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The Ladd Report a decade later

Reexamining the 1991 study in a new light

by Jeff Van Wychen

In March 1991, Professors Helen Ladd, Andrew Reschovsky, and John Yinger released a report entitled *Measuring the Fiscal Condition of Minnesota Cities*. This report—known as the Ladd report—sparked a debate over local government aid (LGA) that continues to this day.

The Ladd report made several contributions to the LGA debate in Minnesota:

- ▲ The report articulated a clear and defensible rationale for distributing state aid to cities. According to the report, aid should be distributed to cities based upon “the gap between [a city’s] expenditure need and its revenue raising capacity.”
- ▲ The report defined “city expenditure need” as “how much a city would have to spend to provide average quality public services.” The focus on average quality services was more practical and equitable than earlier concepts that had been applied to expenditure need, such as “essential services” or “minimum services.”
- ▲ The report introduced to the LGA debate statistical tools that were useful in quantifying the relationship between (1) the demographic characteristics of a city and (2) its expenditure need.

However, the conclusions of the Ladd report were controversial from the outset. The centerpiece of the Ladd report was a formula that attempted to measure city expenditure need. According to Professor Ladd and her colleagues, the actual spending of Minnesota cities correlated poorly with the expenditure need amounts calculated using this formula. Furthermore, the actual distribution of LGA to cities correlated

poorly with the distribution recommended in the Ladd report.

In the December 17, 2002 issue of the *Minnesota Journal*, former Citizens League President Lyle Wray repeats an argument that has been heard for over a decade: the state should reform the LGA program based on the recommendations of the Ladd report. Critics of the Ladd report argue that it should not be the basis of LGA reform due to what they consider to be flaws in the report’s measurement of city expenditure need.

To date, there has been no satisfactory resolution to this debate. Part of the problem lies in the fact that participants in the debate do not agree on the criteria by which city spending and the LGA distribution should be judged.

However, both sides in the debate should agree on one thing: any measure of city expenditure need should be able to demonstrate internal consistency. In other words, the measurement of need should be relatively free of internal contradictions that indicate flaws. The challenge then becomes to find ways in which the internal consistency of the expenditure need formula can be determined.

Common sense would indicate that crime, poverty, and the age of a city’s infrastructure and housing stock should be among the major factors that drive the need for city spending. This being the case, most students of municipal finance would accept the following premise: cities with high crime, high poverty, and aging housing and infrastructure should have a higher expenditure need per capita than cities with low crime, low poverty, and newer housing and infrastructure, all other things being equal.

Consider a comparison between Duluth and the following Minnesota cities: Afton, Apple

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Standing at the crossroads: Minnesota Miracle or Minnesota Mistake?

by Senator Mee Moua

Minnesota is at a crossroads. The lack of resources to take care of the people of the state has put policy leaders, community activists and citizens on high alert. We face a budget crisis like no other, and the quality of life as we know it is in jeopardy.

Minnesotans have a tradition of going out of their way to care for each other. We take pride in helping the sick, the down-trodden, children and seniors.

Unfortunately, legislators and citizens have been asked to look at all of the wonderful services we take for granted and choose which ones to cut and who to leave out in the cold. Helping everyone, as we have done for decades—and the reason Minnesota has such a high quality of life—is off the table. We simply don't have enough money.

Yet, we have always strived to take care of our citizens by offering quality public education to everyone and by caring for the sick, the elderly and the needy.

Minnesota has taken these responsibilities seriously. In the past several years the state has spent more than a third of its budget on local schools and more than 16 percent on health and human services.

And it shows: Minnesota consistently ranks in the top 10 of the 50 states in every area of the budget. We rank fourth in high school graduation rates; we have the second-highest percentage of people with health insurance; the fifth-lowest teen pregnancy rate; we rank fifth in average Medicaid spending for seniors and sixth in spending for children. We have the second-lowest percentage of the people living in poverty and third-lowest percentage of children in poverty. Minnesotans value a high quality of life.

And here we are at the crossroads. Do we pick the easy way out and cut services for all “those” people who don't have a loud voice, people who we don't really know so it doesn't really matter? Or do we grasp the opportunity to do good and further improve people's lives? At this point, it seems some of our state leaders have given in to rhetorical promises made at a different time, when our world was a different place.

