

Revised

Consolidated Fiscal Note

2017-2018 Legislative Session

HF136 - 0 - "Zero-Based Budgeting Requirement"

Chief Author: **Jeff Howe**
 Committee: **State Government Finance**
 Date Completed: **03/07/2017**
 Lead Agency: **Minn Management and Budget**
 Other Agencies:
 Legislature Minn State Retirement System
 Public Employees Supreme Court
 Retirement Assoc
 Teachers Retirement Assoc

State Fiscal Impact	Yes	No
Expenditures	X	
Fee/Departmental Earnings		X
Tax Revenue		X
Information Technology	X	
Local Fiscal Impact		X

This table shows direct impact to state government only. Local government impact, if any, is discussed in the narrative. Reductions shown in the parentheses.

State Cost (Savings)	Biennium			Biennium		
	Dollars in Thousands	FY2017	FY2018	FY2019	FY2020	FY2021
Legislature						
General Fund	-	-	78	81	81	
Minn Management and Budget						
General Fund	-	4,005	3,626	3,576	3,576	
All Other Funds	-	1,641	1,530	1,530	1,530	
Minn State Retirement System						
State Employees Retirement	-	153	53	53	53	
Public Employees Retirement Assoc						
Public Employees Retirement Fund	-	292	343	313	313	
Teachers Retirement Assoc						
Teachers Retirement Fund	-	150	150	125	125	
State Total						
General Fund	-	4,005	3,704	3,657	3,657	
All Other Funds	-	1,641	1,530	1,530	1,530	
State Employees Retirement	-	153	53	53	53	
Public Employees Retirement Fund	-	292	343	313	313	
Teachers Retirement Fund	-	150	150	125	125	
Total	-	6,241	5,780	5,678	5,678	
Biennial Total			12,021			11,356

Full Time Equivalent Positions (FTE)	Biennium			Biennium	
	FY2017	FY2018	FY2019	FY2020	FY2021
Legislature					
General Fund	-	-	.75	.75	.75
Minn Management and Budget					
General Fund	-	33	33	33	33

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Full Time Equivalent Positions (FTE)	Biennium			Biennium	
	FY2017	FY2018	FY2019	FY2020	FY2021
All Other Funds	-	15	15	15	15
Minn State Retirement System					
State Employees Retirement	-	1.5	.5	.5	.5
Public Employees Retirement Assoc					
Public Employees Retirement Fund	-	2	2	2	2
Teachers Retirement Assoc					
Teachers Retirement Fund	-	1	1	1	1
Total	-	52.5	52.25	52.25	52.25

Lead Executive Budget Officer's Comment

I have reviewed this fiscal note for reasonableness of content and consistency with MMB's Fiscal Note policies.

EBO Signature: Laura Logsdon Date: 03/07/2017
 Phone: 651 201-8020 Email: laura.logsdon@state.mn.us

Revised

State Cost (Savings) Calculation Details

This table shows direct impact to state government only. Local government impact, if any, is discussed in the narrative. Reductions are shown in parentheses.

*Transfers In/Out and Absorbed Costs are only displayed when reported.

State Cost (Savings) = 1-2	Biennium			Biennium	
Dollars in Thousands	FY2017	FY2018	FY2019	FY2020	FY2021
Legislature					
General Fund	-	-	78	81	81
Minn Management and Budget					
General Fund	-	4,005	3,626	3,576	3,576
All Other Funds	-	1,641	1,530	1,530	1,530
Minn State Retirement System					
State Employees Retirement	-	153	53	53	53
Public Employees Retirement Assoc					
Public Employees Retirement Fund	-	292	343	313	313
Teachers Retirement Assoc					
Teachers Retirement Fund	-	150	150	125	125
	Total	-	6,241	5,780	5,678
	Biennial Total		12,021		11,356

1 - Expenditures, Absorbed Costs*, Transfers Out*

Legislature					
General Fund					
Expenditures	-	-	198	203	204
Absorbed Costs	-	-	(120)	(122)	(123)
Minn Management and Budget					
General Fund	-	4,005	3,626	3,576	3,576
All Other Funds	-	1,641	1,530	1,530	1,530
Minn State Retirement System					
State Employees Retirement	-	153	53	53	53
Public Employees Retirement Assoc					
Public Employees Retirement Fund	-	292	343	313	313
Teachers Retirement Assoc					
Teachers Retirement Fund	-	150	150	125	125
	Total	-	6,241	5,780	5,678
	Biennial Total		12,021		11,356

2 - Revenues, Transfers In*

Legislature					
General Fund	-	-	-	-	-
Minn Management and Budget					
General Fund	-	-	-	-	-
All Other Funds	-	-	-	-	-
Minn State Retirement System					
State Employees Retirement	-	-	-	-	-
Public Employees Retirement Assoc					
Public Employees Retirement Fund	-	-	-	-	-
Teachers Retirement Assoc					
Teachers Retirement Fund	-	-	-	-	-
	Total	-	-	-	-

Revised

State Cost (Savings) = 1-2	Biennium			Biennium	
Dollars in Thousands	FY2017	FY2018	FY2019	FY2020	FY2021
			-		-
	Biennial Total				

Revised

Fiscal Note

2017-2018 Legislative Session

HF136 - 0 - "Zero-Based Budgeting Requirement"

Chief Author: **Jeff Howe**
 Committee: **State Government Finance**
 Date Completed: **03/07/2017**
 Agency: **Minn Management and Budget**

State Fiscal Impact	Yes	No
Expenditures	X	
Fee/Departmental Earnings		X
Tax Revenue		X
Information Technology	X	
Local Fiscal Impact		
		X

This table shows direct impact to state government only. Local government impact, if any, is discussed in the narrative. Reductions shown in the parentheses.

