

Local Government Lobbying

February 1990

Program Evaluation Division
Office of the Legislative Auditor
State of Minnesota

Program Evaluation Division

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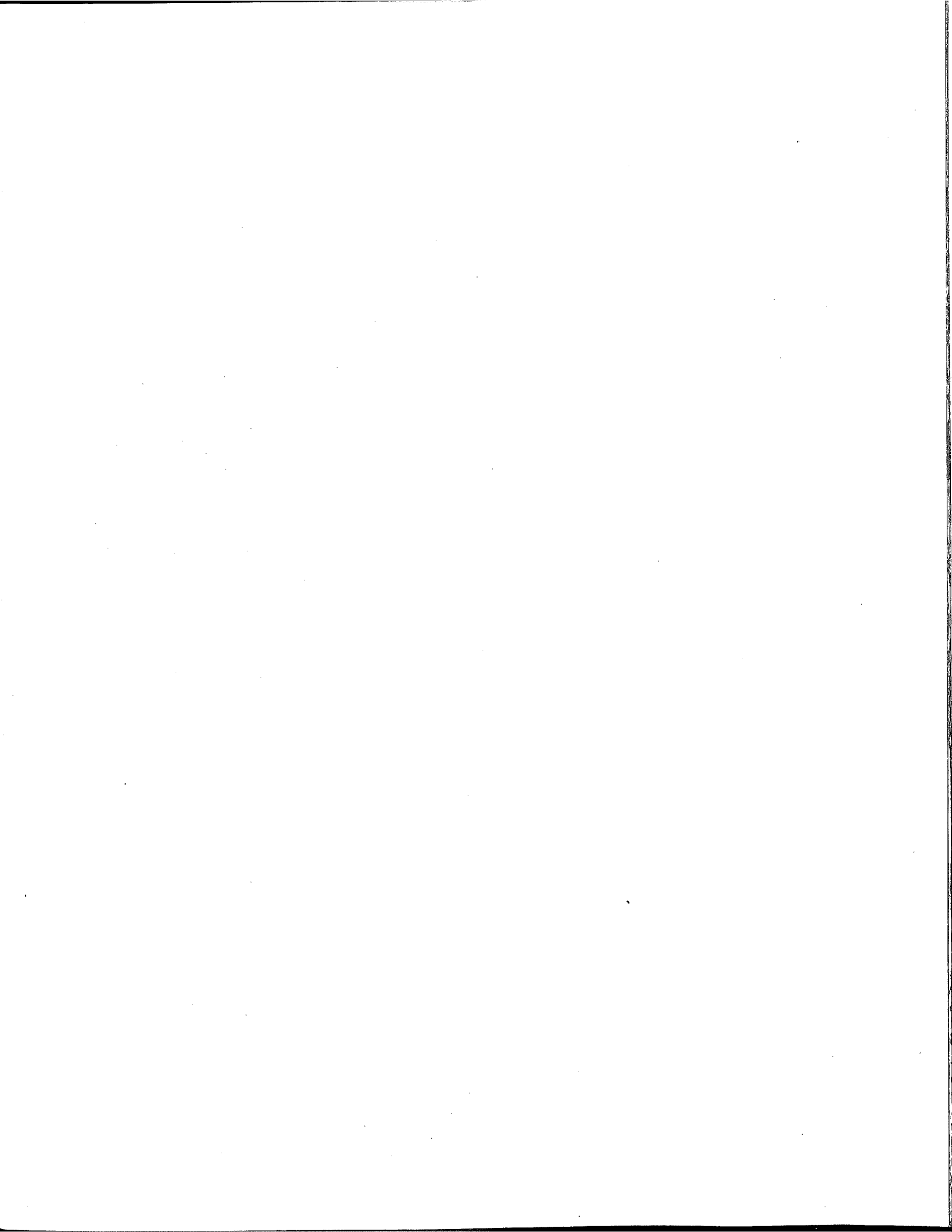
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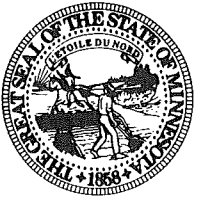
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STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

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JAMES R. NOBLES, LEGISLATIVE AUDITOR

February 20, 1990

Senator John Brandl, Chair
Legislative Audit Commission

Dear Senator Brandl:

In June 1989 the Legislative Audit Commission directed the Program Evaluation Division to conduct a study of local government lobbying. Legislators were concerned about the growth in funds spent by local governments and government associations.

Publicly-funded lobbying activities have increased markedly over the last decade; annual lobbying costs now exceed \$4.6 million, including \$2 million for private contract lobbyists. Some of this activity is beneficial because it is a vehicle for exchanging information in Minnesota's complex intergovernmental system. But our report concludes that the increasing potential for abuse and undue influence may justify steps to contain some lobbying activities. We think better disclosure of lobbying expenditures, gifts, and political contributions is needed, and we outline a series of regulatory options for legislative consideration.

We think, however, that at least some of the increase in lobbying is a response to conditions created by the Legislature. The property tax system and state funding formulas for local governments have grown more complex, and local dependence on the state has increased. Also, the Legislature has often been responsive to lobbying efforts. These factors should also be kept in mind if the Legislature decides that lobbying by local governments needs to be curbed.

Our report was researched and written by John Yunker (project manager) and Joel Narducci.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Jim Nobles".

James R. Nobles
Legislative Auditor

A handwritten signature in black ink, appearing to read "Roger Brooks".

Roger Brooks
Deputy Legislative Auditor

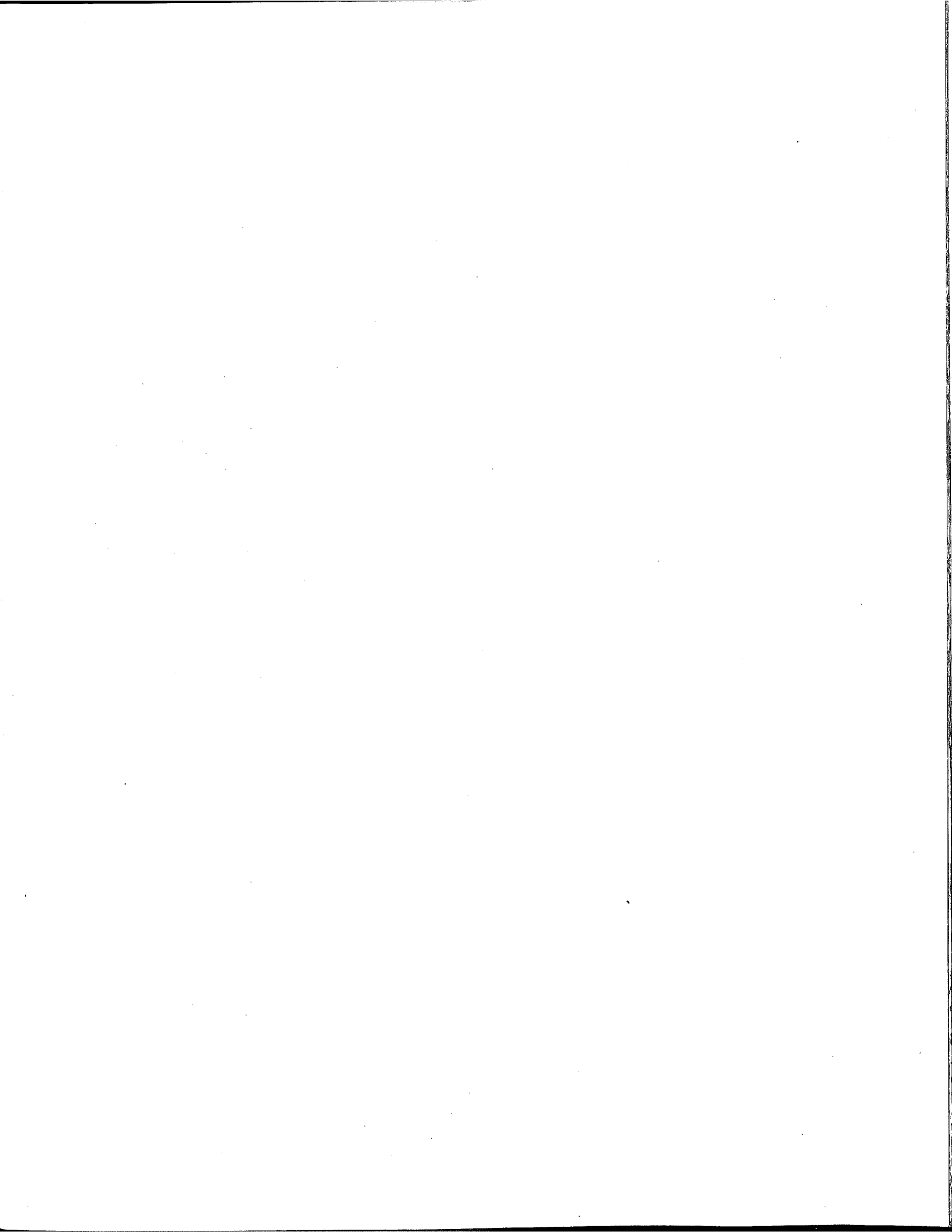


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LOCAL GOVERNMENT LOBBYING

Executive Summary

During the 1989 legislative session, legislators expressed concern about growing lobbying activity by local governments at the State Capitol. Legislators were particularly concerned about the increasing use of contract lobbyists by local governments. As a result, the Legislative Audit Commission directed our office to conduct a study of local government lobbying. This report addresses the following questions:

- **What is the cost of local government lobbying activities?**
- **To what extent are local units of government using their own employees for lobbying, hiring professional lobbyists on contract, or relying on local government associations to represent their interests at the State Capitol?**
- **What are the positive and negative aspects of current lobbying activities?**
- **What changes in laws governing lobbyists would preserve the positive functions of lobbying while addressing the negative aspects and limiting the public costs?**

To answer these questions, we collected information on the use of staff and contract lobbyists by cities, counties, school districts, metropolitan area agencies, and government associations. We also interviewed lobbyists and other staff, examined lobbyists' contracts, and reviewed laws of other states.

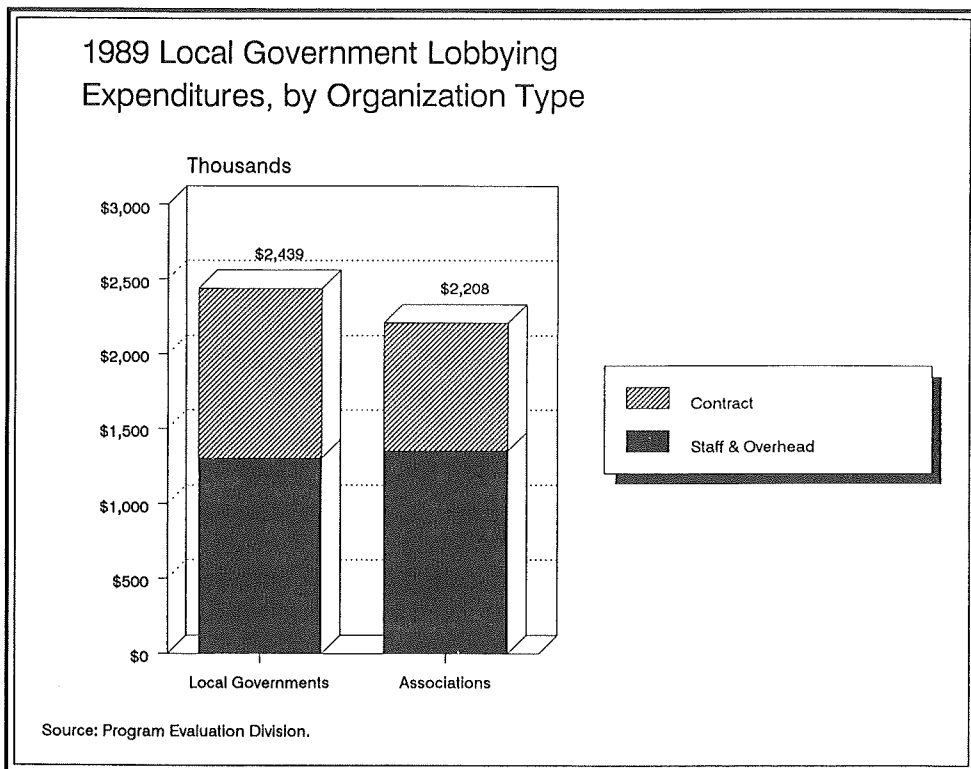
We found that publicly-financed lobbying activities have increased markedly over the last decade--a trend that is likely to continue. Lobbying and lobbying-related activities by local governments and associations now cost at least \$4.6 million annually, with \$2.0 million of that total going to contract lobbyists. While interaction between local officials and legislators is clearly beneficial to the legislative process, our report identifies some potential problems with current lobbying activities and offers some legislative options for addressing these problems.