On one hand, the people of Minnesota hear our governor pledge that he “will not stand by and allow another generation of disadvantaged children in this state to be

cast aside.” He commits his administration “to giving the parents of these children more options. Who is against giving poor, failing or disabled children more options—and why would you be?” But, in fact, the governor's proposed cuts to health and human services programs represent the biggest step backward in the care of Minnesota's needy in the state's history, and those cuts equal more than a quarter of the entire budget solution. His cuts hit working families the hardest. By dropping health coverage and cutting services for the poorest of the poor, more resources will have to be directed to emergency services instead of preventative services.

The governor's proposed cuts to health and human services programs represent the biggest step backward in the care of Minnesota's needy in the state's history.

Specifically, the governor proposes a complex set of changes to MinnesotaCare, the state's health care program for working families, and General Assistance Medical Care (GAMC) for mentally ill and disabled adults. The governor's plan combines these two programs, and ends emergency GAMC and GAMC for adults without children with incomes exceeding 75 percent of the poverty level.

In the “new” program, health coverage for pregnant women earning more than 200 percent of poverty, or about \$18,000 a year, would now have to pay the full cost of premiums to remain on MinnesotaCare.

Eligibility levels for children and those under age 21 will be reduced to 150 percent of poverty levels, instead of the current 175 percent level. Dependent sibling coverage under MinnesotaCare would end, and GAMC would end for all non-immigrants—including pregnant women, the disabled and seniors. Additionally, eligibility reviews would occur every six months, rather than every year.

The Department of Human Services estimates that about 68,000 Minnesotans would lose their health insurance by 2006 under the governor's proposal. The cur-

rent number of uninsured, about 270,000, could increase by 25 percent. Nearly 3,000 of the newly uninsured would be pregnant women who would no longer get pre- and post-natal care.

As a result, the uninsured would be forced to seek care in emergency rooms, which, by law, cannot deny care to someone in need.

Representatives of the hospitals have said they have several options available, all of which will negatively affect the clients they serve—the sick and the elderly. They point to eliminating home health care, detox and rehab services, vital to seniors, law enforcement and the disabled, or jeopardizing the safety of patients by reducing staffing levels. To avoid implementing these options, public hospitals will be forced to seek additional support from local taxpayers. Or, they could shift the cost to private payers via higher insurance premiums, impacting an employer's bottom line no differently than a tax increase.

While these budget cuts “happen” to disproportionately affect poor people and people of color, several other proposals supported by the administration also target non-English speakers and people of color. This is an emerging trend from the administration and, unfortunately, some have decided to use the international conflicts as an opportunity to push forward their racist and bigoted legislation. In reality, these suggestions do nothing to safeguard Minnesotans against terrorists.

One piece of legislation requires that a non-citizen's visa expiration date be stamped on their driver's license and that the license expire when the visa expires. Although its sponsors call it an answer to prevent future terrorist attacks, this bill is problematic because it doesn't protect the civil rights of the non-citizens, nor does it prevent terrorist attacks by singling out non-citizens or people who look like non-citizens.

Another more appalling piece of legislation would require proof of citizenship to vote, in the form of a passport, birth certificate, or naturalization document. While the bill will affect everyone, it specifically

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Viewpoint

A day in the life of the Citizens League

by Sean Kershaw

I can't imagine a better way to begin my tenure with the Citizens League than to describe how I spent March 24. In this very first Viewpoint, I want to introduce myself, and explain why this day was instructive and inspiring for me.

Why the League?

The day began early, when I had coffee with Ted Kolderie, President of the League from 1967 to 1980. Ted is a fellow Omahan, and a trusted mentor. As always, Ted was provocative and insightful. One quote stands out in my mind: "The League began with the simple premise that government belongs to the people... The question was: how best to achieve this goal?"

And achieve, it has. From the earliest efforts at charter reform in Minneapolis, to implementation of charter schools nationwide, the League has been at the center of thoughtful, non-partisan, systematic innovations that relied on the best analysis of a current problem, and the best anticipation of future needs and opportunities.

By maintaining citizen involvement as its core, the League has delivered on its promise that government belongs to the people.

My experience serving on the League's Board of Directors for more than six years, and in the hundreds of conversations that took place during the recently completed *Doing the Common Good Better* report process, have only confirmed that the League and its mission are as critical to the health of our community, region, and state as they were when it was founded 51 years ago. Perhaps more so.

In a public realm dominated by special interests, the Citizens League is uniquely positioned to be a voice for the *common interest* of current and future Minnesotans.

Why now?

Back to March 24. While listening to Lyle Wray at his farewell party that evening, I was reminded of why I respect and enjoy Lyle so much. He wouldn't settle for "pretty good" when it came to the common good. We could all benefit from the sense of urgency and high expectations that he brought to his work with the League.

