Irene Gomez-Bethke Papers.

Local Budget In A Time of Crisis: Hennepin County Counter Budget

EXECUTIVE SUMMARY
September 15, 1981

Urban Coalition of Minneapolis

Greater Minneapolis Council of Churches

I. INTRODUCTION

In past budgetary debates, advocates of poor and minority peoples have concentrated on the appropriations side of the public ledger. A more comprehensive outlook is required in times of adverse political pressure on the public sector and the recipients of public services. Moreover, in times of tight budgets there is a potential to seize the budgetary problems as an opportunity to modify outdated or overly costly means of providing services. This is the perspective the Urban Coalition of Minneapolis and the Greater Minneapolis Council of Churches bring to Local Budget In A Time of Crisis: Hennepin County Counter Budget (COUNTY COUNTER BUDGET).

The Coalition and Council offer recommendations to the Hennepin County Board of Commissioners in response to the County Administrator's budget.

In making these recommendations, the Urban Coalition and Council of Churches wish to emphasize that neither organization is seeking County funds for programs. Our sole bias is poor, working class and non-white people. Our commitment is to effective delivery of essential County services. Given this commitment, it must be stated explicitly that in a time of cutbacks, it is essential not to confuse providers of services, County employees as well as private vendors, with recipients of services. Effective delivery of services to recipients must be the Board's priority. The County Board should use this year's budget-setting process to foster the best possible use of existing revenues as new resources become even harder to obtain.

II. PROGRAM RECOMMENDATIONS

A. Restructuring Services for Net Savings

The Care of Juveniles in Hennepin County

The detention, institutionalization and out-of-home placement of juveniles in Hennepin County will cost over $30 million in 1982. While Hennepin County has long been a leader in providing services and care to children, it seems clear that there is now a lack of needed discrimination in terms of the use of juvenile care resources for children in the County.

The COUNTY COUNTER BUDGET recommends that the County Board take direct action to control expenditures on the out-of-home placement of children in foster homes, group homes and residential treatment centers. Hennepin County should also implement a comprehensive policy mandating less intrusive, restrictive and costly forms of juvenile care focused on the family unit whenever possible. To achieve this restructuring, the COUNTY COUNTER

BUDGET recommends a 25 percent reduction in Child Welfare Payments, except for expenditures for the mentally retarded. Some of these savings should be devoted to developing a range of alternative child care resources, for a net savings to the County of $2,794,000.

The COUNTY COUNTER BUDGET also recommends reducing the size of the Juvenile Justice Center from 87 to 75 beds, for a one-time capital savings of $653,000 and annual operating cost savings of $180,000. This reduction is possible through better use of existing shelter care resources, eliminating the need to hold children awaiting a non-secure placement in detention.

Chemical Dependency Treatment

The COUNTY COUNTER BUDGET recommends changes in the model of chemical dependency (CD) treatment which would render the system more cost effective and enhance flexibility in meeting the varying needs of chemically dependent people in Hennepin County. The COUNTY COUNTER BUDGET proposes a treatment plan of a stay in detoxification of 72 hours or less, depending on the individual's needs, followed by four-months residence at a half-way house. For the first two weeks of the four-month period, individuals would attend an out-patient program providing primary treatment. Out-patient aftercare would provide support after leaving the half-way house environment. Therapeutic communities remain a part of the restructured CD system for individuals requiring long-term care in a structured environment. Finally, non-residential programs would be used in place of residential treatment where appropriate. These changes, which shorten the period of treatment and stress utilization of a variety of resources, would result in a net savings to the County of $660,000.

B. Restorations and New Expenditures

Day Care

A total of 500 day care slots should be added to the proposed budget, at an additional cost of $1,407,000. The COUNTY COUNTER BUDGET supports larger staffing ratios and voucher system, as proposed by the County Administrator, but calls for "reinvesting" the resulting savings to produce 149 "new" slots. The COUNTY COUNTER BUDGET also calls for restoring 206 slots eliminated due to eligibility changes, and creating 145 additional slots through new day care spending. Day care is an essential support service for working parents, many of whom will be faced with a decision in 1982 between continuing to work or quitting their jobs to receive economic assistance.

A New "Crisis" Fund

The COUNTY COUNTER BUDGET recommends creation of a $2 million Crisis Fund, a short-term emergency assistance fund. Not intended as an income maintenance program, the Crisis Fund would be available to County residents in need of food, clothing, shelter and assistance to meet other genuine emergencies ... an ultimate "safety net" for the neediest.

Pilot City Regional Center

$213,000 would be restored for programs at this community-based social service center.

Citizen Participation

$200,000 would be restored to implement the County's plan for citizen participation in human services planning through 8 regional human service councils.

Revolving Loan Fund for Non-Profit Energy Conservation Loans

$100,000 in new capital expenditures are proposed to establish a fund to make energy conservation loans for non-profit facilities which contract with the County.

Social Service Reserve

The COUNTY COUNTER BUDGET proposes a reserve to anticipate substantial revenue shortfalls and increased need for County services in the next three years. The Social Service Reserve would be funded at $2,033,000.

C. Future Considerations

The COUNTY COUNTER BUDGET recommends two areas for serious study before the 1983 budget. The County should study service delivery at the Hennepin County Medical Center, and Mental Health Programs in relation to the McKnight Foundation grant, to determine whether a better use of resources and more cost-effective programming could be achieved in each area.

D. Cuts Supported by the Urban Coalition and Council of Churches

The COUNTY COUNTER BUDGET highlights briefly proposed cuts that "make sense" in County Information and Referral services, General Assistance Staff reductions, and In-Patient Chemical Dependency treatment.

III. REVENUE PROPOSALS

In addition to net savings from programmatic changes of $3,454,000 as explained in IIA, the COUNTY COUNTER BUDGET recommends two other sources of revenue.

1. Property Taxes should be increased by an additional $1.4 million for social services to reach the 18 percent levy limit set by the state legislature.

2. Ten percent of Federal Revenue Sharing funds should be committed to social services. This would amount to $900,000 from a source of revenue generally used for capital projects. (If all or a portion of the $900,000 is needed for these projects, the County could levy additional property taxes for this purpose).

IV. BALANCE SHEET

The COUNTY COUNTER BUDGET recommends a number of program restorations as well as expenditure of County funds on new programs. Some of these expenditures are made from savings located elsewhere in the Administrator's budget, others from revenues recommended by the Urban Coalition and Council of Churches.

