

MINNESOTA Journal

A PUBLIC POLICY MONTHLY FROM THE CITIZENS LEAGUE

Volume 20, Number 1 • January 21, 2003

Resolving the deficit: a grand accommodation

by John Brandl

Minnesota faces a mammoth budget problem, one much worse than any other in generations. Only thinking differently than either those who see the good society as requiring ever more government spending, or those who identify progress with lower taxes can get the state out of its mess.

Two months ago, all who follow state government closely had been apprehensive about dealing with a shortfall for the 2004-05 biennium—projected then to be as high as \$3 billion. Then, in November the Finance Department forecasters told us we are looking at a \$356 million shortfall in the current biennium and an additional deficit of \$4.6 billion in the next. Not only are these amounts much larger than expected, but, along with several other considerations, contribute to the difficulty of constructing a new budget.

Things could, and may, be worse

First, the legislature requires that budget projections exclude any calculation of inflation. This makes the deficit appear to be a billion dollars smaller than a calculation that recognizes that prices rise; it doesn't confront the question of how to get the state's work done in the face of those higher prices.

Other state actions in recent years have further—and mightily—exacerbated the situation. A couple of obvious examples: the use of reserves and the shift of expenditures into the next biennium. But more serious was the state take over a greater share of education funding. The 2004-05 budget projects an increase of \$2.6 billion, or 24 percent, in state spending on elementary and secondary education, by far the largest contributor to the deficit. However, this increase is linked with lower local property taxes for schools. When that lost property tax support

for the schools is subtracted from the state appropriation, education's net funding increase over the two years comes down to only six percent. Since these figures ignore inflation, one starts realizing that saving big money by cutting education won't be easy.

Similarly intractable problems arise in the case of the state's second largest spending item, health care. There, money is largely spent on elderly persons. (Do we wish to throw grandma out of the nursing home?) The costs of pharmaceuticals and medical services rise considerably faster other state-purchased items, so failing to calculate for inflation there is even more ostrich-like than for the rest of the budget. Eighty-five percent of the spending growth underlying the deficit lies in education and health.

Deficit projections also rest on the assumptions that there will be no recession in the next four years, and that the national economy will grow 4 to 6 percent per year, possibilities on which you should not bet the farm.

Finally, state government's biggest blunder in recent years was to give no serious attention to how crucial functions (almost all spending goes to items such as education and health care that everyone agrees are the proper responsibility of government) could be reformed so as to get more service for our money.

Don't make public employees bear the brunt

About two-thirds of state spending goes to salaries and benefits for workers at the several levels of government, and a substantial part of the remainder pays for non-profit organizations under contract with government. Most public employees in Minnesota are in schools, cities and counties. The state itself has such a low payroll that firing every one who works for it wouldn't come

INSIDE

One year after 9/11, civic confidence remains high **2**

Viewpoint: No more muddling through **3**

Powering up for the future: Minnesota's electricity industry **5**

Take Notes **8**

www.citizensleague.net

Budget continued on page 6

One year after 9/11: a civic profile of the metropolitan area

by Roger Israel and David O'Hara

If you take a closer look at the results of this year's Metropolitan State University Twin Cities Civic Confidence Survey, completed earlier this fall, you might be surprised at what we have learned about ourselves a year after 9/11.

Notwithstanding some of the negative noise in recent political campaigns, residents of the seven-county metropolitan area do not dislike government, public employees, or the quality of their public services. And this is not just a post-9/11 infatuation borne of heightened fear or renewed appreciation for what government and its employees do, especially in life-threatening situations. The pattern has been consistent since we began our annual survey in 1996.

Twin Cities residents are more trusting of local governments than they are of federal and state governments. Asked which level of government people trust to do what is right most often, almost 51 percent said local government, 31 percent said state government and 18 percent replied federal government. This represents a small increase in trust toward the federal government and a small decrease in trust toward local government. It is quite possible that the increased responsibility and visibility of the federal government in response to the events of 9/11 may account for this change.

When asked whether they were satisfied or somewhat satisfied with the quality of services provided by respective governments, 81 percent said they were satisfied or somewhat satisfied with city government compared with 66 percent for school districts; 80 percent for county government; 74 percent for state government and 68 percent for federal services. These are very similar to the results of the 2001 survey.

The results of the Civic Confidence Survey are based on telephone interviews with 500 randomly selected adults in the seven-county metropolitan area conducted Aug. 13-28. The margin of error is 4.5 percent.

