

Organization, Staffing, and Funding

SUMMARY

The Minnesota Pollution Control Agency's (MPCA) costs per employee grew faster than its overall operating costs in recent years. Partly because of this, the agency proposed staffing reductions that will soon bring MPCA's total staffing level to its lowest point in a decade. Meanwhile, MPCA is trying to correct problems that resulted from a major reorganization in 1998, and the agency received legislative authorization in 2001 to internally reallocate staff resources toward programs of greater priority. MPCA relies less on the state General Fund to pay for its staff than do most state agencies, reflecting increased reliance on pollution-based fees and taxes. Compared with other agencies, MPCA's management and supervisory staffing levels appear to be reasonable.

In 1967, the Legislature created the Minnesota Pollution Control Agency (MPCA) “to meet the variety and complexity of problems relating to water, air and land pollution in the areas of the state affected thereby, and to achieve a reasonable degree of purity of water, air, and land resources of the state.”¹ The agency’s budget and staff size have grown considerably since its creation, as have its responsibilities.

In this chapter, we address the following questions:

- **How is MPCA organized? What were the main elements of MPCA’s 1998 reorganization? What necessitated MPCA’s organizational “course correction” in 2001?**
- **How are MPCA’s programs staffed and funded? What changes occurred as a result of the 2001 legislative session?**
- **Have MPCA’s budget increases kept up with rising staff costs?**
- **Does MPCA have an appropriate number of managers and supervisors?**

GOVERNANCE

State law defines the MPCA as a nine-member board, but it is also an organization of more than 700 employees. The board consists of a commissioner—who is the administrative head of the agency—and eight members appointed by the

¹ *Minn. Stat.* (2000), §116.01.

MPCA has a nine-member citizen's board and more than 700 employees.

Governor. By law, the commissioner serves as chair of the board. The law includes some restrictions regarding board appointments. For example, one member must be a representative of organized labor, and another must be knowledgeable about agriculture. No board members other than the commissioner may be state or federal government employees, and up to two members may be local government officials. The law requires the board to be “broadly representative of the skills and experience necessary” to carry out the agency’s statutory responsibilities.² Appendix A lists the present members of the MPCA Board.

The MPCA Board has authority to adopt agency rules and act on requests for variances from certain rules.³ Also, if requested by at least one of its members, the board is required by law to make final decisions on (1) the need for environmental assessment worksheets and environmental impact statements,⁴ (2) issuance, reissuance, modification, or revocation of pollution-related permits, and (3) variances from MPCA rules. In addition, any person can ask the commissioner to have the board make a final decision on these or other matters, and the commissioner may grant or deny the petition.⁵ The board also determines the scope and adequacy of environmental impact statements. Usually, the board addresses issues by acting on specific cases. It has played a more limited role in developing agency-wide policies and budgets and in reviewing agency performance.⁶

For decisions that do not require action of the entire board, state law authorizes the commissioner to act on the board’s behalf. The law requires the commissioner to “organize the agency” and hire staff needed to fulfill the agency’s duties.⁷

KEY ORGANIZATIONAL CHANGES

For many years, MPCA staff were organized into divisions related to specific areas of regulatory authority—water quality, air quality, solid waste, and hazardous waste. But, in the mid-1990s, MPCA began emphasizing a “multi-media” approach. This approach recognized that pollution from one medium (such as emissions of mercury into the air) may significantly contribute

² *Minn. Stat.* (2000), §116.02, subd. 1 and 3.

³ The board must act on requests for variances from agency rules (1) that would change an air, soil, or water quality standard, or (2) when the commissioner has determined that granting the variance would have a “significant environmental impact” (*ibid.*, subd. 6.). The board must also act on permit applications with requests for variances or contested case hearings.

⁴ An environmental assessment worksheet sets forth facts necessary to determine whether an environmental impact statement is required for a proposed action. An environmental impact statement discusses the impact of a proposed action that has the potential for significant environmental effects.

⁵ *Minn. Stat.* (2000), §116.02, subd. 8. The board can make final decisions on “any other action not specifically within the authority of the commissioner.” If the commissioner denies a petition for a board decision, the commissioner must advise the board and petitioner of the reasons for denial.

⁶ Office of the Legislative Auditor, *Pollution Control Agency* (St. Paul, January 1991) recommended that the board focus more on overall policy and evaluation of agency effectiveness. Although the board sometimes develops overall policy (such as the agency’s policy on phosphorus control), it still addresses most issues on a case-by-case basis.

⁷ *Minn. Stat.* (2000), §116.03, subd. 2.



Air pollution can contribute to water and land pollution. Such “multi-media” impacts are one reason that MPCA changed its organizational structure in 1998.

to pollution in another medium (such as mercury in lakes and rivers). Also, many facilities have permits in more than one medium, and MPCA thought that a more integrated approach to permitting, compliance monitoring, assistance, and enforcement would make the agency more efficient and effective.

In addition, beginning in the early 1990s, MPCA moved some staff from its central office in St. Paul to its regional offices. In 1990, fewer than 10 percent of the agency’s staff were based in locations other than St. Paul, and staff often had to travel considerable distances to inspect facilities or provide on-site assistance. In January 2001, 21 percent of MPCA staff were located in regional offices outside of St. Paul. As shown in Figure 1.1, the percentage of outstate staff ranged from 8 percent for “non-media” staff (that is, staff whose work does not specialize in one medium) to 34 percent for water quality staff.