LOBBYING COSTS

In this initial attempt to measure local government lobbying costs in Minnesota, we collected data on staff and contract lobbying expenditures from individual units of government, as well as the associations that also represent their interests at the Legislature. Overall, we estimate that:

- **Lobbying and lobbying-related expenditures for 1989 were approximately \$4.6 million, with slightly more than half of this amount spent by individual government entities and the rest by associations.**

Local government lobbying expenditures now exceed \$4.6 million.

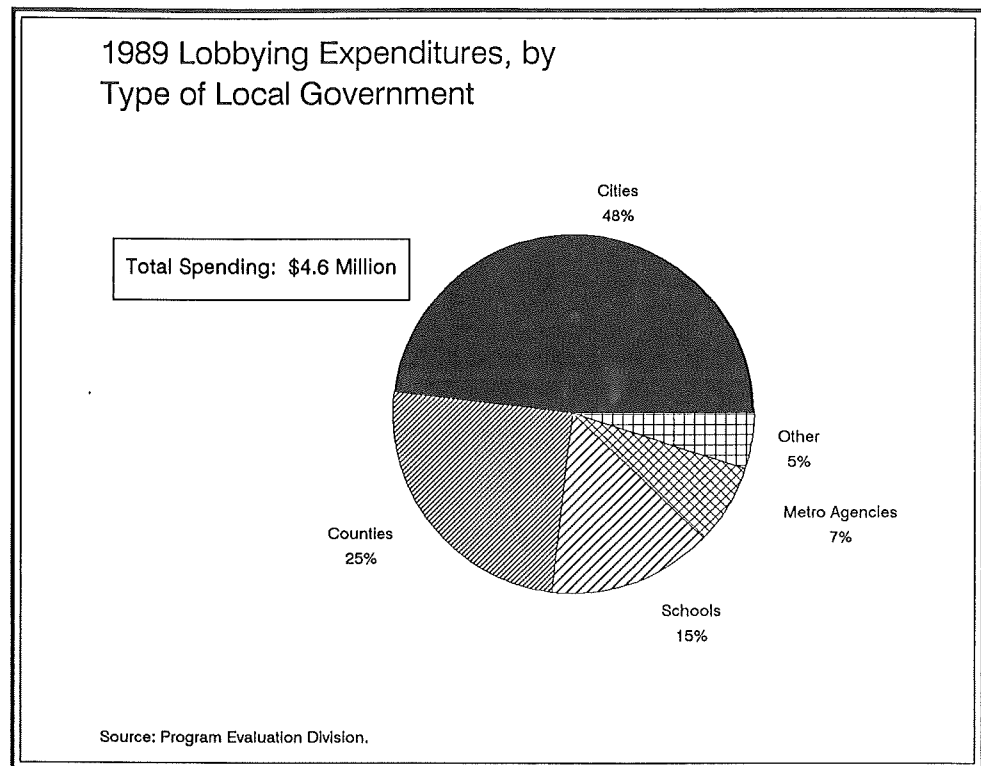


This estimate of lobbying expenditures includes not only the cost of communicating directly with legislators, but also the cost of lobbying-related activities that provide support to a lobbying effort. These related activities include legislative information gathering, research and policy development, and clerical and administrative support.

Although we used a broad definition of lobbying-related activity, our estimate of expenditures does not include all lobbying-related expenditures. Lobbying by local government staff is not included if the staff person spent less than 25 percent of his or her time during the 1989 legislative session on legislative matters. Also, the estimate is reliant upon accurate reporting by local governments and their associations. Some associations appear to have understated their lobbying-related activity. As a result, it is accurate to say that lobbying and lobbying-related expenditures for 1989 were at least \$4.6 million.

Of the \$4.6 million, cities and counties spent the most in 1989, accounting for almost three-fourths of the expenditures. Spending by cities and their associations accounts for close to half of local government lobbying expenditures.

**Close to half
the spending is
by cities.**



Payments to contract lobbyists and lobbying firms in 1989 totaled \$2.0 million, or 43 percent of lobbying expenditures. There were 84 contracts with 51 government entities and 12 associations. Many of these contracts were small. The median contract amount among individual local governments was only \$14,600. In fact, contract spending is dominated by a few associations and local government entities. The top ten users of contracts account for more than half of all contract expenditures statewide.

Eighteen units of local government reported that they had staff that spent 25 percent or more of their time during the 1989 legislative session on legislative matters. These 18 government entities reported 38 individual staff (or 21 full-time equivalents), who met this threshold of legislative activity. These staff were primarily from large cities and counties. Local expenditures on staff lobbyists totaled \$1.3 million, including estimated overhead.

GROWTH IN LOBBYING ACTIVITY

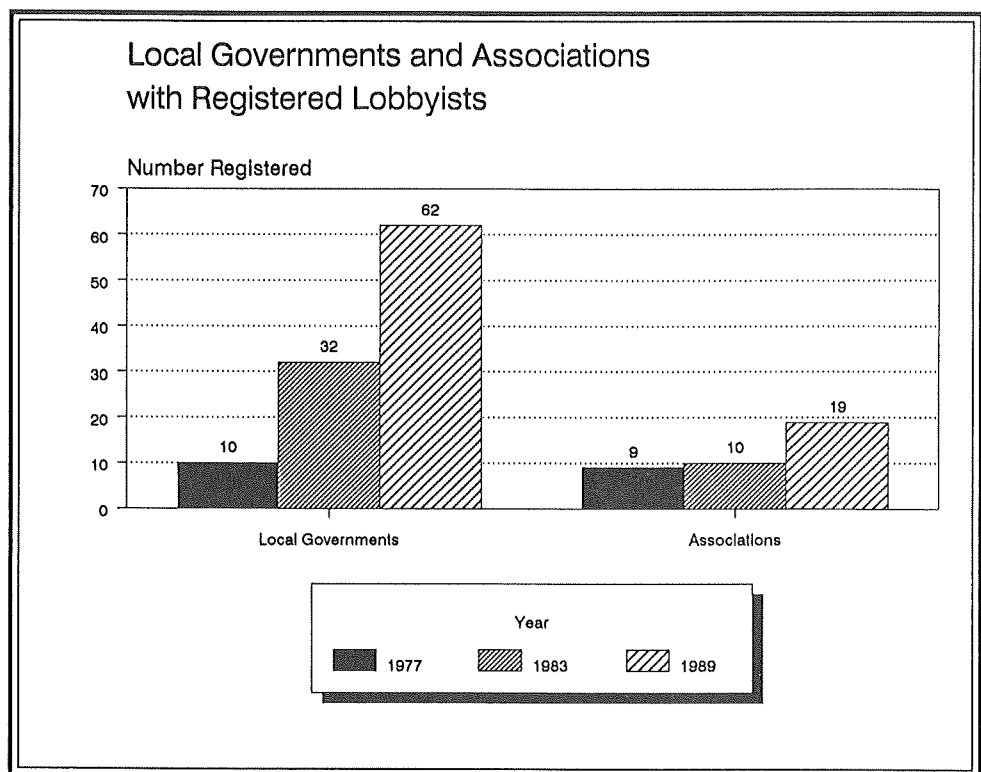
Data on lobbying expenditures comparable to those we collected are not available for years prior to 1989. However, information is available on the number of public lobbyists registered at the Ethical Practices Board. This information

includes contract lobbyists representing individual governments and all lobbyists (contract or staff) representing government associations. Only staff lobbyists representing individual units of government are not included.

These data show that:

The use of contract lobbyists has grown dramatically and now costs \$2 million annually.

- **There has been considerable growth in the use of contract lobbyists by local governments. The number of local governments with contract lobbyists tripled between 1977 and 1983 and has doubled since 1983.**
- **The number of government associations with registered lobbyists was relatively stable between 1977 and 1983, but has doubled since 1983.**



Expenditure data available from the Ethical Practices Board show that increased lobbying activity has come not only from increased numbers of public entities with lobbyists, but also from increased spending by those already having lobbyists. Board data indicate that:

- **Lobbying expenditures by contract lobbyists and associations representing local governments has more than doubled in just the last four years.**
- **Furthermore, the vast majority of the spending growth comes from government entities and associations that had a lobbyist over the entire period.**

These spending figures include a variety of lobbying expenditures such as the costs of lobbying materials, media advertising, travel, and entertainment. But, unlike our figures for 1989, these amounts do not include salaries and fringe benefits received by lobbyists.

Among the reasons observers suggest for the growth in local government lobbying are: 1) an increased financial dependence of local governments on state government aid, 2) the complexity of and frequent changes to the property tax system and state aid formulas, 3) increased state mandates affecting local government finances, and 4) increased lobbying activity by public employee unions and pension groups. Some of the increase in lobbying activity also seems to have been spurred on by the success of those who have hired lobbyists and tax experts. Some local governments and associations have increased their lobbying activities in response to the apparent success of others.

ANALYSIS

In Minnesota, there is significant interdependence between state and local governments. Local governments depend on state aid and property tax credits for a substantial share of their funding. In turn, state policymakers set some policies and mandates for local governments to follow and depend on local governments to implement sound programs in such areas as education, transportation, and social services.

Because of this interdependence:

- **It is important that there be good communication between the Legislature and local governments.**

Lobbying by local governments can be beneficial to the legislative process for the information and expertise it brings about the performance and needs of public programs and services. Policymakers at the state level need good information on the effect of past and pending decisions on those who operate programs at the local level.

Of course, lobbying, whether by local governments or private interests, can be self-serving. Lobbyists sometimes attempt to influence legislative actions through selective use of information. The Legislature is generally able to separate good information from bad through its members' efforts, the assistance of legislative staff, and communication with a broad array of interested parties. Nevertheless, local government lobbying practices and trends raise a number of concerns.

Lobbying can provide useful information but can also be self-serving.

Increased Splinter Group Activity

First:

- **Much of the increased spending is going to lobbying for a larger share of the state's budget.**

Much of the increased spending is by splinter groups.

During this last decade, there has been an increase in the number of government associations whose primary purpose is to lobby for more state funding for a group of local governments from a particular geographical part of the state. In addition, some existing associations have begun focusing their lobbying efforts more on the share of state aid going to their members. In addition to lobbying, associations and large individual units of government are spending more on computer tax models and other research to support their lobbying.

The emergence of "splinter groups" representing particular groups of cities, counties, or school districts is understandable from the viewpoint of these groups. Increased lobbying efforts is seen by each as a way to redress some inequity each group sees in the current state tax system or funding formulas.

However, the increased spending on lobbying or tax research raises an important public policy question:

- **Is too much public money being spent on local government lobbying, leaving less available for important public services or tax relief?**

This is not an easy question to answer. On one hand, local government lobbying costs have increased dramatically and show signs of additional growth in the future. More lobbying and research in an attempt to secure greater state funding for a particular group of local governments is a "zero-sum game." That is, it does not increase the amount of money available for public spending and tax relief. It simply "robs Peter to pay Paul." A group of cities and their citizens in one part of the state may, through its lobbying efforts, get more state aid or tax relief; but it comes at the expense of other cities and their citizens or other public programs. As a whole, local governments and their citizens are worse off since the use of public funds for lobbying leaves less money available statewide for important public services and tax relief.

On the other hand, the amount of public funds spent on local government lobbying, while growing, is a small fraction of overall local government spending. In addition, the information generated by local computer tax models may sometimes be useful in revealing unexpected changes in state funding for particular local governments.

Contract Lobbyists

Another major concern about lobbying practices involves the growing use of contract lobbyists. There are a number of aspects of contract lobbying that raise questions about either the amount of public spending on lobbying or the potential for undue influence on public policy by government bodies with so-called "hired guns."

First:

- **Some contract lobbyists are paid at hourly rates considerably greater than allowed for public employees.**

Some contract lobbying firms receive \$100 per hour or more for the lobbying services of senior members of the firm. At the other end of the scale, there are contract lobbyists receiving \$25 to \$30 per hour. In contrast, the cost of hiring a staff lobbyist (including estimated overhead) generally runs from \$30 to \$50 per hour. Consequently, some, but certainly not all, contract lobbyists receive compensation well in excess of the cost of a staff lobbyist. In addition, to the best of our knowledge, a contract lobbyist charging \$100 an hour or more costs more on an hourly basis (even after overhead costs are considered) than any public employee in Minnesota.

Some, but not all, contract lobbyists are paid more than staff lobbyists.

Second, there is a concern that the use of contract lobbyists may permit local governments to exercise undue influence on public policy. Contract lobbyists tend to be involved in entertaining legislators and making campaign contributions. Many see these practices as a means of gaining access to legislators, though not necessarily changing their thinking.

