CITIZENS LEAGUE
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APPEAL TO THE LEGISLATURE AND THE GOVERNOR

Last February Governor Perpich issued his budget message to the Legislature. In that message, he set a new tone and committed his administration to a reconsideration of how to provide public services. Specifically he said:

> "We must and will find new solutions to the alternatives of cut! and tax! We need to reconsider and possibly restructure the way we provide state services. The answers will not come easily. But if we bring our will and wit to bear on the problem, solutions will come from the informed pragmatism of many Minnesotans determined to create new alternatives.
>
> "This budget is only a beginning in the process of fundamental reconsideration of how best to provide the services of government. But we must begin."

The way out of a deep hole is usually not with a shovel. In the recent spate of special sessions, though, lawmakers have consistently solved the problem with higher tax rates and less service. Those were urgent moments and the choices were few. Now, though, facing the final weeks of the regular session, will the result be different? Will we just dig a deeper hole or begin to use the tools that can make a difference?

For some the problem is simply a matter of money—restoring it, raising it. Just get spending back up to demand levels, and the problem is fixed. The only question left in this approach is where to get the money, whose taxes to raise.

The real problem though is the need to build more quality into services, and to get control over spending increases. Serious risks are run in solving this problem on the revenue side. The hole gets deeper as services deteriorate, economic development is discouraged, and public dissatisfaction grows.

Many bills have been filed which are aimed at innovation and cost control, which offer promise that legislators, along with the governor, are expanding their vision past their terms of office. But how many of these bills will actually pass? As this session comes to an end, we appeal to the members of the Legislature to join the Governor in a commitment to do more this time than balance the budget. This session should hold the line on spending, and leave tax policy alone, until strategies for controlling cost increases and revitalizing services are in place.

RECOMMENDATIONS:

1. **THAT SPENDING FOR THE 1983-85 BIENNIUM NOT EXCEED THE GOVERNOR'S RECOMMENDATIONS.**

2. **THAT REVENUES BE RAISED FOR THE BIENNIUM WITHOUT MAJOR TAX POLICY CHANGES—**

   a. Leave indexing as it is.

   b. Keep the temporary taxes temporary.

   c. Make no changes in deductibility of federal taxes.

3. **THAT THE GOVERNOR VETO ANY APPROPRIATIONS WHICH EXCEED HIS GUIDELINES OR ANY TAX BILL WHICH CARRIES POLICY CHANGES WHICH FACILITATE EVEN HIGHER FUTURE SPENDING.**

4. **THAT SPECIAL COMMISSIONS BE ESTABLISHED FOR THE MAJOR AREAS OF SPENDING FOR THE PURPOSE OF INTERIM STUDY OF WAYS TO REVITALIZE THESE MAJOR SERVICES.** These studies should be directed at strategies for building quality under conditions of steady or even declining resources.

In concentrating on negotiating changes in tax policy rather than getting at inevitable spending questions, the Legislature courts the illusion that growth in public sector revenues will resume. Lawmakers need to face the fact that the money isn't there, after all, and there is just no evidence to support the notion that the limits we now face will disappear.

Persistence in fixing up the revenue raising machinery leaves the door open to a growing, dangerous reaction. A tax revolt could happen here, as individual resentment grows over the state's inability to come to grips with spending patterns.

And whatever the facts may be in the debate over "business climate," the perception prevails that state fiscal policy is hostile to business development. Since the greatest impact that the state can make on economic development is creating the climate which facilitates it, a worse situation is hard to imagine.

Even though some constraints are emerging, this sessions seems likely to leave most major spending sectors no more accountable while spending even higher sums on them. Over time this practice can actually contribute to a decline in quality. What more spending often does is to make it possible to continue existing delivery mechanisms, however inefficient or inadequate they may have become, and at higher cost. Just more spending on the present system of services does not invite the innovations that bring higher quality; it may even have the opposite effect. We could become a state where taxes remain high while the quality of services declines.

When quality does deteriorate, those whose interest is simply in getting taxes down may argue that the services are no longer worth what they cost; should that sentiment become a majority, those with the lowest incomes, who depend most on the public provision of services, would be put at even greater risk. It is a growing possibility that our failure to reassess the way we spend public resources threatens the traditions of generosity and fairness.

HOW CAN THE QUALITY OF SERVICES BE IMPROVED, apart from the question of *how much* we spend?

We could get improvement by letting the people who use the service do more of the deciding about what the service is and who delivers it, instead of government professionals keeping all these decisions to themselves.

