

The Commission on
Service Innovation:
*Strategic Plan &
Report to the
Legislature*

January 15, 2011

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Introduction

With the state facing multi-billion dollar budget deficits biennium after biennium and growing frustration among the public and lawmakers with the lack of innovation in government, the 2010 Legislature created the Commission on Service Innovation.¹ The legislation charged the new Commission with developing a “a strategic plan to reengineer the delivery of state and local government services, including the realignment of service delivery by region and proximity, the use of new technologies, shared facilities, centralized information technologies, and other means of improving efficiency.”

The Commission on Service Innovation (“CSI” or “the Commission”) was established with 19 members that represent a wide array of community interests, including leading business groups, non-profit community organizations, government employee unions, local government associations, higher education institutions and K-12 school administrators, as well as the executive branch’s State Chief Information Officer (CIO). The members are as follows:

Member	Appointing Authority
Bob Azman	Minnesota High Tech Association
Dave Bentrud	League of Minnesota Cities
Steve Cawley	University of Minnesota
Steve Dahl	Minnesota Chamber of Commerce
Jeannie Fox	Minnesota Council of Nonprofits
Steve Giorgi	AFSCME Greater MN Council 65
Alok Gupta (does not speak for McKnight)	McKnight Foundation
Darrel S. Huish	Minnesota State Colleges and Universities
Peter Hutchinson	Bush Foundation
Chet Jorgenson	Minnesota Association of Professional Employees
Gopal Khanna	State Chief Information Officer
Sean Kershaw	Citizens League
Mike Kirst	Minnesota Business Partnership
Charles Kyte	Minnesota Association of School Administrators
Allen Lehrke	AFSCME Council 5
Randy Maluchnik	Association of Minnesota Counties
Paul Mattessich	Wilder Foundation
Carol Nieters	Service Employees International Union
Kent Sulem	Minnesota Association of Townships

At the first meeting, Gopal Khanna – the State Chief Information Officer – was elected lead co-chair and Mike Kirst – representing the Minnesota Business Partnership – was elected vice co-chair. Sean Kershaw of the Citizens League was designated to serve as the fiscal agent for the Commission.

The full Commission began meeting monthly starting in July for 5½ hour meetings. The Commission continues to still meet today. Advisory work groups were also formed and meet regularly as needed. These groups included the following:

- Problem Definition/Opportunity
- Citizen Engagement
- Process Governance
- Workforce/Culture
- Shared Services
- Visioning/Steering

The full Commission meetings were conducted in accordance with the Open Meeting Law, permitting public attendance. In addition, in order to enhance public involvement, the meetings were streamed live on the Internet and also recorded and archived for subsequent viewing at any time. The recordings, meeting minutes/monthly reports, presentations and other information are available on the Commission website hosted by the Legislative Coordinating Commission. The link to the website is: <http://www.commissions.leg.state.mn.us/csi/csi.html>.

The Challenges We Face

The Commission gathered and reviewed existing data related to demographic, fiscal and budget trends. The findings reveal that even after the recession ends, the state will still face daunting challenges that arise from changing demographic and economic realities, which include an aging and changing population increasingly reliant on public services such as health care and education and diminished prospects for economic and state revenue growth.

Finding 1: Minnesota is currently experiencing a major, long-range demographic shift²

1.a. Minnesota's Population Growth will Slow

Minnesota's population growth will slow in the next decade. According to the State Demographic Center, Minnesota will see 4% growth over next 10 years³, compared to 4.6% from 2000-2010⁴ and 6.3% from 1990-2000⁵. Other estimates from the Minnesota Geospatial Information Office place those growth percentage rates a bit higher at 10.7% from 2000-2010 and 9.1% from 2010-2020⁶. However, the same pattern is clear – growth rates are slowing.

1.b. Minnesota's Population is Aging

Minnesota's future population growth will be greatest for ages 60+. Specifically, from 2005-2015, the fastest growing group in Minnesota will be from ages 55 to 69.⁷ Baby boomers – numbering 1.5 million in Minnesota⁸ – began to reach retirement age in 2008. In that year, Minnesota was expected to see a 30% increase in the number of workers turning age 62.⁹ By 2020, 18% of Minnesotans are projected to be more than 65 years of age, compared to 12.5% in 1990¹⁰. This aging population will result in population shifts and age distribution that Minnesota has never experienced. Whereas school age children have always outnumbered any other age group, the 65+ age group will exceed every population group by 2020.¹¹

1.c. Minnesota's Suburban Areas are Growing

Suburban areas surrounding metropolitan areas have continued to grow since the 1950's. Approximately 60% of the state's population currently lives in the 11-county Twin Cities metro area.¹²

1.d. Minnesota is Becoming More Diverse

Minnesota's population is growing more diverse, both in number and in the percentage of persons of color. Migration continues to spur diversity in Minnesota. Most migrants are younger and this helps to slow the aging trend in the state and also adds workers to the labor force. Overall, Minnesota's diversity leads the Midwest, with 14% of its population, but is still less than the United States as a whole, at 34%.¹³

1.e. Minnesota's Labor Force Growth will Reach an All Time Low in the Next 10 Years

Minnesota will experience some labor force growth from now until 2015¹⁴, but then gains will slow. By 2020, the labor force growth will be at record lows¹⁵. There was 1.3% annual growth rates from 1990-2005. For 2010-2015, the projection is 0.7% and for 2015-2030 the projection is 0.4%. Smaller labor force gains will continue after 2015 due to more Baby Boomers entering retirement.¹⁶

In fact, the Baby Boomers are already reaching retirement age. Minnesota saw a 30% jump in workers turning age 62 in 2008.¹⁷

Based on projections for 2009-2019, for many occupations, job replacements will outnumber new job growth, particularly in the areas of Office/Administration and Production.¹⁸

1.f. Minnesota's Public Sector Retirements Will Nearly Triple by 2013

Of the approximately 390,000 public sector employees in 2007, fewer than 10% worked for state government. One-third of the public sector employees worked for local government, one-third worked in local education, and about 15% worked in higher education.

The aging workforce trends are visible in the public sector. In the executive branch, excluding the Minnesota State Colleges and Universities System (MNSCU), the percentage of the workforce at normal retirement age is expected to rise from 9% in 2008 to 24% in just 5 years (2013).

