	72
Percentage of counties participating in formal multi-county processing or disposal systems	36	47	57	68	73
Percentage of counties using landfills meeting upgraded requirements	27	27	33	84	93
Percentage of counties meeting statewide waste reduction and recycling goals	70	80	100	100	100

OBJECTIVES:

- Provide technical assistance to ensure that all counties have current approved county plan updates.
- For those counties where land disposal is the most feasible and prudent alternative maximize number of counties using state-of-the-art facilities.
- Insure that counties meet state and local waste reduction and recycling goals.
- Maximize number of counties utilizing solid waste processing facilities and insure that all counties use only state-of-the-art landfills when disposing of waste or processing residues.
- Maximize number of counties expressing satisfaction with Office of Waste Management financial and technical assistance services.

- Achieve reduction in statewide solid waste generation rate (or decrease in level of annual increase).
- Meet statutory deadlines for solid waste designation review and approval activities.
- Enable county compliance with legislative goals and mandates.

PROGRAM PLAN:

The Office of Waste Management (OWM) uses a number of policy and program-related strategies to improve how it satisfies its responsibilities.

Policy-related strategies include:

- Develop statewide assessment of regional need for solid waste management facilities in order to determine the need for additional facility capacity in the state. The OWM will use the results of this study to refine and focus its technical and financial assistance programs.
- Continue to emphasize promotion of regional solid waste management systems in Minnesota, and will promote related statute changes.
- Continue to promote optimal use of existing processing and disposal facilities.

Program-related strategies include:

- Continue to revise planning and grant administration rules as necessary to streamline and clarify those rules.
- Continue to develop improved technical assistance tools for use by local units of government and private facility and system developers. These will include improved plan development guidance manuals and materials and subject-specific technical assistance fact sheets, newsletters, and other materials.
- Continue to improve program linkages with the Minnesota Pollution Control Agency and the Metropolitan Council of the Twin Cities.
- Continue to reduce state oversight over local programs already meeting state goals and mandates in order to concentrate financial and technical assistance on those local units of government most needing help.
- Continue to simplify county requirements regarding the reporting of expenditures of state waste reduction and recycling pass-through grant funds and the improvements caused by that funding.
- Increase local recycling program audit activities to assist counties in meeting state requirements and to develop materials documenting successful programs or strategies to share with other local units of government.
- Increase efforts to disseminate knowledge gained through the funding of the development of solid waste processing facilities and separation programs.
- Continue to maximize waste management system improvement, focusing on working with local decision makers and staff on state requirements and help those people develop programs to meet those strategies. OWM activities will continue to place strong emphasis on assisting local officials and enabling local success.

406-pr03.wat
 10-29-92 1:10pm cnh

1994-95 Biennial Budget

BUDGET ACTIVITY: Financial Assistance
PROGRAM: Local Government Assistance
AGENCY: Office of Waste Management

ACTIVITY DESCRIPTION:

The Office of Waste Management's (OWM) Local Government Assistance Program oversees several financial assistance programs which help Minnesota counties, cities, and private developers develop economically sound and environmentally protective solid waste management systems. The Solid Waste Processing Facilities Capital Assistance Program (CAP) provides financial assistance to local units of government for the development of solid waste processing facilities abate the need for landfills. The LOWTECH program assists in the development of solid waste separation projects. The Compost Utilization Program (CUP) is designed to enhance the utilization of compost derived from mixed municipal solid waste. The program also provides technical assistance to funded and non-funded project developers, and makes the information learned from funded projects available to other facility and program developers.

EFFICIENCY MEASURES:

	F.Y. 1991	F.Y. 1992	F.Y. 1993	F.Y. 1994	F.Y. 1995
Counties rating assistance related to CAP and LOWTECH grants as good, very good, or excellent	NA	89	95	95	95
CAP Projects: Funded\successful	7\7	7\7	3\3	5\5	8\8
LOWTECH Projects: Funded\Successful implemented CAP and LOWTECH projects	10\10	12\10	0\0	4\4	4\4

Other outcome measures:

- Implementation - The OWM has evaluated essential outcomes related to both CAP and LOWTECH grants awarded to local units of government. The evaluation indicates that of a total of 62 projects funded by the OWM using CAP funds, 60 have been implemented successfully. LOWTECH has funded 16 projects, 15 have been successfully implemented.
- Cost - The projected capital cost of funded CAP projects has been on the average within 6% of the actual total capital costs of projects once completed. Actual operation and maintenance (O&M) costs for CAP funded projects have been on the average within 5% of the O&M cost projected.
- Throughput - Solid waste projects must be built with a useful life of 20 years. Of the 62 funded projects, only 6 have had insufficient capacity upon initial operation. Initially most projects have had some excess capacity during the first years of operation. Of these projects 85% have made this capacity available to other political subdivisions, thereby increasing the actual service area of these projects

- Timetable - Of the 62 CAP funded projects, only 3 have required extensions beyond the allotted time (2 years) to be finally designed, built, and begin operations.
- LOWTECH projects must be operated for at least three years. All LOWTECH projects have been adopted as permanent programs after the expiration of the required period.

REVENUE:

None

GRANTS:

Solid Waste Processing Facilities Capital Assistance Program (CAP)

Statutory Authority: M.S. 115A.54.

Purpose of grant: Provide financial assistance to cities and counties to stimulate and encourage the development of landfill abatement alternatives such as solid waste recycling facilities, processing facilities, and related transfer stations.

Recipients: Eligible applicants to the programs are counties, cities, and solid waste management districts.

Eligibility criteria: Submittal of funding application satisfying program rules.

Factors used to determine amount of aid to recipient: M.S. 115A.54, subd 2(a) specifies factors used to determine amount of aid. Eligible projects may receive grant funding up to \$2,000,000 per project. Some eligible projects can receive 25% of capital cost of the project; recycling and compost projects can receive 50% of eligible costs to a maximum of \$2,000,000.

Solid Waste Separation Financial Assistance Program (LOWTECH)

Statutory Authority: M.S. 115A.53.

Purpose of grant: Provide financial assistance to public and private parties to promote the development of innovative waste separation and collection projects.

Recipients: Eligible applicants to the programs are local units of government and the private waste management industry.

Eligibility criteria: Submittal of funding application satisfying program rules.

Factors used to determine amount of aid to recipient: Program rules established as required by M.S. 115A.53 establish factors used to determine the amount of aid. Those rules permit a maximum grant of \$50,000 per application.

1994-95 Biennial Budget

BUDGET ACTIVITY: SCORE/Block Grant Funding to Counties
 PROGRAM: Local Government Assistance
 AGENCY: Office of Waste Management

ACTIVITY DESCRIPTION:

State law establishes ambitious waste reduction and recycling goals and requirements for counties. To help them meet those goals and requirements, the state provides each county with SCORE/block grant funding to assist the county in the development and ongoing management of improved solid waste reduction, recycling, and problem materials management programs. During F.Y. 1992 and 1993 \$14,008,000 was appropriated annually for pass-through funding to counties.