Third, there is a small, but growing, practice among local governments of hiring multiple contract lobbyists. A government body or agency divides its lobbying work among two or three contract lobbyists who have access to legislators of different parties or from different parts of the state. Sometimes, the lobbyists are not paid by the hour, but rather receive a retainer that is independent of the number of hours worked. The use of multiple lobbyists combined with a retainer system is of particular concern, since it leaves the impression that successful lobbying is not a matter of supplying policymakers with needed information but rather is something you purchase by hiring people with all the necessary connections. In addition, use of a retainer without an hourly accounting of time spent is a potentially wasteful practice.

LEGISLATIVE OPTIONS

There are three types of options available to the Legislature in addressing concerns about local government lobbying:

1. adding disclosure requirements,

2. prohibiting or restricting certain practices, and
3. changing legislative posture toward excessive lobbying.

Disclosure Requirements

Public accountability is generally enhanced by requiring disclosure of lobbying activity. There are three areas in which additional disclosure requirements may be useful: 1) staff and contract lobbying expenditures, 2) gift disclosure, and 3) campaign contributions by lobbyists. The Legislature just recently enacted disclosure requirements for local governments with staff or contract lobbyists. The requirements were part of a rider to the tax bill passed in September 1989.

The new requirements, however, do not include a specific requirement for disclosure of lobbying expenditures made by government associations. Since associations account for about half of current lobbying expenditures, this omission is of significant concern. In addition, there is ambiguity regarding what expenditures should be reported. For example, local governments are being asked to report salaries, fringe benefits, expenses, and other payments for staff lobbyists. It is unclear what expenses and payments should be reported and some local governments are only reporting salaries and fringe benefits. Consequently, we recommend that:

- **The Legislature should clarify and improve the new reporting system for local government lobbying expenditures and require disclosure of lobbying and lobbying-related expenditures by government associations.**

Second, current law requires lobbyists to report gifts made by them, their employers, or their employees to individual legislators or other public officials provided that the gift equals \$50 or more in value. However, local governments without a contract lobbyist are not required to report any gifts to legislators even if they exceed \$50 or more in value. In addition, it should be pointed out that the gift reporting system is not very restrictive. Only gifts of \$50 or more per transaction must be reported. This permits a lobbyist to make numerous gifts to a legislator even in one day without reporting them if each gift individually is less than \$50. We recommend that:

- **The Legislature should consider: 1) requiring each lobbyist to report all gifts to an individual legislator or other public official which cumulatively exceed \$50 per year, and 2) making all local governments (including those without contract lobbyists) subject to a similar gift disclosure requirement.**

Third, there currently is concern about the extent to which contract lobbyists representing public entities make campaign contributions. Existing law does not require that campaign contributions of \$100 or less in a year be reported to the Ethical Practices Board. In addition, there is no information on the ex-

Better disclosure of lobbying expenditures, gifts, and campaign contributions is needed.

tent to which lobbyists solicit campaign contributions from others and present them to legislators. We suggest that:

- **The Legislature should consider requiring lobbyists to report all their campaign contributions annually.**
- **The Legislature should also consider requiring lobbyists to report on their activity in soliciting campaign contributions from others.**

Regulation

Additional disclosure requirements help by making information on lobbying costs public but may not significantly change the lobbying practices of local governments. Consequently, the Legislature may wish to consider placing restrictions or prohibitions on certain lobbying practices. There are three regulatory areas which the Legislature may wish to consider: 1) restrictions on contract lobbying, 2) limitations on gifts and entertainment expenditures, and 3) regulation of fund-raising activity during the legislative session.

The options for regulating lobbying include:

- **prohibiting local governments from hiring contract lobbyists,**
- **placing a cap on the hourly rate that can be paid for contract lobbyists, or**
- **requiring an open and competitive process prior to the hiring of a contract lobbyist.**

There are several options for regulating contract activity.

An outright prohibition on contract lobbying would have certain advantages such as lessening the potential for undue influence of lobbyists on public policy. It may also restrict lobbying costs in those instances in which large contracts are currently used.

However, prohibiting contract lobbying is not likely to have a significant impact on lobbying expenditures and may have some disadvantages. Local governments and associations with contract lobbyists are not likely to discontinue their lobbying activities. Instead, they will most likely use staff lobbyists to represent their interests at the Legislature. Those associations with large contracts for computer tax research and lobbying services could continue to contract for the research and hire staff to do the lobbying.

For smaller governmental units, contracts have been an efficient way of obtaining lobbying services on an as-needed basis without increasing permanent staff. Eliminating contracts may make it difficult for smaller local governments to compete with larger units of government whose scale of operation makes it possible to employ lobbyists on staff.

Instead of prohibiting contracts, the Legislature could set a maximum hourly rate on lobbying contracts. The advantages of this approach are that it: (1) could limit lobbying expenditures to a reasonable hourly rate consistent with the limits the state sets for public employees, and (2) would permit smaller units of government to contract for lobbying services when it is efficient to do so. Opponents of a rate cap would maintain, however, that a rate cap would prevent them from hiring the most qualified lobbyists.

A third option would be to require local governments and associations to undertake an open solicitation of proposals from contract lobbyists prior to hiring one. Local governments would not be required to accept the low bid but would have the advantage of receiving proposals from several lobbyists who would feel some pressure to compete for the contract and, as a result, may offer more competitive rates and contractual terms to local governments. The potential drawback to such a requirement is that it could create paperwork and delay without financial benefits if local governments did not implement the requirement in a sincere manner.

There are no easy answers or clear solutions regarding the regulation of contract lobbying. The Legislature needs to examine the data in this report on current lobbying contracts and consider the various options for regulating contractual activity.

In addition, we recommend that:

- **The Legislature should clarify the intent of Minn. Stat. §15.057 regarding the hiring of contract lobbyists by state agencies.**

We are not aware of any state agencies currently using public funds for a contract lobbyist and do not see any need for them to do so. However, it is only a state administrative policy that prevents contracts for lobbying services. The current statutory provision is somewhat ambiguous and exempts certain state agencies.

Restrictions on gifts and campaign fund-raisers would help regulate lobbying activity.

Other regulatory measures include more restrictive laws on the making of gifts from local governments, or lobbyists in general, to legislators and other state officials. Several states have enacted laws that restrict the amount of gifts (including entertainment expenses) that can be made by a lobbyist's employer or the lobbyist over a specified period of time. Such a provision would help to limit the extent to which lobbyists attempt to influence policy in ways that are not appropriate. We recommend that:

- **The Legislature should consider limiting the amount of gifts that a lobbyist or the lobbyist's employer or employees can make to a legislator or other public official during a year.**
- **The Legislature should also consider prohibiting a legislator or other public official from accepting gifts from a lobbyist or the lobbyist's employer or employees totaling more than a specified amount in one year.**

In addition, we recommend that:

- **The Legislature should consider prohibiting legislative fund-raisers during a legislative session.**

This restriction may also help to regulate lobbying behavior.

Legislative Posture

A final option for addressing concerns about lobbying costs and practices is for legislators to indicate their displeasure with certain lobbying practices through their reception to those lobbyists' interests. For example, this might mean not rewarding those local governments who hire contract lobbyists when staff lobbyists would be less expensive, those who seek special legislation when a general policy is more appropriately pursued through a government association, or those who make it difficult for the Legislature to establish equitable tax policy and funding formulas. In addition, the Legislature could promote stability in the tax system and funding formulas -- thus discouraging local governments from continuously lobbying for a greater share of the state's tax revenues.

Adopting this sort of legislative posture toward excessive lobbying would not be easy. There is often considerable pressure on legislators from constituents who want their legislator to obtain more funding for their part of the state. Although not an easy task, an appropriate legislative posture toward excessive lobbying would be perhaps the most effective way to limit local government lobbying activities.

**Stability in
state aid
formulas would
help to limit
lobbying
activity.**

INTRODUCTION

The relationship between state and local governments in Minnesota is more complex than in most states. The state provides a high level of financial assistance to local governments and, in turn, also sets policies and establishes mandates for local governments to follow. More than half the state's budget goes to school districts, cities, counties, and other units of local government.

One small, but growing, use of state aid has been lobbying activity at the State Capitol by local governments and their associations. Last legislative session, legislators expressed considerable concern about the apparent growth in the amount of public money spent by local governments to lobby the Legislature for greater levels of state aid. In addition, legislators were concerned about the increasing use of professional lobbyists and law firms by local governments and the public cost of this practice.

As a result, the Legislative Audit Commission directed our office to conduct a study of local government lobbying. This report addresses the following questions:

- **What is the cost of local government lobbying activities?**
- **To what extent are local units of government using their own employees for lobbying, hiring professional lobbyists on contract, or relying on local government associations to represent their interests at the State Capitol?**
- **What are the positive and negative aspects of current lobbying activities?**
- **What changes in laws governing lobbyists would preserve the positive functions of lobbying while addressing the negative aspects and limiting the public costs?**

To answer these questions, we collected information on the use of staff and contract lobbyists by cities, counties, school districts, metropolitan area agencies, and government associations. We also interviewed lobbyists and other staff, examined lobbyists' contracts, and reviewed laws of other states.

Chapter 1 of this report presents data on the current costs of lobbying by local governments and their associations. It also examines the growth in the number of public organizations with registered lobbyists. Chapter 2 analyzes the reasons for the growth in public lobbying, discusses the positive and negative aspects of lobbying, and outlines legislative options for addressing some of the potential problems with lobbying activities.

LOBBYING EXPENDITURES

Chapter 1

Despite concerns over the growth in lobbying activity, little information has been available until now on local government lobbying expenditures. Using the limited information available from the Ethical Practices Board, this chapter first examines the following question:

- **To what extent has lobbying activity by local governments and their associations grown over time?**

Then, using data from our surveys of local governments and associations, we address the following questions:

- **How much did local governments and their associations spend on legislative lobbying and related activity during 1989?**
- **To what extent are contract lobbyists being used by local governments and associations?**

GROWTH IN LOBBYING ACTIVITY

Lobbyists are required by law to register and file quarterly disbursement reports with the Minnesota Ethical Practices Board. The information reported to the Ethical Practices Board is useful in examining the growth in local government lobbying activity but has two limitations. First, state law excludes staff lobbyists for individual local governments from the definition of lobbyist. As a result, information is available on the growth in the number of contract lobbyists representing individual governments and all lobbyists (contract or staff) representing associations. Data on staff lobbyists representing individual units of government are not available.

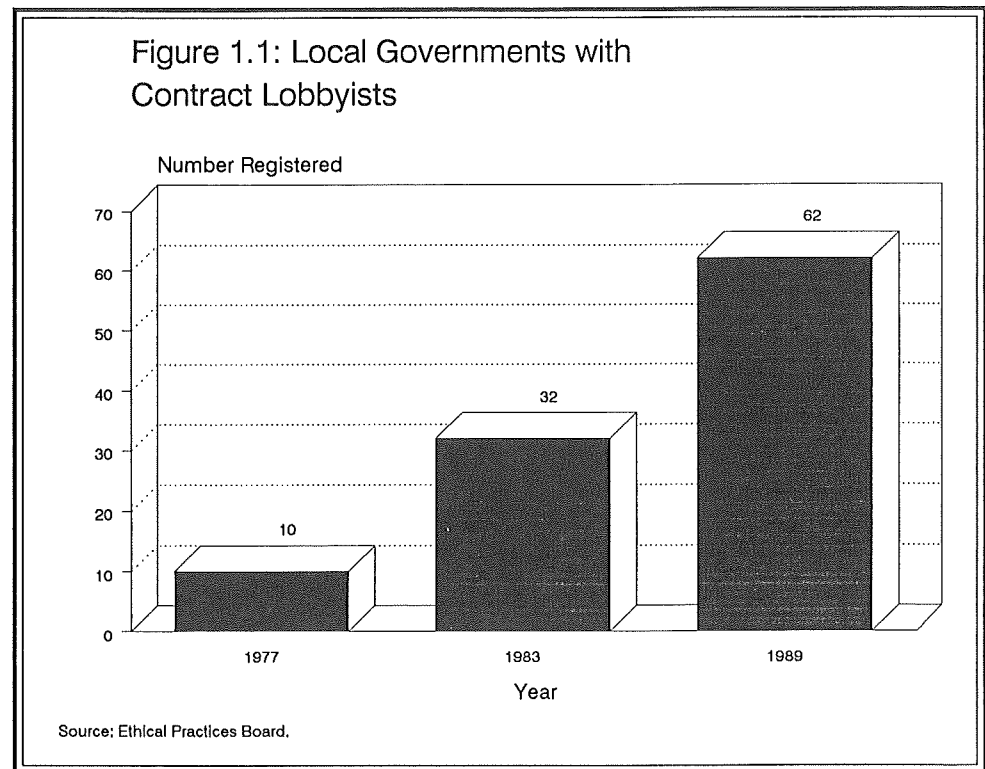
Second, the data available on lobbyists' expenditures generally do not include the salaries and fringe benefits paid to lobbyists. Lobbyists are only required to report certain types of expenditures such as the costs of publishing and distributing lobbying materials, postage, travel, fees paid to subcontractors, entertainment expenditures, and telephone expenses.

