

Exhibit D
Changing the State-Local Government Relationship
To Solve Minnesota's Too Many Governmental Service Producers Problem

Governmental units **provide** services to residents. Each service is provided by the governmental unit **producing** the service itself or **purchasing** it from a third party – another governmental unit, a nonprofit organization or a business.

Minnesota's governmental units generally produce services themselves rather than purchasing them from third parties. The result is many small service providers producing services inefficiently. While Minnesota has more governmental units (service providers) than optimal with the state's 21st century population configuration, the number of providers is not the biggest problem. The number of producers is.

There is no time like a severe budget crisis for:

- Changing the state-local government relationship (“SLGR”) to encourage governmental units to **provide services more efficiently** than they can produce them **by stopping production in favor of purchasing** from third parties
- Informing local citizens of local government operating costs, so they can
 - Consider mergers with other units when merger promises significant dollar savings without harming the public interest
 - Encourage, understand and accept decisions by local elected officials to purchase services instead of producing them with local employees
- Mandating consolidations that are clearly in the public interest

It seems likely that the pursuit of all three of these strategies by the Governor and Legislature could both help solve the short and long term budget problems and get better results per dollar spent. The ideas in this Exhibit D are presented in the spirit of sparking consideration of ways forward out of the crisis, rather than as hard and fast solutions.

These ideas complement those generated by the work of the Public Strategies Group for five area foundations and presented to Minnesota's political leaders and the public as “Bridges to a Better Bottom Line.” With the base proposal here starting from the need for redesign of both the SLGR and the SLFS, the creative thinking applied there to activities of the counties and schools is intended to be extended here to cities and townships as well. Especially helpful in this broader context are ideas embedded in three of the “Bridges” ideas: Delivering Integrated Human Services: Multi-County Shared Services; Freeing Counties to Focus on Results; and A Better Approach to Service Sharing. If policy makers consider going forward creatively along the lines suggested here, they should contact the Public Strategies Group for how the techniques they applied in the county and school contexts could be applied to cities and townships as well.

These ideas also build from the work of State Economist Tom Stinson and State Demographer Tom Gillaspay, who concluded that Minnesota, in economic and demographic reality, consists of one 17 county Metroplex and five multi-county

Ruralplexes¹ that are many spatially separated neighborhoods of not so many different communities in this one great state. The allocation of counties among the six plexes, and 2007 population estimates (state total 5,263,493) are as follows:²

| | | | | | |
|--------------------|-----------|------------------|---------|------------------|---------|
| | | Southeast | | | |
| Twin Cities | | River | | Southwest | |
| Metroplex | 3,612,264 | Valley | 549,035 | Corn Belt | 164,535 |
| | | Blue Earth | 59,723 | Big Stone | 5,473 |
| East | 1,148,355 | Brown | 26,344 | Chippewa | 12,645 |
| Dakota | 398,177 | Dodge | 19,787 | Cottonwood | 11,584 |
| Ramsey | 517,074 | Faribault | 15,128 | Jackson | 11,015 |
| | | | | Lac Qui | |
| Washington | 233,104 | Fillmore | 21,086 | Parle | 7,414 |
| | | Freeborn | 31,492 | Lincoln | 5,943 |
| West | 1,399,577 | Houston | 19,779 | Lyon | 24,940 |
| Carver | 88,384 | Kandiyohi | 41,763 | Murray | 8,657 |
| Hennepin | 1,157,283 | LeSueur | 27,840 | Nobles | 20,399 |
| McLeod | 37,130 | Martin | 20,731 | Pipestone | 9,342 |
| Wright | 116,780 | Meeker | 23,371 | Redwood | 15,851 |
| | | Mower | 38,423 | Rock | 9,474 |
| North | 692,053 | Nicollet | 32,042 | Swift | 11,370 |
| | | | | Yellow | |
| Anoka | 331,246 | Renville | 16,466 | Medicine | 10,428 |
| Benton | 39,308 | Sibley | 15,288 | | |
| Chisago | 50,433 | Steele | 36,485 | | |
| Isanti | 38,881 | Wabasha | 22,398 | | |
| Sherburne | 86,308 | Waseca | 19,517 | | |
| Stearns | 145,877 | Watonwan | 11,418 | | |
| | | Winona | 49,954 | | |
| South | 372,279 | | | | |
| Goodhue | 46,092 | | | | |
| Olmsted | 139,418 | | | | |
| Rice | 63,034 | | | | |
| Scott | 123,735 | | | | |
| | | Central | | | |
| Northwest | | Lakes | | Up North | |
| Valley | 289,396 | | 292,129 | | 356,134 |
| Becker | 32,183 | Aitkin | 16,067 | Beltrami | 43,320 |
| Clay | 55,441 | Cass | 28,743 | Carlton | 33,990 |
| | | Crow | | | |
| Douglas | 35,827 | Wing | 61,390 | Clearwater | 8,314 |
| Grant | 6,020 | Itasca | 44,278 | Cook | 5,356 |
| Kittson | 4,678 | Kanabec | 16,384 | Hubbard | 18,891 |
| Marshall | 9,781 | Mille Lacs | 26,171 | Koochiching | 13,506 |