State Cost (Savings)	Biennium			Biennium		
	Dollars in Thousands	FY2017	FY2018	FY2019	FY2020	FY2021
General Fund	-	4,005	3,626	3,576	3,576	
All Other Funds	-	1,641	1,530	1,530	1,530	1,530
Total	-	5,646	5,156	5,106	5,106	5,106
Biennial Total			10,802			10,212

Full Time Equivalent Positions (FTE)	Biennium			Biennium	
	FY2017	FY2018	FY2019	FY2020	FY2021
General Fund	-	33	33	33	33
All Other Funds	-	15	15	15	15
Total	-	48	48	48	48

Executive Budget Officer's Comment

I have reviewed this fiscal note for reasonableness of content and consistency with MMB's Fiscal Note policies.

EBO Signature: Laura Logsdon Date: 3/7/2017 11:14:26 AM
 Phone: 651 201-8020 Email: laura.logsdon@state.mn.us

Revised

State Cost (Savings) Calculation Details

This table shows direct impact to state government only. Local government impact, if any, is discussed in the narrative. Reductions are shown in parentheses.

*Transfers In/Out and Absorbed Costs are only displayed when reported.

State Cost (Savings) = 1-2		Biennium			Biennium	
Dollars in Thousands		FY2017	FY2018	FY2019	FY2020	FY2021
General Fund	-	4,005	3,626	3,576	3,576	3,576
All Other Funds	-	1,641	1,530	1,530	1,530	1,530
Total	-	5,646	5,156	5,106	5,106	5,106
	Biennial Total		10,802		10,212	10,212
1 - Expenditures, Absorbed Costs*, Transfers Out*						
General Fund	-	4,005	3,626	3,576	3,576	3,576
All Other Funds	-	1,641	1,530	1,530	1,530	1,530
Total	-	5,646	5,156	5,106	5,106	5,106
	Biennial Total		10,802		10,212	10,212
2 - Revenues, Transfers In*						
General Fund	-	-	-	-	-	-
All Other Funds	-	-	-	-	-	-
Total	-	-	-	-	-	-
	Biennial Total		-		-	-

Bill Description

This bill adds a requirement that executive branch agencies prepare a zero-based budget and that MMB provide guidance to agencies and provide the budget information to the Legislature.

- Subdivision 1 requires executive branch departments, institutions, or agencies prepare a detailed operating budget using the zero-based budgeting approach and requires MMB provide instruction and guidance to facilitate the preparation.
- Subdivision 2 describes the requirements of the zero-based budget plan, including (1) a description of activities that comprise the agency, and a justification for the existence of each activity by reference to statute or other legal authority; (2) for each activity, a quantitative estimate of any adverse impacts that could reasonably be expected should the activity be discontinued, together with a full description of the methods by which the adverse impact is estimated; (3) a list of quantifiable program outcomes that measure the efficiency and effectiveness of each program; (4) for each activity, an itemized account of expenditures that would be required to maintain the activity at the minimum level of service required by the statutory authority, together with a concise statement of the quantity and quality of services required at that minimum level; (5) for each activity, an itemized account of expenditures required to maintain the quantity and quality of services being provided and the number of personnel required to accomplish each program; and (6) a ranking of all activities that shows the relative contribution of each activity to the overall goals and purposes of the agency at current service level.
- Subdivision 3 requires the legislature, judicial branch, and retirement systems also prepare a proposed biennial budget using zero-based budgeting with the required information stated in Subdivision 2.

Effective Date: Zero-based budgeting needs to be implemented with the 2020-21 biennium.

Assumptions

- MMB and executive branch agencies will continue to prepare and submit a base budget as required in Minnesota statutes 16A.10, 16A.095 and 16A.11.
- MMB will continue to publish budget documents as required in M.S. 16A.11, subdivision 3, to include the appropriation base for each year, any adjustments as required by current law or policies of the commissioner of management and budget, the amount of the forecast adjustments, based on the most recent forecast prepared by MMB under section 16A.103.
- MMB will continue to prepare the Governor's budget recommendations based on M.S. 16A.11, which will include the amount of the appropriation changes recommended by the governor, after adjustments to the base and forecast adjustments, and the total recommendations of the governor for each year.

