Consolidated Fiscal Note – 2011-12 Session

Bill #: H0192-1E **Complete Date:** 03/08/11

Chief Author: DOWNEY, KEITH

Title: REINVENTING GOVT EMPLOYMENT ACT

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

Agencies: Administration Dept (02/22/11) Minnesota Management & Budget (03/08/11)
Legislature (03/04/11)

This table reflects fiscal impact to state government. Local government impact is reflected in the narrative only.

Dollars (in thousands)	FY11	FY12	FY13	FY14	FY15
Net Expenditures					
General Fund	0	(4,516)	(8,400)	334	240
Legislature	0	(371)	0	0	0
Administration Dept		483	376	376	282
Minnesota Management & Budget		(4,628)	(8,776)	(42)	(42)
All Other Fund		(17,390)	(19,105)	(544)	(544)
Minnesota Management & Budget		(17,390)	(19,105)	(544)	(544)
Revenues					
-- No Impact --					
Net Cost <Savings>					
General Fund	0	(4,516)	(8,400)	334	240
Legislature	0	(371)	0	0	0
Administration Dept		483	376	376	282
Minnesota Management & Budget		(4,628)	(8,776)	(42)	(42)
All Other Fund		(17,390)	(19,105)	(544)	(544)
Minnesota Management & Budget		(17,390)	(19,105)	(544)	(544)
Total Cost <Savings> to the State	0	(21,906)	(27,505)	(210)	(304)

	FY11	FY12	FY13	FY14	FY15
Full Time Equivalents					
General Fund		5.00	4.00	4.00	3.00
Administration Dept		5.00	4.00	4.00	3.00
Total FTE		5.00	4.00	4.00	3.00

Consolidated EBO Comments

I have reviewed this Fiscal Note for accuracy and content.

EBO Signature: KATHARINE BARONDEAU
Date: 03/08/11Phone: 651-201-8026

Fiscal Note – 2011-12 Session

Bill #: H0192-1E **Complete Date:** 02/22/11

Chief Author: DOWNEY, KEITH

Title: REINVENTING GOVT EMPLOYMENT ACT

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

Agency Name: Administration Dept

This table reflects fiscal impact to state government. Local government impact is reflected in the narrative only.

Dollars (in thousands)	FY11	FY12	FY13	FY14	FY15
Expenditures					
General Fund		483	376	376	282
Less Agency Can Absorb					
-- No Impact --					
Net Expenditures					
General Fund		483	376	376	282
Revenues					
-- No Impact --					
Net Cost <Savings>					
General Fund		483	376	376	282
Total Cost <Savings> to the State		483	376	376	282

	FY11	FY12	FY13	FY14	FY15
Full Time Equivalents					
General Fund		5.00	4.00	4.00	3.00
Total FTE		5.00	4.00	4.00	3.00

Bill Description

HF192-1E makes a number of changes relating to state employment. Admin is only responding to Article 4, which involves private sector contracting as an alternative to the use of state employees. Article 4 requires all agency heads to carry out their duties in the most cost-effective manner and to determine in each case whether that would involve the use of state employees or private sector contracts. When it is determined that private suppliers may provide higher value, solicitations must be issued and current state employees must be allowed to compete. Various existing statutory provisions that limit use of private sector contractors are repealed.

Assumptions

HF192, Article 4 requires that all state agencies engage in analysis of the costs and benefits associated with continuing to use state employees to carry out its powers and duties. This existing service model must be compared with the costs and the benefits of using private sector alternatives. Although difficult to quantify with precision, this will involve a significant effort in all state agencies. Costs for these agencies are not included in Adman's fiscal note. For purposes of estimating Admin's agency-specific costs, one Management Analyst 3 is included at the mid-point of that range for one year. Other agencies' related costs will vary, depending upon the scope and complexity of their missions and the availability of alternative service suppliers.

Agencies have independent authority to develop professional/technical contracts (with oversight by Admin). Consequently, when agencies choose to engage consultants to do work previously done by state employees, issuing the RFPs will be the responsibility of those agencies. The costs of developing specifications, issuing solicitations, evaluating responses, and managing the resulting contracts will be considerable. Those costs will be borne by the agencies and are not included in Admin's fiscal note. For purposes of estimating Admin's agency-specific costs, one Acquisition Management Specialist is included at the mid-point of the range on an ongoing basis. That individual would be responsible for an anticipated sharp increase in agency documents requiring consultation, review, and approval.

