

Consolidated Fiscal Note – 2011-12 Session

Bill #: H0681-0 **Complete Date:** 03/08/11

Chief Author: DOWNEY, KEITH

Title: MINN PAY FOR PERFORMANCE ACT 2011

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

Agencies: Minnesota Management & Budget (03/08/11) Administration Dept (03/08/11)
 Employment & Economic Dev Dept (03/07/11) Human Services Dept (03/07/11)

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		1,815	1,815	1,815	1,815
Minnesota Management & Budget		1,815	1,815	1,815	1,815
Building Construction - Bonded Fund		20,000			
Minnesota Management & Budget		20,000			
Revenues					
Building Construction - Bonded Fund		20,000			
Minnesota Management & Budget		20,000			
Net Cost <Savings>					
General Fund		1,815	1,815	1,815	1,815
Minnesota Management & Budget		1,815	1,815	1,815	1,815
Building Construction - Bonded Fund		0			
Minnesota Management & Budget		0			
Total Cost <Savings> to the State		1,815	1,815	1,815	1,815

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

Consolidated EBO Comments

I have reviewed this Fiscal Note for accuracy and content.

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

Fiscal Note – 2011-12 Session

Bill #: H0681-0 **Complete Date:** 03/08/11

Chief Author: DOWNEY, KEITH

Title: MINN PAY FOR PERFORMANCE ACT 2011

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		1,815	1,815	1,815	1,815
Building Construction - Bonded Fund		20,000			
Less Agency Can Absorb					
-- No Impact --					
Net Expenditures					
General Fund		1,815	1,815	1,815	1,815
Building Construction - Bonded Fund		20,000			
Revenues					
Building Construction - Bonded Fund		20,000			
Net Cost <Savings>					
General Fund		1,815	1,815	1,815	1,815
Building Construction - Bonded Fund		0			
Total Cost <Savings> to the State		1,815	1,815	1,815	1,815

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

Bill Description

Senate file 434 is a bill relating to state government by authorizing the sale and issuance of state appropriation bonds and establishing the Minnesota pay for performance pilot program.

The legislation would provide \$XXX,000,000 of state appropriation bond financing to provide funding for certain services based on performance and outcomes for the people served. The bond proceeds are appropriated for payment of contract obligations under the pay for performance program. The debt service on the bonds is to be paid from the general fund.

Assumptions

It is assumed that state appropriation bonds will be sold to finance the pay for performance program. Because the use of the bond proceeds for the performance program is uncertain, the bonds would be sold as taxable bonds. Bonds sold as taxable bonds carry a higher interest rate. The bonds would be sold with level payments and mature over 20 years. The revenues shown in the fiscal note are the amounts from the proceeds of each of the bond issues. The costs shown in the fiscal note are the amounts that would be required to be transferred from the general fund to the debt service fund annually. Because bond authorization is blank in the bill, we used an estimate for a hypothetical \$20 million of bonds to be sold.

<u>Bond Sale Date</u>	<u>Taxable Interest Rate</u>	<u>Bonds Sold</u>
August 2011	6.5%	20,000,000

Expenditure and/or Revenue Formula

Debt Service Costs by Fiscal Year (\$ in thousands)	
2009	\$0
2010	\$0
2011	\$0
2012	\$1,815
2013	\$1,815
2014	\$1,815
2015	\$1,815

The Commissioner of Management and Budget (MMB) has certain administrative duties assigned in the bill. The Commissioner would not be able to carry out these duties within the existing MMB resources.

MMB assumes that there would be additional initial cost of setting up the necessary procedures and processes. Depending on the performance program to be funded there may be costs for the development of the program. We cannot estimate what those costs would be.

MMB also assumes that it is the intent of the legislation that the pay for performance legislation would result in General Fund revenue increases and/or expenditure reductions. However, without a specific identified program we cannot calculate actual dollars.

Long-Term Fiscal Considerations

The total debt service over the 20 year life of the bonds for a hypothetical \$20,000,000 taxable program would be \$36,301,415.

Local Government Costs

Depending on the pay for performance program to be funded there may be costs for the development of the program. We cannot estimate what those costs would be.

References/Sources

Not Available

Agency Contact Name: Sue Gurrola 651-201-8046
FN Coord Signature: DENNIS MUNKWITZ
Date: 03/08/11 Phone: 651-201-8004

EBO Comments

I have reviewed this Fiscal Note for accuracy and content.

EBO Signature: KATHARINE BARONDEAU

Date: 03/08/11 Phone: 651-201-8026

Fiscal Note – 2011-12 Session

Bill #: H0681-0 **Complete Date:** 03/07/11

Chief Author: DOWNEY, KEITH

Title: MINN PAY FOR PERFORMANCE ACT 2011

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

Agency Name: Human Services 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					
-- No Impact --					
Less Agency Can Absorb					
-- No Impact --					
Net Expenditures					
-- No Impact --					
Revenues					
-- No Impact --					
Net Cost <Savings>					
-- No Impact --					
Total Cost <Savings> to the State					

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

Narrative for SF434-0

Bill Description

This bill directs the MMB commissioner to appoint an oversight committee to implement a pilot program to demonstrate the feasibility and desirability of using state appropriation bonds to pay for certain services based on performance and outcomes for the people served. The commissioner of the Department of Human Services, or her designee, is to be included in this oversight committee.

