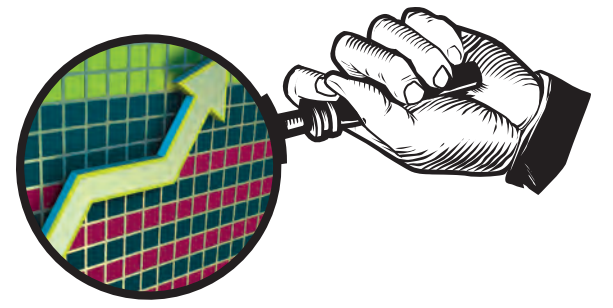


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What Does Greater

TRANSPARENCY

In Government Spending

Have To Do With Your

PROPERTY TAXES?



A.



EVERYTHING!



It's Time to Unveil the Drivers Behind the Rising Cost of Public Services and the Demand for Increasing Local Tax Revenues

Beyond ‘Truth in Taxation’



If we are to survive these challenging times, we must all become close partners with our local elected officials in making difficult spending choices and setting budget priorities.

Property Taxpayers Need—and Deserve—True Transparency in Their Local Government’s Spending Decisions...and A Strong New Focus on ‘Truth in Budgeting’

In the past, when our state was financially fit and state and local budgets easily balanced, Minnesotans could afford the luxury of not paying close attention to how our tax money was being spent.

In the current fiscal crisis, with no end in sight, we can no longer afford such blissful ignorance. With most taxpayers already burdened with climbing property taxes and squeezed by the most severe recession in decades, we need to have much more information than is currently accessible about how well our scarce tax dollars are being spent.

Here’s the Problem...

- **Minnesota’s complex property tax system distracts taxpayer attention away from property taxation’s core issue: the spending decisions that drive local levies and therefore property tax bills.** High profile issues like state aid changes and burden shifting created by Minnesota’s convoluted property tax system are legitimate topics in property tax debates. But ultimately, the cost structures of local government service delivery are both the most influential piece of the property tax levy puzzle and the most challenging element for taxpayers to independently evaluate and assess.
- **Concerned citizens’ good intentions and desire to participate in local decision-making are confounded by financial and budget reporting that manages to be both overwhelming and inadequate at the same time.** Minnesota taxpayers have traditionally demonstrated a strong interest in good governance and a personal willingness to participate in local government decision-making. But their good intentions are stymied by the complexity of public finance and budgeting. And local budget and financial reports—despite the amount of general information they offer—provide few details enabling taxpayers to move beyond this complexity. Taxpayers have great difficulty understanding what underlies local spending decisions and therefore actively influencing those decisions.
- **Local spending levels can be affected by forces beyond the control of local elected officials.** Many factors, especially state and federal mandates, are imposed on local governments and affect their spending decisions and cost structures. Without greater understanding of what those influences are and how they work, the resulting constant finger-pointing and incorrect assignment of blame adds little to the debate in terms of creating greater clarity or deeper public understanding.

...and A Way to Fix It

- **The presentation of budget and financial information must be improved and enhanced to support greater taxpayer understanding.** Full transparency requires major improvements in *how* local governments present their budget and financial information to citizens—not just *what* they present.
- **Detailed object code reporting is the cornerstone of full transparency.** Currently, local governments report spending in various functional categories, such as “police,” “libraries,” or “parks,” showing how money is spent on certain areas of government, and how spending in those areas has changed over time. Although important, this information does not assist taxpayers in actually knowing what that money has purchased or evaluating the spending itself. Object code reporting describes what government spending actually purchases and allows citizens to make informed judgments about the cost structures of government and how efficiently tax dollars are being spent.
- **Object code reporting is also the basis for meaningful spending comparisons with other local governments.** Reporting this way, if required uniformly across the state, would allow citizens to review, understand, and make comparisons with similar spending by local units of government in other communities. Combined with local government performance measures, this information can be a powerful tool to assess the effectiveness of local spending.
- **The influence of state and federal policies, arbitration decisions, and other outside factors on local spending must be identified, quantified, and made available to the general public.** State and federally mandated spending, many times unfunded, can have a great impact on local costs and blur the lines of responsibility for spending decisions. The results of binding labor arbitration can also add costs the community might otherwise not willingly undertake.

The current requirements for public reporting were not designed to provide greater clarity or transparency—rather, they were put in place to manage and prevent misappropriations of public funds and other potential abuses of taxpayer money—the proverbial “hands in the cookie jar” problem—rather than enhancing taxpayer information and understanding.



The Need for Transparency and Openness is *Real, Urgent and Long Past Due*

Budget cuts, greater need for services and a slow-growth economy have converged today to place extraordinary financial stress on citizens and their local governments. This convergence has also stressed the supportive relationship between citizens and their elected officials. Restoring real confidence and mutual trust is directly linked to creating greater transparency in government spending priorities and decisions.

State aids only increase the need for greater transparency.

As long as state resources are used to subsidize local services, it is important for every taxpayer to have access to the cost structures and spending choices of the local governments.

Pursuing a new, more open government agenda through the specific recommendations we are offering is the starting point for enabling all Minnesotans to re-engage with their local government officials, and actively work to develop better budgeting policies and spending practices for the sake of the common good.

Greater transparency in budgeting will ultimately lead to stronger and wider citizen engagement, benefiting everyone, taxpayers and government alike.

What are the Major Cost Drivers Propelling Spending Increases?

