



Minnesota Journal

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A publication of the Citizens League

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Minnesota needs bold leadership at top to meet telecommunications challenge

Second of two articles. We live in an age of discontinuity, and telecommunication is at the center of change. The way we work and shop, the way we educate, entertain, and go about ourselves, the way we find medical care, the way we handle our money, the way we gather information—all will be transformed by broadband telecommunications networks of the future.

This transformation is unavoidable, but states and regions are traveling on different paths and at different speeds toward that future. What path has Minnesota followed? How swiftly should Minnesota move to

by Milda Hedblom

meet the telecommunications challenge of the 21st century?

These questions were at the heart of the 1990 Citizens League report on telecommunications, *Wiring Minnesota: New State Goals for Telecommunications*. Following the League report, the Minnesota Telecommunications Study Group was convened by the Public Utilities Commission (PUC) to do a comprehensive study of Minnesota's future needs. Its final report was just presented to the PUC on Nov. 19.

The job of the study group was to identify what is needed in Minnesota in order to offer broadband advanced telecommunications services throughout the state. Broadband infrastructure would include high-speed transmission, enabling the delivery of communications, information, and full-motion video by various technologies to Minnesota users.

The study group report is an ambitious document, more understandable than most pieces about telecommunications, and will cer-

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Link pay to service performance

by Rod Kelsey

Tight budgets, rising taxes and a heightened emphasis on quality and results have focused increasing attention recently on public sector pay. What are some of the most important issues relating to public sector compensation in Minnesota?

Historically, individuals may have chosen public sector jobs because such jobs offered a reasonably high level of security and overall benefits, particularly in various "time-off" categories. The actual base pay levels may not have been equal to private organizations at some levels, but that fact, real or perceived, was offset by the value of security and benefits.

Over the intervening years base pay levels rose, but it seems they rose more rapidly for lower-tier positions than the top positions. From a survey standpoint over time, pay levels for public sector jobs have been somewhat higher for entry to midlevel positions than comparables in the private sector and somewhat lower for the more senior or executive positions than comparables in the private sector.

In the mid-1980s the state of Minnesota mandated pay equity to

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Report compares cities' spending to 'basic' needs, offers new aid formula

How much should it cost Minnesota cities to provide an adequate, basic level of services to their citizens? And what role should the state play in financing those services?

After nearly two years of study, the Minnesota Commission on Reform and Efficiency (CORE) has some answers to those questions. In a first report—the first part was released in early December and the second part is due out in January—the commission has developed measures of basic spending needs

by Theresa Van Hoomisen
and John Brandl

for various city services and has recommended a new formula for distributing state aids to cities based on the gap between local spending needs and local revenue-raising capacity.

The spending comparisons give citizens a valuable tool for holding local officials accountable for spending patterns. And with the CORE state aid formula, equity would be

improved: cities would only receive as much aid as is needed to fill the gap between their "basic spending need" and their "basic revenue-raising capacity." Both the spending comparisons and the aid formula can help eliminate the incentive for cities to spend too much.

Spending needs

The first part of the CORE report examines city spending for fire, police, streets, parks and recreation,

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Don't let state surplus distract attention from reform

Minnesota has been on a budget roller coaster, from last year's projected shortfall to last week's projected surplus. And this week's thrills—like last year's chills—are distracting all of us from the rocky foundation under the ride.

The Department of Finance, while relieved at the good budget news, has cautioned that the projected surplus represents roughly 1.5 percent of total revenue over the three-year forecast period. Rounding errors alone could change the projected surplus by a couple of hundred million dollars.

Over the long run, Minnesota can expect spending pressures to exceed revenue growth. The spending pressures are driven in large part by the great demographic trends. Elementary and secondary school enrollments have recently turned upward with the "echo" of the baby boom. Between 1992 and 2000, the number of high school graduates has been predicted to grow 29 percent.

Perhaps the most acute cost pressure will come from our aging population. One projection suggests that if current demographic trends and rates of nursing-home use continue, the state will need another 8,500 nursing-home beds by the year 2010. With a five percent annual rate of inflation, that translates to \$713 million in additional state Medical Assistance expenditures.

The demand for spending is increasing faster than the economy is growing. Real personal income will grow at about two percent annually over the next 25 years, compared to nearly three percent

Viewpoint

by Lyle Wray

between 1966 and 1991. We cannot again prop up incomes by adding greater proportions of women and teenagers to the work force.

The bottom line is that the \$414 million so-called surplus could easily disappear, and is clearly not a sign that the state's budget problems are over.

But the state's problem is not just balancing the budget, it's getting better value for its tax dollars and spending them fairly. Little in the current system of public services links spending with results. What if the Legislature gives a few million of the new-found dollars to school districts? So far, spending more on education hasn't given us better-educated kids. It's not likely that this will be the expenditure that does so. Nor is it likely that the extra money will go to the people who need it most, since our system doesn't do a good job of targeting public support.

Lawmakers should stop thinking their main job is to dish out money. They should start thinking their job is to design public services so that spending gets more results and subsidies go to people who need them. Good public services are no longer a luxury. Strong global competition means that Minnesota can only hope to prosper if our citizens are well-educated and healthy and our infrastructure sound and modern.

This kind of reform requires a blueprint. The Citizens League has

offered one in its new report, *Minnesota's Budget Problem: A Crisis of Quality, Cost and Fairness*. This blueprint provides the design guidelines to help policymakers create public services that really work for the public.

The guidelines sound simple:

- Target public money to individuals who are financially needy.

- Harness competition to improve service to citizens.

- Let prices of public services reflect their full social cost.

- Meet public responsibilities, when possible, through natural helping communities close to home.

- Always consider a policy's impact on long-term economic growth.

Applying the principles leads to a dramatic new way of meeting public obligations.

For example, too often government gives subsidies out either randomly or to people who are already relatively advantaged. The first of the report's design principles is that money should be *targeted* to individuals who are financially needy.

- In post-secondary education, that means providing less aid to colleges and universities to hold down tuition across-the-board, and instead giving more aid to individ-

ual students in financial hardship.

- In K-12 education, the state should ensure that the extra education funding for children from AFDC households actually follows the child to the educational program he or she attends. Now, this supplemental funding goes to school districts who may spend it for any program serving any child.

