

Citizens League
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STATEMENT TO THE GOVERNOR AND LEGISLATURE
ON INNOVATION AND COST CONTROL

Introduction

In his budget message to the Legislature in January, Governor Perpich recognized that balancing the budget requires more than cutting services to people or raising taxes. He recommended "a set of policies designed to innovatively redesign our programs for the future." The Governor realized that the Legislature's job is bigger than simply balancing the budget for the next two years. If spending levels are to be controlled--and service levels maintained--in succeeding years, steps must be taken now.

His proposed policies:

- "Provide the consumer of public services with more choice...
- "Create more competition among service providers...
- "Service providers should be held accountable...
- "Foster self-help rather than dependence on public programs...
- "Target subsidies and assistance to those most in need...
- "Decentralize decision-making to enhance accountability...
- "Emphasize family responsibility before public assistance...
- "Improve the convenience of government service...
- "Invest where there is a clear return on the state's investment...

Regrettably, at this point in the session, almost the total amount of the focus of the Governor and Legislature is on what taxes should be increased. The question of how the money is spent is receiving scant attention.

Proposed spending for the next biennium as originally recommended by the Governor in January would have represented a 7.7 percent increase over the current biennium, of which inflation would account for not more than five percent. (Some legislators believe the inflation assumption is too low.) A more rosy revenue forecast in March prompted the Governor to revise his recommendation to provide for an 8.3 percent increase. The House and Senate seem determined to go even higher. The House adopted a budget resolution that would increase spending by 8.9 percent. The Senate's level will be higher than that of the House, according to newspaper accounts.

Why? The problem, we're told, is the unending pressure to spend more, to get presumably more service or less inequity or to provide, through some taxes, relief from the effects of others.

The Legislature can improve service delivery and hold down taxes, provided it is willing to restructure services and reorganize the fiscal system.

To the extent the Legislature exceeds the Governor's budget for the upcoming biennium, it has an even greater obligation to adopt strategies for cost control in the future.

We recommend:

That the Legislature follow the innovation-cost-control policies laid out in the Governor's budget. We do not necessarily agree with all the items in the Governor's budget but we support its strategy to limit spending increases and accomplish real reform in how the money is spent.

That the Governor veto appropriations bills that do not sufficiently carry out his guidelines for innovation in delivery of services and in controlling costs.

Specific areas of Citizens League concern

Citizens League reports have addressed several areas in which changes in the way state services are provided can produce improvements in quality and productivity,

--Focus in higher education--Higher education institutions need to identify their central missions and not spend money in peripheral areas. We concur with the Governor's recommendation that the University of Minnesota be given additional appropriations for Commitment to Focus on condition that the University reduce its undergraduate enrollment by 8,000 students over the next five years.

We concur with the Governor's recommendation for special appropriations for 1987-89 that would direct each higher education system to develop its own methods of assessing the results (outcomes) achieved in its institutions.

--Restructuring higher education--We urge the Legislature to pass a bill in this session to unify the AVTIs and community colleges and make them state institutions. Such action would give the state more control over its budget, because no longer would the state be asked to ratify and pay for salaries established at the local level. It would make it possible for the state to identify much better how many sub-baccalaureate post-secondary institutions are needed and where they should be located. It would make it possible for the state to plan educational programs that benefit students and employers much more intelligently.

We understand that combining the systems presents many unwanted complexities, particularly with personnel agreements. But the Legislature, as a first step, could consolidate the boards at the top and charge the joint board with recommending long-term resolutions of problems.

--Delivery of elementary-secondary education--We support recommendations from the Governor's education discussion group to stimulate improvement in education at the local level. Those initiatives that would broaden choices for children, especially for the disadvantaged, and that would stimulate more authority at the local school level are particularly encouraging.

--Finance of elementary-secondary education--The Legislature should discontinue its practice of establishing levels of foundation aid for any year beyond the upcoming biennium. Under current practice, a Legislature finds a substantial amount of dollars for the biennium already committed because certain numbers in the foundation aid formula were established in the previous biennium. Even the pre-eminent importance of education does not justify exempting it from the regular priority-setting process.

--Pre-paid health care systems--We support recommendations by the Governor that health care paid for with public dollars be provided through pre-paid systems, such as health maintenance organizations, that are widely utilized when health care is paid for with private funds.

--Health care for the uninsured--We recommend that the Legislature enact a new program to provide health care for uninsured mothers-to-be and children under six years of age. This investment should save countless dollars in coming years in reduced health care expenses because of healthier babies and children.

--Long term care for the elderly--We recommend more opportunities to care for elderly in non-institutionalized settings, which cost less than nursing home care.

--Roads--The Governor is seeking more money for state highways at the same time that it is widely recognized that the state is trying to maintain too many miles of road at state highway standards. The Legislature ought not provide additional taxes to pay for state highways until steps are taken to assure that lesser-used state highways are not maintained to the same standard as more heavily-used state highways. Many miles of state highways could be more appropriately maintained by counties and cities. Or the state could reduce its maintenance standards on lesser-used highways.

--Transit--We support the Governor's decision that no state appropriation be provided for light rail transit (LRT). Instead the Legislature should encourage more flexible, less costly, ways of providing rides for people, including deregulation of the taxi system and providing that special freeway lanes are set aside for buses, carpools and vans.

Before transit authorities cut back scheduled route bus service because of lack of state aid, other vendors should be given the opportunity to bid for the service.

To assure that more rides can be offered to handicapped persons within limited dollars available, rules of Metro Mobility should be changed to allow vendors to compete for riders based on price.

--Property tax--We concur with the Governor's recommendation that property tax relief payments be restructured so that the level of such payments no longer is driven by local government spending decisions. Instead the Legislature should provide fixed appropriations for property tax relief.

We recommend that property tax credits no longer be made available automatically to all homeowners and farmers. Instead relief should be targeted based on need, including such factors as household income and property value.

--Development finance--The Legislature should move to a more direct, controllable system of providing financial assistance to real estate development, instead of allowing tax-increment financing to continue to grow unabated.

--State employees--A portion of state appropriations for employee salaries should be designated for merit pay. The system of hiring state employees should be decentralized to individual state departments.

--Pensions--The Legislature should shift pensions for higher-paid state employees from a "defined benefit" approach, under which future state commitments are not limited, to a "defined contribution" approach, which avoids an open-ended commitment for state payments in coming years.

--Lottery--Unlike the Governor, we believe a state lottery should not be used to raise revenue to balance the state's budget. State government can enable--but it should not encourage--citizens to play a lottery. A lottery is acceptable so long as it isn't adopted as a revenue-raising device for state government. If state government becomes dependent upon lottery revenues, it will inevitably, even if subtly, encourage citizens to play. Thus we propose (1) that the Legislature enact a lottery that would return more money as prizes to the players and less money to the state as revenue than any other lottery in the nation, (2) that revenue collected by the state be deposited in the general fund and not be dedicated to any specific purpose, and (3) that state government regulate, but not operate, the lottery.

Complete reports on the above-mentioned subjects are available at the Citizens League, 708 South 3rd Street, Minneapolis, MN 55415 (338-0791).