

REPORT
OF THE
COMMISSION ON REFORM OF GOVERNMENT

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This report presents the findings and recommendations of the Commission on Reform of Government, established by Governor Rudy Perpich in February of this year and chaired by Joan Grove, Secretary of State.

The charge to the Commission was to examine state government, identifying instances of law, rule, regulation or administration which, if changed or eliminated, could foster economic growth.

Specifically, the Commission was asked by Governor Perpich to investigate state mandates to local governments and the relationships between state government (as evidenced in rules, regulations and practices) and business. Further, the Governor requested that the Commission not be concerned with education issues, which would address other commissions. Thus, although members of this Commission judged mandates to school districts and the contribution of education to economic vitality important, they were excluded from the Commission's agenda.

The Commission met for just seven weeks. Its initial action was to establish two subcommittees - one to address the relationships with business and the other to review state mandates to local governments. Although most of the discussion took place in the context of the meetings of these two subcommittees, the findings and recommendations included in this report represent those views generally acceptable to a great majority of members of the entire Commission.

Obviously, seven weeks is too short a period to address so important and so broad a question as "the reform of government". With no staff resources and with a legislative session requiring the attention of many members, the Commission was not in a position to give adequate attention to the critical concerns it identified.

However, these findings and recommendations do represent a suggested agenda for further action. In most instances the Commission has suggested further study or review (and has tried to suggest to whom the responsibility might be assigned). It did so, not to avoid the difficulty of finding answers to the complex questions it debated, but rather as a recognition that the Commission did not have the necessary information before it nor the time necessary to prepare more precise recommendations for action.

Finally, not all members of the Commission would agree with all of the findings and recommendations. Some of the members would have liked other issues to have been discussed. In reaching these recommendations the members of the Commission discussed many problems and issues of concern to themselves and to the organizations they represent. Many of these concerns, important as they may be, were judged to fall outside the specific charge of the Commission - which was to examine the nature (structure and process) of state government to determine where change might contribute significantly to economic recovery. In other instances it was determined that other commissions were exploring a matter in greater depth. Finally, in a few instances, these issues represent

questions on which no general agreement could be reached. Attached to this report is a list of these other issues or concerns which the Commission discussed.

The report is divided into two parts - the first representing the work of the subcommittee on business and the second the subcommittee on local mandates. Each of these two parts in turn consists of a general statement of mission or purpose, several general principles which were developed early and which served to guide the discussion and finally, specific recommendations.

The members of the Commission are listed at the end of this report. To each of them must be given a vote of thanks--for their willingness to devote so much of their time and their diligence in addressing a task so broad in scope and so frustratingly short of quick, easy solutions.

PART I. STATE GOVERNMENT'S RELATIONSHIP WITH BUSINESS

Mission Statement

The Commission proposes the following as a general statement of the mission to the Governor, as the state's chief executive officer, in carrying out his responsibility to provide leadership to government reform as a means of contributing to economic recovery:

"The Government of the State of Minnesota, if it is to contribute to the well-being of its citizens, must be committed to the principle that job formation in an expanding, healthy state economy is dependent ultimately upon the growth and stability of the private sector. The role of the Governor in the continuous promotion of this objective is critical. As the political leader of the state, as the state's 'spokeperson', and as the manager of its executive branch, the Governor should apply this principle to his review, initiation, approval or implementation of all state laws, policies, rules and regulations."

General Principles

The Commission, in arriving at its recommendations, has identified the following four general principles which it believes should guide the review and reform of state government structure and process as they relate to business:

1. Competitive Position

The state must strive to achieve an economically competitive position. All laws, policies, programs, rules and regulations should be reviewed in light of their potential impact on the state's competitive economic position with other states, other regions in the U.S. or with other countries.

2. Stability and Predictability

To provide individuals and corporations an opportunity to plan effectively to maximize their own economic position, all state laws, appropriations, policies, programs and rules and regulations should be adopted and implemented in such a fashion to contribute to a stable and predictable legal, regulatory and political environment.

