ANNUAL PERFORMANCE REPORT

1994

MINNESOTA DEPARTMENT OF FINANCE

Prepared: September 15, 1994

Questions, comments should be directed to:
Name: Gordon Yurich
Title: Administrative Services Director
Address: Minnesota Department of Finance
658 Cedar Street
St. Paul, MN 55155
Phone: (612) 296-9473
TTY/TDD: Minnesota Relay Service (612) 296-5353 or (800) 627-3529.
Ask for (612) 296-9473

Upon request, this document will be made available in an alternative format, such as Braille, large print or audiotape.

CONTENTS/INDEX
Department of Finance

MISSION:

The mission of the Department of Finance is to facilitate continuous improvement in the performance of state government for the people of Minnesota through the provision of information, analysis and financial management services designed to: assure the integrity of the state's finances; monitor and report performance of state activities; communicate priorities; coordinate and facilitate policy development and implementation from a "whole state" perspective; improve accountability and promote the prudent management of state resources. The department serves the executive branch and, through the governor, the other branches and governing units of the state.

GOALS:

- **To set state policy and to advise state agencies on all matters of financial policy** (M.S. 16A.06, Subd. 7).
- **To collect, deposit and ensure the maximum return on investment of state funds** ((M.S. 16A.27, Subd. 1).
- **To manage a uniform accounting system for state government that meets generally accepted government accounting principles** (M.S.16A.055, Subd. 2; 16A.06, Subd. 7; 16A.124, Subd. 2; 16A.15, Subd. 2).
- **To accurately report the use of state funds** (M.S. 16A.06, Subd. 2; 16A.06, Subd. 6; 16A.50)
- **To provide effective consulting services for budget and program assessments to the governor, legislature and agencies** (M.S. 16A.06).
- **To evaluate the state's financial condition by preparing accurate forecasts and useful comparative financial reports on revenues and spending** (M.S. 16A.06)
- **To provide effective consulting services on financial management to the governor, legislature and agencies** (M.S. 16A.06).
- **To integrate performance reporting and budgeting into state budget development and implementation** (M.S. 16A.06).
- **To provide a credible, professional forecast of state revenues which serves as a starting point for appropriation process** (M.S. 16A.06, Subd. 5)
- **To manage the general obligation debt of the state which provides financing for authorized capital projects** (M.S. 16A.641; 16A.661; 16A.672)

Program	F.Y. 1994 Expenditures ($ in Thousands)	Percent of Total	FTE Staff Positions	Percent of Total
Accounting Services	$2,637	36%	51.3	47%
Budget Services	1,645	22%	24.7	23%
Economic Analysis	277	4%	3.0	3%
Information Services	1,486	20%	15.3	14%
Management Services	1,345	18%	14.0	13%
Total	$7,390	100%	108.5	100%
Statewide Systems Project	$10,015		37.8	

ORGANIZATION:

The department is organized into five divisions: Accounting Services, Budget Services, Economic Analysis, Information Services and Management Services.

Accounting Services provides centralized accounting services, technical assistance and financial reporting for all state agencies. The division is responsible for ensuring that the state's financial resources and transactions are accurately accounted for and adequately controlled.

The Accounting section is responsible for:

- a centralized accounting system that provides financial information on all state activities;
- developing and communicating statewide accounting policies and procedures and providing training to state agencies; and
- reviewing and monitoring accounting transactions to assure adherence to statewide procedures.

The Central Payroll section is responsible for:

- developing and communicating statewide payroll policy and procedures:
- accurate and timely payment of 40,000 state employees in the executive and judicial branches:
- deducting mandatory and voluntary amounts from the employees' pay:
- compliance with federal, state, and local tax withholding and reporting requirements: and
- technical direction, training and assistance to all state agencies in the preparation of the payroll for their employees.

The Financial Reporting section is responsible for:

- developing accurate financial reports to the governor, legislature, financial community, federal government and the public;
- providing technical direction to state agencies and department staff on generally accepted accounting principles;
- improving and coordinating the collection of accounts receivable due state agencies;
- coordinating and monitoring federal cash management; and
- forecasting and monitoring cash flow.

The **Budget Services** Division provides analytical policy development and evaluation, budgetary review, and financial oversight of state agencies. Budget Services plans and operates the biennial budget process and other systems related to financial management. The division is divided into two major activities: the Budget Analysis Unit, and the Budget Planning and Operations Unit.

The Budget Analysis Unit is responsible for:

- developing the governor's budget recommendations and providing budget information to legislators, legislative staff and the public;
- evaluating the cost effectiveness and efficiency of agency programs and activities;
- reviewing and monitoring of internal financial policies and procedures and accounting operations to ensure the proper allocation of costs; and
- reviewing proposed agency legislative initiatives for fiscal and programmatic accuracy and impact.

The Budget Planning and Operations Unit is responsible for:

- compiling and presenting revenue and expenditure estimates for the state's General Fund;
- compiling and presenting revenue estimates for all state operating funds;
- developing, communicating, implementing and monitoring of compliance with statewide budgetary and financial policies; and

- providing technical direction and assistance to state agencies in the development and preparation of the state's biennial operating and capital budgets.

Economic Analysis has responsibility for periodic forecasts of state revenues. This activity is essential to the budgetary decision making process. A key part of the division's responsibilities is to anticipate and inform the Commissioner of Finance about risks to the forecast due to changes in the national and state economy.

The **Information Services** Division provides technical support for the three major statewide financial systems managed by the department: the Biennial Budget System (BBS), the Statewide Accounting System (SWA) and the Personnel Payroll System (PPS). The division is responsible for ongoing operations, system training, documentation, and system development of these statewide systems. It also coordinates the connection of all state agencies to the systems through Intertech's Mnet system. In addition, the division manages the departmental computer resources, supports the internal local area network, and provides internal personal computer training and support.

The transition of the Statewide Systems Project (SSP) from development to long-term support will conclude during the next biennium. A restructuring of the Information Services Division is underway to facilitate this long-term support effort. During this restructuring the department will determine how the Information Services Division will be incorporated into the department's Annual Performance Report. At this time, however, it is excluded from the Annual Performance Report.

The **Management Services** Division consists of the Commissioner's Office, Cash and Debt Management and Administrative Services. The commissioner provides financial leadership for state government and is the chief financial advisor to the governor. Cash and Debt Management establishes banking services for state agencies, manages the state's debt to provide financing for capital projects and capital equipment, and administers the state's tax exempt bonding allocation law. Administrative Services includes the department's internal budgeting and accounting, personnel, legislative liaison, office management, purchasing and clerical support. Administrative Services is a support function and, like the Commissioner's Office, its performance is reflected in the overall success of the department's major programs. Therefore both the Commissioner's Office and Administrative Services are not specifically included in the Annual Performance Report.

The **Statewide Systems Project** is a comprehensive effort to streamline the state's administrative systems and make its' business processes more efficient. It has involved input and work of hundreds of state employees over the past two years. The new systems will improve the way the state does business by:

- replacing Minnesota's outdated accounting, procurement and payroll systems
- creating new human resources and decision support information systems
- reengineering many of the state's business processes and procedures, including decentralizing certain controls to enable agencies to better manage their unique business processes.

Because the SSP is a temporary effort it has been excluded from the department's Annual Performance Report. If successful, this effort will result in long term improvements in the department's performance.

WAYS TO IMPROVE PROGRAM OUTCOMES:

The department has sponsored several initiatives to make improvements in state's financial management. These include: the Statewide Systems Project, the Accounts Receivable Restructuring Project, Capital Budget Reform, and Performance Reporting. Each of these initiatives fit our strategic plan and are designed to improve or replace current systems resulting in better management of state resources. Each also has implications for improving department performance.

Statewide Systems Project: To realize the full benefits of the state's investment in this project a proper long-term support team must be fully in place. There will be a need for functional support as well as systems support. This means that the Accounting Services and the Information Services divisions must reengineer their own business practices and reorganize to manage and maintain these systems and their use.