Admin has statutory authority for general services contracts. At low dollar levels, related work is delegated to agencies. However, to the extent that agencies choose to privatize work currently done by state employees (or test the options through the competitive solicitation process), the work of issuing and evaluating solicitations will be the responsibility of Admin (in consultation with the impacted agency). Roles and tasks associated with managing the new contracts will need to be negotiated between Admin and the impacted agencies. Consequently, the resource implications for Admin are much greater with respect to general service contracts than with professional/technical contracts. For purposes of estimating Admin's agency-specific costs, three Acquisition Management Specialists are included at the mid-point of the range with the assumption that the number can decrease to two starting in FY15 when the peak will have passed.

In addition to the costs detailed above impacting agencies other than Admin, there would also be prospective savings. Those savings would accrue when more cost-effective private sector options are found. Such savings would benefit the impacted agencies, rather than to Admin, and cannot be accurately estimated before the analysis mandated in the bill has been conducted.

The statutory changes in this section are anticipated to increase privatization.

Expenditure and/or Revenue Formula

The level of opportunity available through privatization has never been comprehensively studied. The volume of work involved in fully implementing the bill cannot be estimated with any precision. The costs shown in the fiscal note for Admin are conservative given the scope of the bill's mandate.

Long-Term Fiscal Considerations

Long term fiscal considerations will become known as the result of the mandated analysis.

Local Government Costs

None Anticipated

References/Sources

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Materials Management Division
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Agency Contact Name: Kent Allin (651) 201-2400
FN Coord Signature: LENORA MADIGAN
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EBO Comments

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Fiscal Note – 2011-12 Session

Bill #: H0192-1E **Complete Date:** 03/04/11

Chief Author: DOWNEY, KEITH

Title: REINVENTING GOVT EMPLOYMENT ACT

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

Agency Name: Legislature

This table reflects fiscal impact to state government. Local government impact is reflected in the narrative only.

Dollars (in thousands)	FY11	FY12	FY13	FY14	FY15
Expenditures					
General Fund	0	(371)	0	0	0
Less Agency Can Absorb					
-- No Impact --					
Net Expenditures					
General Fund	0	(371)	0	0	0
Revenues					
-- No Impact --					
Net Cost <Savings>					
General Fund	0	(371)	0	0	0
Total Cost <Savings> to the State	0	(371)	0	0	0

	FY11	FY12	FY13	FY14	FY15
Full Time Equivalents					
-- No Impact --					
Total FTE					

Bill Description
HF192, Article 2, section 1 institutes a freeze on salary or wage increases for executive and legislative branch employees.

The commissioner of Minnesota Management and Budget (MMB) must contract for a compensations study for legislative and executive branch position descriptions to compare employee total compensation with similar positions in the private sector. The commissioner must report the results of the study by March 1, 2012. The Legislature must implement compensation for each position that is comparable to the compensation of a similar private sector position as identified in the contracted study by July 1, 2012.

The other articles do not affect the legislative branch.

Assumptions

Article 2
FY 12-13 budget planning for the House, Senate and Legislative Coordinating (LCC) Commission does not include any funding for salary increases. However, following the guidance provided by MMB to state agencies, legislative budgets include a projected increase of 7.7% for CY12 for the employer contribution to health and dental insurance coverage for personnel. The Legislature implemented a freeze on salary increases, along with a freeze on track promotions, early in the 10-11 biennium. Because this formal action is already in place there is no cost savings for the Legislature resulting from this legislation regarding the salary freeze. There would be a cost savings for the budgeted employer paid insurance premium increase for the last half of FY 12.

Expenditure and/or Revenue Formula

	FY12	FY13	FY14	FY15
Cost savings of a budgeted but not used increase of 7.7% for health and dental insurance for the House, Senate and LCC	(371,000)	0	0	0

Long-Term Fiscal Considerations
The adoption of a compensation plan that is implemented from the compensation study may have long-term fiscal considerations however we are unable to speculate the outcome of the study at this time.

Local Government Costs
N/A

References/Sources
Jim Reinholdz, House of Representatives
Jim Greenwalt, Senate
Greg Hubinger, Legislative Coordinating Commission

FN Coord Signature: DIANE HENRY-WANGENSTEEN
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EBO Comments

I have reviewed this Fiscal Note for accuracy and content.

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Fiscal Note – 2011-12 Session

Bill #: H0192-1E **Complete Date:** 03/08/11

Chief Author: DOWNEY, KEITH

Title: REINVENTING GOVT EMPLOYMENT ACT

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

Agency Name: Minnesota Management & Budget

This table reflects fiscal impact to state government. Local government impact is reflected in the narrative only.