EFFICIENCY/EFFECTIVENESS MEASURES:

	<u>F.Y. 1991</u>	<u>F.Y. 1992</u>	<u>F.Y. 1993</u>	<u>F.Y. 1994</u>	<u>F.Y. 1995</u>
Percentage of waste recycled statewide	33	35	38	40	42
No. of counties offering opportunity to recycle	86	87	87	87	87
No. of recycling drop-off centers	600	700	780	820	850
No. of curbside collection programs	490	600	620	635	650
No. of curbside yard waste collection programs	225	260	275	290	300
No. of counties with access to permanent household hazardous waste programs	29	50	81	87	87

REVENUE:

None

GRANTS:

County reduction and recycling program pass-through grant funding.

Statutory Authority: M.S. 115A.557.

Purpose of grant: Provide financial assistance to counties to help them meet statewide reduction, recycling, and problem materials program goals established by the SCORE legislation of 1989.

Recipients: All Minnesota counties and the Western Lake Superior Sanitary District.

Eligibility criteria: Satisfaction of county solid waste planning requirements, establishment of special tracking mechanisms for fund expenditure, compliance with requirements regarding eligible usages of grant funding, and satisfaction of annual grant expenditure reporting requirements and system improvement reporting requirements.

Factors used to determine amount of aid to recipient: Specific amount of money received by each county is mandated. Funds allocated to counties on the basis of population; minimum \$55,000 payment per county. Would need legislative authority to go below minimum of \$55,000.

1994-95 Biennial Budget

BUDGET ACTIVITY: Technical Assistance
PROGRAM: Local Government Assistance
AGENCY: Office of Waste Management

ACTIVITY DESCRIPTION:

The Local Government Assistance Program provides solid waste management technical assistance to Minnesota counties, cities, industry, private citizens, and others to promote the development of economically sound and environmentally protective solid waste management systems. The program:

- Aids Greater Minnesota counties in the development of county solid waste management plans, reviews those plans for consistency with state solid waste management planning requirements, and issues certificates of need for land disposal capacity to counties whose plans meet state guidelines.
- Provides technical assistance to counties in solid waste assurance activities and oversees local waste designation activities by Minnesota counties.
- Provides counties, cities and others with assistance in meeting statewide waste reduction, recycling and problem materials requirements.
- Encourages cooperative regional solid waste management activities between counties and oversees solid waste district formation activities between Greater Minnesota counties.
- Develops conferences, seminars, and workshops to educate solid waste professionals, industry representatives, private citizens, and others in solid waste management issues and practices.
- Develops newsletters, fact sheets, guidance manuals, research reports, financial analysis documents, and other informational materials to assist clients in sound solid waste decision making, program development and implementation.

EFFICIENCY/EFFECTIVENESS MEASURES:

	F.Y. 1991	F.Y. 1992	F.Y. 1993	F.Y. 1994	F.Y. 1995
Counties rating technical financial assistance receive from OWM as good, very good, or excellent (%)	NA	89	95	95	95
Number of county solid waste management plans approved	6	31	16	16	16

Other outcome measures:

- An independent survey of OWM technical assistance clients was recently completed. It indicated that 95% of respondents had received technical assistance through phone consultations; 74% had received assistance through workshops and conferences; 61% had received assistance by site visits; and 49% had used unit referral services. The survey indicated that the area of most valuable technical assistance was in the solid waste plan (55%) followed by SCORE report development (19%), facility development (19%), financial analysis (11%), regional program development (6%), and market development (4%). Twenty seven percent of respondents reported that the outcome of the assistance was a completed plan. Nineteen percent said the outcome was a composting feasibility study; 19% also said an outcome was a completed SCORE

report. Other technical assistance outcomes reported by counties were: solid waste facility sited/built (15%); general information and continued planning (11%); regional program established (6%); saved money (6%); and completed grant application (4%). Future surveys will be conducted to further measure success in this area.

- In addition to approving county plans, the OWM approves plan amendments. The 1989 SCORE legislation required counties to develop recycling amendments to their plans. About half of the counties submitted those amendments as part of the previously mentioned plans approved in 1990 through 1992. The OWM approved separate recycling plan amendments for the other 36 counties during the period of 1990 through 1992, bringing the total number of approval actions for that period to 82.
- The OWM oversees designation activities for Greater Minnesota counties. To date, the OWM has approved designation plans and ordinances for 13 counties; 2 ordinances were approved in F.Y. 1991 and 6 ordinances were approved in F.Y. 1992. Recent legal challenges have cast uncertainty on the viability of solid waste designation; no designation plan or ordinance submittal is expected in the next 6 months. The OWM may receive designation ordinance amendment submittal.

REVENUE: None

GRANTS: None

406-ac07.wat
10-29-92 1:07pm cnh

1994-95 Biennial Budget

PROGRAM: Research and Policy Development
AGENCY: Office of Waste Management

PROGRAM PURPOSE: The Research and Policy Development program exists to collect data, conduct needed research, write reports, and make policy recommendations regarding solid and hazardous waste management in Minnesota.

This program contributes directly to the Minnesota Milestones theme of "Our Surroundings." Within this theme, the program contributes directly to the attainment of 2 goals: 1) Minnesotans will respect the natural world, and 2) We will improve the quality of the air, water, and earth.

Under the first goal, the office's solid waste research and policy development activities contribute directly to the attainment of the indicator: Solid waste not recycled (tons per person). [Note: The office has recommended that this indicator be revised; the office believes that measurement of other solid waste management aspects would more effectively measure progress.]

Under the second goal, the office's hazardous and industrial waste research and policy development activities contribute directly to the attainment of the following indicators: 1) Toxic chemicals released or transferred, and 2) Quantity of hazardous waste generated and properly managed.

In addition, the office uses other indicators to measure progress toward these Milestones goals. These are described under the "Outcomes" and "Objectives" sections.

PROSPECTS:

1. Solid Waste Management Research and Policy Development

- Minnesota generates approximately 4.2 million tons of solid waste each year. In order to plan and measure progress in state and local efforts to improve management of solid waste, and develop reports required by the federal government and Minnesota Legislature, the office must increase its efforts in collecting data, planning for, and conducting policy analysis regarding solid waste management. 83 % of customers receiving reports rated the reports as good, very good or excellent.

2. Hazardous and Industrial Waste Management Research and Policy Development

- Improved management of hazardous and industrial waste has been a top environmental priority for the state since 1980. Since then, the office has developed efficient and effective data management, planning, and policy analysis activities for the state. However, with the establishment of new pollution prevention efforts that seek to redress multi-media (air, water, land) pollution, the office must expand its existing research and policy analysis activities to meet pollution prevention goals.

OUTCOMES:

1. Solid Waste

Outcomes measured by the office for this activity area have included: successful establishment of a solid waste management data management system; and successful development of a biennial Solid Waste Policy Report, an annual report on statewide recycling programs (SCORE Report), and other solid waste related reports assigned to the office by the Minnesota Legislature.

2. Hazardous and Industrial Waste

Outcomes measured by the office for this activity area have included: successful establishment of a hazardous waste management data management system; and successful completion of a statewide Hazardous Waste Management Plan, a statewide hazardous waste Capacity Assurance Plan [submitted to the U.S. Environmental Protection Agency (EPA)], a statewide Industrial Waste Management Report, a biennial Hazardous Waste Management Program Evaluation Report, and other reports assigned to the office by the Minnesota Legislature.

OBJECTIVES:

1. Solid Waste

- Continued improvement in the office's solid waste management data collection and management system, including:

The capability to accurately measure solid waste generation on a statewide, regional and county basis.