The Accounting Services Division must reorganize to support new functionality made possible by the SSP and the need for increased monitoring of decentralized controls. The new organization will assist agencies in the full and appropriate use of these complex systems. This will require a shift in emphasis from transaction assistance and processing to:

- coaching agencies in the appropriate use of system options rather than checking for compliance with the only accepted way to operate; and
- training and assisting agencies in the use of new system features.

Reorganization within the Information Services Division will bolster extensive customer service, programming support, network support, information access and ad hoc reporting support. Many of these functions were not present and, in some cases, were not needed with the old systems.

The department will also request statutory changes to modify some of the state's business practices. These changes will be needed to best realize the full benefit of the new systems.

The **Accounts Receivable Project** is designed to help the state better manage one facet of its revenue. It designs and implements more effective tools for billing and collecting from taxpayers and customers. Current initiatives include providing a central system for accounting for receivables, a centralized debt collection resource, improving litigation efforts, and setting performance goals for each agency. All receivables are being identified centrally with the goal of resolution through collection or write-off. Statewide billing and early collection practices are being improved to avoid seriously delinquent accounts receivable. The project's efforts result in improved collections which more than offset its costs.

To fully realize the improvement possible, legislative changes are needed. The department is collaborating with the Department of Revenue and the Attorney General's Office in proposing legislation to enhance the tools available for collection of debt and for funding of the statewide collections organization through a charge to the debtor.

The 1994 Legislature considered a **F.Y. 1994-99 Strategic Capital Budget Plan** based on the principles of capital budget reform. The focus now shifts to further enhancing the process in preparation for the F.Y. 1996-2001 Strategic Capital Budget Plan to be dealt with by the 1996 Legislature. Joint efforts are underway in the departments of Finance and Administration to strengthen the process in the following key areas:

- improving the strategic scoring system;
- developing guidelines to apply to the pre-design stage of building projects;
- improving the management of existing physical assets and
- improving the linkage between the operating budget and capital budget

The strategic capital budget process will be most effective if legislative committees continue incorporating the professional analysis and multi year framework into their decisions.

This year the department refocused both the biennial budget and the **performance reporting** process to better define and measure the relationship of state spending and outcomes. Accordingly, it is necessary to make performance information more accessible on a continuing basis. Therefore, the department is currently developing the Performance and Outcomes Reporting and Monitoring System (PERFORMS) to increase legislative and public access to agency performance data on a regular basis.

Performance budgeting and reporting will only succeed in the long term if the general management approach taken by the executive and legislative branches focuses on managing for results. The process is in place to make better performance information available to the legislature. The legislative committees will need to focus on performance information and require agencies to respond appropriately or full implementation of performance management faces a significant barrier.

SUMMARY

EXPENDITURES AND STAFFING (F.Y. 1994)

	($ in Thousands)
Total Expenditures:	$2,637
From State Funds	$2,637
Number of FTE Staff:	51.3

PROGRAM GOALS:

Goal 1: **To set state policy and to advise state agencies on all matters of financial policy** (M.S. 16A.06, Subd. 7)
Goal 2: **To collect, deposit and help ensure the maximum prudent return on investment of state funds** (M.S. 16A.27, Subd. 1)
Goal 3: **To manage a uniform accounting and payroll system for state government that meets generally accepted government accounting principles** (M.S. 16A.055, Subd. 2; 16A.06, Subd. 7; 16A.124, Subd. 2; 16A.15, Subd. 2)
Goal 4: **To accurately report the use of state funds** (M.S. 16A.06, Subd. 2; 16A.06, Subd. 6; 16A.50)

DESCRIPTION OF SERVICES:

The accounting services division provides the following services to the governor, legislature, agencies and the general public.

- **Accounting services** by providing a central accounting system as well as coordinating and controlling it's use by agencies. The central accounting system serves as the source of financial information for all state activities. These services include development and communication of accounting policies and procedures for use of the system, identification and proper recording of all legislative appropriations and appropriation transfers in the accounting system. Information related to all state property, including land, buildings and equipment is maintained.

- **Payroll services** by coordinating and controlling payroll operations and assisting state agencies in the issuance of payroll warrants for all employees in the executive branch of state government, and for supreme court justices, and district court judges in the judicial branch. These services include assuring that the payroll is processed according to federal, state, and local laws and union contracts, and operating the U.S. Savings Bond and direct deposit programs.

- **Financial reporting services** through preparation of the state's audited annual financial report, in accordance with generally accepted accounting principles. The report presents the state's financial position and results of operations for all state activities. This service includes developing and communicating policies for the department and other state agencies so that the financial statements receive an unqualified audit opinion. Interpreting and educating agencies in new accounting principles is a part of this effort.

- Forecasting and monitoring **cash flow** for the state.
- Preparing the required federal reports for **single audit** and **cash management**. This includes coordinating and monitoring the federal cash management and single audit requirements for the state.
- Coordinating improvements in the management and collections of **accounts receivable** through management of the accounts receivable project.

BACKGROUND INFORMATION:

MEASURES OF ACTIVITIES (A), WORKLOAD (W), UNIT COSTS (UC), OTHER DATA (O)

Type	Measure	F.Y. 1993	F.Y. 1994
W	Number of warrants issued through SWA	1,338,394	1,308,020
W	Number of payroll warrants issued	738,955	673,705
W	Number of direct deposit advices	363,298	455,572
O	Number of vendors in the vendor file	169,166	171,780
A	Number of changes to the vendor file	157,503	193,153
A	Number of transmissions SWA	9,115,244	9,321,049
A	Number of transmissions PPS	1,710,198	1,753,303
A	Number of appropriation accounts	3,565	3,903

PROGRAM DRIVERS:

A major program driver is the implementation of the Statewide Systems Project. This will result in totally replacing the SWA and PPS systems. The new systems will dramatically change not only the way the accounting and payroll processes will be done in the state but will significantly increase the amount of information that will be available to both operations staff and decision makers. These new systems will also affect the comfort and useability of the systems and the general satisfaction with these processes. The department expects that the process of incorporating these systems into the day to day operations of state government will take time, however, dramatic improvements will occur. While we expect savings throughout state government, there will be offsetting costs in operating these systems resulting in a net increase in Department of Finance costs.

A second program driver is the merger of the higher education systems. This will result in the Technical College employees and financial activity being included in the state systems. Accordingly, this change will significantly increase both the number of users and the activity on the systems. These new users will require additional assistance by the Department of Finance to accommodate their initial entry to the systems and for ongoing support.

OBJECTIVE #1

To achieve a statewide 97% prompt payment target by increasing the number of agencies paying 97% of their bills within 30 days by Calendar Year 1997

Measure (1): The percent of bills paid within 30 days

	Calendar Year 1992	Calendar Year 1993	Calendar Year 1994	Calendar Year 1995	Calendar Year 1996	Calendar Year 1997
Targets	98%	98%	98%	97%	97%	97%
Actual Performance	97.9%	97.8%				

Measure (2): The number of agencies not meeting the prompt payment target

Targets	N/A	N/A	25*	20	22	10
Actual Performance	32*	31*				

* Based on 98% target

DEFINITION, RATIONALE, DATA SOURCE:

Minnesota Statutes Section 16A.124 requires state agencies to pay valid obligations to vendors within the vendor's early payment discount period, or in the absence of a stated period, within 30 days following the receipt of the invoice for the completed delivery of the product or service. The Commissioner of Finance is responsible for monitoring state agencies to insure the prompt payment of vendor obligations. Annually, the commissioner is required to report to the legislature the state's payment record for the preceding year.

This objective and the measures relate to program **Goals 1 and 3**. It directly reflects the Accounting Services division's efforts to help agencies to use the process effectively. It also is a reflection of the overall efficiency of the accounting system payment process. Therefore, both the statewide percentage of bills paid and the number of agencies that are not complying with the statewide targets are appropriate measures of both the efficiency of the system and the effectiveness of our efforts.