Metro residents continue to hold public employees in high regard. Seventy-two percent think they do as good a job as other Twin Cities employees and nine

percent think they perform better. A substantial majority (63 percent) of the region's residents continue to agree or somewhat agree that government officials are responsive to their needs.

Major problems

Asked in an open-ended question to identify the area's most serious problem, 37 percent cited traffic congestion while 6 percent identified urban sprawl. In 1996, the first year of the survey, only eight percent of respondents mentioned traffic congestion. For the most part, public perception of this as the region's number one problem has grown steadily in the past seven years.

Crime, which residents cited as the area's number one problem through 1999, came in second at 17 percent and affordable housing ranked third at 9 percent.

The lack of affordable housing continues to be a growing problem. The percentage of area residents who cited it as their chief problem increased from 7 percent in 2000 to almost 12 percent in 2001, but dropped slightly to 9 percent this year.

Race relations

Perhaps in response to 9/11, concern over race relations rose. Six percent identified it as the area's chief problem, compared with a high of two percent between 1996 and 2001. And in spite of the region's growing population diversity, and concerns about and among certain immigrant groups after 9/11, it is encouraging that 77 percent of Twin Cities residents in 2002 still regard population diversity as a "good thing." A new question in this year's survey shows an overwhelming majority (70 percent) of Twin Cities residents still believe, a year after 9/11, that we should remain welcoming toward new immigrants in spite of heightened concern that some of them may be a threat to our safety.

Crime

The percentage of citizens who rated crime as the region's number one problem increased for the first time in the survey's history, going from 11 percent last year to 17 percent this year. However, it is important to note that is still considerably below the 1996 level of 72 percent level. When asked if there is an area within one mile of

their home where they would be afraid to walk at night, 36 percent said yes compared to 33 percent in 2001. Fear of crime was greatest in Minneapolis and Saint Paul and much less so in the suburbs.

The economy

In the midst of an economic slowdown, people feel less confident about the metropolitan area's economy and their personal financial situation. Thirty percent of residents believe the Twin Cities economy is getting worse, 5 percent more than last year. Fifty-four percent believe it is staying the same, compared to 51 percent last year. Only 17 percent believed the area's economy is improving, compared with 24 percent last year and 50 percent in 2000. Forty percent responded they were satisfied with their personal financial situation, 33 percent were somewhat satisfied, 18 percent were somewhat dissatisfied and 9 percent were dissatisfied. A year ago, 55 percent were satisfied and 23 percent somewhat satisfied.

Civic optimism

We were surprised at how optimistic about the future Twin Cities residents remain in spite of growing concerns about the economy and personal finances. In 2002, residents reported the same level of confidence that they will be better off three to five years from now (86 percent "confident or somewhat confident") and even slightly greater agreement than last year that the Twin Cities is usually or always headed in the right direction (52 percent).

Last year we added some questions that address community connectedness in the Twin Cities area. The vital signs in this important dimension of metropolitan life continue to be very encouraging, even after the shock of 9/11. When asked for their views about neighbors and neighborhoods: 82 percent of Twin Cities residents said their neighbors know and care about each other; 87 percent said they would feel comfortable discussing neighborhood issues and problems with neighbors; 87 percent said people have pride in their neighborhoods; 91 percent said they know the names of their neighbors on their street or

Civic profile continued on page 7

Viewpoint

Do more than “muddle through” the state budget crisis

by Lyle Wray

A \$4.6 billion state budget deficit projected for the next biennium, which begins in July 1, will provide the backdrop for the 83rd session of the Minnesota Legislature. It is tempting, after having seen this cycle three times in the state to say, “here we go again.” The proposed budget cuts are followed by choreographed howls from those affected and a “muddle through” solution emerges in the end with little real reform. That is the path of least resistance and the question is, can we do more in this crisis than muddle through?

Here are two suggested tools lawmakers can use to turn the budget crisis into an opportunity for real reform rather than a tired rerun with a muddling through ending: competitive sourcing and electronic government services.

Competitive sourcing

Sort out tasks performed by state and local government that are inherently governmental from those that are not. This has been done in a number of cities to greater or lesser degrees including Indianapolis, Milwaukee, and Philadelphia, and in other parts of the world as far away as New Zealand. In the words of a former Indianapolis mayor, one place to start is

with the Yellow Pages test. If the service is in the Yellow Pages, it should be competitively bid. Competitive sourcing usually involves allowing restructured public service units or new firms made up of public employees to compete for the business. In December the state of Virginia released a report that went through this process. (<http://www.governor.state.va.us/Initiatives/EffCommission/EEHome.htm>)

There is a lot of experience with contracting in local government in Minnesota. To do this well and for the long term at the state level, we will no doubt need to build greater capacity for contracting for services while paying careful attention to creating or sustaining a competitive market. Moving a public monopoly to the private sector with less public accountability does not serve the public interest.