We could get improvements by moving away from monopoly environments, where only one provider delivers the service, to one in which others can compete for this opportunity. In too many services now, citizens are asked to deal with an inflexible monopoly mentality where professionals-in-charge "know best," where those who provide service have insulated themselves from the risks of any competition, and in some cases, have even insinuated themselves into the policymaking process itself.

Permitting more competition in delivering public services is in some ways a matter of who should share the risks involved in the "service business." When legislators just give in to demands for higher spending, what's happening is that the taxpayer is absorbing the risk. If, as sometimes happens, spending is simply suppressed (across the board cutting, capping reimbursements, etc.), then the amount and often the quality of service is put at risk. What we rarely do, and should now be trying to do, is make producers of the service bear some greater share of the risk. Here we may see colleges having to earn a greater share of their revenue, as tuition becomes a greater share of their support dollars. Whether in urban transit, or in health care, government policy could make a system that is more open to new providers of service, so that public policy objectives are met, without necessarily higher spending.

To be sure, the combination of high taxes and growing questions about the quality of services is producing much higher interest in *how* services are delivered. And we continue to hear that the way to get quality is to spend more. Yet this is precisely the wrong thing to do. If we spend more now, and forego the opportunity to evaluate our service systems, we have nothing to look forward to but higher cost and continued questions about quality and equity.

The most encouraging prospect at present is the likely creation—by the 1983 Legislature—of major study commissions in the big spending areas. One, concerning the size of the state highway system, already is law. In another case, post-secondary education, the Governor has created a commission to propose ways to maintain quality in a period of declining enrollment and fiscal constraint. In three other areas, metropolitan transit, medical care for the indigent and elementary-secondary education, bills for study commissions have been proposed in both the House and Senate.

It is possible, therefore, that the 1985 Legislature will have an excellent opportunity to receive and consider its most comprehensive agenda to date for re-designing public services to assure quality without just raising taxes. However, a major infusion now of new dollars to spend, would severely damage the changes of maintaining an impetus for change in 1985.

Looking at bills that will apparently pass in this session, the best example of policy moving in the direction of better spending practices is in higher education. Here, building on the recommendations of the Higher Education Coordinating Board (HECB) (with help from a special Task Force on Future Funding), the governor has proposed a five-point program which seeks to uphold quality while recognizing over time real limits on state resources. It hands the governing boards a reasonable increase in institutional support along with the explicit authority to take any steps necessary to change the size and shape of public systems. It expects to direct users of the service, the students, to make a more substantial investment in their own education, while directing a greater proportion of assistance to the students who most need it. Though modestly, it does move also in the direction of asking those who produce the service, whether public or private, to earn more of their own revenues through the enrollment they attract.

While special commissions to study spending problems are by no means perfect solutions, no better mechanisms are emerging. The Legislature should be aggressive in putting these commissions in place and expecting substantial results from them. And the membership of each should be broadened to include others besides legislators, avoiding those though, whose interests are vested in protecting the way service is provided now.

None of this is meant to argue for freezing tax policy in its present form. But changes made in the present piecemeal fashion will not likely endure. The state needs a specially constituted effort here, with broad composition and adequate staffing, to develop a comprehensive proposal to the Legislature for tax reform.

But let us get at these quality questions first, and revenue raising later. The governor's budget is not stingy. It's a 19 percent increase over the present budget; adjusted for paying off the shifts and establishing a reserve, it's still about nine percent.

Higher spending at this time will not get us either better quality or better answers to long-term spending questions; it will just get us higher cost. And merely lower spending will likely bring a slashing of service. We should hold the line—at the governor's recommended level—while we build strategies for the longer term.

WHAT CAN BE DONE, SPECIFICALLY, IN THIS SESSION?

- **Undertake new incentive-based approaches to help bring health care costs under control.** The State of Minnesota is a big buyer of health care for poor people. Seven out of every ten dollars in the Department of Public Welfare's budget goes for medical assistance, general assistance medical care and the state hospitals. Minnesota's health/welfare expenditures per capita are 120 percent of the national average.

The 1983 Legislature has several incentive-based bills under consideration aimed at controlling health costs. Under one approach (HF 962) counties would receive a bonus in state reimbursement if they contracted with health maintenance organizations (HMOs) to deliver medical care on a prepaid capitation agreement for persons on general assistance. Part of SF 669, which would limit the amount hospitals can charge for inpatient hospital care for persons on public assistance, provides that the limits would be waived if a hospital was participating in a demonstration project to deliver medical services on a prepaid, capitation basis.