The decrease in the target beginning with C.Y. 1995 reflects the implementation of the new accounting system, its complexity and the diversion of resources necessary to support it.

DISCUSSION OF PAST PERFORMANCE:

In 1993, 97.8% of payments were made within 30 days, after adjustments for items paid because they were contested or subject to audit prior to payment. This compares with 97.9 % for 1992 and 97.6 % for 1991. In addition, 18 of the 31 agencies that did not meet the 98% target in 1993 were small agencies (less than 1,000 payments per year).

PLAN TO ACHIEVE TARGETS:

Each month, the Department of Finance will contact agencies not achieving the statewide target and suggest ways to improve their performance. Agencies who repeatedly fail to meet the target will be given follow-up attention with contacts by

Department of Finance staff to offer limited assistance.

OTHER FACTORS AFFECTING PERFORMANCE

The new Statewide Accounting System may initially decrease the agencies' prompt payment percentage in that employees may have difficulty adjusting to the new system. With the efforts to implement the new accounting system, Department of Finance staff will have less time to devote to prompt payment assistance. Also the incorporation of the technical colleges and lack of familiarity with the state system initially may further decrease the prompt payment percentage. For these reasons the targets for Calendar Years 1995 through 1998 have been set at 97%.

OBJECTIVE #2

To achieve a 4.0 rating (out of a possible 5.0) on an annual survey of state agencies on the accuracy and timeliness of regularly scheduled and ad hoc accounting and payroll system reports by F.Y. 1997

Measure (1): The ratings on the accounting, payroll and ad hoc reporting sections of the annual agency survey

	F.Y. 1992	F.Y. 1993	F.Y. 1994	F.Y. 1995	F.Y. 1996	F.Y. 1997
Targets	N/A	N/A	N/A	3.0	3.0	4.0
Actual Performance						
Accounting Reports	N/A	N/A	N/A			
Payroll Reports	N/A	N/A	N/A			
Ad hoc Reports	N/A	N/A	N/A			

DEFINITION, RATIONALE, DATA SOURCE:

The accounting and payroll systems must meet agency management, accounting staff and legislative staff needs (**Goal 3**). The accounting and payroll systems must contain the data necessary to produce standard and ad hoc reports that are accurate and timely. The annual survey completed by agencies and the legislative staff will be used to measure the accuracy and timeliness of the reports as well as calling attention to any problem areas. The next survey will be conducted in January 1995.

DISCUSSION OF PAST PERFORMANCE:

The results of past performance surveys only dealt with services provided by staff and not agency satisfaction with the accounting and payroll systems. We did not survey agencies in 1994 because the current payroll and accounting systems will be replaced effective July 1, 1995. The survey dated June 1993, showed the percent of respondents indicating they were either satisfied or very satisfied with the services provided to meet their payroll and accounting needs were 85% for payroll and 71% for accounting.

PLAN TO ACHIEVE TARGETS:

By adhering to the annual finance schedules for the future, we will achieve timeliness on our reports. Accuracy is an ongoing objective. The accounting and payroll work groups established for the Statewide Systems Project will continue to function so that agency input will be received on an ongoing basis and the system can be revised to meet agency needs. Because of the change to the new Statewide Accounting, Procurement, and Payroll systems we expect there will be some confusion and frustration of employees. As these employees become more familiar with the system, we expect the confusion and frustration to decrease. Training of agency and legislative staffs who will need to obtain information from our new reporting system will be done on an ongoing basis. Also, Department of Finance staff will be available to answer any questions on the system. Access to information will be available from the new Accounting, Procurement, and Payroll systems beginning in August of 1995.

OTHER FACTORS AFFECTING PERFORMANCE:

In order to use the new reporting systems, a degree of skill with computers will be needed. In addition to the new Accounting system that begins on July 1, 1995, some of the other major changes occurring that may cause difficulty will be the new Payroll system beginning July 1, 1995 and the new Procurement system also beginning July 1, 1995.

OBJECTIVE #3

To improve financial ratios reflecting better statewide receivable management and collection practices

Measure (1): The percentage of total outstanding accounts receivable which will eventually be collected rather than being written off

	F.Y. 1992	F.Y. 1993	F.Y. 1994	F.Y. 1995	F.Y. 1996	F.Y. 1997
Targets	N/A	N/A	N/A	58%	61%	63%
Actual Performance	N/A	N/A	52%			

Measure (2): The percentage of total outstanding accounts receivable that are past due

	F.Y. 1992	F.Y. 1993	F.Y. 1994	F.Y. 1995	F.Y. 1996	F.Y. 1997
Targets	N/A	N/A	N/A	81%	71%	69%
Actual Performance	N/A	N/A	91%			

Measure (3): The percentage of total outstanding accounts receivable that are past due more than 90 days

	F.Y. 1992	F.Y. 1993	F.Y. 1994	F.Y. 1995	F.Y. 1996	F.Y. 1997
Targets	N/A	N/A	N/A	73%	63%	61%
Actual Performance	N/A	N/A	83%			

DEFINITION, RATIONALE, DATA SOURCE:

Goal 2 relates to the statutory requirement that the department supervise and report on state debt collection activities. The department does this in several ways. Finance staff helps to coordinate collection efforts of the Attorney General's Office, state agencies, private collection agencies, and the state operated collection enterprise. Staff maintains statewide receivable management guidelines and answer various day to day questions and advise agencies on the best practices to be used in managing their outstanding accounts receivable. On a quarterly basis, Finance summarizes receivable information reported by state agencies, calculates performance measures, and reviews for areas of improvement. Staff members coach and assist individual state agencies in developing plans to improve their practices and maximize their collections.

The department measures its performance through trend analysis of receivable financial ratios. On a quarterly basis, agencies submit receivable reports and the department calculates standard ratios such as average days to collection, past due percentage, write-off percentage, etc. Improvement in these ratios indicates that a higher percentage of billings are being collected, and collected in a more timely fashion. These ratios will show significant improvement during F.Y. 1995-96 as the department encourages agencies to resolve outstanding balances and exert greater collection efforts in the early stages of delinquency. The department's efforts through the accounts receivable project will result in F.Y. 1995 collections of over $20 million in otherwise uncollected General Fund receivables. These efforts produce three results. First, old outstanding receivables are identified and resolved through collection or write-off. Second, improved management early in the process lowers the risk of new receivables becoming seriously past due. Third, more funds are recovered, but at less cost to the state.

DISCUSSION OF PAST PERFORMANCE:

This is a new program for the department. There is no past performance.

PLAN TO ACHIEVE TARGETS:

The department is working closely with state agencies, informing them of the collection services available and encouraging the use of those services. We are also working very closely with the Attorney General's Office and the Department of Revenue to change collection statutes and improve collection tools available to all state agencies. The department has contracted with the Department of Revenue to develop and operate a state collection enterprise which can most effectively collect debts owed to state agencies.

OTHER FACTORS AFFECTING PERFORMANCE:

The department's success is highly dependent upon the cooperation and level of effort exerted by other state agencies. The department's role is to advise, oversee, and recommend management practices. Individual state agencies have independence and maintain full responsibility for their receivable management and performance. Success of the Accounts Receivable Initiative is also dependent upon the success of legislative initiatives to improve statewide collection tools and funding methods.

OBJECTIVE #4

To provide quality financial information through the state's Comprehensive Annual Financial Report (CAFR)

Measure (1): Award of the Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association

	F.Y. 1992	F.Y. 1993	F.Y. 1994	F.Y. 1995	F.Y. 1996	F.Y. 1997
Targets	Awarded	Awarded	Awarded	Awarded	Awarded	Awarded
Actual Performance	Awarded	Awarded	Awarded			

Measure (2): Conformity of the CAFR with Generally Accepted Accounting Principles (GAAP)

Targets	Acceptable	Acceptable	Acceptable	Acceptable	Acceptable	Acceptable
Actual Performance	Acceptable	Acceptable	Acceptable			

Measure (3): Readability of the CAFR

Targets	Acceptable	Acceptable	Acceptable	Acceptable	Acceptable	Acceptable
Actual Performance	Acceptable	Acceptable	Acceptable			

DEFINITION, RATIONALE, DATA SOURCE:

Goal 4 relates to the statutory requirement that the commissioner report on the financial affairs of the state. The Certificate of Achievement for Excellence in Financial Reporting is awarded by the Government Finance Officers Association (GFOA). This national award recognizes conformance with the standards for preparation of state and local government financial reports. In order to receive the award a government must publish an easily readable and efficiently organized comprehensive annual financial report whose contents conform to certificate program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements. Minnesota was one of five states to receive the certificate in F.Y. 1986. In F.Y.1993, 24 states received the certificate.