- And when providing property-tax relief, the state should pay more relief directly to individual taxpayers whose incomes are low, and less to local governments in the form of general-purpose grants.

Another design principle is that government services should harness competition to improve service to citizens. Our goal should be to provide *choices*, both to individual citizen-consumers and to policymakers. The best way to make institutions respond to their customers is to give the customers options. For example, the state should remove the limit on charter schools in elementary and secondary education. Teachers should be allowed to form their own teaching-and-learning companies that could provide educational services on contract to school districts.

Minnesota should shut down the budget roller coaster before it collapses. Minnesotans should insist that legislators and the Governor use the League's reform blueprint to build a foundation for quality public services into the next decade rather than again being taken for a ride.

Lyle Wray is executive director of the Citizens League.

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Editors at odds over how to use projected surplus

On Balance

"Surplus wealth is a sacred trust which its possessor is bound to administer... for the good of the community." —A. Carnegie

St. Paul Pioneer Press said (Nov. 29) the surplus "should not be used in ways that don't promote long-term reform." It said one appropriate use would be to fully fund the state program that cushions homeowners from property tax increases over 12 percent or \$100, whichever is higher.

Star Tribune lauded (Dec. 5) the work of the Citizens League state spending committee and urged the group to undertake "a strategy for selling the Legislature and a skeptical public on their merits of their ideas and for implementing them with a minimum of sudden shifts in taxpayers' burdens." **Pioneer Press** said (Dec. 5) the League "offers a valuable new set of principles intended to yield greater value for the public dollars being spent and greater fairness in the public benefits being provided."

Princeton Union-Eagle called (Nov. 4) for complete toll-free telephone service throughout Minnesota. "It would stimulate two-way business activity if all shops and products were equally accessible... It would give smaller communities a better chance to compete for telecommunication satellites."

Star Tribune praised (Nov. 4) the selection of Peter Hutchinson and his Public Strategies Group, Inc., to head the Minneapolis public schools. It said (Nov. 29), "Effective educational leadership in the 1990s involves not only skilled management of school finances and administration, but credibility with both public and private sectors... precisely what the Minneapolis school board search committee found irresistible in PSG's application." **Worthington Globe** also endorsed (Nov. 12) the selection, saying it had "long been a champion of privatizing government services." **Post-Bulletin** said (Nov. 5) "public schools have problems and need to find new ways to deal with them. People like Hutchinson are not the only ones who can develop new ideas, but perhaps they can help other districts look at things differently."

Star Tribune said (Dec. 2) University of Minnesota President Nils Hasselmo's University 2000 plan "has much to offer minority students" and called on the 1994 Legislature to provide "substantial help." **Minnesota Daily** endorsed (Nov. 18) a Minnesota Student Association proposal for altering the University

200 committee structure to include student members.

Mankato Free Press called (Nov. 17) on the governor to stall, not encourage, the "misbegotten effort to dump the money-losing Target Center on one government entity or another." **Star Tribune** (Nov. 5) urged the Sports Facilities Commission not to sell the Met Center "until the full worth of the property can be realized" and to keep any decisions about the Met separate from the fate of the Target Center. "Any scheme that hinges on the sale of the Met isn't going to work." **Pioneer Press** said (Nov. 11) "the crowd could get ugly" if "significant public money is sunk into the hole (Target Center owners) Wolfenson and Ratner dug for themselves."

Fergus Falls Daily Journal said (Nov. 16) video gambling should not be allowed in bars, restaurants, hotels and resorts, arguing that "gambling is absolutely not something that should be encouraged or allowed to expand." **West Central Tribune** agreed (Nov. 18), saying, "It's time to curtail the proliferation of gambling, not to expand it." **Post-Bulletin** noted (Nov. 25) the Indian casino boom may not be a long-term phenomenon and urged Indian bands "to diversity and invest in other types of business while the income is flowing." **Hibbing Daily Tribune** recommended (Nov. 21) raising the gambling age from 18 to 21.

Air service critical to staying globally competitive

Edited excerpts of remarks by Jeff Hamiel, executive director, Metropolitan Airports Commission, to the Citizens League, Minneapolis/Hennepin County Office of International Trade, and University of St. Thomas on Nov. 30.

Air transportation is critical to the success or failure of a community in a competitive, worldwide global market. We enjoy some of the best service of any airport in the country for an airport of our size. We are now served by nonstop and one-stop service to over 150 destina-

tions in the U.S. and abroad. Fifteen of those routes are nonstop international services provided by Northwest Airlines.

Last year, more than 300,000 metric tons of air freight and air cargo were transported from Minneapolis/St. Paul International Airport, many of those tons shipped directly to markets in London, Amsterdam and the Orient.

Where are we today in this industry? Inland airports have been very frustrated over the past several years

because they have lacked the ability to attract international air service. In fact, cities like New York, San Francisco, Seattle, Los Angeles and Miami have almost freely enjoyed competitive international air service, while cities such as Kansas City, Minneapolis, St. Louis have struggled to be competitive in those markets. With the exception of Detroit and Chicago and Dallas/Fort Worth, all of the midwestern cities in the United States have had a difficult time being competitive.

The reason for it is primarily this: that they're not viewed as major distribution centers, major centers of activity. Partially through U.S. government policies through bilateral negotiations, these smaller population centers have not been able to be competitive. The federal regulatory process has limited the opportunity of international air service in these cities, such as Minneapolis/St. Paul. Quite frankly, Northwest Airlines would like to secure Minneapolis/St. Paul as its own marketplace and

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Hamiel

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not have to deal with competing international service.

However, in recent years, airports have become much more aggressive. The United States airports that would like to seek more international airline service formed an organization called United States Airports for Better International Air Service (USA/BIAS). Minneapolis/St. Paul was one of the early members of USA/BIAS and we continue to participate actively today.

As time goes on, more and more communities will be getting more sophisticated in their marketing efforts. In fact, Orlando, Edmonton (Alberta), Salt Lake City, Phoenix,

Seattle, and Portland are all communities that have a very active international marketing program. Minneapolis/St. Paul at the present time is not aggressively meeting the challenge. While we do market, we can and must do much, much more if we are to remain in that world marketplace.

