ADMIN 1000 (REV. 4/77)

STATE OF MINNESOTA

Office Memorandum

DEPARTMENT Waste and Mismanagement

TO : Governor Rudy Perpich

DATE: Dec. 19, 1978

FROM : Robert E. Goff, Director
Governor's Task Force on
Waste and Mismanagement

PHONE: 0644

SUBJECT: Summary Report on the Governor's Cost Savings Program

The Governor's Task Force on Waste and Mismanagement as it is presently structured will discontinue its operations on December 31, 1978.

Attached is a summary report which outlines the work of the Task Force during the previous 18 months. This summary, plus the attached copies of our periodic cost savings studies, should serve as the official final record of the accomplishments of the Task Force.

FINAL REPORT:

GOVERNOR'S COST SAVINGS PROGRAM

Prepared by:
The Governor's Task Force on
Waste and Mismanagement
December 19, 1978

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INTRODUCTION

The Governor's Task Force on Waste and Mismanagement was created by the 1977 Minnesota Legislature at the request of Governor Perpich. (See Appendix A.) Its statutory charge is to "search out instances of governmental waste and mismanagement, document the facts of each case, and recommend to the Governor how these instances can be curtailed or eliminated." An annual appropriation of $75,000 and a complement of two were authorized. Except for the two positions paid out of Task Force funds, projects were carried out by state employees temporarily on loan from various departments. Whenever appropriate and feasible, we also utilized private sector resources to aid our studies. Twelve state employees staffed the Task Force at various times and were assisted in several programs by 21 volunteers from the private sector, four state employees serving on the Procurement Task Force along with many other helpful employees in state agencies. As of December 31, 1978, approximately $45,000 will remain in the Task Force budget.

It is important to note that the Governor's Cost Savings Program affected only the operating (non grant and aid) portions of state agency budgets. All savings amounts were generated through improved management of agency resources with no reduction in state services. The program involved all state agencies under the administrative direction of the Governor, regardless of the source or type of funding. Savings from direct appropriated funds such as General, Game and Fish, Trunk Highway, and Highway User Distribution comprise the majority of the savings and cancel back to the fund. Some savings are from revolving funds and various dedicated funds, however, and must by law remain with the departments. These savings should result in reduced charges to the user agencies or increased service to the agency clientele.

The heads of all state departments were required to report their results from implementation of the cost savings programs in semi-annual (February 1 and August 1) reports to the Governor. (See appendices B and C.) Almost $15.2 million in savings were documented during the first fiscal year with anticipated savings exceeding $50 million for the 1978-79 biennium. As of the August 1, 1978, reporting period, state agencies had already identified savings of more than $28 million. (See Appendix D.) Savings during the second year of the biennium were expected to amount to substantially more than the Fiscal Year 1978 amounts. This is because several cost savings programs impact on only Fiscal Year 1979 spending and others were developed at various times during Fiscal Year 1978 and affected only part of that year's expenditures. Following is a list of specific cost savings programs and their implementation dates.

July 1, 1977, Consumable Inventory Control
(fully operational December 31, 1978)

July 1, 1977, Fixed Asset Inventory Control
(12 months experience as of August 1, 1978)

August 16, 1977, Out-of-State Travel
(9½ months experience as of August 1, 1978)

August 16, 1977, Memberships and Subscriptions
(9½ months experience as of August 1, 1978)

August 16, 1977, State-Sponsored Meetings
(November 1, 1977, compliance date - 8 months experience as of August 1, 1978)

September 22, 1977, Misuse of Long-Distance Calling Facilities
(Compliance date Feburary 1, 1978)

September 23, 1977, Two Percent Complement Reduction
(Compliance deadline June 30, 1978; 0 to 9 months experience as of August 1, 1978, depending on the agency)

December 1, 1977, State Passenger Vehicle Study
(7 months experience as of August 1, 1978)

December 15, 1977, Telecommunications Panel Report
(No specific dollar savings assigned to recommendations)

January 19, 1978, Governor's Special Task Force on Purchasing
(No specific dollar savings assigned to recommendations)

May 11, 1978, Contractual Services
(Effective during Fiscal Year 1979)

June 22, 1978, Printing and Publications
(Effective during Fiscal Year 1979)

August 14, 1978, Land Acquisition
(Effective during Fiscal Year 1979)

October 26, 1978, Departmental Techniques for Saving Time and Money
(No specific dollar savings attached to agency cost-savings programs)

In each report, the Task Force attempted to design an efficient cost-savings mechanism which would have a continuing effect on agency operating budgets even beyond the present biennium. For example, the statewide inventory control program, when fully operational, will maintain a more efficient level of consumable inventory yielding annual carrying cost savings of at least $5 million. The report on Printing and Publications mandated a cost accounting system necessary for the continuing monitoring of printing prices and costs. Also, the Procurement Task Force recommended numerous mechanisms to enable state agencies to acquire necessary supplies more economically and expeditiously. While most of the cost-savings mechanisms are well on their way to full implementation, continued departmental cooperation and a strong administrative commitment will be necessary to fully achieve the management and savings goals.

Following are summaries of the cost-savings reports issued by the Task Force. The summaries outline the general purpose and findings of the report, major recommendations, and progress on implementation and/or cost savings to date. The complete reports are found in the Appendix.

STATEWIDE INVENTORY MANAGEMENT PROGRAM

The first major cost savings program adopted by Governor Perpich involved an accelerated statewide inventory management capability. (See Appendix E.) The Task Force found that past inventory practices had resulted in an excess state inventory conservatively valued at $33 million. Although a sound inventory management system had been developed by the Department of Administration in 1973, state agencies had not committed the resources necessary to alleviate the costly and inefficient situations. Executive Order 149, effective June 30, 1977, instructed the head of each state agency to "assume the direct and personal responsibility for the full involvement of his agency in the inventory management program prescribed by the Materials Management Division of the Department of Administration." (See Appendix F.)

The state's current fixed asset and consumable inventory is valued at approximately $190 million, with annual expenditures for all supplies and equipment running approximately $90 million. The largest portion ($60 million) is spent on consumables. Although substantial work is yet to be accomplished in the inventory management program, a management base has now been established which can realistically yield $30-40 million in savings during the next three years in inventory reduction and improved inventory budgeting. Beyond the short-term savings projection, it is estimated that, in the consumable program, an ongoing annual savings of $5 million can be achieved in carrying cost savings due to continued maintenance of optimum inventory levels.

As of the February 1 reporting period, almost $10.6 million of the anticipated $21 million in consumable inventory savings for the present biennium had been identified by state agencies. Fiscal Year 1978 consumables expenditures were not only way below budget, but also slightly below Fiscal Year 1977 expenditure levels as well. Improved documentation of the actual excess inventories on hand at the state's inventory control centers reaffirmed the original Task Force biennial savings estimate of $21 million.

Agencies also have identified $2.6 million in savings, due mainly to increased sales, use and inter-agency transfer of surplus property; however, as of August 1, 1978, the fixed asset program was the one savings area where results were falling behind the savings goals. Expenditures were up dramatically from Fiscal Year 1977 levels primarily because many departmental budgets increased dramatically. Although agencies collectively came in under budget, the Fiscal Year 1978 budget level rose nearly 40 percent from the Fiscal Year 1977 expenditures. It was apparent that additional guidelines and more emphasis by the departments would be necessary to meet the biennial savings goals. The Task Force issued new guidelines on the management of state equipment on October 30, 1978. (See Appendix G.)

The inventory management program is diverse and somewhat complex; it requires substantial self-discipline at the agency level in evaluating inventory needs and controlling equipment and supplies on hand. The projected results can only be realized with line agency accountability and firm commitment from the agencies and the Office of the Governor.

Another very important benefit of this program is in the form of more timely acquisition of materials required in support of state institutions and other operations. Because inventory problems were in part the result of the state's procurement practices, the Governor, in his Executive Order, established the Special Task Force on Purchasing Practices to investigate and recommend changes in purchasing procedures. The results of the committee's work is found in the "Procurement Task Force Report" summarized on page 13. The complete report is Appendix N.

PROFESSIONAL DEVELOPMENT AND COMMUNICATIONS

On August 16, 1977, the Task Force released its report on "Expenditures for Employee Professional Development and Communication." (See Appendix H.) Governor Perpich then issued the following directives to better control and coordinate expenditures for out-of-state travel, state-sponsored meetings, and professional memberships and subscriptions.

Briefly, the directives state that (1) Agencies are limited to total annual professional-development travel expenditures in an amount equivalent to $100 times the number of professional-managerial employees in the agency. (2) In most situations, only one agency employee is authorized for each out-of-state trip. (3) The amounts reimbursable for actual lodging expenses for state employees in travel status are limited to the amounts established by the Commissioner of Personnel. (4) State agencies are required to hold all off-site conferences and meetings in publicly owned facilities, unless a specific exception is granted by an agency head. (5) Duplicate memberships and memberships which do not bear a direct relationship to the specific job responsibility of an agency are not to be renewed. (6) Similarly, duplicate and unnecessary subscriptions are to be eliminated during a department wide reviewal process conducted at least once a year.

Agency compliance with out-of-state travel recommendations has reduced costs significantly. In fact, 1978 expenditures in this area dropped below the Fiscal Year 1976 levels. Agencies have identified $985,000 in savings, or 61.5 percent of the $1.6 million biennial goal. Memberships are a small budget item, but here savings have exceeded the $50,000 goal, with $32,000 documented in Fiscal Year 1978 and another $32,000 identified in Fiscal Year 1979, or 127 percent of the savings goal. Data on subscriptions and state-sponsored meetings are not readily available from the statewide accounting system, making expenditures comparisons difficult. However, agencies have identified subscription savings of $37,000 and state-sponsored meeting savings of $184,000, or 49 and 74 percent of the respective savings goals.

MISUSE OF LONG DISTANCE CALLING FACILITIES

This report discussed misuse of the state's three long distance telephone systems -- the State Telephone Network, Wide-Area Telecommunications Service (WATS), and regular long distance service. (See Appendix I.) The two most common problems are unauthorized calls and the use of the wrong long distance calling facility. The Task Force concluded that by monitoring long distance calls, restricting some telephone lines, and educating state employees about the costs of long distance use, the state could save $250,000 annually.

To implement the recommendations, the Telecommunications Division made available to state agency managers computer reports detailing the long distance calls made from their divisions. Detailed information concerning the proper use of the three different long distance systems was also sent to agency and department heads.

Because of the diverse billing methods for telecommunications service and the lack of a separate object code in Statewide Accounting, it was difficult to track individual agency telecommunication expenditures. Requiring agencies to continually monitor their progress is also extremely time consuming. Consequently, we asked agencies to describe their efforts to educate personnel about proper telephone use in their February 1, 1978, reports to the Governor. All agencies reported that the recommendations had been implemented internally. Although not required to detail savings on telephone use, many agencies reported that their efforts to control costs had yielded substantial savings.

The preparation of the report on the use of long distance telephones raised additional important questions concerning the future of the state telecommunications system. Obviously telecommunications are absolutely essential to the conduct of the state's business and it is increasingly important that planning begin now for state needs five years from now.

Relying again on the expertise of the private sector, the Task Force established a Telecommunications Panel consisting of three private sector communications specialists with staff support from the Task Force. The panel analyzed the state's future and long-term telecommunications needs. (See Appendix J.) Its recommendation concerning immediate and accurate data collection for the purpose of present monitoring and future planning has been implemented. Short-term recommendations concerning the use of long-distance lines have been implemented to some extent, but require an additional appropriation for the computerization of some monitoring functions. The panel also recommended that planning begin for future telecommunications needs such as possible interconnect services, purchase or lease of telecommunications systems, development of a network analysis program, and the feasibility of a state-owned microwave system capable of accommodating all manner of electronic signals.

COMPLEMENT REDUCTION

Since salaries and salary-related costs account for approximately 80 percent of the state's operating expenditures, any successful cost savings effort must address the issue of complement. In an attempt to curb the growth of these expenditures, Governor Perpich issued a directive on September 23, 1977, (see Appendix K) requiring a two percent reduction in state-funded positions. All state agencies having more than 100 state-funded positions were required to complete the reduction of state-funded complement on or before June 30, 1978. Positions allocated to direct patient and inmate care and law enforcement were excluded from the requirement. The reduction was to be achieved solely through attrition rather than lay-offs.

Of the 414 state-funded positions identified by the departments, 370 were cancelled from the position control system. To help the state comply with a court order regarding state hospital staffing, 42 were transferred to direct patient care. Two were reassigned to a Legislative Commission on Minnesota's Resources land acquisition activity, although their General Fund savings were unallotted. While achieving substantial results in Fiscal Year 1978, the complement reduction will achieve most of its savings in Fiscal Year 1979 with a full year of impact. Total biennial savings will amount to $6,597,307 with $5,456,244 unallotted for the two years. (See Appendix L.)

STATE PASSENGER VEHICLE STUDY

The findings and recommendations in the "State Passenger Vehicle Report" (Appendix M) were derived from an extensive investigation of the operation of the state's automobile fleet. Task Force members, in cooperation with certified public accountants on loan from the private sector, found that significant savings could be realized through the implementation of sound managerial policies and procedures designed to lower costs and improve efficiency in the operation of the state's automobile fleet. Task Force recommendations on fleet reduction, operating costs, purchasing specifications, vehicle maintenance, car sale, energy conservation, and employee reimbursement policies should yield annual savings of $1.8 million when the program is fully operational in 1981.

Due to excellent cooperation from the Central Motor Pool Division of the Department of Administration and the agencies, the transition to economize the operation of the state automobile fleet is progressing very smoothly. The actual reduction in the size of the car fleet has exceeded the goal set by the Task Force and a substantial portion of new car purchases consist of smaller, more energy efficient automobiles. All Funds expenditures by major departments for in-state mileage (private car reimbursement and motor pool rent) in Fiscal Year 1978 were $178,941 or 4.4 percent below the Fiscal Year 1977 level although the report was not released until mid-year. The Task Force also successfully negotiated with the departments of Administration and Finance to hold the line on any rate increase for the Central Motor Pool during Fiscal Year 1979. Following is a brief discussion of the major recommendations of the study and the results achieved thus far.

Substantial portions of anticipated savings are due to the removal of underutilized vehicles from the fleet and the gradual conversion to smaller automobiles. The Task Force, after an analysis of state passenger vehicle usage, recommended the removal of 202 underutilized cars from the fleet. As of June 30, 1978, the state passenger vehicle fleet had been reduced by 222 cars. The Task Force also found that economies could be achieved by altering the composition of the fleet and recommended the purchase of more smaller automobiles as replacements. The following table provides the most recent available data on the status of "downsizing" the state car fleet.

Car Class	Percent of Fleet 6/30/77	Percent of Fleet 6/30/78	Task Force Recommendation
Sub-compact	0	1.5	20
Compact	12	18.2	30
Intermediate	22	25.1	35
Full-size sedan	48	38.6	0
Station wagon	11	11.7	10
Vans	7	4.9	5

Since changing the fleet composition is a gradual process (about four years), significant savings should be identified when the composition of the fleet approaches the Task Force recommendation.

Regarding private car reimbursement, the Task Force found that several employees were being reimbursed for the use of their private car when it would have been far less costly to assign a motor pool car to them. Employees receiving excessive reimbursement were identified and assigned Central Motor Pool cars. Private car reimbursement for those employees identified as high mileage drivers has been reduced by $41,000 during Fiscal Year 1978 from the Fiscal Year 1977 level. Close scrutiny of private car reimbursement should be maintained to ensure continued cost reductions in the overall management of the state's transportation of its employees.

Another important aspect of the state passenger vehicle study was the implementation of policies and programs to reduce gasoline consumption. Governor Perpich, in his Energy Message to the 70th Session of the Minnesota State Legislature, emphasized that state agencies could lead the way in energy conservation by purchasing more energy efficient automobiles and by curbing unnecessary travel. The departments of Administration, Public Safety, Education and Energy have developed and implemented a driver safety-energy conservation program for state employees designed to create an awareness for the need to conserve gasoline while operating a motor vehicle. Purchasing specifications have also been established to ensure that state-owned vehicles operate at certain miles-per-gallon minimums. By converting to vehicles with higher miles-per-gallon ratings and by implementing a program that teaches employees fuel-efficient driving techniques, the state can significantly reduce energy consumption and increase dollar savings without affecting the operation of state government.

SPECIAL TASK FORCE ON PURCHASING

The Governor's Special Task Force on Purchasing was created as a result of the Inventory Management Report (Appendix E), which revealed that some of the state's inventory problems were caused by procurement practices. The Purchasing Task Force was comprised of five individuals from the private sector along with four state employees and headed by a retired St. Paul Companies vice president, Iwan Fertig. Its report recommended methods of streamlining the procurement process, reducing state inventories, standardizing materials purchased, and the more timely receiving of supplies and equipment. (See Appendix N.) The recommendations are in various stages of implementation at this time.

A major recommendation presently being implemented was to purchase foods for state institutions on an annual contract basis. Previously, commodities were ordered from several vendors and many items were purchased six months in advance of use. The Minnesota Veterans Home has been on contract since July 1, the contract for the correctional institutions went into effect October 1, and the contracts for Public Welfare go into effect January 1. Benefits of annual contracting for food occur in a number of areas, including the reduction of food inventories, better control of menu planning, reduced handling and spoilage of foods, and weekly deliveries of fresher merchandise. A flexible system of contracting has been developed to fit the varying needs of diverse institutional operations. The Procurement Division of the Department of Administration will be monitoring the benefits of these contracts.

The Purchasing Task Force also recommended an increase in the Authority for Local Purchase amounts and the ability of agencies to obtain local bids, thus eliminating costly processing time. This recommendation has been implemented, but many of the agencies are not using the option to obtain local bids for purchases over $300. This could be remedied by an agressive educational effort by the Procurement Division.

Pursuant to another Task Force recommendation, a Procurement Advisory Committee has been created. This committee is working with the Procurement Division on the implementation and monitoring of several recommendations including the training of personnel, the revision of the complaint system, and the use of systems contracting.

Little progress has been made in the development of a comprehensive computer system, the use of value analysis and life cycle costing, and the suggested reorganization of the Department of Administration purchasing and materials management responsibilities. Although these recommendations require additional appropriations, the Purchasing Task Force reported that their implementation could dramatically improve the Procurement Division's service to the agencies. These are worthwhile but long term projects requiring strong commitment and careful planning.

The Purchasing Task Force was hesitant to place a dollar amount on the savings realized from implementation of their recommendations, arguing that many of the savings, such as time savings and better service, are intangible and do not lend themselves to accurate measurement in dollars. The Task Force is convinced, however, that the savings to be derived from the implementation of all the recommendations would be considerably greater than any increased costs.

STATE CONTRACTS FOR SERVICES

Since in recent years expenditures for consultant and professional technical services have become a major area of state operating costs, Governor Perpich adopted a two-part approach developed by the Task Force to stem the growth in expenditures. On one hand, the Governor endorsed legislation written in cooperation with the Department of Administration, which strengthened the Office of Contract Management and the centralized contracts approval process. Secondly, guidelines for improved state agency controls and a 15 percent cost reduction goal for major departments were established. (See Appendix O.) As of the February 1, 1978, reporting period, agencies had identified more than $1.2 million of the $3.6 million in anticipated savings for Fiscal Year 1979.

The following are among the key components of the Chapter 16 amendments which the Task Force helped to draft and pass through the Legislature:

1. Centralized contract approval within each state agency at a department head, deputy or assistant head level.
2. Reasonable efforts to publicize all state contracts in excess of $2,000.
3. Abolition of the practice of "after-the-fact" contracts.
4. A written work plan for each contract providing for the monitoring of contracted work and utilization of the work product.
5. Written evaluations of all contracts to be kept on file with the Office of Contract Management.
6. Periodic reports prepared by the Office of Contract Management disclosing state agency contract types, vendors, and expenditures.

While the new legislation strengthened and provided a statutory basis for the authority of the Office of Contract Management, the office serves primarily as a technical resource for departments in need of contractual services. The responsibility for cost control must continue to rest with the individual state departments. Consequently, Governor Perpich also ordered department heads to improve their own internal contract processing procedures, with special emphasis on techniques to ensure maximum service for all contract expenditures. These techniques include the use of the request-for-proposal process, tough negotiations on prices, careful definition of the work to be performed, elimination of cost overruns, and the sharing among agencies of information on the quality of vendor performance. In addition, Governor Perpich ordered the 16 departments which expend the largest amounts for contractual services to reduce those expenditures by at least 15 percent during Fiscal Year 1979. With the help of the Office of Contract Management, the Task Force developed the "Agency Internal Contract Negotiation" form (see Appendix O, form MS-0065-01) which ensures that the critical elements of contract negotiation are fulfilled.

STATE PRINTING AND PUBLICATIONS

The Task Force began researching the policies, procedures, and prices of the Publications and General Services Division and the Procurement Division after hearing complaints from agencies about high prices, slow turn-around times, and lengthy requisition times needed to purchase printing from outside vendors. Since photocopy machines were used by the departments as an expensive alternative to the printing process, they also became part of the study. Recommendations in the "State Printing and Publications Report" (Appendix P) cover three areas: in-house duplicating shops, specifications, and photo copier control.

Although Publications management had consistently maintained that their shop operated at 10 to 20 percent below market rate, the Task Force found in-house duplicating prices extremely high. Because of this claim, the Legislature had approved expenditures to renovate the building at 117 University Avenue for increased shop and office space and to purchase web presses and other equipment. A random sample of price comparisons revealed, however, that 45 percent of the time agencies could get better prices and faster turn-around time at private sector walk-in "fast-print" operations which give no discount for volume and whose price schedules include limited technical assistance to customers frequently unacquainted with duplicating processes. A comparison of in-house prices with those of the present overload contractor revealed in-house prices about 40 percent higher, depending on the nature of the job. It should be noted that due to the way the overload contract is bid, the state's overload contract prices are higher than they have to be also. The reasons for the high prices are detailed in the report. Two CPAs on loan to the Task Force (both of whom have worked extensively with printing houses) assisted in the collection of data and formulation of recommendations.

The recommendations, which included the establishment of a modified cost-accounting system and a substantial rise in production, can save the state an estimated $425,000 on the printing completed in the Publications Division in Fiscal Year 1979. The cost accounting system became operational in mid-October, and preliminary reports should be available soon. (Agencies were not required to estimate savings in this specific area since lower prices depend on improved management capability within the Division of Publications.)

Training agency Printing Liaison Officers (PLOs) to write more economical specifications can conservatively save five percent of the cost of buying printing from outside vendors, or roughly $225,000 in Fiscal Year 1979. The first training sessions discussing basic printing terms and cost-savings techniques for Level One PLOs were held in October. Levels Two and Three must still be completed. Division of Publications staff developed and taught the sessions.

Centralized photo copier control will not only save money but reduce the "paper blizzard" as well. The only practicable way of gaining control over state copier use is to provide for a central authority to review all copier renewals as well as requests for the rental and purchase of new machines; authorize the upgrading, or downgrading, or moving of present machines with high per copy costs; advise agencies on purchase or rental options, and collect information on the number and kind of state owned or leased equipment and their cumulative and individual costs. Conservatively, $108,000 could be saved each year simply by ensuring that each unit or division has a copier appropriate to its needs. Another $186,000 can be saved through the purchase of machines which are presently leased. The 14 percent copy reduction should save $226,000 in Fiscal Year 1979.

Although savings impact entirely in Fiscal Year 1979, the August 1, 1978, agency savings reports indicated that they are following the recommendations in these areas and have already identified 30 percent of the $1.3 million savings goal. While initial reports from the agencies are very encouraging, continued monitoring of compliance is extremely important if the $1.3 million savings goal is to be realized. Writing economical specifications, monitoring copy costs, ensuring that color is used only when appropriate, etc. all require coordination and discipline before they become "standard operating procedure."

As a result of the Task Force findings detailing the high in-house printing costs, Governor Perpich gave the Division of Publications until December 31, 1978, to improve the in-house operation and substantially reduce printing prices to agencies. If there is no improvement, the Governor stated that in-house duplicating would be abolished and contracts established with private vendors. Governor Perpich appointed John Millhone, Director of the Energy Agency, to chair a committee of commissioners to monitor the progress of the Division of Publications and to determine whether it should be maintained or abolished. Mr. Millhone has been meeting regularly with Department of Administration personnel and the Committee is preparing a recommendation for December 31, 1978.

STATE LAND ACQUISITION

The Land Acquisition Study (Appendix Q), released by the Task Force on August 14, 1978, focused on the numerous steps in the state's land acquisition process from initial contact with the landowner through final payment and recommended administrative and procedural changes to streamline the process. The study involved primarily the land administered by the Department of Natural Resources, which amounts to 95 percent of all state-owned lands. Since 1975, the Legislature has authorized through the Resource 2000 Program a greatly expanded acquisition program, with a budget of $25.5 million in fiscal years 1978-1979 alone. The Task Force found that this accelerated acquisition program has been marked by unnecessarily high administrative costs, lengthy delays, and public confusion.

The report recommended detailed administrative and procedural changes to reduce the acquisition time from an average of 607 days to 257 and significantly lower administrative costs. In addition to reducing acquisition time, the report recommends improving the Department of Natural Resources present acquisition success rate from 51 to 70 percent by requiring a more thorough initial contact to determine whether landowners are willing to sell to the state; amending M.S.A. 84.0272 which requires a "not to exceed" figure on the fact sheet; requiring the use of primarily private fee appraisers assigned on a project basis and reporting to the Department of Natural Resources Land Bureau; improving quality control of review appraisals and field inspections; negotiating an agreement to allow state employees greater flexibility in working hours in order to increase productivity and reduce costs; establishing interagency training sessions on appraisals and reviews; clarifying acquisition priorities, and developing legislation for a "Landowner's Rights" bill.

There are two primary areas of savings realized through implementation of the recommendations: (1) a reduction in overhead and (2) a reduction in the purchase price for lands by reducing acquisition time.

By changing the present administrative procedures as recommended by the Task Force, we believe that the present ceiling for professional services costs can be reduced from 15 percent to 10 percent of the appropriation for Fiscal Year 1979. This difference would amount to a savings of $253,000.

In addition, by reducing the time required to buy land from its present average of 20 months to 9 months, savings can be realized by purchasing lands before prices further increase. This was the basic philosophy for increasing the acquisition appropriation in the first place. According to sales data compiled by the Department of Natural Resources Land Bureau and the University of Minnesota, land value has been increasing at an average annual rate of 15 percent. By reducing the acquisition time by 11 months, the savings realized in purchasing needed lands sooner is estimated to be $1,880,000. This savings was calculated by using the remaining balance for purchase of additional lands, which is about $13,675,000, and not by using the total acquisition appropriation.

Reduction in acquisition time also ensures that landowners are paid fair market value, improves capability to buy high priority lands, reduces impact of inflaction on land acquisition costs, and results in increased public satisfaction and cooperation.

DEPARTMENTAL TECHNIQUES FOR SAVING TIME AND MONEY

While most of the savings documented by the Task Force have occurred as a result of the recommendations contained in the aforementioned reports, state agency personnel have developed additional programs to cut costs and increase efficiency while continuing to provide a high level of service. Since many of the ideas were in the areas of administrative services, office management, and personnel and training, the Task Force believes that they are easily transferable to the operations of most departments and agencies.

In an effort to make all state personnel aware of the cost-savings activities of various agencies, the Task Force compiled and published in October general information about them in a memo titled "Departmental Techniques for Saving Time and Money" (See Appendix R). The ideas presented tended to be small scale, low-cost or no-cost methods of solving administrative, management, or communications problems.

LAWS OF MINNESOTA FOR 1977,
Chapter 455, Section 11, Subdivision 6

Subd. 6. Governor's Task Force on Waste and Mismanagement	75,000	75,000
Approved Complement - 2		

The task force shall search out instances of governmental waste or mismanagement, document the facts of each case, and recommend to the governor how these instances can be curtailed or eliminated. A follow-up procedure shall be instituted to make certain that the governor's directives are followed. A rewards program shall be established to recognize positive accomplishments by public employees.

If the appropriation for either year is insufficient, the appropriation for the other year is available for it.

This subdivision is effective and the appropriation for fiscal 1978 is available the day following final enactment.

ADMIN 1000 (REV. 4/77)

STATE OF MINNESOTA

Office Memorandum

DEPARTMENT Waste and Mismanagement

TO : Governor Rudy Perpich

DATE: March 9, 1978

FROM : Robert Goff, Director
Governor's Task Force on
Waste and Mismanagement

RG

PHONE: 0646

SUBJECT: Governor's Cost Savings Program - Status Report

Attached are tables which summarize the information supplied by executive branch agencies in their February 1, 1978, cost savings reports. Departments were asked to report their progress in implementing your cost savings programs based on accounting records for the first half of the fiscal year (through December 31, 1977).

The Statewide Accounting System indicates that overall operating expenditures are running well below budget. Operating expenditures (including salaries) are $98.3 million below the All Funds budget as of the end of January. According to a Department of Finance expenditure analysis, this is also true of expenditures for consumables, fixed assets, and out-of-state travel for the first six months. Expenditures for consumables have been running 18.5 percent below the 1978 budget and 4.4 percent below actual fiscal year 1977 expenditures. Fixed asset expenditures are 16.6 percent below budget and 18 percent above 1977 actual; however, these expenditures include $368,972 for the airplane purchased by the Department of Transportation during the first half year. Out-of-state travel expenditures through December 31 are 21.3 percent below the 1978 budget and 10.1 percent below 1977 actual expenditures for that time period. (See Tables 5, 7, and 9.)

Despite the fact that these overall expenditures are running significantly below budget, many February 1 department reports do not reflect that level of effort. Some reports predict dramatic and unrealistic increases in expenditures during the remaining months of the fiscal year. We knew that departments would be a little conservative in estimating total annual savings at this time and that we should expect them to reserve some portion of their budgets to cover potential unforeseen needs occurring before the fiscal year end. However, some departments reported anticipated expenditures far in excess of their ongoing needs plus some amount for unexpected needs.

Inventory Management

For example, many February 1 reports reflect only minimal results from compliance with the intent of Executive Order #149, which required a statewide effort to vastly improve the management of the state's inventory. These reports specify only a small portion of what could and should have been declared as savings. The summary of inventory budget and savings information illustrates a major contrast between first half actual and second half planned spending. Even when the reported actual and projected expenditures are adjusted for an estimated payment lag of one month for consumables and two months for fixed assets, the reports predict a 56.9 percent increase in consumables expenditures and a 533.5 percent increase in fixed assets expenditures during the second half of the fiscal year. Total savings reported amount to only 3.8 percent of the budget for consumables and 2.3 percent of the budget for fixed assets.

It seems logical to conclude that either the process necessary to realistically determine savings was not applied in these cases and/or there was no intent to report other than token amounts of remaining fiscal year budget balances. The type of management called for in Executive Order #149 requires more than just a surface clean up of obvious surplus and obsolete material. It requires all agencies to improve the planning mechanism--to ensure the optimum consumable inventory levels and prevent unnecessary purchases of fixed assets. Consistent with existing Inventory Management directives, a system of quarterly inventory feedback reporting has been established. Early reports indicate that consumable inventory levels are generally as large as ever. In the context of those large inventories, the past and future level of expenditures reported by many agencies make very little sense. (See Tables 4 and 6.)

For example, one major department spent one half million dollars less on consumables during the first half-year period than it did during the same period last year. In spite of the fact that the department maintains more than a generous inventory and spent only 25 percent of its 1978 budget, the department said it anticipated spending 200 percent more during the second half of the year and reported savings of only .2 percent of its budget for consumables.

On the other hand, Iron Range Resources and Rehabilitation, reported outstanding results from the inventory control program, amounting to savings of 44.7 percent in fixed assets and 13.7 percent in consumables. According to the Materials Management Division of Administration, the Welfare Department has also made considerable progress in controlling its use of consumable inventory in view of the difficulty in handling its many inventory control centers. Brainerd State Hospital has done an especially noteworthy job. They also reported that the Community Colleges have shown marked progress in controlling both their fixed assets and consumables inventories.

Out-of-State Travel

Some departments reported impressive savings in out-of-state travel expenditures; however, others reported only nominal or no savings. Although the accounting system reports first half-year expenditures that are 21.3 percent below budget, the savings reported amount to only 14 percent of the 1978 budget. After we adjust the expenditures for the approximate one-month payment lag, the departmental reports suggest they intend to spend almost 50 percent more during the second half of the year than during the first. In the past, out-of-state travel expenditures during each half of the fiscal year have been approximately the same. As illustrated by the attached table, ten departments anticipate spending during the second half year more than 250 percent of what they spent during the first half year. The reports also reveal that six departments and several small agencies and boards are not in compliance with the $100 per employee guideline for professional development and communication travel.

The departments which appear to have done an exceptionally good job of curbing out-of-state travel costs include Public Safety, Housing Finance, Education, Administration, and the Pollution Control Agency. In fact, Public Safety and Pollution Control spent respectively 62.5 percent and 41 percent less than they did last year during the same time period.

State-Sponsored Meetings

As a result of holding meetings in state facilities rather than private facilities, the departments reported present and anticipated savings totaling $103,010. Again, however, only a few departments reported as much in savings as we believe possible. Some departments reported spending substantial amounts on meetings prior to the November 1, 1977, effective date of the policy but said they would comply with the policy in the future. The Department of Education, which spent large amounts on meetings in the past, has done an excellent job of implementing this porgram. The State University System, Corrections, and Natural Resources also have taken corrective action and showed some results. Some departments reported that they still have occasional problems in accommodating handicapped people in some state facilities.

Memberships and Subscriptions

Although some departments have undertaken the kind of critical review of these expenditures that you requested, the results may not be fully realized this year because of the annual and biennial nature of the disbursements. The State Universities, Public Safety, and State Planning have reported impressive results in curbing membership costs. The State Universities, Finance, and State Planning have reported substantial cuts in subscription costs. The Task Force has learned that a few departments have continued paying for inappropriate memberships and subscriptions. We will continue working with the departments and expect better results in the future.

Department Programs

The February 1 report format offered departments an opportunity to report savings resulting from their own internal savings programs. The savings efforts included avoidance of consultant contracts, better controls on computer, printing, and in-state travel costs, and more efficient energy use.

Summary

The Task Force believes that with a dedicated efort on the part of all department heads, we can collectively show a savings of substantially more than was reported February 1. It is imperative that some department heads take immediate action to curb the unrealistic expenditures anticipated for the remainder of the year. In particular, many departments which maintain field offices have done less than an adequate job of helping all employees understand the purposes and procedures required by your programs. The commitment, hard work and ingenuity of all state employees at all levels are necessary if we are to succeed in replacing outmoded methods with ones that are more efficent and cost-effective.

Departments now have many of the necessary tools to make this program succeed and the expenditures during the first six months show that some departments have applied them. Unless we see an immediate change in the level of commitment to the program in some departments, however, we must recommend that you make use of the additional authorities you have for curbing expenditures.

TABLES

The attached tables provide information on the executive branch agencies participating in your cost savings program. Excluded from the program are the Legislature, the Courts, the Historical Society, University of Minnesota, and the Constitutional Officers. For purposes of brevity, most small boards are summarized in the item "Miscellaneous Boards." A separate, detailed analysis of these boards will be provided separately.

TABLE 1

SAVINGS SUMMARY BY EXPENDITURES
(All Funds)

	CONSUMABLE	FIXED ASSET	OUT-OF-STATE TRAVEL	TOTAL MEMBERSHIPS	SUBSCRIPTIONS	STATE MEETINGS	OTHER DEPARTMENTAL PROGRAMS
Budget FY 1978	$60,343,385	$21,126,624	$2,384,531	$348,418[1]	N/A	N/A	N/A
Expenditures 7/1/77-12/31/77	18,832,203	1,918,573	691,472	227,913	$284,910	$243,766	N/A
Projected Expenditures 1/1/78-6/30/78	39,234,301	19,190,599	1,363,098	106,361	N/A	N/A	N/A
Savings Reported[2] 2/1/78	2,281,185	490,897	331,044	17,327	5,303	21,804	$452,315
Percent Increase[3] Second Half over First Half	108.3%	900.3%	97%	-	(Plus projected savings of $6,650)	(Plus projected savings of $81,206)	
Percent Savings Is of Budget	3.8%	2.3%	14%	4.9%	N/A	N/A	N/A

1 Since agencies do not budget on this level, this represents actual 1977 expenditures.

2 Savings totals do not include any reported deficits.

3 These percentages are based on reported figures and are not adjusted for the payment lag.

TABLE 2

TOTAL SAVINGS REPORTED TO DATE BY FUND

FUND	SAVINGS
10 General	$2,764,880
20 Special Revenue	213,470
22 State Airports	1,200
23 Game and Fish	325
27 Trunk Highway	1,064,065
28 Highway User Tax Distribution	107,701
30 Federal	368,735
31 Manpower Services Administration	498,970
50 Building	14,196
63 Housing Finance	101,538
64 Higher Education Coordinating Commission Student Loan Fund	200
69 Gifts and Deposits	560
70 Minnesota State Retirement System	2,530
75 Public Employees Retirement Association	13,672
77 Teachers Retirement	1,372
90 Revolving	23,519
91 Motor Pool	78,598
94 Service	18,100
95 Prison Revolving	26,516
97 Computer Services Revolving	195,395
98 General Services Revolving	239,514
Total	$5,735,056

TABLE 3

SAVINGS SUMMARY BY DEPARTMENT
(All Funds)

	Department	Total Operating Budget	Savings Governor's Program	Other Departmental Savings	Total Savings
01	Military Affairs	$ 4,608,445	$ -0-	$ 4,200	$ 4,200
02	Administration	43,691,345	587,630	-0-	587,630
04	Agriculture	10,963,795	37,420	-0-	37,420
07	Public Safety	48,533,091	247,016	-0-	247,016
08	Ombudsman	220,879	490	3,762	4,252
10	Finance	4,492,394	29,200	-0-	29,200
12	Health	20,786,745	166,490	-0-	166,490
13	Commerce	4,750,217	12,834	-0-	12,834
17	Human Rights	1,019,465	-0-	-0-	-0-
21	Economic Security	55,725,305	567,922	-0-	567,922
23	Economic Development	1,863,420	31,625	-0-	31,625
24	Personnel	2,584,550	6,067	2,000	8,067
26	State University	97,570,627	750,000	-0-	750,000
27	Community College	43,027,393	403,861	-0-	403,861
29	Natural Resources	61,157,288	37,812	1,548	39,360
30	State Planning	6,932,998	10,025	550	10,575
32	Pollution Control	8,431,516	33,657	-0-	33,657
34	Housing Finance	12,926,500	16,538	85,000	101,538
37	Education	20,342,139	220,606	-0-	220,606
42	Labor and Industry	5,990,173	-0-	-0-	-0-
43	Iron Range Resources	1,805,352	164,050	3,700	167,750
45	Mediation Services	672,374	274	-0-	274
55	Public Welfare	560,493,086	415,072	21,500	436,572
67	Revenue	21,648,263	109,157	-0-	109,157
75	Veterans Affairs	4,686,713	87,771	4,247	92,018
77	Zoo Board	10,772,348	29,717	-0-	29,717
78	Corrections	46,133,930	92,397	323,210	415,607
79	Transportation	467,968,150	987,336	-0-	987,336
80	Public Service	3,913,018	1,255	-0-	1,255
88	Energy	2,451,101	1,048	-0-	1,048
	Miscellaneous Boards	25,229,366	232,453	5,616	238,069
	Total	$1,601,411,986	$5,279,723	$455,333	$5,735,056

TABLE 4
FY 1978
FEBRUARY 1, 1978 SAVINGS REPORTING - CONSUMABLE INVENTORY
(All Funds)

	DEPT/AGENCY	BUDGET FY 1978	ACTUAL EXP. 7/1-12/31/77	PROJ. EXP. 1/1-6/30/78	SAVINGS REPORTED 2/1/78	% INC. 2nd HALF PROJ. OVER 1st HALF EXP.	% SAVINGS IS OF BUDGET
(01)	Military Affairs	702,456	200,672	501,784	Ø	150.1	-
(02)	Administration	4,194,727	1,347,116	2,477,497	370,114	83.9	8.8
(04)	Agriculture	156,049	55,876	100,173	Ø	79.3	-
(07)	Public Safety	4,397,560	770,505	3,498,743	128,312	354.1	2.9
(08)	Ombudsman	5,590	586	4,514	490	670.3	8.8
(10)	Finance	24,550	7,676	12,874	4,000	67.7	16.3
(12)	Health	755,532	158,264	519,150	78,118	228.0	10.3
(13)	Commerce	28,563	7,975	20,588	Ø	158.2	-
(17)	Human Rights	10,080	4,931	9,330	Ø	89.2	-
(21)	Economic Security	480,600	150,378	318,282	11,940	111.7	2.5
(23)	Economic Develop.	14,300	8,874	5,426	Ø	-	-
(24)	Personnel	30,112	11,498	16,837	1,777	46.4	5.9
(26)	St. Univ. Syst.	5,128,809	1,529,264	3,316,501	283,044	116.9	5.5
(27)	St. Comm. Coll. Syst.	2,167,118	660,744	1,506,374	Ø	128.0	-
(29)	DNR	4,545,715	1,114,407	3,423,483	7,825	207.2	.2

Prepared by: Materials Mgmt. Div

TABLE 4
FY 1978
FEBRUARY 1, 1978 SAVINGS REPORTING - CONSUMABLE INVENTORY

DEPT/AGENCY	BUDGET FY 1978	ACTUAL EXP. 7/1-12/31/77	PROJ. EXP. 1/1-6/30/78	SAVINGS REPORTED 2/1/78	% INC. 2nd HALF PROJ. OVER 1st HALF EXP.	% SAVINGS IS OF BUDGET
(30) St. Plan. Agency	34,517	20,167	- 12,538	1,812	-	5.5
(32) Pollution Control	82,075	33,655	48,420	Ø	43.9	-
(34) Housing Finance	23,000	8,620	14,380	Ø	66.8	-
(37) Education	334,476	111,026	197,450	26,000	77.8	7.8
(42) Labor & Industry	44,657	26,333	18,324	Ø	-	-
(43) I.R.R.&R.	89,025	16,428	60,447	12,150	268.0	13.7
(45) Mediation Services	5,000	2,840	2,000	160	-	3.2
(55) D.P.W.	10,300,393	3,852,177	6,048,843	399,373	57.0	3.9
(67) Revenue	66,799	24,568	35,331	6,900	43.8	10.3
(75) Vets Affairs	694,846	248,063	379,064	67,719	52.8	9.8
(77) Zoo	604,351	88,107	508,244	8,000	476.8	1.3
(78) Corrections	6,002,553	2,421,831	3,535,055	45,667	46.0	.8
(79) D.O.T.	19,014,684	5,807,672	12,398,786	808,226	113.5	4.3
(80) Public Service	76,280	20,286	55,476	518	173.5	.7

Prepared by: Materials Mgmt. Div

TABLE 4
FY 1978
FEBRUARY 1, 1978 SAVINGS REPORTING - CONSUMABLE INVENTORY

	DEPT/AGENCY	BUDGET FY 1978	ACTUAL EXP. 7/1-12/31/77	PROJ. EXP. 1/1-6/30/78	SAVINGS REPORTED 2/1/78	% INC. 2nd HALF PROJ. OVER 1st HALF EXP.	% SAVINGS IS OF BUDGET
(88)	Energy Agency	33,972	16,891	16,833	248	-	.7
	Misc. Boards	294,996	104,773	171,554	* 18,792	63.7	6.4
	TOTALS:	60,343,385	18,832,203	39,234,301	*2,281,185	108.3	3.8
	Expenditures adjusted for approximate one-month payment lag		22,598,644	35,467,861		56.9%	

* Savings totals do not include deficit savings.

Prepared by: Materials Mgmt. Div.

TABLE 5

Supplies and Materials (Class 30)

Expenditure Analysis

All Funds

	Fiscal Year 1977			Fiscal Year 1978				Variance	
	Budget Estimate	Actual Expenditures	Variance Amount	Budget Estimate	Fiscal Year Actual Expenditures	Variance Amount	Variance Percent	1977/78 Actual Amount	Expenditures Percent
Monthly Accumulations									
July	$ 588,225	541,644	(46,581)	634,807					
August	3,364,903	3,098,437	(266,466)	3,631,368					
September	7,347,278	6,765,449	(581,829)	7,929,106					
October	11,259,343	10,367,719	(891,624)	12,150,967					
November	16,581,044	15,267,996	(1,313,048)	17,894,091	14,490,569	(3,403,522)	(19.0)	(777,427)	(5.1)
December	21,809,553	20,082,461	(1,727,092)	23,536,644	19,190,107	(4,346,537)	(18.5)	(892,354)	(4.4)
January	26,496,081	24,397,865	(2,098,216)	28,594,298					
February	31,483,815	28,990,622	(2,493,193)	33,977,009					
March	36,353,451	33,474,633	(2,878,818)	39,232,270					
April	40,750,118	37,523,129	(3,226,989)	43,977,107					
May	45,215,260	41,634,678	(3,580,582)	48,795,843					
June	50,424,961	46,431,824	(3,993,137)	54,418,908					
After Year End	59,148,532	54,442,770 1/	(4,705,762)	63,799,793					
Percentage Variance			(7.9%)						

1/ Outstanding encumbrances of $3,404,230 not included.

Department of Finance
2/15/78

TABLE 6
FY 1978
FEBRUARY 1, 1978 SAVINGS REPORTING - FIXED ASSET INVENTORY
(All Funds)

DEPT/AGENCY	BUDGET FY 1978	ACTUAL EXP. 7/1-12/31/77	PROJ. EXP. 1/1-6/30/78	SAVINGS REPORTED 2/1/78	% INC. 2nd HALF PROJ. OVER 1st HALF EXP.	% SAVINGS IS OF BUDGET
(01) Military Affairs	22,187	900	21,287	Ø	2,265.2	-
(02) Administration	1,918,011	139,310	1,715,602	63,099	1,131.5	3.3
(04) Agriculture	61,628	14,427	45,401	1,800	214.7	2.9
(07) Public Safety	2,287,377	116,948	2,114,985	55,444	1,708.5	2.4
(08) Ombudsman	794	764	30	Ø	-	Ø
(10) Finance	7,500	48	6,452	1,000	13,341.6	13.3
(12) Health	245,755	52,235	224,834	Ø	330.4	-
(13) Commerce	17,822	180	17,642	Ø	9,701.1	-
(17) Human Rights	1,500	750	1,800	Ø	1.4	-
(21) Economic Security	365,960	59,855	294,721	11,384	392.4	3.1
(23) Economic Develop.	6,050	Ø	6,050	Ø	-	-
(24) Personnel	20,345	14,649	3,771	1,925	-	9.5
(26) St. Univ. Syst.	1,831,100	130,105	1,566,264	134,731	1,103.8	7.4
(27) St. Comm. Coll. Syst.	922,943	72,255	850,688	Ø	1,077.3	-
(29) DNR	2,317,155	144,823	2,168,432	3,900	1,397.3	.2

Prepared by: Materials Mgmt. Di

TABLE 6
FY 1978
FEBRUARY 1, 1978 SAVINGS REPORTING - FIXED ASSET INVENTORY

DEPT/AGENCY	BUDGET FY 1978	ACTUAL EXP. 7/1-12/31/77	PROJ. EXP. 1/1-6/30/78	SAVINGS REPORTED 2/1/78	% INC. 2nd HALF PROJ. OVER 1st HALF EXP.	% SAVINGS IS OF BUDGET
(30) St. Plan. Agency	19,730	3,316	11,772	4,800	255.0	24.3
(32) Pollution Control	172,318	4,494	159,824	8,000	3,456.4	4.6
(34) Housing Finance	20,000	Ø	20,000	Ø	-	-
(37) Education	108,289	16,165	86,611	5,513	435.8	5.1
(42) Labor & Industry	25,938	14,832	11,106	Ø	-	-
(43) I.R.R.&R.	160,792	48,800	40,092	71,900	-	44.7
(45) Mediation Service	1,000	Ø	1,000	Ø	-	-
(55) D.P.W.	745,418	77,948	666,501	Ø	755.1	-
(67) Revenue	173,359	5,280	164,700	3,379	3,019.3	2.0
(75) Vets Affairs	51,680	3,469	35,011	13,200	909.3	25.5
(77) Zoo	33,340	13,722	19,318	300	40.8	.9
(78) Corrections	1,229,082	82,230	1,128,770	18,082	1,272.7	1.5
(79) D.O.T.	7,909,618	653,108	7,550,956	50,000	1,056.2	.6
(80) Public Service	101,877	48,238	53,639	Ø	11.2	-

Prepared by: Materials Mgmt. Div

TABLE 6

FY 1978

FEBRUARY 1, 1978 SAVINGS REPORTING - FIXED ASSET INVENTORY

	DEPT/AGENCY	BUDGET FY 1978	ACTUAL EXP. 7/1-12/31/77	PROJ. EXP. 1/1-6/30/78	SAVINGS REPORTED 2/1/78	% INC. 2nd HALF PROJ. OVER 1st HALF EXP.	% SAVINGS IS OF BUDGET
(88)	Energy Agency	29,626	10,949	18,677	Ø	70.6	-
	Misc. Boards	318,430	188,773	184,663	* 42,440	-	13.3
	TOTALS:	21,126,624	1,918,573	19,190,599	*490,897	900.3	2.3
	Expenditures adjusted for approximate two-month time lag.		2,877,859	18,231,312		533.5%	

*Savings totals do not include deficit savings.

Prepared by: Materials Mgmt. Div.

TABLE 7

Capital Outlays - Equipment (Class 40)
Expenditure Analysis
All Funds

	Fiscal Year 1977			Fiscal Year 1978				Variance 1977 to 1978 Expenditures	
	Budget Estimate	Actual Expenditures	Variance Amount	Budget Estimate	Fiscal Year Actual Expenditures	Variance Amount	Variance Percent	Amount	Percent
Monthly Accumulations									
July	$ 4,490	$ 4,200	$ (290)	$ 5,943					
August	104,916	98,144	(6,772)	138,874					
September	273,210	255,575	(17,635)	361,639					
October	630,630	589,925	(40,705)	834,744					
November	1,084,314	1,014,326	(69,988)	1,435,271	$ 1,330,225	$(105,046)	(7.3)	$ 315,899	31.1
December	1,884,416	1,762,784	(121,632)	2,494,339	2,080,438	(413,901)	(16.6)	317,654	18.0
January	2,839,877	2,656,573	(183,304)	3,759,051					
February	3,904,021	3,652,031	(251,990)	5,167,624					
March	5,970,858	5,585,461	(385,397)	7,903,427					
April	8,026,769	7,508,671	(518,098)	10,624,769					
May	9,677,620	9,052,965	(624,655)	12,809,945					
June	11,208,393	10,484,933	(723,460)	14,836,180					
After Year End	20,792,240	19,445,414 1/	(1,346,826)	22,494,619					
Percentage Variance			(6.5%)						

1/ Includes outstanding encumbrances of $3,596,873.

Department of Finance
2/15/78

TABLE 8

REPORTED OUT-OF-STATE TRAVEL SAVINGS
(All Funds)

	DEPARTMENT	BUDGET FY 1978	ACTUAL EXPENDITURES 7/1 - 12/31/77	PROJECTED EXPENDITURES 1/1 - 6/30/78	SAVINGS REPORTED 2/1/78	PERCENT INCREASE SECOND HALF PROJECTED OVER FIRST HALF EXPENDITURES	PERCENT SAVINGS IS OF BUDGET
01	Military Affairs	$ 2,000	$ 543	$ 1,457	$ -0-	168	-0-
02	Administration	147,458	34,241	58,620	54,597	71	37
04	Agriculture	48,157	15,802	31,855	500	102	1
07	Public Safety	55,308	10,337	22,948	22,023	122	40
08	Ombudsman	2,000	1,329	671	-0-	-0-	-0-
10	Finance	8,107	3,580	2,927	1,600	-0-	20
12	Health	87,777	28,167	54,212	5,398	92	6
13	Commerce	52,190	17,800	21,556	12,834	21	25
17	Human Rights	2,380	280	2,100	-0-	650	-0-
21	Economic Security	198,921	70,538	102,721	25,662	46	13
23	Economic Development	32,067	5,098	26,969	-0-	429	-0-
24	Personnel	12,808	2,987	7,456	2,365	150	18
26	State University	328,795	50,701	247,736	30,358	389	9
27	Community College	92,277	20,574	71,703	-0-	249	-0-
29	Natural Resources	100,724	32,167	62,538	6,019	94	6
30	State Planning	33,748	13,551	21,056	-0-	55	-0-
32	Pollution Control	89,427	19,771	51,698	17,958	161	20
34	Housing Finance	36,000	5,131	14,331	16,538	179	46
37	Education	240,084	52,555	85,012	102,517	61	43
42	Labor and Industry	35,522	7,683	27,839	-0-	262	-0-
43	Iron Range Resources	9,870	2,979	8,291	-0-	178	-0-
43	Mediation Services	3,191	1,731	1,346	114	-0-	4
55	Public Welfare	126,772	44,557	82,215	-0-	85	-0-
67	Revenue	117,494	54,304	63,190	-0-	16	-0-
75	Veterans Affairs	1,930	1,422	508	-0-	-0-	-0-
77	Zoo Board	32,500	11,748	6,400	14,352	-0-	44
78	Corrections	89,017	21,844	59,473	7,700	172	9
79	Transportation	152,726	69,386	83,340	-0-	20	-0-
80	Public Service	31,384	8,786	21,861	737	149	2
88	Energy	32,589	13,789	18,000	800	31	2
	Miscellaneous Boards	181,308	68,091	103,069	8,972	51	5
	Totals	$2,384,531	$691,472	$1,363,098	*$331,044	97	14
	Expenditures adjusted for payment lag.		829,766	1,224,804		47.6%	

* Savings totals do not include reported deficits.

Table 9

Out-of-State Travel (Class 22)
Expenditure Analysis
All Funds

	Fiscal Year 1977			Fiscal Year 1978				Variance	
	Budget Estimate	Actual Expenditures	Variance Amount	Budget Estimate	Fiscal Year Actual Expenditures	Variance Amount	Variance Percent	1977/78 Actual Amount	Expenditures Percent
Monthly Accumulations									
July	56,181	45,713	(10,468)	$ 52,250					
August	197,145	160,411	(36,734)	183,350					
September	381,210	310,179	(71,031)	354,535					
October	603,519	491,065	(112,454)	561,287					
November	809,519	658,681	(150,838)	752,872	633,357	(119,515)	(15.9)	$ (25,324)	(5.2)
December	1,043,465	849,036	(194,429)	970,448	763,658	(206,790)	(21.3)	(85,378)	(10.1)
January	1,179,713	959,897	(219,816)	1,097,162					
February	1,341,253	1,091,337	(249,916)	1,247,398					
March	1,571,316	1,278,532	(292,784)	1,461,362					
April	1,836,654	1,494,430	(342,224)	1,708,133					
May	2,134,023	1,736,390	(397,633)	1,984,694					
June	2,357,646	1,918,345	(439,301)	2,192,668					
After Year-End	2,510,020	2,041,692	(468,328)	2,334,089					
Percentage Variance			(18.6%)						

Department of Finance
2/15/78

TABLE 10

OPERATING EXPENDITURES
ALL FUNDS

	Fiscal Year 1977			Fiscal Year 1978		
	Budget Estimate	Expenditures	Variance	Budget Estimate	Expenditures	Variance
Monthly Accumulation						
July	$ 104,480,340	$ 98,665,955	$ (5,814,385)	$ 114,670,560		
August	217,658,159	205,545,370	(12,112,789)	238,886,884		
September	342,900,008	323,817,446	(19,082,562)	376,343,874		
October	437,831,591	413,466,037	(24,365,554)	480,534,363		
November	543,700,442	513,443,232	(30,257,210)	596,728,859		
December	666,486,470	629,396,155	(37,090,315)	731,490,505		
January	768,899,853	726,110,180	(42,789,673)	843,892,512	$745,556,659	$(98,335,853)
Febaruary	884,750,297	835,513,487	(49,236,810)	971,042,130		
March	988,338,513	933,336,966	(55,001,547)	1,084,733,555		
April	1,094,533,292	1,033,621,950	(60,911,342)	1,201,285,767		
May	1,207,706,268	1,140,496,792	(67,209,476)	1,325,496,777		
June	1,330,942,091	1,256,874,478	(74,067,613)	1,460,752,087		
After Year-End	1,548,638,849	1,462,444,702	(86,194,147)	1,699,673,091		
Percentage Variance			(5.6%)			

ADMIN 1000 (REV. 4/77)

DEPARTMENT WASTE AND MISMANAGEMENT

STATE OF MINNESOTA

Office Memorandum

TO : Governor Rudy Perpich

DATE: Sept. 29, 1978

FROM : Robert E. Goff, Director
Governor's Task Force on
Waste and Mismanagement

PHONE: 0644

SUBJECT: Governor's Cost Savings Program - Status Report

Introduction and Summary

The Task Force has concluded an analysis of the departmental savings reports submitted to you in August, 1978, and the Fiscal Year 1978 Statewide Accounting data as of the recent close-out on September 10, 1978. State agencies under the administrative direction of the Governor have already identified all funds savings of more than $28 million of the anticipated $50 million for the current biennium. Almost $15.2 million was documented during Fiscal Year 1978, or more than twice the amount that agencies earmarked in their February, 1978, Cost Savings Reports. Savings during the second year of the biennium will amount to substantially more than the Fiscal Year 1978 amounts since several cost savings efforts impact on only Fiscal Year 1979 spending and other programs were developed at various times during Fiscal Year 1978 and affected only part of the year's expenditures.

According to the Statewide Accounting System data, expenditures by the major departments were not only well below budget during Fiscal Year 1978 but also declined from the Fiscal Year 1977 expenditures level in all controlled spending categories in the program except one. Purchases of equipment (Class 40) continue to be a problem and will be discussed later in this report. Despite the impact of inflation and increases in program funding which increased the state's operating budget, expenditures declined from the prior year's level in the areas of supplies, out-of-state travel, mileage, and memberships. In one area, out-of-state travel, expenditures dropped to below the level of two years ago.

The attached report and tables provide detailed information on savings and spending data for all major state departments under the administrative direction of the Governor. In general, the information reflects a determined and successful effort by all state agencies, both large and small, to reduce operating expenditures with no reduction in program or service.

Scope of Governor's Cost Savings Program

This status report focuses primarily on Fiscal Year 1978 since verification is now available from the Statewide Accounting System data as of the close-out of the year. The accompanying tables reflect our analysis of both the amounts reported by state agencies in their August 1 Cost Savings Reports (tables 1 through 6) and the budget and expenditure data from the Statewide Accounting System as of September 10, 1978 (tables 7 through 10).

It is important to note that the Governor's Cost Savings Program affects only the departments under the administrative direction of the Governor and only the operating expenditures by state government. Units of government such as the Legislature, the Judiciary, the offices of other Constitutional Officers, and the Historical

Society must be subtracted from the Statewide Accounting totals to provide a meaningful analysis of the effectiveness of the Cost Savings Program. The typical kinds of operating expenditures such as supplies, equipment, services, and some salaries are included in the program while state grants and aids are not. Therefore, while the Finance Department has estimated General Fund cancellations this biennium of $61 million, these cancellations will occur mostly from the grants and aids budgets and the small portion from the operating budgets will be primarily from salary budgets.

Although the Governor has instructed all agencies under his administrative direction to control all operating costs, the specific Task Force cost savings programs were developed at various times throughout Fiscal Year 1978 and their full impact will not be achieved until Fiscal Year 1979. Three programs (contractual services, printing, and land acquisition) affect only Fiscal Year 1979 and will be evaluated in February. Following is a list of these specific cost savings programs and their implementation dates:

July 1, 1977 Consumables Inventory Control
(fully operational December 31, 1978)

July 1, 1977 Fixed Asset Inventory Control
(12 months experience)

August 16, 1977 Out-of-State Travel
(9½ months experience)

August 16, 1977 Memberships and Subscriptions
(9½ months experience)

August 16, 1977 State-Sponsored Meetings
(November 1, 1977 compliance date - 8 months experience)

September 23, 1977 Two Percent Complement Reduction
(Compliance deadline June 30, 1978 - 0 to 9 months experience)

December 1, 1977 In-State Automobile Mileage
(7 months experience)

May 11, 1978 Contractual Services
(Fiscal Year 1979 only)

June 22, 1978 Printing and Publications
(Fiscal Year 1979 only)

August 14, 1978 Land Acquisition
(Fiscal Year 1979 only)

The Fiscal Year 1978 savings reported for each spending category in August far exceeded what the departments anticipated in their February savings reports. Although only a total of $5.7 million had been identified in February, nearly $15.2 million was reported by the end of the fiscal year. Of the total amount reported, $11,898,423 or 78.4 percent came from implementation of the Task Force savings programs. A total of $3,276,038 or 21.6 percent was identified from other cost savings techniques implemented by individual departments in response to Governor Perpich's encouragement of department heads to develop their own methods of reducing expenditures. (See Table 2.) Examples of these departmental programs are described later in this report.

Savings by Department and Fund

The major state departments are itemized in the attached tables with the smaller agencies and boards summarized as "All Others."

Complete data from the August Cost Savings Reports and the Statewide Accounting System is available in the Task Force files. Because these small agencies account for only three percent of the total operating expenditures, they were not included in the Statewide Accounting expenditures analysis.

Because all departments, regardless of the source or type of funding, are included in the Cost Savings Program, savings were reported from a variety of funds. (See Table 3.) The largest portions were from the General Fund (55.4 percent) and the Trunk Highway Fund (16.2 percent). Direct appropriated funds savings such as General, Game and Fish, Trunk Highway, and Highway User Distribution Fund normally cancel back to the Fund. General Fund savings by the Department of Corrections, however, are dedicated by law to offset future appropriations through the Community Corrections Act. Savings from revolving funds and various dedicated funds must by law remain with the departments and carry forward into the next fiscal year. These savings should result in reduced charges to the user agencies or increased service to the funds' clientele. For example, savings from the Department of Administration service revolving funds will reduce or offset increases in charges back to other departments for services such as motor pool, computers, printing, and repairs. The Federal Fund amounts will be used during the next fiscal year to provide increases in service or will cancel to the federal government.

Table 4 summarizes the all funds savings amounts by department and program and should be used in connection with the Statewide

Accounting analysis tables (tables 7 through 10) to evaluate the performance of individual major departments. Although specific departmental savings amounts may seem substantial or minimal, they should be compared with the Fiscal Year 1978 expenditure levels and the 1977/1978 expenditures comparisons when relevant.

Details regarding savings amounts which carry forward or which were spent during the current fiscal year on emergency items are supplied in tables 5 and 6. Of the total reported amount, 59.6 percent cancelled to the funds and 24.4 percent cannot be unallotted and carries forward. A total of 16 percent was spent during the current year to avoid emergency requests to the Legislative Advisory Committee and on items such as increased patient care at state hospitals to comply with a court order and energy retrofit projects which will yield additional long term savings. A decision was made early in the program to whenever possible avoid situations where departments were generating savings for the cost savings program while at the same time seeking emergency aid from the Legislative Advisory Committee. The Task Force agreed with the departments that it was inappropriate for them to seek Legislative Advisory Committee funding when some savings amounts could be transferred to appropriate areas of need. Only amounts which resulted from the implementation of specific cost savings programs are recognized as savings when spent in these ways.

Complement Reduction

While achieving substantial results in Fiscal Year 1978, the two percent complement reduction will achieve most of its savings in Fiscal Year 1979 with a full year of impact. Total biennial savings will amount to $6,597,307 with $5,456,244 unallotted for the two fiscal years. (See Table 6.) Of the 414 positions identified, 370 have been cancelled from the system, 42 were transferred to direct patient care at the state hospitals, and 2 were reassigned to the Legislative Commission on Minnesota Resources land acquisition activity although the General Fund savings were unallotted.

Consumable and Fixed Asset Inventory

As summarized in Table 7, expenditures during Fiscal Year 1978 by major departments under the Governor's direction fell below the Fiscal Year 1977 level in all controlled areas except fixed asset purchases. This is true of both the All Funds and the General Fund expenditures. The largest expenditure category, consumable inventory items, was reduced below the Fiscal Year 1977 level through the implementation of the consumable inventory control system. Overall, the departments were able to stop all growth in consumables expenditures during Fiscal Year 1978 although they had been allowed a six percent increase in their budgets for inflation. In view of the 6.1 percent increase in the wholesale price index from Fiscal Year 1977 to Fiscal Year 1978, the actual decrease in purchases can be considered to be close to six percent. Table 8 reports the consumables expenditures changes by major departments. Total all funds Fiscal Year 1978 expenditures on consumable goods by these departments amounted to $57,271,216 or 9.3 percent less than the $63,158,513 budget.

Although the deadline for implementation of the basic inventory control system is not until December 1, 1978, all but eight major departments had already complied with the directive as of June 30. In view of the substantial lead-time involved in developing perpetual inventory record systems and training staff, consumable inventory savings in Fiscal Year 1979 will be substantially more than the $6 million reported for Fiscal Year 1978. Improved documentation of the actual excess inventories on hand at the state's inventory control centers reaffirms the original Task Force savings estimate of $21 million for the biennium.

Through the sales and use of surplus property and by deciding not to purchase budgeted but unneeded equipment items, state departments identified savings of $2.2 million for equipment in Fiscal Year 1978. According to the Materials Management Division of Administration, inter-agency transfers on equipment increased from a value of $325,000 in Fiscal Year 1977 to $725,000 in Fiscal Year 1978 and the proceeds from the sale of surplus property also rose from $1 million in Fiscal Year 1977 to $1.4 million in Fiscal Year 1978.

Nevertheless, actual Fiscal Year 1978 expenditures were up substantially from the Fiscal Year 1977 level because many departmental budgets increased dramatically. (See Table 7.) All funds fixed asset expenditures by the major departments totaled $24,770,827 or 8.9 percent less than their $27,203,843 budget, however, their combined Fiscal Year 1978 budget rose nearly 40 percent from the Fiscal Year 1977 budgets. Since equipment purchases tend to vary from year to year, based on the legislative appropriations and fluctuations in need, this comparison of two fiscal years may not be totally valid. It appears, however, that additional guidelines for equipment purchases are needed, and we have begun to work on possible alternative approaches. The Task Force continues to believe that the most effective controls on equipment purchases lie with prudent departmental managers and we are reluctant to recommend additional central controls. In the meantime, we have adjusted the biennial savings goal to reflect the shortfall in Fiscal Year 1978.

Out-of-State Travel

The largest percentage reduction from the Fiscal Year 1977 level was in out-of-state travel expenditures. In fact, expenditures dropped to below the Fiscal Year 1976 level. While the impact of inflation during the period on travel related expenditures is estimated to be about 6.1 percent, all funds expenditures declined 10 percent and General Fund expenditures declined 12.2 percent. Several departments actually saved an amount greater than they spent during the year. Two departments, Public Safety and the Governor's Office reduced expenditures by more than 50 percent from the prior year's level. Total all funds Fiscal Year 1978 expenditures for out-of-state travel by the departments listed in Table 9 were $1,725,646 or 27.3 percent less than the $2,374,583 budget amount.

Memberships, Subscriptions, and State-Sponsored Meetings

As shown in Table 7, expenditures for memberships also declined from the Fiscal Year 1977 level, 1.2 percent in All Funds and 7.3 percent in the General Fund. Savings identified from the cancellation of memberships have already exceeded the original Task Force estimate. We did not attempt to compare expenditures for subscriptions and state-sponsored meetings because the data is not readily available from the Statewide Accounting System. Due to the difficulty departments have in calculating savings in these areas and the experience to-date, the original Task Force savings estimates have been revised downward to more accurately reflect our anticipated biennial savings. With the exception of one department, state agencies seem to be in general compliance with the Governor's directive to hold state meetings in public rather than private facilities.

Mileage and Automobile Fleet Reduction

Although the mileage reduction program was not implemented until December 1, the departments achieved a 4.4 percent reduction in the all funds and a 5.1 percent reduction in the General Fund mileage expenditures compared with Fiscal Year 1977. A 1977/1978 mileage expenditures comparison by major departments is provided in Table 10. In accordance with the Governor's directives, the state automobile fleet has been reduced from 2,603 on June 30, 1977, to 2,381 as of June 30, 1978 -- a net reduction of 222 automobiles. Since most vehicles were turned in toward the end of Fiscal Year 1978, the Task Force has not yet calculated savings. Substantial savings from reduction of the fleet will be achieved in Fiscal Year 1979 through vehcile reduction, conversion to smaller automobiles, and other recommendations in the Task Force Passenger Vehicle Report.

Departmental Savings Programs

Many new methods were developed by departments which yielded substantial one-time and on-going savings. The Department of Corrections used an internal "Freeze Board" to control salary expenditures in addition to the two percent complement reduction and cancelled a large coal order because they devised a method to "spend down" an old coal inventory thought to be unusable. The Revenue Department achieved additional savings by reducing program budgets by five percent and unallotting $10,000 in May due to their forms reduction program. In addition to complying with the savings program controls on mileage expenditures, the Welfare Department cut all non-mileage in-state travel expenditures by ten percent. An efficiency study at Faribault State Hospital enabled the department to achieve savings with a new food system and transfer additional positions to direct patient care to comply with a court order. A comprehensive energy conservation program at the State Universities yielded dramatic savings in Fiscal Year 1978, a portion of which was allocated to quick pay back energy conservation projects which will yield additional long-term savings. In addition to their unallottments for consumable inventory savings, the State University Board did not allocate to the universities at the end of the year the amounts which traditionally have been spent on consumable items.

Many departments reported results of savings efforts which were not included in the total because they were the result of on-going savings techniques which pre-dated the Governor's Cost Savings Program or they lacked sufficient fiscal documentation. For example, the Department of Labor and Industry expanded its student work study program which provided an unfunded increase in service amounting to 26,382 hours of work. The Department of Transportation provided a detailed report of its own internal cost savings efforts which will yield substantial on-going savings. The Department of Corrections Mutual Agreement Program and Residential Contracting Program are continuing to reduce costs to the department. Several specific savings efforts were also outlined by the Community Colleges but not included in the savings totals.

Overall, the departments, both large and small, offered in their August reports impressive documentation of a serious and determined effort to cut costs and save money. While this report is no means complete, we hope it provides an adequate summary of the extent of those efforts. In comments attached to their reports, several department heads remarked on the increased cost-consciousness among employees in their departments. The Governor's Cost Savings Program has challenged the ingenuity of all state employees, particularly the managers and supervisors. They have responded with major savings efforts and in uncounted small ways. As Pollution Control Agency Director Sandra Gardebring wrote in her report:

> I also believe that it should be mentioned that this effort has provided intangible benefits that cannot be identified. It has created a cost-conscious attitude throughout the Agency which has provided assurance that when decisions are made, cost efficiency/effectiveness concerns are addressed.

TABLE 1

SAVINGS PROGRAM STATUS SUMMARY

	February 1978 Report	August 1978 Report	FY 79 Savings Identified	Total to Date	Savings Percent of Goal	Biennial[1] Goals
Consumables	$2,281,185	$ 6,057,321	$ 4,498,379	$10,555,700	50.3	$21,000,000
Fixed Assets	490,897	2,277,105	323,312	2,600,417	31.3	8,300,000[1]
Out-of-State Travel	331,044	659,341	325,338	984,679	61.5	1,600,000
Memberships	17,327	31,548	31,803	63,351	126.7	50,000
Subscriptions[2]	5,303	15,204	21,591	36,795	49.1	75,000[1]
Meetings	21,805	113,274	71,040	184,314	73.7	250,000[1]
Complement	2,140,483[3]	2,126,021	4,471,286	6,597,307	100.0	6,597,307
Mileage	N/A	633,813	394,321	1,028,134	82.3	1,250,000
Automobiles	N/A	N/A	N/A	N/A	N/A	1,050,000
Department Programs	452,315	3,276,038	1,195,700	4,471,738	N/A	4,471,738[4]
Contracts	N/A	N/A	1,214,461	1,214,461	33.7	3,600,000
Printing	N/A	N/A	384,199	384,199	34.9	1,100,000
Land	N/A	N/A	N/A	N/A	N/A	2,100,000
Totals	$5,735,056	$15,174,461	$12,909,839	$28,084,300	54.7	$51,369,045

1 Savings goals have been revised downward from earlier estimates to more accurately represent expected biennial accomplishments.
2 Since subscriptions savings are included in the consumables savings amounts, they are not added into the totals.
3 Based on preliminary department estimates.
4 The savings amount from individual departmental programs is not a goal but instead a representation of savings already identified. It is expected that this amount will increase, but no projections are available at this time.