We live in a time of unexpected opportunity and change. We live in a time, and in a state, where we can't take the health of our democracy—our commonwealth—for granted. It is the foundation of our success, and the seeds of our future growth and prosperity.

The challenge we face as Minnesotans is *not* that citizens are no longer interested in building this commonwealth—they are—but that the old ways of participating in the process are not working, and new ways haven't yet been invented. People are busier. The world is bigger and more complicated. There are fewer forums for problem solving, and the forums we do have are often dominated by narrow agendas, not by the citizens who are impacted by, and can solve, the issues at hand.

But democracy is premised on hope. And with freedom comes obligation.

We have both a tremendous obligation and opportunity as Minnesotans, and as

League members, if we remember "the League began with the simple premise that government belongs to the people."

The League, like all other institutions, must be willing to examine how it does business, to ensure that it is delivering on its mission. We will do so.

Because achieve, again, we must. The urgent question right now for the League is really a twist on Ted's initial question: how do we return governance to the people?

Why me?

Finally, my own role.

After Lyle's party, I had to call Jean King, who served as co-chair with me on the *Doing the Common Good Better* study committee.

"I can't believe I'm going to get paid to do this job!" was the only thing I could think to tell her. And I meant it. To stand with the people in that room was truly an honor and a thrill.

I grew up in Nebraska, and have traveled throughout the United States and Europe. Minnesota is my adopted home by choice, not by accident. I chose to live here because of the people I met and the opportunity I saw. What people have created here, and what I thought I could create with others, inspired and compelled me. It still does.

During my years of involvement in public affairs, and with various active citizenship initiatives, I have been surrounded by people that consistently bring out the best in others, and hopefully in me. From Peg Michels at the Minnesota Active Citizenship Initiative, to my partners in Civics Incorporated, I have developed skills and knowledge that will help me tremendously in this role, which will test and hone my organizing skills.

Throughout this time, I have built great love for the League's work. Staffers like Janet Dudrow and Phil Jenni, former Executive Director Curt Johnson, and past Presidents from Dave Durenberger to

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Valley, Buffalo, Cannon Falls, Lakeville, Mahtomedi, Minnetrista, Plymouth, and Waconia. Figures 1, 2, and 3 compare these cities in terms of crime, poverty, and age of housing and infrastructure (measured in terms of the percentage of the housing units built before 1940). In each case, 1990 data is used to facilitate comparison with expenditure need amounts contained in the Ladd report, which was completed in 1991.

As these figures illustrate, Duluth has higher crime and poverty and older housing and infrastructure than any of the other cities listed. That being the case, one would expect Duluth to have a higher expenditure need per capita than the other cities. However, this was not the conclusion reached in the Ladd report, as illustrated in figure 4.

Despite the fact that Duluth has higher crime and poverty and older housing and infrastructure, the Ladd report ascribes a considerably lower per capita expenditure need to Duluth than to any of the other cities listed. This outcome is particularly perplexing when we consider that Duluth, more so than any of the other cities listed, is a major center for commerce and tourism; in addition, Duluth is an international seaport and, unlike all of the cities listed except Buffalo, a county seat. All of these factors draw people into the city, adding to municipal overburden and the need for public services.

Duluth's expenditure need based on the Ladd report is not even explicable based on the "cost factors" used in the report (i.e., size of population, population density, change in population, cost-of-living, accident rate, heating degree days, amount of subsidized housing, crime rate, and percent of housing units built before 1940). If city expenditure need were determined exclusively based on the cost factors included in the Ladd report, Duluth would still have a higher expenditure need than any of the cities included in the above analysis. Claims to the contrary are demonstrably false.

It is conceivable that Duluth is an isolated instance where the Ladd report reached a nonsensical conclusion. Perhaps the Ladd results will make more sense if we examine the expenditure need of other cities excluding Duluth. While this would be a small consolation to Duluth residents, it is a possibility we need to examine.

If we compare each city examined in the Ladd report to other cities that have lower crime and poverty and newer housing and infrastructure, in *over half the comparisons* (50.7 percent) the city with higher crime and poverty and older housing and infrastructure will have a lower expenditure need according to the Ladd report. In other words, Duluth is not an isolated instance. With disturbing regularity, the Ladd report ascribes lower expenditure need to cities with higher crime and poverty and older housing and infrastructure.

In short, the Ladd report fails the *internal consistency* test; too frequently, cities that should have a higher expenditure need based upon common sense criteria are assigned a lower expenditure need. Because the Ladd expenditure need formula is flawed, the recommended distribution of LGA based upon that formula is also flawed.