1.g. Minnesota's Dependency Ratio Will Grow, Creating Budget Challenges

The overall decline in labor force growth will result in an increased dependency ratio. The dependency ratio is a measure of the population that is traditionally active in the labor force

compared to those who are not. Minnesota's dependency ratio is currently at a record low.¹⁹ However, as the baby boomer generation reaches retirement age and Minnesota's labor force growth starts to decline, the dependency ratio will grow. This means that the "earnings of the working age population will need to be stretched further to support the state's economically dependent population."²⁰ As explained in Finding 2, the demographic shifts and increased dependency ratio will have serious consequences and create significant challenges for the state budget.

Finding 2: Minnesota's State Budget Will be Challenged by Reduced Revenue and Increased Expenditures

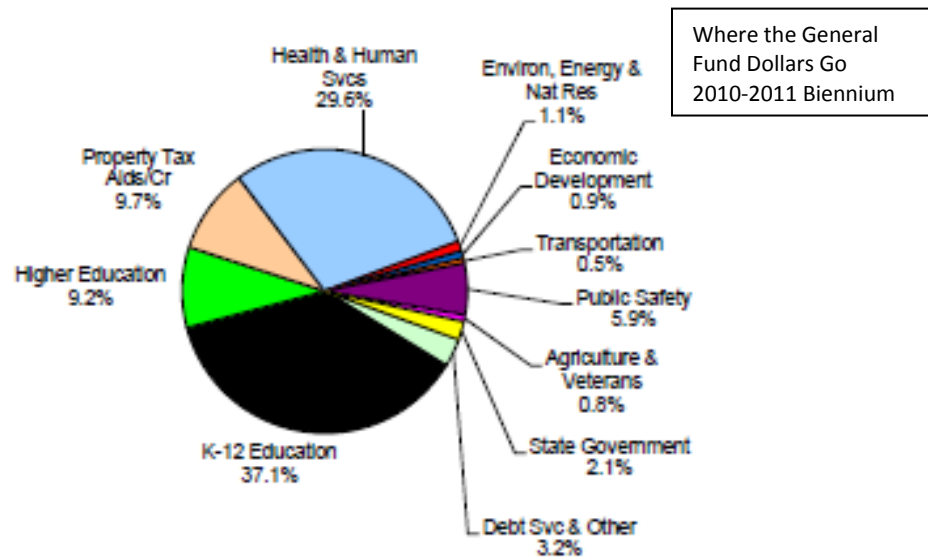
2.a. Minnesota's Revenue Growth Rate Will Slow Down

Little change is expected in the U.S. economy for 2010 and 2011.²¹ Minnesota's state tax revenue growth rate is likely to slow over the next 25 years, from 6.8% in 2001 to 3.9% in 2033²².

2.b. Minnesota's Budget is Dominated by K-12 and Health Care Spending

State, county and city budgets totaled more than \$41 billion in 2010.²³ The largest piece of that pie is state spending, at \$30.7 billion, county spending came in second at \$5.9 billion and, finally, city spending at \$4.5 billion.²⁴

At the state level, K12 and Health Care related expenditures are the biggest drivers of budget spending. 37.1% - or \$13 billion - of Minnesota's budget is spent on K12 education. 29.6% - or \$9 billion - is dedicated to Health & Human Services.²⁵



Source: Minnesota Management & Budget

2.c. Health Care Expenditures Will Be Forced Higher by an Aging Population

As previously discussed, Minnesota's population is aging. Growth among the 60+ age group will be greatest in the coming decades. As a result, the next 10 years will see increased demand for health care services and ultimately, health care will emerge as a major cost driver in the budget²⁶. Health care spending jumps after age 55²⁷. On average, as people get older, their use of health care services increases.²⁸ For example, hospitalization rates and physician visit rates both increase after age 55 and continue to grow every ten years (age 55-65, age 65-75, etc).²⁹

2.d. K12 Expenditures Will Grow

K12 education expenditures represent the largest portion of state general fund spending.³⁰ This area of the budget is expected to remain a high priority, with necessary increases in spending. Unfortunately, as health care costs rise due to the aging population, Minnesota will not see a correlating decline in need for other essential services. Demand will increase across the board.

According to the Minnesota Budget Trends Study Commission, past growth in K12 spending is primarily due to legislative initiatives and not necessarily driven by demographic changes. Future growth has historically been predicted based on an assumption of continued investment

in K12 services coupled with growth in the school-aged population. While it is true that the 60+ age group will grow faster than any other age group, there is no correlative decrease in the number of school-aged children. In fact, the number of school aged children is also expected to increase in coming decades.³¹

Additionally, the Budget Trends Commission also has identified additional pressures that may increase costs, including a growing concentration of poverty in schools, an increase in the number of pupils with inadequate English upon enrollment, and special education costs.³²

Findings Conclusion

Shifts in Minnesota's population, coupled with the decline in state revenue, increased health care costs and continued prioritization of K12 spending all add up to create major budget challenges in the future.

To help illustrate the problem the state will face over the next 25 years, the 2009 Budget Trends Study Commission offers the following scenario: Assume revenue grows 3.9% per year and health care continues to grow at a rate of 8.5% per year. In order to achieve balanced budgets over the 25 year time horizon, expenditures on all other segments of the budget, including K12 education, would have to remain essentially flat; if instead, we make the assumption that health care continues to grow at 8.5% and spending on K12 education grows by 2% per year (CPI inflation) for the next 25 years, all other segments of the budget beyond health care and K-12 will have to be *reduced by 3.9 percent each year* to avoid budget deficits. *This would nearly eliminate all other areas of spending by 2035.*³³

State Economist Tom Stinson and State Demographer Tom Gillaspay predict that a "new normal" is upon us, which includes: higher interest rates, slower economic growth, an increase in the number of retirees, less consumption coupled with more saving, a more diverse population, and increased uncertainty in our personal, state and national future.³⁴ It is during these times of economic stress that forces for change are heightened, new opportunities are revealed and wholesale program changes can occur.³⁵

The state is currently on an unsustainable track. A "quick fix" through increased taxes or cuts in services are not going to solve this problem and certainly will not lead to lasting progress.

Substantive reforms and major changes in thought and action are necessary – even if this means increases in short-term expenditures³⁶. Transformative governing, innovative delivery of services and increased efficiency are necessary in order to not only extricate our state from its current fiscal situation but also to create lasting, meaningful change.