TABLE 2

FISCAL YEAR 1978 SAVINGS SUMMARY BY DEPARTMENT
(All Funds)

Department	Savings from Governor's Programs	Other Department Savings	Total Savings
01 Military Affairs	$ 658	$ 4,200	$ 4,858
02 Administration	1,228,064	90,308	1,318,372
04 Agriculture	98,561	93,558	192,119
07 Public Safety	1,396,722	0	1,396,722
10 Finance	31,620	0	31,620
12 Health	285,894	77,491	363,385
13 Commerce	30,852	0	30,852
17 Human Rights	6,191	20,000	26,191
21 Economic Security	300,545	26,541	327,086
23 Economic Development	20,057	0	20,057
24 Personnel	11,684	0	11,684
26 State Universities	750,000	921,321	1,671,321
27 Community Colleges	714,391	0	714,391
29 Natural Resources	1,272,407	0	1,272,407
30 State Planning	82,774	113,000	195,774
32 Pollution Control	132,415	30,765	163,180
34 Housing Finance	19,180	89,297	108,477
37 Education	457,377	0	457,377
39 Governor's Office	15,349	21,624	36,973
42 Labor and Industry	24,404	0	24,404
43 Iron Range Resources	183,714	2,700	186,414
45 Mediation Services	4,053	0	4,053
55 Public Welfare	1,697,321	333,247	2,030,568
67 Revenue	182,455	125,677	308,132
75 Veterans Affairs	119,350	8,146	127,496
78 Corrections	378,601	868,482	1,247,083
79 Transportation	2,145,330	12,000	2,157,330
80 Public Service	39,804	158,973	198,777
88 Energy	32,480	1,527	34,007
Subtotal	11,662,253	2,998,857	14,661,110
All Others	236,170	277,181	513,351
Total	$11,898,423	$3,276,038	$15,174,461

TABLE 3

TOTAL FISCAL YEAR 1978
SAVINGS BY FUND

Fund	Savings
10 General	$ 8,401,482
20 Special Revenue	305,629
22 State Airports	0
23 Game and Fish	98,474
27 Trunk Highway	2,457,462
28 Highway User Tax Distribution	821,157
30 Federal	1,460,215
31 Manpower Services Administration	162,483
50 Building	36,117
63 Housing Finance	108,477
64 Higher Education Coordinating Commission Student Loan Fund	1,194
69 Gifts and Deposits	8,352
70 Minnesota State Retirement System	0
75 Public Employees Retirement System	14,041
77 Teachers Retirement	7,107
90 Revolving	244,183
91 Motor Pool	288,313
94 Service	36,065
95 Prison Revolving	34,616
97 Computer Services Revolving	439,532
98 General Services Revolving	249,562
Total	$15,174,461

TABLE 4

SAVINGS BY MAJOR DEPARTMENT AND PROGRAM[1]
(All Funds)

Department	Consumables[1]	Fixed Assets[1]	Out-of-State Travel[1]	Memberships	Meetings	Subscriptions[2]	Complement	Mileage	Other	Total
01 Military Affairs	$ 0	$ 0	$ 658	$ 0	$ 0	$ 0	$ 0	$ 0	$ 4,200	$ 4,858
02 Administration	399,558	576,719	79,498	325	0	1,282	133,102	38,862	90,308	1,318,372
04 Agriculture	7,144	7,903	4,417	102	0	0	46,169	32,826	93,558	192,119
07 Public Safety	1,018,547	250,281	28,867	2,294	0	320	80,355	16,378	0	1,396,722
10 Finance	6,209	1,225	901	1,085	0	752	22,200	0	0	31,620
12 Health	171,274	0	3,774	0	0	0	52,694	58,152	77,491	363,385
13 Commerce	8,928	7,555	14,369	0	0	0	0	0	0	30,852
17 Human Rights	487	687	1,005	0	0	0	0	4,012	20,000	26,191
21 Economic Security	114,484	114,126	64,874	0	6,000	600	0	1,061	26,541	327,086
23 Economic Development	0	0	9,303	0	0	0	0	10,754	0	20,057
24 Personnel	3,092	2,473	5,834	0	0	260	0	285	0	11,684
26 State Universities	283,044[1]	134,731	30,358	7,754	0	3,264	273,537	20,576	921,321	1,671,321
27 Community Colleges	85,537	211,801	0	2,329	3,381	2,700	403,861	7,482	0	714,391
29 Natural Resources	986,128	116,802	18,253	5	6,469	0	104,224	40,526	0	1,272,407
30 State Planning	6,546	4,000	2,776	3,800	0	1,862	40,701	24,951	113,000	195,774
32 Pollution Control	15,740	32,145	51,694	0	140	225	32,696	0	30,765	163,180
34 Housing Finance	0	0	17,500	0	0	0	0	1,680	89,297	108,477
37 Education	67,982	12,005	131,594	0	80,893	0	78,663	86,240	0	457,377
39 Governor's Office	491	0	10,359	0	0	515	0	4,499	21,624	36,973
42 Labor and Industry	0	8,752	15,652	0	0	0	0	0	0	24,404
43 Iron Range Resources	49,653	104,738	3,098	0	100	0	0	26,125	2,700	186,414
45 Mediation Services	961	1,000	992	0	1,100	296	0	0	0	4,053
55 Public Welfare	1,156,851	242,200	51,706	6,606	6,024	0	103,150	130,784	333,247	2,030,568
67 Revenue	10,900	5,157	12,234	50	3,012	270	144,739	6,363	125,677	308,132
75 Veterans Affairs	84,656	27,842	0	170	0	240	6,682	0	8,146	127,496
78 Corrections	105,148	76,844	36,741	758	2,500	0	96,522	60,088	868,482	1,247,083
79 Transportation	1,370,139	267,286	0	1,801	0	800	476,000	30,104	12,000	2,157,330
80 Public Service	8,862	0	7,281	0	0	518	23,661	0	158,973	198,777
88 Energy	2,288	15,320	14,872	0	0	248	0	0	1,527	34,007
Subtotal	5,964,649	2,221,592	618,610	27,079	109,619	14,152	2,118,956	601,748	2,998,857	14,661,110
All Others	92,672	55,513	40,731	4,469	3,655	1,052	7,065	32,065	277,181	513,351
Total	$6,057,321	$2,277,105	$659,341	$31,548	$113,274	$15,204	$2,126,021	$633,813	$3,276,038	$15,174,461

1 Not adjusted for routine cancellations.

2 Included in consumables and therefore not added into totals.

TABLE 5
TOTAL ALL FUNDS SAVINGS BY DEPARTMENT
SAVINGS UNALLOTTED AND SAVINGS THAT CARRY FORWARD

Department	Total FY 78 Savings	Savings Unallotted	Savings Spent in FY 78[1]	Other Savings Not Cancelled[2]	
01 Military Affairs	$ 4,858	$ 4,858	$ 0	$ 0	
02 Administration	1,318,372	290,350	148,760	879,262	Some savings transferred to micrographics; Funds 90 thru 98 carry forward.
04 Agriculture	192,119	80,859	5,343	105,917	Avoided LAC request for increase in grain inspection; Fund 30 carries forward.
07 Public Safety	1,396,722	1,248,855	0	147,867	Funds 30 and 90 carry forward.
10 Finance	31,620	31,620	0	0	
12 Health	363,385	110,955	39,073	213,357	Most 30 and 90 fund savings carry forward.
13 Commerce	30,852	22,916	0	7,936	Fund 20 carries forward into FY 79.
17 Human Rights	26,191	26,191	0	0	
21 Economic Security	327,086	26,541	0	300,545	Savings mostly federal; carry forward or diverted to client care.
23 Economic Development	20,057	20,057	0	0	
24 Personnel	11,684	10,901	0	783	Some Funds 20 and 94 carry over.
26 State Universities	1,671,321	750,000	921,321	0	Savings used for energy cons. and to avoid LAC requests (see report).
27 Community Colleges	714,391	561,806	0	152,585	Funds 30 and 69 carry over to FY 79.
29 Natural Resources	1,272,407	581,874	0	690,533	LCMR and Funds 20, 30, 50, and 69 carry forward.
30 State Planning	195,774	195,774	0	0	
32 Pollution Control	163,180	72,621	0	90,559	Fund 30 will carry forward.
34 Housing Finance	108,477	0	0	108,477	Fund 63 will offset future expenditures.
37 Education	457,377	369,598	0	87,779	Some Fund 30 savings carry forward.
39 Governor's Office	36,973	36,973	0	0	
42 Labor and Industry	24,404	24,404	0	0	Fund 30 savings will return to federal government.
43 Iron Range Resources	186,414	0	0	186,414	All amounts are Fund 20 and dedicated.
45 Mediation Services	4,053	274	3,779	0	Savings used to avoid LAC request for Class 20 and 21.
55 Public Welfare	2,030,568	1,200,953	552,472	277,143	Fund 30 savings carry over; savings used for patient care and energy conservation.
67 Revenue	308,132	214,312	93,820	0	Avoided LAC request for income tax reciprocity.
75 Veterans Affairs	127,496	127,496	0	0	
78 Corrections	1,247,083	1,022,557	106,442	118,084	Savings used for energy retrofit/10 Fund unallotted savings go to Community Corrections.
79 Transportation	2,157,330	1,611,442	538,762	7,126	Savings spent for additional road repair and flood damage; Fund 30 carries forward.
80 Public Service	198,777	175,116	23,661	0	Savings used to avoid LAC request for new petroleum testing program.
88 Energy	34,007	6,027	0	27,980	Fund 30 carries over.
Subtotal	14,661,110	8,825,330	$2,433,433	$3,402,347	
All Others	513,351	220,423	0	292,928	
Total	$15,174,461	$9,045,753	$2,433,433	$3,695,275	

1 Savings spent in alternative ways; to avoid LAC requests and increase services.
2 Savings to be carried over into next fiscal year (e.g. revolving funds and federal funds).

Biennial Total = 6,597,307
Total Unallotted = 5,456,244
Total Reallocated = 1,141,063

TABLE 6

TWO PERCENT COMPLEMENT REDUCTION
(Departments with more than 100 state-funded positions)

Department	Number Positions	Number Positions Cancelled	Number Positions Reallocated	Total FY 78 Savings	FY 78 Savings Unallotted	FY 78 Savings Reallocated	Total FY 79 Savings	FY 79 Savings Unallotted	FY 79 Savings Reallocated
78 Transportation	97	97	0	$ 476,000	$ 476,000	$ 0	$ 995,749	$ 814,350	$181,399[1]
26 State Universities	70.5	70.5	0	273,537	273,537	0	297,956	297,956	0
55 Welfare	52	10	42	103,150	40,949	62,201[2]	669,509	123,509	546,000[2]
27 Community Colleges	34	34	0	403,861	403,861	0	403,861	403,861	0
29 Natural Resources	27	27	0	104,224	86,747	17,477[3]	376,645	342,824	33,821[3]
07 Public Safety	22	22	0	80,355	80,355	0	221,708	221,708	0
02 Administration	21	19	2[4]	133,102	43,593	89,509[5]	275,164	147,264	127,900[5]
67 Revenue	19.5	19.5	0	144,739	144,739	0	248,480	248,480	0
78 Corrections	18	18	0	96,522	96,522[6]	0	291,439	291,439[6]	0
37 Education	10	10	0	78,663	78,663	0	160,814	160,814	0
04 Agriculture	10	10	0	46,169	46,169	0	128,451	128,451	0
12 Health	4	4	0	52,694	52,694	0	56,756	56,756	0
13 Commerce	4	4	0	0	0	0	70,714	70,714	0
42 Labor and Industry	2	2	0	0	0	0	18,745	18,745	0
32 Pollution Control	4	4	0	32,696	32,696	0	51,825	51,825	0
01 Military Affairs	3	3	0	0	0	0	26,534	26,534	0
21 Vocational Rehabilitation	3	3	0	0	0	0[7]	0	0	0[7]
30 State Planning	3	3	0	40,701	40,701	0	55,242	55,242	0
77 Zoological Garden	3	3	0	7,065	7,065	0	31,008	31,008	0
80 Public Service	4	4	0	23,661	0	23,661	59,095	0	59,095
10 Finance	2	2	0	22,200	22,200	0	22,258	22,258	0
75 Veterans Affairs	1	1	0	6,682	6,682	0	9,333	9,333	0
	414	370	44	$2,126,021	$1,933,173	$192,848	$4,471,286	$3,523,071	$948,215

1 Allocated to pay unfunded state increase in employee insurance premiums.
2 Allocated to direct patient care at state hospitals to comply with court order.
3 LCMR and 50 Fund savings cancel to the Fund and remain with agency.
4 Two positions transferred to a LCMR land division activity but Fund 10 savings of $15,612 and $20,590 unallotted.
5 Revolving fund savings do not cancel but carry forward.
6 Dedicated by law to offset future Community Corrections Appropriations.
7 Positions cancelled but savings of $30,601 are 80 percent federal and not capturable; therefore no savings counted.

TABLE 7

FISCAL YEARS 1977 AND 1978 EXPENDITURES COMPARISON SUMMARY[1]

	All Funds				General Fund			
	Expenditures		1977 - 1978 Variance		Expenditures		1977 - 1978 Variance	
	1977	1978	Amount	Percent	1977	1978	Amount	Percent
In-State Mileage	$ 4,070,235	$ 3,891,294	$ (178,941)	(4.4)	$ 2,468,774	$ 2,342,693	$ (126,081)	(5.1)
Out-of-State Travel	1,917,980	1,725,646	(192,334)	(10.0)	1,169,086	1,026,237	(142,849)	(12.2)
Memberships	336,949	331,606	(5,343)	(1.2)	246,108	228,082	(18,026)	(7.3)
Consumables	57,273,772	57,271,216	(2,556)	0	27,763,323	27,656,533	(106,790)	(.4)
Fixed Assets	18,798,513	24,770,827	5,972,314	31.8	5,938,429	8,076,666	2,138,237	36.0

1 Data on subscriptions and state-sponsored meetings is not available from the Statewide Accounting System.

TABLE 8

CONSUMABLE INVENTORY EXPENDITURES ANALYSIS (Class 30)[1]
Fiscal Year 1977 and Fiscal Year 1978 by Major Department (All Funds and General Fund)

Department	All Funds Expenditures 1977	All Funds Expenditures 1978	All Funds Amount Change	All Funds Percent Change	General Fund Expenditures 1977	General Fund Expenditures 1978	General Fund Amount Change	General Fund Percent Change
01 Military Affairs	$ 720,961	$ 772,475	$ 51,514	7.1	$ 720,961	$ 772,475	$ 51,514	7.1
02 Administration	3,570,925	3,851,527	280,602	7.9	798,080	866,597	68,517	8.6
04 Agriculture	133,861	170,339	36,478	27.3	120,419	157,869	37,450	31.1
07 Public Safety	3,315,556	3,144,405	(171,151)	(5.2)	161,504	184,056	22,552	14.0
10 Finance	18,786	24,421	5,635	29.9	18,786	24,421	5,635	30.0
12 Health	491,314	550,520	59,206	12.1	220,147	300,318	80,171	36.4
13 Commerce	30,078	40,375	10,297	34.2	30,078	40,375	10,297	34.2
17 Human Rights	10,091	11,843	1,752	17.4	6,796	11,592	4,796	70.6
21 Economic Security	762,030	722,213	(39,817)	(5.2)	370,217	345,571	(24,646)	(6.7)
23 Economic Development	24,777	25,311	534	2.2	23,607	25,060	1,453	6.2
24 Personnel	36,533	30,779	(5,754)	(15.6)	34,892	26,968	(7,924)	(22.7)
26 State Universities	6,411,457	6,149,654	(261,803)	(4.1)	6,273,836	5,999,916	(273,920)	(4.4)
27 Community Colleges	2,303,639	2,333,574	29,935	1.3	2,172,961	2,233,747	60,786	2.8
29 Natural Resources	4,709,192	3,489,275	(1,219,917)	(25.9)	3,053,320	1,851,014	(1,202,306)	(39.4)
30 State Planning	96,503	46,938	(49,565)	(51.4)	91,443	44,536	(46,907)	(51.3)
32 Pollution Control	102,676	118,628	15,952	15.5	60,137	54,534	(5,603)	(9.3)
34 Housing Finance	20,569	28,252	7,683	37.4	0	0	0	0
37 Education	196,360	533,171	336,811	171.5	143,516	431,117	287,601	200.4
39 Governor's Office	24,665	15,756	(8,909)	(36.1)	16,252	15,308	(944)	(5.8)
42 Labor and Industry	41,088	56,698	15,610	37.9	33,882	48,553	14,671	43.3
43 Iron Range Resources	32,047	49,372	17,325	54.1	0	0	0	0
45 Mediation Services	4,853	4,991	138	2.8	4,853	4,991	138	2.8
55 Public Welfare	10,104,659	10,962,568	857,909	8.5	9,622,182	9,942,367	320,185	3.3
67 Revenue	100,924	103,985	3,061	3.0	100,924	103,901	2,977	2.9
75 Veterans Affairs	590,435	650,974	60,539	10.3	590,435	650,974	60,539	10.3
78 Corrections	5,666,188	5,927,646	261,458	4.6	2,999,168	3,415,909	416,741	13.9
79 Transportation	17,654,590	17,342,099	(312,491)	(1.8)	923	234	(689)	(74.6)
80 Public Service	71,269	77,551	6,282	8.8	71,249	77,051	5,802	8.1
88 Energy	27,746	35,876	8,130	29.3	22,755	27,079	4,324	19.0
Total	$57,273,772	$57,271,216	$ (2,556)	0	$27,763,323	$27,656,533	$ (106,790)	(.4)

1 These expenditure amounts are the total expenditures by the major departments as reflected in the Statewide Accounting System and have not been adjusted to reflect changes in program. The departments of Transportation and Economic Security have been compared with the units of state government which became those departments during this period. Outstanding encumbrances are considered as expenditures.

TABLE 9

OUT-OF-STATE TRAVEL EXPENDITURES ANALYSIS (Class 22)[1]
Fiscal Year 1977 and Fiscal Year 1978 by Major Department (All Funds and General Fund)

Department	All Funds: Expenditures 1977	All Funds: Expenditures 1978	All Funds: Amount Change	All Funds: Percent Change	General Fund: Expenditures 1977	General Fund: Expenditures 1978	General Fund: Amount Change	General Fund: Percent Change
01 Military Affairs	$ 2,235	$ 1,444	$ (791)	(35.4)	$ 2,235	$ 1,444	$ (791)	(35.4)
02 Administration	90,252	67,147	(23,105)	(25.6)	41,855	31,121	(10,734)	(25.7)
04 Agriculture	44,649	44,123	(526)	(1.2)	36,066	34,454	(1,612)	(4.5)
07 Public Safety	53,084	20,771	(32,313)	(60.9)	18,316	9,788	(8,528)	(46.6)
10 Finance	5,859	7,406	1,547	26.4	5,859	7,406	1,547	26.4
12 Health	70,070	80,391	10,321	14.7	36,824	38,507	1,683	4.6
13 Commerce	43,228	46,077	2,849	6.6	28,135	29,013	878	3.1
17 Human Rights	2,511	1,375	(1,136)	(45.2)	1,115	1,375	260	23.3
21 Economic Security	142,512	141,370	(1,142)	(.8)	21,239	17,310	(3,929)	(18.5)
23 Economic Development	35,745	23,910	(11,835)	(33.1)	31,547	21,679	(9,868)	(31.3)
24 Personnel	11,867	10,983	(884)	(7.4)	9,423	8,063	(1,360)	(14.4)
26 State Universities	328,791	308,005	(20,786)	(6.3)	267,905	267,074	(831)	(.3)
27 Community Colleges	117,036	121,909	4,873	4.2	95,781	98,660	2,879	3.0
29 Natural Resources	100,010	98,780	(1,230)	(1.2)	68,314	72,790	4,476	6.6
30 State Planning	52,014	31,261	(20,753)	(39.9)	40,423	23,820	(16,603)	(41.1)
32 Pollution Control	67,211	60,756	(6,455)	(9.6)	37,780	29,500	(8,280)	(21.9)
34 Housing Finance	28,667	18,934	(9,733)	(33.9)	0	0	0	0
37 Education	175,616	112,020	(63,596)	(36.2)	73,455	51,654	(21,801)	(29.7)
39 Governor's Office	46,838	20,497	(26,341)	(56.2)	21,745	10,157	(11,588)	(53.3)
42 Labor and Industry	21,723	18,241	(3,482)	(16.0)	12,605	11,732	(873)	(6.9)
43 Iron Range Resources	3,657	9,772	6,115	167.2	0	0	0	0
45 Mediation Services	3,045	2,199	(846)	(27.8)	3,045	2,199	(846)	(27.8)
55 Public Welfare	120,503	78,537	(41,966)	(34.8)	90,690	61,542	(29,148)	(32.1)
67 Revenue	103,595	106,375	2,780	2.7	103,595	106,375	2,780	2.7
75 Veterans Affairs	3,264	2,254	(1,010)	(30.9)	3,264	2,254	(1,010)	(30.9)
78 Corrections	73,212	57,284	(15,928)	(21.8)	63,998	50,732	(13,266)	(20.7)
79 Transportation	120,415	182,332	61,917	51.4	9,626	106	(9,520)	
80 Public Service	23,124	19,708	(3,416)	(14.8)	23,124	16,704	(6,420)	(27.8)
88 Energy	27,247	31,785	4,538	16.7	21,122	20,778	(344)	(1.6)
Total	$1,917,980	$1,725,646	$(192,334)	(10.0)	$1,169,086	$1,026,237	$(142,849)	(12.2)

1 These expenditure amounts are the total expenditures by the major departments as reflected in the Statewide Accounting System and have not been adjusted to reflect changes in program. The departments of Transportation and Economic Security have been compared with the units of state government which became those departments during this period. Outstanding encumbrances are considered as expenditures.

TABLE 10

IN-STATE MILEAGE EXPENDITURES ANALYSIS (Class 211 and 216)[1]
Fiscal Year 1977 and Fiscal Year 1978 by Major Department (All Funds and General Fund)

Department	All Funds Expenditures 1977	All Funds Expenditures 1978	All Funds Amount Change	All Funds Percent Change	General Fund Expenditures 1977	General Fund Expenditures 1978	General Fund Amount Change	General Fund Percent Change
01 Military Affairs	$ 190	$ 378	$ 188	98.9	$ 190	$ 378	$ 188	98.9
02 Administration	85,322	81,113	(4,209)	(4.9)	63,062	63,515	453	.7
04 Agriculture	299,812	329,410	29,598	9.9	191,853	225,938	34,085	17.8
07 Public Safety	275,285	250,005	(25,280)	(9.2)	115,487	106,348	(9,139)	(7.9)
10 Finance	4,030	3,942	(88)	(2.2)	4,030	3,942	(88)	(2.2)
12 Health	340,247	304,138	(36,109)	(10.6)	126,056	117,020	(9,036)	(7.2)
13 Commerce	65,448	63,118	(2,330)	(3.6)	62,670	59,518	(3,152)	(5.0)
17 Human Rights	11,252	8,377	(2,875)	(25.6)	7,354	6,953	(401)	(5.5)
21 Economic Security	546,418	610,572	64,154	11.7	207,914	215,979	8,065	3.9
23 Economic Development	35,828	20,284	(15,544)	(43.4)	29,089	19,295	(9,794)	(33.7)
24 Personnel	6,343	6,969	626	9.9	5,302	5,784	482	9.1
26 State Universities	169,272	172,328	3,056	1.8	116,735	116,994	259	.2
27 Community Colleges	134,929	133,231	(1,698)	(1.3)	131,093	129,795	(1,298)	(1.0)
29 Natural Resources	306,014	255,004	(51,010)	(16.7)	198,853	152,037	(46,816)	(23.5)
30 State Planning	101,091	42,291	(58,800)	(58.2)	82,337	39,025	(43,312)	(52.6)
32 Pollution Control	74,920	75,279	359	.5	52,864	56,352	3,488	6.6
34 Housing Finance	31,752	27,223	(4,529)	(14.3)	0	0	0	0
37 Education	294,037	272,256	(21,781)	(7.4)	88,528	128,741	40,213	45.4
39 Governor's Office	12,103	9,207	(2,896)	(23.9)	5,158	6,222	1,064	20.6
42 Labor and Industry	139,807	130,490	(9,317)	(6.7)	93,861	87,911	(5,950)	6.3
43 Iron Range Resources	14,735	16,363	1,628	11.0	0	0	0	0
45 Mediation Services	29,830	32,095	2,265	7.6	29,830	32,095	2,265	7.6
55 Public Welfare	363,737	338,052	(25,685)	(7.1)	312,671	281,796	(30,875)	(9.9)
67 Revenue	246,994	212,541	(34,453)	(13.9)	246,994	212,541	(34,453)	(13.9)
75 Veterans Affairs	15,347	16,508	1,161	7.7	15,347	16,508	1,161	7.7
78 Corrections	265,643	253,277	(12,366)	(4.7)	238,565	227,823	(10,742)	(4.5)
79 Transportation	167,714	190,643	22,929	13.7	12,385	64	(12,321)	
80 Public Service	23,119	22,419	(700)	(3.0)	22,550	22,419	(131)	(.6)
88 Energy	9,016	13,781	4,765	52.9	7,996	7,700	(296)	(3.7)
Total	$4,070,235	$3,891,294	$(178,941)	(4.4)	$2,468,774	$2,342,693	$(126,081)	(5.1)

1 These expenditure amounts are the total expenditures by the major departments as reflected in the Statewide Accounting System and have not been adjusted to reflect changes in program. The departments of Transportation and Economic Security have been compared with the units of state government which became those departments during this period. Outstanding encumbrances are considered as expenditures.

TABLE 1

SAVINGS SUMMARY BY EXPENDITURES
(All Funds)

	CONSUMABLE	FIXED ASSET	OUT-OF-STATE TRAVEL	TOTAL MEMBERSHIPS	SUBSCRIPTIONS	STATE MEETINGS	OTHER DEPARTMENTAL PROGRAMS
Budget FY 1978	$60,343,385	$21,126,624	$2,384,531	$348,418[1]	N/A	N/A	N/A
Expenditures 7/1/77-12/31/77	18,832,203	1,918,573	691,472	227,913	$284,910	$243,766	N/A
Projected Expenditures 1/1/78-6/30/78	39,234,301	19,190,599	1,363,098	106,361	N/A	N/A	N/A
Savings Reported[2] 2/1/78	2,281,185	490,897	331,044	17,327	5,303	21,804	$452,315
Percent Increase[3] Second Half over First Half	108.3%	900.3%	97%	-	(Plus projected savings of $6,650)	(Plus projected savings of $81,206)	
Percent Savings Is of Budget	3.8%	2.3%	14%	4.9%	N/A	N/A	N/A

[1] Since agencies do not budget on this level, this represents actual 1977 expenditures.

[2] Savings totals do not include any reported deficits.

[3] These percentages are based on reported figures and are not adjusted for the payment lag.

TO: All Department and Agency Heads DATE: June 30, 1977

FROM: Governor Rudy Perpich

The purpose of this memorandum is to ask you to join with me in an all-out effort to eliminate wasteful and inefficient use of public resources in state government. I also want to explain a particular new cost-saving program.

As you know, we have already taken several steps to curtail waste. Reducing printing of state highway maps by one-half, placing a moratorium on the purchase of file cabinets, cancelling and delaying requests for new automobiles, cutting back the number of forms by one-third, and other measures are steps we have already taken which will result in more than $1.6 million in savings. But these steps are not enough. We need to do more.

State government is a large enterprise that requires tough, prudent management. Over the years, Minnesota government--like virtually all government in this country--has grown steadily. This has occurred because the people have needed and supported increased public service. For many years, therefore, the focus of our state agencies has been on growth...on gearing up new programs to provide services to people.

It wasn't until relatively recently that anyone began to earnestly examine the way our agencies do business. Governor Anderson's Loaned Executive Action Program--LEAP--was a milestone accomplishment in this regard. And in recent years, the Legislature has also begun to reevaluate the basic way that state government functions. The push for program budgeting, the hiring of professional legislative staff, and the tougher and more aggressive legislative oversight activities are all indicators of rising legislative concern about the management of the state executive branch. By working closely with the Legislature, I'm pleased to note, we were able to hold the budget increase for the next biennium to the smallest percentage increase in the last ten years. HA!

But now it's time for the next big step. Traditionally, the people of Minnesota have been willing to pay comparatively high taxes because they knew they received excellent public services in return. The taxpayers of Minnesota, in other words, have been willing to pay high taxes in exchange for a high quality of life.

Now, however, we're in a new era. It's an era of continuing public cynicism about government and of rising awareness of the limited nature of our resources. All across the United States, people remain cynical and untrusting of their governmental institutions and their leaders. They're concerned about governmental performance, red tape, and misuse of their tax dollars. And at the same time, they realize that there are limits to our resources, and that our current resource-dependent way of life just cannot continue for many more years. People are sensitive about waste; they're concerned about mismanagement of their resources. And they want somebody to do something.

So it is here in Minnesota. And the situation is this: If we in Minnesota government are going to continue our state's tradition of providing a high level of public services to Minnesotans, we are going to have to reassure our taxpayers that state government can perform, can deliver, can minimize red tape, waste and mismanagement. In short, we need to do everything possible to answer peoples' questions and to quell their doubts and cynicism. This is why I have opened up my office to reporters, held open-houses, and continued to travel around the state. And this is why I am calling for a major push--now--for greater efficiency and economy in state government. We need to visibly demonstrate to Minnesota taxpayers that we are taking action to eliminate waste and mismanagement in state agencies.

With these thoughts in mind, I want you to know that my major goal as Governor of Minnesota is to see to it that state government is run at the least possible expense consistent with the provision of high quality public services. I want you--the heads of our agencies--to help me achieve this goal. You are the managers of state government, and, in the final analysis, it's up to you to establish the tone and pace of this effort for state employees to follow.

As I said in my State of the State Message last January, the time has come when we will be judged not by how many new programs we initiate but by how well we run the programs we already have. What we need to do then, is to establish a new mindset regarding state service. For far too long, state government has not adequately recognized or rewarded those public servants who have attempted to eliminate unnecessary spending. It seems, rather, that budget increases have all too often been the sole measure of effectiveness. I intend to change that. I plan to announce soon programs to recognize and compensate those people in state service who achieve greater efficiency.

At this time, however, I would like to begin our new push for greater economy in state government by addressing one specific area of activity. As most of you know, Bob Goff has joined my staff to head up a special Governor's Task Force on Waste and Mismanagement. This Task Force is to look into the operation of state government and report back to me ways that waste or inefficiency can be curtailed or eliminated. Bob reports that your cooperation has been excellent and I want that to continue. The Task Force is presently reviewing state auto use, in-service training activities, state publications, and several other areas of state spending. The Task Force has completed its review of one particular subject, and it deserves our immediate attention.

The subject that the Task Force has addressed is the use of goods, supplies, and materials by state agencies. By this I am referring to the use by all state agencies of all property other than real estate...everything from paper to food and desks to paint to typewriters...everything state agencies buy and consume other than land and buildings.

After reviewing the findings of the Task Force, I must tell you that we have a serious problem on our hands. We simply have too many excess supplies and materials sitting around in our state agencies: an estimated $33 million worth of excess supplies and materials. Let me repeat that incredible figure: $33 million is the value of the excess supplies and materials laying around in state government agencies...unused, taking up space, costing money.

The materials I am discussing are of two basic types: "consumable" materials and "fixed asset" materials. "Consumable" materials are items that normally are consumed or expended in less than two years. "Fixed asset" materials are items that normally are consumed or expended in longer than two years. Consumables include such things as food, fuel, office supplies, and maintenance parts. Fixed assets include such things as furniture, vehicles, office machines, and repair equipment.

Regarding consumables, the Department of Administration estimates that there is a minimum of $20 million in surplus consumable inventory in state government. The Department estimates that total consumable inventory on hand right now is about $40 million--approximately one year's supply. Yet efficient inventory practices would dictate that the inventory should be much less than one year's supply--possibly as low as one to three months' supply. The Department is speaking conservatively, therefore, in stating that there is six months worth--or $20 million--of surplus consumable inventory in stock in state government.

In addition, the Department estimates that there is $1 million worth of obsolete consumable inventory in your agencies. These are consumable items which are no longer usable by state government and could be sold.

Turning to fixed assets, Department of Administration estimates are that there is a minimum of $9 million in surplus fixed asset inventory in state government. This figure is based on actual on-site audits by Department personnel. The $9 million, therefore, represents the value of usable fixed asset materials that are sitting in your agencies but are not being used.

Departmental audit data also indicate that there is an estimated $3 million worth of obsolete fixed assets in state agencies. Again, these are items which are no longer usable and could be sold.

A summary listing of these excess materials is as follows:

- $20 million in surplus consumable inventories;
- $1 million in obsolete consumables which should be sold;
- $9 million in surplus fixed asset inventories;
- $3 million in obsolete fixed assets which should be sold.

Adding these figures together results in the total of $33 million in excess state inventories.

Clearly this situation is intolerable. We have to do a better job of managing the public's resources. And we will.

Today I am announcing a specific program to improve the management of the state's inventories of supplies and materials...and to save state taxpayers that $33 million during the next biennium.

Essentially, this program consists of putting the responsibility on you--the managers of state government--to make sure the inventories in your agencies are being properly managed. For years and years, our state agencies simply bought and stored supplies and materials without careful planning and control. Some agencies had parts of inventory systems; others had none. But now we have a sound program for use on a statewide basis. It's administered by the Materials Management Division of the Department of Administration. Your staffs already have manuals that cover inventory policies, procedures, and management techniques. The Materials Management Division has the responsibility for providing your agencies with proper direction and assistance.

While inventory systems currently are functional in some agencies, usage of these systems is not always consistent with Materials Management guidelines. In addition, there are agencies which have yet to become involved in the state's inventory management program. This has to change. To ensure that it does, I am today issuing an Executive Order mandating a five-point program regarding inventory management.

- FIRST: I am directing each of you--each state agency head--to take personal responsibility to see to it that your agency becomes fully involved in the inventory management program prescribed by the Materials Management Division. In other words, I am letting you know that each of you will be held personally accountable for the management of the inventories in your agency. Beginning today, your performance as an agency head will be judged in part on how well you deal with the excess inventory problem in your agency.

- SECOND: I am issuing the following directives relating to the management of excess consumable inventories:

  1. By September 1, 1977, each state agency will be implementing a consumable inventory management system in the manner prescribed by the Materials Management Division. Those agencies not yet involved in the state inventory program will make arrangements with Materials Management Division staff regarding personnel training and systems implementation.
  2. After September 1, 1977, no agency will purchase new consumable materials until the agency head or his designee has determined that the agency has a realistic need for the materials and that they are not available elsewhere in state government. The Materials Management Division will coordinate inter-agency communication regarding the availability of surplus materials and will monitor their disposition.
  3. By the end of the next biennium, all identified obsolete consumables will have been sold according to normal operating procedures.

- THIRD: I am issuing the following directives relating to excess fixed asset inventories:

  1. I am placing an immediate freeze on the purchase of new fixed asset materials. This freeze will be in effect until September 1, 1977, and will apply to all purchases of all new fixed assets except those of an emergency nature approved by Administration Commissioner Brubacher.
  2. Between now and the September 1 deadline, a full accounting of obsolete and surplus fixed asset materials will be accomplished and documented. To complete this task, each agency will survey its entire stock of fixed assets by August 1 in the manner prescribed by the Materials Management Division. The Division will then review and organize the inventory data and by September 1 will have circulated a catalogue of surplus fixed assets.

3. After September 1, justified purchases of new fixed assets will once again be permitted but <u>only</u> after the Materials Management Division has agreed that the desired materials are not available in the form of surplus stock.
4. By the end of the next biennium, all identified obsolete fixed asset materials will have been sold according to normal procedures.

- <u>FOURTH</u>: I am establishing a Special Task Force on State Purchasing Practices. One of the reoccurring comments made by people in our operating agencies is that they wouldn't stock so much in the way of consumable and fixed asset materials if they could get the materials they need <u>when</u> they need them and in the <u>quantities</u> and <u>qualities</u> necessary. In addition, there seems to be general conflict between state purchasing practices and basic inventory management principles. For these reasons, I am creating the Special Task Force to do a complete review of state purchasing practices as they relate to effective inventory management. The membership of the Task Force, to be announced soon, will consist of both state agency personnel and people from the private sector. The work of this Task Force is crucial, as optimum inventory management clearly cannot be achieved and sustained without effective and efficient purchasing practices.

- <u>FIFTH</u>: I am directing that all savings which result from this inventory management program be documented and the budgeted expenditures cancelled. The savings that this program will generate will not be realized, of course, if the money saved is spent in other ways. This will not be allowed. Commissioners Christenson and Brubacher will be monitoring the savings being realized and the expenditures being cancelled. In addition, I will expect reports from each of you on February 1 and August 1, 1978, detailing the dollar savings realized and projected from your inventory management program and other cost-cutting efforts. Also, you should know that each state agency will be expected to budget its inventory needs for the 1980-81 biennium on the basis of inventory management guidelines.

I believe this five-point program is reasonable and workable. It need not result in a single state employee being denied the supplies or materials necessary to do his or her job, nor must a single Minnesotan go without needed public services because of this effort. All I am asking is for competent management of state inventories.

And the rewards will be substantial. By means of this program, you agency heads can collectively generate $33 million in one-time savings for the taxpayers of Minnesota. Selling obsolete materials will result in a one-time revenue gain of $4 million. And reducing surplus inventories to reasonable levels will save another $29 million in the form of reduced purchases. That is our goal over the next two years; we want to achieve a $33 million one-time savings for the people of the state during the next biennium.

Let me also point out, however, that Department of Administration personnel estimate that this program can result in an additional annual savings of about $6 million. That's a $6 million savings that will reoccur each and every year once we are efficiently managing our inventories of consumable and fixed asset materials. These annual savings will result from reduced storage costs, minimized obsolescence and spoilage, and the freeing up for investment of those funds now tied up in excess inventory.

Before I close, let me point out that this program I have outlined concerns the management of the state's inventories of materials at present levels of usage. It does not address, therefore, whether or not these levels of usage themselves are acceptable. I encourage you to continue to review your actual consumption of supplies and materials, as we are certain that over-consumption continues in many areas. Mr. Goff's Task Force has been reviewing this subject as well, and I expect to have some specifics on this topic during the coming months.

I will appreciate your full cooperation and aggressive follow-through concerning the inventory management program and other projects designed to curtail waste in state government.

STATE OF MINNESOTA

EXECUTIVE DEPARTMENT

EXECUTIVE ORDER NO. 149

Providing for a State Materials
Inventory Management Program

I, Rudy Perpich, Governor of the State of Minnesota, by virtue of the authority vested in me by the Constitution and applicable statutes, do hereby issue this Executive Order:

WHEREAS, efficient management of the use of goods, supplies, and materials by state agencies is an important responsibility of the executive branch of state government; and

WHEREAS, it has been estimated that there is $33 million of obsolete and surplus materials in the inventories of state agencies; and

WHEREAS, this amount of excess materials in state inventories constitutes a wasteful and intolerable situation; and

WHEREAS, special action is needed to eliminate the excess inventories and to ensure that such a situation does not arise in the future:

NOW, THEREFORE, I ORDER:

1. That the head of each state agency assume the direct and personal responsibility for the full involvement of his agency in the inventory management program prescribed by the Materials Management Division of the Department of Administration.

2. That the following occur regarding state consumable materials:

   a. By September 1, 1977, each state agency will be implementing a consumable inventory management system in the manner prescribed by the Materials Management Division. Those agencies not yet involved in the state inventory program will make arrangements with Materials Management Division staff regarding personnel training and systems implementation.

   b. After September 1, 1977, no agency will purchase new consumable materials until the agency head or his designee has determined that the agency has a realistic need for the materials and that they are not available elsewhere in state government. The Materials Management Division will coordinate inter-agency communication regarding the availability of surplus materials and will monitor their disposition.

c. By June 30, 1979, all identified obsolete consumables will have been sold or disposed of according to normal operating procedures.

3. That the following occur regarding state fixed asset materials:

   a. Effective at the close of the work day June 30, 1977, there is a freeze on the purchase of new fixed asset materials by state agencies. This freeze will be in effect until September 1, 1977, and will apply to all purchases of all new fixed assets except those of an emergency nature approved by the Commissioner of Administration.

   b. Between this date and the September 1 deadline, a full accounting of obsolete and surplus fixed asset materials will be accomplished and documented. Each agency will survey its entire stock of fixed assets by August 1 in the manner prescribed by the Materials Management Division. The Division will then review and organize the inventory data and by September 1 will have circulated a catalogue of surplus fixed assets.

   c. After September 1, justified purchases of new fixed assets will once again be permitted but only after the Materials Management Division has agreed that the desired materials are not available in the form of surplus stock.

d. By June 30, 1979, all identified obsolete fixed asset materials will have been sold or disposed of according to normal procedure.

4. That there is established a Special Task Force on State Purchasing Practices, to be named at a later date, consisting of both state agency personnel and people from the private sector. The Task Force will do a complete review of state purchasing practices as they relate to effective management of the state's inventories of materials.

5. That all savings which result from the inventory management program prescribed by this executive order be documented and the budgeted expenditures cancelled, as follows:

   a. Each agency head will submit reports to the Governor on February 1 and August 1, 1978, detailing the savings realized and projected from his inventory management program.

   b. The Commissioners of Finance and Administration will monitor the savings being realized and the expenditures being cancelled.

   c. Each agency will budget its inventory needs for the 1980-81 biennium on the basis of inventory management guidelines.

This order is effective immediately and shall remain in effect until rescinded by the proper authority.

IN TESTIMONY WHEREOF, I hereunto set my hand on this 30th day of June, 1977.

Rudy Perpich
Rudy Perpich, Governor

Filed According to Law:

Joan Anderson Growe
Joan Anderson Growe
Secretary of State

ADMIN 1000 (REV. 4/77)

STATE OF MINNESOTA

Office Memorandum

DEPARTMENT Waste and Mismanagement

TO : All State Departments and Agencies

DATE: Oct. 30, 1978

FROM : Robert E. Goff, Director
Governor's Task Force on
Waste and Mismanagement

PHONE: 0644

SUBJECT: Management of State Equipment

Our first year of experience with the Governor's Cost Savings Program reflects a need for improving our overall management of state equipment. This was the only identified cost-savings area where we fell substantially behind our goals for Fiscal Year 1978.

Listed below are a few guidelines to aid you in your equipment planning and management. Although these are not new ideas, they require renewed emphasis and attention by our managers to make this cost savings program successful. Technical assistance is available from the Materials Management Division.

1. Communicate the need for conserving funds to the lowest levels in your agency. That is where most equipment requests originate.

2. Work toward 100 percent accuracy on your agency's fixed asset inventory and report all surplus equipment immediately to the Materials Management Division so that other agencies may utilize it.

3. Identify costly specialized equipment that is not used on a year round basis and let other agencies that might have a similar need know when such items would be available on a loan basis.

4. Do not warehouse duplicates of items that are readily available and are not of an emergency nature (ladders, tools, etc.).

5. Always explore the possibility of using existing state surplus property before purchasing new equipment.

6. Increase participation in the Federal Surplus Program by assigning personnel to frequently review property available at the Federal Surplus Distribution Center at Arden Hills.

7. Rather than purchasing new equipment, pursue the possibility of repair and repainting by Prison Industries.

8. When remodeling office quarters, use existing office furniture rather than ordering new.

9. Purchase standard office equipment rather than highly expensive wood chairs and desks.

10. Use manual typewriters in all situations where only a minimal amount of typing is done. Identify and reallocate electric typewriters assigned to employees who type infrequently.

ADMIN 1000

STATE OF MINNESOTA
Office Memorandum

DEPARTMENT Waste and Mismanagement

TO : Governor Rudy Perpich

DATE: August 16, 1977
Revised September 14, 1977

FROM : Robert Goff, Director
Governor's Task Force on Waste and
Mismanagement in State Government

PHONE: 296-0644

SUBJECT: Expenditures for Employee Professional
Development and Communication

Through its laws, rules, and budgeting process, the State of Minnesota has indicated its commitment to the training and development of its managerial and professional personnel. A dollar of taxpayers' money spent on sound training and development programs is well spent when it leads to a more effective and productive work force. The Governor's Task Force Study indicates, however, that money allocated for professional development by the state is not spent as effectively as it should be.

Under the heading of "employee professional development and communication," the Task Force included the costs of conferences, workshops, meetings, and seminars, both in and outside the state, and professional memberships and subscriptions. The study did not include training courses offered through the Department of Personnel or tuition reimbursements authorized for courses offered by educational institutions, since the Department of Personnel is presently involved in its own study of those expenditures.

In keeping with your goal to exercise greater care in the spending of all types of tax dollars, we reviewed expenditures from all funds including revolving accounts as well as federal grant moneys. The study was limited to only those state agencies for which the Governor has direct authority and responsibility. For example, the Legislature, the Judiciary, and the University of Minnesota were excluded.

GENERAL FINDINGS

There are at present few general policies relating to the expenditures we have described as "professional development and communication costs," although more than $4.4 million is spent each year. (Those policies of a minor nature that appear in the Personnel rules and guidelines and in some state employee contracts will be specifically noted later in this report.) The lack of such general policies applying to all agencies has contributed to the following conditions:

--Those who allocate, spend, and review these expenditures have a fragmented view of their effects. Professional development costs are not looked at collectively.

--The Statewide Accounting System does not provide easily retrievable data on this subject. Also, except for out-of-state travel costs, budget allocations are not recorded for these purposes.

--There are dramatic variations among state agencies in the per person amounts expended for professional development and communication. For example, an employee of one agency may travel out of the state several times a year to attend professional conferences while an employee with similar duties in another agency may never do so.

--There has been since Fiscal Year 1975* a steady increase in most of the expenditure areas included in the study; however, some, such as the expenditures for agency-sponsored conferences in the state, have increased dramatically.

--Of the more than $4.4 million spent annually on items relating to employee professional development, at least $1.7 million could be saved by applying a few simple, common-sense policies and guidelines. The costs can be cut with no adverse impact on the quality of state service to the public.

OUT-OF-STATE TRAVEL

Findings

Approximately 18,000 employee-days were spent out of the state for various reasons in 1977. That is roughly equivalent to 360 state employees spending one day out of the state each week. The Task Force identified various types of out-of-state travel, which we divided into two basic categories:

Administrative Travel

Such travel is often a necessary part of an employee's job responsibilities. It is an important part of state operations and includes federal relations, official representation, site visits, etc. Examples are the Department of Revenue auditors who travel out of the state to audit records of companies doing business in Minnesota, the Investment Board

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* All references to years in this report pertain to fiscal years.

personnel who invest state revenues, and department head meetings with federal officials.

Professional Development and Communication Travel

This category covers attendance at conferences, workshops, meetings, training sessions, and seminars sponsored by others, including professional associations and government agencies. Examples might include a continuing legal education conference attended by a departmental lawyer, an annual meeting of an association of state officials, and an industry-sponsored conference attended by a state employee who works in the respective field.

Some types of travel are more difficult to categorize. A notable example is attendance at workshops relating to federal grants, where an employee may obtain necessary information for spending the federal grant while also benefiting from a professional development standpoint. In our judgment, the respective agency heads are in the best position to subjectively determine how to categorize such trips.

Of the total of $2,214,713 for out-of-state travel budgeted for 1978 for the agencies we studied, approximately $1,168,779 or 53 percent is allocated for Professional Development and Communication Travel and $1,045,934 or 47 percent for Administrative Travel. However, there is wide variation in the relative proportions of agency travel budgets devoted to these two types of travel, ranging from one agency's extreme of 15 percent Administrative

Travel, 85 percent Professional Development Travel to the other extreme of 85 percent Administrative Travel, 15 percent Professional Development Travel. There is also great variation in the amounts per professional-managerial employee. In one case, one major agency spends $935 per employee, while another department spends only $71 per employee for Professional Development Travel.

Due to legislative efforts to cut back on out-of-state travel spending, the overall amount budgeted for out-of-state travel by these agencies in 1978 ($2,214,713) is 11 percent less than the amount budgeted for them in 1977 ($2,475,888). However, the amount budgeted for 1978 is five percent more than the amount actually spent in 1977 according to Task Force estimates. There was a 32 percent increase in expenditures for out-of-state travel by all state employees from 1975 to 1977.

Out-of-state travel is paid for out of nearly 20 different accounting funds. Of the total amount spent, approximately 59 percent is General Fund, 22 percent is exclusively federal funds, and five percent is Trunk Highway Fund, with the remaining portion coming in smaller amounts from various revolving and dedicated funds.

Our review of individual expense reimbursements and special expense request forms indicates that it is not uncommon for agencies to send several employees on a particular out-of-state trip when it appears that one or two employees would be sufficient. One very small agency sent 20 people to Atlanta last winter to attend a conference.

Except for legislatively established agency budget limits, there are only a few restrictions on out-of-state travel expenditures. The personnel rules provide that trips out of state must be authorized by the appointing authority and that claims for expenses must be certified by the claimant to be "just and correct." Air travel is limited to coach class except in instances where such space is not available. Specific amounts reimbursable for out-of-state meals are limited by the Department of Personnel and some employee contracts to $3.20 for breakfast, $3.70 for lunch, and $7.90 for dinner.

Amounts reimbursable for lodging are limited by the following language in the travel regulations: "It is the responsibility of the appointing authority to instruct the employee to use good judgment in incurring lodging costs. Charges shall be reasonable and consistent with the facilities available." Employees are required to submit receipts for actual lodging expenditures. In addition, 13 employee contracts state that employees who incur lodging expenses "shall be allowed reasonable costs of lodging." Our review of expense reimbursements during the spring of 1977 revealed that in some cases, lodging costs appear to be unnecessarily high. Actual examples of expensive single accommodations included $100 in Dallas, $59.64 in Atlanta, $46.43 in Chicago, $51,84 in Washington, D.C., and both $72.80 and $84.24 in Minneapolis.

A unique feature of the employee contracts is the provision in the State University Faculty contract: Article XV, Section C.

> "For each fiscal year (1977-78; 1978-79) of this Agreement, each academic department will be allocated out-of-state travel funds at the rate of $100 per each full-time equivalent faculty member in the department as of the beginning of each fiscal year. The membership of each department shall, through a democratic process, determine an equitable procedure for the distribution of such funds to the faculty members. Funds provided by this Section shall be used only for financing out-of-state <u>travel to professional conferences, workshops, and similar meetings for professional development of the faculty member.</u>"

In conversations with agency heads and personnel, the Task Force learned that out-of-state trips are often perceived as fringe benefits. In fact, some agencies have developed an informal policy of allowing each professional and managerial employee to take one trip per year. Specific trip decisions are sometimes more a function of the time of year and the location rather than the value of the conference.

<u>Recommendations</u>

The following recommendations regarding out-of-state travel are based on the philosophy that Professional Development Travel is a necessary, justifiable expenditure by state agencies. We do not agree with the policy of some states that employees who travel for Professional Development and Communication pay their own way. Neither do we agree with the policy in effect in some states which requires employees to pay 25 percent of the costs of each trip, since an employee who cannot afford to pay his/her share may be deprived of a valuable learning experience. Instead, the Task Force recommends three basic policies which will substantially reduce out-of-state travel costs without imposing any personal hardships on state employees or resulting in decreased service to the public.

Recommendation #1

All agency heads should limit the total amount of money spent in each fiscal year for Professional Development and Communication Travel. Each agency's limit should be determined by multiplying the number of managerial and professional employees within the agency by 100. For example, the Department of Finance has 75 managerial and professional employees and would thus be limited to spending \$7,500 for Professional Development Travel (75 x \$100 = \$7,500). Professional Development Travel funds should be allocated and monitored by the department head as he/she deems most appropriate. This guide should apply to member of independent boards as well as employees of state departments.

The amount provided will not be sufficient to enable every employee to take a trip out of state each year as is presently the case in some agencies.

This policy will have a modest effect on 37 of the 67 agencies included in this study. However, some high-spending agencies such as Education, Transportation, Public Safety, Administration, the State University Board, Pollution Control Agency, and the Housing Finance Agency will experience substantial cuts.

Recommendation #2

An agency head shall authorize no more than one employee per out-of-state trip for either Administrative or Professional Development travel unless specific advance approval is granted by the agency head.

Approval for more than one person per trip should be granted only if the responsibilities cannot be handled by one person. For example, an agency head may need the specific expertise of a division employee in discussing a specific problem with federal officials.

An employee who is sent to a conference or meeting should be encouraged to tape-record the sessions, write a report, or in some other way make the information gained from the conference available to other agency personnel.

This recommendation applies to independent boards as well as to regular agency personnel, and it covers all out-of-state travel.

Recommendation #3

The amounts reimbursable for actual lodging expenses while in travel status both within Minnesota and outside the state should be limited to specific amounts established by the Commissioner of Personnel based on an acknowledged index of travel costs.

The Runzheimer Meal and Lodging Index, issued by the Runzheimer Company of Rochester, Wisconsin, should be used as an index for annual adjustment of the limits through Personnel guidelines. The Runzheimer report is used as a basis for travel cost reimbursements by the federal government, numerous states, and private industry.

According to the most recent Runzheimer report, the average cost of a single room in a first-class establishment in a sample of cities (excluding eight particularly high-cost areas) is $21.33 per night, including tax and gratuity. The average costs of a single accommodation at a first-class establishment in the eight high-cost areas (including tax and gratuity) are as follows:

Boston	$33.00	New York City	$49.50
Chicago	$33.00	Philadelphia	$30.00
Los Angeles	$28.00	San Francisco	$31.50
Newark	$29.00	Washington, D.C.	$40.00

The Task Force recommends that the above Runzheimer estimates be established as reimbursable limits (including tax and gratuity) for lodging in the eight identified high-cost areas and that a limit of $21 per night be allowed for lodging in all other areas of the country. These limits are quite generous since they exceed the lodging limits for federal employees and a recent poll of federal employees indicated that 92 percent found the federal amounts to be adequate.

A lodging expenditure for which reimbursement is sought that exceeds the allowable limits should require specific department head approval. Approval should be granted when an employee can demonstrate that no suitable accommodations were available within the amounts allowable.

An exception may be cases where employees attend conferences held at certain hotels whose rates exceed state maximums. In such instances, employees should be allowed to stay at the conference hotel. In accordance with the present travel regulations, receipts for lodging costs should be required as documentation of all actual expenditures.

In all cases, employees should seek inexpensive, prudent alternatives for incurring lodging expenses. In our review of lodging costs, we noted that it is common for field personnel of agencies such as the Department of Natural Resources, Department of Transportation, and Public Safety to secure in-state lodging at less than $10 per night. The $21 should be viewed only as a general maximum and will be obviously too high in some areas of the state.

The Task Force has estimated that this policy alone can save at least $100,000 annually in in-state and out-of-state lodging expenditures.

In addition to the above three recommendations, the Task Force also offers these simple, common-sense suggestions for cutting back on unnecessary out-of-state travel.

(a) When a state employee travels out of state, he should be able to show that the desired information to be gained from the trip cannot be secured in some other less expensive way, such as by mail or telephone.

(b) Whenever practical, state employees who are authorized to enroll in a specific training course at state expense should seek out good programs offered locally before investigating those offered by institutions in other parts of the country.

(c) Some agencies have brought people into the state for training and development purposes thus avoiding taking large numbers of our people out of state at much greater expense. This practice should be viewed as a desirable alternative.

(d) State employees should avoid writing out-of-state travel requirements into contracts with federal agencies.

The Task Force conservatively estimates that the combined effect of Recommendations #1, #2, and #3 would be an $800,000 annual reduction in out-of-state travel costs. The policy of limiting out-of-state travel to one employee per trip will have the effect of reducing administrative travel costs by at least $250,000. With the cooperation of agency heads in limiting Professional Development Travel expenditures to an amount equal to $100 per person, and by applying the lodging limit of $21 per night, another $550,000 will be saved each year. As is the case with the Inventory

Control Program, agency heads shall provide in their February 1 and August 1 progress reports to the Governor an accounting of the savings achieved from their out-of-state travel budgets. The reports shall include an estimate of savings from all funds, including federal funds and revolving accounts.

IN-STATE CONFERENCES AND MEETINGS

Findings

In Fiscal Year 1977, state agencies included in this study spent more than $1.2 million for various types of meetings held in private facilities in all parts of the state. This estimate is based on a careful review of actual payments made to vendors used by state agencies to accommodate the meetings, but does not include any state-reimbursed expenses for travel to and from the meetings.

Such meetings were sponsored by all major state agencies and many smaller agencies, including some boards and commissions. The meetings ranged in size from only a few people to several hundred. They were attended primarily by state employees and sometimes by employees of political subdivisions, such as local civil defense directors, law enforcement officers, welfare workers, school district personnel, etc. Occasionally, representatives from the private sector and members of the public were included. Expenditures sometimes included only one meal but often extended beyond one day and involved lodging expenses.

The meetings were held in hotels, motels, restaurants, resorts, and conference facilities throughout Minnesota. In a few cases, the agencies charged a registration fee, thereby recovering most of the expense involved in those meetings.

The Task Force has calculated the cost of these meetings held in private facilities and sponsored by state agencies by manually recording actual payments to vendors. Because the costs of state-sponsored events were coded into the accounting system in a variety of ways, the Task Force analyzed all of these expenditures recorded on microfiche. Out of the total of $1,154,148 spent in 1977, only $356,848 was coded as an expenditure for "Conferences, Meetings, and Catering." The remaining expenditures were miscoded, appearing in the accounting system as "Other Purchased Services," "Rents - Space - Non-State Owned," "Living Expense - In-State," etc.

The value of many meetings we reviewed seemed questionable. One example was a dinner meeting of state employees at a local restaurant for the purpose of "planning the agenda for the next meeting." In a number of cases, breakfast meetings or lunch meetings were held when the business could have been taken care of in the office during normal business hours. Some meetings which are purportedly "public" have been held in private clubs.

Few agencies have a centralized, administrative way of controlling these expenditures. If the head of a particular division or section wants to hold a meeting in a private facility and the meal amounts do not exceed those reimbursable under the Personnel Rules, there is frequently nothing preventing him or her from doing so other than the limitations imposed by a division's budget. In many cases, purchase orders or formal contracts with a vendor were not prepared in advance. Some agencies held meetings at which the meal costs exceeded those allowable under the Personnel Rules. In those cases, the agency submitted a Special Expense Form 435 to the agency controller (Department of Finance) in advance of the meeting. The primary requirement for approval has been only "that the meal expense is in connection with official duties or assignments of a state employee" and "the benefits of the employee's attendance or participation will accrue primarily to the state."

On June 16, 1977, the Commissioner of Administration issued a memorandum to all agency heads suggesting that whenever possible state-sponsored meetings should be held in state facilities. To estimate the potential cost savings of this suggestion, the Task Force contacted a number of restaurants, hotels, and resorts used by state agencies. We asked for cost estimates for hypothetical meetings to be attended by 50 people for both one day (lunch only) and one day and one night (meals and lodging) meetings. We then compared those estimates with others supplied by state departments which have comparable facilities including community colleges, state universities, the University of Minnesota, Camp Ripley, and the Veterans' Home.

Based on these estimates, the average cost of holding a one-day (lunch only) meeting in a private facility is three times that of holding a comparable meeting in a state facility. For an overnight meeting (including lodging and three meals) the private facility cost two and one-half times as much.

The Task Force also reviewed in-state conference fee expenditures for conferences not sponsored by the agencies themselves. Since these conferences are sponsored by other levels of government, private organizations, etc., the state has no control over their locations; however, costs can and will be controlled by restricting the number of state employees who attend.

The agencies included in this study spent $135,151 for in-state registration fees during 1977. These expenditures represent a 16 percentile increase over 1976. Although, the increase seems large, only a small amount of money is involved. Because of the relatively nominal amount spent per employee for in-state conference fees and related travel costs, the Task Force does not recommend any action to curtail these expenditures at this time.

While reviewing in-state conference expenditures, the Task Force became aware that some agencies in the past have engaged in the practice of offering "conference grants" to private organizations or political subdivisions and then authorizing large numbers of agency employees to attend the conference without direct charge. The specific cases we reviewed were totally inappropriate in their use of state funds. This practice, where it exists, must be reviewed by the commissioners. The Department of Finance will review agency expenditures for possible continued evidence of misuse.

Recommendation

The Task Force recommends the following policy as a means of cutting back on expenditures for in-state conferences and meetings. The recommendations should not be construed as an attempt to limit necessary professional communcation among state employees or between state employees and other units of government. Most importantly, the implementation of this policy should not in any way restrict the vital exchange of information and ideas between state employees and the citizens of the state.

All state agencies should be directed, as of November 1, 1977, to hold all off-site conferences and meetings in publicly owned facilities. Privately owned facilities for which the state has secured long-term leases (e.g. the Space Center and the state agency conference rooms in the American Center Building) will be considered "publicly owned" under this policy.

In the meantime, agencies should attempt to voluntarily comply with this policy. This requirement applies to all agency-sponsored meetings and conferences for which participants receive prior notice and at which some type of state business is to be conducted. For example, when state employees are in travel status and happen to eat enroute together in the same restaurant, the meal would not be defined as a meeting.

Agencies may be allowed to sponsor conferences and meetings in private facilities if prior approval is granted by the agency head. Exceptions to this policy should be approved under the following conditions:

(a) There is no publicly owned facility which meets the specific needs of the conference or meeting (e.g. all publicly owned facilities within the geographic area are too small);

(b) A private facility is less expensive than available public facility; or

(c) Publicly owned facilities which do meet the needs of the meeting or conference are not available on the date on which the meeting or conference must be held.

Certain promotional meetings sponsored by the Department of Economic Development may also be exempted.
Exceptions granted must be paid through expenditure object code 183, "Conferences, Meetings and Catering." Exceptions to the policy will be recorded by the Department of Finance and will be subject to audit. Each agency head should designate an employee to be responsible for compliance with this policy.

Prior to the implementation of this policy, the Department of Administration will supply each state agency with a catalogue describing the state-owned meeting and conference facilities that are available. The catalogue will provide detailed information on sizes of rooms, meal arrangements, over-night accommodations, equipment availability, costs, scheduling, handicapped access, etc.

If a suitable state facility is not available for a particular meeting, agencies should attempt to find an appropriate public facility operated by another level of government. Regardless of whether meetings are scheduled in private or public facilities, agencies should seek locations in geographic areas that are most convenient for the participants in order to keep trave costs and time to a minimum.

The Task Force estimates that the implementation of this policy will save at least $750,000 annually. All savings shall be reported to the Governor in the February 1 and August 1 progress reports.

MEMBERSHIPS AND SUBSCRIPTIONS

Involvement in professional organizations and access to professional publications are valuable components of employee professional development. If the particular membership or subscription is appropriate to an employee's job responsibilities and is well-used, the cost-benefit ratio can be very high.

During 1977, the agencies included in this study spent more than $283,500 on departmental and individual memberships in various professional organizations. Overall, state expenditures for memberships have increased 24 percent since 1975. Previous agency cutbacks indicate that at least $50,000 can be saved by monitoring all memberships and following Task Force recommendations.

The agencies included in the study spent more than $630,000 in 1977 on subscriptions, books, and similar items purchased for the professional enhancement of state employees. Overall, the 1977 expenditures for expenditure code #376 amounted to $2,174,479; however, it was necessary to subtract items purchased for resale by the Documents Division, items bought for inmates and patients at state institutions, library materials for students and members of the public, etc. The total expenditures for all these items increased by 42 percent from 1975 to 1977. Prior actual cutbacks indicate that a continual program of screening subscriptions can trim at least $100,000 from present subscription expenditures by the state.

Department heads should develop internal mechanisms for periodic review:

Recommendation #1

Some departmental and individual memberships are of questionable value and should be dropped. The state currently pays for more than 50 Chamber of Commerce memberships in addition to memberships to local community organizations such as Kiwanis, Rotary, Lions, Jaycees, etc. Reimbursement for these memberships should be allowed only when they are held in the name of the department and they bear a direct relationship to the specific job responsibility

Recommendation #2

Several agencies have purchased duplicate memberships in certain organizations. Duplicate departmental memberships are unnecessary and should not be permitted. Furthermore, if a department holds a membership, it is unnecessary for individuals within the department to also have their personal memberships paid for by the state.

Recommendation #3

A few agencies tend to spend relatively large amounts for memberships. The State University System, for example, accounted for more than 25 percent of total state expenditures for memberships in 1977. Others tending to spend large amounts in 1977 were the Community College System, the Departments of Education and Public Welfare.

Memberships in professional associations also lead to larger expenditures for employee in-state and out-state travel since the state reimburses for participation in association events. Because the real costs far exceed the amount paid for dues and fees, substantial savings will be realized by eliminating unnecessary memberships.

Recommendation #4

The Department of Personnel and the Governor's Task Force will review and revise the present membership guideline (May 19, 1976) which limits individual memberships to no more than two with a maximum of $100 per employee annually. The Task Force found more than 25 payments for individual memberships that exceeded that limit, some by as much as several thousand dollars. With an adequate review mechanism in the agencies, the $100 limit may not be necessary. Individual memberhips may be purchased when the cost is less than an equivalent departmental membership, when a departmental membership is unavailable, or when it is of obvious value to the state. It is understood that in all cases memberships must be justified as being of obvious value to the state.

Recommendation #5

In reviewing subscription expenditures, the Task Force noted that in 1977 state agencies spent nearly $27,000 on various newspapers and that a number of agencies paid for many duplicate copies. The colleges and universities alone accounted for $2,600 in just Minneapolis Tribune subscriptions. The Department of Transportation recently replaced its newspaper subscriptions by contracting a clipping service, an action which will save the department nearly $5,000 in subscriptions and staff time. This may be a cost-saving alternative for other agencies that subscribe to large numbers of newspapers.

Recommendation #6

One agency has a practical method of controlling subscriptions that has reduced subscription expenditures by one-third. Periodically, the agency circulates a list of all subscriptions it receives and requires employees to sign for those they use and need. If there is no interest in a particular newspaper or periodical, the subscription is not renewed.

The individual expenditures for memberships and subscriptions are, for the most part, nominal sums. They become significant, however, when the total amount expended exceeds $1 million, as will be the case this year if expenditures continue to grow at the present rate. As a practical matter, one cannot expect department heads to be personally concerned about such questions as which employee should be able to subscribe to what periodical. We recommend, however, that agency heads ensure that memberships and subscriptions are reviewed by the employees at least on an annual basis. As the functions of the agencies change and as employees change jobs, memberships and subscriptions often continue to be paid for although they no longer have the value they once did. Continual review will enable these unnecessary expenditures to be found and stopped.

All savings realized by cutting back on memberships and subscriptions will be reported in the February 1 and August 1 reports to the Governor. Because, memberships and subscriptions are usually paid for annually, these savings may not be fully realized until the second year of the biennium.

SUMMARY

	COSTS	ANNUAL SAVINGS GOAL
Out-of-state travel	$2,214,713*	$ 800,000
State-sponsored meetings	1,226,629	750,000
In-state registration fees	135,151	-
Memberships	283,477	50,000
Subscriptions	630,087	100,000
	$4,490,057	$1,700,000

* This is the amount budgeted for 1978. All other figures are based on actual 1977 expenditures.

SUMMARY

I. TRAVEL

A. Findings

1. 18,000 employee days spent out of the state. This is equivalent to 360 employees spending one day every week out of the state.
2. Great fluctuations in composition of travel budgets ranging from 15 percent Administrative Travel/85 percent Professional Development Travel to 85 percent Administrative Travel/15 percent Professional Development Travel.
3. Great fluctuations in expenditures for per capita Professional Development Travel for example $71 by one agency and $935 by another.
4. 32 percent increase in expenditures for out-of-state travel from 1975 to 1977.
5. Many employees sent when one person would suffice, i.e. one small agency sent 20 people to Atlanta last winter.
6. Excessive hotel room costs charged to the state; Dallas, $100; Atlanta, $59.64; Chicago, $46.43; Minneapolis, $72.80, etc.

B. Recommendations

1. Dollar limit in agency travel budget for Professional Development Travel. Limit equal to 100 times number of professional-managerial employees. <u>Minimum savings $450,000.</u>
2. Limiting authorization to no more than one employee per out-of-state trip (for all types of travel) unless advance approval is given by agency commissioner. Exception granted only when it is clear one person cannot handle the entire responsibility. <u>Minimum savings $250,000.</u>
3. Amounts reimbursable for lodging are limited according to the Runzheimer index of $21 except for eight high cost areas: Boston $33, Chicago $33, Los Angeles $28, Newark $29, New York City $49.50, Philadelphia $30, San Francisco $31.50, Washington, D.C. $40. Exception when nothing else is available. <u>Minimum savings $100,000.</u>

C. Additional savings suggestions

1. Employee traveling out of state should be able to show that information gained cannot be secured in some other less expensive way (Mail, phone, etc.)
2. Employees enrolling in training programs should seek out good programs offered locally as opposed to those out of state.
3. Bring trainers into the state to train and develop our employees.
4. Avoid writing out-of-state travel requirements into contracts with federal agencies.

II. CONFERENCES

A. Findings

1. Of $1.2 million spent, $1.15 million was miscoded. Only $356,848 properly coded.
2. Value of some conferences questionable, i.e. "planning the agenda for the next meeting."; breakfast meetings when work could have been done at the office; "Public" meetings in private clubs.
3. Survey showed private vs. public facility costs. Lunches, three times as much, room and three meals, 2½ times as much.

B. Recommendation

1. All agencies hold conferences in state-owned facilities as previously directed by the Governor. Minimum savings $750,000.

C. Additional savings suggestions

1. Base on catalogue forthcoming.
2. Consider conference location is convenient for participants.

III. MEMBERSHIPS

A. Findings

1. Total spent on professional memberships $283,500
2. This has increased by 24 percent since 1975.
3. Memberships of questionable value - 50 Chamber of Commerce and Kiwanis, Lion's Club, Rotary Clubs, Jaycees, Citizen's League...state should not have to pay for.
4. Duplicate memberships
5. Certain agencies spent excessive amounts on memberships, e.g. State University System accounted for 25 percent of total expenditures.

B. Recommendations

1. Drop memberships of questionable value
2. Drop duplicate memberships
3. Review present Personnel Guideline of two equals $100 for individual memberships
4. Big spending agencies should cut down. Minimum savings $50,000

IV. SUBSCRIPTIONS

A. Findings

1. Total spent $2,174,479 but of that $630,000 was spent on state employees. This is a 42 percent increase from 1975 to 1977.
2. Numerous cases of unnecessary duplicate or unread subscriptions.

B. Recommendations

1. Cut back all unnecessary subscriptions. This includes those which are not directly related to an employees work and also those which are not extensively used.
2. Cut back on the number of duplicate subscriptions.
3. Agency heads will require employees to monitor their subsciptions and rid those which are not used or duplicative, as described above. Minimum savings $100,000

C. Suggestions

1. Newspapers can be cut back on by using a clipping service when feasible. Department of Transportation estimates savings of $5,000 on subscriptions by their conversion to a clipping service.
2. Agency head can have a list of all subscriptions circulated through Departments and ask employees to sign for those they use and need.

CONTROLLING MISUSE OF LONG DISTANCE CALLING FACILITIES PAID FOR BY THE STATE OF MINNESOTA

1. Introduction

Long distance telephone calling of all types costs the State of Minnesota approximately $2.5 million in calendar year 1976. The Task Force estimates ten percent of this cost resulted from misuse. This report explains the various types of misuse and how state agencies could save taxpayers a quarter million dollars or more in the next year by making appropriate efforts to control it.