For example, an aid distribution based on the gap between expenditure need and local revenue raising capacity as measured by the Ladd report would send substantially more aid per capita to Mahtomedi, Apple Valley, and Cannon Falls than to Duluth, even though all three of these cities have a higher local revenue raising capacity than Duluth. Other equally absurd outcomes are abundant.

What is the cause of the problems with the Ladd expenditure need formula? Ladd's methodology for measuring need—which employs a statistical tool known as regression analysis—is essentially sound. However, some of the assumptions made by Ladd and her colleagues in implementing this methodology are suspect.

Ladd assumed that past receipt of inter-governmental aid would cause cities to spend more than was needed to provide average quality public services. Based on this assumption, Ladd employed techniques that had the effect of reducing the expenditure need of cities that received

Figure 1: 1990 Crime Index

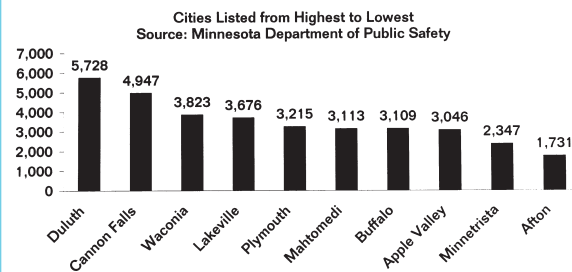


Figure 2: Percentage of Population Below Poverty

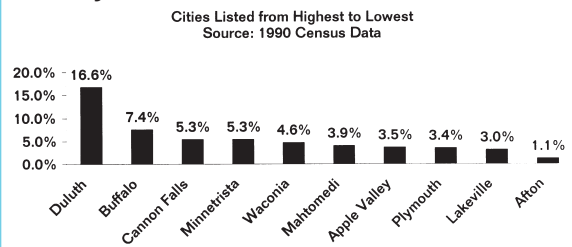


Figure 3: Percentage of Housing Units Built Before 1940

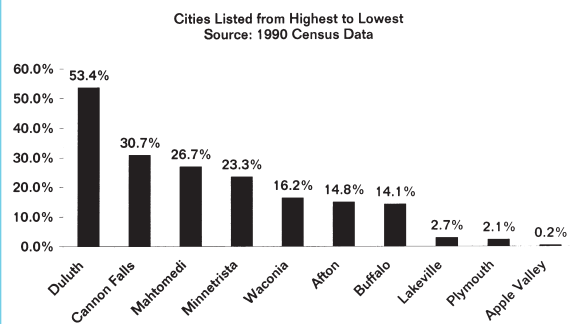
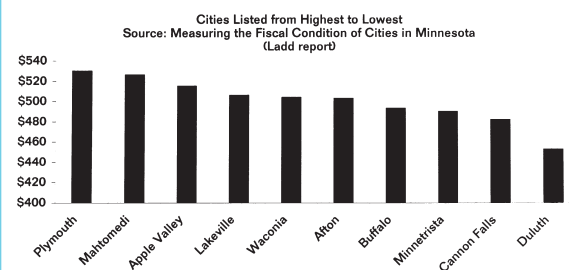


Figure 4: Ladd Expenditure Need Per Capita



relatively high amounts of state aid in the past and increasing the expenditure need of cities that received relatively low amounts of state aid.

However, Ladd and her colleagues overlooked the possibility that past aid distribution did not cause higher expenditures, but rather was a response to pre-existing higher expenditure need. For example, urban core cities and regional centers—

Ladd then and now: don't blame the messenger

by Mark Haveman

When the Ladd Report *Measuring the Fiscal Condition of Minnesota Cities* was released in 1991, a number of groups were antagonistic to its recommendations that state aid to cities be reallocated based on a formula that calculated the gap between a city's expenditure need and its revenue raising capacity

These critics had a strong interest in increasing state aid to cities and preserving its distribution. The recommendations were a radical departure from current law, and the study's conclusions harshly condemned the cost effectiveness of the way city aid was then distributed. As a result, the integrity of the study itself was questioned.

Twelve years later, criticism of Ladd lingers, but so does the need for fundamental reform in the distribution of state aid to cities. Today, the Ladd report is just as threatening and just as relevant as it was in 1991—but even more valuable.

