Minnesota Journal

Inside This Issue

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Decline in area business tax base leaves less for metro fiscal disparities pool

by Dana Schroeder

Twin Cities area cities will share less commercial-industrial (C- I) tax base this year than last under Minnesota's tax-base sharing law, also known as the state's fiscal disparities act. It's not that they're be[illegible]ingy. It's that commercial-in[illegible]al (C-I) property values have declined in the region as a whole, so there is less tax base to share. A one-year decline of $40 million—or about four percent—in the value of the region's C-I tax base has led to a five percent decrease in the amount of tax base to be shared in 1993.

But the amount of shared C-I tax base is still significant: $289.1 million—or 31.5 percent—of the total C-I tax base of $919.0 million. Last year the cities shared $305.1 million—31.8 percent—out of $959.3 million. (Excluded from this tax base is property within tax-increment finance districts established before 1979 and property in the city of Sunfish Lake, which is ineligible to participate because it excludes C-I development.)

The 1971 law requiring the sharing (renamed in 1992 the Charles R. Weaver Revenue Distribution Act in honor of the late Anoka legislator who authored it) was designed to lessen the disparities among communities' tax bases and allow all metro area cities to share part of any C-I tax base growth in the region, despite its location. Property tax bills in cities that gain tax base under the program are lower than they otherwise would be.

Cities contribute 40 percent of their C-I tax base growth since 1971 to a regional pool. Each city then receives back a portion of that pool based on its relative shares of population and market value. Communities with relatively poor tax bases per capita receive more from the pool than they contribute. Those with relatively wealthy tax bases contribute more than they receive. The law

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Health commission cost containment strategies offer chance to test reform

by Allan Baumgarten

Second of two articles.
Basking in the glow of favorable editorials and a warm legislative reaction to its report, the Minnesota Health Care Commission is now adding the details to its cost containment propo[illegible]s and preparing to steer its [illegible]rough the Legislature. At the same time, a number of other initiatives now underway create an intriguing opportunity to test health-care reform at the state level.

The 25-member commission was created by the 1992 HealthRight law, which committed the state to ambitious goals of expanded access and cost containment. The law gave the commission a long list of responsibilities, the first of which was to develop a cost- containment strategy that would reduce the rate of growth by at least 10 percent a year for each of the next five years.

Gov. Arne Carlson appointed Tom Swain, a retired St. Paul Companies executive, to chair the commission. Swain had tackled issues of health-care cost and quality in the mid-1980's, when he led a Minnesota Coalition on Health project, which eventually foundered, to collect and report comparative data.

In a remarkable display of consen-

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Value audits producing results

Quietly, methodically and systematically Britain is reinventing its local government—in ways quite unlike the approach described in Dennis McGrath's Jan. 12 report in the Star Tribune *on Visalia, California. There is nothing flashy at all about the value-for-money consulting that has been worked into the annual audit of local authorities in Britain since 1982. "Auditors," says Peter Brokenshire, "are people who find accounting too exciting." But it is beginning to produce change and to pay dividends.*

Brokenshire, the most recent controller of the Audit Commission for England and Wales, was in Minnesota Jan. 27 to Feb. 3 at the invitation of the Metropolitan Council. He met and talked with the Council, legislators, the Legislative Audit Commission staff, the Governor's staff and department heads, local officials, school district officials, the CORE commission, the State Auditor's office and others. Ted Kolderie talked with Brokenshire about the commission's work

Are there really savings to be had?
Oh, yes. Our work consistently turns up roughly a three-to-one spread between best practice and worst practice. It doesn't seem to

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State budget: Breathing room and a breath of fresh air

It has been said that a good leader is one who can tell people what they do not want to hear in a way that convinces them to accept the facts, who can get people to eschew self-interest and to share the burdens of solving public problems. Clearly strong leadership is *not* the path of least resistance. It *is* what we need to address the problems of the state budget.

Viewpoint

by Lyle Wray

Minnesota continues to limp from one budget crisis to the next. State leaders have managed to balance the budget each biennium but have failed to resolve the structural imbalance between the state's revenues and spending. Going beyond this patch-over-patch strategy requires real change, not tinkering. Minnesota needs a new design for government that gives citizens their money's worth.

Over the past two years, the Governor has laid out a number of steps to "reinvent government in Minnesota," including integrating children's services and moving toward performance budgeting. The Legislature will no doubt add a number of proposals in the current session to address key issues from regional government to economic development.

During the coming session and in the lead-up to the 1994 election, the principles the Citizens League study committee on state spending has outlined may offer some useful guidance. To tame our budget crises, the committee says, government should:

- *Target* tax and tuition subsidies to individuals who need them, rather than to institutions.
- Pay for *results,* not for effort.
- Promote effective *competition* among many service providers to improve quality and control cost.
- Meet more public responsibilities through *families, churches, and neighborhoods,* and rely less on professionals and institutions.
- Spend public dollars as investments *to promote economic growth.*

A 1992 League report added that government should audit local government for results—cost-value audits—rather than focus exclusively on financial controls.

Clearly, there will be a struggle between good government and good politics as specifics to implement these general principles are put forward.

Proposals for short-term solutions such as a wage freeze don't create fundamental change. They do buy time for preparing for fundamental change *or* for delaying confronting the real issues before us. The question is, How can we assure the breathing room provided for real change is used for that purpose rather than for preparing yet another patch for the budget?

There are many ideas in the air—from "reinventing government" to the Commission on Reform and Efficiency to the proposed Commission on Government Innovation—that will need to be welded into a coherent agenda to be effective.

Beyond the restructuring needed to address the underlying problems in the budget imbalance lie key issues of defining the type of regional community we want to be evolving toward and determining the necessary steps to steer in the right direction. In addition, we should be concerned about the economic base beyond the perennial, but important, issues of taxation levels and the cost of doing business in the state.

The Governor's budget concedes that many of its elements provide short-term breathing room rather than fundamental reform. He rightfully acknowledges that the political system can only tolerate so much reform. Why not, then, move aggressively now to lay out a blueprint of more sweeping, lasting reform and take that plan to the public as a referendum for the 1994 election?

Minnesota voters deserve a broad-based discussion now of detailed proposals for genuine change—both from the Legislature and the Governor. Let's turn the breathing room into a breath of fresh air addressing our pressing needs for reform.

Lyle Wray is executive director of the Citizens League

State needs effective health-care cost containment

Edited excerpts from remarks by Sen. Linda Berglin (DFL-Minneapolis), chair, Senate Health Care Committee, to the Citizens League on Jan. 26

Without health-care cost containment that is effective, most of the things we did in the legislation last year will not be long lasting and will not be effective. Insurance reform cannot go forward without health-care cost containment. Attempts to provide health care to the uninsured will be very difficult without cost containment.

The blueprint the Health Care Commission has presented to us about how to reduce the cost of health care in Minnesota is not the final answer to these issues, it is rather a strategy and a series of first steps.

The real heart and soul of the report are the ways in which we can create global budgeting for our health-care services. The report does that by asking us to create incentives to encourage the development of integrated service networks. These would be networks of health-care providers that would provide a wide array of services at a fixed price.

We would encourage the development of these integrated service networks to compete with each other. The creation of integrated service networks should control costs because it would be in the interest of an integrated service network to keep people healthy and to provide only the care that is necessary.

