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**3 Basic Proposals To Help Minnesota's Governor and Legislature
Cope With Complex, Rapidly-Changing Issues**

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State-Local Fiscal Planning
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INTRODUCTION

Broadly speaking, Minnesota state government traditionally has had two major purposes: (a) operating, or running, state services, and (b) making policy which shapes the governmental institutions, finance system and the general growth of the state.

Beginning in the early years of state government, up through the middle 1960s, there was no question that the first purpose--the operating side of state government--was dominant. Naturally, the organization of state government evolved in a framework which chiefly recognized this dominant purpose. The Governor, state agencies and the Legislature all were oriented mainly to the problems of operating state services. When one thought of state government, he thought of the level of government which ran the prisons, the colleges and universities, the state parks, and the institutions for the physically and mentally handicapped, which built our state highways, and which regulated and licensed all sorts of public activities in the state. One did not think of state government as an agent for change or as playing an active role in shaping patterns of population and economic growth in the state. State government had the power to give greater emphasis to its second purpose, but state government was not perceived as the body to be involved in such activities--notwithstanding the fact that its actions, or lack thereof, really were involving the state, inexorably, in the second purpose.

In the late 1960s, however, a shift in the balance between the two purposes clearly became discernible. The second purpose, policy-making, was gaining fast on the first, the operating purpose. Suddenly, so it seemed, state government became involved in setting up new governmental structures to cope with problems of regional growth. It became involved in uncomfortable, sticky issues of shared power with local government officials. It became involved in new kinds of issues, such as housing policy, fiscal disparities, and drug abuse.

By 1971 there was no doubt that the total balance had shifted. The second purpose, policy-making, now was dominant. Moreover, it was clear that the policy-making side would become increasingly important in coming years, and the relative importance of the operating side would diminish.

But as the shift has occurred, with increasing speed, the Governor and Legislature have continued to use essentially the same structures and procedures which were adequate prior to the shift. As each legislative session has convened in the last few years, the policy issues have become larger and larger, revealing the need for more background, fuller discussion and deeper analysis than ever before. But it has become clear that these structures and procedures have not been satisfactory vehicles for handling the issues. Increasing anxiety is evident among legislators, state officials and the general public.

Our recommendations are designed to enable the state's policy-makers to catch up with the nature, size and scope of the issues.

S U M M A R Y O F

I. Increase the Governor's ability to make choices among competing state programs and improve his ability to make policy proposals by:

- Assigning the State Planning Agency a formal, continuing role in budget review
- Improving the capabilities of individual state agencies to evaluate programs before submitting budget requests to the Governor
- Continuing to move to a "program" budget format, not just the "line-item" format
- Requiring longer-term projections of revenues and expenditures for all state and local government
- Increasing the degree of flexibility in use of state revenues
- Adding manpower planning capability to the State Planning Agency
- Improving the ability of state government to deal with changing federal relationships

II. A. Improve the Legislature's ability to review the Governor's budget and to make policy decisions by:

- Conducting hearings and receiving testimony on the entire budget, rather than just considering each part of the budget separately.
- Providing that no subcommittee report on a major appropriations bill can be voted on in full committee until all major appropriations bills have been reported out of subcommittee.

B. Enable the Legislature to make better use of the 120 days allotted each biennium for the session for budget review and other purposes by:

- Obtaining voter approval this fall of the constitutional amendment on flexible legislative sessions
- Holding joint hearings on the budget between the Senate Finance Committee and the House Appropriations Committee

C. Make more effective use of Legislative staff in reviewing the Governor's budget by unifying the Appropriations Committee staff with other research staff of the respective houses of the Legislature.

RECOMMENDATIONS

- III. A. Bring to the attention of the Governor and Legislature credible, independent analysis of long-term consequences of present actions by establishing a Minnesota Governmental Policy Institute.
- B. Assign the Institute the responsibilities of:
- Determining longer-term consequences of current policies
 - Analysis of alternative courses
 - Anticipation of future problems
- C. Enable the Institute to review any issue affecting state and local government, with particular attention to fiscal matters, except that it should avoid day-to-day technical issues and concentrate on broader questions.
- D. Permit open, public involvement in processes of determining the Institute's agenda.
- E. Structure the Institute in a way that preserves its independence, enables public scrutiny of all phases of its activity, and attracts as its Members individuals who are thoughtful, concerned, imaginative, innovative, dedicated, and who have an ability to communicate ideas to others.
- F. Provide that Members of the Institute function as a truly working body, with policy and staff-related functions, devoting at least 15-20 hours a week and, possibly in some cases, fulltime, to their responsibilities. Members also would hire assistants for certain staff assignments.
- G. Provide a means for appointment of Members of the Institute which keeps the Institute apart from, though not totally independent of, the Governor and Legislature, which assures the Institute will represent neither the Governor nor the Legislature, and which minimizes the influence of any specific interest group. Specifically, provide that the Governor and Legislature jointly name a bi-partisan Selection Committee which would be assigned the responsibility of appointing Members of the Institute. Provide for open nomination and announcement of nominees prior to appointment. There would be about seven to nine Members of the Institute.

FINDINGS AND CONCLUSIONS

- I. A vastly changed setting for state-local government--State and local government in Minnesota today barely resembles what existed 15 years ago because so many fundamental changes have occurred. The changes here have not been unique, but have been parallel with similar changes throughout the nation. Among them:
- A. Rapid rise in expenditures and number of personnel--During the 1960s in both Minnesota and the nation, expenditures by state and local governments increased at an accelerating rate. In the five-year period ending June 30, 1965, the average annual increase in expenditures in Minnesota was 6½% and in the nation at large, 7½%, according to figures from the U. S. Department of Commerce. In the next five years ending June 30, 1970, the average annual increase in Minnesota was 12½% and in the nation, 12%. State and local government today represents the fastest growing segment of the nation's economy, according to the Bureau of Labor Statistics. In the middle 1960s state and local government expenditures and total federal government expenditures were roughly the same. Then in the late 1960s, state-local expenditures began to increase substantially and today are much greater than federal.

In 1960, 106,000 fulltime equivalent persons were employed by state and local government in Minnesota. By 1970 this had increased to 162,000, according to the Department of Commerce, an increase of about 53%. Just about the same percentage increase took place in all the states combined. The U. S. Department of Labor reports that government employment has been growing faster than any other industry division.

What is behind the rapid increase? Is it likely to continue?

- B. Emergence of new and more complex services--Within the past decade or so, Minnesota's state and local governments have moved into many new functions or have substantially modified traditional ones. Moreover, the inter-relationships of these functions have served to add to their complexity. The by-words in the governmental sector today of environmental protection, criminal justice or community development would not likely have appeared in any description of services involving state and local government a decade ago. Nor at that time was there anywhere near the involvement of state and local government in such fields as housing and health care as there is today. Meanwhile, traditional functions such as public education have experienced unprecedented growth. *Are state and local governments equipped for this change in emphasis?*
- C. Expansion of the role of the federal government--In 1958 only 10% of all state and local government revenues in Minnesota came from federal aid. This grew steadily during the 1960s and was about 16% in 1970. In a sense, the dollar input from the federal government is not as significant as other changes which have come about because of federal influence. Federal dollars created an incentive to establish new state agencies, new divisions of existing state agencies, and new local government arrangements, for example. Priorities on the expenditure of state and local dollars increasingly have been affected by federal regulations. For example, one major state agency submitted a request for 25 new employees to the 1971 Legislature, 23 of which were said to be needed in order to carry out certain federally-mandated activities. *What really does expansion of the federal role mean for the Governor and Legislature?*
- D. Expansion of the state's role in local affairs--In the year ending June 30,

1962, state aid to local government, exclusive of state aid to schools and exclusive of state highway aid to local government, was \$38 million. By the year ending June 30, 1971 this had grown to \$327 million. The vast majority of this increase was in the form of replacement dollars for the property tax. The increased involvement of the state in property tax relief has been accompanied by a greater degree of state control over local government spending than ever had been the case in the past. The lines between what constitutes a local tax and a state tax have been blurred considerably. *How should the state and its local units of government share power and responsibility?*

- E. Changes in where people live--The amount and type of governmental services are affected to a major degree by where people choose to live. The most obvious trend in recent years has been the continuing shift from the rural parts of the state to the metropolitan area. Along with the increasing concentration of population in the area have come demands for more and new kinds of governmental services. The distribution of the metropolitan area population--particularly the movement towards a spread-out, low-density residential development--has also had a real impact on the kind and amount of governmental services required.