• **PUBLIC SECTOR COMPENSATION ISSUES.** Public service delivery is labor intensive by its very nature, and salary, benefits and pensions routinely make up 60-80% of local operating budgets. In many reports these compensation elements are lumped together concealing important detail and trend information. An understanding of local government cost structures begins here.

SALARY. Changes in salary spending are often the result of negotiated salary structures, cost of living adjustments (COLAs) and the step and lane system, which are rarely reported in budget documents. Other information needed to make reasonable judgments about trends and growth rates in this influential spending area, such as total employee counts, types and positions, is rarely readily accessible.

BENEFITS. Employee health care underwritten by local governments is also a major driver, in terms of both the generosity of the benefit package itself, and in the portion of the premium cost paid by the employer. Other post-employment benefits (OPEB), like retiree health care, can have a significant impact on the cost of local government services.

PENSIONS. Mandated government contributions for underfunded pension plans are growing and have the potential to create even greater burdens on property taxpayers in the future.

• **MANDATES & LABOR ARBITRATION.** Many state and federal mandates have a very significant impact on local government spending, particularly when their cost is not fully funded by state government or they require matching subsidies from local property taxes.

Labor arbitration, another hidden driver behind spending increases, can have a profound impact on the cost of local government. The closed nature of these negotiations can create greater demands. Arbitration rulings can impose higher labor costs than local elected officials would otherwise want to pass on to property taxpayers. And benchmarking to comparable employers frequently results in arbitrators comparing public sector workers to other public sector workers, rather than to the non-governmental labor markets from which employers recruit.

What Does Object Code-Based Reporting Look Like

The exhibit below is an example of some of the information that object code reporting would provide. It is an essential complement to spending reported by program area. It provokes important questions about cost trends and cost structures, and allows citizens to make better informed judgments about the use of taxpayer dollars.

A Sampling of an Object Code-Based Report for the City of SPRUCEVILLE, MINNESOTA


Object Code	Actual 2008	Actual 2009	Actual 2010	Budgeted 2011	Change: 2008-2011	
					Dollar	Percent
Salaries and Wages	\$3,295,920	\$3,478,665	\$3,580,395	\$3,846,903	\$550,983	16.7%
Health Benefits	371,215	498,830	568,152	559,789	188,574	50.8%
Retirement Benefits	441,796	453,645	480,206	522,959	81,163	18.4%
Other Benefits	90,943	104,351	138,581	142,292	51,349	56.5%
Office Supplies	335,221	331,536	338,738	349,183	13,962	4.2%
Operating Supplies	552,832	547,304	558,107	573,774	20,942	3.8%
Professional Services	870,799	423,253	356,814	763,461	(107,338)	-12.3%
Communication Svcs.	1,306,198	786,042	758,230	1,781,409	475,211	36.4%
Capital & Equipment	1,442,616	1,104,711	442,900	781,014	(661,602)	-45.9%
Debt Service	1,009,591	1,399,625	396,064	403,590	(606,001)	-60.0%

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This is an example of some of the information that object code-based reporting would provide for the City of Spruceville's budget.

EMPLOYEE HEALTH CARE PLAN

	Single	Family
Total Cost of Insurance Premium	\$5,367	\$15,784
Employee Share of Premium	0	1,562
Key Descriptive Details	Employee Co-Pays	
	Single	Family
Office Visit & In-Network Urgent Care	17	22
Prescription Drugs (Generic/Brand)	10/16	10/16
Convenience Clinic	10	10
In-Network Emergency Care	75	75
Inpatient Hospital	85	85
Lab Tests, X-Rays & Scans	5% of cost	5% of cost
Plan Maximum Out-of-Pocket	\$1,100	\$2,200



How Do We Achieve **TRUE TRANSPARENCY** In Government Spending

**As a starting point,
here are three recommended steps:**

FIRST

We must implement greater transparency statewide in reporting to the public in advance of finalizing local government budgeting decisions and actual spending.

- Counties and cities with a population of 2,500 or more should be required to report their spending both by functional area and by object code early in the process of budgeting and decision making to enable taxpayer review.
- Publish key features and details of public employee contract provisions, including details on government-paid health plans, premium costs and employer cost sharing; other fringe benefit plans; wage agreements, including their compounding effects in terms of longevity increases and cost of living adjustments; and any special labor contract features, such as workforce rules that might affect the present or future cost of delivering public services.

SECOND

We must educate taxpayers and provide them with the tools necessary to identify, call out and hold responsible those elected officials who are making critical spending decisions.

- Local elected officials should identify and quantify to the extent possible the costs of state or federally-imposed mandates.
- Results and details of workforce contract negotiations and binding arbitration decisions should be explained and the budget implications identified.
- Reform the Public Employee Labor Relations Act (PELRA), publishing offers and counter-offers during the negotiating process, not after decisions are made.
- Require labor arbitrators to consider total compensation and benefit levels to comparable private sector workers in making their decisions. Similarly, the state should be required to report public sector arbitration results, and compare trends in awards to those prevailing in the private sector.

THIRD

We must carefully and continually monitor local governments, assessing and reporting on their relative efficiency, performance and cost effectiveness of their service delivery systems in comparison with other units of government of similar size.

- Supplement the traditional financial reporting required by the state of local governments with a mandatory Service Efforts and Accomplishments (SEA) reporting infrastructure, providing metrics for measuring actual performance and efficiency.

Want to know more?

WWW.OPENGOVERNMENTMN.COM

—A Collaborative Effort of NAIOP Minnesota & the Minnesota Taxpayers Association—