All COUNTY COUNTER BUDGET recommendations are summarized below. As the table indicates, the COUNTY COUNTER BUDGET is "in balance;" suggested revenues equal recommended expenditures.

COUNTY COUNTER BUDGET

Balance Sheet

1. Revenues

• Net programmatic savings	$3,454,000
-- out-of-home juvenile placements ($2,794,000) -- chemical dependency ($660,000)	
• Property tax levy for social services	1,400,000
• Revenue sharing funds for social services	900,000
TOTAL REVENUE CHANGES	$5,754,000

2. Programmatic Restorations/New Expenditures

a. Operational	
• Day care	$1,421,000
• Crisis fund	2,000,000
• Social service reserve	2,033,000
• Community planning	200,000
b. Capital	
• Energy conservation revolving loan fund for non-profits	100,000
TOTAL EXPENDITURE CHANGES	$5,754,000

3. Restorations/New Expenditures Funded From Specific Sources

Expenditure		Source of Funds
• Alternative child resources -- Child Welfare Services/ Public Safety and Judiciary ($1,000,000) -- On-Top ($30,000) -- HAYDP ($320,000)	$1,350,000	reduction in Child Welfare Payments
• Pilot City Regional Center	$213,000	reduction in Child Welfare and Adult Services budgets

4. Additional Savings

Savings		Use of Savings
• Juvenile Justice Center -- reduction of 12 beds	$653,000 (1982 capital costs)	reduces property taxes required to "offset" proposed shift of revenue sharing funds to social services

Minneapolis
TRIBUNE
Wednesday
September 16/1981

Alternate county budget proposed

By Elena O. de la Rosa
Staff Writer

Some Hennepin County social service programs proposed for budget cuts can be rescued by rearranging 1982 funding, the county board was told Tuesday.

During hearings on 1982 proposed county spending, Earl Craig Jr., president of the Urban Coalition, presented a counterbudget that calls for reallocating more than $5.7 million of the $509.1 million budget.

Earlier this year, the coalition also presented an alternative to the Quie administration budget.

The counterbudget is an effort of the coalition and the Greater Minneapolis Council of Churches. The budget strongly recommends a shift away from costly institutionalized programs. Specifically, it recommends policy changes that would move away from juvenile residential treatment and inpatient chemical dependency treatment.

Although Craig's recommendations would cost taxpayers about $1.6 million more, Craig contends the money would be more effectively spent.

"What we are trying to do is to have the decision makers and the public begin to look at the budget process differently," said Craig in an interview after the hearing. "Most of those who lobby have a direct interest, they are trying legitimately to get funding for their organization and they ought to, but there is little looking at the over-all process."

Craig said that in the past lobbyists for the poor people have argued about adding to budgets. A different approach will be needed because of tightened funding. "We need to make the services to the poor people serve them in the most effective way. There is no program that is sacrosanct that need not be looked at."

Commissioner Nancy Olkon, who heads the Ways and Mean Committee, before which the budget hearings are held, welcomed the counterbudget. "Since I have been on the board this is the first time that an outside agency, not funded by the county have taken that kind of time to look at (the budget) thoroughly."

Olkon said some of the suggestions in the coalition budget are areas that have been under consideration by the county. Olkon said she particularly agrees that there is a need to assess the use of county funds in placing juveniles outside the home for treatment.

"I will look at the recommendations very seriously. I'll read the entire report and discuss it with the staff,"

Olkon said. "I think they've got a lot of credibility and have done a careful job of looking at the realities."

However, she said she could not agree entirely with some of the counterbudget proposals, including suggestions on how to use federal revenue sharing money and a plan to establish a crisis fund.

Recommendations of the counterbudget include:

- Cutback of private and public detention and institutional facilities for juveniles. "We think there are too many kids in those kinds of out-of-home placements," said Steven Cramer, an Urban Coalition research associate. Cramer said that cut would not effect funds for housing abused children. The changes would save about $2.8 million.

The budget also recommends scaling down the planned juvenile detention center from 87 beds to 75. The center, planned for construction later this year is expected to cost about $16 million. "Right now at any given time 25 percent of the kids in detention are there not because they need secure custody but there is no shelter care, like a group home or a short-term home," Cramer said. That reduction in beds would shave $635,000 in capital costs and $180,000 a year in operating costs.

- Saving of about $660,000 in chemical dependency treatment by reducing the amount of time that people are in that system. Currently, the county follows a 72-hour-stay, according to Cramer.

- Establishing a $2 million crisis fund that would allow one-month assistance for things like shelter, energy and food. The county would use the fund to help a number of people who have been dropped from other programs because of tightened federal eligibility standards and cuts in federal and state revenue.

- Using 10 percent of the county revenue sharing funds — $900,000 — to restore programs scheduled for cutbacks. Cramer said the money could be used to restore day care slots and to add another 296 slots. Traditionally, the county has used 70 percent of the money for capital projects.

Hearings on the proposed 1982 budget continue through the month. Commissioners are expected to adopt the budget Oct. 6.

URBAN
COALITION
OF MINNEAPOLIS

EARL D CRAIG, JR.
President

November 6, 1981

TO: Board of Directors

FROM: Earl Craig EDC

RE: Special Board Meeting

As recently announced by Governor Quie, Minnesota faces a $767.6 million shortfall in revenues for this biennium (assuming the Governor's proposal to conform to the new federal depreciation schedule for corporations is adopted through the administrative rulemaking process).

The Urban Coalition has been asked by individuals and organizations from the Commissioner of Public Welfare to the Metro Senior Federation to become involved, once again, in state budget matters. The staff believes the Coalition should become involved, but the entire issue requires Board discussion.

A special meeting of the Board to discuss this important issue has been scheduled for <u>Wednesday, November 18 at 3:30 p.m., at the UCM office</u>. I strongly urge each of you to attend this meeting.

Please confirm your attendance with Cathy Allen at 348-8550 by Monday, November 16.