Competitive sourcing also provides an opportunity to link public funding to results. In the recent past, Minnesota has linked funding to performance goals in transit ridership and higher education. But we have done comparatively little of this and performance incentives in public funding should be a bigger part of the toolkit.

Another option for lawmakers is to “carve out” for competitive processes areas where the public sector has not achieved acceptable results. For example, if the school completion rate is 15 percent for Native American students in a core city, the state might make the case of a compelling state interest to intervene and use the funds to solicit bids for other operators, with funding linked in part to results.

Competitive sourcing is a complex and rich tool for achieving better results for state dollars even in, or perhaps especially in, times of fiscal stress.

E-government services

The Minnesota record on electronic government services overall is mediocre so far—the state ranked of 20 out of 37 in two recent annual surveys on state government web pages. Contrast the Minnesota Northstar portal ([www.state.mn.us/](http://www.state.mn.us/cgi-bin/portal/mn/jsp/home.do)

[cgi-bin/portal/mn/jsp/home.do](http://www.state.mn.us/cgi-bin/portal/mn/jsp/home.do)) with homepages for Virginia (www.vipnet.org/cmsportal) or Utah (www.utah.gov). It is pretty clear that their governors have put the online public service revolution front and center. Arizona, ranked number one in one national survey, has saved a great deal of money and is better serving the public with its aggressive thrust for online services. Often this has been done with a private sector partner that has helped pay upfront development costs.

The scope of potential applications for electronic government services is vast. Government transactions are a logical starting point. Currently about four percent of our state government transactions are handled online. The remaining 96 percent involves a lot of paper shuffling that we can no longer afford to do by hand.

Online education is another major area of opportunity. In post-secondary education, online education by itself or linked with face-to-face instruction is a highly desirable tool for mid-career folks and for those wrapping up a degree. According to the Open University of the United Kingdom, distance education models offer potential savings in the range of 30 percent. We can certainly use that kind of savings in our current fiscal climate. Online education efforts so far in Minnesota, from the Minnesota Virtual University to a variety of small-scale programs at various public institutions, have been lackluster. Given our dispersed population and the critical need to improve, let alone maintain, the skills level of our workforce, we need to get serious about e-learning.

Competitive sourcing and electronic government services afford lawmakers real opportunities to cut through the “proposed cuts, howls and muddle through” drama and set the state on a road to reform, achieving more efficient public services and a greater value for our public dollars. **MJ**

Lyle Wray is President of the Citizens League. He can be reached at lwray@citizensleague.org or at 612-338-0791.

The Minnesota Journal

Publisher—Lyle Wray

Editor—J. Trout Lowen

Contributing Editor—Ted Kolderie

Sketches—Ray Hanson

The Minnesota Journal (ISSN 0741-9449) is a publication of the Citizens League, a nonprofit nonpartisan Twin Cities public affairs organization, 708 S. Third St., Suite 500, Minneapolis, MN 55415. Phone: (612) 338-0791. Fax: (612) 337-5919. E-mail: info@citizensleague.net. Web site: www.citizensleague.net. Gary Cunningham, chair. Articles and commentary are drawn from a broad range of perspectives and do not necessarily reflect League positions on policy questions. The Journal is published once a month. Periodicals postage paid at Minneapolis, MN.

Annual subscription rate for nonmembers is \$40 for 12 issues. Orders may be placed at (612) 338-0791 or by mail at the above address.

Postmaster: Send address changes to the Minnesota Journal, 708 S. Third St., Suite 500, Minneapolis, MN 55415.

OnBalance

Views From Around the State

The days are short, the deficit large and solutions, like spring, seem far off.

“If everything is going to be ‘on the table’ to help fill a multi-billion-dollar state deficit hole, then some of the hundreds of millions in endowment money that is part of Minnesota’s \$6.1 billion settlement with the tobacco industry cannot be bypassed. It, too, must be ‘on the table,’” argues the **Mesabi Daily News (12/4)**. “Winners and losers will be chosen in the debate that will follow the convening of the Legislature the first full week of the new year. And advocates for all programs, including those supporting no use of the tobacco settlement money, will have to make their case with a majority of lawmakers and the governor.”