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- MMB will continue to forecast state revenue and spending projections based on M.S. 16A.103, and use these estimates for the base budget.
- We are assuming that building the base budget based on appropriations is still required, and submitting a base budget document to the legislature is a primary requirement and that the zero based budgeting approach is a secondary approach or additional document.
- MMB is responsible for prescribing the schedule, rules and instructions, forms, and procedures for budget preparation by state agencies and entities for both budgeting methods. The budget services division within MMB is responsible for providing and managing information systems necessary to collect, analyze, and present required budget information for use in presentation to the governor and the legislature for both budgeting methods.
- Subdivision 2, items 1, 2, 3, 4, 5, and 6 require development and management of new information currently not collected under the current budget preparation processes. Subdivision 2 items 4 and 5 require development of itemized expenditure data necessary to support minimal service level required by statute and to maintain current service levels. These concepts are materially different than the appropriations / base budget approach currently defined in statute.
- MMB would require additional staffing to gain expertise on the zero-based budgeting approach, develop policies, procedures, forms, instructions and training for executive branch agencies. This staff would be needed on-going to implement a zero-based budget process. Implementation would require two full-time budget division staff over a period of six months to develop policies, procedures, forms, instructions and training for executive branch agencies. This staff would also develop the requirements needed for changes and enhancements needed to the existing budget system to produce a secondary budget approach. This same staff will also be needed to manage and produce the secondary zero-based budget document.
- After inquiry to other states who have used a zero-based approach or modified zero-based approach, they recommended a range from 30% to 100% for increased budget office staff engage in and produce a zero-based budget. Based on their recommendation and considering this is a secondary budget that needs to be produced we will need additional executive budget officers (6 FTE), which is a 50% increase, who will along with existing staff, review, analyze and rank all agency activities as required in subdivision 2, items 1, 2, 3, 4, 5, and 6.
- IT Consultant expertise would be needed to modify the current budget system to accommodate a secondary budget approach, which is different from the current appropriations / base budget approach.
- State agencies will incur staffing, and in some cases, system costs to implement zero-based budgeting.
- To implement for the FY2020-21 budget, new policies, procedures, formats, instructions, training, and system modifications will need to be ready by early 2018.
- Other state's that have used the zero-based budgeting approach have indicated that the process might be more manageable to use an incremental approach such as 10% -20% of the state programs each budget cycle instead of all state programs in every budget cycle because of the time-consuming nature of the process.

Expenditure and/or Revenue Formula

MMB Budget Services Division Costs (Dollars in Thousands)

Cost Item	FY 2018	FY 2019	FY 2020	FY 2021
2 FTE Budget Operations Staff @ \$103,000 each and 6 FTE Budget Policy and Analysis staff @ \$120,000	\$926	\$926	\$926	\$926
8 @ \$7,500 for each new employee workstation (one-time)	\$60			
Budget System Modification & Maintenance	\$240	\$110	\$60	\$60
Total MMB General Fund Costs	\$1,226	\$1,036	\$986	\$986

Executive Agency Costs (Dollars in Thousands)

Agency Costs	FY 2018	FY 2019	FY 2020	FY 2021
2 FTE Budget Staff x 10 Large Agencies @ \$103,000 each plus one-time costs for workstations @\$7,500	\$2,210	\$2,060	\$2,060	\$2,060

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13 FTE Medium Agencies @ \$103,000 each plus one-time costs for workstations @\$7,500	\$1,437	\$1,339	\$1,339	\$1,339
7 FTE Administration Department SMART assistance for small agencies X \$103,000 each plus one-time costs for workstations @\$7,500 (General fund costs)	\$773	\$721	\$721	\$721
Total Executive Agency Costs	\$4,420	\$4,120	\$4,120	\$4,120

- Based on inquiries and experiences of other states, additional costs would be incurred in individual Minnesota state agencies within the executive branch. Based on a likely initial implementation and training period of six months, it is expected that internal resources requirements for each agency would be similar to that required by MMB Operations staff. That is, 2 FTE required for implementation in the largest ten agencies, 1 FTE in medium-sized agencies and an additional necessary level of support for small agencies, boards and commissions from the SMART team with the Department of Administration or in partnered sponsoring parent agencies.
- The total costs to other state agencies, boards, and commissions are estimated at about \$4.12 million after the initial startup costs. This estimate was arrived at using the assumption that 10 large agencies would require 2 staff, medium size agencies would require 1 staff, and small boards, commissions, councils, and the SMART team would require the equivalent of 7 additional FTE (40 positions @ \$103,000 = \$4.12 million).
- Total cost for Executive agencies per fiscal year is \$4.12 million. MMB and Department of Administration SMART are funded from the General fund (\$1.647 million). The other costs were split 55% general fund and 45% other funds so approximately \$1.869 million General fund and \$1.530 million All Other Funds.

Long-Term Fiscal Considerations

The Full-time Equivalent (FTE) positions needed at MMB and executive agencies would need to be reviewed after the FY 2020-21 biennial budget process.

Local Fiscal Impact

References/Sources

National Council of State Legislatures, *Zero-Base Budgeting in the States*, 2009 and 2012

Agency Contact: Robyn Rupp (651-201-8098)

Agency Fiscal Note Coordinator Signature: Ruth McGlynn

Phone: 651 259-3787

Date: 3/7/2017 11:13:09 AM

Email: ruth.mcglynn@state.mn.us

Revised

Fiscal Note

2017-2018 Legislative Session

HF136 - 0 - "Zero-Based Budgeting Requirement"

Chief Author: **Jeff Howe**
 Committee: **State Government Finance**
 Date Completed: **03/07/2017**
 Agency: **Legislature**

State Fiscal Impact	Yes	No
Expenditures	X	
Fee/Departmental Earnings		X
Tax Revenue		X
Information Technology		X
Local Fiscal Impact		X

This table shows direct impact to state government only. Local government impact, if any, is discussed in the narrative. Reductions shown in the parentheses.