HF 1042 establishes pilot projects in three counties, one urban, one suburban, and one rural to deliver medical care to low-income persons on the basis of a prospective per capita payment to a vendor.

Recognizing that the problem is bigger than one session can handle, HF 670 calls for a legislative study commission on long-term care funding alternatives, including non-institutional care, HMOs and preferred provider organizations (PPOs).

To stimulate more use of lower-cost, non-institutional care for older persons, HF 33 would provide a tax credit for providing home care for those elderly poor who are deemed in need of care that usually is provided in a nursing home. To reduce the reliance on institutionalization of mentally retarded persons, SF 265 would instruct the Commissioner of Public Welfare to seek a federal waiver permitting certain federal aid to be used for in-home or community-based care for persons who otherwise would need the level of care provided in a state hospital or an intermediate care community facility.

Some bills don't use incentives but follow the more traditional regulating approach which we suggested to be abandoned in a report two years ago. One bill establishes a moratorium on new nursing home beds (HF 670). Another limits the amount the state will pay hospitals for care of poor persons (HF 669). Unfortunately, those regulatory approaches don't really reduce spending much, and they prop up inefficient providers, postponing questions about quality and appropriateness of care.

- **Take some concrete steps toward achieving quality in elementary-secondary education.** One out of every four dollars in the general fund budget for 1983-85 proposed by the Governor would be given to school districts as aid. This represents the largest single chunk of the state budget. As in the past school districts would be entitled to these funds without having to demonstrate specific improvements in quality.

There is considerable evidence of legislative concern about quality in the House version of the omnibus school aid bill (HF 92). But we are skeptical whether exhortations to work harder or longer or incentives for more "planning" for excellence represent satisfactory responses to the needs of education today. One section requires the Commissioner of Education to develop a comprehensive statewide plan for maintaining and improving instructional effectiveness, to develop an implementation model for training school district staff in instructional effectiveness, to select ten pilot sites for programs in instructional effectiveness training, and to provide inservice training for teachers. Another section creates a Minnesota Academic Excellence Foundation as a non-profit organization to develop a plan to advance the concept of educational excellence, including providing recognition programs and awards for students and teachers. Another section requires the Department of Education to review its curriculum requirements to assure that students are adequately prepared for entering post-secondary institutions and to adopt requirements to "ensure that a minimum comprehensive educational program is available to all students in the state." Another section lengthens the mandatory school year from 175 to 180 days.

Some parts of HF 92 are more promising. One section makes it possible for school districts with low enrollment in grades 7-12 (fewer than 375 pupils) to make arrangements for the provision of some or all of their education to be offered in other districts. This would even allow a school district to remain in existence if all of its high school pupils were educated in other districts. Unlike some of the other sections in this bill, this section is encouraging because it would create incentives for school districts to provide quality education. (Supposedly, the very-low-enrollment school districts would be inclined to enter into agreements with those larger districts which can do a better job.)

Both the House version and its Senate companion (SF 86) provide special aid for school districts which cooperate in providing more math, foreign language and computer courses than could be provided if they acted independently. Both bills also include a program of stimulating the use of educational technology in the schools. The Commissioner of Education would approve technology utilization plans prepared by school districts and evaluate and approve "courseware."

Some bills are intended to provide incentives for local school districts to upgrade the quality of instruction. For example, HF 412 would allow post-secondary institutions to propose stiffer admission requirements on high school graduates. Another, HF 1072, would empower low income pupils to choose the schools they want to attend, with state aid following their choices.

Coming at the issue from a different direction, HF 928 requires the Higher Education Coordinating Board to conduct a study of teacher education.

As with many other major spending items, the Legislature is considering, as part of the omnibus school aid bill, a legislative commission on elementary-secondary education, to come up with proposals on quality and other school matters for the 1985 Legislature.

- **Move more of the decisions on distribution of state funds for higher education to the students and the systems.** This area offers the most promise for significant accomplishment in 1983. The Governor has proposed a five-point program which seeks to uphold quality while recognizing over time real limits on state resources. It hands the governing boards a reasonable increase in institutional support along with explicit authority to take any steps necessary to change the size and shape of the public systems (HF 344 and SF 513). It expects the direct users of the service, the students, to make a more substantial investment in their own education, while directing a greater proportion of assistance to the students who most need it (SF 809). Though modestly, it does move in the direction of asking those who produce the service, whether public or private, to earn more of their own revenues through the enrollment they attract.