The report indicates the commissioner of health will set global spending limits on the rate of growth in health-care spending. The commissioner will enforce those limits by setting overall limits on each integrated service network and by creating a regulated system for non-integrated service network providers.

In circumstances where competition produces inefficiency or overcapacity, the commission recommends that we manage collaboration between providers and networks. We should be streamlining administrative costs. The report indicates that non-ISN providers would have purchases of technology regulated by the government.

The report tries to make sure the rules and regulations the Department of Health will be creating in response to the MinnesotaCare legislation passed last session will take into account the need for creation of ISNs. The data bank we develop in order to measure the costs in the health-care system will be an integral and very crucial part of making sure we are successful. Without good data we cannot hold anyone accountable to any standard we might set.

Practice parameters, as well as making information public about health outcomes, will help us in terms of being able to evaluate the success of ISNs and will help ISNs become more competitive. They will also help consumers make wiser choices about using their health-care services.

Some editors laud health panel's job; others wary

On Balance

"An unconditional right to say what one pleases about public affairs is what I consider to be the minimum guarantee of the First Amendment."—H. Black

Duluth News-Tribune praised (Jan. 21) the report of the Minnesota Health Care Commission: "It is positively amazing the diverse interests on the health care panel agreed unanimously on major reforms designed to slow the growth of health care costs." Similarly, the **Rochester Post-Bulletin** said (Jan. 30) that the commission's work is "a promising proposal and one that is based on the idealistic premise that the multiple stakeholders in the system can work together for the public benefit."

Meanwhile, **West Central Tribune** of Willmar was more cautious (Jan. 27) about the commission's proposal for competing networks: "Because participation would be voluntary, we'll have to wait and see if there will be any results. We're not holding our breath."

Post-Bulletin applauded (Jan. 15) Gov. Arne Carlson for "putting the welfare of children as his top priority and in linking that welfare to education." Similarly, the **Hibbing Daily Tribune** said (Jan. [illegible]) that his emphasis on education and kids is "sound and visionary."

But **St. Paul Pioneer Press** said (Jan. 27) that "Carlson's budget message...contained a lot of rhetoric about (a goal of) 'developing a lasting solution for our state's chronic fiscal crises.' Regrettably, the governor's fiscal proposals fall far short of his rhetoric...That goal can best be met by redesigning the three programs that are causing state spending to race ahead of revenues—K-12 education, long-term care and the property tax/local government aid system."

Hibbing Daily Tribune endorsed (Jan. 15) a proposed agreement on hunting and fishing rights between the state and the Mille Lacs band of Ojibwe, calling it "reasonable" and one that "gets rid of the worst fears of both sides." **Post-Bulletin** agreed (Jan. 19), saying, "The Legislature can avoid damaging consequences and potential violence by ratifying the agreement."

St. Cloud Times said (Jan. 17) that proposals to limit the hours teenagers can work during the school year were too restrictive but "the sort of feel-good, mom and apple pie issue that Minnesota lawmakers usually have trouble leaving alone."

Mankato Free Press welcomed (Jan. 15) the light-rail transit line proposed for the I-35W corridor south of downtown Minneapolis. "The need for alternative transportation is clear— the existing system of building more and bigger highways has done nothing to alleviate traffic congestion and is too expensive." **West Central Tribune** supported (Jan. 20) a gas tax increase, even if some of it goes to fund urban mass transit. **Post-Bulletin** said (Jan. 26) any plan will have to "address highways and increase funding for mass transit."

St. Cloud Times called (Jan. 26) on the Legislature to stop tying down school districts with hundreds of rules. Lawmakers should "cut the umbilical cord and trust districts to make some of their own decisions."

The legislative weekend in Duluth attracted this criticism from the **St. Cloud Times** (Jan. 31): "Minnesota legislators ...should know there's a limit to how much they can milk taxpayers—and how much they can let special interest groups milk them.

Free Press concurred (Feb. 2), saying, "Legislators should set up strict rules forbidding elected officials from getting benefits like free trips...Whether influence is purchased before or after an election, the result is the same: a loss of trust by the public and a loss of independence by the legislators." **Hibbing Tribune** said (Jan. 27) that the weekend trip "may all be legal and it may all be good fun, but it's wrong. It's a bribe, plain and simple."

West Central Tribune commented with sorrow (Jan. 14) on the distribution of racist pamphlets in Willmar. "Any time hate- mongers spread their cowardly and warped ideas...a community should rise up to squelch such hatred and defend the targets."

Single-payer health-care system best

Edited excerpts of remarks by Dr. Therese Zink, Minnesota Chapter, Physicians for a National Health Plan, to the Citizens League on Jan. 19

The discussion here in Minnesota has been mainly on managed competition. I have been an advocate of a single payer.

Single payer, I think, does the best on cost control and access. We have 1,500 different insurance companies, government programs, managed-care organizations that are collapsed into one insurer, the government. Doctors are private. You could still have Group Health, you could still have managed care organizations and your hospitals could be public or private just like they are today. So the delivery system is not going to change a lot.

The way we *pay* will change, however, in that it would be a progressive tax. More than likely a lot of it would be income tax. We would not be paying copays, deductibles or premiums.

I think it's the best on cost control for a number of reasons. It puts an overall cap on what we spend on health care. It also puts facilities on a global budget. Physicians are put on a negotiated fee schedule. It cuts major administrative waste by essentially eliminating insurance companies as we know them today.

It's the best on universal access. As a patient you get a card because you're a citizen of the United States. You have complete freedom of choice of where you want to go.

When we talk about managed competition, the 1,500 insurance companies, etc., are collapsed into several large corporations. These corporations are allied with large groups of physicians, and you have a certain physician or clinic you can choose from when you join a specific corporation. The large corporations would save money by competing on quality and cost.

With managed competition what we're depending on is that managed competition will control the cost. There's some debate as to whether or not that's a reasonable conclusion. The reality is we've been competing for decades. And what has happened is that insurance companies compete for the healthy patients.

Areas that have had high penetration of managed care companies like Minnesota have not really had their costs held down any more than those states that are mainly fee-for-service. Insurance premiums and managed care premiums have risen at about the same rate every year.

The Minnesota Journal

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Help health markets work, be wary of concentration

Edited excerpts from remarks by Bryan Dowd, associate professor, and Roger Feldman, professor, Institute for Health Services Research, University of Minnesota School of Public Health to the Citizens League on Jan. 12.

Bryan Dowd. One of the approaches getting a lot of attention these days nationally is managed competition. Could we conclude because there seems to be broad, bilateral interest in managed competition that competition has won the day? I think the answer to that is clearly "No."

The broad appeal of the managed competition approach is that it could be used either to help clean up some of the problems we have in the market for health insurance or health-care services *or* it could be used to bring us price and quantity regulation on a scale we haven't seen before in the health-care industry in this country.

The managed competition proposals have some common elements and some controversial elements. Almost all of these proposals want to help organize the small-group insurance market into pools, have some limitation on the tax subsidy of insurance premiums and have some version of underwriting reform—that is, a move away from experience rating or risk rating of individual people toward community rating.

One of the most controversial points is when we organize these pools for small businesses, should we give a monopoly on that activity to the state, or should there be competing proposals? The only way to be sure that HIPCs (Health Insurance Purchasing Corporations) are run according to the wishes of the members is to give the members a choice.