3. Simplification of Government Decision Processes

The structure and process of government in Minnesota should be subject to necessary reform to achieve a reduction in overlapping jurisdictions, duplicative and confusing regulations, and excessive intervention in the affairs of individuals and businesses.

4. Improved Management

Sound long range planning and effective modern management are the essential ingredients in the success of any organization. The executive branch of state government, under the direction of the Governor, should undertake such reform as may be necessary to improve its ability to plan and to adopt modern management techniques, thus contributing to more effective governance and a healthy state economy.

Specific Recommendations

1. To contribute to an improved competitive position, it is recommended that:

- a. Wherever a substantial case cannot be presented for doing otherwise, the state should consider conforming its laws, rules and regulations to federal laws and regulations. Several examples might include:
 - 1) Registration of securities with the Securities and Exchange Commission should be accepted by the state of Minnesota with no additional requirements.
 - 2) The definition of small business used for state purposes should be the same as that required for federal purposes.
 - 3) The state should seek income tax simplification and administrative efficiency by enacting full conformity to the Internal Revenue Code. For example, the federal tax code provisions relating to individual retirement accounts (IRAs), the accelerated capital recovery system (ACRS) and domestic international sales corporations (DISC) should be adopted.
- b. Taxes related to the development of Minnesota's natural resources should be comprehensively reviewed and revised with the specific objective of attracting substantial, long-term capital investment in these industries. Further, recognizing the importance of these natural assets to the state's economic future, the state is encouraged to explore means of developing its mineral resources (striking an effective balance between economic growth and protection of the environment). Special emphasis should be given, for example, to the use of tax credits and to the development of value-added products based on state agricultural, mineral and forest resources. To implement this recommendation, the Governor is encouraged to request that the appropriate state agencies, working with a team of business and tax experts develop, by January of 1984, a comprehensive plan for resource management.

2. To insure a more stable and predictable policy environment, it is recommended that:

- a. No change in Minnesota tax law or appropriations should be considered until such time as the opportunity has been provided for full public discussion achieved through extensive publicity and open public hearings. Further, that the Governor request from the State Hearing Examiner suggestions as to how the rule-making process could be made more consistent with the "general principles" presented in this report.
- b. To contribute to a more predictable fiscal environment, the Governor is requested to suggest to the Minnesota legislature the formation of a joint House/Senate Budget Committee that would set a broad budget policy early in the legislative session, within which specific actions of the tax and appropriation committees would be determined.
- c. The financial difficulties of the past two years have resulted in an unfavorable image of Minnesota within the investment community, both locally and nationally. It is recommended that the Governor and the Commissioner of Finance prepare a strategy for correcting the prevalent image of a state that "doesn't work any more", by engaging in a systematic effort during the summer and fall of this year, to "sell Minnesota" to the investment community.

3. To contribute to simplification of government decisions, it is recommended that:

The Governor ask each state department and agency to perform, before January of 1984, a systematic "self-study", similar to that done in 1957-58 during the administration of Governor Orville Freeman. Such a self examination would require each department to step back and take a serious look at what it does, why it does things the way it does, what it might do differently, what it might do to redraft its charter, its objectives, its organization, and how it works with other agencies. To insure that each department and agency is provided outside assistance, the Governor is requested to ask the corporate, academic and labor communities to make available their best people to work with each department or agency head. Such a self-study should involve all the employees of that department, the clients served, and representatives of individuals or organizations affected by the activities of that department or agency.

4. To contribute to improved management, it is recommended that:

- a. The Governor take immediate action to begin the process of developing a long term economic strategy. Such a strategy would assess the state's current economic circumstances, its strengths and weaknesses, recommend policies, targets, priorities and carefully note how particular policies and programs

would interrelate with one another to achieve a strong and vital state economy. It is recommended that the Governor ask the Departments of Energy, Planning and Development and Commerce to begin work immediately. No organization can work effectively without some general guide to its long term future. Minnesota state government is no exception.