A guide to each of the state's long distance calling facilities and how each is affected by the various types of misuse, along with limitations for control, is included as an appendix to this report. Information in the appendix is the basis for our recommendations and our cost estimates.

2. Types of Misuse

This section explains the various types of misuse.

A. Unauthorized Calls

These are personal, non-work related calls made on long distance calling facilities paid for by the State of Minnesota.

B. Using Wrong Long Distance Calling Facility

This is when calls are unnecessarily made on anything other than the least expensive facility. Examples of this type of misuse include 1) using regular long distance instead of WATS to call points not on the State Telephone Network and 2) using regular long distance or WATS to call points which are on the State Telephone Network. Rated from least expensive to most expensive, our calling facilities are:

State Telephone Network
WATS (Wide Area Telephone Service)
Regular Long Distance

C. Making WATS calls during busiest calling hours when they could be made at other times.

This is when WATS calls are made during the hours of 9 to 11 and 1 to 3 even though they could just as easily be made at other times of the day. This contributes to the state's long distance calling costs.

D. Long-Winded Calls

Self-explanatory. Some people talk more than others to accomplish the same ends.

3. Recommendations

The Task Force makes the following recommendations for controlling misuse of long distance calling facilities.

A. Where computer lists of WATS calls are available, agencies should take a sample each month and audit for unauthorized calls, calls that could have been made on the State Telephone Network instead of WATS, long-winded calls and calls made during the busiest hours which could have been made at other times. Telecommunications Division will provide advice and assistance upon request as part of its ongoing efforts to reduce communication costs.

B. Agencies should take a sample from regular long distance calling lists each month and audit for unauthorized calls and calls that could have been made on WATS or State Telephone Network. Telecommunications Division will provide advice and assistance upon request here. too.

C. Agencies should request electronic dialing restrictions where available for employees who do not have need of in-state WATS, out-of-state WATS, or both. To be cost-effective this should normally be accomplished only on an incidental basis in connection with normal moves, changes and re-arrangements of telephones.

D. Elevator telephones and a very few other phones strictly intended for in-house and local use only should be restricted from regular long distance dialing, as is the present Telecommunications Division practice. Most lines should normally not be restricted from regular long distance dialing because the costs would exceed the benefits. At switchboard locations or others where trunks or lines are shared by all callers, agencies should continue to rely on individualized recommendations from Telecommunications Division.

E. Agencies should inform their employees of measures to be implemented for detecting and controlling misuse of long distance calling facilities paid for by the state. Special mention should be made of the fact WATS is not free and is not a fringe benefit. Mention should also be made that personal calls are not to be billed to the state with credit cards or by other means.

F. The Commissioner of Administration should promote off-peak WATS calling by placing information in agency newsletters and distributing posters as was done to promote 5-digit dialing in the Capitol Complex. A suggested theme is: "It's going to be a lot easier for you to get your official WATS call through, and cheaper for the state, if you avoid the busy calling hours of 9 to 11 and 1 to 3 whenever practical."

4. Estimate of Savings Possible

The Task Force recognizes no system of controls has the capability to completely eliminate misuse of long distance calling facilities. Though no one can know in advance precisely how successful control efforts can be, we feel the following savings would reasonably be expected.

A. Assuming the middle level for WATS misuse of 16 percent, and the lower levels of misuse (5 percent) for regular long distance and State Telephone Network, the total cost to the state for unauthorized calls would be $252,018 annually. Assuming further that 60 percent of misuse can be cut by tightening controls leads to the conclusion $151,210 annually could be saved.

B. Assuming WATS usage in the busy hours could be reduced by ten percent, the need for extra WATS lines needed primarily to accommodate these calls could be cut by half, resulting in annual savings of $92,480.

C. Assuming 60 percent of the calls made on WATS that could be made on the State Telephone Network can be re-directed to the State Telephone Network leads to the conclusion an estimated $12,614 annually could be saved.

D. Although we feel the costs would be in the tens of thousands, the Task Force has not included in its estimates of possible savings a dollar amount for tighter controls over using regular long distance instead of WATS to call points not on the State Telephone Network. This is also true for long-winded calls.

E. The total of all estimated savings possible is $256,304 annually.

APPENDIX TO
CONTROLLING MISUSE OF LONG DISTANCE
CALLING FACILITIES PAID FOR BY THE
STATE OF MINNESOTA

1. Annual Long Distance Calling Costs by Type

The table below shows costs to the state of all types of long distance calling facilities, as reported by Telecommunications Division, Administration Department.

	ESTIMATED ANNUAL COST	PERCENT OF TOTAL ANNUAL LONG DISTANCE COSTS
Wide Area Telephone Service (WATS)	$1,160,000	47%
Regular Long Distance	773,360	31%
State Telephone Network (STN)	555,000	22%
	$2,488,360	

2. Wide Area Telephone Service (WATS)

A. Facts about WATS

1. WATS provides discounted long distance calling to the state by providing access to the state's WATS lines. In conjunction with the Capitol Centrex System, the Department of Administration currently provides 53 of these lines for calling within the geographical borders of the state, and 22 for calling other states, excluding Hawaii and Alaska. In addition, there are 33 WATS lines for in-state calling distributed among 12 locations outside of the metro area.

2. Access to WATS lines is accomplished either by dialing a special code or by requesting a switchboard operator to provide a WATS line connection. The method of access is determined by the type of telephone switching equipment at the particular location.

3. The telephone company can electronically restrict telephones from being able to use WATS on a per line basis where it uses electronic equipment to provide Centrex phone service to state offices. Examples include the Capitol Complex, Duluth, Brainerd, Mankato and Rochester. Telephones at Pollution Control Agency in Roseville and Health Department in Minneapolis are exceptions and cannot be restricted by individual phone from dialing WATS because of serving arrangements different from the Capitol Complex proper. Locations where electronic equipment is not used to serve state offices usually depend on switchboard operators for control of access to WATS when the switchboard is staffed, but dial access is used whenever the switchboard is closed. Examples of such locations include Bemidji, Moorhead, St. Cloud, Fergus Falls and others.

4. The decision as to whether or not a particular employee's telephone is to be restricted from either in-state or out-of-state WATS, or both, is made by individual agencies. A special block is provided on the state's telephone requisition to signify desired restrictions. Telecommunications Division of the Administration Department reports figures on the number of state telephone lines with restrictions from WATS have not been collected and summarized, but very few requests for the restrictions have been received from departments and agencies.

5. There is no monthly charge for restricting phones from WATS and there is no charge for putting restrictions on new lines, moving or changing lines when they are installed. To put restrictions on already installed lines, however, results in a one-time installation charge between approximately $8.00 and $17.50 per line, depending on how many lines are included on each order sent to the telephone company.

6. In the Capitol Complex and at Mankato and Duluth, computer list giving details of WATS calls is provided by Telecommunications Division to all agencies. Brainerd and Rochester will soon be included in this program. For other locations obtaining WATS call information is possible only by manually keeping call logs or by installing expensive automated recording equipment. Here is a sample of call detail shown on the computer printouts.

JUNE 1977 OUTWARD INTER-STATE WATS CALLS FROM (612) 296-XXXX ST PAUL DEPARTMENT/DIVISION REPORT

ACCOUNT 552 ADMIN TELECOMMUNICATIONS PAGE 853

	FROM STA	COAR NUM	MO DAY	CONN TIME	TIME MIN	CHARGE		TO: BD	AC	CO NO	CITY	
	4032		06-17	1441	2.7	.62		01	701	235-1141	FARGO	NDAK
TOTAL	4032				2.7	.62	1 CALLS					
	6191		06-14	1350	4.4	1.01		04	914	358-8803	NYACK	NY
	6191		06-15	1319	3.0	.69		05	617	965-5800	NEWTON	MASS
	6191		06-28	1403	3.7	.85		01	701	235-3594	FARGO	NDAK
TOTAL	6191				11.1	2.55	3 CALLS					
	6428		06-23	0857	14.0	3.22		01	402	471-2761	LINCOLN	NEBR
	6428		06-23	1104	.4	.09		01	402	471-2761	LINCOLN	NEBR
	6428		06-23	1108	.5	.12		01	605	224-3688	PIERRE	SDAK
	6428		06-27	1050	12.9	2.97		01	605	224-3688	PIERRE	SDAK
	6428		06-28	0806	1.1	.25		01	701	224-2127	BISMARCK	NDAK
	6428		06-28	0851	13.6	3.13		01	402	422-3149	OMAHA	NEBR
TOTAL	6428				42.5	9.78	6 CALLS					
	6544		06-02	1431	.6	.14		01	402	471-2761	LINCOLN	NEBR
	6544		06-02	1535	.4	.09		01	402	471-2761	LINCOLN	NEBR
	6544		06-03	1351	6.4	1.47		01	402	471-2761	LINCOLN	NEBR
	6544		06-03	1428	3.8	.97		04	202	566-1186	WASHINGTON	DC
	6544		06-07	0924	6.1	1.40		04	202	566-1186	WASHINGTON	DC
	6544		06-27	1624	.4	.09		05	415	763-6033	OAKLAND	CAL
	6544		06-29	1006	4.6	1.06		01	701	235-1141	FARGO	NDAK
TOTAL	6544				22.3	5.12	7 CALLS					

7. This list gives agencies the opportunity to check for unauthorized calls, time of day calls are being made, and unusually long calls. In the case of in-state WATS an asterisk is placed by calls that could have been made on the less expensive State Telephone Network. The difficulty and time involved in this type of control activity would generally vary according to number of employees and number of calls placed. Some of the larger agencies make about 10,000 calls per month on WATS, while some of the smaller ones make few or no calls.

8. Use of state long distance calling facilities of any type for unauthorized calls constitutes misuse of public funds and illegal avoidance of state and federal taxes. This information is printed in all State of Minnesota Telephone Directories.

B. Assumptions about WATS

1. Telecommunications Division reports it believes effective use of WATS call lists to control unauthorized calls is variable, and probably many agencies make little or no effort. Outstate locations with WATS lines are assumed to be less likely to look for misuse because their WATS is paid for by Administration Department and the call detail is not available in most cities.

2. More employees have a legitimate need for access to in-state WATS for official business than out-of-state and more lines could therefore be restricted from out-of-state WATS than in-state.

3. Telecommunications Division reports some state employees actually believe WATS calls are "free" or considered fringe benefits and therefore "it doesn't hurt anything" to use WATS for personal calls. This belief stems from the fact WATS is purchased from the telephone company primarily on a flat rate basis as opposed to a per call basis. The fallacy here is while Telecommunications <u>does</u> pay for most WATS lines on a flat rated basis, some WATS lines <u>are</u> paid for partially on a per call basis for reasons of economy. Additionally, WATS is paid for out of a revolving fund, which means Telecommunications Division through the Finance Department bills each agency its share of WATS costs, then pays the telephone company. The basis for determining each agency's share of the costs each month is the number of minutes used on the WATS lines by the agency. The cost of WATS to individual agencies is therefore neither free nor independent of amount of usage.
4. Many employees have infrequent needs for WATS calling of any type and it would be possible in many cases to share access through a limited number of well-controlled phones located conveniently within each office.
5. The table below shows the <u>potential</u> cost to the state of personal calls on WATS at various levels of unauthorized calling. The actual level of personal calls is not known, but investigation of WATS misuse in industry shows it is probably in the range of 8 to 25 percent of WATS costs.

	Potential Annual Cost to State
8% misuse	$ 92,800
12% misuse	$139,200
16% misuse	$185,600
20% misuse	$232,000
25% misuse	$290,000

6. In the Capitol Complex an estimated 20 to 30 percent of WATS lines are needed primarily to accommodate calls made during the busiest hours of the day, usually 9 to 11 and 1 to 3. During the rest of the day these lines are often idle. The cost of meeting busy hour requirements, if taken at the 20 percent level, is estimated at $184,960 annually. The actual percent of calls that could have just as easily been made at other times of the day is not known.

7. Statistics from Telecommunications Division show 8 percent of calls made on in-state WATS could have been made on the less expensive State Telephone Network. Since WATS calls on the average are $.05 per minute more expensive than State Telephone Network calls, and since 8 percent of total average minutes is 35,040, the cost of this type of misuse is estimated at $21,024 annually.

3. Regular Long Distance Calling

A. Facts about Regular Long Distance Calling

1. Using the facilities of the public long distance calling network is referred to here as regular long distance calling.

2. Charges for calls made on the regular long distance calling network are identical for all users. For example, a direct distance dialed call from St. Paul to Moorhead will be billed

out at the same rate, exclusive of tax, whether made from a private residence phone or a phone on the Capitol centrex system. Direct Distance Dialed calls on the regular long distance calling network cost about three times the cost of calls made on WATS.

3. Access to the regular long distance calling network is accomplished by obtaining an outside line just as when making a local call, then dialing the area code and local telephone number desired. When using non-state telephones, charges for calls can be billed back to the state by giving the operator a state office telephone number or using credit cards issued for this purpose by the Telecommunications Division at the request of authorized persons in individual agencies.

4. The telephone company can restrict telephones from being able to use the regular long distance calling network on a per line basis where Centrex telephone service and other individual line service is provided, and on a per trunk basis where PBX switchboard telephone service is provided.

5. The decision as to whether or not a particular employee's telephone is to be restricted from being able to use the regular long distance calling network is made by individual agencies in the case of Centrex telephone service and other individual line service. Where such restrictions would affect a shared service such as a switchboard (PBX) trunk, recommendations of the Telecommunications Division are usually followed.

6. There is a monthly charge for restricting lines or switchboard trunks from using the regular long distance

calling network. To restrict one Centrex line, the charge is $.75 per month. To restrict one switchboard trunk costs $8.10 per month. There is also an installation charge for restriction.

7. The telephone company provides a monthly list of all calls made on the regular long distance calling network. The format is the same as provided with residence service. With Centrex and other individual line services, each call is associated with the telephone number from which the call originated. In the case of shared services such as switchboard trunks, all calls are associated with the main listed trunk number. This means it is not possible to associate a particular call with a particular telephone inside a switchboard system except by checking against handwritten calling reports of telephone users. This is what is normally done at switchboard locations.

8. Some state offices are not connected to WATS, State Telephone Network or both, because their geographic locations would make a connection uneconomical. Regular long distance calling is the only means of placing long distance calls at these locations.

B. <u>Assumptions about Regular Long Distance</u>

1. Telecommunications Division thinks agencies scrutinize monthly lists of regular long distance calls more carefully than WATS call lists because it is widely known regular long distance is a) more expensive, and b) usually unnecessar where WATS and State Telephone Network are available.

2. Most persons considering use of state facilities to make personal calls are assumed to be aware of the greater risk of detection with regular long distance and are more likely to use WATS or State Telephone Network.

3. Credit card calls present a special problem because some employees believe it is okay to use them to call their families at home while away on official business. This practice is sometimes tolerated or even concurred in by supervisors. Possibly, confusion stems from the fact this is a widely approved practice in parts of the private sector. Employees of the State of Minnesota, however, are not presently given any allowance for calling home while in travel status and should not bill such calls to the state.

4. The table below shows the potential cost to the state of unauthorized calls on regular long distance charged to the state. The actual level of personal calls is not known.

	Potential Annual Cost to the State
5% misuse	$38,668
8% misuse	$61,868
12% misuse	$92,803

4. State Telephone Network

A. Facts About State Telephone Network

1. The State Telephone Network (STN) is a system of flat-rate leased telephone lines which tie together most of the state's telephone systems in over 40 cities. State offices which are connected to this network can call each other at a fixed low cost to the state of about six cents a minute. Out-state offices on the network can use it to make calls to points in the Twin Cities Metropolitan Free Calling Area which are

not on the network by dialing to the Capitol and getting an outside line. This capability could be eliminated if found desirable, however, many legitimate calls would need to be made on more costly facilities then. Telecommunications Division says it is presently not possible to obtain data showing how many personal calls are made to the Twin Cities in this way.

2. Capitol Centrex users cannot dial to offices outstate and then get an outside line for calling other points in the particular local calling area, and this is generally true for outstate offices calling other outstate offices.

3. The Administration Department pays for the State Telephone Network and the expense is allocated to agencies once a year as part of the state's cost plan based on each agency's percentage share of the state's total communications bill.

4. Use of the state telephone network for personal calls is possible in the case of outstate employees on the network taking advantage of the capability to dial to the Capitol, then get an outside line and call any phone in the Twin Cities area. Use of the network for personal calling from the Capitol Centrex System to outstate points or from most outstate points to other outstate points is believed to be very minimal since the system has been designed so only state offices can be reached in the majority of cases.

5. Monthly lists of calls made similar to those available for WATS and regular long distance are not available for calls made on the State Telephone Network. Telecommunications Division reports it believes the cost of obtaining this information presently would far exceed the benefits probable from having a means of controlling what are believed to be relatively minor instances of personal use.
6. As in the case of WATS, the telephone company can electronically restrict telephones from being able to use State Telephone Network on a per line basis where it uses electronic equipment to provide Centrex phone service to state offices.
7. Putting State Telephone Network restrictions on phones would result in the same one-time (as opposed to monthly) charge as for restricting phones from WATS service, but would cost nothing extra if done at the same time as putting in WATS restrictions. Telecommunications Division believes STN restrictions would be impractical since most state employees have legitimate requirements for STN use and opportunities to use the facility for personal calls is believed minimal for most employees.

B. <u>Assumptions about State Telephone Network</u>

1. Telecommunications Division believes taking away the capability of outstate offices to call all phones in the Twin Cities area by being able to dial off the network would result in legitimate WATS and regular long distance costs far in excess of the cost of reduced personal calls.

2. The table below shows the potential cost to the state of personal calls on the State Telephone Network at various levels. The actual level of personal calls is not known.

	Potential Annual Cost to the State
5% misuse	$27,750
8% misuse	$44,400
12% misuse	$66,600

ADMIN 1000

DEPARTMENT

STATE OF MINNESOTA
Office Memorandum

TO : Robert Goff, Director
Governor's Task Force on
Waste and Mismanagement

DATE: December 15, 1977

FROM : Telecommunications Panel

PHONE:

SUBJECT: Recommendations

We have concluded our eight day study of the State Telecommunications functions. We have attempted to focus our attention on the three questions posed to us by the note dated November 18, 1977. These questions are:

1. What should the state be doing right now to prepare for a telecommunications future five years away?

2. What should the state's policy be on ownership of telephone systems?

3. Would the state save money or gain efficiency in implementing the LEAP recommendation concerning incorporating telecommunications functions left in other departments into a single agency?

We have grouped the recommendations into three categories:

Immediate - Those functions which should be implemented as soon as possible and which will provide background data for following recommendations.

Short-term - Those which should be included in the planning for the next budget.

Long-term - Those whose implementation will probably not be in the next budget, but which will require that planning begin as soon as possible.

In answering the three questions we have tried to keep in mind the items which we all agreed were essential to good communications management.

- Overall Planning
- Accurate data collection
- Systems and cost review
- User education
- Optimization of circuitry
- Allocation of costs

Attached are this panel's recommendations.

Immediate Recommendations

1. The Telecommunications Division should make arrangements to receive from each facility the monthly costs of the Local Service, Other charges and credits, Long Distance and WATS, number of calls if possible.

   Why:

   a. Begin to find possible abuse areas
   b. Give immediate data base for future planning
   c. Show total state telecommunication cost
   d. The information received would, of course, be reviewed and compared against previous reports to spot developing trends and follow-up where necessary.

   This function should be automated as soon as possible.

2. We do not feel at this time that there are any savings or efficiencies to be gained by incorporating the Office of Electronic Communications under the Department of Administration. The design, implementation and maintenance functions now being performed by the Office of Electronic Communications appear to be working to the satisfaction of users. The Telecommunications Division, however, should continue to take an active part in the requesting and planning of radio applications so that the proper communications solution is determined, i.e., does a telephone or radio solution best serve the state.

Short Range

1. Initiate study of electronic control in the metro area of outbound facilities, i.e., an active telecommunications controller.

   Why:

   a. A possible savings of ten to fifteen percent of present WATS and Long Distance costs could be realized by computer control of outbound facilities. Computer control ensures maximum use of least costly facilities.
   b. A by product of computer control is automated data capture to facilitate network planning and accounting information for allocation purposes.
   c. Another by product is detailed reporting by user to identify potential abuse.
   d. Other possible benefits would include the possibility of out-state users accessing the device and having controlled access to WATS, metro area and other services. The device will also provide the necessary billing information for these calls.
   e. The device would enable the state to centralize WATS service thereby realizing economies of scale.

2. The Governor should strongly urge the departments and agencies to make use of Local Service and Long Distance tapes where available (such as Capitol Complex and other Centrex locations) which should be centrally data processed so that actual cost, call and station information is given to the lowest supervisory level.

   Why:

   a. Only these individuals have the necessary information to detect Local Service billing errors and curb calling abuse in their own operational area.
   b. This would eliminate the need at those locations to manually record toll calls.
   c. Charges common to the entire system can be factored into the station charges, giving user units a more complete and accurate picture of their Local Service charges. These should be telephone charges and should not include any administrative overhead charges. If administrative charges must be made, they should be separately identified.

3. Control must continue to be exercised over the other changes and credits area, i.e. moves, new installs, and removals.

   Why:

   a. Because of multi-tier pricing (grouping several orders limits the number of service order charges). The grouping function should be performed by the Telecommunications Division.
   b. To ensure accuracy of orders. This function should be performed by the Telecommunications Coordinator position in the requesting agency. Telecommunications should only be involved in the planning and design of changes of major significance.
   c. <u>To ensure correct decision making, Telecommunications Coordinators must be provided with on-going training.</u>

4. Develop guidelines for timely review of existing telephone (PBX/KEY) systems.

   Why:

   a. To anticipate growth and to assure expansion capability until next biennium.
   b. To evaluate requirements of the systems as they relate to user needs and compatibility with existing or proposed networks and systems.

This process will identify systems with a potential for change. The next step will be to identify viable alternatives to include inter-connect purchase/lease and serving telephone company proposals.

We feel the time is now ripe to consider interconnect services. These vendors offer a wide range of state-of-the-art, quality products at competitive prices.

The question of interconnect is multi-faceted and should be evaluated on an individual system/facility basis. Some of the major interconnect considerations are:

- maintenance facilities of vendor?
- to be maintained by state?
- vendor financially stable?
- will vendor be around through life of system?
- compatibility with serving telephone company facilities?
- experience of others with same equipment?

These are major points to be considered over and above the normal concerns of features, costs, and growth potential.

5. Consideration should be given to developing, purchasing or leasing a network analysis program.

   Why:

   a. As usage and/or switching on the State Telephone Network grows, configuration and cost control will become increasingly important and complex. Manual methods will not be adequate.
   b. The program should also be used to properly configure the WATS service.

6. Greater control and review should be exercised over circuit/traffic loading on all State Data Networks.

   Why:

   a. This would identify potential areas for sharing lines among the various systems (also possible alternate use of voice services).
   b. Excess service such as too many circuits or not enough usage on a given circuit could be eliminated.

   The analysis package discussed in number five, above, could be used for this purpose.

   c. This would also allow the Telecommunications Division to anticipate the need for additional circuits and/or upgrading of circuit speeds.

7. Consideration should be given to studying the feasibility of the Office of Electronic Communications assuming maintenance responsibility for various state-owned Telecommunications equipment such as modems, terminals, PBX's, CCTV and CATV systems and security equipment.

Why:

a. To take advantage of existing expertise and facilities.
b. Eliminate duplication of effort.

Long Range Recommendations

1. The state ought to initiate a long-range study of the feasibility of a state-owned microwave system. This seems especially appropriate for the state because:

    a. It is a single geographical area.
    b. Radio towers already exist for possible antenna placement.
    c. Technical expertise appears to exist in state agencies.
    d. The trend over the past decade has been a steady increase in the cost of private lines; nothing indicates that this trend will diminish.
    e. Such a network would be capable of accommodating all manner of electronic signals, i.e., CATV, STN, Data, Radio, CCTV, WATS, DDD, FAX, Electronic Mail, Telemetry.

    Even though the implementation may be a long range consideration, the study process should begin as soon as possible.

2. Satellite communications appears to be an extremely long-range study prospect because of the relatively small geographic area of the state and the distance insensitive nature of satellite communications. That is not to say that a satellite system may not become feasible in the future or that the lease of individual satellite circuits may not be feasible right now.

3. Electronic Mail seems to be an approaching reality. The state must be in position to take advantage of this type of service including the integration of word processing.

4. Recognizing that computer control of many applications from highway scales to building security is in the future, the telecommunications function must become increasingly involved in the planning in these diverse areas.

The above recommendations speak to greater or more effective control of state telecommunications expenses and requirements. In order to facilitate these recommendations it might be advantageous to establish a permanent communication planning committee, including personnel from Departments of Administration and Transportation as well as representatives from the public sector and coordinated within the State Planning Agency.

J. Thomas Holzer
National Car Rental Systems, Inc.

David G. Pitzel
Investors Diversified Services, Inc.

George L. Olzenak
Northern States Power

Steve Kane, Coordinator
Waste and Mismanagement

STATE OF MINNESOTA

OFFICE OF THE GOVERNOR

ST. PAUL 55155

RUDY PERPICH
GOVERNOR

Date : September 22, 1977

To : Department and Agency Heads

From : Governor Perpich RP

Subject: State Government Hiring Policy

On Friday, September 2, 1977, I announced an immediate 30-day freeze on state hiring. As you know, one of my goals as Governor has been to hold stable the number of state employees. An analysis by the Department of Finance of our current employment status shows that we now have 371 positions more than we had a year ago.. I hope you share my view that it is desirable to reduce that number to the 1976 level. While most agencies can make the case that they have been assigned additional responsibilities and, therefore, need more employees, I think we should handle the added work by increasing our productivity through improved management techniques.

Effective October 1, 1977, I am lifting the hiring freeze. In place of the freeze, I want your cooperation in the effort to reduce state employment to the 1976 level. This will require a minimum 2% reduction in the number of full-time positions authorized for your agencies. The reduction process should begin immediately, but you will have until June 30, 1978, to reach the 2% goal. This will permit you to make the reductions through attrition and to avoid the laying off of any present employees.

The attached sheet will provide you with more detailed information on the expected reductions. I have instructed the Department of Finance to work with you on the reduction program and to monitor the overall progress on a regular basis. Information on your progress should be included in the February 1 report to me.

Thank you for your understanding and your cooperation.

/er

The following table shows the reductions that will be expected for state agencies with over 100 employees:

Agency	Applicable Positions	2% Decrease
Transportation	4,871	97
State University System	3,560	71
Welfare	2,639 1/	53
Community College System	1,714	34
Natural Resources	1,464	29
Public Safety	1,106 2/	22
Administration	1,043	21
Revenue	933	19
Corrections	879 3/	18
Education	520	10
Agriculture	488	10
Health	325	7
Commerce	216	4
Labor and Industry	205	4
Pollution Control Agency	188	4
Military Affairs	183	4
Vocational Rehabilitation	169	3
State Planning Agency	163	3
Zoological Garden	152	3
Public Service	132	3
Finance	127	2
Personnel	102	2
Veterans Affairs	55 1/	1
Historical Society	N/A 4/	N/A
Attorney General's Office	N/A 4/	N/A
State Auditor	N/A 4/	N/A
TOTAL	21,234 5/	424

Note: All agencies with less than 100 positions are expected to reduce by 2% if this can be accomplished without laying off existing employees.

1/ Does not include patient care positions. (Welfare-4,020; Veterans Affairs -103)

2/ Does not include State Patrol positions. (504)

3/ Does not include custody positions. (697)

4/ Not included in required reduction. (Historical Society-214; Attorney General-184; State Auditor-111).

5/ Total does not include positions for the University of Minnesota, federally funded grants, Comprehensive Employment and Training Act (CETA), Legislative and Judicial Branches, or State University and Community College positions funded from tuition based on increased enrollment.

Agencies Over 100 Positions	Positions to be Deleted	Current Positions Deleted to Date	Balance to be Deleted	1978[1/] Changes
1) Transportation	97	7	90	6
2) State University System	71	0	71	
3) Welfare	(a) 42	4.	38	
4) Community Colleges	34	24	10	
5) Natural Resources	(b) 27	0	27	30
6) Public Safety	22	4	18	6
7) Administration	(c) 19	10	9	(9)
8) Revenue	19	8	11	8
9) Corrections	18	2	16	4
10) Education	10	6	4	1
11) Agriculture	10	5	5	14
12) Health	(d) 4	4	Comp.	7
13) Commerce	4	0	4	(2)
14) Labor and Industry	4	0	4	
15) Pollution Control Agency	4	3	1	6
16) Military Affairs	(e) 3	0	3	
17) Vocational Rehabilitation	3	3	0	
18) State Planning	3	0	3	
19) Zoo Garden	3	3	Comp.	
20) Public Service	3	0	3	
21) Finance	2	2	Comp.	
22) Personnel	2	0	2	10
23) Veterans Affairs	1	1	Comp.	
Subtotal	405	86	319	83
Other	-0-	1	-1	14
Total	*405	87	318	97

1978 Summary

Positions Over F.Y. 77 Base:	371
Add: Changes 1978:	97
Total Positions Over Base:	468
Less: Positions To Be Deleted:	405
Over Base 1978	63

1/ Changes which have occurred since 8/24/78.

a) Reduced by 9 positions to include state nursing homes in patient care adjustment and by 2 positions as authorized by the Governor for general assistance work and training unit.

b) Reduced by 2 positions to provide staff for the opening of Tower Soudan Mine - in lieu of appropriation.

c) Reduced by 2 LCMR positions for resource 2000 land acquisition - in lieu of LAC request

d) Reduced by 3 positions to reinstate the migrant labor camp inspection program - in lieu of appropriation request.

e) Reduced by 1 position based on number of federal positions.

*NOTE:

Original Reductions Required	424
Adjustments for patient care (a)	(9)
Exemptions to date (a-e above)	(10)
Current Positions to be deleted	405

Department of Finance
3/23/78

STATE OF MINNESOTA
DEPARTMENT OF PUBLIC WELFARE
CENTENNIAL OFFICE BUILDING
ST. PAUL, MINNESOTA 55155

O[illegible]E OF THE
C[illegible]ISSIONER
612/296-2701

GENERAL
INFORMATION
612/296-6117

TO : Gerald Christenson

FROM : Edward J. Dirkswager, Jr.

DATE : August 15, 1978

SUBJECT : 2% Reduction in Staff

The Department of Public Welfare cut 10 Central Office positions, and transferred a total of 85 indirect care positions to direct care by July 1, 1978.

In December, 1977, a negotiated settlement on the Welsh vs. Dirkswager case was reached and a consent decree was issued by Judge Earl Larson. The Department is to increase staffing at the Cambridge State Hospital which serves the retarded in accordance with the prescribed ratios of the consent decree. Particular emphasis was placed on the ratios which pertain to direct care. The Department is committed to provide equivalent care at all other state hospitals which serve retarded persons.

Meeting the 2% reduction in state residential facilities required a cut of 40 positions. Rather than cut these positions, the Department agreed to reallocate 40 indirect care staff positions to direct care by June 30, 1978. Actually, 42 positions were transferred to direct care by June 30. The cost of these positions FY 79, is estimated at $546,000.

An additional 43 indirect staff positions were transferred to direct care as the result of administrative changes, primarily occurring in food services. The cost of these positions, FY 79, is estimated at $565,000.

Non-complement positions, CETA workers, have also been assigned to the state hospitals. A total of 358 positions were authorized as of December 16, 1977, from the balance-of-state CETA funds; additional positions were funded by local CETA offices. Currently, only approximately 60 CETA positions are funded. By September 30, 1978 the federal CETA funds cease. If this program is continued by Congress, the Department would request to continue CETA positions in the state hospital system.

EJD:cac

GOVERNOR'S 2% STAFF REDUCTION PROGRAM

A. BACKGROUND

The Governor's staff reduction program included the following actions and policies:

May 4, 1976: Governor's Budget Preparation Policies.

"The total number of state employees will not be increased."

January 5, 1977: Governor's State of State Address

"It is time for us to enter a new era in Minnesota state government. The time is coming when Governors and Legislators will no longer be judged on the number of their new proposals or their success in passing them. Instead, the test will be our wisdom and skill in making present laws work well for our people.

There will continue to be a need for some new laws and for refinement of the laws we have.

But, our highest priorities should be management, responsiveness, cooperation instead of competition -- the best possible service at the lowest possible cost."

September 7, 1977:

Governor announced a hiring freeze and informed Departments that he would "announce shortly a program which will provide for an orderly reduction in state employment without layoffs." The hiring freeze applied to all state government, except the Legislature, the Supreme Court, Constitutional Offices and the Highway Patrol.

September 22, 1977:

Governor announced his 2% staff reduction program.

- Governor's plan called for the reduction of approximately 400 positions.
- The 2% staff reduction was to be accomplished in all agencies exceeding 100 authorized positions. Agencies with less than 100 employees were expected to reduce by 2% if reductions could be accomplished without layoffs.

- Agencies were given until June 30, 1978, to accomplish the reductions in order to permit reductions through attrition and avoid the laying off of employees.
- Positions in the following areas were exempted from reduction.

  Patient care positions in State Hospitals and Veterans Homes
  State Patrol positions in Public Safety
  Custody positions in Correctional Institutions

  Although these positions were exempt from deletion, it should be noted that they are included in the calculation of total number of positions in F.Y. 1977, as compared to current positions.
- Not included in the staff reduction program were positions for the University of Minnesota, federally funded grants, Comprehensive Employment and Training Act (CETA), Legislature and Judicial Branches, and those State University and Community College positions funded from increased tuition based on increased enrollment.

B. Accomplishments

The Governor's Staff Reduction Program resulted in the cancellation of over 400 full time authorized positions in executive branch agencies as follows:

	Department	Quota to be Deleted	Positions Deleted
	Transportation	97	97
	State University System	70	70
1/	Welfare	42	52
	Community College Board	34	34
	Natural Resources	27	27
	Public Safety	22	22
	Administration	19	19
	Revenue	19	19
	Corrections	18	18
	Education	10	10
	Agriculture	10	10
	Health	4	4
	Commerce	4	4
	Labor & Industry	4	2
	Pollution Control Agency	4	4
	Military Affairs	3	3
	Vocational Rehabilitation	3	3
	State Planning	3	3
	Zoological Gardens	3	3

Department	Quota to be Deleted	Positions Deleted
Public Service	3	4
Finance	2	2
Veterans Affairs	1	1
Higher Educ. Coord. Board	0	1
Total	402	412

SUMMARY

F.Y. 1977 Base	27,818
Current Positions	27,912
Positions over base 6/30/78	94

With the exception of positions added for the new Veterans Home at Hastings (41 non-patient care) and additions for opening of the new Zoo (64) which are supported by receipts, the Governor's objective of holding stable the number of state employees was met.

1/ Because of a court order that required the state to increase the staffing in state hospitals, the Department of Welfare was not required to delete positions attributable to direct patient care. The Department was further authorized to count as a deletion positions transferred from non-patient care to direct patient care. As a result of this authorization, the Department deleted 10 central office positions and transferred 42 positions from non-patient care to direct patient care. Although this does not reflect a reduction in state employment, it will result in 42 fewer additional patient care positions required in the 1979-81 Budget Request because of the court order.

C. Impact

- The positions cancelled as a result of the Governor's program are permanently removed from the authorized complement of the affected agencies.

- Annual cost savings are estimated to be $6 million a year.

Department of Finance
July 12, 1978

Biennial Total = 6,597,307
Total Unallotted = 5,456,244
Total Reallocated = 1,141,063

TABLE 6

TWO PERCENT COMPLEMENT REDUCTION
(Departments with more than 100 state-funded positions)

Department	Number Positions	Number Positions Cancelled	Number Positions Reallocated	Total FY 78 Savings	FY 78 Savings Unallotted	FY 78 Savings Reallocated	Total FY 79 Savings	FY 79 Savings Unallotted	FY 79 Savings Reallocated
78 Transportation	97	97	0	$ 476,000	$ 476,000	$ 0	$ 995,749	$ 814,350	$181,399[1]
26 State Universities	70.5	70.5	0	273,537	273,537	0	297,956	297,956	0
55 Welfare	52	10	42	103,150	40,949	62,201[2]	669,509	123,509	546,000[2]
27 Community Colleges	34	34	0	403,861	403,861	0	403,861	403,861	0
29 Natural Resources	27	27	0	104,224	86,747	17,477[3]	376,645	342,824	33,821[3]
07 Public Safety	22	22	0	80,355	80,355	0	221,708	221,708	0
02 Administration	21	19	2[4]	133,102	43,593	89,509[5]	275,164	147,264	127,900[5]
67 Revenue	19.5	19.5	0	144,739	144,739	0	248,480	248,480	0
78 Corrections	18	18	0	96,522	96,522[6]	0	291,439	291,439[6]	0
37 Education	10	10	0	78,663	78,663	0	160,814	160,814	0
04 Agriculture	10	10	0	46,169	46,169	0	128,451	128,451	0
12 Health	4	4	0	52,694	52,694	0	56,756	56,756	0
13 Commerce	4	4	0	0	0	0	70,714	70,714	0
42 Labor and Industry	2	2	0	0	0	0	18,745	18,745	0
32 Pollution Control	4	4	0	32,696	32,696	0	51,825	51,825	0
01 Military Affairs	3	3	0	0	0	0	26,534	26,534	0
21 Vocational Rehabilitation	3	3	0	0	0	0[7]	0	0	0[7]
30 State Planning	3	3	0	40,701	40,701	0	55,242	55,242	0
77 Zoological Garden	3	3	0	7,065	7,065	0	31,008	31,008	0
80 Public Service	4	4	0	23,661	0	23,661	59,095	0	59,095
10 Finance	2	2	0	22,200	22,200	0	22,258	22,258	0
75 Veterans Affairs	1	1	0	6,682	6,682	0	9,333	9,333	0
	414	370	44	$2,126,021	$1,933,173	$192,848	$4,471,286	$3,523,071	$948,215

1 Allocated to pay unfunded state increase in employee insurance premiums.
2 Allocated to direct patient care at state hospitals to comply with court order.
3 LCMR and 50 Fund savings cancel to the Fund and remain with agency.
4 Two positions transferred to a LCMR land division activity but Fund 10 savings of $15,612 and $20,590 unallotted.
5 Revolving fund savings do not cancel but carry forward.
6 Dedicated by law to offset future Community Corrections Appropriations.
7 Positions cancelled but savings of $30,601 are 80 percent federal and not capturable; therefore no savings counted.

REPORT TO GOVERNOR RUDY PERPICH

FROM

THE GOVERNOR'S TASK FORCE ON WASTE AND MISMANAGEMENT

STATE PASSENGER VEHICLE REPORT

December 1, 1977

TABLE OF CONTENTS

GENERAL FINDINGS AND SUMMARY OF RECOMMENDATIONS AND SAVINGS

The Scope of the Report

This report addresses the major aspects of the operation of the state's automobile fleet. Specifically, we have examined ways that cars are purchased, leased, and sold; how they are used, misused, and maintained; and how changes in policies, procedures, and statutes can improve efficiency, lower costs, and increase energy conservation.

The specific points of investigation of this study were to determine:

1. The number of state passenger vehicles.
2. The growth and expense of private car reimbursement.
3. If any changes from the present system are needed to ensure more economical and efficient transportation for state employee business travel.
4. If any changes from the present system would provide better cost control and management.

The Task Force found that state employee transportation is a very large, costly, and complex subject. Since it is also one of the most visible aspects of the conduct of the state's business, it is frequently criticized by private citizens and state employees alike. During the course of this investigation, we have attempted to check the validity of some of these criticisms and, where justified, to make some positive recommendations for change.

Much of the information contained in this report was derived from questionnaires sent to the agencies and from interviews with many agency and department heads. The initial agency questionnaire was sent out in

June, 1977, and the interviews with the major department heads were conducted from August 30 to September 26, 1977. The subsequent data was then analyzed.

Early in the study it became obvious to Task Force members that additional financial expertise was needed to provide a more thorough review and evaluation of the available data. The Minnesota Society of Certified Public Accountants arranged for the loan of two CPA's, Messrs. Roy Rueb (Haskins & Sells) and Robert Klemenhagen (then Arthur Andersen & Company) for roughly a ten-day period. The nature and scope of their work was limited to a review of the financial records and costs and accounting procedures and controls of the Central Motor Pool and the Department of Transportation Motor Pool. (The latter was scrutinized on the assumption that its operation was similar to other agency-owned fleets.) Fleet costs and other operating data were extracted from agency records, however this data was not audited and thus they could not and did not express an opinion about them. The Task Force is indebted to these gentlemen and the Minnesota Society for their valuable contribution to this report.

Based on the data accumulated from the agencies, other state governments, the federal government, and the private sector, an analysis was completed and reviewed by other state personnel. The results are the findings and recommendations of this report.

The Composition of the State Fleet

Before addressing any of the detailed findings and recommendations, it is perhaps best to provide a general overview of the present state passenger vehicle operation. As of June 30, 1977, the state had 2,603 passenger vehicles. Of this total, Central Motor Pool owned and operated roughly one-third of the fleet (852 vehicles), one-third of the fleet were enforcement vehicles (726), and the other one-third of the total were "agency-owned" vehicles (1,025).

The 2,603 passenger vehicles that the state owns can be classified by size as follows:

Vehicle Class	No. of Vehicles	Percent of Fleet
Full-size sedans	1,259	48
Station wagons	277	11
Vans	180	7
Intermediate	561	22
Compacts	317	12
Sub-compacts	9	-
	2,603	100%

We also have investigated the different uses of these state vehicles. We found that the type of use can be generally categorized as follows:

Use Category	No. of Vehicles	Percent of Fleet
Enforcement	726	28
Regulatory and Inspection	313	12
Messenger	22	1
Commissioner and Agency Head	25	1
Other Individual	597	23
Agency Pool	920	35
	2,603	100%

During the past year (Fiscal Year 1977) state employees traveled an estimated 64.7 million miles, at a cost of approximately $8.6 million. These totals can be grouped as follows:

Use Category	F.Y. 1977 Miles	F.Y. 1977 Cost (approx.)
Central Motor Pool	14.8 million	$1.6 million
Agency-owned	14.9 million	$1.9 million
Private car mileage	15.7 million	$2.2 million
Enforcement	19.3 million	$2.9 million
	64.7 million	$8.6 million

Of necessity, those uses categorized as enforcement(i.e. State Patrol, Conservation Officers and Bureau of Criminal Apprehension) travel many miles and need individually assigned vehicles. However, even if all enforcement mileage is excluded from these totals, the average annual figure comes to 1,439 for every state employee. If reimbursement rates based on actual state operating costs are applied, each and every state employee would receive approximately $181 for mileage costs.

The $8.6 million passenger vehicle cost is not a comprehensive one. For example, it does not include the cost of employees time spent on this vehicle travel. It includes only the operating costs for these automobiles for the 1977 fiscal year.

In addition to employee travel in state vehicles, employees can also be reimbursed for the business use of their personal automobiles. The present rates of reimbursement are 16 cents per mile if no motor pool vehicle is available, and 11 cents per mile if a motor pool vehicle is available but the (metro area) employee still elects to use his or her own car. The private car reimbursement situation will be addressed in greater detail later in the report. It was not the purpose of this study to evaluate the propriety of state employee travel, although we believe that such a study should be made, nor did we inquire into all of the specific reasons for the underutilization of some vehicles. <u>Therefore, we have based our recommendations and savings projections on the assumption that state employees will continue to travel the same number of miles they have in the past, and that all employee auto travel is legitimate business travel.</u> The purpose of this report is to describe how state employees can get better transportation services at a lesser cost.

Finally, the specific findings and recommendations for cost savings are individually identified in subsequent sections of this report.

<u>General Findings</u>

The Task Force identified four major areas of concern in its study of the state fleet.

1. Many of the states vehicles are underutilized. This results in higher operating costs, increased private reimbursement costs, and the unnecessary purchase of additional new vehicles.

2. There is no central control over the purchase, assignment, use or number of state vehicles. Each agency decides on its vehicle purchase, lease, and use needs.

3. There is inadequate information available to monitor and review agency needs or to determine where vehicle reductions and reassignments are needed.

4. There has been no comprehensive energy savings program instituted for the state fleet. Yet, energy conservation could result in considerable savings.

Task Force recommendations on fleet reduction, operating costs, purchasing specifications, vehicle maintenance, car sale, energy conservation, and employee reimbursement policies attempt to address the above concerns.

It should be noted that while increased centralization of responsibility and authority for vehicle utilization and cost is recommended throughout the report, we do not recommend a centralized operation or administration for the various agency fleets--Central Motor Pool, departments of Public Safety, Transportation, and Natural Resources. The Legislature has authorized the state agencies to invest heavily in their own transportation operations, and many of the fleets are tied to an agency's programmatic function, i.e. enforcement, investigation, inspection.

These vehicles have special equipment and serve special needs. They do not provide simply employee transportation, but are implements of the enforcement of state law or the provision of essential state services. Agency fleets are set up to meet those special needs, and the services their vehicles provide can and will be said to be more important than the money that could be saved by centralizing their operations.

Implementation of the recommendations in this report could save the state $1,775,000. These savings will not be realized in the appropriations process, but will be reflected in reduced fleet operating costs. For example, the decision to purchase smaller, less expensive cars will save money at the time of purchase and throughout the life of the vehicles.

A SUMMARY OF RECOMMENDATIONS AND SAVINGS

FLEET REDUCTION

FINDINGS

The Task Force found that some vehicles leased from Central Motor Pool by the agencies on year-long or monthly leases or owned by the agencies themselves are underutilized. These lease arrangements should be changed or the car should be reassigned or sold.

Presently, mileage is used as the main criteria for determining underutilized cars. Usage should also be considered. Often vehicles on permanent assignment to an individual stand idle and unavailable for use by other agency staff.

At the present time there is no centralized control over car purchasing, and therefore, no way of determining whether travel needs should be met through the purchase of new vehicles or the reassignment of existing ones. Such control would eliminate the need to lease private cars.

RECOMMENDATIONS

The Task Force recommends that the Governor direct state agencies to take the following actions:

Reduction and Reassignment:

1. The Commissioner of Administration, in cooperation with other state agencies should provide for the reassignment of 78 underutilized

vehicles identified by the Task Force in order to reduce private car reimbursement. This initial reassignment shall be accomplished by no later than June 30, 1978.

2. The Commissioner of Administration, in cooperation with other state agencies, should provide for the sale of 202 passenger vehicles. The sale of these vehicles should be completed by no later than October 30, 1978.

Vehicle Use:

3. The Department of Administration should review, on a quarterly basis, both the mileage and frequency of use in order to determine which state cars are underutilized. This review should also include a determination of the most economical type of agency assignment that should be made (i.e. daily vs. weekly vs. monthly).

4. The Department of Administration should reassign Central Motor Pool cars to state agencies on a weekly or daily basis where such reassignment is presently more economical. Reassignment needs should be reviewed at least on a quarterly basis.

5. The Department of Administration should also reassign other underutilized Central Motor Pool cars, presently assigned on a monthly basis to state agencies, to be used as "pool" cars which would be available to any state employee on a trip basis.

6. Agency heads should, where feasible, consider a general staff or "pool" assignment for cars with low mileage use.

7. No other state employees, except for enforcement personnel, "inspectors working out of their homes," and employees on 24-hour call, should have cars individually assigned for their use.

Commissioner and Agency Head Use:

8. No commissioners or agency heads should have state cars assigned solely for their use.

9. No other car assignments to state agency personnel should be made on the basis of "status or tradition."

10. The Department of Administration in cooperation with other state agencies should formulate a uniform state policy for the use and assignment of state passenger vehicles.

Purchase Control:

11. In the future, the Department of Administration should have the authority to review and control the number and type of all state-owned passenger vehicles. This control should be effected through its Procurement Division and Central Motor Pool.

12. Before additional state "agency-owned" vehicles are authorized for purchase, state agency heads should provide the Commissioner of Administration with vehicle usage data to show that existing agency vehicles are fully utilized, that no Central Motor Pool cars are available to meet their needs, and that travel needs cannot be met through more economical alternatives.

Car Leasing:

13. When state agencies need to meet seasonal business travel requirements and no motor pool car is available, they should consider short-term car leasing agreements or temporary private car reimbursement and determine the most economically feasible alternative.

14. More efficient use of the state's car fleet should essentially eliminate the future need for long-term (one year or longer) private car leases by state agencies. These existing leases should not be renewed when they expire.

SAVINGS

Car Sale:

The sale of 200 cars from the state fleet will yield an estimated one-time savings of $140,000. The Task Force assumes that those 200 cars will be the oldest cars in the fleet. This savings estimate is based on the actual sale price of the oldest state-owned vehicles sold in Fiscal Year 1977.

Purchase Price Savings:

Currently the state has a 2,603 car fleet. The Task Force recommends a fleet level of 2,400 cars. Based on our recommended car replacement schedule (65,000 miles or 3½ years) and our recommended fleet reduction to 2,400 cars, the state will not replace 60 vehicles per year that it currently purchases. Using the state's actual 1977 car purchase and resale costs, the Task Force estimates the annual purchase price savings at $250.

Elimination of Car Leases:

The Task Force estimates using actual Fiscal Year 1977 operating costs of these leases to the state, that $18,000 can be saved annually by the elimination of private car leases when the present leases expire.

OPERATING COSTS

The Department of Transportation's automated cost-accounting systems enables them to collect data on individual cars and more accurately determine utilization and operating costs. Central Motor Pool and other agencies should consider similar cost-accounting systems for their car fleets.

RECOMMENDATIONS

The Task Force recommends that the Governor direct state agencies to take the following actions:

1. The Central Motor Pool should biennially review its rate structure and adjust it so that charges to user agencies cover all costs of its operation, including vehicle replacement.
2. Central Motor Pool should obtain an automated cost-accounting system that would provide the data recommended by the CPA's.
3. Central Motor Pool should collect financial information by car rather than by car class.
4. Accrual-basis, rather than cost-basis, financial statements should be utilized by Central Motor Pool because they are more meaningful and appropriate to their "revolving fund" operation.
5. Any Central Motor Pool rate changes should be prepared in advance of each biennial budget so that state agencies can adjust their transportation budget requests accordingly.
6. Other state agencies that have "agency-owned" passenger vehicles should develop or utilize existing automated cost-accounting systems in order to control the costs of their fleets. These systems should include the components recommended by the CPA's.
7. The Legislature should fund the Travel Coordinating Center's programs that are not directly connected with the daily operation of the Central Motor Pool (commuter vans, carpooling) by a separate legislative appropriation and not out of the Central Motor Pool's "Revolving Fund."

SAVINGS

The savings realized through the implementation of the above recommendations are included in other "Savings" sections of this report.

PURCHASING SPECIFICATIONS

Present purchasing specifications such as wheelbase and engine size should be changed in order to downsize the state fleet.

Various optional equipment, such as cruise control, rear window defoggers, radial tires and car color should be considered in the interests of employee safety and cost savings.

In the past, cars have been purchased from the lowest bidder based on specifications which made no provision for any desired performance standards. The car with the cheapest purchase price is not necessarily the cheapest car to operate if maintenance, gas, depreciation, and other costs are high. "Total-cost purchasing," a concept predicated on buying a car that is calculated to be the most economical over its life expectancy, should be further investigated by the Department of Administration, in cooperation with other appropriate agencies.

RECOMMENDATIONS

The Task Force recommends that the Governor direct state agencies to take the following actions:

1. The Commissioner of Administration should write specifications for the purchase of 1978 model passenger vehicles that reduce minimum standards for wheelbase and engine size.
2. Based on the recommended changes in the EPA mileage specifications, it is estimated that energy efficiency can be increased by approximately 19 percent.
3. The Commissioner of Administration should continue to annually review car purchasing specifications to facilitate the downsizing of the state fleet.

4. The Department of Administration Procurement Division should increase their efforts to provide agencies with vehicles most appropriate for their individual usage needs.

5. In order to promote the purchase and use of energy efficient passenger vehicles, the director of the State Energy Agency should approve the purchasing specifications developed by the "user committee."

6. The Department of Administration should include the car options specified in the above narrative section for the purchase of 1978 model state cars.

7. Consumer's color preference, safety, maintenance, and repair costs should be considered in the selection of the new car colors for state non-enforcement passenger vehicles.

8. The departments of Administration and Transportation and the Energy Agency should cooperate in examining a life-cycle cost formula for the purchase of state passenger vehicles.

SAVINGS

Downsizing:

Direct Running Costs--By the implementation of state fleet and the fleet reduction recommendations the Task Force estimates that $737,000 can be saved annually through reduced running costs. The running costs include such things as gas, oil, maintenance repairs, etc. The estimated savings is based on the state's actual Fiscal Year 1977 running costs.

Purchase Price Savings--These savings are realized by replacing the larger cars in the state's fleet with smaller, less expensive cars. Savings were calculated using the 1977 purchase prices for each car class, the 1977 resale prices for each car class, and the differences in the rates of depreciation for each car class over the life of the car. The annual savings estimated by the Task Force as a result of purchasing smaller cars amounts to $175,000.

Car Options:

Cruise Control--The Task Force, using information obtained from Nevada and Iowa state agencies, found that the installation of a cruise control mechanism on state-owned vehicles can increase the energy efficiency of each vehicle. During Fiscal Year 1977, state-owned vehicles traveled 48.7 million miles. Since cruise control cannot be used in heavy traffic and in general city driving, it will reduce gasoline consumption for approximately 70 percent of the state's passenger vehicle mileage.

Radial tires--The state can save money by purchasing radial tires for its vehicles. According to Department of Administration sources, beginning with model year 1978, radial tires will be standard equipment on all vehicles except for compacts and sub-compacts. There is an additional cost of approximately $65 on sub-compact and compact purchases.

Car Color--A 1977 legislative change now allows the state to purchase cars in a variety of colors. The past requirement of a specific shade of maroon cost $90 extra per car.

The savings realized through the purchase of the above options is $351,000 annually.

CAR SALE

Agencies use different mileage guidelines to determine the diposal of their vehicles. Generally, however, low operating costs are maintained and employees assured of safe, reliable vehicles if cars are replaced at about 60,000 to 65,000 miles.

The state sells its used vehicles at public auctions. In discussions with private fleet managers, the Task Force learned that the best times to sell cars are in April and immediately after the new model announcements in October. It also has been found that selling fewer cars at each auction tends to raise their sale price.

RECOMMENDATIONS

The Task Force recommends that the Governor direct state agencies to take the following actions:

1. For economic reasons, the Task Force believes the state should not generally pursue a policy of "reconditioning" state automobiles to operate them to 100,000 miles or more.
2. The departments of Administration and Corrections should determine the economic feasibility of doing body work on state automobiles (except enforcement) and determine by no later than June 30, 1978, whether this proposal should be implemented.
3. If the proposal for having car body work done by inmates at the Corrections facilities is shown to be economically feasible, the Task Force recommends that the Commissioner of Administration in cooperation with the Commissioner of Corrections should arrange to have such work done, not only on Central Motor Pool vehicles, but some "agency-owned" vehicles as well.
4. As many state cars as possible, scheduled for replacement during a given year, should be sold at public auctions in the months of April, May, September, and October.
5. Since smaller auctions increase the price paid for used vehicles, the Task Force recommends that the present number of auctions be increased and that they be held during the months of April, May, September, and October.

SAVINGS

By changing the present state auction schedule and selling cars at public auctions during the spring and fall of each year, the Task Force estimates, based on actual state sales data, the state could increase its sale prices by approximately $56 per car. This amounts to an estimated annual savings of $9,000.

CAR MAINTENANCE

Lack of adequate, timely maintenance only increases operating costs, but also encourages the use of private automobile travel. Central Motor Pool should institute better maintenance procedures and users should report car problems before they require expensive repairs.

RECOMMENDATIONS

The Task Force recommends that the Governor direct state agencies to take the following actions:

1. The Central Motor Pool should increase its preventive and routine maintenance checks on its vehicles.
2. The Central Motor Pool should increase its efforts to educate agencies of the need to notify them, in a timely manner, when a car assigned to the agencies is in need of repair.
3. In order to provide a financial incentive for the Central Motor Pool to expedite the necessary maintenance and repairs, the Central Motor Pool should not charge agencies their flat (monthly or weekly) rate when a vehicle is in for repair if replacement transportation is not provided.
4. The Central Motor Pool should streamline its procedures for authorization of car repair and maintenance by private shops. This is particularly important for outstate maintenance repair work.

5. The Travel Coordination Center should make better arrangements for the continuance of transportation services to state agencies whose vehicles are being repaired through better use of "loaner" Central Motor Pool vehicles.

ENERGY CONSERVATION

Fleet downsizing, purchase of cruise control and radial tires as car options, and drivers training programs are all areas where the state could save both energy and money. Recommendations for energy savings realized from fleet downsizing and car option purchases are mentioned in the "Purchasing Specifications" section.

RECOMMENDATIONS

The Task Force recommends that the Governor direct state agencies to take the following actions:

1. The departments of Public Safety, Education, and Energy should cooperate to develop a driver energy conservation-safety program for state employees. Particular emphasis should be given to training enforcement, inspection, and other state personnel whose jobs require a great amount of state automobile travel.
2. The Commissioner of Public Safety should monitor the effectiveness of this driver education program and provide "refresher" courses, where necessary, for state employees.

SAVINGS

Cruise Control

Savings from the installation of cruise control is included in the "Savings" section of "Purchasing Specifications."

Driver's Education

In calculating the energy savings realized through the implementation of "Featherfoot" or some other similar driver's education program, the Task Force suggests that the program be directed at high mileage users. The initial cost of implementing the driver's education program will be $10,730, part of which may be offset by federal funds. The driver's education program is assumed to be 50 percent effective, i.e. the same rate of effectiveness experienced by other government units and private industry. The estimated annual savings from implementing a driver's education program would be $147,000.

CAR REIMBURSEMENT

There are two private car reimbursement rates: 16 cents per mile if metro-area employees drive their own cars when no motor pool car is available, and 11 cents per mile if employees elect to drive their cars and a motor pool car is available. Private cars are presently used for approximately 25 percent of employee auto travel. Reassigning underutilized vehicles to Central Motor Pool or agency pools will make more vehicles available for weekly and daily employee use.

During Fiscal Year 1977, the state over-reimbursed about 140 employees between $2,000 and $6,200 for private mileage. In many of these cases, the agency for which the employee worked had underutilized state vehicles.

State law requires that employees who drive to work in state cars, and are not legally exempted, must reimburse the state for the full cost of this travel. The Task Force found instances where over 50 percent of the mileage on state vehicles was for personal use, and that while the personal use reimbursement rate covers the operating costs of a Central Motor Pool vehicle, it does not necessarily cover the higher per mile operating costs of agency-owned vehicles.

RECOMMENDATIONS

The Task Force recommends that the Governor direct state agencies to take the following actions:

Private Car Reimbursement:

1. By Fiscal Year 1979, the Department of Administration should, through vehicle acquisition and reassignment, reduce private car reimbursement (at 16 cents per mile rate) by 15 percent from Fiscal Year 1977 levels.
2. The Commissioner of Administration should monitor quarterly the relationship between Central Motor Pool car utilization and employee reimbursement and direct other state agency heads to reassign vehicles to reduce private car reimbursement to state employees.
3. Agency heads should review the private car reimbursement paid to their employees and, where feasible, make either Central Motor Pool-leased or agency-owned vehicles available to employees receiving over $2,016 reimbursement per year. This amount should also be periodically reviewed to be consistent with state car operating costs or the Central Motor Pool rate structure.
4. The Commissioner of Personnel should cooperate with the Commissioner of Administration in the preparation of a car use policy and regulations concerning private car mileage rates.
5. State agency heads should review on at least a quarterly basis the use of their agency-owned vehicles and should reassign these in order to reduce private car mileage reimbursement (at the maximum rate) or to dispose of these underutilized vehicles at public auction.

Overpayment for State Employee Travel:

6. The Department of Administration should eliminate the assignment of annual control numbers to high mileage users, which allow employees

to be reimbursed by the state at the maximum rate (except for employees with special health requirements).

7. The Department of Administration should consider the assignment of annual control numbers to employees for private car mileage where such assignment would be more economical than use of state passenger vehicle.

8. No other state employee located in the metro area should be assigned a control number to charge the maximum private car reimbursement rate if any Central Motor Pool or "agency-owned" vehicle is available for the employee's use. Exceptions should be made for certain medical reasons (i.e. handicapped employees with specially-equipped vehicles).

9. The Department of Administration should periodically reevaluate the policy of allowing an average of 50 private car miles (at 16 cents per mile) per day and should reduce the maximum allowable mileage restrictions as well.

10. The commissioners of Finance and Administration should jointly advise all state agency heads and controllers to check employee expense reports thoroughly to avoid overpayment for state employee travel.

Employee Payments for Personal Use of State Cars:

11. The Department of Administration should review, on a quarterly basis, the assignment of employees allowed to reimburse for the personal use of state cars.

12. The Commissioner of Administration in cooperation with the Commissioner of Finance should prepare a uniform state policy for the reimbursement rate charged to state employees for the personal use of state cars as provided in M.S.A. 16.753.

13. The Department of Administration should establish uniform rates for employee reimbursement for personal use of state cars. This rate

should cover all costs and should be based on the class (size) of car driven by the employee.

14. The Department of Administration's Travel Coordination Center should establish procedures for the checking of the availability of motor pool cars, including those assigned on a monthly basis to agencies, before authorizing employee private car mileage reimbursement at the maximum rate.

15. The Legislature should review reimbursement policies for the employees' personal use of state automobiles.

SAVINGS

Elimination of Private Car Reimbursement Overpayment:

According to information supplied by the Department of Administration, ten percent of the private car reimbursement payments at the 16 cents per mile rate should be made at the 11 cents per mile rate. The Department of Administration estimates that of the $2,216,137 paid in private car reimbursement in Fiscal Year 1977, 70 percent was made at the 16 cents per mile. The elimination of this five cents per mile overpayment would result in an estimated annual savings of $48,000.

15 Percent Reduction of Private Car Reimbursement:

The Department of Administration estimates that a 15 percent reduction in private car reimbursement at the 16 cents per mile rate can be accomplished through better utilization of state vehicles, i.e. vehicle assignment and reassignments. This 15 percent reduction in private car reimbursement at the 16 cents per mile rate will result in an estimated annual savings of $72,000.

MISCELLANEOUS FINDINGS

The Task Force believes that public allegations about employee misuse of state vehicles are investigated by Department of Administration officials in a timely, fair, and thorough manner.

According to the Office of the Attorney General, it is questionable whether the use of decals is in compliance with the state's uniform marking laws for state vehicles. That portion of the law that may prohibit the use of "decals" should be changed. Decals are easier to apply and cheaper to use than the painted identification, which the law presently requires.

RECOMMENDATIONS

The Task Force recommends that the Governor direct state agencies to take the following actions:

1. Agency heads should check the marking on state vehicles owned, leased, or assigned to their agencies to ensure that they are marked in the manner provided by state law.
2. The Legislature should amend M.S.A. 16.75 and 168.01 to specifically allow for the marking of state vehicles with decals.

ALTERNATIVES TO STATE-OWNED TRANSPORTATION

The Task Force contacted GELCO Corporation and National Car Rental to examine the feasibility of private fleet management as an alternative to state ownership of automobiles. We believe that private fleet management may provide better passenger transportation service at a lower cost than the present state fleet operation, but any change would require careful consideration of new legislation.

There are, however, alternatives to automobile travel currently available to state employees, such as telephone conference calls, mass transit, and commercial and state-owned aircraft.

RECOMMENDATIONS

The Task Force recommends that the Governor direct state agencies to take the following actions:

1. The Legislature should seriously consider the feasibility and desirability of private fleet management as an alternative to the present state fleet operation.

2. The Commissioner of Administration should contact private fleet managers to investigate the feasibility of purchasing such services as an alternative to providing its own transportation.
3. State agencies should make better use of the services available to them through the Telecommunications Division of the Department of Administration.
4. The Energy Agency and the Department of Administration should increase their efforts to inform state employees about mass transit and carpooling as alternatives to individual state business travel.

TOTAL SAVINGS

Savings are based on the cost of the present fleet, not on the cost of the proposed fleet. It will take approximately three years to downsize the fleet to the composition recommended by the Task Force. Some of the savings will be realized in Fiscal Years 1978 and 1979, but the majority of savings will be realized on an annual basis when the recommended fleet composition is reached.

We expect that the operating costs of employee private car and state car use will continue to rise because of anticipated increases in the cost of gasoline, new cars, inflation, and other aspects of employee state travel. Therefore, the savings identified in this report will be realized primarily through reduced operating costs and a less dramatic increase in the cost of operating the state fleet than would occur if these recommendations are not implemented.

CAR STUDY

ANNUAL SAVINGS
(Rounded to 000)

DESCRIPTION	FISCAL YEAR			
Fleet Reduction:	1978	1979	1980	1981*
Sale of surplus cars	$120,000 (one-time)	$ 20,000 (one-time)	-	-
Purchase price savings	250,000	250,000	$ 250,000	$ 250,000
Elimination of private car leases	-	18,000	18,000	18,000
Downsizing:				
Purchase prices	175,000	175,000	175,000	175,000
Direct running costs	105,000	211,000	422,000	737,000
Car options	50,000	100,000	200,000	351,000
Car auctions	9,000	9,000	9,000	9,000
Driver's education	-	147,000	147,000	147,000
Car reimbursement overpayment	48,000	48,000	48,000	48,000
15 percent reduction in private car reimbursement (at 16 cents per mile)	72,000	72,000	72,000	72,000
	$829,000	$1,050,000	$1,341,000	$1,807,000

* By Fiscal Year 1981 it is anticipated that the downsizing of the state's fleet, as recommended by the Task Force, could be accomplished. Therefore, the estimated annual savings after Fiscal Year 1981 is expected to be $1,807,000.

II

FLEET REDUCTION

The Task Force completed an inventory of our state passenger vehicles from information supplied from individual agencies. From this data, we determined the number of cars in the fleet, their size, operating costs, mileage, use and primary user.

The Task Force reviewed the information (car inventory) supplied by each agency, and met with the head of each agency that had over 30 cars assigned to it. When questions arose concerning agencies with less than 30 cars, most of these agencies were also contacted by phone or letter. Interviews with agency heads were conducted from August 30 through September 26, 1977. Based on this information, individual car usage checks, and other analyses we determined that passenger vehicle reductions could be accomplished in some agencies without causing significant impairment of agency operations.

In considering fleet reductions, the Task Force decided not to arbitrarily require a certain percentage of cars to be eliminated for all state agencies (i.e. five percent, ten percent, etc.), but rather to examine each agency's vehicle usage and needs on an individual basis.

FINDINGS

Presently, there is no central control over the assignment, use, or number of state passenger vehicles. The Central Motor Pool, Department of Transportation, and other state agencies own and control the state's passenger vehicles. The Central Motor Pool "leases" cars to state agencies on a monthly, weekly, or daily basis. Agencies using Central Motor Pool cars are charged a flat rate for the length of use (i.e. month, day, etc.) and an additional charge for mileage driven. With the recent growth in some departments, the Central Motor Pool has been unable to meet requests for additional vehicles. When the Central Motor Pool cannot meet these requests, a "ripple" effect of cost increases in other areas frequently occurs, as state agencies look to other ways of meeting their travel needs. These needs are often met by more costly alternatives, such as private car reimbursement, direct agency car purchase from its operating funds, or car leasing. The result is not cost savings but "cost displacement" to other areas.

Reduction and Reassignment

State agencies reported 2,603 passenger vehicles in the state's fleet as of June 30, 1977. At the present time, the Central Motor Pool must verify that they do not have a vehicle available for assignment to an agency before a state agency can enter into an agreement for the lease of private vehicles.

The Task Force found that some cars are being held on monthly Central Motor Pool assignments, by state agencies throughout the year, when a seasonal private car lease or a Central Motor Pool seasonal-use car would have been more economical, and that some agencies had Central Motor Pool vehicles on a monthly basis, when these could have been more economically used on a weekly or daily basis. This not only costs the agency leasing the vehicle from the Central Motor Pool more money but further aggravates the problem by not having the vehicle available to the Central Motor Pool to assign to other potential users on a daily or weekly basis. This in turn, increases the private car reimbursement cost since employees are then reimbursed for the use of their car at 16 cents per mile rather than 11 cents per mile. This problem still exists, although it was identified in a 1970 Legislative Audit Commission Report.

This is not so much a problem of too few cars as it is a need for better utilization of existing cars. To put it simply, more effective monitoring of vehicle use is needed to improve the utilization of existing vehicles, before acquiring additional ones.

Central Motor Pool officials have experienced some problems in trying to take cars back from agencies for reassignment. They presently list 21 cars as underutilized and are monitoring the use of an additional 37.*

Vehicle underutilization is not unique to Central Motor Pool vehicles. For example, using the Central Motor Pool's criteria for determining underutilization (1,050 miles per month) the Task Force found one agency had 95 such vehicles. Even though the Task Force believes that the Central Motor Pool could do a more effective job of monitoring and utilizing its vehicles, we found that the monitoring and utilization of non-enforcement, agency-owned vehicles was generally less effective than that by the Central Motor Pool.

Vehicle Use

In an attempt to analyze the multitude of state vehicle uses for business travel, the Task Force compiled data from the agencies regarding car assignments and the primary use of each vehicle. This data was compiled for each agency and was grouped into six general categories for purposes of analyzing the state fleet in its entirety. (See Table 1.)

There are a number of factors to be considered when analyzing the most cost-effective car use (use of private car reimbursement vs. state car use). First, in the vast majority of cases, vehicle ownership has not been a condition of state employement, so use of personal cars for state business travel cannot generally be mandated. Second, there are as previously stated, certain uses (i.e. "messenger") that inherently

* July - September, 1977 Central Motor Pool vehicle use report.

have only low mileage usage. Third, more effective "pooling" of employees' use of a single state car is more effective than paying each of three or four employees private car mileage at the maximum rate.

Besides vehicle reduction, future effective state fleet management will require the reassignment of vehicles to priority (high mileage) users. This requires some central system of monitoring, so that cars can be reassigned to account for changes in jobs and workload priorities.

During the investigation of employee car use, the Task Force found a wide variation in the mileage a car is driven during the course of a given year. This is to be expected, because of the diversity of uses of these state vehicles. However, it was found by the Task Force and other agency heads who previously had examined their own departments' passenger vehicle operation that the permanent assignment of cars to individual employees is not the most effective use of the vehicles, and that better utilization can be achieved by a general or staff "pool" assignment. Cars are then used on "a first come - first served," or work-priority basis. This reduces the "it's my car" attitude that can develop. However, certain cars such as those used by enforcement personnel and "inspectors" who work out of their homes will probably have to continue to be individually assigned.

The Central Motor Pool does monitor the mileage on their 852 vehicles, but they do not generally monitor the frequency of use for determining whether cars should be reassigned. High mileage could be accrued on only two or three trips a month. And, as mentioned previously, although the Central Motor Pool officials have found vehicles which are underutilized, they have not always reassigned these vehicles.

The Task Force also found that some agencies do not regularly monitor the use of their "agency-owned" vehicles in order to make it possible to arrive at effective car assignment (allocation) policies. There is a need for the continued monitoring of vehicle mileage and usage for these purposes.

Commissioner and Agency Head Use

The utilization of cars by agency heads has been found in many cases to be quite low. In fact, the mileage on certain vehicles is so low that it would be far more economical if the state were to reimburse agency heads at the maximum rate (16 cents per mile) for use of their personal cars.

Specific instances have been found by the Task Force where the major use of the vehicle assigned to an agency head has been commuting to work. (It should be noted, however, that M.S.A. 16.753, Subd. 1 requires state employees to reimburse the state for this personal use of a state vehicle.)

In addition the Task Force has found that while some of these cars have low mileage use, they are frequently not available to other department staff. Often, then, other department staff can claim maximum private car reimbursement because "no motor pool car is available." Although, some agency heads stated that the car "was available to other staff when not in use by them," the Task Force found, by checking specific car mileage records, that this was often not the case.