The down side of multiple HIPCs is that people worry you'll get risk selection among the HIPCs. I find it difficult to get excited about that concept, because these HIPCs are going to have tens of thousands of enrollees. Even if you are worried about risk selection among HIPCs, that problem could be addressed by HIPC open enrollments.

What populations should be included in HIPCs? The issue is whether large employers should be able to be their own HIPC or whether they should be forced into some community-wide HIPC. The attraction of the large employers, of course, is that they have a generally healthy and large population that would, in some people's minds, improve the risk pool of the community-wide HIPC.

Should all plans have to offer the same benefit package? It might be easier for consumers to shop if they do offer the same benefit package. It also might reduce the health plans' ability to use benefit packages to attract different kinds of enrollees. But, on the other hand, people are different and they don't necessarily all want the same thing.

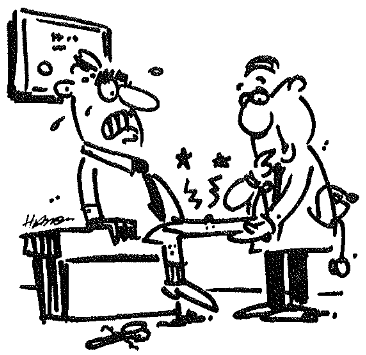
Should the government set an amount of money that's going to be spent on health care in the state or nationally and then have that expenditure target reflected in the fees that are paid to providers in the next year if the expenditure target isn't met?

In private insurance if we bought health-care services and health insurance at competitive prices, then how much is spent probably is not any of the government's business. For public insurance we also want to buy everything at competitive prices. But for charitable insurance the total amount that is spent could be a legitimate topic for government policy.

Roger Feldman. There are reasons to be concerned about consolidations of market power in hospital care in the Twin Cities.

● First of all, evidence from other industries suggest that, when the four largest firms get together and control more than 50 percent of the industry's output, prices and profits start to rise and performance gets worse.

Prior to the Health One/Lifespan hospital merger last year, the three largest firms in the Twin cities already controlled 57 percent of hospital admissions. After the merger, and even though Methodist was spit out by the merged organization, the three



"I should put a cast on it, but we've reached our spending limit for the year... Will you settle for aspirin and crutches?"

largest firms controlled 64 percent of hospital output.

● Secondly, a national study of the hospital industry showed that greater concentration leads to higher profits, not lower prices.

● Third, a case study of some recent national hospital mergers concluded, "The evidence from the cases concerning possible cost savings is not persuasive."

● Finally, statistical studies indicate that hospital scale economies are modest. As the hospital gets bigger,its costs may fall, but not by much. These economies are exhausted at about 300 beds.

I would agree that the market for high technology may require significantly larger scales. For example, you need an awful lot of patients to make an MRI machine economical. But the problem in the Twin Cities is not that we have a lot of MRI machines being used at too little capacity and too high average costs, the problem is we have a lot of MRI machines being used too *much.*

I would argue that the reason for this is not a failure on the supply side of the market, but it's a failure on the demand side of the market. That is, we have payers who do not care about the price and possibly not even the quality of the products that are offered by different hospitals. In order to fix the market, we don't need to regulate the supply side, we have to introduce some sense to the demand side.

In addition, there are reasons to be concerned about regulation.

● One, certificate of need regulation has been tried before, particularly under the Nixon administration, and it does not work.

● Two, certificate of need will increase the harmful effects of hospital mergers. When you block entry and permit organizations to merge, they can do whatever they please without any competition.

● Finally, regulation is the wrong solution. I've argued that the problem is that consumers have no reason to make price-conscious choices of hospital care. If that is in fact the problem, then the solution is to introduce price-conscious choice.

I would also suggest there is some reason to be concerned about the recent merger of MedCenters and Group Health Plan. We've created an organization here where whatever it does, it's going to have a substantial impact. If the impact is to raise prices, then the cost to the state will be substantial.

Most HMO mergers nationally have occurred when a large and healthy HMO buys up a weak and failing HMO. In instances like this, maybe it's good policy to promote mergers, because it preserves the HMO option for people who would otherwise be thrown out of that failing HMO into the fee-for-service market.

But the Group Health/MedCenters merger is an entirely different critter. This is a merger between two large organizations, both of whom are relatively healthy in financial terms. It was a merger specifically to acquire market share.

Yes, there are large health plans in the Twin Cities. Yes, you do have to get to a certain size to be viable. But I would suggest that the size of 500,000 or 600,000 members has gone beyond the range of viability into the range where we should be concerned about market concentration.

Health

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sus by the various interest groups represented, the commission met its January 1993 deadline and offered its cost-containment strategy to the Legislature. The commission's report approaches cost containment in three different ways:

● imposing ceilings on annual cost increases;

● promotion of competing, integrated networks of providers and plan managers;

● using taxation and regulation to promote wellness and discourage high-risk activities.

The first approach might be called "cost containment by decree." Beginning in 1994, the commissioner of health will project the anticipated annual rate of growth in health-care spending and will impose a limit of ten percent less.

At its first meeting, the commission learned there was no reliable information about how much was spent on health care in the state. Commission staff have been working busily to pull together enough historical data on health-care costs in the state to establish a trend line beginning in 1990 and projected into 1994. Then, if the expected increase for 1994 is ten percent, the commissioner will direct that spending increase by no more than nine percent. An example of what health-care inflation in the state has been: HMOs increased their commercial premium revenue per member by 16.9 percent in 1990 and 14 percent in 1991.

The commissioner, then, will place a limit on how much health plans can increase their revenues, after adjustments for enrollment. If the plans can agree on an appropriate methodology, the commission would also allow adjustments, both up and down, in a plan's permitted rate of increase based on measures of the risk of its enrollees.

Much attention has focused on the commission's proposal to promote the establishment of Integrated Service Networks (ISNs), an organization that brings together medical providers and health-care managers in a unit to deliver comprehensive health care for a fixed fee to a defined population. (In the Clinton White House and in Jackson Hole, Wyoming, where health reformers Alain Enthoven and Paul Ellwood have crafted their plans for managed competition, ISNs are called "Accountable Health Partnerships.")

ISNs will look very much like some of the health maintenance organizations and other managed care plans that already serve about 2.7 million Minnesotans. They will bear financial risk and will provide the state with information on their costs and the results of their services. No provider will be required to join an ISN, but the commission hopes the potential advantages of ISNs and the more stringent regulation it proposes for non-ISN providers will be persuasive.

The commission's report suggests that ISNs will be given additional flexibility in their organization and in the relationships that will be formed between providers, employer groups and plan managers. For example, ISNs may choose to designate primary care physicians as gatekeepers, or not. They may pay providers a capitated rate or fee-for-service.

The details of how the state will regulate the solvency of ISNs are not yet known. In 1988, after two small HMOs in the state were declared insolvent, the Legislature passed new financial requirements for HMOs that were among the most stringent in the nation. These requirements have made it very difficult to form any new HMOs, unless they were sponsored by insurers or institutions with deep pockets.

Michael Scandrett, executive director of the commission, suggested that insurers or other partners could guarantee the solvency of the ISN. Or, the state might get involved by creating a reinsurance pool for small ISNs.