The **Duluth News Tribune (12/6)** agrees that everything should be on the table. “In the long run, though, one set of legislators is the same as another, with approaches differing depending on whether conservatives or liberals are in control. But the lawmakers—new and recycled—showing up in St. Paul in January know what they’re up against. They and the governor have to be open to all possible solutions. They must put everything on the table, not ‘everything else’ on the table.”

The **West Central Tribune (12/5)** suspects that the devil is in the details when it comes to Gov. Pawlenty’s no new tax pledge. “Pawlenty is to be credited for trying to stick to his no-new taxes campaign promise. However, one wonder[s] if he has been completely honest with Minnesota voters on the issue or just naïve. The question remains whether Minnesotans will allow him to implement the necessary cuts and changes that will be required to solve the largest deficit in state history. The answer, of course, will come in the details.”

A week later, the **Tribune (12/17)** revisited the budget deficit issue. “This is a significant problem for the state. And it will take everyone’s assistance—from the citizens to the state employees—to find all the solutions needed to balance the budget and solve the deficit. Minnesota is going

to face some tough decisions in this budget cycle. The state bureaucracy must learn to step up to the budget-cutting plate as well. Gov.-elect Tim Pawlenty will likely have his hands full reining in state government and its spending. However, that is what Minnesotans elected him to do.”

The **Rochester Post-Bulletin (12/6)** offered several revenue-generating ideas to help solve the state’s budget problems. “While Pawlenty has an opportunity to impose long-term reform on state spending, we doubt that the entire \$4.56 billion problem can be solved solely by reducing expenditures. Some new revenue sources are needed too. For example, we believe the public would look favorably on a significant increase in the gasoline tax with the proceeds devoted to transportation only. It is a user tax paid by the trucking companies and motorists who benefit from less stressful travel. Other possibilities include extension of the sales tax to a limited range of services. This also is a user tax, and it recognizes that Minnesota’s economy—like the national economy—has become a service economy, not a manufacturing economy. Increasing the cigarette tax would be good for the state’s long-term health by offering people another incentive to quit smoking, and it would bring in needed revenue.”

The idea of lowering the legal limit for DWI from .10 to .08 generated a lot of discussion around the state.

“The state stands to lose \$61 million in federal transportation funds if it does not adopt a .08 standard,” cautions the **Red Wing Republican Eagle (12/27)**. “Minnesota has already been denied \$14.6 million in highway bonus funds, but it could recoup that if lawmakers adopt a lower standard by 2007. The lost revenue is nothing to shrug off, especially considering the state’s budget deficit. But public safety is the overriding reason for getting tougher on drunken drivers. Lowering the limit to .08 is a reasonable measure; the

standard would not shut down bars, as some suggest. The fact is that individuals who register .08 are consuming a drink every 15 minutes. Alcohol consumption always will be part of our society. But there’s a difference between reckless and responsible use.”

The **Mankato Free Press (12/27)** supports lowering the limit, but only for the right reasons. “The Association of Minnesota Counties estimates it would cost about \$20 million more over two years to enforce and prosecute a lower drunken-driver limit. That \$61 million in highway funds would quickly be eaten up by the added costs of enforcement. If legislators want to lower the limit they should either be clear to local taxpayers that they will pay a higher price, or the state should find ways to compensate local governments for the added enforcement costs from a new state law...But lawmakers and the public shouldn’t expect any financial windfall for lowering the limit. They should do it because it’s the right thing to do and be willing to pay the added financial cost of enforcing a lower limit.”

Adopting .08 isn’t the solution to the problem, according to the **Bemidji Pioneer (12/27)**. “...while a statement must be made about drinking and driving, raising the bar for DWI arrests will do little to curb the problem. It is the repeat offender that causes most of the problem in Minnesota, not the one-time over-the-limit imbibor who tips the balance...The problem lies with repeat offenders, those who drink to excess and often. Raising the bar in rural counties, however, will cause headaches for county prosecutors as case-loads increase for marginal DWI offenders.” MJ

Check out
The Pulse at
www.citizensleague.net

Powering up Minnesota's energy future: act now on a long-term vision

A special report by the Citizens League

Minnesota is facing an electricity crisis. But the crisis will not be a short term supply and pricing crisis such as California experienced, which was caused by several major public policy errors. Unlike California, the prospective crisis that Minnesota could face will come from failing to act on long term issues, which include the need for new policy frameworks, regulatory integration, planning mechanisms, and economic stimuli to encourage appropriate infrastructure development that assures a reliable, affordable electricity supply while protecting the state's environment. Failing to prepare for federal changes in regulatory laws, especially those aimed toward improving the environment, could put Minnesota at risk for unexpected costs associated with the implementation of those changes. Failing to face up to the new realities of an ever more regionalized electric system, where Minnesota's statutes may be negated by regional and federal regulations, poses an additional risk. In order to avert this crisis, Minnesota's policy leaders, business leaders and electric consumers must act soon to adapt to the new realities, reframe the goals of state electricity policy to recognize both the challenges and practical opportunities, and initiate a plan of action to achieve those goals.