Perhaps equally significant, but more subtle, population shifts are occurring elsewhere in the state. The very small communities continue to drop in population, with larger urban centers outstate increasing. As population diminishes in certain parts of the state, the relative cost of providing certain necessary functions increases. Another form of population shift in the state which undoubtedly is producing governmental service requirements is the gradual emergence of a large dispersed urban region, now the third largest urban region in the state, in the lake-recreation area of north central Minnesota. *To what extent and how should the state seek to influence where people live?*

- F. Shifts in the nature of the state's economy--Perhaps even to a greater degree than the rest of the nation, Minnesota is shifting from a goods to a service economy. Services such as insurance, finance, computer "software" and health care are representative of the growing service areas in the state's economy, while agriculture and mining, which formerly dominated, are representing a smaller portion of the total. *How do these changes affect the state's governmental-fiscal system?*

- G. Changes in affluence of the population--Although the state's per capita income is still slightly below the national average, the percentage increase in per capita income in Minnesota has exceeded that of the nation consistently in recent years. The rising affluence produces problems at both ends of the scale. With more income, people have options to buy such recreation items as boats and snowmobiles which, in turn, require outlays of public dollars for services to support these recreational outlets. The increase in income level has not been uniform throughout the population, however, and the gap between the poor and the affluent has become wider. This, of course, results in the need for more public services for the poor. *What are the implications of this trend for state and local government?*

- H. Changes in the age distribution of the population--Different age groups in the population produce different public service requirements. But the age distribution does not remain the same from decade to decade. For example, enrollment in elementary and secondary schools increased about 200,000 in Minnesota during the 1960s, but is projected to decrease about 100,000 during the 1970s. *How does the state provide services for a changing population?*

- I. Emergence of new levels and units of government--New multi-county, regional structures of government are coming into existence and assuming a role equal to or greater than that assumed by other kinds of local government, such as counties and townships. Adding to the complexity has been the continued creation of new special-purpose service districts, such as watershed districts and transit districts. And just now beginning, is a fairly serious discussion about establishing decentralized neighborhood sub-units of government within larger cities. *What impact does this have for future provision of public services?*
- J. Increasing role of the judiciary in equalization of services--In the past several months several courts across the nation have ordered equalization of tax resources for public education. Some observers have speculated that this movement may be extended to other public services, too. These decisions are having a profound effect on state legislatures and local governments, including Minnesota's. *What kind of response should be made?*
- II. A changed role for state-local government--Another very significant change has been occurring, but may not be quite as perceived as those listed above. This change has been occurring slower and may just be reaching a point of real visibility. This change involves the shift in emphasis of the role of state government from one of administration, that is, from running or operating governmental programs, to one of making basic policy about the direction of the state. A recognition of the fact that the Governor and Legislature hold the power--the only power--to rebuild the state's local government network is just now coming about. *Is the state prepared for this change in role?*
- III. Continued changes likely in coming years--The trends of the past decade or so as outlined above appear to be a foretaste of things to come. Some examples:
- A. Continued increase in state-local expenditures--The state and local government share of the gross national product is projected to rise from 11.6% in 1968 to 12.8% in 1980, the Bureau of Labor Statistics has reported. If projected expenditures materialize by 1980, the federal share of the GNP will be 7.5%, down from 11.5% in 1968. The Bureau of Labor Statistics also projects a continued growth in employment in state and local government to 1980 on the same general magnitude as the increase in the previous decade. According to projections by the Tax Foundation, a private organization, state-local expenditures in 1980 will be 2½ times as great as they were in 1970.

Certain personnel-related expenditures, such as those for pensions, are likely to increase even faster than the growth in the numbers of public employees. One municipal official in Minnesota, for example, projects that the property tax levy for pensions by his municipality, a population of about 30,000, will experience a five-fold increase during the 1970s.

Virtually all department heads in state government identify major service areas which are not adequate today and for which they will be seeking improvement in coming years. Some of the larger growth areas in Minnesota are likely to be mass transit, pollution control, parks and open space, higher education and highway maintenance.

What does this mean for the Governor and Legislature?

- B. Decentralization of state services--Conversations with officials in the welfare and corrections fields particularly indicate that state government will be seeking to divest itself of direct operating responsibilities in certain service areas in coming years, transferring these functions down to the regional level in the state. *What are the implications of this trend?*

C. Increasing federal role--A greater degree of federal involvement seems inevitable, given the serious discussions which are under way now in such areas as revenue sharing and welfare reform, both of which would involve a far higher level of federal financing of state and local government expenditures than exists today. *Will the Governor and Legislature maintain policy control?*

D. Continued shifts in population--There is little doubt that the patterns of population distribution in the state as were developing in the last decade will continue. Thus, the problems associated with bringing public services to sparsely populated parts of the state will become even more acute as will the problems associated with providing urban services. *What specific public services will be most affected?*

IV. Changes have brought about major concerns--Hardly anyone, whether citizen or public official, is not deeply concerned about some or all of the implications of these changes. The list of concerns which we list below is not inclusive. For example, outside the scope of this report is whether a certain public service, such as preservation of natural resources, is receiving adequate attention when compared to some other public service, such as education. This report focuses more on *how* fiscal-related decisions are made, not *what* these decisions themselves are. Keeping this "ground rule" in mind, here are some of the concerns we have identified:

A. Uncertainty as to the overall meaning and impact of the changes--Most public officials are well aware of the changes outlined above and realize, too, that there undoubtedly are interrelationships among the changes. Yet it is extremely hard for public officials to sort out the meaning of these events. *Will everything continue to change fast in the future? How will we be able to anticipate side effects of certain changes?*

B. Difficulty in understanding the fiscal system--In spite of the continuing need to have an enlightened citizenry, the rapid changes have made it more difficult than before to fully appreciate the interrelationships among levels of government and their financing arrangements in the state. So-called simple concepts of a level of government having full responsibility for carrying out a certain function and for raising local taxes to support that function no longer apply. Invariably, many levels of government are involved in the policy making. *How can the system be made understandable?*

C. Dissatisfaction with levels of taxation--While it might be agreed that a concern about the level of taxation should be a concern, this issue is assuming greater importance because of its interstate implications. Because changes are occurring in tax levels almost constantly from state to state, current comparisons of levels are very difficult to determine. According to the 1972 edition of "State-Local Finances," a publication of the Advisory Commission on Intergovernmental Relations, Minnesota ranked 15th in the nation in state and local taxes and charges per \$1,000 of personal income in 1970. This comparison, of course, does not take into consideration the increases in non-property taxes and the decrease in the property tax voted by the 1971 Minnesota Legislature, nor does it include any tax changes in any other states since 1970. *What comparisons are valid? What is the effect of differences in levels of taxation?*

D. Concerns about long-term personnel commitments--The large expansion of the size of the state-local government payroll in recent years has brought about questions as to what this expansion holds for the future. Questions are being raised increasingly about whether the addition of new employees trained for certain responsibilities represent, in effect, major long-term commitments to

continue certain functions. Difficulty in reassigning or retraining personnel limits the flexibility of government in changing the methods of delivery of services or in starting new programs. For example, the Minnesota Department of Public Welfare is developing a proposal for decentralizing the state's mental health-related institutions. The flexibility needed to accomplish such decentralization may be limited by the large complement of state employees at the present institutions.

Associated with the increase in numbers of personnel is a continued pressure for improvements in pension benefits. Some public employee pensions in Minnesota apparently already provide a way whereby an individual could receive more in benefits during his retirement than he earned in salary during his employment. This point was brought out in regard to pension funds for firemen and policemen in an article in the League of Minnesota Municipalities magazine in September 1971.

How can the state make most effective use of tax dollars devoted to personnel expenditures?

- E. Concern about getting our money's worth--Expansion of the public sector has prompted an increasing insistence that public officials give solid evidence about what they are accomplishing when they seek further expansion of services. This is a difficult task, because much needed information is absent. For example, good social indicators, which could assist in assigning priorities to various functions on the basis of social need, are lacking. Also, the science of measuring productivity in government has not yet reached the point where accurate output measures have been developed, other than on a selective basis, mainly in the federal government. *How can better productivity be achieved and measured?*
- F. An apparent diminishing level of public confidence--As the public sector has expanded its influence in recent years, the level of public confidence seems to have diminished correspondingly. A study by the Survey Research Center of the University of Michigan, has found that the proportion of Americans who expressed confidence in government has declined to 37%. In 1964 that figure was 62%. *What can be done to reverse this trend?*
- G. Limited ability of elected public officials to affect the changes--It would appear that more than *causing* change, state and local government officials in Minnesota have been *affected* by change. Several factors have been cited which appear to limit the role of the public officials:
 - 1. Limits on use of revenue sources--Because of statutory or constitutional actions limiting revenues from certain sources to be used for certain functions, the Governor and Legislature lack the flexibility they would otherwise have, as the public's representatives, in resource allocation. *What are the implications of such limits?*
 - 2. Inertia of past commitments--Elected public officials continuously express concern about the discretion which they have over the budget because of the need to continue to fund commitments which were made in previous years. *How can the Governor and Legislature take control?*
 - 3. The necessity to meet federally-mandated requirements--While the federal government has stimulated the state to become involved in areas it would not likely have entered, the Governor and Legislature have found that increasingly the priorities in the state's budget are made to accommodate

federal programs. The Governor and Legislature have not fully resolved how to cope with this federal dimension. *Should they simply accept the decisions as they come from Washington? Should they aggressively seek to maximize Minnesota's interests in federal legislation?*