How far this regulatory flexibility will go remains to be seen. For example: HMOs in Minnesota are not permitted to organize as for-profit corporations. Would the state allow a for-profit ISN to open? Don't bet on it. Senator Linda Berglin, who will carry the commission's bills in the state Senate, has opposed allowing HMOs to organize as for-profit corporations and is likely to oppose granting that option to ISNs.

The commission projected that within four or five years, 90 percent of the health care in the state will be provided in ISNs. George Halverson, head of the recently merged Group Health/MedCenters HMO and a member of the commission, predicted that between 12 and 20 ISNs will emerge in the Twin Cities area in the next few years. He expects that all current HMOs and preferred provider arrangements (PPOs) will reorganize as ISNs or will create ISNs.

In addition, provider groups are likely to form their own ISNs. For example, the HealthSpan hospitals, formed last year by the merger of the Health One and LifeSpan hospital systems, are now organizing what is called a physician-hospital organization. Participating physicians will agree to accept capitation payments, to follow practice protocols and to report outcome measurements. The organization will seek to contract directly with employers.

To facilitate price comparison, ISNs will sell a basic benefit package (on the commission's agenda this year to define) and may also sell supplemental coverage. ISNs will generally not compete on plan design (cost-sharing and limitations on certain services), but on how enrollees have access to different kinds of providers and services.

While the commission's report does not mandate any change in the way employers select and offer health plans, the emergence of two employer purchasing groups last year is starting to show results. Both buying coalitions began enrolling in their plans on January 1, 1993. The Employers Association, a group of small and medium- sized firms, has contracted with The Prudential to offer both insured and self-funded plans. Enrollment in those plans has started slowly, as many employers take a wait and see attitude.

In addition, several of the large self-funded employers in the Business Health Care Action Group have begun steering their employees to plans offered through Group Health/MedCenters. Ceridian has totally replaced its old plan offerings, and Dayton Hudson has reduced the number of other plan options.

Trying to contain costs, at either state or ISN level, will be a real challenge. The annual ceilings won't affect the base of what health plans now spend, but the commission hopes that wide availability of information on costs and outcomes will stimulate competing ISNs to hold their costs down. (Scandrett expects that the reporting, at least at first, will be aggregated for each ISN, and won't be available for individual physicians or hospitals.)

And although national surveys show that Minnesota health plans already cost 15 to 20 percent less than national averages, Halverson believes that competing ISNs "will be able to squeeze out a good deal of the remaining fat."

But if the commission's proposals result in any genuine cost containment, it is likely to come, at least at first, from the *regulatory* approach of setting ceilings on increases, and not from the promotion of ISNs as a *marketplace* force to stimulate competition and sophisticated buying.

The Congressional Budget Office recently advised that proposals for managed competition were not likely to yield savings. Furthermore, the number of elderly continues to grow, and the phased-in implementation of MinnesotaCare will give thousands of previously uninsured people the means to consume much more care. ISNs trying to live within cost ceilings will have to deal with cost shifting by Medicare and Medical Assistance.

The future of health-care cost containment now passes to Minnesota legislators. While the commission has offered its outline, "the devil (or God)," as Tom Swain said, "is in the details."

Allan Baumgarten is associate director of the Citizens League.

Audits

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have much relation to the size of the organization.

So there is real potential to reduce the cost of government?
Most of "what government costs" is policy. The Audit Commission does not get into policy. We ask whether the spending is *economical* and whether it is *effective*. Whether it gives value.

We find that typically a local authority is very good in only one or two areas. Some are not good in any. We try to get people to think: What if every authority could be doing "best practice" in every area?

Where do you get your standards for "good value?"
By looking at actual practice in our local authorities. Not by looking at some other country. Not by asking academics for some perfect model. We started by taking some simple, measurable services, like refuse collection. We ask people from local units to join our researchers, to advise. We look at perhaps 30 places, asking: What do you do and what does it cost? We write a report.

We get reports like this. Not much happens.
We then train our auditors to learn how good refuse collection, for example, is in each authority—what questions to ask, what reports to ask for—so they can write value-for-money reports. These then give us an overall picture of practice.

The next year we do more research and train auditors to dig into other services: perhaps vehicle maintenance, perhaps care for the elderly. And they ask, "By the way, what have you done about those refuse-collection recommendations we gave you last year?"

We do persist.

You audit every unit every year?
Every year.

Do local authorities like you?
When we were set up in 1982 a local-authority association called us "a threat to local democracy." Over the 10 years we think we've earned their respect. Before 1982 audits were done partly by the state and partly by private auditors of the authorities' own choosing. The Audit Commission replaced both. Though created by the state we are not government. We are independent. So we are free to criticize government as well as to criticize the authorities; and we sometimes do. We buy in service from private accounting firms, by the way, for about 30 per cent of our work.

Do you have enforcement powers?
We can prosecute for violations on the "money" side. Not for mismanagement: Incompetence is not a crime. We try to shame people into action. We can write the local authority and require it to publish our letter in the newspaper.

Does that get results?
We have identified about $2.6 billion of potential savings—a number the local authorities have agreed to—and so far about $1.5 billion of that has been realized. This is on about $120 billion of spending by the 440 local authorities and 350 health authorities for which we are responsible. But we've only been responsible for auditing the national health service for a couple of years.

Savings are only part of the aim: We also want, and think we get, improvements in effectiveness. It's gradual. It's less important at the beginning to get perfect than to get started. The work improves as it goes along. You wouldn't start by trying to measure the softest, least tangible things. Start with simple, obvious things. Get standard definitions.

"We ask whether the spending is economical and whether it is effective."

—**Peter Brokenshire**

But are you attacking causes, or only symptoms?
We believe one high-potential idea is to structure in everywhere a purchaser/producer split—that is, to separate the people who make policy from those who actually run the service.

The government has increasingly been requiring local authorities to put their services out to bid. This sometimes results in work being bought in. In most cases the local-authority departments win the work. In either case the "split" requires some people to think like purchasers about demographics and needs and priorities and standards and others to think like managers. Both have to think about results.

The government has split the National Health Service into a buyer side—the health authorities, which now have a small staff—and a seller side—the hospitals and physician groups. The job of the Audit Commission is to develop measures of cost and quality.

The "split" arrangement, when combined with measures, strengthens accountability. And this is ultimately the issue. You want to give managers greater freedom but you can't do that without accountability. There is more accountability—more consequences— in the purchaser/ producer arrangement than in the traditional staff arrangement.

There are economies too. The "purchasing" organization can be quite small. It usually is, in fact. Most people are out there in the service-delivery organizations.

It is a "social market" model.

What are your impressions of Minnesota?
You have not been not as serious as we have had to be about value. Germany did not being thinking about value until a year ago when its financial problems became serious.

You have big intergovernmental transfers. You might want to sort out some of the responsibilities for financing. Your state is essentially buying service. You seem to have no concept of getting something in return.

You are thinking and talking about this with what seems to me to be a notable absence of animosity. The effort is complicated by the lack of a standard accounting framework. And you seem not to be sure yet how to translate the analysis into action.

Tax Base

Continued from page 1

provides for a one-year lag in the C-I value used to calculate the sharing of the base. So the C-I values used to calculate the sharing for taxes payable in 1993 are actually from the 1992 tax year.