/cda

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State Budget problems

	millions
Restructurings	$220.
taxes	129.0
tax expenditure	434.0
Lottery	220.08
Property tax relief	43.0
Education Aid (elem./high school)	109.0
Cuts UCM support	112.M.112
	7677
Deficit	
Maintain Surplus	1000
	8677

Governor's Task Force on Health Care:
Recommendations Synopsis

Cost saving restructuring strategies in six areas:

a. Long term care:
savings: $10.6 million

- freeze number of most expensive beds
- screen nursing home applicants and fund community care
- eliminate some personnel requirements

b. Services to mentally retarded:
savings: $6.8 million

- cap per diems in community facilities at 6 percent increases
- maximize Federal financial participation (Found they could have had 5-6 million from feds)

c. Acute care
no savings calculated

- make physicans and hospitals accountable for costs compared to averages

d. Eligibility
$2.8 million

- cut MA resource standards by half
- count social security cost of living increases as income
- enroll all AFDC families in HMO's

e. Drugs
$3.9 million

- use generic drugs
- cut druggist fees
- discontinue payment for most non-prescription drugs

f. Administration
no savings calculated

- give Commissioner of Welfare power to restructure or end programs
- competitive bidding for laboratory and medical supplies
- continue exploration of alternative delivery mechanisms

State Dept heads 8-10-12 90 cut

URBAN
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OF MINNEAPOLIS

EARL D. CRAIG, JR.
President

November 13, 1981

TO: UCM Board of Directors

FROM: Earl Craig

RE: State Budget

Given the magnitude of the state budget deficit, the special session of the legislature scheduled for early December, and the special threat they represent to the Coalition's constituency, the staff believes it is essential that the Coalition prepare a comprehensive position on the budget as soon as possible. It is our hope that Wednesday's meeting will lead to a decision on the content of that position. The four areas on which UCM comment appears appropriate are:

1) how to restructure state services in ways that save dollars but insure that essential services are provided;

2) how to raise revenues in an equitable manner;

3) how to modify state aid programs in ways that reduce the deficit; and

4) determining which proposed department tax deductions and program cuts "make sense" in light of the budget crisis.

In anticipation of Board discussion on this issue on Wednesday, this memorandum indicates some of our preliminary ideas on the first, second and third points; revenue raising measures, restructuring services and modification of aid programs. We are now attempting to gather a summary of the cuts being proposed by each state department as a prelude to addressing item #4.

Minnesota Budget Shortfall

The estimated shortfall consists of the following elements.

1.	Reduced revenues* (below levels anticipated in the budget)	-605.8m
2.	Current welfare budget deficit	- 89.9m

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*personal income tax	-218.1m
corporate income tax	-135.2m
sales tax	-225.6m
exise tax	- 39.6m
all others	+ 12.7m

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3. Cost of adoption of federal depreciation schedule — - 79.0m*

4. Additional school aid payments (more children enrolled in school districts than expected) — - 23.5m

5. Short-term debt interest expense — - 40.9m

6. Budget balance forward (revenues in this biennium to pay last year's bills) — - 22.3m

7. Other — + 1.5m

8. Projected budget surplus '81-83 (to be expected) — + 92.3m

-767.6m**

SOURCE: Hal Lofgreen, State Economist

Revenue Raising Measures Steve

The following is a partial list of possible revenue raising measures. Not all of the measures are "good ideas" for our constituency; likewise, other options could arise prior to our meeting.

1. Additional 1¢ on sales tax — +306.0m

2. Excise taxes — + 56.3m
   - -- 5¢/pack of cigarettes — (+36m)
   - -- 10% on liquor — (+9m)
   - -- 5% on jewelry and furs — (+11.25m)

3. Expand base on 5¢ sales tax to include:
   - -- business, legal and architectural services — + 89.4m
   - -- pop and candy — + 30.0m
   - -- automobile repair services — + 14.4m
   - -- miscellaneous repairs — + 6.75m
   - -- non-prescription drugs — + 4.2m

4. Change method of computing taxable income for major oil companies — +15-50.0m

5. 4% surcharge on personal income tax — +100.0m***

6. 4% surcharge on corporate income tax — + 20.0m***

1- 2- 3-

Enforce penalties on delinquent taxes

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*Minnesota Association of Commerce and Industry believes this figure is closer to $25m. Suspending index

Iowa model - relates to budget

**Budget shortfall equals 8.8 percent of '81-83 budget.

***Alternatively (or in addition) the nominal rate of the personal and corporate income tax could be raised. Personal income tax: 1 percent increase or brackets between $13,000-40,000 = $20m/year. Corporate income tax: from 12-13 percent = $40m/year.

7. Suspend indexing (at current bracket widths) — +100.0m

8. Eliminate 1/2 of deductibility of federal taxes from Minnesota taxable income (on January 1, 1983) — +200.0m

9. Cap deductions of mortgage interest payments

10. Increase period of time land and buildings must be held to merit capital gains treatment of profits from sale

11. Expand corporate income tax as it applies to insurance companies by eliminating the credit for Minnesota gross premiums taxes paid — + 44.25m

12. Statewide lottery — + 22.0m

Dec. 3-

13. Business taxes (do not conform with federal depreciation schedule) — + 79.0m (annually)

14. Change medical deductibility to conform with Federal standards for tax year 1981 — + 70.0m

Restructuring Services

Savings

1. Governor's Health Care Task Force recommendations — 37.5m (Jan. 1, 1982) or 22.0m (July 1, 1982)

NOTE: Luanne Nyberg will discuss these recommendations.

2. Reduce size or delay construction of University of Minnesota hospital

3. Improve county's capacity to collect child support obligations

Modification of Aid Programs

Close to one-half of total state spending is devoted to the major aid programs; aid to school districts, property tax relief and local government aids. It seems certain that some changes will be made in these programs to balance the budget.

1. Property tax relief

   a. 10% reduction in unpaid homestead credit — + 47.0m

b. reduce percentage of property tax bill reimbursed and the maximum paid by the state to 50% and $600 respectively (from 58% and $650) + 47.0m

NOTE: These figures assume an adjustment to the circuit breaker, another form of property tax relief which is tied to household income and property tax liability, so that savings by the state from reduced homestead credit are not offset by increases in property tax refunds.

c. reduce to 18 percent (from 23%) the portion of rent considered property taxes for purposes of calculating circuit breaker payments to tenants + 39.5m

d. eliminate special $200 refunds for seniors and the disabled + 9.4m

NOTE: Options (c) and (d) disproportionately affect the Coalition's low-income constituency, and are presented not as recommendations we would support but possible reductions in property tax relief others may recommend.