4. Many issues not clearly or properly identified--Failure of the Governor and Legislature to move in certain areas may well be due to the fact that the issues have not been spelled out in such a way that spotlights the decisions that have to be made and the consequences of action or inaction. *How can issues be adequately presented to the Governor and Legislature?*

H. Concerns about governmental organization and interrelationships--Among the concerns in this area;

1. How the state and its local units of government share power and responsibility--This issue was probably focused more in the 1971 Legislature than ever before. The Governor and Legislature of necessity must be in control of the revenue-raising system in the state. But, it is not yet clear what this means for local government. *What will local autonomy mean in coming years? Do the Governor and Legislature really want to be involved in the details of local government expenditures?*
2. Concern about the multiplicity of local units of government--The state's local government structure is attracting increasing concern because of the multiplicity of units layered on top of each other, frequently combined with overlapping responsibilities for functions. There are about 850 municipalities, 2,800 townships, 87 counties, 450 school districts, 11 development regions and many special-purpose units of government, such as watershed districts, and sewer, transit, airport and mosquito districts in the state. *Are there too many units of government?*
3. Concern about the organization of the executive branch--Besides the repeated calls for general reorganization of the executive branch into fewer, more manageable and responsive departments, there is a particular concern about how the executive branch is structured for assistance to the Governor in formulating policy proposals to the Legislature. This concern zeros in on the Governor's budget as his chief policy document. While there has been a considerable beefing up of the Governor's staff for management and administrative purposes, substantial improvements remain to be done so that the budget document will truly reflect his priorities, not those of state agencies. *Can the Governor act effectively without improved organization?*
4. Concern about the way the Legislature is organized--Besides the long-standing need to give legislators more time, improved staffing, better committee organization, and more pay, the Legislature needs improvements internally so that it can treat the Governor's budget as a policy document for state government, as well as a guide for administration. This relates to the procedures the Legislature follows in taking the Governor's budget and eventually adopting one of its own for the state. *Can the Legislature act effectively without improved organization?*
5. Concern about the "crisis" atmosphere of fiscal decision-making--The manner in which the major tax and fiscal reform measures of 1967 and 1971 were put together is fresh in the mind of anyone who has closely observed state government in recent years. The events of 1967 and 1971 were complicated in large measure by large political considerations. There is no question that

political considerations will continue to be a dominant force in the state's fiscal decision-making process. Nevertheless, there is widespread dissatisfaction with the procedures that seemingly had to be followed in assembling the packages of revenue raising and expenditures. *Can the atmosphere be changed?*

- V. Actions have been taken--The Governor and Legislature have been profoundly affected by the changes of recent years and the concerns which have developed as a result. Among the more significant actions:
- A. Detailed analysis of activities of state agencies--For the last several months, the Governor's office and the Budget Division of the Department of Administration have been assembling detailed information on more than 1,000 different activities carried out by state agencies. The agencies were required to state the dollars and personnel invested in the activities, the clientele served and the requests for dollars by activity that will be submitted for the 1973-75 biennium. Such information never has been available to a Governor of this state in the past and is calculated to make the state's budget much more a management-oriented document.
 - B. Movement to change the format of the budget document--In 1971, for the first time, a few state agencies were allowed by the Legislature to submit what is called a "program" budget, rather than the traditional "line-item" budget. In the traditional line-item budget, proposed expenditures have been placed in such categories as salary, repairs, equipment, travel and so forth. Under a program budget, expenditures are rearranged by the function which is being performed. The 1971 Legislature authorized the Department of Administration to continue experimentation with program budgeting.
 - C. Emphasis on "zero-base" budget preparation--In issuing his preliminary guidelines to state agencies in the fall of 1971 regarding preparation of the 1973-75 budget, the Governor said he would call for a form of zero-base budgeting by which a department will have to justify not only proposed increases in expenditures, but also present expenditures.
 - D. Help from the private sector--The Governor has called on the business community to undertake a study of the administrative practices of state government. This is being carried out through an organization called "Loaned Executives Action Program" (LEAP). Some 30 executives from private corporations will be serving from 3 to 6 months fulltime, looking at areas where the state can save money or improve services. The areas covered will include organization planning, management systems, manpower utilization, financial control systems, operational audit and program evaluation technique.
 - E. Establishment of a Council of Economic Advisors--The Governor has appointed a non-statutory Council of Economic Advisors to offer advice on longer-range fiscal planning and other areas of economic policy and analysis in the state. Non-state funding sources are being explored to give this group staff capability.
 - F. Improvements in legislative consideration of the budget--During the 1971-73 interim, subcommittees of the Senate Finance Committee and the House Appropriations Committee have been exploring with the officials of the Budget Division of the Department of Administration various ways which will assist the Legislature in acting on the Governor's budget. More complete information about the details of state agency requests, as originally made to the Governor, will be made available to the Legislature.

- G. Improvements in legislative staffing--Within the last seven years, the Legislature has built up a substantial fulltime staff capability, never before present, either for its Appropriations and Finance Committees or for the other committees of the Legislature.
- H. Submission of constitutional amendment on flexible sessions--The 1971 Legislature approved a constitutional amendment for submission to the voters in the fall of 1972 on giving it more flexibility in utilizing the 120 days of the legislative session now allowed by the constitution. In effect, the amendment would allow the Legislature to spread the 120 days throughout the first five months of both years of the biennium, not just the first year as at present.
- VI. Much more remains to be done--The Governor and Legislature in Minnesota have crossed a "watershed," so to speak. The focus of state government in past years has been heavily internal to the operations of state government. State government has seen itself as--and outsiders have generally had the same perception--primarily an administrative operation, delivering important public services. There is no doubt that this function is and will remain a major responsibility of the Governor and Legislature. But now, the Governor and Legislature are increasingly aware of a second dimension, although this second dimension is not as fully recognized as the first, particularly outside the Governor and Legislature. The second dimension--that area which has brought the Governor and Legislature into the new "watershed"--is that of state government as the prime determiner of the shape of governmental institutions, their financing and responsibilities. What brings about this recognition of the second dimension is that persons who are perceptive about the importance of public policy recognize--despite the heavy financial involvement of the federal government--that the Governor and Legislature really hold the power necessary to cope with the changes and concerns in our governmental system in recent years. The federal government, for example, cannot establish the type and number of local units of government. (This was even underlined in a recent court case on the federal role in school district boundaries.) We hold no delusions about the fact that the federal influence in state and local government will continue to be felt substantially. The federal government will continue to stimulate movement into new areas or change in existing ones. Nevertheless, the federal government, too, may come to realize the reservoir of powers which rest in the governors and legislators across the country.

We have identified several areas of improvement to assist the Governor and Legislature in their new role. They can be summarized as falling in two broad categories: (a) improvements within the budget, and (b) improvements "beyond" the budget. Within the first category we have found a need to change organization, procedures and staffing of the Governor and Legislature to make the budget more a public policy document. Within the second category we have found a need to help the Governor and Legislature focus on the longer-term impact of present decisions; in effect, we see a need for a "radar" system to help the state's policy makers learn where their present directions are leading the state. The recommendations on the following pages spell out how these improvements can be accomplished.

RECOMMENDATIONS

- I. Budget related improvements: the executive branch--The state's budget initially prepared by the Governor and ultimately adopted by the Legislature, is the most important governmental policy document in the state. The budget determines, of course, the dollar amounts to be raised and how these dollars are to be spent for providing state services. In this sense, the budget is a financial control document, which has been the most common view of the budget. We, too, see the budget as a financial control document. However, we have also come to realize that the budget is much more. It determines which state activities will be given higher or lower priority, whether new functions will be added or old ones deleted, whether changes will be made in the method of delivery of state services, and so forth.

A highly-regarded professional staff has been developed in the Budget Division of the Department of Administration to supervise financial control aspects of the budget. This staff interprets the Governor's budgetary guidelines to state agencies, assembles budgetary requests of the agencies, assists the Governor in trimming the requests to meet his guidelines and, finally, sees that everything adds up correctly. From all we were able to determine, financial control in budget preparation, as exemplified by the Budget Division, is one of the strongest arms of state government.