State Cost (Savings)	Biennium			Biennium		
	Dollars in Thousands	FY2017	FY2018	FY2019	FY2020	FY2021
General Fund	-	-	78	81	81	
Total	-	-	78	81	81	
Biennial Total			78			162

Full Time Equivalent Positions (FTE)	Biennium			Biennium	
	FY2017	FY2018	FY2019	FY2020	FY2021
General Fund	-	-	.75	.75	.75
Total	-	-	.75	.75	.75

Executive Budget Officer's Comment

I have reviewed this fiscal note for reasonableness of content and consistency with MMB's Fiscal Note policies.

EBO Signature: Laura Logsdon Date: 2/14/2017 12:54:08 PM
 Phone: 651 201-8020 Email: laura.logsdon@state.mn.us

Revised

State Cost (Savings) Calculation Details

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*Transfers In/Out and Absorbed Costs are only displayed when reported.

State Cost (Savings) = 1-2 Dollars in Thousands	Biennium			Biennium	
	FY2017	FY2018	FY2019	FY2020	FY2021
General Fund	-	-	78	81	81
Total	-	-	78	81	81
Biennial Total			78		162
1 - Expenditures, Absorbed Costs*, Transfers Out*					
General Fund					
Expenditures	-	-	198	203	204
Absorbed Costs	-	-	(120)	(122)	(123)
Total	-	-	78	81	81
Biennial Total			78		162
2 - Revenues, Transfers In*					
General Fund	-	-	-	-	-
Total	-	-	-	-	-
Biennial Total			-		-

Bill Description

SF 65 requires legislative, judicial, and executive branch agencies to develop biennial budgets beginning in FY 2020 using a zero-based budget method. A zero-based budgeting approach requires building agency budgets by starting at zero, without any assumed base or existing appropriations, and would be built up to the total amount appropriated for each agency. Revenue projections used must be based on projections and estimates prepared by Minnesota Management and Budget (MMB). MMB is to provide technical assistance to executive branch agencies. The effective date of the bill is July 1, 2017.

Assumptions

- MMB will share the instructional material developed so that a consistent methodology is employed by all state agencies, and the legislative and judicial branches.
- During the normal course of evaluating the state's budget, all legislative fiscal analysts will be required to incorporate an analysis of the zero-based budget into their existing processes and job requirements. The value of this work can be quantified as .5 FTE composite of fiscal staff time for the House and .5 FTE for the Senate beginning FY 2019. Existing staff will be utilized and cost may be absorbed, although that will depend on the priorities of the legislature and staff time required for competing projects.
- No additional finance committee meetings outside of session will be required.
- This note does not include costs that non-legislative agencies may incur in complying with this legislation.
- Employing a zero-based budget process is a significantly different process than currently used by the House, Senate and LCC in preparing their proposed operating budgets. Additional staff resources of .25 FTE fiscal staff positions for each institution (the House, Senate and LCC) will be needed beginning FY 2019 to assist with the development process of the zero-based biennial budgets.
- Modifications to finance software systems for the House and Senate will be nominal. The LCC will continue to use the state wide budget system administered by MMB.
- Staff costs include salary and fringe.
- Current office equipment and workstation space will be used for the additional staff.

Expenditure and/or Revenue Formula

	FY18	FY19	FY20	FY21

Revised

House Fiscal Analyst II, for Finance Committee Support	0	61,000	62,000	63,000
Senate Fiscal Analyst II, for Finance Committee Support	0	59,000	60,000	60,000
House Fiscal Analyst I, Base Budget Development Support	0	26,000	27,000	27,000
Senate Fiscal Analyst I, Base Budget Development Support	0	25,000	26,000	26,000
LCC Fiscal Analyst, Base Budget Development Support	0	27,000	28,000	28,000
Total Staff Cost	0	198,000	203,000	204,000
House Staff Cost Absorbed	0	(61,000)	(62,000)	(63,000)
Senate Staff Cost Absorbed	0	(59,000)	(60,000)	(60,000)
Total Absorbed Cost	0	(120,000)	(122,000)	(123,000)
Net Staff Cost	0	78,000	81,000	81,000
New FTEs (base budget development support, 3 @ .25 FTE)	0	0.75	0.75	0.75

Long-Term Fiscal Considerations

The cost would be ongoing.

The cost provided in this fiscal note is a low cost assumption. Building agency budgets in this manner can require collecting and presenting a great deal of information. Depending on how legislative budget committees incorporate zero-based budgeting into their decision making process, legislative fiscal staff may need to develop capacity to display and present considerably more information regarding agency budgets. Additionally, if the legislature adopts a rigorous zero-based approach to reviewing budgets with a corresponding increase in fiscal analyst work load, it may not be possible for the legislature to absorb the increased demands of SF 65 with existing resources. Additional fiscal analysts may be required to meet the new analytical demands of a zero-based budget, and legislative staffing needs may need to expand significantly to meet the analytical requirements. In that circumstance, the .5 FTE identified in the assumptions for both the House and Senate would be insufficient.