The tax-base sharing significantly reduces the disparities in C-I tax base among cities. In the 58 metropolitan cities with 1991 populations above 9,000, the 1993 C-I tax base used for calculating sharing ranges from $677 per capita after sharing in Golden Valley to $170 per capita in Prior Lake—a ratio of about four to one. Without tax-base sharing, the C-I tax base would range from $920 per capita in Eden Prairie to $42 per capita in Champlin—a ratio of 22 to one.

Comparing communities of all sizes in the metro area, the range in C-I tax base per capita before sharing is 195 to one; after sharing the range is reduced to 34 to one.

More communities are net gainers in tax base than net losers under the program: 143 of 187 communities in the metropolitan area receive more from the tax-base pool than they contribute. These are the cities with relatively less wealthy C-I tax bases per capita.

The five communities over 9,000 population with the smallest C-I tax bases per capita before sharing are *Champlin,* $42; *Lino Lakes,* $79; *Prior Lake,* $80; *Andover,* $94; and *Robbinsdale,* $110. Although their tax bases are enriched by the tax-base sharing program—more than four times per capita in the case of Champlin—these five communities are still among the bottom eight in C-I tax base per capita even after the sharing.

Likewise, the wealthiest cities in

Continued on page 7

Tax Base

Continued from page 6

erms of C-I tax base per capita remain that way even after tax-base sharing. The cities over 9,000 population with the highest C-I tax bases per capita before sharing are *Eden Prairie,* $920; *Golden Valley,* $850; *Arden Hills,* $818; *Bloomington,* $813; and *Roseville,* $810. Although their order shifts around a bit, these five cities remain the top five in C-I tax base per capita *after* sharing, as well.

Net gainers, losers

While most communities in the metro area are net gainers in tax base under the program—in other words, they receive more from the tax-base pool than they contribute—each of the seven counties has one or more cities that are net losers. On a countywide basis, the communities in Hennepin County make by far the largest net contribution of tax base to the program—over $50 million. Dakota County is the only other county in which the communities as a whole contribute more tax base—$1.5 million— than they receive. The cities in each of the other five counties receive on the whole more C-I tax base than they contribute. (See Table 1.)

The five largest net tax-base contributors to the program in 1993 include *Bloomington,* $14.8 million; *Eden Prairie,* $10.9 million; *Minnetonka,* $10.2 million; *Plymouth,* $9.0 million; and *Edina,* $7.7 million.

These cities are also among the top seven cities in net contributions on a per capita basis: *Eden Prairie,* $273; *Minnetonka,* $209; *Arden Hills,* $186; *Golden Valley,* $173; *Bloomington,* $171; *Plymouth,* $171; and *Edina,* $167.

The net contributions from three of these five cities— Bloomington, Eden Prairie, and Minnetonka—were lower this year than last, due to declining C-I values. The largest decline in net contributions was in Minneapolis, which dropped from a net contribution of $8.9 million last year to $5.5 million this year and from fourth highest to seventh among net contributors.

The five largest net gainers in 1993 include *St. Paul,* $25.8 million; *Coon Rapids,* $4.3 million; *Brooklyn Park,* $3.3 million; *Richfield,* $3.2 million; and *South St. Paul,* $3.0 million.

But the net gainers look different on a per capita basis. Only *South St. Paul* (first at $150) and *St. Paul* (ninth at $95) fall among the top 10 net gainers per capita. In addition to South St. Paul, the other top net gainers per capita are *Champlin,* $141; *North St. Paul,* $130; *Columbia Heights,* $120; and *Robbinsdale,* $115.

Table 2 provides another look at how the tax-base sharing program has helped level the C-I tax base per capita in metro area communities over 9,000 population. It shows that the growth in C-I tax base between 1971 and 1992 *without* sharing would have varied widely—from $7 per capita in South St. Paul to $892 per capita in Eden Prairie—a range of $885.

Those two cities still showed the lowest and highest per capita growth *with* sharing, but the range of growth is reduced to $461—from $158 per capita growth in South St. Paul to $619 per capita growth in Eden Prairie.

Data on tax-base sharing for metropolitan communities with populations under 9,000 are available from the Citizens League office (338-0791).

Dana Schroeder is editor of the Minnesota Journal. *Former Citizens League research associate Jody Hauer assisted with this article.*

TABLE 1. AGGREGATE FISCAL DISPARITIES DATA FOR CITIES IN EACH METRO COUNTY, PAYABLE 1993*

	Commercial Industrial Tax Capacity**	Net Contribution ***	Net Contribution per Capita
Anoka	$ 55,958,145	$ (17,677,902)	$ (71)
Carver	10,897,592	(1,914,312)	(39)
Dakota	104,027,210	1,536,978	5
Hennepin	533,334,423	50,100,608	48
Ramsey	166,532,589	(22,010,929)	(45)
Scott	13,433,303	(2,313,256)	(40)
Washington	34,829,631	(7,721,186)	(51)
TOTAL	$ 919,012,893	$ 0	$ 0

*These represent the aggregate data for communities within each county.

**The law provides for a one-year lag in the C-I value used to calculate the sharing of tax base. Thus, the C-I value used to calculate base sharing for taxes payable in 1993 is actually from the 1992 tax year. Excluded is C-I value in tax-increment districts established before 1979 and from the city of Sunfish Lake.

***The net contribution is the difference between the amount of tax base a community contributes to the sharing pool and the amount it receives back from the pool.

SOURCES: Anoka County Auditor's Office, Minnesota House Research.

TABLE 2: COMMERCIAL-INDUSTRIAL VALUATION PER CAPITA FOR CALCULATING TAX-BASE SHARING BY COMMUNITY

COMMUNITY (Above 9,000 Population)	1992 Total With Sharing*	1971-1992 Growth With Sharing**	1971-1992 if no Sharing***
Andover	$ 194	$ 190	$ 90
Anoka	332	269	176
Apple Valley	225	217	154
Arden Hills	632	522	708
Blaine	343	331	279
Bloomington	642	498	669
Brooklyn Center	521	428	481
Brooklyn Park	314	298	240
Burnsville	496	420	505
Champlin	184	180	38
Chanhassen	231	217	227
Chaska	447	423	474
Columbia Heights	250	199	80
Coon Rapids	286	269	191
Cottage Grove	283	239	146
Crystal	273	226	124
Eagan	486	452	573
Eden Prairie	647	619	892
Edina	572	401	568
Fridley	533	407	471
Golden Valley	677	461	634
Ham Lake	243	231	136
Hastings	293	254	164
Hopkins	456	322	324
Inver Grove Heights	330	303	276
Lakeville	275	261	227
Lino Lakes	182	172	69
Little Canada	368	348	350
Maple Grove	264	256	224
Maplewood	602	449	558
Mendota Heights	419	365	488
Minneapolis	502	345	360
Minnetonka	548	513	723
Mound	203	168	75
Mounds View	316	302	228
New Brighton	295	261	216
New Hope	419	358	354
North St. Paul	256	228	98
Oakdale	239	228	135
Plymouth	525	489	660
Prior Lake	170	163	73
Ramsey	234	228	138
Richfield	267	201	111
Robbinsdale	225	186	70
Rosemount	426	340	376
Roseville	650	491	652
St. Louis Park	447	300	321
St. Paul	378	259	165
Savage	286	232	183
Shakopee	553	495	632
Shoreview	233	225	191
South Saint Paul#	331	158	7
Stillwater	321	285	263
Vadnais Heights	354	343	378
West St. Paul	341	288	257
White Bear Lake	261	237	151
White Bear Twp.	192	182	113
Woodbury	255	232	218

*See second footnote of Table 1.