Since the GFOA evaluation criteria include both conformance with GAAP and readability, these are appropriate measures of the performance of the Financial Reporting Section within the Department of Finance.

DISCUSSION OF PAST PERFORMANCE:

The department has received the Certificate each of the past eight years. Each year the department receives a letter from the Government Finance Officers Association recommending improvements to the comprehensive Annual Financial Report. These recommendations are incorporated into the subsequent years report.

PLAN TO ACHIEVE TARGETS:

While the department has received the award each of the past years there is no guarantee that will be the case in the future. The accounting principles for government have changed and will continue to change. Some of these new accounting principles could significantly affect required financial reporting for the financial statements. In order to meet the new reporting requirements we will need to research the new pronouncements to determine the implication for the state. We will need to determine the best method for the state to use in implementing any new requirements. Education of other state agencies will also be necessary.

OTHER FACTORS AFFECTING PERFORMANCE:

Our ability to receive the award in the future is dependent upon new accounting principles adopted. Our ability to comply with the accounting principles is affected by the financial information available. We will also need the cooperation of other state agencies. Adoption of new accounting principles will be coordinated with the Legislative Auditor's Office, the affected state agencies and other entities included in the state's annual financial report.

SUMMARY

EXPENDITURES AND STAFFING (F.Y. 1994)

	($ in Thousands)
Total Expenditures:	$1,645
From State Funds	$1,645
Number of FTE Staff:	24.7

PROGRAM GOALS:

Goal 1: To provide effective consulting services for budget and program assessments to the governor, legislature and agencies. (M.S. 16A.06)

Goal 2: To evaluate the state's financial condition by preparing accurate forecasts and useful comparative financial reports on revenues and spending. (M.S. 16A.06)

Goal 3: To provide effective consulting services on financial management to the governor, legislature and agencies. (M.S. 16A.06)

Goal 4: To integrate performance reporting and budgeting into state budget development and implementation. (M.S. 16A.06)

DESCRIPTION OF SERVICES:

The purpose of Budget Services is to serve the governor, legislature and agencies through the following functions:

1. Production of the governor's biennial, supplemental and capital budgets is Budget Service's highest priority. The program implements the governor's budget and fiscal policies, ensures the accuracy of the numbers and consistency in style, produces the budget documents, and develops the legislation needed to implement the budget (M.S. 16A.10, 16A.11).

2. Provision to policy makers statewide projections of revenues and expenditures for all operating funds is the program's second priority. The program maintains a tracking system which provides the governor and legislature with the information needed to determine when a balanced budget has been established, and reports the budgetary balances that are established by legislative and executive action (M.S. 16A.15).

3. Analysis by program staff to ensure the accuracy of agency estimates of the costs of making changes to current law programs or establishing new programs (fiscal notes); identification of areas of budget growth that suggest budget problems exist; ensure that proposed policies and adopted laws incorporate sound financial management principles; and identify additional ways to resolve budget issues beyond those recommended by state agencies (M.S. 16A.055, 16A.10, 16A.126-8). Staff are expected to regularly develop budget options that lead to more effective and efficient uses of state resources.

4. Implementation of statewide budget policy by ensuring that agency spending plans conform to state law (both in the amount of the spending and in the purpose for which appropriations were made), identifies emerging budget problems as early as possible so they do not simply become deficiency budget requests, and provides advice to some agencies on certain accounting functions (M.S. 16A.14).

The program strives to ensure the integrity of all budget-related information and data produced for executive and legislative branch decision makers.

BACKGROUND INFORMATION:

MEASURES OF ACTIVITIES (A), WORKLOAD (W), UNIT COSTS (UC), OTHER DATA (O)

Type	Measure	F.Y. 1993	F.Y. 1994
O	Number of budget staff (FTEs)	31	24.7
	Percent of staff time[1] spent on:		
A	Budget development	48%	27%
A	Financial planning and reporting	11%	28%
A	Financial analysis	19%	22%
A	Budget implementation	22%	23%
W	Number of fiscal notes reviewed	787	625
W	Number of Legislative Advisory Commission items reviewed	86	39
W	Number of legislatively specified spending control points[2]	693	N/A
W	Number of agencies/ budget staff	5.5	6.3
W	Number of appropriation accounts/budget staff	115	158
W	Indirect costs recovered	$10.6 M	$9.5 M

PROGRAM DRIVERS:

The ability of Budget Services to provide effective consulting services is affected by demands and mandates from both the legislative and executive branches. Many of these demands and mandates are beneficial enhancements, from a policy as well

[1]Variation between the years is related to the biennial budget cycle.

[2]Specific amounts and purposes designated in appropriation laws that limit agencies' spending discretion. The Department of Finance must assure that agencies use these amounts in accordance with legislative intent.

as an agency management perspective. Still, to the extent that Budget Services staff must respond to these additional requirements, active involvement in providing value-added consulting services to agencies may be compromised.

Budget Services ability to correctly forecast state expenditures is also affected by factors beyond its control. The capacity of administering agencies to accurately predict program demand affects forecast accuracy. The division's forecasting is only as good as the underlying data and models supplied by the administering agencies. Secondly, general economic shocks -- brought about by national and world events, changing employment demand and other macroeconomic forces -- have varying effects upon state program demand. The impact of these events is more difficult to predict in the out-biennium forecast, but can also contribute to uncertainty in the current biennium forecast.

Finally, the successful integration of performance reporting into the budget process is affected by several factors, the foremost being the willingness of agencies, legislators and executive branch officials to use the information produced to enhance state budget allocation decisions. The proper budgetary response to either effective or ineffective performance may vary by program and priority. Legislative and agency management responses will determine the eventual success of performance reporting. Internal agency management will also greatly effect the potential benefit of using performance measurement to enhance agency internal management. If agencies submit performance reports to the legislature biennially, but fail to use the information generated to communicate their missions, objectives and goals to their own staff, or the legislative declines to use the information in a manner which encourages its continued development, a sizable potential benefit will be lost.

OBJECTIVE #1

To increase agencies' satisfaction with the quality of services provided to them by Budget Services

Measure (1): The average weighted score assigned by survey participants from selected agencies

	F.Y. 1992-93	F.Y. 1994-95	F.Y. 1996-97
Targets	N/A	3.50	3.55
Actual Performance	3.38		

DEFINITION, RATIONALE, DATA SOURCE:

This objective will ensure that Budget Services meets its goal of providing effective consulting services for budget and program assessments to agencies **(Goal 3)**. Progress toward this goal will be measured by a survey score. The measure presented here is the average of the score assigned by each survey participant to each of the survey criteria.

A survey score was chosen as a measure because it provides the best available measure of the quality of services provided by the Budget Services Division.

The data source is a survey distributed annually by the Department of Finance. The survey tool (Appendix C) used in the past will be reevaluated and redesigned. It will be modified to specifically identify financial management, consulting and services provided to small agencies. The survey for F.Y. 1994-95 will be conducted in January 1995.

DISCUSSION OF PAST PERFORMANCE:

The June 1993 survey was developed and conducted by the Management Analysis Division of the Department of

Administration. It was the first effort by the department to survey agency satisfaction with its services. Agencies were, on the whole, reasonably satisfied with the type and quality of services provided to them. Establishment of baseline data will provide an estimate of the division's progress toward providing agencies value-added services.