¹ See three articles in January 2006 Rural Minnesota Journal.

² Different county configurations may be preferable for different purposes, but the Stinson/Gillaspy scholarship provides a principled base from which to stimulate gubernatorial, legislative and public thinking about the role of consolidations of various types in solving Minnesota's too many governmental service producers problem. The geographic allocation suggestions below are illustrative, not prescriptive.

| | | | | | |
|------------|--------|----------|--------|---------------------|---------|
| Norman | 6,822 | Morrison | 32,947 | Lake Lake of the | 11,119 |
| Otter Tail | 58,437 | Pine | 28,229 | Woods | 4,279 |
| Pennington | 13,708 | Todd | 24,347 | Mahnomen | 5,074 |
| Polk | 31,023 | Wadena | 13,573 | Roseau | 16,177 |
| Pope | 11,110 | | | St. Louis | 196,108 |
| Red Lake | 4,122 | | | | |
| Stevens | 9,742 | | | | |
| Traverse | 3,793 | | | | |
| Wilkin | 6,709 | | | | |

I. Human Services Delivery System Redesign

Minnesota’s current human services delivery system has 84 principal service delivery organizations – 82 individual counties and one two-county and one three-county consortium. There is no doubt that the efficiency and effectiveness of Minnesota’s human services delivery system could be improved by reducing the number of providers.³ The Governor has proposed no more than 15 regions. PSG’s Bridges to a Better Bottom Line recommends an unspecified number of regions and notes that the regions could be mandated or formed by the counties deciding on the regional configuration.

Here is an approach to consider, combining human services delivery system redesign with SLFS redesign:

- Mandate the following regionalization discussions between county and DHS officials, with initial configuration (which could shift counties in any fashion) resulting in from 9-14 regions to be agreed upon by December 31, 2009:
 - Metroplex East: Chisago, Dakota, Ramsey, Washington
 - Metroplex West: Carver, Hennepin, McLeod, Wright
 - Metroplex North: Anoka, Benton, Isanti, Sherburne, Stearns
 - Metroplex South: Goodhue, Olmsted, Rice, Scott
 - Southeast River Valley: Two core groups, which could either be separate or together, or combine some with Metroplex South and keep rest as a group
 - Group 1: Wabasha, Winona, Houston, Fillmore, Mower, Dodge, Steele, Freeborn, Waseca, LeSueur
 - Group 2: Faribault, Martin, Blue Earth, Watonwan, Nicollet, Brown, Sibley, Renville, Meeker, Kandiyohi
 - Southwest Corn Belt: Two core groups, which could either be separate or together, or combine some with either or both of Southeast River Valley and Northwest Valley and keep rest as a group
 - Group 1: Jackson, Nobles, Rock, Cottonwood, Murray, Pipestone, Redwood

³ It seems likely that there could also be substantial cost savings, though more complete coverage of eligible populations may push in the opposite direction.