**This column shows the growth in C-I tax base per capita, including the shared tax base.

***This column shows what the growth in C-I tax base per capita would have been without tax-base sharing.

#South St. Paul began contributing for the first time in 1992, as a result of a 1991 law change. Its contribution was 40 percent of its C-I growth since the 1989 assessment year.

Look at British police system raises local issues

Take Note

Proper public affairs crumbs for teatime.

The cities of Golden Valley, Crystal and New Hope have participated in an information exchange program for the past 10 years with police departments in England and Scotland. Local city and police officials visited their colleagues in London, North Umberland and Aberdeen last fall.

According to Golden Valley Mayor Larry Bakken, the Minnesotans found that British police forces are much larger than U.S. police forces—the smallest unit was 800 officers—and have jurisdiction over all aspects of law enforcement in their geographic area, including juvenile law enforcement and highway patrol. In Minnesota, the average police unit has just under 25 officers; the state's largest, Minneapolis, has 829. The county sheriff, local police unit, and other state and federal enforcement authorities overlap jurisdiction in any given city.

"We have a long tradition of small local police forces, and that has some merit," Bakken said. But he noted that "when the law enforcement challenges cross city boundaries, the issues become more difficult." Bakken, who co-chaired the League's 1992 study on local government services, said that municipal police departments in the Twin Cities metropolitan area already work jointly on some services, such as bomb squads. Training and many other services could be delivered regionally as well, Bakken said, and some crime problems—gang activity, for example—may require regional responses.—*Janet Dudrow*

"There is no definition of 'teacher pay,'" Roger Giroux, the person in charge of finance for the Anoka-Hennepin school district said the other day, skillfully deflecting a question about Gov. Carlson's proposed freeze. Everyone defines pay differently. The unions point to cash salary, which in truth has not risen sharply. They talk less about non-salary compensation, which the Legislative Auditor noted *has* been rising sharply. Example: Severance payments like those recently in Minneapolis.

Or health-care benefits. Salaries are lower in St. Paul partly because of the practice there (locked by law into contract a few years ago) to pay health-care benefits for a lifetime. It now costs the district about $3 million a year to cover retirees' costs not paid by Medicare. Before long, like General Motors, the district will probably be required to reflect in its accounts its total obligation for these future payments. For St. Paul this is estimated at $60 million. Beyond this may be an even larger obligation for sick pay.—*Ted Kolderie.*

The state of Minnesota tries hard to lighten the burden of homeowners' property taxes. But it could do far more to lessen the disparity in homeowners' ability to pay those taxes by *targeting* tax relief, according to a new study from the state Department of Revenue.

The January 1993 study shows that the market value of a house is not necessarily a good indicator of the homeowner's ability to pay. For instance, in 1990 the average household with an income between $55,000 and $65,000 lived in a home valued at $82,000. But other households in that income range lived in homes with values as low as $40,000 and as high as $120,000. So providing tax relief to those who occupy a certain value of home will not necessarily assist those who arguably need it most.

Of course, Minnesota does have a property-tax refund that goes to homeowners with high property tax bills relative to their income. But as the Revenue Department study points out, the impact of this refund program is minute compared to all the other forms of property tax relief—none of which is targeted specifically to lower-income people. If the state truly wants to make the property tax less regressive, it will have to base more relief on individual household circumstances and target it to low-income households.—*Jody A. Hauer.*

What a difference a few years makes. In 1990, residents of District 44 (St. Louis Park, Hopkins and part of Minnetonka) were represented by three women in the Legislature: Sen. Phyllis McQuaid and Rep. Sally Olsen, both IRs, and Rep. Gloria Segal, a DFLer.

Today, three men represent the district and the party affiliations have reversed in each case. DFLer Ted Mondale defeated McQuaid in 1990 and Steve Kelley, also a DFLer, won the open house seat in 1992. IR Jim Rhodes won a special election in January to fill out Segal's term, who retired because of health problems.—*Allan Baumgarten.*

High business taxes? A Department of Trade and Economic Development (DTED) consultant recently reported that Minnesota's business tax burden for 24 potentially high-growth industries was about average compared to 17 other states. That finding is at odds with a recent study by the Wisconsin Department of Revenue. For the 10 states the two studies have in common, DTED's ranked Minnesota in the middle, fifth. Wisconsin's ranked us second highest.

Whom are we to believe? Perhaps we need another study. The National Association of Industrial and Office Parks has also done a comparison of an identical business located in different states. Its results support the Wisconsin findings. Minnesota ranked number one—higher than any of the states included in either of the other two studies.—*Bill Blazar.*

The block nurse program in St. Paul's St. Anthony Park neighborhood is 12 years old. Now called the Living at Home/Block Nurse program, draws upon professional and volunteer services of local residents to provide information, social and support services, nursing and other services that help elderly neighbors stay out of nursing homes. Similar programs now operate in seven sites in Minnesota—several in other St. Paul neighborhoods and one rural area.

An analysis showed that 38 percent of the clients served between July 1989 and June 1990 would be in a nursing home without the program. The average cost per client was $300 a month, compared to almost $2,000 in a nursing home.

But 35 percent of the cost of direct services provided by the program is not covered by any entitlement or insurance program, which focus on acute-care needs. The block nurse program is a member of a campaign proposing a Long-Term Health Care commission that would research how to provide and pay for long-term care. Approximately 400,000 Minnesotans need long-term care, with two- thirds over the age of 65. Long-term care is one area the Minnesota Health Care Commission did not address.—*Marilou Fallis*

Contributors to "Take Note" this month include Minnesota Journal *and Citizens League staff members; Bill Blazar, vice president of government affairs for the Minnesota Chamber of Commerce; and Jody Hauer, research director in the Research and Government Information Division of the State Auditor's office.*

Minnesota Journal
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Citizens League Matters

February 16, 1993 — *News for Citizens League Members*

Welcome new members

Stanley Bachman, William Bierman, Paul Brown, Marce Carrel and Sylvia Frisch.

Al Giesen, J. Jerome Hopperstad, John Hustad, Susan Koch, M. C. McVay, Mary McVay and Lynne Megan.

Brian Palmer, Eric Radtke, Chris Reif, Sarah Wiskerchen and Therese Zink.

Thanks to Solicitors:
orgia Bachman

Latimer and Rollwagen get "the call," head for DC

George Latimer, Dean of the Hamline University School of Law and former mayor of St. Paul, will become a special consultant to the U.S. Department of Housing and Urban Development. Latimer stepped down as co-chair of the Citizens League's study committee on state spending, but we hope to see him back one day.

Cray Research CEO **John Rollwagen** has joined the U.S. Commerce Department as Deputy Secretary. Rollwagen is a past president of the Citizens League. He chaired the League's 1988 study committee that recommended authorizing the creation of charter schools and led the fundraising campaign that enabled the League to publish *The School Book*.

1993 legislative session heats up; League's proposals on the front burners

Legislators returning to St. Paul last month faced a range of issues, including an anticipated shortfall of nearly $1 billion in the next biennium. League volunteers and staff have been working closely with legislators, offering the League's ideas on fixing the state's finances, improving public services and other key issues.

