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LONGER-TERM SPENDING ISSUES WHICH THE
GOVERNOR AND LEGISLATURE SHOULD FACE IN 1982

INTRODUCTION

This statement urges the Governor and Legislature to use the 1982 session to address some longer-range questions that have not received adequate attention. They include: (a) better preparation for action on budgets in coming years, (b) a halt to shifting expenditure/tax burdens to coming bienniums, (c) action on re-design of services, not just cutting services or raising taxes, (d) some real progress on an income maintenance program, (e) a fundamental change in the way public pensions are provided, (f) attacking the growing problem of high health care expense, and (g) coming to grips with the issue of multiple levels of government.

The main agenda for the Governor and Legislature in the remaining weeks of the 1982 session should be to take steps to avoid in coming years the crisis-to-crisis environment which has plagued the state's tax-spending situation for the last 18 months. -- For the last several months the Governor and Legislature have been seeking agreement on balancing the state's budget for the rest of the biennium. The issues have been immensely difficult to settle, because of strong, contending forces. The Governor and Legislature should recognize the opportunity which is present, now, to anticipate the major spending-tax issues that will be present inevitably in coming sessions. They have a special obligation to look ahead, now, because they already have shifted a substantial amount of this biennium's problems into the next biennium. They have done this by postponing to the next biennium the payments for expenditures which already have been committed and by advancing to the current biennium revenues which would have been available in the next biennium. This means that conditions may be present for another crisis in 1983.

There may be a tendency to overlook the fact that barely twelve months hence

the state will be engaged in another major spending and tax debate. This will be followed, in turn, by similar debates the following twelve months and every twelve months thereafter. Lest there be any doubters, all we need to do is review the experience of the last 10 to 15 years to see that major changes have taken place almost annually.

In coming years the 1982 session could be remembered as one which prevented future problems. Or, people may look back on this session as one which only cut services and raised taxes. Minnesota's policymakers have a rich tradition of creative problem-solving. There still is time to demonstrate a continuation of that tradition in 1982.

a. The Governor and Legislature could prepare themselves better for spending-tax decisions in coming years -- Lawmakers should be better prepared than they are now. We have recommended that an appropriate state agency be given the assignment of preparing, every two or four years, a detailed description of the economies of the state and the Twin Cities area and how these economies are changing. Such a report should be prepared a number of months before the Legislature considers the next major tax bill. In the meantime, arrangements would be made for public testimony to be given on concerns or tax proposals growing out of the findings of such a report. The expectation would be, thereby, that well in advance of the time that the Legislature meets, the principal tax issues would be clear and the debate would relate to a body of knowledge that is widely understood.

We harbor no illusions that tax and spending issues will be settled easily. But it would seem that the debate and action could be far more enlightened than it is now.

Another step which would improve choices in coming years would be for the Governor and Legislature to assure, routinely, that longer term projections of the implications of present actions are made. We have recommended a bi-partisan,

quasi-governmental body, a Minnesota government policy institute, that could be given that assignment. We do not hold the specific structure that we suggest as the only one that could be adopted. The important thing to stress is that when a major piece of legislation is adopted there be an ongoing responsibility to project the long-term financial implications.

b. Don't push expenditure commitments into the following biennium -- As painful as the action on either cuts or tax increases may be, we urge the Governor and the Legislature to discontinue actions which only would aggravate problems for Governors and Legislatures in coming years. In 1981 and again in the latest budgeting compromise adopted last week, certain expenditures have been shifted to the following biennium and certain revenues advanced to the current biennium. Some persons may not fully understand the implications of those shifts, thinking that if they were continued indefinitely they would have no impact. That, however, is not the case. Unless an expenditure level in this current biennium has a revenue base behind it, that expenditure level cannot be sustained in the next biennium without further action.

In effect, the Legislature has adopted two budgets, a spending budget for the current biennium and an "obligation budget" for the following biennium.

c. Accomplish some real redesign of services, instead of only cutting services or raising taxes -- If the Legislature, this year, can set in motion some actions that will enable services to be maintained and even improved while sustaining a reduction in resources, significant first steps will have been taken toward helping this state in the long run. This means incentives are needed to stimulate public agencies to do a better job of satisfying consumers. In a major report concerning public policy in the 1980s ("Enlarging Our Capacity to Adapt"), the Citizens League said that an essential component of an improved incentives system is giving consumers more choices based on quality and quantity of public services desired. In many public services today, a dissatisfied consumer has little recourse open but to complain. When the agency delivering the

service has a monopoly, the consumer has very little leverage in stimulating improvements. However, if the consumer has the opportunity to choose among competing suppliers of public services, then the suppliers have an incentive to satisfy consumers, knowing that their ability to generate revenue is dependent upon providing such satisfaction.

The Legislature can make changes which enhance the ability of citizens to make choices. The Governor and Legislature should guard against giving a monopoly on the delivery of services to one group or one organization. Where monopolies already exist today, the Governor and Legislature should make it possible for competing providers to emerge.

The Legislature could direct its staff, when presenting analyses of spending proposals, to take specific note if a proposal is enhancing the role of choice for citizens or not.

We have previously urged that in the area of higher education much more could be done to assure choice. This could be accomplished by increasing the proportion of state funding for higher education that goes to students through loans and scholarships, and reducing, accordingly, the proportion of state funding that goes directly to post-secondary institutions. Such action may help the Legislature as it must wrestle with the extremely painful decisions in the 1980s of how many post-secondary institutions to keep in existence and which ones should close. A greater reliance on letting students choose may make the job easier.

d. Solve more of the problem of low income through direct cash grants of income assistance, instead of subsidizing individual services - The national government is almost totally lacking in leadership on this critical issue. This problem is of such urgency that the Legislature should not sit by. It could take the step of seeking a federal waiver and establish a uniform set of eligibility requirements for income assistance. Now these requirements are different for different programs.