- Group 2: Lyon, Lincoln, Yellow Medicine, Chippewa, Lac Qui Parle, Swift, Big Stone
 - Northwest Valley: Two core groups, which could either be separate or together, or combine some with any of Southwest Corn Belt, Central Lakes or Up North and keep rest as a group
 - Group 1: Traverse, Stevens, Pope, Douglas, Grant, Otter Tail, Wilkin
 - Group 2: Becker, Clay, Norman, Polk, Red Lake, Pennington, Marshall, Kittson
 - Up North: Two core groups, which could either be separate or together, or combine some with either or both of Central Lakes and Northwest Valley and keep rest as a group
 - Group 1: Carlton, Cook, Lake, St. Louis, Koochiching
 - Group 2: Mahnomen, Clearwater, Hubbard, Beltrami, Lake of the Woods, Roseau
 - Central Lakes: Two core groups, which could either be separate or together, or combine some with one or more of Northwest Valley, Up North and Metro North, and keep rest as a group
 - Group 1: Pine, Kanabec, Mille Lacs, Aitkin, Itasca
 - Group 2: Morrison, Todd, Crow Wing, Cass, Wadena
- Make regions operational July 1 of either 2010 or 2011.
 - Regional boards, not counties, become the service providers (but not exclusive producers and perhaps not producers at all, depending on how design progresses – boards could just purchase services from others).
 - State and federal money flows through the regional boards and counties stop levying property taxes to pay for human services.
 - State money comes from combination of ending county program aid and market value homestead and agricultural credits (if not already eliminated), sales and income tax base broadening and either state business property tax or business activities tax (depending on whether SLFS redesign includes business tax redesign)
 - Counties can choose to be producers of services by bidding for service production in their own or multiple counties and being selected by the regional board (which could instead select one or more other producers).
- If Metroplex county governments go out of existence pursuant to Metroplex redesign proposal set forth below:
 - Nonprofit corporations are created to substitute for the Metroplex boards, DHS contracts with them and they contract with others; or
 - DHS contracts with Metroplex Council

II. State Wide Local Governance Redesign and Citizen Decision Making

The following options should be made available throughout the state:

- Mandate end to electing sheriffs state wide to facilitate local communities hiring others to produce public safety services

- Encourage cities, townships and counties to consider a variety of ways of improving results by purchasing instead of producing services themselves, including the ideas advanced in Bridges to a Better Bottom Line
- Allow voters in the smaller of any two contiguous cities to merge their city into the larger neighbor, while still allowing city mergers by mutual approval
- Allow any land owner to attach his or her land to a contiguous city, while preserving city annexation powers
- Allow any family farm owner whose farm land is in a city but contiguous with a township to secede from the city and attach to the township, but allow the city to re-annex the land at such time as it is determined to be necessary for urban use in the orderly expansion of the city, with appeal of that decision by the land owner to the county board (Metroplex Council in the Metroplex)
- Merge urban townships into contiguous cities by mandate or local choice
- Channel future development into existing cities, to the everlasting benefit of Minnesota governmental budgets, taxpayer pocketbooks, the quality of Minnesota's waters and natural habitat, energy conservation efforts and the world's climate, through either or both the Urban Development Encourager⁴ or regulation through an urban growth boundary.

III. Metroplex Governance Redesign and Citizen Decision Making

The Twin Cities Metroplex consists of 17 Minnesota counties, not the seven county statutory Metro Area encompassed by the current Metropolitan Council.⁵

The goals of redesigning Metroplex governance are:

- Make the Twin Cities Metroplex a tough competitor with city regions around the world
- Save billions of dollars in infrastructure and operational spending
- Ensure adequacy of Metroplex water supply, improve water quality in the Metroplex and across Minnesota, and preserve and improve habitat lands in and contiguous to the Metroplex
- Conserve energy and reduce both vehicle miles traveled per capita and carbon dioxide emissions
- Preserve or enhance the quality of life of Metroplex residents

This redesign is to:

- Replace the Metropolitan Council with the Twin Cities Metroplex Council
 - Some sensible, odd and fairly small number of members
 - Members elected by the Metroplex Council of Mayors on a one mayor, one vote basis.