There is growing acceptance of the inherent logic and usefulness of an aid distribution approach based on an evaluation of a city's fiscal condition—so much so that a formula loosely based on Ladd ideas is currently used to distribute a portion of state aid to cities. But detractors of the Ladd study continue to claim today, as they did in 1991, that the way the report identified and calculated expenditure need was fundamentally flawed, making it a useless mechanism for actually distributing aid. Is this criticism fair?

Let's be clear: the heart and soul of the Ladd study was a comprehensive, disciplined and rigorous pursuit of factors that affect the expenditure needs of cities. Thirty-two people including agency and legislative staff, along with representation from the League of Minnesota Cities, served on the study committee. House and Senate staff led a six-month quality assurance effort to clean up databases to help ensure fair comparisons between cities and a more accurate analysis. In its hunt for factors affecting city expenditure need, the study committee suggested relationships, identified variables and tested their links to the cost of public services. In the end, the committee rejected more than 15 potential variables because they showed no statistically significant relationship to city

spending or there was ambiguity about the link to public service costs.

What remained were several variables, otherwise known as cost factors, which demonstrated statistical significance with regards to city spending. Crime rates and the age of a city's housing stock were, in fact, two of the factors that survived this analysis. However, several other variables also demonstrated statistically significant impacts on the cost of providing one or more categories of city services. These factors were:

- ▲ Size of population
- ▲ Population density
- ▲ Change in population
- ▲ Cost of living index
- ▲ Accident rates
- ▲ Number of heating degree days
- ▲ Amount of subsidized housing in a city

Upon a moment's reflection, these variables also easily pass a common sense test. Their relationships to the cost of providing services are quite intuitive. For example, a higher cost of living index means that cities must pay higher wages for city employees. Greater amounts of subsidized housing trigger additional administrative and related costs for city government. Higher land costs associated with population density lead to higher costs for housing, community development, and recreation activities. Even the oddball variable "heating degree days" measures the frequency of freeze/thaw cycles that has implications for potholes and subsequent road maintenance costs.

All of these factors, not just a select few, along with numerous control variables, were part of the complete expenditure need analysis put forth in the Ladd report. For any particular city, it is quite likely that comparative disadvantages in one or two of these factors partly or completely offset relative advantages in other factors.

So what do we make of the expenditure need analysis for the city of Duluth? First, the Ladd study recognized that a measure of expenditure need by itself is relatively meaningless. A measure of a city's fiscal condition must also take into account its ability to raise revenue. The gap between expenditure need and ability to raise revenue is a more complete measure of a city's fiscal condition and should be the basis for distributing aid.

Figure 1: Need-Capacity Gap of Selected Cities

(Per capita expenditure need minus per capita revenue raising capacity)

Source: 1991 Ladd Report

Mahtomedi	\$133.66
Apple Valley	109.66
Cannon Falls	80.80
Duluth	66.19
Lakeville	65.08
Afton	61.25
Buffalo	57.74
Waconia	38.39
Minnetrista	-8.34
Plymouth	-13.96

Figure 1 presents the same 10 cities used in Jeff Van Wychen's analysis (which begins on page 1), only this time ranked on the basis of their calculated need-capacity gap.

When the need-capacity gap is used, a different story emerges—one that is more favorable to Duluth. Among these 10 cities, Duluth actually has the fourth highest need-capacity gap. In other words, Duluth has the fourth best claim on city aid among these 10 cities. Why isn't Duluth first in line? We can conclude that Duluth's relative disadvantages in crime rates and housing stock were offset in part by relative advantages over some cities in other cost factors, or in its ability to raise revenue, or some combination of both.

An important "lesson from Ladd" is also gained by examining the cities ranked ahead of Duluth. Cannon Falls' ranking makes sense—second in crime, second in housing age (among the 10 cities) so it shouldn't be too surprising that the other cost factors, together with a lower revenue capacity, combine to give Cannon Falls a larger need-capacity gap than Duluth. But what about Apple Valley and Mahtomedi—two growing cities from the early '90s with significant numbers of middle and upper-middle income residents. How could they possibly be more deserving of aid?

It's quite simple. Ladd's definition of need is based on statistically proven relationships between city characteristics and the cost of providing services, not on conventional wisdom or anecdote. The Ladd methodology lets the evidence speak for itself. In the case of Apple Valley and Mahtomedi, the evidence showed that population growth, not just population decline, can be a fiscal disadvantage for

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OnBalance

Views From Around the State

Debating how we fill our kid's heads, our gas tanks and the state's coffers.