DRAFT

Vision

Minnesota's state and local governments face the problem of reconciling increasing demands for services with the diminished prospects for additional resources to support them. The difficult problems the state faces today and over the next decades are not temporary, will not solve themselves and will be very difficult to solve through traditional approaches. Reconciling increasing demands with lagging resources is the central problem facing our state and local governments and, more importantly, the people they serve. Moreover, these governments face the additional challenge of providing these services in an environment in which citizens are more mistrustful of government than they have been in decades.

Innovation in the design and delivery of public services is essential to reconciling the growing demands and limited resources. Current designs and delivery methods were developed in an era of vigorous growth in population and productivity. The pace of population growth and especially of the number of workers has slowed. In the public sector, the rate of retirements is projected to significantly rise just as the resources to replace them are projected to shrink. The future of our economy, the availability of resources to support public services, and the ability to deliver public services effectively will increasingly be dependent on growing the productivity of every worker – public, private and not for profit. The key to productivity growth is innovation.

There are numerous specific examples of innovative designs and delivery mechanisms for public services. These examples should be examined, improved, implemented and expanded if they can deliver the quantity and quality of services the public expects within the limits of our resources. The Commission has worked to identify specific innovations, or areas in need of innovation, for examination and consideration for implementation.

Innovation in Government Workforce and Culture

Government employees take pride in the quality of services they deliver. When given the opportunity to actively participate with key management personnel who have the authority to implement and act on innovative changes developed via labor/management teams, the Commission believes government employees will embrace changes in service delivery systems.

The Commission also believes improved services can be developed and implemented without the threat of layoffs or compromising the quality of services. When the parties (labor and management) can commit to a process that allows for innovation, such as the Lean and Kaizen principles being utilized in Ohio for the past 18 years, and more recently in Minnesota, positive outcomes are attainable and proven.

Lastly, in order to maximize opportunities for innovation, the State of Minnesota will need to restore public citizens' faith in government. A recent Pew Research Center survey revealed that by almost all indicators, the general public is less positive and more critical of government than they have been in decades.³⁷ The Commission believes we need to improve on the "public understanding of the purpose and possibilities of government action – an approach that emphasizes problem-solving, long-term thinking, and a genuine concern for the common good."³⁸

Recommendation 1: The State should plan for the needs of major portions of our state where the dependency ratio is growing and resources may be declining.

Recommendation 2: The State should meet the challenge of having a high proportion of state employees reaching retirement age during the next few years and preserve and improve a competent workforce.

Recommendation 3: A communications plan should be developed that would include a public education campaign about government services and workers. The campaign would coincide with other internal attempts to maximize efficiency in government.

Innovation in Citizen/Customer Engagement

With the changes in society and all other institutions over the years, the roles of government and citizens have also substantially changed or should substantially change. The Commission believes that government should change accordingly and serve these changes. More specifically, government should focus less on the delivery of services and regulation and focus more on ensuring that governance outcomes are met in many institutions and sectors. This approach has been referred to by government reform expert David Osborne as more “steering” and less “rowing.” Citizen expectations should focus less on good customer service from government (although the Commission also assumes this will improve under this approach) and more on viewing citizens as “producers” – partners in governance and in producing outcomes that are good for Minnesota.

Two conditions for these changes are the availability of data that is useful to the public (information), and the ability of citizen expectations and demands to have an influence on government. Given these conditions, the Commission recommends the following:

Recommendation 4: All state data that is public in nature should be made available in a format that can be used and manipulated by citizens. For example, raw data on water quality for a particular waterway should be made accessible regardless of its location within state government.

Recommendation 5: Within government, information on particular outcomes and particular citizens should be accessible across programmatic and organizational boundaries (respecting the need to protect privacy). For example, information on students that are accessing services through the Department of Human Services (DHS) should be accessible to Department of Education staff working to close the achievement gap.

Recommendation 6: In order to build demand and political support for these changes, a “good government user group” should be created. The group will work to:

- Help coordinate and facilitate these types of demand-expectations and changes;
- Make best-practice information across government available to citizens and leaders in all sectors that work with the government; and
- Coordinate this work with other types of government and leadership from other sectors.

Innovation in Government Process and Governance

The Commission believes that innovation needs to be imbedded into current government processes and governance in order to ensure that innovation efforts will be ongoing and continue well after the immediate crises facing the state have been resolved. Sustaining innovation will require establishing a governing structure or entity to drive the Commission’s recommendations.

Moreover, state and local governments can succeed only in increasing the results they deliver for each dollar spent by increasing productivity. Increasing government productivity requires some investment, although every investment should return both better service results (or at least not worse) and reduce costs. The Commission believes sustaining innovation will require establishing not only a governing structure or entity but also a reliable source of funding to support the entity and innovation efforts.

The Commission also believes a number of barriers in government exist that hamper innovation efforts. These barriers and challenges include the following:

Barrier Type	Specific Barrier
Lack of Common Processes / Tools / Training	<ul style="list-style-type: none"> No over-arching governing body to lead/sustain an “innovations management” process across all governing levels
	<ul style="list-style-type: none"> Cost of a common process unclear, including training and the funding source
	<ul style="list-style-type: none"> Benefits of a common process are unclear, including who benefits from it
Lack of Benefits / Metrics / Evaluation Funding	<ul style="list-style-type: none"> Benefits analysis lacks consistency, promotes prolonged funding debate
	<ul style="list-style-type: none"> Misaligned incentives
	<ul style="list-style-type: none"> Performance measures lacking – and/or not timely, broadly visible
	<ul style="list-style-type: none"> No evidence of funding agility, i.e., funding one-time resources to implement “highest return” changes
Agency “Silos” / Overlapping-Conflicting Agendas	<ul style="list-style-type: none"> Service ownership, “turf battles”
	<ul style="list-style-type: none"> An agency belief that it alone will not make

	a difference, the change is for someone to explore/implement
Workforce Culture / Rewards	<ul style="list-style-type: none"> • Employees not valued, not empowered to innovate/change
	<ul style="list-style-type: none"> • Employee perception that “Must Innovate” implies “currently failing”, not “good to great”
	<ul style="list-style-type: none"> • Lack of trust and rapport, successes (and failures) not visibly celebrated
	<ul style="list-style-type: none"> • Fear of change
	<ul style="list-style-type: none"> • Leadership turnover leads to loss in focus, commitment
Leadership Alignment	<ul style="list-style-type: none"> • Coalition (across party lines) that shows commitment to fueling innovations does not exist
	<ul style="list-style-type: none"> • Political agendas derail service innovation agenda
Statutory	<ul style="list-style-type: none"> • Balanced state budget (2-year horizon) “constraint”
	<ul style="list-style-type: none"> • Lack of enforcement of ‘whistle-blower’ laws
	<ul style="list-style-type: none"> • Outdated part-time legislative schedule rules
	<ul style="list-style-type: none"> • Rigid work rules

To advance process improvement, the Commission studied the Department of Administration’s Enterprise Lean Program. According to the Department, Lean is a time-tested set of rules and methodologies for identifying and eliminating waste and improving productivity and customer service. The continuing goal of Minnesota’s program is to introduce, support and sustain Lean continuous improvement efforts that improve efficiency, productivity and service delivery in state government operations.