We have found the other side of the budget requires greatest improvement at this time, that is, to give greater emphasis to the "functional" or "operations" or "program" side of the budget--in effect, to the purposes for which the dollars are being spent. To accomplish this:

- A. Strengthen the Governor's functional capability in budget preparation--The nucleus of the staff which the Governor needs in broadening his budget review to the functional or operational side of the budget exists in the State Planning Agency, set up in 1965 and functioning directly under the Governor, separate from the Budget Division of the Department of Administration. While the popular image of the State Planning Agency may be one of the state's long-range planner, in fact, the Agency also performs an equally important function as the Governor's program development and analysis staff. But, the State Planning Agency has had little, if any, role in budget preparation. We recommend:
1. Give State Planning a formal, established role in budget preparation--To provide for a formal, functional or operational input to the preparation of the Governor's budget, we recommend that the Governor provide by executive order, and the Legislature ratify by statute, that the State Planning Agency's staff who are assigned to program development be incorporated by means of established procedures, in the group which evaluates budget requests of the individual state agencies, with the specific responsibility of reviewing the operational--as distinguished from the financial--aspects of the budgetary requests.
 2. Broaden the functional review capability of the State Planning Agency--The current staff of the State Planning Agency is knowledgeable in some of the major state functional areas, but its size is too limited in numbers and scope of responsibility to provide an adequate capability for long-range functional review of all major departments. We recommend that the staff be enlarged so that all major state functions, such as transportation, public safety, welfare and social services, natural resources, health, economic development, education, local government, consumer protection, and manpower can be covered adequately.
 3. Remove restriction on the use of planning funds--Present legislative constraints which limit the use of State Planning Agency funds for only those purposes where matching dollars are available from the federal government should be eliminated.

- B. Strengthen state agencies' functional capability in budget preparation--The research and program evaluation (or, if you prefer, "planning") functions within the individual state agencies traditionally have suffered from lack of support. Each agency usually has been under considerable pressure to place higher priority in its budget on expansion of specific activities, activities which usually have behind them strong interest groups seeking more dollars, rather than recommending that the Legislature provide funds for research and evaluation purposes. This is where the need is greatest. State agencies must have a better capability to establish priorities on expenditures within their own budgets. We recommend that the Governor and Legislature strengthen the research and evaluation capability of the individual state agencies in the 1973-75 budget. The Governor and Legislature should not simply provide a net addition of state appropriations to provide this capacity in each agency. They should require that the agencies themselves realign their own priorities to provide support for this function.
- C. Review need for structural change--Our recommendations above imply a closer relationship between the Budget Division of the Department of Administration and the State Planning Agency. We believe that the Budget Division should continue to be a responsibility of the Commissioner of Administration, who is functioning more and more as sort of a "general manager" for the Governor, much as the city manager functions under a mayor and council. We also believe that preserving the separate nature of the State Planning Agency is important at this time so that its program development role not be subject to possible de-emphasis by placement in the Budget Division. After a few years, it might be possible to evaluate whether structural changes would be desirable in the relationship between the Budget Division and the State Planning Agency.
- D. Strengthen consideration of federal implications--Federal revenues have become a dominant growth source of state funds, with annual receipts almost of the same magnitude as state income tax collections. Thus, the Governor's top budget officials urgently need continuous and comprehensive coverage of developments in Washington. There is little doubt that federal programs are one of the most important--if not *the* most important--determiner of the direction of the state's budget and structural organization. We recommend, therefore, that the Budget Division be assigned specific responsibilities in this area, including (a) identifying where additional state dollars are likely to be required as a result of pending federal legislation or regulations, (b) identifying where additional federal aids are likely to be forthcoming, and (c) reporting to the Governor on the potential fiscal impact on Minnesota of pending federal legislation or regulations, with suggestions as seem desirable for modification in bills or proposed regulations to maximize Minnesota's interests.
- E. Integrate manpower planning with program development--Because of the heavy labor-intensive nature of state government, the Governor needs the best information possible on trends in manpower needs and ways to affect these trends. The manpower planning section of the Civil Service Department, now a two-man operation, should be transferred to the State Planning Agency and be expanded in scope to encompass employees in local government as well as state government.
- F. Centralize all pre-audit functions in the Budget Division--We have been informed of unnecessary duplication between the Budget Division and the State Auditor in the area of approving expenditures of state agencies which fall within the budget as adopted by the Legislature. We recommend that the state reassign the State Auditor's pre-audit functions to the Budget Division as recommended by the present Auditor. A decision would have to be made whether to (a) abolish the office of

State Auditor, which would require a constitutional amendment or, (b) assign the office some other function, such as auditing the performance of state agencies in carrying out their responsibilities. We did not have time to evaluate which alternative, or perhaps some other one, would be desirable.

G. Strengthen the budget document--Aside from organizational changes, we have found a need for several major improvements in the development of the budget itself:

1. Require longer-term projections of expenditure requirements--To stimulate state agencies to prepare budget requests in a context which requires them to consider longer-term implications, we recommend that each state agency be required to project dollar requirements and personnel needs for a four to six-year period beyond the upcoming biennium, at the same time that budget requests are submitted to the Governor for the upcoming biennium. The Department of Administration should prepare guidelines for the projections, covering at least the following:

- They should include the assumptions which support the projections, including levels of service, numbers of persons to be served or relationship to other factors, such as location of economic activity in the state.
- They should be made in a manner which utilizes good financial accounting concepts to assure that costs (both projected and actual) of a function fully reflect all costs relating to the performance of the function. This means that certain "indirect" costs, such as the cost of office space, even though rent may not be paid directly, and all costs associated with personnel, including pensions and other fringe benefits, be included.
- They should encompass both existing and proposed new programs, but projections beyond the upcoming biennium need not be as detailed as the estimates for the next two years. For example, beyond the biennium costs could be projected in a general range of amounts for each major budgetary category.
- They should cover all sources of funds available to state agencies, including designated and dedicated funds, federal aids, and expenditures financed by revenue from the state's general fund.
- They should cover capital as well as operating needs.

The Governor, when he submits his budget to the Legislature, should take the longer-term projections by his state agencies, modify them consistent with the modifications he makes for the upcoming biennium and present aggregate projections for a four to six-year period beyond the upcoming biennium. In aggregating capital needs, the Governor should include projections of state bonded debt in coming years.

We recommend that the Governor request state agencies to prepare projections as outlined above when they submit their budget requests for 1973-75. This would occur later in 1972. The 1973 Legislature should then place this requirement into law.

2. Require longer-term revenue projections--In addition to preparing official revenue estimates for the upcoming biennium, the appropriate state agencies

should be required to project the general range of revenues at present rates for the same period into the future as state agencies are required to project expenditures, as recommended in the paragraph above.

--This responsibility will fall chiefly on the Department of Taxation, which now makes revenue estimates for the major state taxes for the upcoming biennium. The Department of Taxation, while responsible for most state taxes, does not have the responsibility for all, nor does its role extend to various non-tax revenues, such as fees and licenses. The same agencies responsible for making estimates for the upcoming biennium from whatever source should be charged by the Legislature with making longer-term projections, too.

--Longer-term projections need not be detailed, as are the official revenue estimates for the upcoming biennium, but should indicate the general range, high and low, for the four to six-year period beyond the upcoming biennium.

--Pending action by the Legislature, we recommend that the Governor request longer-term revenue projections be submitted to him along with the expenditure projections.

3. Recognize local government revenues and expenditures--The Governor's budget should be placed in a larger context of all state and local government expenditures. The Governor's budget will, of course, cover only recommended state appropriations, but the Budget Division should be instructed to prepare aggregate estimates of revenues and expenditures for local government during the upcoming biennium, plus projections for the same period beyond the biennium as state agencies are required to project. These projections would cover local governments as a group, not individually. Perhaps they could be grouped by function or by a general class of local government, such as municipalities or counties, or both. To assist in the preparation of such projections, we recommend:

--The Department of Taxation should be required to estimate the proceeds from the property tax during the upcoming biennium and project the likely range of property tax revenues for the four to six-year period beyond the upcoming biennium, at present rates.

--The larger units of local government, that is, those cities, villages, school districts, counties, and special districts with a budget in excess of \$1 million annually, should themselves, as state agencies would, project their revenues and expenditures for a four to six-year period beyond the upcoming biennium. These projections then could be used by the Budget Division in connection with developing the aggregate projections for local government. Such requirements upon the larger units of local government would not be inappropriate because of the fact that a substantial portion of the budgets of local government today represent payments from the state. It is extremely important to have a general idea of how local government expenditures will be rising in coming years.