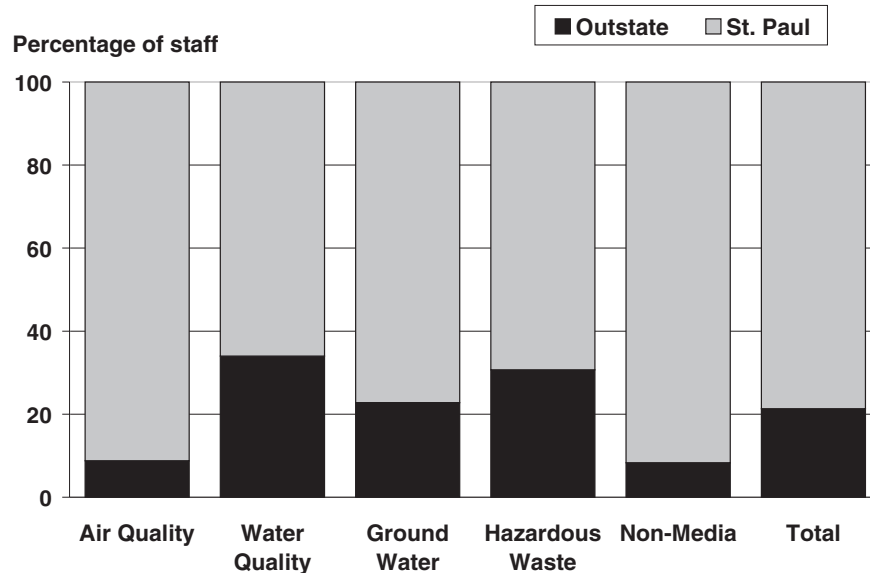
In the 1990s, MPCA shifted some staff to regional offices and implemented a major reorganization.

In 1996, MPCA began a strategic planning process that culminated in “GOAL 21”—a set of four strategies to guide the agency into the 21st century. Specifically, MPCA wanted to (1) identify common goals of the agency and its “customers,” (2) measure environmental outcomes (and spend resources to achieve the best results), (3) form alliances with a broad range of interested parties, and (4) become a “learning organization” that would embrace new ideas and changes.

In 1998, MPCA implemented a new organizational structure that eliminated the agency’s media-based divisions. Three of the new divisions (Metro District, North District, and South District) grouped regulatory and cleanup staff by their locations, and three divisions (Policy and Planning, Environmental Outcomes, and Fiscal Services) provided services to staff throughout the agency, such as ambient environmental monitoring, information systems, rule development, budgeting, and accounting. According to MPCA officials, the 1998 changes were also intended

Figure 1.1: Location of MPCA Staff, By Media, January 2001

Currently, one-fifth of MPCA's staff are based outside the Twin Cities area.



SOURCE: Office of the Legislative Auditor analysis of MPCA data.

to make the agency more “customer-focused,” help it make more decisions based on overall environmental risks, and give more attention to “nonpoint” pollution sources (such as agricultural runoff and vehicle emissions).

While the 1998 changes may prove beneficial in the long term,

- **The reorganization strained staff resources, left staff unclear about agency priorities and individual responsibilities, and became a focus of concern among the agency’s external constituents.**

For example:

- A March 2001 MPCA staff report on the agency’s regulation of “major” facilities concluded: “As an organization in whole, we do not have a shared understanding of how the agency was designed to work under the reorganization. ...We lack risk-taking and trust. ... We need a better defined set of priorities based on environmental risk. ...Our management and leadership need to be more effective in planning and making decisions. ...We don’t have an overall compliance strategy for [major facilities]. ...Our geographic and multi-media approaches are not always working.” The report said that there is “unclear direction to staff on work efforts and an inability to focus scarce resources on the most important work.”⁸

⁸ MPCA Majors Design Team, *Majors Design Team Final Report* (St. Paul, March 1, 2001), 7, 13-15.

The 1998 reorganization did not adequately clarify agency priorities and lines of accountability.

- A February 2001 MPCA staff report on ways to redesign program delivery concluded: “The Agency has not had a well-defined process to determine what environmental work will be worked on given the finite resources available. ...[MPCA] water programs operate as a loose affiliation of activities rather than an integrated and interactive set of actions focused on a well-defined common goal. ...The Agency lacks clear, overarching priorities and a sustained focus on environmental outcomes using risk-based approaches. ...The Agency has failed to consistently identify what is ‘off the plate’ and focus limited resources on the most important problems/issues impacting the environment. ...The Agency has not had or clearly communicated a clear vision and this lack of vision has created confusion for Agency staff. ...There is a lack of a common and shared understanding by leadership and staff of what GOAL 21 really was about and how it was supposed to be implemented.”⁹
- In 2000, MPCA management initiated a “climate study” that used interviews and focus groups to identify the perceptions of more than 10 percent of MPCA’s staff. Themes that emerged from this study included the following: “The agency lacks a shared sense of direction from its leaders, even with all the visioning and planning that continue to consume resources. There’s a lack of shared values, commitments and priorities around how to protect the environment. ...Decisions don’t get made in a timely manner (or at all) due to unclear lines of authority, analysis paralysis, and uncertainty about how the agency design is supposed to work.” Staff also expressed concerns about low morale, staff turnover, and internal communication.¹⁰
- During 2001, MPCA management summarized key concerns expressed by employees and agency “stakeholders,” including the following: “We haven’t been clear about priorities, so we try to do everything. ...Core programs are not adequately covered and our lack of a media focus is causing program delivery to suffer. The complexity of the organization has resulted in lack of or long, drawn out processes for decision making... [and] unclear roles and responsibilities for various teams.”¹¹
- Numerous people outside MPCA—including federal officials and representatives of environmental groups, business groups, and local governments—told us during 2001 that it was difficult to identify which MPCA staff were accountable for decisions on particular issues.

In addition, the strategic planning and reorganization process was time-consuming for the agency. MPCA determined that GOAL 21 cost the agency about \$1.5 million during fiscal years 1996-98, but this did not include time spent by the

⁹ MPCA Program Delivery Design Team, *Phase 1 Final Report* (St. Paul, February 26, 2001), 10-12.

¹⁰ MPCA, *Employee Climate Study and Management Response* (St. Paul, March 2001), 2-4. Of the staff who participated in the climate study, 50 percent said they felt positive about working at MPCA, 20 percent said they felt negative, and 30 percent described their feelings as “neutral.”

¹¹ MPCA, *Course Correction Update* (St. Paul, undated), 3.

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organizational
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2001.**

agency's "executive team."¹² One participant told us that many of MPCA's top managers spent several days a week on reorganization activities over a period of months and even years, which significantly reduced the time they had for their other management responsibilities. Some agency officials told us that these activities were very time-consuming because MPCA had never before reviewed its structure and strategic direction in a comprehensive way.