The capability to accurately measure the amount of solid waste recovered on a statewide, regional and county.

The capability to accurately measure the amount of solid waste not recovered on a statewide, regional and county basis.

- Completion of more thorough reports containing policy recommendations received favorably by solid waste management officials, the Governor's Office, and the Minnesota Legislature.

2. Hazardous and Industrial Waste

- Improvement in the office's hazardous waste management data collection and information system, including:
- The capability to better measure the amount of hazardous waste properly managed in Minnesota.
- The capability to forecast recoverable materials on a statewide, regional and county basis.
- Improvement in the office's ability to collect data and accurately measure the amount of pollutants emitted by Minnesota industry per product unit.
- Continued approval of Minnesota's Capacity Assurance Plan by the U.S. EPA.
- Significant improvement in collection of data and measurement of progress in properly managing industrial waste in Minnesota.

EFFICIENCY/EFFECTIVENESS MEASURE

Based on an independent survey, 83 % of customers receiving waste management reports rated the reports as good, very good or excellent.

1994-95 Biennial Budget

AGENCY: Minnesota Community College System

MISSION STATEMENT:

The mission of the Minnesota Community College System is to provide high quality teaching and learning in accessible, affordable and supportive settings. Minnesota's community colleges are committed to building the productivity of the state by recognizing the dignity and worth of each individual and helping each student succeed to full potential. Our purpose is to provide the best possible teaching to develop in students the critical reasoning skills necessary for success in a changing, technology-based, multi-cultural world. In carrying out this mission, community colleges will meet the unique educational needs of communities and the overall economic needs of the state.

This mission will provide:

- Comprehensive courses and programs, including general education, associate degree programs in the liberal arts and sciences that are transferable to 4-year colleges and universities, and joint programs with technical colleges.
- Occupational preparation, enabling students to acquire skills and knowledge leading to employment or transfer to 4-year colleges and universities.
- Developmental education, enhancing students' skills in reading, writing and mathematics to improve their success in college programs.
- Continuing education, providing credit and non-credit classes and workshops for professional advancement, retraining and upgrading of skills addressing present and emerging needs of employees and employers.
- Community services, providing cultural forums and lifelong learning opportunities for all citizens.
- Student support services, including counseling, advising, financial aid, assessment of basic skills and child care, and a range of student life programs that serve the diverse makeup of student bodies.

To carry out this mission, the Community College System has adopted "A Plan to Serve," which focuses our efforts on 3 major thrusts:

The first is to insure that constituencies and customers understand this mission and the services available from community colleges. The second is to provide the highest possible level of quality in all aspects of community college operations. The third is an emphasis on developing cooperative partnerships to more effectively leverage limited resources and to maximize services and options for students.

MINNESOTA MILESTONES:

The Minnesota Community College System is committed to the purposes and goals of Minnesota Milestones and, specifically, the goals, "Minnesotans will have the advanced education and training to make the state a leader in the global economy," and "Minnesotans will excel in basic academic skills." As our name states, our colleges are designed to serve their communities. And as our

mission statement notes, we serve our communities in a variety of ways, all of which are intended to educate. In these ways, we are important agents for achieving the Milestones vision - a caring and secure community, a healthy and attractive environment, a prosperous and educated people, and a responsive and efficient public sector.

The Minnesota Community College System (MCCS) is also committed to the Milestones approach of establishing a series of goals and indicators against which progress and performance can be measured. The MCCS participated actively in the Quality Assessment initiative beginning in 1987. From that effort evolved the Student Success Model, which introduced assessment testing, improved counseling and advising, expanded and improved developmental education programs, and expanded research capacity. In recent years, the MCCS has continued to increase its capabilities for collecting and analyzing the appropriate data necessary to determine progress in achieving its mission, in serving students, and in justifying the investment of public resources.

More recently, the Community College System has volunteered to serve as a pilot project under the direction of the Commission on Reform and Efficiency (CORE). The purpose of the pilot is to:

- test the applicability of performance based budgeting in a higher education setting.
- test the availability of necessary data
- test the development of meaningful performance measures

This pilot project is currently underway and producing quality indicators that go considerably beyond those included in Milestones.

To date, over 20 indicators have been identified as potential measures of performance. Full implementation of this performance measurement system is expected to take 2 to 4 years. This pilot project is discussed in more detail under Outcomes in the Instruction Program section, and a more detailed summary of the CORE pilot project is available in a final report and backup materials.

CLIMATE:

Several critical factors are interrelating to shape the public policy issues facing the Community Colleges and higher education in Minnesota.

Participation in Higher Education

Minnesota has the highest high school graduation rate and nearly the highest participation rate in post-secondary education in the country. The increase in post-secondary participation has been gradually occurring for the past decade. But public policy, particularly public financing of post-secondary education, has not fully addressed this phenomenon.

Minnesota is a geographically large state with roughly half the population concentrated in the 7-county metro area and the other half dispersed widely throughout the remaining 80 counties. This geographic and demographic pattern creates unique challenges for providing access to quality post-secondary education. The 7 large community colleges in the metro area and Rochester operate much more cost effectively than their smaller Greater Minnesota counterparts which do not benefit from the same economies of scale. Nevertheless, if reasonable access is to be provided, especially for place-bound adults, it will be necessary to maintain smaller operations in key locations throughout the state. Even at somewhat higher cost levels, the smaller colleges continue to operate at levels considerably more efficient than those in other sectors.

Minnesotans have been very willing to support higher education. In 1989-90, the people of Minnesota ranked 8th in the nation in taxpayer support per capita.

AGENCY: Minnesota Community College System
(Continuation)

But the higher proportion of the state's population participating in post-secondary education (approximately 4th in the nation) requires that these dollars be spread over a very large number of students. As a result, state support per student in Minnesota ranks 17th nationally and is just above the national average, based on the most appropriate source of comparative data on state support for post-secondary education (State Profiles: Financing Public Higher Education 1978 to 1991, Research Associates of Washington, September 1991).

Increased Participation Equals Diversity

Increasing participation in higher education in Minnesota come from 2 groups. First there has been a significant increase in the percentage of high school graduates going on to college, off-setting the impact of the declining number of total recent high school graduates. That trend is now reversing as the number of graduates again begins to increase. In addition, community colleges in particular, have had a great increase in the participation of non-traditional students, principally older students and women.

The practical impact of this change in participation, in addition to the increase in sheer numbers, is the increasing diversity these new students represent. This diversity requires support services to provide these students, many of whom did not anticipate or adequately prepare for their participation in post-secondary education, with a quality education. They often require additional assessment, counseling and advising, developmental/remedial assistance, study skills help, financial aid guidance and assistance, peer support, and child care.

In addition to the diversity represented by non-traditional and less well prepared students, the Community College System is also committed to affirmative action throughout its operations. The System has for many years placed a strong emphasis on multi-cultural issues. In 1990, a 5 year cultural-diversity initiative began, aimed at increasing minority student enrollment and faculty and staff hiring, improving minority student retention, diversifying the curriculum, and improving the climate of campuses to make them more accepting and hospitable environments. Again, these diversity initiatives have serious resource implications.