Local Fiscal Impact

N/A

References/Sources

Patrick McCormack, House of Representatives

Bill Marx, House of Representatives

Revised

Jim Reinholdz, House of Representatives

Tom Bottern, Minnesota Senate

Eric Nauman, Minnesota Senate

Cal Ludeman Minnesota Senate

Greg Hubinger, Legislative Coordinating Commission

Agency Contact: Diane Henry-Wangenstein

Agency Fiscal Note Coordinator Signature: Diane Henry-Wangenstein

Phone: 651 296-1121

Date: 2/1/2017 6:16:36 PM

Email: diane.henry@lcc.leg.mn

Revised

Fiscal Note

2017-2018 Legislative Session

HF136 - 0 - "Zero-Based Budgeting Requirement"

Chief Author: **Jeff Howe**
 Committee: **State Government Finance**
 Date Completed: **03/07/2017**
 Agency: **Minn State Retirement System**

State Fiscal Impact	Yes	No
Expenditures	X	
Fee/Departmental Earnings		X
Tax Revenue		X
Information Technology		X
Local Fiscal Impact		X

This table shows direct impact to state government only. Local government impact, if any, is discussed in the narrative. Reductions shown in the parentheses.

State Cost (Savings)	Biennium			Biennium		
	Dollars in Thousands	FY2017	FY2018	FY2019	FY2020	FY2021
State Employees Retirement	-	153	53	53	53	53
Total	-	153	53	53	53	53
Biennial Total			206			106

Full Time Equivalent Positions (FTE)	Biennium			Biennium	
	FY2017	FY2018	FY2019	FY2020	FY2021
State Employees Retirement	-	1.5	.5	.5	.5
Total	-	1.5	.5	.5	.5

Executive Budget Officer's Comment

I have reviewed this fiscal note for reasonableness of content and consistency with MMB's Fiscal Note policies.

EBO Signature: Susan Earle Date: 2/10/2017 9:38:59 AM
 Phone: 651 201-8035 Email: susan.earle@state.mn.us

Revised

State Cost (Savings) Calculation Details

This table shows direct impact to state government only. Local government impact, if any, is discussed in the narrative. Reductions are shown in parentheses.

*Transfers In/Out and Absorbed Costs are only displayed when reported.

State Cost (Savings) = 1-2 Dollars in Thousands	Biennium			Biennium	
	FY2017	FY2018	FY2019	FY2020	FY2021
State Employees Retirement	-	153	53	53	53
Total	-	153	53	53	53
Biennial Total			206		106
1 - Expenditures, Absorbed Costs*, Transfers Out*					
State Employees Retirement	-	153	53	53	53
Total	-	153	53	53	53
Biennial Total			206		106
2 - Revenues, Transfers In*					
State Employees Retirement	-	-	-	-	-
Total	-	-	-	-	-
Biennial Total			-		-

Bill Description

SF65 Sec. 1. Subd. 3. creates a new reporting requirement for the Minnesota State Retirement System (MSRS) to submit a budget to the legislature that uses a zero-based-budgeting reporting structure beginning with the 2020-2021 biennium. This subdivision also requires MSRS to submit the report based on projections and estimates prepared by Minnesota Management and Budget.

Subd. 2. Describes the requirements of the zero-based budget, including: (1) a description of activities that comprise MSRS; (2) a justification for the existence of each activity by reference to statute or other legal authority; (3) a list of quantifiable program outcomes that measure the efficiency and effectiveness of each program; (4) for each activity, an itemized account of expenditures that would be required to maintain the activity at the minimum level of service required by the statutory authority, together with a concise statement of the quantity and quality of services being provided for each activity; (5) for each activity an itemized account of expenditures required to maintain the quantity and quality of services being provided and the number of personnel required to accomplish each program; and (6) a ranking of all activities that shows the relative contribution of each activity to the overall goals and purposes of the agency at current service levels.

Assumptions

- MSRS will still be responsible for its current budgeting and financial reporting functions. The zero-based budget reporting structure would be in addition to those requirements.
- MMB would provide training, centralized systems, and system related resources to comply with the additional reporting requirements.
- MMB may determine actuarial assumptions related to future state revenues as they apply to this report. Any additional actuarial costs incurred would be borne by MSRS.
- The zero-based-budgeting reporting provided to the legislature would be retrospective with respect to the MSRS administrative budget.
- The MSRS Board of directors would continue to set the MSRS administrative budget in May of each year with final budget approval authority resting with the MSRS Board of Directors.
- The MSRS administrative budget would continue to be funded through administrative fees deducted from funds and individual accounts specific to the programs that MSRS administers.

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Expenditure and/or Revenue Formula

The extent of the cost is dependent on the degree of detail required in the zero-based-budgeting reporting structure as further specified by Minnesota Management and Budget under their authority outlined in SF65 Section 1. Subd. 1.(a) and in Subd. 3.. Compiling and analyzing the minimum quantitative data suggested by SF65 will require the addition of .5 FTE at \$37,500 per year for salary and benefits. Implementation of the system requirements will also require the addition of a temporary full time position during the period of implementation. This initial 1 FTE cost is estimated at \$100,000 per year for an individual with programming, accounting, and project management skills. This position would be responsible for working with managers to identify the appropriate existing reporting metrics, develop any newly required metrics, and implement the internal reporting system.

The zero-based-budgeting reporting structure may also require additional actuarial work that extends beyond the scope of our current contract. Additional hourly work performed by our actuary costs \$350 to \$470 per hour, depending on the work performed. We estimate a conservative 40 hours of additional projection related work dependent on the assumptions developed by MMB, totaling around \$15,000.