After soliciting input from employees and others, MPCA management acknowledged the need for organizational changes. In March 2001, management proposed a "course correction," citing a need for a shared vision, clearer priorities, greater operating efficiency and effectiveness, better decision making, improved internal communication, and more focus on employee concerns.¹³ The proposed changes were to take place over an 18-month period. In October 2001, MPCA identified a set of environmental goals and objectives for the next five to ten years, which was part of the agency's effort to establish a "shared vision."¹⁴

In November 2001, MPCA implemented a new organizational structure, shown in Figure 1.2.¹⁵ Agency officials told us that placing all of the regional offices under the direction of the Regional Environmental Management Division will contribute to greater consistency and clearer lines of accountability. Also, MPCA officials believe that having separate divisions for small, dispersed sources of pollution (in the Regional Environmental Management Division) and large facilities (in the Major Facilities and Remediation Division) will promote innovative approaches to addressing each.

MPCA officials told us that they undertook the 1998 reorganization with the expectation that some of its components would need review and revision later. They said that MPCA faces challenges similar to those of environmental agencies in other states, and they believe that the direction of the 1998 reorganization and 2001 course correction are consistent with innovative environmental practices that have been highlighted elsewhere.¹⁶ We did not evaluate whether MPCA's organizational changes were the right ones for the long-term health of the agency. Whatever the long-term value of these changes, however, the reorganization resulted in considerable short-term disruption and confusion. Furthermore, as we

¹² These were the cumulative costs as of February 1998. Since fiscal year 1998, staff have not tracked time or expenditures devoted to GOAL 21 or agency reorganization.

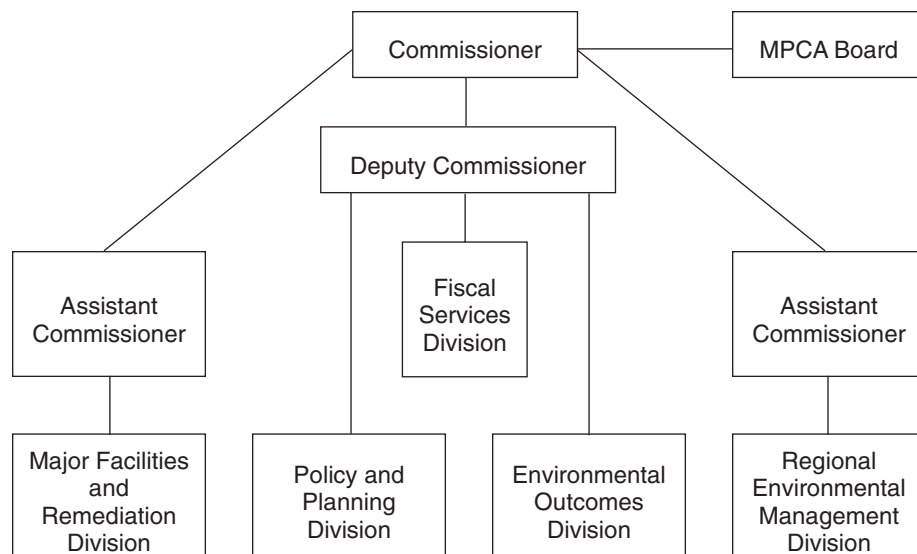
¹³ MPCA, *Course Correction Update*.

¹⁴ MPCA, *Establishing a Shared Vision: MPCA's Environmental Goals and Objectives* (St. Paul, October 2001).

¹⁵ The Major Facilities and Remediation Division oversees larger, more complex facilities and various pollution cleanup programs. The Regional Environmental Management Division works on issues related to smaller, more dispersed pollution sources (including point, nonpoint, and mobile sources). The Policy and Planning Division develops strategies and programs to address various environmental problems, and it is smaller than it was in the previous organization. The Environmental Outcomes Division monitors environmental conditions, helps to establish environmental standards and goals, and measures progress toward those goals.

¹⁶ For instance, MPCA officials think that their changes are consistent with those recommended by the National Academy of Public Administration in two recent reports: *Resolving the Paradox of Environmental Protection: An Agenda for Congress, EPA, and the States* (Washington, D.C., September 1997) and *Environment.gov: Transforming Environmental Protection for the 21st Century* (Washington, D.C., November 2000).

Figure 1.2: MPCA Organization, Effective November 2001



SOURCE: MPCA.

discuss in a separate report, the reorganization has sometimes impeded the agency's progress toward important objectives, such as reduction of the water quality permit backlog.¹⁷

STAFFING AND FUNDING

MPCA's staff size has grown as the agency has received additional responsibilities. For instance, a significant portion of MPCA's staff in recent years have worked on federal and state pollution "remediation" programs that did not exist when the agency was created—such as clean-up of Superfund sites and leaking storage tanks. MPCA's total staff size grew from 35 employees at its inception in 1967 to about 800 in the mid-1990s.

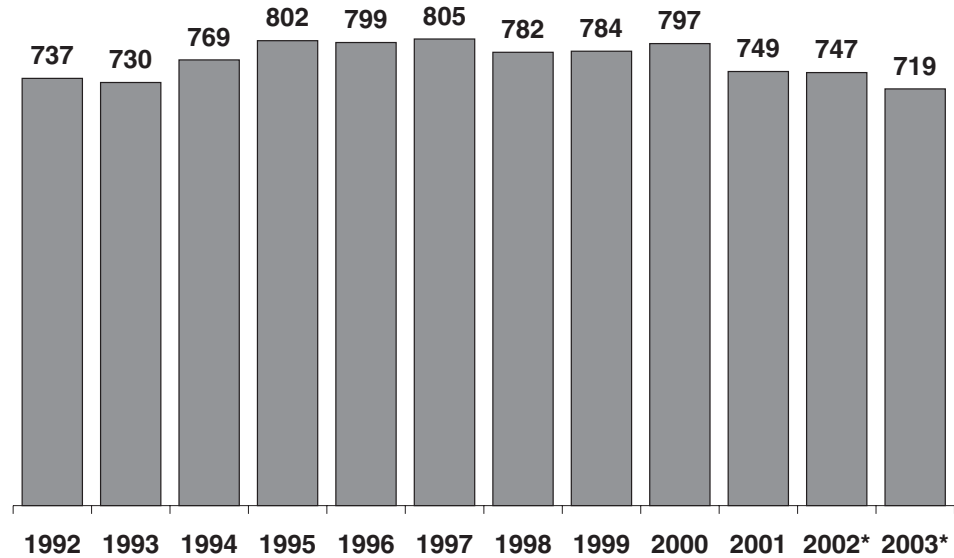
Between fiscal years 1995 and 2000, however, staffing levels changed little (see Figure 1.3). Staffing declined in fiscal year 2001 as the agency stopped filling vacancies in anticipation of a staff reduction during the 2002-03 biennium. As a result of budget decisions for fiscal years 2002-03,

- **MPCA projects that its staffing level in 2003 will be at a 10-year low.**

¹⁷ Office of the Legislative Auditor, *Water Quality: Permitting and Compliance Monitoring* (St. Paul, January 2002).