Legislators still have a thing or two to learn about education

Minnesotans from many communities should have a voice in developing new education standards, argues the **Mankato Free Press 3/22**. "Parents, businesses and taxpayers need to get involved in helping modify these standards. Parents have a stake because even though their children may do well in school, the school's resources could be depleted under the new pass/fail standards. Businesses should be concerned because they will be dealing with a labor force that may know how [to] count roman numerals, but not how to solve problems. Taxpayers should be concerned because this new standard adoption could be more costly to local schools than standards we have in place that were fully implemented just three years ago."

In one short bite, the **Marshall Independent 4/1** sums up the debate on the profile of learning. "Once the Profile is killed, just how will it be replaced? The answer needs to be a good one, since it will reshape Minnesota's public education system."

How we fill 'er up remains an important issue for rural Minnesota

Gov. Pawlenty's decision to cut state funding for ethanol doesn't bode well for Minnesota's growing biodiesel industry, speculates the **West Central Tribune 3/22**. "Gov. Pawlenty said a biodiesel plant could be a good use of his proposal for Job Opportunity Building Zones, which are his proposed tax-free zones for new industrial development. However, this is not much of an incentive considering that Pawlenty just cut the state's previously promised 10-year ethanol subsidies for ethanol plants. Why should companies or stockholders invest in biodiesel plants when the state's promise on ethanol plants did not prove out?"

The **Rochester Post-Bulletin 3/15** thinks that rising gasoline prices could be a needed catalyst for a national discussion on energy policy. "Gasoline prices above \$2 a gallon

may also push more Americans to look at conserving. How often do most of us consider arranging a carpool to bring our children to school or sports activities? How many of us will walk to the neighborhood store to buy groceries? Do many of us consider buying a smaller car to conserve fuel? Higher prices should also spur legislation to offer tax incentives for hybrid cars and government investment in hydrogen fuel cell research. It's also time for this nation to develop a comprehensive energy policy that will first reduce and then end our reliance on foreign oil. Without such a plan, there will be no long-term economic recovery."

Greater Minnesota doesn't like the odds on gambling for revenue

"Gambling is a tremendously regressive way to gather income, because it hits hardest the pocket books of those who can least afford to lose the money," argues the **Fergus Falls Daily Journal 3/28**. "Plus, some people become addicted to gambling and thereby financially ruin themselves and their families. In short, gambling is an unsavory business that the state of Minnesota should not encourage. Its hands [are] already dirty enough with the state-run lottery. When the casino bill next comes up for consideration, House members need to stop its progress cold. Minnesota may have a budget crisis, but the state is not so desperate that it needs to stoop to further legalized gambling."

Expanding gambling means breaking promises the state made to Native American tribes, observes the **St. Cloud Times 3/28**. "Of course, legalizing such gaming at any non-Indian site in Minnesota raises broader questions: Why just at Canterbury? Why not elsewhere? And perhaps that is the springboard Minnesota can use in trying to discuss its desires with the tribes. Maybe compacts aren't so concrete if the alternative is endless gaming opportunities in all parts of the state. Heck, maybe the tribes would even be willing to cut the state a fair slice of its existing profits to retain existing operations. Oh yeah, no new taxes. Never mind. Still, the

point is Minnesota's efforts to expand gambling won't go anywhere—until we find a fair way to tell the Indian community we are going back on our word. Again."

The **Red Wing Republican Eagle 3/10** says relying on gambling to fund essential services doesn't add up. "Yes, lotteries produce money. But the millions of dollars generated often are still a tiny percentage of state budgets. The proposed racino at Canterbury is estimated to raise \$150 million per biennium; Minnesota's projected deficit for 2004-05 is \$4.2 billion. And though gambling is flourishing, the increasing returns are not guaranteed. It's one thing to direct revenues from state lotteries into the general fund. But it raises more basic questions when gambling is promoted as an avenue to support essential or constitutionally mandated services. For example, should states be in the business of encouraging gambling in order to pay for education? The lessons learned may be the wrong ones."

Just can't wait to get on the road again...

"Minnesota's gas tax has remained stagnant for too many years," argues the **Red Wing Republican Eagle 3/25**. "It's the most basic of user fees. Motorists should expect that if they are driving more miles—and in many cases driving vehicles that guzzle more gas and create more wear and tear on roads—they also should pay more for maintaining and rebuilding roads."

The **St. Cloud Times 3/24** is skeptical about Gov. Pawlenty's road plan. "Look at it this way: 10 years from now there may be another lane along the Twin Cities beltway. But what about Interstate Highway 94 between St. Cloud and the beltway? It will likely be the same number of lanes then that it is now. Yet with no other alternatives, your only choice will be to join the traffic jam. So while we applaud the governor's ambitious five-year transportation proposal, we believe it is only part of what's really needed." **MJ**

Viewpoint

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George Latimer, have been extremely generous and have taught me a great deal about policy, politics, and partnerships.