2. Education Aids

a. allow local schools to levy property taxes of -27 equalized mills (up from current limit of 23) as a substitute for state aid +109.0m

NOTE: The state pays approximately $.38 of every property tax dollar in the state, so the net savings to the state here would be reduced to $68 million

/cda

THE EFFECT OF STATE AND FEDERAL LEGISLATIVE CHANGES ON HENNEPIN COUNTY ECONOMIC ASSISTANCE PROGRAMS

Legislative pressures for reductions in welfare programs at both the State and Federal levels produced a number of significant changes in both the costs and the caseloads of the financial assistance programs operated by the Economic Assistance Department of Hennepin County. The brief statements that follow will explain changes in each of the programs affected.

State Legislation

The primary change made by the State legislature in the AFDC program was rescinding the State option to disregard the income of step-parents in AFDC cases. This caused a termination of 1000 cases and a reduction of $4.5 million of total grant expenditures annually.

State changes to the General Assistance program caused the termination of nearly one-half the caseload, 2,232 cases. The General Assistance program can no longer serve "employable" clients. For reference, the General Assistance program assists individuals and families without children not normally eligible for federal assistance programs. The bulk of the caseload prior to this State change was single adults. With the new rule excluding employable clients, individuals with either a high school diploma, a recent work history, or other evidence of ability to work cannot be assisted. The total County grant expenditures were reduced by $4.3 million.

State changes in the General Assistance Medical Care program restricted the services offered to individuals needing health care who cannot qualify for the federal Medical Assistance program. The new program will cover only six services: inpatient and outpatient hospital services, physician's fees, drugs, medical transportation and dental. This is a drastic change to the program which in the past provided all normal medical services. The estimated reduction in medical costs expended within Hennepin County for its clients was $$5.3 million. This estimate will now need to be revised downward because the State legislature seriously under-funded the program. The Commissioner of Public Welfare has exercised his statutory option to implement rated reductions for bills submitted for services for this program. Under that rule, inpatient and outpatient charges will be reimbursed at only 65% of the charges, physician's bills will be reduced to 75% of the charges and services provided for chemically dependent treatment will be reduced 55% of total charges.

The Catastrophic Health Expense Protection Program (CHEPP) was totally eliminated. While the program was a small expenditure, $2.3 million in Hennepin County, it did serve as a safety valve for individuals facing extraordinary medical costs.

Federal Changes

The United States Congress made 26 different changes to the AFDC program, all of which in one way or another reduced caseload or expenditures or tightened administration of the program. The primary changes affecting caseload were: limiting work expenses for employed clients to $75 per month; limiting day care expenditures for employed clients to $160 per child per month; instituting a gross income for working clients of 150% of the State standard of need; and only allowing the $30 and 1/3 of income deductions for the first four months of consecutive employment. The County estimates that these four changes alone will cause the termination of 1500 cases at an annual reduction in grant expenditures of $2.5 million. These changes will reduce the grants going to nearly all the county's 3900 working AFDC cases and over 1000 of those cases will probably be forced to quit work and resume full reliance on AFDC grants.

Federal changes in the food stamp program lower the income limit to 130% of the federal poverty level. This change will force the termination of an estimated 300 cases in Hennepin County. These 300 cases would have received $250,000 in stamp value annually.

Federal changes in the medical assistance program lowered the allowable resources for the medically needy patients. This change will have some short term effect on clients currently enrolled who are above those limits. These patients will have to incur additional medical costs until they meet the new formula. Federal appropriations were also slightly reduced which will result in a reduction in total expenditures of $7.8 million in Hennepin County.

In the area of child support enforcement, Congress authorized the State to file a claim against unemployment benefits and Federal tax returns for monies owed for child support. The County expects to initially collect an additional $1.1 million for the Federal tax refund portion of this change.

In summary, State changes have drastically reduced the Department's ability to house those judged able to work, and to provide health care for the poor.

Federal changes in the AFDC program, will actually work against some recipients' efforts to become self sufficient by reducing their financial incentives to work. The County is continuing to review the results of these changes.

Hennepin County COUNTER BUDGET Effort: Summary

The Urban Coalition of Minneapolis, in conjunction with the Greater Minneapolis Council of Churches, presented a number of recommendations to the Hennepin County Board of Commissioners in response to the County administrator's proposed budget. Our effort was based on the belief that budgetary problems present an opportunity to modify inefficient or outdated means of providing services. What follows is a summary of the administrator's budget recommendations, the COUNTER BUDGET proposals, and final action by the Hennepin County Board.

ADMINISTRATOR'S BUDGET	COUNTER BUDGET	BOARD ACTION
Care of Juveniles		
• Fund out-of-home placements at $21.4 million	• Reduce by $2.8 million	• Reduced $500,000
• Reduce Juvenile Center by $653,000 and 12 beds	• Full funding for 87 beds	• Reduced by $48,500
• De-fund community-based juvenile programs	• Continue support for community-based juvenile programs	• Programs re-instated
Chemical Dependency		
• Fund at $8.6 million	• Fund at $8 million	• $8.6 million allocated
• Reduce county-delivered in-patient services	• Reduce in-patient care	• Reduced $100,000
	• Increase out-patient care	• Increased $100,000
	• Flexible programming to meet individual need	• Flexibility being increased by administrators
Day Care		
• Cut $900,000 and 206 slots	• Increase by $1.4 million to create 500 new slots	• Restored $350,000 and 150 slots
• Cut low-income people in training	• Maintain eligibility for low-income clients in training	• Low-income AFDC clients in training remain eligible
Pilot City Regional Center		
• Cut $175,000 from '81 level	• Full funding at '81 level + inflation	• Restore $175,000
Citizen Participation		
• $0 for mandated citizen involvement	• Fund at $200,000 for 8 planning councils	• Restored $152,000

	ADMINISTRATOR'S BUDGET	COUNTER BUDGET	BOARD ACTION
Crisis Fund			
	• $0 for emergency food, housing, fuel	• $2 million for individual life threatening emergencies	• $588,000 in contingency available for emergencies
Social Services Reserve Fund			
	• $0 for possible federal and state shortfalls	• $2 million set aside for social service shortages	• Nothing extra set aside
Revenue Proposals			
	• Property taxes at levy limit minus $1.4 million	• Rise to full levy limit	• Full limit was levied
	• Federal revenue sharing used 70% capitol, 30% operations	• Use 10% of revenue sharing for social services	• Use ratio stayed at 70%/30%
Future Considerations			
		• Cost containment study at Hennepin County Medical Center	• No action taken
		• Study effectiveness of new mental-health programming	• No action taken

The Minneapolis Star
Thursday, March 12, 1981

'Counter Budget' calls for tax raises

By BETTY WILSON
The Minneapolis Star

The Urban Coalition of Minneapolis today unveiled a "Counter Budget" intended to meet the needs of the poor and minorities, who the coalition says would be hurt by Gov. Al Quie's recommended 1981-1982 state budget.