4. Broaden flexibility in use of state revenues--The Governor and Legislature need maximum flexibility in access to revenue sources. No revenue source or class of taxpayers ought to be placed in a position whereby an automatic review of the status is not routinely made at the time of preparation of the budgets. Thus, those so-called "designated" funds, which are governed by a continuing state law and are not subject to review each biennium,

should be changed to the extent legally permissible so that their present designation automatically expires at the end of a biennium. This would require that each Legislature consciously adopt its own policy on designated funds. In general, we also oppose building revenue protection into the constitution, particularly that which limits the ability of the Governor and Legislature to set priorities on resource allocation among competing governmental services.

5. Give particular attention to personnel costs--Nothing in the state's budget does more to limit--or permit--flexibility in allocating funds among competing functions than the degree of commitments built into (a) the number of state employees, (b) their current compensation, (c) their fringe benefits, including pensions, and (d) job assignment. The executive and legislative branches should place particular emphasis on ways of increasing the flexibility and mobility of public employees among divisions and agencies and levels of government.
6. Rearrange budget categories by function--We support and encourage full development of the efforts under way to organize the budget document in such a way that the costs of state programs and activities are itemized, not just the line-item expenditures for staff, supplies and so forth. We recommend the Legislature expand the authorization for program budgeting from its present experimental state in a few departments to cover all departments of the state government.
7. Establish information clearing house--We were made aware of the several efforts which are now under way in state government to improve information systems of a fiscal nature as well as other information. There appears to be a strong commitment and recognition of the need for better information for policy making. We believe, however, that the role of state government in this area needs to be broadened by adding one additional dimension. This dimension concerns service, specifically to assist the various public and private individuals and groups throughout the state who have a variety of information demands. The Intergovernmental Information Systems Advisory Council should arrange for a place in state government where anyone can turn for help on finding information. This may not be the place where the information is actually available, but a request will be honored by directing the person who makes the request where he may obtain the information. In addition, the Council should arrange for a published report annually of the data and information which is in general demand.
8. Consider other improvements--Many other issues came to our attention; we didn't have adequate time to look into them in detail, but they would appear to merit further inquiry. Specifically:

--Investigate different budget year--Now the biennial budget year starts July 1, six months after the Legislature, and sometimes the Governor, takes office. This imposes severe time limits on the Governor and Legislature. It might be desirable if the budget could be passed later to give more time for preparation.

--Investigate uniform accounting possibilities--An urgent need exists for more comparability of financial data among all units of government in the state. State government itself is now just moving to a uniform

accounting system, but this won't be the same as that followed by local governments. The need for a uniform system of accounts for all state and local government should be explored.

Review in these two areas could be undertaken by the Budget Division for the Governor;

II. Legislative branch--In general, we underline and restate previous Citizens League recommendations for improvements in the legislative branch from the standpoint of time, compensation, professional assistance, and legislative organization. These recommendations appear in our report "Organization for State Policy Making" issued in 1968. But relating to the Legislature's budget-making role, we have some specific recommendations:

- A. Improve consideration of the budget as a whole--The Governor assembles state expenditure and revenue proposals in one place when he submits his budget to the Legislature. But at no time after his budget message does the Legislature ever consider the budget as a whole. The Legislature immediately divides the Governor's budget into a series of categories and considers each separately and independently from the other. Eight separate appropriation bills plus a tax bill are passed. We have no doubt that a great deal of attention is given informally by the legislative leadership to the overall expenditure-revenue package. Yet, a real need exists to give this process a higher degree of openness and structure. We recommend:
1. Hold hearings on the entire Governor's budget--Shortly after the Governor delivers his budget message, perhaps about a week later, the Legislature should conduct a series of hearings, perhaps for three or four days, on the budget as a whole. These hearings could be conducted by the Appropriations and Tax Committees of the House and Senate, meeting jointly, or by a special joint committee made up of majority and minority leadership and ranking members of the Appropriations and Tax Committees. Perhaps hearings could take place simultaneously in different parts of the state. At this time, the focus should be on the overall issues of resource allocation; that is, the issues of the relative priority of one general area versus another, and on the relationship of the proposed expenditure and revenue package. The Governor would assign his chief budgetary aides to lay out the rationale for the major allocation decisions in the budget. Then opportunity would be afforded for any person or group to comment. Tight ground rules would be established so that the focus would be on the overall budget, not on whether, for example, such-and-such an agency really needs two more clerks. After these hearings are held, the various appropriations subcommittees of the House and Senate would proceed, as they do now, with consideration of the details of each state agency's budget. (In fact, there is nothing to preclude this process from taking place even as the hearings on the entire budget are under way.)

2. Evaluate all major appropriations bills together--The Senate Finance Committee and the House Appropriations Committee should adopt ways whereby all major subcommittee reports on appropriations can be reviewed before action is taken on any of them. Specifically, we suggest:

--After the various subcommittees have reported their bills on major appropriations, the staffs of the Finance and Appropriations Committees should prepare a summary and analysis of the overall impact of the subcommittee reports.

--Next, the full committees should schedule hearings on the subcommittee reports as a whole.

--After these steps have been followed, the committees should, if deemed desirable, modify the appropriations bills, and pass the bills on to the full House and Senate.

- B. Approve amendment for flexible legislative sessions--We support and urge voter adoption of the constitutional amendment which will be on the November 1972 ballot, providing for flexible sessions of the Legislature. This will enable the Legislature to make more effective use of the time it has available in acting on the budget.
- C. Provide closer House-Senate coordination--The Legislature's ability to respond to the Governor's budget would be enhanced, we believe, by closer coordination between the two bodies in the appropriations process. The House Appropriations Committee and its counterpart in the Senate, the Senate Finance Committee, should conduct joint hearings on the budget. The staffs which are assigned to these committees should work jointly to maximize the effective utilization of limited resources.
- D. Strengthen "program" aspects of legislative review of the budget--Our earlier recommendations stressed that the Governor's budgetary staff be broadened to permit more substantive review and analysis of how to improve, add or delete functions of state agencies. A parallel broadening of the legislative staff who assist the Legislature in acting on the Governor's budget is also needed. As was the case in our recommendations for the Governor's staff, this need not require the hiring of only new legislative staff. Unification of the staff of the House Appropriations Committee with other House research staff and the staff of the Senate Finance Committee with other Senate research staff would represent a sound first step. Then, as deemed necessary, the House and Senate could hire additional staff for budget review. The Appropriations and Finance Committees have developed a strong professional staff of budget analysts whose responsibilities parallel those of the budget analysts in the Budget Division of the Department of Administration. The research staff of the House and Senate appear to have the nucleus of staff personnel needed to assist in a broader "program" review of the Governor's budget.
- E. Consider additional improvements--In a number of other areas we were able to identify major problems but, for lack of time or adequate information, we were not able to develop recommendations. We urge that the Rules Committees of the House and Senate include at least the following items on their agenda:
 - 1. Find ways to improve the process of considering the "tax bill"--The tax bill inevitably is one of the last pieces of legislation adopted in a session and is quickly pushed through the House and Senate as soon as a consensus is reached. Some way needs to be devised whereby the tax bill can be made subject to public review and analysis prior to final action.
 - 2. Explore improvements in post-audit--The Legislature has expanded its professional staff substantially in the last five years, for regular standing committees and for the Appropriations and Finance Committees. Legislative committees meet actively in the interim. The Legislature may call on the Public Examiner for post-audit assistance. It is not clear exactly whether the legislative post-audit process is deficient, and whether the Legislature needs more staff or whether some separate legislative post-audit position ought to be created.
 - 3. Improve structure for consideration of local government finance policy--Over the last five years, and particularly in 1971, the Legislature has

committed itself to become intimately involved in revenue policy for local government. Yet, the Legislature has not fully determined, organizationally how to handle this new dimension. What should be the role of the Tax Committee? The standing committees on local government? The Appropriations and Finance Committees?

III. A Minnesota Governmental Policy Institute-- Our recommendations on the previous pages focused on strengthening the capacity of the Governor and Legislature to make policy choices by changing some of the procedures and organizations in the budget-making process. But this won't be enough, in our opinion, to adequately equip the Governor and Legislature for making policy. The large size of state-local government in Minnesota and its rapid growth in recent years has produced a critical need for the state's policy makers to know better where their present governmental policies are leading the state and what impact alternative policies might have. To carry out this objective, we recommend that a Minnesota Governmental Policy Institute be established by law.

A. General Responsibilities of the Institute--The Legislature should provide that the Institute have a three-part function:

1. Longer-term consequences of current policy--This includes the identification and analysis of long-term consequences for the state, assuming a continuation of certain major policies. It would mean spelling out the long-term impact of what the Governor and Legislature intended to accomplish plus, equally important, anticipating the unintended--the side effects which may not be so obvious.
2. Analysis of alternative courses--This includes exploration of other courses which might be followed instead of present policies and what the consequences of these alternatives would be.
3. Anticipation of future problems--This includes the identification of future problems likely to face the Governor and Legislature as the result of economic or social trends or other forces.