Finally, I believe that energy and a sense of optimism matter, and I will work tirelessly to bring this to my work with the League. I hope to serve as a catalyst for the wealth of ideas and abilities that League members and partners share.

I'll end this with the quote from Daniel Webster that is written on the ceiling of the Minnesota Senate chamber.

"Let us develop the resources of our land, call forth its powers, build up its institutions and promote its great interests and see whether we also, in our generation, may not perform something worth to be remembered."

The Citizens League is entering another new generation. I hope that during my tenure its members will have felt that they played a part in achieving the noble end to which Webster calls us. **MJ**

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Ladd then and now

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cities. Declining cities are at a fiscal disadvantage because their revenue raising capacity is declining—but the scope, scale, and cost of public services remains fairly stable. Growing cities are fortunate to have an increasing property tax base, but both the scale and scope of city services can grow faster than a city's capacity to raise revenue to pay for them. Growing cities must also deal with cost factors associated with larger populations and higher densities. Ladd treats all causes of fiscal disadvantage the same.

This suggests the real issue many have with the Ladd approach: it replaces arbitrary assessments about city need with an element of clarity and precision seldom seen in politically charged discussions of city aid. In the process, the Ladd study also showed that the state can dramatically reduce city disparities and increase city equalization with much less aid and at far less cost to state taxpayers.

Reexamining Ladd

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such as Duluth—tend to have higher crime, greater municipal overburden, older infrastructure, and so forth. All of these factors contribute to higher expenditure need, which in turn contributes to the need for more state aid.

In other words, the distribution of state aid may have been *in response* to above average spending needs, as opposed to the cause of above average spending. The assumption made by Ladd and her colleagues inappropriately penalizes cities that received above average levels of aid in the past because they had above average expenditure need.

Duluth's relatively low expenditure need based on the Ladd report is not due to the demographic characteristics of the city. Based on those characteristics, Duluth should have high expenditure need. Rather, the reason Duluth has an implausibly low expenditure need based on Ladd is due to an assumption made by the authors regarding the past distribution of state aid. This assumption had the effect of penalizing cities that received above average levels of state aid in the past because they had above average need for such aid.

In short, there is good news and bad

news. The bad news is that the Ladd report employed an assumption that resulted in counterintuitive and nonsensical results. However, the good news is that the fundamental approach used in the Ladd report can be salvaged simply by discarding the unwarranted assumption regarding the effects of the past distribution of state aid.

Few would dispute the fact that the LGA program is in need of reform. Given the state budget crisis and the need to use public dollars efficiently, the reform of LGA takes on new urgency. The methodology of the Ladd report—minus the baggage of unwarranted assumptions—can be a useful tool in designing an improved LGA program. **MJ**

Jeff Van Wychen is a local government policy analyst.

Crossroads

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targets immigrants and people who do not look like they are of European descent. This bill will cause a chilling effect that will inherently undermine the democracy we aspire to achieve for new Americans.

This seems to be the path we have chosen. What saddens me most is not so much the actual proposals, but that our leaders have cast aside many of the values and beliefs I thought the majority of Minnesotans held. We've traipsed over compassion for human rights and turned the other cheek on those less fortunate. Minnesota is slipping from the "Minnesota Miracle" to the "Minnesota Mistake."

But all hope is not lost. In the final six weeks of the legislative session, lawmakers in the Senate will be working diligently and passionately to prevent many of these horrible cuts and policy provisions from passing. We are standing at a crossroads. The choices we make in the coming days and weeks will leave their fingerprints on the state of the state for years to come. Let's proceed deliberately, and most importantly, with compassion and a heart. It's the Minnesota way. **MJ**

State Sen. Mee Moua represents District 67. She is the first Hmong elected to state office in the U.S.

The 1991 Ladd report may have featured some assumptions and judgments about the treatment of data and other technical issues that deserve reexamination, especially 12 years later. But this also demonstrates the power and potential of the Ladd methodology. It is highly flexible in its ability to accommodate new information and changing relationships.

So, to detractors who say that the core problem with the Ladd approach lies in defining need, the only possible response can be: "Bring it on." Suggest a factor that may influence the amount a city has to spend to deliver public services and we can empirically test its relationship to actual city spending. If the results convey unsatisfactory outcomes, don't blame the messenger. **MJ**

Mark Haveman is Project Manager for the Minnesota Taxpayers Association.