The coalition budget calls for major tax increases—including a 4 percent sales tax on services and suspension of state income tax indexing next year—to pay for its proposed budget and to offset what the coalition says is a $613.6 million deficit and "imprudent" revenue projections in Quie's budget.

It also calls for innovations in government programs, such as an evaluation system for school teachers and administrators, and use of health maintenance organizations to provide medical assistance for the needy.

Such changes, the coalition says, would increase productivity and efficiency and save the state money.

The coalition attacked what it called a national tendency to blame the poor for inflation, and to try to improve the economy and balance government budgets at the expense of the poor while winking at economic abuses by people who are better off.

Urban Coalition President Earl Craig presented the 40-plus page document, which he said should not be viewed as a partisan attack but as a "statement of the interests of lower-income and minority people," to the Minnesota House Tax Committee today.

The non-profit, community action organization's budget is not as detailed as Quie's. But it contains significant proposed changes in state policy, which Craig said were carefully thought out—in a month and a half of work by the coalition staff since Quie announced his budget—and which are likely to be controversial and set off legislative debate.

The proposal comes at a time when DFL legislative leaders are attacking the budget of the Independent-Republican governor, who appears to be in step with a tax-cutting, government expenditure-cutting mood of many in the state, particularly middle-income taxpayers.

In its proposals for major tax increases this year, the Urban Coalition, whose board of directors includes a cross section of public and private community leaders, is going out on a politically unpopular limb.

More and more legislators are saying privately, though, that such increases are inevitable in the next biennium if not this one.

Failure to face up to that issue will only delay the day of reckoning, Craig said.

Quie's proposed $8.7 billion budget primarily benefits persons other than those with low and moderate income, the coalition charges.

The coalition says the state will need $847 million more revenue in the next biennium for a fiscally sound budget that takes care of the needy. It would add to Quie's budget a net $80.1 million for welfare; $16 million for higher education; $28.1 million for housing programs; $11.1 million for public transportation aid, and $9.1 million for energy programs.

It would restore $89 million to state education aids cut by Quie last fall to make up a revenue shortfall in the current budget. The money was restored for this year, but Quie said it would have to come out of the next biennium's budget; the coalition says it shouldn't be taken out.

The coalition said it supports some of Quie's key budget recommendations, including an 8 percent cap on nursing home payments. Noting that the average nursing-home cost per month has increased in the last five years from $527 to $961 and is expect to continue that sharp rise, the coalition said, "These costs must be contained."

It agreed with Quie's proposed increases in gasoline taxes and license fees to pay for highway construction.

And the coalition, which, Craig said, would not oppose a "moderate" increase in local property taxes, seemingly agreed with Quie that some increase in property taxes is not unreasonable. That position runs contrary to the historical philosophy of DFLers, who want to hold property taxes down.

Quie, who proposed tightening welfare eligibility requirements and eliminating some services, called for a 10.1 percent increase next year and a 7.4 percent increase in the second year of the next biennium for income maintenance programs. The governor also proposed an 8 percent increase next year and no increase the following year for medical assistance payments.

Tax proposals of the coalition include:

- A 4 percent sales tax on business, legal, engineering, architectural and other non-medical services. These are services used by higher-income people and corporations, Craig said, and the tax would raise an estimated $139.4 million in the next two years.

- Suspension of state income tax indexing in 1982, which would save $400 million. The indexing program, initiated by Quie, is intended to keep taxpayers from being bumped into higher tax-rate brackets when they get cost-of-living pay raises. The coalition said indexing should be restored in 1983, but should be revised and include indexing of the state income credit for the "working poor."

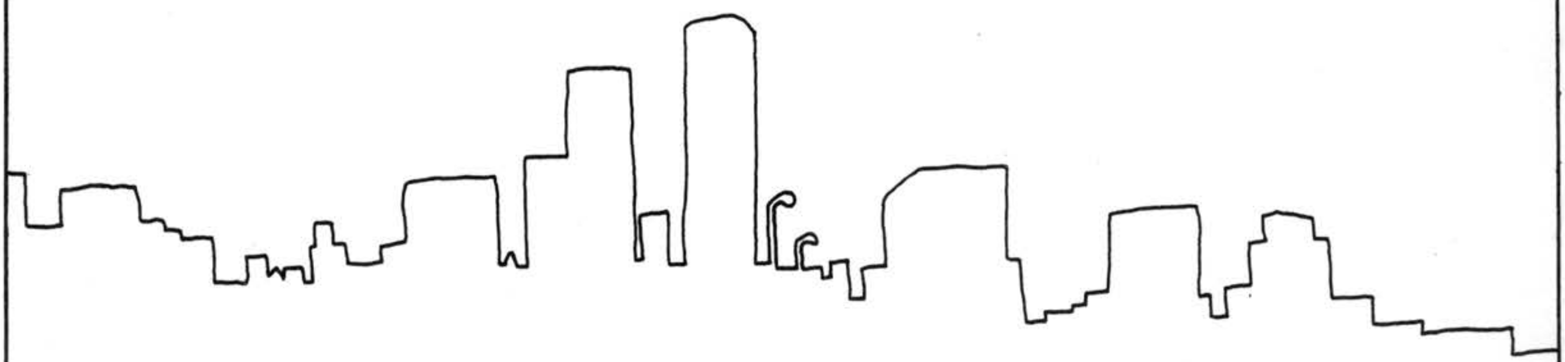
- Allowing state income-tax payers to deduct only 50 percent instead of 100 percent of their federal income taxes, which would save $227.5 million. This is a regressive deduction that benefits higher income taxpayers and only 16 states now allow federal tax deductions, the coalition said.