Lean originated with the Toyota Motor Company shortly after the Second World War and was initially applied in manufacturing. Lean has since expanded to the service industry and, more recently, to government. Minnesota is a national leader in Lean state government but other states such as Ohio have also built strong Lean programs.

Lean is a set of tools that identify and reduce waste and defects within processes by engaging employees to improve productivity, reliability, staff morale, and customer service. Lean adds value by eliminating waste. Waste is an activity that:

- Consumes resources without creating value for the customer
- Is unpredictable in creating value
- Requires more time, effort or resources than necessary
- The “seven wastes” are defects and errors, overproduction, waiting, excess processing, motion, transportation and inventory

Since the launch of Minnesota’s Enterprise Lean Program in November 2007, 18 state agencies have held more than 145 ‘Kaizen’ events, or rapid improvement events, that together have realized:

- A 66% average reduction in lead time (high of 99.7%, low of 37%)
- A 45% average reduction in task time
- Average cost avoidance of \$90,000 per event
- An estimated 80 percent implementation/sustainment level

Although many state agencies have had Lean Kaizen events or trained some staff as Kaizen facilitators, only 9 agencies have instituted a formal Continuous Process Improvement effort. The Commission believes there is great opportunity to expand this effort to additional government entities.

Case Examples: Lean Continuous Improvement Results

Minnesota Veterans Homes – Patient admissions process

Before: After an often lengthy admission application process, a prospective patient is placed on a waiting list. Once an open bed was identified, the admitting process usually took 7-10 days.

After: The time to fill an open bed now takes four days on average, and customer satisfaction has increased from 3.9 to 4.5 (on a 5-point scale) in less than a year. The process improvement event included all Department of Veterans Affairs parties involved in the process, including a family member of a veteran.

Department of Agriculture – Dairy and food licensing

Before: It took an average of 30 days to issue a license to a business to sell food and dairy products, after that business had successfully passed an inspection.

After: Licenses are issued immediately after passing the inspection (a 99.5 percent reduction). Furthermore, the Department of Agriculture will save approximately \$95,500 in staff time annually.

The Commission also believes that the Lean program should be strengthened by utilizing technology and Business Process Reengineering (BPR) theories, techniques, and tools to improve the efficiency of government processes. BPR began in the private sector to “help organizations fundamentally rethink how they do their work in order to dramatically improve customer service, cut operational costs, and become world-class competitors. A key stimulus for reengineering has been the continuing development and deployment of sophisticated information systems and networks. Leading organizations are becoming bolder in using this technology to support innovative business processes, rather than refining current ways of doing work.”³⁹

Like Lean, BPR is not limited in its use to the private sector. It can be used by government as well. The United States General Accounting Office (GAO) has advised federal government agencies on how to employ BPR.⁴⁰ According to the GAO, “achieving major levels of cost savings and performance improvement nearly always requires that agencies redesign the business processes they use to accomplish their work. Many of the largest federal agencies find themselves encumbered with structures and processes rooted in the past, aimed at the demands of earlier times, and designed before modern

Case Examples (Continued): Lean Continuous Improvement Results

Department of Human Services – Personal Care Attendants

Personal Care Attendants (PCA) are individuals who are licensed by DHS to provide home health care services to individuals in need. There are approximately 40,000 PCAs enrolled in the program who need to be licensed annually.

Before: PCAs would wait an average of 50-plus days to be authorized to provide these services. There were typically 3,000 applications waiting to be processed at any one time.

After: PCAs are now enrolled in an average of 2-3 days, and a maximum of 400 applications wait processing at any given time. The amount of staff time required for this function was reduced by 20,000 hours per year.

Department of Transportation – Project close-out process

Before: It would often take six to eight years to close out large federal-state funded road or bridge projects, after the work was completed. During that time, any project dollars not expended were held in an encumbrance and not available for other projects (often millions of dollars).

After: Mn/DOT reduced this close-out period by a minimum of 2.5 years. This will allow millions of dollars to be reallocated to new road and bridge projects more quickly.

Pollution Control Agency – Gasoline consumption

Before: The Pollution Control Agency (PCA) set a goal to reduce the fleet energy consumption and its contribution to air pollution.

After: Using process improvement tools, in its first year of application, PCA cut fuel use by 14 percent, eliminated 242,000 pounds of CO₂ emissions, and saved \$113,000 in fuel costs.

information and communications technology came into being. These agencies are poorly positioned to fulfill their mission and meet their strategic goals. They need to consider replacing outmoded work processes with streamlined ones that more effectively serve the needs of the American public.”⁴¹

Recommendation 7: The state’s Lean program should be expanded to additional government entities at both the state and local government levels and include Business Process Reengineering and technology to improve government efficiency. Labor-management should work cooperatively to implement the program.

Recommendation 8: The state should establish a new governance structure/governing entity to oversee and facilitate the implementation of the Commission’s recommendations, including the Lean/BPR and Shared Services/Consolidation programs; to routinely identify additional opportunities for innovation among state and local government entities; and to encourage entities to implement the innovations through financial incentives/disincentives such as grants and in certain circumstances through the use of mandates. The new governance structure/governing entity should be organized as _____ and should consist of _____ membership.