The Changing Work Force

A major reason for the increasing participation in higher education is the realization by Minnesotans that the world of work is changing. Individuals and businesses are recognizing that post-secondary education and continuing, life-long education are critical for both personal success and also to build and maintain an effective work force.

Current demographic trends, in particular the aging of the baby boom generation, will have an important impact on the state's work force in the future. According to various economic reports, the rate of growth in the labor force is expected to slow down significantly over the next several years. In addition, the work force is aging. The proportion of young, inexperienced workers is shrinking while the proportion of older workers is growing. As the nature of work changes because of technology, product innovations, and foreign and domestic competition, there will be a greater emphasis on retraining an existing work force. Minnesota will need this pool of workers, operating at their highest potential, if it is going to compete in this new economic environment.

Focus Efforts in the 4 Year Universities

The social and economic changes facing Minnesota in turn are impacting the missions and organization of the higher education enterprise.

The University of Minnesota is continuing to implement its strategic plan, "Access to Excellence," to focus its mission and devote more resources to improving the quality of its programs. This plan entails reducing undergraduate enrollments, increasing preparation standards, shifting some enrollments from lower to upper division, and increasing the share of resources to upper division and graduate programs. In the process, the Community Colleges are expected to prepare more lower division students with a solid foundation for transfer to upper division work at the University.

More recently, the State University System has unveiled its plan, "Q7," which includes some similar goals—increasing preparation standards, limiting enrollment to the level of state funding, and redirecting resources to ensure quality. Again, a shift in undergraduate emphasis to upper division programs is based on the premise that Community Colleges will serve the lower division needs of many Minnesota students.

The success of both "Access to Excellence" and "Q7" are dependent on a quality Community College System.

This new relationship raises critical policy issues:

- Will state funding be available to maintain an open admissions policy for Community Colleges to insure access for all qualified Minnesotans?
- Will there be sufficient program opportunities available at the upper division level to accommodate Community College students who are ready to transfer?
- Should the state adopt an explicit policy with clear incentives to direct more students to community colleges for their lower division course work?

Enrollment Growth and Lagging Funding

A dominant factor affecting Minnesota's Community College's remains record high enrollments during a period when significant enrollment decline was predicted across higher education. Enrollments (FYE) have increased 45 % since 1984 in the Community Colleges.

The state's post-secondary education funding methodology since 1983 has been based on the assumption of enrollment decline. Funding is provided based on enrollments from 2 years earlier. The record-breaking enrollment growth in the Community Colleges was not recognized in the formula until marginal funding was provided in the 1988 legislature for enrollment in the most recent 2 years. The funding base was further eroded in 1992 when funding for Post-secondary Education Options students and many off-campus students was reduced from average cost to marginal cost.

In spite of that adjustment, funding has continued to lag behind enrollment. From 1984 through 1991, the Community Colleges have educated over 20,000 full year equivalent students with no or only partial state appropriation. The fact that funding has not kept pace with the combined effects of increasing participation, growing enrollments and student diversity has made management and innovation in the Community Colleges a significant challenge.

Internal Reallocation

In recent years, the system budget has been seriously constrained by several factors:

- Collective bargaining salary settlements that have consistently exceeded inflation allowances.
- Two-year lagged funding during a period of dramatic growth.

1994-95 Biennial Budget

AGENCY: Minnesota Community College System
(Continuation)

- Increasing student diversity (non-traditional, part-time, minority, under-prepared) requiring additional services.
- Numerous costly but unfunded state and federal mandates.
- The requirement to contribute one-third of the cost of debt service.
- Reductions in funding for various student categories, such as post-secondary options, off-campus and non-resident/non-reciprocity students.
- Unstable funding patterns in which appropriations are made, then cut back after budget allocation decisions have been made.

As a result of these unfunded cost areas, the system has been forced to make numerous internal reallocation and/or de-allocation decisions. Capital maintenance where feasible has been deferred. Spending on discretionary items such as equipment, library acquisitions and supplies has been curtailed. Class sizes have grown. Less course sections have been offered. Student support services have not kept pace. Administration has become smaller.

However, in spite of these cutbacks, the system also internally reallocated funds to accomplish higher priority goals. These have included:

- the Cultural Diversity Initiative
- the Student Success Model
- the restructuring and upgrading of the information system
- the implementation of Alternative Delivery Systems, such as 2 very interactive courses

Merger

The 1991 Legislature mandated the merger of the Community College, Technical College, and State University Systems on 7-1-95. The specific implications of this mandate remain unclear at this time. The extent of changes to the organization and operation of the 3 systems will depend on decisions yet to be made. Nevertheless, the MCCC is committed to participating fully and cooperatively to assist the Higher Education Board in planning for a merger that will provide for the post-secondary needs of the people of Minnesota.

The merger will require extensive effort on the part of system and college staff during the upcoming biennium. To partly offset the resource impact of these responsibilities, it will be necessary to limit new mandates and to review existing mandates to determine if some lesser priority duties can be reduced or eliminated.

AGENCY BUDGET PLAN:

This biennial budget request is developed according to the statutory funding guidelines and the System's strategic planning process and in cooperation with the other public post-secondary systems and the Higher Education Board.

Base Funding

The Community College System's base funding request is calculated according to the average cost funding methodology. This method bases funding on the enrollment level of 2 years earlier. This

"2 year lag" policy was designed to accommodate anticipated enrollment decline, a phenomenon which has not occurred in the Community College System.

On the contrary, in the period from 1984 to 1991, Community College head count enrollments have increased 51%, and full year equivalent enrollments increased 45%. The result has been a chronic lag in per student appropriations and a serious threat to the quality of the instruction and services offered to students.

To partially make up for this lag, it has been necessary to increase tuition rates beyond the rate of inflation and beyond the 33% assumption in the average cost funding policy. As a result, tuition now accounts for nearly 40% of the cost of instruction for community college students.

In spite of this increasing contribution by students, the dollars available per community college student have dropped significantly. In inflation adjusted dollars, the amount available per student has dropped from \$4,132 in 1985 to \$3,756 in 1992-93, signalling a serious threat to educational quality.

Inflation Impact

In earlier years, budget practices recognized the impact of inflationary increases on operating costs. After the average cost per student was determined, an inflation factor was applied to provide the resources necessary for cost-of-living changes on salaries, equipment, library acquisitions, utilities, etc.

The current budget guidelines do not include provision for an inflation increase. In preparing the base funding request, no inflation factor has been applied. However, if the Department of Finance guideline of 3.5% per year is applied to the base funding request, it would generate an appropriation of \$16 million. Accommodating a reasonable inflation increase through internal reallocation is not possible without drastically reducing or eliminating basic educational services.

Successive record enrollment increases over the past decade coupled with a funding formula that fails to keep pace with actual enrollment has already forced the System to reallocate internally to a severe degree. Employee bargaining units will expect reasonable cost-of-living increases, and to ignore this inevitable cost is highly unrealistic.

The higher education systems have all experienced the pressures of providing compensation increases to employees when no funding was appropriated in the current biennium. Community College system employees, as a result of collective bargaining agreements with the state of Minnesota, received salary and benefit increases in the current 2 year period costing \$11.1 million.

For these reasons, a request is made that a reasonable inflation factor be applied to both personnel and non-personnel costs within the base funding appropriation or that limits be placed on the collective bargaining process to prevent salary and benefit decisions from exceeding available resources.