Purchase Control

It should be emphasized that cost control starts with vehicle acquisition. There is a need to centralize control over car purchase. Presently, all passenger vehicle purchases and leases are made through the Procurement Division of the Department of Administration. However, this control is limited to developing statewide purchasing specifications. Procurement does not have the responsibility for determining whether such a vehicle purchase is necessary. This "need" is evaluated by the individual agencies and at the present time, there is no uniform state policy for determining such need.

Without further centralization of control, it is virtually impossible to determine whether there is a legitimate need to acquire additional vehicles or whether these travel needs could be met by reassignment or better utilization of existing vehicles. The need for better monitoring of the existing fleet and greater centralization of cost control was also suggested by various heads of state agencies in their discussions with Task Force members.

Before additional vehicle purchases are even requested, the agencies should be expected to answer the following questions:

1. Are present vehicles being fully utilized.
2. If so, does the Central Motor Pool have a car available for assignment.
3. Is there a more economical alternative to purchase (i.e. private car reimbursement for low mileage uses, or private leases for seasonal usage).

Car Leasing

State agencies can lease cars from the private sector provided that they have checked with the Central Motor Pool and the Motor Pool has confirmed that they do not have any state cars available to assign to them. State car leases vary in type. In some instances, the state pays a fee for the use of the car, and all maintenance work is done by the lessor. In others, the state pays for the use of the car, but maintenance and repairs are the state's responsibility. Often the agencies then have maintenance and repairs done by the Central Motor Pool. Car leasing by the state is economically justifiable, the Task Force found, only in a few special circumstances.

According to a March, 1977 report by the Legislative Audit Commission:

> Central Motor Pool has entered into several agreements with state agencies involving two types of car leases. On June 30, 1975, Central Motor Pool had lease agreements with car leasing companies for 41 cars for one and two years each to fulfill agreements to supply cars to the following agencies.

Bureau of Criminal Apprehension	25
Department of Health	10
Fire Marshal	5
Veterans' Affairs	1

The Legislative Audit Commission also found that:

> Based on the estimated 40 month life of a Central Motor Pool vehicle, we estimate that the cost is approximately $3,300 per year more to lease ten vehicles for the Department of Health than it would be to use ten Central Motor Pool vehicles.

Presently the state has a total of 23 private car leases. The Bureau of Criminal Apprehension has recently reevaluated their policy for car leasing and ownership and determined that the cost of operating agency-owned vehicles was 13 cents per mile while costs for leases were 18 cents per mile. The Bureau also found that with their mileage history, they could save $20,000 annually, based on a 20-vehicle lease agreement. Based on the Bureau of Criminal Apprehension analysis, Superintendent Tschida has informed Task Force members that they intend to purchase vehicles for their operations.

<u>Vehicle Reductions</u>

The vehicle reductions recommended by the agencies themselves are shown on Table 2. Based on car usage records and other data the Task Force believes that additional cars can be reduced from the state fleet. The Task Force's recommended reductions are also shown on Table 2.

Some of the underutilized cars found by the Task Force are recommended to be assigned to the Central Motor Pool for reassignment to other agencies in order to reduce private car reimbursement costs. The reassignment of these vehicles will result in greater savings to the state than if they were sold.

RECOMMENDATIONS

The Task Force recommends that the Governor direct state agencies to take the following actions:

Reduction and Reassignment

1. The Commissioner of Administration, in cooperation with other state agencies should provide for the reassignment of 78 underutilized vehicles identified in Table 2 in order to reduce private car mileage reimbursement. This initial reassignment will be accomplished no later than June 30, 1978.
2. The Commissioner of Administration, in cooperation with other state agencies, should provide for the sale of the 202 passenger vehicles identified in Table 2. The sale of these vehicles should be completed by no later than October 30, 1978.

Vehicle Use

3. The Department of Administration should review, on a quarterly basis, both the mileage and frequency of use in order to determine which state cars are underutilized. This review should also include a determination of the most economical type of agency vehicle assignment that should be made (i.e. daily vs. weekly vs. monthly).
4. The Department of Administration should reassign Central Motor Pool cars to state agencies on a weekly or daily basis where such reassignment is presently more economical. Reassignment needs should be reviewed at least on a quarterly basis.

5. The Department of Administration should also reassign other underutilized Central Motor Pool cars, presently assigned on a monthly basis to state agencies, to be used as "pool" cars which would be available to any state employee on a trip basis.

6. Agency heads should, where feasible, consider a general staff or "pool" assignment for cars with mileage use.

7. No other state employees, except for enforcement personnel, inspectors working out of their homes, and employees on 24-hour call, should have a car individually assigned for their use.

Commissioner and Agency Head Use:

8. No commissioners or agency heads should have state cars assigned solely for their use.

9. No other car assignments to state agency personnel should be made on the basis of "status or tradition."

10. The Department of Administration, in cooperation with other state agencies, should formulate a uniform state policy for the use and assignment of state passenger vehicles.

Purchase Control:

11. In the future, the Department of Administration should have the authority to review and control the number and type of all state-owned passenger vehicles. This control should be effected through its Procurement Division and Central Motor Pool.

12. Before additional state "agency-owned" vehicles are authorized for purchase, state agency heads should provide the Commissioner of Administration with vehicle usage data to show that existing agency vehicles are fully utilized, that no Central Motor Pool cars are available to meet their needs, and that travel needs cannot be met through more economical alternatives.

Car Leasing:

13. When state agencies need to meet seasonal business travel requirements and no motor pool car is available, they should consider short-term car leasing agreements or temporary private car reimbursement and determine the most feasible economical alternative.

14. More efficient use of the state's car fleet should essentially eliminate the future need for long-term (one year or longer) private car leases by state agencies. These existing leases should not be renewed when they expire.

SAVINGS

Car Sale:

The sale of 200 cars from the state fleet will yield an estimated one-time savings of $140,000. The Task Force assumes that those 200 cars will be the oldest cars in the fleet. This savings estimate is based on the actual sale price of the oldest state-owned vehicles sold in Fiscal Year 1977.

Purchase Price Savings:

Currently the state has a 2,603 car fleet. The Task Force recommends a fleet level of 2,400 cars. Based on our recommended car replacement schedule (65,000 miles or 3½ years) and our recommended fleet reduction to 2,400 cars, the state will not replace 60 vehicles per year that it currently purchases. Using the state's actual 1977 car purchase and resale costs, the Task Force estimates the annual purchase price savings of $250.

Elimination of Car Leases:

The Task Force estimates, using actual Fiscal Year 1977 operating costs of these leases to the state, that $18,000 can be saved annually by the elimination of private car leases when the present leases expire.

III

OPERATING COSTS

As previously mentioned, one of the more complex aspects of this study was the determination of the total cost of the state's fleet, particularly the Central Motor Pool. Here, the expertise of the loaned certified public accountants was extremely valuable.

Before any reasonable evaluations of alternatives could be made, it was essential that the Task Force know the various cost-components of the present system. The two accountants on loan to the Task Force, Roy Rueb and Robert Klemenhagen, reviewed all the available passenger vehicle cost-accounting information from Central Motor Pool and Department of Transportation. They also conducted interviews with officials from these and other departments and cross-checked the data for accuracy. Their findings were summarized in a memorandum to the Task Force. The majority of the information contained in this section of the report represents their findings and reflects their recommendations to the Task Force.

The Task Force asked the CPA's to specifically investigate the opeating costs of vehicles in the Central Motor Pool and Department of Transportation motor pool. Because it is beyond the scope of this report to determine the exact operating cost of each of the state's 2,603 passenger vehicles, the assumption had to be made that the operating costs of these two fleets are comparable to those for the rest of the fleet (except enforcement vehicles). The data presented in the "Findings" section tend to support this assumption. It should be noted that the Central Motor Pool operates on a revolving fund, where the agency-owned fleets, including the Department of Transportation, are funded by legislative appropriation.

FINDINGS

Cost-Accounting Systems--Central Motor Pool and Department of Transportation

The cost-accounting methods for the Department of Transportation and Central Motor Pool differ. The current system (since September 1, 1976) used by the Central Motor Pool is to subcode costs by car class and then to "sort" under a special procedure to determine the operating cost per mile. The total and net costs of the Central Motor Pool were obtained from Fiscal Services and summarized by the CPA's as shown on Table 3. The Central Motor Pool utilizes data in the Statewide Accounting System for their cost calculations, which are on a cash basis.

In contrast, the CPA's found that the Department of Transportation has a separate cost system. The total costs in the cost system are reconciled with Statewide Accounting System. This cost system was developed for all Department of Transportation equipment (approximately 10,500 units). Table 4 highlights some of the major differences Central Motor Pool and Department of Transportation cost-accounting methods and operating policies. The CPA's also summarize the cost data for the entire fleets of both Department of Transportation and Central Motor Pool. According to the CPA's the data shown on Table 5 is "more comparable and reliable than that for individual vehicle class (shown on tables 6 and 7)." In addition, this operating cost data is shown by vehicle class on tables 6 and 7. "The data on tables 6 and 7 are less reliable, and should be read considering the 'cautions" at the beginning of each table."

At the present time, the Central Motor Pool depends primarily on hand prepared records; it has little information from computerized reports to assist them in fleet management. However, the system has been recently modified to provide some fiscal year-end information on vehicle by class. The CPA's found, however, that information regarding depreciation and vehicle mileage is still manually accummulated.

The CPA's memorandum to this Task Force recommended that an automated system for cost-accounting be instituted by the Central Motor Pool to provide the information in a timely manner. The CPA's further recommended that this cost-accounting system should include the items specified in Table 8.

The Department of Transportation cost-accounting system, on the other hand, is a highly automated one, although the CPA's did advise the Task Force that certain of their cost assignments are "arbitrary" and should be adjusted to more accurately represent actual operating costs. However, the CPA's noted that the Department of Transportation cost-accounting system is in the process of being revised. The Central Motor Pool could use the system being developed by the Department of Transportation with adjustments to meet their particular needs or develop an internal or external system of their own.

Another problem the Task Force identified was the cash flow in the Central Motor Pool This was due, at least in part, to the failure of state agencies to report their mileage data to the Central Motor Pool in a timely manner. When these delays occur, the Central Motor Pool is not able to accurately "bill" the agency for actual costs incurred, but must do so on an "estimated" basis. This can result in temporary loss of income and retards Central Motor Pool's abilities to make sound fleet management decisions.

Cost-Accounting Systems--Other Agencies

There are, as previously mentioned, other agencies that also have fleets of "agency-owned" vehicles (i.e. Public Safety, Department of

Natural Resources). The Task Force believes that it may be unrealistic to "centralize" these operations at this time since there has been a considerable public investment in all aspects of their operations (storage, maintenance shops, etc.).

However, these state agencies should also make sound fleet management decisons regarding their "agency-owned" vehicles. The information presently gathered by them to make such decisions varies greatly. However, information needs for these fleets are similar to those for the Department of Transportation and the Central Motor Pool. Similar cost-accounting systems should be employed.

Central Motor Pool Rate Structure

From the date of its establishment in 1961 to July, 1975, the Central Motor Pool charged agencies on a cost per mile basis. However, in July, 1975, the Department of Administration changed the rate structure to include a flat monthly, weekly, or daily use charge plus a mileage charge. (See Table 9.) The flat rate charged to agencies was developed to generally cover fixed costs such as depreciation, overhead, storage, etc., while the mileage charge was designed to generally cover variable costs such as gas, oil, maintenance, etc.

Department of Administration officials informed the Task Force members that the reason for changing the rate structure to a monthly and mileage charge was that the state agencies were "hanging on to assigned vehicles, even though they were getting low mileage usage, and the Central Motor Pool could not operate efficiently." They then changed the rate structure to provide an economic incentive to the agencies to return or reassign these vehicles. It has not eliminated the problem. Even with this change in the rate structure, the Task Force found that (using the 1,050 miles per month criteria for determining underutilization) there is a considerable number of underutilized vehicles assigned to the agencies. The monthly charge has not had the effect of insuring reassignment of underutilized vehicles to the priority users. There is still a list of 58 underutilized vehicles as determined by Central Motor Pool.

RECOMMENDATIONS

The Task Force recommends that the Governor direct state agencies to take the following actions:

1. The Central Motor Pool should biennially review its rate structure and adjust it so that charges to user agencies cover all costs of its operation (including vehicle replacement).
2. Central Motor Pool should obtain an automated cost-accounting system that would provide the data recommended in Table 8.
3. Central Motor Pool should collect financial information by car rather than by car class.
4. Accrual-basis, rather than cost-basis, financial statements should be utilized by Central Motor Pool because they are more meaningful and appropriate to their "revolving fund" operation.
5. Any Central Motor Pool rate changes should be prepared in advance of each biennial budget so that state agencies can adjust their transportation budget requests accordingly.
6. Other state agencies that have "agency-owned" passenger vehicles should develop or utilize existing automated cost-accounting systems in order to control the costs of their fleets. These systems should include the components in Table 8.
7. The Legislature should fund those programs of the Travel Coordination Center not directly connected with the daily operations of the Central Motor Pool (commuter vans, carpooling) through a separate legislative appropriation and not out of the Central Motor Pool Revolving Fund.

IV

PURCHASING SPECIFICATIONS

The State of Minnesota purchases its passenger vehicles through the Department of Administration's Procurement Division. Specifications are written for vehicle purchases by Procurement Division staff, in cooperation with personnel from the primary user agencies (i.e. Public Safety, Department of Transportation, and Central Motor Pool) and representatives from the automobile manufacturers. M.S.A. 116H.12, Subd. 5 requires that energy costs be considered in state purchasing. Toward that end, staff from the Energy Agency have also been involved. Specifications are formulated so that a variety of automobile manufacturers, through their dealers, bid on them by car class. The cars are purchased from the manufacturer (dealer) who has the lowest bid for each car class. "Minimum" specifications are developed for each car class, although individual agencies can request that other options be included in purchase specifications. For example, special specifications are written for enforcement, i.e. State Patrol vehicles. However, the Procurement Division can deny these requests if they believe them to be unwarranted. This section addresses some of the particular components of these "minimum" car purchase specifications, present methods, and recommended changes in car purchasing by the state.

FINDINGS

Downsizing

State agencies have, generally, moved slowly to adjust their car purchases toward smaller automobiles. The automobile manufacturers have "downsized" cars since 1973, and although the Central Motor Pool has begun to purchase smaller cars, the state fleet is still composed of 48.3 percent full-size cars (58.9 percent if station wagons are included.)

During the Task Force's interviews with agency heads, many suggested that smaller cars could readily meet many of their transportation needs that are presently met with full-size cars. In fact, one state employee related to the Task Force members the considerable trouble he had in persuading Procurement officials to purchase a sub-compact for agency use. It should be noted that the Department of Administration did not even have standard specifications for the purchase of sub-compacts in 1977. Further, there are only nine sub-compatcts in the entire 2,603 state car fleet today. A complete car class breakdown of the present state fleet is shown on Table 9. This car class data is also shown by agency on Table 10.

In order to have a more energy efficient, less costly state car fleet, the Task Force has developed a suggested car class composition for the state fleet in the future. This suggested car class composition is based on the experiences of other states and the suggestions of agency heads. (See Table 10.) The Task Force believes, however, that this should be a state fleet average and should not be applied strictly to each department. (See footnote on Table 10.) Fleet "downsizing" through changes in car class composition should result in significant dollar and energy savings. These benefits are also referred to later in the "Energy Conservation" savings summary section of this report.

Car Size

Although automobile manufacturers have in recent years reduced in size and increased the energy efficiency of almost all car models, the state's minimum car purchasing specifications have remained essentially the same since 1975 model purchases.*

* The only change was an increase in engine size to 400 cubic-inch-displacement for station wagons.

Car size specifications, like other purchasing criteria, are written as the "minimum" required for each car class (compact, intermediate, full-size, and station wagon). The principal factor for determining car class is the wheelbase (inches). A comparison of the minimum wheelbase specifications (by car class) for 1977 and 1978 models is provided in Table 12.

The reduction in length of wheelbase for some 1978 model purchases, together with the "downsizing" of the state's fleet through a change in the car class composition, will result in the future purchase of smaller, more energy efficient cars. (See tables 10 and 12.)

The reduction of car size specifications will also facilitate the assignment of appropriately sized vehicles to specific tasks. Presently, an employee traveling alone may be assigned an intermediate or full-size automobile, when a compact or sub-compact would do as well. As mentioned previously, there is support among agency heads for a change in some car-size purchases.

Engine Size

The engine sizes specified for each car class are also very important in determining whether energy efficient passenger vehicles are purchased. In previous years, the minimum engine size specified for both intermediate and full-size sedans was a V-8 engine, according to Department of Administration officials. Further, Department of Administration purchasing officials informed the Task Force members that they believed that even the intermediate would be "underpowered" if it did not have a V-8 engine.

However, due to the reductions in car sizes by the automobile manufacturers in recent years, the reduction in highway speed limits, and the fact that state cars are infrequently used at "fully-loaded" capacity, the Task Force believes that such large engine sizes are no longer required as a "minimum specification."

Therefore, the Department of Administration's Procurement Division in cooperation with the Task Force members, have recommended a significant reduction in the minimum engine size specifications. Changes are shown on Table 12. This reduction in minimum engine size specifications enables the EPA mileage standards to be increased for all car classes (except large station wagons). This increase in minimum EPA (combined) mileage standards is shown on Table 13.

Mileage Specifications

On May 12, 1977, the Commissioner of Administration issued a directive to all state agency heads requiring that all purchases of new cars, other than for replacement, be justified by the agencies and approved by him; it further required that they have a minimum EPA (combined) mileage rating of not less than 18 miles per gallon.

However, the Department of Administration proposed 1978 model specifications will require even greater energy efficiency standards. These specifications, shown on Table 12, have been calculated by car class, using 18 miles per gallon as a minimum standard for sedans. (It should be noted that for the purchase of large wagons, to meet the special needs of some agencies, it was impossible to achieve a better mileage rating than 15 miles per gallon and still have a competitive bidding situation for the 1978 models.) It was anticipated by the Department of Administration that when the entire fleet was "replaced" with cars that met this 18 miles per gallon minimum standard, that a ten percent energy savings would be realized. However, with the new minimum EPA mileage standards that will be applied for 1978 model purchases, it is anticipated that the energy (gasoline) savings will amount to 19 percent.

The "downsizing" of the state's fleet that will be accomplished through changes in car size and engine size specifications, will result in the purchase of smaller, lighter state cars. According to a car study conducted by the Runzheimer and Company, Inc.,* "Gasoline mileage is reduced by one or two percent for every one hundred pounds of added weight." Also, a 1976 U. S. Department of Transportation study showed that gasoline consumption in compacts over a 100,000 mile length of operation, is 28 percent less than for standard (full) size cars. This increased energy efficiency is illustrated by the significantly higher EPA mileage ratings that can be achieved in each car class. (See Table 13.)

Car "Options"

As previously stated, the Department of Administration's Procurement Division acts as an "agency" in purchasing cars for the State of Minnesota. Agencies specify the types and number of cars they want and the options they desire. However, the Department of Administration can deny agency-requested options if they feel the request is unjustified.

Although we will not go into all the various options and equipment that presently are, or could be, purchased, we will point out some of the problems experienced to date and suggest some car options that should be added.

It should be noted that, with few exceptions, the cars purchased by the state are what automobile dealers would describe as "bottom of the line." That is, state cars generally have little optional equipment.

* Runzheimer and Company, Inc. is a management consulting firm based in Rochester, Wisconsin. Among other things, this firm conducts car fleet cost and policy studies.

Options that are presently not included in state car purchasing specifications that the Task Force believes should be considered are described below:

One option is cruise control. When the 55 mile per hour highway speed limit was imposed, the State of Iowa equipped all state cars (and some light-duty trucks) with cruise control. The State of Nevada originally allowed these devices as an option, but their use has proven to be so successful that the state will mandate their installation in all of Nevada's state automobiles. According to Nevada officials: "They're proven gas savers. They have been found to save two to three miles per gallon on our vehicles with an estimated initial cost of $50 per device." Department of Administration officials believe cruise control could be unsafe if installed in all state cars, especially in those cars used primarily in the metro area, and by drivers unfamiliar with its use. The Task Force concurs with this assessment. However, it is our recommendation that cars that consistently log high "over-the-road" mileage (certain inspectors, auditors, etc.) should be so equipped. Department of Administration officials estimate that the cost of cruise control devices for 1978 model cars would be approximately $90.

Rear window defoggers or defrosters are recommended by the Task Force primarily as a safety feature, which is particularly desirable for cars in the snowbelt states. The estimated additional cost is $25 per car.

Radial tires are standard equipment on full-size and intermediate automobiles. We recommend their purchase for compacts and sub-compacts. Radials have a higher life expectancy, their use generally eliminates the labor costs involved in changing to snowtires during the winter driving months, and in addition, according to a Runzheimer Corporation car study, "Radial tires generally produce better gas mileage than normal bias ply tires." The estimated additional cost is $65 per car, at the time of purchase. This cost is more than offset by reduced labor costs and other savings. (See "Savings" section.)

Although these "options" recommended by the Task Force would increase the initial purchase price of some of the state passenger vehicles, the Task Force believes this incremental increase can be justified on the basis of increased resale value, employee safety, and greater economy over the life of the state vehicle.

Another unique specification for state purchase of State Patrol and Central Motor Pool vehicles has been car color: the requirement of a specific shade of maroon that is not always manufacturers' standard color.

The history of the maroon color for state vehicles dates back to 1961, the year when the Central Motor Pool was created, when the enabling legislation directed the Commissioner of Administration to provide for uniform marking and color of all Central Motor Pool vehicles. The commissioner decided on the maroon color because the Highway Patrol already had maroon cars and it was believed that they would be more noticable, and because it was assumed that it might possibly assist in controlling speeding by the general public. However, because of the current national popularity of the color, these assumptions are probably no longer valid. Maroon is presently the most preferred color among owners of intermediate-sized cars, and is third to fifth in color-preference ranking for all other car models.

The maroon color has other drawbacks. It has also been reported that maintenance on these maroon-colored vehicles is more expensive because it is difficult to match this special color and harder to keep clean. In addition, according to the Department of Administration's figures, the maroon vehicles yielded approximately $200 less at the time of sale than a comparable car in a standard color.

In 1977, the Legislature amended M.S.A. 16.75, Subd. 7, to allow the state (with the exception of the State Patrol) to purchase cars in a variety of colors, as long as they were standard manufacturer colors. The Procurement Division of the Department of Administration estimates that the state would have paid approximately $90 extra per car to have the maroon as specified. The state purchases approximately 450 cars each year (about 300 in maroon). At this rate the state would have paid approximately $27,000 extra for the maroon-colored passenger vehicles had the legislation not been passed. While this recent legislative change makes good economic sense, it does raise the problem of identification. We believe that obvious identification of a car as a state vehicle is certainly a deterrent to the possible misuse of a vehicle for personal purposes. Uniform maroon color traditionally has been one of the quickest ways for the public to identify a State of Minnesota vehicle. Stricter marking requirements, described in detail in the "Car Use Policies" section of this report, will alleviate this problem.

Total-Cost Purchasing

In the past, cars have been purchased from the lowest bidder based on specifications which made no provision for any desired performance standards. However, as of May, 1977, Department of Administration policy required the application of mileage criteria (EPA minimum mileage standards) to car purchases. The Task Force believes this was a good start and it addresses, at least in part, a concept that the Task Force believes the Department of Administration should pursue in its car purchases. This concept is called "total-cost purchasing" or "life-cycle cost purchasing." Simply put, "total-cost purchasing" involves buying a car that is calculated to be the most economical over its expected life rather than buying the car simply because it has the cheapest purchase price. The car with the cheapest purchase price is not necessarily the cheapest car to operate if maintenance, gas, depreciation, and other costs are high.

This total-cost purchasing concept has been endorsed by the National Association of State Purchasing Officials (NASPO). It has been used on a very limited basis in vehicle purchases by the State of South Carolina. The Minnesota Department of Transportation presently utilizes a "total-cost purchasing" formula in certain types of heavy equipment purchases. Task Force members interviewed a senior economist from the state's Energy Agency who stated that "life-cycle (total) cost purchasing could be applied to state car purchases. . .the concept is 'very feasible.'" Minnesota Department of Transportation officials suggested that the concept should be tested with the purchase of 100 vehicles to see if a total-cost purchasing formula yields better vehicles and/or actually changes the purchasing.

This concept has been recently applied in the State of Wisconsin's vehicle purchases. They bought 100 cars through a life-cycle cost formula. It did change the car purchase from the low bidder (if purchase price alone would have been used). Also, GELCO Corporation, the largest private car fleet manager in the world (over 100,000 cars), applies this concept to their car purchases.

At the suggestion of the Task Force, Department of Administration officials have agreed to purchase 1978 model cars using a modified version of a life-cycle cost formula. This modification amounts to purchasing only vehicles that get a minimum EPA rating for each car class, and adjusting the bid price to reflect calculable gasoline costs over the anticipated 65,000-mile life of a state car.

RECOMMENDATIONS

The Task Force recommends that the Governor direct state agencies to take the following actions:

1. The Commissioner of Administration should write specifications for the purchase of 1978 model passenger vehicles that include the criteria identified in tables 12 and 13.
2. Based on the recommended minimum EPA mileage specifications in Table 13 it is estimated that energy efficiency can be increased by approximately 19 percent.
3. The Commissioner of Administration should continue to annually review car purchasing specifications to facilitate the downsizing of the state fleet.
4. The Department of Administration Procurement Division should increase their efforts to provide agencies with vehicles most appropriate for their individual usage needs.
5. In order to promote the purchase and use of energy efficient passenger vehicles, the Director of the State Energy Agency should approve the purchasing specifications developed by the "user committee."
6. The Department of Administration should include the car options specified in the "Findings" section for the purchase of 1978 model state cars.

7. Consumer's color preference, safety, maintenance, and repair costs should be considered in the selection of the car colors for state non-enforcement passenger vehicles.
8. The departments of Administration and Transportation and the Energy Agency should cooperate to examine the feasibility of developing a life-cycle cost formula for the purchase of state passenger vehicles.

SAVINGS

Downsizing:

Direct Running Costs--By the implementation of the state fleet and the fleet reduction recommendations the Task Force estimates that $737,000 can be saved annually through reduced running costs. The running costs include such things as gas, oil, maintenance repairs, etc. The estimated savings is based on the state's actual Fiscal Year 1977 running costs.

Purchase Price Savings--These savings are realized by replacing the larger cars in the state's fleet with smaller, less expensive cars. Savings were calculated using the 1977 purchase prices for each car class, the 1977 resale prices for each car class, and the differences in rates of depreciation for each car class over the life of the car. The annual savings estimated by the Task Force as a result of purchasing smaller cars amounts to $175,000.

Car Options:

Cruise Control--The Task Force, using information obtained from Nevada and Iowa state agencies, found that the installation of a cruise control mechanism on state-owned vehicles can increase the energy efficiency of each vehicle. During Fiscal Year 1977, state-owned vehicles traveled 48.7 million miles. Since cruise control cannot be used in heavy traffic and in general city driving, it will reduce gasoline consumption for approximately 70 percent of the state's passenger vehicle mileage.

Radial tires--The state can save money by purchasing radial tires for its vehicles. According to Department of Administration sources, beginning with model year 1978, radial tires will be standard equipment on all vehicles except for compacts and sub-compacts. There is an additional cost of approximately $65 on sub-compact and compact purchases.

Car Color--A 1977 legislative change now allows the state to purchase cars in a variety of colors. The past requirement of a specific shade of maroon cost $90 extra per car.

The savings realized through the purchase of the above options is $351,000 annually.

V

CAR SALE

As stated in the "Fleet Reduction" section of this report, fleet management cost control begins with purchase control. The frequency and number of new car purchases by the state reflects the policies regarding the sale or disposal of vehicles.

This section addresses the fleet management sale policies, describes the sale of state vehicles, and examines the economic impact of these policies on fleet management costs.

FINDINGS

Car "Reconditioning"

The Task Force found that there is no uniform state policy for the disposal (sale) of state vehicles. For example, Table 14 shows how the Department of Transportation and Central Motor Pool policies differ. The Central Motor Pool reviews cars for sale at approximately 60,000 miles or 40 months. The Department of Transportation, on the other hand, generally reassigns the cars to low-mileage uses after 40,000 to 80,000 miles.

Other agencies also operate their cars to a variety of mileages. Average car mileages at time of sale during Fiscal Year 1976 for six different state agencies are shown on Table 14.

During the course of this study the Task Force examined in considerable detail, a proposal by the Corrections Department to "recondition" Central Motor Pool cars to operate for approximately an additional 40,000 miles or two years. These reconditioned Central Motor Pool cars would then be sold at approximately 100,000 miles or five years of age. The reconditioning work would be done by inmates at either the Stillwater or Lino Lakes institutions. The Department of Corrections expects to have a school bus reconditioning program operational at Stillwater Prison in

February, 1978. The Department of Corrections told Task Force members that they would be anxious to undertake such a car reconditioning program if it could be shown to be economical.

The Task Force evaluated all available cost data supplied by the departments of Corrections, Administration, and other agencies in an attempt to evaluate this proposal. Based primarily on car operating cost data, the Task Force believes that it would not be economical to "recondition" cars in the State Prison at this time. The Task Force came to this conclusion primarily because:

1. According to Department of Transportation officials their cars essentially are reconditioned within their agency at the present time. Department of Transportation's fleet is considerably older than Central Motor Pool's, yet the Department of Trasnportation's operating cost per mile is 12.6 cents as compared to Central Motor Pool's 11.1 cents.

2. Because the Central Motor Pool cost per mile is less than any other "agency-owned" vehicles found by the Task Force, we believe that state employees could have newer, less expensive, and more reliable cars for their use if the state cars are not regularly operated to 100,000 miles.

3. The Task Force believes that older cars mean more breakdowns and subsequent downtime in the shop for repairs. If state vehicles are less reliable, there will be an even greater preference by the employees to drive their private cars. This could certainly be expected to cause an increase in private car reimbursement.

4. Finally, car replacement approximately every five years rather than the Central Motor Pool's present 40-month replacement policy, will further delay the potential monetary and energy savings that could be realized through the purchase of smaller cars. Also, state employees should have safe, comfortable transportation at the most economical cost.

The Corrections proposal may be appropriate for body work, however. The state spent at least $100,000 in Fiscal Year 1977 to have body work done on their cars by private automobile body shops. Of this total, approximately $62,000 was spent in Fiscal Year 1977 to do body work on Central Motor Pool vehicles alone. The remainder was done on agency-owned and enforcement vehicles. The Task Force believes that it could be economically feasible to have this body work done at Department of Corrections facilities, in conjunction with the school-bus reconditioning program. However, this proposal needs further investigation, which is beyond the scope of this study. For obvious reasons, the Task Force does not suggest that body work on state law enforcement cars be done by inmates at the Corrections facilities.

Car Auctions

When cars need to be replaced, they are "called-in" from the unit (agency) to which they were assigned. These cars are then inspected, cleaned, and delivered to the Department of Corrections facility at Lino Lakes for sale. The vehicles are then sold to the highest bidder at public auction.

In discussions with various private car fleet managers, the Task Force was informed that the best times to sell cars are in April and immediately after the new model (car) year announcements in October.

The Task Force also examined passenger vehicle sales data from the five state auctions conducted during Fiscal Year 1977. Auctions were held in July, 1976, September, 1976, November, 1976, February, 1977, and April, 1977. A total of 330 cars were sold at these auctions.

The Task Force then compared prices received for comparable cars (i.e. same make, model, mileage, equipment) at each of these sales. This sales data showed that better prices were received at auctions held in the spring and fall of the year, which is consistent with that for sales in the private sector.

Specifically, state car auction sales data showed that approximately $56 more was paid per car for cars sold in spring and fall than at other times of the year. The Task Force also found that if fewer cars are sold at each individual auction, the price per car would probably increase.

RECOMMENDATIONS

The Task Force recommends that the Governor direct state agencies to take the following actions:

1. For economic reasons, the Task Force does not believe the state should generally pursue a policy of reconditioning state automobiles to operate them to 100,000 miles or more.
2. The departments of Administration and Corrections should determine the economic feasibility of doing body work on state automobiles (except enforcement) and determine by no later than June 30, 1978, whether this proposal should be implemented.
3. If the proposal for having car body work done by inmates at the Corrections facilities is shown to be economically feasible, the Task Force recommends that the Commissioner of Administration in cooperation with the Commissioner of Corrections should arrange to have such work done, not only on Central Motor Pool vehicles, but some agency-owned vehicles as well.

4. As many state cars as possible, scheduled for replacement during a given year, should be sold at public auctions in the months of April, May, September, and October.

5. Since smaller auctions increase the price paid for used vehicles, the Task Force recommends that the present number of auctions be increased and that they be held during the months of April, May, September, and October.

SAVINGS

Car Auctions:

By changing the present state auction schedule and selling cars at public auctions during the spring and fall of each year, the Task Force estimates, based on actual state sales data, the state could increase its sale prices by approximately $56 per car. This amounts to an estimated annual savings of $9,000.

VI

CAR MAINTENANCE

During the course of this investigation, Task Force members interviewed numerous agency heads and commissioners. One recurrent theme or problem identified by the agency heads was the apparent lack of adequate maintenance on Central Motor Pool passenger vehicles. Various reasons were given for this by the agency heads and by Department of Administration officials in explaining the problems that they have had trying to provide adequate maintenance on Central Motor Pool vehicles.

It was difficult for the Task Force members to determine the exact cause and the magnitude of the problem. Department of Administration officials claim that the cause of the car maintenance problem is not their inability to provide good service, but the failure of the users to report a problem when they know a car is in need of repair. Consequently, the next person to drive the vehicle has a "breakdown" on the road, causing additional expense and delay.

The Task Force has reviewed the maintenance procedures followed by Central Motor Pool. Based on this review and further discussions with other agency heads the Task Force agrees with both parties. While the Central Motor Pool should do a better job of monitoring maintenance needs, the users should also be more aware of their responsiblities to report to the Central Motor Pool, in a timely manner, vehicles that are in need of repair.

Inadequate car maintenance not only increases operating costs, but encourages use of private automobile travel as well. In fact, the Task Force believes that one of the primary reasons employees are said to prefer to drive their own cars is due to the unreliability of the Central Motor Pool or other state vehicles.

Some agency heads also told of considerable "downtime" on Central Motor Pool cars in the repair shop. It appears to the Task Force members that one way to decrease this downtime is to have an economic incentive to repair vehicles in an expeditious manner. At the present time, this economic incentive does not exist.

The Task Force also believes that the Central Motor Pool should streamline their car repair procedures so that when car breakdowns occur in outstate Minnesota necessary repairs can be more easily made within the vicinity. The Task Force believes some of these repairs could better be handled by private automobile shops in the immediate vicinity of the breakdown. Overpayment or payment for unnecessary work can presently be substantially avoided through the Central Motor Pool's "pre-audit" function. That is, repairs can be made by private shops only if the state employee has had the repair shop call the Central Motor Pool for authorization of such repairs. The Central Motor Pool presently keeps a maintenance record on each vehicle. Streamlined procedures for "vicinity" repairs would decrease the amount of vehicle downtime and eliminate the expense of bringing the vehicle to St. Paul for repair.

The Task Force also believes that the Central Motor Pool, through the Travel Coordination Center, should try to make better arrangements for "loaner" vehicles to be assigned to agency employees while the regularly assigned vehicle is in for repair.

If a reduction in private car mileage is to be realized (See also "Car Reimbursement" section), the Task Force believes two primary conditions must be met: First, Central Motor Pool and other agency-owned vehicles must be more frequently available to state employees for their use, and secondly, that these vehicles must be better maintained so that they provide more reliable transportation for the employees.

RECOMMENDATIONS

The Task Force recommends that the Governor direct state agencies to take the following actions:

1. The Central Motor Pool should increase its preventive and routine maintenance checks on its vehicles.
2. The Central Motor Pool should increase its efforts to educate agencies of the need to notify Central Motor Pool, in a timely manner, when a car assigned to the agencies is in need of repair.
3. In order to provide a financial incentive for the Central Motor Pool to expedite the necessary maintenance and repairs, the Central Motor Pool should not charge agencies their flat monthly or weekly rate when a vehicle is in for repair, if replacement transportation is not provided.
4. The Central Motor Pool should streamline its procedures for authorization of car repair and maintenance by private shops. This is particularly important for outstate repair work.
5. When vehicles are being repaired, the Travel Coordination Center should make better arrangements for the continuance of transportation services to state agencies through better use of loaned Central Motor Pool vehicles.

VII

ENERGY CONSERVATION

> . . . Energy use should be considered in all areas of government purchases -- automobiles, tires. . .,
>
> . . . A 10 percent reduction in the energy used by state vehicles.
>
> Gasoline will be saved through more efficient vehicles, driver training and eliminating unnecessary travel.
>
> - Governor Rudy Perpich
> Energy Message to the 70th Session
> of the Minnesota State Legislature
> February 18, 1977

One of the more important aspects of this study was to examine the areas where the state could save not only money, but energy as well.

There are a number of areas where the Task Force found that savings could be realized with no reduction in the mileage driven by state employees. Some of these changes have been addressed previously in this report; however, a summary of these specific energy conservation savings are presented here.

FINDINGS

Fleet Downsizing

Until very recently there was little emphasis on the relative energy savings that could be realized by the purchase of more energy efficient equipment. However, the 1977 Legislature took action to ensure that energy conservation was considered in state (and local) purchasing. Specifically, M.S.A. 1976, Section 116H.12, Subd. 5 was amended to mandate the director of the Energy Agency to

> . . . conduct studies and make recommendations concerning the purchase and use by the state and its political subdivisions of supplies, motor vehicles and equipment having a significant impact on energy use in order to determine the potential for energy conservation.

This statute also provides for the establishment of minimum energy efficiency standards for certain state purchases.

The "downsizing" of all state vehicles as recommended by the Task Force and developed in cooperation with Procurement Division of the Department of Administration includes three primary areas: reduction in car size, reduction in engine size specifications, and increase in the minimum EPA mileage standards.

Automobile Equipment Purchases

Another aspect of the state's transportation program that could be changed to yield greater energy conservation benefits and monetary savings is in the purchase of automobile equipment.

The Task Force found that other states (i.e. Iowa, Nevada) have equipped new cars, and some light-duty trucks, with cruise control devices. Iowa officials established this policy when the 55 mile per hour speed limit went into effect. Nevada purchasing officials reported a two-to-three mile per gallon increase on cars which could be attributed to use of this cruise control feature. About 20 percent of the cars manufactured in 1975 were equipped with cruise control. The estimated initial cost of this feature is $90. However, this option would save gasoline and should also bring additional resale value.

Drivers' Training

Another factor that could yield significant energy savings, even at the present mileage figures and with the present state car fleet, is driver education programs directed at energy savings and safety. Such programs have been used effectively by other governmental units and private industry (North Dakota, Montana, City of St. Paul, Minneapolis School System, Minnegasco, and 3M).

Although such a program has not yet been implemented in Minnesota, staff from the departments of Public Safety and Education and the Energy Agency agreed with Task Force members that it could be very successful. Also, agency staff contacted by the Task Force concur that such programs could realize significant energy savings as well as save lives. Commenting on this type of program, Edward Novak, Commissioner of Public Safety, in a July 20, 1977 letter to Mr. Dan Besaw, Regional Representative, Motor Vehicle Manufacturer's Association, stated: "We have reviewed the Featherfoot materials. . .It's a rare occasion when a single program offers such large benefits in two important areas of human endeavor (energy savings and driver safety)."

The state departments of Public Safety, Education, and the Energy Agency are presently examining "Featherfoot" and other similar programs. Staff from these agencies have indicated that such a program best suited to meet the state's needs could be chosen by December, 1977, and implemented within a year if funds are available for such purposes.

The estimated start-up cost of establishing such a driver's education program is $10,730. However, the materials to be purchased could be used not only for state employees, but could be made available for public school driver education programs as well.

RECOMMENDATIONS

I. The Task Force recommends that the Governor direct the state agencies to take the following actions:

1. The departments of Public Safety, Education, and Energy should cooperate to develop a driver safety-energy conservation program for state employees. Particular emphasis should be given to training enforcement, inspection, and other state personnel whose jobs require a great amount of state automobile travel.

2. The Commissioner of Public Safety should monitor the effectiveness of this driver education program and provide "refresher" courses, where necessary, for state employees.

SAVINGS

Cruise Control:

Savings from the installation of cruise control is included in the "Savings" section of "Purchasing Specifications."

Driver's Education:

In calculating the energy savings realized through the implementation of "Featherfoot" or some other similar driver's education program, the Task Force assumes that the program will be directed at high mileage users. The initial cost of implementing the driver's education program will be $10,730, part of which may be offset by federal funds. The driver's education program is assumed to be 50 percent effective, i.e. the same rate of effectiveness experienced by other government units and private industry. The estimated annual savings from implementing a driver's education program would be $147,000.

VIII

CAR REIMBURSEMENT

This section primarily addresses two types of vehicle reimbursement. The first is the reimbursement the state pays its employees for the use of their private automobiles for state business travel. The second is the money the employees "pay back" to the state for the personal use of a state vehicle.

This section of the report also describes the rising cost of private car reimbursements, gives some examples of the problems that presently exist, and analyzes the existing state policies for car reimbursement.

FINDINGS

Private Car Reimbursement

The state compensates employees for use of their personal cars for state business travel. There are two reimbursement rates: 16 cents per mile if the metro area employees use their own cars when no Central Motor Pool car is available, and 11 cents per mile if employees elect to use their own cars even if a motor pool car is available. It also allows reimbursement at an average of 50 miles per day without a control number. Travel regulations are developed by the Personnel Department; however, the actual rate for employee private car reimbursement is set through the state employees' contract negotiations. Private car reimbursement for Fiscal Year 1977 amounted to $2,216,137.

A comparison of Central Motor Pool travel charges (state cars) and private automobile reimbursement, by agency, for Fiscal Year 1976 and Fiscal Year 1977 is shown on Table 15. A comparison of these Fiscal Year 1977 costs with the number of full-time employees for each agency is shown on Table 16.

Based on random employee expense report checks, Department of Administration officials estimate that a minimum of 70 percent of the total amount paid for private car reimbursement in Fiscal Year 1977 was paid at the 16 cents per mile rate, while approximately 30 percent paid at 11 cents per mile. This means that employees drove approximately 15,739,610 miles on state business in their private cars during Fiscal Year 1977, while only 14,806,386 miles were driven on all 874 Central Motor Pool cars.

As previously stated, the Task Force found that there have been many vehicles assigned to state agencies that receive only low mileage use. Interestingly, the Task Force found that some agencies had many "underutilized" state cars assigned to them, while during that same period they also had heavily reimbursed staff for the use of their private cars at 16 cents per mile. Some examples, taken from records in the Department of Administration, include:

1. The Task Force found that 58 Central Motor Pool cars were identified by Central Motor Pool as "underutilized" for the first quarter of Fiscal Year 1978. During Fiscal Year 1977, the state paid 142 of its employees between $2,100 and $6,200 to drive between 13,000 to 38,000 miles in their private cars.
2. The Task Force also found, from data gathered by Central Motor Pool staff, that three state employees were each paid an average of $4,457 each to drive an average of 28,024 miles in their private cars during Fiscal Year 1977.
3. Another state agency had eight cars on monthly assignment from the Central Motor Pool that were averaging less than 1,000 miles per month; yet the same agency paid nine of its employees a total

of $25,932 to drive over 156,800 miles in their own cars during Fiscal Year 1977.*

4. Another state agency paid one of its employees $3,137.22 to drive approximately 19,607 miles in his own car; the same agency had a Central Motor Pool vehicle that was driven only 7,592 miles over the same fiscal year.

5. One state agency paid three of its employees $951.84 to drive about 5,949 miles from July to September, 1977. The same agency had a Central Motor Pool-assigned car that was used a total of 16 times and driven a total of 2,029 miles over the same three-month period.

It is extremely difficult, if not impossible, for the state to "audit" the accuracy of private car mileage payments to its employees. This is partially due to the fact that after employees drive to certain work locations they are also allowed to charge "vicinity" miles. (This is mileage driven while on the job in a given location/city.) There is no way for the state to verify this claim of "vicinity" miles.

Finally, the need for employees to conduct their work in marked state vehicles has been previously emphasized. This need is defeated by the continued extensive use of private cars for state employee travel (approximately 25 percent of all employee travel). Conspiciously marked state vehicles for employee use will have little impact if employees continue to drive their own cars as frequently as they have in the past. (Occasionally, confidential employee travel is requested by the Attorney General. In these cases, agencies should contact the Central Motor Pool for authorization for employee travel at 16 cents per mile.)

* 12,600 miles (approximately $2,100) is the present "breakeven" point for the assignment of a Central Motor Pool car. That is, if more than 12,600 private car miles are driven annually by an employee, it becomes more costly to the state than if a Central Motor Pool car were individually assigned to the employee.

Overpayment for State Employee Travel

State travel regulations require that a "control number" be assigned to state employees located in the metro area who drive more than 50 miles a day before an employee can charge 16 cents per mile for private automobile travel reimbursement. (Outstate employees are not assigned control numbers.) This control number is assigned only after the employee has requested a Central Motor Pool vehicle and has been informed that no motor pool car is available for his or her use.

The Task Force found cases where state agencies paid its metro area employees 16 cents per mile to drive their own cars even though no "control number" was assigned. The Central Motor Pool began investigating this aspect of employee travel in Spring, 1977, and have begun reducing the number of annual control numbers where they have been inappropriately assigned. Department of Administration officials estimate that the state overpaid its employees for private car reimbursement in approximately ten percent of the cases during Fiscal Year 1977.

Employee Payments for Personal Use of State Cars

In 1975, the Legislature required in M.S.A. 16.753, Subd. 1 that state employees who commute in state vehicles must reimburse the state for the "full cost" of this travel. Later the law was amended to specifically exempt the State Highway Patrol, the Commissioner and Deputy Commissioner of the Department of Public Safety and the staff of the Bureau of Criminal Apprehension.

Based on discussions with a variety of officials, the Task Force found that the apparent reason for this legislative policy was to make state employees pay the "full cost" for commuting to work in state cars. It apparently was intended to be applied to employees on "24-hour call" jobs, and to restrict employees from using a state vehicle for personal purposes.

An analysis of those employees presently reimbursing the state for personal use of state cars indicates that some vehicles are not being used primarily for business purposes, and that the reimbursement does not always cover the operating costs. The Task Force found instances where over 80 percent of the mileage on state vehicles was for personal use, and only 20 percent for state business use. In these cases, the state appears to be providing the employees with vehicles primarily for their personal use.

The rates paid by employees for personal use were designed to meet all the operating costs of these vehicles. The present policy is based on the reimbursement rate required to cover Central Motor Pool costs. Employee reimbursement rates vary from 11 to 16 cents per mile. An analysis of these reimbursement rates with the actual operating costs of Central Motor Pool's vehicles indicates that the employee reimbursement rate is adequate to cover Central Motor Pool operating costs. However, it does not necessarily cover all operating costs of "agency-owned" vehicles.

Even if this rate structure is adjusted to cover all operating costs to the state, a glaring inequity remains: It costs employees ten to twelve cents less per mile to drive state cars, rather than their own cars, to work. Table 17 compares the present charges for employees' personal use of state cars with the per mile operating costs of a private automobile. It shows that the state is presently "subsidizing" commuting employees, since it would be considerably more expensive for them to drive their own cars to work.

While individual employees may benefit from this policy, their agencies are often forced to absorb all of the costs. The reimbursement rate for the personal use of state cars returns to the funding source. Agencies with Central Motor Pool-assigned vehicles pay the Central Motor Pool for <u>all</u> mileage (personal and private), but the personal mileage payments are not necessarily reappropriated by the Legislature and returned to the individual departments. Similarly, with agency-owned vehicles, the depreciation and, therefore, the need to purchase replacement vehicles is accelerated due to personal usage, yet this money is not necessarily returned by the Legislature to cover these agency costs. Although this employee pay-back "balances" on a statewide basis, individual agencies' transportation budget do not necessarily "balance."

Moreover, Task Force members believe that there is no apparent inconsistency with this policy and other state policies designed to encourage employee use of mass transit and carpooling for commuting.

RECOMMENDATIONS

Private Car Reimbursement

The Task Force recommends that the Governor direct state agencies to take the following actions:

1. By Fiscal Year 1979, the Department of Administration should, through vehicle acquisition and reassignment, reduce private car reimbursement (at 16 cents per mile rate) by 15 percent from Fiscal Year 1977 levels.
2. The Commissioner of Administration should monitor quarterly the relationship between Central Motor Pool car utilization and employee reimbursement and direct the other state agency heads to reassign vehicles to reduce private car reimbursement to state employees.
3. Agency heads should review the private car reimbursement paid to their employees and, where feasible, make either Central Motor Pool-leased or agency-owned vehicles available to employees receiving over $2,016 reimbursement per year. This amount should also be periodically reviewed to be consistent with state car operating costs or the Central Motor Pool rate structure.

4. The Commissioner of Personnel should cooperate with the Commissioner of Administration in the preparation of a uniform car use policy and regulations concerning private car mileage rates.

5. State agency heads should review, on at least a quarterly basis, the use of their "agency-owned" vehicles and should reassign these in order to reduce private car mileage reimbursement (at the maximum rate) or to dispose of these "underutilized" vehicles at public auction.

<u>Overpayment for State Employee Travel:</u>

6. The Department of Administration should eliminate the assignment of "annual control numbers" to high mileage users, which allow employees to be reimbursed by the state at the maximum rate (except employees with special health requirements).

7. The Department of Administration should consider the assignment of annual control numbers to employees for private car mileage where such assignment would be more economical than use of a state passenger vehicle.

8. No other state employee located in the metro area should be assigned a "control number" to charge the maximum private car reimbursement rate if any Central Motor Pool or "agency-owned" vehicle is available for the employee's use. Exceptions should be made for certain medical reasons (i.e. handicapped employees with specially-equipped vehicles).

9. The Department of Administration should periodically reevaluate the policy of allowing an average of 50 private car miles (at 16 cents per mile) per day and should reduce the maximum allowable mileage restriction as well.

10. The commissioners of Finance and Administration should jointly advise all state agency heads and controllers to check employee expense reports thoroughly to avoid overpayment for state employee travel.

Employee Payments for Personal Use of State Cars:

11. The Department of Administration should review, on a quarterly basis, the assignment of employees allowed to reimburse for the personal use of state cars.

12. The Commissioner of Administration in cooperation with the Commissioner of Finance should prepare a uniform state policy for the reimbursement rate charged to state employees for the personal use of state cars as provided in M.S.A. 16.753.

13. The Department of Administration should establish uniform rates for employee reimbursement for personal use of state cars. This rate should cover all costs and should be based on the class (size) of car driven by the employee.

14. The Department of Administration's Travel Coordination Center should establish procedures for the checking of the availability of motor pool cars, including those assigned on a monthly basis to agencies, before authorizing employee private car mileage reimbursement at the maximum rate.

15. The Legislature should review reimbursement policies for the employees' personal use of state automobiles.

SAVINGS

Elimination of Private Car Reimbursement Overpayment:

According to information supplied by the Department of Administration, ten percent of the private car reimbursement payments at the 16 cents per mile rate should be made at the 11 cents per mile rate. The Department of Administration estimates that of the $2,216,137 paid in private car reimbursement in Fiscal Year 1977, 70 percent was made at the 16 cents per mile. The elimination of this five cents per mile overpayment would result in an estimated annual savings of $48,000.

15 Percent Reduction of Private Car Reimbursement:

The Department of Administration estimates that a 15 percent reduction in private car reimbursement at the 16 cents per mile rate can be accomplished through better utilization of state vehicles, i.e. vehicle assignments and reassignments. This 15 percent reduction in private car reimbursement at the 16 cents per mile rate will result in an estimated annual savings of $72,000.

IX

MISCELLANEOUS FINDINGS

Misuse

According to Department of Administration officials, approximately 300 public complaints are made annually concerning the misuse of state vehicles. The vast majority of these complaints are sent either to the Governor's Office or to the Central Motor Pool. The Department of Administration's Central Motor Pool is charged with investigating all allegations of state vehicle misuse whether they involve Central Motor Pool or other "agency-owned" vehicles.

According to Department of Administration officials, approximately 63 percent of all public complains are for alleged speeding in state vehicles. The remainder could be described as complaints about employee conduct (e.g. littering). Approximately two percent of the toal complaints concern the use of state vehicles for personal purposes.

Central Motor Pool officials who investigate these allegations informed the Task Force members that only about two percent of the complaints are found to be bona fide cases of employee misuse.

The Central Motor Pool investigates each complaint and prepares a report. A response is then sent to the person who made the allegations with a copy to the agency head. When allegations are found to be legitimate, the Central Motor Pool informs the agency head and leaves disciplinary action to the discretion of the individual supervisors. This disciplinary action ranges from a verbal reprimand to suspension or dismissal.

Based on interviews with various state officials and an examination of Department of Administration written procedures, the Task Force believes that the Department has an effective procedure for examining these complaints in a timely, fair, and thorough manner.

State Car Marking Violations

When the Legislature established the Central Motor Pool in 1961, it also provided for the uniform color and marking of these cars. Although the uniform color (maroon) requirement was subsequently changed by the Legislature, the uniform marking standards provided in M.S.A. 16.75, Subd. 7 still apply. It is unclear whether it specifically prohibits the use of decals. The Task Force found that most Department of Transportation and Department of Natural Resources vehicles and all of the Central Motor Pool vehicles are marked with decals. It is questionable whether this marking is in compliance with state law. M.S.A. 168.012 provides for the uniform marking of other state vehicles as well.

The Task Force found that uniform marking and tax exempt plates had been removed from some cars with non-inforcement uses in one state agency. The removal of this marking is contrary to state law.

RECOMMENDATIONS

1. Agency heads should check the marking of state vehicles owned, leased, or assigned to their agencies to ensure that they are marked in the manner provided by state law.
2. The Legislature should amend M.S.A. 16.75 to allow for the marking of state vehicles with decals.

X

ALTERNATIVES TO STATE-OWNED TRANSPORTATION

The Legislature, when it created the Central Motor Pool in 1961, made the policy decision that the state should provide its own transportation services for employees. However, no analysis of the effectiveness and economy of this policy would be complete without examining some alternatives--private fleet management, telecommunications, and mass transit.

FINDINGS

Private Fleet Management

The Task Force contacted GELCO Corporation and National Car Rental to examine the feasibility of private fleet management as an alternative to state ownership of automobiles. (GELCO is the largest private fleet manager in the world and is based in the Twin Cities. National Car Rental is another large, Minnesota-based fleet management corporation.)

On October 7, Task Force members visited GELCO Corporation to personally examine their operation and to discuss the feasibility of private fleet management for the state with their top management personnel. On October 11, National Car Rental's Midwest Regional Sales Manager submitted to the Task Force a car leasing proposal for the State of Minnesota.

The Task Force members were impressed with the level of research and technology that is a part of private car fleet management in the 70's. It is the Task Force's judgment that private car fleet management could provide better transportation service, at a lower cost, than the present state fleet operations. However, cost-effective fleet management as it is accomplished by the private sector is not an alternative that is available to state agencies within the framework of existing legislation.

Effective fleet management is not a matter of "buy cheap -- run cheap -- sell cheap"; it is buying those vehicles which realize the greatest value at the time of sale, while costing the least to drive over the length of operation. It involves extensive research and effective cost-accounting systems. It means buying the best car equipped with options that cost little and increase resale value, it means selling cars at precisely the point when their continued use is uneconomical, and it means selling in a manner and at the time known to bring the highest resale value.

Existing legislation requiring competitive bidding, purchase from the lowest bidder, and public sale of the fleet are among some of the present impediments to truly cost-effective fleet management. In addition, the Legislature has long authorized the state agencies to invest heavily in their own transportation operations.

Based on a thorough examination of the state's fleet and its operation, the Task Force is convinced that this is not the most cost-effective way to manage a car fleet. The state's capital-investment in the present system is sizable, however, and any change would require careful consideration of new legislation.

Telecommunications

Not surprisingly, the majority of the state's business travel is done by automobile - either in state cars or in the employees' private automobiles. The purpose of this section is to emphasize that there are other alternatives to this method of conducting the state's business. Moreover, these alternatives are frequently less costly and require less energy. The point is that the state is not in the business of providing cars for its employees, but transportation for its employees. When examining transportation as a state "service" for its employees, it should be pointed out that there are cheaper transportation and communication alternatives for certain jobs than passenger vehicles.

Telecommunications systems provide such an alternative. For example, telephone charges cost less than personal transportation even for very time-consuming long distance calls and are effective substitutes in many cases. With practice and planning, telephone conferencing can be used for discussions which do not require personal observations or on-site access to voluminous written records. Equipment and practical limitations mean most telephone conferences must be limited to between two and ten participants. Conference arrangements possible include individual-to-group, group-to-group, and individual-to-individual.

The application of this technology can perhaps be best gathered by a hypothetical example: A group of six Capitol Complex staff gather around a portable conference telephone borrowed from Telecommunications Division to hear a presentation by another agency official in the Duluth area. The presentation was scheduled in advance and has been well planned. The official in Duluth refers often to charts, graphs, and other visual aids sent ahead by mail, and also pauses frequently to ask for comments and questions. The presentation itself takes 60 minutes, and is followed by a 60-minute question and answer session. Total cost to the agency for 120 minutes of WATS usage is $13.20. Telecommunications Division pays $12 per month for the portable conference phone, but does not charge agencies for its use.

A conservative estimate of what it would have cost for the Duluth official to travel personally to St. Paul would include $33 minimum private automobile reimbursement, $12 meal reimbursement, and $70 salary, for a grand total of $115.

Information on telephone conferencing equipment available to state agencies can be obtained from the Telecommunications Division of the Administration Department. Availability depends on location, but may include the standard three-way calling with Centrex II telephone service, portable conference telephones which plug into jack outlets, conference connections set up by the State of Minnesota operators (caller and four others), regular desk speakerphones, and inexpensive battery operated devices which amplify the voices of outside parties to several persons in a room. Other, more sophisticated, equipment is also available on a limited basis for agencies willing to participate in experimental situations set up by Telecommunications Division. An example is a teacher at Worthington Community College who uses teleconferencing equipment supplied by the Division to teach a class located at the Winona Department of Transportation office.

Mass Transit

Although this is not a viable alternative for the majority of state employee business travel, it should be considered as an alternative for certain state car users. Scheduling and trip frequency of metropolitan mass transit have improved considerably in recent years. The Task Force finds that, in some cases, this is a realistic alternative, particularly for short distance travel in the metro area.

Air Travel

Air travel can be more cost effective to an agency than automobile travel, particularly when state personnel must travel great distances for a simple meeting. It should be noted that in addition to commercial air travel, the departments of Public Safety, Transportation, Natural Resources, and Military Affairs have agency-owned and-operated small aircraft. Although the use of these airplanes is primarily for enforcement and other departmental business, these aircraft can provide air transportation for other state employee business.

RECOMMENDATIONS

The Task Force recommends that the Governor direct state agencies to take the following actions:

1. The Legislature should seriously consider the feasibility and desirability of private fleet management as an alternative to the present state fleet operation.
2. The Commissioner of Administration should contact private fleet managers to investigate the feasibility of purchasing such services as an alternative to providing its own transportation.
3. State agencies should make better use of the service available to them through the Telecommunications Division of the Department of Administration.
4. The Energy Agency and the Department of Administration should increase their efforts to inform state employees about mass transit and carpooling as alternatives to individual state car business travel.

TABLE 1

STATE PASSENGER VEHICLE FLEET BY USE

Department/Board	Enforcement	Regulatory and Inspection	Messenger	Commissioner and Agency Head	Other Individual	Agency Pool	Total
Military Affairs				1	6		7
Administration		5	1	1	11	20	38
Agriculture		83				1	84
Public Safety	576	45		1	32	25	679
Ombudsman - Corrections				1			1
Finance						1	1
Barber Board		1					1
Electricity Board					1		1
Cosmetology Board		5					5
Pharmacy Board		1					1
Nursing Home Board				1			1
Health		25			2	58	85
Commerce		11				1	12
Livestock Sanitary Board					12	1	13
Indian Affairs					2		2
Economic Development			1		5		6
Personnel						1	1
State University Board		3	7*	7	31	191	239
Community College System			1	1		40	42
Natural Resources	150	108	1		87	28	374
State Planning Agency			1	1	3	3	8
Pollution Control Agency					2	38	40
Housing Finance Agency						2	2
Vocational Rehabilitation			1		9	3	13
Education				1	40	22	63
Governor's Office			1				1
Crime Control Planning Board						2	2
Governor's Manpower Office						7	7
Labor and Industry		18	1	1	11	2	33
Iron Range Resources				1		3	4
Mediation Services					8		8
State Arts Board						1	1
Public Welfare		2		1	11	171	185
Employment Services			1		8	1	10
Higher Education Coordinating					3		3
Minnesota State Retirement						1	1
Revenue			3		31	19	53

*[illegible] assigned to State University Presidents

TABLE 1 CONTINUED

Department/Board	Enforcement	Regulatory and Inspection	Messenger	Commissioner and Agency Head	Other Individual	Agency Pool	Total
Teachers Retirement Assoc.					1		1
Veterans Affairs				1	2	4	7
Zoo Board		1		1	1	2	5
Corrections		3		1	66	45	115
Transportation			3	1	209	132	345
Public Service				1		2	3
Energy Agency						1	1
Minnesota Education Computing				1	3	2	6
Hearing Examiner				1			1
Central Motor Pool						90	90
Humane Society		1					1
State Fair		1					1
Total	726	313	22	25	597	920	2,603

Source: Memorandums from agencies dated June, 1977

* indicates reassignment of vehicles within agency

TABLE 2

FLEET REDUCTION
(To be reviewed throughout the biennium to ensure increased vehicle utilization.)

Department/Board	Total State Cars as of June 30, 1977	Agency Recommended Reduction	Task Force Recommended Cuts and Reassignments	Total Reduction Reassignments	Task Force Recommended Fleet Total
Military Affairs	7	1		1	6
Administration	38	2		2	36
Agriculture	84	7		7	77
Public Safety	679	14		14	665
Ombudsman - Corrections	1				1
Finance	1				1
Barber Board	1				1
Electricity	1				1
Cosmetology	5				5
Pharmacy	1				1
Nursing Home Board	1				1
Health	85	1		1	84
Commerce	12				12
Livestock Sanitary Board	13				13
Indian Affairs	2				2
Economic Development	6				6
Personnel	1				1
State University Board	239	15	7	22	217
Community College Board	42				42
Natural Resources	374	48		48	326
State Planning	8	1		1	7
Pollution Control Agency	40	2		2	38
Housing Finance	2				2
Vocational Rehabilitation	13	2		2	11
Education	63		7	7	56
Governor's Office	1				1
Crime Control Planning Board	2				2
Governor's Manpower	7				7
Labor and Industry	33		3	3	30
Iron Range Resources	4				4
Mediation Services	8				8
Arts Board	1				1
Public Welfare	185	50		50	135
Employment Services	10		1	1	9
Higher Education Coordinating	3				3
Minnesota State Retirement	1				1
Revenue	53		5	5	48
Teachers Retirement	1				1
Veterans Affairs	7				7
Zoo Board	5				5
Corrections	115	9	6	15	100
Transportation	345	40	47*	87	258
Public Service	3				3
Energy	1				1
Minnesota Education Computing	6		2	2	4
Hearing Examiner	1				1
Central Motor Pool	90	10		10	80
Humane Society	1				1
State Fair	1				1
Total	2,603	202	78	280	2,323

TABLE 3

CENTRAL MOTOR POOL FISCAL YEAR 1977
NET OPERATING COSTS

Total expenses including depreciation per information prepared (on September 14, 1977) by Fiscal Services for fiscal year 1977	$ 1,805,788
Less supplies inventory costs not considered in preparing the cost analysis	(1,704)
Less expenses relating to vans, trucks, commuter vans and leased cars	(68,937)
TOTAL EXPENSES - Passenger vehicles	$ 1,735,147
Less reimbursed expenses (a/c 990)	(37,936)
Less estimated gain on sale of vehicles (proceeds, a/c 920, x estimated gain percentage) ($200,722 x 27.87%)	(56,000)
NET OPERATING EXPENSES - Passenger vehicles	$ 1,641,211
Passenger vehicles:	
Total miles	14,806,386
Net cost per mile	11.1¢

Source: CPA's memorandum to the Task Force dated September 23, 1977

TABLE 4

COMPARISON OF CENTRAL MOTOR POOL AND
DEPARTMENT OF TRANSPORTATION COST ACCOUNTING COMPONENTS

	Central Motor Pool	Department of Transportation
Depreciation:		
Method	Straight line	Straight line
Life	40 months	60 months
Salvage value	Based on NADA average retail price for comparable car--rounded down	10% of purchase cost
Application	Monthly	Full if purchased by 12/31; zero if purchased after 12/31
Gain (loss) on disposal	Not considered	Treated as negative depreciation in year of sale
Overhead:		
Storage charges	Not separately considered; included in overhead	$50 per quarter (arbitrary amount)
Overhead application	Includes CMP supervision plus small Dept. of Administration charge ($31,000)	Is applied as part of total DOT highway building and maintenance overhead
Percent of vehicle costs (net of gain on disposal)	14.7%	26.3%
Operating policies:		
Low mileage use	Attempts to have none; has very little	Assigns old, high mileage vehicles to low mileage needs
Replacement guideline	4 year/60,000 miles	Varying ranges based on life and usage (actual decisions based on vehicle condition and funds available)

Source: CPA's memorandum to the Task Force dated September 23, 1977

TABLE 5

COMPARISON OF CENTRAL MOTOR POOL AND DEPARTMENT OF TRANSPORTATION
PASSENGER VEHICLE DATA

	Central Motor Pool	Department of Transportation
Average number of vehicles	833	352
Average mileage (DOT is lower partially because it retains old cars for low mileage usage)	17,800	14,600
Net Fleet costs		
Total	$1,641,211	$645,357
Per mile	$ .111	$ .126
Direct costs (including fuel, tires, repairs, etc. but excluding depreciation and overhead)		
Total	$ 918,927	$323,460
Per mile	$ .062	$ .063
Miles per gallon (N/A = not available)	N/A	16.2
Age of fleet--percent purchased in		
1977	22%	1%
1976	30%	17%
1975	15%	8%
1974	21%	23%
Before 1974	12%	51%
	100%	100%

urce: CPA's memorandum to the Task Force dated September 23, 1977

TABLE 6

FISCAL YEAR 1977 CENTRAL MOTOR POOL DATA BY VEHICLE CLASS

Caution: This data may be distorted by the allocation of expenses from July and August, 1976 since the new cost system did not code expenses by class until September 1, 1976, and by the use of cash basis of accounting data (the June 30, 1976 cut-off may be part of the reason that the Central Motor Pool full size direct costs are high.) Sub-compact data is not meaningful since sub-compacts were used for only a portion of the year. Also, comparison to Department of Transportation should be made only while considering the differences in the departments procedures which were discussed Table 5 and are briefly summarized in the "NOTES" to tables 6 and 7. For example, Central Motor Pool direct costs per mile may be high partially because major repair costs (including body work) are charged entirely to direct costs whereas Department of Transportation does such work internally and thus its costs are split between direct and overhead.

	Sub-Compact	Compact	Intermediate	Full	Station Wagon	Total
Identifying Code	316	300	400	500	600	
Number of cars						
Beginning of year	0	151	319	251	112	833
End of year - by year purchased:						
1977	6	42	91	14	28	181
1976	-	49	144	20	27	240
1975	-	39	63	11	14	127
1974	-	63	66	16	27	172
1973 and earlier	-	-	37	49	9	95
Not identified by year	-	-	17	(1)	2	18
Total	6	193	418	109	107	833
Average (Beginning and Ending ÷ 2)	3	172	369	180	109	833
Miles Driven						
Total	19,673	2,959,769	7,173,223	2,512,996	2,140,725	14,806,386
Average (Total ÷ average numbers)	6,500	17,200	19,400	14,000	19,600	17,800
Mileage						
Total gallons			Not available			
Miles per gallon						

TABLE 6 CONTINUED

	Sub-Compact	Compact	Intermediate	Full	Station Wagon	Total
Costs-Total						
Direct (Running)	$ 775	$165,391	$405,486	$200,823	$146,452	$ 918,927
Depreciation	2,175	133,208	287,016	60,696	91,538	574,633
Overhead	397	45,043	108,459	50,194	37,494	241,587
Total	$3,347	$343,642	$800,961	$311,713	$275,484	$1,735,147
Less: Expense reimbursement and estimated net gain on sale						(93,936)
Net cost						$1,641,211
Cost-per mile (Cents)						
Direct (Running)	3.9¢	5.6¢	5.7¢	8.0¢	6.8¢	6.2¢
Depreciation (A)	11.0	4.5	4.0	2.4	4.3	3.9
Overhead (B)	2.1	1.5	1.5	2.0	1.8	1.6
Total	17.0¢	11.6¢	11.2¢	12.4¢	12.9¢	11.7
Less: Expense reimbursement and estimated net gain on sale						(.6)
Net cost						11.1¢

NOTES:

(A) Straight-line from month of purchase; 40 months; conservative salvage based on NADA; gain on disposal not considered except in total as indicated above.
(B) Overhead application includes Central Motor Pool supervision, maintenance supervision and fringe benefits, travel coordinator costs and $31,000 Department of Administration expense allocation.

Source: CPA's memorandum to Task Force dated September 23, 1977

TABLE 7

FISCAL YEAR 1977 DEPARTMENT OF TRANSPORTATION DATA BY VEHICLE CLASS

Caution: This data may be distorted by "storage charges" which may not be "realistic" and overhead charges which may better apply to other Department of Transportation equipment. Also, comparisons to Central Motor Pool should be made only while considering the differences in the departments' procedures which were discussed in Table and are briefly described in the "NOTES" to Tables 6 and 7. For example, Department of Transportation depreciation per mile is lower partially because total depreciation has been reduced by the net gain on sale of vehicles.

	Compact	Intermediate	Full	Station Wagon	Total
Identifying Code	8	9	10	13 & 131	
Number of Cars					
Beginning of year	35	85	196	41	357
End of year - by year of purchase:					
1977	-	-	3	-	3
1976	11	25	19	3	58
1975	-	11	12	4	27
1974	24	47	-	9	80
1973	-	-	80	6	86
1972 and earlier	-	-	80	14	94
Total	35	83	194	36	348
Average (Beginning and Ending ÷ 2)	35	84	195	38	352
Miles Driven					
Total	535,336	1,225,273	2,855,630	510,445	5,126,684
Average (Total ÷ Average Number)	15,300	14,600	14,600	13,400	14,600
Mileage					
Total gallons	26,447	72,920	181,569	36,096	317,032
Miles per gallon	20.2	16.8	15.7	14.1	16.2
Costs- Total					
Direct (Running)	$25,372	$ 83,285	$182,372	$32,531	$323,460
Depreciation	20,270	38,473	79,425	14,116	152,284
Overhead	5,112	28,307	58,833	7,811	100,063
Storage (o[illegible]head)	7,000	16,700	38,950	6,900	69,550
	[illegible]	[illegible]	[illegible]	$61,258	[illegible]

TABLE 7 CONTINUED

	Compact	Intermediate	Full	Station Wagon	Full
Cost-per mile (Cents)					
Direct (Running)	4.7¢	6.8¢	6.4¢	6.4¢	6.3¢
Depreciation (A)	3.8	3.1	2.8	2.8	3.0
Overhead (B)	1.0	2.3	2.0	1.5	1.9
Storage (Overhead) (C)	1.3	1.4	1.4	1.3	1.4
	10.8¢	13.6¢	12.6¢	12.0¢	12.6¢

NOTES:

(A) Straight-line, half year convention; 60 months; 10 percent salvage (conservative); net gain on disposal treated as negative depreciation in year of sale.
(B) Overhead applied as part of overall Department of Transportation overhead; a separate overhead pool is not maintained for the passenger vehicles.
(C) Storage is part of the overhead allocation policy.