The selection of a preferred policy to follow should not be a major function of the Institute, though we would not preclude the Institute from making recommendations, with ample opportunity for minority reports. We would specifically, however, refrain from proposing that the Institute become an advocate for a certain position. It should be known chiefly for raising issues and pointing up the urgency for action.

In carrying out these activities the Institute should have a particular charge to be sensitive to the need to help the Governor and Legislature (a) set priorities among competing public services, (b) improve productivity in the delivery of these services, and (c) improve the state's revenue-raising system.

The Institute should have the assignment of bringing to the attention of the Governor and Legislature key policy issues which would not otherwise surface but which have major impact on the state.

B. Functioning of the Institute

1. Scope of subject matter--Any issue affecting state and local government should come within the purview of the Institute. We recommend, however, the following specific qualifications:

- A requirement that special attention be given fiscal matters.
 - A requirement that the Institute's area of inquiry cover all governmental activities, both state and local (including all types of local units of government), plus the federal government as it affects state and local government, and non-governmental activities to the extent that they bear upon policy set by the Governor and Legislature.
 - A special emphasis in the statute that the Institute avoid day-to-day, technical issues and concentrate on broader questions of state-local governmental policy which are not being effectively raised elsewhere.
2. Selection of issues--Many more issues need attention than possibly could be considered by the Institute. Thus, the adoption of the Institute's agenda is very important. We recommend as follows:
- The statute should outline some of the general areas where the Legislature believes the Institute ought to function, such as:
 - * Where the state is heading, in terms of population and industry movement, use of natural resources, birth rate, and so forth
 - * Impact of state policies in such areas as transportation, open space, and taxation on the distribution of economic activity and population in the state
 - * Policies affecting the growth of urban areas in the state
 - * Alternative ways of delivering public services, including decentralization of those services hitherto provided by state government
 - * Long-term state and local personnel requirements
 - * Equalization of the level of public services throughout the state
 - Before adopting its work program for a given period, the Institute should be required to make its tentative agenda public and conduct a hearing for receiving public response.
 - Keeping in mind that the Institute will have a specific charge against involvement in day-to-day, more technical, issues, we believe any individual or group should have the right to bring a possible issue--or a possible alternative to be explored in connection with an issue--to the attention of the Institute for consideration on its agenda. The Institute should not be required to undertake any inquiry simply because it is requested by someone else. In fact, the Institute may adopt its own agenda which includes none of the items suggested by others. But some kind of a system should be set up so the Institute would have to respond in some fashion to every request. If it declined to undertake an inquiry, it should be required to state why.
3. Nature and timing of its comments--The Institute would make its findings known at its discretion. As a practical matter, we expect that the Institute would usually issue its reports--which would always be public--at a time sufficiently before the Legislature convenes so that its work can be

utilized by the Governor and Legislature in preparing for the legislative session. However, we would specifically argue against the Institute making its reports all at one time in the form of a biennial report. As its projects are completed, it should make its reports public.

Although the Institute's major impact should come between, not during, legislative sessions, the Institute should not be precluded from making comments, selectively, on long-term implications of pending legislation, as it would decide. This could include, for example, comment on an aspect of the Governor's budget.

C. Structure of the Institute

1. Achieving and maintaining credibility--The Institute would occupy a unique position in Minnesota, being neither state nor local, neither executive nor legislative, and not necessarily governmental as against non-governmental in its emphasis. More than anything else, it must be structured so that it will be credible. It will need the confidence and respect of major political parties, the Governor and Legislature, local governments, business and labor, rural and urban Minnesota, as well as other divisions in the state. To maintain its credibility, we believe the Institute's structure should maximize the potential for:
 - Preserving its independence so that it will not be recognized as representing any particular segment or interest of the state.
 - Providing for an openness to public scrutiny of all phases of its activity, from selection of its Members, to adoption of its work program and on through to completion of its projects.
 - Attracting the most thoughtful, concerned, imaginative, innovative and dedicated persons in the state who are knowledgeable about public issues and who have an ability to communicate their ideas to policy makers and the general public. Thorough knowledge of facts and issues is an absolutely essential ingredient of credibility.
2. General make-up of the Institute--We recommend that the Institute be headed by seven to nine Members. It is *not* our intention to suggest that Members of the Institute would simply meet infrequently, leaving the running of the Institute to a hired staff. Members themselves would actively be involved in debating issues and developing the alternatives. They would function as a true working body. We expect, in fact, that demands on their time would be such that they would be working 15 to 20 hours a week or more on Institute activities. It is natural to expect that Members would be compensated. Some Members, perhaps the Chairman, might even serve fulltime.

The Institute, quite deliberately, would not resemble the more conventional approach in which a non-paid board of directors hires a professional staff for carrying on the work. Although the Institute would not function as a court, the board-staff relationship between the Members of the Institute and their assistants would resemble the relationship between members of the State Supreme Court and its assistants. The similarity ends there, of course. The Institute's Members themselves would take initiative in raising issues and alternatives. They would not function as judges, who take facts from opposing parties and issue decisions.

3. Assistants (staffing) for the Members of the Institute--Although Members of the Institute will themselves be working day-to-day on the issues, they will need fulltime professional assistants and clerical staff, too. Assistants in many cases might be hired only temporarily, because of knowledge in a particular field, for example. After completing an assignment, a temporary assistant could return to his permanent job in government or the private sector. The Institute also might contract for some assistance.
4. Selection of the Members of the Institute--The legislation should provide for a Selection Committee which would name the Members of the Institute and should also outline guidelines to be followed in selecting the Members. Specifically, we suggest the following:
 - Make-up of the Selection Committee--Membership of the Selection Committee should be specified in state law. We recommend that the Governor and Legislature share the responsibility for naming the Selection Committee. The Governor should name three, and the Legislature, four, two named by the Speaker of the House and two by the Senate Committee on Committees. The appointments by the Senate and the House should be required to include equal representation between the two major political parties. The Governor's three appointees should be divided two and one between the two parties.
 - Guidelines for selection of Members of the Institute--The Selection Committee as outlined above, should have the responsibility of picking Members of the Institute with the following guidelines:
 - * Members should serve limited terms, perhaps a maximum of four to six years, with terms staggered, to assure a reasonable turnover from time to time. Some, because of their other responsibilities, might be able to serve only a short time, 12 to 18 months.
 - * Members should have an understanding and respect for the needs of local government as well as state government. Perhaps at least one Member of the Institute shall have served in an elective position in local government. However, no Member of the Institute should be selected as representing any special interest or group in the state. The Selection Committee should have maximum flexibility in naming individuals most qualified to carry out the Institute's objectives.
 - * The Selection Committee should be required to announce publicly that persons may be nominated either by group or by self-nomination for consideration to serve as Members of the Institute. The list of all nominees, including those who may be placed on the list for consideration by Selection Committee members, should be made public by the Selection Committee prior to its decision on who should be appointed.
 - * The concurrence of at least five of the seven members of the Selection Committee should be required for any person to be named.
5. Funding of the Institute--The Institute should be funded primarily by a state appropriation. It should be able to seek funds from quasi-public sources, such as foundations, but this would not be a principal means of financing. The Institute must design its own work program without being influenced by outside revenue sources.

DISCUSSION OF RECOMMENDATIONS

(Here is a discussion of some of the questions which might likely arise in a reading of the recommendations.)

I. General

What is the central purpose of this report? What are the recommendations intended to accomplish?

It might be said we have several goals:

- Make sure that tough public policy questions are faced
- Point out the longer-term consequences of current actions
- Adopt a more rational system of making fiscal decisions
- Put the Governor and Legislature in charge of the fiscal system
- Bring decisions more out into the open
- Get better utilization of dollars
- Increase productivity in government
- Enable provision of needed public services
- Restore public confidence in government

Any and all of the above goals apply to our report. But they don't really provide a satisfactory answer to the questions above, which might better be stated: Why these recommendations at this time?

More than anything else, this report represents a response to the situation in which the Governor and Legislature found themselves in the 1967 and 1971 sessions, when major tax and spending legislation was passed. Far-reaching changes in the state's relationship to local government, property tax relief, and increases in state non-property taxes were major features of both the 1967 and 1971 acts.

In both cases, a high degree of uncertainty prevailed, in the public and in the Legislature, as to facts of the state's situation, the purpose of the various proposals, and their likely consequences. Controversy continues today over both acts, though this is not to say that the basic direction of either was wrong. For example, the Advisory Commission on Intergovernmental Relations, Washington, D. C., has singled out the actions of the 1971 Minnesota Legislature as examples of what the ACIR contends are key components of a good state-local fiscal system.

It might not be too inaccurate to speculate that the 1971 actions occurred in spite of the procedures followed rather than because of them. Even the strongest supporters of the 1967 and 1971 acts admitted themselves to a great deal of uncertainty about the potential impact. Overriding this uncertainty, however, was a conviction that they had to proceed.