New Funding Request

In light of the state's revenue shortfall, the Community College System is significantly limiting its request for new dollars in the next biennium. There are, however, a number of serious funding issues which will be difficult to address without new resources. This request limits itself to 2 significant instructional areas, developmental education and library resources.

In addition, there are numerous program areas which require cooperative efforts by the higher education systems. As a result, the 4 public systems have agreed to jointly request new funding in 2 areas: distance learning, and planning for improved information and library services.

1994-95 Biennial Budget

PROGRAM: Instruction
AGENCY: Community College System

PROGRAM PURPOSE:

The primary purpose of this program is to offer quality instruction at the lower division (freshman and sophomore) level which is geographically and financially accessible to state residents who are high school graduates (holders of diplomas or equivalency certificates), responsive to the educational needs of students and the state, and conducive to students gaining and/or maintaining employment opportunities, as well as opportunities for educational advancement beyond the lower division level.

Funding for this program includes the direct costs related to instruction, as well as applicable indirect costs. Indirect costs include such areas as academic support (e.g., libraries), student support (e.g., counseling), institutional support (e.g., general administration) and physical plant (e.g., maintenance).

The legislative intent relative to tuition is calculated as a portion of instructional costs. This program accounts for approximately 90% of the Community College System operating budget.

PROSPECTS

Maintaining Access With Quality

Minnesota's Community Colleges have always been open-door institutions, providing access to higher education for people across Minnesota. Minnesotans have taken advantage of this opportunity in record numbers over the past decade. But state funding has not kept pace, straining the ability to insure quality across all aspects of community college operations and access across a reasonable geographic spectrum.

The University of Minnesota and the State University System have both embarked on efforts to focus their missions and to redirect spending. If the Community Colleges are to continue to assist in these initiatives by accepting more lower division students, funding must recognize enrollment growth. Indeed, given the relatively lower per student cost of community colleges, serious consideration should be given to a state policy to shift more lower division enrollment to community colleges.

Building a Strong Work Force

If the Minnesota economy is to grow and meet the challenges of international competition, we must continue to build a strong work force. Community Colleges provide the major gateway to the various options for higher education across the state. Students desiring a 4 year program in a public or private institution can receive lower division course work with increasingly improved credit transfer procedures. Occupational programs that are designed in a "career ladder" mode allow students to prepare for direct entry into the work force and still maintain options for transfer into the next level of post-secondary programs. The availability of general education courses to complement occupational studies allow students to develop the critical thinking, communication, and computation skills needed in today's work force. Community colleges are an important economic development tool for the state and should be recognized as an investment in the state's economy.

The Transition to a Merged System

Current law will result in the merger of the Community College, Technical College and State University Systems under a single new governing board in 1995. The specific structural,

programmatic and cost implications of this transition are not yet known and will depend on various decisions still to be made. The potential for some costs and for some savings exists. Regardless, the transition to a merged system will require considerable involvement by system staff.

Enrollment Trends

As the pool of high school graduates again begins to grow and as technology and economic changes continue to require lifelong knowledge and skill updating, there is no reason to expect community college enrollment to decrease. To the contrary, continuing growth is likely, although it will probably not be at the dramatic rates of the past decade.

The chart below displays the full year equivalent (FYE) enrollment growth for the last several years and notes the number of FYE students which generated full funding as opposed to those generating partial or no state funding. As the chart reveals, a significant percent of the enrollment each year has been under funded. In total for the 6 year period, over 23,000 FYE students were educated with less than full funding.

Fiscal Year	Actual FYE	% Increase From Prev. Year	Fully Funded FYE	Partial Or Unfunded FYE	% Not Fully Funded
1987	25,495	5.2%	23,265	2,230	8.8%
1988	27,592	8.2%	24,237	3,511	12.7%
1989	30,350	10.0%	25,337	5,013	16.5%
1990	32,860	8.3%	27,592	4,634	14.1%
1991	33,938	3.3%	30,199	3,739	11.0%
1992	33,614	-1.0%	29,338	4,276	12.7%

Dollars per Student

As community college enrollments have grown, state appropriations have clearly not kept pace. The result is that the dollars available per student have been dropping steadily. From F.Y. 1985 until F.Y. 1993, the inflation adjusted dollars per student have declined from \$4,132 to \$3,756 in the Community College System. This drop has occurred despite significant tuition increases that consistently exceeded inflation rates. This is an extremely disturbing trend which has serious ramifications relative to the quality of education that can be provided into the future.

Tuition Trends

To make up for the inability of state funding to keep pace with enrollment growth, inflationary pressures and quality demands, students have been required to provide an increasing share of the cost of their instruction. While state policy implies that students will pay 33% of the cost of instruction, community college student have been exceeding that standard for years and now pay nearly 40%. These increases have made Minnesota's tuition rate one of the highest in the nation for many years. This trend raises important questions about the impact of high student costs on access and affordability.

OUTCOMES

As noted previously, the Community College System has volunteered to serve as a pilot project in performance based budgeting in cooperation with the Commission on Reform and Efficiency (CORE). This pilot project is resulting in the refinement of a series of over 20 potential performance indicators. It must be stressed that this is a developmental process. Full implementation is expected to take 2 to 4 years. The length of time required for complete development depends

1994-95 Biennial Budget

PROGRAM: Instruction
AGENCY: Community College System
(Continuation)

in part on the availability of sufficient resources to carry out the extensive research, computerization, and data gathering that this approach requires. The complexity of the task is also explained in more detail below.

It is relatively simple to demonstrate the per-student cost efficiency of Minnesota's Community colleges relative to other institutions in Minnesota or in the other 49 states. It is much more difficult to quantitatively measure success based on student outcomes. As open access institutions serving an extremely diverse student body with a wide range of both goals and abilities, community colleges across the country find it difficult to quantify the successes of their students. No single standard--graduation rate, transfers to 4 year universities, job placement--adequately measures the "value added" by a community college education.

In spite of the complexities, as well as limited resources, the Community College System has continued to work in the current biennium to improve its ability to measure student outcomes and to provide clearer evidence of the quality of the Community College enterprise in Minnesota.

What has become clear is that performance must be measured first and foremost in the context of the goals of individual students. The best available evidence shows that roughly half of Minnesota Community College students enroll with the intention of completing a 2 year degree program and transferring to a 4 year institution. But many of these students for a variety of personal reasons will make the decision to transfer before they have completed the entire associate degree program. Thus failure to graduate is not necessarily a negative outcome. To the contrary, for an individual who enters a community college with self doubts about his or her abilities to handle collegiate studies, an early transfer may signal increased confidence, a very positive outcome.

In addition to students intending to transfer, another approximately 25 % attend a community college seeking a 2 year program that prepares them to go immediately to work in such areas as nursing and allied health fields, various business positions, data processing, or law enforcement.

The remaining one-quarter of Community College students have a variety of diverse, individual educational objectives. Many are simply taking a course or a few courses to improve their opportunities for career advancement or to prepare for a career change. Some of these students already hold baccalaureate degrees but wish to strengthen themselves in a particular area. And many people, often non-traditional age students, did not consider themselves college-bound earlier in their lives but now believe a college education is important to their personal and economic well being. They come to community colleges to "try their hand" at post-secondary education.