[Commission Needs to Consider Options for Structure/Entity:

- **Part of existing entity such as:**
 - the Office of the State Auditor
 - the Governor’s Office
 - a state executive branch cabinet department
 - the Commission on Service Innovation (would require changes to the statute since the Commission sunsets June 30, 2012)
- **Create a new entity:**
 - commission/board
 - government agency
- **Membership:**
 - private sector
 - non-profits
 - local governments
 - executive branch agencies

A government entity or quasi-government entity (such as a board or commission) should be identified or created and given the mandate to lead and oversee the Commission's recommendations, such as the Lean/BPR and Shared Services/Consolidation programs. The entity should review state and local government entities on a routine rotational basis to determine if they are appropriate for consolidation or shared services. The entity should be empowered with tools to encourage government entities to implement the recommendations, including the power to offer financial incentives such as grants/awards to participants and in certain circumstances mandate implementation to eliminate outliers. Any grants/awards should come with minimal regulatory requirements.

8.a. The legislature should appropriate \$_____ to the new governing entity as an investment fund – the Return on Service Innovation (ROSI) Fund – for encouraging and enabling state and local government entities to implement the Commission's recommendations.

The funds would be awarded by the new governing entity as grants or other financial incentives to participating state and local government entities. To support the fund, the legislature should consider selling bonds and/or disseminating \$_____ million of Local Government Aid through the new governing entity as grants to local governments for encouraging and enabling them to implement the Commission's recommendations.

8.b. A single in committee in both the Senate and House should oversee the new governing entity and all related funding including Local Government Aid.

Innovation using Shared Services and Consolidation

The Commission believes there is an opportunity to increase the utilization of shared services and consolidation among state and local government entities. The Commission acknowledges that many state agencies and local governments, including counties and townships, have already consolidated services and now share them. The Commission seeks to build on these efforts and maximize sharing between those entities and for those services where it makes sense. In order to implement shared services/consolidation among government entities, the Commission favors approaches that utilize incentives and “local control” on designing and implementing the programs. However, in some limited situations mandates could be appropriate when remaining outliers resist implementation without compelling reasons for their exception.

The Commission believes shared services/consolidation should be explored in these and other service areas:

- Information technology
 - Utility Services
 - Shared Services
 - Specialized Applications
- Fleet and Dispatch (Transportation)
- Procurement and Food Service
- Facilities and Real Property
- Developing/Providing Analytics and Reporting
- Basic Services such as: Law Enforcement, Firefighting, Snow Removal, Parks, Libraries
- Finance, Human Resources and Administration
- Specialized Knowledge Positions and Teaching/Training
- Leadership/Management Positions.

Recommendation 9: The state should establish a Shared Services/Consolidation program for state and local government entities.

9.a. Government employees should remain involved in the implementation of any program.

The program should use state and local government staff and outsourcing should be limited. Outsourcing is a needed option for select specialized or otherwise unique areas.

9.b. Investments and tools are needed for program success.

Investment in training of staff and other aspects of shared services/consolidation implementation is critical to the success of such transformative changes. Up-front investments are needed to fund these activities in order to ensure success and minimize program disruption and other risks. Innovation funding should be provided through an investment fund as recommended in 8.a. above.

In order to support counties, cities, townships, schools, higher education, special entities and the State in the use of shared services and consolidation, the following should be provided:

- Website that consolidates available contracts, service center offerings, tools – an information clearinghouse on shared services for Minnesota government.
- Specialized staff/entity to assist in developing ideas in these areas since many government entities lack the time or expertise to identify and define ideas.
- Specialized staff/entity to assist in evaluating options and determining an action plan. There are many contracts, technologies and options available for state and local government to utilize, evaluate ideas and develop value on investment business cases, along with implementation plans/roadmaps.
- Specialized staff/entity to assist in implementing shared services and consolidation. Reorganization, process design, technology standardization and implementation, information security, change management and training along with strong project management are needed for larger-scale efforts and often not available to units of government in today's environment.

9.c. The Shared Services/Consolidation program should be led through one entity that is empowered, and incentives should be created. (See Recommendation 8, 8.a., and 8.b.)

Innovation in the Systems of Government

The Commission recognizes that continuous innovation requires changing the fabric or DNA of state and local government.

Currently, most public systems are governed by a design called bureaucracy. Bureaucracy was developed to solve the problem of corruption. The core assumption was that people were not very smart and could not be trusted to do the right thing. To overcome this problem, bureaucracy relied on controlling the process of government as its principle design element. Today, people call this “red tape.” When bureaucracy was invented over 100 years ago it was a new idea. It has worked well to end corruption and assure fairness, as it was intended.

Now, however, we face different challenges and are in need of innovation. Bureaucratic mechanisms of control don't encourage innovation (i.e., people in bureaucracies are rewarded for following the rules not changing them) and can actually hinder good ideas. Citizens and lawmakers, however, do not want to sacrifice honesty and fairness. The Commission believes that we need systems that assure honesty and fairness while also encouraging innovation. The following chart suggests how this can be done. The major tool to achieve this is to emphasize accountability for delivering specified results rather than accountability only for following specified procedures or rules.

FROM

TO

Bureaucracy	Innovative government
Statute & rule directed	Mission & results directed
Hierarchy driven	Team & network driven
Control centralized	Decentralization & empowerment
Primarily accountable for conformance to rules	Primarily accountable for results
Manage costs	Manage value
Assume people cheat; control them	Assume people perform; empower them
Quality defined as adherence to standards	Quality defined as meeting or exceeding expectations of those served
Exclusive service mandate	Choice and competition
Focus on what's best for the organization	Focus on what's best for those being directly served and for citizens

The Commission also believes government systems should separate policy-making/regulatory roles (steering) from service delivery/compliance roles (rowing). When they are separate both can be done better.

Steering organizations set direction, specify results to be delivered, allocate resources and hold those who get resources accountable for delivering the specified results. Rowing organizations figure out how to deliver the results with the resources available. The separation encourages those who are rowing to find innovative solutions.⁴²

Separating steering from rowing works because:

- It limits micromanaging by policy makers while strengthening accountability
- It frees leaders from much of their captivity to service provider lobbying
- It increases flexibility

One key to achieving this separation is through the use performance agreements between those who steer and those who row. (See Budgeting for Outcomes below).

Recommendation 10: The legislature should consider using Budgeting for Outcomes, which uses the budget to purchase outcomes and maximize the value of every dollar spent on government services.