Figure 1.3: MPCA Full-Time-Equivalent Staff, FY 1992-2003

MPCA reached its peak staffing level in 1997.



*Projected FTE.

SOURCE: MPCA.

By the end of fiscal year 2003, MPCA estimates that it will have 11 percent fewer staff than it had in its peak year (1997), and 2 percent fewer staff than it had in fiscal year 1993.

Table 1.1 shows that MPCA's total expenditures increased from 1992 to 2001, but not always in a steady manner. A key reason for fluctuation in MPCA's overall spending level is variability in spending for (1) clean-up activities, and (2) "pass-through" grants that MPCA makes to local governments and others. For instance, clean-up at a single Twin Cities area site accounted for \$11 million of budgeted expenditures in fiscal year 2001. Because of the uneven spending patterns for activities related to clean-ups and grants, we focused more of our analysis on MPCA's staffing (and staff-related expenditures).

Figure 1.4 shows MPCA staff assignments, as of January 2001.¹⁸ It indicates that:

- **Three-fourths of MPCA staff were assigned to one of four media areas: water quality, air quality, ground water, and hazardous waste.**

About 28 percent of agency staff worked on issues related to water quality, making it the largest of the media areas. (The term "water quality," as used in this report and by MPCA, refers to surface water rather than ground water.) MPCA's

¹⁸ Much of our analysis of staff-related assignments and funding sources was based on data from MPCA's most recent "work survey"—a survey of the agency's managers and supervisors regarding the activities of their staff. The estimates from this survey provide more detail regarding MPCA work activities than the agency's time reporting system. MPCA did its first work survey in 2000, so it is not possible to reliably compare recent staffing patterns with earlier periods. MPCA implemented a new time reporting system in January 2002.

Table 1.1: MPCA Total Expenditures, FY 1992-2001

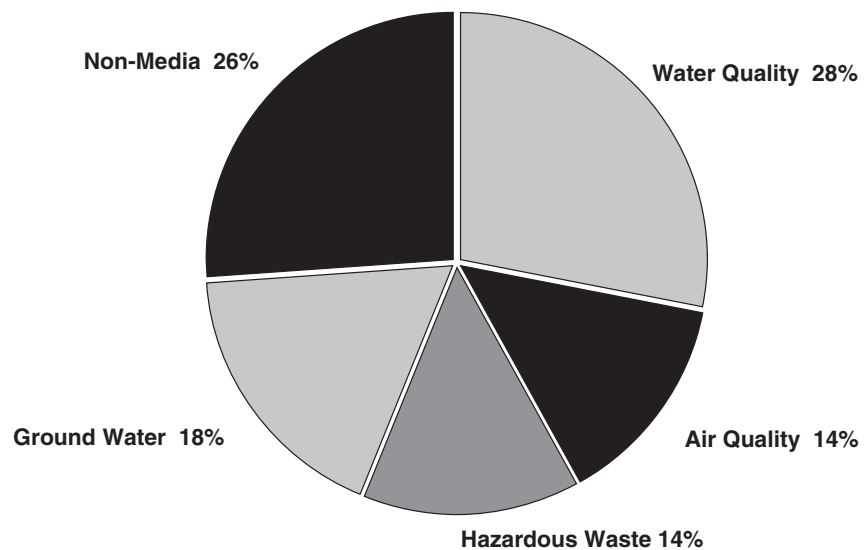
| | Fiscal Year | Expenditures (in millions) | |
|---|-------------|----------------------------|--------------------|
| | | Actual | Inflation-Adjusted |
| Adjusted for inflation, MPCA's spending grew during the past decade. | 1992 | \$66.4 | \$ 84.1 |
| | 1993 | 68.7 | 84.4 |
| | 1994 | 69.0 | 82.6 |
| | 1995 | 71.4 | 83.1 |
| | 1996 | 76.0 | 86.1 |
| | 1997 | 78.5 | 86.5 |
| | 1998 | 84.0 | 91.0 |
| | 1999 | 86.9 | 92.5 |
| | 2000 | 88.9 | 91.9 |
| | 2001 | 95.8 ^a | 95.8 ^a |

NOTE: The inflation-adjusted column shows expenditures in 2001 dollars, adjusted using the CPI-U indices of the U.S. Bureau of Labor Statistics.

^aIncludes actual expenditures and certified encumbrances.

SOURCE: Office of the Legislative Auditor analysis of MPCA data.

Figure 1.4: Percentage of MPCA Staff Assigned to Various Media, January 2001



SOURCE: Office of the Legislative Auditor analysis of MPCA data.

non-media staff accounted for 26 percent of all staff, and they included the agency's administrative, clerical, fiscal, human resources, information systems, public information, and planning staff who were not assigned to a particular media area. Table 1.2 provides further detail regarding staff assignments, showing the number of MPCA full-time-equivalent staff assigned to various work programs as of early 2001. These staff assignments do not reflect changes that resulted from the 2001 legislative session.