Source: CPA's memorandum to the Task Force dated September 23, 1977

TABLE 8

COMPONENTS OF PASSENGER VEHICLE
COST-ACCOUNTING SYSTEM

Components	Use to Monitor -
Vehicle Class	
Vehicle Number	
Gallons of Gasoline	
Costs -	
Depreciation	
Gasoline	1. Rental rates
Labor	2. Vehicle maintenance
Parts and Tires	3. Assignment (utilization)
Other	4. Disposition/Replacement
Overhead	5. Cost control
Total	6. Private car reimbursement (break even point)
Mileage	
Cost per mile	
Miles per gallon	
Rental income	
Rental income over(under) costs	

Source: CPA's memorandum to the Task Force dated September 23, 1977

TABLE 9

CENTRAL MOTOR POOL RATE STRUCTURE
(Fiscal Year 1977-78)

Class	Day	Weekly	Month	Additional Charge Per Mile
Full Size Wagon	$7	$35	$115	7.0¢
Full Size or Intermediate	$6	$30	$100	6.0¢
Compact	$5	$25	$ 85	5.5¢

Source: Central Motor Pool

TABLE 10

COMPARISON OF CAR CLASS COMPOSITION IN
PRESENT FLEET WITH FLEET PROPOSED BY TASK FORCE

Car Class	Percent of Present Fleet	Percent of Proposed Fleet*
Sub-compact	0	20
Compact	12	30
Intermediate	22	35
Full-size sedan	48	0
Station Wagon (Large)	11	5
(Mid size)	0	5
Vans	7	5
	100%	100%

Source: Analysis of agency data (June 30, 1977)

*Exception: All State Patrol and Conservation Officer full-size sedans will be changed to intermediates. Bureau of Criminal Apprehension will continue to purchase whatever car classes they deem appropriate to meet their special needs. These exceptions have been taken into consideration in the determination of the future state fleet percentage.

TABLE 11

STATE PASSENGER VEHICLE FLEET BY SIZE CLASS

Department/Board	Sub-compacts	Compacts	Intermediates	Full	Station Wagons	Vans	Total
Military Affairs				7			7
Administration	3	5	6	8	3	13	38
Agriculture		12	64	3	5		84
Public Safety	3	13	46	589	12	16	679
Ombudsman - Corrections		1					1
Finance			1				1
Barber Board				1			1
Electricity Board			1				1
Cosmetology Board		3		2			5
Pharmacy Board		1					1
Nursing Home Board				1			1
Health		25	51		5	4	85
Commerce		1	8	2	1		12
Livestock Sanitary Board		1	8	4			13
Indian Affairs		1	1				2
Economic Development			5		1		6
Personnel			1				1
State University Board		59	35	55	52	38	239
Community College System		6	1	1	14	20	42
Natural Resources		35	103	202	34		374
State Planning Agency	1	2		5			8
Pollution Control Agency		12	14		7	7	40
Housing Finance Agency			1	1			2
Vocational Rehabilitation		4	8	1			13
Education		3	29	11	18	2	63
Governor's Office			1				1
Crime Control Planning Board		1	1				2
Governor's Manpower Office		1		6			7
Labor and Industry		9	18	5	1		33
Iron Range Resources		2		2			4
Mediation Services		3	2	1	2		8
State Arts Board			1				1
Public Welfare	2	5	9	49	57	63	185
Employment Services		4		5	1		10
Higher Education Coordinating		2		1			3
Minnesota State Retirement				1			1
Revenue		26	8	16		3	53

TABLE 11 CONTINUED

Department/Board	Sub-Compacts	Compacts	Intermediates	Full	Station Wagons	Vans	Total
Teachers Retirement Assoc.			1				1
Veterans Affairs		1	1	3		2	7
Zoo Board		2		3			5
Corrections		22	26	34	21	12	115
Transportation		31	78	210	26		345
Public Service			1	2			3
Energy Agency		1					1
Minnesota Education Computing		1	3	2			6
Hearing Examiner			1				1
Central Motor Pool		22	25	26	17		90
Humane Society			1				1
State Fair			1				1
Total	9	317	561	1,259	277	180	2,603

Source: Memoranda from agencies dated June, 1977

TABLE 12

CAR CLASS COMPARISON OF 1977 AND 1978 MODEL YEAR
CAR PURCHASING STANDARD SPECIFICATIONS BY WHEELBASE AND ENGINE SIZE*

	Wheelbase (in.)		Engine Size (CID)	
Car Class	1977	1978	1977	1978
Sub-compact	-	90	-	97.6
Compact	103	103	225	200
Intermediate	116	116	302	225
Full size	120	-	318	-
Station Wagon (Large)	121	116	400	302
(Mid size)	-	103	-	200

Sources: Department of Administration specifications (1977 model) and Department of Administration proposed (1978 model) specifications dated October 13, 1977

* These specifications do not apply to enforcement vehicles.

TABLE 13

COMPARISON OF MINIMUM EPA (COMBINED) MILEAGE SPECIFICATIONS FOR 1977 AND 1978 MODEL CARS

Car Class	1977 models	1978 models
	miles per gallon	miles per gallon
Sub-Compact	18	24
Compact	18	20
Intermediate	18	18
Full-size	18	-
Station Wagon (Std.)	18	15
(Mid Size)	18	19

Sources: Commissioner Brubacher's memorandum of May 12, 1977.
Department of Administration (1978 model) specifications dated October 13, 19[illegible]

TABLE 14

SELECTED PASSENGER VEHICLE MILEAGE
AT TIME OF SALE

Agency	Mileage
Central Motor Pool	70,000 - 85,000*
Public Safety (Patrol)	62,000 - 70,000
State University	80,000 - 95,000
Natural Resources	often over 100,000
State Hospitals	95,000 - 100,000
Department of Transportation	90,000 - 100,000

Source: Department of Administration memorandum from Ray Walimaa dated August 4, 1977

* This mileage is higher than 60,000 due, in part, to the restriction on new car purchases for last year.

TABLE 15

FISCAL YEARS 1976 AND 1977 COMPARISON OF PRIVATE CAR REIMBURSEMENT AND CENTRAL MOTOR POOL CHARGES

Department/Board	Fiscal Year 1976 Private Car Reimbursement	Fiscal Year 1977 Private Car Reimbursement	Percent Change	Fiscal Year 1976 Central Motor Pool	Fiscal Year 1977 Central Motor Pool	Percent Change
Military Affairs	$ 72	$ 139	93	$ -	$ -	-
Administration	18,905	20,120	6	67,094	58,840	-14
Agriculture	97,282	94,716	- 3	201,473	178,193	-12
Boxing Board	793	913	15	-	-	-
Public Safety	112,411	95,617	-15	188,691	158,073	-16
Ombudsman - Corrections	4,283	3,837	-10	1,585	1,451	- 8
Finance	681	1,744	156	1,312	1,915	46
Barber Board	2,030	1,905	- 6	1,599	1,721	8
Electricity Board	35,678	30,808	-14	-	655	-
Cosmetology Board	23,451	14,675	-37	-	6,213	-
Medical Examiners Board	2,179	3,255	49	-	26	-
Nursing Board	3,719	3,936	6	124	83	-33
Pharmacy Board	5,595	4,490	-20	1,866	1,878	1
Architects/Engineers Board	4,126	3,193	-23	-	-	-
Dentistry Board	2,790	2,442	-12	-	-	-
Watchmakers Board	261	363	39	-	-	-
Chiropractors Board	1,187	1,025	-14	-	-	-
Psychology Board	1,604	1,610	0	-	-	-
Optometry Board	782	1,090	39	-	-	-
Nursing Home Board	951	574	-40	2,016	1,753	-13
Abstractors	769	653	-15	-	-	-
Accountancy Board	778	723	- 7	-	-	-
Podiatry Board	639	350	-45	-	-	-
Veterinary Board	571	667	17	45	-	-
Health	141,601	160,553	13	182,061	151,276	-17
Commerce	33,816	25,262	-25	33,255	34,500	4
Livestock Sanitary Board	11,624	10,838	- 7	37,492	35,387	- 6
Human Rights	7,648	7,667	0	1,575	2,286	45
Indian Affairs	5,430	3,507	-35	4,423	4,092	- 7
Economic Development	19,766	10,731	-46	26,413	23,122	-12
Personnel	2,306	3,160	37	4,360	3,123	-28
State University Board	105,239	124,579	18	22,568	31,103	38
Community College Board	67,956	65,812	- 3	38,809	54,341	40
Natural Resources	108,305	102,687	- 5	177,808	163,590	- 8
State Planning Agency	77,723	71,052	- 9	19,373	22,823	18
Pollution Control Agency	17,004	12,699	-25	58,559	54,663	7
Housing Finance Agency	6,959	21,933	215	5,260	7,413	41

TABLE 15 CONTINUED

Department/Board	Fiscal Year 1976 Private Car Reimbursement	Fiscal Year 1977 Private Car Reimbursement	Percent Change	Fiscal Year 1976 Central Motor Pool	Fiscal Year 1977 Central Motor Pool	Percent Change
Education	$ 275,801	$ 280,142	2	$ 197,315	$ 179,455	- 9
Investment Board	41	512	1,148	-	-	-
Governor's Office	12,012	6,434	-46	4,658	5,192	11
Crime Control Planning Board	8,160	7,568	- 7	5,283	5,901	12
Governor's Manpower Office	36,949	83,887	127	6,060	6,955	15
Labor and Industry	60,755	61,225	1	72,482	67,906	- 6
Iron Range Resources	2,405	1,985	-17	10,862	11,026	2
Mediation Services	11,600	10,070	-13	19,204	17,224	-10
State Arts Board	4,797	14,714	207	2,341	2,892	24
Public Welfare	242,843	231,322	- 5	124,016	102,581	-17
Employment Services	219,455	184,859	-16	39,308	29,285	-26
Higher Education Coordinating	11,820	16,001	35	7,778	7,263	- 7
Minnesota State Retirement	662	885	34	1,409	1,383	- 2
Public Employees Retirement	5,105	5,944	16	-	-	-
Revenue	120,769	116,365	- 4	118,137	108,965	- 8
Teachers Retirement Assoc.	858	666	-22	1,476	2,185	48
Veterans Affairs	6,546	7,035	7	9,152	6,832	-25
Water Resources Board	966	1,695	75	673	774	15
Zoo Board	3,423	6,372	86	97	71	-27
Corrections	103,541	95,359	- 8	185,060	149,238	-19
Transportation	125,596	139,692	11	3,698	13,328	261
Public Service	11,323	6,103	-46	27,442	15,887	-42
Energy Agency	2,589	4,180	61	3,590	4,617	29
Capitol Area Architect.	32	874	2,631	-	-	-
Minnesota Education Computing	12,737	6,102	-52	6,169	13,427	118
Great Lakes Commission	165	276	67	-	-	-
Southern Minnesota Rivers	2,850	3,666	29	117	250	114
Council for Handicapped	6,401	6,463	1	49	-	-
Hearing Examiner	1,345	3,276	144	2,460	1,774	-28
Municipal Board	2,401	2,943	23	204	683	235
Minnesota-Wisconsin Boundary	528	197	-63	-	-	-
Total	$2,221,389	$2,216,137		$1,926,801	$1,753,614	

Source: Department of Finance report dated July 7 and 13, 1977

TABLE 16

COMPARISON OF PRIVATE CAR REIMBURSEMENT AND
CENTRAL MOTOR POOL CHARGES BY NUMBER OF EMPLOYEES
(FISCAL YEAR 1977)

Department/Board	Number of Cars	Private Car Reimbursement	Number of Positions	Positions per Car	Private Car Reimbursement per Position	Central Motor Pool Rental	Central Motor Pool Rental per Position
Military Affairs	7	$ 139	183	26	$ 1	$ -	$ -
Administration	38	20,120	1,088	29	18	58,840	54
Agriculture	84	94,716	587	7	161	178,193	304
Boxing Board	0	913	8	-	114	-	-
Public Safety	679	95,617	1,662	2	58	158,073	95
Ombudsman - Corrections	1	3,837	8	8	480	1,451	181
Finance	1	1,744	125	125	14	1,915	15
Barber Board	1	1,905	5	5	381	1,721	344
Electricity Board	1	30,808	10	10	3,081	655	66
Cosmetology Board	5	14,675	5	1	2,935	6,213	1,243
Medical Examiners Board	0	3,255	12	-	271	26	2
Nursing Board	0	3,936	13	-	303	83	6
Pharmacy Board	1	4,490	8	8	561	1,878	235
Architects/Engineers Board	0	3,193	17	-	188	-	-
Dentistry Board	0	2,442	7	-	349	-	-
Watchmakers Board	0	363	6	-	61	-	-
Chiropractors Board	0	1,025	8	-	128	-	-
Psychology Board	0	1,610	11	-	146	-	-
Optometry Board	0	1,090	7	-	156	-	-
Nursing Home Board	1	574	12	12	48	1,753	146
Abstractors Board	0	653	7	-	93	-	-
Accountancy Board	0	723	8	-	90	-	-
Podiatry Board	0	350	7	-	50	-	-
Veterinary Board	0	667	8	-	83	-	-
Health	85	160,553	741	9	217	151,276	204
Commerce	12	25,262	219	18	115	34,500	158
Livestock Sanitary Board	13	10,838	46	4	236	35,387	769
Human Rights	0	7,667	62	-	124	2,286	37
Indian Affairs	2	3,507	7	4	501	4,092	585
Economic Development	6	10,731	51	9	210	23,122	453
Personnel	1	3,160	107	107	30	3,123	29
State University Board	239	124,579	3,639	15	34	31,103	9
Community College Board	42	65,812	1,842	44	36	54,341	30
Natural Resources	374	102,687	1,513	4	68	163,590	108

TABLE 16 CONTINUED

Department/Board	Number of Cars	Private Car Reimbursement	Number of Positions	Positions per Car	Private Car Reimbursement per Position	Central Motor Pool Rental	Central Motor Pool Rental per Position
State Planning Agency	8	$ 71,052	199	25	$ 357	$ 22,823	$ 115
Pollution Control Agency	40	12,699	264	7	48	54,663	207
Housing Finance Agency	2	21,933	83	42	264	7,413	89
Vocational Rehabilitation	13	165,977	458	35	362	23,829	52
Education	63	114,165	492	8	232	155,626	316
Investment Board	0	512	27	-	19	-	-
Governor's Office	1	6,434	55	55	117	5,192	94
Crime Control Planning Board	2	7,568	101	51	75	5,901	58
Governor's Manpower Office	7	83,887	229	33	366	6,955	30
Labor and Industry	33	61,225	250	8	245	67,906	272
Iron Range Resources	4	1,985	47	12	42	11,026	235
Mediation Services	8	10,070	25	3	403	17,224	689
State Arts Board	1	14,714	10	10	1,471	2,892	289
Public Welfare	185	231,322	6,964	38	33	102,581	15
Employment Services	10	184,859	1,983	198	93	29,285	15
Higher Education Coorindating	3	16,001	87	29	184	7,263	83
Minnesota State Retirement	1	885	39	39	23	1,383	35
Public Employees Retirement	0	5,944	14	-	425	-	-
Revenue	53	116,365	888	17	131	108,965	123
Teachers Retirement Assoc.	1	666	54	54	12	2,185	40
Veterans Affairs	7	7,035	159	23	44	6,832	43
Water Resources	0	1,695	3	-	565	774	258
Zoo Board	5	6,372	93	19	69	71	1
Corrections	115	95,359	1,563	14	61	149,238	95
Transportation	345	139,692	5,111	15	27	13,328	3
Public Service	3	6,103	124	41	49	15,887	128
Energy Agency	1	4,180	58	58	72	4,617	80
Capitol Area Architect.	0	874	8	-	109	-	-
Minnesota Education Computing	6	6,102	77	13	79	13,427	174
Hearing Examiner	1	3,276	24	24	137	1,774	74
Great Lakes Commission	0	276	5	-	55	-	-
Southern Minnesota Rivers	0	3,666	7	-	524	250	36
Council for Handicapped	0	6,463	9	-	718	-	-
Municipal Board	0	2,943	4	-	736	683	171
Minnesota-Wisconsin Boundary	0	197	5	-	39	-	-
Central Motor Pool	90						
Humane Society	1						
State Fair	1						
	2,603	$2,216,137	31,558			$1,753,614	

TABLE 16 CONTINUED

Source: Agency memorandums dated June, 1977
Finance Report dated July 13, 1977
Finance Position Comparison Report dated June 27, 1977
Minnesota Legislative Manual - 1977-78

TABLE 17

COMPARISON OF STATE EMPLOYEE REIMBURSEMENT
(FOR PERSONAL USE OF STATE CARS)
WITH PRIVATE CAR OPERATING COSTS

I. Estimated Private Reimbursement

	Reimbursement Rate	Total Miles 4/1 - 6/30/77	Estimated Annual Mileage	Estimated Yearly Payment
Compact	12.0¢/mi.	10,244	40,976	$ 4,917
Intermediate	12.6¢/mi.	3,829	15,316	1,930
Standard	13.0¢/mi.	37,675	150,700	19,591
				$26,438

II. Estimated Cost of Operating A Private Automobile

				Estimated Total Cost	
	Low Cost Assumption	High Cost Assumption	Estimated Annual Mileage	Low Cost Assumption	High Cost Assumption
Compact	15.7¢/mi.	24.1¢/mi.	40,976	$ 6,433	$ 9,875
Intermediate	16.8¢/mi.	25.5¢/mi.	15,316	2,573	3,905
Standard	18.5¢/mi.	28.2¢/mi.	150,700	27,879	42,497
				$36,885	$56,277

III. COMPARISON OF ESTIMATED ANNUAL PRIVATE REIMBURSEMENT TO PRIVATE AUTOMOBILE COST

		Estimated Annual Private Car Cost		Subsidy	
	Estimated Annual Reimbursement	Low Cost Assumption	High Cost Assumption	Low Cost Assumption	High Cost Assumption
Compact	$ 4,917	$ 6,433	$ 9,875	$ 1,516	$ 4,958
Intermediate	1,930	2,573	3,905	643	1,975
Standard	19,591	27,879	42,497	8,288	22,906
	$26,438	$36,885	$56,277	$10,447	$29,839

Source: Car reimbursement report dated April to June 30, 1977 and 1977 Fleet Cost and Policy Study by Runzheimer and Co., Inc.

STATE OF MINNESOTA
OFFICE OF THE GOVERNOR
ST. PAUL 55155

RUDY PERPICH
GOVERNOR

January 19, 1978

The Honorable Rudy Perpich
Governor of Minnesota
State Capitol
Saint Paul, Minnesota 55155

Honorable Sir:

In your letter of August 10, 1977, you directed the Special Task Force on Procurement to conduct a study of State Purchasing and Materials Management functions and to make recommendations on the basis of the study.

I am pleased to report to you that the study has been completed so far as seems practical and our findings and recommendations are given in this report.

The Task Force received complete support and cooperation from each of the many state employees contacted during this study.

This Task Force has consisted of both persons from the private sector and from within state government and is comprised of:

William Binger, Director of Purchasing and Stores, Hennepin County.
Lloyd Carlson, Assistant Comptroller, Tennant Company.
James Corrigan, Assistant Director of Procurement, Department of Administration.
C. Carroll Hicks, General Director of Merchandising, Super Valu Stores, Inc.
Phillip Iverson, Claims Officer, Department of Public Welfare.
Wayne Murphy, Assistant District Director of Maintenance, Department of Transportation.
William E. Olson, Vice President, 3 M Company.
John G. Tuset, Manager, Consumable Inventory Management, Department of Administration.
Harry Tyrpa, Manager, Corporate Materials Services, Honeywell, Inc.

The Task Force has found this assignment an unusually complicated one. In the interest of brevity, not all data collected by the Task Force has been included in this report. However, the Task Force stands ready to supply further documentation or data to support its recommendations wherever it is desired.

We have addressed ourselves to the various problems of purchasing as they have come to our attention and have made recommendations in regard to each of them. However, as our study has progressed we have concluded that this approach is one of responding to crises and that something more is needed to avoid problems over the long term. We have therefore attached an addendum to the report which gives our recommendations for a long term solution. Implementation of these recommendations should be given a high priority even though results may not be immediate.

This is the third study conducted in the last four years of the Procurement Division. Many of the recommendations contained herein were also made in the LEAP study and in another study made by the Administration Department. For this reason we believe that to the extent our recommendations are adopted some provision should be made for a follow-up on implementation either by the proposed Advisory Committee or by selected members of this Task Force.

The Task Force has not addressed itself to the problems of purchasing printing as this is a separate study being performed by the Governor's Task Force on Waste and Mismanagement.

Sincerely,

Iwan J. Fertig

Iwan J. Fertig, Chairman
Special Task Force on Procurement
and Materials Management

IJF:lp

REPORT OF THE GOVERNOR'S SPECIAL TASK FORCE ON PURCHASING AND MATERIALS MANAGEMENT

The objective of the Division of Procurement has been stated as follows:

> "The general objective of the D/P is to procure materials and services representing the best value for the need to be met while taking into consideration all factors; such as initial acquisition cost, suitability for intended purpose, operating cost, maintenance cost, as well as delivery in time. Requirements, conditions and terms contained in specifications and bid invitations shall be aimed toward the accomplishment of the objective to the extent possible, consistent with the need to also allow the greatest possible competition among suppliers."

The Task Force agrees with this objective except that we believe that more emphasis should be placed on providing service to using agencies and in the delegation of authority to using agencies where they can more efficiently make purchases within the provisions of the statutes. The Procurement Division should place more emphasis on their policy-making responsibilities and retain their accountability for purchases through established policies and auditing of purchases of agencies where authority has been delegated.

Responsibility, authority, and accountability for procurement of supplies and materials for all agencies of the State of Minnesota has been placed with the Department of Administration under Chapter 16 of Minnesota Statutes of 1976 and in particular under par. 16.07 and 16.08 thereof. Exceptions are the Legislative Branch, the Judicial Branch, and the University of Minnesota. In general these statutes provide that all purchases of and contracts for materials and supplies and services shall be based on competitive bids, with the Commissioner of Administration being authorized to make exceptions in certain instances and in a variety of situations.

In 1973, following the report of the Governor's Loaned Executive Action Program (LEAP), the Materials Management Division of the Department of Administration was established. One of the principal responsibilities of this division is to implement an inventory management program in all state agencies. The Task Force has reviewed the activities of the Materials Management Division and has concluded that given the magnitude of this assignment, and particularly the impetous placed on the program by the Governor's Executive Order No. 149, good progress is being made in implementing the Inventory Management Program, but that it may take another two years to complete the task. The Task Force has therefore interpreted its assignment as not to include a thorough study of the Materials Management Division except as it involves procurement from Central Stores, a section of the Materials Management Division.

Under the authority granted to him by the statute, the Commissioner of Administration has delegated most of the responsibility and authority of procuring materials and supplies to the Procurement Division. There are 51 people in this division including 12 buyers, a merchandise and contracts coordinator, a standards and specifications specialist and a field inspection and liaison specialist. With an average of five people absent at any given time, this leaves 46 persons to perform the procurement function. In Fiscal Year 1977 the division operated under a budget of \$810,708, and its budget for Fiscal Year 1979 as approved by the Governor is \$835,324, an increase of only three percent over two years. In Fiscal Year 1977, it issued 40,259 purchase orders for a total of \$53,145,577. Presently, it has 385 contracts for the purchase of commodities in force. In addition to those purchases made by the Procurement Division, the various agencies have made purchases in Fiscal Year 1977 (under contracts negotiated by the Division) of $26,682,774; they have purchased an amount of $11,680,132 under their authority for local purchase, and have expended $24,000,000 for repairs and services. The Division is headed by V. S. Bruce, Director of Procurement, who has been with the Division since September 15, 1954. The Division services a total of 145 different state agencies.

Interviews with persons involved in procurement in the various agencies indicate that in general the Procurement Division is perceived as doing a professional job in performing its functions but, as might be expected, there are a number of areas of concern about the procedures and policies of the Division. The majority of these fall into the following categories:

1. Acquisition time. "It takes too long to get materials when it is necessary to follow the bid process." This requires larger inventories than would otherwise be necessary.

2. Poor quality. "The Procurement Division purchases only on price without enough regard for the quality of the material or the service that may be rendered with it."

3. Inability to purchase locally. "The agencies are under the impression that they cannot purchase locally for amounts of more than $35 except for repairs up to $200, fresh produce, sand and gravel up to $100, subscriptions, educational materials, outer garments of clothing and wearing apparel, emergency purchases, and certain other occasional services and rentals."

4. Lack of standardization. "Different models and makes of equipment are purchased from year to year requiring a build up of spare parts inventories and training in the use of various kinds of equipment."

5. Minimum order quantities. "It is necessary to buy some food six months to one year in advance of the needs requiring large local inventories." Most vendors will not bid on small quantities.

6. Failure to respond to complaints.

7. Failure to adequately police vendors on quality and service.

8. Inadequate communication.

We will deal with each of these areas separately through discussion and then submit our recommendations in connection with them.

First, it is necessary to realize that the use of the term "complaints" does not imply that these are always the responsibility of the Procurement Division, although they are most often perceived to be. The Procurement Division has the difficult assignment of providing service to the various agencies, and at the same time, to police purchases so that they comply with the statutes and are made at the price which produces the best result for the state. Since the heads of some state agencies are required to submit a budget for approval by the Legislature, they may consider that any interference in the way they spend the funds approved for them by the Procurement Division is unwarranted and is an encroachment on their right to carry out their responsibilities as they see fit. In many instances the complaints are about the system established by statute and regulation rather than the performance of the Procurement Division. It might be said that if there were no complaints it would be a prima facie evidence that the Procurement Division was not carrying out its responsibilities. Nevertheless, their complaints must be examined with a view to making the system as efficient as possible.

1. Acquisition Time

It is of prime importance that the period of time from when an agency needs to order an item to when that item is received, be minimized. The longer this period of time, the more inventory must be kept on hand to sustain the agency until the order is received. Unnecessarily long ordering times or delays in ordering can also mean extended downtime for a piece of equipment needing repair parts or can mean an agency is missing a piece of equipment it needs to operate efficiently.

Ordering is accomplished primarily in one of three ways:

1. Purchasing direct from a vendor as permitted by contract or special price agreement.

2. Purchasing locally under limited authority.

3. Requisition placing of a purchase order by Procurement.

Delays using this method are due to a number of causes. Some are inherent in the process of procurement required by statute. For example, when a requisition is received by the Procurement Division it is necessary to prepare specifications, sometimes to clarify the requirements of the agency, to advertise for bids, open bids, issue the purchase order, and then await delivery of the material to the using agency. This process takes a considerably longer time than would be required to purchase the material directly from a vendor.

These delays can be reduced by:

a. Computerizing the procurement process and using CRT facilities already in existence in many state agencies. Many states, as well as Hennepin County, have followed this procedure and have found it advantageous. Almost all of the paperwork now done in the Division is produced manually and a good procurement computer program should speed up the handling of requisitions and the placing of encumbrances. Such a program should be tied in with the inventory control programs, and, if it contains vendor and community codes, it will enable the Procurement Division to gather additional information which will be useful in performing their function. It is not possible to accurately estimate the cost of such a system or the time it will take to install it to apply to all purchases (drugs and pharmaceuticals are now under a computer program) without having a complete definition of the system. As a guess, it may cost as much as $300,000 to $400,000 but the Task Force believes a computerized system will be well worth its cost over the long term. It is recommended that the development of a computerized system be given a high priority and that the Legislature appropriate sufficient funds for this purpose.

b. Better training of purchasing personnel in state agencies to plan for their needs and better prepare specifications to meet the agencies requirements. The Procurement Division at present conducts seminars for this purpose and has one field inspector assigned to this function, but with 145 separate agencies to serve, expansion of these activities would do a great deal to eliminate delays. At least one additional liaison inspector should be employed with adequate funds appropriated and further emphasis should be placed on training additional personnel in the agencies.

c. As indicated above, the Procurement Division has 12 buyers who processed 40,259 purchases during Fiscal Year 1977. The number of purchase orders fluctuates substantially from month to month during the year and was as high as 5,866 in May, 1977 as compared to an average month of 3,355. In the judgment of the Task Force, the workload of buyers could be reduced if the position of Clerk Typist were upgraded to permit these persons to handle many of the smaller purchases and allow the buyers to concentrate on the larger purchases, better response to complaints and more analysis of products. The Purchasing Division has applied for an upgrading of these positions to Senior Clerk Typist but has not received approval. This Purchasing function is one of the few areas where the state can save money through the good performance of the persons engaged in it, and in the judgment of the Task Force, the return to the state would far exceed the cost of upgrading these positions.

d. Some of the delays which occur are due to the processing of requisitions within state agencies. Agencies have or should have within their organization a unit charged with purchasing, and any request for materials should be processed by that unit before a requisition is sent to the Procurement Division. In some agencies, such as hospitals, no one person has been given the authority for purchasing, with the result that several persons are engaged in purchasing, and resulting in communications and training problems. In other instances, as in the Department of Transportation, a request for materials must be processed at the district level and then sent to the Central Office for further processing and encumbrances before it is forwarded to the Procurement Division. The Department of Transportation indicates that a request for material must go through 46 steps within the department before it is forwarded to Procurement. The person needing the material often does not know where the delay occurs, but tends to place responsibility on the Procurement Division.

It is recommended that each location centralize the authority for purchasing in one person but not necessarily in the Central Office. It is also recommended that each agency analyze its purchasing procedures and where necessary employ a systems analyst to streamline procedures and reduce delays.

e. Other delays occur because the purchase order is not specific as to delivery dates or the vendor does not comply with specifications for delivery. Under the system currently in use, the Procurement Division does not know when there has been a delivery unless they are informed by the using agency. There seems to be some misunderstanding as to who is responsible for follow-up on these delays. The Procurement Division should require that all purchase orders and annual contracts, contain specific delivery dates and emphasize to agencies their responsibility for ensuring that vendors comply with delivery terms in purchase orders. The Purchasing Division should more frequently remove vendors from the approved bidders list for failure to meet delivery terms. The Procurement Division should also investigate the possibility of determing for itself whether or not delivery times have been met without waiting for complaints from the agencies. This should be done as a part of the computerized system.

2. Poor Quality

Many ideas about public purchasing are based on incorrect assumptions, one of them being that business is generally anxious to bid on government contracts. Actually, this is not the case for a variety of reasons: Competition can drive prices so low that only two bids are received and other businesses are not interested in selling at such a low price; during times of product shortages or strong sellers' markets obtaining one bid may be a difficult or impossible task; business customarily seeks accounts which it can retain for a long period of time or least as long as its prices are competitive and its services are satisfactory. Government accounts are dependent on meeting the lowest responsible bidder and tend to come and go in each invitation and award. As a result, government accounts are not attractive to many businesses. Some governmental jurisdictions are slow in paying bills, a management problem that discourages many firms from competing for the business, and at times of tight money and highest interest rates it has limited competition severely or eliminated it entirely.

Under the provisions of the statutes, the Procurement Division must accept the bid of the lowest responsible bidder meeting the conditions and specifications of the bid. While the Procurement Division has some discretion in determining what constitutes a "responsible bidder," it is not always possible to write specifications in sufficient detail to ensure that the products offered by each vendor will be equal. In many instances "quality" may depend upon the ability of the vendor to provide spare parts, service, training, and inspection. Some vendors may be able to provide service in one area of the state but not in others. Others may indicate that they have spare parts available but will not maintain that ability over the expected useful life of the equipment. In such situations, a low bid price may result in higher costs over a period of time. The lowest initial cost or price does not necessarily result in the best <u>value</u> to the state. If an expensive piece of equipment is broken down and out of use for a considerable period of time, the cost to the state may be far greater than any saving effected in its initial purchase. It cannot be said that paint which requires three coats to adequately cover represents a cost savings when a higher cost paint might do the job in two coats. The problem seems to be that the statute requiring the awarding of a contract to the lowest bidder concentrates on price rather than <u>value</u> which can be determined over the long term and includes the ability of the vendor to provide services, spare parts, training, etc. Probably because of this focus in the statute the Purchasing Division seems to place more emphasis on technical compliance with the statute than on its equally important function of providing service to the various state agencies. There is a technique variously called Value Analysis, Value Engineering, or Life Cycle Costing which is receiving increasing attention from governmental purchasing departments.

The Purchasing Division does some of this work, but because of lack of personnel is not able to do as much as would be advisable. The Legislature has recently authorized the Department of Transportation to study Value Engineering in connection with construction contracts, and we believe it is equally important in purchasing materials, equipment, and services. The Standards and Specifications Section of the Purchasing Division should be substantially increased to permit the analysis of purchases so that the state will receive the best value for its dollars rather than just the lowest initial cost. It is recommended that the Procurement Division base its purchase decisions on Value Analysis where appropriate, rather than solely on price, and that it strengthen its capacity to make such a value analysis before making purchase decisions. The Legislature should provide an adequate appropriation to fund the development of a Value Analysis unit as it has done with the Department of Transportation.

3. Inability to Purchase Locally

Under rules promulgated by the Department of Administration, agencies are given authority to make purchases locally without taking bids where the amount involved is $35 or less, to arrange for repairs of equipment where the amount involved is $200 or less, to purchase fresh produce, sand and gravel, subscriptions, educational materials, clothing and wearing apparel, and to make other purchases in emergencies. When the amount involved is more than $35 but less than $200 they may make purchases locally; however, agencies must obtain three bids where three bidders or more are available, but may accept a lesser number of bids where there are not as many as three available, or there is a sole source for the product being purchased. There is apparently a widespread misunderstanding of this regulation, as many agencies interpret it to mean that no local purchases may be made where the amount involved is more than $35. The Task Force recommends that this regulation be rewritten to clarify the authority for local purchases and to increase the authority for local purchases without bids to $50 and for local purchases with bids to $300 where there is an immediate need for the product. This authority should be permissive and not a requirement, so that, in any case, the agencies may use the Procurement Division when desired. The Task Force recognizes that this will result in more local purchases and may require more time of agency personnel, but believes that the trade-offs of improved service and reduced inventories will justify its adoption.

The Procurement Division is able to show that under present regulations they would be able to make savings of as much as 40 percent if they were to make purchases instead of their being made locally. They believe that if the rules were liberalized the cost to the state would be increased. However, in calculating the savings, procurement staff do not take into account the cost of processing a requisition nor the cost of delays which occur in the procurement process. If we were to assume that the purchases were all for the maximum amount of $35 this would represent a savings of $14 on each purchase. It is not difficult to see that the cost of preparing a requisition and passing it through all the hands that must be involved in its execution would exceed the potential savings of $14, and this would not include the costs of the delays where the agency could not perform its function because of lack of material. The Procurement Division estimates that more than 50 percent of all purchases involve less than $300 and the Task Force believes that their work would therefore be considerably reduced if the authority for local purchases were increased. While the Task Force supports the idea of a strong centralized procurement operation, it believes that in the interest of practicality and because of the effect of inflation upon the cost of labor and materials that the authority for local purchase should be increased as recommended above. This should reduce inventories which are now maintained because agencies expect delays when it is necessary to purchase by requisition.

All agencies should be required to report all local purchases as they do at present, with the Procurement Division auditing these purchases and the Department of Administration being authorized to withdraw or reduce the authority where it is evident that is is misused or abused.

Similarly the limitation of $200 on purchase or repairs seems to be unrealistically low. It does not take much damage to an automobile or other equipment at the present time to run up a bill of $200. Purchasing repairs is somewhat different than the purchase of new materials where standards can be established or acceptable brands listed. The Procurement Division is not in a position to examine the damaged equipment, to determine the quality of workmanship, or the promptness of repairs. They can only determine who is the low bidder and this can be done as well by the agency on a local level. It is recommended that the authority for arranging for repairs locally be increased to $500.

4. Lack of Standardization

With the Procurement Division concentrating on making purchases from the low bidder meeting specifications and conditions of the bid, it sometimes happens that they will award a contract to one firm in one year and to another in a subsequent year. If the contract is for a complicated piece of equipment, the using agency is required to retrain its personnel in the use of the new equipment and to stock parts for a number of different kinds of equipment. For example, some of the hospitals have in use several kinds of television equipment. The Department of Transportation has a number of different makes of road graders. While there would be a limitation on progress if the same kinds of equipment were purchased year after year, it is believed that greater standardization would result in lower costs if the problems of the user were given more consideration in selecting the equipment to be purchased. Spare parts inventories could be reduced and some expenses of training could be eliminated. Prequalification of acceptable products would play an important role in reducing overall costs. This should be the function of the Value Analysis Unit. (See Section 2.)

5. Minimum Order Quantities

A number of state agencies complain that they are required to carry excessive inventories because of minimum order quantities required by the vendors or by the Procurement Division. This is particularly true in the area of non-perishable food where agencies report their requirements six months in advance, and for canned goods for as much as one year. Those persons responsible for making requisitions state that it is impossible for them to determine with very much accuracy what they will need six months to a year in advance with the result that they either overorder, resulting in excess inventories, or are short, requiring the placing of special requisitions for small quantities. We have not been able to determine the origin of this requirement for purchases for a six-month period, but it appears to us that ordering of no more than a two-month supply of non-perishable food would not only greatly reduce inventories, but might enable the purchase of food when market conditions were at their best--i.e. during or at the end of the packing season. The funds now invested in excess inventories would produce a return of six percent currently if they were invested by the Investment Board. We recommend that contracts or purchase orders be awarded with minimum order quantity restrictions which conform with the needs of the agencies.

We also recommend that the frequency for the purchase of consumable items by state agencies be determined by inventory management guidelines rather than be arbitrarily set by any department. This can be one of the results of a comprehensive computer program.

Some vendors make their bids based upon minimum order quantities because of the cost of delivery to remote locations, or, alternatively, increase their price to include the excessive cost of delivery. We believe this problem may be overcome by buying more frequently on a regional basis. For example, agencies in the northwest buy from bidders in the Fargo-Moorhead area, etc. Very few firms are equipped to make delivery, particularly of food stuffs, over the entire state with a result of lack of competition from those few firms in the Twin Cities area who are able to do so.

We recommend that the Procurement Division consider more regional purchases when materials are to be delivered to outstate areas.

We also recommend that the Procurement Division investigate the possibility of purchasing food on a contract basis for a selected group of agencies. Purchase of food from some of the large grocery distributors under contract (Super Valu, Red Owl, Hancock Nelson, etc.) would eliminate the need for maintaining large inventories and solve some of the delivery problems which now exist.

6. Failure to Respond to Complaints

The Procurement Division provides all agencies with a complaint form and encourages its use whenever there are delays in delivery or problems involving quality or service. The Division is in the position of not being aware of these problems after a purchase order is placed unless they are reported by the agency. Some agencies report that the system works well, and that they are either able to solve problems in direct contact with the vendor or that they receive assistance from the Procurement Division when it is requested. Others say they have discontinued making complaints because they receive no response to them from the Division or believe that nothing is done about them. This may mean that the Division does not respond because the problem has been solved when they receive the complaint--i.e., the merchandise has been delivered or because the agency has complained about a product that meets specifications. Whatever the reason, we believe that if the system is to work properly the Procurement Division must establish a system which ensures that prompt responses are made to all complaints.

We recommend that the Procurement Division establish a system of logging in all complaints and place the responsibility for seeing to it that they are answered promptly and adequately with someone other than the buyer who was responsible for making the purchase. Complaints should be included in vendor evaluation and should be reviewed by the Advisory Committee.

7. Failure to Adequately Police Vendors on Quality and Service

The Procurement Division has the authority to remove any vendor from the acceptable bidders list who does not perform in accordance with a purchase order either as to the specifications of the purchase order or as to time of delivery. This authority cannot be exercised capriciously but there is a belief by some agencies that the Division does not act promptly enough in eliminating some vendors who the agencies perceive to be chronic offenders. In some instances this may be due to the fact that the Division is unaware of the failure to perform. (See section on complaints.) The problem appears to be one of communication as both the Procurement Division and the agencies are seeking the same end, i.e. the delivery of the right product at the best value which will serve the purposes of the state. The solution seems to be one of communication which is of such importance that we will treat it as a separate subject.

8. Inadequate Communication

Throughout our study we have been impressed with the competence and dedication of the employees we have contacted both in the Procurement Division and various state agencies. All seem to be determined to solve the problem of procurement to obtain the best materials and to perform their function at the lowest cost to the state. It has been evident that those agencies which have the most frequent contact with the Procurement Division have the fewest problems. It therefore seems apparent that improved communications both upward and downward will solve many of the problems.

The Procurement Division publishes manuals and bulletins on how to make the best use of their services. In addition they publish Procurement News which deals with current problems and provides information which may be useful to persons involved in purchasing in the agencies. They have a Purchasing Coordinator whose function is to visit the agencies and make inspections to determine if products meet specifications as well as to consult with the purchasing people. Last year the Procurement Division held twelve seminars around the state to explain their procedures and answer questions. However, with 145 agencies all of which at some time or other have occasion to require everything from paper clips to airplanes, and with the turnover in personnel, the job of communication is never finished. It is recommended that the Division expand its activities in the communication area by wider and more frequent publication of Procurement News and by adding at least one person to the staff of the Purchasing Coordinator (see paragraph 1 b). It is possible that this can be accomplished by using some of those people who are now engaged in making small purchases between $35 and $200 so that it may not be necessary to increase the total staff.

We also recommend that the Procurement Division publish a revised manual on procurement procedures to replace Manual No. 5. The present manual is designed to inform both vendors and agencies and is confusing to using agencies. The new manual should include a clarified Manual Bulletin No. 7-205 covering changes in the authority for local purchases. It should provide guidelines such as sampling and testing procedures to verify quantities and qualities received from vendors. It should be given wide distribution to all state employees involved in the purchasing process.

9. Fraud and Dishonesty

The understanding of the Task Force as to the legislative history of Chapter 16 of the Minnesota Statutes is that it was passed by the Legislature not only to improve the efficiency in making purchases for the state, but also to eliminate the opportunities for theft and corruption existing when purchasing was done on a decentralized basis by many agencies throughout the state. We believe that these objectives are meritorious and should be continued except where simple economics dictate the delegation of some authority for local purchases. Since our charge from you has been to find out not only what is wrong with the Procurement process but also what is right about it, we are glad to report that in our investigation we have not become aware of a single instance or suggestion of any fraud or dishonesty in the procurement system and in this respect Chapter 16 has served its purpose well and should not be changed.

10. Advisory Committee

The Task Force views these recommendations as only a starting point in improving the system for procurement in the State of Minnesota. The prompt and efficient acquisition of materials and services is of the most importance to the using agencies in carrying out their assigned functions so that there must be continuous cooperation between the Central Procurement Division and the agencies. The situation is a dynamic rather than a static one where changes in state organization and the development of new methods and materials will create new problems. The Task Force believes that an Advisory Committee to the Procurement Division should be appointed by the Commissioner of Administration. This Committee should be made of representatives from a broad spectrum of those persons in the agencies who are directly involved in the procurement process. It should meet regularly, once a month, with the Procurement Director, his assistant and senior buyers to review current problems and to make recommendations to the Commissioner of Administration. It should be a vehicle for two-way communications between the Procurement Division and state agencies. It should review complaints, standards and specifications, policies and procedures, items under contract, contract compliance, and in general, the whole procurement procedure. The Procurement Division should view this Committee as a means of communicating with state agencies where they have problems either with requisitions, purchases under contract, or local purchases. Membership of the Committee should be rotated with half of the Committee changed on an annual basis to ensure as broad a representation of the state agencies as possible. The chairman of the Committee should be chosen from its membership, excepting members of the Procurement Division.

11. Legislation

The Task Force believes that the recommendations, except appropriations, contained herein can be implemented by Executive Order and policies and procedures to be established by the Commissioner of Administration under present statutory authority. The present statutes governing procurement by the state appear to us to be adequate to accomplish the intent of the Legislature in that they provide for a strong centralized procurement function, and at the same time allow sufficient flexibility so that the function can be accomplished effectively and efficiently with policies and procedures established by the Commissioner of Administration. The Task Force has not addressed itself to the "Set Aside" program for minorities or to the provisions of the statute related to favoring small business, as it believes that these laws tend to produce a less effective and efficient state procurement program and are in the nature of social legislation. We have not considered that our assignment was intended to encompass this aspect of the laws. Without passing judgment on the total merits of such legislation we can say that any legislation which is designed to favor one class of vendors over another will weaken the intent of the law, i.e. to obtain the best value for the state in purchases of materials and services. We believe that this is particularly true of the House of Representatives Bill No. 1644 which proposes to give favored treatment to purchases from local vendors. This can only be accomplished at the expense of all state taxpayers and it seems to us to be contrary to the original intent of the Legislature in providing for centralized purchasing. With the proposed increase in authority for local purchasing, the objective of this legislation should be accomplished without favoring one group of vendors over others.

12. Intergovernmental Cooperative Purchasing

At the present time the Purchasing Division encourages governmental units other than the state agencies to participate in state purchasing contracts if the vendor agrees. While the Task Force has been unable to assess the extent to which greater savings might be made through more extensive cooperative purchasing it seems apparent that they are potentially significant. The Purchasing Division should increase its efforts to take the lead in encouraging other agencies of government to participate in contracts which may be in their interest.

13. Contract Purchasing

The Procurement Division at present has 385 contracts for the purchase of commodities. These contracts are made at prices and under terms approved by the Division through the bid process. They enable the agencies to order directly from the vendors without the necessity of the requisition process. With the exception that some agencies regard the minimum order quantities as being too high, most agencies regard them as an efficient way of obtaining the materials they need. The number of items purchased under contract should be significantly expanded to cover all commodities for which there is a repetitive need by the agencies. The Procurement Division agrees with this recommendation but states that it has been limited in its ability to do so by lack of personnel to assign to this function. Investigation of the possibility of using systems contracts for some of the items now provided by Central Stores should be continued, with the objective of reducing the inventory now carried and eliminating some of the expense of this operation.

The Task Force recommends that purchase contracts be negotiated and expanded where possible by the Procurement Division with consideration being given to the requirements of the agencies in regard to minimum ordering quantities and ordering frequencies which will most reduce the inventories now carried by the agencies.

14. Summary

In summary the following are brief statements of the recommendations of this Task Force and the suggested target dates for their accomplishment.

1.	a. Develop a comprehensive computer system to computerize the procurement process and tie in with inventory management and payment.	Six months to one and one-half years.
	b. Increase training of persons in agencies involved in procurement.	Six months.
	c. Upgrade position of Intermediate Clerk Typist or Buyer's Secretary to that of Senior Clerk Typist.	Three months.
	d. Centralize authority for purchases in various agencies and streamline procedure.	Six months.
	e. Be specific on delivery dates on contracts and purchase orders and enforce them with vendors who do not comply.	One month.
2.	Install Value Analysis or Life Cycle Costing by upgrading and increasing personnel in the Standards and Specifications Section of Procurement Division in order to establish a method for evaluating the quality of new and existing materials.	One year.
3.	Authorize local purchases up to $50 without bids and to $300 with bids where there is an immediate need. Authorize purchases of repairs locally up to $500.	Immediately.
4.	Consider needs of agencies for standardization and life-cycle cost to agencies including service in determining most acceptable bidder.	Immediately.
5.	Reduce minimum order quantities to more nearly conform to agency requirements. Follow inventory management guidelines. Increase regional contracts and investigate the possibility of purchasing food under annual contracts on an as needed basis.	Progress in six months.
6.	Revise complaint system to ensure that all complaints are logged in and resolved promptly.	Immediately.
7.	Enforce vendor compliance under purchase orders and contracts by more frequently charging them with cost of substitute purchases and removing them from bidders list.	Immediately.
8.	Improve communications by increasing staff of Procurement Coordinator, more frequent publication of Procurement News, and more seminars by Procurement personnel.	Immediately.
9.	Establish an Advisory Committee with broad representation from using agencies to meet monthly with the Procurement Division.	Three months.

10.	Oppose additional legislation designed to favor one group of vendors over another.	Immediately.
11.	Take the lead in encouraging other units of government to participate in contract purchasing.	Continuing.
12.	Reduce dependence on Central Stores by developing more systems contract purchasing with office supply vendors.	One year.

14. Results of Changes

The Task Force has considered the possibility of putting a "price tag" on the savings which the state might make by implementing these recommendations, but believes that since many of the benefits which should ensue are intangible in the form of improved service and increased efficiency and would be offset by some increased cost, any figure arrived at would be in the nature of a wild guess. However, the Task Force is convinced that the savings to be derived by reducing the cost of carrying inventories, streamlining the procurement process, and reducing the frustration that is now extant would be considerably greater than the cost of computerizing the procurement process and adding personnel where it may be required.

ADDENDUM TO REPORT OF GOVERNOR'S SPECIAL TASK FORCE ON PURCHASING AND MATERIALS MANAGEMENT

As indicated in our report the Task Force has not made an indepth study of the Materials Management Division. However, as our study has progressed we have become aware of the fact that to some extent the Procurement Division and the Materials Management Division work at cross purposes, with the Procurement Division following procedures and policies which may be efficient from a purchasing standpoint but which result in increased inventories, and with the Materials Management Division concentrating on reducing inventories without any control over purchases. We believe that this situation may be corrected and further problems avoided by the adoption of the Materials Management Concept as outlined below.

The Materials Management Concept

The Materials Management Concept is a relatively new approach which has been used in industry in recent years. In essence, it places all functions relating to Materials Management under one manager. These are:

a. Purchasing
b. Warehousing
c. Distribution
d. Testing
e. Developing standards
f. Specifications
g. Inventory control
h. Expediting
i. Surplus property
j. Processing of invoices

Such a system requires the use of a comprehensive computer program to handle the placing of requisitions and purchase orders, the encumbrance of state funds, continuous updating of inventories, analysis of vendor performance, approval of invoices, and maintenance of records. The data base of the system should provide commodity codes and vendor identification to enable the purchasing authority to better analyze its performance. It should identify surplus property and identify reorder points for consumable materials and in general give the state agencies and the various segments of the Materials Management Division the information they require to effectively perform their function. Such a system should not only speed up the acquisition of needed materials, but reduce the amount of work now required in the manual process.

The Materials Management Division should be organized to provide service to the state agencies with the recognition that purchasing is a means to an end (the proper functioning of state agencies) rather than an end in itself. Emphasis should be placed on Life Cycle Cost rather than on initial cost of all materials.

While we recognize that such a reorganization would require a considerable amount of time we believe that it should be approached with a sense of urgency, and with planning of the organization, commenced promptly. Investigation of computer software available from IBM or other computer manufacturers can be undertaken in the development of the computerized system, as well as the advice of other states who have computerized Materials Management Systems. If the personnel within state government does not have the expertise to develop this concept, a consultant should be employed to make recommendations on the organization as well as to design the computer systems.

With the development of a Materials Management Concept we believe that the State of Minnesota will not only solve most of its procurement problems and avoid others but will be in the forefront of states with centralized procurement operations.

ADMIN 1000 (REV. 4/77)

DEPARTMENT Waste and Mismanagement

STATE OF MINNESOTA

FOR MEDIA RELEASE
May 11, 1978
8:30 A.M.

Office Memorandum

TO : Governor Rudy Perpich

DATE: May 11, 1978

FROM : Robert E. Goff, Director
Governor's Task Force on
Waste and Mismanagement

PHONE: 296-0646

SUBJECT: SUMMARY
Report on Contracting by State Agencies

In recent years the Legislature and the Governor have tried various methods of controlling the practice of state contracting for consultant and professional-technical services. At the same time, contracts expenditures have grown dramatically -- nearly doubling from Fiscal Year 1974 to Fiscal Year 1977. This year the expenditures are likely to exceed $41 million.

The authority for central control and monitoring of most state contracts was established in the Office of Contract Management by Executive Order 18 months ago. Finding the procedures of that office basically sound, the Task Force worked with the Department of Administration and the Legislature to develop the 1978 Chapter 16 amendments, which strengthened and provided statutory basis for the office's authority. With the new law and the additional staff recommended in this report, the Office of Contract Management will become a more effective and valuable technical resource for departments in need of contractual services. Although the Office of Contract Management can offer needed technical assistance, the responsibility of controlling contracts costs must rest with the individual state departments. The Office of Contract Management cannot and should not negotiate each state contract.

In conversations with the Task Force, many state officials said they had at times been disappointed with the final product of a contract or believed they had not received full value for the money they had spent. A primary factor is the general lack of effective departmental controls. Only five departments were able to provide written contract approval procedures. In some departments, the responsibility for approving and negotiating contracts had been delegated to several low-level managers. Except for a few contracts at high dollar amounts, there was little evidence that competition among prospective vendors had been encouraged.

In the attached report, the Task Force recommends that the Governor require all state agencies to adopt formal contract control procedures and establish a cost reduction goal for Fiscal Year 1979. The 16 departments which will spend 88 percent of the total state agency contracts budget this year (see page 16) should adopt a minimum 15 percent cost reduction goal. At the department head's discretion, contract expenditures for direct patient care, classroom instruction and biddable purchased services should be excluded from this requirement. The goal is not to deprive the residents of our state institutions of medical care or deny quality classroom instruction to students at our state colleges. The goal is to ensure that all state departments receive maximum value for all necessary consultant and professional-technical services expenditures.

The requirements of the new law, the expended technical help offered by the Office of Contract Management and the following recommendations make these cost reductions a realizable goal which will save at least $3.6 million from the 16 departmental budgets during Fiscal Year 1979:

1. Contracts approval and control must be a department head, deputy or assistant head responsibility, as required by the new amendments to Chapter 16.
2. Departments must use a variety of methods for ensuring vendor competition for state contracts including public notice in the State Register, trade publications, direct mail, newspapers, and posting at the department's office and the Office of Contract Management.
3. The request for proposal process should be used whenever the task and the compensation involved are substantial enough to encourage vendors to compete actively for the contract. Single contact contracts should be almost eliminated except when no more than one vendor is capable of performing the work.
4. Departments must negotiate hard on the price of the service to be performed by the selected vendor. For example, the amount of a legislative appropriation may not have much relevance to the cost of the work required by the department to fulfill its legislative mandate.
5. The scope of the work to be performed by the contractor must be carefully and tightly defined by department personnel.
6. The work should be closely monitored throughout the contract by at least one designated department employee.

7. Cost overruns should never be approved after the price is negotiated and agreed to by the vendor unless new requirements are amended into the contract.
8. "After-the-fact" contracts should be eliminated except in <u>bona fide</u> emergencies.
9. All contractual services should be evaluated by the respective departments and copies of the evaluation filed with the Office of Contract Management as an information source for other state departments.

ADMIN 1000 (REV. 4/77)

DEPARTMENT Waste and Mismanagement

STATE OF MINNESOTA

Office Memorandum

TO : Governor Rudy Perpich

DATE: May 11, 1978

FROM : Robert E. Goff, Director
Governor's Task Force on
Waste and Mismanagement

PHONE: 296-0646

SUBJECT: Contracting by State Agencies

This report has been prepared by the Task Force on Waste and Mismanagement in response to your request for a study of contracts for consultants, professional and technical services, and purchased services.

Many state departments and agencies find it necessary, expedient and prudent to contract for the services of private consulting and service firms to help in satisfying some of their planning, organizational, managerial, technical, or service needs. The contracting with these firms or individuals may be required when the state lacks the necessary manpower or expertise -- or when the problem demands prompt attention.

Our study considered contracts which have been defined as:

<u>Consultant Services</u>

A contract for professional or technical advice or opinions which may include evaluations, recommended actions, predictions, and planning -- <u>which will produce a report</u>.

<u>Professional/Technical Services</u>

A contract between an agency and a contractor which results in the <u>completion of a task</u> of a professional or technical nature rather than recommendations, evaluation, or analysis.

Purchased Services

A contract between an agency and a contractor to furnish work of a service nature, such as janitorial service, disposal service, security service, or laundry service. These services must conform with the competitive bidding provisions of Chapter 16 and the provisions of M.S. 43.20, Subdivision 6, which preclude the contracting for services involving the equivalent of Schedule C employees. (See Exhibits 1 and 2.)

ADVANTAGES OF CONTRACTING

There is nothing inherently wrong with the practice of governmental contracting for services with the private sector. In fact, there can be many advantages:

1. Specialized skills, knowledge and resources

   State agencies sometimes find it necessary to retain consultants who can provide specialized skills and knowledge which are not currently available from state employees.

2. Scheduling

   In some instances, the required expertise may be available among state employees. However, because of severe time constraints on performance of a task, an agency may find it necessary to seek temporary outside help.

3. Objectivity

   There often can be no substitute for the impartial, fresh viewpoint of an outside consultant -- free from personal interest, tradition, or preconception one might find among staff. The Governor, the Legislature, and the public are sometimes more likely to listen to and act on suggestions and appraisals coming from an independent source.

4. Costs

Contracting for a service may be more cost-effective, in some instances, than providing the service directly.

HAZARDS OF CONTRACTING

Lack of tight controls on the practice of government contracting can lead to problems such as the following:

1. Future Inflated Costs

If the state, in contracting for purchased services, seriously depletes its capital investment and the contractor raises the cost, the state may find that it is no longer competitive because the price of new equipment acquisition has become prohibitive. For example, the state could decide to sell its Central Motor Pool fleet because a private company offers to provide automobile transportation for state agencies at less cost. If at a later time the private company dramatically increases its price and no other vendor is capable of providing the service, the state may have to accept the higher price because the cost of purchasing a new state car fleet would be prohibitive.

2. <u>Inefficiency and Administrative Vulnerability</u>

A bad contract leading to corruption, waste, or inefficiency can destroy the state's reputation with the public for deliverance of high quality service and bring severe public criticism on an administrator and the Governor. Recent scandals in other states bear out the necessity for close scrutiny, tight control and routine public disclosure of all state contracts.

FINDINGS

1. <u>Contracting costs tend to be more difficult to control, monitor, and evaluate than many other government expense items.</u>

In recent years, officials at all levels of government from townhalls to the Oval Office have expressed growing concern about the practice of contracting and its increasing costs to taxpayers. According to a survey of federal agencies conducted at the request of President Carter last year, the federal government spends approximately $1.8 billion on consultant contracts. However, no one at the federal level knows where all the consultants are, how much they are paid or just what they do. The Carter Administration and Congress are studying various approaches to defining and controlling these costs.

On the other hand, the State of Minnesota has been developing a comparatively good system for identifying the costs and types of state contracts. In recent years, the Legislature has struggled with the problem in a variety of ways including a law passed in 1975 requiring Finance and Appropriations Committee approval of individual contracts. The law was repealed in the 1977 legislative session after the Office of Contract Management was created in the Department of Administration by Reorganization Order 79 and Policy and Procedure ADM-2 SAC on November 1, 1976. The reorganization order consolidated in the Office of Contract Management the contract approval responsibilities that had been established by statute in the Department of Personnel and the State Planning Agency. The Policy and Procedure order specified the responsibilities and objectives of the Office of Contract Management including the following:

a. To decrease contract processing time.

b. To control the number and expenditures and improve the quality of state contracts.

c. To institute "pre-negotiation and approval" and "evaluation" procedures.

d. To help the Department of Finance revise the Statewide Accounting System method of recording contract costs.

e. To provide comprehensive reports and statistical information regarding state contracts.

The 1978 Legislature recently passed H.F. 1103 which strengthened and provided statutory authority for these responsibilities and procedures. (See Exhibit 3.)

2. <u>In spite of these improved control procedures, expenditures for state contracts have increased dramatically in recent years</u>.

From Fiscal Year 1974 to Fiscal Year 1977, contracting costs increased 98.6 percent, from approximately $19.5 million in 1974 to almost $39 million in 1977. This compares with a 52.5 percent increase in total state employee salary costs during the same time period. (See Exhibit 4.) While there has been only slight growth in the <u>number</u> of full-time equivalent state employees since 1974, the costs of hiring outside consultants have nearly doubled. Contract costs increased nearly 30 percent between Fiscal Year 1976 and Fiscal Year 1977 alone. Early reports on Fiscal Year 1978 expenditures show this trend continuing with projected costs in excess of $40 million. As of December 31, state expenditures for contracts were running 3.8 percent higher than during the same period last year.

During fiscal years 1976 and 1977, twenty of the state's departments and agencies spent 98 percent of the state's contract expenditures coded under consultant, professional-technical, and purchased services. These departments, along with their 1978 budgets for these codes are reported in Exhibit 5.

It is difficult to evaluate trends in the types of contract expenditures during the last several years because the accounting codes for contracts have changed each year. Expenditures and encumbrances for the first eight months of this fiscal year indicate that the largest single types of contract expenditure are for medical and dental services (object code 162) and educationa and instructional services (object code 166). The year to date expenditures and encumbrances for all the contract codes are listed in Exhibit 6.

3. Although the procedures that have been developed for central control through the Office of Contract Management are basically sound, some of the objectives have not been fully realized, and a few problems remain to be solved.

While on one hand the state's system for procuring the $80 million in supplies and equipment we buy annually may lack the optimum level of flexibility, we believe that the system for procurement of the $40 million in outside services each year is much too loose. It takes less time and "red tape" for an agency to gain approval for a $20,000 professional-technical services contract than for a purchase of a $500 typewriter. In most cases, after the department and the contractor sign a contract and the Attorney General's Office has approved the contract for form and execution, the contract is signed by the Office of Contract Management within 24 to 48 hours. An agency is required to "pre-negotiate" a contract with the Office of Contract Management in advance only if it is classified as a consultant contract or if it is a professional-technical services contract in excess of $25,000.

Probably the most valuable component of the existing processing procedure is the pre-negotiation stage. A department discusses a proposed contract with the Office of Contract Management to learn whether another state agency will be able to perform the work or whether similar work has already been done by another agency. The Office of Contract Management also provides technical help in defining the specific work to be done, determining a reasonable rate of compensation and handling requests for proposals. Out of the 1,114 contracts processed during the first six months of this fiscal year, 83 percent were excluded from the pre-negotiation requirement because they were under the dollar limits. Because such a large percentage of the contracts are not pre-negotiated, many of the inappropriate or technically deficient contracts that are eventually rejected or modified by the Office of Contract Management are not caught until the final approval stage. This means that a lot of agency time is needlessly spent preparing contracts which have to be eventually rewritten or cancelled.

During its first seven months of existence (November 1, 1976 to June 30, 1977), the Office of Contract Management rejected 34 contracts resulting in a cost avoidance of $1.1 million. Most of these contracts were not caught until they had been processed by the departments and signed by the consultant. Examples of the kinds of contracts that have been rejected include the following:

--An $8,500 contract to evaluate the performance of another contractor was rejected because such evaluations should be in-house responsibilities.

--One department proposed a $35,000 contract to conduct water sample tests but eventually the work was done in-house at less than half the cost.

--Some departments proposed contracts in violation of M.S. 43.20, Subidivision 6, which requires agencies to hire temporary C-schedule employees rather than contract for similar outside services. (See Exhibit 2.)

--Sixteen of the above mentioned 34 contracts were rejected because they were in violation of Personnel Rule 11, which says that contractual agreements cannot be used when the service would constitute an employer-employee relationship. (See Exhibit 1.)

It is also necessary for the Office of Contract Management to seek modification of many contracts because of technical deficiencies. Out of 2,000 contracts processed during 1977, 15 percent (more than 300 contracts) were returned to the departments due to technical problems. Ranging from minor to serious, the problems included lack of proper signature, lack of a defined method of payment and insufficient explanations of the work to be done. In three cases, a department had inadvertantly authorized an increase in the amount of a contract rather than the appropriate decrease. According to the Office of Contract Management the rate of technical deficiencies and attempted violations of Personnel Rule 11 have declined somewhat this year as state employees have become more knowledgeable about contract procedures.

Another potentially serious problem with the contract process is the occurrence of what is known in the agencies as "after-the-fact" contracts. An "after-the-fact" contract is one which is consummated after the contractor has performed all or a portion of the work required. Although precise documentation is impossible, an estimated ten to twenty percent of all state contracts are signed "after-the-fact." This practice seriously undermines the Office of Contract Management's authority to modify or reject deficient and inappropriate state contracts. Furthermore, unless a specific exception is granted by the Commissioner of Finance, the provisions of M.S. 16A.15, Subdivision 3 apply. The law requires prior obligation (encumbrance) of funds before payments can be made and reads in part:

> Every payment made in violation of the provisions of this chapter shall be deemed illegal, and every official authorizing or making such payment, or taking part therein, and every person receiving such payment, or any part thereof, shall be jointly and severally liable to the state for the full amount so paid or received. If any appointive officer or employee of the state shall knowingly incur any obligation or shall authorize or make any expenditure in violation of the provisions of this chapter or take part therein, it shall be grounds for his removal by the officer appointing him, and, if the appointing officer be other than the governor and shall fail to remove such officer or employee, the governor may exercise such power of removal, after giving notice of the charges and opportunity for hearing thereon to the accused officer or employee and to the officer appointing him.

From time to time, emergencies arise, such as the contracts needed by the Department of Natural Resources to fight last year's forest fires; however, some agencies are using "after-the-fact" approval procedures in non-emergency situations. While it is unlikely that a contractor who has performed work without a contract would have a successful claim against the state if the proposed contract were later rejected, this situation does not reflect sound good-faith business practice.

When the Office of Contract Management was created nearly a year and a half ago, one objective was to develop evaluation procedures which would provide a record of how well contractors have performed for the state. The idea was to develop an information base which could be used by agencies seeking names of prospective contractors. It could be helpful, for example, when an agency is selecting vendors to receive its requests for proposals. As is the case with pre-negotiation limits, the evaluation process was to include all consultant contracts and the higher cost professional-technical services contracts. Potentially, it could prevent a department from hiring an unqualified contractor who has performed a similar job poorly for another agency. It could also serve as a record of accomplishment, reflecting the ultimate value of the work performed. Unfortunately, due to time constraints, the Office of Contract Management has not been able to fully accomplish this objective. Only a few informal evaluations, have been solicited from the departments. The new contracts law passed by the 1978 Legislature requires state departments to specify "a satisfactory method of evaluating and utilizing the results of the work to be performed" before a contract is approved by the Commissioner of Administration. It also requires departments to provide the Department of Administration with a written evaluation upon completion of the contracted work.

The state has been criticized for insufficient public notice on consultant, professional-technical and land appraisal contracts. Some vendors believe that this lack of public notice tends to concentrate contract awards in the hands of too few contractors and that most of these are located in the metropolitan area. Except for the purchased services contracts processed by the Procurement

Division, these contracts do not come under the bidding and public notice requirements of Chapter 16. However, amendments to Chapter 16 passed by the 1978 Legislature require agencies to make "reasonable efforts" to publicize the availability of all state contracts in excess of $2,000.

The Procurement Division presently controls all biddable contracts for maintenance, snow removal, rubbish hauling and guard services among others. Procurement has delegated some authorities for approving these contracts to the departments of Transportation and Natural Resources. Road maintenance contracts up to $2,500 are currently negotiated within the two departments with no prior notice to Procurement. Contracts between $2,500 and $5,000 must be validated by signature of the Director of Procurement. All contracts over $5,000 must be advertised and are controlled by Procurement. The Division presently issues a semi-annual report which indicates type of contract and the contracting agency -- but not the dollar amounts. The Division issued 73 service contracts in the first six months of this fiscal year.

The Real Estate Management Division issues contracts to appraisers for land acquisition. It has a list of forty-one appraisers who have expressed interest in doing state work; however, the records indicate that two appraisers are receiving the bulk of the work. Many appraisers, who may or may not be on the list, feel that this lack of public notice is unfair. It must be said, in all fairness, that some agencies (notably Department of Natural Resources) are requesting the services of certain appraisers. Real Estate Management's contracts are, in effect, by their standards, purchased services and have not been forwarded to either Procurement or the Office of Contract Management. The Office of Contract Management has been working with the agencies involved to ensure increased opportunities for vendors to compete for future state land appraisal contracts.

The divisions of Procurement, Real Estate Management, and Architectural and Engineering all maintain files of the contracts they process. In addition, the Department of Transportation maintains a file of land appraisal contracts. This proliferation of filing does not allow the Office of Contract Management to report a complete picture of contracting to the Governor and the Legislature when quarterly and annual reports are issued.

4. While the state as a whole has improved its central control mechanism, only a few state agencies have developed the internal approval and monitoring procedures necessary for controlling contract costs and quality.

The Task Force surveyed the larger state agencies to determine whether or not they had an existing in-house procedure for contracts. Only five departments were able to provide copies of written internal procedures for controlling contracts. In some agencies, approvals of contracts occur well below the commissioner level -- with directors and supervisors approving contracts. In others, we found the processes far too complex and time-consuming.

The Task Force is aware that some state departments have during this year saved substantial amounts by carefully scrutinizing contract expenditures. For example, the Minnesota Housing Finance Agency was appropriated $150,000 in 1976 for research on housing alternatives for the elderly. The agency performed the work in-house and saved $85,000. The Department of Public Welfare was asked by the 1976 Legislature to conduct a study on facilities at St. Peter State Hospital at an anticipated cost of $100,000. However, the department was able to contract for the study for $44,000.

RECOMMENDATIONS

State Department Controls

The Task Force believes that considerable economies can be achieved through more critical evaluation and tighter controls on non-biddable consultant and professional-technical services contracts. Although the Office of Contract Management can offer needed technical assistance, the responsibility of controlling contracts costs and quality must rest with the individual state departments. The Task Force recommends that the Governor require all state agencies to adopt formal contract control procedures and establish a cost reduction goal for Fiscal Year 1979.

The 16 departments which have budgeted for 88 percent of the total executive branch contracts budget this year (see page 16) should adopt a minimum 15 percent reduction goal. That is, Fiscal Year 1979 expenditures should be kept to an amount at least 15 percent below the Fiscal Year 1978 level. This 15 percent reduction should apply to contract expenditures from all funds which would be coded in the accounting system as consultant services (Class 15) and professional-technical services (Class 16). At the discretion of each department head, the following types of contract costs should be exempted from this 15 percent reduction requirement: contracts with people involved in direct patient care and classroom instruction. The Commissioner of Finance should be authorized to grant other exemptions from the 15 percent requirement when specific legislative authority has been granted for contracting and in emergency situations. All such exemptions granted by the Commissioner of Finance should be reported to the Governor. All savings resulting from the 15 percent reduction along with savings achieved by other state departments should be reported in the August 1 and February 1 reports to the Governor on cost savings.

FISCAL YEAR 1978 CONTRACTS BUDGETS
(as of February 28, 1978)
ALL FUNDS

Departments	Spending Classes 15, 16 and 18
Welfare	$ 6,500,349
Transportation	5,286,087
Natural Resources	3,676,311
Corrections	3,386,783
Education	3,237,341
State Planning	2,289,210
State Universities	1,911,271
Health	1,709,284
Economic Security	1,522,788
Pollution Control	1,325,252
Administration	1,296,720
State Community Colleges	1,264,515
Public Safety	966,675
Public Service	815,882
Housing Finance	714,000
Energy	587,066
Total	$36,489,534
Minus estimated 1978 expenditures for direct patient care, classroom instruction, and biddable purchased services contracts.	-12,520,699
	23,968,835
	x15 percent
	$ 3,595,325

These 16 departmental budgets amount to 88 percent of the total Fiscal Year 1978 all funds contracts budget for administrative agencies as of February 28, 1978 ($41,604,697).

The requirements of the new law, the expanded technical help offered by the Office of Contract Management and the following recommendations for departmental action make these cost reductions a realizable goal which will save at least $3.6 million from the 16 departmental budgets during Fiscal Year 1979. The goal is not to deprive the residents of our state institutions of medical care or deny quality classroom instruction to students at our state colleges. The goal is to gain the level of departmental control necessary to ensure that all state departments receive maximum value for all necessary consultant and professional-technical services expenditures.