⁴ See main proposal at 16.

⁵ This is demographic and economic, not political, fact. The question is whether the political fact is unchangeable, or could change to reflect demographic and economic reality and save Minnesotans a lot of money.

- Caveat: Metroplex Council could have permanent seats for the mayors of the two (or more) largest Metroplex cities
- Metroplex Council would not levy taxes, but rather would bill cities and townships for its services based on a combination of area and population
 - Encourages efficient land use, since portion billed on an area basis would be expensive on a per capita basis for thinly populated cities and urban townships.
 - Billing formula could differ with different services, with less emphasis on area where area has less bearing on cost of service.
- Differentiate between rural and urban townships
 - Rural townships billed on pure area basis for services performed for them
 - Line drawn based on land use variety and density
- The 17 county governments in the Metroplex are dissolved⁶
 - County human services functions redesigned away from counties in human services delivery system redesign
 - Public safety becomes a Metroplex function – one appointed new sheriff in town. Cities decide whether to hire Metroplex or keep their police departments, or could mandate using Metroplex, eliminating 100+ separate police departments in one fell swoop
 - Roads in cities go to cities or Metroplex; roads outside cities go to townships or Metroplex. But cities and townships could decide to hire Metroplex or other cities to maintain their roads.
 - Other county functions are allocated between Metroplex, cities/townships and state as determined in enabling legislation.
 - The three largest categories of local governmental spending are transportation, public safety and general government. If all human services programs are combined, that category is the largest. The human services system redesign addresses that area. This redesign addresses the other three.
- November 2010 election
 - Metroplex city citizens vote in a Metroplex-wide referendum whether to adopt this (or another) redesign or continue existing structure. Redesign could be mandated by Legislature, but that's asking a lot given probable intense opposition from a multitude of defenders of the status quo.
 - Township by township referendum on whether to join the rural division of the Metroplex or, if contiguous to another county or a township or townships that are contiguous and so vote, to join the contiguous non-Metroplex county. Vote only counts if city citizens approve Metroplex.
- Between now and November 2010

⁶ The number of counties involved could be reduced, perhaps rationally, to as few as the seven statutory Metro Area counties, in which case the excess of 17 over the number selected politically for the Metroplex would be treated, inaccurately for demographic and economic purposes, as not being part of the Metroplex. The following redesign for Greater Minnesota then would be relevant for residents of those counties. Another possibility is to deploy the 17 county version of the Metroplex for some purposes, such as transportation system design, but smaller versions, as small as the seven county area, for other purposes.

- Legislatively created process for designing and discussing a new approach to Twin Cities Metroplex governance
- 2010 Legislature finalizes the details of the ballot question, perhaps on a pure up or down vote on alternatives posed by a commission

IV. Greater Minnesota Governance Redesign and Citizen Decision Making

In the Metroplex, and especially the seven county Metro Area, many people and governmental units are in a confined space, creating great opportunities for more efficient service delivery. While there is some of that in Greater Minnesota, the problem tends to be at the opposite end of the spectrum – fewer people and smaller governmental service volumes scattered across Minnesota’s “spatially separated neighborhoods” makes it difficult to find economies of scale in providing governmental services.

Most of Minnesota’s 1,500+ townships are in Greater Minnesota, and most of them have relatively few residents. Minnesota’s five Ruralplexes contain 20 cities of more than 10,000 residents, 18 with 5-10,000 many hundreds of less than 5,000, hundreds of which are less than 500. The 70 counties in the Ruralplexes include 18 with fewer than 10,000 residents, another 22 with 10-20,000 another 21 with 20-40,000, and nine with more than 40,000.

Township spending is a drop in the bucket of total state and local spending,⁷ but is important to township residents, who pay the property taxes to support it. Cities and counties spend much more significantly, and their spending is significantly supported by state aid and local property taxes. The SLGR changes for Greater Minnesota would enable Greater Minnesota residents to save on property taxes without (or with much reduced) state subsidies and still get services with which they are satisfied.