For each of these groups, the measure of success is different. Students intending to transfer to a 4-year institution can be evaluated on whether or not they successfully completed their associate degree program, on the successful transfer of their community college credits, on their comparative grade point average at the 4-year institution, and on their successful completion of a baccalaureate degree program over a reasonable period of time. Tracking these outcomes often requires considerable cooperation with the 4-year institutions.

If students come with the goal of entering the work force upon completion of an associate degree, the outcome measures are different. The success rate for nursing programs, for example, can be judged on the basis of those students who pass the national licensure examination, the job placement record of nursing graduates, and the satisfaction of both graduates and their employers with the education provided.

For the remaining quarter of the students who do not fit neatly into the 2 categories above, the measurement of success is much more difficult and will continue to be difficult. Their goals are diverse and often changing as they progress through their courses. Thus they present a major challenge for measuring the extent to which they achieved their educational plans.

A key element in the Community College System's effort to improve its ability to measure student outcomes is the Student Success Model. Through the mandatory assessment of basic skills for incoming students, the educational goals of individual students can be identified and baseline academic skill levels determined. And through the student outcomes tracking, research and follow-up activities, the various appropriate measures of success can be monitored, relative to student objectives.

The highly individualized nature of this outcomes measurement process makes it complex and costly. Funding to date for this effort is largely the result of internal reallocations in recent years.

Given this background, the following lists a number of the categories in which specific performance indicators are under development: enrollment demographics, student performance on assessment test, retention rates, graduation rates, GPAs of transfer students, placement of occupational program graduates, scores on occupational licensing exams, performance in college level courses following developmental courses, student satisfaction, ratios of students to workstations, and percent of workstations that meet current technology standards.

It must be noted that these indicators are most useful for internal administrative and management decisionmaking, as opposed to general appropriations purposes. Also, indicators should not be viewed in isolation, but must be considered in the context of overall budgetary, human resource, enrollment and demographic, and other policy factors.

Instructional Funding Matrixes

Based on a F.Y. 1991 cost study actual direct instructional costs were determined for each of the community college's 26 categories. Indirect costs were allocated to each program, resulting in fully allocated program costs. The number of student credit hours earned in each program, divided by 45, resulted in the number of FYE students in each program. In order to establish high, medium and low cost programs or "cells," the fully allocated program costs were divided by the FYE in each program, resulting in an average program cost per FYE. The 8 highest cost programs became the "high cost cell," the next 9 highest cost became the "medium cost cell," and the remaining 9 programs became the "low cost cell." Each of these cells contain the total FYE of the 8 or 9 programs, the total of the fully allocated costs of the 9 programs, and an average cost per FYE (the cell value).

The 1991 legislation provided marginal funding for Post Secondary Enrollment Options (PSEO) students and for certain categories of off-campus enrollments. Data was collected to identify the programs containing these enrollments, and they were subtracted from the cost study by program. The costs per FYE were also subtracted and placed into separate matrixes. The 1991 legislation did not provide state funds for non-resident, non reciprocity students. The FYE and costs were subtracted from the cost study on a proportionate basis. The remaining enrollment and costs represent the fully-funded students. Each of the 3 matrixes (fully-funded, PSEO, and off-campus) were adjusted to the 1993 legislative intent, following average cost funding methodology and instructions from the Department of Finance. The results of this process are the FY93 average costs displayed in the following three matrixes:

212-pr01.kap
1-12-93 2:24pm jms

1994-95 Biennial Budget

PROGRAM: Non-Instruction
AGENCY: Community College System

ACTIVITY DESCRIPTION:

PROGRAM PURPOSE:

Under the average cost funding methodology, the Non-Instruction Program generally includes activities not directly related to credit-granting instruction. Community services, intercollegiate athletics, financial aids, and other miscellaneous receipts are the general categories included as non-instructional. The common element in these activities is that, under the methodology, spending authority for these areas is not used to determine assumptions about tuition revenues.

The various activities in this program are described briefly as follows:

Community Services: To provide quality non-credit instructional and cultural and extra-curricular opportunities, and services to the citizens of Minnesota that are geographically and financially accessible, responsive to state and/or local needs, serve the continuing education requirements of various professional groups, and foster community use of the facilities of the System's colleges.

Financial Aids: To provide needy students with the financial assistance necessary to attend college through 3 specific programs: college work-study, national direct student loans (Perkins Loans), and supplemental educational opportunity grants (SEOG). This activity provides the state matching dollars required to receive the federal funds.

Intercollegiate Athletics: To provide a program of intercollegiate athletics which contributes to the educational experience of men and women in the following areas: basketball, football, wrestling, softball, golf, tennis, hockey, volleyball and track. This activity provides only the staffing portion of the athletics programs. All other costs are covered by student fees.

Other Miscellaneous: This "catch-all" includes "flow-through" receipts. "Flow-through" receipts include application and late fees paid by students and numerous other minor categories of receipts. The fees "flow-through" because, if not collected, the corresponding expenditure is not made. No state appropriation is involved.

It should be noted that the calculation of indirect costs in the first three areas is done on a simple and arbitrary formula basis and may not represent actual costs for those programs.

PROSPECTS

No significant change is anticipated in this program.

OUTCOMES AND OBJECTIVES FOR 94-95

This program contains several disparate activities assigned to it in the initial development of the average cost funding methodology.

Community Services programs are expected to continue at the present level. Fees for non-credit offerings may need to increase if they are to continue.

Two of the three financial aid programs, work study and SEOG, have had the state matching increase recently or are seeing it happen now. The work study matching contribution increased from 20 to 30 percent in FY91. The SEOG match went from 0 to 10 percent in FY91 and increases to 15 percent in FY92. Without new dollars, the only way to accommodate the increased matching costs is to reduce the number of students served.

Intercollegiate Athletics programs are undergoing some changes as a result of a major System review of campus student life programs and funding. New System policies on Student Life programs emphasize achieving a balance in student activities between academic and non-academic, those aimed at traditional as well as non-traditional students, and those serving men as well as women.

PROGRAM PLAN

Maintain current levels.

REVENUE:

This program generates dedicated revenue.

	Dollars in Thousands				
	F.Y. 1991	F.Y. 1992	F.Y. 1993	F.Y. 1994	F.Y. 1995
Type of Revenue:					
Non-dedicated - Gen'l					
Dedicated - Special	12,802	11,554	11,856	11,856	11,856
Dedicated - Federal					

1994-95 Biennial Budget

PROGRAM: State Road Construction
AGENCY: Transportation, Department of

PROGRAM PURPOSE:

The state road construction program mission is to manage investments that preserve and improve the 12,100 mile state trunk highway (TH) system through 5 budget activities:

State Road Construction

Road and Bridge Construction: Contract expenditures to preserve and improve state highways.

Right of Way Acquisition: Payments for property necessary for state highway construction.

Safety Improvements: Contract expenditures for roadway safety and signal improvements.

Construction Related Expenses: Payments for the relocation of public utilities and cooperative work with local governments and railroad companies.

Rail Crossing Safety: Payments for rail crossing improvements and signals on any public highway.

Highway Debt Service

Repayment of trunk highway debt, which includes principal and interest on state bonds, principal on loans and advances from other government entities, and service fees.