Dollars (in thousands)	FY11	FY12	FY13	FY14	FY15
Expenditures					
General Fund		(4,628)	(8,776)	(42)	(42)
All Other Fund		(17,390)	(19,105)	(544)	(544)
Less Agency Can Absorb					
-- No Impact --					
Net Expenditures					
General Fund		(4,628)	(8,776)	(42)	(42)
All Other Fund		(17,390)	(19,105)	(544)	(544)
Revenues					
-- No Impact --					
Net Cost <Savings>					
General Fund		(4,628)	(8,776)	(42)	(42)
All Other Fund		(17,390)	(19,105)	(544)	(544)
Total Cost <Savings> to the State		(22,018)	(27,881)	(586)	(586)

	FY11	FY12	FY13	FY14	FY15
Full Time Equivalents					
-- No Impact --					
Total FTE					

Bill Description

This bill would implement many changes to state government employment including:

1) a compensation freeze until the results of a compensation study are implemented;
2) a required compensation study comparing the total compensation of each position description in the executive and legislative branches of government with positions in the private sector in which the skill, effort, responsibilities and working conditions are similar;
3) implementation of the results of the study so that each position studied would be assigned compensation that, as nearly as practicable, compares to compensation of the private sector;
4) a new gainsharing program that would provide a one-time bonus to state employees for efforts made to reduce the costs of operating state government or for ways of providing better or more efficient state services;
5) an ability for agencies, including MnSCU, to choose the most cost-effective manner of carrying out the agency's duties and giving agencies the ability to decide between hiring state employees or to contract with outside sources;
6) implementation of a new performance appraisal and pay system that would require the supervisor to certify that satisfactory performance had been achieved on individual, program and agency basis' before a negotiated or approved increase could be awarded; and
7) implementation of a new performance bonus component for the biennium ending June 30, 2013, whereby salaries of existing employees would be reduced by 5% and part of that reduction would fund individual increases after completion of the new performance appraisal and pay system is completed.

Assumptions

During the July 1, 2011 to June 30, 2013 biennium, compensation will be administered as prescribed in this bill.

For the gainsharing savings and performance bonus components, assume general fund impact is approximately 32% of total expenditures and/or savings.

Compensation Freeze

This bill implements a compensation freeze that supersedes Chapter 179A and any other law to the contrary effective the day following final enactment. The compensation freeze continues until implementation of the compensation study required under subdivision 2 which cannot be later than July 1, 2012. This note assumes the compensation freeze will be effective for the entire fiscal year 2012.

The compensation freeze would supersede state law that would otherwise enable contracts to remain in effect after contract expiration. That means that compensation and benefit increases that may otherwise occur if agreements were extended beyond their expiration dates would be prohibited.

This note captures the savings from stopping wage increases (i.e. steps) that may occur if existing terms are allowed to continue beyond contract expiration dates. If the agreements are not modified to remove progression or if they are not terminated altogether, progression increases would continue. This note assumes that progression increases would be given in FY2012 if not for the freeze.

This note also captures the savings from the employer avoiding higher costs of medical, dental, and life insurance that may occur if existing terms are allowed to continue beyond contract expiration dates.

This note assumes that the employer would avoid 7.7% in projected insurance increases for calendar year 2012 as a result of the freeze on increases in employer insurance contributions. Because the compensation freeze ends upon implementation of the compensation study, and because the next increase to insurance would likely occur on January 1, 2012, it is assumed insurance savings would be limited to the first 6 months of calendar year 2012.

Significant amounts in the table reflect estimates of costs avoided from stopping progression wage and insurance increases (steps, performance, and increased employer insurance contributions). Because agencies do not receive increased appropriations for wage and salary increases in labor contracts, the amounts in the table would not accrue to the bottom line of the affected funds unless adjustments were made to agency appropriations to capture those amounts.

Compensation Study

There are approximately 33,000 executive branch employees (not counting MnSCU) and approximately 1,800 executive branch job classifications. There are another 650 legislative staff that must be included as part of the study.

The study requires a comparison of each position description in the executive branch to the private sector. Some classes have position descriptions that are redundant, but many do not. Several job classifications contain multiple class options and therefore multiple position descriptions. For example, there are 89 class options for the State Program Administrator (SPA) classification alone, which implies that there are at least 89 unique position descriptions within the SPA class. Even without class options, some classes have multiple incumbents with unique position descriptions. Because the bill requires a study of each position description, the number of jobs studied will be somewhere between 1,800 classes and 33,000 employees.