Table 1.2: MPCA Staff FTE by Media and Work Program, January 2001

| MPCA Work Program | Air Quality | Ground Water | Hazardous Waste | Water Quality | Non-Media | Totals |
|---|--------------|--------------|-----------------|---------------|--------------|--------------|
| Ambient Air Quality | 19.4 | | | | | 19.4 |
| Mobile/Non-Point Source | 11.1 | | | | | 11.1 |
| Point/Area Source | 71.6 | | | | | 71.6 |
| Ambient Ground Water | | 9.0 | | | | 9.0 |
| Closed Landfills | | 20.9 | | | | 20.9 |
| Listed Metals | | 0.7 | | | | 0.7 |
| Salvage Yards | | 3.2 | | | | 3.2 |
| Solid Waste | | 32.1 | | | | 32.1 |
| Superfund | | 38.2 | | | | 38.2 |
| Waste Tires | | 0.5 | | | | 0.5 |
| Solid Waste Certification/Training | | 1.5 | | | | 1.5 |
| Voluntary Investigation and Cleanup | | 21.2 | | | | 21.2 |
| Wellhead Protection | | 1.1 | | | | 1.1 |
| Above-ground Storage Tanks | | | 13.3 | | | 13.3 |
| Emergency Response | | | 11.0 | 0.4 | | 11.4 |
| Household Waste | | | 3.2 | | | 3.2 |
| Leaking Underground Storage Tanks | | | 28.5 | | | 28.5 |
| Pollution Prevention—Development | | | 0.9 | | 0.8 | 1.7 |
| Resource Conservation and Recovery Act | | | 34.7 | | | 34.7 |
| Special Waste | | | 1.7 | | | 1.7 |
| Toxic Substances Control Act/PCBs | | | 1.0 | | | 1.0 |
| Used Oil | | | 0.2 | | | 0.2 |
| Underground Storage Tanks | | | 9.8 | | | 9.8 |
| Voluntary Petroleum Investigation and Cleanup | | | 3.2 | | | 3.2 |
| Biocriteria Development | | | | 6.8 | | 6.8 |
| Clean Water Partnership | | | | 11.9 | 0.2 | 12.1 |
| Feedlots | | | | 24.8 | | 24.8 |
| Malformed Frogs | | | | 0.2 | | 0.2 |
| Individual Sewer Treatment Systems | | | | 7.4 | | 7.4 |
| Lake Assessment | | | | 7.2 | 0.2 | 7.3 |
| Minnesota River | | | | 3.1 | | 3.1 |
| Nonpoint Source Pollution—Other | | | | 16.2 | | 16.2 |
| Point Source | | | | 65.9 | | 65.9 |
| Sludge/Biosolids | | | | 4.2 | | 4.2 |
| Source Water Protection | | | | 0.2 | | 0.2 |
| State Revolving Fund (construction loans) | | | | 2.2 | | 2.2 |
| Stormwater | | | | 10.1 | 0.3 | 10.4 |
| Total Maximum Daily Loads | | | | 6.9 | 0.1 | 6.9 |
| Watershed/Basin | | | | 25.4 | 0.7 | 26.1 |
| Wetland | | | | 2.2 | | 2.2 |
| Wastewater Treatment Operators | | | | 4.9 | | 4.9 |
| Environmental Review | 2.7 | 1.6 | 0.3 | 4.3 | 1.0 | 9.9 |
| Leadership | 1.3 | 0.3 | 0.3 | 1.3 | 52.8 | 55.8 |
| Support | 2.6 | 4.1 | 2.9 | 5.1 | 144.4 | 159.1 |
| TOTALS | 108.6 | 134.1 | 110.8 | 210.5 | 200.2 | 764.1 |

SOURCE: Office of the Legislative Auditor analysis of data from MPCA's work survey.

MPCA operates a variety of programs to address air, water, and land pollution.

Another way to view MPCA’s staffing is to look at the broad categories of activities on which MPCA employees spend time. Table 1.3 shows the proportion of MPCA staff assigned to various “core activities,” as defined by MPCA. For instance, as of early 2001, almost 5 percent of MPCA staff were assigned to enforcement-related activities.

Table 1.3: MPCA Staff by Core Activity, January 2001

| Core Activity | Number of FTE | Percentage of FTE |
|-----------------------------|---------------|-------------------|
| Assistance | 111.4 | 14.6% |
| Compliance Determination | 58.9 | 7.7 |
| Enforcement | 36.2 | 4.7 |
| Monitoring/Evaluation | 72.6 | 9.5 |
| Permitting | 85.9 | 11.2 |
| Policies and Rules | 51.3 | 6.7 |
| Program-Specific Activities | 34.6 | 4.5 |
| Remediation | 87.1 | 11.4 |
| Administration/Other | <u>226.0</u> | <u>29.6</u> |
| TOTALS | 764.1 | 100.0% |

SOURCE: Office of the Legislative Auditor analysis of data from MPCA’s work survey.

The proportions of MPCA’s budget paid for by federal funds and the state’s General Fund have declined significantly.

MPCA’s largest sources of funding are the state Environmental Fund and Solid Waste Fund (which consist of revenues from various environment-related fees and taxes), federal funds, and the state General Fund.¹⁹ The proportions of MPCA’s total budget paid for by federal funds and the General Fund have declined significantly. For example, federal funds and the General Fund each paid for 50 percent of MPCA’s budget in 1983. In the past three fiscal years, however, the federal portion of MPCA’s budget has ranged from 14 to 30 percent. In fiscal year 2001, the General Fund paid for 13 percent of the budget.

In addition, the General Fund paid for about 19 percent of MPCA’s *salary* costs in fiscal year 2001. Table 1.4 shows the percentage of fiscal year 2001 salary expenditures for various agencies that were paid from the General Fund, and it indicates that:

- **The percentage of MPCA’s staffing costs paid by the General Fund was lower than the percentage in most major state agencies.**

The only major agencies with percentages less than MPCA were the departments of Transportation (1 percent), Economic Security (4 percent), Labor and Industry (13 percent), and Health (18 percent). There are several reasons that agencies have varying levels of General Fund support. For example, a large portion of the Minnesota Department of Transportation’s revenue comes from sources dedicated to highway purposes—specifically, gasoline excise taxes and vehicle registration fees. The Department of Economic Security administers numerous federal

¹⁹ These four funding sources accounted for about 85 percent of MPCA’s budgeted revenues in fiscal year 2001. Other revenues came from the Petroleum Tank Release Clean-up Fund, the Special Revenue Fund, and miscellaneous funds (such as the Legislative Commission on Minnesota Resources).