Highway Program Administration

Payment of salaries and associated expenses for highway and regional planning, program development, and bicycle planning and coordination. This includes grants to Regional Development Commissions (RDC) and Metropolitan Planning Organizations (MPO) for transportation planning.

Transportation Data Analysis

Payment of salaries and associated expenses for transportation data collection and analysis for use in making informed transportation decisions.

Research and Strategic Initiatives

Payment of salaries and associated expenses for management of transportation research, new initiatives, and long-range, strategic initiatives.

The state road construction program contributes to the following Minnesota Milestones goals: "Rural areas, small cities, and urban neighborhoods throughout the state will be economically viable places for people to live and work"; "Our communities will be safe, friendly, and caring"; "Government in Minnesota will be more cost-efficient, and services will be designed to meet the needs of the people who use them"; and "We will improve the quality of the air, water, and earth."

PROSPECTS:

State Trunk Highway Fund

State road construction needs identified by the Transportation Study Board (\$1.1 billion/year) greatly exceed trunk highway fund revenue estimates. Operating costs of the state trunk highway system are gradually increasing while revenues from user fees remain constant. A modest increase in agency operating costs, a reduced estimate of available federal funds and an emphasis on state road operations results in a state road construction program reduction of \$81.4 million each year from the F.Y. 1993 appropriation level.

Given a funding scenario of no state transportation funding increase in the next biennium and through the end of the decade, the state's transportation system would deteriorate at a rate significantly faster than the state would be able to repair and rebuild.

For the F.Y. 1994-95 biennium, \$65 million per year in state highway construction projects would be deferred. The rebuilding cycle for state highways would increase from the current 105 years to approximately 125 years. While the effectiveness indicators would not drop over 1994-95 in all cases, they would go down in the long-term. In fact, reductions in the next biennium would make large increases in state road construction investments necessary in future bienniums. Thus, spending "cuts" are actually spending "delays." The potential would exist for increased road weight restrictions and other system constraints.

Federal Aid for Highways, Bridges, and Transportation

The federal Intermodal Surface Transportation Efficiency Act (ISTEA) of 1991 restructured the federal transportation program and established funding targets for 6 years, through F.Y. 1997.

The restructuring allows more flexibility for state and local transportation investments. Project eligibility is also broadened to include transit capital, enhancements, and operational improvements, in addition to traditional highway capital and preservation projects. Annual appropriation from Congress, however, may not reach the authorized transportation funding targets.

Planning

Transportation planning is emphasized by state statute (M.S. 174.03) and federal law (ISTEA). Statewide, intermodal, strategic, business, regional and metropolitan planning are necessary to provide an analytical basis to operate, manage, and invest in the state's transportation systems. ISTEA creates an opportunity to develop a new process for identification of transportation needs and calls for more active involvement of stakeholders than in the past.

OUTCOMES AND OBJECTIVES:

The state road construction program helps to achieve these Minnesota Milestones goals through the following outcomes and objectives:

1. Outcome: **Fiscal Stewardship**—A state highway system that utilizes and extends the value of transportation investments.

Objective: Manage service level to ensure efficient public benefit.

1994-95 Biennial Budget

PROGRAM: State Road Construction
AGENCY: Transportation, Department of
(Continuation)

Effectiveness Indicators	<u>F.Y. 1992</u>	<u>F.Y. 1993</u>	<u>F.Y. 1994</u>	<u>F.Y. 1995</u>
■ Percent of wholesale and retail sales in significant centers served by market artery routes	87	87	87	87
■ Percent of 5-axle truck travel on market artery routes	74	74	75	75
■ Percent of highway system with good or excellent sufficiency rating	70	70	69	69

Objective: Maintain state highways to meet as many federal and state design standards as possible.

Effectiveness Indicators	<u>F.Y. 1992</u>	<u>F.Y. 1993</u>	<u>F.Y. 1994</u>	<u>F.Y. 1995</u>
■ Percent of trunk highways meeting minimum lane width standards	91.6	91.8	91.8	91.8
■ Percent of trunk highway miles meeting minimum shoulder width standards	81	80	80	79
■ Percent of trunk highway bridges sufficient in load capacity, vertical and horizontal clearance	97	97	96	96

2. Outcome: **Accessibility** - Provide a broad based system of state aided highways.

Objective: Provide state aided public highway accessibility to all areas of the state.

Effectiveness Indicators	<u>F.Y. 1992</u>	<u>F.Y. 1993</u>	<u>F.Y. 1994</u>	<u>F.Y. 1995</u>
■ Percent of population within 10 minutes or 5 miles of state aided public highways	99	99	99	99
■ Percent of state area within 10 minutes or 5 miles of state aided public highways	95	95	95	95
■ Percent of state area within 2 miles of a paved road.	96	96	96	96

3. Outcome: **Safety**—A safe highway system for all users.

Objective: Maintain the state's low accident rate.

Effectiveness Indicators	<u>F.Y. 1992</u>	<u>F.Y. 1993</u>	<u>F.Y. 1994</u>	<u>F.Y. 1995</u>
Total accident rates per million vehicle miles				
■ State roadways	1.7	1.7	1.7	1.6
■ State aided roadways	3.7	3.7	3.7	3.6
■ Other roadways	4.2	3.9	3.7	3.7
Fatal accident rates per 100 million vehicle miles				
■ State roadways	1.0	1.0	0.9	0.9
■ State aided roadways	1.7	1.7	1.6	1.6
■ Other roadways	1.4	1.3	1.3	1.3

Objective: Improve work zone safety.

Effectiveness Indicators	<u>F.Y. 1992</u>	<u>F.Y. 1993</u>	<u>F.Y. 1994</u>	<u>F.Y. 1995</u>
■ Number of motor vehicle accidents occurring in trunk highway work zones	1,600	1,696	1,798	1,906

4. Outcome: **Economic Development**—A preserved or improved standard of living for Minnesota citizens through reliable and predictable transportation systems and services and a reduced total cost of transportation.

Objective: Reduce travel time for travelers

Effectiveness Indicators	<u>F.Y. 1992</u>	<u>F.Y. 1993</u>	<u>F.Y. 1994</u>	<u>F.Y. 1995</u>
■ Miles of major or severe congestion on Twin Cities freeways	117	120.5	124.1	127.8
■ Percent of major or severe congestion on Twin Cities freeways	33	34	35	36
■ Percent of drivers satisfied with travel times	89	89	88	87
■ Investment life cycle of the road—given the current level of investment, when roads will be rebuilt (in years)	105	105	125	125

Objective: Reduce barriers, such as weight restriction, bottlenecks, and system disruption.

1994-95 Biennial Budget

PROGRAM: State Road Construction
AGENCY: Transportation, Department of
 (Continuation)

Effectiveness Indicators	<u>F.Y. 1992</u>	<u>F.Y. 1993</u>	<u>F.Y. 1994</u>	<u>F.Y. 1995</u>
■ Average duration of incidents on Twin Cities freeways monitored by closed-circuit television (minutes)	38	39.9	41.9	44

Objective: Provide transportation to meet mobility needs.