- b. Effective management involves the consideration of all possible means of more effectively providing public services. We would encourage state departments and agencies to explore alternatives to, and possibly more cost-effective ways of, delivering services, including contracting with private firms on a competitive bid basis, where such an approach can be clearly justified. The Governor is requested to appoint a task force, chaired by the Commissioner of Administration, of persons both from state departments and agencies, from corporations and labor and from interested civic organizations, such as the Citizens League, to survey opportunities and report to the Governor by the end of the year.
- c. Minnesota's infrastructure -- those capital goods essential to the delivery of essential public services (roads, bridges, dams, sewers, water systems, waste disposal facilities, energy facilities, and other public buildings) -- are vital to a healthy economy. Since no comprehensive capital improvement plan presently exists, the Governor is requested to assign to the Department of Energy, Planning and Development and to the Department of Finance the task of preparing a state capital improvement plan which would include a complete assessment of the present condition of capital facilities, future needs, a process for determining priorities and recommendations for financing. To obtain information from local governments, these agencies should solicit the help of the Metropolitan Council, the Regional Development Commissions and the associations representing Minnesota's cities, counties, townships and school districts. It is recommended that such a preliminary capital improvement plan be prepared by January, 1984, and updated annually thereafter.
- d. State government is encouraged to identify instances of where charging fees for services rendered is possible and appropriate. "Profit centers" in state departments and agencies should be encouraged wherever user fees sufficient to offset the expense of providing the service can be collected. To implement this recommendation, the Governor is requested to ask the Commissioners of Administration and Finance to jointly prepare, by January, 1984, a report detailing their recommendations for the further use of user fees.
- e. At present, the resolution of disputes - between state agencies and clients or third party providers, or between agencies and businesses or between agencies and local governments is too

often characterized by a costly, adversarial relationship, often concluding in litigation. The effectiveness of government regulation would be enhanced by the use of more informal dispute resolution techniques - informal negotiation, mediation, arbitration. In such instances the "ownership" of the solution to the problem is held by the parties to the dispute, contributing to a quicker, less costly, and possibly more lasting resolution of the issue. To implement this recommendation, the Governor is requested to ask members of the staff of the Administrative Hearings Office and other departments or agencies to study how these techniques may be applied.

PART II. RELATIONSHIPS BETWEEN STATE AND LOCAL GOVERNMENT

Mission Statement

Local governments are very important providers of service to the people of Minnesota. It is rightfully assumed that these units of government are visible to local residents, accountable to their constituencies, and that local officials are highly responsible in their conduct of public business and in the delivery of essential public services.

Some state mandates and restrictions may, at times, limit the effectiveness of local governments and diffuse local responsibility.

The future economic vitality of the state will depend on the effectiveness of local governments in providing services and their ability to provide the means for attracting new business or encouraging small business to expand. In this regard, state government should seek to expand and improve its cooperative partnership between state and local governments, essential to a climate in which economic growth can prosper.

The Commission, in arriving at its recommendations, has identified the following general principles which it believes should guide the review and reform of state government structure and process as they relate to local governments.

General Principles

1. Economic development necessarily takes place in a community. Once Minnesota has been chosen for the location or expansion of a particular business, then local decisions become critical. The local community must be allowed to provide incentives, facilities, public services to implement the expansion or location decision.
2. Efforts must be undertaken to draw closer together the decision on services to be provided or the expenditures to be made and the decision to levy taxes or raise other revenue to provide for those services or expenditures while seeking an equitable allocation of funds and efficient service delivery.