Table 1.4: Percentage of Agency Salaries Paid for by the General Fund, FY 2001

| <u>Agency</u> | <u>Percentage</u> |
|----------------------------------|-------------------|
| Finance | 100.0% |
| Human Rights | 100.0 |
| Public Service | 100.0 |
| Veterans Affairs | 100.0 |
| Revenue | 93.5 |
| Corrections | 92.9 |
| Commerce | 89.5 |
| Human Services | 65.1 |
| Children, Families, and Learning | 54.5 |
| Employee Relations | 54.0 |
| Natural Resources | 51.7 |
| Agriculture | 47.0 |
| Military Affairs | 33.3 |
| Public Safety | 24.0 |
| Administration | 20.0 |
| POLLUTION CONTROL | 19.2 |
| Health | 18.2 |
| Labor and Industry | 12.6 |
| Economic Security | 4.0 |
| Transportation | 0.7 |

SOURCE: Office of the Legislative Auditor analysis of data from the Minnesota Accounting and Procurement System.

Policy makers have increasingly funded MPCA with pollution-based fees and taxes.

programs and receives most of its funds from the federal government. In MPCA's case, policy makers have increasingly funded the agency with pollution-based fees and taxes, thus shifting responsibility for more agency costs to the polluters whose actions make state regulation necessary. Agencies that pay for staff largely or solely from the state General Fund usually have little or no revenue from dedicated funds, federal funds, or fees related to the services they provide.

MPCA funding sources vary considerably by media, as shown in Table 1.5. As of January 2001, the state Environmental Fund paid for more than 70 percent of the staff positions related to MPCA's air quality activities. Most of MPCA's air quality staff were funded with annual emission fees charged to facilities with air quality permits. Federal funds paid for a larger share of the staff in hazardous waste (38 percent) than in any other media. The General Fund paid for 43 percent of water quality staff positions, compared with 9 percent of hazardous waste staff and 1 percent of the air quality and ground water staff.

Table 1.6 shows what types of staff were funded from MPCA's major sources of revenues. The water quality program accounted for 66 percent of MPCA's staff who were paid for from the General Fund and 31 percent of MPCA's federally funded positions. About 36 percent of MPCA's Environmental Fund revenues paid for air quality activities, while water quality, ground water, and hazardous waste activities each received 12 to 21 percent of the revenues from this fund.

In the Governor's budget proposal for the 2002-03 biennium, MPCA proposed a series of staff reallocations, reductions, and eliminations. These proposed

Table 1.5: Source of Funding for Staff Positions, by Media Area, January 2001

| Fund | Water Quality | Air Quality | Ground Water | Hazardous Waste | Non-Media |
|--------------------------------|---------------|-------------|--------------|-----------------|------------|
| Environmental | 22.3% | 73.1% | 28.3% | 23.0% | 15.7% |
| Federal | 28.0 | 24.1 | 18.3 | 37.5 | 20.8 |
| General | 43.1 | 1.2 | 1.1 | 9.3 | 16.5 |
| Miscellaneous Special | 1.5 | 1.2 | 3.5 | 2.0 | 36.7 |
| Petrofund | 0.1 | 0.1 | 0.1 | 28.0 | 0.5 |
| Public Facilities Authority | 4.4 | 0.1 | 0.1 | 0.0 | 0.0 |
| Solid Waste | 0.2 | 0.1 | 48.5 | 0.2 | 9.6 |
| State Government Miscellaneous | <u>0.4</u> | <u>0.0</u> | <u>0.0</u> | <u>0.0</u> | <u>0.0</u> |
| TOTALS | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |

NOTE: The percentages indicate the percentage of staff FTE in each media area that were paid for by the funds shown.

SOURCE: Office of the Legislative Auditor analysis of data from MPCA 's work survey.

Most of MPCA's General Fund revenues are spent on water quality activities.

Table 1.6: Percentage of MPCA Staff Financed by Selected Funds, by Media, January 2001

| Media | Environmental Fund | Federal Funds | State General Fund |
|-----------------|--------------------|---------------|--------------------|
| Water Quality | 21.2% | 30.6% | 66.2% |
| Air Quality | 35.8 | 13.6 | 1.0 |
| Ground Water | 17.1 | 12.7 | 1.1 |
| Hazardous Waste | 11.5 | 21.5 | 7.6 |
| Non-Media | <u>14.2</u> | <u>21.6</u> | <u>24.2</u> |
| TOTAL | 100.0% | 100.0% | 100.0% |

NOTE: The percentages indicate the percentage of staff FTE for a given funding source that were in each media area.

SOURCE: Office of the Legislative Auditor analysis of data from MPCA's work survey.

changes were designed to reduce the agency's staff by about 66 full-time-equivalent (FTE) and redirect resources from areas of lower priority to those of higher priority. The activities in which MPCA proposed reductions or eliminations were those that were "winding down, have succeeded in achieving substantial results already, or deal with problems that pose a lesser health or environmental threat to Minnesota communities than higher-priority problems."²⁰ Table 1.7 summarizes the changes proposed by the agency.

MPCA's staffing proposal was generally well received by the Legislature. The Legislature adopted most of the proposal, disagreeing with MPCA on its recommendation to use 1.5 FTE to continue collecting field data on malformed frogs and its recommendation to add 3.0 FTE in the air quality program to address mobile air pollution sources and air toxics. Also, the Legislature provided

²⁰ MPCA, *MPCA Staff and Environmental Work Reductions* (St. Paul, March 6, 2001), 1.

Table 1.7: MPCA Reallocations for 2002-03 Biennium, As Proposed by the Agency and Adopted by the Legislature

| <u>Appropriation Area</u> | <u>Net Change in FTE Proposed by MPCA</u> | <u>Net Change in FTE Adopted by Legislature</u> | <u>Programs in Which MPCA Proposed Reductions</u> | <u>Programs in Which MPCA Proposed Increases</u> |
|---------------------------|---|---|---|--|
| Air | -0.5 | -3.5 | Indirect source regulation, air point source regulation | Mobile sources/air toxics |
| Water ^a | 2.5 | 2.5 | Individual sewage treatment systems, sludge/biosolids, wetlands/dredging, sanitary district formation | Water quality point source, stormwater, watershed/basin planning |
| Land | -23.8 | -23.8 | Listed metals program, salvage yards/chlorofluorocarbons, toxic substances control act/PCBs, waste tires, wellhead protection, regulation of solid waste/tanks/hazardous waste, source water protection | |
| Integrated Environmental | -20.5 | -22.0 | Air quality monitoring, biocriteria development, ground water monitoring, remediation, emergency response | Malformed frogs data collection |
| Administration | -24.0 | -24.0 | Reduction in managers, supervisors and support staff | |
| TOTAL | -66.3 | -70.8 | | |

^aDoes not include the 9.0 FTE requested and approved for additional feedlot regulatory staff.