The key steps in Budgeting for Outcomes include:

- **Set the price of government:** Establish up front how much citizens are willing to spend. Get agreement on a revenue forecast and any tax or fee changes.
- **Set the priorities of government:** Define the outcomes or results that matter most to citizens, along with indicators to measure progress.
- **Set the price of each priority:** Divide the price or revenue among the priority outcomes on the basis of their relative value to citizens.
- **Develop a purchasing plan for each priority:** Create "results teams" to act as purchasing agents for the citizens. Ask each one to decide which strategies have the most impact on their desired outcome.
- **Solicit offers to deliver the desired results:** Have the results teams issue "requests for results" to all comers including their own government's agencies or department, other governmental jurisdictions, unions, non-profits and businesses. Invite them to propose how they would deliver the result and at what price. Then choose those proposals that will provide the best results for the money.
- **Negotiate performance agreements with the chosen providers:** These should spell out the expected outputs and outcomes, how they will be measured, the consequences for performance, and the flexibilities granted to help the provider maximize performance.

In addition to budgeting, the Commission also believes other specific administrative systems should be changed to be more innovative and less bureaucratic.

Recommendation 11: The legislature should consider changing other administrative systems to be more innovative.

These administrative systems should be changed as follows:

Human Resources

- Make civil service more flexible – classification, pay, etc.
- Emphasize performance vs. credentials
- Link performance and consequences
- Delegate control but increase accountability
- Invest in building skills and competencies

Purchasing

- Delegate control but increase accountability
- Emphasize best value not low cost
- Enhance competition
- Partner with vendors to share risk

Accounting

- Account for what really counts – money and results
- Balance risk and results

Auditing

- Focus on results not just money
- Emphasize managing risks not just zero tolerance
- Identify and spread best and better practices

Recommendation 12: The legislature should consider creating Charter Agencies or Performance-Based Organizations.

The current government agencies were created within the context of bureaucratic design parameters. Many of the recommendations listed above are intended to support change within those agency organizations. Another alternative would be to create new organizations using innovative design parameters. The creation of charter schools is an example: public schools created without many of the restrictions of traditional schools. Innovative designs would include:

Charter Agencies

Existing agencies or parts of agencies could be re-chartered to provide them with increased flexibility and authority in return for increased accountability for results and a reduced budget.

In Iowa, agencies volunteered to be accountable for producing measurable results and reduce spending. In exchange, the agency director was authorized to:

- Exercise all the authority of the state with respect to personnel management, procurement, information technology, and building maintenance;
- Be exempt from across-the-board budget cuts and FTE controls; and
- Negotiate a series of other management flexibilities.

Then Iowa Governor Tom Vilsack called this experiment “Charter Agencies,” since it’s built on the same principle as charter schools: more flexibility in return for more accountability. Six charter agencies produced impressive results and won a prestigious Innovations in American Government award from Harvard’s Kennedy School of Government.

Performance-Based Organizations

Performance Based Organizations are organizations – public, quasi-public (e.g. public corporation) or non-profit – that have a performance agreement with a steering organization to deliver specific results and a specific cost. This idea was first used by the federal Government in restructuring the Office of Federal Student Assistance as a PBO. This new organization produced impressive results, including customer (student) satisfaction among the best of any financial services organizations in the country, dramatic increase in staff morale, and dramatic decreases in costs and defaults.

Conclusion

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Appendix I: Legislation Establishing Commission

Minnesota Session Laws
2010, Regular Session

CHAPTER 392--S.F.No. 3134

An act

relating to government operations; defining certain powers of the Council on Black Minnesotans; providing for mapped data on expenditures; increasing threshold requirements for deposit of agency receipts; clarifying agency requirements for contracts over a certain amount; permitting state chief information officer to appoint a state Webmaster and develop standards for public access to electronic data; clarifying use of fees in the combined charities campaign; requiring standards for data collected under the clean water partnership program; defining jurisdiction of the Office of Enterprise Technology that impact state information systems; requiring the secretary of state to distribute copies of abstracts when town is organized; requiring a report on government efficiency and transparency; providing legislature improved access to executive branch accounting, procurement, and budget systems; establishing the commission on service innovation; appropriating money; amending Minnesota Statutes 2008, sections 3.9225, subdivision 5; 16A.275; 16B.355, subdivision 1, as added; 16C.055, subdivision 2; 16E.04, subdivision 2; 16E.05, by adding a subdivision; 43A.50, subdivision 2; 103F.755; 307.08, subdivision 5; Minnesota Statutes 2009 Supplement, sections 16C.16, subdivision 6a, as amended if enacted; 16E.02, subdivision 1; 103H.175, subdivision 2; 379.05; proposing coding for new law in Minnesota Statutes, chapters 3; 16A; proposing coding for new law as Minnesota Statutes, chapter 116W.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MINNESOTA:

[ARTICLE 1 IS UNRELATED TO THE COMMISSION. IT HAS BEEN OMITTED]

ARTICLE 2 GOVERNMENT REFORM

Section 1. **[3.9280] COMMISSION ON SERVICE INNOVATION.**

Subdivision 1. **Establishment.** The Commission on Service Innovation is established to provide the legislature with a strategic plan to reengineer the delivery of state and local government services, including the realignment of service delivery by region and proximity, the use of new technologies, shared facilities, centralized

information technologies, and other means of improving efficiency.

Subd. 2. **Membership.** (a) The commission consists of 19 members, appointed as follows:

- (1) one representative of the Minnesota Chamber of Commerce;
- (2) one representative of the Minnesota Business Partnership;
- (3) one representative of the McKnight Foundation;
- (4) one representative of the Wilder Foundation;
- (5) one representative of the Bush Foundation;
- (6) one representative of the Minnesota Council of Nonprofits;
- (7) one representative of the Citizens League;
- (8) one representative of the Minnesota Association of Townships;
- (9) one representative of the Association of Minnesota Counties;
- (10) one representative of the League of Minnesota Cities;
- (11) one representative of the University of Minnesota;
- (12) one representative of the Minnesota State Colleges and Universities;
- (13) one representative of the Minnesota Association of School Administrators;
- (14) two representatives of the American Federation of State, County, and Municipal Employees, including one from council 5 and one from council 65;
- (15) one representative of the Minnesota Association of Professional Employees;
- (16) one representative of the Service Employees International Union;
- (17) one representative of the Minnesota High Tech Association; and
- (18) the state chief information officer.