Long-Term Fiscal Considerations

The long term impact on the MSRS operational budget will depend on the degree of detail required by the zero-based-budgeting reporting structure. MSRS anticipates requiring at least 0.5 FTE to continue administering the reporting requirements beyond the initial implementation period.

If necessary, actuarial costs will be included in the next negotiated actuarial services contract. This would likely reduce any actuaril related costs.

Local Fiscal Impact

References/Sources

Agency Contact:

Agency Fiscal Note Coordinator Signature: Erin Leonard

Phone: 651 284-7848

Date: 2/10/2017 8:58:22 AM

Email: erin.leonard@msrs.us

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Fiscal Note

2017-2018 Legislative Session

HF136 - 0 - "Zero-Based Budgeting Requirement"

Chief Author: **Jeff Howe**
 Committee: **State Government Finance**
 Date Completed: **03/07/2017**
 Agency: **Public Employees Retirement Assoc**

State Fiscal Impact	Yes	No
Expenditures	X	
Fee/Departmental Earnings		X
Tax Revenue		X
Information Technology	X	
Local Fiscal Impact		X

This table shows direct impact to state government only. Local government impact, if any, is discussed in the narrative. Reductions shown in the parentheses.

State Cost (Savings)	Biennium			Biennium		
	Dollars in Thousands	FY2017	FY2018	FY2019	FY2020	FY2021
Public Employees Retirement Fund	-	292	343	313	313	313
Total	-	292	343	313	313	313
Biennial Total			635			626

Full Time Equivalent Positions (FTE)	Biennium			Biennium	
	FY2017	FY2018	FY2019	FY2020	FY2021
Public Employees Retirement Fund	-	2	2	2	2
Total	-	2	2	2	2

Executive Budget Officer's Comment

I have reviewed this fiscal note for reasonableness of content and consistency with MMB's Fiscal Note policies.

EBO Signature: Susan Earle Date: 2/9/2017 6:08:52 PM
 Phone: 651 201-8035 Email: susan.earle@state.mn.us

Revised

State Cost (Savings) Calculation Details

This table shows direct impact to state government only. Local government impact, if any, is discussed in the narrative. Reductions are shown in parentheses.

*Transfers In/Out and Absorbed Costs are only displayed when reported.

State Cost (Savings) = 1-2		Biennium			Biennium	
Dollars in Thousands	FY2017	FY2018	FY2019	FY2020	FY2021	
Public Employees Retirement Fund	-	292	343	313	313	
Total	-	292	343	313	313	313
Biennial Total			635			626
1 - Expenditures, Absorbed Costs*, Transfers Out*						
Public Employees Retirement Fund	-	292	343	313	313	
Total	-	292	343	313	313	313
Biennial Total			635			626
2 - Revenues, Transfers In*						
Public Employees Retirement Fund	-	-	-	-	-	
Total	-	-	-	-	-	-
Biennial Total			-			-

Bill Description

SF65 adds a section to statute that requires the biennial budget be prepared using zero-based budgeting.

Subdivision 1 requires that executive branch departments, institutions, and agencies prepare a budget using the zero-based budgeting approach and that Minnesota Management and Budget (MMB) provide technical support, instruction, and guidance.

Subdivision 2 describe the requirements of the zero-based budget, including (1) a description of activities that comprise the agency, and a justification for the existence of each activity by reference to statute or other legal authority; (2) for each activity, a quantitative estimate of any adverse impacts that could reasonably be expected should the activity be discontinued, together with a full description of the methods by which the adverse impact is estimated; (3) a list of quantifiable program outcomes that measure the efficiency and effectiveness of each program; (4) for each activity, an itemized account of expenditures that would be required to maintain the activity at the minimum level of service required by the statutory authority, together with a concise statement of the quantity and quality of services required at that minimum level; (5) for each activity, an itemized account of expenditures required to maintain the quantity and quality of services being provided and the number of personnel required to accomplish each program; and (6) a ranking of all activities that shows the relative contribution of each activity to the overall goals and purposes of the agency at current service levels.

Subdivision 3 requires the legislature, judicial branch, and retirement systems, presumably including the Public Employees Retirement Association, to also prepare a biennial budget using zero-based budgeting with the required information stated in Subdivision 2.

The bill is effective July 1, 2017, and requires that zero-based budgeting is implemented with the 2020-21 biennial budget.

Assumptions

The bill does not change the current budget preparation system already in place.

New accounting software would need to be purchased and implemented. PERA's current software package does not support the level of measurements required for zero-based budgeting and is no longer supported by the supplier for such upgrades. In addition to the purchase costs, opportunity costs of immediate implementation would be likely as other strategic initiatives and improvement projects would be delayed for an unknown period. It is assumed that PERA would not need to expand server capacity and that current equipment would be able to accommodate new software.

Revised

A budget director would need to be created to oversee the zero-based budgeting process and monitor the measurements. The budget manager would provide training and assistance to managers, establish and maintain internal procedures and reporting, and act as the liason with MMB.

A contract firm would be hired to ensure that proper data is being collected and benchmarked properly. CEM Benchmarking is a retirement industry standard for this type of work. It is estimate an annual contract would cost \$50,000.

A cost accountant position would need to be created to work with the consultant on compiling data, and reviewing, analyzing, and coding accounting data to support the budget director.