- Elimination of the state gasoline and other fuel tax deductions on state income taxes. This would put the state in conformance with federal tax law and raise an estimated $33 million in the next two years.

- Elimination of state income tax "loopholes" that proponents say allow major oil companies to escape their fair share of taxes in Minnesota. This would raise an estimated $70 million in the next two years, the coalition says.

Local Budget In A Time Of Crisis:

Hennepin County Counter Budget



Urban Coalition of Minneapolis

Greater Minneapolis Council of Churches

September 1981

September 15, 1981

The Honorable John Derus
The Honorable Randy Johnson
The Honorable Richard Kremer

The Honorable Nancy Olkon
The Honorable E. F. Robb, Jr.
The Honorable Sam Sivanich
The Honorable Jeff Spartz

Hennepin County Government Center
Minneapolis, MN 55487

Dear Chairperson Derus and Commissioners:

The Urban Coalition of Minneapolis and the Greater Minneapolis Council of Churches are pleased to present to you for your consideration the enclosed COUNTY COUNTER BUDGET.

This alternative to the proposed budget submitted by the County Administrator is really a "budget of changes." We used the Administrator's budget as a base and suggested various revenue, expenditure and programmatic revisions. Thus, all elements of the budget are not directly addressed.

However, it is based upon a review of the entire County budget. Needless to say, our small staffs and the short-time available to us did not allow as comprehensive and intensive an investigation as we would have liked. We have received superb assistance, for which we are grateful, from many parts of the County administration and staff.

This COUNTER BUDGET is predicated on one fundamental goal: meeting the needs of the poor. This means that we have no necessary commitment to current delivery systems, organizations or personnel. As a matter of fact, we have tried to consistently ask the question, what is the most cost effective way to provide needed quality services for our constituency. As you will see, this at times results in recommendations affecting major service providers.

This budget not only assumes difficulties in 1982 but even greater constraints in 1983 and 1984. It might even be accurate to say it looks more to 1983 and 1984 than to 1982. We trust you will also look at County finances and programs with an eye toward the future.

In conclusion, we have proceeded into and through this process with a great sense of humility, but also with an overwhelming sense of the need to begin fundamental changes. We still have those feelings and from that context we present this COUNTY COUNTER BUDGET.

Sincerely,

Earl D. Craig, Jr.
Earl D. Craig, Jr.
President
Urban Coalition of Minneapolis

Thomas H. Quigley
Thomas H. Quigley
Executive Director
Greater Minneapolis Council of Churches

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I. INTRODUCTION

In past budgetary debates, advocates of poor and minority peoples have concentrated on the appropriations side of the public ledger. While such efforts are essential, they become increasingly less effective in times of overall revenue shortage and adverse political pressure on the public sector and the recipients of public services. A more comprehensive outlook is required in such times. Moreover, in times of tight budgets, as public services become more and more costly, it is essential that the means of delivering essential public services be reexamined. There is a potential to seize the budgetary problems as an opportunity to modify outdated or overly costly means of providing services.

This is the perspective the Urban Coalition of Minneapolis and the Greater Minneapolis Council of Churches bring to Local Budget In A Time of Crisis: Hennepin County Counter Budget.

The Urban Coalition first began examining public budgets from this perspective during the 1981 session of the state legislature. The Coalition proposed a comprehensive state COUNTER BUDGET in response to , 1) a budget recommendation from the Governor that the Coalition believed to be fiscally imprudent and unfair to Minnesota's lower-income citizens, and 2) "historic times" in terms of the political and economic context nationally and in Minnesota not favorable to poor people. The COUNTER BUDGET included revenue and tax recommendations, restoration of program cuts, and most importantly programmatic changes designed to "reduce the cost of service without affecting seriously the quality of service."*

The debate over the state budget ended with fewer reductions in services and programs approved than originally proposed, although cuts were still severe in many areas. At the same time, it became apparent that unprecedented reductions in federal spending would occur, concentrated largely on programs for lower-income Americans. It also became apparent that both the federal and state budget reductions would be played out at the local level, where most services are actually delivered.

In conjunction with the Greater Minneapolis Council of Churches, the Coalition shifted its budgetary sights to the City and County. Together, the Coalition and Council produced, Local Budget In A Time of Crisis: Budget-Making in Minneapolis and Hennepin County For 1982, a primer on the local budget process and the fiscal difficulties facing the City and the County. While this description proved useful to those unfamiliar with budgeting at the local level, a more intensive effort, modeled on the state COUNTER BUDGET, was required to have an impact on actual budget decisions. The Coalition and Council determined that such an effort would be most fruitfully concentrated at the County level, because most of the major reductions in City programs were caused by cuts in federal categorical programs which were already finalized.

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*Urban Coalition of Minneapolis, State COUNTER BUDGET, March, 1981, page 17.

The COUNTY COUNTER BUDGET represents such an undertaking. In presenting the COUNTY COUNTER BUDGET, it is important to state explicitly that the situation in Hennepin County is significantly different than at the State. Fiscal imprudences are not an issue in Hennepin County. Moreover, the County has been rocked by federal and state spending reductions. In fact, one should be clear about the impact decisions made in Washington and St. Paul will have on the County's budget and the lives of lower-income people in general.

Entering office on the pledge that "the poverty stricken, the disabled, the elderly, all those with true need, can rest assured that the social safety net of programs they depend on are exempt from any cuts,"* the actions of the Reagan administration with the Congress have proven disasterous for that group as well as those who rely on government support programs like day care, child nutrition and energy assistance to maintain a level of self-sufficiency that would otherwise be impossible. The Coalition and Council believe the federal cuts disproportionately harm these lower-income Americans. Moreover, local units of government and private charitable organizations faced with demands to "fill the gap" will be unable to do so.

Regarding the impact on Minnesota, the list of federal cuts reported recently by the Governor's Task Force on Federal Budget Reductions is a prescription for increased economic hardship for the state's lowest income citizens. Included in the cuts are:

- a $10 million reduction in Title XX Social Service programs (the expected Title XX reduction in Hennepin County alone is close to $4 million);

- $13.4 million less in food stamps, resulting in 3,088 household in Minnesota being removed from the program;

- a 20 percent cut in child nutrition programs meaning $16 million less for those programs in Minnesota next year;

- $3 million less for health programs like emergency medical services, SSI for disabled children and crippled children services;

- close to $3 million less in Federal, State and County spending for AFDC; and

- reductions in assisted housing, fuel assistance, weatherization and employment and training programs.**

Perversely, among those most seriously harmed by the federal budget will be the working poor; those who rely only partially on public assistance, or who rely on programs like day care to remain independent of direct economic assistance. For them, the federal budget will often force a choice between

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*Ronald Reagan, State of the Union Address, February 18, 1981.