It would be impossible to benchmark every individual position description to the private sector because job matches will not exist or the matches will be too difficult to determine and the work involved to make such an attempt would be enormous and unproductive. For these reasons, MMB assumes that the study will only be able to do private sector job matching for 60% of the state workforce.

It is estimated that 40% of the state's jobs cannot be matched to the private sector because the job does not exist in the private sector or that there would be so few matches that the data would be unreliable and not usable. The following is a sampling of some of the larger series of classes that would be difficult, if not impossible, to match to the private sector: Unemployment Insurance Program Specialists, State Troopers, Special Teachers Deaf/Blind, Corrections Officers, Conservation Officers, DVS Exam and Inspection Specialists, State Planners, Pollution Control Specialists, Security Counselors, Food/Ag Inspectors, Education Specialists, Disability Examiners/Specialists, Natural Resources Specialists (forestry, fisheries, water resources, minerals, trails and waterways, ecological srvs, parks), etc. This list does not distinguish the varying levels of work that is performed within each series, nor does it include the supervisory and managerial levels that correspond that will be equally difficult to match to the private sector.

In order to meet the intent of the bill – to compare total compensation, including salary and benefits, of each position description to jobs of similar skill, effort, responsibilities and working conditions – the study will also need to examine similar public sector positions for those 4 in 10 that do not have private sector comparables.

A study of the size (matching position descriptions for somewhere between 1,800+ classes and 33,000+ employees), scope (total compensation of executive and legislative branch employees including salary and benefits – health, dental, life, retirement, etc.), and timeline (completed by March 1, 2012) would be enormously difficult and costly. We estimate it would take eight full-time consultants for one year at $200/hr per consultant, or roughly $3.34 million to complete the study.

<u>Compensation Study Implementation</u>
The pay implementation following the study will result in employees being reassigned to a single compensation rate that is comparable to the compensation of private sector positions with similar skill, effort, responsibilities and working conditions.

The pay implementation will also mean that the existing salary ranges would be discontinued, and that no consideration would be given to individual factors that influence pay which may include: internal equity, degree of difficulty filling the position; extraordinary/superior qualifications (advanced degree, exceptional GPA/highly relevant coursework, prior affiliation/organization knowledge); location; total length of experience that has been acquired; relevance or how significant the applicability of the experience is to the job; how recent and up-to-date the experience is relative to the job; performance record; current salary/salary.

While it is impossible to know how the results of the study will impact individual compensation, we know from previous studies and analyses that the compensation paid to upper level management, supervisory and professional positions is often lower in the public sector than it is in the private sector. It cannot be assumed that increases in compensation that would likely result for these positions would be more than offset by reductions to lower-skilled jobs that are often believed to be paid higher than their private sector comparables.

There are no additional costs or savings assumed from implementing the results of the compensation study.

We assume that this will result in a one-time resetting of wages and that future increases or decreases will be bargained and ultimately subject to legislative approval.

Gainsharing Program
The gainsharing program will require significant new work and result in needing three additional full-time staff to review proposals, document savings, and issue awards. The staff will be paid an average of $55,000 per year plus benefits from the general fund.

The savings are estimated at $1 million per year, of which 10% will be returned to the staff person(s) responsible for the suggestions.

Cost Effective Contracting
This note assumes that the Department of Administration will discuss the assumptions and cost implications of the proposal to allow agencies to choose the most cost-effective manner of carrying out the agency's duties and giving agencies the ability to decide between hiring state employees or to contract with outside sources.

Performance and Bonus Pay System
The performance and bonus pay system would require each manager and supervisor to establish and document goals for each individual in state government, require the agency head to develop and document targeted outcomes for each individual employee's program, and require the agency head/governor to develop and document targeted outcomes for each agency in state government. It is assumed that many of these goals and targeted outcomes already exist, however, several may not. It is assumed that additional time and resources would be needed to develop performance measures for every program and agency that are measurable and documented.

Currently, across the board increases (ATB's) and/or cost of living increases (COLA's) do not require the supervisor to complete a performance appraisal before an increase is granted for non-managerial employees. Generally speaking, ATB's and COLA's are designed to bring pay in line with increases in the cost of living to maintain real purchasing power. This bill requires supervisors and managers to complete an additional performance review that adds more work. This bill assumes no additional costs as a result of these reviews.

Performance Bonus Component
The bill provides that during the biennium ending June 30, 2013, each executive branch authority shall construct a performance bonus component as part of overall compensation earned during that biennium. This note assumes that planning for the performance bonus component may occur following enactment, but that the funds directed to the performance bonus component will be determined after the compensation study and implementation has occurred in Article 2 (and after July 1, 2012).