Additional work would be required by managers, who would need to delegate more of their functions to other supervisors and non-supervisors. As managerial, and other duties move, it is assumed that reallocations, and work-out-of-class positions, etc., would add costs to the overall personnel budget equivalent to 1 FTE.

PERA would continue to maintain actuarial contracts with the consultaing actuary required under Minnesota Statutes 356.214, and that MMB would have access to necessary information.

Expenditure and/or Revenue Formula

	FY2018	FY2019	FY2020	FY2021
Capital cost				
new ZBB capable G/L software	14			
Service contract	3	3	3	3
Implementation consulting	20	15		
Customization/integration support (CAMI and SWIFT)	20	15		
Data Conversion	15			
Subtotal: Incremental capital cost	72	33	3	3
Operational Costs				
Budget Director	130	130	130	130
Cost Accountant		90	90	90
Additional Supervisory/lead worker staff	90	90	90	90
Benchmarking contract (CEM)				
Subtotal: Incremental Operating Costs	220	310	310	310
TOTAL INCREMENTAL COST	292	343	313	313

Long-Term Fiscal Considerations

Local Fiscal Impact

References/Sources

Agency Contact: Shana Jones

Agency Fiscal Note Coordinator Signature: Doug Anderson

Phone: 651 201-2690

Date: 2/9/2017 6:05:14 PM

Email: doug.anderson@mnpera.org

Revised

Fiscal Note

2017-2018 Legislative Session

HF136 - 0 - "Zero-Based Budgeting Requirement"

Chief Author: **Jeff Howe**
 Committee: **State Government Finance**
 Date Completed: **03/07/2017**
 Agency: **Supreme Court**

State Fiscal Impact	Yes	No
Expenditures		X
Fee/Departmental Earnings		X
Tax Revenue		X
Information Technology		X
Local Fiscal Impact		X

This table shows direct impact to state government only. Local government impact, if any, is discussed in the narrative. Reductions shown in the parentheses.

State Cost (Savings)	Biennium			Biennium		
	Dollars in Thousands	FY2017	FY2018	FY2019	FY2020	FY2021
Total	-	-	-	-	-	-
Biennial Total			-			-

Full Time Equivalent Positions (FTE)	Biennium			Biennium		
		FY2017	FY2018	FY2019	FY2020	FY2021
Total	-	-	-	-	-	-

Executive Budget Officer's Comment

I have reviewed this fiscal note for reasonableness of content and consistency with MMB's Fiscal Note policies.

EBO Signature: Jim King Date: 2/10/2017 2:12:38 PM
 Phone: 651 201-8033 Email: jim.king@state.mn.us

Revised

State Cost (Savings) Calculation Details

This table shows direct impact to state government only. Local government impact, if any, is discussed in the narrative. Reductions are shown in parentheses.

*Transfers In/Out and Absorbed Costs are only displayed when reported.

State Cost (Savings) = 1-2 Dollars in Thousands	Biennium			Biennium	
	FY2017	FY2018	FY2019	FY2020	FY2021
Total	-	-	-	-	-
Biennial Total			-		-
1 - Expenditures, Absorbed Costs*, Transfers Out*					
Total	-	-	-	-	-
Biennial Total			-		-
2 - Revenues, Transfers In*					
Total	-	-	-	-	-
Biennial Total			-		-

Bill Description

SF65-0 requires the Executive Branch, the Legislative Branch and the Judicial Branch to prepare biennial budget requests using zero-based budgeting, commencing with the biennium beginning in fiscal year 2020.

Assumptions

It is assumed that zero based budgeting will be implemented for the biennium beginning in fiscal year 2020. It is assumed that Minnesota Management and Budget will share materials developed to execute the development of zero base budgeting and training materials with the Judicial Branch. It is assumed that the necessary budget information delineated in the legislation will be provided by the Judicial Branch. It is assumed that if there are projections of revenue and other information concerning future state revenue in the Judicial Branch proposed budget, all projections will be based on projections and estimates prepared by Minnesota Management and Budget.

Expenditure and/or Revenue Formula

The preparation of a zero based budget will be more time-consuming than the current budget preparation process, especially for the FY20 biennial budget. The time needed to implement zero based budgeting will be absorbed by the Judicial Branch.

Long-Term Fiscal Considerations

None

Local Fiscal Impact

None

References/Sources

Agency Contact: Janet Marshall

Agency Fiscal Note Coordinator Signature: Janet Marshall

Phone: 651 297-7579

Date: 2/10/2017 2:08:54 PM

Email: Janet.marshall@courts.state.mn.us

Revised

Fiscal Note

2017-2018 Legislative Session

HF136 - 0 - "Zero-Based Budgeting Requirement"

Chief Author: **Jeff Howe**
 Committee: **State Government Finance**
 Date Completed: **03/07/2017**
 Agency: **Teachers Retirement Assoc**

State Fiscal Impact	Yes	No
Expenditures	X	
Fee/Departmental Earnings		X
Tax Revenue		X
Information Technology	X	
Local Fiscal Impact		X

This table shows direct impact to state government only. Local government impact, if any, is discussed in the narrative. Reductions shown in the parentheses.