1. Contracts approval and control must be a department head, deputy or assistant head responsibility, as required by the new amendments to Chapter 16.
2. All executive branch agencies should develop a formal contract processing procedure acceptable to the Office of Contract Management. Attached is a list of the Task Force's suggested procedures (See Exhibit 7). These recommended procedures may be adapted to suit the unique needs of individual agencies, however, the procedures should be approved by the Office of Contract Management. In adopting these procedures, departments should avoid unnecessary steps which currently lead to costly delays in a few departments. The pre-certification requirements recently passed by the Legislature should be incorporated.
3. The attached "Agency Internal Contract Negotiation Form" (See Exhibit 8) should be made available by the Department of Administration for use by all agencies. This form will ensure that the critical elements of contract negotiation are fulfilled.

4. Departments must use a variety of methods for ensuring vendor competition for state contracts including public notice in the State Register, trade publications, direct mail, newspapers, and posting at the department's office and the Office of Contract Management.
5. The request for proposal process should be used whenever the task and the compensation involved are substantial enough to encourage vendors to compete actively for the contract. Single contact contracts should be almost eliminated except when no more than one vendor is capable of performing the work.
6. Departments must negotiate hard on the price of the service to be performed by the selected vendor. For example, the amount of a legislative appropriation may not have much relevance to the cost of the work required by the department to fulfill its legislative mandate.
7. The scope of the work to be performed by the contractor must be carefully and tightly defined by department personnel.
8. The work should be closely monitored throughout the contract by at least one designated department employee.
9. Cost overruns should never be approved after the price is negotiated and agreed to by the vendor unless new requirements are amended into the contract.
10. "After-the-fact" contracts should be eliminated except in bona fide emergencies. Any "after-the-fact" contract, eventually signed by the Office of Contract Management, should be cited in the Office of Contract Management periodic reports to the Governor and the Legislature.

11. All contractual services should be evaluated by the respective departments and copies of the evaluation filed with the Office of Contract Management as an information source for other state departments.

Office of Contract Management

1. The Task Force recommends that all consultant contracts and all professional-technical services contracts costing $10,000 or more be pre-negotiated by the Office of Contract Management. Based on the contract approval experience of the first half of Fiscal Year 1978, the pre-negotiation process will then include approximately 30 percent of the contracts and 85 percent of the dollars spent for contracts.
2. During the pre-negotiation stage, the Office of Contract Management should require departments to make use of the State Planning Agency's records of state studies and reports and the planned skills inventory of state employees to be prepared by the Department of Personnel. This should better enable the agencies and the Office of Contract Management to identify work which can be done in-house rather than through a contract.
3. To adequately assure equitable treatment of all potential contractors, the Office of Contract Management should issue guidelines requiring departments to publicize state contracts in the State Register, direct mail, advertisements in appropriate publications, and other methods. The Office of Contract Management should post at least one copy of the list of proposed

contracts in the Capitol Complex. In addition, the guidelines should require considerably expanded use of the request for proposal process, ensuring that departments give serious consideration to the proposals of several prospective vendors. The practice of considering a proposal from one vendor only should be eliminated except in the rare instance when only one vendor has the capability of performing the work.*

4. The Office of Contract Management should establish formal guidelines for the evaluation of all state contracts to be completed by all state agencies at the conclusion of the conducted work. These evaluations should be filed by vendor in the Office of Contract Management and made available to all state agencies seeking the services of any contractor.

5. The Office of Contract Management should serve as a central repository of all state contracts for services, including those approved by Procurement, Real Estate Management, the Designer Selection Board, the Commissioner of Administration, the Department of Transportation and all other executive branch agencies. This will enable the Governor, the Legislature, the Department of Finance, and the Office of Contract Management to better monitor trends in the practice of state contracting. Based on these records, the Office of Contract Management should issue monthly and quarterly reports on all contracts including information such as the department, vendor, type of contract, results required, amount, and duration.

---

* Guidelines released this week by the Office of Contract Management require one or more of these methods to be used for contracts costing between $2,000 and $10,000 and require several methods of publicizing all contracts costing $10,000 or more.

6. Because of the increase in reviewable professional and technical contracts, it is recommended that the Office of Contract Management be increased by the following personnel:

	1-Executive II	1-Management Analyst, Sr.	Total
Salary	$13,593	$17,205	$30,798
Fringe	2,040	2,580	4,620
Other	2,000	2,000	4,000
	$17,633	$21,785	$39,418

It is estimated that under the revised procedures, the Office of Contract Management would be reviewing 225 consultant contracts and 380 professional-technical contracts per year, almost twice the number being reviewed by present staff with a commensurate total savings estimated at many times a multiple of the increased staff costs. We recommend that, if possible, this staff increase be accomplished through the transfer of existing Department of Administration positions as opposed to increasing the department's complement.

EXHIBIT 1

§ 2.011 **Contractual services.** Notwithstanding 2 MCAR § 2.004, this rule also applies to all unclassified employees in the executive branch. Specialized personal services rendered by an individual to the state under contract as an independent contractor as a part of, or incidental to, the individual's regular professional occupation, and not as a state employee, or by individuals employed by a firm contracting with the state, shall be designated as a contractual service and shall not be subject to the provisions of these rules.

A. In determining whether the services to be rendered constitute contractual service or an employer-employee relationship, the following guidelines will be used:

1. Consultants generally contract to produce certain results or conclusions within given specifications.

2. Consultants are generally responsible for approaches, techniques, and results.

3. Consultant's services shall be offered and available to the public, and to the State incidentally as a prospective user of such consulting services.

4. Consultant services are offered to the State as a part of or incidental to the consultant's regular occupation.

5. Consultant's contracts shall extend for a limited period, with clearly specified time limits indicated in the contract, to attain specific results.

6. Except where provided in the contract specifying special circumstances related to the nature and requirements of the work to be performed, consultants shall not perform services on state premises, use state equipment or supplies, or utilize state employees.

7. Consultants generally deliver a completed work, usually organized into a formal report with recommendations.

B. In addition to the financial information, the contract shall specify results to be accomplished, delivery dates, and the manner in which the contractual arrangements are to be conducted.

C. Retired state employees may be used for contract employment providing their services are necessary for the completion of a specific project in which the former employee was engaged at the time of retirement.

D. No agency of the state shall contract for the services of persons who, were they members of the classified service, would occupy positions assigned to schedule "C", except in accordance with law (Minn. Stat. § 43.20, subd. 6).

EXHIBIT 2

M.S. 43.20, Subdivision 6

Subd. 6. Notwithstanding any law to the contrary no agency of the state acting pursuant to any express or implied authority to enter into contracts for services shall enter into a contract with a private entity whereby the agency becomes entitled to receive the services of persons who, were they members of the classified service, would occupy positions assigned to schedule C, except as hereinafter provided. Upon the request of an agency requiring the services of such persons, the commissioner shall make a temporary appointment pursuant to subdivision 5. In the event that the eligible list does not contain the names of persons able to perform the requested services the commissioner shall utilize the free employment offices of the department of employment services to find persons available for such temporary appointments. In the event that the commissioner determines by written opinion that the agency requiring the services will be unable to obtain qualified persons within a reasonable period of time from the department of employment services, the agency may enter into a contract with a private entity as described above.

[*1939 c 441 s 20; 1951 c 685 s 2; 1955 c 654 s 1; 1957 c 447 s 1; 1959 c 5 s 1; 1973 c 254 s 3; 1974 c 364 s 14; 1974 c 511 s 14; 1975 c 381 s 9*] *(254-68)*

EXHIBIT 3

H.F. No. 1103
CHAPTER No. 480

AN ACT

relating to the operation of state government; centralizing the management and review of all state contracts in the office of the commissioner of administration; distinguishing consultant, professional and technical contracts; amending Minnesota Statutes 1976, Section 15.061; and Chapter 16, by adding a section; repealing Minnesota Statutes 1976, Sections 16.10; and 161.35.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MINNESOTA:

Section 1. Minnesota Statutes 1976, Section 15.061, is amended to read:

15.061 [CONSULTANT, PROFESSIONAL AND TECHNICAL SERVICES.] ~~Notwithstanding the provisions of any other law~~ Pursuant to the provisions of section 2 , the head of a state ~~departments and agencies~~ department or agency may, with the approval of the commissioner of administration, ~~use salary appropriations to~~ contract for consultant services and professional and technical services in connection with the operation of the ~~departments and agencies~~ department or agency . ~~Such contracts~~ A contract negotiated under this section shall not be subject to the competitive bidding requirements of chapter 16.

Sec. 2. Minnesota Statutes 1976, Chapter 16, is amended by adding a section to read:

[16.098] [CONTRACT MANAGEMENT AND REVEIW.] Subdivision 1. [DEFINITIONS.] For the purposes of this section:

(1) "Commissioner" means the commissioner of administration.

(2) "State contract" means any written instrument containing the elements of offer, acceptance and consideration to which a state agency is a party.

(3) "Agency" means any state officer, employee, board, commission, authority, department or other agency of the executive branch of state government.

(4) "Consultant services" means services which are intellectual in character; which do not involve the provision of supplies or materials; which include analysis, evaluation, prediction, planning or recommendation; and which result in the production of a report.

(5) "Professional and technical services" means services which are predominantly intellectual in character; which do not involve the provision of supplies or materials; and in which the final result is the completion of a task rather than analysis, evaluation, prediction, planning or recommendation.

Subd. 2. [DUTIES OF COMMISSIONER.] The commissioner shall perform all contract management and review functions for state contracts, excepting those functions presently performed by the contracting agency, the attorney general and the commissioner of finance. In so doing, the commissioner shall establish the manner and form in which all state contracts shall be prepared and processed and shall examine and approve or disapprove all state contracts as to content, purpose, propriety and budget ramifications.

No agency shall execute a state contract without receiving the prior approval of the commissioner pursuant to this subdivision. All agencies shall afford full cooperation to the commissioner in the management and review of state contracts.

Subd. 3. [DUTIES OF CONTRACTING AGENCY.] Before an agency may seek approval of a consultant or professional and technical services contract valued in excess of $2,000, it shall certify to the commissioner that:

(1) no state employee is competent to perform the services called for by the contract;

(2) the normal competitive bidding mechanisms will not provide for adequate performance of the services;

(3) the services are not available as a product of a prior consultant or professional and technical services contract, and the contractor has certified that the product of his services will be original in character;

(4) reasonable efforts were made to publicize the availability of the contract;

(5) the agency has received, reviewed and accepted a detailed work plan from the contractor for performance under the contract; and

(6) the agency has developed, and fully intends to implement, a written plan providing for (a) the assignment of specific agency personnel to a monitoring and liaison function, (b) the periodic review of interim reports or other indicia of part performance and (c) the ultimate utilization of the final product of the services.

Subd. 4. [PROCEDURE FOR CONSULTANT AND PROFESSIONAL AND TECHNICAL SERVICES CONTRACTS.] Before approving a proposed state contract for consultant services or professional and technical services the commissioner shall have at least determined that:

(1) all provisions of subdivisions 2 and 3 have been verified or complied with;

(2) the work to be performed under the contract is necessary to the agency's achievement of its statutory responsibilities, and that there is statutory authority to enter into the contract;

(3) the contract will not establish an employer/employee relationship between the state or the agency and any persons performing under the contract;

(4) no current state employees will engage in the performance of the contract;

(5) no state agency has previously performed or contracted for the performance of tasks which would be substantially duplicated under the proposed contract;

(6) the contracting agency has specified a satisfactory method of evaluating and utilizing the results of the work to be performed.

Subd. 5. [CONTRACT TERMS.] A consultant or technical and professional services contract shall by its terms permit the agency to unilaterally terminate the contract prior to completion, upon payment of just compensation, if the agency determines that further performance under the contract would not serve agency purposes. If the final product of the contract is to be a report, no more than three copies of the report, one in camera ready form, shall be submitted to the agency. One of the copies shall be filed with the legislative reference library. The form of the report shall be as the commissioner may by rule or order provide.

Subd. 6. [CONTRACT ADMINISTRATION.] Upon entering into a state contract, an agency shall bear full responsibility for the diligent administration and monitoring of the contract. The commissioner may require an agency to report to him at any time on the status of any outstanding state contract to which the agency is a party. After completion of performance under a consultant or professional and technical services contract, the agency shall evaluate the performance under the contract and the utility of the final product. This evaluation shall be delivered to the commissioner who shall retain all such evaluations for future reference.

Subd. 7. [DELEGATION.] The commissioner may delegate a part or all of his contract management and review functions to the head of another agency including the contracting agency when he deems it appropriate. Delegations shall be filed with the secretary of state and shall not, except with respect to delegations within the department of administration, exceed two years in duration.

Subd. 8. [RULEMAKING AUTHORITY.] The commissioner may adopt and enforce rules as he deems necessary regarding the management and review of state contracts.

Subd. 9. [VALIDITY OF STATE CONTRACTS.] No state contracts shall be valid, nor shall the state be bound by the contract until it has first been executed by the head of the agency which is a party to the contract and has been approved in writing by the commissioner or his delegate pursuant to this section, by the attorney general or his delegate as to form and execution and by the commissioner of finance or his delegate that the appropriation and allotment have been encumbered for the full amount of the contract liability. The head of the agency may delegate the execution of specific contracts or specific types of contracts to a deputy or assistant head within his agency if the delegation has been approved by the commissioner of administration and filed with the secretary of state.

Subd. 10. [AUTHORITY OF ATTORNEY GENERAL.] The attorney general may sue to avoid the obligation of an agency to pay under a contract or to recover payments made, if services performed under the contract are so unsatisfactory, or incomplete, or so inconsistent with the price that payment would involve unjust enrichment. The contrary opinion of the contracting agency does not affect the power of the attorney general under this section.

Subd. 11. [REPORTS.] The commissioner shall monthly submit to the governor and the legislature a listing of all contracts for consultant services and for professional and technical services executed or disapproved in the preceding month. The report shall identify the parties and the contract amount, duration and tasks to be performed. The commissioner shall also issue quarterly reports summarizing the contract review activities of his department over the preceding quarter.

Sec. 3. Minnesota Statutes 1976, Sections 16.10 and 161.35, are repealed.

Sec. 4. This act is effective the day following final enactment.

H. F. No. 1103

Martin O. Sabo
Speaker of the House of Representatives.

Edward J. Gearty
President of the Senate.

Passed the House of Representatives this 9th day of March in the year of Our Lord one thousand nine hundred and seventy eight

Edward A. Burdick
Chief Clerk, House of Representatives.

Passed the Senate this 6th day of March in the year of Our Lord one thousand nine hundred and seventy eight

Patrick E. Flahaven
Secretary of the Senate.

Approved March 14th, 1978

Rudy Perpich
Governor of the State of Minnesota.

Filed March 14, 1978

Joan Anderson Growe
Secretary of State.

EXHIBIT 4

GROWTH OF TOTAL CONTRACTS AND TOTAL SALARY COSTS

All Departments - All Funds

	CONTRACTS*	ANNUAL PERCENT INCREASE	SALARIES	ANNUAL PERCENT INCREASE
1974	$19,586,973		$350,809,450	
		21.9		7.3
1975	23,877,158		376,494,445	
		26.1		28.1
1976	30,115,990		482,167,831	
		29.2		10.9
1977	38,905,707		535,147,343	
Total Percent Increase				
1974-1977		98.6		52.5

* Including Statewide Accounting Codes 15, 16, 18, 113, 146, and 17 (non-state)

EXHIBIT 5

CONTRACTS EXPENDITURES BY DEPARTMENT[1]
ALL FUNDS

Department	1976 Expenditures	1977 Expenditures	1978 Current Budget	1978 Expenditures and Encumbrances through 2/28/78
Transportation	$ 3,445,243	$ 6,297,710	$ 5,286,087	$ 5,755,993
Welfare	4,554,899	4,768,731	6,500,349	6,053,997
Natural Resources	2,448,338	3,175,004	3,676,311	2,957,171
Corrections	2,312,519	2,754,270	3,386,783	3,418,310
State University	1,753,797	1,742,955	1,911,271	1,636,564
Health	922,184	1,729,770	1,709,284	1,424,734
Pollution Control	557,517	1,413,167	1,325,252	837,085
Economic Security	447,729	1,389,352	1,522,788	1,559,731
Education	1,643,807	1,384,759	3,237,341	1,133,177
State Planning	1,072,273	1,325,661	2,289,210	1,511,568
Electricity Board	891,717	1,207,543	1,131,176	1,124,455
Community College	416,200	1,194,892	1,264,515	825,922
Administration	808,724	1,043,426	1,296,720	974,184
Minnesota Education Computing Consort.	500,203	915,734	180,492	110,248
Public Safety	1,035,949	882,062	966,675	897,423
Zoological Board	1,311,467	522,607	95,530	630,094
Public Service	509,880	464,673	815,882	340,309
Housing Finance	278,534	400,607	714,000	592,826
Energy	366,172	375,773	587,066	310,368
Higher Education Coordinating Bd.	465,350	261,627	443,879	425,839
	$25,742,502	$33,250,323	$38,340,611	$32,519,998

[1] Including the 20 departments which spent the highest dollar amounts for expenditures codes 15 and 16 in Fiscal Year 1977. These departments spent 93 percent of the total state expenditures in these categories. For 1978, expenditures and budgets in Code 18 are also included because these expenditures were part of 15 and 16 in prior years.

EXHIBIT 6

EXPENDITURES BY TYPE FISCAL YEAR 1978
ALL DEPARTMENTS - ALL FUNDS
YEAR TO DATE FEBRUARY 28, 1978

Object Codes	Expenditure	Encumbrance	Total	Percent of Total
113 Advertising	$ 183,864	$ 209,356	$ 393,220	2
146 Printing Graphics	5,401	14,216	19,617	0
15 Consultant Services				
151 General Management	109,026	71,910	180,936	1
152 Computer Related	15,080	23,247	38,327	0
153 Architect and Engineering	38,612	47,746	86,358	1
154 Environmental	284,253	337,630	621,883	3
155 Legal	11,554	4,255	15,809	0
156 Educational and Instructional	47,847	31,552	79,399	1
157 Other	167,812	183,443	351,255	2
158 Expense Reimbursement	28,763	17,650	46,413	0
159 Expenditure Authoriztion	0	34,390	34,390	0
16 Professional and Technical Services				
161 Auditing and Accounting	37,474	21,740	59,214	0
162 Medical and Dental	1,637,784	1,014,349	2,652,133	14
163 Architect and Engineering	265,887	189,065	454,952	2
164 Environmental	236,612	288,549	525,161	3
165 Legal (including court reporting)	692,752	42,679	735,431	4
166 Educational and Instructional	1,008,624	937,488	1,946,112	10
167 Other Professional and Technical	2,331,611	1,900,600	4,232,211	22
168 Expense Reimbursement	290,372	145,671	436,043	2
169 Expenditure Authorization	0	1,793,790	1,793,790	9
17 Data Processing and Systems Services				
177 Production - non-state	302,714	486,892	789,606	4
178 Development - non-state	149,463	216,571	366,034	2
18 Purchased Services				
181 Janitorial and Refuse Disposal	147,754	66,328	214,082	1
182 Fire Protection and Security	294,229	54,071	348,300	2
183 Conference, Meeting and Catering	247,135	65,700	312,835	2
184 Dry Cleaning, Laundry and Uniform Supply	63,067	8,206	71,273	0
187 Other Purchased	814,954	447,383	1,262,337	7
188 Expense Payment in Lieu of Per Diem	118,685	5,895	124,580	1
189 Expenditure Authorization	0	1,009,427	1,009,427	5
Total	$9,531,329	$9,669,799	$19,201,128	100%

EXHIBIT 7

RECOMMENDED PROCEDURES FOR PROCESSING OF CONSULTANT OR PROFESSIONAL/TECHNICAL CONTRACTS

1. Division or Program Director must complete all pre-certifications as required in H.F. 1103, Chapter 480, initiate agency contract negotiation form for all consultant contracts and any professional technical contract $10,000 and over. Forward to Assistant Commissioner (program) who:
2. May determine contract is inappropriate or approve the plan, obtain the oral approval of the Commissioner, signs agency negotiation form, and forwards to Assistant Commissioner (Administration) who:
3. Reviews projected contract and forwards to Administrative Services Section with instructions to negotiate with Office of Contract Management.
4. Administrative Services forms contract selection committee with Division/Program Director and negotiates with Office of Contract Management.
5. Office of Contract Management may approve or disapprove contract. If approved, the Office of Contract Management will review specifications, discuss/recommend public notice and give agency OCM-1 "pre-negotiation form." Returns to agency.
6. Administrative Services calls meeting of selection committee, sets final, detailed specifications and arranges for public notice. Completes ADM 1051 (Contract for Consultant Services) and attaches OCM-1. Attach and sign agency contract negotiation form. Forwards to Attorney General, who:

7. Reviews for format and content, and signs ADM 1051. Forwards to agency accounting/finance sections.

8. Agency Finance section assures that funds are available and enters requisition into Statewide Accounting System (A40). Signs agency negotiation form. Returns file to Administrative Services.

9. Forward contract to consultant for signature. Consultant returns all copies to Administrative Services.

10. Sends to Commissioner for signature with agency negotiation form. Return to Administrative Services.

11. Administrative Services retains copy of contract for suspense file. Enters into log and send remaining copies to Office of Contract Management with OCM-1 form. Retains and files agency negotiation form.

12. Office of Contract Management may disapprove for technical errors and return contract with both OCM-1 and OCM-2 forms to agency Assistant Commissioner for Administration who will correct and return to Office of Contract Management

    -or-

    Office of Contract Management will approve, sign contract, retain a copy, and send balance of copies to Statewide Accounting encumbrance center.

13. Encumbrance Center checks for proper procedures and coding, encumbers the contract and files the original copy. Sends remaining copies to Administrative Services section in agency.

14. Administrative Services retains one signed copy for file sends suspense file copy and remaining signed copy to Division/ Program Director who retains suspense file copy and forwards signed copy to consultant.

STATE OF MINNESOTA
AGENCY INTERNAL CONTRACT NEGOTIATION FORM

INSTRUCTIONS: This form is to be completed, signed and dated prior to the development of consultant contracts of any dollar amount or professional/technical contracts $10,000 and over. This form is for internal agency use only and will be retained in the controlling office of the initiating department or agency.

DEPARTMENT: ______________________________

DIVISION: ______________________________

Description of Proposed Tasks (include legal, legislative and statutory reference):

____

____

____

____

____

Other Methods Considered: ______________________________

____

____

RESULTS REQUIRED: ______________________________

____

____

____

____

____

____

PRE-NEGOTIATION APPROVALS	Signature	Date
Division Director	______________	________
Assistant Commissioner (Program)	______________	________

Public Notice: (Publication) ______________________________

Contractor (if known) Name: ______________________________

Address: ______________________________
Street City Zip Code

PRINCIPALS: (List partners if partnership; officers and titles if a corporation)

____

____

____

____

____

QUALIFICATIONS: ______________________________

____

____

____

Estimated Cost: ______________ Method of Payment: ______________

POST-NEGOTIATION APPROVALS:	Signature	Date
Administrative Services (or Control Unit)	______________	________
Agency Accounting	______________	________
Commissioner	______________	________

DO NOT FILL OUT (TO BE COMPLETED BY ADMINISTRATIVE SERVICES):

Date negotiated with OCM: ______________________________

Date OCM-1 Approval Form Received: ______________________________

Date OCM and final 1051 to OCM: ______________________________

If Rejected by OCM:

Date Contract and 2 copies of OCM-2 returned: ______________________________

Date Contract and 1 copy of OCM-2 resubmitted: ______________________________

STATE OF MINNESOTA
AGENCY INTERNAL CONTRACT NEGOTIATION FORM

Department ______________________ Division ______________________

Period: From ______________________ To ______________________

Estimated Cost ______________________ Source of Funds ______________________

Nature of Contract: (Include a brief description of the service, the product or result anticipated, and legal authority for the service.)

____

____

____

____

Other Methods Considered:

____

____

Certifications: (Required by Laws 1978, Chapter 480, for all consultant or professional and technical services contracts in excess of $2,000.00.)

1. There is no state employee (a) capable and (b) available to perform the described service.

2. Competitive bidding will not provide for adequate performance of the service.

3. The service is not available as the product of a prior contract, and the contractor will certify his product will be original in character.

4. Reasonable efforts will be made to publicize the availability of the contract. Public notice will be made as follows:

   ____

   ____

   ____

   ____

5. A written work plan will be submitted by the contractor and accepted by the agency.

6. The following person has been assigned to monitor and act as liaison for the contract:

   ____

7. There will be periodic review of the progress of the contractor, and the final product will be utilized.

8. The contract will not establish an employer/employee relationship between the state or the agency and any persons performing under the contract.

9. No current state employee will engage in the performance of the contract.

Internal Pre-Approvals:		Date
Activity Manager	____________________	__________
Division Director	____________________	__________
Assistant Commissioner (Program)	____________________	__________
Authorized Certification (Officer authorized to sign contracts)	____________________	__________

Internal Contract Approvals:

Division Director (Certifies no work has been done prior to contract execution)	____________________	__________
Attorney General	____________________	__________
Accounts and Finance	____________________	__________

Dates Submitted:

Certifications to OCM ____________________

OCM Approval ____________________

Contract to OCM ____________________

Contract Executed ____________________

Evaluation Completed ____________________
(Within 30 days of contract expiration)

STATE PRINTING AND PUBLICATIONS

A Report by
the Governor's Task Force
on Waste and Mismanagement

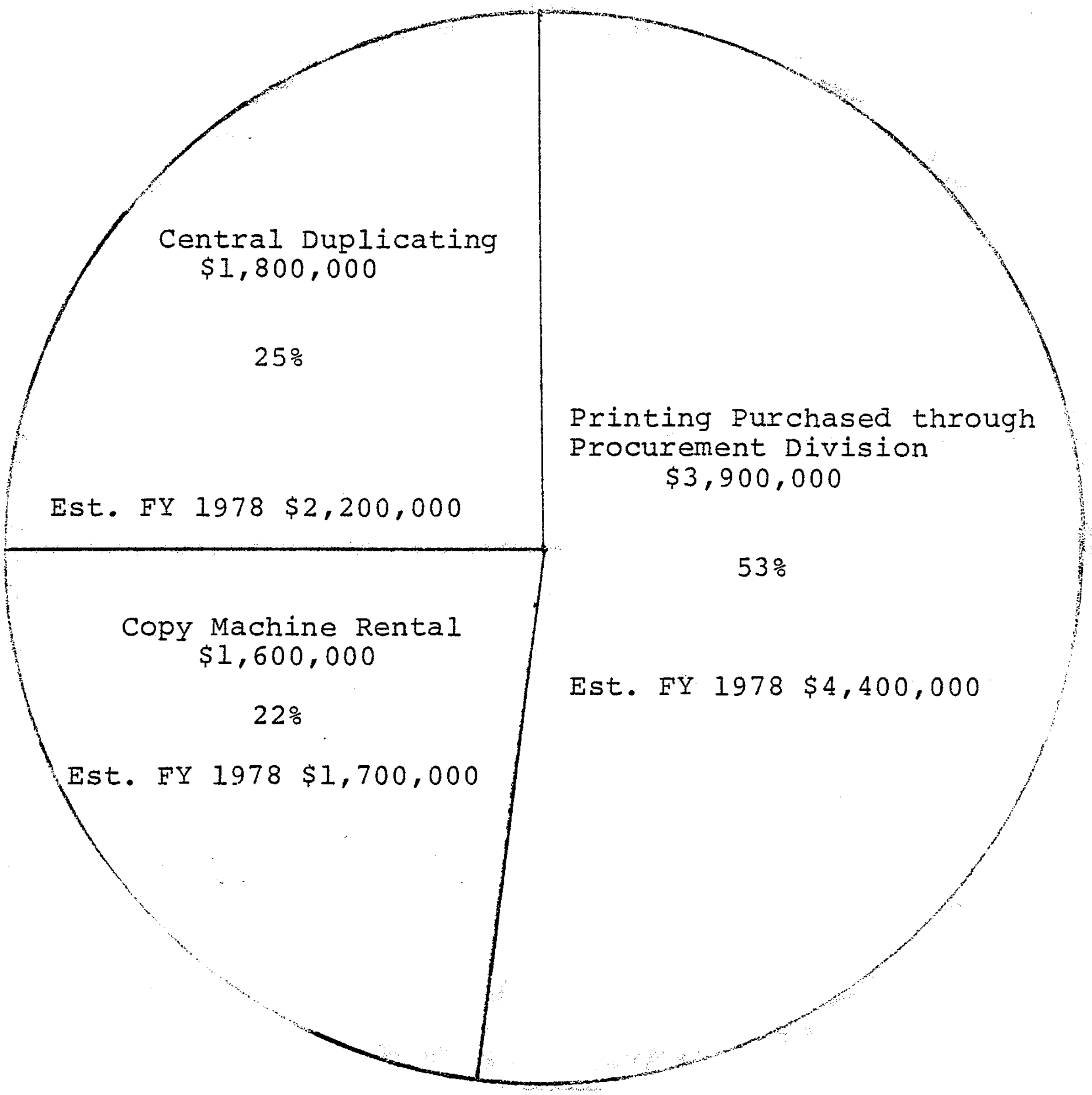
June 22, 1978

TABLE OF CONTENTS

PRINTING EXPENDITURES

FISCAL YEAR 1977

$7,300,000



ESTIMATED FISCAL YEAR 1978

$8,200,000

STATE PRINTING AND PUBLICATIONS

Introduction

Over 24,300 printing requisitions were processed in Fiscal Year 1977. Twenty-one thousand were processed in-house through the copy centers and overloads. Another 2,800 were sent to Procurement for bidding. Of these 24,000 requisitions, approximately ten percent were reprints, approximately 80 percent were relatively simple jobs with uncomplicated specifications (camera-ready, black ink, standard-size). The remaining ten percent of the jobs called for an endless variety of combinations of specifications.

The success or failure of a vendor in interpreting and complying with the specifications is often a subjective judgment. Quality control is not a matter of durability, function, or effectiveness, but of craftsmanship and training. Perhaps the major difference between the procurement of printing and other items is in its intangibility. Printing does not produce a book, a pamphlet, a report, or a form. It produces information or information gathering devices. The information needs of the state are diverse and often unpredictable. An agency may be able to schedule its purchase of desks, automobiles, and pens with an admirable regularity, but the dissemination of information occurs usually as a result of change and innovation. And while agency personnel may not mind waiting a month or two for a typewriter or office chair, printing always seems to be needed "as soon as possible."

Because of this situation -- the great variety of specifications and the urgency with which new information is needed --

the process involved in the requisition of printing is the subject of criticism from everyone involved in the process -- the agencies, the printing and procurement personnel, and the vendors. Some of the complaints are the result of a certain degree of ignorance about the process. For example, many of the people requisitioning printing are unaware of the time involved in processing a requisition through their own procurement divisions or the legal requirements for letting bids to outside vendors. Some are caused by bureaucratic hostilities, such as Procurement's refusal to accept responsibility for the accuracy of specifications, and Publication Division's general unhappiness that printing buying was taken from that division and placed in Procurement in 1972.

Printers and buyers comment on lack of planning by agencies, who always seem to need printing "right away." Vendors and users despair of the cumbersome requisition process and its general inflexibility. Vendors question the expertise of those writing the specifications, or those interpreting them. Some of these problems will always be with us. Agency deadlines will not always coincide with print shop production schedules, the nature of the bureaucracy will always demand a requisition process, and vendors and users will continue to disagree about the quality of the finished product. The rest of the problems we can do something about.

RECENT CHANGES IN THE STATE'S PRINTING SYSTEMS

In order to understand some of the present problems with the printing system, it is necessary to understand some of the decisions that have been made about it in the past.

Until the early 1970's the Division of Publications and Central Services and Central Duplicating were two separate entities. The State Printer in the Division of Publications purchased outside printing, and Central Duplicating printed in-house. State agencies decided whether their jobs would be printed internally or externally. In 1972, the Loaned Executive Action Program (LEAP) recommended that the State Printer and Central Duplicating be combined in a Printing Section managed by the State Printer, and that the buying function of the State Printer transfer to the Procurement Division. LEAP reasoned that combining the two would:

> . . . establish a central focus point to process all printing requisitions. State agencies would send their requisitions through the Printing Section and be assured knowledgable personnel would channel the job properly. Central Duplicating resources would be more efficiently utilized, expenses should be reduced, and service to user should be improved.

Buying was transferred to Procurement for the reason that:

> This duplication of function causes unnecessary clerical expenses in handling the sending out of bids, the awarding of bids, and the typing of purchase orders. This duplication is in direct contradiction with the overall organization structure which shows all of the other buyers are in the Procurement Division.

It is interesting to note that at the time LEAP commented on "poor service," indicating that buying printing took 46 days from the date of requisition to delivery. Internal printing took 12 days. It still takes that long to buy printing -- two to eight days for requisition process and mailing to Publications, two to eight days in Publications, an average of 14 days in Procurement, and four to six weeks at the printer. Internal printing has speeded up considerably. Printing ordered on the 619 forms takes an average of four days. Internal printing ordered on the 523 forms takes a median of 11 days.

In 1975 the Printing Liaison Officer (PLO) position was established. This concept, borrowed from the State of Wisconsin, is basically a sound one. The PLO in a state department or division would be trained to write printing specifications and act as a liaison between the State Printer or the vendor. Unlike Minnesota, however, Wisconsin's PLOs are in the upper management levels. Their relative job stability has permitted an accumulation of expertise. Also, unlike Minnesota, Wisconsin's external printing is purchased on a series of contracts and not bid out on an individual job basis. Because of contract arrangement, agency PLOs approach the vendors directly, thus avoiding a lengthy requisition process. Wisconsin PLOs are also classified according to expertise and training. The highest class PLOs, for example, have the authority to write specifications and purchase the most sophisticated kinds of printing at prices set by contract. In Minnesota, then, we have the baby but not the bath water. Most PLOs are in clerical positions, have little incentive to acquire the necessary expertise, write minimal specifications, and serve basically as a liaison and as a vendor contact within an agency.

Last biennium another important decision was made which changed the direction of the state's printing: The Legislature removed the restrictions on the size of the presses the state was permitted to own. For years the state could own only 11" x 17" duplicators. The change in the law meant the state could buy larger presses, increase the volume printed in-house, eliminate the expensive and time-consuming procurement process for many long run jobs, and save money by printing this expanded volume at lower than market rate.

As a result the Publications Division is buying larger roll-fed presses and other new equipment and moving it into remodeled facilities at 117 University Avenue. Some presses and bindery equipment will remain in the present Central Duplicating shop in the Transportation Building, and that shop will, in effect, become a copy center like those in Centennial Building and Capitol Square, and print only short-runs. This set-up is typical of the states which have centralized printing facilities. It's also a promising state printing strategy, but it is questionable whether it will be efficient or cost-effective under present management policies in the Publications Division.

In summary, past decisions of the Governor (LEAP), the Legislature, and the Department of Administration have broadly defined the present printing system. It's basically a workable one, but we believe it needs some fine tuning in some areas, procedural and policy changes in others. The state relies heavily on printed forms, envelopes, brochures, letters, reports, rules and regulations to conduct its business and to keep the public informed. The systems supplying these must be responsive, flexible, efficient, and cost-effective.

THE REQUISITION PROCESS

Printing Liaison Officers

Findings

The Printing Liaison Officer is the liaison between the state department or division requesting printing and Central Duplicating, the State Printer, the Procurement Division, and the outside vendor. The PLO, or the alternate PLO if the PLO is unavailable, writes the specifications and initiates and follows the requisition through its various stages. The PLO system was established in Minnesota in 1975 after a study of the Wisconsin printing system, where the PLO program has existed for ten years.

The Task Force feels that the PLO function is a sensible and important one. Presently, however, PLOs are haphazardly placed in many state agencies, their responsibilities are poorly defined (are they requisition writers or contact people?), there is little incentive to learn the highly technical job of specifications writing if it is not included as an important part of a worker's job description, and the turnover of PLOs in clerical positions prevents an accumulation of expertise.

PLOs have varying levels of expertise and are found in different levels of agency staffing patterns. Approximately 20 percent are middle-management procurement and accounting staff (Public Safety, Department of Transportation), 20 percent are public information and communication staff (Department of Natural Resources, Economic Development), the remainder are clerical, secretarial, and supervisory staff. Usually they are in the administrative support sections of each agency. Rarely is the PLO function part of the person's job description. The Publications Division holds training seminars for the PLOs and provides technical assistance to them, however attendance is disappointing and the turnover is rapid. According to the Wisconsin State Printer, although the PLO function originally was given to accounting and procurement personnel, today approximately 75 percent of the PLOs are personnel in the communications and publications sections of their agencies. Since accurately written specifications do more to expedite the printing process than any other factor an agency has control over, and since information and communications staff have a greater awareness of an agencies publications needs and are better able to determine the most economical means of printing and distribution, the Task Force feels that a similar transfer of the PLO function should take place here.

The Task Force believes further that, where feasible, agencies should centralize their printing and publication efforts, including the requisitioning of forms, through their information and communications section. That staff possesses sufficient expertise to advise on the necessity and advisability of printing and the most efficient and least expensive way of doing so.

The Task Force also recommends that agency PLOs be required to attend PLO training seminars.

Publications Review and Standardization Committee

Findings

The recommendation regarding this committee is of the "fine-tuning" variety, and will speed the printing process for new publications.

To order printing, the PLO fills out either Reproduction Requisition Form 619 or Requisition for Printing 523. The 619 form is used for smaller, relatively simple duplicating or copying jobs and is sent directly to Central Duplicating. The 523 form is sent to the State Printer where specifications are verified and a "make or buy" decision is made. If the requisition specifies the printing of a new publication or periodical, the requisition and accompanying copy are set aside for review by the Publications Review and Standardization Committee which meets Wednesday morning at 8:00 a.m. The committee consists of PLOs from various agencies, the State Printer, and the Director of Publications. Its purpose is to see that new publications abide by the Department of Administration's printing policies, standards and guidelines. The committee scans the copy and requisitions and points out problems and violations. The committee then makes a recommendation to approve, table, or return the requisition and copy. The Task Force recommends that the responsibility for reviewing new publications for compliance with printing standards be transferred to the staff of the Publications Division and that the present committee become an appeal and advisory body, convened at the request of agency personnel or the State Printer, with the authority to appeal decisions to the Commissioner of Administration.

This recommendation is made for the following reasons: The printing requisition may be delayed as much as a week (or longer if it is tabled) until the next weekly committee meeting; new publications on Form 619, which are printed in Central Duplicating, rarely undergo this scrutiny, and, in the case of periodicals, subsequent issues are exempted from this procedure.

Agency personnel should be aware of printing standards (a copy is available from the Publications Division), for if a violation is found, the printing requisition may be delayed until the violation is corrected.

Recommendations

The Task Force recommends that the Governor direct commissioners and state agency heads to take the following actions:

1. Commissioners and agency heads shall transfer the PLO function to a staff person most closely associated with an agency's printing needs, preferably to personnel in the agency's information and communications sections.
2. In smaller agencies where no such information or communications sections exist, the PLO function shall become part of the job description of management or supervisory staff -- a person who will stay on the job long enough to want to accumulate expertise.
3. Commissioners and agency heads shall centralize, where feasible, agency printing and publications efforts, including the requisitioning of forms, through information and communication sections.

4. Commissioners and agency heads shall require attendance of PLOs at PLO training seminars.
5. The Commissioner of Administration shall transfer the responsibility of screening new publications to determine if they are in compliance with printing standards from the Publications Review and Standardization Committee to the staff of the Publications Division. The committee would continue to monitor compliance, and advise Publications staff on particular problems.

PROCUREMENT

Findings

If the State Printer decides a printing job is too complex or large to be run in-house, he sends the requisition to the Procurement Division. If a printing job is estimated to be over $5,000 it is advertised for seven days; from $2,000 to $5,000 it is posted on the Procurement bulletin board for three days; under $2,000 at least three vendors are invited to submit bids. Invitations to bid for these jobs are made by mail and by phone. The Procurement Division estimates that 50 percent of its purchases are less than $300. Ten percent of printing jobs are estimated at under $100. Two percent of printing jobs are under $50, but over $35.

In February, Governor Perpich ordered that changes be made in procurement procedures that would greatly affect printing buying. One change raised the Authority for Local Purchase from $35 to $50. This would affect only two percent of requisitions currently processed by the printing buyer. The Governor also stated that

> When the amount involved is more than $35 but less than $200, (agencies) may make purchases locally; however, agencies must obtain three bids...there is apparently a widespread misunderstanding of this regulation, as many agencies interpret it to mean that no local purchases may be made where the amount involved is more than $35."

The Governor ordered that the $200 limit be raised to $300, though this purchase authority should be used only in emergencies and reported to Procurement immediately. An awareness of the increased limits of local purchase authority will result in improved service, less use of convenience copiers for emergency duplicating, and will ease the workload of the printing buyer, allowing him to concentrate on some purchasing problems described below.

The length of time needed to requisition printing from outside vendors is just as lengthy as it was in 1972 under the State Printer when the LEAP Report commented on the "poor service."

To alleviate this situation, the Task Force is recommending that the Printing Buyer, in consultation with the State Printer, determine and accept responsibility for the accuracy of specifications; that he devise, in consultation with the State Printer a production time schedule, to be followed by the vendor and the agency to ensure prompt delivery; and that the printing buyer act as an advocate for the state concerning vendor compliance with delivery dates.

A problem mentioned repeatedly by both agency personnel and outside vendors is the splitting of the oversight function between the Printing Buyer and the State Printer and the resulting duplication of effort and poor communication. While the Task Force concurs with the 1974 LEAP recommendation which placed printing buying in the Procurement Division, we strongly recommend that the Procurement and Publications divisions begin a cooperative effort to provide better service to agencies and vendors alike. For example, when the decision to buy is made, the State Printer keeps one copy of Form 523 and forwards the remainder of the requisition, along with the copy, keylines, art, or photos, to the Procurement Division, where it is assigned to the Printing Buyer or the Buyer's Assistant. Bids are secured and an award is made. Recently the Printing Buyer has placed a notice on the requisition sent to vendors that "all specifications are the responsibility of the State Printer," and any questions the vendor has about printing specifications are referred to the Publications Division. Unfortunately, accurate information is not readily available in Publications. Alterations in specifications may have been made by the Printing Buyer of which the State Printer is unaware; the requisition copy has been filed and is not at hand; and the copy, keylines, art, and spec sheets are in the Printing Buyer's Office. The vendor is often then referred to the agency staff person who initiated the printing requisition. This wastes a great deal of time and energy, and such a process contradicts the reason for the establishment of a Procurement Division in the first place: the buyers deal with the vendors.

As mentioned before, a potential printing job involves a number of different combinations of specifications. The 2,800 printing requisitions processed by Procurement in Fiscal Year 1977 were the ones with complex specifications usually with sophisticated processing and press requirements. It is these kinds of jobs which raise the most questions with vendors, and it is important that information about them be readily available. The Task Force recommends that the Printing Buyer and the State Printer review the specifications on requisitions for accuracy and clarity, and that they meet and confer on a daily basis in the Office of the Printing Buyer.

Another problem area mentioned often is the failure of the Printing Buyer to respond to complaints about poor vendor contract compliance and to act as an advocate for the state when a poorly printed job clearly calls for a discounting or rerun. Presently, agency information, finance, accounting, or procurement personnel attempt to resolve billing disputes. This is a Procurement Division responsibility.

Many agency personnel are unaware that there is a Procurement Complaint Form available from Central Stores. This form, or a written memo specifying vendor non-compliance should be sent to Procurement and a more adequate complaint file than now exists should be maintained in the Procurement Division. In February, the Governor also ordered the ". . . the Procurement Division establish a system of logging in all complaints and place responsibility for seeing to it that they are answered promptly and adequately with someone other than the buyer who was responsible for making the purchase."

Almost $750,000 of the $4 million of printing purchased by Procurement is printed forms. We recommend that Procurement investigate the economy and efficiency of placing carbon and carbon-interleaved forms on a contract basis. The state presently orders over 12,000 different carbon-interleaved forms and over 850 carbonless. The state will probably pay comparable prices to those arrived at through individual bidding, but the elimini-nation of individual bidding will greatly decrease the requisition time and allow agencies to carry smaller inventories.

Recommendations

The Task Force recommends that the Governor direct commissioners and agency heads to take the following actions:

1. The Commissioner of Administration shall direct the Director of Procurement to set up a schedule within which printing purchases can reasonably be made in order to reduce the length of time a requisition spends in Procurement.
2. The Commissioner of Administration shall direct the Printing Buyer, in consultation with the State Printer in the Publications Division, to determine the accuracy of and accept the responsibility for printing specifications.
3. The Commissioner of Administration will direct the Printing Buyer to devise, in consultation with the State Printer, a production time schedule, to be followed by both the agency and the vendor, to ensure prompt delivery.
4. The Commissioner of Administration shall direct the Printing Buyer to discount or rerun printing orders that are not in compliance with specifications and delivery dates.
5. The Commissioner of Administration shall provide a complaint system for vendor non-compliance that provides prompt investigation and response.
6. The Commissioner of Administration shall investigate the economy and efficiency of placing carbon-interleaved and carbonless forms on a contract basis in order to decrease the time presently required to requisition these forms.

DIVISION OF PUBLICATIONS

Findings

A state print shop should provide fast reliable service of acceptable quality at or below market rates. It should provide users with rate schedules that are realistic and allow agencies to more accurately budget their printing needs. Turnaround time should be predictable and based on the size and complexity of the job. Four hour service in the copy centers for total quantities under 500, one day for quantities under 2,000, and three to ten days for 2,000 to 20,000 copies is not unreasonable. The print shop prices should cover its costs and provide a small cushion for machine downtime and equipment replacement.

Such is not the case in the Division of Publications which operates Central Duplicating and copy centers in the Centennial Building and Capitol Square. A random sample of 529 invoices indicates that the Division of Publications is operating at an average of 40 percent above market rate (depending on the nature of the job). On relatively simple short-run quantities using black ink and white paper, the state is priced at, and sometimes over, the corner fast print outlet, at its "walk-in" price list, prices which give no discount for volume and includes the cost of spending time with customers unfamiliar with printing specifications. In arriving at price comparisons, the Task Force used a random sample of invoices, with a variety of paper and bindery specifications. Most "walk-ins" are small shops with limited paper inventories and bindery equipment. They are geared to print with black ink on white 20#

PRICE COMPARISON
PUBLICATIONS VS. FAST PRINT OUTLETS
($8\frac{1}{2}$" x 11" white, 20#, Black Ink)

	Publications		Insty Print	One-Side		Quick Print
				Rapit Print	Mr. Print	
No. of Copies	X-7	303				
50	$1.15	$ 2.30	$ 2.90	$ 2.85	$ 2.45	$ 2.75
75	1.59	2.73			2.70	3.25
100	2.30	3.16	3.95	3.85	2.90	3.75
150	2.88	4.03			3.35	4.30
200	3.77	4.88	5.10	4.90	3.80	4.85
300	5.46	6.61	6.30	5.95	4.70	5.95
400	7.19	8.33	7.45	7.00	5.60	7.05
500	8.91	10.06	8.65	8.05	6.50	8.15
600		9.98	9.85	9.10	7.40	
700		10.50	11.00	10.15	8.30	10.35
800		11.02	12.10	11.20	9.20	
900		13.25	13.35	12.25	10.10	
1,000		13.77	14.55	13.30	11.00	13.65

X-7 = Automatic Press
Plate = .25
Print and Paper = .015 per imp.

303 = Manual
Plate = .25
Print and paper =
Under 500 .015 per imp.
Over 500 paper plus $1.50 per unit

PRICE COMPARISON
PUBLICATIONS VS. FAST PRINT OUTLETS

TWO SIDES

	Publications			Rapit Print	Mr. Print	Quick Print
	X-7	303	303			
	at .015		at .015			
No. of Copies						
50	$ 2.30	$ 4.65	$ 4.85	$ 5.50	$ 4.75	$ 5.50
75	3.16	5.46	4.98		5.15	6.50
100	4.03	6.84	5.12	6.50	5.50	7.50
150	5.75	8.05	7.11		6.25	8.30
200	7.48	9.77	9.07	8.15	7.00	9.10
300	10.93	13.22	9.59	9.80	8.50	10.70
400	14.38	16.68	10.33	11.45	10.00	12.30
500	17.83	20.70	12.93	13.10	11.50	13.90
600			13.43	14.75	13.00	
700			13.95	16.40	14.50	17.10
800			14.47	18.05	16.00	
900			16.70	19.70	17.50	
1,000			17.22	21.35	19.00	21.90

standard size paper. The customer pays a premium for other inks, paper colors or weights, or any bindery operation. For example, colored stock may cost an additional $2.50; collating, stapling, and punching may have a $1.50 or $2 minimum charge. In these cases, the state's print shop with its extensive paper inventories and better equipped shops has a distinct competitive edge, yet the walk-ins are cheaper than the state in 45 percent of the invoices with "nonstandard" specifications i.e., bindery requirements, colored stock.

This is surprising. Publications price schedule (see Appendix 1) appears to be competitive and management has continually asserted that Central Duplicating and the copy centers operate at below market rate. On January 12, 1978, the Director of Publications stated that the typesetting operation is 30 to 35 percent below market rate, the pressroom 20 percent below, the camera room 35 percent below, and the bindery 30 percent below. He added that the pressmen run from 5,000 to 6,000 impressions per hour. Publications staff base these conclusions on a survey of costs published by the Printing Industry of the Twin Cities, Inc., which shows high, low, and average costs of 26 printing firms for the areas mentioned above.

According to the survey, (see Appendix 2) the average all-inclusive hour cost rate for a single-color 12" x 18" press is $19.91. Average production is 4,833 impressions per hour at an average of $3.89 per thousand. Publications price schedule lists a $15 per hour charge for press time and $1 set-up charge for each original, or $16 per hour. Using these figures, Publications does indeed appear to be 20 percent below market rate. However, it costs

Publications $7.36 in press time only to print the thousand impressions, far above the survey's average cost of $3.89. Publications staff does not use these per impression costs to arrive at their market rate comparisons.

State Duplicating Costs

The Task Force tried to determine the reason for the high printing costs in the face of such apparent low hourly rates. Publications has no internal cost-accounting system with which to determine the accuracy of the hourly rates, nor were there any production standards or records to back up the 5,000 impressions per hour figure. The absence of any financial and productivity data caused us finally to examine the copies of billing invoices which show what work was done, how long it took, and what the agencies were charged. From information gathered from the invoices we found that:

1. The 15 percent overhead charge added to every invoice obscures actual composition, printing, and binding costs. It raises $15 per hour press time and mechanical bindery rates to $17.25, optical scanning from $24 to $27.60, etc. It is actually a 15 percent across the board price increase, which adds $270,000 annually to the Publications revolving fund.
2. The number of time units needed to complete a printing or bindery job is routinely altered by the bookkeeper at the direction of the Director of Publications.
3. Agencies do not pay for paper at the cost plus a ten percent handling charge mentioned on the Publications

price schedule. Paper is marked up as much as 60 percent over Publication's cost.

4. It basically takes Publications personnel longer to perform press and bindery functions than other comparable duplicating shops.

5. Publications is making a 77 percent profit on their Xerox 9200 copiers.

Perhaps the clearest way of discussing the various prices charged to agencies by Publications is in terms of the cost centers identified on the printing requisition itself.

Plate Charge: Included under this heading are the kind, number, and cost of plates and the set-up charges. The plates most commonly used are electrostatic -- or paper -- plates. The published price to agencies for an 8½" x 11" plate is 25 cents and for an 11" x 17" plate is 50 cents. The manufacturer guarantees 500 impressions from a paper plate, although 1,000 impressions is not unreasonable. When more than 500 copies are run, Publications charges for two plates, although the worksheet shows that only one plate was used. For example, 700 copies of a six-page book would require that six plates be made at a charge of $1.50 or $3 depending on the size. Publications charges for 12 plates, although only six are actually used.

There is a $1 set-up charge for every plate put on the press. This charge covers the cost of "taking off the plate, and putting a new one on the cylinder." There is no set-up charge for the automatic presses for quantities under 500 per original. A set-up charge is added for runs over 500 copies per original, even though the plate is placed on the cylinder automatically.

<u>Paper</u>: The "Price Schedule for Central Duplicating Billing" (see Appendix 3) states that paper stock and bindery supplies are charged to agencies at "cost plus ten percent for handling and spoilage." The Director of Publications states that the ten percent handling charge includes "waste, spoilage during make-ready, storage, and handling."

The mark up on paper is much greater than ten percent, however. The most commonly used paper, for example, is No. 4 20# white 8½" x 11" suphite. Publications buys this paper from three different vendors under three different contracts at $3.20, $3.28, and $3.44 per thousand. It is sold to agencies at $4.30 per thousand, a mark up of 34, 31, and 24 percent respectively. Colored 8½" x 11" 20# is purchased for $3.81 per thousand and sold to agencies at $5.72, a 50 percent mark up. Additional paper prices are found in Appendix 3.

In addition to the mark ups mentioned above, the billing clerk adds another 1.5 to 5 percent to the invoiced paper costs to cover spoilage during the initial press run, although, according to the Director of Publications, "spoilage during make-ready" is included in the ten percent paper handling charge. Then the 15 percent overhead charge is added at the bottom line. Because of these three mark ups, paper on our previous examples purchased by Publications at $3.20, $3.28, and $3.44 ultimately costs the agency $5.14 per thousand. This is not a mark up of ten percent, but of 61, 56, and 49 percent, depending on the source of supply, above Publications cost. It should be noted that agencies receive no paper price discount for two-sided duplicating in quantities less than 500.

<u>Operations</u>: Another reason for the high cost of printing and binding is that it takes longer to perform press room and bindery

functions. For example, the state's duplicating overload contractor, using comparable duplicating equipment, charges $2.50 for the press time needed to print 1,000 copies on 20# paper. (Contract prices are charged on a per impression basis, not according to an hourly rate.) Invoices from Publications indicate that it takes four units of pres time to print 1,000 copies. Four units at $1.50 per unit is $6. Add the 15 percent overhead charge, and the cost of printing 1,000 sheets comes to $6.90. (On page 20, the cost per thousand is $7.36. This cost includes the set-up charge, which is included in the Printing Industry Survey average hourly rate.) Two certified public accountants, John Bennett of Peat, Marwick, and Mitchell, and Vernon Kowalsky of Ernst and Ernst, loaned to the Task Force by the Minnesota Society of Certified Public Accountants, analyzed direct labor and equipment utilization for the month of February. They found the utilization "reasonably acceptable." One possible explanation, then, for the high press charges could be that too much time is spent in the set-up and make-ready portions of the press room.

Cost comparisons in the bindery are more difficult to make primarily because of invoicing procedures and because machine operations are usually accompanied by a number of units of "hand gathering" at $1 per unit. The absence of per sheet costs make direct price comparisons difficult. Pricing finished jobs on the "walk-in" price schedule, however, revealed that over 40 percent of the jobs with bindery specifications could have been purchased from walk-ins at less expense. Publications is generally less expensive where a machine collator and stitcher are used, and there is no hand labor.

In order to obtain an overall view of a comparison of Publication's prices with the overload contracter, we randomly took 100 completed jobs with varying paper, size, ink, and bindery specifications and priced them at overload contract rates. (See appendices 4 and 5.) The 15 percent overhead charge was added to the overload contract price to cover invoicing and processing costs and to ensure an accurate comparison. We found the greatest price disparities occurring in the smaller jobs of under $25. There Publications charges were approximately 40 percent higher than the overload contracts. On $50 to $100 jobs, Publication's charges were 30 percent higher; $100 to $200, 15 percent higher, and over $200, six percent higher.

The charge discrepancy is less in the more expensive jobs for the following reasons: These tend to be either long-run jobs or jobs requiring a lot of bindery work. On long-runs, the initial charges for set-up and make-ready are offset by low per impression costs. Publications is competitive in mechanical bindery operations with the overload contractor and generally complex bindery work can be performed more cheaply. Last, neither Publications nor the overload contractor is competitive after a point. Long-runs and complex binding operations can always be performed cheaper by printers with larger and faster presses and bindery equipment. However, the bulk of Publications requisitions fall in the under $100 category.

As mentioned previously, Publication's bookkeeper routinely alters the number of units recorded on the job sheet by the press or bindery workers in the copy centers. The bookkeeper explained that the number of units were decreased because bindery workers from the Division of Vocational Rehabilitation work more slowly. However, alterations also are made in press operations. A random sample of 353 invoices or 8.5 percent of the 7,000 523 forms showed that 23 percent of the forms were obviously altered, that is, the bookkeeper using a red or black pen to add up the billing, moved over to the Operations column and changed the number of units in press and bindery operations. (Alterations in blue ink were harder to determine and were not included as changes.) Fifty-two changes involved bindery operations where the Division of Vocational Rehabilitation personnel work. However, 21 changes increased the number of units; 31 changes decreased the number of units. There were 23 alterations in the press operations where no Division of Vocational Rehabilitation personnel were employed. In 13 cases, the number of time units was increased; in 10 cases, decreased. In other words, in 23 percent of the sample, the work billed had no relation to the work actually performed, and agencies were billed what Publications thought the job should cost, not what it actually did cost. In 11 percent of the sample, the agencies were billed for more than it cost to produce the job.

Basically, these changes can be viewed in one of two ways. They are either a means of gaining additional revenue to cover costs or they are haphazard attempts to impose consistency in the absence of any kind of production standards. The Task Force believes that the latter is the case.

Lack of production schedules and work standards in press and bindery operations also cause price inconsistencies. Our random sample shows that 500 copies of one original took two press units to print (three jobs), three units (twelve jobs), and five units (one job). However, if the work sheet showed two or five units, it was almost always changed to three. Printing 1,000 copies of one original took three units (one job), four units (six jobs), or seven units (one job). When more than one original are involved the number of units is even more unpredictable. Five hundred aggregate copies, for example, can take two, three, or four units. The absence of production standards account for the price discrepancies among identical jobs. Two issues of the Legislative Library's Checklist, published in September, 1977, with identical specifications cost $124.62 and $139.49.

The alteration of time units and the variations in the amount of press time used to print identical jobs is one more indication the $15 hourly press and bindery rates are more mythical than real.

The 15 percent overhead charges: It is not clear why this 15 percent overhead is added to every printing invoice. John Bennett, one of the CPA's, was told it covered the overhead costs of the Department of Administration which are charged to the Publication's budget. These costs were $121,000 in Fiscal Year 1977 and included portions of the salaries of the Commissioner, Deputy Commissioner, and Assistant Commissioner who are responsible for the Publications Division and the cost of services rendered to Publications by Administration's personnel and fiscal services division. However, earlier the Director of Publications stated that the $15 press and bindery rates included "equipment amortization; labor; fringe benefits; division and departmental overhead; and make-ready, such as set-up, paper guides, inking, and other nonchargeable supplies." The Task Force feels that the 15 percent overhead charge is simply a mechanism to bring in revenue to cover increased costs and obscure true printing costs. While a 15 percent charge amounts to very little on individual jobs, it quickly adds up. If Publications matches its Fiscal Year 1977 revenues of $1.8 million, which it certainly will, the 15 percent charge will comprise $270,000 of that total. Without a cost-accounting system that delineates cost centers, it is impossible to accurately allocate these funds.

Xerox 9200: The actual costs of the Xerox 9200's were easily arrived at since there is a per copy cost rather than hourly rate. To determine the cost and price differential, the Task Force gathered a one-month volume of invoices that are representative of the average monthly volume of the Xerox 9200 in Central Duplicating. Using the Xerox rental plan and information from other sources concerning labor, supplies, and overhead costs, we found that it cost Publications $5,375.35 to run 293,400 copies or .0183 per copy. (See Appendix 6.)

According to the Price Schedule for Central Duplicating Billing, Publications charges users 25 cents per original, two cents a sheet uncollated and an additional .005 per sheet collated. These prices include paper. The charge to the agencies for the same 293,400 copies mentioned above was $9,528.90 or .0325 per copy. (See Appendix 6.) In other words, Publications made a 77 percent profit on one month's volume on one Xerox 9200. Again, the revenue returns to the revolving fund to cover costs elsewhere. Publications could shave .0142 from their .0325 per copy costs and still cover their costs. Extrapolated for both machines over a full year $91,000 could be saved. This spring, however, Publications will receive two Xerox 9400's to replace the 9200's. These machines will cost about $400 more per month, but have a duplexing feature which will make two-sided copying easier and more efficient. The total per copy costs using the 9400 are .0184 at Central Duplicating and .0197 at Capitol Square. (See Appendix 7.) The Xerox 9400 total cost per copy assumes the machine will be staffed half-time. Using Xerox productivity figures the January, 1978, volume of 242,912 at the Transportation Building could have been produced in 55.22 hours rather than an entire months. (See Appendix 8.) This 55 hours includes the time needed to process originals and copies, and the time tangential to the actual copying -- deciding how to process the job, set-up, operators fatigue, coffee breaks, etc. The highest monthly volume, in October, 1977, of 354,533 copies should have been processed according to Xerox studies, in 77.25 hours.

Miscellaneous: There are smaller problems with little cost impact which, however, should be addressed. The bookkeeper adds 20 cents to the paper charges for a 12" x 19" Kraft envelope. He has no idea whether the job required an envelope or not. The Task Force also found small billing errors such as set-up charges for paper furnished by the agency, collating charges for a one-page piece, hand work charged at $1.50 per unit instead of $1, and a few mathematical errors.

Basically, then, the Task Force found that Publications is operating far above market rate because management has not dealt with productivity and cost problems. Billings are often the result of guesswork, agencies are receiving mediocre service at high prices, and paying a 15 percent premium because Publications has no cost or production systems to use as decision making tools.

Expansion of Publications

Over the last six years, the Division of Publications has requested expanded facilities and new high-volume presses and related equipment. Two floors of the building at 117 University are presently being remodeled for their use. Last year the Department of Administration approved their request for a small Apollo web press capable of producing 25,000 impressions per hour on two sides simultaneously. The Apollo prints simple jobs in quantities over 500 quickly and economically, and its two-sided capability results in significant paper savings. An added benefit is that it runs recycled roll paper without the problems of curling and static electricity that hamper two-sided duplicating on offset presses. In terms of the state shop, it would fit nicely between the 11" x 17" offsets and the more sophisticated kinds of printing bid out through Procurement, and eliminate the necessarily time-consuming bid process for many long-run jobs.

The Task Force asked the Department of Administration to hold the shipment of the press until the CPA's determined the operating costs of the machine. Publications staff estimate that the press will run 25,000 impressions per hour at an hourly rate of approximately $21. Though 25-30,000 impressions per hour is the machines rated continuous speed, three private in-plant supervisors state that 10-12,000 impressions per hour is a more realistic estimate. The CPAs estimate that initially and tentatively an hourly rate of $27.53 should be charged to recapture machine, labor, and overhead costs. (See Appendix 9.) One can assume that the same price schedules operating in other division operations will be repeated here: An apparent lower than market rate hourly rate will be inflated by low productivity, various plate and paper mark ups, and the addition of an overhead charge, resulting in costs far above market rate. Because of these factors, the Task Force does not doubt that the jobs that will be printed on the Apollo press could be purchased elsewhere at less cost to the state.

However, according to the Publications staff, the press has been built according to specifications written by the state, and a 20 percent penalty will be charged if the state refuses delivery -- or $6,000 for the $30,000 machine. For this reason only, the Task Force recommends delivery of the press provided that its operation is charged at the rate recommended by the CPAs and that this rate decrease according to the recommendations listed in the next part of the report. The Apollo definitely has a place in a well-managed print shop with the constituency, volume, and particular printing needs of the state. The Task Force recommends, however, that no additional equipment, except replacement equipment, be approved or ordered until Publications becomes competitively priced.

Recommended Action

The main arguments supporting the establishment of a state print shop are convenience, confidentiality, centralization, and low cost. The Task Force believes that the copy centers offer agencies a convenient and valuable service in short-run quantities (40-500 copies per original). Longer runs tie up presses and bindery equipment and hamper short-run production.

The confidentiality argument is a weak one. Private printers are capable of discretion too.

Centralization is an important factor. Presently, agencies are not allowed to have their own presses (with certain exceptions) and all printing requisitions are processed by the Publications Division. Ideally this ensures that the specifications that go to Procurement, the correctional print shop, or the overload contractor are accurate and understandable; that publications are in compliance with Department of Administration printing standards; that agency PLOs have written specifications in the most economical way; that such Department of Administration guidelines concerning duplexing, annual report specifications, paper conservation, or the use of recycled paper are easily put into operation and realized. Centralization should also allow Publications management to estimate volume and adjust rate and time schedules accordingly. Allowing agencies to buy their own printing, either through Procurement or area purchase orders (with bids over $50) would probably lower the cost of printing to the state, but Procurement process would delay the acquisition of printing and the Department Purchase Orders process would herald the coming of printing sales people in every department and division of state government. There are more orderly and efficient ways of contracting for printing than the two alternatives mentioned above, however, they do point out the necessity for a degree of centralization.

The question is, then, that convenience and centralization are important, but at what costs? The Task Force believes that the Publications Division, with a captive constituency and a predictable volume, should be operating far below "walk-in" press shop rates.

A More Realistic Price Structure

If Publications is to operate more efficiently and economically in the future, it needs a system of financial reporting and cost-accounting that will reflect true operating costs, point out trouble spots, and provide data with which to make pricing, cost-cutting, and production decisions. The CPAs on loan to the Task Force have made recommendations for such a system (see Appendix 10) and have developed a system of more realistic hourly rates based on Publications records of its present productivity. (See Appendix 11.) Current prices for chargeable supplies will be used, except for paper, which will be charged at cost plus ten percent handling. In addition we are recommending that Publications translate these hourly press and bindery rates into per impression and per sheet costs and to charge agencies on a per impression cost basis, and that these costs be decreased to a level at or near those of the private duplicating overload contract by December 31, 1978.

We believe that the overload price schedule is a reasonable goal, since the state is currently buying printing at those prices. In addition, the firms that lost the overload contract bid were only $72 and $1,454 higher than the firm awarded the contract. Obviously, there is more than one firm who feels they can print at nearly competitive contract prices.

We also recommend that the Printing Advisory Committee monitor the rate reduction progress of the Publications Division and advise the Commissioner of Administration of the division's progress.

If the Publications Division is not competitive by December 31, 1978, it should be abolished. Two alternatives will be investigated if the need arises. A private printing firm could be contracted to operate the state's presses and provide assistance with specifications at a set price schedule. Or, the copy centers could be placed under new management and runs outside the limits of the 619 form will be placed on contract with appropriate vendors, and agencies will approach the vendors directly. The State of Wisconsin presently has such a contract system.

Recommendations

The Task Force recommends that the Governor direct the Commissioner of Administration to take the following actions:

1. The Division of Publications shall immediately publish a new price schedule that reflects the true costs of printing a job. The schedule will list the prices on a per impression basis and not according to hourly rate.
2. The Division of Publications shall immediately publish a schedule illustrating the average length of time required to print jobs of varying complexity to allow users to better plan their printing needs.
3. The Division of Publications shall immediately cease altering information on billing invoices.

4. The Printing Advisory Committee shall monitor the cost and productivity level of the Publications Division and report the division's progress to the Commissioner of Administration.
5. The Publications Division shall gradually decrease its costs and increase its productivity and reach competitive market rates by December 31, 1978 or the division will be abolished and other alternatives will be investigated.

Savings

The state agencies are currently paying approximately .0219 cents per impression for printing and bindery work. Each tenth of a cent shaved from per impression costs at the present volume will save the state $39,000. If the Fiscal Year 1979 in-house volume of 39,000,000 impressions were run at a .011 per impression rate the state would save $425,000 per year. This rate is one at which the state could buy printing from outside vendors and covers printing, bindery, and invoicing costs. By reducing Xerox 9200 or 9400 costs to the levels suggested in appendices 6 and 7, the state will saving $91,000 annually.

SPECIFICATIONS

Findings

The Task Force inspected each of the 4,000 523 requisitions processed in Fiscal Year 1977, noting its title, number of pages, use of color and photographs, net cost, and unit cost. We found a few instances where unit costs were extremely high (environmental impact studies, court briefs) and moderately high (usually annual reports and long range plans of various kinds), but in general we found that agencies are doing a good job in keeping their printing costs down. Since the bulk of the state's printing ($4.5 million of $6 million expended in Fiscal Year 1977) is ordered on the 523 form, we feel we have a very accurate picture of present printing patterns.

Necessity and Distribution

Although we have found a few instances of clearly inappropriate printing, the Task Force has not really attempted to make any value judgments about the necessity for individual publications. We feel it is each agency's responsibility to determine whether publications are necessary to various programs, etc. We do, however, feel that the sheer volume of printed, duplicated, and copied materials needs looking into and we recommend that agencies reevaluate the need for each publication before it is written or reprinted. Twenty-four thousand printing requisitions a year and 62 million copier-produced sheets (approximately seven copies per state employee per working day) leads one to wonder whether all this information is necessary, appreciated, read, or could have been communicated in another form - mimeo, telephone, etc. The Director of Publications estimates that only 25 percent of the requisitions are for such items as forms, letterheads, envelopes, etc. The Forms Unit of Records Management will consolidate and reduce the number of forms printed (and also a significant number of copier-produced forms), but it is imperative that each agency begin to rethink its own publications program.

Tradition, habit, lack of planning, or inadequate justification review may cause the reproduction of materials which are of questionable use or value. The Government and Community Relations Division of the Department of Transportation has recently developed a communications policy that stresses prior review:

> Prior to preparation of a draft manuscript or audio-visual products, the following steps should be taken:
>
> 1. A study of the extent to which the proposed material implements Office of Communications or divisional communication plans and Departmental objectives or priorities.
>
> 2. An assessment of project need, weighed against over-all public information obligations regardless of whether funds have been budgeted for it by the originator.
>
> 3. An appraisal of the project's probability of achieving its stated goals.
>
> 4. A consideration of alternative methods of communication.
>
> 5. A measurement of the project's cost-benefit, including an estimated audience cost per unit.
>
> 6. A description of proposed distribution strategy intended to insure the desired readership.
>
> 7. Such other standards as may be established by the Department of Transportation Office of Communications and the Management Committee.

Initial planning, in addition to questioning the necessity of a publication, should also determine its distribution. Agencies tend to overprint, often on the basis of a lower per unit cost, but more often on an overoptomistic expectation of a document's popularity and a poorly planned distribution strategy. Publications are delivered and there is limited demand, or they are shipped to out-state offices without clear distribution directions.

The cost involved in storing extra publications, however, far outweighs the money "saved" from printing an extra hundred or thousand publications. The existence of 44 depositories for publications throughout the state ensures their availability to the public if a document is out-of-print, and the desired information would be too expensive to copy from an extant document. Formerly, state publications policy required that distribution of a new publication be indicated on the back of the 307 form. Generally, varying numbers of publications were listed as "General Distribution." The 307 form has been abolished, however.

Agencies should also, where possible, coordinate publishing ventures. For example, the Fire Marshal, Pollution Control Agency, Traffic Safety, and Civil Defense all publish information on hazardous materials. Perhaps one booklet would do. The Department of Natural Resources and the Pollution Control Agency publish separate rules and regulations that apply to the same subject, i.e. Water Resources. Consolidation of such information would save the public the necessity of ordering two publications from Documents or making two trips to the agency's offices. Presently, State Planning has a list of reports currently being researched and published by state agencies. Various public information personnel from different agencies are discussing ways of sharing such information in a formal way. We encourage the thought; such a group could do much to avoid duplication of research writing, editorial, and production time.

Specifications

In our survey of state publications we found that agencies with professional communications and publications staff tended to produce the most attractive publications for the least cost. As mentioned before, most PLOs do not have a printing or publications background and have difficulty writing specifications to produce a publication in the most economical way. Likewise, most PLOs understandably use the same specifications for reprints, perhaps unaware of new printing or reproduction technology that may lower the cost. The Printing Coordinators in the Publications Division are of assistance in some instances, but are unable to review every requisition. Upgrading the PLO, as mentioned before, will help a great deal. Money can be saved if PLOs are able to make knowledgeable decisions about the many variables affecting the printing process.