It is assumed, because of how the bill is worded, that funding for the new performance bonus component will come out of existing employee salaries. So, this note assumes that once individual compensation rates are established for each position that are comparable to the rates paid to private sector positions, employee wage rates will be cut by 5%. It is also assumed that a lesser amount of these wage cuts would be returned to employees upon the appointing authority's determination that the employee's performance has been satisfactory and justifies spending additional public funds on the employee's compensation.

For simplicity sake, this note assumes that salaries of existing employees would be reduced by 5% and that 4.75% of that reduction would be returned to employees in the form of performance-based increases. That would mean that .25% of employees would not receive a performance-based increase and their salary would be reduced. The reduction to employee rates and subsequent increases based on performance would occur in the same pay period at the beginning of FY2013 so that full year savings/costs calculations can be made.

Please be aware of the earlier assumption that no additional costs or savings were assumed from implementing the results of the compensation study and so the calculations in this note are based on the projected compensation base for FY2012.

Additional complicating factors to the performance bonus component that would need to be considered include: variations in wage rates (a 5% reduction to one employee is not equal to a 5% reduction to another and so the reductions/performance allocations is complicated), variations in funding sources (the DNR has over 40 funding sources, many of which can only be used for prescribed purposes and cannot be moved to other areas), multiple organizational assignments (there are hundreds if not thousands of staff that are shared by multiple agencies, multiple programs, and/or multiple departments which make it difficult to administer the performance appraisal system required in Article 2), etc.

The bill does not prescribe how salary and compensation is to be administered beyond June 30, 2013, and so it is assumed that salary administration would revert back to the terms and conditions prescribed in the collective bargaining agreements and compensation plans. It is unclear how this would occur as collective bargaining agreements and plans are structured vastly different. The bargaining agreements and plans administer compensation by class and contain grids, ranges, steps, progression, etc., and so additional consideration will need to be given to this transition

Expenditure and/or Revenue Formula

Compensation Freeze Savings/Cost Avoidance – FY 2012-2013

MMB bargained units/plans salary and fringe benefits beginning annual base for FY2012 approximates $2.4 billion excluding insurance.

A freeze on progression increases for FY2012 would avoid approximately $41 million in new spending over the two year biennium (FY2012-13).

General fund impact is approximately 32% of total salary expenditures.

FY2012 = $11,397,760; Gen Fund = $3,647,283; Other Funds = $7,750,477
FY2013 = $22,795,520; Gen Fund = $7,294,566; Other Funds = $15,500,953

Projected savings for FY2012 are less because the note assumes equal distribution of step increases which means that it is assumed that as many will receive their step increase in the first half of the fiscal year as will receive it in the second half of the fiscal year (e.g. so only six months of the increase would be realized in FY2012). In FY2013, the full year of the increase processed in FY 2012 would be realized. The worksheet reflects these savings.

MMB bargained units/plans insurance beginning annual base for FY2012 is $347 million.

Using a 7.7% projected insurance increase for calendar year 2012, a freeze on insurance increases for the period January 1, 2012 to June 30, 2012 would avoid approximately $13.376 million in new spending.

General fund impact is approximately 32% of total salary expenditures.

FY2012 = $13,375,940; Gen Fund = $4,280,301; Other Funds = $9,095,639

Compensation Study Costs – FY2012

8 consultant FTE's for one year * 2,088 hrs * $200/hr = $3,340,800 Gen Fund costs FY2012

Gainsharing Program Costs/Savings – FY 2012-2015

3 FTE's * 55,000 salary * 1.3 benefits = $214,500 costs per year GF
10% of projected $1 million savings = $100,000 costs per year; $32,000 Gen Fund; $68,000 Other funds
$900,000 (after gainsharing awards) assumed savings per year; $288,000 Gen Fund; $612,000 Other funds

Total savings per year of the gainsharing program = $41,500 gen fund savings per year; $544,000 other funds

Performance Bonus Component

Projected FY 2012 base salary for Exec Branch less MnSCU = $1.8 billion * 5% reduction = $90 million
Projected FY 2012 base salary returned to employees as performance-based increases = $1.8 billion * 4.75% performance increases = $85.5 million
Total savings performance bonus component = $4.5 million savings FY2013; $1.44 million Gen Fund; $3.06 million Other funds.

Long-Term Fiscal Considerations

Local Government Costs

References/Sources

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EBO Comments

I have reviewed this Fiscal Note for accuracy and content.

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