A highly reliable electric supply needs to remain one of the state's top goals. Reliability of the electric supply is clearly a touchstone for the state's economic infrastructure. All of the state's businesses, whether commercial or industrial, need highly reliable electricity for healthy business operations.

However, from both an economic and public health perspective, there are other important goals that must be more prominently reflected in state policy than they are at present. Electric production is not without costs beyond those of plant, equipment and operations. Burning fossil fuels to produce electricity is responsible for a large portion of the emission of several of the most dangerous air pollutants, including CO₂, SO₂, NO_x and fine particulates. These pollutants give rise to a range of adverse affects, from environmental problems such as smog and crop damage to

In March 2001 the Citizens League Board of Directors charged a study committee with the task of examining Minnesota's electricity marketplace, now and in the future.

This is a summary of the committee's findings. The full report is available at www.citizensleague.net.

health problems such as increased levels of asthma and, as some recent studies have shown, increased susceptibility to some kinds of cancers. Although newer fossil fuel burning plants, which are subject to the Clean Air Act, emit lower levels of pollutants, several Minnesota power plants that were "grandfathered" in continue to pollute at higher levels than are authorized by newer regulations. Ever more cost competitive new technologies are emerging that reduce or eliminate pollution. For example, wind generation, which emits no pollutants and is readily available in Minnesota, is currently competitive in direct cost with the traditional low-cost generation sources such as coal and natural gas and, considering other social costs, is probably less expensive.

Concerns are often raised that a greater emphasis on environmental protection will raise the price of electricity in Minnesota, which has traditionally been quite low compared with surrounding states. But the low price of electricity does not reflect the full cost. The state's current approach to determining cost does not include the social costs associated with remediation of the health and environmental problems caused by the generation and transmission of electricity, which the citizens of Minnesota must pay for in other ways. Moreover, as the electricity system becomes more regionalized, it is likely that Minnesota's electricity pricing will have to rise to levels more comparable to the surrounding region, offering more latitude for technical innovation that would serve both the goals of reliability and environmental and health protection.

Generation of electricity is only part of the electric energy supply system. In the study committee's view, one of the greatest barriers currently to improving both reliability and environmental protection for Minnesota is the current transmission system. Wind energy has incredible potential

for the state yet there is limited ability to transmit this electricity to areas of greatest consumption since the transmission infrastructure is insufficient in areas where wind potential is the greatest. Furthermore, there is very little incentive for utilities to invest in the development of more transmission capacity under current arrangements. It is expensive to build the infrastructure, it is difficult to get projects approved and sited, and it is easier to try to develop generation closer to already existing transmission facilities. However, developing generation facilities close to already existing transmission infrastructure, in large part, rules out taking full advantage of many of new technologies, such as efficient and cost competitive wind turbines.

Study committee conclusions

▲ Despite some modest steps, neither the State of Minnesota nor the electric power industry has been sufficiently aggressive in moving toward an electricity supply system that provides an adequate and reliable supply of electric power without cumulative and unacceptable damage to the local and global environment and social impacts.

▲ The strong focus on keeping electrical energy prices as low as possible has de-emphasized consideration of environmental concerns. This needs to be rebalanced, consistent with a reliable supply in the future.

▲ The state's regulatory system as currently configured is not well suited to deal with the environmental challenges and market restructuring discussed above.

▲ The very notion of state regulation ignores the reality that the electrical power system is increasingly a multi-state regional one.

▲ The state has not been a leader in the development and implementation of new technologies or new practices that could improve efficiency or conservation, or minimize environmental damage.

The study committee believes there is an urgent need to act now to secure our energy future. In order to help alleviate the current problems and decrease the likelihood that Minnesota will face an electricity crisis in the future, the committee recommends:

▲ The state implement a carbon emission

Energy future continued on page 7

close to eliminating the deficit. If there is no tax increase, the budget cannot be balanced without huge cuts in salaries and benefits paid to public employees.