SOURCE: MPCA, *MPCA Staff and Environmental Work Reductions* (St. Paul, March 6, 2001).

additional funding for animal feedlot regulation using different sources of funding than those recommended by MPCA. Consequently, the Legislature did not reduce spending on Clean Water Partnership Grants by the amount proposed by MPCA (\$1.2 million).

MPCA's proposed the elimination of 11 small programs and reductions in 11 other programs. For instance, the agency proposed (and the Legislature accepted) the following:

- Reductions in MPCA land regulatory programs (from 94 FTE to 77). Land regulatory programs include those related to solid waste, above ground and underground storage tanks, and hazardous waste management. MPCA said that it would eliminate routine inspections at small facilities, reduce inspections at large facilities, respond only to high-risk complaints, curtail technical assistance, and rely more on counties.
- Reductions in MPCA remediation programs (from 89 FTE to 73). MPCA said that the reductions would reduce assessments at brownfields and other sites, delay reimbursement for underground storage tank cleanups, and reduce technical assistance for cleanup activities.
- Elimination of the salvage yards program (3 FTE), which provided technical assistance and training to help ensure that the state's 500 salvage yards complied with environmental requirements.

Many legislators, legislative staff, and representatives of interest groups told us that MPCA did a commendable job of identifying budget reduction options that would minimize environmental harm. On the other hand, interest groups expressed concern about some of the specific budget reduction proposals. For instance, some local government officials worried that reductions in MPCA's solid waste regulatory programs might increase workloads for their own staff.

INCREASES IN STAFF COSTS

As noted in the previous section, MPCA management proposed significant reductions in the agency's overall staffing level for the 2002-03 biennium. According to MPCA, "About half of this projected reduction is due to diminishing federal grants and declining fee revenues, and the other half is due to inflationary increases."²¹ MPCA said that operating expenses provided by the agency's largest federal grants had remained constant, while the salaries and benefits of federally-funded staff had grown. For state-funded staff, MPCA said that increases in its costs per employee were partially offset by legislative "salary supplements" intended to address certain cost-of-living salary increases.

We examined available information to see whether MPCA's claims about the impact of staffing costs could be confirmed. Our analysis focused on the agency's "operating" costs.²² Specifically, we excluded from our analysis items such as "pass-through" grants (that is, grants administered by MPCA but given to local governments or others) and the costs of cleaning up contaminated sites. These grant and remediation costs fluctuate considerably, potentially obscuring trends in the costs of day-to-day operations. Our analysis showed that:

²¹ MPCA, *MPCA Budget Overview: Legislative Fact Sheet* (St. Paul, January 22, 2001), 1.

²² MPCA staff were unable to provide us with data showing resources that MPCA received for operating purposes in recent years, so we focused our analysis on changes in the agency's operating expenditures.

- **MPCA’s staff-related costs per employee have increased above the general inflation rate and the agency’s operating expenditure increases. However, MPCA’s situation is not unique among state agencies.**

According to data from the state’s personnel information system, MPCA’s average salary and fringe benefit costs per full-time-equivalent (FTE) employee grew from \$46,626 in fiscal year 1996 to \$62,041 in 2001—a 33 percent increase.²³ Meanwhile, MPCA’s total operating expenditures (including personnel and non-personnel costs) increased by 20 percent between fiscal years 1996 and 2001. Because MPCA’s salary and benefit expenditures per FTE rose faster than overall operating expenditures, the agency needed to reduce staff or economize in other ways. As shown in Table 1.8, the size of MPCA’s staff declined by about 50 FTE, or 6 percent, between fiscal years 1996 and 2001.²⁴

Costs per employee rose faster in MPCA than in most other state agencies.

MPCA’s salary and benefit costs per FTE grew faster than the rate of inflation from 1996 to 2001, and this was also true of other Minnesota state agencies, on average. We determined that total salary and benefit costs per FTE among all Minnesota state agencies rose 25 percent between 1996 and 2001 (which was below MPCA’s 33 percent increase). By comparison, average salary and benefit costs for state and local governments across the nation rose 21 percent from June 1996 to June 2001, and average compensation costs for private industry grew 25 percent.²⁵ The national Consumer Price Index, which measures the prices paid by consumers for goods and services, rose 13 percent between fiscal years 1996 and 2001.

ERRATUM:

The figures cited in the text for national salary and benefit increases from June 1996 to June 2001 are incorrect. The increase for state and local governments was 16 percent (not 21 percent), and the increase for private industry was 20 percent (not 25 percent).

Table 1.8: Percentage Change in MPCA Expenditures, Employee Costs, and Staff, FY 1996-2001

| | <u>Percentage Change</u> |
|---|--------------------------|
| <u>Operating Expenditures</u> | |
| Salary and Benefits | 27% |
| Other Operating Expenditures | <u>9</u> |
| Total Operating Expenditures | 20% |
| <u>Salary and Benefit Expenditures per Employee</u> | |
| Salaries per Employee | 30% |
| Fringe Benefits per Employee | <u>48</u> |
| Total Salary and Benefits per Employee | 33% |
| <u>Staffing</u> | |
| Total Full-Time-Equivalent Staff | -6% |

SOURCE: Office of the Legislative Auditor analysis of data from Minnesota Accounting and Procurement System and statewide personnel database.

²³ Fringe benefit costs increased faster than salary costs (48 percent compared with 30 percent), but salary growth accounted for three-fourths of the overall increase in cost per FTE. MPCA’s insurance costs per employee rose 73 percent but accounted for only 16 percent of the overall increase.

²⁴ The ability of any individual agency to absorb such cost increases would depend partly on trends in its various sources of revenues. For instance, agencies with growing revenue sources may be able to handle large increases in costs per FTE more readily than those with declining revenue sources.