MAC is concerned that MSP has lost a number of direct international flights during the last several years to cities such as Detroit, the other major hub for Northwest Airlines. At the present time Minneapolis/St. Paul enjoys 14 to 15 weekly international nonstop flights. Detroit, our competitor, has some 56 flights and Chicago significantly more.

Air freight is not hitting the mark, as well. Almost 25 percent of the air

Another view

Charles N. Brennecke's article in the Oct. 26, 1993, *Minnesota Journal* makes great sense! How wonderful if the Citizens League could launch a drive to drop property taxes and substitute a "second tier" income tax on *personal* income only. Tough to develop and implement—but worth it.

Kenneth L. Graham, Minneapolis

Voucher effects larger for private than public schools

From "An Econometric Study of Alternative Designs of an Educational Voucher System in Minnesota," Prof. Stephen A. Hoenack, University of Minnesota, Nov. 16, 1993

The study found that an educational voucher program could yield large percentage increases in private school enrollments at the primary and secondary levels. However, private schools now have small shares of all of the state's primary and secondary enrollments. Thus, their enrollment increases would represent only small percentages of the state's public enrollments.

For example, a voucher of \$500 for attendance in primary schools,

an amount which is almost five-sixths of the average tuition charges of \$660, would reduce public primary enrollments by 1.7 percent, while raising private primary enrollments by 14.5 percent. At the secondary level, a voucher of \$1,750, which is roughly half the average tuition charges in these schools of \$3,511, would reduce public schools' enrollments by 10.3 percent while increasing private secondary schools' enrollments by 140.3 percent.

The study also shows that equally-sized vouchers given to all students would increase enrollments more from school districts with lower median incomes. Thus, such a voucher program partially serves

the goals of a voucher plan that gives larger vouchers to low-income students or is targeted only to these students.

The predicted effect of an educational voucher plan on public school districts and state governmental educational expenditures is small. Public school districts would experience some reductions in state and local government funding as a result of students switching from public to private schools. However, the study found that declines in educational costs in public schools due to fewer students would approximately offset the reduction in funding, leaving the economic situation of school districts largely unchanged...

If a state government were to pay the expense of vouchers, this cost would tend to be offset by the formula reductions in state aid to school districts. The amounts individual vouchers can be considerably less than the amount of student support provided to school districts. However, a state government may need to pay the cost of vouchers not only for the students that vouchers would lead to attend private schools, but also for students already enrolled in private schools. The net effect of these factors could reduce or increase the state's total educational expenditures, depending on the assumptions made, within a range of one to three percent.

Environment, competitiveness can clash

Edited excerpts of remarks by Kristin Dawkins, Institute for Agriculture and Trade Policy, and Dr. Sergio Reyes Lujan, president, Instituto Nacional de Ecologia de Mexico (environmental protection agency), to the Citizens League, Minneapolis/Hennepin County Office of International Trade, and University of St. Thomas Nov. 24.

Kristin Dawkins: There's a tremendous increase in the kind of globalization of finance that is occurring, which goes quite beyond tariffs. At this point about 40 percent of all trade worldwide is conducted between single firms and their affiliates in other countries.

This process has actually eroded our structure of national, political processes. Governments have less control over how business is done in their countries,

As we look at the environmental issues we see that the environment knows no national borders. Trans-boundary environmental effects plague us and our health very severely.

The issue of competitiveness is also a real challenge. If you're in an industrialized country—let's say the United States—we have companies here that have already invested in bringing up their corporate

impact in terms of emissions, in terms of recycling programs. Those are expensive to implement and many companies have done so in this country.

What we believe in our organization is that, first, we must guarantee that nations must retain the right to determine for themselves what are the social, environmental and other rules that guide their economic policymaking. Second, we believe we need to move into a decade, at least, of designing international institutions that are truly transparent, that are truly democratic and that are truly multilateral. Thirdly, we believe we need to think much harder about this financing question.

Dr. Sergio Reyes Lujan: In 1985 the total of inspections for the industrial plants was zero. In 1986 we inspected 500. In 1992 we inspected 5,584. In the first 10 months of this year we inspected 11,794. We helped shut down 105 in 1992 and in the first nine months of this year 111. In the last five years a little more than 400 industrial plants. The figure in the United States is zero in the same period of time.

This year we have already published 58 new environmental standards and we intend to publish next

year 61 new environmental standards that have been drafted by Canadian or American consultants.

The lead concentration in the soil in Mexico City has been reduced by four times in five years. None of our stations this year is above the standard. Thirty-one percent of all of the gasoline we are using now in Mexico is unleaded gasoline. On hundred percent of all of the new cars have the catalytic converter, because we are exporting cars to your country, to Japan.

We want to play baseball with you at the major league level. And we intend to win. And if we intend to win, we must use the same rules as your major league. We intend to play hockey on ice with the Canadians, and we want to win. Then we must use the same rules as the Canadians.

Of course, we have not solved all of the problems. But we are learning very, very rapidly from you.

We have a lot of environmental problems in Mexico. We have about 18,000 lawyers in Mexico, but we have only 80 environmental engineers. We are going to need your expertise, your consulting engineers, your producers of goods and services in this country.

Homegrown

Edited excerpts of remarks by Edson Spencer, former CEO, Honeywell, Inc., to the Citizens League, Minneapolis/Hennepin County Office of International Trade, and University of St. Thomas on Nov. 16.

How does Minneapolis compete?

The reason we compete for global headquarters is because the companies that are here have gone international. You don't decide you're going to go global and then suddenly move to Seattle or Los Angeles.

I think the real question to address is, What are the competitive factors in this area that cause companies to be formed here, to grow here, and to help them then become global as they expand their scope and their thinking?

Having an airplane hub with non-stop or one-stop service to Europe and Asia and Latin America is a very, very critical factor in encouraging you to do international business.

What factors inhibit competitive growth?

We have a great lack of ability in this state to attract companies from other countries. I think we could do a better job of promoting our state outside the borders of the United States.

Telecommunication

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tainly become part of the debate about the pace and scale of telecommunications investment in Minnesota. The PUC issued an order on Dec. 1 asking for public comments within 45 days on whether the commission "should order implementation of the specific... recommendations contained in the Final Report."