(b) The appointments required by this section must be completed by June 30, 2010. Appointing authorities shall notify the state chief information officer when making their appointments. The members of the commission shall serve at the pleasure of the appointing authorities.

Subd. 3. **Organization.** (a) Within two weeks after completion of the appointments under subdivision 2, the state chief information officer shall convene the first meeting of the commission. The state chief information officer shall provide meeting space for the commission. The commission shall select co-chairpersons from its appointed membership at the first meeting. Members of the legislature may attend the meetings of the commission and participate as nonvoting members of the commission.

(b) The commission shall provide notice of its meetings to the public and to interested members of the legislature. Meetings of the commission shall be open to the public. The commission shall post all reports required under this section on the Legislative Coordinating Commission Web site.

(c) The commission may solicit and receive private contributions. The commission must designate one of its members to serve as a fiscal agent for the commission. No public money may be used to provide payment of per diems or expenses for members of the commission. The commission may hire staff to assist the commission in its work. Staff hired by the commission are not state employees.

(d) The commission shall solicit and coordinate public input. The commission must use its best efforts to maximize public involvement in the work of the commission, including the use of best practices in social media. The commission may retain an expert in the use of social media to assist in public outreach and involvement.

Subd. 4. **Reporting.** (a) Beginning August 1, 2010, the commission shall publish electronic monthly reports on its progress, including a description of upcoming agenda items.

(b) By January 15 of each year, beginning in 2011, the commission shall report to the chairs and ranking minority members of the legislative committees and divisions with jurisdiction over state government policy and finance regarding its work under this section, with a strategic plan containing findings and recommendations to improve state and local government delivery of public services. The strategic plan must address:

(1) how to enhance the public involvement and input as the public uses state and local government services and public schools;

(2) how technology can be leveraged to reduce costs and enhance quality;

(3) how service innovation will conserve substantial financial resources;

(4) a transition plan and governance structure that will facilitate high-quality innovation and change in the future;

(5) how to improve public sector employee productivity;

(6) the security of individual data and government programs;

(7) data transparency and accountability;

(8) centralized and shared services; and

(9) data interoperability across jurisdictions.

The strategic plan shall also provide a process to review and modify recommendations at regular intervals in the future based on specific results measured at regular intervals.

The strategic plan shall also include any proposed legislation necessary to implement the commission's recommendations.

Subd. 5. **Expiration.** This section expires June 30, 2012.

EFFECTIVE DATE. This section is effective the day following final enactment.

Presented to the governor May 18, 2010

Signed by the governor May 25, 2010, 11:22 a.m.

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Endnotes

- ¹ Minnesota Laws 2010, Chapter 392, Article 2. See Appendix 1.
- ² MN Budget Trends Study Commission, Commission Report to the Legislature, page 5, January 12, 2009, available at <http://www.mmb.state.mn.us/doc/budget/trends/report-09.pdf>
- ³ Projected Minnesota Population Trends in the “Not Yet Gazette”, State Demographic Center, Department of Administration <http://www.demography.state.mn.us/notyet/nygtrnds.html>
- ⁴ *Id.*
- ⁵ *Id.*
- ⁶ Minnesota Geospatial Information Office, State Demographic Center, Department of Administration; <http://www.lmic.state.mn.us/datanetweb/php/DemProjection/prj.html>
- ⁷ MN Budget Trends Study Commission, Commission Report to the Legislature, January 12, 2009, available at <http://www.mmb.state.mn.us/doc/budget/trends/report-09.pdf>
- ⁸ *Demographics of an Aging Population*, Minnesota Department of Health, Fall 2005. Available at <http://www.health.state.mn.us/divs/orhpc/pubs/healthyaging/demage.pdf>.
- ⁹ MN Budget Trends Study Commission, Commission Report to the Legislature, January 12, 2009, available at <http://www.mmb.state.mn.us/doc/budget/trends/report-09.pdf>
- ¹⁰ Projected Minnesota Population Trends in the “Not Yet Gazette”, State Demographic Center, Department of Administration <http://www.demography.state.mn.us/notyet/nygtrnds.html>. See also, MN Budget Trends Study Commission, Commission Report to the Legislature, January 12, 2009, available at <http://www.mmb.state.mn.us/doc/budget/trends/report-09.pdf>, which found that “Minnesota is currently experiencing a major, long range demographic shift” due to 1.4 million baby boomers beginning to retire.
- ¹¹ MN Budget Trends Study Commission, Commission Report to the Legislature, January 12, 2009, available at <http://www.mmb.state.mn.us/doc/budget/trends/report-09.pdf>
- ¹² *Minnesota Demographic Change and State Government Services*, Tom Gillaspay, State Demographer, MN Dept. of Administration, December 2009. Report available at: <http://www.metrocouncil.org/media/DemographicsDec09.pdf>
- ¹³ *Id.*, based on Percent of Population of color; Note: Population except white alone, not Hispanic, according to the 2006 Census Bureau estimate. Source: Minnesota Demographic Center.
- ¹⁴ According to MN Labor Force Projections for 2005-2035, Minnesota’s labor force will grow by 9.7% between 2005-2015. Minnesota Labor Force Projections 2005-2035, Minnesota State Demographic Center, by Martha McMurray of the State Demographic Center, available at <http://www.demography.state.mn.us/documents/MinnesotaLaborForceProjections20052035.pdf>.
- ¹⁵ *Minnesota Demographic Change and State Government Services*, Tom Gillaspay, State Demographer, MN Dept. of Administration, December 2009. Report available at: <http://www.metrocouncil.org/media/DemographicsDec09.pdf>
- ¹⁶ *Minnesota Demographic Change and State Government Services*, Tom Gillaspay, State Demographer, MN Dept. of Administration, December 2009. Report available at: <http://www.metrocouncil.org/media/DemographicsDec09.pdf>
- ¹⁷ *Minnesota and the New Normal*, MN Management & Budget, Tom Stinson, State Economist and Tom Gillaspay, State Demographer, September 2010.
- ¹⁸ *Id.*
- ¹⁹ MN Budget Trends Study Commission, Commission Report to the Legislature, January 12, 2009, available at <http://www.mmb.state.mn.us/doc/budget/trends/report-09.pdf>
- ²⁰ *Id.*
- ²¹ Minnesota Economic Forecast, MN Office of Management and Budget, July 2010; available at <http://www.mmb.state.mn.us/doc/fu/10/update-jul.pdf>
- ²² *Minnesota Demographic Change and State Government Services*, Tom Gillaspay, State Demographer, MN Dept. of Administration, December 2009 (citing the Budget Trends Commission, 2009). Report available at: <http://www.metrocouncil.org/media/DemographicsDec09.pdf>
- ²³ MN Office of Management & Budget, 2010-2011 Biennium State Budget; Minnesota County Budgets and Minnesota City Budgets, 2010 Summary Budget Data, Rebecca Otto, MN Office of the State Auditor.
- ²⁴ *Id.*

²⁵ 2010-2011 Biennium General Fund Pie Charts, End of 2010 Legislative Session, available at: <http://www.mmb.state.mn.us/doc/budget/report-pie/general-may10.pdf>.