Despite these limitations, the data available at the Ethical Practices Board are useful in examining changes in local government lobbying activity. We sorted through lobbyist registrations for 1977, 1983, and 1989, and identified lobbyists who represented local governments and their associations. We found that:

- **There has been considerable growth in the use of contract lobbyists by local governments.**

As Figure 1.1 shows, the number of local governments and other public agencies with contract lobbyists tripled between 1977 and 1983 and has doubled since 1983. The data in Table 1.1 show that between 1977 and 1983 the largest increases occurred in the number of counties with contract lobbyists and the number of municipal and school-affiliated agencies with contract lobbyists. In 1977, there were no counties and only five affiliated agencies with contract lobbyists. By 1983, seven counties and 16 affiliated agencies had contract lobbyists.

The use of contract lobbyists has grown dramatically.



Between 1983 and 1989, two-thirds of the growth in the number of government entities with contract lobbyists came from municipalities. The number of cities and townships hiring contract lobbyists grew from 5 to 25. Further examination of lobbyist registrations indicates that much of this growth has occurred in just the last two years.

Figure 1.2 shows that:

- **The number of government associations lobbying the Legislature was relatively stable between 1977 and 1983, but has doubled since 1983.**

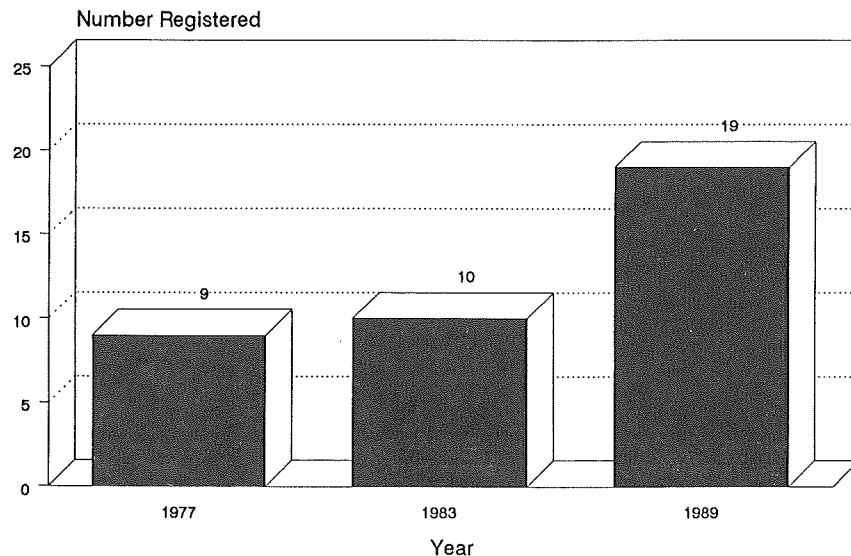
Table 1.1: Local Governments and Agencies with Contract Lobbyists, 1977-89

	<u>1977</u>	<u>1983</u>	<u>1989</u>
Cities and Towns	3	5	25
Municipal Agencies	<u>1</u>	<u>5</u>	<u>4</u>
Total for Group	4	10	29
Counties	0	7	9
County Agencies	<u>2</u>	<u>3</u>	<u>5</u>
Total for Group	2	10	14
School Districts	1	1	4
School-Affiliated Agencies	<u>2</u>	<u>8</u>	<u>8</u>
Total for Group	3	9	12
Other Government Entities	<u>1</u>	<u>3</u>	<u>7</u>
Total for Group	1	3	7
<hr/>			
Summary			
Local Governments	5	16	45
Affiliated Agencies	5	16	17
<hr/>			
Totals	10	32	62
Change 1977-89			+ 520%

Source: Ethical Practices Board lobbyist registration summaries for calendar years 1977 and 1983 and fiscal year 1989.

The number of associations lobbying the Legislature has also grown.

Figure 1.2: Government Associations with Lobbyists



Source: Ethical Practices Board.

Table 1.2: Government Associations With Registered Lobbyists, 1977, 1983, and 1989

	<u>1977</u>	<u>1983</u>	<u>1989</u>
Municipal:	League of Minnesota Cities Association of Metropolitan Municipalities Range Municipalities & Civic Association	League of Minnesota Cities Association of Metropolitan Municipalities Range Association of Municipalities & Schools Minnesota Association of Small Cities	League of Minnesota Cities Association of Metropolitan Municipalities Range Association of Municipalities & Schools Minnesota Association of Small Cities Coalition of Greater Minnesota Cities Minnesota Association of Townships Municipal Legislative Commission North Metro Mayors Association Ramsey County League of Local Governments
County:	Association of Minnesota Counties Metropolitan Inter-County Council Counties United for Rural Environment	Association of Minnesota Counties Metropolitan Inter-County Association	Association of Minnesota Counties Metropolitan Inter-County Association Arrowhead Counties Association
School:	Minnesota School Boards Association Association of Metropolitan School Districts	Minnesota School Boards Association Association of Metropolitan School Districts Association of Stable or Growing School Districts	Minnesota School Boards Association Association of Metropolitan School Districts Association of Stable or Growing School Districts Minnesota Rural Education Association
Other:	Minnesota Association of Watershed Districts	Minnesota Association of Watershed Districts	Minnesota Association of Soil & Water Conservation Districts Minnesota Association of Local Housing Finance Agencies Minnesota Association of Regional Commissions
Total Associations Registered:	9	10	19

Source: Program Evaluation Division analysis of Ethical Practices Board lobbyist registration summaries.

In 1977, there were nine associations lobbying on behalf of local governments. This number grew to 10 in 1983 and to 19 in 1989, with much of the growth coming during the 1984 and 1985 legislative sessions. As Table 1.2 shows, a good deal of the growth came from organizations representing municipal interests. The number of associations lobbying on behalf of cities (and townships) grew from three in 1977 to nine in 1989. The number of organizations representing school districts also grew from two to four.

Data on local government lobbying expenditures reported to the Ethical Practices Board are limited to certain disbursements made by government associations and contract lobbyists hired by individual local governments and do not include personnel costs. However, an examination of this data suggests that:

Lobbyist disbursements more than doubled in the last four years.

- **Local government lobbying expenditures have more than doubled in a recent four-year period with most of the growth coming from government associations and entities which had a lobbyist over the entire period.**

Table 1.3 shows that local government lobbyist disbursements grew 114 percent between the 1984-85 and 1988-89 bienniums. About 80 percent of the growth in spending came from associations and entities which had a lobbyist over the entire period. Only 20 percent of the growth came from local governments or associations that did not have a registered lobbyist during the 1984-85 biennium.

Table 1.3: Change in Lobbyist Disbursements, 1984-85 to 1988-89

	Disbursements <u>1984-85</u>	Disbursements <u>1988-89</u>
Organizations Registered in 1984-85	\$110,049 (N = 42)	\$221,125 (N = 42)
Organizations Not Registered in 1984-85	---	\$41,878 (N = 41)
Organizations Not Registered in 1988-89	\$12,759 (N = 14)	---
Totals	\$122,808 (N = 56)	\$263,003 (N = 83)
Percent Change in Disbursements 1984/85 - 1988/89		114%

Source: Program Evaluation Division analysis of Ethical Practices Board data.

This information suggests that the substantial increase in the number of cities and other government entities hiring contract lobbyists in the last two or three years may not be the most significant factor in causing growth in lobbying expenditures. Those organizations that have lobbied for at least the last six years have increased their lobbying expenditures substantially -- at least as measured by the Ethical Practices Board data.

LOBBYING EXPENDITURES FOR 1989

Lobbyists' reports to the Ethical Practices Board, while somewhat useful in examining trends in lobbying activity, do not provide adequate information on the overall cost of local government lobbying efforts. In this section, we first discuss the difficulties in measuring lobbying expenditures. We then present the results of our surveys of local governments and associations regarding their 1989 lobbying expenditures.

Defining Lobbying Activity

In Minnesota, a lobbyist is defined as an individual who communicates or urges others to communicate with public officials for the purpose of attempting to influence legislative or administrative action.¹ This definition is relatively straightforward and generally accepted. However, if one limited the measurement of lobbying expenditures to just the actual act of lobbying, one would miss a number of other lobbying-related activities performed by lobbyists or other staff who provide support to a lobbying effort.

**Defining
lobbying-related
activity is not
easy.**

Other lobbying-related activities may include: 1) the gathering of information about the legislative process through such means as monitoring legislative hearings, 2) preparing and disseminating information to clients about the progress of legislation, 3) developing a client's legislative proposal or a client's response to legislative proposals or bills developed by others, 4) research conducted for the purpose of developing legislative proposals or responding to others' proposals, and 5) clerical and administrative support to a lobbying effort. In addition to the salaries and fringe benefits of staff performing such functions, one would also want to include: 1) direct lobbying expenses such as those currently reported to the Ethical Practices Board, and 2) overhead costs (such as rent) that are associated with lobbying or lobbying-related activities.

Sometimes it is difficult to draw the line between lobbying-related activities and activities unrelated to a lobbying effort. For example, a government en-

¹ See *Minn. Stat.* §10A.01, Subd. 11.

tity or association may be called upon by a legislative committee to provide information and testimony that the committee finds useful but does not represent a lobbying effort. Consequently, not all legislative information gathering and dissemination would necessarily be for lobbying-related purposes.²

Another "gray area" in defining lobbying-related activity is research activity. There are at least four types of research conducted by government associations in Minnesota. They are: 1) research conducted for lobbying purposes and later used in lobbying, 2) research which was conducted for lobbying purposes but not used in subsequent lobbying activities, 3) research conducted for non-lobbying purposes but later used in lobbying, and 4) research conducted for purposes other than lobbying and not used in lobbying. The first type is most clearly lobbying-related activity while the fourth is not. It is less clear whether the second and third types of research should be considered lobbying-related. The second category could be considered lobbying-related because it was initiated for that purpose; however, it was not ultimately used for that purpose.

Public relations consultants do not consider themselves to be lobbyists.

Finally, there is some question about whether the use of public relations or media consultants should be considered lobbying-related. These consultants provide advice to governmental entities on how to communicate with the public, the media, and perhaps the Legislature. Generally, these consultants have not registered as lobbyists with the Ethical Practices Board because they say that they do not communicate directly with legislators for the purpose of influencing public policy. Instead, they provide advice and written materials (such as press releases and speeches) for their clients' use in communicating with the media and others. However, the advice they provide may, on occasion, be a key part of developing a lobbying strategy or assisting it through the media.

Measuring Lobbying Activity

In this study, we measured the cost of lobbying and lobbying-related activity as follows. We asked cities, counties, school districts, and metropolitan area agencies to report: 1) salaries, fringe benefits, and expense payments during 1989 for any staff person who spent more than 25 percent or more of his or her time during the 1989 session on legislative matters (including research, clerical, and any other staff who provide support to a lobbying effort); 2) payments during 1989 to contract lobbying firms; and 3) payments to public relations consultants who provided advice on how to communicate with the Legislature or communicated directly with legislators.³

We also asked local governments to estimate the percentage of time each reported staff person spent during the entire year on legislative matters. The

² This happens more frequently with the three "umbrella" organizations (League of Minnesota Cities, Minnesota Association of Counties, and the Minnesota School Boards Association) that represent cities, counties, or school districts throughout the state than with individual local governments or other associations. Among all government agencies, state agencies are most likely to provide this sort of service to the Legislature. State agency officials are often requested to provide presentations on topics of interest to legislative committees.

³ No local government reported any payments to public relations consultants for these purposes.

We collected expenditure data from local governments and associations.

percentage was applied to the reported payments to each staff person in order to calculate the share of payments attributable to lobbying and lobbying-related activities. We then added an estimated amount of overhead costs to payments to staff working on legislative matters. We did not ask local governments to calculate individually the amount of overhead attributable to their lobbying function. Instead, for each entity reporting staff lobbying expenditures, we added an amount equaling 40 percent of the reported salaries, benefits, and expenses paid to staff.⁴

Contract payments to lobbyists by individual governments include fees paid as well as reimbursed expenses for services performed in 1989. No overhead costs were added to contract payments since contract lobbyists generally have to provide for office space and other overhead costs out of the fees and other payments they receive. Contract payments to lobbying firms for computer tax and other research undertaken for purposes of developing a lobbying strategy are also included in amounts we report in this chapter.