We're not just talking about no pay raises. Lynn Reed of the Minnesota Taxpayers Association has shown that a two-year salary freeze would save \$875 million, less than one-fourth of the deficit. Reducing the public payroll enough to balance the budget would require that, on the average, we wring an additional \$11,800 out of the salary and benefits of each of the 280,000 public employees in Minnesota. That's extreme and no one is making that proposal. Still, Reed raises the possibility of cutting health benefits and pension contributions enough so that, combined with a salary freeze, over \$3 billion of the \$4.6 billion deficit would come from reducing the pay and benefits of public employees.

Part of Reed's proposal is a \$1 billion reduction in payments to public employee pension funds, without reducing the employees' promised pensions. This would lighten the hit on those employees but would raise the questions of whether, how and when the pension funds would be repaid. Even if pension payments were left out of the proposal, and only half of the deficit was made up from decreasing the compensation of public employees, the average government worker would be giving up \$3,700 in each of the next two years. Minnesotans must ask whether loading the deficit so disproportionately on one set of workers is consistent with Minnesota's humane traditions. Furthermore, contemplate the accompanying collapse of morale for the teachers, police and social workers, then ask yourself what would happen to the quality of public services.

Share the burden of budget balancing

The burden of balancing the budget should be spread more broadly, particularly since a smaller fraction of our paychecks is going to government than in times past. In 2002, Minnesotans spent 15.7 percent of their personal income on state and local taxes, a proportion lower than at any time since this statistic started to be regularly calculated a dozen years ago. Indeed, throughout most of the 1990s, the proportion of personal income devoted to state and local taxes in Minnesota was well over 17 percent.

If, in 2003, we devoted the same proportion of our personal income to Minnesota taxes that we paid five or 10 years ago, we would be wondering what to do with a substantial budget surplus—but we wouldn't necessarily be getting the quality of public services we need, and therein lies the rub. Spending more doesn't automatically produce better outcomes, though big cuts could harm the state.

A grand accommodation emerges: The legislature and governor hold back on spending, institute major reforms to substantially improve the cost-effectiveness of government, and increase taxes somewhat to prevent drastic consequences to public workers and their clients. (Raising taxes to a level one-fourth of the way between the proportion of income being paid in taxes to Minnesota governments today and the proportion paid a decade ago would eliminate more than one-third of the deficit.) Public employees acquiesce to the reforms in order to avert even more catastrophic cuts to pay or firings.

The needed reforms have been devised by the Citizens League over many years. Here I borrow from the wisdom of a number of Citizens League members, particularly the last three executive directors: Ted Kolderie, Curt Johnson and Lyle Wray. The League's central explanation for why we're not receiving our money's worth is that government policy regularly ignores the incentives facing recipients of public funds. Government employees are paid whether or not children learn, streets are clean, and clients are satisfied. From this diagnosis has emerged an understanding of the job of policymakers. Their responsibility is not merely appropriating money or micro-managing government organizations but rather designing arrangements within which incentives induce people to accomplish public purposes. Examples abound in League reports. The broad approach can be summarized in three main injunctions:

Fund individuals, not institutions

The League has long held that citizens ordinarily are better than is government at deciding where to educate their children or how to care for infirm loved ones. Here the League is not only respecting the citizenry, but also acknowledging the beneficial competition that emerges when individual

choice replaces bureaucratic assignment. Education remains the main policy area to which this approach could be applied. At present, nearly all of the funds spent by the state on the various levels of education (about half the total budget) go not to empower individuals, but to schools and colleges, where employees may or may not do what's best for the students when their interests and those of the educators conflict.

Contract for results

When it is not feasible to turn over monies to individuals, government should contract competitively and at arms length with providers—private firms, non-profit organizations, government's own bureaus—for specified results. This would replace today's usual practice, which Ted Kolderie calls "trading money for promises."

Respect natural communities

The bulk of state and local spending goes to provision social services of a variety of kinds. Meanwhile, "social services" (raising children, tending to the elderly, comforting the forlorn) mostly take place outside government, in families, religious groups, non-profit organizations and neighborhoods. When these natural communities are overwhelmed, the government of a decent society steps in, but its general thrust should be not to replace the natural communities but to bolster them.

These reforms are often dismissed as government bashing. This is nonsense. They rest on the propositions that government has essential responsibilities and that the people who carry them out must be subject to systematic inducements to act imaginatively and efficiently. Surely today's widespread dissatisfaction with government can be attributed to the equally widespread perception that it doesn't yield value for money. Far from being the enemy of government, reform is its savior.