Effectiveness Indicators	<u>F.Y. 1992</u>	<u>F.Y. 1993</u>	<u>F.Y. 1994</u>	<u>F.Y. 1995</u>
	<u>people/ vehicles</u>	<u>people/ vehicles</u>	<u>people/ vehicles</u>	<u>people/ vehicles</u>
■ Usage rates of high occupancy vehicle (HOV) lanes on Interstate 394:				
HOV lane	2300/820	3350/1100	4000/1300	4600/1600
Regular lanes (2)	4600/4300	4800/4300	4800/4400	4800/4400

5. Outcome: **Environmental Stewardship**--An environment that is preserved and enhanced through proactive programs.

Objective: Avoid or mitigate highway-related impacts to air quality, water quality, wetlands, noise-sensitive areas, and endangered species.

Effectiveness Indicators	<u>F.Y. 1992</u>	<u>F.Y. 1993</u>	<u>F.Y. 1994</u>	<u>F.Y. 1995</u>
■ Number of areas not in conformance with national ambient air quality standards	3	2	1	0
■ Positive balance in state wetlands bank (acres)	479	478	487	*1,130

* The geographical characteristics of the of the Parnell Impoundment project make it very inexpensive to create a large number of wetland acres for banking in 1995.

Objectives: Encourage activities that preserve or enhance scenic, historical, recreational or archeological resources along highway corridors.

Effectiveness Indicators	<u>F.Y. 1992</u>	<u>F.Y. 1993</u>	<u>F.Y. 1994</u>	<u>F.Y. 1995</u>
■ Number and miles of wildflower routes:				
Routes	6	8	10	12
Miles	250	336	420	504
■ Scenic byways	n/a	n/a	n/a	n/a

Objective: Encourage activities that support energy conservation.

Effectiveness Indicators	<u>F.Y. 1992</u>	<u>F.Y. 1993</u>	<u>F.Y. 1994</u>	<u>F.Y. 1995</u>
Material containing recycled bituminous used in TH road construction				
■ Tons	875,000	950,000	1,050,000	1,125,000
■ Percent	18	20	22	25

Material containing recycled concrete used in TH road construction				
■ Tons	290,000	300,000	310,000	320,000
■ Percent	20	23	27	30
■ Miles of trunk highway rated "good" or "excellent" for bicycle travel	6,096	6,176	6,256	6,336

6. Outcome: Trunk highway bond debt retired.

Objective: Limit future debt commitment against the TH fund to less than 25 percent of estimated available capital funds.

Effectiveness Indicators	<u>Dollars in Thousands</u>			
	<u>F.Y. 1992</u>	<u>F.Y. 1993</u>	<u>F.Y. 1994</u>	<u>F.Y. 1995</u>
■ Percent of capital funds available for additional debt retirement up to 25 percent limit	14.3	3.1	6.5	12.7

7. Outcome: A long-range oriented (strategic) management culture.

Objective: Clearly link department resource decisions to specific measurable results.

Effectiveness Indicators	<u>F.Y. 1992</u>	<u>F.Y. 1993</u>	<u>F.Y. 1994</u>	<u>F.Y. 1995</u>
■ Business plans with fully developed measurement systems	0	3	6	9

8. Outcome: Accurate information available for use in decision making and evaluation.

Objective: Satisfy needs for transportation information.

Effectiveness Indicators	<u>Dollars in Thousands</u>			
	<u>F.Y. 1992</u>	<u>F.Y. 1993</u>	<u>F.Y. 1994</u>	<u>F.Y. 1995</u>
■ Percent of identified needs incorporated in information systems	n/a	n/a	50	75

1994-95 Biennial Budget

PROGRAM: State Road Construction
AGENCY: Transportation, Department of
(Continuation)

n/a = data not available

PROGRAM PLAN:

State road construction program funding is divided among budget activities as follows:

Biennial Funding	Dollars in Thousands			
	F.Y. 1992	F.Y. 1993	F.Y. 1994	F.Y. 1995
State Road Construction	\$373,298	\$385,200	\$335,000	\$335,000
Highway Debt Service	14,620	48,292	14,380	17,186
Highway Program Administration	3,365	3,106	3,252	3,252
Transportation Data Analysis	3,316	3,764	3,777	3,777
Research & Strategic Initiatives	1,046	7,575	13,588	13,588

Federal revenues have been reduced from original estimates, but may increase due to emerging federal emphasis on infrastructure.

Debt service is reduced after payments of federal aid to Minneapolis for parking garages. Payments to Bloomington for advancing highway construction continue in F.Y. 1994-95 in addition to other scheduled bond payments.

Metropolitan Planning organizations in Greater Minnesota will share state grants (up to \$180,000 per year) to supplement their budget for transportation planning and coordination. Nine Regional Development Commissions will be eligible for transportation planning grants of \$27,000 annually.

Bicycle program coordination is enhanced through \$25,000/year trunk highway support.

The research and strategic initiatives budget activity will be provided with \$62,000 more each year for printing costs associated with more finished research and the distribution of conclusions. Research and strategic initiatives will also obtain \$500,000 more each year for increased staffing and \$500,000 more each year for the Intelligent Vehicle-Highway Systems (IVHS)/Guidestar program.

The recent federal Intermodal Surface Transportation Efficiency Act (ISTEA) includes requirements that call for increased levels of intermodal information. Meeting expanded information needs with existing staff levels may require a reduction in traditional information products.

THE CORE MEMBERSHIP

AREND J. SANDBULTE
COMMISSION CHAIR
Chairman, President and CEO
Minnesota Power
Duluth

MARCIA F. APPEL
Executive Director
Association of Area
Business Publications
Lakeville

JANE BELAU
President
Belau Consulting Group
Rochester

SHARON SAYLES BELTON
Minneapolis City Council
President
Minneapolis

JOHN E. BRANDL
Professor
University of Minnesota
Minneapolis

GARY DENAULT
Executive Director
Middle Management Association
St. Paul

JACK W. EUGSTER
CEO, The Musicland Group
Minneapolis

GERALDINE A. EVANS
Chancellor
Community College System
St. Paul

JEAN L. HARRIS
Senior Associate Director
Medical Affairs
U of M Hospital & Clinic
Minneapolis

BECK HORTON
President
Juno Enterprises, Inc.
Minneapolis

ARLENE J. LESEWSKI
Regional Director
Independent Business Association
of Minnesota
Marshall

ERNEST A. LINDSTROM
Attorney at Law
Lindstrom Law Offices
Minneapolis

LEE LUEBBE
Former Chair
Winona County Board
of Commissioners
Winona

H. WILLIAM LURTON
Chairman and CEO
Jostens, Inc.
Minneapolis

DORRAINE (DORRIE) MUND
Associate Attorney at Law
Hall, Byers, Hanson, Steil &
Weinberger
St. Cloud

ROBIN PANLENER
President
Minnesota Association of
Professional Employees
St. Paul

KATHERINE (KATI) SASSEVILLE
General Counsel
Otter Tail Power Co.
Fergus Falls

GLEN TAYLOR
Chairman and CEO
Taylor Corp.
North Mankato

ERMA J. VIZENOR
Ph.D. Student
Harvard University
Ponsford

STEPHEN E. WATSON
President
Dayton-Hudson Corp.
Minneapolis

CONNIE G. WEINMAN
Vice President
National City Bank
Minneapolis

C. ANGUS WURTELE
Chairman and CEO
The Valspar Corp.
Minneapolis