In essence, it identifies the current capacities of Minnesota telecommunications, describes what is needed beyond the year 2000 and, finally, analyzes the advantages and disadvantages of three different paths leading to that future. The study group puts forth short-term, intermediate and long-term goals it believes should be met in order to complete the movement to a broadband telecommunications infrastructure.

In the area of short-term goals the group believed the telecommunications industry's time frame for implementing single-party service, custom calling, touchtone service and equal access to long distance carriers to be adequate. Plans call for full capability for all these features between 1994 and 2001.

However, in the intermediate range the group recommended more rapid deployment of a key feature in the move toward full broadband throughout Minnesota. That key feature is SS7 (Signalling System 7), a technology that supports services such as caller identification, call blocking, automatic call-back and others. While industry plans call for 79 percent of telephone access lines to have SS7 capability by 2001, the study group calls for 100 percent capability by the year 2000.

While the group urged the industry to move more quickly on SS7, it failed to support more rapid deployment than industry currently plans of a technology called ISDN (Integrated Services Digital Network), which allows voice, data and video to travel simultaneously over a single, digital telephone line.

Long-term goals
The central long-term recommendation of the study group calls for the introduction of advanced telecommunications services throughout the state based on broadband technology,

suggesting a target date of 2015. The Citizens League urged *swifter* action, calling for a target date of 2005.

If Minnesota proceeds at the pace envisioned by the study group, we will remain in the middle rank of states in the transformation process. By this vision Minnesota will not be a leader in the telecommunications transformation ahead.

It is quite likely that some states, including Tennessee, New Jersey and North Carolina, among others, will have a higher level of interconnected capabilities before we do. Those states may bear the burden of temporary rate increases, shareholders may receive lower profits temporarily or companies may temporarily have lower retained earnings in order to achieve that result. But political leaders in the states at the forefront of this change believe they will secure lasting economic and social benefits to their states by taking some risks to move quickly now.

The study group did not share that belief. It looked at the risks and benefits of accelerated broadband deployment through three scenarios: the "Build It and They Will Come" scenario, the "Market Demand/Deployment" scenario and the "Industry/Public Joint Action" scenario.

The "Build It and They Will Come" scenario would be based on a legislative mandate to deploy broadband capability to most of Minnesota and to support this with switches and interoffice facilities ready to handle broadband services by some stated date—for example, 2005. It presumes that with a network in place, the demand for services will materialize. This is similar to the decisions already made in Tennessee and New Jersey.

While recognizing the obvious advantages of this approach—including accelerated availability of remote medical, education, government, elder care and entertainment/information services; the potential for economic growth benefits; and reduction of transportation costs and environmental damage through telecommuting—the study group did not endorse this scenario. In the group's view, the disadvantages of uncertain cost, uncertainty about the best broadband technology, possible

high regulatory costs of mandated deployment, uncertainty about customer demand and uncertainty about ability to recover costs offset the appeal of the advantages.

The "Market Demand/Deployment" scenario assumes that the needs of Minnesota will be met if decisions to deploy broadband occur in response to market demand. In this approach the economic decisions of the telecommunications industry determine results based on their views of market demand, ability to recover costs and choice among evolving technologies.

A clear disadvantage of this approach is delayed deployment, not until the year 2015. Furthermore, it runs the great likelihood that some people will be "information rich" and others "information poor," since initial deployment will be to more lucrative selective markets. Large users will see these services first, individual residential and small businesses later.

The third scenario, the "Industry/Public Joint Action" scenario, would depend on an agreement between industry and policymakers to deploy, by a date certain, a broadband infrastructure ubiquitously to public and social institutions, such as schools, libraries, hospitals, government offices and universities, leaving individual residence and business users to the "Market Demand/Deployment" scenario. This scenario assumes that the market would not adequately provide broadband services to some segments of society and that public policy should ensure that institutional public welfare is met through targeted accelerated deployment.

The study group believes that this third scenario would help stimulate more general demand for broadband services, foster the entry of competitive providers and bring social benefits in education, medicine and public services to institutions in all areas of the state. However, it cautions that policymakers may misjudge the usefulness of deployment, leading to unwise, excessive spending and that the policy choices for funding and cost recovery are not self-evident.

Having considered all three scenarios, the study group rejected the full accelerated deployment scenario and hedged its bets on the other two: "If



economic efficiency and governmental and budgetary constraints are given the greatest weight, then the 'Market Demand/Deployment' scenario is recommended." But "if policymakers feel that societal and economic benefits justify the advancement of broadband deployment sooner than would be accomplished by the second (market) scenario, then the study group recommends that a version of the 'Industry/Public Joint Action' scenario be considered."

This report reflects the necessity of writing a consensus document acceptable to the usual set of interests in telecommunications policy.

Industry is likely to prefer the Market Demand/Deployment scenario. Regulators are likely to be cautious about full accelerated deployment, since they are involved in setting rates. User groups are likely to fear possible rate increases, rather than voting for the services of tomorrow. It was highly unlikely that a bold vision of Minnesota's telecommunications future could emerge from this mix of interests and motives.

In states that have made an accelerated deployment decision, top elected leadership embraced the issues, led the debate and enlarged the circle of interests. But not in Minnesota. We *do* have the ability to make bold decisions. We have had an extraordinary focus on health-care issues, for example, and policies are now in place here that move ahead of the national curve. It is time to hear from those who will do the same for Minnesota's telecommunications future.

Milda Hedblom is a professor at Augsburg College and a communications consultant. She is a former staff member of the Federal Communications Commission, chaired the 1990 Citizens League study on telecommunications and served on the Minnesota Telefuture Study Group.

Public Pay

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ensure equal pay for jobs of equal value. All jurisdictions covered by the state's Pay Equity Act are required to have a more formal methodology of internal evaluation that compares jobs one to another and defines an internal classification hierarchy from low to high based on those values.

Public sector as monolith
Frequently, it seems that writers, speakers or citizens in general do not or perhaps cannot clearly differentiate public sector organizations one from the other. To them, the umbrella term "public sector" seems sufficient. But discussions based on this monolithic view tend to mask considerable differences that exist among cities, counties, schools, hospitals and other agencies placed under the "public sector" umbrella term.