In the past month:

- **Bill Blazar** presented the League's report *Results for Citizens, Options for Officials,* to a committee of the Advisory Commission on Intergovernmental Relations (ACIR) chaired by **Senator Ember Reichgott.** Blazar and Golden Valley Mayor **Larry Bakken** co-chaired the League's recent study committee on local government services. Reichgott may incorporate some of the League's recommendations into a bill this session.

- **Lyle Wray** testified to House and Senate committees on challenges facing the metropolitan region. He also participated in a press conference promoting an election reform bill supported by the League, Common Cause and other groups. Wray also chaired parts of a Hamline University seminar on the problem of children living in poverty.

- The *St. Paul Pioneer Press* published the League's comments on Governor Carlson's budget message.

Legislative network serves issues for breakfast

League members have a unique chance to keep up-to-date with legislative developments at a series of Friday morning breafast meetings.

The Citizens League Legislative Network is meeting at the Kelly Inn, St. Paul, at 7:30 a.m. on February 19, March 5 and 19, and weekly in April and May. More than two dozen members, including legislators, attended each of the first two sessions.

Each week, a prominent lobbyist will share insights on what's happening in the legislature. Among the guests: Bill Blazar, Judy Cook, Sarah Janecek, Wendy McDowall, Bob Renner and Wy Spano.

A continental breakfast is served. Meetings are open to all League members. For more information about the Network or to get on the mailing list, call the League at 338-0791.

Channel 6 airs competitiveness, local government issues in February and March

Looking for something stimulating to watch on Friday nights? Regional Cable Channel 6 will telecast all five presentations from last fall's Mind-Opener series on work force, training and economic competitiveness. Beginning on Friday, February 19 and continuing the next four Fridays, the meetings will be shown at 10:30 p.m.

Bobbie Henrie of Minnesota Technology Inc. introduces the series on February 19, followed by Dunwoody Institute President **Jim Bensen** on Feb. 26.

Valerie Pace of IBM-Rochester will be seen on March 5, and Minnesota High Technology Council director **Bob Vanasek**'s presentation will be telecast on March 12. University of Minnesota President **Nils Hasselmo** will wrap up the series on March 19.

On Tuesday, February 16, Channel 6 will telecast parts of the recent conference on initiatives in local government services, co-sponsored by the Citizens League, Hamline University and the Association of Metropolitan Municipalities. The sessions will be shown from 2:00-4:00 p.m. For more information about Channel 6 schedules, call 339-3221.

Speak Up! opportunities

As you know, the League is holding membership Speak Ups! throughout the week of February 22. Members will have an opportunity to participate in face-to-face discussions about how to solve the state's financial problems.

These sessions also provide valuable perspectives to the study committee. More than 80 League members participated in the first round of State Spending Speak Ups! last fall.

But you don't necessarily have to attend one of these meetings to participate in a Speak Up! - You can hold your own. The League is co-sponsoring Speak Ups! with individuals and other organizations. You can hold a Speak Up! with your workplace, your book club, Saturday night dinner companions, church or other organization in which you're active.

The League will handle the details and provide a moderator, a short video introduction and a discussion guideline. Sessions generally last one to two hours. If you're interested or want more information please call Phil Jenni at the League office.

18 past presidents meet, offer League advice

Eighteen past presidents of the Citizens League and two of its former executive directors gathered for the semi-regular past presidents' dinner on January 25. Current League President **John Brandl** hosted the event. **Lyle Wray** presented the League's new startegic direction, after which Brandl asked partcipants for their advice to the League.

Several themes emerged: The League's strength is derived from its historic ability to identify issues early; the League needs to focus on areas in which it can continue to make a positve difference; and today's challenge is to identify the new, defining and informing idea — the kind of defining ideas that have emerged episodically throughout the League's history. Partcipants were generally supportive of the League's new direction, particularly of its efforts to create more participation opportunities.

Attendees (and the year of their presidency) included: **Jim Hetland** (1962), **Chuck Clay** (1966) and **Archie Spencer** (1967).

Greer Lockhart (1970), **John Mooty** (1971), **Wayne Olson** (1972), **Peter Heegaard** (1974), **Art Naftalin** (1976), **Rollie Crawford** (1977) and **Wayne Popham** (1979).

B. Kristine Johnson (1982), **John Rollwagen** (1983), **Chuck Neerland** (1984), **Jean King** (1985), **Tom Swain** (1986), **Ronnie Brooks** (1990), **Buzz Cummins** (1991), **Becky Malkerson** (1992), and former executive directors **Ted Kolderie** (1968-81) and **Curt Johnson** (1981-91).

CITIZENS CL LEAGUE

A community resource

For more than 40 years, the Citizens League has helped shape the unique character of this metropolitan region. Here are just a few examples of how the League contributes to improving the public life of this region.

Wanted: CL speakers

The Citizens League is thinking about forming a speakers' bureau—a cadre of members who can speak to community audiences about League positions. Opportunities abound in the Twin Cities and greater Minnesota to educate fellow citizens about current policy issues.

Are you interested in being a Citizens League speaker? Call and let us know. We are planning how a speakers' bureau might work and welcome your interest and ideas. Contact Janet Dudrow at 338-0791.

1993-94 *Public Affairs Directory* out this spring

A new edition of the League's popular *Public Affairs Directory* will be published sometime this spring.

The directory is a valuable source of information for how to contact people who influence public policy, whether in different levels of government or in the private and nonprofit sectors. The League began publishing it in the 1970s, as part of a larger initiative to help citizens connect with public officials.

If you are a past user and have some ideas for making the directory more useful, please call the League office with your suggestions. Call the League now to put your name at the top of the list of report buyers.

League co-sponsors mayoral forums

The Citizens League and the League of Women Voters are co-sponsoring a series of forums for candidates in this year's Minneapolis mayoral elections. Three meetings are scheduled:

Sunday, Feb. 28, 2-4 p.m. Augsburg College, Foss Auditorium, 625 22nd Ave. S. Moderator: Karen Boros. This will be shown on Cable Channel 6.

Sunday, March 28, 2-4 p.m. Minneapolis Community College, Fine Arts Theatre, 15th and Hennepin S. Moderator: Angela Astore. This will be shown on Channel 5.

Wednesday, May 12, 7-9 p.m. Plymouth Congregational Church (tent.). Moderator: Vivian Jenkins Nelsen.

Data set sales take off

The League has sold more than 40 data sets developed to produce the 1992 Managed Care and Homestead Property Tax Reviews. If you like your health care or local government finance data in large doses, call Allan Baumgarten at the League office for more information.

TABLE 1: AGGREGATE FISCAL DISPARITIES DATA FOR CITIES IN EACH METRO COUNTY, PAYABLE 1993*

COUNTY	COMMERCIAL-INDUSTRIAL TAX CAPACITY**	NET CONTRIBUTION***	NET CONTRIBUTION PER CAPITA
Anoka	$ 55,958,145	($17,677,902)	($71)
Carver	10,897,592	(1,914,312)	(39)
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SOURCES: Anoka County Auditor's Office, Minnesota House Research.