The Legislature's confidence in the HECB this session is encouraging. The Governor's proposed budget did not provide funds for the agency for the second year of the biennium, but committees in both houses have reinserted the funds to assure that the work of the HECB will continue.

Meanwhile, a special commission, created by executive order of the Governor, is getting under way, looking at the need for maintaining quality in post-secondary education in a time of fiscal constraints and declining enrollment.

- **Bring the rapidly-escalating state-paid homestead property tax credit under control.** In the homestead credit issue, it isn't easy to be sure whether one is talking about taxes or spending; it's become so blurred that it must be both. This "relief" program could cost more than a billion dollars next biennium. Not only has it become a big part of state spending, it has tended to insulate local officials from the effects of higher local spending decisions.

The Governor's proposal to restore the first one hundred dollars of responsibility to the homeowner along with scaling back the percentage of relief to no more than one-half the total bill are steps in the right direction. If, as some reports indicate, the Legislature does not restrain the growth of the homestead credit, either as the Governor has suggested or by some other means, the problem of this "entitlement" burden will be ever more serious in coming years. The Legislature's own ability to set priorities among spending options will be further limited. Meanwhile, local officials will continue to be insulated from the true impact of their property tax levy decisions.

- **Modify workers' compensation so that employees have more incentive to return to work promptly and employers have more incentives to accept them.** The reform package proposed by the Department of Labor and Industry contains such provisions and should be adopted. It represents a creative departure from the seemingly never-ending debate between the parties at interest over whether Minnesota's workers' compensation benefits are too high or too low.

- **Assure good transit/ride-sharing service at reasonable expense.** Public policy needs to be directed more to meeting the transportation needs of people than to sustaining a specific system. The Legislature, generally seems to be moving in the right direction here, although we are fearful that the so-called "opt-out" provision may be removed from the Metropolitan Transit Commssion law. That provision allows some municipalities on the suburban fringe to use their property tax dollars for transit in other ways than simply supporting the MTC. We hope the Legislature retains that provision because it represents virtually the only competitive element, however subtle, in the present system.

Some other efforts in transit this session are encouraging. One approach (SF 884) would require the MTC to seek competitive bids from various vendors before eliminating any routes. This bill also would establish a legislative study commission on transit to look at the structure of the MTC itself, among other matters. We and others have been concerned that the MTC may have difficulty in promoting the full range of ride-sharing alternatives while it is directly operating the public bus system. The House version (HF 637) would also require the study commission to look at employee productivity in the MTC.

A separate bill (SF 891) would clear up some administrative obstacles to greater use of ride-sharing.

- **Adopt specific incentives for careful use of state highway funds.** The provision of a highway study commission in recently-adopted legislation for an increase in the gasoline tax is a helpful step toward reduction in the number of miles of state trunk highways. A key factor in the success of this commission will be the dedication of its members toward assuring that the state's trunk highway funds are spent on those roads which truly function as "state," not "local," roads. Persons, who are named to the commission should possess a demonstrated awareness and concern that the state's capacity to raise funds for road purposes is limited and that steps must be taken to use the funds available on a strict priority basis.

In the meantime the Legislature can take other steps toward greater effectiveness in use of limited road funds. For example. the Legislature could require the Minnesota Department of Transportation (perhaps in the omnibus transportation appropriations bill) to seek bids from county governments for the maintenance of selected state highways as an alternative to having the work be done by state employees. Such a step would give the Department a greater opportunity to choose cost-effective approaches for maintenance.

- **Move to a better approach for controlling long-term state and local pension obligations.** An innovative approach that would allow all public employees (except fire and police) to choose a defined benefit or a defined contribution pension plan has cleared one Senate committee (SF 310). Defined benefit plans have the effect of creating long-term pension liabilities, while the defined contribution plans have no such feature. Currently, employees have no chance to choose the defined contribution option.

- **Assure that long-term implications of present legislative actions are better understood.** SF 901 would re-create the State Planning Agency as a separate entity and require the preparation of long range recommendations on major public investment proposals and programs of the state. It also would require the preparation of an annual report on the status of the state's economy and on forecasts of medium and long term economic prospects for the state.

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NEWS RELEASE

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Contact: Robert de la Vega

The Governor and Legislature should not make major changes in the tax system–such as higher rates, elimination of federal deductibility or removal of indexing–until real progress is made in revitalizing public services and bringing state-local government costs under control, the Citizens League said today.