In fact, there are different constituencies served, differences in the variety and volume of services provided, different organizational structures required to deliver services, and, therefore, different compensation costs required to manage, staff and deliver whatever services are expected and/or provided.

Governance
All organizations need focused and

effective governance to survive, prosper and mature. Focused and effective governance is absolutely required to enable and empower an organization's management team to plan, manage and evaluate results being achieved. If and when individual members of a board, council or commission cross the line from governance to managing, there is usually trouble.

Governance is a demanding process and governance can be particularly difficult in a public arena. Those chosen to govern must do so in the most collective and collaborative manner possible. That's a challenge when the road is frequently mined with undefined expectations, conflicting interest groups, individual alliances and agendas or lack of direction and conviction.

Finally, there are differing and distinct policy issues in and among cities, counties, commissions, hospitals and agencies that impact the governance process in each type of organization. But from a pay administration standpoint, they all share a common obligation for reviewing, evaluating, confirming and affirming their organization's total compensation philosophy.

Political realities and pay practices
Every few years, someone re-asks the question, "How many X- thousand dollar jobs should there be in

(some segment of) the public sector?" Articles remind us that for every one of us ordinary citizens, there are now X-number "public" employees! Public pay actions taken (or not taken, as in a freeze) are argued from an absolute right or wrong position.

Some citizens are increasingly scrappy over increased taxes and funding for services not seen as personally beneficial either in the short or long term. As this herd mentality snowball picks up momentum and mass, thoughtful dialogue is steam-rollered, leaving flat, one-dimensional questions or answers that are attractively simple.

The more important and complex question to ask is, "To what degree is the specific organization (city, county, school, hospital or agency) correctly structured, positioned, staffed and managed to deliver, within available resources, those services it is *expected* or *mandated* to provide?"

The right question creates a broader framework for more productive and holistic organizational review focused on outcomes and performance against expectations.

Performance management
Two of today's more popular buzz words from the writers' and speakers' lexicon are "reinventing" (government) and "reengineering" (of

any type organization). Both concepts require the prompt, absolute reinstatement of understanding and meeting "customer" expectations as the bellwether of quality and success.

As organizations busily reinvent and reengineer, they must also rediscover the concept of doing more with less. Limited resources will demand it.

Predictions are iffy, but here's one: From an organizational perspective, there will continue to be fewer hires and/or reductions in force. Those who remain will work together in redesigned relationships. There will be a greater need than ever to establish clear and measurable performance standards on an individual, group and collective basis and to make base pay more contingent on performance in relation to such standards.

Organizations that are unaware of this evolution, or that recognize but still ignore it, might have their futures decided by persons or powers other than themselves.

Rod Kelsey is principal and corporate vice president of DCA Stanton Associates, which has consulted and surveyed on public sector compensation in the Upper Midwest for nearly 40 years.

Spending

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be way above what was minimally necessary in these cities, while relating spending on other services vari- significantly. In the Twin Cities suburbs, spending patterns are mixed, though they generally spend a little less than is minimally necessary on police.

New aid formula
The second part of the CORE report builds on the first part and recommends a new needs-based city aid formula to replace the current Local Government Aid (LGA) and Homestead and Agricultural Credit Aid (HACA) programs. The proposed formula is based on the principle that the state's responsibility to cities is limited to help in providing what the commission called "basic, minimum and adequate" levels of service, when local resources are insufficient to provide such services.

The proposed formula would provide state aid to fill the gap between "basic spending need" and "basic revenue-raising capacity" for each city. Basic spending need is the amount determined for each city in the first part of the report for fire, police, streets, parks and recreation, administration, and other services. Basic revenue-raising capacity is the capacity of the city to raise revenue from property taxes, special assessments, fees and various other sources.

For property taxes, special assessments and fees, capacity measures how much revenue a city *could* raise with reasonable effort, rather than how much it actually raises or has raised in the past. The commission determined, by looking at average city behavior in Minnesota, that each city should be expected to raise 23 percent of total net tax capacity in property taxes and special assessments and \$85.40 per unimproved resident and business in fees.

Currently, the state distributes general purpose aid to cities through the LGA and HACA programs. A little over \$400 million was distributed in 1993 to cities with populations over 2,500 through these two programs. LGA is distributed solely on the basis of local property value: cities with more property value of specific types get more aid. The present HACA allocation is not well related

either to a city's need or to its capacity to raise funds from its own sources.

LGA distributions have been frozen (with some adjustments) since 1990. The 1990 formula determined need on the basis of city size, city location, and population change. Aid amounts were based on the ratio of a city's current levy to its need, although previous aid amounts were "grandfathered."

Beginning in 1994, new LGA dollars, beyond grandfathered amounts, will be distributed according to a need/capacity gap formula. In this formula, need is determined on the basis of housing age, the percentage of a city's property that is commercial or industrial, city population and city population decline. Revenue-raising capacity is the city's tax capacity times the average state property tax rate. For every new dollar added, one dollar of grandfathered aid is "ungrandfathered" and distributed by the formula.

State aid to cities through the current LGA and HACA programs is hardly related to need or capacity, so numerous inequities exist. Some cities with high need and low capacity get less aid than do other more comfortably situated cities. And the current aid

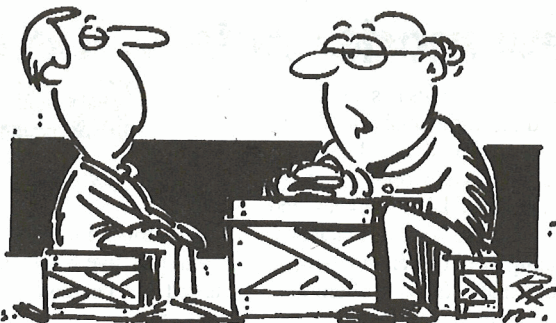
programs ignore how efficient or inefficient a city is in providing a service. The CORE approach could accomplish greater fairness and greater efficiency and could do so with less overall spending.

State commitment to supporting city services should end at the basic, adequate level. These services are not "entitlements" with significant consequences for the future of the whole state, like education. While the state has a moral and practical obligation to ensure very high quality education, it does not have the same obligation to services like fire and parks and recreation.