Government associations were asked to report their total expenditures for 1989 and sort them into three categories: 1) legislative-related expenditures, 2) expenditures on non-legislative programs or member services, and 3) overhead expenditures. We defined legislative-related expenditures to include: direct advocacy and lobbying; legislative information gathering, monitoring legislative hearings, and dissemination of information; legislative-related research; development of legislative proposals by the association, or response to legislative proposals or bills developed by others; and any other legislative-related activity. Non-legislative expenditures were defined to include the expenses of operating other association programs or member services such as an association insurance fund or providing legal services to members. The category of overhead expenditures included costs (such as general administration, rent, and capital expenditures) that are shared by both legislative and non-legislative functions.

We allocated each association's overhead expenditures to both legislative-related activities and non-legislative activities. As a result, the final expenditure figures reported in this chapter for legislative-related (i.e., lobbying and lobbying-related) activities include a proportionate share of each association's overhead expenses.

Estimating Lobbying Activity

Overall, Table 1.4 and Figure 1.3 show that:

- **Lobbying and lobbying-related expenditures for 1989 were approximately \$4.6 million, with slightly more than half of this amount spent by individual government entities and the rest by associations.**

⁴ This procedure for estimating overhead expenditures is equivalent to assuming that salaries, benefits, and other direct payments to staff lobbyists are approximately 71 percent of total expenditures, with overhead costs accounting for the other 29 percent. This percentage of overhead to total expenditures is within the range we observed for local governments with staff lobbyists.

Table 1.4: Local Government Lobbying Costs, 1989

	<u>Governmental Bodies/Agencies</u>	<u>Government Associations</u>	<u>Government Entities and Associations</u>
Staff Costs (including estimated overhead) ¹	\$1,302,000	\$1,348,000	\$2,650,000
Contract Expenditures ¹	<u>1,137,000</u>	<u>860,000</u>	<u>1,997,000</u>
Totals ²	\$2,439,000	\$2,208,000	\$4,647,000

Source: Program Evaluation Division surveys.

¹Includes contract expenditures for tax and other research related to a lobbying effort.

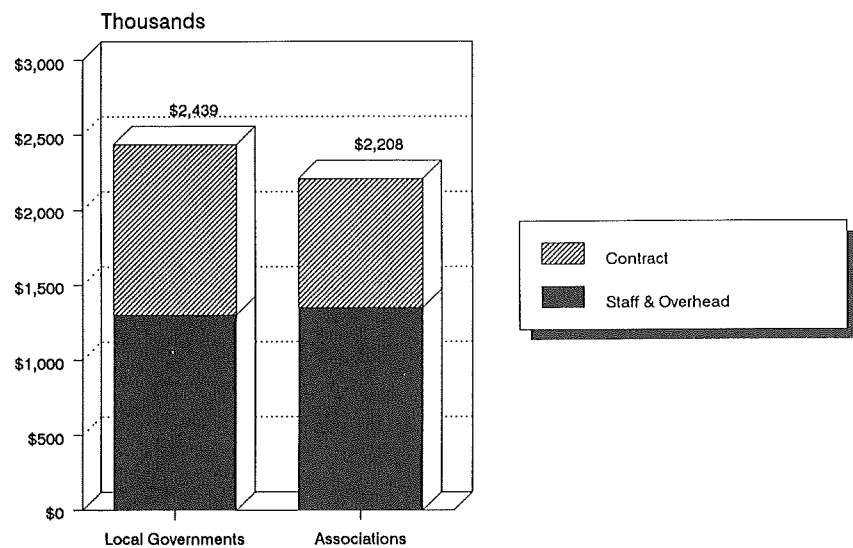
²All figures rounded to the nearest \$1,000.

Expenditures by government entities totaled \$2.4 million. This amount includes payments of \$1.1 million to contract lobbyists and lobbying firms. It also includes \$1.3 million for staff who work on legislative matters and estimated overhead costs.

Table 1.5 provides a detailed listing of contract and staff expenditures by government entity. From this table, we can see that the use of staff lobbyists and related staff is concentrated among a few government entities. Eighteen units of government reported that they had staff that spent 25 percent or more of

Local government lobbying expenditures were at least \$4.6 million last year.

Figure 1.3: Local Government Lobbying Expenditures 1989, by Organization Type



Source: Program Evaluation Division.

Table 1.5: Staff and Contract Lobbying Expenditures for Local Government Entities, 1989

<u>Government Entity</u>	<u>Staff*</u>	<u>Contract</u>	<u>Total</u>
City of Minneapolis	\$345,082	\$44,000	\$389,082
Hennepin County Board of Commissioners	203,105	73,751	276,856
City of St. Paul	142,150	89,540	231,690
Ramsey County Board of Commissioners	117,762	30,500	148,262
Metropolitan Airports Commission	48,790	65,000	113,790
Metropolitan Council	93,665	0	93,665
Anoka County Board of Commissioners	44,278	38,554	82,832
City of Brooklyn Park	80,257	0	80,257
St. Louis County Board of Commissioners	38,273	26,000	64,273
Anoka/Hennepin Independent School District #11	0	60,758	60,758
Metropolitan Sports Facilities Commission	0	60,000	60,000
Dakota County Board of Commissioners	0	56,500	56,500
St. Paul Port Authority	28,620	23,000	51,620
St. Paul Public Schools	0	45,732	45,732
City of Bloomington	11,375	34,000	45,375
Regional Transit Board	20,580	24,260	44,840
Hennepin County Regional Railroad Authority	0	42,493	42,493
Scott County Board of Commissioners	0	42,000	42,000
Washington County Board of Commissioners	38,150	0	38,150
Minneapolis Park & Recreation Board	0	36,550	36,550
City of Moorhead	13,762	20,046	33,808
Minneapolis Public Schools	0	32,500	32,500
Duluth Public Schools	31,373	0	31,373
City of Duluth	0	30,000	30,000
City of Coon Rapids	0	27,715	27,715
City of Blaine	0	25,671	25,671
Seaway Port Authority of Duluth	11,900	9,000	20,900
Suburban Hennepin Regional Park District	0	20,000	20,000
Washington County Housing Redevelopment Authority	0	19,414	19,414
City of Luverne	0	16,628	16,628
Metropolitan Transit Commission	16,449	0	16,449
Olmsted County Board of Commissioners	15,849	0	15,849
City of St. Louis Park	0	14,583	14,583
City of Corcoran	0	13,500	13,500
City of St. Peter	0	10,000	10,000
City of Eden Prairie	0	10,000	10,000
City of Fergus Falls	0	9,577	9,577
Northeast Intermediate School District 916	0	7,946	7,946
City of Anoka	0	7,863	7,863
Minnesota State High School League	0	6,000	6,000
Sherburne County Board of Commissioners	0	6,000	6,000
ESV Region IV Computer Service Cooperative	0	5,429	5,429
ESV Region VI Computer Service Cooperative (Metro II)	0	5,429	5,429
ESV Region VII Computer Service Cooperative (TIES)	0	5,400	5,400
ESV Region V Computer Service Cooperative	0	5,400	5,400
ESV Region I Computer Service Cooperative	0	5,400	5,400
ESV Region II Computer Service Cooperative	0	5,400	5,400
ESV Region III Computer Service Cooperative	0	5,291	5,291
City of Long Lake	0	5,000	5,000
Otsego Township	0	3,866	3,866

Table 1.5, continued

<u>Government Entity</u>	<u>Staff*</u>	<u>Contract</u>	<u>Total</u>
Hennepin Soil & Water Conservation District	\$ 0	\$ 2,910	\$ 2,910
Brooklyn Center School District #286	0	2,883	2,883
City of Worthington	0	2,250	2,250
City of Bemidji	0	1,865	1,865
City of Ham Lake	0	780	780
City of Lake Elmo	0	487	487
City of Roseville	0	367	367
Totals	\$1,301,418	\$1,137,238	\$2,438,656

Source: Program Evaluation Division surveys.

*Includes estimated overhead at 40 percent of reported salaries and benefits.

their time during the 1989 legislative session on legislative matters. These 18 government entities reported 38 individual staff (or 21 full-time equivalent staff) who met this threshold of legislative activity. These staff are primarily from large cities and counties. In fact:

- **The top five users of staff lobbyists and related staff account for about two-thirds of staff expenditures by individual local governments.**

Contract activity is somewhat more dispersed. There were 51 government entities with 65 contracts.⁵ The median amount of contract payments by a government entity was only about \$14,600--indicating there were quite a few small contracts. The top five users of contracts accounted for less than one-third of contract expenditures by individual local governments.⁶

Lobbying and lobbying-related expenditures by government associations were approximately \$2.2 million in 1989. This total includes \$860,000 in payments to contract lobbyists and lobbying firms. The remaining \$1.3 million includes staff and overhead expenditures on legislative-related activities.

Splinter groups spend more than the umbrella associations.

Table 1.6 provides details on lobbying and lobbying-related expenditures reported to us by government associations. About 57 percent of association spending is by cities, with school districts and counties accounting for most of the remainder. The three umbrella organizations that represent cities, counties, and school districts statewide account for about 38 percent of association expenditures. Splinter groups that represent local governments from certain geographic parts of the state now account for most of the remaining expendi-

⁵ Eleven government entities had multiple contracts. These eleven had 25 contracts and accounted for 37 percent of contract spending.

⁶ Contract activity appears to be more dispersed than staff lobbyist activity. However, this may be a result of using a threshold method of staff activity. Local governments were not required to report payments to staff who spent less than 25 percent of their time during the legislative session on legislative matters.

Table 1.6: Lobbying and Lobbying-Related Expenditures by Government Associations, 1989

<u>Association</u>	<u>Lobbying and Lobbying-Related Expenditures</u>	<u>Total Expenditures¹</u>	<u>Percent Lobbying- Related</u>
League of Minnesota Cities	\$414,434	\$2,407,983	17%
Coalition of Greater Minnesota Cities	379,280	379,443	100
Minnesota School Boards Association	240,316	1,244,018	19
Metropolitan Inter-County Association	199,245	332,075	60
Association of Minnesota Counties	175,465	1,611,309	11
Association of Metropolitan School Districts	158,480	187,581	84
Association of Metropolitan Municipalities	137,771	227,185	61
Municipal Legislative Commission	107,600	146,494	73
North Metro Mayors Association ²	99,471	99,471	100
Association of Stable or Growing School Districts	80,695	219,249	37
Minnesota Association of Townships	45,800	630,000	7
Minnesota Association of Small Cities	44,474	44,474	100
Minnesota Association of Urban Counties	35,839	71,677	50
Range Association of Municipalities & Schools	26,118	94,750	28
Minnesota Rural Education Association	20,000	80,000	25
Minnesota Association of Regional Commissions	17,930	17,930	100
Arrowhead Counties Association	14,463	14,463	100
Ramsey County League of Local Governments	4,143	16,572	25
Minnesota Association of Local Housing Finance Agencies ³	3,344	3,344	100
Minnesota Association of Soil & Water Conservation Districts	3,173	159,907	2
Totals	\$2,208,032	\$7,987,925	28%
By Association Type:			
	<u>Lobbying and Lobbying-Related Expenditures</u>	<u>Percent</u>	
Municipal	\$1,259,091	57%	
County	425,003	19	
School	499,491	23	
Other	24,447	1	
Totals	\$2,208,032	100%	

¹A total of \$206,712 in litigation-related expenses are included in total expenditures but not in lobbying-related expenditures. This total includes expenditures of \$138,554 by the Association of Stable or Growing School Districts, \$38,894 by the Municipal Legislative Commission, \$29,101 by the Association of Metropolitan School Districts, and \$163 by the Coalition of Greater Minnesota Cities. Although these expenditures were not made for lobbying-related purposes as we defined them, they were made for the purpose of suing the state over the equity of state funding mechanisms (or for defending existing funding formulas). Consequently, they could be considered legislative-related expenditures.

²The figures exclude an economic development/marketing budget of \$154,814 for 1989.

³The figures exclude privately-financed expenditures of \$9,645.