Uncertainty persists today, as we look to 1973 and after. What are the implications of strict levy limits on municipalities and counties? Of state control of school finance? Of relatively high tax rates compared to other states?

Tax and finance decisions are, inevitably, political. But this in no way negates the need to upgrade the decision-making structure so that the debate, while highly-partisan, will also be truly well-informed. It is doubtful that anyone wants again to take the risks Minnesota took in 1967 and 1971. Living as we are in a period of rapid change, there seems every reason to believe there will be an occasion in the very near future--maybe 1975 if not 1973--when major changes again will be called for. The purpose of this report is to prepare us for that day.

II. The Executive Branch

A. *Why not put the State Planning Agency and the Budget Division of the Department of Administration together organizationally now?*

Our recommendation is that the State Planning Agency and the Budget Division be brought closer together and that in the future structural change be investigated. We discussed the organizational questions extensively in our committee. Among the options:

--Bring the State Planning Agency into the Department of Administration and establish it as a separate division co-equal with that of the Budget Division.

--Break the Budget Division out of the Department of Administration and combine the Budget Division and the State Planning Agency in a single office directly under the Governor.

--Retain the present organizational structure, but require coordination.

Supporters of the first option argued the state must continue to strengthen the position of Commissioner of Administration and, thereby, move that position further in the direction of becoming the Governor's chief deputy or his general manager. Also, they contended, such a move would help reduce the total number of persons who report directly to the Governor. A long-standing complaint about state government is that the Governor must appoint so many department heads, more than he can possibly supervise directly. Opponents of the first option said they believe the Department of Administration already is too large, and that bringing the State Planning Agency in would serve to concentrate too much power in the position of Commissioner of Administration. They also feared that the status of state planning, a relatively new state function, would be diminished. It was brought to our attention that a report recently was given to the Wisconsin Legislature urging that the planning function in that state be removed from the same department as budget because planning was not receiving adequate attention.

The second option of splitting the Budget Division from the rest of the Department of Administration and then merging Budget and Planning was advanced by those who feel that the budget process is not receiving adequate spotlight in the executive branch because the Commissioner of Administration has so many other duties besides that of budget. That is, also in the Department of Administration are the division of state purchasing, management of state buildings, computer services, motor pool, and other central services for state agencies. Some members of our committee felt very strongly that the Budget Division needs a separate identity under the Governor to give it the visibility and importance it deserves. Then, they said, the State Planning Agency could be merged with Budget without fear of Planning being de-emphasized. This position failed to prevail in our committee because of the feeling on the part of some people that this would be contrary to the direction of upgrading--or at least maintaining--the importance of the position of the Commissioner of Administration and that the move would further splinter state organization.

Our committee was able to reach consensus on the third option which, in effect, accomplishes the goal of bringing Planning and Budget closer without necessarily restructuring either agency. Some persons stressed that this has a particular advantage because only certain aspects of Planning need to relate closer to Budget. It isn't really necessary, they said, to fully merge the agencies.

We kept in mind here, too, that each Governor, through powers granted to him by the 1969 Legislature, now has the power to reorganize state agencies in any way that he deems best. That is, if a Governor felt he could carry out his functions better by bringing the State Planning Agency formally into the Budget Division, he could accomplish this without legislative action.

B. *What is the need for the longer-term projections of revenues and expenditures?*

We feel that the state's budget must be seen as part of a total picture--a picture which extends over time and which also involves other units of government in the state. The recommendation that projections be made for state and local government expenditures and revenues for four to six years beyond the upcoming biennium accomplishes this objective. In addition, preparation of such projections may stimulate individual state agencies to evaluate the longer-term impact of current activities. A requirement to project beyond the upcoming biennium will reveal how a present activity is likely to grow and enable a comparison of its growth with that of proposed new activities.

We fully appreciate the uncertainties in projections. Currently, it is very difficult for the state to estimate accurately for the upcoming biennium, let alone a longer time. Changes in the national economy are very difficult to forecast. But we must not be misunderstood in this regard. The projections for the period beyond the biennium would in no sense be of the same detail as are the estimates for the upcoming biennium. The projections will indicate the general range, high and low, not exact amounts to the last dollar.

III. The Legislative Branch

A. *What do we hope to accomplish by new, formalized procedures to permit legislative review of the budget as a whole?*

If our recommendations are carried out, the Legislature, for the first time, would publicly review the entire Governor's budget, both its expenditure and revenue aspects, and hearings would be held to take testimony on the entire budget. Moreover, before either body of the Legislature takes committee action on major appropriations bills, all subcommittee appropriations reports would have to be completed.

We can appreciate possible problems that might exist with these changed procedures. For example, the public hearings might be highly political and not focus in any sort of deliberative manner on the tradeoffs between expenditures and revenues. Furthermore, it is possible that the Senate Finance Committee and the House Appropriations Committee would only conduct a perfunctory review of all subcommittee reports and that there would not be any real analysis of the total picture. While we appreciate these kinds of risks, we see an even more compelling need to proceed. We cannot escape the hard facts that at no time in the entire legislative process does the Legislature now look at the entire budget. It is not enough to acknowledge that, as a practical matter, certain issues are thoroughly discussed by the legislative leadership or in the political caucuses.

Inevitably, because of the legislative process, the budget will be passed in a series of separate appropriations and tax bills. Yet, this should not preclude the possibility of bringing attention to the package as a whole.

At no time under the present procedures, is the Governor's budget outlined as a whole to the legislators other than the explanation the Governor himself gives

in his budget message. Department heads testify at appropriations hearings, but only upon their individual budgets. The Governor's chief budget officers are not asked to lay out in detail before legislative committees, the overall rationale of the budget. The new hearing process would not only correct these deficiencies, but could lead to other improvements. For example, the legislative group which conducts such hearings might also convene at other times during the biennium for review of issues relating to the entire budget.

In terms of the action on appropriations bills, it does not seem to be a sound procedure to pass each appropriations bill individually and then after all have been passed to add and see what the total is. At a minimum, the Appropriations and Finance Committees should have an idea of the total when they pass the bills on to the floor.

IV. Policy Institute

- A. *What kind of persons would serve as Members of the Institute? How does this relate to the proposed organization of the Institute?*

Ideal qualifications for Members of the Institute would include:

- An ability to sense trends early and project their implications
- An ability to communicate ideas to colleagues, public officials, and the public
- Demonstrated experience in dealing with public policy questions, preferably as an advisor to elected public officials or in direct service as an elected official
- An understanding of the state-local governmental system
- An open, innovative, inquisitive mind coupled with an eagerness to face tough policy questions and seek their resolution
- A willingness to devote a considerable amount of time (15-20 hours a week up to fulltime) debating major questions affecting the future of the state
- A background either in training or experience of dealing with issues cutting across a broad spectrum

With such Members, the Institute would not fall into the category of a conventional form of organization, public or private. The conventional form usually involves a non-paid policy board that might meet once a month or so. The board hires an executive director who in turn hires the rest of the staff and carries on the day-to-day work of the organization. Members of the Institute would not logically fit in the conventional form of organization, either as board or staff. Consequently, we recommend a different approach, Members of the Institute will function in a role which has elements of both board and staff. The Members of the Institute would themselves make policy decisions and carry out certain staff functions, such as working in detail on issues, determining and analyzing alternatives, and undoubtedly, a certain amount of actual writing of reports. Members of the Institute would hire assistants to help them. Assistants need not always be permanent employees of the Institute. Persons who happen to be particularly knowledgeable in certain fields or who have certain special abilities, could be hired on a temporary basis and later return to their permanent jobs elsewhere, whether in government or the private sector.

- B. *What is our rationale for the appointment structure of the Institute?*

Our suggestion that the Governor and Legislature jointly name a Selection Committee which in turn would name the Members of the Institute, is designed

to accomplish these objectives:

- Keep the Institute somewhat apart from--though not totally independent of--the Governor and Legislature.
- Assure that the Institute represent neither the Governor nor the Legislature.
- Maximize the potential for preservation of its independence from domination by any specific interest group.

V. Fiscal Impact of our Recommendations

How much of an appropriation would be required to implement our recommendations?

Our proposals, of course, have a fiscal impact of their own. We are convinced that the improvements we suggest will produce benefits--in terms of better utilization of state dollars--many times greater than the appropriations required to implement our recommendations.

We are supporting additional personnel--and, therefore, appropriation--for the State Planning Agency, the Budget Division, to some extent the operating state agencies, the Legislature, and the Policy Institute. We have recommended a rearrangement of staff organization and responsibilities where possible to avoid exclusively a net addition of new personnel. Also, we are recommending that certain duplication of functions be eliminated which will serve to save personnel costs. Nevertheless, additional personnel--professional and clerical--will be required. We have not determined specifically how many positions would be required in each area of improvement, but, in total, it would appear as if additional state appropriations on the order of about \$1 million a year would be needed.

