



March 16, 2017

State Government Finance Committee
Minnesota House of Representatives
100 Rev. Dr. Martin Luther King Jr. Blvd.
St. Paul, MN 55155

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Chair Anderson and Committee Members:

This letter is in response to the discussion of the House State Government Finance Committee at the February 23, 2017 hearing on H.F. 691, Employee Gainsharing. As I indicated in my testimony, Minnesota Management & Budget (MMB) shares the goals that the bill aims to accomplish and has sought to realize these goals through the current Achievement Award program. I appreciate the opportunity to share more about our efforts and clarify several points raised during the discussion.

Clarification of Achievement Awards under M.S. 16A.90

During the committee hearing, several members relayed questions regarding the implementation of M.S. 16A.90. To clarify, MMB and other state agencies have implemented a program that realizes the legislative intent of the statute. The plain language of the statute is unworkable as drafted for a variety of reasons, primarily related to the nature of calculating often complex, long-term savings realized from employee input and providing fair bonuses based on specifically documented savings, among other reasons. It is the position of MMB that it is every state employee's job to reduce costs and provide better, more efficient state services. Additionally, social science in the human resources field has found that programs like Achievement Awards motivate creative and continuous input from employees more effectively than large-scale bonus programs as contemplated by the language of the statute.

MMB funding requests under M.S. 16A.90

The current Achievement Awards program has not required additional funding to implement and therefore MMB has not requested funding from the legislature for that purpose. H.F. 691, however, contemplates a program separate from Achievement Awards and would incur a cost outlined in the bill's fiscal note. Under the proposed legislation, a separate, new program would require the creation of systems to allow 55,000 state-employees the opportunity to apply for potentially very large, cost-sharing awards. The program would require new procedures to accurately calculate documented savings in state programs in a transparent manner as well as systems to fairly and equitably review applications. We continue to believe that this type of program will be unworkable, less successful than Achievement Awards, and cost-prohibitive.

MMB Authority to implement Achievement Awards

Under M.S. 16A.90, the Commissioner is authorized to establish a program to provide bonus compensation for efforts to reduce the costs of operating state government and for identifying ways to provide better or more efficient state services.

More broadly, the Commissioner of MMB has a far-reaching responsibility to provide statewide leadership regarding personnel and labor relations for the civil service in the executive branch. M.S. 43A.04 Subdivision 1. As part of MMB's mission, the Commissioner is empowered to "use innovative fiscal and human resource practices to manage the state's resources," to "prevent the waste or unnecessary spending of public money," and to coordinate the activities of other governmental agencies. M.S. 43A.04 Subdivision 1a.

Employees ineligible to collect performance-based awards

In order to implement an employee bonus program, MMB must comply with the process set out in statute for collective bargaining. Compensation and the terms and conditions of employment are governed by collective bargaining agreements or pay plans, pursuant to M.S. 43A.18. Subsequently, the Commissioner's duties also include "maintenance and approval of total compensation plans for positions in the executive branch" as well as performance and training programs. M.S. 43A.05 Subdivision 1. The Commissioner of MMB has authority to enter into agreements with exclusive representatives for the bargaining units. M.S. 179A.22.

In establishing a program under M.S. 16A.09, it is necessary to negotiate the terms of employee bonus plans with unions, something that MMB has been careful to comply with statute when implementing Achievement Awards. These negotiations are what determine the maximum award allowed for employees within each union. The following collective bargaining agreements or compensation plans do not authorize employee bonus programs like Achievement Awards: AFSCME Council 5 and Units 208 and 225, Compensation Plan for MNsure, MnSCU Master Agreement with the Inter Faculty Organization, MnSCU Personnel Plan for Administrators, Salary Administration Plan for the Minnesota State Board of Investment.

How Achievement Awards are determined

Under the authority of the statutes listed above, MMB has established a statewide policy governing Employee Recognition and Achievement Awards (HR/LR Policy #1420). Under that policy, each agency is responsible for developing their own Achievement Award policy for its employees. The statewide policy identifies the following categories as indicative of the types of outstanding performance that may be considered in the nomination process:

Team Recognition: A group of employees has delivered outstanding work on a group project. The employees worked well together and overcame challenges and difficulties.

Project Recognition: An employee has performed outstanding work in the completion or administration of a particular project.

Individual Performance: An employee has demonstrated sustained outstanding individual job performance.

Achievement Award decisions are made by agency management following their own recognition and rewards policy. Agency policies provide rewards to employees for their ideas and efforts to make state government more efficient and effective. The policy applicable to employees of MMB specifies the following categories as justification for receipt of an award:

- Significant workplace contributions, results, or outcomes
- Implementation of money saving ideas
- Project recognition (outstanding work outside of normal job parameters)
- Sustained exceptional performance throughout the appraisal period
- Individual performance which directly or indirectly advances the agency's goals and mission
- Team recognition for a group of employees who have delivered outstanding work on a special project or overcome a particular and/or unusual challenge

As you can see, most of these categories, not just the implementation of money savings ideas, could result in reduced costs, better return on investment, or more efficient state services. Awards have been granted to employees who have created more effective workflows, employees who have worked outside a job description to implement a new program, and employees who have increased customer satisfaction through creative design of a new website.

As explained above, the maximum award amount is governed by applicable collective bargaining agreement or compensation plan language. For example, the language negotiated in the Minnesota Association of Professional Employees (MAPE) contract limits Achievement Awards to a lump sum not to exceed \$1000 or, under limited circumstances, a one-step increase in the employee's salary. The total number of awards in a fiscal year is limited to no more than 35% of the number of MAPE employees authorized at the beginning of the fiscal year.

As requested, attached is MMB's Achievement Award activity for fiscal years 2015, 2016, and quarters 1 and 2 of 2017. Twenty-seven of 217 MMB achievement award nominations (just over 12%) were denied during that period. The Appointing Authority in other agencies have their respective approval and disapproval rates. Each agency also maintains its own data on Achievement Award nominations and recipients. MMB does not collect or store other agencies Achievement Award data.

The recipients of these awards made our state government work better for all Minnesotans. In line with the goals of M.S. 16A.90, Achievement Awards has been an effective, efficient, and successful program.

Information on the Six Sigma, Lean, and Kaizen Programs

The Department of Administration's Continuous Improvement Office administers these programs. Questions regarding their implementation and cost savings should be directed to the staff at the Department of Administration.

Thank you for the opportunity to testify and provide further input on H.F. 691.

Sincerely,

Edwin Hudson
Deputy Commissioner

CC: **Sen. Mary Kiffmeyer**