What the governor and legislature do to taxes this year is incidental. Their truly historic opportunity is to introduce reforms that in the long run promise efficacious government from levels of taxes we are proud to pay. **MJ**

John Brandl is a former DFL state legislator and a professor at the University of Minnesota Humphrey Institute of Public Affairs.

Civic profile *continued from page 2*

in their building; and 93 percent said they would feel comfortable contacting their neighbor in an emergency situation.

These responses are very consistent with last year's results and continue to be strong across Minneapolis and St. Paul and suburban/rural communities in the region.

Education

Consistent with the past three years, most residents are happy with and have a great deal of confidence in their local school districts. Sixty-six percent are either satisfied or somewhat satisfied with the quality of services schools provided while 79 percent have either a lot or some confidence in their public school system. These are high overall ratings considering that education is the state's largest and most scrutinized public expenditure.

However, residents of Minneapolis have a more negative view of their local schools than St. Paul and suburban residents.

New questions about civil liberties

Asked whether they would be willing to accept some curbs on their civil liberties and privacy protections, so dear to Americans, 60 percent of Twin Cities residents said "yes." In a state with such a long and distinguished tradition of civil liberties and human rights protection, this was

stronger than expected. It is, however, consistent with national trends. Our survey results cannot tell us how much privacy and civil liberties protections we are willing to concede.

A majority of survey respondents, 63 percent, told us that they believed more should be expected from average citizens in the Twin Cities in our national efforts to prevent and combat terrorism. While a few Americans and Twin Cities residents, especially those serving in the military, have made enormous sacrifices on our behalf, little has been asked of ordinary citizens except to keep working, spending and traveling. We do not know exactly what this might entail (although increased energy conservation might be a good place to start), but the conversation we need to have on this subject has not even begun.

Conclusions

As we get ready to address a \$4.6 billion state deficit, it should not be assumed that Twin Cities residents, who represent about two-thirds of the state's population, would cheer for wholesale reductions in public services or privatizing a significant portion of state government's work force. While we may accept some compromise of privacy and civil liberties protections, public opinion may turn south if government seems to

go too far in this direction, or unfairly target immigrants who come here seeking a better life—and are contributing, as many of us believe, to a better life for us all.

Finally, it is a tribute to our resilience that we remain so optimistic about the future, even in such a dangerous and troubling time. But this may also reveal a complacency that we cannot afford. The foundations of our continued success as a region depend, to be sure, on a lean, effective government; but also on a fair and balanced tax system, a vastly improved transportation system, a first class educational system, and an adequate supply and distribution of affordable housing. Balancing a deficit-challenged state budget should not underestimate what government here has to do and do well, and what we as citizens can do to protect our region and nation. This is not a time for timidity or complacency, especially close to home, where we have stronger communities than we perhaps thought.

Read more about the survey online at <http://math.metro.msus.edu/civicsurvey/summary.html> MJ

Roger Israel and David O'Hara are associate professors at the College of Management, Metropolitan State University.

Energy future *continued from page 5*

permit system. Companies selling electrical energy on the retail market should be operating under a carbon emission permit system. The system should be designed to limit the aggregate release of carbon dioxide from fossil fuels in the primary production of electricity. Allowable emission levels should be set to deal meaningfully with the global warming problem with the assumption that each region will bear a "fair share" responsibility for achieving national goals for reduced CO₂ emissions from non-renewable resources.

▲ The state implement permits for other pollutants. Emissions of other pollutants, including SO₂, NO_x, volatile organic compounds, mercury compounds, and particulates, should be regulated under a permit system that establishes allowable emission

levels based upon considerations of public health, the cost of environmental remediation and reduced emissions.

▲ The development of efficiency benchmarks. Minnesota's integrated electrical energy system, from primary energy sources to final use, should be at least as efficient as that presently projected by the federal Department of Energy laboratories as achievable with presently proven technologies.

▲ Minnesota needs a flexible transmission system. The transmission and distribution systems serving Minnesota should have the capacity and the flexibility to allow the state to take maximum advantage of renewable resources such as wind, solar, and biomass energy, distributed energy capabilities, and co-generation installations.

▲ In order to avoid the looming electricity crisis, Minnesota should act quickly to adopt the necessary safeguards and incentives to allow for continued and increased reliability and environmental protection, while working to maintain a reasonable cost structure. The state also needs to monitor the changing environment of the region and the federal structure so that policies can be updated slowly by state mandates rather than thrust upon the state through federal requirements.