PLAN TO ACHIEVE TARGETS:

Several activities are designed to help Budget Services improve the quality of its consulting services. Budget Services will continue to shift staff time toward value-added consulting activities by reducing the amount of unnecessary oversight and control over individual agency activities, while insuring the presence of effective internal agency controls. Budget Services will continue to improve its official budget documents for clarity and comprehensiveness, and will work to increase ease of access to budget information. The division will respond appropriately to survey findings that require different or additional effort.

OTHER FACTORS AFFECTING PERFORMANCE:

Budget Services is responsible for the quality of the budget process. The survey used to measure agency satisfaction with the budget process is designed to measure satisfaction objectively. Agencies survey responses in the wake of a legislative session may, however, be affected by the actual budget decisions made by the Department of Finance.

OBJECTIVE #2

To maintain and continually improve the quality of budget processes and budget information provided to the governor and legislature

Measure (1): Minnesota's ranking in Financial World's annual *The State of the States*

	F.Y. 1992	F.Y. 1993	F.Y. 1994-5	F.Y. 1996-7
Targets	N/A	N/A	Top 5	Top 5
Actual Performance	9th	3rd		

DEFINITION, RATIONALE, DATA SOURCE:

This objective will help Budget Services to meet its goal of providing effective consulting services on program and budget assessment to the governor and legislature **(Goal 1)**. Budget Services will use Minnesota's ranking in Financial World to measure its effectiveness in meeting the goal.

Financial World magazine had ranked states according to the soundness of their budgeting and financial management practices each year. Beginning in 1995, the ranking will be published every two years. The criteria used to rank states are:

- Accounting and Financial Reporting
- Revenue Estimation
- Expenditure Estimation
- Rainy Day and Contingency Funds
- Program Evaluation and Performance Measurement
- Pensions

- Revenue Expenditure Balance
- Other Budgeting Issues
- Bond Ratings
- Infrastructure Controls

Budgeting Services contributes to Minnesota's ranking by providing the governor and legislature with services and information pertaining to each of the above criteria. While not solely a measure of Budgeting Services' performance, Minnesota's ranking in Financial World does reflect the quality of budgeting and financial management policy that Budgeting Services, and the entire Department of Finance, sets or influences. Financial World's analysis identifies and comments on particular strengths and weaknesses for the various criteria.

DISCUSSION OF PAST PERFORMANCE:

Since 1991, Financial World has ranked Minnesota's financial management in the top ten of all states. The following is a list of recent policy and procedural innovations that have contributed to Minnesota's ranking, followed by a list of division awards and recognition.

Innovations

1992
- Budget instructions focused greater attention on longer term for financial planning
- Fiscal note system was made more user friendly by improving system screen design and updating the text editor used to enter narrative data.

1993
- Statutory targets set for following biennium spending in human services, education aids, and higher education.
- Process started for preparing draft performance reports with select agencies. Draft performance report plans submitted by 18 agencies.
- Capital budget process improved with more systematic, objective project analysis through application of uniform scoring criteria.
- New and expanded Departmental Earnings Report instituted.

1994
- Cooperatively worked with Legislative Auditor to modify, focus, and expand performance reporting process.
- First six year strategic Capital Budget plan introduced and received by the legislature.

Awards and Recognition

1994
- National Association of State Budget Officers (NASBO) award for improved capital budgeting process.
- Government Finance Officers Association (GFOA) award for implementation of a performance measurement and reporting system.

PLAN TO ACHIEVE TARGETS:

In F.Y. 1995-96, Budget Services plans to :

- Incorporate into various budget documents and presentations more information on total state and local spending as it relates to Minnesota personal income.
- Develop alternative approaches for cooperative legislative and executive branch long-range financial planning that

recognize and balance demographic realities, principles of sound stable financial management, and effective and efficient policies for serving Minnesota citizens.
- Expand state forecasts to include total state operating funds' revenues and expenditures as well as projected total state and local revenues.

OTHER FACTORS AFFECTING PERFORMANCE:

Minnesota's national ranking in Financial World is a result not only of its own performance -- its might also be affected by other states' improvements. Similarly, Minnesota's ranking is not solely the result of Budget Services' performance. Decisions made by other policy makers and executive branch administrators may affect Minnesota's ranking.

OBJECTIVE#3

To accurately forecast state expenditures and revenues so that actual amounts vary no more or less than 2% from forecasted amounts

Measure (1): Total variance of actual vs. forecasted expenditures for various revenue and spending items

	F.Y. 1992-93	F.Y. 1994-95	F.Y. 1996-97
Forecast Items (General Fund)			
Education Aids	0.2%		
Post-Secondary Education	- 2.3%		
Property Tax Aids and Credits	- 0.8%		
Health Care	1.9%		
Family Support	- 4.0%		
Debt Service	- 8.8%		
All Other Spending	1.7%		
Departmental Earnings and Miscellaneous Non-dedicated Revenues	N/A		
Targets (TOTAL)	N/A	< ± 2.0%	< ± 2.0%
Actual Performance (TOTAL)	- 0.1%		

DEFINITION, RATIONALE, DATA SOURCE:

This objective was chosen to insure that Budget Services meets its goal of evaluating the state's financial condition by preparing accurate forecasts and useful comparative financial reports on revenues and spending **(Goal 2)**. Progress toward this goal will be measured by the forecast variance for various revenue and expenditure items where the department has primary forecast responsibilities.

Comparison of actual to forecasted amounts is the best measure of forecast accuracy. In the past, the state forecasts were limited to General Fund items. Beginning in the November 1994 forecast, information will include all state operating revenues and expenditures. This item included in the performance measure will be appropriately expanded in future reports.

Comparison of actual to forecast data is calculated from the fund balance forecast prepared by the Department of Finance at the end of each legislative session. Actual revenue and expenditure data is available from the Department of Finance closing statements for each fiscal year. The variance of forecasted expenditure from actual expenditures is presented as a biennial average.

DISCUSSION OF PAST PERFORMANCE:

Past performance in total has been within the target variance of 2%. Because of recent changes in categories and definitions of departmental earnings and other non-tax revenues, comparable historical data is not available.

PLAN TO ACHIEVE TARGETS:

Budget Services will work to improve its analysis of revenue and expenditure forecasts prepared by other agencies. This information is used by the division to prepare the total state forecast. Prior to November 1994, expenditure forecasts were prepared only for the General Fund. As the division moves to all-fund expenditure forecasting, it will use the same criterion used for evaluation of General Fund expenditure forecasting. A standing Interagency Forecast Methodology Committee will concentrate on identification of risks and uncertainties in General Fund and all other operating fund forecasts.

OTHER FACTORS AFFECTING PERFORMANCE:

Two factors affecting performance are beyond the division's control. The first is the capacity of administering agencies to accurately predict program demand. The department has made recommendations to improve various agencies' forecasting capabilities. The division's forecasting is only as good as the underlying data and models supplied by the administering agencies. Secondly, general economic shocks -- brought about by national and world events, changing employment demand and other macroeconomic forces -- have varying effects upon state program demand. The impact of these events is more difficult to predict in the out-biennium forecast, but can also contribute to uncertainty in the current biennium forecast.

OBJECTIVE #3

To improve the quality of financial management in small agencies

Measure (1): The number of small agencies receiving full or partial services for various budget activities

	F.Y. 1992 Full/Partial	F.Y. 1993 Full/Partial	F.Y. 1994 Full/Partial	F.Y. 1995 Full/Partial	F.Y. 1996 Full/Partial	F.Y. 1997 Full/Partial
Actual Performance						
Budget Activity						
Fiscal Notes	N/A	N/A	N/A			
Biennial Budget Preparation	N/A	N/A	N/A			
Departmental Earnings	N/A	N/A	N/A			
Legislative Advisory Commission Process	N/A	N/A	N/A			
Annual Spending Plan	N/A	N/A	N/A			
Indirect Cost Allocation Plan	N/A	N/A	N/A			
Performance Budgeting	N/A	N/A	N/A			

DEFINITION, RATIONALE, DATA SOURCE:

This objective measures Budget Service's progress toward meeting its goal of providing effective consulting services on financial management **(Goal 3)**. This particular objective highlights Budget Service's efforts to improve financial management in small agencies. While this measure addresses only the delivery of services, the quality of the services will be assessed through the survey tool implemented for Objective #1, Measure 1.