²⁶ MN Budget Trends Study Commission, Commission Report to the Legislature, January 12, 2009, available at <http://www.mmb.state.mn.us/doc/budget/trends/report-09.pdf>

²⁷ *Minnesota Demographic Change and State Government Services*, Tom Gillaspay, State Demographer with the MN Dept. of Administration, December 2009 (Graph on page 13; Source: Agency for Healthcare Research and Quality, Medical Expenditure Panel Survey, data for per capita spending by age group in the Midwest, excludes spending for long-term care institutions. Report available at: <http://www.metrocouncil.org/media/DemographicsDec09.pdf>

²⁸ *Minnesota's Aging Population: Implications for Health Care costs and System Capacity*, Health Economics Program, MN Department of Health, August 2003.

²⁹ *Id.* See Graphs on pages 3 and 4 regarding U.S. Hospitalization Rates by Age and U.S. Physician Visit Rates by Age.

³⁰ MN Budget Trends Study Commission, Commission Report to the Legislature, January 12, 2009, available at <http://www.mmb.state.mn.us/doc/budget/trends/report-09.pdf>

³¹ *Id.*

³² *Id.*

³³ *Id.* It should be noted that some state spending is statutorily and/or constitutionally required. The Commission understands these spending requirements would have to be met, despite growing health care and K12 expenditures. The example is shared in order provide context – illustrating the trends, pace and size of the fiscal challenges facing the state.

³⁴ *Minnesota and the New Normal*, MN Management & Budget, Tom Stinson, State Economist and Tom Gillaspay, State Demographer, September 2010.

³⁵ *Id.*

³⁶ *Id.*

³⁷

³⁸ Michael Lipsky

³⁹ *Business Process Reengineering Assessment Guide*, Accounting and Information Management Division, United States General Accounting Office, Version 3, May 1997, available at <http://www.gao.gov/special.pubs/bprag/bprag.pdf>.

⁴⁰ *Id.*

⁴¹ *Id.*

⁴² David Osborne describes the difference between steering and rowing as follows: "Steering--setting policy and direction--focuses on doing the right things. Rowing--service delivery and compliance operations--focuses on doing things right. Housed in separate organizations, each can concentrate on its mission.

Steering well is almost impossible if an organization's leaders also have to focus on rowing. Peter Drucker captured this point emphatically 35 years ago, in his book *The Age of Discontinuity*:

Any attempt to combine governing with "doing" on a large scale paralyzes the decision-making capacity. Any attempt to have decision-making organs actually "do," also means very poor "doing." They are not focused on "doing." They are not equipped for it. They are not fundamentally concerned with it.

Once the steering function has been separated out, it can be consolidated to assure that policy is integrated and mutually reinforcing across a government. To use the homeland security example, Congress should have created a relatively small department whose mission was to steer, but kept operational agencies like FEMA independent. The department would set outcome goals and policies, develop strategies and budgets for the operational agencies, develop performance agreements with agencies defining the results they would be expected to produce, evaluate their performance, and hold them accountable. It would continually shift resources away from low-yield strategies and agencies to high-yield strategies and agencies.

This approach may sound radical, but it is common in other countries, from Sweden to New Zealand. It has many advantages. It keeps policy makers from getting sucked into the minutiae of operations. It minimizes the kind of micromanagement that is habitual in large, hierarchical organizations. It makes

accountability for performance stronger, because the steering organization can shift resources from ineffective operations to high performers. And it gives policy leaders much more flexibility to change strategies and funding levels, but gives operational managers much more flexibility to manage their agencies.

Consolidating steering and funding but not rowing creates a fundamental—radical—shift in governance. It gives leaders the power to steer more effectively while forcing service providers and compliance agencies to continually improve their efficiency and effectiveness.”

“Many models already exist for this fundamental shift. One of the first was created 60 years ago, in Pinellas County, Florida, which comprises the area around Tampa and Saint Petersburg. In 1944, Judge Lincoln C. Bogue of the Pinellas County Juvenile Court confronted a growing problem: children who clearly needed help, showing up in his courtroom time and time again.

... Seeking a solution ...the judge drafted a state law authorizing the formation of “an autonomous board of citizens,” with taxing authority, to look after child welfare. Known as the Juvenile Welfare Board, it was, according to its current leaders, “the nation’s first countywide agency utilizing dedicated property tax revenue to better the lives of children and families.”

The Juvenile Welfare Board has 11 members: the superintendent of schools, one county commissioner, one public defender, one state attorney, one juvenile court judge, and six members appointed by the governor. It spends about \$46 million a year, mostly from a dedicated property tax voted by the citizens, to improve outcomes for children. Its staff and board identify needs, prioritize them, and develop a budget for each one. The organization does no rowing itself. Instead, it finds the best providers to meet each need, funds them, and measures their success and the county’s success in addressing the needs. It funds almost 60 different providers, focusing as much as possible on prevention: neighborhood family centers and teen centers, counseling, domestic violence shelters, residential treatment services, after-school activities, child-care centers, home monitoring, recruitment and training of substitute child-care workers, and a 24-hour resource and referral service.

... “What makes it unique is it has a measurable objective component that can be tailored to each program,” long-time JWB executive director James E. Mills told us. “This can be negotiated in the contract. That system has been picked up, and we ended up in the hosting business.”

Performance measurement leads to consequences: The best providers grow and the worst lose funding. “Last spring [2003] the board defunded 16 programs,” Mills explains. “We cleaned out some marginal performers and some duplication of effort. I think we went from about 80 to 60.” Eliminating contracts allows the board to expand high-performing programs and strategies and add new providers.”