While the clear direction of SLGR redesign in the Metroplex is to consolidate county governments into the Metroplex Council, the likely direction in Greater Minnesota is for counties to perform some of what cities now do, not through consolidation, but under contract with the cities, as rural cities are recognized as the spatially separated neighborhoods that they are and Greater Minnesota citizens choose more efficient government for themselves.

SLGR redesign for Greater Minnesota should include:

- Encouraging township boards and city councils all over the state to choose between providing services through contracts with others or through their own employees
- Empowering township citizens all over the state to choose between continuing to provide services through the township or turn that chore over to the county, subject to the right to pull it back at any time

⁷ Roughly \$250 million per year out of total state and local spending of more than \$42 billion , so well under 1%.

- Empowering city residents all over Greater Minnesota to choose between continuing to provide services through the city or turn that chore over to the county, subject to the right to pull it back at any time
- Empowering citizens of each of the 70 Greater Minnesota counties⁸ to decide in a series of referenda whether to combine county governments, so the public decides where between five and 70 the number of Greater Minnesota county governments should be pegged.

V. Swapping Mandates and State Aids for a Focus on Results, Flexibility and Revenue Sources that Work

The budget crisis solution likely will involve some reduction in state aids to local governments. SLGR redefinition involves trying to become more efficient quickly, so as to mitigate or eliminate the short run harm to the public interest from budget cuts, and set Minnesota on course to deliver increasingly greater value per public spending dollar in the future.

The following actions should occur:

- Drastically reduce or eliminate state aids to cities and counties (except for human services, where the state should reduce county need to fund service delivery as part of regionalization of human services delivery)
- Drastically reduce or eliminate maintenance of effort mandates
- Require local governments to measure and report on results
- End levy limits
- Provide local governments with greater ability to use the property tax without making citizens angry by redesigning the tax and reducing or eliminating the need for schools to rely on it at all and for counties to rely on it for human services delivery.

These actions will lead to more emphasis on results and identification and dissemination of best practices. The bottom line will be more effective provision of governmental services to Minnesotans – higher quality at lower cost.⁹

All Americans are caught up in the financial crisis of our and our parents' and, for the young among us, our grandparents' and even great grandparents' lifetimes. Under these grave circumstances, the Minnesota Legislature should not try to control results. Instead, the Legislature should:

- Enlist Minnesota government officials and employees, and all Minnesotans, in efforts to increase value produced by suddenly reduced dollars
- Trust for the next two biennia – from the end of the 2009 legislative session through June 30, 2013 - that local officials will spend money wisely, but insisting that they report on results

⁸ More than 70 if the fiction that the Metroplex involves fewer than 17 counties continues to be followed

⁹ The same can be true at the state government level.

- Until the 2013 legislative session, emphasize improving measurement and reporting of results, and encouraging local governments to use SLGR redesign tools for improving their steering for better results
- Retooling biennial budget process to a results focus in time for 2011 session action on FY 2012-13 budget
- Refining retooled budget process for 2013 session on FY 2014-15 budget
- Looking again in 2013 at need for general purpose state aids to local governments, other than the investments in human capital represented by support for education and human services.

The final piece of the swap – revenue sources that work – is provided by the SLFS redesign described in the main body of the proposal.

VI. Stretching School Spending Farther

Many of Minnesota’s 340 school districts could also provide educational services more effectively by taking advantage of opportunities to increase steering for results in lieu of producing some aspects of support services in house:

- Schools could benefit from same tools as other local governments
 - Potential particularly good in so-called back office operations
 - Governor and legislators have already recognized
- Sharing services with human service providers may be helpful, especially if human services delivery redesign is adopted

The swap of mandates for a focus on results also applies to schools:

- End referendum requirements
- Drop for next two biennia legislatively imposed operating mandates
- In exchange
 - Meaningful reporting on each student’s educational progress
 - Require schools whose students consistently make inadequate progress to change how they operate, choosing from a menu of approved options

Other school expenses might be shifted to other entities:

- State takeover of school health care costs as part of health care reform
- Shift interscholastic athletics to city responsibility