In the last few years, Budget Services has significantly restructured the services it supplies small agencies. Because small agencies represent a relatively minor portion of the state's budget, and have different financial management capabilities than medium and large agencies., they have different needs. Budget Services has attempted to meet those needs by streamlining budget and other reporting requirements and providing more financial services. To the extent that Budget Services provides more services to small agencies, statewide financial management is enhanced.

Documented data for this measure is not currently available. The Department of Finance will implement a formal small agency support plan for F.Y. 1996. As part of this plan the department will develop agency support agreements with selected small agencies by July 1995. Data for this measure will be obtained by these support agreements.

DISCUSSION OF PAST PERFORMANCE:

The biennial budget process has been streamlined for small agencies in the preparation of the 1996-97 Biennial Budget. Small agencies have been exempted from some of the complex instructions, their narrative has been shortened and standardized, the calculations for entry in the biennial budget system simplified, and entry into BBS made in the Budget Services Division.

PLAN TO ACHIEVE TARGETS:

Budget Services will continue to streamline small agency requirements and assume responsibility for services that small agencies find difficult to provide themselves.

OTHER FACTORS AFFECTING PERFORMANCE:

The Accounting Services Division will also offer full or partial services to small agencies in carrying out their operating accounting transactions.

OBJECTIVE #5

To improve the capabilities of agencies to develop and implement their budgets

Measure (1): Agency scores on a biennial review of internal financial management capabilities

	F.Y. 1992	F.Y. 1993	F.Y. 1994	F.Y. 1995	F.Y. 1996	F.Y. 1997
Target	N/A	N/A	N/A			
Actual Performance	N/A	N/A	N/A			

DEFINITION, RATIONALE, DATA SOURCE:

This objective will ensure that Budget Services meets its goal of providing effective consulting services on financial management **(Goal 3)**. Budget Services plans to measure agency progress towards this goal by formally reviewing, on a biennial basis, each agency's internal budget development and implementation capabilities. Budget Services is in the process of developing this review. Legislative staff, deputy commissioners and the Legislative Auditor's Office will be asked to participate in designing the criteria for review and the survey instrument. Planning tasks include determining the capabilities to be measured, the criteria for evaluation, the scoring system, and the party responsible for conducting the review. Budget Services envisions the capabilities to be measured ranging from the procedures used to execute an agency transaction to the extent to which agencies use strategic planning in their ongoing operations..

The proposed review will provide a direct measure of agency capabilities, and an indirect measure of the extent to which Budget Services has accomplished its goal of improving agency budget development and implementation capability.

The review, criteria and ranking methodology will be the documented source for future performance reporting. The initial review and ranking will be completed by September 1995.

DISCUSSION OF PAST PERFORMANCE:

Past performance data is not available.

PLAN TO ACHIEVE TARGETS:

Once an initial review provides a measure of each agency's capabilities, a work plan designed to improve capabilities will be drafted and executed by the agency and Department of Finance.

OTHER FACTORS AFFECTING PERFORMANCE:

While the Budget Services can supply agencies with consulting services, agencies are ultimately responsible for the effective development and implementation of their budgets and financial management capabilities.

OBJECTIVE #6

To increase the comprehensiveness of performance reports

Measure (1): The percentage of the state's operating budget that is described by performance indicators

	F.Y. 1992	F.Y. 1993	F.Y. 1994	F.Y. 1995	F.Y. 1996	F.Y. 1997
Targets	N/A	N/A	N/A	68%	75%	75%
Actual Performance	N/A	41%	68%			

DEFINITION, RATIONALE, DATA SOURCE:

This objective was chosen to ensure the division meets its goal of integrating performance reporting and budgeting into state budget development and implementation **(Goal 4)**. Progress toward this objective will be measured by the percent of the operating budget that is described by performance measures.

While measuring the degree to which performance reporting improves decision-making by policy makers is probably impossible, measuring the percent of the state's budget that is described by performance indicators provides some indication of the extent to which performance indicators might inform the budget process..

Data on the amount of state dollars described by performance reports and total operating fund expenditures will be obtained from the Department of Finance's Consolidated Fund Statement. The results of that analysis will be documented yearly by memorandum. In the future this information will become a reportable summary from the Performance and Outcomes Reporting and Monitoring System (PERFORMS).

DISCUSSION OF PAST PERFORMANCE:

In 1993, draft reports were submitted by 18 agencies. These submissions represented 41% of the state's operating budget. 21 agencies are required by statute to deliver performance reports to the legislature in September of 1994. The Department of Finance has requested that an additional 8 agencies also submit performance reports. The addition of these agencies will raise the percentage of the state's operating budget described by performance indicators to 68%.

PLAN TO ACHIEVE TARGETS:

The Department of Finance has requested performance reports from those agencies mandated by the legislature to submit reports, as well as from several smaller agencies not yet under mandate. The development of the PERFORMS system will make preparation of performance reports easier and promote the accessibility of performance information.

OTHER FACTORS AFFECTING PERFORMANCE:

While the Department of Finance is directed by the legislature to coordinate the submission of performance reports, each agency is responsible for submitting a comprehensive performance report.

OBJECTIVE #7

To increase the quality of agency performance reports

Measure (1): **An average agency-wide score assigned by the Legislative Auditor to each of the criterion used in their evaluation of agency performance reports**

	F.Y. 1992	F.Y. 1993	F.Y. 1994	F.Y. 1995	F.Y. 1996	F.Y. 1997
Criteria:						
Alignment of Objectives	N/A	N/A				
Appropriateness of Measures	N/A	N/A				
Overall Utility	N/A	N/A				
Targets						
Total Score	N/A	N/A				
Actual Performance	N/A	N/A				

DEFINITION, RATIONALE, DATA SOURCE:

This objective will help Budgeting Services meet its goal of integrating performance reporting and budgeting into state budget development and implementation **(Goal 4).** Successful integration of performance measurement into the budget process requires that policy makers be assured of the quality and soundness of agency performance reports. An assessment of performance report quality by the Legislative Auditor will help Budget Services measure its progress in advising agencies during their preparation of performance reports.

Data analysis is not currently available. The Department of Finance will request that the Office of the Legislative Auditor develop a quantitative array evaluating agency performance reports based on currently published criteria. This array will permit comparisons between agencies and measure progress over time.

DISCUSSION OF PAST PERFORMANCE:

Performance data is not available.

PLAN TO ACHIEVE TARGETS:

Budget Services will continue to monitor the Legislative Auditor's evaluations of agency performance reports, and will provide agencies with instruction and clarification as needed.

OTHER FACTORS AFFECTING PERFORMANCE:

Budget Services staff are responsible for reviewing and advising agencies on the quality of their performance reports. While Budget Services can offer suggestions, agencies are ultimately responsible for the quality of the reports.

OBJECTIVE #8

To increase agency use of performance measurement for internal management

Measure (1): The number of agencies using at least some performance measures for internal agency management

	F.Y. 1992	F.Y. 1993	F.Y. 1994	F.Y. 1995	F.Y. 1996	F.Y. 1997
Targets	N/A	N/A	N/A			
Actual Performance	N/A	N/A	N/A			

Measure (2): Of those agencies using performance measures for internal management, the extent of utilization (average percent of agencies' budgets subject to regular internal performance reporting)

	F.Y. 1992	F.Y. 1993	F.Y. 1994	F.Y. 1995	F.Y. 1996	F.Y. 1997
Targets	N/A	N/A	N/A			
Actual Performance	N/A	N/A	N/A			

DEFINITION, RATIONALE, DATA SOURCE:

This objective was chosen to help Budget Services meet its goal of integrating performance reporting and budgeting into state budget development and implementation **(Goal 4)**. While one of the purposes of performance measurement is to assist policy makers in allocating resources effectively, another important function is to provide organizations with a record of their performance for use in making internal management decisions. The measures used here will help the Department of Finance determine which agencies need assistance in integrating performance indicators into their internal management practices.