Some cities have more wealth than others, as do some people. Those cities may be able to provide more services, but they also will get less state aid. Just as it is not the state's

responsibility to ensure that all citizens have the same income, it is not the state's responsibility to ensure that all cities provide the same level of services. The state should help cities provide adequate roads, parks and police and fire protection. Local taxpayers should be responsible for the costs of any services above and beyond the basic level.

Theresa Van Hoomisen is currently at Yale University's Institution for Social and Policy Studies. She served as staff to the Commission on Reform and Efficiency. John Brandl is professor at the University of Minnesota's Humphrey Institute and was a member of the commission. The first part of the CORE report, dealing with city expenditures, is available now and the second part, dealing with state aid, will be available in January. Call 297-7041.



It's your basic "basic need level."...

Spending

Continued from page 1

government administration and "other" services. Excluded were services offered by only a small percentage of cities or services provided by most cities on a self-supporting basis, such as garbage collection, ambulance service, economic development, housing and redevelopment and transportation. All Minnesota cities with populations over 2,500 are included in the study.

The report examines actual city spending in 1990 (the most recent year data were available) for each service relative to "workload"—factors outside the control of city officials that affect the need for spending on a specific city service. For example, fire workload depends on the number and types of structures in a city, adjusted for the city's

age and the number of vehicles in it.

Most other studies that compare city spending show how spending per capita differs among cities. The CORE comparisons are an improvement because they take into consideration the industrial, geographic and socio-economic characteristics of a city.

As expected, the report shows that cities with greater workloads generally had higher spending. Nonetheless, there are cities that have similar workloads but spend very different amounts on various services.

The commission developed adequacy standards for each service. For example, adequate fire services meant having reasonable fire losses in recent years, having a relatively low insurance service rating and having a volunteer fire department. (A separate paid-force standard

was used for Minneapolis, St. Paul, Duluth and Rochester.)

CORE then determined "basic, adequate" spending by looking at what it actually costs Minnesota cities with different workloads to deliver adequate service in a reasonably efficient manner. Cities with unusually high expenses (more than 50 percent above the cost expected for their workloads) and cities providing services at less than adequate levels were excluded from the calculations of "basic" spending.

The report then compares each city's actual levels of spending for various services to the "basic" level expected for the city's workload levels. (See accompanying table.) Cities may spend more than the "basic" amount because of costly practices or because local citizens want more or higher quality services and are willing to pay for them. Likewise, cities

that spend less than basic amounts may be highly efficient or may be responding to local demands for fewer government services.

The study found, for example, that cities that operate all-volunteer fire departments generally provide fire protection both adequately and at significantly lower cost than the 41 cities that have all or part paid fire departments. Also, cities that contract for services with other government units often do so at significantly lower costs to their citizens.

The commission found that the central cities (Minneapolis, St. Paul and Duluth) generally spend substantially more than necessary to provide a basic level of the services studied. This was also generally true of other regional centers around the state. Fire spending especially tended to

Continued on page 7

1990 CITY SPENDING COMPARED TO BASIC SPENDING NEEDS (SELECTED CITIES)							
CITY	TOTAL SPENDING	STREETS	POLICE	FIRE	PARKS	ADMINISTRATION	OTHER
CENTRAL CITIES							
Minneapolis	39 %	28 %	34 %	0 %	56 %	81 %	115 %
St. Paul	23	15	28	59	11	-4	64
Duluth	27	-9	12	101	10	75	98
REGIONAL CENTERS							
Albert Lea	31 %	-14 %	55 %	329 %	46 %	3 %	19 %
Alexandria	-5	-40	27	5	-34	50	53
Bemidji	-5	-29	17	39	-30	36	-26
Brainerd	-4	-4	6	115	-44	-25	1
Fergus Falls	37	6	39	-27	77	35	136
Mankato	14	18	-10	267	-16	-11	48
Moorhead	34	0	25	362	68	3	51
Rochester	17	1	7	37	147	-40	10
St. Cloud	22	32	1	457	-35	20	-55
Willmar	23	-13	34	115	23	41	105
Winona	38	-7	21	641	58	11	-8
SUBURBS							
Blaine	-7 %	37 %	-17 %	9 %	-34 %	-31 %	12 %
Bloomington	30	69	-11	5	-2	24	90
Brooklyn Park	24	34	1	-39	11	6	133
Burnsville	18	18	12	217	5	24	-8
Coon Rapids	2	6	-6	177	-23	-1	-8
Eagan	12	29	-5	-12	28	73	-81
Eden Prairie	13	24	-20	24	51	33	-17
Edina	-18	-23	-17	129	-26	-37	-4
Maple Grove	1	62	-24	77	-19	-36	-12
Minnetonka	-8	-28	-1	2	-1	15	-28
Plymouth	-4	10	-32	1	-24	-10	45
Richfield	2	-48	24	174	65	-13	-59
St. Louis Park	1	-16	2	97	15	-13	-3

Source: Commission on Reform and Efficiency

New model puts value on families' household labor

Classical economics has always assumed that individuals choose between consumption and investment and between work—meaning work in the paid labor market—and leisure. “Leisure” thus has included everything from power shopping at the megamall to Sunday-afternoon touch football to cleaning the oven and feeding the newborn at 2:00 a.m. That model always seemed suspect, particularly in light of findings that the typical married couple spends 25 percent of its discretionary time on chores such as cooking, cleaning and child care, compared to 33 percent on work for pay in the market.

A new study from the Federal Reserve Bank of Minneapolis has analyzed how households divvy up their time between home and market labor, and their capital between household investments—say, a new dishwasher—and business investments. The researchers found that their multi-dimensional model, which places the household sector on equal footing with the business sector, does a much better job of explaining the economy's ups and downs than do standard business-cycle models.

Their model also helps shed some light on the economic impact of what has typically been “women's work.” More study is needed about how families choose between home-work and market-work. That information will be invaluable to policymakers concerned about delivering a host of costly services, such as caring for the infirm elderly, that have historically been provided by families—usually women.—*Janet Dudrow.*

Attorney General Hubert H. Humphrey III and his counterparts from 36 states have written to Congress, urging it not to adopt a blanket exemption from federal antitrust laws for health-care organizations. Although not part of the Clintons' health reform proposals, many provider organizations have recommended that antitrust relief be part of national reform.

