

Consolidated Fiscal Note – 2011-12 Session

Bill #: H0002-2A **Complete Date:** 03/15/11

Chief Author: BANAIAN, KING

Title: STATE BDGT PRIORITY-BASED PROC ESTAB

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

Agencies: Minnesota Management & Budget (03/14/11) Legislative Audit Commission (03/14/11)
 Legislature (03/14/11)

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	859	711	1,176	1,162
Legislature	0	139	119	135	121
Minnesota Management & Budget		720	592	1,041	1,041
All Other Fund		1,531	1,259	2,211	2,211
Minnesota Management & Budget		1,531	1,259	2,211	2,211
Revenues					
-- No Impact --					
Net Cost <Savings>					
General Fund	0	859	711	1,176	1,162
Legislature	0	139	119	135	121
Minnesota Management & Budget		720	592	1,041	1,041
All Other Fund		1,531	1,259	2,211	2,211
Minnesota Management & Budget		1,531	1,259	2,211	2,211
Total Cost <Savings> to the State	0	2,390	1,970	3,387	3,373

	FY11	FY12	FY13	FY14	FY15
Full Time Equivalents					
General Fund	0.00	8.00	8.00	14.50	14.50
Legislature	0.00	1.00	1.00	1.00	1.00
Minnesota Management & Budget		7.00	7.00	13.50	13.50
All Other Fund		15.00	15.00	28.50	28.50
Minnesota Management & Budget		15.00	15.00	28.50	28.50
Total FTE	0.00	23.00	23.00	43.00	43.00

Consolidated EBO Comments

I have reviewed this Fiscal Note for accuracy and content.

EBO Signature: KATHARINE BARONDEAU

Date: 03/15/11 Phone: 651-201-8026

Fiscal Note – 2011-12 Session

Bill #: H0002-2A **Complete Date:** 03/14/11

Chief Author: BANAIAN, KING

Title: STATE BDGT PRIORITY-BASED PROC ESTAB

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		720	592	1,041	1,041
All Other Fund		1,531	1,259	2,211	2,211
Less Agency Can Absorb					
-- No Impact --					
Net Expenditures					
General Fund		720	592	1,041	1,041
All Other Fund		1,531	1,259	2,211	2,211
Revenues					
-- No Impact --					
Net Cost <Savings>					
General Fund		720	592	1,041	1,041
All Other Fund		1,531	1,259	2,211	2,211
Total Cost <Savings> to the State		2,251	1,851	3,252	3,252

	FY11	FY12	FY13	FY14	FY15
Full Time Equivalents					
General Fund		7.00	7.00	13.50	13.50
All Other Fund		15.00	15.00	28.50	28.50
Total FTE		22.00	22.00	42.00	42.00

Bill Description

The DE2 amendment deletes Article 1 of the first engrossment of HF 2 and replaces it with language that:

1. Expands the purpose of performance data information as required under M.S. 16A.10, subd. 1a to include activities and encourage agencies to develop measurable outcomes for programs and activities.
2. Requires agencies to include in their budget proposal a description of goals and objectives of each program and activity as well as measures that are outcome-based and objective for each program and activity.
3. Deletes the requirement for the commissioner to report to the Subcommittee on Government Accountability on the format for the presentation and selection of Minnesota Milestones and other statewide goals and indicators.
4. Requires expenditures included in the forecast to be based on actual appropriations, or for forecast programs the amount to fund the formula in law. Expenditures forecasted for the next biennium must be based on the amount appropriated in the second year of the current biennium, or for forecasted programs, the amount to fund the formula in law. This is assumed to be a clarification of current MMB practice in forecasting expenditures.
5. Establishes a process of using zero-based budgeting principles in the preparation of approximately half of the expenditure programs identified by the Governor (in consultation with chairs and lead minority members of Senate Finance and Ways and Means) each biennium. In designating the programs subject to zero-based budgeting principles, an attempt must be made to balance the number that will and will not use these principles for each finance committee. Programs not designated in one biennium, must use zero-based budgeting principles in the second biennium.
6. Requires the legislative and judicial branches and MnSCU to use zero-based budgeting principles for the biennium beginning on July 1, 2013 and every four years after that. The U of MN must use zero-based budgeting principles for the biennium beginning on July 1, 2015 and every four years after that.
7. Exempts debt service expenditures from zero-based budgeting requirements.
8. Establishes principles of zero-based budgeting that include requirements for the following elements to be included in the detailed budget presented to the legislature:
 - a. a description of each activity the agency receives an appropriation for or is requesting an appropriation for;
 - b. three alternative funding levels for or ways of performing each activity, including a summary of priorities accomplished under each level and increments of value added at higher levels; and
 - c. performance data and the predicted effects, cost efficiency and effectiveness, including comparisons to other states and entities.
9. Requires the commissioner to provide instructions, timelines and technical assistance on zero-based budgeting principles and requirements.
10. Requires the governor to prioritize the budgets for programs and activities using zero-based budgeting within each agency. When activities in more than one agency or program area are meeting the same goals, prioritization must occur across the agencies or programs and must include agencies and programs not subject to zero-based budgeting principles in that biennium.
11. Modifies the requirements for budget submission to align with zero-based budgeting principles for programs designated to participate.