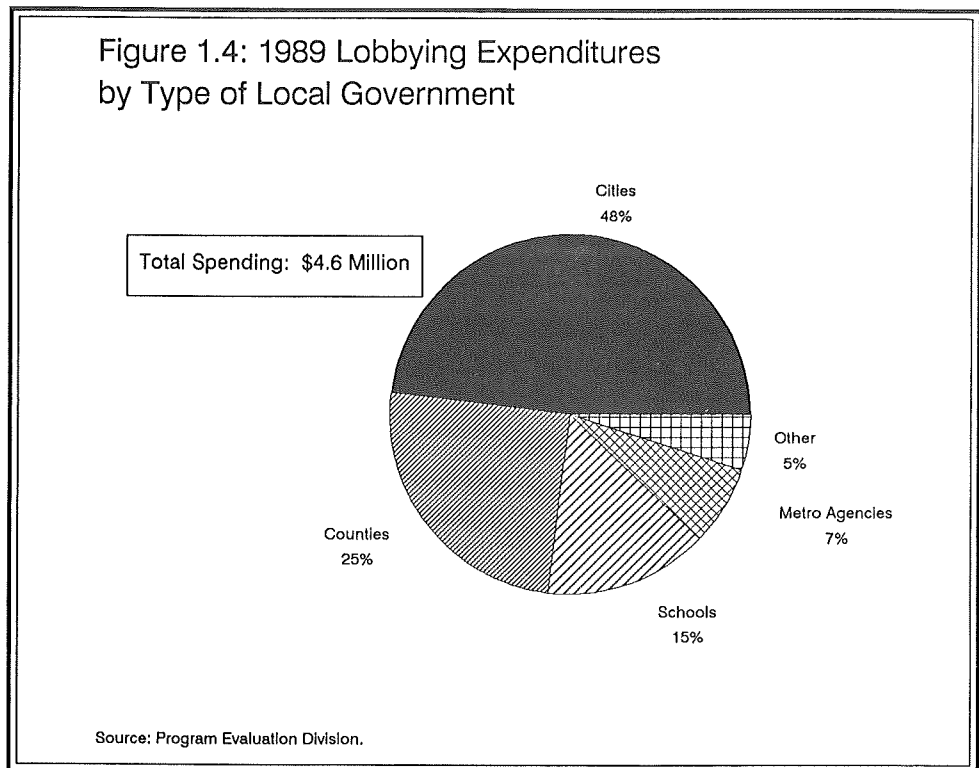
tures and spend about 58 percent more in total than the umbrella organizations.

Association spending on lobbying and related activity is generally financed by dues paid by local governments that are members. When association spending is combined with expenditures by individual government entities, we find that:

- **Cities and their associations account for nearly half of all lobbying and lobbying-related expenditures.**

Figure 1.4 also shows that counties account for about 25 percent of spending. School districts account for about 15 percent, while metropolitan area agencies and other government entities spend the remaining 13 percent.

Close to half the spending is by cities.



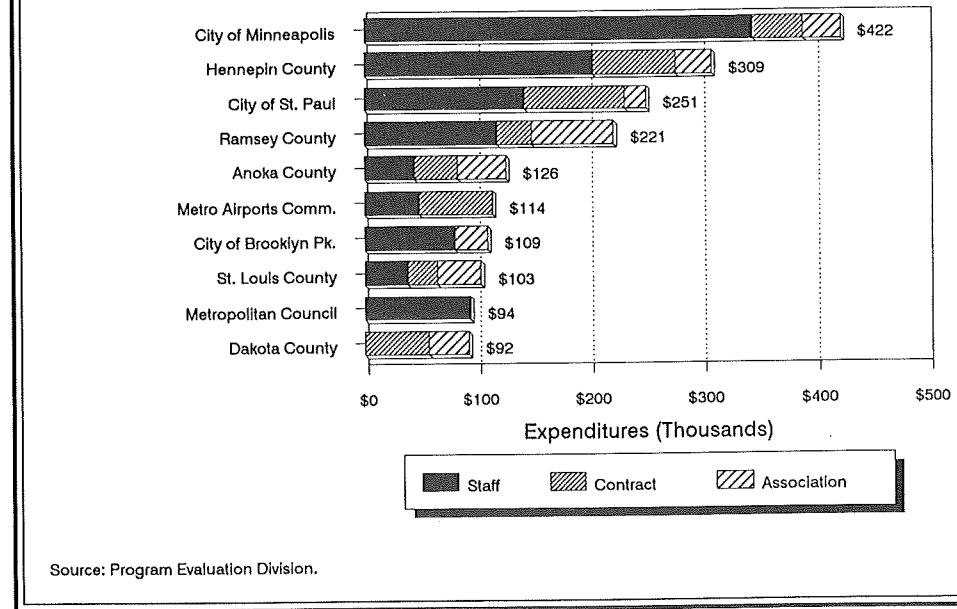
The top ten spenders among local governments are shown in Figure 1.5. As might be expected, the top ten include some of Minnesota's largest cities and counties. The top ten also include two metropolitan area agencies. The top ten spenders account for 40 percent of all spending on lobbying and lobbying-related activity.⁷

Combining association and individual government spending, approximately \$2 million was paid to contract lobbyists and lobbying firms during 1989.⁸ There were 84 contracts with 51 government entities and 12 associations. The top

⁷ The ranking of local governments might change substantially if calculations were based on expenditures per capita.

⁸ This figure includes contract payments for tax and other research.

Figure 1.5: Top Ten Spenders on Lobbying and Related Activities



ten in contract spending are shown in Table 1.7. These top ten account for more than half of all contract expenditures.

Data Limitations

Although we used a broad definition of lobbying-related activity, our estimate of expenditures does not include all lobbying-related expenditures. First, lobbying by local government staff is not included if the staff person spent less than 25 percent of his or her time during the 1989 legislative session on legislative matters.

Second, our estimate is reliant upon accurate reporting by local governments and their associations. While we have adjusted some expenditure data reported to us based on available documentation, we cannot attest to the accuracy of all expenditures reported to us. In fact, it appears that some associations have understated their lobbying-related activity. While some understating of lobbying-related expenditures may be intentional, some may also have occurred because this is the first time associations have been asked to account for their expenditures in this way. In addition, there is a certain degree of ambiguity in the definition of lobbying-related activities.

Finally, our estimate does not include lobbying expenditures by the various government associations to which local government employees belong. Local governments do not generally belong to these associations directly but may pay the membership dues for their employees. Consequently, local govern-

Some under-reporting of lobbying activity may have occurred.

Table 1.7: Top Ten Users of Contracts

	<u>Government Entity or Association</u>	<u>1989 Payments</u> ¹
<p>The top ten users of contract lobbying firms account for 54 percent of all contract activity.</p>	1. Coalition of Greater Minnesota Cities	\$370,992
	2. Metropolitan Inter-County Association	140,044 ²
	3. Municipal Legislative Commission	102,000
	4. City of St. Paul	89,540
	5. Hennepin County	73,751
	6. Metropolitan Airports Commission	65,000
	7. Anoka/Hennepin Independent School District #11	60,758
	8. Metropolitan Sports Facilities Commission	60,000
	9. Dakota County	56,500
	10. Association of Stable or Growing School Districts	52,160
	TOTAL FOR TOP TEN	\$1,070,745 (54% of all contract spending)

¹In addition to lobbying contracts, the payments include lobbying-related contracts for other services such as research or public relations.

²According to the director of the Metropolitan Inter-County Association, 40 percent of the contract expenditures are for non-legislative services such as assisting member counties in developing effective programs. Adjusting the contract payments for this factor would lower the association's ranking on this list to fifth.

ments may indirectly provide funding for these employee associations, some of which may have staff or contract lobbyists.

As a result, there are lobbying expenditures that are not captured by even our broad definition of lobbying and related activity. It is accurate to say, then, that lobbying and lobbying-related expenditures by local governments were at least \$4.6 million in 1989.



ANALYSIS

Chapter 2

This chapter first examines the reasons for growth in local government lobbying activity. Then, we focus on the following questions:

- **What are the positive and negative aspects of current lobbying activities?**
- **What changes in laws governing lobbyists would preserve the positive functions of lobbying while addressing the negative aspects and limiting the public costs?**

REASONS FOR GROWTH

Most of the spending growth is coming from associations and large local governments.

There are at least two sources of growth occurring in local government lobbying activity. The first involves associations and large local governments, which are lobbying more on state aid and property tax issues than a decade ago. These government associations and entities are concerned with increasing, or at least maintaining, their share of state aid and property tax credits and obtaining favorable property tax provisions for their constituents. The second source of growth is from smaller government bodies and agencies. An increasing number of them are using contract lobbyists to represent their interests at the Legislature.

Although comprehensive data on local government lobbying trends do not exist, the available data suggest that most of the increased spending comes from the first source of growth. Associations and large local governments are spending more on lobbying and lobbying-related activities as they compete with one another for state aid. The second source of growth has less effect on overall lobbying expenditures but is largely responsible for the dramatic increase in the number of government entities with contract lobbyists we saw in Chapter 1. Although some of these smaller local governments and agencies also lobby for more state funding, they more typically lobby for special legislation such as legislative authorization to establish an economic development agency. Some have also lobbied to obtain state-operated facilities (such as a veterans home) for their area.

Growth in spending by associations and large governmental units merits further examination because of its more significant impact on lobbying expenditures. There are six factors which observers suggest as reasons for the increase. First:

- **Local governments have become increasingly financially dependent on the outcome of the state legislative process.**

During the 1980s, federal aid to local governments has declined in constant dollars, while there has been continuing pressure to limit the growth of local property taxes. Consequently, local governments and their associations have increased their lobbying efforts at the state level to obtain state appropriations and property tax credits.

A second reason is that:

- **The tax system and state aid formulas have been frequently changed during the 1980s.**

Fluctuations in state aid have sparked interest among local governments and associations in hiring lobbyists to ensure more stable financial prospects. Local governments and associations feel that, if they were not active in the legislative process, they could lose a lot financially.

Third:

- **Minnesota's property tax system and state aid formulas are complex and require considerable expertise to understand their impact.**

Spending on computer tax research has grown dramatically.

The complexity of the state's tax system and aid formulas has caused a number of associations and local governments to spend additional funds on tax and expenditure research. The Coalition of Greater Minnesota Cities contracts for computer tax research with the government relations department of a law firm. The City of Minneapolis has built a computer tax model in-house. In 1988, the Metropolitan Inter-County Association began contracting with a lobbying firm for tax and expenditure research. In 1989, the City of St. Paul contracted for tax research services from a law firm. Finally, the League of Minnesota Cities began to build a computer tax model. Given the high financial stakes involved in legislative decisions, other government associations are also considering whether to better equip their lobbying efforts with tax expertise.

Fourth, local governments are affected by program mandates passed by the Legislature. Local government officials say that an increase in legislative mandates that are not fully funded has caused them to undertake more defensive lobbying.

Fifth, local governments point to the lobbying efforts of public employee unions and pension groups. Local government officials feel there has been an increased need to present local government's perspective on pension and

other issues affecting their finances. Since unions and pension groups have well-funded lobbying activities and are also sometimes very active in making campaign contributions, local government officials feel that they must also have an organized lobbying effort and sometimes use contract lobbyists.

Finally, some of the increase in lobbying activity also seems to have been spurred on by the success, or perceived success, of those who have hired lobbyists and tax experts. If a group representing one part of the state has been successful in obtaining increased state aid, groups from elsewhere in the state have felt it necessary to increase their own lobbying activities and tax expertise.

PROS AND CONS OF LOBBYING

In Minnesota, there is significant interdependence between state and local governments. Local governments depend on state aid and property tax credits for a substantial share of their funding. In turn, state policymakers set some policies and mandates for local governments to follow and depend on local governments to implement sound programs in such areas as education, transportation, and social services.

Because of this interdependence, it is important that there be good communication between the Legislature and local governments. In fact:

- **Lobbying by local governments is beneficial to the legislative process for the information and expertise it brings about the performance and needs of public programs and services.**

Policymakers at the state level need and want good information on the effect of past and pending decisions on those who operate programs at the local level.

Of course, lobbying, whether by local governments or private interests, can be self-serving. Lobbyists sometimes attempt to influence legislative actions through selective use of information. The Legislature is generally able to separate good information from bad through its members' efforts, the assistance of legislative staff, and communication with a broad array of interested parties. Nevertheless, local government lobbying practices and trends raise a number of concerns. These concerns include the following:

- **Is too much public money being spent on local government lobbying, leaving less available for important public services or tax relief?**
- **Are some contract lobbyists receiving compensation at rates higher than the public sector should pay?**

Lobbying can provide useful information but can also be self-serving.

- **Are some contract lobbyists able to exercise undue influence on public policy through campaign contributions, entertainment, and gifts provided to legislators?**

These are not easy questions to answer. The first two require a subjective judgment. The latter is difficult to prove one way or the other. We discuss these questions below.

Increased Splinter Group Activity

During this last decade, there has been an increase in the number of government associations whose primary purpose is to lobby for more state funding for a group of local governments from a particular geographical part of the state. In addition, some existing associations have begun focusing their lobbying efforts more on the share of state aid going to their members.