So far, most legislative discussion has centered on how to find the revenues to finance existing service delivery systems and not on how to restore public confidence in government services, the League said. Unless steps are taken to improve public services, taxpayers cannot be expected to pay more, the League said. The state is in real danger of being left with high taxes and only mediocre services unless the debate moves to a discussion of how to increase quality in a time of declining or stable resources.

Specifically, the League urged that:

- Spending for the 1984-85 biennium not exceed the governor's recommendations.
- No major tax policy changes be undertaken, with indexing left intact, the temporary taxes kept temporary and no changes made in federal deductibility.
- The Governor veto any appropriation which exceeds his spending guidelines or any tax bill which facilitates higher future spending.
- Special commissions be established for the major areas of spending to find strategies to revitalize these major services.

The League statement recalled Gov. Rudy Perpich's budget message in which he said new alternatives must be found to the choices of either cutting services or raising taxes. So far, the Legislature has missed the opportunity which exists now to change the way in which spending occurs and thus to insure Minnesotans continue to receive the high quality services which they traditionally have, the services which consistently set Minnesota apart from the rest of the nation.

"Higher spending at this time will not get us either better quality or better answers to long-term spending questions; it will just get us higher cost," the League said. "And merely lower spending will likely bring a slashing of service. We

-more-should hold the line—at the Governor's recommended level—while we build strategies for the longer term."

Failure to address the issue of revitalizing the state's public services could lead to a severe degredation in the lives of those who depend most on the public sector; school children, the elderly, the poor. Failure to achieve some limitation on spending may lead to tax revolts of other extreme political swings.

"When legislators just give in to demands for higher spending, what's happening is that the taxpayer is absorbing the risk," the League said. "If, as sometimes happens, spending is simply suppressed (across the board cutting, capping reimbursement, etc.), then the amount and often the quality of service is put to risk. What we rarely do and should be trying to do is make producers of the service bear some greater share of the risk."

An example of a policy which promotes quality is the Higher Education Coordinating Board's (HECB) proposal on tuition and financial aid which has been adopted by the Governor in a five-point program, a program which seeks to uphold quality while recognizing over time real limits on public resources.

"It hands the governing boards a reasonable increase in institutional support along with the explicit authority to take any steps necessary to change the size and shape of the public systems," the League said. "It expects the direct users of the service, the students, to make a more substantial investment in their own education, while directing a greater proportion of assistance to the students who most need it."

In addition to the changes proposed in higher education, the League supported several specific changes in service delivery:

- New, incentive-based approaches should be used to help bring health care costs under control. The State of Minnesota is a major buyer of health care for poor people, and seven out of every ten dollars in the Department of Public Welfare's budget goes for medical assistance, general assistance medical care and the state hospitals. Several bills are currently under consideration aimed at controlling costs and they should be pursued.
- Concrete steps should be taken towards achieving quality in elementary-secondary education. One out of every four dollars in the state general fund goes to school districts. Financing of public education with state dollars should be more contingent on some showing of quality. Some bills under consideration, such as the one allowing small districts to make arrangements for the education of students in facilities not owned by the district, seem to allow for innovation.

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- More of the decisions about the distribution of state financial support of higher education to the students and away from direct support for institutions. The HECB and Governor are moving in the right direction in this area, which is encouraging, as is the creation of a special commission to look at the need for maintaining quality in post-secondary education in a time of fiscal constraints and declining enrollment.

The League also made specific references to needed changes in the homestead credit program, workers' compensation, transit, highways, pensions and understanding the long-term implications of legislative actions, all based on previous CL research.

"The most encouraging prospect at present is the likely creation—by the 1983 Legislature—of major study commissions in the big spending areas," the League said. One, concerning the size of the state highway system, already is law. In another case, post-secondary education, the Governor had created a commission to propose ways to maintain quality in a period of declining enrollment and fiscal constraint. In three other areas, metropolitan transit, medical care for the indigent and elementary-secondary education, bills for study commissions have been proposed in both the House and Senate."

The work of these studies should present the 1985 Legislature with a comprehensive agenda on the redesign of public services. A major infusion of new dollars to spend now would severely damage the changes of maintaining an impetus for change in the 1985 session, however.

The Citizens League is a private, non-profit, non-partisan research and education organization. The statement was drafted by the League's Community Information Committee, chaired by Charles Neerland, and approved by the Citizens League Board of Directors.

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