Back in Minnesota, the Commissioner of Health is reviewing the hospital merger that created the HealthSpan system last year. Humphrey's office and HealthSpan have apparently agreed on terms to shorten the review. Humphrey had originally proposed that the request

Take Note

Points for public affairs pundits to ponder while peeling potatoes.

for antitrust immunity be heard by an administrative law judge in a contested case hearing, a full judicial process.

In exchange for a less extensive review, HealthSpan will not add other Twin Cities hospitals to its system or enter into exclusive relations with new integrated service networks or other payers for the next few years. That would rule out some of the more far-reaching arrangements that HealthSpan and Medica have been discussing in recent months, but would permit a nonexclusive ISN to be formed by the two organizations.—*Allan Baumgarten.*

Ten years ago St. Paul-Ramsey Medical Center was a troubled public hospital, losing its traditional financial base as the law increasingly gave public-pay patients choice of doctor and hospital. Today the medical center has a bright future as a part of the first merged health-plan-and-hospital, as the HealthPartners medical group replaces Ramsey Health Care, the “public benefit corporation” created in the late '80s when the Legislature spun off the medical center from Ramsey County.

Interestingly: The county will continue to own the physical property, leased to the medical center, and the medical center will continue to have its obligation under law to provide care for the medically indigent of Ramsey County.—*Ted Kolderie.*

Education policy types, parents, teachers, students and anyone else concerned about public K-12 education in Minnesota have a new place to look for information. *Jola Education Monthly*, the brainchild of Minneapolis journalist Dennis Schapiro, published its second issue in December.

Schapiro, who operates a publishing company and has written a syndicated column on Minneapolis schools for neighborhood newspapers, hopes the new publication will be a vehicle for a “public accounting” of education by those who watch education closely and others who *should*. He hopes it will provide a minimum

level of information that reasonable people need to foster constructive debate about education.

Reaction to the first issue was positive, although Schapiro says people's immediate response is, more often than not, skepticism: What in the world is “Jola?” What is its agenda? The mysterious name *Jola* is simply a tribute to Schapiro's sons, who contributed a few letters from their first names to create the title. And Schapiro says his agenda is to elevate the level of information available to people interested in education.—*Dana Schroeder.*

It's easier to understand the stories about “tax increases” when you distinguish among the *budget*, the *levy* and the *tax bill*.

The budget—the total spending and revenue program—could go up without the levy on property (or anybody's property-tax bill) going up. Say, if the school board got a big federal grant to spend.

The levy—the dollar amount to be collected from property taxpayers in total—could go up even if the budget didn't go up. Say, if a big federal grant came to an end.

Your tax bill—the amount you actually pay on your property—could go up even if the levy didn't go up. That could happen if your property rises in value (or if other properties drop in value) so that your property becomes a larger proportion of the tax base and therefore bears a larger share of the levy. In Saint Paul,

finance officials say, the tax bill for a home (not raised in value) would go up six percent for 1994 even if the budget and the levy did not go up at all... simply because homes now become a larger proportion of the tax base.—*T.K.*

A friend who tracks government's approach to problems reports: “More and more lately I've seen cars parked beside rather than between meters on the curb. At first I thought the city would go down the ‘enforcement’ path: I began to see little stickers on the meters warning drivers about right-way and wrong-way.

“Maybe somebody decided drivers are pulling up even with the meter because they want to see the dial. At any rate, the city is now angling the meters so a driver can see how much time is left while parked in the ‘right’ position.”—*T.K.*

Policy wonks say the darndest things. Sound bites we liked this week include (from the aforementioned study of home economics): “Zero taxation is clearly counterfactual.” At a recent meeting in which the question of how to convince the public to do the right thing was debated, Bill Blazar noted that “the only thing that sells worse than equity is the long run.” And we recently received a letter that began with what may be the *ne plus ultra* of salutations: “Dear Solid Waste Report Reader.”—*J.D.*

Contributors to “Take Note” this month include Minnesota Journal and Citizens League staff members and Allan Baumgarten, a consultant on health-care policy and finance.

**Minnesota Journal
Citizens League
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Citizens League Matters

December 14, 1993

News for Citizens League Members

Welcome new members

Connie Carrino, Jeanine Churchill, East Central Regional Library, George Emslie, Robin J. Carpenter, Harley Gee, William Jenison, Phyllis Gene Jones, Jill Konrath, Ray Lavoie, Candace Lindgren, Sue Luedtke, Alan M. Mendeloff, Brad Merker, Kirsten Meyer, Marc Mosiman, Roland Olson, Juan Jose Palacios, Allan Patek, Jennifer Peterson, Eugene Piccolo, Jane Qastin, David Saunders, Melanie Broida, Sandra Whalen, Perry Wilson and Steven Yager.

Welcome Back

Thomas B. Connery, Arnold P. Kaplan, Eldon G. Kaul, Kathleen L. Kaul, Lloyd G. Kepple, Johnell J. Kusler, Larry Litecky, Michael Mack, Susan D. Mainzer, Richard Meinhard, Paula Pentel, Robert E. Perkins, Charles E. Rice, Ferdinand P. Schoettle, Norman Senjem, Eric Sheppard, Elin Malmquist Skinner, Harlan M. Smith, Linda Stein, Jim Stubbe, Donna Youngkrantz and Jeff Zlonis

Gift memberships given by:
Frank Johnson and Jim Scheu

Give a gift membership!
You get a tax-deductible contribution, your recipient enjoys the benefits of membership and the McKnight Foundation will double your gift to the League.

Program update

Housing Committee drafting recommendations

The Committee on Housing Policy and Metropolitan Development has wrapped up its research phase and is now drafting recommendations.

The committee shared its early findings with Citizens League members at Speak Ups! held on November 16 and 18. Participants in those meetings agreed that regional strategies are needed to reverse the trend toward poverty concentration. But they were less than unanimous about the best strategies to do so.

"Subsidization should take place to give people money for housing, and then they make the selection as to where they live," one participant said.

Another said "moderate homes should be built throughout the metro that can house poor people. Or perhaps subsidize multiple units to get the price down to where the poor can afford them, as long as we don't create a reconcentration of poverty within new locations."