The emergence of these "splinter groups" representing particular groups of cities, counties, or school districts is understandable from the viewpoint of these groups. Increased lobbying efforts is seen by each as a way to redress some inequity each group sees in the current state tax system or funding formulas.

However, this trend is of concern for two reasons:

1. Much of the increase in lobbying expenditures seems to be coming from increased "splinter group" activity, and
2. Increased public spending for such lobbying is a drain on public resources.

More lobbying and research in an attempt to secure greater state funding for a particular group of local governments is a "zero-sum game." That is, it does not increase the amount of money available for public spending and tax relief. It simply "robs Peter to pay Paul." A group of cities and their citizens in one part of the state may, through its lobbying efforts, get more state aid or tax relief; but it comes at the expense of other cities and their citizens or other public programs. As a whole, local governments and their citizens are worse off since the use of public funds for lobbying leaves less money available state-wide for important public services and tax relief.

Defenders of "splinter group" lobbying point out that the amount of public funds spent on local government lobbying, while growing, is a small percentage of overall local government spending. In addition, the information generated by local computer tax models may sometimes be useful in revealing unexpected changes in state funding for particular local governments.

Increased lobbying by splinter groups is a major concern.

Compensation of Contract Lobbyists

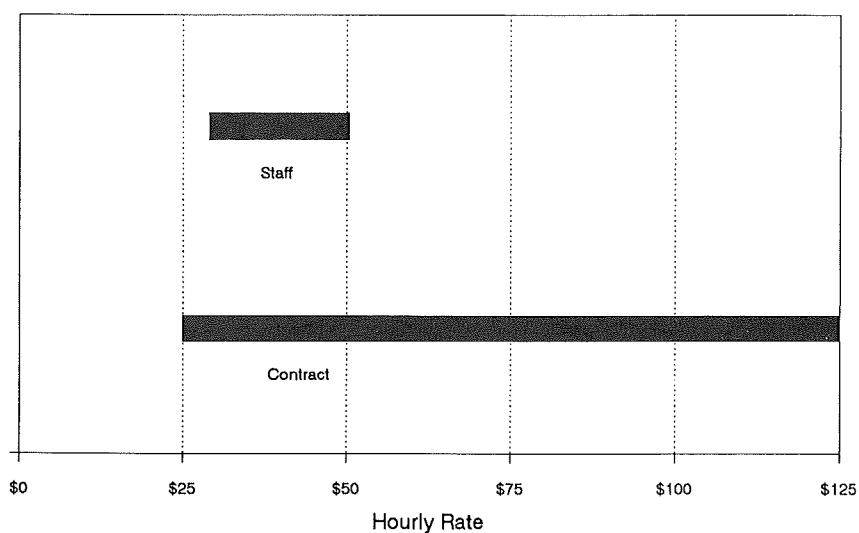
Another major concern about lobbying practices involves the compensation paid to contract lobbyists. We found that:

- **Some contract lobbyists are paid at hourly rates considerably greater than allowed for public employees.**

Some contract lobbying firms receive \$100 per hour or more for the lobbying services of senior members of the firm. At the other end of the scale, there are contract lobbyists receiving \$25 to \$30 per hour. In contrast, as Figure 2.1 shows, the cost of hiring a staff lobbyist (including estimated overhead) generally runs from \$30 to \$50 per hour.

Some, but not all, contract lobbyists are paid more than staff lobbyists.

Figure 2.1: Hourly Rates for Staff and Contract Lobbyists



Source: Program Evaluation Division.

Consequently, at rates between \$25 and \$50 per hour, contract lobbyists are generally no more costly to hire than a staff lobbyist and do not have to be paid year-round. At rates higher than \$50 per hour, contract lobbyists are likely to be more expensive than a staff lobbyist unless there are no duties to assign staff outside the legislative session. To the best of our knowledge, a contract lobbyist charging \$100 an hour or more costs more on an hourly basis (even after overhead costs are considered) than any public employee in Minnesota.¹

We also found that:

¹ Some would argue, however, that contract lobbyists at the higher end of the scale are compensated so highly because of their expertise and the quality of their services.

- **In a few instances, contract lobbyists are being paid on a monthly retainer and do not bill according to the hours they worked.**

This practice is potentially wasteful since it fails to guarantee that the contractor has earned his retainer. However, most lobbying contracts we examined contain the necessary protection. They require an hourly billing and also set a maximum amount they can be billed to the government body or association.

Influence of Contract Lobbyists

Another concern is that contract lobbyists, unlike staff lobbyists, may exercise undue influence on public policy. It is suggested that contract lobbyists tend to be much more involved in entertaining legislators and making campaign contributions than staff lobbyists. As a result, contract lobbyists may be able to gain access to legislators more readily than staff lobbyists. Local governments and associations hiring contract lobbyists may thus have greater influence on public policy than those without contract lobbyists. In addition, it is suggested that local governments and associations that hire contract lobbyists are indirectly financing the gifts, entertainment, and campaign contributions made by the lobbyists.

Although anecdotal evidence suggests contract lobbyists are more active in making campaign contributions and entertaining legislators, we found it difficult to substantiate these claims. The basic obstacle in examining this issue is that:

- **Current campaign contribution and gift disclosure requirements for registered lobbyists and local governments are minimal.**

For campaign contributions, there are three problems with data reported to the Ethical Practices Board. First, contributions of \$100 per year or less to a candidate from an individual or political fund or committee are not reported. If a lobbyist attends one fund-raiser for a legislator during a year and contributes \$100 or less, it is not possible to tell from Ethical Practices Board data that the lobbyist made any contribution. A lobbyist could thus attend many legislators' fund-raisers during a year and make contributions to each legislator of \$100 or less without there being any record at the Ethical Practices Board of the lobbyist's contributions.

Second, there is no current disclosure of certain campaign fund-raising activity by lobbyists. Fund-raising and contributions of \$100 or more by a political fund or political committee formed by a lobbying firm are reported to the Ethical Practices Board. However, some lobbyists also solicit campaign contributions from clients, colleagues, and others and present them to legislators. Disclosure of these contributions occurs under the names of the clients, colleagues, or others (if an individual contribution totals \$100 or more), but not under the name of the lobbyist. Consequently, it is not possible to measure this kind of "pass-through" fund-raising activity by lobbyists.

Finally, even those contributions directly made by lobbyists and large enough to be reported are not easy to identify in Ethical Practices Board data. There is no direct link between the board's lobbyist registration information and the information received on campaign contributions. In addition, there is no statutory requirement that lobbyists report the amount of their campaign contributions along with other reported lobbying disbursements.

We used data from the two separate systems to obtain information on the campaign contributions of four of the more prominent lobbying firms. We were able to identify \$158,000 in campaign contributions during 1988 from members of these firms and their political funds or committees to legislative, gubernatorial, and political party campaign committees. However, the totals for each firm and its members varied widely from about \$1,200 to \$93,000. The two firms with the most local government lobbying business had very modest amounts of campaign contributions (\$1,200 and \$6,200 respectively). However, because of the limitations of the Ethical Practices Board's data, these results may not be very useful. The lack of information on contributions under \$100 per year per candidate and pass-through fund-raising activity means that there is a very incomplete picture of lobbyists' involvement in campaign fund-raising activity.

Disclosure requirements for gifts and campaign contributions made by lobbyists are minimal.

It is also difficult to compare contract lobbyists and staff lobbyists on the extent to which they make gifts to legislators. There are three problems with current disclosure requirements. First, a lobbyist is only required to itemize a gift (including entertainment) to a legislator if that gift is \$50 or more per transaction. There is no requirement that the gifts that a lobbyist makes to an individual legislator be cumulated over a period of time. For example, a lobbyist could be required to itemize gifts to a legislator if they total more than \$50 in a month or \$50 in a year. Current law does not require itemized disclosure unless any single gift is \$50 or more.

Second, disclosure of gifts may not be complete even under the existing requirement. Local governments are not always aware that they must report a gift of \$50 or more if they have a contract lobbyist. The contract lobbyist may also not be aware of such gifts provided by the local government but not delivered by the lobbyist.

Finally, no information is available on gifts and entertainment provided by local governments that do not have a contract lobbyist. Only contract lobbyists and association lobbyists are required to register at the Ethical Practices Board, and only registered lobbyists are required to itemize gifts of \$50 or more per transaction. Local governments with staff lobbyists or no lobbyists at all are not subject to any gift or entertainment disclosure requirement.

LEGISLATIVE OPTIONS

There are three types of options available to the Legislature in addressing concerns about local government lobbying:

1. adding disclosure requirements,
2. prohibiting or restricting certain practices, and
3. changing the legislative posture toward excessive lobbying.

Better disclosure of lobbyists' activities is needed.

Disclosure Requirements

Public accountability is generally enhanced by requiring disclosure of lobbying activity. There are three areas in which additional disclosure requirements may be useful: 1) staff and contract lobbying expenditures, 2) gift disclosure, and 3) campaign contributions by lobbyists. The Legislature just recently enacted disclosure requirements for local governments with staff or contract lobbyists. The requirements were part of a rider to the tax bill passed in September 1989.²

The new requirements, however, do not include a specific requirement for disclosure of lobbying expenditures made by government associations. Since associations account for about half of current lobbying expenditures, this omission is of significant concern. In addition, there is ambiguity regarding what expenditures should be reported. For example, local governments are being asked to report salaries, fringe benefits, expenses, and other payments for staff lobbyists. It is unclear what expenses and payments should be reported and some local governments are only reporting salaries and fringe benefits. Consequently, we recommend that:

- **The Legislature should clarify and improve the new reporting system for local government lobbying expenditures and require disclosure of lobbying and lobbying-related expenditures by government associations.**

Second, as we pointed out earlier, the gift reporting requirements are not very restrictive. Only gifts of \$50 or more per transaction must be reported. This permits a lobbyist to make numerous gifts to a legislator even in one day without reporting them if each gift individually is less than \$50. Furthermore, local governments without contract lobbyists are not subject to any gift reporting requirement. We recommend that:

- **The Legislature should consider strengthening the existing gift disclosure requirement by requiring each lobbyist (and the lobbyist's employer and employees) to report all gifts to an individual legislator (or other public official) which cumulatively exceed \$50 per year.**

² Cities, counties, school districts, metropolitan agencies, regional railroad authorities, and the regional transit board were required to file reports with the State Auditor's Office annually beginning on or before January 31, 1990, for calendar year 1989. In addition to payments to contract lobbyists, these government entities are required to report payments to any staff person who spends 25 percent of his or her time during the legislative session on legislative matters.

- **The Legislature should consider making all local governments (including those without contract lobbyists) subject to a similar gift disclosure requirement.**

Third, to address the concern about contract lobbyists making campaign contributions, we suggest that:

- **The Legislature should consider requiring lobbyists to report all their campaign contributions annually.**
- **The Legislature should also consider requiring lobbyists to report on their activity in soliciting campaign contributions from others.**

Regulation

Additional disclosure requirements help by making information on lobbying costs and activities public but may not significantly change the lobbying practices of local governments. Consequently, the Legislature may wish to consider placing restrictions or prohibitions on certain lobbying practices. There are three regulatory areas which the Legislature may wish to consider: 1) restrictions on contract lobbying, 2) limitations on gifts and entertainment expenditures, and 3) regulation of fund-raising activity during the legislative session.

The options for regulating lobbying include:

- **prohibiting local governments from hiring contract lobbyists,**
- **placing a cap on the hourly rate that can be paid for contract lobbyists, or**
- **requiring an open and competitive process prior to the hiring of a contract lobbyist.**

An outright prohibition on contract lobbying would have certain advantages such as lessening the potential for undue influence of lobbyists on public policy. It may also restrict lobbying costs in those instances in which large contracts are currently used.

However, prohibiting contract lobbying is not likely to have a significant impact on lobbying expenditures and may have some disadvantages. Local governments and associations with contract lobbyists are not likely to discontinue their lobbying activities. Instead, they will most likely use staff lobbyists to represent their interests at the Legislature. Those associations with large contracts for computer tax research and lobbying services could continue to contract for the research and hire staff to do the lobbying.

There are several options for regulating contract activity.

For smaller governmental units, contracts have been an efficient way of obtaining lobbying services on an as-needed basis without increasing permanent staff. Eliminating contracts may make it difficult for smaller local governments to compete with larger units of government whose scale of operation makes it possible to employ lobbyists on staff.