The data source has not yet been determined. Budget Services will develop the criteria to evaluate agencies use of performance measures for internal management and an appropriate survey tool to document internal use of performance measures. The division will request assistance from deputy commissioners, the Department of Employee Relations, legislative staff, the Department of Administration's Management Analysis Division, and staff from the Office of the Legislative Auditor to develop both the criteria and the survey tool.

DISCUSSION OF PAST PERFORMANCE:

This is a proposed new measure. No data is available.

PLAN TO ACHIEVE TARGETS:

The development of PERFORMS will make preparation of performance reports easier and promote the use of performance information for internal management purposes.

OTHER FACTORS AFFECTING PERFORMANCE:

Ultimately, the number of agencies using performance reports internally will be a result of the willingness of senior agency management to make performance measurement a key component of their management strategy. Budget Services can influence agency use primarily by making performance reports accessible and easily updated.

SUMMARY

EXPENDITURES AND STAFFING (F.Y. 1994)

	($ in Thousands)
Total Expenditures:	$277
From State Funds	$277
Number of FTE Staff:	3.0

PROGRAM GOALS:

To provide a credible, professional forecast of state revenues which serves as a starting point for the appropriation process. (M.S. 16A.06)

DESCRIPTION OF SERVICES:

The Economic Analysis Division projects the major General Fund sources of state revenues. These projections depend on scenarios provided by a national economic consultant augmented by internally generated results from models of the Minnesota economy and Minnesota's tax system.

BACKGROUND INFORMATION:

Preparing a credible, professional revenue forecast requires:

- Construction and maintenance of a model of the Minnesota economy and the accompanying data base.
- Construction and maintenance of tax models and their associated data bases.
- Preparation of a forecast report that explains the assumptions of which the forecast was based.
- Briefing, including testimony at legislative hearings and preparation of a monthly report providing information on changes in the National forecast which may have an impact on the Minnesota economy and state tax receipts.
- Preparation of a publicly distributed quarterly report which provides detailed quarterly and year to date comparisons of actual receipts versus forecasted receipts.

The division also responds to public information requests about the Minnesota economy and state revenues. It also supports the debt management activities of the Department of Finance by preparing and updating information needed for the state's bond prospectuses and representing the state in economic matters before bond rating agencies.

OBJECTIVE #1

To forecast as accurately as possible the major revenue sources for which the division is responsible

Measure (1): **The percentage difference between forecast and actual revenues for each fiscal year is within the confidence band for U.S. Gross Domestic Product (GDP) defined by the Minneapolis Federal Reserve's Vector Auto Regression (VAR) Model**

	F.Y. 1992	F.Y. 1993	F.Y. 1994	F.Y. 1995	F.Y. 1996	F.Y. 1997
Targets						
VAR 95 % Confidence Band	4.5%	4.5%	4.5%			
Actual Performance						
Forecast Variance	-1.3%	6.8%	1.3%			

DEFINITION, RATIONALE, DATA SOURCE:

Although forecast accuracy is not a measure of the credibility of the forecast or the degree of professionalism with which it was prepared, it is the only quantifiable measure available. Perfectly precise forecasts are impossible to achieve because of the underlying randomness of the economy and unanticipated taxpayer behavior. The confidence interval other forecasters assign to their forecasts is an appropriate benchmark for forecast accuracy. A measure of the potential forecast error attributable to the underlying randomness of the national economy is provided by the vector auto-regression model developed by the research staff of the Federal Reserve Bank of Minneapolis.[3]

For these purposes revenues are limited to the four major tax sources for the state i.e. the individual income, corporate income, sales, and motor vehicle excise taxes. The forecast of record is that made in February preceding the beginning of the fiscal year, hence the forecast extends roughly 18 months past the last actual economic data.

Data on forecast and actual state receipts will be taken from the report published with each state forecast and from the statewide accounting system. The confidence interval for the U.S. Gross Domestic Product forecast will be obtained from the research staff of the Minneapolis Federal Reserve.

DISCUSSION OF PAST PERFORMANCE:

During the past 5 years, the average absolute forecast error has been 2.3%. The largest error was 6.8% for fiscal 1993. The smallest error was .1% in 1990. These forecast errors are reasonable, keeping in mind that the VAR error represent "U.S. economy only" forecast error and Department of Finance errors represent combined "economy and revenue system" forecast error.

[3] The 95% confidence band can be best explained by way of an example : For F.Y. 1993, the VAR model forecasted that Gross Domestic Product would be $6,099.6 billion. Therefore, there is about one chance in 20 that the actual value would fall outside of the range of $5,827 billion to $6,372 billion which is plus or minus 4.5%.

PLAN TO ACHIEVE TARGETS:

We will attempt to keep our forecast variance within the VAR confidence band by continuing the activities described earlier in the Program description.

OTHER FACTORS AFFECTING PERFORMANCE:

There are several sources of potential error in making any revenue forecast. Not all sources of error can be disentangled and measured after the fact. Further, errors from different sources can either offset or compound the total variance. In addition to inaccurate forecasts of the national economy, the following other sources of error also affect the accuracy of the revenue forecast:

- Inaccurate forecasts of the Minnesota economy given accurate forecasts of the national economy.
- Measurement error in historical data on the state and national economies.
- Errors in estimates of the impact of tax law changes due to inadequate data.
- Errors in measuring the impact of tax law changes on taxpayer behavior.
- Errors in forecasting the timing of actual tax receipts as opposed to tax liability.
- Other technical errors including changes in the propensity of economic income to become taxable income, errors in forecasting incomes (such as capital gains), which are not tied directly to measured economic activity, and variations in payments on past due receivables, and taxpayer delinquency rates.

SUMMARY

EXPENDITURES AND STAFFING (F.Y. 1994)

	($ in Thousands)
Total Expenditures:	$1,345
From State Funds	$1,345
Number of FTE Staff:	14

PROGRAM GOALS:

To manage the general obligation debt of the state which provides financing for authorized capital projects (M.S.16A.641; 16A.661; 16A.672)

DESCRIPTION OF SERVICES:

Management Services includes the Commissioner's Office, Administrative Services and the Cash and Debt Management. The performance of the Commissioner's Office is reflected in the overall performance of all of the operating divisions. The Administrative Services Section is viewed as an internal support function with respect to the Annual Performance report. Although staff in this section provide vital functions to the overall operations of the department, they also exist to support the goals and objectives of the operating divisions. Cash and Debt Management establishes bank accounts for the deposit of state funds by state agencies and deputy registrars. The division sells and issues general obligation bonds to finance authorized capital projects. The division also manages the tax exempt bonding allocation process.

BACKGROUND INFORMATION:

MEASURES OF ACTIVITIES (A), WORKLOAD (W), UNIT COSTS (UC), OTHER DATA (O)

Type	Measure	F.Y. 1993	F.Y. 1994
A	Number of state bank accounts	357	358
W	Number of general obligation bond sales (new money)	2	1
W	Number of general obligation bond sales (refinancing)	2	3
A	Dollar value of the bond sales (new money)	$190,000,000	$210,000,000
A	Dollar value of the bond sales (refinancing)	$535,360,000	$273,000,000
W	Number of tax exempt bond allocations (Calendar Year)	42	50
A	Dollar amount of allocations	$224,000,000	$225,870,000

PROGRAM DRIVERS:

The number of state bank accounts is determined by the banking needs of state agencies. The dollar amount of state general obligation bonds is determined by the cash flow needs of capital projects. Finally, lower interest rates allow for the refinancing of outstanding bonds by the issuance of new bonds. Refinancing state bonds has resulted in significant interest savings to the state.