TakeNote

Policy Tidbits

Let us count the ways we can build a better mouse trap

World's largest wind farm proposed.

Iowa Gov. Tom Vilsack and MidAmerican Energy Companies have unveiled plans to develop the largest land-based wind farm in the world. The \$323 million project would be built in northwest or north-central Iowa and will have 180 to 200 wind turbines generating 310 megawatts.—*Lyle Wray.*

Move from the oil to the hydrogen economy in just five steps.

The cover story of the 10th anniversary issue of *Wired* magazine (*How Hydrogen Can Save America*, April 2003) includes a five-point plan to “end the oil era.” The five points are: solve the hydrogen fuel tank problem (whether to carry the fuel in gas, liquid or solid form); encourage mass production of fuel cell vehicles; convert the fueling infrastructure to hydrogen; ramp up hydrogen production with a focus on renewable sources; and mount a public campaign to sell the hydrogen economy. Read the full story at www.wired.com/wired/archive/11.04/hydrogen.html—*L.W.*

Are computers becoming the next cabbage patch kids?

A recent survey says yes! The Taylor Group, a research and consulting organization, performed a recent survey of children and computer usage. The most startling finding: only three percent of children age 8 to 15 say they own a notebook computer, but 20 percent say they want one for their next present. In an era when computers are as commonplace for kids as Legos and Lincoln Logs were 25 years ago, shouldn't we focus on making computer access for youth more widespread? Especially in rural areas!—*Scott McMahon.*

Who pays for the uninsured?

Many of the 41 million Americans without health insurance get health care from emergency rooms, clinics and other providers, according to the findings of an Urban Institute study reported in *Business Week* (March 24, 2003). The total cost is \$77 billion, which includes \$35 billion in waived fees, \$26 billion by fees paid by the uninsured, \$14 billion paid by Medicare, Medicaid and other government programs, and \$2 billion in workers' compensation payments.—*L.W.*

St. Paul schools showing some improvement.

In 2001, the Citizens League released a report, *A Failing Grade For School Completion* which helped make public the fact that the majority of students in the Minneapolis and St. Paul school districts do not graduate from high school within the standard four-year time period. According to the Department of Children, Families and Learning, graduation rates in the St. Paul public schools increase by 6.5 percent between 1997 and 2000. The most significant gain by ethnic group was a 16.2 percent increase in graduation rates for Native Americans. Although this is an improvement, we have a long way to go to reach an acceptable level.—*S.M.*

KIPP Schools show promise for poor districts.

An article in *Newsweek* (*At The Top of the Class*, March 24, 2003) reports on the success of the Knowledge Is Power (KIPP) educational program. KIPP charter schools have opened in 11 states and the District of Columbia. The concept involves demanding academics, longer school days, more homework assignments, and stricter discipline. In one Houston school, the percentage of students passing state standardized tests jumped from 50 percent to 98 percent in one year. Classes are held 10 hours per day, including alternate Saturdays and summers. Teachers have cell phones and are available 24/7 for students who need help, and students sign a pledge to abide by the school rules.—*L.W.*

Can we change the primary system?

The National Association of Secretaries of State is pushing for a new, rotating primary

schedule starting in 2008. The reason for the proposed change is to end the current practice of frontloading the presidential primary calendar. Massachusetts Secretary of State Bill Galvin, who chairs the NASS Presidential Primary Reform Committee, says the push to earlier primaries undermines the electoral system. “In 1984, only eight states had held their primaries by the end of March. If all of the states looking to move up their primaries get their way, that number will jump to 28 in 2004. In reality, the collective rush to gain a louder voice in the process is actually undermining it by creating a longer campaign season and a more disengaged electorate,” Galvin said. Under the proposal, primaries would be grouped by region and date each election cycle. If adopted, in 2008 the East would hold primaries in March, the South in April, the Midwest in May, and the West in June. However, Iowa and New Hampshire would retain their current primary schedule because of their focus on “retail” politics. The full plan is available at www.nass.org.—*S.M.*

New record set for prison populations.

A recent Justice Department survey showed that for the first time, the United States prison population has topped 2 million. This equates to 1 out of every 142 Americans behind bars. A one-day prison census held on June 30, 2002, showed federal and state prisons held 1,355,748 inmates, while an additional 665,475 were held in county and municipal jails. Between 2001 and 2002, the federal prison system expanded by 5.7 percent.—*S.M.*

Take Note is compiled by Citizens League staff.