Instead of prohibiting contracts, the Legislature could set a maximum hourly rate on lobbying contracts. The advantages of this approach are that it: (1) could limit lobbying expenditures to a reasonable hourly rate consistent with the limits the state sets for public employees, and (2) would permit smaller units of government to contract for lobbying services when it is efficient to do so. Opponents of a rate cap could question why the Legislature should set a cap on rates paid to lobbyists but not on other contractual services. In addition, they would say that a rate cap would not permit local governments to use the most qualified lobbyists.³

A third option would be to require local governments and associations to undertake an open solicitation of proposals from contract lobbyists prior to hiring one. Local governments would not be required to accept the low bid but would have the advantage of receiving proposals from several lobbyists who would feel some pressure to compete for the contract and, as a result, may offer more competitive rates and contractual terms to local governments. The potential drawback to such a requirement is that it could create paperwork and delay without financial benefits if local governments did not implement the requirement in a sincere manner.

There are no easy answers or clear solutions regarding the regulation of contract lobbying. The Legislature needs to examine the data in this report on current lobbying contracts and consider the various options for regulating contractual activity.

In addition, we recommend that:

- **The Legislature should clarify the intent of *Minn. Stat. §15.057* regarding the hiring of contract lobbyists by state agencies.**

We are not aware of any state agencies currently using public funds for a contract lobbyist and do not see any need for them to do so. However, it is only a state administrative policy that prevents contracts for lobbying services. The current statutory provision is somewhat ambiguous and exempts certain state agencies.⁴

Other regulatory measures include more restrictive laws on the making of gifts from local governments, or lobbyists in general, to legislators and other public officials. Several states have enacted laws that restrict the amount of

State agencies should be prohibited by law from hiring contract lobbyists.

³ There is precedent in state government for using a rate cap. The Attorney General's Office has a policy of paying no more than \$90 per hour for outside legal services. However, this policy is best described as a flexible rate cap since the Attorney General's Office will contract for outside litigation services at a higher rate when deemed necessary.

⁴ *Minn. Stat. §15.057* prohibits most, but not all, state agencies from hiring a publicity representative. This provision does not specifically ban the use of contract lobbyists, although it has been interpreted to prohibit that practice.

gifts (including entertainment expenses) that can be made by a lobbyist's employer or the lobbyist over a specified period of time. The Legislature could prohibit, for example, a lobbyist or the lobbyist's employer and employees from making gifts to a legislator that total more than a specified amount (such as \$100) per year. We recommend that:

Restrictions on gifts and fund-raisers would help regulate lobbying activity.

- **The Legislature should consider limiting the amount of gifts that a lobbyist (or the lobbyist's employer or employees) can make to a legislator or other public official during a year.**
- **The Legislature should also consider prohibiting a legislator or other public official from accepting gifts from a lobbyist (or the lobbyist's employer or employees) totaling more than a specified amount in one year.**

In addition, we recommend that:

- **The Legislature should consider prohibiting legislative fund-raisers during legislative sessions.**

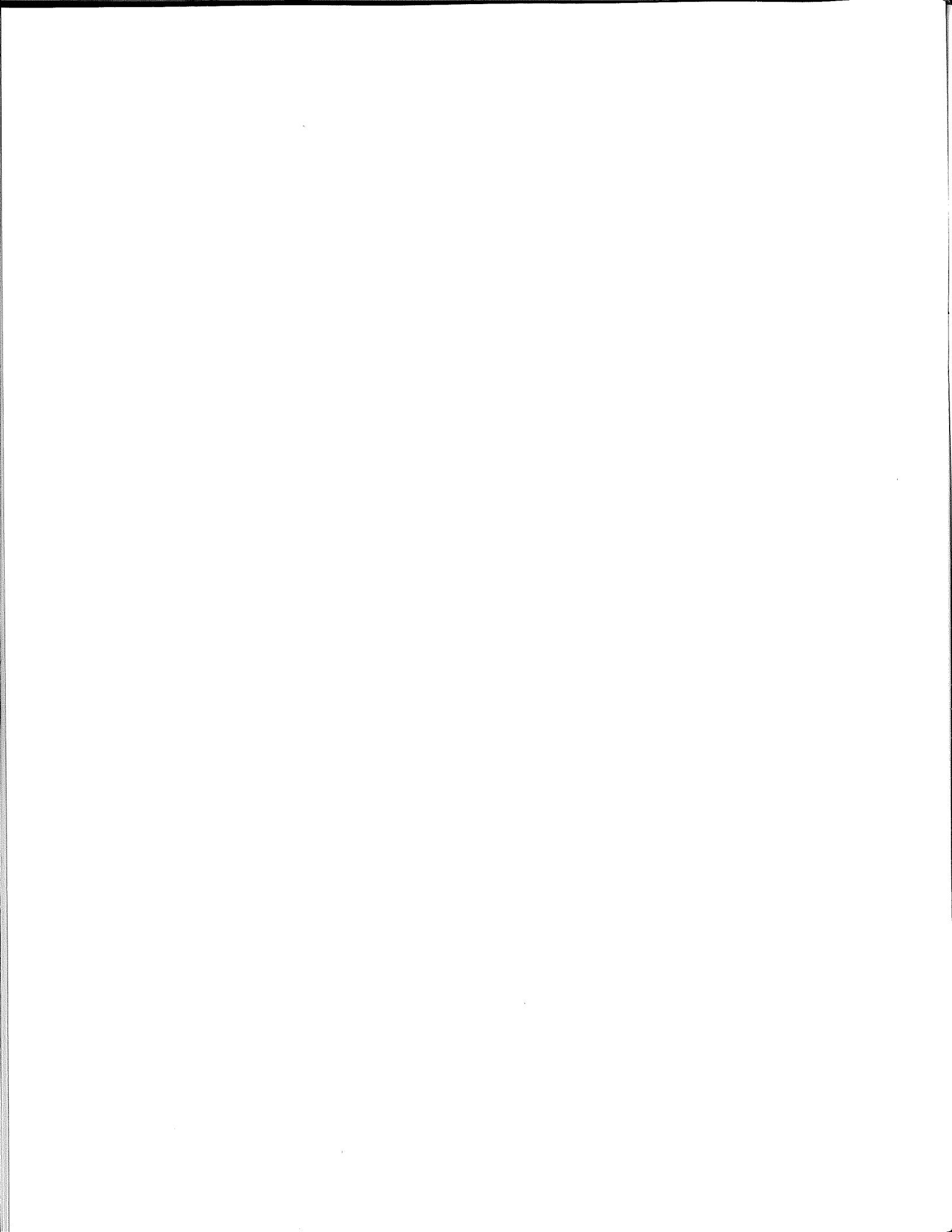
These restrictions on fund-raising and gifts would help to limit the extent to which lobbyists representing either the public or private sector attempt to influence policy in ways that are not appropriate.

Legislative Posture

A final option for addressing concerns about lobbying costs and practices is for legislators to indicate their displeasure with certain lobbying practices through their reception to those lobbyists' interests. For example, this might mean not rewarding those local governments who hire contract lobbyists when staff lobbyists would be less expensive, those who seek special legislation when a general policy is more appropriately pursued through a government association, or those who make it difficult for the Legislature to establish equitable tax policy and funding formulas. In addition, the Legislature could promote stability in the tax system and funding formulas -- thus discouraging local governments from continuously lobbying for a greater share of the state's tax revenues.

Adopting this sort of legislative posture toward excessive lobbying will not be easy. There is often considerable pressure on legislators from constituents who want their legislator to obtain more funding for their part of the state. Although not an easy task, an appropriate legislative posture toward excessive lobbying would be perhaps the most effective way to limit local government lobbying activities.

Stability in state aid formulas would help to limit lobbying activity.



SELECTED PROGRAM EVALUATIONS

<i>Board of Electricity, January 1980</i>	80-01
<i>Twin Cities Metropolitan Transit Commission, February 1980</i>	80-02
<i>Information Services Bureau, February 1980</i>	80-03
<i>Department of Economic Security, February 1980</i>	80-04
<i>Statewide Bicycle Registration Program, November 1980</i>	80-05
<i>State Arts Board: Individual Artists Grants Program, November 1980</i>	80-06
<i>Department of Human Rights, January 1981</i>	81-01
<i>Hospital Regulation, February 1981</i>	81-02
<i>Department of Public Welfare's Regulation of Residential Facilities for the Mentally Ill, February 1981</i>	81-03
<i>State Designer Selection Board, February 1981</i>	81-04
<i>Corporate Income Tax Processing, March 1981</i>	81-05
<i>Computer Support for Tax Processing, April 1981</i>	81-06
<i>State-sponsored Chemical Dependency Programs: Follow-up Study, April 1981</i>	81-07
<i>Construction Cost Overrun at the Minnesota Correctional Facility - Oak Park Heights, April 1981</i>	81-08
<i>Individual Income Tax Processing and Auditing, July 1981</i>	81-09
<i>State Office Space Management and Leasing, November 1981</i>	81-10
<i>Procurement Set-Asides, February 1982</i>	82-01
<i>State Timber Sales, February 1982</i>	82-02
<i>Department of Education Information System,* March 1982</i>	82-03
<i>State Purchasing, April 1982</i>	82-04
<i>Fire Safety in Residential Facilities for Disabled Persons, June 1982</i>	82-05
<i>State Mineral Leasing, June 1982</i>	82-06
<i>Direct Property Tax Relief Programs, February 1983</i>	83-01
<i>Post-Secondary Vocational Education at Minnesota's Area Vocational- Technical Institutes,* February 1983</i>	83-02
<i>Community Residential Programs for Mentally Retarded Persons,* February 1983</i>	83-03
<i>State Land Acquisition and Disposal, March 1983</i>	83-04
<i>The State Land Exchange Program, July 1983</i>	83-05
<i>Department of Human Rights: Follow-up Study, August 1983</i>	83-06
<i>Minnesota Braille and Sight-Saving School and Minnesota School for the Deaf,* January 1984</i>	84-01
<i>The Administration of Minnesota's Medical Assistance Program, March 1984</i>	84-02
<i>Special Education,* February 1984</i>	84-03
<i>Sheltered Employment Programs,* February 1984</i>	84-04
<i>State Human Service Block Grants, June 1984</i>	84-05
<i>Energy Assistance and Weatherization, January 1985</i>	85-01
<i>Highway Maintenance, January 1985</i>	85-02
<i>Metropolitan Council, January 1985</i>	85-03
<i>Economic Development, March 1985</i>	85-04
<i>Post Secondary Vocational Education: Follow-Up Study, March 1985</i>	85-05
<i>County State Aid Highway System, April 1985</i>	85-06
<i>Procurement Set-Asides: Follow-Up Study, April 1985</i>	85-07

<i>Insurance Regulation</i> , January 1986	86-01
<i>Tax Increment Financing</i> , January 1986	86-02
<i>Fish Management</i> , February 1986	86-03
<i>Deinstitutionalization of Mentally Ill People</i> , February 1986	86-04
<i>Deinstitutionalization of Mentally Retarded People</i> , February 1986	86-05
<i>Management of Public Employee Pension Funds</i> , May 1986	86-06
<i>Aid to Families with Dependent Children</i> , January 1987	87-01
<i>Water Quality Monitoring</i> , February 1987	87-02
<i>Financing County Human Services</i> , February 1987	87-03
<i>Employment and Training Programs</i> , March 1987	87-04
<i>County State Aid Highway System: Follow-Up</i> , July 1987	87-05
<i>Minnesota State High School League</i> ,* December 1987	87-06
<i>Metropolitan Transit Planning</i> , January 1988	88-01
<i>Farm Interest Buydown Program</i> , January 1988	88-02
<i>Workers' Compensation</i> , February 1988	88-03
<i>Health Plan Regulation</i> , February 1988	88-04
<i>Trends in Education Expenditures</i> ,* March 1988	88-05
<i>Remodeling of University of Minnesota President's House and Office</i> , March 1988	88-06
<i>University of Minnesota Physical Plant</i> , August 1988	88-07
<i>Medicaid: Prepayment and Postpayment Review - Follow-Up</i> , August 1988	88-08
<i>High School Education</i> ,* December 1988	88-09
<i>High School Education: Report Summary</i> , December 1988	88-10
<i>Statewide Cost of Living Differences</i> , January 1989	89-01
<i>Access to Medicaid Services</i> , February 1989	89-02
<i>Use of Public Assistance Programs by AFDC Recipients</i> , February 1989	89-03
<i>Minnesota Housing Finance Agency</i> , March 1989	89-04
<i>Community Residences for Adults with Mental Illness</i> , December 1989	89-05
<i>Lawful Gambling</i> , January 1990	90-01
<i>Local Government Lobbying</i> , February 1990	90-02
<i>School District Spending</i> , Forthcoming	
<i>Local Government Spending</i> , Forthcoming	

Evaluation reports can be obtained free of charge from the Program Evaluation Division, 122 Veterans Service Building, Saint Paul, Minnesota 55155, 612/296-4708.

*These reports are also available through the U.S. Department of Education ERIC Clearinghouse.



Office of the Legislative Auditor
Veterans Service Building, Saint Paul, Minnesota 55155