State Cost (Savings)	Biennium			Biennium		
	Dollars in Thousands	FY2017	FY2018	FY2019	FY2020	FY2021
Teachers Retirement Fund	-	150	150	125	125	
Total	-	150	150	125	125	
Biennial Total			300			250

Full Time Equivalent Positions (FTE)	Biennium			Biennium	
	FY2017	FY2018	FY2019	FY2020	FY2021
Teachers Retirement Fund	-	1	1	1	1
Total	-	1	1	1	1

Executive Budget Officer's Comment

I have reviewed this fiscal note for reasonableness of content and consistency with MMB's Fiscal Note policies.

EBO Signature: Susan Earle Date: 2/9/2017 5:10:15 PM
 Phone: 651 201-8035 Email: susan.earle@state.mn.us

Revised

State Cost (Savings) Calculation Details

This table shows direct impact to state government only. Local government impact, if any, is discussed in the narrative. Reductions are shown in parentheses.

*Transfers In/Out and Absorbed Costs are only displayed when reported.

State Cost (Savings) = 1-2		Biennium			Biennium	
Dollars in Thousands		FY2017	FY2018	FY2019	FY2020	FY2021
Teachers Retirement Fund	-	150	150	125	125	
Total	-	150	150	125	125	125
	Biennial Total		300			250
1 - Expenditures, Absorbed Costs*, Transfers Out*						
Teachers Retirement Fund	-	150	150	125	125	
Total	-	150	150	125	125	125
	Biennial Total		300			250
2 - Revenues, Transfers In*						
Teachers Retirement Fund	-	-	-	-	-	-
Total	-	-	-	-	-	-
	Biennial Total		-			-

Bill Description

SF65 requires the Teachers Retirement Association (TRA) to implement zero-based budgeting (ZBB) methodologies beginning with the preparation of the fiscal year 2020-2021 biennial budget. With ZBB, TRA must identify specific activities within our mission and provide cost-justification for those activities on an ongoing basis. For each activity, cost accounting information must be maintained. Each program activity must be maintained at a minimum level required under statutory authority. Further, each activity must be tracked and evaluated to determine if minimal level of services are maintained and to help determine budget levels for the next biennial budget cycle.

Assumptions

*The ZBB budget materials will be in addition, to the current Governor's biennial budget documented prepared by Minnesota Management and Budget (MMB).

* TRA will continue to contract with an actuarial consultant under Minn. Stat. Sec. 354.06, subd. 6, to prepare actuarial studies for use by MMB and the Legislative Commission on Pensions and Retirement (LCPR).

* Subdivision 2, items 2 through 6 require development and management of new information currently not developed or collected as part of the current budget preparation processes. Items 4 and 5 require development of itemed expenditures necessary to support minimal service levels required by statute and maintain current service levels. TRA does not compile this level of detail at present. These concepts are materially different than the appropriations/ base budget approach currently defined in MMB statutes.

* We would immediately seek the training of key staff with ZBB methodologies and practice. We would also rely on MMB to provide the centralized systems, programming reviews, and training & resources to comply with state reporting requirements.

Expenditure and/or Revenue Formula

Revised

For a three-year period (2007-2009), TRA contracted with a national performance measurement firm with expertise with public pension systems. Their report compared us with other similarly sized public pension systems. TRA's administrative expenses were generally favorable as compared with our peers. We addressed recommendation to TRA's telecommunications, systems and organizational structure where improvements could be made. The consultant expense at that time was \$35,000/yr. The effort also required substantial time commitment of two TRA employees to work with the consultant to develop performance measures and staff performance. We did not continue the service after 2010 due to other agency priorities and that we believed we had gained the significant recommendations needed for further improvement.

We would propose to contract with a firm with such expertise to reassess and develop agency activities, performance measures and cost centers that comply with the bill. We have included \$50,000/yr for this consulting work based on our past history. We expect to add 1 FTE completely devoted to the ZBB processes expected by MMB. This person would have both accounting and programmatic skill sets. The position of such a FTE would be expected to be at a level with annual salary and benefits of \$75,000. TRA is also including \$25,000 per year for each of the first two years for development of systems functionality to support the requirements of ZBB.

TRA managers would identify the internal reporting structure and systems infrastructure needed to define the program activities and cost data needed for ongoing compliance with ZBB. Management would also analyze our current practice of surveying members who are in the process of using TRA benefits counseling services. TRA has not performed a more robust or comprehensive survey of younger active members, retirees and employer units in many years to determine whether the current array of TRA services are meeting their needs.

At least initially, the involvement of TRA managers in establishing the ZBB framework could entail opportunity costs of delaying work on other strategic initiatives identified. Managers would be responsible for managing performance indicators and preparing to justify various activities into the next budget cycle.

Long-Term Fiscal Considerations

Additional administrative expenses to the TRA Fund incurred in the implementation of the proposed law would not impact the State General Fund. TRA administrative expenses are a component of the Required Contribution Rate needed by the TRA Fund to achieve full funding. The impact of the incremental expenses associated with the proposal would not materially impact TRA's current contribution rate deficiency and other funding improvements needed.

Local Fiscal Impact

N/A

References/Sources

TRA historical records, Management Team experience with past performance management activities.

Agency Contact: Luther Thompson

Agency Fiscal Note Coordinator Signature: Luther Thompson

Date: 2/9/2017 4:39:44 PM

Phone: 651 297-4853

Email: lthompson@minnesotatra.org