▲ Minnesota could face a crisis in electric energy but with proper planning and continued observation, we can avoid it and assure a reliable electricity supply with an improved balance of reliability, environmental impacts and cost. MJ

TakeNote

Policy Tidbits

Balancing our fiscal woes with more hopeful talk of innovation

Ten issues to watch in 2003. Melissa Conradi, writing in the January issue of *Governing* magazine, listed 10 issues to watch in 2003: budget shortfalls, homeland security, health costs, education standards, air quality, insurance, welfare, privacy, election reform, and medical worker shortage. For each issue, Conradi described why this is an issue, who are the main players, where will it be debated, and what can we expect? The full article is available at <http://governing.com/1issues.htm>.—Lyle Wray.

Solar tower planned for Australia. *Time* magazine picked the solar tower concept as one of the best inventions of 2002. The design involves a 200 megawatt solar thermal power station that would provide enough energy for 200,000 homes. The sun heats air that drives 32 turbines in a one kilometer high concrete funnel. A potential site has been identified in New South Wales with an estimated operational date in 2005. A full description of the project may be found at www.enviromission.com.au/index1.htm.—L.W.

Sales tax on e-goods? Not now, but maybe soon. States are working hard to unify sales taxation policies to enable them to goods purchased on the Internet. According to the January issue of *Governing* magazine, e-commerce reduces state and local government revenues by as much as \$14 billion. The current challenge to taxing e-commerce goods is the sheer number of taxing jurisdictions—7,600 of them. The U.S. Supreme Court ruled that the variation in tax rates taxes and the number of jurisdictions makes it too complex to apply sales tax. Minnesota is one of 34 states working to develop a unified tax policy, but the process not complete and numerous states must adopt legislation before any policy will take effect.—Scott McMahon.

China tests Maglev train. On Dec. 31, German Chancellor Gerhard Schröder and Chinese Prime Minister Zhu Rongji took a test ride on a new high-speed magnetic-levitation train. The train reached its designated maximum speed of 266 miles an hour over

the 19 miles between Shanghai's financial district and its main international airport, Chinese officials said. The Chinese paid \$1.3 billion to install the train, which runs between the city's business district, Pudong, and the new Pudong airport. China has awarded Germany a potentially lucrative contract to lengthen the world's first commercial magnetic-levitation rail system to cities surrounding Shanghai, Schröder said after the ride, *The New York Times* reported. Siemens and ThyssenKrupp are the main German companies behind the Shanghai project. German and Chinese planners have discussed extending the train line south to Hangzhou and north to Nanjing. If completed on that scale, the elevated magnetic train lines would cover more than 180 miles. There is currently a competition for a 775-mile line linking Shanghai and Beijing, which China estimates will cost \$22 billion. Siemens and ThyssenKrupp are among the contenders. Read the full story at www.nytimes.com/2003/01/01/business/worldbusiness/01RAIL.html.—L.W.

States' fiscal outlooks worst since WWII. In the National Governors Association's biannual report, "The Fiscal Survey of States," the final conclusion was that the fiscal situation for the states is the most dire since World War II. Many states have already exhausted budget cuts and drastically reduced rainy-day funds. Twenty-six states used across-the-board cuts and rainy day funds to fill holes in the 2002 budget; 15 states laid off employees; 13 reorganized programs; and 31 used other methods just to fix the 2002 budget gaps. The report also noted that two-thirds of states reported

spending growth of less than five percent for both fiscal 2002 and 2003, while 16 states experienced negative growth in fiscal 2002. Obviously Minnesota is not alone in trying to solve budget problems, but hopefully the states will use organizations like the National Governors Association and the Council of State Governments to help share innovative ideas to deal with the serious issue. The NGA report is available at www.nga.org.—S.M.

Report shows solid Internet use in U.S. On Dec. 29, the Pew Internet and American Life project issued a report documenting Internet usage in America. The report, titled: "Counting on the Internet: Most expect to find key information online, most find the information they seek, many now turn to the Internet first," shows more than 60 percent of Americans now have Internet access and 40 percent of Americans have been online for more than three years. The report shows how the Internet has become a mainstream information tool for many Americans. For example, for information or services from a government agency, 65 percent of all Americans expect the Web to have service information; 82 percent of Internet users say this and 39 percent of non-users say this. The overview of the report and links to the full report may be found at: <http://www.pewinternet.org/reports/toc.asp?Report=80>.—L.W.

Take Notes compiled by the staff of the Minnesota Citizens League.