And another cautioned, "we haven't nailed down the impact of race; we need to look at this."

Speak Ups! were also conducted in cooperation with the **Fourth Baptist Church** in Minneapolis, **Minnesota Multi Housing Association**, **Westminster Corporation**, and **Medtronic, Inc.**

The League has sponsored 12

Speak Ups! and involved over 250 people in the housing study.

The committee will consider the comments from the Speak Ups! as it develops its final report.

Special thanks to Speak Up! hosts and moderators:

Len Adler, Tom Bellamy, Pat Davies, Chris Donaldson, Jim Dorsey, Kim Erickson, Jeff Hazen, Steve Hetland, Barbara Lukermann, Dean Lund and Heidi Schneider.

Mind-Openers return to St. Paul in January

The next Mind-Opener breakfast series will begin January 11, 1994 at the University Club of St. Paul, 420 Summit Avenue.

As a prelude to the Legislative session, the series will look at a variety of initiatives for reforming government structure.

Topics will include items from **Governor Carlson's** legislative agenda such as term limits, initiative and referendum for tax increases. More radical proposals such as a unicameral Legislature or a parliamentary system will also be discussed.

Watch for details in the mail around the first of the year.

Budget report makes headlines

The Citizens League released its new report, *Minnesota's Budget Problem: A Crisis of Quality, Cost and Fairness* at a December 3 news conference at the Capitol. The story was covered by the Star Tribune and St. Paul Pioneer Press. Committee co-chair **Jean King** was featured in an on-air interview with MPR.

The *Pioneer Press* editorial writers said "to bring spending and revenues into balance, the League offers a valuable new set of principles intended to yield greater value for the public dollars being spent and greater fairness in the public benefits being provided."

The *Star Tribune* commended the committee for delivering up a "porterhouse-sized plateful" of reform recommendations, but challenged the League (with its "considerable resources") to do more: "They also deserve a follow-up assignment: the design and execution of a strategy for selling the Legislature and a skeptical public on the merits of their ideas, and for implementing them with a minimum of service disruption or sudden shifts in taxpayers' burdens."

Copies of the report, and brochure-sized summaries, are available from the League office.

Volunteer opportunities for League members

League members pilot Speakers Bureau

The Citizens League is in the process of starting a Speakers Bureau. It will be a volunteer-driven effort which will increase general awareness of the League, promote League policy positions and activities and build League membership.

For starters there are three different kinds of volunteer opportunities:

1. Sign up as a member of a Speakers Bureau task force. The task force will handle administrative tasks such as soliciting, scheduling, preparing support materials and arranging logistics. No public speaking will be involved.
2. As an experienced public speaker, begin immediately to fill speaking engagements with civic, commercial, service and other groups.
3. As a would-be public speaker, work with a group

(potentially a Toastmasters Club chapter) to develop presentations and build individual speaking skills; speaking engagements will follow after instruction.

Potential audiences are being contacted now. The first speaking engagements will begin in January. Initial themes will be the new report on Minnesota's Budget Problem and general awareness of the League.

Other themes, such as the current housing study, will be added as participation levels increase. We encourage members of recent study committees to volunteer to spread their committee's message.

If you are interested in participating in any of these options, or if you know of a group or organization which might enjoy hearing a presentation, please contact Dave Hutcheson at 884-6907.

Standing Committee sign-up to begin in January

The Board of Directors recently approved a new structure for the League's organizational, or standing, committees.

League members will be invited to serve on the following committees: Development, chaired by **Bill Johnstone**;

Member Services, chaired by **Cathy Kennedy**; Program Strategy, chaired by **Robbin Johnson**; and CitizenSpeak, which will pilot the Speakers Bureau project outlined above, chaired by **Dave Hutcheson**.

McKnight challenge grant ends December 31, 1993

As noted last month, the League has achieved the extra contribution portion of the McKnight matching grant. But we are still \$6,500 short of the \$25,000 grant to match new member dues. You can help by making a contribution to the League as a gift membership

for a friend, colleague or family member or by simply designating the contribution for a new member. It's a win-win-win. Your tax deductible gift is doubled by the McKnight Foundation and gives someone the benefits of membership.

Joe Loveland Joins Citizens League Staff

Joe Loveland has joined the League as a Research Associate, following seven years as a policy advisor to U.S. Senator Tom Daschle (D-SD).

Loveland earned a Masters degree from the University of Texas at Austin's LBJ School of Public Affairs in 1990, after graduating from South Dakota State University in 1984.



From 1984 to 1988 and 1990 to

1993, he served in Senator Daschle's Washington office as Liaison to State and Local Officials, Senior Legislative Advisor for Energy and Environmental Issues, and most recently, as Issues and Communications Director.

After moving his family from Washington to the Twin Cities in May 1993 for "quality-of-life reasons," he served briefly as Campaign Manager to St. Paul mayoral candidate John Mannillo. The Sioux Falls, South Dakota native, his wife Jodi, and two-year-old daughter Alexandra live in Maplewood.



A community resource

For more than forty years, the Citizens League has helped shape character of our metropolitan region. Here are some examples of Citizens League resources benefitting our community.

Four members of the housing committee were panelists at a conference on race, poverty and housing policy sponsored by the Hubert H. Humphrey Institute on December 3. **Fran Davis, Dean Lund, Mark Pridgeon** and **Many Ann Van Cura** responded to a presentation by **Dr. Wilhemina Leigh** of the Joint Center for Political and Economic Studies.

Housing committee chair **Randy Peterson** and research associate Janet Dudrow presented an overview of the committee's findings to the newly-formed Governor's Task Force on Affordable Housing on November 30.

Ed Dirkswager met with Human Services Commissioner Haas-Steffen on the state budget report. **John Brandl**,

Lyle Wray and Janet Dudrow met with the editorial board of the *Star Tribune* on the state budget report.

Executive Director Lyle Wray was busy as usual. He testified on the League's position on campaign finance reform before the Amdahl Commission, spoke with a group of international fellows at the Humphrey Institute on the Citizens League and citizen involvement in public policy development and gave a presentation on reinventing government to the Minnesota Public Works Association.

Wray also spoke about the role of counties in health care reform to over 600 people at the 85th annual general conference of the Association of Minnesota Counties.