BACKGROUND OF THE REPORT

In September 1971, the Citizens League Board of Directors authorized a new research project on the general subject of state-local fiscal planning. At that time, the State Legislature was in the midst of its longest special session in history--trying to hammer out agreement on a bill involving fundamental changes in the state-local fiscal system. It was not yet clear what form the bill would finally take. (That would not be known until November 1971.) But the Board was fully aware of the difficulties the state was encountering in wrestling with large questions of school equalization, state aids to municipalities, property tax relief, reform of the property tax assessment system, levy limits, fiscal information systems, plus the questions of sources for additional revenue, including whether to increase the rates of present taxes or find some new revenue source.

It was in this setting that the League Board decided to review the general framework of fiscal-decision making. The specific wording of the assignment from the Board to the State-Local Fiscal Planning Committee was:

"Review the extent to which the state determines long-range projections of revenue for the state and its local units of government. The committee should review the present process of fiscal planning and the data and sources of fiscal information for the executive and legislative branches. It should obtain the best projections that can be made of revenues and expenditures in coming years. As deemed desirable, the committee should consider possible recommendations to the 1973 Legislature and to legislative committees and the state agencies in the interim."

The establishment of this committee represented a continuation of deep involvement of the Citizens League research program over the past several years in tax and finance issues. Among the more significant reports:

- * "New Formulas for Revenue Sharing in Minnesota", September 1, 1970, which contained recommendations on state aid to school districts and municipalities.
- * "Breaking the Tyranny of the Local Property Tax", March 20, 1969, which contained recommendations on easing the problem of fiscal disparities.
- * "Citizens League Tax Relief and Reform Proposal", May 5, 1967, which recommended a 3% state sales tax with revenue primarily to be earmarked for local government.
- * "Property Tax Assessment Reform", May 14, 1965, which recommended many improvements in the process of valuing property for tax purposes.

State policy-makers have utilized recommendations in all of these reports in passage of major tax and finance legislation in recent years.

COMMITTEE MEMBERSHIP

A total of 43 members participated actively in the work of the State-Local Fiscal Planning Committee. Co-chairmen were James L. Hetland, Jr., Vice President, Environmental Development, First National Bank of Minneapolis, and Arthur Naftalin, Professor of Public Affairs, University of Minnesota. Other members were:

Phillip F. Allivato
Francis M. Boddy

William A. Briggs
Richard Dethmers

Ray W. Faricy
Seymour Handler
John Helmlinger
William Hempel
George F. Humphrey
William Johnson
Ralph Laurens
Todd Lefko
Andrew Lindberg
Patrick Marx
Walter McClure
Robert J. McFarlin
Peter Meintsma
Lee W. Munnich, Jr.
Mrs. Victoria P. Oshiro
George Pillsbury
James R. Pratt
Thomas Reiersgord

Mrs. Rosemary Rockenbach
John Rollwagen
James W. Scheu
Peter Seed
G. H. Sher
Curtis Sippel
Glen Skovholt
James J. Solem
Fred A. Stahl
James A. Struthers
James Swadburg
George Thiss
Joseph W. Timpe
John M. Towle
Preston Townley
Thomas P. Vasaly
Mrs. Esther Wattenberg
Jerry Weiszhaar
Vernon J. Yetzer

The committee was assisted by Paul A. Gilje, Citizens League Research Director, and Deborah Zweber of the Citizens League clerical staff.

COMMITTEE PROCEDURES

The committee met 32 times from November 8, 1971, to June 23, 1972, an average of about one meeting a week. For the convenience of committee members and resource persons, meetings were held on alternate weeks in St. Paul (at Macalester College) and in Minneapolis (at the Public Library).

During the first 3½ months, the committee spent almost all of its time--about 2½ hours a week--on orientation. A large number of persons knowledgeable about the state-local fiscal system met with the committee, including municipal, county, and school officials; economists; heads of state agencies; and personnel in the budget-planning areas of state government.

The committee also received many background articles on problems and trends in state-local finance in Minnesota and throughout the nation.

Detailed minutes, often running 6 pages or more, single-spaced, were prepared after each meeting and mailed to committee members plus an additional list of 110 public officials and others who had expressed an interest in following the activity of the committee. The Citizens League has a limited number of copies of minutes and background materials on file, which can be made available for review in the League office.

Personnel in the Governor's Office, State Auditor's Office, Budget Division of the Department of Administration, State Planning Agency, and State Department of Taxation were particularly helpful in providing a great deal of background information.

Here are the resource persons who met with the committee:

William Bassett - Mankato City Manager
Bernard Becker - Legal Aid Society
John Borchert - Director, Center for Urban and Regional Affairs, U. of M.
Richard L. Brubacher - Commissioner, Department of Administration

Edgar Carlson - Executive Director, Minnesota Private College Council
Howard B. Casmey - State Commissioner of Education
Chester Chapado - Director of Administrative Services, Dept. of Public Welfare
Gerald Christenson - Director, State Planning Agency
Stanley Cowle - Hennepin County Administrator
Robert Crew - Executive Director, Governor's Crime Commission
Wallace Dahl - Director, Research and Planning, Department of Taxation
Sen. Jack Davies - Member, Senate Finance Committee
Russell Doty - Special Assistant to Director, Pollution Control Agency
Gena Doyscher - Consultant to the Minnesota Legislature
Ronald Duncan - Chief Accountant, House Appropriations Committee
Norman Dybdahl - Vice Chancellor, State College System
F. Robert Edman - Consultant to the Minnesota Legislature
Earl Evenson - Chief Legislative Analyst, Senate Finance Committee
Dr. Ellen Z. Fifer - Director, Comprehensive Health Planning, State Planning Agency
Rep. Richard Fitzsimons - Chairman, House Appropriations Committee
David Fogel - Commissioner of Corrections
Edward Foster - Public Finance Economist, University of Minnesota
George J. Greenawalt - Superintendent, Hopkins Public Schools
Larry Harris - Director of Urban Affairs, Minneapolis Public Schools
Rolland F. Hatfield - State Auditor
Richard W. Hawk - Executive Director, Higher Education Coordinating Commission
Gerald Hegstrom - Metropolitan Council
Philip C. Helland - Chancellor, Minnesota Junior College System
Walter W. Heller - Professor of Economics, University of Minnesota
A. E. Hunter - Deputy Director, State Planning Agency
Arnold G. Jirik - Director, Comprehensive Education Manpower Study, Dept. of Education
Stanley B. Kegler - Associate Vice President, University of Minnesota
Douglas Kelm - Chairman, Metropolitan Transit Commission
Richard Klein - Administrator, Minnesota Supreme Court
Jerome H. Kuehn - Director, Bureau of Planning, Minn. Dept. of Natural Resources
Tom LaVelle - Assistant Commissioner, Budget and Organization, Dept. of Administration
Dr. Warren Lawson - Chief Executive Officer, State Board of Health
A. J. Lee - Hennepin County Public Works Director
Dean Lund - Executive Secretary, League of Minnesota Municipalities
F. C. Marshall - Assistant Commissioner, Minnesota Highway Department
John W. McCarter, Jr. - Budget Director, State of Illinois
Sen. Bill McCutcheon - St. Paul Police Department
James Pederson - Administrative Assistant, Office of the Governor
Allan Pflugshaupt - Assistant Comptroller, Financial Planning, Control Data Corp.
Sen. Wayne G. Popham - Member, Senate Finance Committee
Burke Raymond - Roseville City Manager
Arthur Roemer - Commissioner of Taxation
Wesley Rustad - Director of Field Services, Department of Public Welfare
Clemens Schleck - St. Paul City Comptroller
Joseph Sizer - Director, Environmental Planning, State Planning Agency
Robert P. VanTries - Assistant Commissioner, Vocational Education, State Dept. of Education
Donald R. Wahlund - Director of Financial Affairs, Minneapolis Public Schools
William C. Walton - Director, Water Resources Research Center, U. of M.
Ove Wangenstein - Acting Commissioner, Minnesota Department of Public Welfare

ABOUT THE CITIZENS LEAGUE . . .

The Citizens League, founded in 1952, is an independent, non-partisan educational organization in the Twin Cities area, with some 3,600 members, specializing in questions of government planning, finance, and organization.

Citizens League reports, which provide assistance to public officials and others in finding solutions to complex problems of local government, are developed by volunteer research committees, supported by a fulltime professional staff.

Membership is open to the public. The League's annual budget is financed by annual dues of \$10 (\$15 for family memberships) and contributions from more than 500 businesses, foundations, and other organizations.

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