With K-12 education being the biggest Minnesota governmental cost, consider what can be done outside the schools to maximize the value delivered by the schools, with investments potentially funded by a portion of savings in higher ed from closing one or more campuses:

- Investing in early childhood
- Investing in students’ non-school time
- Keeping kids in school by
 - Restrictions on evictions from rental housing during school year
 - Residential academies for kids whose parents don’t cut it, perhaps including closed campuses, with intensive job training for the parents too

- Intensive truancy policing

The foregoing changes in combination might even suffice to permit what seemingly has been assumed to be impossible – slightly reducing the total dollars flowing to schools without hurting the educational results they provide. With school spending exceeding \$20 billion per biennium, each 1% exceeds \$200 million in potential budget savings.

VII. Summary

The Minnesota Legislature can begin tapping a cornucopia of savings in local government service provision, and engage local officials and citizens across the state in improving governmental functioning, by acting in these areas:

- Human services delivery system redefinition
- Governance redesign and citizen decision making across the state, throughout both the Twin Cities Metroplex and Greater Minnesota
- Swapping mandates and state aids for a focus on results and flexibility
- Empowering school leaders to reduce their out of classroom spending and decide how best to spend their resources, and investing state budget savings to make kids readier to learn when they're in class spending the single biggest chunk of Minnesotans' tax dollars devoted to any purpose

Legislators want to spend Minnesotans' tax dollars wisely. Ironically, the best way to do so is:

- Loosen up on controlling how dollars are used in favor of
 - Focusing on the results produced, and
 - Reposing trust in local government officials and Minnesotans
- Local officials and Minnesotans then
 - Make some of the judgments needed to determine how best to stretch a suddenly shrunken funding supply farther in the short run, and
 - Change Minnesota's local governments to provide services more efficiently in the long run.

These changes will save money in the long run.

- Roads, public safety, general government - the three largest categories of combined city, township and county spending¹⁰
 - Road spending economies of scale from numerous small units purchasing services from one producer rather than producing their own
 - Same true of public safety
- Substantial savings without eliminating a single city, township or county
- Additional savings if local citizens choose to harvest them
 - Citizens of townships, small cities could cede virtually all money spending governmental functions to county
 - Citizens of contiguous cities, cities and townships could choose to merge
 - Citizens of contiguous counties could choose to merge

¹⁰ Assumes "human services" is not a single county category, but a combination of categories

- Not a big problem if local citizens continue with status quo – they just choose to pay higher than necessary property taxes
- Difficult to generate savings if changes crammed down by Legislature and change might be politically impossible
- Letting local governments and citizens choose is the right thing to do

Citizens across Minnesota will operationalize the Gillaspay/Stinson insight – of communities made up of spatially separated neighborhoods - with each community making its own choices. Can townships and cities purchase more and produce less? Can counties across Greater Minnesota perform functions now handled by cities and townships, better and cheaper than the cities and townships? Can citizens of cities across the state tinker with the definition of what it means to be a city in ways that enable them to get the services they need at a price they are happy to pay? Can Minnesotans channel future development into existing cities in ways that enable the state to grow without trashing the place? Why not?

The special beauty of these changes is they are virtually risk free to legislators:

- Minnesota's SLGR and SLFS currently emphasize
 - Legislative control over how appropriated dollars are spent
 - Legislative fear of homeowner property taxes rising to the boiling point and irate citizens blaming their legislators
- Changes repose trust in both local officials and citizens, which they will appreciate, not resent
- Minnesotans generally appreciate the magnitude of this fiscal crisis, and they will be disposed to cut their elected officials some slack
- The property tax monster is slain by SLFS redesign on a no legislative risk basis by using the property tax refund program to protect homeowners against too high property taxes.

Try these changes over the next four years and chances are legislators will never want to go back to the old SLGR. But if they did, they could. Legislators could decide that the state will do better if they try to control precisely how the dollars are spent and ignore the results, and manage the SLFS by returning to the pouring of \$3 billion plus per biennium into the black hole of property tax relief. But they probably won't.