**"Report of the Governor's Task Force on Federal Budget Reductions," September 4, 1981.

work or total dependence on assistance. The economic incentive to hold a job will be gone due to, 1) eligibility changes which essentially penalize earned income, or 2) elimination of support programs which result in a substantial reduction in disposable income from already meagar earnings. A prime example of the first situation is the estimate that in Hennepin County, of 3,900 working mothers receiving AFDC benefits, 1,378 (35 percent) will terminate employment completely after federal changes are implemented.* The difference between their assistance plus earnings under new eligibility and benefit standards, and what they could potentially earn if their sole income were from AFDC, is negligible. Another 1,035 will continue to work, but will experience a decline in total income as a result. The income level at which this choice becomes relevant is approximately $5,760 annually, or $480 per month.**

Finally, with the prospect of additional cuts in federal spending this year and the certainty that the "buying" power of federal programs as currently authorized will be reduced by as much as 70 percent by 1984, the situation with respect to federal spending in the future is bleak.

Reductions in state spending have also caused hardships. Hennepin County will receive close to $3 million less in state support for General Assistance (GA) programs as a result of eligibility changes passed during the last legislative session. Some 2,500 people are no longer eligible for GA payments in the County. General Assistance Medical Care (GAMC) support in the County will be reduced by over $2 million in 1982. Fewer people are now eilgible for GAMC, and those who are receive fewer medical services. With continued state fiscal woes there is little doubt that more dramatic spending reductions will be contemplated in future sessions.

But while the Hennepin County Board has in many ways been delivered a fiscal nightmare by their federal and state counterparts, the local budget debate is not over. Not all decisions in Hennepin County have been pre-determined by events in Washington and St. Paul. Important decisions about spending priorities remain to be made locally. In addition, questions of how to raise revenues in the County and by how much remain to be debated. Finally, and most critically, Hennepin County officials have the opportunity to begin making government work better through restructuring the delivery of certain services; an opportunity largely bypassed by federal and state decision makers.

The Coalition and Council's concerns in these areas are best summarized by a passage from a recent "Message to the Churches" from the Board of Directors of the Greater Minneapolis Council of Churches.

> As local officials respond to the inevitable pressures for limited local financial resources, we believe the following principles should guide their actions:

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*Hennepin County; Economic Assistance Planning & Evaluation, phone conversation, September 10, 1981.

**Center for the Study of Welfare Policy, "The Poor: Profiles of Families in Poverty," Appendix A.

1) It is unacceptable to place extra burdens upon those who are least able to meet them. We must resist the tendency to "blame the victims" for the economic woes of our nation, by placing extra burdens upon children, the poor, the elderly, the handicapped, those who have experienced any discrimination, and those who are mentally ill.

2) We affirm the need to bring under scrutiny many of the programs designed to aid those in need, and we agree that some efforts have not proven to be effective in delivering necessary services to those who need them. We make no plea to continue the present system of services in its entirety. We do plead that careful attention be given to innovations in service delivery, so that the quality of services might be improved and unnecessary expenditures be reduced.

3) We understand the resistance to an increase in local taxes. On the other hand, we affirm that, if the needs of the poor, the elderly, the sick, and the victims of discrimination cannot be met without tax increases, it becomes a moral necessity to increase local tax revenues to the maximum allowable level rather than abandon our commitment to social justice and compassion.*

The Urban Coalition and Council of Churches offer recommendations in each of these areas in response to the County Administrator's budget. First, programmatic recommendations are made. These recommendations are broken into three categories; program changes which would yield a net budget savings, changes which also require a restoration of some funds cut from the Administrator's budget or a new allocation, and changes in programs the Board should take under advisement for future years. Second, suggestions regarding County taxes and the use of certain revenues are offered. Finally, a "Balance Sheet" in which the Coalition and Council account for additional spending through additional revenues or savings from programmatic changes is provided.

In making these recommendations, the Urban Coalition and Council of Churches wish to emphasize that neither organization is seeking County funds for programs. Our sole bias is poor, working class and non-white people. Our commitment is to effective delivery of essential County services. Given this commitment, it must be stated explicitly that in a time of cutbacks, it is essential not to confuse providers of services, County employees as well as private vendors, with recipients of services. Effective delivery of services to recipients must be the Board's priority.

A final introductory comment is in order. As indicated above, the sitaution with respect to federal and state funding for Hennepin County will worsen in coming years. The County Board must seize upon this year's budget-setting process to move the County towards a position of making the best possible use of existing revenues in a time when new resources will become ever harder to come by. The notion of restructuring the means of service delivery takes on added importance in this circumstance. Not only does restructuring certain services in 1982 offer the benefit of a net budget

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*"Message to the Churches," Greater Minneapolis Council of Churches, June, 1981.

savings in some cases and more services for the same amount of funds in others, it also places the County in a more stable long-term position. Efficient and effective services could be provided without rapidly growing budget allocations into the future. To fail to move in this necessary direction now, and to fail to take maximum advantage of opportunities which still exist to maximize local revenues, would be an abdication of County responsibility which could not rightfully be placed on the doorstep of state and federal decision makers.