²⁵ U.S. Bureau of Labor Statistics, *Employment Cost Index Historical Listing*, <ftp://ftp.bls.gov/pub/suppl/ECHISTORY.TXT>; accessed 12/12/01.

A variety of factors contributed to MPCA's large increase in costs per employee.

Changes in salary and benefit costs can reflect a variety of factors, such as employee retirement and turnover rates, discretionary salary increases, and use of health care services by employees' family members. Part of MPCA's large increase in average costs per employee probably resulted from the agency's recent workforce reduction. During the past two years, for instance, MPCA has held many positions vacant and hired relatively few new staff. Meanwhile, MPCA's turnover rate was lower than the agency projected for fiscal year 2001. These factors contributed to an increase in the average years of state government employment among MPCA's staff.²⁶

In 2001, MPCA distributed information to legislators indicating that "the cost of a federally funded FTE has doubled since 1996."²⁷ This information was incorrect. MPCA data show that staffing costs per FTE for federal employees grew by 36 percent between fiscal years 1996 and 2001, and these costs are projected to increase another 10 percent between 2001 and 2003. Although these increases do not indicate that FTE costs "doubled," the percentage increase in costs per FTE was still well above the agency's 20 percent increase in overall operating expenditures.

MANAGEMENT AND SUPERVISORY STAFF

During the 2001 legislative session, some legislators questioned whether MPCA had too many managers and supervisors. Their concern resulted partly from MPCA's own classification of 30 percent of its staff into an "administrative" category, which we referenced earlier in this chapter.

We found that MPCA's administrative workforce is not primarily comprised of managers and supervisors. Rather, MPCA has categorized as administrative a wide range of support staff and other staff whose activities do not fit neatly into the agency's standard activity categories, such as permitting and enforcement. The largest portion of the administrative staff were employees who performed clerical and general support activities, as shown in Table 1.9. In addition, the administrative category included the agency's information systems, finance, personnel, and public information staff, as well as a variety of professional-level staff who worked on grants or special assignments.

Of the 226 staff categorized by MPCA as administrative in January 2001, about one-fourth were managers and supervisors. However, MPCA has other supervisors and managers besides those categorized by the agency as administrative. For instance, MPCA categorizes some enforcement supervisors as enforcement staff—not administrative staff—in the agency's internal analyses of staff assignments.

²⁶ MPCA's salary and benefit costs per FTE grew faster in fiscal year 2001 (about 10 percent) than in any of the other years in the 1996-2001 period. One reason may have been a change in the fiscal year 2000-2001 contract for professional employees. A majority of MPCA's employees are in the Minnesota Association of Professional Employees, and a change in this bargaining unit's salary range midpoints made more employees eligible for salary "step increases."

²⁷ MPCA, *MPCA Budget Overview: Legislative Fact Sheet* (St. Paul, January 22, 2001), 2.

Table 1.9: Types of Staff Characterized as “Administrative” by MPCA, January 2001

| Type of Staff | Number of FTE | Percentage of MPCA's "Administrative" FTE |
|---|---------------|---|
| Directors, managers, and supervisors | 57.6 | 25% |
| Staff who are not managers or supervisors: | | |
| Clerical and general support staff | 64.9 | 29% |
| Information systems | 34.6 | 15 |
| Finance and accounting | 11.0 | 5 |
| Human resources | 10.0 | 4 |
| Public information, graphic arts | 9.3 | 4 |
| Management analysts | 9.0 | 4 |
| Grants specialist coordinators | 8.8 | 4 |
| Pollution control specialists, hydrologists | 8.8 | 4 |
| Planners | 4.1 | 2 |
| Library/information services | 2.0 | 1 |
| Customer services specialists | 2.0 | 1 |
| Other | 4.0 | 2 |
| TOTALS | 226.0 | 100% |

SOURCE: Office of the Legislative Auditor analysis of data from MPCA's work survey.

To better assess the full number of MPCA managers and supervisors, we reviewed information that the Minnesota Department of Employee Relations (DOER) periodically collects from all state agencies. As of September 2001, DOER reported that MPCA had a total of 96 managers and supervisors. According to DOER's data,

- **MPCA's percentage of staff who are managers or supervisors is roughly equal to the median of other large state agencies.**

Table 1.10 shows that 12.9 percent of MPCA's staff in September 2001 were managers and supervisors. By comparison, the median for 23 other state agencies with more than 100 employees was 13.2 percent. Two other large agencies in the environment and natural resources area—the departments of Agriculture and

MPCA appears to have a reasonable proportion of managers and supervisors.

Table 1.10: Manager and Supervisor Staffing Levels, Selected Agencies, September 2001

| Job Classification: | Percentage of Total Staff for: | | | Median of 23 State Agencies With 100 or More Employees |
|---------------------|--------------------------------|---------------------------|---------------------------------|--|
| | MPCA | Department of Agriculture | Department of Natural Resources | |
| Managers | 4.8% | 5.2% | 3.5% | 5.1% |
| Supervisors | 8.0 | 8.9 | 10.6 | 8.0 |
| TOTAL | 12.9% | 14.1% | 14.1% | 13.2% |

NOTE: The percentages are based on head counts of employees, not FTEs, as of September 6, 2001.

SOURCE: Office of the Legislative Auditor analysis of data from the Department of Employee Relations.

Natural Resources—each had 14.1 percent of their staff in management or supervisory positions. Agencies such as the departments of Human Services, Transportation, and Corrections have lower percentages of managers and supervisors than MPCA and many other state agencies, perhaps because they have large numbers of staff who perform similar types of functions (such as human services technicians, highway maintenance workers, and prison guards). In contrast, some agencies likely require higher levels of supervision, including agencies such as MPCA whose staff exercise considerable professional discretion and have much variability in their daily job tasks.

We did not evaluate the duties and performance of all of MPCA's administrative staff, so we offer no judgment about whether the agency could further reduce these positions. As part of the agency's staffing reductions for the 2002-03 biennium, MPCA will eliminate 24 administrative positions, including 12 program managers and supervisors. Based on the comparative data cited above, however, we do not think that MPCA has an excessive number of supervisors and managers for an agency of its size and diverse responsibilities.