Specific Recommendations

1. State government has an important responsibility to encourage businesses to locate or expand in the state and it is important that the business sector participate in such efforts. But we also would recognize that local governments must be involved by being consulted in the development of a state "strategy", by being given the opportunity to contribute to the design of state economic development, by being given the freedom and flexibility to determine which public services will best meet the needs of their community and the fiscal tools necessary to insure that those services are available. To this end we recommend that:

- a. There should be a comprehensive review of property tax classifications (with a view towards simplification), credit calculations and mill rate differentials.
 - b. Consideration be given to allowing small businesses to "confess judgment" on a limited amount of delinquent property taxes, giving them additional time to pay in the manner now available to homeowners.
 - c. The state should, as a part of its current efforts to reorganize its economic development programs, consider ways of providing technical assistance to local governments in their own efforts at economic development.
 - d. The state should continue and improve the provisions for tax increment financing and industrial development bonds as well as other forms of development financing which represent major tools in the hands of local officials in the pursuit of their goal of economic growth.
2. It is recommended that the fiscal note process which presently requires an estimate of the cost of the proposal to the state budget be expanded to include an estimate of the potential costs to the unit of government charged with implementation. Further, that such information be widely disseminated to insure that all members of the legislature are aware of the cost implications.
 3. It is recommended that action be taken, through legislation, to require a periodic inventory and review of state mandates and, further, that steps be taken to assign to a state agency the responsibility for continuously monitoring the impact of mandates and to recommend changes and modifications (to include the option of elimination).
 4. It is recommended that the Governor assign responsibility to an appropriate state agency to undertake a careful analysis of those state mandates related to local government employees (e.g., payment of salary in addition to military pay to persons on military leave). Several such mandates are noted in Attachment I.
 5. It is recommended the Governor ask the Department of Finance to study, during the interim, the question of whether or not cities, counties and townships should be required to pay additional contributions beyond matching the employee contribution to PERA (coordinated and basic funds). The additional employer matching was originally established to retire those deficits that developed prior to employer matching. Since then, those deficits have been retired and current deficits are attributable to benefit increases granted by legislative action.
 6. It is recommended that the Governor ask the Departments of Finance and Revenue to continue their efforts to explore ways of modifying the present system of levy limits on local governments, using as a guide the principles outlined in this report.

Attachment I

The following issues were identified and discussed by one or more members, but no position was taken by the Commission. They represent concerns judged to be important, but either fall outside the jurisdiction of the Commission or where it was determined that some other Commission would examine in greater detail. In some instances, issues are listed on which no general agreement could be reached.

1. Conformity of state hazardous waste rules to federal rules.
2. Conformity of state water and air quality rules to federal rules.
3. Possible repeal of the state's unitary apportionment tax law.
4. Appropriateness of reductions of federal taxes on Minnesota state income tax returns.
5. Reform of the property tax classification system.
6. The disparity between commercial-industrial property tax burdens and homestead and farm property tax burdens.
7. Improved methods of economic forecasting and the development of contingency plans at the beginning of a biennium for corrective budget reduction action as necessary.
8. State aids to post-secondary education based on student enrollment.
9. Workers' compensation and unemployment compensation costs in Minnesota.
10. Legislation affecting the operation of a business in Minnesota. Among legislation considered to be in this category are hostage shop legislation, successor bill, strike-breaker laws, retail pricing bills, bottle deposit laws, and the like.
11. Capitalizing a \$3 million revolving fund balance for the Small Business Finance Agency to encourage development of small business.
12. Federal designation in Minnesota of an "enterprise zone".
13. Incentives for private venture capital investment in the state.
14. Incentives to enhance the desirability of retirement in Minnesota.
15. Coordination of regulations at local (county, city) levels.
16. Coordination of agency actions and state and local governments; state agencies should not view their agency mission in isolation.

17. Cost/benefit analysis applied to state programs, activities and even to agencies.
18. Publication of legislation agendas at least 60 days in advance of a legislative session.
19. Payment of salaries to fire and police personnel when on relief association business.
20. The presumption that heart and lung disease are job-related to law enforcement and fire personnel.
21. Payment of full salary in addition to military pay to local employees on military leave.
22. Local determination of whether an intoxicated individual must be transported to a detox center.
23. Eliminate or reform levy limits. Note: The Local Governments Subcommittee strongly recommended the elimination of levy limits. Other members of the Commission did not feel sufficiently knowledgeable about this issue to support this recommendation without qualification.
24. One-stop service center for new small business.

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