Action on income maintenance relates to solving longer-term budget problems in at least two ways. First, true service redesign may not be possible without it. A system of choices combined with fees implies that people have enough income available to finance their choices. If general income assistance is held down, it is more likely that lower-income households will be directed to obtain services from specified, perhaps monopolistic, government-funded providers. As a consequence, such households forego the opportunities which a fees/choices system affords for stimulating providers to offer satisfactory service. Second, consumers who receive adequate general income assistance, not targeted assistance for specific needs, are likely to do a better job of conserving resources. For example, many lower-income persons now receive specific grants for fuel assistance, separate from income assistance. If they received a general grant, larger, but including fuel assistance, they might be more interested in adopting conservation measures, such as turning down the thermostat. Persons then could use the savings for other purposes.

While federal action on income assistance is not likely, Minnesota could do well to seek to consolidate in one general grant the variety of income assistance programs it now provides in a categorical basis, such as for fuel, housing, transportation, child care, entertainment or other services.

e. Move now to get a handle on the pension problem - Ironically, in all of the debate over the budget for the next biennium, the pension debate is left out, despite its enormity. For example, accrued liability for all public pension funds in the state is about \$2.8 billion, according to the Legislative Commission on Pensions and Retirement. This is a subject that "creeps up" on the Legislature. There is no need to burden coming generations of citizens unduly by requiring them to pay for pension commitments granted previously. We have recommended that the Legislature move to a different form of pensions for that portion of government salaries above a certain level, say \$20,000. Under our proposal, both government and the individual would make contributions, as at

present. A person would be guaranteed a certain percentage of final salary, up to the \$20,000 level. For salaries above that level, the amount of pension would be determined only by the return on that investment. This is the so-called "defined contribution" approach.

We also have said that it is possible for the Legislature to preserve the long-term solvency of the state's public pension systems without requiring a contribution level that is high enough to wipe out all unfunded liabilities by a specific target date in the future. Our proposal would retain the soundness of pension funds while also reducing current costs.

f. Attack the growing problem of high health care expense - Any effort to deal with longer-term state budgetary problems must include attention to health care expenses. Total annual health care expenses (public and private combined) in Minnesota are now running about \$5.4 billion (if, as assumed, Minnesota's share of the nation's health care bill is about two per cent). With health care expenses growing about 10 - 15 per cent per year, this means the annual increase in health care expense in Minnesota is roughly the same magnitude as the total budget deficit that was wiped out in the major tax/spending bill adopted by the Legislature last week.

We have recently recommended that efforts to control health costs should be undertaken through competition, not regulation. This means, for example, the release of price information and other steps. This matter deserves the highest priority attention of the Legislature. Further steps, as recommended by us, would tie reimbursement levels more to community norms than to high charges. We also believe individuals should have some incentive to choose lower priced providers of health care. This would include steps to encourage Medicaid and Medicare patients to choose lower-priced providers and still receive quality care.

Another major health care expense item concerns the public's investment in teaching hospitals. Lately, there seems to be serious interest in exploring

the relationship between University of Minnesota Hospitals and Hennepin County Medical Center and Saint Paul-Ramsey Hospital and Medical Center. Better use of the county medical centers might reduce the extent to which more building is necessary at the University. In addition, property tax investment for these county hospitals could be reduced, and, thereby, help reduce the relatively high property tax in the metropolitan area.

g. Come to grips with the issue of multiple levels of government - As revenues are constrained, with three-fourths of this impact being felt by local governments, inevitably the question must arise over whether the present governmental structure assures the most effective use of limited resources. Years ago, city government was responsible for urban services, and county government was responsible for rural services in the metropolitan area. Today, with virtually the entire area blanketed with cities, both city governments and county governments have expanded their roles. Both levels of government perform many similar services, with the difference usually that the county provides "bigger" services, i.e. bigger parks, bigger roads. The Joint Legislative Commission on Metropolitan Governance should address city-county relationships in the metropolitan area, as well as the structure of the Metropolitan Council. The Commission should explore several options, including whether -- as we have recommended -- the functions of county and city government should be merged into one county covering the entire area. Our proposal does not mean that all cities should be merged into one county covering the entire area. It does mean that on any given plot of land there would be one unit of local government, rather than two. Thus services might be moved upward to the county government, downward to the city government, or to some new entity in between. Another option the Commission should explore is whether the functions of policymaking (deciding) and operations (doing) could be distributed differently between county and city governments, with one level operating chiefly as a policymaker and the other as an operator.

Summary - Our challenge to the Governor and Legislature in 1982 is that they take actions now on fundamental questions of spending and taxation, not only those actions sufficient to get the state through the next 18 months. While our agenda is extremely ambitious, so is the magnitude of the problem. If the Governor and Legislature are able to address some of these questions and undertake interim studies on the others, Minnesota will have made significant progress. And in coming years the Governor and Legislature will be remembered for the foresight they exhibited in 1982.

More detail on the recommendations in this statement can be found in the following Citizens League reports:

"Paying Attention to the Difference in Prices: A Health Care Cost Strategy for the 1980s", September 29, 1981

"Enlarging Our Capacity to Adapt", August 27, 1980

"A More Rational Discussion of Taxes & the Economy", October 31, 1979

"A Risk-Shared Basis for Pensions", December 13, 1978

"Knitting Local Government Together", September 18, 1978

"A Better Way to Help the Poor", July 27, 1977

"Local Government in a Time of Transition", February 20, 1974

"State Fiscal Crises are not Inevitable", June 26, 1972