The 2A4 amendment to the DE 2 amendment specifies that when designating programs to participate in zero-based budgeting, all programs within an agency must use that method of budgeting within the same year. This will alleviate the concern that agencies would employ two different and distinct budgeting processes for different programs within their agency in the same year.

Assumptions

The changes in section 4 of the DE2 amendment are a clarification of existing expenditure forecasting methods used by MMB. It is suggested that this language be further clarified to add "unless otherwise noted in law" after the word "biennium" on line 2.26.

Zero-based budgeting is materially different than the appropriations/base budget approach currently defined in statute and will require staffing and technical system changes to implement. While the DE2 amendment does not specifically require agencies to begin from zero and build budgets up from that standpoint, it does require agencies to complete and submit budgets in a new and more complex way than the current budget system is designed to accommodate.

Implementation of the proposed legislation will require the development of instructions, training materials, technical reconfiguration of a new budget system and new policies and procedures for budget presentation.

Programs and activities subject to zero-based budgeting principles would be subject to this requirement every four years. In the years in which a program or activity is not subject to zero-based budgeting, the current process of budgeting as defined in statute would be used. This would require a system to be able to accommodate two separate or distinct processes on an ongoing basis.

MMB would require additional staffing to develop forms, instructions and training for agencies. These staff would be needed on-going to implement zero-based budgeting principle reviews every two years for approximately half of the programs and activities in each cycle.

It is assumed that each biennium one-half of programs and activities are subject to zero-based budgeting with the other half subject in the subsequent biennium. It is further assumed that the A4 amendment to the DE2 amendment limits the programs subject to this requirement to an entire agency, making half of the agencies subject to this requirement in one biennium and the remaining half subject in the subsequent biennium.

Technical consultant expertise would be needed to develop requirements and design a budget system to provide a zero-based budgeting principal approach as defined in the bill for one-half of the programs and activities for the biennium beginning July 1, 2013.

The budget system would need to accommodate and support two distinct budgeting processes each biennium: 1) the current base budget approach for agencies with programs and activities not subject to zero-based budgeting in a biennium; and 2) the zero-based budgeting principles requirements in the amendment for the other half of the agencies.

State agencies will incur staffing, and in some cases, system costs to implement zero-based budgeting principles. It is assumed that even though only half of the agencies will have programs and activities subject to the implementation of zero-based budgeting principles each biennium, once staff are hired to implement this requirement they would be retained rather than laid off and rehired in a future biennium when the budgeting principles are again in effect for the agencies.

Under the A4 amendment to the DE2 amendment, one-half of the agencies are assumed to be affected in the first biennium that zero-based budgeting principles is required, with the other-half of the agencies affected in the subsequent biennium.

Costs for state agencies to modify their budget management subsystems are not included in the expenditure and revenue formula below. It is expected that agencies would incur costs in this area, but MMB is unable to estimate what those costs would be at this time.

The net results of what is known as zero-based budgeting have been difficult to quantify, complex and expensive to manage in states currently using this approach according to a report by the National Council of State Legislators. While this amendment is different than what is traditionally known as zero-based budgeting, it does significantly change the complexity of budget development and presentation in the state.

Small agencies will need assistance from the Department of Administration to implement zero-based budgeting principles.

It is assumed that one-half of large agencies, one half of medium size agencies and one-half of small agencies are impacted each biennium.

Expenditure and/or Revenue Formula

Dollars in thousands (000s)

<i>MMB Costs</i>	<i>FY 2012</i>	<i>FY 2013</i>	<i>FY 2014</i>	<i>FY 2015</i>
2 FTE Budget Staff x \$75,000/staff	\$150	\$150	\$150	\$150
Budget System Design & Maintenance for two distinct budgeting processes	\$600	\$200	\$100	\$100

Total MMB Costs	\$750	\$350	\$250	\$250
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**Costs for State Agencies with
First Implementation in FY 14-15**

	FY 2012	FY 2013	FY 2014	FY 2015
10 FTEs Large Agencies x \$75,000	\$750	\$750	\$750	\$750
6.5 FTEs Medium Agencies x \$75,000	\$488	\$488	\$488	\$488
3.5 FTEs Admin SMART x \$75,000	\$263	\$263	\$263	\$263