OBJECTIVE #1

To manage the issuance of debt so as to not exceed the debt service appropriation

Measure (1): The variance of actual debt service costs from the debt service appropriation

	F.Y. 1992-93	F.Y. 1994-95	F.Y. 1996-97
Targets			
Appropriation	412,000	437,000	520,000 est.
Actual Performance			
Debt service used	409,305	437,000 est	
Variance	2,694	0	
Percent of Total Appropriations	0.7%	0.0%	

DEFINITION, RATIONALE, DATA SOURCE:

The legislature appropriates a biennial amount form the General Fund to pay debt service on outstanding bonds and new bonds which are sold during that biennium. The Commissioner of Finance determines the amount of bond principal and the structure of the bond maturities. The actual amount of the debt service cost from the General Fund should not exceed the amount of the appropriation.

DISCUSSION OF PAST PERFORMANCE:

The actual amount of debt service has not exceeded the amount of the appropriation

PLAN TO ACHIEVE TARGETS:

The Commissioner of Finance utilizes a Debt Capacity Model to determine future debt capacity. This model projects the amount of debt service required on new bond issues based upon assumptions on project cash flows and interest rates.

OTHER FACTORS AFFECTING PERFORMANCE:

The assumption used in the Debt Capacity Model for project cash flows and interest rates could be wrong which could result in an inaccurate forecast of future debt capacity.

OBJECTIVE #2

The interest rates on state bonds will not exceed the market rates of interest on bonds of comparable credit quality

Measure (1): The variation from the market rates of bonds sold by a comparably rated entity on the day that state general obligation bonds are sold

	F.Y. 1992	F.Y. 1993	F.Y. 1994	F.Y. 1995	F.Y. 1996	F.Y. 1997
Target						
Market Rate (AA+)	6.45%	5.82%	5.15%			
Actual Performance						
Minnesota Rate	6.44%	5.87%	5.05%			
Variance	0.01%	+0.05%	-0.10%			

DEFINITION, RATIONALE, DATA SOURCE:

Each day the Delphis Hanover Index is published. This index is shown by the credit rating of the various insurers. It is a valid benchmark to measure the performance of the state in the bond markets. The performance of the state issuing authority can be inferred when compared to this index A variance of 0.1% over the life of the bonds equates to about $1,000,000 in additional interest costs for every $100,000,000 in bond sales. Equalling or bettering the index results in the lowest cost of borrowing for the state.

The Delphis Index data is published daily. The actual sales of bonds are a matter of public record. The comparison is done by the Department of Finance.

DISCUSSION OF PAST PERFORMANCE:

The variance from the table above shows that the rates on the state's bonds have varied from the market by a range of +.05% to -.10%.

PLAN TO ACHIEVE TARGETS:

The department regularly communicates and updates the rating agencies on matters related to the state. The department also provides information to the bond market participants. The state is a bond issuer which the bond market knows well and has responded by providing bids on state bonds at or near the index.

Moody's Investors service raised the state's bond rating in 1994 to Aa1 from Aa. This higher rating should result in lower interest costs on the state's bonds.

OTHER FACTORS AFFECTING PERFORMANCE:

The bond market is affected by supply and demand. The state may enter the market on a day when the supply of bonds is either too large or too small for the amount of demand which could result in an interest rate significantly above or below the index.

Appendix A

Process for developing the Annual Performance Report:

In October 1993 the draft performance report was submitted to the legislature. It was developed from material contained in the budget submission for the F.Y. 1994-95 biennium. As the time available was short, this material was reviewed and modified by the department's senior staff, with little input from other staff.

In January 1994 the Worker Participation Committee was appointed. Three members of this committee were selected by each the exclusive representatives of department employees, AFSCME, MAPE and MMA. A representative of confidential employees, a manager and a member representing the department were named by the commissioner. The six member committee began its work by reviewing the draft performance report.

Early in the process the committee participated in a half day session with a national consultant on performance measurement. In addition, the committee reviewed all available background material. The committee worked for the next five months evaluating and commenting on the draft report. They documented their work and reported it to the commissioner.

The Office of the Legislative Auditor issued their evaluation and comments on the draft report in April 1994. The department's senior staff and the Worker Participation Committee reviewed these comments and found them helpful.

In June 1994 the instructions for the 1994 Annual Performance Report were issued. Each division appointed either one or two members to a committee charged with preparing the new report. This eight member committee initially met with the Worker Participation Committee and reviewed their work on the October 1993 draft report. It also reviewed the comments of the Legislative Auditor and the new instructions. Using these resources this committee prepared the 1994 Annual Performance Report.

Division representatives met with various division staff including members of the Worker Participation Committee. Each division reviewed its section with its internal management and with the committee as a whole. The report was then reviewed by the department's director's group, again in each division, by the senior staff and, finally, by the director's group again.

Once completed, the 1994 Annual Performance Report was duplicated and distributed to all department staff.

Appendix B

Glossary of Finance Acronyms

BBS: Biennial Budget System

CAFR: Comprehensive Annual Financial Report

GAAP: Generally Accepted Accounting Principles

GDP: U.S. Gross Domestic Product

GFOA: Government Finance Officers Association

NASBO: National Association of Budget Officers

PERFORMS: Performance and Outcomes Reporting and Monitoring System

PPS : Personal Payroll System

SSP: Statewide Systems Project

SWA: Statewide Accounting System

VAR: Vector Regression Model

Appendix C

Budget Services Survey Instrument 1993

DEPARTMENT OF FINANCE
SERVICE SURVEY

DEPARTMENT NAME____________________
NAME (OPTIONAL)____________________

SERVICE PROVIDED BY **BUDGET SERVICES**	**Fill in an X on each line to indicate your level of satisfaction**						**COMMENTS**
	DON'T USE THIS SERVICE	VERY DISSATISFIED	DISSATISFIED	NEITHER SATISFIED NOR DISSATISFIED	SATISFIED	VERY SATISFIED	
How satisfied are you with the information presented in Finance's:							
1. operating budget instructions (biennial and supplemental)?							
2. capital budget instructions?							
3. clerical instructions for preparing budget pages?							
4. annual spending plan instructions?							
How satisfied are you that:							
5. the *biennial* and *supplemental* budget processes provide clear direction so you understand what is expected of you?							
6. the *biennial* and *supplemental* budget processes enable you to identify your agency's operating budget needs and explain them to the Executive Budget Team annd the legislature?							
7. the *capital* budget process provides clear direction so you understand what is expected of you?							
8. the *capital* budget process enables you to identify your agency's capital needs and explain them to the Executive Budget Team and the legislature?							
9. the biennial budget system (BBS) supports your budget preparation?							
10. training on BBS meets your needs?							
11. the fiscal note process allows you to develop accurate revenue and spending estimates?							
12. training on the fiscal note tracking system (FNT) meets your needs?							
13. the annual spending plan process is timely and meets your needs?							

SERVICE PROVIDED BY **BUDGET SERVICES**	Fill in an X on each line to indicate your level of satisfaction						**COMMENTS**
	DON'T USE THIS SERVICE	VERY DISSATISFIED	DISSATISFIED	NEITHER SATISFIED NOR DISSATISFIED	SATISFIED	VERY SATISFIED	
How satisfied are you that:							
14. the Legislative Advisory Commission (LAC) process is understandable?							
15. the LAC process meets your agency's needs?							
How satisfied are you with:							
16. the role Finance plays in the capital budget process?							
17. the role Finance plays in the operating budget process?							
How satisfied are you with the assistance you receive from your executive budget officer and team leader regarding:							
18. biennial budget development?							
19. capital budget development?							
20. annual spending plans?							
21. Finance's overall reviews of your budget proposals (timeliness, quality of analysis, alternatives presented, and presentation to the Executive Budget Team)?							
22. Finance's production of budget documents?							
23. What is your overall level of satisfaction with communication between you and Budget Services staff?							
24. What is your overall level of satisfaction with the services provided by Budget Services?							

ADDITIONAL COMMENTS:____