

Exhibit A
Four Problems of the State-Local Government Relationship
Affecting and Affected by the State-Local Fiscal System

1. Public Employee Health Care Program Structure

Minnesota's biggest problem is Minnesotans' health and the health care system that is supposed to maintain or improve that health. The problem manifests itself in a self-induced obesity epidemic, individual and family exposure to financial ruin from health care emergencies and health care costs that are escalating unsustainably for Minnesotans and our governments. The health problem is not caused by the state-local relationship. But thousands of Minnesota governmental and public education institution employees are the biggest bloc of employees in the state and pooling them together for health care insurance purposes could drive improvements in the health care system. The act of pooling would be a change in the state-local government relationship, and a change that involves the allocation of fiscal responsibilities in that relationship. The fiscal responsibilities could be rearranged to have the state pay for a portion of local employee health care costs instead of general property tax relief.

2. Human Services Delivery System Structure

The overarching problem with Minnesota's human services delivery system structure is that a huge amount of money is poured into a system in which the key administrators are Minnesota's 87 counties, which range in population from less than 4,000 to nearly 1.2 million, and this multitude of separate delivery systems is inherently inefficient. The same pattern applies to publicly supported health care services. (Collaboration among counties is statutorily allowed, but there are only two collaboratives, one involving two and one three counties.)

The Minnesota Departments of Human Services and Corrections collectively spend roughly \$5 billion per year from the state general fund on the human services delivery system. The counties themselves are spending better than \$1.5 billion per year on human services delivery, on average well over 30% of their annual operating budgets, a substantial portion of which is raised from local property taxes. The net annual spending on Minnesota's human services and health care delivery systems administered principally through Minnesota's 87 counties is huge. Human services and health care delivery are important parts of Minnesota's state-local government relationship, with huge implications for the fiscal aspects of that relationship and for the results Minnesotans get from their tax dollars.

3. Governmental Unit Structure

Minnesota no longer needs 87 counties, 800 plus city governments and 1,500 plus

townships to “produce” government services.¹ Minnesota’s governmental unit structure impedes improving the results Minnesotans receive from their governments in two ways – the units are internally structured to both steer and row, and too many of them do too much rowing; and there are simply more units than are needed.

First and most importantly, governmental functions are handled inefficiently because there are many more service producers for numerous services than are needed to provide services efficiently to all Minnesotans. This problem can be addressed by focusing local governments on steering for results, which will result in a switch from producing to purchasing services, competition to deliver services, economies of scale in service delivery, and better results for Minnesotans. These techniques are proposed to be promoted to local governments throughout Minnesota by the design recommended here. Elimination of governmental units is not needed to pursue this pathway to better results.

Second, nobody would design Minnesota to have as many local governmental units as it has if starting from scratch with nothing more than the geographic population distribution of the state, today’s transportation and communications systems, and the current state of the art in producing the results that local governmental services are intended to produce. Minnesota has many more local governmental units than it needs. But governmental units are not just reinvented from time to time; they evolve over time, and reducing their numbers can be politically difficult. Moreover, mere consolidation into larger units does not guarantee improved results, and it is improved results that matter. Well planned, well accepted governmental consolidations certainly could help improve the results those governments produce for Minnesotans. The effective planning and acceptance are more likely to evolve out of local governments embarking upon steering for results than from consolidations dictated by the Legislature. This is not to say that the Legislature should never mandate a governmental consolidation, but only that mandated consolidations are not the only and frequently not the best tool for improving the results produced by local governments.

4. **State Budget Process**

The state budget process focuses on inputs and control of local spending, through maintenance of effort requirements and other mandates, and on property tax relief.

It is too late to change the state budget process for the FY 2010-11 biennium. But moving Minnesota’s local governments to focusing on results could spark a redesign of the state budget process for the FY 2012-13 biennium to focus the Governor, the Legislature and all participants in the state budget process on buying, and steering Minnesota’s governmental enterprises to provide, results. The proposals made here could help produce this result.

¹ Minnesota probably does not need all of its 347 school districts, either, but vast consolidation of school districts already has occurred, in contrast to other local governmental units.