**Costs for State Agencies with
First Implementation in FY16-17**

	FY 2012	FY 2013	FY 2014	FY 2015
10 FTEs Large Agencies x \$75,000 (2 nd biennium)	-0-	-0-	\$750	\$750
6.5 FTEs Medium Agencies x \$75,000	-0-	-0-	\$488	\$488
3.5 FTEs Admin SMART x \$75,000	-0-	-0-	\$263	\$263

Total Agency Costs	\$1,501	\$1,501	\$3,002	\$3,002
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Total Costs to State	\$2,251	\$1,851	\$3,252	\$3,252
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Total costs are allocated at 32% to the general fund and 68% to other funds.

Long-Term Fiscal Considerations

Local Government Costs

References/Sources

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

Agency Contact Name: Michelle Weber 651-201-8007
 FN Coord Signature: DENNIS MUNKWITZ
 Date: 03/11/11 Phone: 651-201-8004

EBO Comments

I have reviewed this Fiscal Note for accuracy and content.

EBO Signature: KATHARINE BARONDEAU
 Date: 03/14/11 Phone: 651-201-8026

Fiscal Note – 2011-12 Session

Bill #: H0002-2A **Complete Date:** 03/14/11

Chief Author: BANAIAN, KING

Title: STATE BDGT PRIORITY-BASED PROC ESTAB

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	459	447	470	461
Less Agency Can Absorb					
General Fund	0	320	328	335	340
Net Expenditures					
General Fund	0	139	119	135	121
Revenues					
-- No Impact --					
Net Cost <Savings>					
General Fund	0	139	119	135	121
Total Cost <Savings> to the State	0	139	119	135	121

	FY11	FY12	FY13	FY14	FY15
Full Time Equivalents					
General Fund	0.00	1.00	1.00	1.00	1.00
Total FTE	0.00	1.00	1.00	1.00	1.00

Bill Description

Article 1 of HF 2-2A amends MS 16A.10 by requiring that legislative, judicial, and state agencies along with MNSCU and the University of Minnesota prepare biennial budgets on a scheduled basis using the principles of zero-based budgeting.

The adoption of zero-based budgeting principles means that a detailed budget for the agency must include: 1) a description of each budget activity for which the agency receives/requests an appropriation; 2) three alternative funding levels or alternative ways of performing the budget activity are identified; and 3) the predicted effect of the three alternative funding levels on future performance.

The bill states the schedule of when agencies will first use principles of zero-based budgeting for biennial budget preparation and then again for bienniums every four years. The Legislature will begin with the FY14-15 biennium.

HF 2-2A does not amend Article 2. Article 2 of HF 2-1A creates a Sunset Advisory Commission within the Legislature. The Commission will consist of 12 members (5 Senators, 5 Representatives, and 2 public members). Members are entitled to reimbursement of expenses incurred. Legislative members' reimbursement will come from their respective legislative body. The LCC shall provide staff and administrative service support. The Commission may request assistance of state agencies and may accept gifts, grants and donations.

State agency commissioners must report to the Commission before September 1 of the odd-numbered year before the year in which a state agency is subject to sunset review. The Commission will review the reports submitted by the agency, conduct a review of the agency and prepare a written report of the review, and review the implementation of commission recommendations presented to the Legislature and the resulting legislation. The Commission will hold public hearings relating to the application to the agency of the criteria established in the bill. By February 1 of each even-numbered year, the Commission shall present to the Legislature and the Governor a report on the state agencies reviewed. The Commission will also review any bill that would create a new state agency or advisory committee.

Assumptions

Article 1

- 1) The fiscal analysis offices of the House and the Senate will absorb the additional work of the finance committees' review of agency budgets. The total staff time that can be absorbed is dependent on what other competing projects may require staff resources.
- 2) For the House, the Senate and the LCC, the administrative staff time associated with budget development for legislative operating budgets would be absorbed.
- 3) This note does not include costs that non-legislative agencies may incur complying with this legislation.