Once the pilot program is selected, the commissioner of the agency with the pilot program will contract with the selected provider. The bill includes provisions that must be included in the contract. There are also provisions on the method and data required to calculate the state's return on the investment. A report is required to be sent to the legislature.

Appropriation bonds will be used to fund the pilot programs.

Assumptions

At this point, the only requirement of the Department of Human Services is that the commissioner, or her designee, must agree to be part of the oversight committee established by MMB. The oversight committee is also made up of the commissioners of the Employment and Economic Development and Administration Departments; a representative of a non-profit organization; and any other person or organization the MMB commissioner deems appropriate.

Participation by DHS on the oversight committee is not anticipated to have a fiscal impact for the Department. In terms of the pilot program, the bill serves as enabling legislation but does not specify with what agency the pilot program would be located, or what services or goods would be provided. Given this, the Department is not able to determine the costs associated with the pilot program component.

The effective date for this bill is the day following final enactment.

Expenditure and/or Revenue Formula

N/A

Long-Term Fiscal Considerations

N/A

Local Government Costs

N/A

References/Sources

N/A

Agency Contact Name: Roger E. Ehresman (651-431-2936)
FN Coord Signature: JAYNE RANKIN
Date: 03/07/11 Phone: 651-431-3432

EBO Comments

I have reviewed this Fiscal Note for accuracy and content.

EBO Signature: EMILY ENGEL
Date: 03/07/11 Phone: 651-201-8029

Fiscal Note – 2011-12 Session

Bill #: H0681-0 **Complete Date:** 03/07/11

Chief Author: DOWNEY, KEITH

Title: MINN PAY FOR PERFORMANCE ACT 2011

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

Agency Name: Employment & Economic Dev 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					
-- No Impact --					
Less Agency Can Absorb					
-- No Impact --					
Net Expenditures					
-- No Impact --					
Revenues					
-- No Impact --					
Net Cost <Savings>					
-- No Impact --					
Total Cost <Savings> to the State					

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

Bill Description

This bill would require the commissioner of Minnesota Management and Budget (MMB) to implement a pilot program to demonstrate the feasibility and desirability of using state appropriation bonds to pay for certain services based on performance and outcomes for the people served. Projects funded through this source would be required to generate a return on investment for the state in terms of income generated or costs avoided. The commissioner of the Department of Employment & Economic Development (DEED) is required to serve on an oversight committee.

Assumptions

It is assumed that the commissioner's time on the oversight committee would be negligible. Until the committee establishes the pilot program and criteria, DEED is unable to determine if any of its programs/services would be a candidate for this new funding source.

Expenditure and/or Revenue Formula

N/A

Long-Term Fiscal Considerations

N/A

Local Government Costs

N/A

FN Coord Signature: MIKE MEYER
Date: 03/04/11 Phone: 651-259-7076

EBO Comments

I have reviewed this Fiscal Note for accuracy and content.

EBO Signature: RYAN BAUMTROG
Date: 03/07/11 Phone: 651-201-8038

Fiscal Note – 2011-12 Session

Bill #: H0681-0 **Complete Date:** 03/08/11

Chief Author: DOWNEY, KEITH

Title: MINN PAY FOR PERFORMANCE ACT 2011

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					
-- No Impact --					
Less Agency Can Absorb					
-- No Impact --					
Net Expenditures					
-- No Impact --					
Revenues					
-- No Impact --					
Net Cost <Savings>					
-- No Impact --					
Total Cost <Savings> to the State					

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

Bill Description

SF 434-0 implements a pilot program using state appropriation bonds to pay for certain services based on performance and outcomes. The commissioner of Administration (Admin) serves on the oversight committee to identify criteria to select one or more services to be included in the pilot program, identify the conditions of performance and desired outcomes, identify evaluation criteria, and provide advice or assistance requested. The bill also specifies contract requirements for services provided through the pilot program, including documentation of a positive return on investment as a condition of payment.

Assumptions

Time associated with Admin's participation in the oversight committee (commissioner or designee) would be nominal; therefore, no staff or related costs have been identified in this fiscal note.

The resulting contracts would most likely be professional/technical contracts. Admin's normal procedures with respect to contract review and approval would apply. Consequently, there would be no unique or additional costs with respect to Admin's oversight role.

Although there are no significant costs to Admin associated with implementation of the bill, there are potential costs (or savings) to the state resulting from pay-for-performance contracts. - See "long-term fiscal considerations" below.

Expenditure and/or Revenue Formula

Not applicable.

Long-Term Fiscal Considerations

Most state contracts pay for either defined deliverables or the contractor's time and materials. Under the approach described in the bill, the state would only pay for pre-determined outcomes shown to yield a positive return on investment.

The fiscal implications of this method are likely to be case-specific and could vary widely:

- In some situations, the desired outcomes may not be fully achieved and the state may save the money they might otherwise have paid for those same results.
- On the other hand, vendors tend to assess their level of risk when building their pricing structure. Because payment under this model is less certain than with other types of contracts, vendors may charge more than they would under the more traditional model because of the higher risk of non-payment or partial payment.

Costs tied to disputes or litigation could increase. The state and vendor may not always agree on whether prescribed outcomes have been achieved and whether a positive return on investment has been documented

Local Government Costs

References/Sources

Kent Allin, Director
Materials Management Division
(651) 201-2400

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

I have reviewed this Fiscal Note for accuracy and content.

EBO Signature: KATHARINE BARONDEAU
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