For example, using one-and-one half spacing rather than double spacing on typed camera-ready copy, where feasible, will save paper in both the typing and printing processes. Writing specifications for standard paper sheets saves money in ordering the paper, warehousing it, and filing or mailing the finished product. It saves time, too, in terms of its availability, and it will fit into a standard envelope. Standard papers and inks should be used unless there is a compelling reason not to. Paper grades should correspond to the particular needs of a job. Watermarked or rag content paper should not be used where a lower cost sulphite will do. Most forms can be printed on #16 paper. Printing self-mailers eliminates stuffing and envelope costs and, in many cases, postage as well. (The Department of Economic Security Employment Services recently sent out a "return self-mailer." Information was filled in, the sheet refolded, and mailed.) Considerable postage savings will result if items to be mailed are typeset and printed on lighter weight paper. Printing on both sides of the sheet, where appropriate, saves paper, binding, collating, and mailing costs, and greatly reduces the space needed for filing and storing printed materials. Plastic bindings are popular, but expensive and hard to file. They should be used only when flat sheets are absolutely necessary. Printed ring binders cost from $2.50 to $3.50 a piece and should be reused whenever possible.

The use of color and paper is a particular problem area, especially in inter-office and intra-office publications. The Task Force feels it is inappropriate to print an office newsletter, which is usually discarded moments after it is read, on anything but inexpensive standard recyclable paper stock in one standard color ink. It is expected that strictly informational items which are written by and for state employees (studies, reports, newsletters) will be printed in one color. Exempted are items printed to promote awareness of state service, to reach a particular audience, for resale, or where the use of color is an illustrative necessity, i.e. driver's manual, some maps and graphs. Also exempted are preprinted mastheads ordered in large quantities.

Business cards are another area where paper and money can be saved. Several state employees suggested that the cards be printed for divisions or sections rather than individuals. Personalized business cards (which must be ordered in minimum quantities of 500) are frequently outdated by personnel and telephone changes. Employees also commented that they received business cards without requesting them or particularly needing them.

Publication Codes

Once a document is printed and distributed, it is often for all intents, lost. State documents are extremely difficult to catalog and, as a result, very hard to find. As an aid to the public, legislators, program managers, and researchers, then, we are recommending that every document intended for public distribution through the depository system have a publication code which identifies the number printed, the originating agency, and year of publication. For example, a Department of Commerce publication dode (quantity 750) would read 750-COM741755-76 such codes would be located on the last printed page, within normal margins. Reprints will carry the initial code, and will be followed by reprint information preceded by an "R." For example: 750-COM741755-76; R400-COM741755-78. The PLO has the responsibility of providing publication code data to the typesetter, whether a private vendor or Publications. If camera-ready the code will be typed wherever practicable, but preferably on the last printed page.

To ensure that all public documents are retained for archival purposes, the Division of Publications will forward the copy of the document used to ascertain billing costs to the Legislative Reference Library, where the documents will be retained. Forms are not included. Publications staff will add the publication code to the copy of the document.

Recommendations

The Task Force recommends that the Governor direct state agency heads to take the following actions:

1. The commissioners and agency heads shall review the necessity for each new publication prior to the preparation of a draft and review reprints before reordering. Those with only marginal necessity should not be printed, or should be communicated in a less costly manner. Forms not reprinted within two years shall be abolished. Agency personnel should plan a distribution strategy for each proposed publication.
2. Whenever any state agency maintains a mailing list of public officials or other persons to whom publications or other printed matter is sent without charge, the state agency shall correct its mailing list and verify its accuracy at least once each year. This will be done by including a notice within a publication, or including a postcard in a regular mailing to each person on the mailing list. The name of any person who does not respond or who indicates that he/she does not desire to receive such publications or printed matter will be removed from the mailing lists.

The responses of those desiring to be on the mailing lists will be retained by those agencies for one year. Verification of the results should be submitted to the commissioner or agency head in a report listing:

a) the number of copies regularly published;

b) number of addresses;

c) number of persons responding "yes";

d) number of persons responding "no" or not responding at all.

3. The Legislature should place a sunset provision on every publication mandated by statute.

4. The Commissioner of Administration shall direct the State Printer to print a pamphlet describing areas of possible cost and time savings, and distribute them to commissioners and agency heads.

5. The Commissioner of Administration shall require that all inter- and intra-office publications are printed in the most economical manner, on inexpensive standard papers in one color ink.

6. The Commissioner of Administration shall require that all letterhead stationery, envelopes, and business cards be printed in one color standard inks where there is no additional wash-up charge to the state.

7. All strictly information items shall be printed in one color ink. Exempted are items printed to promote awareness of state service, to reach a particular audience, for resale, or where color is an illustrative necessity, i.e. driver's manual, some maps and graphs.

8. The Commissioner of Administration shall require that all public documents intended for public distribution through the depository system bear a production code number indicating the quantity, originating agency, and year of publication.
9. The Commissioner of Administration shall require that one copy of all documents printed in Central Duplicating will be forwarded from the Publications Division to the Legislative Reference Library. The publication code shall be written on the copy by Publications staff.

SAVINGS

Agencies will realize significant savings in their internal printing budgets as Publications reduces its price schedule.

Additional savings can also be realized through the writing of more economical specifications, the biennial pruning of mailing lists, and the continual reviewing of the necessity for particular publications. For example, if agencies shaved five percent from their external printing budgets through the means mentioned above, the state would save $225,000.

COPYING COSTS

Findings

The State of Minnesota spends almost $1.6 million for rental and another $270,000 for supplies for convenience copiers located in state agencies. (The state owned or leased, on July 1, 1977, 162 Xeroxes, 268 Saxons, 3 IBMs, 2 Savins, and 1 Kodak machine. The Xerox 9200's in Publications are not included in these costs or volume figures.) Over 62 million copies were made in Fiscal Year 1977, or seven copies per state employee per day.

The costs and volume have climbed rapidly in the last few years, although exact increases are difficult to determine because of the different object codes on purchase orders used to pay for machine rental and supplies. Using information supplied by copier vendors, the Task Force determined that the current per copy cost, including supplies, for the 62 million copy volume is .026 cents -- a relatively low copy cost which indicates that most agencies are using machines appropriate to their copying needs.

The convenience of on-site copying is evident to anyone who has easy access to a copy machine, and the price of such convenience is reflected in the $1.6 million cost. The volume figures tell the story: Agencies must reduce the number of copies run on their machines. The use of an auditron reduces copying costs to some extent, and an operator-controlled machine almost eliminates the problem of personal copying and ensures that the machine is used for appropriate run lengths. Unfortunately, the same psychology contributing to agency over-printing costs also operates in this area, and that is that agencies are making more copies than they need.

While .026 cents per copy seems insignificant to a state employee who decides to run "a few extra copies," the costs quickly add up. Returning to the "seven copy per employee per working day" example mentioned previously, if each employee ran one copy less per day, the state would save $226,549 each year. Such a volume cut is possible only with the cooperation of individual employees who make the determination of exactly how many copies they need. The Task Force recommends that state agencies decrease their volume by 14 percent. We also recommend that the Department of Administration begin to educate agencies about their per copy costs and inform them of the savings realized in their division or department through a reduction in volume. The State of Washington posts yearly agency copy costs above machines to make users aware of the cumulative "cost of doing business."

The Rule of 40

The .026 cents per copy cost is an average for all machines. Low-volume machines generally have higher per copy costs; high-volume machines have lower per copy costs. The rental and supply costs for a run of 40 copies of one original are approximately $1.60 on a low-volume machine, $1.20 on a medium-volume machine, $0.92 on a high-volume copier, and $0.46 on a production copier. Again the question of convenience vs. cost arises. Longer runs on small agency copiers often save time, but cost more. Production copying at a copy center takes more time, but costs less.

The rule of 40 is admittedly an arbitrary one designed to discourage long or multiple original runs on convenience copiers. The 40 copy limit is too high for agencies presently using low-volume copiers and too low for high-volume machines with collators. Allowing a flexible rate depending on the size and capabilities of on-set copiers would be faster, but certainly confusing.

A revised price schedule for Publication's two Xerox 9200 (and the Xerox 9400s that are soon to replace them) will lower production copier costs considerably, and faster turnaround time will provide better service. The Task Force recommends that we retain the 40-copy limit on agency-operated machines.

<u>Centralization of Copy Machine Purchase and Rental</u>

The Task Force's incursion into the world of copy machine purchase, rental, and supply costs was bewildering at first. Each vendor has different rental schedules, supply costs, and purchase options. We believe that agency personnel, faced with renting or buying a new machine or upgrading or downgrading a present one, are equally confused and amazed at the variety of machines, prices, capabilities, and costs per copy. To add to all this, there is little data available within the state to help agencies make these kinds of decisions. There is no one place where one can find complete data on the number of machines owned and rented or the cumulative or individual machine and supply costs. Agencies must rely heavily on information supplied by vendors, who can be and are very helpful, but, of course, who want to place their machines in state agencies.

Presently, when an agency decides to rent or purchase a new copier, Procurement forwards the requisition to the Office Machine Repair Section, where staff determine which size machine and which accessories will economically handle the agency's copy volume. This recommendation is returned to Procurement and bids are let.

The decision to upgrade or downgrade a machine is made by the agencies themselves. An agency's volume may increase, and the copier is not upgraded. A division may move from one floor or building, causing the volume to decrease. Both these circumstances result in higher per copy costs. If vendors are not supplying adequate cost information, or if personnel are neglecting, overlooking, or wondering what to do about the vendor information they do receive, the cost per copy will continue to climb. For example, the average per copy cost of the state's 23 Xerox 7000's is .018, ranging from a low of .014 to a high of .045.

The Task Force believes that there should be an increased central authority to deal with copier-related decisions. The changing technology, the lack of current information, the variety of available equipment all call for a centralization of expertise and responsibility. We believe the Office Machine Repair Section should be given the authority to approve or disapprove not only new machines, but also authorize the upgrading or downgrading of present copiers, and monitor run lengths. An advisory committee should also be created including agency personnel and headed by the Commissioner of Administration. If a department disagrees with a decision, it should appeal to the advisory committee and abide by its final decision. We recommend that the Office Machine Repair Section also advise agencies about cutting copy volume and costs, i.e. retaining unacceptable copies, training key operators, using auditrons, etc.

Purchase or Lease of Copiers

Many vendors have recently begun to sell, in addition to lease, their copy machines. Considerable cost savings are realized through the purchase of appropriate machines. Again, the decision to buy or lease is a complex one, requiring a knowledge of an agency's future needs and present ones. Last fiscal year, ten agencies purchased copiers for an estimated three-year savings of $104,175 and an estimated five-year savings of $335,640. The Task Force recommends that the Office Machine Repair Section continue to advise agencies about lease or purchase arrangements and identify machines whose purchase would result in cost savings.

Recommendations

The Task Force recommends that the Governor direct commissioners and state agency heads to take the following actions:

1. Commissioners and agency heads should reduce copy volume by 14 percent in Fiscal Year 1979. This reduction is equivalent to one less copy per employee per day.
2. The Commissioner of Administration should authorize the Office Machine Repair Section to review all renewals as well as new requests for the rental and purchase of machines (including the Division of Publications) to

authorize the upgrading, downgrading, or moving of present machines with higher per copy costs, to monitor the run length of selected machines periodically, to advise agencies on purchase or rental options where appropriate, to serve as a clearing house of information about technological changes and available equipment, to collect information on the number and kind of state-owned or -leased copy equipment and their cumulative and individual costs, and to educate agency personnel about the per copy costs of their machines is a way individual state employees can reduce copy cost and volume.

3. The Commissioner of Administration should set up an advisory committee, chaired by the Commissioner of Administration, to resolve any disagreements between agencies and the Office of Machine Repair Section.
4. All commissioners and agency heads shall submit to the Office Machine Repair Section a list of all agency copiers indicating the make, model, date of purchase, and whether they are leased or rented.
5. The Commissioner of Administration shall investigate the feasibility of installing coin-operated copiers in the Capitol Complex for employee and public use.

Savings

A 14 percent reduction in copy volume in Fiscal Year 1979 will save $226,500.

Centralized authority over copy machine use should provide accurate and current cost information which will allow more efficient machine upgrading or downgrading and decrease per copy costs.

Every tenth of a cent (.001) shaved from the average per copy cost at the present volume of 54,000,000 (excluding the volume produced by coated-paper copiers which have a fixed per sheet costs) saves the state $54,000. Conservatively, better management can shave .002 from the state's per copy costs for a savings of $108,000 in Fiscal Year 1979.

The increased purchase of appropriate copy machines in Fiscal Year 1979 will save $280,000 in three years and $850,000 in five years.

SAVINGS SUMMARY

	F.Y. 1979	F.Y. 1980-1981
Reduction of price schedule of Publications Division	$ 425,000	
Reduction of Xerox 9200 price schedule	91,000	
Review of specifications, pruning of mailing list, etc.	225,000	
Fourteen percent copying reduction	226,000	
Centralized authority over copy machine use	108,000	
Purchase of copy machines	93,000	$ 186,000
	$1,168,000	$ 186,000
Total Fiscal Years 1979, 1980, 1981		$1,354,000

APPENDIX 1

NEW PRICE SCHEDULE
CENTRAL DUPLICATING - BILLING

EFFECTIVE ~~3-16-77~~ 4-1-77

I. MATERIAL

Paper stock and bindery supplies: Cost plus 10% handling

Negatives:

Line stripped

8 x 10	=	$2.75	
10 x 12	=	3.00	
11 x 14	=	4.00	
12 x 18	=	6.00	

Halftone stripped

8 x 10	=	$4.70
10 x 12	=	5.20
11 x 14	=	5.70
12 x 18	=	7.50

COMPU #35 #

II. COPY PREPARATION

Composition, ruling, keylining, paste-up — KEYLINE $15.00 per hour.

30 - T - 24/HR

III. PLATE ROOM

Plates: XL 1.50

Paper short run = 8½ x 11 = $.25 11 x 17 = $.50
Metal plate = 10 x 16 = 3.00
11 x 18 = 4.00

Extra burns and extra stripping or opaquing at $10 per hour.

IV. PRESS ROOM

NO SET UP CHARGE ON X-? AUTOMATIC PRESS

Set up charge per plate $1.00 NOT ADS or MIMEO

Short runs up to 500 on ADS, press, or mimeo: $.015 per impression, including paper stock, 16 & 20# sulphite or 50 & 60 offset, white.

OVER 500 $15 HOUR PRESS TIME

V. XEROX

3600 = $.05 per impression includes stock and labor.
9200 = $.25 per original; .02 per impression and an additional .005 if collated

VI. BINDERY

Machine time at $15 per hour.
Hand time at $10 per hour.

Perfect bind - 1/2" = $.35 per book
over 1/2" = .50 per bk.

VII. OVERHEAD

Add ~~10%~~ 15% to all costs.

VIII. DELIVERY CHARGES

First package = $1.00
Each additional .25

Per order.

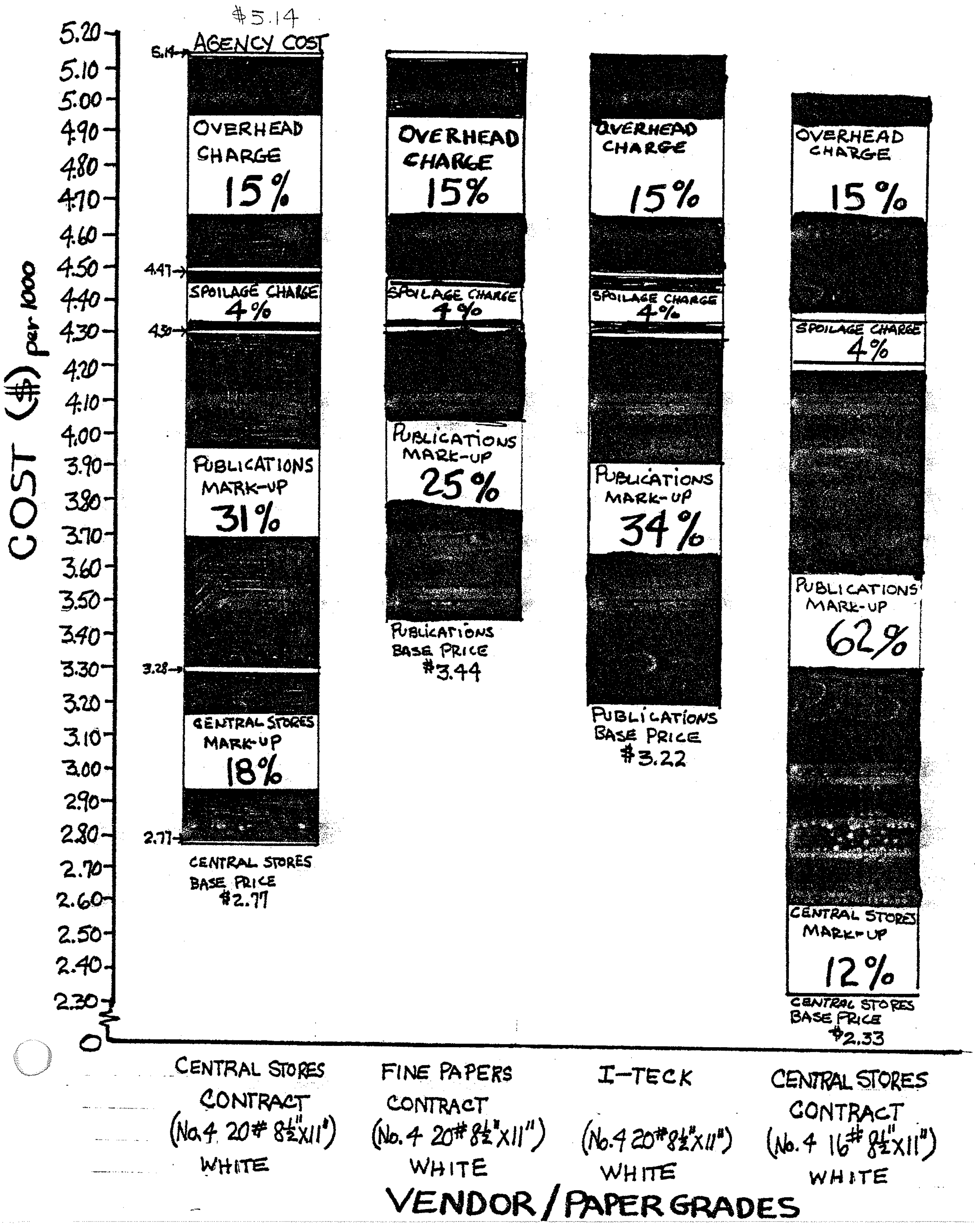
E8: ADS X's no charge ...

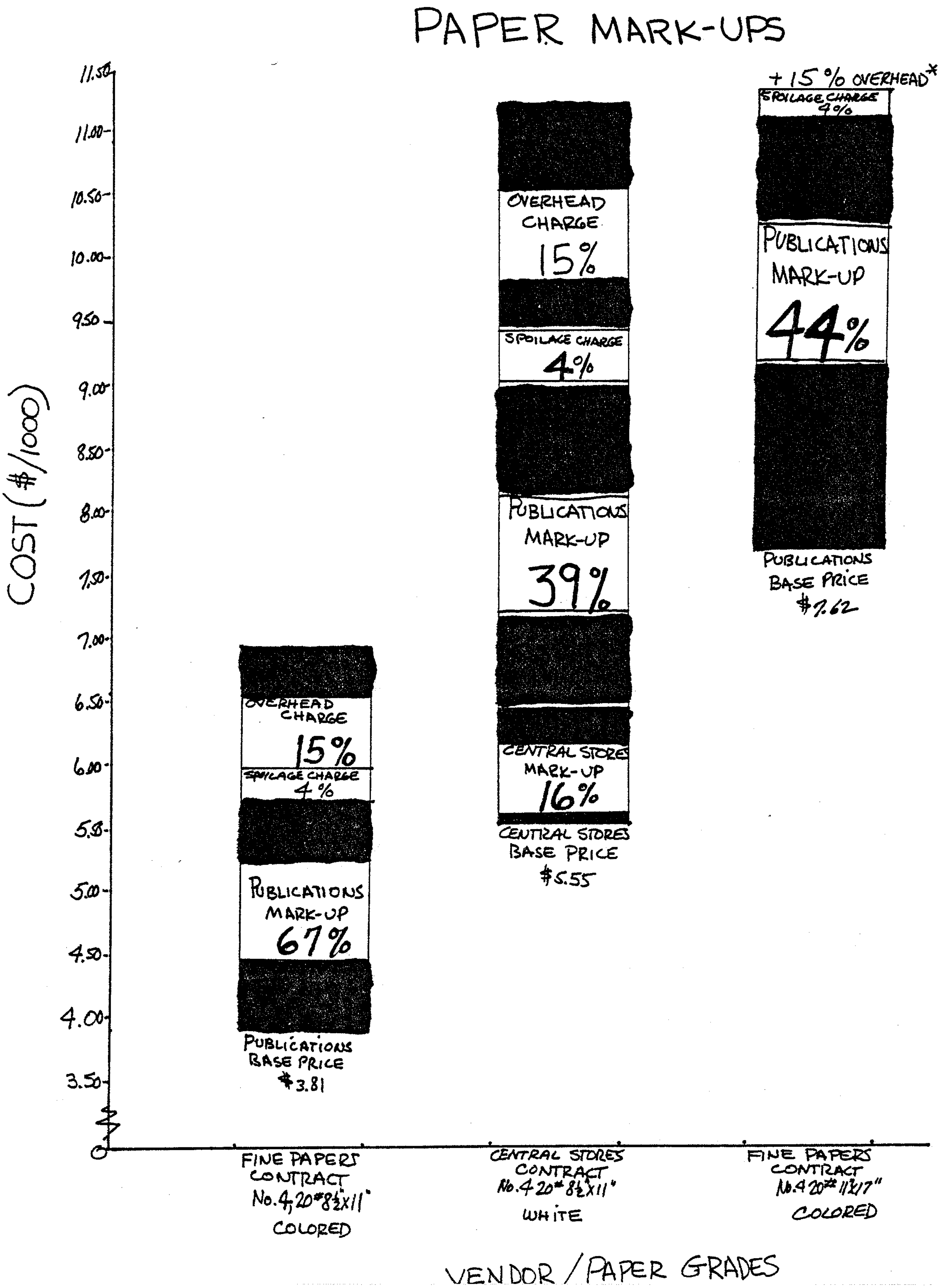
PRINTING INDUSTRY OF TWIN CITIES, INC.
AVERAGE ALL-INCLUSIVE HOUR COST RATES - Cont'd.

June 17, 1977

	Firms Reporting	High	Low	Average
III. OFFSET				
A. Preparatory				
Artist	11	42.00	18.00	28.77
Camera (B & W)	15	51.30	18.00	31.71
Camera (Color)	9	62.50	18.00	35.14
Photo-Composing	10	43.10	27.00	32.73
Printing Frame	12	42.00	18.00	28.93
Stripping	21	51.30	16.00	27.79
B. Single Color Presses				
10 x 15	11	28.90	11.15	20.74
12 x 18	6	27.83	15.75	19.91
14 x 20	2	25.30	21.00	23.15
17 x 22	6	35.09	20.00	28.85
23 x 29	11	36.30	24.00	30.03
23 x 36	3	37.00	18.45	27.15
32 x 44 - 38 x 52 . . .	3	71.39	41.00	55.13
C. Two Color Presses				
19 x 25	3	34.00	22.75	29.92
25 x 38	6	67.00	48.00	56.75
32 x 44 - 38 x 52 . . .	4	95.59	48.00	67.40
43 x 60	2	101.64	80.00	90.82
D. Four Color Presses				
25 x 38	2	88.00	83.00	85.50
28 x 40	3	82.00	65.00	74.00

PAPER MARK-UPS




PAPER MARK-UPS
COST ($/1000)
11.50
11.00
10.50
10.00
9.50
9.00
8.50
8.00
7.50
7.00
6.50
6.00
5.50
5.00
4.50
4.00
3.50
0
OVERHEAD CHARGE 15%
SPOILAGE CHARGE 4%
PUBLICATIONS MARK-UP 67%
PUBLICATIONS BASE PRICE $3.81
OVERHEAD CHARGE 15%
SPOILAGE CHARGE 4%
PUBLICATIONS MARK-UP 39%
CENTRAL STORES MARK-UP 16%
CENTRAL STORES BASE PRICE $5.55
+ 15% OVERHEAD*
SPOILAGE CHARGE 4%
PUBLICATIONS MARK-UP 44%
PUBLICATIONS BASE PRICE $7.62
FINE PAPERS CONTRACT No.4, 20# 8½x11" COLORED
CENTRAL STORES CONTRACT No.4 20# 8½x11" WHITE
FINE PAPERS CONTRACT No.4 20# 11x17" COLORED
VENDOR / PAPER GRADES

BID SPECIFICATIONS & PRICE SCHEDULE

Effective 4/1/77

Price agreement for overload work from Central Duplicating for a one (1) year period with option to renew for additional 1 year. Central Duplicating will furnish all paper and plates (paper or metal); Vendor will supply all press solution, ink, labor and all other necessary material not mentioned in this request. Free pick up and delivery at B-23 Hwy. Bldg., B-13 Cent. Bldg., or B-15 Capitol Square Bldg.
The quantities on the computation sheet are approximates only - Unit prices bid shall prevail for the duration of the contract.
Please total the sub totals and grand totals on your bid prices.

I. OFFSET PRINTING PER PLATE:

A.	Per plate change	$ 1.00	X 1500	= $ 1500
B.	Per color wash up (other than black)	$ 2.50	X 50	= $ 125
C.	Stock 16 lb. & heavier (Per M impressions)	$ 2.50	X 3500M	= $ 8750
D.	Stock lighter than 16 lb. (Per M impressions)	$ 2.50	X 20M	= $ 50.
E.	Index or tag - 90 lb. up thru 150 lb. tag) Per M	$ 2.50	X 30M	= $ 75.
F.	Envelopes #6¾ to #10 Per M	$ 2.50	X 50M	= $ 125
G.	Envelopes 8 X 10 to 9 X 12 (with clasp) Per M	$ 2.50	X 50M	= $ 125.
H.	Envelopes 8 X 10 to 9 X 12 (without clasp) Per M	$ 2.50	X 50M	= $ 125
		I. SUB TOTAL		$ 10,87

II. BINDERY OPERATIONS: ALL PRICES TO BE PER M SHEET BASIS - (EXCEPT WHERE OTHER NOTED)

A.	Punching 1, 2 or 3 hole standard (round)	$ 1.50	X 50M	= $ 75.
B.	Punching 4 holes or more (round)	$ 1.50	X 5M	= $ 7.
C.	Collating	$ 5.00	X 75M	= $ 375.
D.	Folding (1, 2 or 3 folds)	$ 5.00	X 75M	= $ 375.
E.	Stitching (Side or saddle 1, 2 or 3 stitches Per 100 Booklets	$ 1.00	X45MBooks	= $ 450.
F.	Trimming (Sheets per cut - Per M	$ 1.00	X40M	= $ 40.
G.	Trimming (Booklets - 3 sides Per 100 Booklets)	$ 1.00	X40MBooks	= $ 400.
H.	Padding (Chipboard will be supplied if Needed Per Pad	$ .05	X5M Pads	= $ 250.
I.	Banding (Per Unit Banded)	$ .25	X100	= $ 25.
J.	Binding (Tape cloth strip) Per Book 9" or 11" Binding Side	$ .05	X1500Books	$ 75.
K.	Perforating and/or scoring	$ 2.50	X30M	= $ 75.
L.	Numbering (By press or hand)	$ 2.50	X150M	= $ 375.
M.	Die Cutting	$ 2.50	X35M	= $ 87.50
N.	G.B.C. Punching	$ 4.00	X100M	= $ 400.
		II. SUB TOTAL		$ 301

*GRAND TOTAL $ 13,885.00

RA FEATURE PRICES

1. Making of plates-paper up to & including 11 X 17 5/8 --- each $ [illegible]
2. Making of plates-metal up to & including 11 X 17 5/8 --- each $ 3.00
3. Negatives - 8½ X 11 -- each $ 2.00
4. Negatives - 11 X 17 -- each $ 3.50
5. Stripping - Per Negative - 8½ X 11 ---------------------- each $ 2.00
6. Stripping - Per Negative - 11 X 17 ---------------------- each $ 2.50
7. Halftones - Per Halftone ------------------------------------ each $ 4.00
8. Shrink Wrapping per order (1 to 10) ----------------- Per Pkg. $ .10
9. Shrink Wrapping per order (11 or more) -------------- Per Pkg. $ .10
10. Fan apart NCR Padding ----------------------------- Per M Sets $ 1.00
11. Applying GBC Binders (Cent. Duplicating will Furnish Binders)
    1/4 to 9/16 A. ¼" to 9/16" ------------------------------ Per Book $ .05
    B. 5/8" to 1" -- Per Book $ .10
    C. 1" and larger ------------------------------------- Per Book $ .15

Work will be ordered as required with 3 day delivery service. At the present need is approximately 30M impressions per order but is in no way a guarantee f future orders.

All deliveries hereunder shall comply in every respect with all applicable law of the Federal Government and/or the State of Minnesota including the State Ac Against Discrimination M.S. 363 as amended.

All preparatory materials including negatives and plates to be returned with completed job.

Award will be made to lowest Grand Total providing Extra Features prices are in line with trade pricing in the sole opinion of the Printing Section and that successful bidder has equipment compatable to accepting our plates.

APPENDIX 6

XEROX 9200

One Month Sample: 293,400 (Does not include "copying" costs for 1-5 copies, which usually amount to $30 to $90 per month).

Xerox Price Schedule = Rental

4033 originals	x .16	=	645.28
to 100,000	x .0048	=	480.00
over 100,000	x .0039	=	754.35
Total Rental			1,879.35
per copy cost			.0064

Labor, Supplies, Overhead

Operator, full-time, $1,023 per month	$1,023.00	or	.0035
Space, $6/sq. ft. x 200 sq. ft.	1,200.00		.0041
Supplies (205,380 sheets paper) toner, etc.	1,273.00		.0043
	3,496.00		.0119
	+1,879.35		+.0064
	5,375.35		.0183

Publications Charges to Agencies

4033 originals x .25	=	$1,008.25		
281,983 copies x .025	=	7,049.57		
11,417 copies x .02	=	228.34		
		8,286.16		
x 15% overhead		1,242.74		
Charged to agencies		$9,528.90		
$9,528.90 ÷ 293,400			.0325	per copy

$9,528,90	charges	.0325
-5,375.35	costs	-.0183
$4,153.55	profits	.0142

Savings

DOT 293,400 x .0142 = $ 4,166.28
x 12 months
$49,995.36 per year

Capitol Square 244,720 x .0142 = $ 3,475.02
x 12 months
$41,700.29 per year

TOTAL $91,695 per year

APPENDIX 7

XEROX 9400 COSTS

DOT, Volume, 296,317

Rental	.0084	$2,480.34
Operator, 1/2 time	.0017	512.00
Space	.0040	1,200.00
Supplies, 66% duplexed	.0043	1,280.00
TOTAL PER COPY	.0184	$5,472.34

CAPITOL SQUARE, Volume, 268,567

Rental	.0090	$2,415.67
Operator, 1/2 time	.0019	512.00
Space	.0045	1,200.00
Supplies (60 % duplexed)	.0043	1,160.00
TOTAL PER COPY	.0197	$5,287.67

APPENDIX 8

XEROX PRODUCTIVITY SCHEDULE
CENTRAL DUPLICATING

January, 1978, Volume: 242,912

3322 originals ÷ 100 x .0344 (time to process 100 originals) = 1:14 hrs. to process originals

240,946 ÷ 100 x .017 (time per copy/C and sort) = 40.96 hrs. to process copies

3322 ÷ 100 x 1.582 (time tangential to process 100 jobs - fatigue, coffee breaks, processing, etc.) = 13.12 hrs.

1.14	hrs. to process originals
40.96	hrs. to process copies
13.12	hrs. of factors tangential to producing 100 jobs
55.22	hrs. to produce January volume

Publications employs one full-time staff person to operate 9200 for 160 hours per month.

9200 operating at 34.5 percent efficiency.

October, DOT, Volume: 354,533

4000 originals (est.) ÷ 100 x .0344	=	1.376	hrs.
353,319 copies ÷ 100 x .017	=	60.06	hrs.
4000 ÷ 4 ÷ 100 x 1.582	=	15.82	hrs.
		77.256	hrs. to process October volume.

JANUARY CAPITOL SQUARE, Volume: 229,724

4165 originals ÷ 100 x .0344	=	1.43	hrs. for originals
229,724 copies ÷ 100 x .017	=	39.05	hrs. for copies
4168 ÷ 4 ÷ 100 x 1.582	=	16.472	hrs. for processing
		56.95	to process January volume

DECEMBER, CAPITOL SQUARE, Volume 268,567

6400 originals (est.) ÷ 100 x .0344	=	2.20	hrs. for originals
268,567 ÷ 100 x .017	=	45.65	hrs. for copies
6400 ÷ 4 ÷ 100 x 1.582	=	25.31	hrs. for processing
		73.16	hrs.

ESTIMATED PROCESSING TIME FOR 500,000 VOLUME

7,246 originals ÷ 100 x .0344	=	2.49	hrs.
500,000 copies ÷ 100 x .017	=	85.00	hrs.
7,246 originals ÷ 4 ÷ 100 x 1.582	=	28.66	
		116.15	hrs. to process volume.

10,000 originals ÷ 100 x .0344	=	3.44	hrs.
500,000 copies ÷ 100 x .017	=	85.00	hrs.
10,000 originals ÷ 4 ÷ 100 x 1.582	=	39.55	hrs.
		127.99	hrs.

APPENDIX 9

Tenative Cost Center Rate - Apollo Roll Fed Press
Publication Division
State of Minnesota

A tenative Cost Center rate for the Apollo Roll Fed Press, currently on order by the Publication Division, was developed on the following basis: estimated press cost ($30,000); planned financial operations for the year ending June 30, 1978; estimated area requirements; a $6.00 an hour press operator and a production utilization of 62.5%. The following Cost Center rate for the Apollo Roll Fed Press should be considered as a Preliminary Rate until actual cost data is accumulated to provide a cost center rate based on actual experience and planned operations. The tentative cost center rate for the Apollo Roll Fed Press was determined:

Annual production hours (1 shift)	1,300
Annual cost center expenses	$14,986
Hourly burden rate	$11.53
Hourly direct labor rate	6.00
Hourly administrative rate	2.30
Hourly profit rate	7.70
Total Hourly Cost Center Rate (Tentative)	$27.53

APPENDIX 10

Recommendations

Based on our findings and analyses we recommend that the Publication Division:

- Maintain timely financial reporting practices to assist Division management.
- Develop and maintain a realistic approach to determining and providing a sound economic basis for Publication Division operations.
- Develop and maintain a management-oriented cost accounting system.
- Develop and maintain (update annually) hourly cost center rates for all significant parts of the Publication Division operations.
- Develop, maintain and use consistent pricing policies and practices.
- Establish prices for the Publication Divisions services and products on the basis of the Divisions economic factors.
- Update prices annually to reflect the current level of operating costs and return on capital requirements.
- Establish and maintain acceptable levels of production performance for the various operations of the Publication Division.
- Develop and maintain reporting practices that will inform management of the effectiveness of the various Publication Division operations.
- Develop and maintain management practices and techniques that will provide acceptable quality products produced at competitive prices.

APPENDIX II

Cost Center Rates
Publication Division
State of Minnesota

The accompanying Cost Center rates for the year ending June 30, 1978 were developed on the basis of planned operations for the year. The following data was also used in determining the Cost Center rates:

- Actual direct labor rates in effect at the time of our study.
- Depreciation expense based on actual equipment costs and rates determined on eight years.
- Direct labor and equipment utilization based on February 1978 data.
- Administration expense based on the planned amount assigned to Publications for the year ending June 30, 1978.
- A planned profit amount of $125,600 which is a 23.1% return on beginning of the year investment or an 8% return on sales.
- Actual occupancy costs in effect at the time of our study.

The preparation of the Cost Center rates included the following activities:

- Identifying appropriate cost centers for the Publication Division (Preparation, Press and Bindery).
- Developing appropriate bases for assigning the expenses to the cost centers.
- Assigning expenses to the cost centers.
- Determining depreciation expense applicable to the equipment assigned to the cost centers.
- Determining rental costs applicable to the various cost centers.
- Determining production volumes for the various cost centers.
- Determining hourly overhead rates for the cost centers.
- Determining hourly direct labor rates for the cost centers
- Determining an hourly administrative expense rate.
- Determining hourly profit rates for the cost centers.
- Determining total hourly costs center rates for the preparation, press and bindery cost centers.

STATE LAND ACQUISITION STUDY
-NATURAL RESOURCES LANDS-

Prepared by:
Governor's Task Force on
Waste and Mismanagement

August 14, 1978

INTRODUCTION

This study discusses the problems involved in the state acquisition of natural resource lands in Minnesota by the Department of Natural Resources. We chose to limit our investigation to Department of Natural Resources acquisition for three primary reasons: First, although there are seven state agencies that own land in Minnesota, the Department of Natural Resources administers about 95 percent of all state-owned lands. Second, the Legislative Audit Commission completed a general review of acquisition by all state agencies in 1975. Third, the most significant change that has occurred in state acquisition since 1975 has been a greatly expanded natural resources acquisition program. This program alone has a budget of $25.5 million for the 1978-1979 fiscal years.

Public land ownership and natural resources land acquisition have an impact on virtually all aspects of the state's economy. It affects local tax bases, delivery of local services, economic growth, tourism, and land and water use.

The major problem that we address in this report is the long period of time the state takes to buy land. We found that when it comes to land acquisition the old saying "Time is Money" rings particularly true. The report shows, through a step-by-step examination of just one state program -- land acquisition -- the high cost of red tape, the subsequent delays, and the resultant public confusion. The Task Force's findings about the present acquisition program were best summarized by a Department of Natural Resources appraiser-negotiator who told us: "Given the federal and state rules and regulations, interagency bickering, horrendous delays, red tape, and miscellaneous 'screw-ups,' it's a miracle we have bought the land we already have."

In 1975 in an effort to hasten land acquisition, the Legislature created the RESOURCE 2000 Program which greatly increased the land acquisition funding for fisheries, wildlife, recreation, and forestry management projects. There were and still are many good reasons for such accelerated acquisition. One is that such lands simply may not be available for acquisition in the future, largely because of land development for other purposes. Another is that the state may not be able to afford these lands later because of the rapid increase in rural land value (about 15 percent annually). RESOURCE 2000 was established to meet these needs and was originally conceived as a six-year $100 million program, funded by three biennial appropriation phases of $20, $40, and $40 million successively. However, in 1975 the Legislature appropriated $15 million in General Revenue funds and another $4.7 million from the state's Natural Resources Acceleration Account. In 1977, the Legislature authorized $21.9 million in bonding authority to buy additional lands crucial to state natural resource management.

Like many large new programs, this one had its growing pains. But RESOURCE 2000 seemed to have more than its share. In 1977, the Legislature reappropriated $3.6 million of the $19.7 million previously appropriated in 1975 because the Department of Natural Resources and the Department of Administration were unable to buy the needed lands. This report will identify some of the reasons why and the problems which currently exist with the program.

Scope of the Study

The primary objectives of this study are to:

1. Reduce the unnecessary delays and procedures of state land acquisition.
2. Identify the overhead and administrative costs of the acquisition program and make recommendations to reduce these costs.
3. Recommend legislative and administrative changes to ensure a more uniform, fair, and open acquisition process, including the adoption of practices which will ensure more equitable treatment to the landowner.
4. Evaluate the RESOURCE 2000 Program to determine how well the agencies are meeting their land acquisition goals established by the Legislature.

The Task Force did not attempt to evaluate the management of existing publicly owned lands, since a Public Lands Impact Study jointly funded by the Legislative Commission on Minnesota's Resources and the Tax Study Commission, is presently being completed. The Task Force did find the summary, the report itself, and the working papers very helpful in evaluating present state acquisition policies and procedures.

In the succeeding sections of the report, the state's procedures for natural resource acquisition are identified and critiqued in detail. The sections are organized chronologically reflecting the steps in the state's acquisition process.

LAND OWNERSHIP

The State of Minnesota is the third largest landowner in the United States, following the federal government and the State of Alaska.

Of the 25 percent of Minnesota's land area in county, state, or federal ownership, the largest single use category is natural resource lands. State-owned lands comprise about ten percent of the state's land area, tax-forfeited lands account for six percent, and federal lands comprise another eight percent. The remaining one percent is state land which is not managed for natural resource purposes. According to the Department of Natural Resources 1975 estimate the timber, water, recreation, wildlife, and forage value of these public lands is estimated to be worth $11,600,875,000.*

State lands are managed by at least eleven state agencies: The departments of Natural Resources, Administration, Transportation (Highways and Aeronautics), Public Welfare, Corrections, the University of Minnesota, Military Affairs, Historical Society, State Fair, Community College, and the State University Board. The Department of Natural Resources is responsible for the management of over 90 percent of all state land.

Three federal departments -- Agriculture, Interior, and Defense -- are primarily responsible for the administration of four million acres of federally owned lands in Minnesota. At least 22 smaller federal agencies also administer lands in the state.

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* Resource Round Up, Minnesota Department of Natural Resources, 1975.

The distribution of public lands is not uniform across the state. In fact, 90 percent of the state and federal land ownership is located in only 17 of Minnesota's 87 counties. Nine counties have over 50 percent of their entire land area in state or federal ownership. (See tables 1 and 2.)

ACQUISITION PROCESS: AN OVERVIEW

Appropriations for natural resources acquisition are made to the Department of Natural Resources Land Bureau. This department and the Department of Administration Real Estate Management Division are primarily responsible for conducting natural resources land acquisition. The specific responsibilities are identified in the interdepartmental cooperative agreement. A summary of these is shown on Table 3.

The general acquisition priorities are identified in the Department of Natural Resources RESOURCE 2000 plans which are submitted to the Legislature, and include the specific parcels to be acquired by the various divisions (i.e. Fish and Wildlife, Parks and Recreation, Forestry). These properties are within boundaries established in accordance with state law.

The Department of Natural Resources has no general condemnation authority, and must acquire land from willing sellers, except where condemnation is specifically authorized by law. Department personnel contact landowners within established project areas to see if they desire to sell to the state. Occasionally, the landowners themselves contact the state.

If the landowner desires to sell to the state, an appraisal is made, the performance of which is governed by state and federal regulations.

Once the appraisal has been completed it is submitted to the Department of Administration's review appraisers for analysis. The review appraiser recommends certification of the appraised value which authorizes the Department of Natural Resources to make that offer to the landowner.

After an appraisal is reviewed and certified by the Department of Administration, it is sent to the Department of Natural Resources where a negotiator is assigned to make the offer to the landowner. If the offer is rejected, a reappraisal of the property can be made after six months has elapsed from the date of the last appraisal. If the offer is accepted, the landowner signs an option to sell his/her land to the state within a time period specified by the Department of Natural Resources in the option.

After the necessary administrative steps have been completed, an election-to-purchase notice (EP) is sent to the landowner notifying him/her that the state has agreed to purchase the property. An up-to-date abstract of title is then requested of the landowner.

The Department of Natural Resources Legal Bureau then checks the title to make certain it is valid and marketable. A document of conveyance of land or interest in land is then prepared by the Legal Bureau and signed by the landowner. Payment is made to the landowner after this document has been recorded and the Legal Bureau has given a final title opinion verifying that the land (or interest in land) is in state ownership. Finally, the Land Bureau notifies the appropriate agency personnel that the land has been acquired.

As previously mentioned, our primary concern with the present acquisition process is the inordinate amount of time it takes the state to acquire land. Reducing the length of time required to purchase land would have the following impact:

1. Greater fairness to the public (landowner)

   Lengthy delays in paying landowners for their property can result in their not being paid fair market value due to increases in land prices.

2. Reduction in overhead costs

   A lengthy, complex acquisition process increases professional services/overhead costs and reduces the money available to purchase needed lands. Some of these overhead costs are "fixed," regardless of the number of parcels bought.

3. Improved capability to buy high priority lands

   When the acquisition process takes a long time to complete, the Department of Natural Resources is often unable to act quickly to purchase lands crucial to natural resources management programs.

4. Reduction of acquisition costs

   The RESOURCE 2000 Program is based on the idea that it is less expensive to acquire lands now than to buy the same lands later at a highly inflated cost. A lengthy acquisition process counteracts the basic reason(s) for accelerated appropriations.

5. Increased public cooperation and satisfaction

   The complexity of the existing procedures leads to public confusion and this confusion frequently leads to public dissatisfaction. Cutting some of the red tape from the existing state acquisition procedures should reduce the ill-feeling caused by the delays in payment that some landowners have toward the Department of Natural Resources acquisition. A 1975 survey of persons who sold land to the state showed that 36 percent of the respondents were dissatisfied with the time-consuming state procedures. Department of Natural Resources, Department of Administration officials, and others questioned by the Task Force agree that streamlining the existing acquisition procedures would help the state negotiators improve their success in buying land from willing sellers.

LANDOWNER CONTACT

The acquisition process begins when a boundary or a project area is established by state law (i.e. state parks, wildlife, fish, wild and scenic rivers, public access, and forests) and funds are appropriated by the Legislature to acquire the lands within this boundary.

Department of Natural Resources personnel then contact the project area landowners to ask if they are willing to sell their land to the state. Federal and state law prohibits state personnel from discussing purchase price with the landowner until an appraisal has been completed. This initial contact with the individual landowner is only to determine whether he/she would seriously consider selling to the state. If the landowner wishes to sell, the acquisition process continues. If not, it ceases at this point.

Improperly made landowner contacts can dramatically increase the overhead costs of the acquisition program. Specifically, if the landowner is said to be a willing seller and he/she actually is not, the state goes through the considerable time and expense of the appraisal and negotiation process with no results.

At the start of the program in 1975, Department of Natural Resources personnel assumed that affected landowners would be willing sellers. Staff initiated literally hundreds of requests for appraisals which stated that the landowners were willing to sell, when in fact they had never even been contacted by the Department of Natural Resources personnel. Even when they had been, numerous landowners were identified as willing sellers when they probably were not.

Since 1975, the state has appraised 547 landowners' properties which have resulted in unwilling sellers. This amounts to 49 percent of all parcels appraised for purchase. In 20 percent of the cases, the landowners probably never were willing to sell. The state has spent about $1.5 million to appraise property since 1975. Of this amount about $500,000 was spent on appraisals of property that was not purchased by the state.

Although this initial problem has been lessened, it has by no means been eliminated. There is a definite need to better assess whether landowners are serious about selling to the state. Not only does this increase state appraisal-overhead costs, it also diverts staff from acquiring the crucial tracts from willing sellers in other areas. The Department of Natural Resources Land Bureau has also recognized this problem by revising its fact sheet to better determine whether landowners are in fact willing sellers.

Recommendations

1. The Commissioner of Natural Resources should attempt to improve the department's present acquisition success rate from 51 percent to 70 percent, by requiring a more thorough initial contact to determine whether landowners are willing to sell to the state.

FACT SHEET

After willing sellers have been identified, the next step is the preparation of the fact sheet (shown in Appendix A) by the person who made the initial landowner contact. The fact sheet includes the owner's name, a legal description of the property, acquisition type (fee title, easement, lease), the name of the person who contacted the landowner, and a "not to exceed" purchase figure. The signatures of the division directors (i.e. Parks and Recreation, Fish and Wildlife, Forestry) and the regional administrators are also required on the fact sheet to verify that they agree that the parcel be bought by the Department of Natural Resources.

The person preparing the fact sheet must also justify, in writing, why the lands are being purchased and what funds should be used to buy the land.

The "not to exceed" purchase figure is included on the fact sheet and is required by M.S.A. 84.0272. We feel it is useless to estimate a "not to exceed" price on the fact sheet since the person filling out the fact sheet often is not an appraiser and does not have an accurate idea of what the property is worth, and because state and federal laws prohibit agency personnel from discussing price with the landowner prior to making an appraisal. Further, when the person completing the fact sheet assigns a maximum purchase price, and the appraised value is more than that, additional paperwork and time are required to buy the property. We also found that the maximum purchase price requirement has cost the state additional money to pay for unnecessary appraisals. It is also possible that putting a maximum purchase price on a fact sheet could influence the appraiser's opinion of value for that property.

Finally, estimating a "not to exceed" price does not accomplish what the Legislature apparently intended: to reduce costly purchases. Some staff have deliberately assigned extremely high "not to exceed" values to avoid writing additional justifications for the purchases, or, when the estimated value is close to $50,000, they have set the value just under $50,000 so the Department of Administration could not require two appraisals on the property because of the inter-departmental agreement.

Requiring the signatures of the Division Director and Regional Administrator on the fact sheet increases the acquisition time, but does not provide adequate review of state purchases. The Regional Administrator or Division Director can delay the acquisition process by simply refusing or holding a decision to sign a fact sheet. Since both signatures are required, either person could stop the acquisition. For example, the Director of Parks and Recreation may decide that a parcel within a state park is critical to the ultimate management of that park. Still, the purchase could be indefinitely delayed by the Regional Administrator because he/she disagreed with the proposed acquisition. This situation can occur even though the Legislature had clearly intended that all land within a state park boundary should be acquired by the state.

The Task Force found situations where this had occurred. Previously, no effective mechanism existed within the Department of Natural Resources for resolving these situations. However, the Commissioner of Natural Resources has told us that regional administrators will no longer be required to sign the fact sheets.

We also found the fact sheet procedures take a long time to complete. The average time elapsed from the first contact with the landowner to the time it is received by the Department of Natural Resources Land Bureau for further action is 60 days. On one major acquisition project (comprised of 24 parcels) the average time was 130 days. On one parcel this procedure alone has taken 247 days. Ironically, the regional and division land acquisition specialists, whose job it is to expedite the acquisition program, have occasionally been the ones who have slowed it down. In some cases we found that the fact sheets crossed nine desks before the appraiser was actually assigned. Department of Natural Resources officials agree with the Task Force that the time needed to process fact sheets is much too long, and that this time could and should be significantly reduced.

When this step has been completed, the Department of Natural Resources Land Bureau and the Department of Administration Real Estate Management Division are responsible for completing the acquisition process.

Recommendations

1. The Commissioner of Natural Resources should require that time needed to process fact sheets be reduced from an average of 60 days to 15 days. (See Table 4.)

2. The Legislature should consider amending M.S.A. 84.0272 which requires a "not to exceed" figure on the fact sheet.

APPRAISAL ASSIGNMENT

The next step in the acquisition process is the assignment of an appraiser to appraise the value of the property to be purchased. This, too, is costly and time consuming.

Under the cooperative agreement between the Department of Administration and the Department of Natural Resources, the Department of Administration has responsibility for making all appraisal assignments. Initially, Department of Administration officials told us they felt this was necessary in order to have a "check and balance" on the Department of Natural Resources acquisition program, as required by state law.

Private fee appraisers are contracted with, report to, and are supervised by the Department of Administration Real Estate Management Division. Frequently, however, we found that the private fee appraisers contact the Department of Natural Resources directly for information about an appraisal assignment, because they say Department of Administration officials often did not have the information they needed. In doing so, the private appraiser must spend additional time and expense.

In the case of both staff and fee appraisers, it would appear to be to the advantage of all concerned if the assignments of both types of appraisers were made by the Department of Natural Resources Land Bureau. Preservation of "check and balance" does not seem to be interfered with by such a shift of responsibility inasmuch as there is probably as much opportunity for undue influence on appraiser(s) under the present system as there would be if the responsibility were shifted to the Department of Natural Resources.

After reevaluation of the present appraisal assignment policies and procedures, Department of Natural Resources and Department of Administration officials agree that authority for appraisal assignments should be transferred to the Department of Natural Resources.

By making this shift of appraisal assignment responsibility it is clear that it should take less time and paperwork to complete appraisal assignments. At the present time it takes 20 days to complete the "paperwork" involved in making the average fee appraisal assignment, while the average staff assignment takes 32 days.

Recommendations

1. The Governor should, under the authority granted in Laws of Minnesota, Chapter 16, amend the cooperative agreement to allow the Commissioner of Natural Resources to make appraisal assignments. This would reduce costs and appraisal assignment time.
2. The Commissioner of Natural Resources should require that the average fee and staff appraisal assignment time(s) be reduced from its present 20 and 32 days to 10 days.
3. The Commissioner of Natural Resources should take appropriate steps to insure that appraisers are not influenced by the department's staff.

APPRAISALS

Before the Department of Natural Resources can make an offer to buy land, it must first obtain an appraisal of its fair market value. The appraisal is completed either by Department of Natural Resources staff appraisers or by contract with private fee appraisers through the Department of Administration.

Presently 63 percent of the appraisals are completed by Department of Natural Resources staff appraisers and 37 percent by private fee appraisers. One of the questions that the Task Force examined was whether the state should use more private fee appraisers rather than Natural Resources staff appraisers.

Generally, Natural Resources staff appraisals are done by the professional appraisers in the Department's Land Bureau. However, Fish and Wildlife purchases are frequently appraised by Fish and Wildlife field personnel. These people are neither solely trained nor assigned as appraisers, and previously have been criticized for not understanding the land valuation process.

This situation has created some problems. Fish and Wildlife personnel do not receive the continuing education and training that the Land Bureau appraisers receive. This affects the appraisal quality. Second, there is a lack of control over the entire acquisition process because they do not report to the Acquisition Supervisor of the Department of Natural Resources Land Bureau. Third, it affects the public's credibility in the independent nature of the appraisal. Fourth, it is a "hidden cost" of the acquisition process which has not been fully reported to the Legislature. (This is addressed in further detail later in the report.)

Another concern voiced to the Task Force was that some Natural Resource staff appraisers had, in previous years, made offers to buy land before the land was appraised. We found only one instance in the transactions checked where this happened. However, during our interviews, a number of Natural Resources personnel admitted that they had discussed price prior to making an appraisal. These actions cast doubt on the credibility of the state's acquisition procedures. Since the appraisal is the single most important factor in the acquisition process, it is essential to maintain public confidence in its accuracy and fairness.

In 1975, the Legislative Audit Commission recommended that the Department of Natural Resources discontinue the practice of having the same person appraise and negotiate the purchase of the same properties. We found that this procedure has been generally discontinued. Land Bureau sources interviewed agreed that it was wise to avoid this situation because it was vulnerable to price influencing. However, wildlife purchases are still appraised and negotiated by the same person.

According to staff interviewed, an informal policy was agreed to in 1972, to get two appraisals on land valued at over $50,000. Initially, this policy was flexible, however, and if reliable sales data was available to establish price only a single appraisal was made. Using an average annual inflation rate of 15 percent and applying it to the $50,000 criteria, for the six-year period from 1972 to 1978, comparable property is now worth about $115,000. We believe that this policy should be flexible and that the dollar value for requesting the appraisals be increased.

Further, when two appraisals are required, appraisal assignments and appraisal completion dates should be made at approximately the same time. When this is not done, it only further slows the acquisition process, and likely results in significant differences in appraisal values. These differences can be predicted due to inflation and other increases in property values over a period of time.

In assessing whether the state should use more private fee appraisers in its appraisal process, we looked at the relative costs, time, workload, quality, and independence of such appraisals.

We found that, contrary to opinions expressed by the Department of Natural Resources Land Bureau staff, private fee appraisers completed their appraisals on a more timely basis than did staff appraisers. In 45.5 percent of the purchases reviewed, Natural Resources staff appraisals were not completed until after the due date, as compared to only 17 percent of the private fee appraisals which were not completed on time. Moreover, a survey conducted by Natural Resources regional personnel showed that most staff appraisals completed were over 27 days late. They stated that this delay resulted in not purchasing some key tracts.

The Task Force also examined the staff appraisers' workloads. There was a considerable variation in the number of appraisals completed by the Department of Natural Resources' appraisers. Given a 22-month period, the quantity varied from 109 to 10 appraisals for individual appraisers. The department's acquisition supervisor stated that each staff appraiser should be able to complete an average of three to four appraisals monthly. Workload analysis was more difficult for private fee appraisers since they are contracted with on an appraisal basis. However, our interviews with private fee appraisers revealed that they generally are able to complete eight to ten appraisals per month.

It is difficult to assess appraisal quality, however one indicator might be which appraisals -- private or staff -- are most often certified by Department of Administration review appraisers as being the best estimate of market value. The Task Force examined over 100 Department of Administration reviews where both a staff and fee appraiser had appraised an individual property. In 69 percent of the reviews checked, the Department of Administration certified the appraisal completed by the private appraisers as being the best opinion of market value. Moreover, the Department of Administration review and certification time is longer for Department of Natural Resources staff appraisals than for private appraisals. This quicker review of private appraisals may also be an indication that these appraisals are better in quality. Finally, since the private appraisers contracted with by Administration generally perform appraisals as their sole occupation, it could be expected that the appraisal quality reflects this professionalism.

The last factor considered in the increased use of private appraisers is the question of independence. Department of Natural Resources officials involved with land acquisition, believe that the public has greater confidence in appraisals done by private appraisers. The Supervisor of the Acquisition Section also agrees that the independence of the private appraiser is advantageous and can yield better success in buying needed property.

One possible problem with greater use of private fee appraisers is the scarcity of qualified rural land appraisers. According to data compiled by Natural Resources acquisition officials, the majority of all Department of Administration private appraisal contracts have gone to only ten private appraisers. Both Administration and Natural Resources staff agree that they have had problems in getting more qualified rural land appraisers to contract with for their appraisal work. This is due, in part, to the scarcity of qualified rural land appraisers in some areas of the state. The Task Force believes that the state could increase its efforts to recruit private appraisers, particularly those located in rural areas.

The Task Force also examined the relative cost of appraisals as they are affected by agency procedures. In a few isolated cases the Department of Administration assigns a single appraiser to conduct all of the appraisals on a given project (i.e. in one state park, trail). Generally, however, the Real Estate Management staff assign many people to do appraisals within a single project area. The Task Force compared appraisal costs for each of these methods. We found that the average cost per appraisal was about $280 when one appraiser did all the appraisals for a given project. In contrast, it cost an average of about $630 per appraisal on a project where a number of appraisers were used. If the assignment of appraisal duties was spread over a variety of acquisition project areas rather than assigning a multitude of individuals to a particular acquisition area, these costs could be considerably reduced. Reduced overhead, travel, research, and appraisal time would all combine to lower the overall cost.

Real Estate Management officials and Natural Resource officials agree with the Task Force that where it is possible and practicable, assigning appraisers on a project basis is desirable and advantageous. For reasons previously stated, however, (shortage of qualified appraisers in some areas and the desire to use more fee appraisers) it is not always feasible. It is felt, however, that by the switch of appraisal assignment responsibility to the Department of Natural Resources, the built-in advantage (advance knowledge of the number and timing of parcels to be acquired in a given project) will allow the Department of Natural Resources to improve this situation.

The Task Force also reviewed how the agencies were implementing the 1975 acquisition law that allows landowners to contract for their own appraisal at state expense. M.S.A. Section 117.232 states that landowners may hire their own appraiser and be reimbursed by the state for the cost up to $300, provided that the state purchases the land.

We found that although the landowner may get his own appraisal, the state is not legally obliged to consider it in its determination of market value.

Natural Resources staff told us they do not always tell the landowner that they have the right to get their own appraisal. Further, they said that when they do tell them, they advise that their appraisal is not likely to be considered in the determination of market value. To date, there has been little use of this provision by the landowners.

Recommendations

1. The Commissioner of Natural Resources should require that all Natural Resources personnel involved in the appraisal and negotiation process be responsible to the Department's Land Bureau.
2. The Commissioner of Natural Resources should require that the state primarily use private fee appraisers rather than Department of Natural Resources staff.
3. The Commissioner of Natural Resources should assign appraisers on a project basis in order to improve appraisal efficiency, consistency, and reduce costs.
4. The Commissioner of Natural Resources should improve efforts to identify and contract with additional qualified rural land appraisers.
5. The Commissioner of Natural Resources should require that appraisers complete their work on schedule.
6. The Commissioner of Natural Resources should require, to the greatest extent possible, that when two appraisals are needed on a single piece of property both should be assigned and due at the same time in order not to delay the acquisition process.

7. The Commissioner of Natural Resources should establish criteria for the selection of private appraisers and provide more careful screening of qualifications in rural land appraisals.
8. The commissioners of Natural Resources and Administration should improve the training program for their staff working on the land acquisition programs.
9. The Governor should, under the authority granted in Laws of Minnesota Chapter 16, amend the cooperative agreement to allow the present guidelines of $50,000 to be raised to $75,000. The Department of Administration must continue to reserve the right to call for additional appraisals as deemed necessary in the review process.
10. The Commissioner of Natural Resources should require that the same agency personnel not be allowed to appraise and negotiate for purchase of the same property.

REVIEW AND CERTIFICATION

Department of Administration review and certification is required by state law and is intended to provide a "check and balance" over natural resources acquisition. Officials from both the Department of Administration and Natural Resources agreed that this "check and balance" is achieved through Administration's review and certification. Once an appraisal has been completed and submitted to the Department of Administration Real Estate Management Division, they are responsible for reviewing the appraisal and certifying that the appraisal value is an accurate estimate of the fair market value.

The Task Force is concerned with two primary aspects of the review and certification process: quality and time. Specifically, is the quality of the appraisal review adequate and is the review and certification prompt.

The Task Force found it difficult to evaluate the quality of the Department of Administration's review and certification process. Our analysis of over 200 appraisals reviewed and certified by Administration found the following problem areas.

First, we found certain instances where the same parcel was appraised and certified at varying values during essentially the same period of time.

Second, Department of Natural Resources negotiators stated that they occasionally were hesitant to make offers to purchase property on the basis of Real Estate Management's certified appraisals because they were familiar with the project and were convinced that the certified appraisals were not at fair market value. Complaints about the quality of the Department of Administration's review and certification came not only from Department of Natural Resources staff, but from private appraisers as well.

The Department of Natural Resources negotiators should not assume the role of review appraiser. However, the Task Force agrees that when an appraisal has been certified as being at market value and the negotiator finds a factual error in the appraisal report that does have an impact on value; the negotiator should notify the Department of Administration review appraisers. Department of Administration review appraisers should then re-evaluate the certified appraisal in light of the new information.

Third, the appraisal reviews were rarely based on inspection of the subject properties. However, the Department of Administration's appraisal review forms indicate that such inspections are important. Each appraisal review form includes the following statement to be signed by the review appraiser when he certifies it as market value:

> On the basis of analysis of appraisals submitted on this parcel together with actual inspection of the property and further investigation when considered necessary, the recommended estimate of market value for the same as of . . .

The U. S. Fish and Wildlife Service Land Manual also recognizes the importance of periodic project inspections by review appraisers. It states on page 260.2B:

> 2. Field review - when the reviewer is unfamiliar with the subject, the quality of the appraisers and/or the current local market, a field review of the subject and indicies should be made. It is often expeditious for the appraiser to accompany the reviewer during the field review to clarify and/or resolve any questions regarding this interpretation of the data.

Other state acquisition officials informed us that they require review appraisers to periodically make field inspections of the various project areas so they stay familiar with changes in land uses and land values.

When the Task Force checked Administration reviews and certifications, we found that the review appraisers, in many instances, had not seen the property that was appraised. Frequently, the review appraisers stated their review was based on inspection of the property, even though they did not inspect it. Department of Administration officials agree that this has occurred and believe by changing the present language on their review and certification form, that these "oversights," or review mistakes could be eliminated in the future. Review appraisers are not always familiar with the general project area where the parcel to be purchased was located. That is, they did not always visit the state park, wildlife management area, or forest within which the acquisitions were being made.

The departments of Natural Resources and Administration officials agree that more field inspections are needed. Since January, 1978, Administration has increased its field inspections of appraised property.

The Task Force found in checking Real Estate Management records, that the review and certification process is also slow. Although the Task Force is concerned that the review and certification be of high quality, we do feel that it could be accomplished more quickly. Other states and the federal government have been able to perform such reviews and certifications in a much shorter period of time than that presently done by the Real Estate Management Division. Based on our sample check of 149 appraisals, the average certification time is 37 days for private fee appraisals and 56 days for Department of Natural Resources staff appraisals. On several occasions the review and certification has taken as long as 116 days. The Task Force believes that one of the primary problems with this long review and certification time is that it may necessitate a reappraisal of the property. This essentially means the process must be started over again because inflation has probably increased the value of the property. A lengthy review and certification period could also have the net effect of the state paying less than fair market value for property due to increases in land prices.

Early in this study, Task Force members spoke with top officials in the Department of Administration and expressed concern over the time delays in their review and certification of appraisals. We also discussed the impact this can have on the landowners. As a result of this discussion, steps were taken by Administration officials to expedite the process. Over the course of this study there has been a dramatic improvement in the review and certification time by the Real Estate Management Division staff.

It was mutually agreed between Natural Resources and Administration officials that one reason for the delays in review and certification was discrepancies between appraisals or poor quality appraisals. Agency officials agreed that this review time could be reduced if appraisals were first pre-reviewed in the Land Bureau before they were sent to Administration. Staff also agreed that where two or more appraisals are done on the same parcel and where there are discrepancies between these, the Department of Natural Resources Engineering Bureau should be contacted to resolve these. Although this is another review step for some appraisals, we are confident that the net effect will be to improve the appraisal quality and reduce the review and certification time.

After the appraisal has been reviewed and certified by the Department of Administration, it is then sent back to the Department of Natural Resources Land Bureau, where a staff negotiator is assigned to contact the landowner and make him/her the offer to buy the property based on the certified appraised value. The Task Force found that it takes approximately eight days to get the appraisal from the Department of Administration to the Department of Natural Resources once it has been certified. It then takes the Land Bureau an average of seven days to assign a negotiator.

<u>Recommendations</u>

1. The Commissioner of Administration should require that the amount of time taken to review and certify appraisals be reduced from its present average of 37 and 56 days to 14 days.
2. The commissioners of Administration and Natural Resources should cooperate to ensure that the amount of time presently taken from certification to the assignment of a negotiator be reduced to seven days.

3. The Commissioner of Administration should increase the department's field inspection in order to improve the quality of reviews.
4. The Commissioner of Administration should require that appraisers be contacted or requested to be present, whenever practical, on field inspections by the review appraisers so that quality control of appraisals can be accomplished partially through the review process.
5. The Commissioner of Administration should require that reviewers contact appraisers when there are appraisal problems, particularly when there is more than one appraiser involved.
6. The Commissioner of Natural Resources should require that the Land Bureau pre-review all appraisals before submitting to Administration for review in order to improve the quality of appraisals.
7. The Commissioner of Natural Resources should require that when two appraisals are taken on the same tract and there is a discrepancy between them, that the Land Bureau submit the appraisals to the Engineering Bureau for clarification before sending them to Administration for review and certification. Such a procedure not only would improve the quality of appraisals but also speed up review and certification time.

NEGOTIATION

The negotiator is a Department of Natural Resources staff person who makes the offer on the landowner's property.

Technically, the state does not negotiate to buy land. That is, the only offer made to purchase is the appraised value. The landowner is then free to accept or reject the state's offer. The negotiator provides a landowner with a written statement (called a Statement of Just Compensation) stating that the offer has been made and is the certified value of the property. If the landowner decides to accept the offer, he/she is then asked to sign an option.

An option is not a contract. It is an agreement that binds the landowner to sell his/her property to the state at the appraised value, but it does not bind the state to purchase the property from the landowner. In essence, it gives the state the sole right to purchase the property within a specified period of time. This time period is generally six months if no land survey is required, 12 months if one is. The state pays $1 each for their option.

The Task Force believes that the option period is also too lengthy, and that this time delay affects the market value. Over the option time period, land values can increase dramatically which has the effect of the state paying less than fair market value by the time it actually agrees to purchase the property. This problem was also addressed in the 1975 Legislative Audit Commission report. At that time the Department of Natural Resources was taking options up to two years in length, and frequently took options of 12 to 18 months in length, so that the Department of Natural Resources could option property during one biennium and pay the landowner from funds appropriated by the Legislature in the next biennium. This is now particularly unjustified since the Legislature has appropriated considerable money to buy the needed parcels within existing state units, (i.e. Parks, Wildlife Management areas, etc.). The Legislative Audit Commission also recommended a reduction in the option period time to six months. Since the start of the RESOURCE 2000 Program, the Department of Natural Resources has generally used a six-month option or, when a survey is required, a 12-month option, although the Supervisor of the Department of Natural Resources Acquisition Section changed the option period from six months to four months for parcels where a survey was not required. However, we were informed by Department of Natural Resources staff that virtually all of the 1977-1979 biennial appropriation for wildlife acquisition had been spent and that some department staff are now proceeding to take some 14-month options for wildlife land purchases. We believe this practice should be discontinued. To date, there has been no reduction in the option period where surveys are required.

As previously mentioned, the state technically does not negotiate with landowners concerning price, rather an offer is made based on the appraised value, which can be accepted or rejected by the landowner. However, in 1975 the Legislature changed state acquisition laws to allow the Department of Natural Resources to pay up to ten percent over the certified value of a property. Therefore, under the present state acquisition legislation, the department is able to "negotiate" for that amount over market value. Department of Natural Resource Policy requires that when up to ten percent over the appraised value is paid, it must be justified in writing by the Department of Natural Resources personnel authorizing such payment. The Task Force reviewed all 120 such purchases since 1975 when these additional amounts were paid. Various justifications were given by Natural Resources personnel for this payment. In 58 percent of the 120 purchases examined, additional payment was explained as a "compromise to the landowner's asking price." Essentially this means that due to the time delays between the appraisal and option periods, the state negotiator and the landowner agreed that inflation had caused an increase in the value of the property which justified the increased payment.

In 19 percent of these purchases the justification given was simply "time delay." Consequently, approximately 77 percent of the purchases where the state paid from one to ten percent over market value, were deemed necessary due to the slowness of the agencies in buying property. Since 1975, the slow state acquisition procedures directly caused the state to pay an additional $224,943 for the lands purchased.

Recommendations

1. The Commissioner of Natural Resources should allow no more than two months for the option period on purchases without a survey.

SURVEYS

In certain cases the Department of Natural Resources surveys the land to be acquired. Whenever such surveys are requested for these purchases, the option period is extended from six months to one year in length.

The Task Force agrees with the criticism of the Legislative Audit Commission that a one year option is excessively long and unduly delays the acquisition process.

There are a number of ways that these surveys could be expedited in order to reduce the option period. These methods were discussed with or directly suggested by the Department of Natural Resources Engineering Bureau officials.

For example, there is difficulty in digging for and locating section corners and other monuments during the winter months. If engineering received surveying requests prior to the fall freeze-up, they could locate monuments earlier so that surveying could be continued during the winter.

We also agree with the Engineering Bureau staff suggestion that some of the time presently required for surveys could be reduced if more overload work were contracted out to private surveyors. The Engineering Bureau is increasing the number of private surveys of lands to be purchased by the Department of Natural Resources; we believe this should be further accelerated.

Summer is the most productive time for surveying work. Engineering officials have suggested the staff could work 50-60 hours weekly in summer, accumulate compensatory time, and take time off in the winter. The present state employee contract prohibits such work scheduling. A supplemental agreement with the employees union could be negotiated to allow such flexibility. This arrangement apparently would be favored by the employees. It would also increase productivity and reduce travel costs.

Engineering Bureau officials also raised concerns about the need to correct erroneous surveys. In the course of both public and private land transactions mistakes occasionally occur which result in erroneous land titles.

Errors in surveys and the preparation of legal descriptions can result in the legal descriptions not coinciding with actual land occupancy. This clouds the title of the occupant and adjacent landowners. Presently the Department of Natural Resources does not have the authority to correct these errors without legislative approval of each case.

According to Engineering Bureau staff these situations are uncommon and generally are discovered as a result of a resurvey by the state or at the time of another land transaction.

Presently, Department of Natural Resources officials are aware of about 40 cases of erroneously described ownerships. Many are the result of erroneous surveys conducted many years ago, and only recently discovered. We agree with Department of Natural Resources officials that these situations should be corrected, not only for the benefit of the state but also for adjacent private owners whose titles have been adversely affected.