Article 2

- 4) Meeting participation cost for legislative members will only be incurred during interims. Public members will receive reimbursement for expenses incurred throughout the year.
- 5) The Commission will meet 11 times in FY12 (2 during interim), 6 times in FY13 (3 during interim), 11 times in FY14 (2 during interim), and 6 times in FY15 (3 during interim). The meeting times includes public hearings. All meetings will be held at the Capitol complex. No cost will be incurred for meeting space.
- 6) Members receive mileage based on the round-trip distance from their residence to attend the meetings. Legislative members receive the mileage reimbursement during the interims. Public members receive the mileage reimbursement commission travel throughout the year. Mileage rate used is .51 cents/mile. An average mileage of 76 miles (one-way basis) was used to determine the mileage for the members.
- 7) Members who travel more than 150 miles (basis one-way of round-trip) will be reimbursed for one night of lodging costs (lodging fee plus associated tax) per meeting at level of \$115/night for House members, \$100/night for Senate members and \$110/night for public members. Legislative members receive lodging reimbursement for only the meetings held during the interims and public members receive reimbursement for cost incurred during commission business throughout the year. For this note, it is assumed that three Representatives, two Senators, and one public member will incur lodging costs.
- 8) A commission director will be employed to support the work of the Sunset Commission. The director will be hired July 1, 2011.
- 9) Fiscal analysis, research and counsel staff support to the Commission will be provided by the House and Senate. . The total staff time that can be absorbed is dependent on what other competing projects may

require staff resources.

- 10) The compensation cost for the Commission director includes health and dental insurance (family coverage), retirement and FICA. Compensation rates will not increase for employees for FY12 and FY13. Health insurance is projected to increase 7.7% in CY12, 16.2% increase in CY13, 6% increase in CY14, and 6% increase in CY15; employer retirement contributions are projected to remain constant.
- 11) Office space will need to be rented for the Commission staff. Office space is projected to increase 3% each FY.
- 12) Initial build-out cost for the Commission staff will include: procurement of workstation needs (computer, phone), workstation build-out (furniture, wiring) and software cost. Initial cost will be incurred during the FY12 only.
- 13) Operational costs for the Commission staff include supplies and communication costs.

Expenditure and/or Revenue Formula

Article 1

To summarize the absorbed fiscal analyst staff cost associated to support the additional work of the financial committees' budget review.

	FY12	FY13	FY14	FY15
House and Senate Fiscal Analyst Staff Compensation	160,000	164,000	167,500	170,000
Cost absorbed by the Legislature	(160,000)	(164,000)	(167,500)	(170,000)
Net Cost Total	0	0	0	0

Article 2

To summarize the legislative and public member cost for participation in the Sunset Commission meetings and the cost associated with the creation of a support office including staff compensation and office build-out and operation costs.

	FY12	FY13	FY14	FY15
Member Per Diem	8,500	3,100	8,500	3,100
Member Mileage	8,700	3,200	8,700	3,200
Member Lodging	6,100	2,300	6,100	2,300
Public Member Meals	700	400	700	400
Subtotal Sunset Cmsn Member Participation Cost	24,000	9,000	24,000	9,000
Fiscal Analysis, Research and Council Staff Support Cost	160,000	164,000	167,500	170,000
Sunset Cmsn Staff Compensation	102,000	104,000	105,400	106,500
Office Space Rental	2,000	2,500	2,600	2,600
Build-out Cost for Staff (cubicle build & equipment)	8,000	0	0	0
Operational Cost for Staff	3,000	3,000	3,000	3,000
Subtotal Sunset Cmsn Staff Cost	275,000	273,500	278,500	282,100

Cost Absorbed by the Legislature	(160,000)	(164,000)	(167,500)	(170,000)
Net Staff Cost	115,000	109,500	111,000	112,100
Total Cost	139,000	118,500	135,000	121,100

New FTE Positions	1.00	1.00	1.00	1.00
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To show a total incorporating all projected cost from Article 1 and Article 2:

	FY12	FY13	FY14	FY15
All Cost	139,000	118,500	135,000	121,100

New FTE Positions	1.00	1.00	1.00	1.00
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Long-Term Fiscal Considerations

Similar costs will be ongoing in the future.

Local Government Costs

N/A

References/Sources

Greg Hubinger, Legislative Coordinating Commission
 Jim Reinholdz, Minnesota House of Representatives
 Jim Greenwalt, Minnesota Senate

FN Coord Signature: DIANE HENRY-WANGENSTEEN
 Date: 03/08/11 Phone: 651-296-1121

EBO Comments

I have reviewed this Fiscal Note for accuracy and content.

EBO Signature: LISA BARNIDGE
 Date: 03/14/11 Phone: 651-201-8032

Fiscal Note – 2011-12 Session

Bill #: H0002-2A **Complete Date:** 03/14/11

Chief Author: BANAIAN, KING

Title: STATE BDGT PRIORITY-BASED PROC ESTAB

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

Agency Name: Legislative Audit Commission

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					

This bill version has no fiscal effect on our agency.

FN Coord Signature: ERIC JACOBSON
Date: 03/11/11 Phone: 651-296-4720

EBO Comments

I have reviewed this Fiscal Note for accuracy and content.

EBO Signature: LISA BARNIDGE
Date: 03/14/11 Phone: 651-201-8032