TABLE 2: COMMERCIAL-INDUSTRIAL TAX CAPACITY PER CAPITA FOR CALCULATING TAX-BASE SHARING BY COMMUNITY

COMMUNITY (Above 9,000 Population)	1992 TOTAL WITH SHARING*	1971-1992 GROWTH WITH SHARING**	1971-1992 GROWTH IF NO SHARING***
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Golden Valley	676	460	634
Ham Lake	242	229	136
Hastings	291	252	164

Corrected story from original, which appeared in the Feb. 16, 1993, *Minnesota Journal.* Failure to make a small adjustment to the data resulted in some incorrect data for individual cities being reported in the original version. This version contains the corrected data.)

Decline in business tax base leaves less for metro fiscal disparities pool

by Dana Schroeder

Twin Cities area cities will share less commercial-industrial (C-I) tax base this year than last under Minnesota's tax-base sharing law, also known as the state's fiscal disparities act. It's not that they're being stingy. It's that commercial-industrial (C-I) property values have declined in the region as a whole, so there is less tax base to share. A one-year decline of $40 million--or about four percent--in the value of the region's C-I tax base has led to a five percent decrease in the amount of tax base to be shared in 1993.

But the amount of shared C-I tax base is still significant: $289.1 million--or 31.5 percent--of the total C-I tax base of $919.0 million. Last year the cities shared $305.1 million--31.8 percent--out of $959.3 million. (Excluded from this tax base is property within tax-increment finance districts established before 1979 and property in the city of Sunfish Lake, which is ineligible to participate because it excludes C-I development.)

It's important to note that only a **portion** of the market value of any piece of business property is available to be taxed and is thus part of the property tax base. This taxable portion of a property is called its **tax capacity**. For the C-I values discussed in this article, the tax capacity is 3.1 percent of the first $100,000 of any property's market value and 4.75 percent of the remaining market value. So the C-I tax base discussed here is only a small portion of the market value of C-I property in the metro area.

The 1971 law requiring the sharing (renamed in 1992 the Charles R. Weaver Revenue Distribution Act in honor of the late Anoka legislator who authored it) was designed to lessen the disparities in communities' tax bases and allow all metro area cities to share part of any C-I tax base growth in the region, despite its location. Property tax bills in cities that gain tax base under the program are lower than they otherwise would be.

Cities contribute 40 percent of their C-I tax base growth since 1971 to a regional pool. Each city then receives back a portion of that pool based on its relative shares of population and market value. Communities with relatively poor tax bases per capita receive more tax base from the pool than they contribute. Those with relatively wealthy tax bases contribute more than they receive. The law provides for a one-year lag in the C-I value used to calculate the sharing of the base. So the C-I values used to calculate the sharing for taxes payable in 1993 are actually from the 1992 tax year.

The tax-base sharing significantly reduces the disparities in C-I tax base among cities. In the 58 metropolitan cities with 1991 populations above 9,000, the 1993 C-I tax base used for calculating sharing ranges from $676 per capita after sharing in Golden Valley to $169 per capita in Prior Lake--a ratio of four to one. Without tax-base sharing, the C-I tax base would range from $920 per capita in Eden Prairie to $42 per capita in Champlin--a ratio of 22 to one.

Comparing communities of all sizes in the metro area, the range in C-I tax base per capita before sharing is 198 to one; after sharing the range is reduced to 34 to one.

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Likewise, the wealthiest cities in terms of C-I tax base per capita remain that way even after tax-base sharing. The cities over 9,000 population with the highest C-I tax bases per capita before sharing are **Eden Prairie**, $920; Golden Valley, $850; **Arden Hills**, $818; **Bloomington**, $813; and **Roseville**, $810. Although their order shifts around a bit, these five cities remain the top five in C-I tax base per capita **after** sharing, as well.

Net gainers, losers

While most communities in the metro area are net gainers in tax base under the program--in other words, they receive more from the tax-base pool than they contribute--each of the sevencounties has one or more cities that are net losers. On a countywide basis, the communities in Hennepin County make by far the largest net contribution of tax base to the program--over $50 million. Dakota County is the only other county in which the communities as a whole contribute more tax base--$1.5 million--than they receive. The cities in each of the other five counties receive on the whole more C-I tax base than they contribute. (See Table 1.)

The five largest net tax-base contributors to the program in 1993 include **Bloomington**, $14.9 million; **Eden Prairie**, $11.0 million; **Minnetonka**, $10.2 million; **Plymouth**, $9.0 million; and **Edina**, $7.7 million.

These cities are also among the top seven cities in net contributions on a per capita basis: **Eden Prairie**, $273; **Minnetonka**, $210; **Arden Hills**, $187; **Golden Valley**, $174; **Bloomington**, $172; **Plymouth**, $172; and **Edina**, $168.

The net contributions from two of these five cities--Eden Prairie and Minnetonka--were lower this year than last, due to declining C-I values. The largest decline in net contributions was in Minneapolis, which dropped from a net contribution of $8.9 million last year to $6.0 million this year and from fourth highest to seventh among net contributors.

The five largest net gainers in 1993 include **St. Paul**, $25.3 million; **Coon Rapids**, $4.2 million; **Brooklyn Park**, $3.2 million; **Richfield**, $3.2 million; and **South St. Paul**, $3.0 million.

But the net gainers look different on a per capita basis. Only **South St. Paul** (first at $149) and **St. Paul** (10th at $93) fall among the top 10 net gainers per capita. In addition to South St. Paul, the other top net gainers per capita are **Champlin**, $140; **North St. Paul**, $128; **Columbia Heights**, $118; and **Robbinsdale**, $114.

Table 2 provides another look at how the tax-base sharing program has helped level the C-I tax base per capita in metro area communities over 9,000 population. It shows that the growth in C-I tax base between 1971 and 1992 **without** sharing would have varied widely--from $7 per capita in South St. Paul to $892 per capita in Eden Prairie--a range of $885.

Those two cities still showed the lowest and highest per capita growth with sharing, but the range of growth is reduced to $463--from $156 per capita growth in South St. Paul to $619 per capita growth in Eden Prairie.

Data on tax-base sharing for metropolitan communities with populations under 9,000 are available from the Citizens League office (338-0791).

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Hopkins	455	321	324
Inver Grove Heights	329	301	276
Lakeville	274	260	227
Lino Lakes	181	171	69
Little Canada	366	346	350
Maple Grove	263	254	224
Maplewood	601	448	558
Mendota Heights	418	364	488
Minneapolis	501	344	360
Minnetonka	547	512	723
Mound	202	167	75
Mounds View	315	300	228
New Brighton	294	260	216
New Hope	418	356	354
North St. Paul	254	226	98
Oakdale	237	227	135
Plymouth	524	488	660
Prior Lake	169	161	73
Ramsey	233	226	138
Richfield	265	199	111
Robbinsdale	223	184	70
Rosemount	425	339	376
Roseville	649	490	652
St. Louis Park	446	299	321
St. Paul	377	258	165
Savage	285	230	183
Shakopee	552	494	632
Shoreview	232	223	191
South Saint Paul	330	156	7
Stillwater	319	284	263
Vadnais Heights	353	342	378
West St. Paul	340	287	257
White Bear Lake	259	235	151
White Bear Twp.	191	181	113
Woodbury	254	231	218

* See second footnote of Table 1.

** This column shows the growth in C-I tax base per capita, including the shared tax base.

*** This column shows what the growth in C-I tax base per capita would have been without tax-base sharing.

South St. Paul began contributing for the first time in 1992, as a result of a 1991 law change. Its contribution was 40 percent of its C-I growth since the 1989 assessment year.