Recommendations

1. The Commissioner of Natural Resources should, through better scheduling of surveys and increased use of private surveyors, require that the option period be no longer than nine months.
2. The Commissioner of Natural Resources should require that the Land Bureau reduce the time it takes to request a survey from Engineering from 52 days to 7 days after Engineering and Legal approval has been received.
3. The Commissioner of Natural Resources should try to negotiate an agreement with the state employees union to allow greater flexibility in working hours in order to increase productivity and reduce costs.
4. The Legislature should consider legislation to allow the state Executive Council to review and approve corrections in boundary lines of state ownership caused by surveying errors.

PAYMENT

After the option has been taken it is reviewed by Department of Natural Resources Engineering and Legal bureaus. A sequence number is established by the Fiscal Section for payments later to be made to the landowner. Other approvals are also obtained to comply with specific statutory requirements. (These steps are identified in greater detail in Table 5.)

Following the completion of these procedures, the Election to Purchase notice is sent to the landowner. It is not until this point that the state is legally bound to purchase the property from the landowner. From the Election to Purchase notice to the time the landowner is paid, there are a number of administrative procedures to follow -- most are the responsibility of the Legal, Land, and Fiscal sections of the Department of Natural Resources. The approvals and procedures presently required after the Election to Purchase is made are shown on Table 6.

Based on our sample purchases we found that the average time from Election to Purchase until the time the landowner received payment was 191 days. (It took an additional 180 days if a survey was required.) We recognize that there is a difference in the average time taken depending on whether or not the landowner's title needs perfection (either with or without court proceedings) in order to make it marketable and acceptable to the state. A transaction involving a title which is good initially takes considerably less time than a title which needs perfecting. We also recognize that some time delays occurring in land transactions are outside of the state's control, such as delays in correcting titles or delays by county recorders in recording executed deeds.

Nonetheless, we believe that by amending certain administrative procedures the average time could be significantly reduced without sacrificing safeguards or compliance with applicable statutory requirements. It is important to shorten the time period as much as possible, because it is at the time of the Election to Purchase when both parties are committeed to the transaction. From then on, the landowner becomes concerned about payment.

Although it is difficult to recommend an average time which should be met in all acquisitions (situations vary greatly in complexity), we feel that there are certain average times which should be met. When the landowner's abstract shows that his title is marketable (about 60 percent of the time), the state should be able to make payment within 60 days of the Election to Purchase. If steps have to be taken to correct the landowner's title (about 40 percent of the time), it is more difficult to recommend a figure since much of the time taken to correct the title is under the control of the landowner and his attorney, not the state. In such a case it should take no more than 60 days plus the time it takes for the landowner to clear his title, a time which may take on the average up to three months.

Recommendations for expediting legal review(s) and payment of landowners have been made to the Task Force by the Attorney General's Office. These recommendations when implemented could result in reducing as much as 100 days from the present process. Yet, it will still retain the safeguards and quality of legal review essential to state acquisition. (See Table 4.)

Recommendations

1. The Department of Natural Resources Land Bureau should request an updated abstract from the landowner at the time the option is signed, not at the time of the notice of Election to Purchase. This would save considerable time because the Legal Bureau could proceed to immediately examine the title to the land and have the title examination completed by the time the Election to Purchase is made. After the Election to Purchase deeds could immediately be sent to the landowner if title has been determined to be good. If the title needed perfecting, steps to accomplish that could begin without delay.

   We realize that this recommendation may alter somewhat the procedural arrangements for the payment by the state of the landowner's abstracting fees. There is also a slight risk that in certain situations (if the state were to decide not to go ahead with the Election to Purchase) the state would examine the title to and pay abstracting fees for land which it did not ultimately purchase. However, since the state gives notice of Election to Purchase on virtually every parcel on which it receives an option, we feel the benefits of the recommended procedure far outweigh the risks.

2. The Department of Natural Resources Land or Legal Bureau should order warrants of payment as soon as the signed deeds are returned from the landowner. This will eliminate the delay of approximately 20 days the present process creates when warrants are not ordered until after the final recorded deed is returned from the county recorder's office. Under the recommended procedure checks could be sent immediately upon receipt by the Legal Bureau of the recorded deed. Although the recommended procedure would increase paperwork slightly and would require the Department of Natural Resources to store checks temporarily, the savings in time outweigh these relatively minor inconveniences.
3. The Commissioner of Natural Resources should attempt to convince county recorder's offices of the need to expedite the processing and recording of deeds in the Department of Natural Resources land transactions. From two to four weeks of time are sometimes lost because of delays by local recorders in checking and recording the deeds sent them by the Department of Natural Resources Legal Bureau. To the extent that the local recorders could give state transactions priority, the time between when the landowner signs his deed and when he receives his payment could be shortened.
4. The Attorney General's Office should assign another attorney to examine abstracts and issue title opinions. There presently is a position available within this office which could be used for this purpose. (The complement of the Attorney General's staff assigned to land acquisition has remained the same over the past few years despite the fact that the Department

of Natural Resources land acquisition programs have expanded dramatically.) With additional help it should be possible to reduce the average time taken from the issuance of a title opinion from 34 days to 20 days or perhaps even less, depending on the complexity of the titles examined.

AGENCY COOPERATION

Because of the unique situation where the departments of Natural Resources and Administration have joint responsibility for natural resource land acquisition, certain problems have occurred. The primary one seems to be a general lack of communication and cooperation.

At the start of the RESOURCE 2000 Program a cooperative agreement was developed and signed by the commissioners of both Natural Resources and Administration.

However, despite the agreement, agency staff told us that there is an adversary relationship between the two departments. Our review of the agencies' files document this notion.

We believe the cooperative agreement is basically a workable one, but the agency staff disregard parts of it. For example, the agreement states on page five: "The Department of Natural Resources Legal Bureau shall provide all legal service required for land acquisition and disposition procedures." We found several examples where Real Estate Management officials made decisions on the advice of attorneys not in the Department of Natural Resources Legal Bureau. This only serves to make sensitive acquisitions even more difficult.

The cooperative agreement also establishes a schedule of monthly meetings to discuss problems, resolve disputes, and suggest improvements in the program. These meetings have not taken place for over a year. Although we are generally hesitant to recommend such regular meetings -- we do feel that communication should be reestablished.

Considerable delay in the acquisition process has occurred because Administration staff do not discuss appraisal problems with Natural Resources staff. Administration staff told us they chose not to do so because they thought it would further irritate Natural Resources staff. As a result, work sits with no action taken for months. Natural Resources staff contend that they cannot solve problems if they are not aware of them.

Recommendations

1. The commissioners of Natural Resources and Administration should cooperate to establish interagency training sessions to familiarize staff from each department with the others' management programs and the functions of appraisals and reviews.
2. The commissioners of Natural Resources and Administration should reestablish the monthly staff meetings recommended in the cooperative agreement in order to improve interdepartmental communications and expedite the land acquisition process.

ACQUISITION PRIORITIES

The Task Force also examined the degree to which the Department of Natural Resources was following the specific acquisition objectives it set when the program was established by the Legislature. Prior to legislative enactment of the accelerated natural resources acquisition program, the Department of Natural Resources prepared a document entitled RESOURCE 2000. It specifically identified areas and tracts to be acquired by the agency, if funding was approved. A similar document was prepared for the 1977-1979 biennium when additional funding was proposed and legislatively approved.

It is not feasible for the Department of Natural Resources to buy each tract they proposed -- particularly because the agency does not have general condemnation authority and must essentially rely on willing sellers. According to Land Bureau staff, some delays have occurred because various divisions within the department have not delineated what the priority acquisition areas are. In some cases, acquisition of lands identified by the Department of Natural Resources for purchase under the RESOURCE 2000 Program has not even begun. In other cases, lands not identified for priority purchase have been bought. At present, there is no effective mechanism for implementing departmental acquisition priorities for the Land Bureau staff to work on.

Often, the priority is based on which managers complain the most to the Land Bureau about the lack of progress in their program(s). Because of this, there is a great difference between the purchases to date in each acquisition unit (i.e. parks, trails, wildlife, forestry). As of June 30, 1978 the Department of Natural Resources has spent a total of $10,654,274 for raw land purchases. There is a balance (as of June 30, 1978) of $13,607,000 available for additional purchases and a balance of $838,000 for professional services funds.

Recommendations

1. The Commissioner of Natural Resources should require that the department staff improve its efforts to inform the Land Bureau of lands that should be given priority attention for purchases.
2. The Commissioner of Natural Resources should require that the department improve its planning efforts to identify the specific lands that are needed for purchase. This is particularly needed in fisheries, wildlife, and forestry acquisition projects.
3. The Commissioner of Natural Resources should not initiate the purchase of low priority lands -- land which has not been identified for acquisition in the RESOURCE 2000 Program -- until offers have been made to landowners to buy the high priority acquisition identified in RESOURCE 2000, except in cases of hardship to the landowner or other unique circumstances.
4. The Commissioner of Natural Resources should prepare an overall, master spending plan, to delineate and establish initial priorities. Changes, as dictated, by unwilling sellers or a change of acquisition priority then can be accomplished in an orderly fashion.

PROFESSIONAL SERVICES

Of the total dollars appropriated, since 1975 for natural resource land acquisition, over $6 million or about 15 percent was the maximum allowed by the Legislature to be used for professional services, which constitutes the overhead costs. That includes title reviews, surveying, appraisals, negotiating, and accounting services.

In a survey of Department of Natural Resources personnel, we found 178 people who spend at least part of their time on land acquisition. However only 48 people are paid from the professional services appropriation. We estimate, conservatively, that an additional $310,000 in salaries alone is spent biennially for this activity. These costs, too, are a part of the total overhead cost. On the other hand, some acquisition specialists paid solely from the acquisition appropriations stated that they spent 25 percent or less of their time on land acquisition.

These two factors make it impossible to determine the total overhead cost of the program. However, Department of Administration officials said that historically their overhead costs for land acquisition have been about 10 to 12 percent.

One of the major factors that increase the overhead costs is the number of unwilling sellers. From July, 1975 to the present about 50 percent of all parcels appraised for purchase resulted in unwilling sellers, were put in abeyance or were cancelled. This high percentage could be due to inadequate checking as to whether the landowner really wanted to sell under any circumstances, poor quality appraisals, unrealistically high price wanted by the landowners, or too long an acquisition time.

Large numbers of unwilling sellers divert staff and resources from the landowners who are willing to sell to the state. From 1975 to present, the state has appraised 547 separate tracts of land valued at over $8,311,700 that have <u>not</u> resulted in state purchase. The appraisal cost alone is estimated at over $500,000.

The present statutory limit on professional services costs is 15 percent. The actual expenditures for professional services has been less than this. These expenditures are shown on Table 7. By implementing the procedures recommended in this report, we estimate that the professional services (overhead) costs of the program could be reduced from the present limit of 15 percent to 10 percent. This reduction could be realized primarily by:

1. Reduction in acquistion time from 607 days to 257 days.
2. Better initial screening of willing sellers.
3. Greater use of private fee appraisers.
4. Better assignment of appraisers.
5. Greater use of private surveys.
6. Implementation of other recommended changes in agency procedures.

One situation we encountered as a result of interviews with Department of Natural Resources personnel was that there was an uncooperative working relationship between Department of Natural Resources Land Bureau and Fiscal Section. This 'adversary relationship,' as described by a department official, has caused further delays in getting payments to landowners. Under the departments present organizational structure, the Land Bureau and Fiscal Section are reportable to separate assistant commissioners. This structure complicates any attempts to resolve existing staff conflicts.

Recommendations

1. The Commissioner of Natural Resources should require that the maximum allowed for professional service costs of the acquisition program be reduced from 15 percent to 10 percent.
2. The Commissioner of Natural Resources should consider changing the organizational structure of the department to have both the Land Bureau and Fiscal Section responsible to the same assistant commissioner in order to resolve staff conflicts between these two sections.

OTHER ISSUES

During our discussions with the departments of Natural Resources and Administration staff, other acquisition related concerns were brought to our attention. We felt that some of these issues should be identified for further consideration by the agencies and the Legislature.

Land Exchange

The state is authorized in M.S.A. 94.341 - 94.348 to exchange land with private individuals, corporations, or other public entities. The present land exchange process is a complex one, with many safeguards within it to protect the state's interest. Basically, the state can exchange land after the appraisal(s) has been made and a public hearing conducted. Land exchanges may be proposed either by the state or by other parties. However, all land exchanges must be approved by the State's Land Exchange Board.

During our interviews with Department of Natural Resources personnel it was suggested numerous times that land exchanges could be more frequently used to improve state natural resource management. The primary use suggested was to consolidate state ownerships within existing management units.

According to the Department of Natural Resources personnel, many land exchanges, which could have been advantageous to both the state and other parties, have been proposed over the past four years. Department of Natural Resources regional staff agreed that the primary reason these exchanges have not proceeded was because the Department's Land Bureau has not given it priority attention. Because of this situation, regional staff have ceased suggesting such exchanges.

We believe land exchanges could be used more effectively in northern Minnesota where there already is considerable state ownership. In these areas exchanges could provide a much better land management tool at a lesser cost than further state land acquisition.

Trust Fund Lands

Trust fund lands were given to the State of Minnesota by the federal government through land grants. These gifts were to be used for specific purposes. The federal government granted 2.9 million acres of school trust fund lands. Department of Natural Resources records showed that in 1976 there were approximately 959,000 acres remaining in school trust land.

Swamp lands were also given to the state to be managed for public school purposes. The original grant from the federal government was 4.7 million acres, in 1976 there were 1.6 million acres still in public ownership.

The Department of Natural Resources is also responsible for the management of another 33,000 acres of other trust fund land. These lands include university lands, territorial university lands, and internal improvement lands.*

The Commissioner of Natural Resources is responsible for the administration and management of these as provided in M.S.A. 84.027, Subdivision 3. Department of Natural Resources staff

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* Barton-Aschman Associates, Inc., Minnesota Public Lands Impact Study, Phase I, Natural Resource Lands.

suggested that their agency's statutory obligation to the trust fund has not always been met. Trust fund lands still remain in state parks for example, where no receipts to the fund have been realized. Other trust fund lands also are within state wildlife management areas and are not always managed so as to generate revenue for the trust fund.

Files

In the course of completing this study, the Task Force examined over 200 purchases made by the state. We examined each step in the acquisition process in order to evaluate where the time delays occurred. To do this it was necessary to trace the steps through records kept by both the Department of Natural Resources Land Bureau and Department of Administration Real Estate Management Division.

We found the Land Bureau's records thorough, easy to follow and well-maintained. However, we had considerable difficulty in attempting to track these same purchases in the Real Estate Management Division's files. We found their records often to be incomplete, records transferred or simply lost. Some files were missing assignment sheets, payment records, and other relevant information.

Another complication was that the Department of Natural Resources and Department of Administration organize acquisition project records differently. In the Department of Natural Resources, all purchases are filed according to the county in which it is located. In contrast, Department of Administration file purchases by project (i.e. parks, trails, fish and wildlife).

Local Payments

At the present time, the methods of payments made by the Department of Natural Resources to local units of government for its land purchases vary greatly. Payments are generally not made on land purchased for state park and recreation purposes. Payments in lieu of taxes are made on some forestry, fish and wildlife lands, although these payments are based on a variety of formulas.

We did not address the payments-in-lieu of taxes on state-owned lands because this has been addressed in considerable detail in the Barton-Aschman study prepared for the Legislative Commission on Minnesota Resources and Tax Study Commission.

However, during our interviews with Department of Natural Resources personnel in the St. Paul and regional offices, it was mentioned that occasionally the Department of Natural Resources was not making payments to local units of government in either the manner or the amount prescribed by law. We did not have time to investigate these allegations; however, we do feel they deserve further attention.

Private Foundations

The Task Force found two cases where private funds were used to supplement state funds to buy property at above the appraised market value. Agency correspondence indicates that the Office of the Attorney General questioned this practice. Also, the 1975 Legislative Audit Commission Report criticized the use of private foundations in the state park acquisition program, because it could affect acquisition priorities and land prices paid by the state. However, the then recently appointed Director of State Parks assured the legislative auditors that such practices would be discouraged in the future.

Recently, a private citizens' group purchased 90 acres of tax-forfeited property adjacent to a state park. This tract was initially included in the park boundary expansion, but was deleted after public meetings. The 1977 Legislature approved the boundary expansion, but did not include these 90 acres in the park expansion bill.

The Director of the Department of Natural Resources Parks and Recreation Division told us that they intend to seek legislation in the 1979 session to further expand the boundary of this state park to include this tract. If authorized, the agency will proceed to acquire this tract from the citizens' group.

The Department of Natural Resources Parks and Recreation Division Director also told us that he intends to seek legislation designating an area along the North Shore as Tettagouche State Park. This proposal was intially considered in 1968 and again in 1975, but was not officially proposed to the Legislature because of significant local opposition.

Another private citizens' organization has recently acquired an option to purchase a large privately-owned tract within the boundaries of the proposed Tettagouche Park. The Director of Parks and Recreation said that he has had discussions with this citizens' organization about the possible purchase of these lands if designated as a State Park. Organization staff said they would prefer to sell this land to the state for park purposes. The Director said the he will propose this area for State Park designation in the 1979 legislative session.

The legislative purpose of the RESOURCE 2000 acquisition program was primarily to acquire lands within existing state management units, not to purchase new ones. We believe that private foundations should not generally be encouraged by the Department of Natural Resources to acquire new lands outside of the boundaries of existing management units for future sale to the state.

However, there are some advantages to the participation of priavate citizen organizations in the state's land acquisition process. These include such benefits as the timely purchase of property in cases of financial hardship or other factors which don't permit willing sellers to wait for direct government purchase. Such organizations can also negotiate for the donation or bargain sale of needed lands.

These advantages are predicated on the understanding that such purchases are legislatively authorized and are consistent with state acquisition priorities. A representative of a private citizen organization with national experience in land purchases stated: "We are extremely careful that we only undertake government cooperative projects with a written request from the agency. It is also important that these projects be undertaken at no additional cost to government."

Recommendations

1. The Commissioner of Natural Resources should require that the Natural Resources Land Bureau assign additional staff to work on land exchange proposals, and that it be given priority consideration as a possible alternative to some land purchases.
2. The Commissioner of Natural Resources should require that the department consider the purchase of those trust fund lands, presently within state management units, that should be retained in public ownership for natural resources management purposes.
3. The commissioners of Administration and Natural Resources should cooperate to develop a standard land acquisition file system.
4. The Commissioner of Natural Resources should reexamine payments for natural resource management lands to local units of government to ensure that they are in compliance with state law.
5. The Commissioner of Natural Resources should discourage the use of private citizens' organizations to acquire lands outside of existing state management units for future sale to the state.

LANDOWNERS' RIGHTS

After a review of the state's present acquisition process, the Task Force concluded that there was a need to propose some changes in the laws governing the purchase of natural resources lands.

In 1970, Congress amended the federal acquisition laws to provide the private landowner better protection from abuses that had occurred in past governmental land purchases. In 1975, the Minnesota Legislature amended the state acquisition laws to foster a more equitable climate for the landowner who had his/her land purchased by the state.

In general, we believe that existing laws provide considerable protection to both the landowner and the state from abuses that could occur.

However, the Task Force found that, in some instances, portions of these laws have not always been followed by the affected state agencies nor have they always complied with legislative intent. In some cases this may have been due to the vagueness in the law. Frequently, landowners may have not received the full benefit of their rights under the existing laws because the state acquisition legislation does not always require state personnel to disclose these rights to them. In other cases, state acquisition personnel themselves were not fully aware of the legal requirements of natural resources acquisition.

The Task Force believes that state land acquisition programs should not be a "seller beware" situation. When we raised the issue of complete disclosure of the landowner's rights by state personnel, some staff argued that this would hinder the acquisition process, and that they probably would not be able to buy land at the rate they are now. While the Task Force agrees that this possibility does exist, we feel that it is outweighed by the public interest in a fairer and more open acquisition process. The Task Force believes that ultimately the state's acquisition process will be more successful as a result of the increased credibility gained through a more open process.

Although existing laws do require disclosure of certain rights to the landowners, we know, as a result of interviews with agency personnel, that these rights have not always been disclosed. At the present time, agency administration cannot be certain that acquisition staff have complied with state law. We believe there is a need to require written disclosure of the landowner's rights. This disclosure should be a clearly worded, understandable document to be given to the landowner. The landowner should then be required to sign a receipt or written acknowledgement that he/she has received such information.

An example of such a written document is:

1. The right to fair market value for property at the time of the sale.
2. The right to see the appraisal report, which is the basis for the determination of fair market value.
3. The right to have all costs related to state purchases paid by the state, except clearing title defects and taxes.

4. The right to defer payment over a period of years with interest or to accept payment in full.
5. The right to obtain one's own appraisal and be reimbursed by the state for an amount up to $300, if the state buys the property.
6. The right to have one's own appraisal reviewed by the state in its consideration of fair market value.
7. The right to be informed, in writing, of all relevant factors affecting the appraised value.
8. The right to be informed by state personnel of the intended use of the property.
9. The right to be told of the status of the acquisition, if requested.
10. The right to sell or refuse to sell without external pressure or influence by the state.
11. The right to timely payment based upon the certified appraised value.
12. The right to know that the information relating to the acquisition is made public after the landowner signs the option.
13. The right to be advised of all relevant relocation benefits provided by the state.
14. The right to be informed that one may desire to retain legal counsel prior to signing any agreement(s).
15. The right to a written statement informing landowners of their rights under the state and federal acquisition.

SAVINGS

There are two primary areas of savings that can be realized through implementation of the Task Force's recommendations: (1) a reduction in the overhead costs and (2) a reduction in the purchase price for lands by reducing acquisition time.

By changing the present administrative procedures as recommended by the Task Force, we believe that the present ceiling for professional services costs could be reduced from 15 percent to 10 percent of the appropriation for Fiscal Year 1979. This difference would amount to a savings of $253,000.

In addition, by reducing the time required to buy land from its present average of 20 months to 9 months, savings can be realized by purchasing lands before prices further increase. This was the basic philosophy for increasing the acquisition appropriation in the first place. According to sales data compiled by the Department of Natural Resources Land Bureau and the University of Minnesota, land value has been increasing at an average annual rate of 15 percent. By reducing the acquisition time by 11 months, the savings realized in purchasing needed lands sooner is esimated to be $1,880,000. This savings was calculated by using the remaining balance for purchase of additional lands, which is about $13,675,000 and not by using the total acquisition appropriation.

TABLE 1

ESTIMATED PERCENT OF STATE AND FEDERAL LANDS BY COUNTY (ACREAGE)

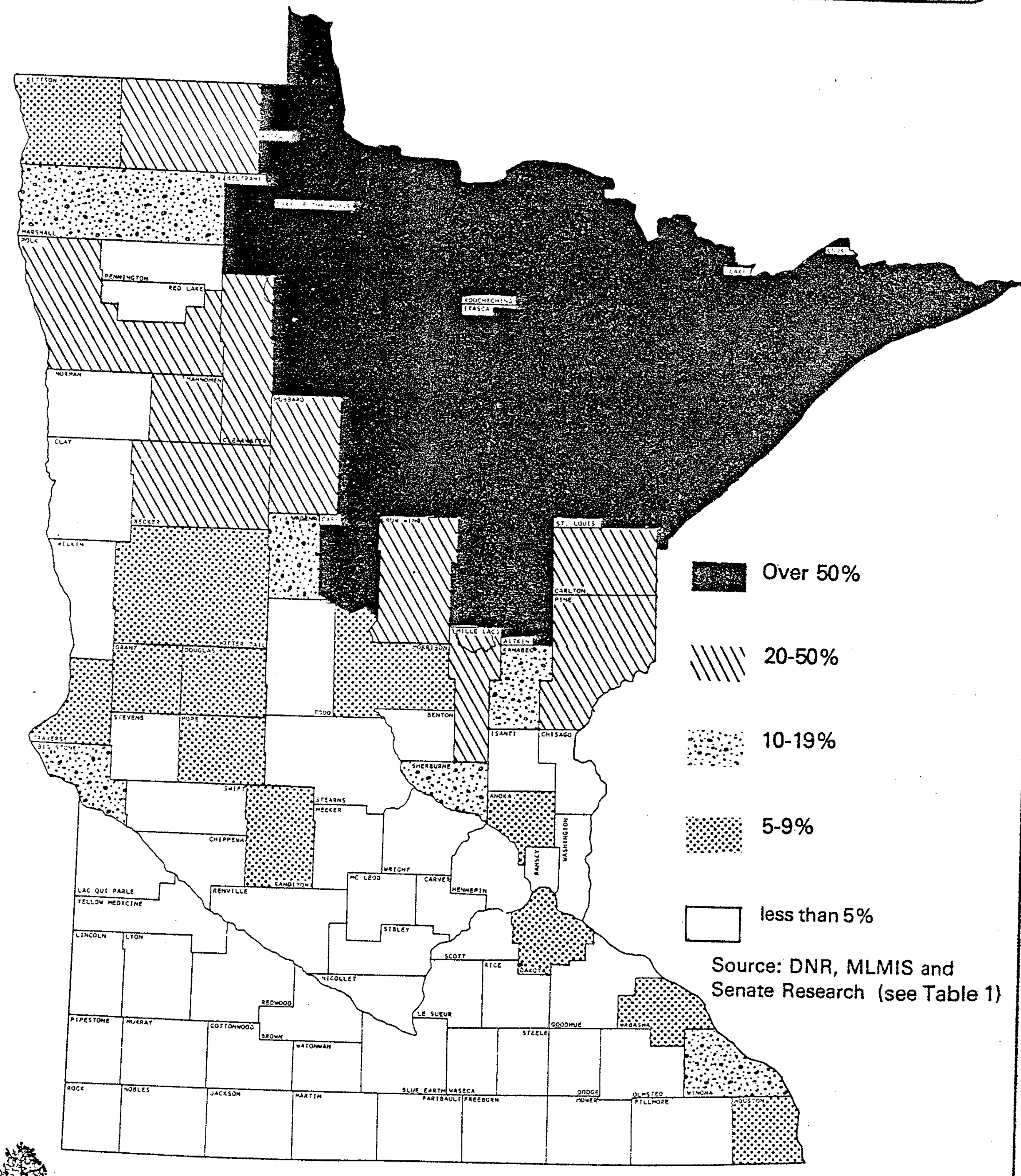

FIGURE 1

Minnesota Public Lands Impact Study

Legislative Commission on Minnesota Resources
In cooperation with the
Tax Study Commission and Barton-Aschman Associates, Inc.

Scale 1: 1,000,000

TABLE 2*

TABLE 1
ESTIMATED STATE AND FEDERALLY OWNED LANDS IN MINNESOTA BY COUNTY[1]

County	Total Land Area (Acres)	Public Lands Acres	Public Lands Percent	Federal Lands(2)	DNR Lands(3)	Other State Lands(4)	Tax-Forfeited Lands(5)
Aitken	1,164,502	631,800	54%	16,160	388,191	4,120	223,329
Anoka	273,735	20,435	7%	0	15,334	4,569	532
Becker	837,688	193,152	23%	62,040	54,639	2,331	74,142
Beltrami	1,608,518	1,110,105	69%	393,520	566,798	3,281	146,506
Benton	257,798	2,310	1%	0	1,135	1,175	0
Big Stone	316,501	38,800	12%	30,400	6,802	1,598	0
Blue Earth	477,158	4,560	1%	0	2,711	1,849	0
Brown	387,266	4,760	1%	0	3,365	1,395	0
Carlton	550,092	220,971	40%	9,160	75,385	8,768	127,658
Carver	226,810	2,730	1%	0	658	2,072	0
Cass	1,302,315	762,167	59%	314,000	183,896	4,271	260,000
Chippewa	370,269	13,126	4%	3,160	8,155	1,811	0
Chisago	269,369	11,866	4%	0	9,759	2,107	0
Clay	668,118	18,040	3%	7,800	6,591	3,649	0
Clearwater	640,689	291,440	45%	134,440	54,516	1,426	101,058
Cook	936,426	835,306	89%	694,600	132,725	1,431	6,500
Cottonwood	407,635	6,792	2%	720	4,753	1,319	0
Crow Wing	649,083	169,422	26%	24,280	29,164	2,094	113,884
Dakota	365,190	17,742	5%	2,480	3,495	11,767	0
Dodge	280,638	1,307	-	0	273	1,034	0
Douglas	401,477	36,203	9%	27,640	5,621	2,942	0
Faribault	454,723	4,888	1%	0	1,882	3,006	0
Fillmore	553,101	9,575	2%	0	7,110	2,465	0
Freeborn	449,241	5,042	1%	0	1,137	3,905	0
Goodhue	491,465	15,240	3%	6,800	5,426	3,014	0
Grant	348,226	19,588	6%	14,920	2,632	2,036	0
Hennepin	354,225	2,903	1%	0	766	2,137	0
Houston	364,079	29,884	8%	18,840	9,303	1,741	0
Hubbard	596,829	224,746	38%	160	84,628	2,120	137,838
Isanti	281,302	6,803	2%	0	3,603	3,200	0
Itasca	1,729,322	935,741	54%	318,920	319,223	5,598	292,000
Jackson	446,068	7,612	2%	1,960	2,930	2,722	0
Kanabec	337,535	37,281	11%	0	23,530	1,459	12,292
Kandiyohi	497,292	29,659	6%	21,480	4,694	3,284	201
Kittson	700,372	55,121	8%	0	53,288	1,833	0
Koochiching	1,989,188	1,469,509	74%	87,520	1,092,669	4,320	285,000
Lac Qui Parle	492,698	20,829	4%	5,600	13,538	1,691	0
Lake	1,367,808	1,152,369	84%	814,360	179,076	1,639	157,294
Lake of the Woods	833,821	603,134	72%	154,600	447,548	986	0
LeSueur	283,692	4,460	2%	0	2,904	1,556	0
Lincoln	334,365	6,057	2%	0	4,835	1,222	0
Lyon	453,072	11,231	2%	0	8,942	2,289	0
McLeod	311,488	3,356	1%	0	1,752	1,604	0
Mahnomen	360,983	108,162	30%	58,280	33,097	1,140	15,645
Marshall	1,142,622	179,128	16%	61,120	115,365	2,643	0
Martin	450,521	4,014	1%	0	1,443	2,571	0
Mecker	382,891	3,421	1%	0	1,331	2,090	0
Mille Lacs	365,472	74,744	20%	3,560	61,668	1,506	8,010
Morrison	719,593	60,423	8%	0	7,207	53,216	0
Mower	453,204	3,889	1%	0	1,335	2,554	0
Murray	444,657	8,790	2%	0	7,367	1,423	0
Nicollet	280,866	3,159	1%	0	819	2,340	0
Nobles	454,877	4,383	1%	0	1,382	3,001	0
Norman	558,689	7,577	1%	0	5,776	1,801	0
Olmsted	421,342	7,327	2%	0	2,889	4,438	0
Ottertail	1,267,003	60,354	5%	36,280	16,515	7,119	440
Pennington	391,606	5,833	1%	120	2,347	1,206	2,160
Pine	906,366	222,645	25%	960	173,203	4,207	44,275
Pipestone	296,887	2,880	1%	240	1,456	1,184	0
Polk	1,260,513	26,411	21%	7,560	13,494	5,357	0
Pope	426,102	37,954	9%	31,800	4,375	1,757	22
Ramsey	101,032	1,901	2%	0	245	1,656	0
Red Lake	274,619	2,543	1%	0	1,764	779	0
Redwood	557,474	7,388	1%	2,040	2,914	2,434	0
Renville	621,129	2,119	-	0	266	1,853	0
Rice	319,162	6,427	2%	0	2,451	3,976	0
Rock	307,716	3,114	1%	0	1,246	1,868	0
Roseau	1,073,344	357,261	33%	32,200	254,188	2,033	68,840
St. Louis	4,043,532	2,280,772	56%	817,400	548,375	7,827	906,670
Scott	225,900	4,469	2%	240	2,617	1,612	0
Sherburne	280,525	31,204	11%	22,960	5,235	3,009	0
Sibley	372,901	2,736	1%	0	1,180	1,556	0
Stearns	864,521	12,061	1%	4,280	2,537	5,244	0
Steele	273,455	3,853	1%	0	1,263	2,590	0
Stevens	355,335	13,857	4%	10,480	2,045	1,332	0
Swift	475,592	19,180	4%	11,000	6,319	1,861	0
Todd	604,286	11,636	2%	0	9,378	2,258	0
Traverse	363,462	16,733	5%	15,360	156	1,217	0
Wabasha	344,324	25,317	7%	13,800	9,969	1,548	0
Wadena	341,126	44,735	13%	0	23,952	703	20,080
Waseca	268,158	3,585	1%	0	1,681	1,904	0
Washington	254,868	8,648	3%	1,680	3,347	3,621	0
Watonwan	277,051	2,106	1%	0	942	1,164	0
Wilkin	476,389	8,258	2%	2,400	3,512	2,346	0
Winona	406,320	42,371	10%	10,720	28,147	3,504	0
Wright	424,387	7,246	2%	0	4,538	2,708	0
Yellow Medicine	481,686	8,129	-	1,520	4,611	1,998	0
TOTAL	51,033,677	12,796,731	25%	4,311,560	5,199,395	281,040	3,004,376

(1) Source: Senate Investigative Research Division.
(2) Source: 1973 data from MLMIS.
(3) Source: 1975 data from DNR Land Ownership File (Land Bureau).
(4) Source: Senate Investigative Research Division (includes aeronautics, administration, corrections, public welfare, university, college and some highway lands).
(5) Source: County Auditors contacted by Senate Investigative Research Division (most counties have at least a few scattered parcels of tax-forfeited land).

*Barton-Aschman Assoc., Inc., Minnesota Public Lands Impact Study, Phase I, Natural Resource Lands, March, 1977.

TABLE 3

AGENCY RESPONSIBILITIES FOR LAND ACQUISITION

TASKS	AGENCY RESPONSIBLE
Develop work (acquisition) program.	Natural Resources
Identify specific parcels to be acquired.	Natural Resources
Approve work program.	Legislative Commmission on Minnesota Resources
Land survey as needed.	Natural Resources
Legal title search.	Natural Resources
Contract for fee appraisals.	Administration
Review appraisals.	Administration
Negotiate with property owner.	Natural Resources
Obtain option to purchase.	Natural Resources
Issue election to purchase to land holder(s).	Natural Resources
Issue payment to land holder(s).	Natural Resources
Negotiate and pay relocation payment to property owners when appropriate.	Natural Resources
Maintain and update land records.	Natural Resources
Report status of acquisition to others; e.g., Legislature and Administration.	Natural Resources

TABLE 4

Step in Acquisition Process	Average Amount of Time Taken Now (Calendar Days)*	Recommended Time
First contact with landowner to fact sheet received by Land Bureau	60	15
Fact sheet received by Land Bureau to request for staff appraisal	15	5
Request for an appraisal to staff appraiser assigned	32	10
Staff appraiser assigned to staff appraisal received by Administration	86	30
Request for fee appraisal received by Administration to fee appraiser assigned	20	10
Fee appraisal assigned to fee appraisal received by Administration	34	30
Fee appraisal received by Administration to appraisal certification	37	14
Staff appraisal received by Administration to appraisal certified	56	14
Appraisal certified by Administration to appraisal received by Land Bureau	8	3
Appraisal received by Land Bureau to request for negotiations	5	3
Request for negotiations to negotiator assigned	2	1
Negotiator assigned to option date	82	60
Option date to election to purchase (without survey)	70	60
Election to purchase to abstract received by Land Bureau	47	--

	Average Amount of Time Taken Now	Recommended Time
	(Calendar Days)*	
Abstract received by Land Bureau to abstract sent to Office of Attorney General	11	7
Abstract sent to Office of Attorney General to preliminary title opinion issued	34	20
Preliminary title opinion issued to deed sent to owner		
1) Title good with no corrections necessary	39	3
2) Title in need of perfecting (Time for this outside of state's control)		No recommended time possible
Deed sent to owner to signed deed returned by owner	7	7
Signed deed returned to signed deed sent to Register of Deeds	9	5
Deed sent to Register of Deeds to warrant mailed to landowner	44	14
Total	607	257

Recommended total time savings 350

*Calendar days

TABLE 5

PRESENT OPTION PERIOD PROCEDURES*

When an option is signed by a landowner and submitted to the Bureau of Land, it is moved through the following stages:

1. The Engineering Aide checks to be certain that the land is located in an approved project.

2. The Assistant Land Acquisition Specialist checks to be certain that the fact sheet has been approved, the appraisal has been completed, there is a memorandum of justification if the appraisal exceeds the commissioner's estimated maximum amount indicated on the fact sheet, the appraisal was certified, a memo was sent to the Department of Transportation if relocation assistance is required, a Statement of Just Compensation was signed and a $1 receipt was attached to the option.

3. The Assistant Land Acquisition Specialist then sends the option to the Engineering Section for approval of the legal description.

4. The Assistant Land Acquisition Specialist then sends the option to the Attorney General's Office for approval as to the legal acceptability of the option terms, special clauses, etc.

5. Once the option has been approved, the Assistant Land Acquisition Specialist must have the Fiscal Section establish a sequence, obtain a certification from the Section of Fisheries that the lake will be managed intensively for fishing if the land is being acquired for a public access on a lake of less than 150 acres, obtain a memo of justification from the discipline director if the option amount exceeds the certified appraised value, obtain a waiver signed by the owner if the option amount is less than the certified appraised value, obtain approval from the discipline director if there are any special clauses in the option other than those stipulating that a survey will be conducted or payment will be made in annual installments, notify the appropriate federal aid coordinator of the acquisition transaction and secure advice as to whether or not federal reimbursement will be claimed and request that the wildlife manager appear before the county board to obtain a resolution of approval if the land is being acquired for a Wildlife Management Area with certain appropriations. In addition, if the property is being purchased in connection with the Richard J. Dorer Memorial Hardwood State Forest, they must also notify the Minnesota Historical Society, District Highway Engineer and County Highway Engineer.

6. While the Assistant Land Acquisition Specialist is moving through step number five, the Engineering Aide is requesting a survey from the Engineering Section if the property being acquired is a metes and bounds parcel and awaiting the return of the survey plats and legal description which, generally takes one year.

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* Department of Natural Resources memorandum, September 13, 1977.

TABLE 6

PRESENT ADMINISTRATIVE PROCEDURES*
ELECTION-TO-PURCHASE NOTICE TO LANDOWNER PAYMENT

1. The Bureau of Land must assemble all pertinent information relating to the transaction and forward it to the Attorney General's Office along with the abstract.

2. The Attorney General's Office must examine the complete chain of title from the day the land was originally patented to the present time, write a preliminary title opinion and write to the owner to advise him of any existing title imperfections.

3. The owner must take the action necessary to complete and perfect the title, and provide the Attorney General's Office with adequate documentation to indicate he has done so.

4. The Attorney General's Office must write the conveyance document, and forward it to the owner for execution. An affidavit is also written and forwarded to the negotiator for execution.

5. The owner executes the conveyance document, and returns it to the Attorney General's Office. The negotiator returns the signed affidavit.

6. The Attorney General's Office forwards the conveyance document to the applicable Register of Deeds for recording. The abstract is sent to the local abstractor to be continued to date.

7. The Register of Deeds records the conveyance document, the abstractor continues the abstract, and both are returned to the Attorney General's Office.

8. The Attorney General's Office authorizes the Bureau of Land to prepare an invoice.

9. The Bureau of Land prepares an invoice, and forwards it to the Fiscal Section.

10. The Fiscal Section relays the applicable information to the Department of Finance.

11. The Department of Finance issues a State Warrant of payment, and forwards it to the Fiscal Section.

12. The Fiscal Section relays the Warrant to the Attorney General's Office.

13. The Attorney General's Office mails the landowner the check in payment for the property.

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* Department of Natural Resources memorandum, September 13, 1977.

TABLE 7

PROFESSIONAL SERVICES COSTS

Unit Resource 2000 Funds	FY 76	FY 77	Total FY 76 & 77 Expenditures	Total FY 76 & 77 (%)*
Legal	40,834	89,664	130,498	6.03
Fiscal	6,210	-0-	6,210	.29
Fisheries	9,862	66,869	76,731	3.56
Planning	60,173	26,908	87,081	4.02
Parks	7,951	23,498	31,449	1.46
Land	72,336	487,130	559,466	25,84
Wildlife	-0-	25,587	25,587	1.18
Engineering	143,488	268,025	411,513	19.01
Forest	-0-	31,232	31,232	1.44
LCMR Funds				
Federal Project Support	8,127	66,880	75,007	3.46
Planning	67,906	44,445	112,351	5.19
Long Range Planning	51,728	-0-	51,728	2.39
Engineering	232,254	247,044	479,298	22.14
Fiscal	-0-	-0-	-0-	
Administration	46,430	40,077	86,507	3.99
Total	747,299	1,417,359	2,164,658	
Professional Service Levy			(11.39%)	

* These figures are shown as a percent of the total professional services expenditures for FY 76 & 77.

APPENDIX A

STATE OF MINNESOTA
DEPARTMENT OF NATURAL RESOURCES
BUREAU OF LAND

LAND ACQUISITION FACT SHEET

Parcel No.	Name of Owner
Project	Address
County	City State Zip
Region Request No. (office use only)	Home: Office: Phone

Complete Legal Description: (include rough sketch or plat if partial taking)

Section Township Range Estimated Acreage

Interest to be acquired by (check one)		Source of funds (check one)	
Purchase	( )	Resource 2000	( )
Easement	( )	LCMR	( )
Lease	( )	Surcharge	( )
Condemnation	( )	Public Access	( )
Gift	( )	Gift	( )
Other (describe)		Other (describe)	
________________	( )	________________	( )

Estimated Maximum Purchase Price
(not including relocation benefits)

Estimated Amount of Relocation Benefits
(if not applicable, write "none")

Statute authorizing acquisition

Justification for purchase and quality of land:

BLA 005
Revised 1-11-77

(over)

Check type of seller:

- ☐ Willing Seller
- ☐ Non Committal
- ☐ Reluctant

Date owner indicated a willingness to sell (must be within previous six months)

Individual who made contact

Address | Phone

The following individual may be contacted for additional information:

Name

Title

Address

City | State | Phone

Initial Contact Comments and/or Instructions:

Director | Date

Regional Administrator | Date

Date submitted to Land Bureau

Date received by Land Bureau

ADMIN 1030 (REV. 4/77)

STATE OF MINNESOTA

Office Memorandum

DEPARTMENT Waste and Mismanagement

TO : Governor Rudy Perpich

DATE: Oct. 26, 1978

FROM : Robert Goff, Director
Governor's Task Force on
Waste and Mismanagement

PHONE: 0646

SUBJECT: Departmental techniques for saving time and money

The ideas presented in this booklet are the results of the persistent and imaginative efforts of Minnesota state agency personnel to cut costs, increase efficiency, and maintain a high level of service. They tend to be small scale, low-cost or no-cost commonsense methods which agencies have developed to solve various management and communication problems. Most of them are easily transferable to the operations of other state agencies.

The Task Force found the ideas originating everywhere from the stockroom to the commissioner's office. We read about them in the Cost Savings Reports and heard about them in conversations with agency staff. We included some which were direct reponses to Task Force recommendations, but most are agency initiatives. Unless otherwise noted, further information is available from the Commissioner's Office of the agency mentioned.

The booklet is divided into four sections. ADMINISTRATIVE SERVICES groups ideas which pertain to agencies' support functions; OFFICE MANAGEMENT discusses methods of improving office operations and work flow; PERSONNEL AND TRAINING offers suggestions on improving staff communications, providing affirmative action opportunities, and ways which agencies have found to maximize employee potential; and, last, MISCELLANEOUS.

The Task Force will continue to collect and periodically to print agency efforts such as those included here.

ADMINISTRATIVE SERVICES*

Agency Procurement Procedure

The Department of Health has streamlined their agency procurement process and the Procurement Division of the Department of Administration recommends Health's centralized purchasing unit as a model for other agencies.

When agency personnel need supplies, equipment, or other items, they call the purchasing unit. If the item is not in stock, purchasing staff fill out a requisition, including specifications and budget information. The requisition is sent to the activity manager for signature and to accounting for encumbrance. It then returns to the purchasing unit where it is checked for changes in specifications, prices, or quantity. A copy of the requisition is forwarded to the Procurement Division or a contract vendor.

With Health's purchasing system, individual program managers do not need expertise in specification writing. Except for some specialty items, like microscopes, purchasing unit personnel know how to translate agency needs into more technical specifications. The unit also does the necessary expediting, handles and settles complaints, maintains a record of the time elapsed from the initial request to delivery, and acts as liaison between the requestor, the Procurement Division, or the vendor.

District offices are also required to use Health's purchasing unit.

Business Cards

It is a rare state employee who uses up his/her supply of 500 business cards before a new set must be issued because of changes in personnel, telephone numbers, or addresses. Members of the Printing Advisory Committee suggest that agencies have business cards printed for divisions or sections rather than for individuals in those circumstances where such personalized cards are not necessary.

Conference Calls and Teleconferencing

Telephone conference calls provide a rapid and economical means of having a total of five locations (telephone numbers) participating in the call.

* Unless otherwise noted, contact the Commissioner's Office of specific agencies for further information.

Arrangements are made through Telecommunications Operator by dialing 100 on the Capitol Complex System. This service is used by many agencies for various purposes.

The Municipal Board, whose officers and ex-officio members are located throughout the state, holds official board meetings using conference calls, saving the costs of board travel and expenses.

The Department of Natural Resources Forest Management Section used conference calls twice a day for fire weather forecasts during last year's dry spell.

The Hearing Examiner's Office sometimes conducts pre-hearing conferences on the telephone when parties to a hearing or contested case live outside the metropolitan area. Notification or agreement to procedural questions or meeting dates are also subjects of teleconference conversations.

Portable conference telephones are also available for agency use at no charge. The conference telephone permits two-way communication between a distant speaker and a group. Individual audience members can talk directly to the distant speaker, ask or answer questions, and exchange views.

Coordination of Travel Arrangements

Many agencies have coordinated the monitoring of motor pool cars and other travel arrangements. The Department of Corrections has reduced their motor pool fleet by 14 cars and has initiated a 10-car Central Office pool arrangement. One staff person records mileage and usage of motor pool vehicles to ensure optimum vehicle use.

One person monitors motor pool use and issues control numbers in Public Welfare and the Public Service Department. This staff person has also become well-acquainted with various travel agency services, airline fares, and individual and group accommodations in and out of state. Welfare and Public Service personnel make travel arrangements through the travel coordinators.

Federal Funds Indirect Cost Proposal

Often departments are unable to maximize the use of federal funds in state programs because of the difficulty of entering and extracting the information from the Statewide Accounting System. The federal government will pay a percentage of the operating costs of agencies using federal dollars if the percentage can be identified and documented. The Department of Labor and Industry has developed indirect cost proposals with the federal government and has also assisted other state agencies in setting up models for programs of their own.

Interagency Contract for Services

The use of radio as a communications medium by state agencies has grown rapidly in the past few years. The Department of Transportation contracts with other agencies to provide technical assistance in the design and maintenance of radio communications systems. This allows both large and small agencies to fully utilize radio communications without adding personnel. The Department of Transportation's monthly charge for maintaining radio equipment is about half that of commercial vendors.

In April, 1978, three state agencies in the Rochester area asked for help in designing a wide-area radio paging system. The Department of Transportation was able to purchase the needed equipment as part of a larger contract, obtaining a 40 percent discount.

The department was able to save the Department of Natural Resources substantial costs in the modernization of that radio system. Transportation again obtained a discount on portable radios, installed the equipment, allowed Natural Resources to lease Transportation towers instead of building new ones, and designed and wrote bid specifications.

Internal Control of Department Field Orders

The Pollution Control Agency established a policy that recognizes the need for emergency purchases, but increases accountability in the use of department field orders.

Because the forms were easily available to personnel, Finance staff had difficulty determining the amount of outstanding obligations. Now the forms are available only from the agency's Procurement Section and form numbers are inventoried and assigned to individual people. A few forms are placed in the log books of the agency's pool cars.

Monitoring agency cost savings

Instituting cost savings systems is not always an easy task. The Commissioner of Corrections asks for specific written and oral reports on savings from the department's deputies, assistants, personnel director, and controller at regular staff meetings. Such reports include the use of overtime, institutional per diem, out-of-state travel, and staff complement.

Requests to fill a vacancy or create a position must be approved by an internal Freeze Board. Each week, at the commissioner's cabinet meeting, requests to fill a vacancy or to create a new job are reviewed. No positions are filled without approval of the Freeze Board. The Freeze Board can recommend that a position remain vacant and duties be reassigned to other staff, that the position remain vacant temporarily to generate savings, or that the position be filled at the requested level, or in some cases, at a lower level of funding.

In addition, every quarter the commissioner holds management staff meetings where all Corrections and management staff describe their units' budget activity and attendant objectives to colleagues. If accounts vary from the budget, managers are asked to explain and to propose resolutions. Within two weeks, balances needing adjustment are corrected with the commissioner's approval.

For more information, contact Department of Corrections Controller, 296-7086.

Operations Auditing

The Department of Revenue established a Division of Operations Auditing in the Fall of 1977. The division is staffed by a director and an assistant, who then borrow specialists from other divisions or agencies, on a full- or part-time basis, depending on the nature of the system being audited.

Essentially, the Operations Audit Division monitors the effectiveness of Revenue programs, although it also assists other agencies when common concerns or problems occur. Its area of responsibility includes the Commissioner's Office.

The stated goals of the division are strenghening the overall management information and control system; increasing the appreciation and awareness of controls; determining the operational effectiveness of all activities of the department, i.e., their effectiveness in meeting goals and objectives; assisting in recognizing needs for and in attracting, hiring, and developing good people for future managers of the department.

Objectives written early in the program's existence called for a ten to one cost benefit ratio.

An Operations Audit Policy Manual describing the division's goals, policies, philosophy, and procedures is available.

Parking Space Rental in Capitol Complex

Employees of agencies located outside the Capitol Complex usually have trouble finding parking spaces, often need reimbursement for money spent in parking meters, and can end up blocks away from the meeting they are supposed to attend.

The Pollution Control Agency, aware of the employee time wasted and the expensive parking reimbursement procedures, arranged to rent a parking stall in the Capitol Complex. The Pollution Control Agency feels that the $35 monthly fee avoids the estimated $30 cost of processing each request for reimbursement form through their own in-house systems and the Department of Finance.

Purchase or Lease of New Equipment

Public Safety requires a written justification and cost analysis for the purchase or lease of new equipment. Once need for new equipment is evident, vendors are asked to provide purchase or lease prices.

For example, Public Safety personnel compared prices for the purchase and lease of a public address system in the warehouse. Purchasing the equipment saved $40 the first year and rental costs of nearly $400 each year thereafter. To help cover the costs of the new public address system, warehouse personnel gave up one telephone line and one telephone set for a monthly savings of $45 or $540 per year.

Telephone Answering Sets

It will never replace the human interaction, but a telephone answering set is an economical way to augment staff complement and extend public information efforts. A one-person or small district office without the Centrex II call-forwarding capability can use an answering set over the lunch hour or at times an office is short of staff because of illness, vacations, or other reasons.

Answering sets can also be used after regular business hours or to provide information to frequently asked questions. The Department of Transportation uses many throughout the state to provide road and weather information. During its busy tax season, the Department of Revenue used answering sets to provide routine tax information when Revenue offices were closed. The department publicized the telephone number for questions about various subjects.

For further information contact Department of Administration Telecommunications Division, 296-6191.

Telephone Use

Practically every state department and agency has developed guidelines and procedures for monitoring telephone use. Below are just a few examples of their efforts.

Simply by heightening employee awareness of long distance WATS line costs, the Department of Military Affairs reduced its monthly WATS bill from $81.38 in October, 1977, to $16.93 in June, 1978.

The Pollution Control Agency instructed its staff to use the State Telephone Network instead of WATS where feasible in October, 1977. By February, increased use of the State Telephone Network reduced the number of calls which previously had been made on the more expensive WATS by 50 percent.

The Community College System saves money by partial discontinuance of telephone service during summer breaks.

Total Travel Costs: Rate of Pay and Travel Expenses

Agency travel and professional development budgets have decreased significantly in recent years, and as a result such activity must be well-planned and priorities thoughtfully considered.

The Department of Public Safety has a vigorous review of travel plans. Each year money is allotted to divisions, which list their planned travel and training activities and the estimated costs per trip. The Commissioner's Office maintains a log of the planned travel and costs. Any changes must have the commissioner's approval. Because travel is tightly budgeted, travel expenses cannot exceed the estimated cost. Money will not be encumbered for additional costs.

To determine the total costs of travel to the state, Public Safety adds the rate of pay of traveling staff to the travel expenses, for, although travel costs are often paid by other funding sources, the state continues to pay the wages of the traveling employee. Maintaining records of the total expense and wage costs allows the agency to ask such questions as: Is the training, although it is federally funded, worth the expense of decreased productivity and temporary disruptions of work schedules caused by an absent employee? Is federally funded travel a benefit to the state in addition to the employee? Is an employee with a lower rate of pay a more appropriate training candidate? An awareness of the total costs may result in changes in an agency's travel and training priorities.

Transportation Costs

Transcribing hearings, arguments, and other administrative or legal proceedings is a necessary but expensive process. Historically, court reporters have been used, but agencies are looking for less expensive ways of meeting legal recording requirements.

The Public Service Commission tapes oral arguments instead of using a court reporter. Tapes are transcribed only when there is a question about a ruling or a decision. The Department of Labor and Industry contracts with court reporters living in the areas where compensation hearings are held. Such contracting has reduced travel expenses of court reporters by approximately 40 percent.

Updating Mailing Lists

Scene, the Department of Transportation's employee magazine, was formerly mailed to all department retirees and distributed free to 650 employees of the Department of Public Safety, who are located in the Transportation Building.

In August, retired employees were asked to return a postcard, inserted in the magazine, if they wished to continue receiving *Scene*. The magazine, which had previously been mailed third-class, is now sent bulk-rate. Public Safety employees are no longer receiving issues.

Savings are estimated at $1,650 in postage and $2,000 in printing costs.

OFFICE MANAGEMENT*

Clerical Training Manual

The Department of Agriculture has developed a Training and Reference Manual for Clerical Supervisors and Clerical Employees. The manual discusses telephone procedures; receptionist responsibilities and skills; standard formats and paper for department correspondence and legal briefs; forms of addresses; dictaphone transcription; procedures for filing; stenciling and copying, and other office responsibilities. The Manual is helpful for both training and reference purposes.

For more information contact the Department of Agriculture, Word Processing Supervisor, 296-3479.

Central Forms Desk

The Printing Liaison Officer in the Department of Public Welfare keeps an inventory of all forms, their purpose, and usage and assigns reference numbers. This centralization of forms information eased the department's form reduction program and its compliance with the Data Privacy Act. All requisitions for printed forms, notice for form revision or quantity requirements are channeled through this Forms Management Unit.

Copy Reduction

The Department of Corrections anticipated the Governor's call for a 14 percent reduction in copier volume. Recording of copier volume began in January and February. The weekly average for these two months represented the base volume. The following eight weeks saw a 2½ percent reduction in average weekly volume. Nine seminars were held in May, where Corrections staff reviewed appropriate copier use and brainstormed ways to further reduce volume. A management analyst reviewed the comments and suggestions and developed guidelines and control systems for the use of copy machines. The eight weeks following the seminars saw a 15 percent reduction in copy volume, partly due to the assignment of auditrons to various division and units. (Auditrons do not, however, record the incidence of two-sided copying, which is also a significant cost savings.) Through continued monitoring and posting of the results, the 15 percent copy reduction is still being maintained.

* Unless otherwise noted, contact the Commissioner's Office of specific agencies for further information.

Forms Design

"Properly designed forms can be printed more economically, and will be processed more efficiently, thus reducing operating costs. In addition, since many state forms are filled out by the public, well-designed forms will enhance the image of state government." This introduction to Basic Guide for Forms Design, published by the Forms Unit of the Department of Administration sums up the benefits of a well thought out form.

The booklet, which has already been distributed to agencies' forms personnel, suggests guidelines for size, spacing, placement of data, captions, instructions, paper and ink, and type styles.

Internal Management Team

In early 1977, the Department of Agriculture established an Internal Management Team. The team is conducting a review of each division or activity within the Department of Agriculture. The purpose of the team is to review clerical procedures, forms management, space utilization, long-range and short-range planning and equipment usage. As a result of the Management Team's efforts, employee's have been reassigned to other divisions to better utilize personnel and to equalize workloads. Equipment has also been reassigned from one division to another because of inadequate equipment budgets. Divisions have been physically relocated to better utilize available space, and remain within budget limitations.

The team, composed of the assistant commissioner of planning, personnel, and budgets; personnel director; office manager; and planning personnel, follows a standard procedure with each division. First, division personnel are interviewed and asked to discuss the strength and weaknesses of division operations, personnel, and procedures (one week). Second, the management team thoroughly reviews division procedures, assesses their effectiveness, and recommends improvements (two weeks). Third, the team meets with the division director to discuss problems, suggest general, specific, and/or long-range solutions, and prepare joint recommendations for the approval of the Commissioner (one week). Fourth, the approved recommendations are implemented.

Mail

The transfer of mail among the central and regional offices of the Department of Natural Resources presented some costly logistical problems for mailroom personnel. The solutions? Staff driving from one office to another may find a mailbag in the back seat of the state car.

If that is not possible, material for a particular office is placed in large nylon bags, which are locked by a clip, and mailed through the U. S. Postal Service or private carriers, whichever is cheaper.

The mailroom is also the repository for accumulated paper clips and rubber bands which are recirculated throughout the department.

The Department of Education mails to over 400 school districts in the state. Recently, personnel discovered that many items presently mailed first, second, or third class could qualify for the greatly reduced book rate simply by adding one more staple along the left side.

Material qualifying for book rate must meet certain criteria, such as homogeneous content, at least 24 pages (22 printed both sides), and some kind of permanent binding. Education's mailings, once material was stapled twice along the left side, met the requirements. Agencies should check with Central Mail before determining what material can be mailed book rate.

Policy and Procedures Manual

Literally hundreds of hours can be expended in the revision of an agency's procedures manual. Questions concerning a proposed format and trans-agency financial, administrative, and personnel procedures can easily be resolved by looking at manuals recently completed by other agencies and perhaps adapting (or adopting) relevant parts.

The Department of Public Safety has recently published a very comprehensive, up-dated policy and procedures manual. Besides including information on conditions of employment, benefits, etc., it also includes the sections listed below.

- Auditing
- Budgeting
- Communications
- Computer usage
- Complaints against vendors
- Contracts
- Financial reports
- Fiscal notes
- Freight and express
- Grants
- Leases
- Materials, supplies and equipment purchases
- Materials management
- Payment processing
- Payments without prior obligation
- Payroll processing
- Printing and duplicating
- Repairs
- Revenue and refunds
- Travel

Most of the procedures are easily transferable to other agencies' operations.

Procedures Manual

The Department of Public Welfare Procedures Manual contains detailed information about the routine communication and requisition procedures which involve most public employees at one time or another. Updated in May, 1978, the manual contains the following information:

- Correspondence formats.
- Mail and mechanical addressing information.
- Forms numbering, ordering, printing, and storage.
- Requesting building maintenance and repair.
- Publications regulations and inter-office publications format.
- Records management.
- Printing and duplicating instructions (including contract items).
- Purchasing.
- Travel by state or private car, motorcycle, airline (including Department of Transportation aircraft), public transportation, parking fees, and expenses while on travel status.
- General policies and procedures, such as creation and compensation of committees, special contractual services, and inter-agency requests for state employee services.

Space and Equipment for Student Workers

Agencies often have difficulty finding office space and equipment for part-time personnel, such as summer student workers and interns. Pollution Control Agency personnel look at vacation schedules and move temporary workers around, using the office space, telephones, and typewriters of vacationing personnel.

Timesheets

Timesheets come in all shapes and sizes, and are constructed to fit varying agency needs, but if you're looking for a more detailed one that has the blessing of the Legislative Auditor, contact the Department of Transportation or Corrections. According to the Forms Control Unit the best form for Request for Leave and Overtime is the Department of Administration's form number 1020.

Word Processing Manual

Word processing centers are a relatively new idea to state departments and agencies, and the equipment and procedures are often confusing to users at first. The Department of Public Service has published a Word Processing Manual which outlines general operating procedures, typing formats, and author telephone dictation instructions, including dictating techniques.

The manual also devotes a page to a list of similar sounding words (miner/minor, elicit/illicit) and illustrations of uniform proofreading marks. The last section of the manual discusses word processors' responsibilities and procedures, such as routing, filing, style, margins, proofreading, line count scale, and line count logging.

PERSONNEL AND TRAINING*

Affirmative Action

The Department of Revenue trained 41 Schedule C clerical employees for the Schedule A Tax Examiner I position. Sixty-three employees began the training program offered in cooperation with Lakewood Community College and conducted in the Centennial Cafeteria twice weekly at 4:30 p.m. Forty-one employees completed the course and were recommended by their supervisors to fill the Tax Examiner I positions. The employees paid 50 percent of the tuition costs. Total cost of the program was $2,000.

Educational institutions frequently offer courses in the Capitol Complex. Later this month, the University of Minnesota Continuing Education for Women in cooperation with Women in State Government (WISE) will offer a course in public speaking.

Assignment of Personnel to Short-term Projects

The Department of Corrections advertises miscellaneous short-term assignments in Hotline, the Corrections employee newsletter. Recent projects have included the Department of Administration's Transition Plan for Handicapped (for increased accessibility to state buildings), technical assistance to Anoka County for planning correctional facilities, and the creation of a Task Force to implement an inventory control program. Interested employees apply for the assignment. Those chosen are freed from their regular duties for a certain number of hours per week. Corrections administrators work with the employees' supervisors to ensure that their regularly assigned duties are covered until the short-term project is completed.

Advertising the projects has certain advantages: Those appointed to work on a project have a particular personal or professional interest in it; in a larger Task Force, personnel from all divisions and staff levels are brought together to work on a project basis; it provides staff training and affirmative action opportunities.

For more information contact Department of Corrections Deputy Commissioner, 296-8217.

Clerical Training

Because of the seasonal workloads of various divisions in the Department of Agriculture, clerical personnel

* Unless otherwise noted, contact the Commissioner's Office of specific agencies for further information.

are uniformly trained so they will be able to provide assistance to any division during peak workloads. Each newly hired clerical employee is trained for two or three days by the word processing staff in order to become well acquainted with department standards, formats, and procedures. Frequently, clerical staff have professional rather than clerical supervision. This early training develops relationships with the Word Processing and Office Management staff who continue to act as a source of information and encouragement after the training is completed.

All clerical personnel are trained to meet the clerical standards of the Minnesota Department of Agriculture and to maintain uniformity for the entire department's work product. This training also aids lateral and vertical mobility for clerical employees as standards and procedures are uniform throughout the department.

For more information contact Department of Agriculture, Word Processing Center Supervisor, 296-3479.

Exit Interviews

Employees leave jobs for many positive reasons -- higher pay, better opportunity to advance, more interesting work -- but there is also a chance that they are escaping from a poor working environment. The Department of Personnel developed an Exit Interview Form to be completed by departing employees. The questionnaire asks for employee reaction to supervision, work duties, work groups, opportunities for training and advancement, compensation, benefit programs, working conditions, and departmental communications.

New Employee Information Packet

The Department of Agriculture provides new employees with a packet of information which contains the following information:

- A description of the department, its purpose, organization, and division activities
- Minnesota Employee Handbook
- Employee Insurance Booklet
- Guidelines stressing the importance of public contact and the need for rapid, effective, and accurate response to questions from the public
- Policy statement concerning the use of state telephone
- The Retirement Handbook
- National Health Testing Information
- Pad of annual leave forms
- List of payroll dates and holidays
- Time sheets

- Policy statement of the department's Affirmative Action Committee
- Locations of official department bulletin boards for posting job openings
- The Department of Personnel's Code of Ethics for all Executive Branch State Employees
- Emergency information form

For more information contact the Department of Agriculture Personnel Director, 296-2323.

New Employee Orientation

A new state employee's first few weeks on the job are confusing at best, and many hesitate to ask the questions that will make the following weeks a little easier. To solve this problem the Department of Personnel has developed a supervisor's checklist for new employee orientation. The supervisor discusses the items on the checklist with the new employee (perhaps meeting on several different occasions), answers any questions, and returns the completed checklist within five days to the Personnel Officer.

The checklist covers such areas as job description, work hours, probation and performance appraisal, the salary system and achievement awards, paycheck information, insurance, departmental personnel policies and procedures, and a tour of the office and an introduction to fellow employees.

Personnel Law Index

The Department of Energy has indexed personnel laws, rules, and policies to provide readily available information about non-routine personnel transactions. Indexed by subject, for example, an entry for "Reallocation of Position" would include the statute, the personnel rule, and the agency policy.

Pre-Service Clerical Trainee Programs

The Department of Education, in a cooperative effort with the St. Paul Urban League and St. Paul Technical-Vocational Institute, has developed a clerical training program to provide women with sufficient skills to enter the work force.

The program provides students with six months of on-the-job training in the department, where they work mornings. Afternoons are spent at TVI for additional training in typing and business skills. As positions open within the department, the trainees are eligible for classified positions provided they pass the entry level clerical test.

Ten students began the program last March, seven completed it, and two have been hired by the department. Another program is scheduled to start in December.

The Department of Labor and Industry, in cooperation with community-based employment programs, also recruits and trains clerical employees. The department has established a referral process with the Job Service, other state agencies, and the private sector, to assist in identifying individuals who are interested in an on-the-job training program. Approximately 67 percent of the individuals who have participated in the program have been able to secure employment in state service or the private sector.

"Smorgasbords"

Weekly Regulatory Information Sessions (RIS), nicknamed "smorgasbords," are held on Fridays at the Public Service Department. Topics deal with current regulatory issues and speakers are selected from staff or guest speakers are invited from utilities or other agencies. Although most topics relate to regulatory functions, personnel procedures and training sessions are also presented. Past forums have covered pricing of telephone equipment, electric power alternatives, customer service rules, approaches to depreciation, impact of federal laws, future natural gas supplies, class cost allocations, deregulation of cooperatives and calculating rate of return. The forum is also used as a vehicle for staff members to present to Commission and Department personnel summaries of seminars and conferences. All department personnel are invited, but not required, to attend. Suggestions for "smorgasbord" topics are solicited from staff members.

The weekly meetings provide department personnel with an overview of agency activities, information on current regulatory issues, and a better understanding of state, as well as department, policies and procedures.

Speedreading

Securities analysts in the Department of Commerce spend many hours a day reading lengthy prospectus. To make the job less time consuming, the Securities Commission sends its analysts to the speedreading courses offered by the Department of Personnel.

Student Work Program

In an effort to meet increased demands for service to the public, the Department of Labor and Industry began to explore the use of students to perform clerical and para-professional support functions where regular complement was not available.

The major objectives of the program, begun in 1976, were to provide students with meaningful work experiences, to introduce them to the process of state government and the possibilities of career employment, and to maintain the level of public service without increasing costs.

Such programs as the St. Paul Public School's Youth Career Employment Program and Hamline University's Student Worker Program, provided over 26,000 hours of service at no cost to the state, a cost avoidance of $70,000. Students are assigned in para-legal and clerical capacities.

Other programs involving the use of state funds (CETA, WIN) and in cooperation with community based employment programs offer training and affirmative action opportunities. Two people trained in-house through CETA qualified as safety investigators and were hired.

Supervisor Training Program

While very pleased with the Department of Personnel training courses for supervisory personnel, Department of Revenue supervisors wanted a training program aimed at problems peculiar to Revenue programs and personnel. Several supervisors organized a Supervisor's Coordinating Committee, and began a reverse evaluation procedure, where employees evaluate their supervisors' strengths and weakness. This information resulted in training sessions set up and conducted by the Revenue supervisors themselves. The Coordinating Committee also started a "buddy" system to share information with other departmental supervisors and to work with new supervisors.

Administrators report that the quality of supervision has increased, as has receptivity to new policies and procedures.

MISCELLANEOUS*

Cooperative Use of Equipment and Facilities

The Federal Aviation Administration and the Department of Transportation had separate, but similar, nondirectional radio beacons serving the International Falls area. The Federal Aviation Administration and Department of Transportation agreed to combine the use of this equipment and the ownership, operation, and maintenance of the Department of Transportation nondirectional radio beacons was transferred to the Federal Aviation Administration, which reimbursed the state for the entire cost of constructing a new building and antenna system.

Energy Conservation

The energy conservation program of the State University System has resulted in a 27 percent reduction in energy consumption from its inception in 1973. Part of the reduction is the result of expenditures for insulation, double-glazed windows, weather-stripping, and the construction of vestibules. Savings also resulted from changes in programming or procedures. During the cooling season, for example, classroom, laboratory, office, and residence schedules are consolidated and buildings, or portions of buildings, are closed down; thermostats are set at 80°; use of air conditioning in field houses and auditoriums is restricted to those periods scheduled for special events involving attendance by large crowds; and the number of entrances in use in air-conditioned buildings is reduced.

Other energy savings activities have become standard operating procedures throughout the year. Elevators are shut off during unoccupied hours; preventive maintenance keeps heating and cooling equipment operating at optimum efficiency; light meter surveys result in elimination of bulbs, substitution of lower wattage, or the use of more efficient light sources; reduction of water temperature in hot water system and boiler pressure in heating system; elimination of unnecessary hot water or steam piping; and disconnecting refrigeration units on water fountains where feasible.

The Community College System has also adopted energy conservation measures.

* Unless otherwise noted, contact the Commissioner's Office of specific agencies for further information.

Prison Industries Products

Products manufactured by the prison industries and the Vocational Rehabilitation Division are available for purchase by state employees. The Department of Public Welfare has a display of Vocational Rehabilitation arts and crafts near its fourth floor information desk in the Centennial Building. In November, the Department of Corrections Prison Industries will begin displaying their products.

For further information, contact Department of Corrections Industries Director, 296-4027.

Prison Industries Office Equipment Refurbishing Program

Old desks, chairs, and file cabinets refurbished at Lino Lakes are coming out looking as good as new. Desks are repaired, painted, and retopped. Chairs are painted and recushioned. Very old oak and leather chairs, once candidates for the State Garage Sales, are being stipped, stained, and varnished, and covered with new leather. Any agency can take advantage of the desk, chair, and file reclamation program. Departments with special equipment needs can contact the Prison Industries Program to determine if the correctional institutions can help.

Residential facilities (state hospitals and nursing homes) administered by the Department of Public Welfare, for example, have and are utilizing Prison Industries for refurbishing furniture and office equipment. Quantities of renewed furnishings and office equipment have been purchased from Prison Industries, all of which has resulted in substantial dollar savings.

Product Testing

The Plant Management Division of the Department of Administration found a new floor finish that saves both time and money. Staff tested six products in six different test areas. They noted the final appearance and durability of each. One product significantly reduced the frequency of stripping, refinishing, and buffing resilient floors, resulting in a savings of over 3,000 person-hours from January to June within the Capitol Complex -- a cost avoidance of $22,000.

Reduction in Workman's Compensation Expenditures

Department of Transportation's workers' compensation expenditures have been rising steadily in the last few years. In order to control these costs, it is necessary to reduce the number of personal injuries as well as the number of employees who receive long-term compensation. The Department of Transportation implemented the following procedures to reduce costs:

- When a personal injury results from an unsafe act by an employee, that employee is more closely supervised or given training. When an injury is the result of a hazardous condition, either the hazard is eliminated or better protection is provided.
- Disciplinary measures are taken when it is found that employees are disregarding department policy on wearing protective equipment.
- Worker's compensation is not paid for the day of injury until it has been clearly established that the injury was work-related.
- Claims are now investigated more carefully than in the past to determine legitimacy.
- When third-party liability can be established, the Department of Transportation will exercise its right to recover its expenses for all medical bills and compensation for lost time.
- A pre-employment physical examination is now required for certain employment classifications to eliminate the placement of persons with known physical problems in jobs which require physical labor.