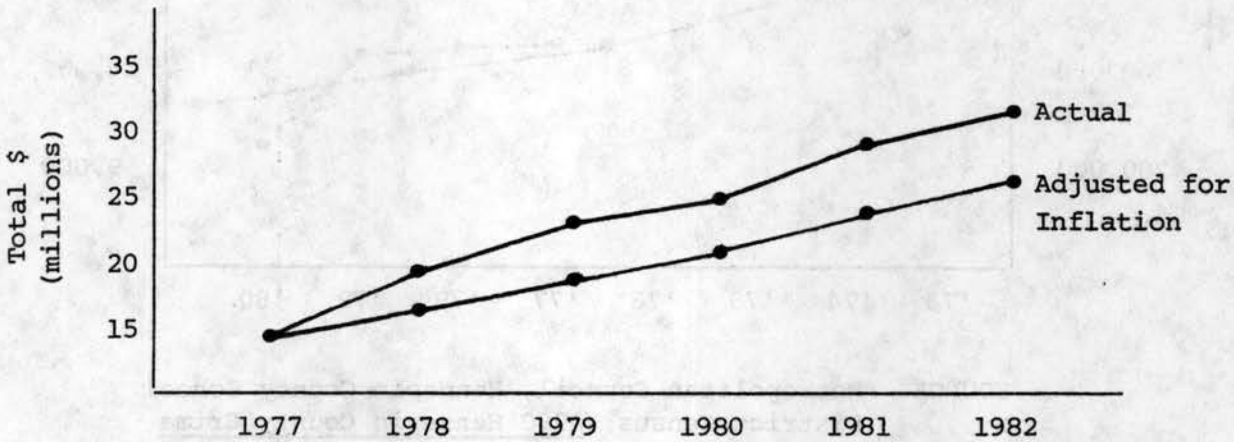
II. PROGRAM RECOMMENDATIONS

A. Restructuring Services for Net Savings

The Care of Juveniles in Hennepin County

The detention, institutionalization and out-of-home placement of juveniles in Hennepin County will cost over $30 million in 1982. This figure has grown substantially in the past six years.

The Cost of Juvenile Care in
Hennepin County, 1977 - 1982



SOURCE: Hennepin County Budget: 1977 - 1982

Most of these dollars are devoted to child welfare payments -- placements in foster homes, group homes and residential treatment centers. The rest is divided between emergency shelter care, the County Home School, and short-term detention. This figure does not include expenditures for the protection of abused children, which will amount to $4 million in 1982, or many expenditures for children in chemical dependency or mental health treatment facilities.

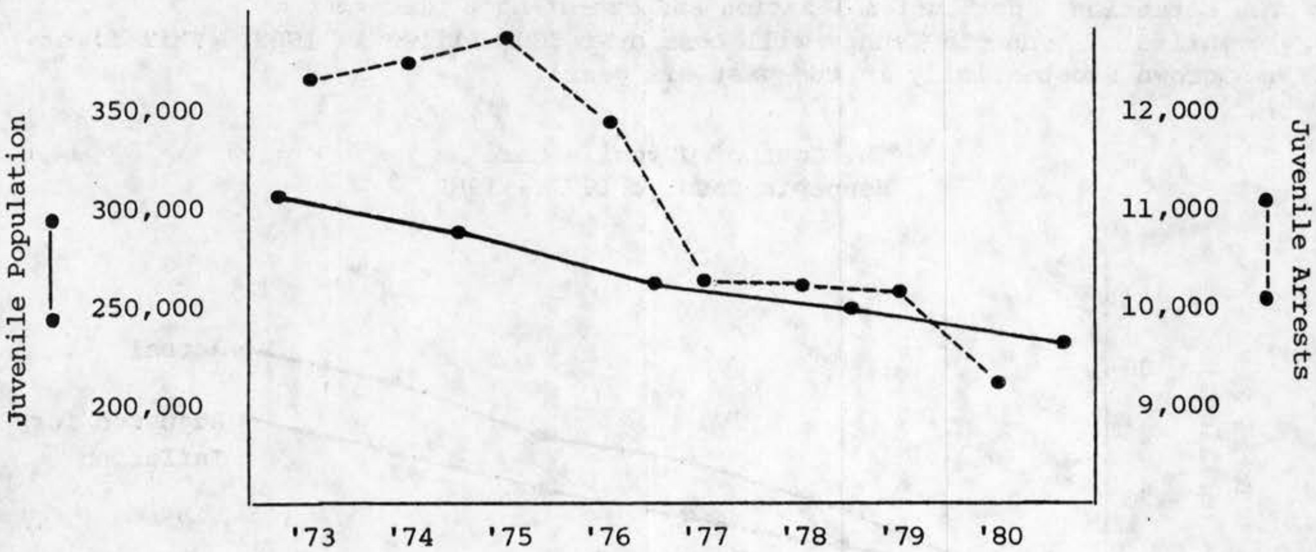
Cost of Juvenile Care by
Type of Care, 1981 and 1982
(millions)

	1981 Approved	1982 Proposed
Child Welfare	$20.0	$21.3
Shelter Care	3.1	3.4
County Home School	4.0	4.1
Detention	2.4	2.6
	$29.5	$31.4

SOURCE: Hennepin County Budget: 1981, 1982

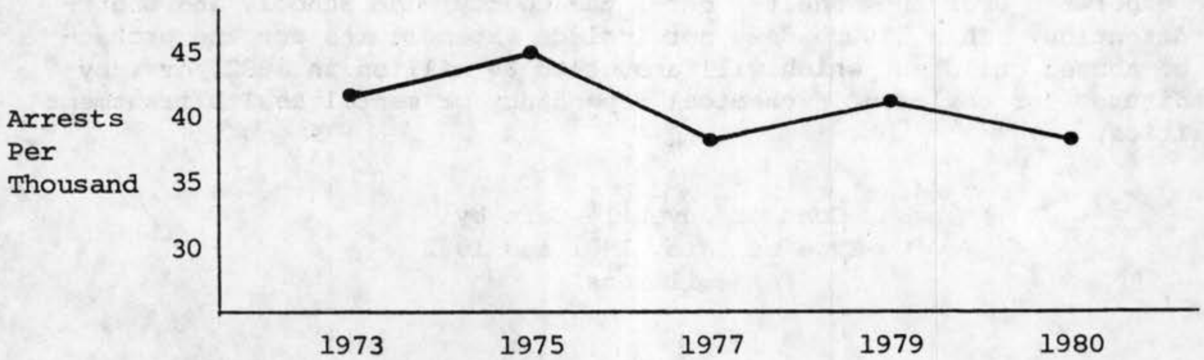
This growth in expenditures has occurred during a time the juvenile population in Hennepin County has declined. Juvenile criminal activity measured by arrests has likewise declined during this period.*

Juvenile Population and Criminal Activity in Hennepin County, 1973 - 1980



SOURCE: Metropolitan Council, Hennepin County School District Census; 1980 Hennepin County Crime Analysis -- A Supplement, June, 1981, pgs. 63 & 73.

Juvenile Arrests Per Thousand Population



SOURCE: Metropolitan Council; Hennepin County Crime Analysis

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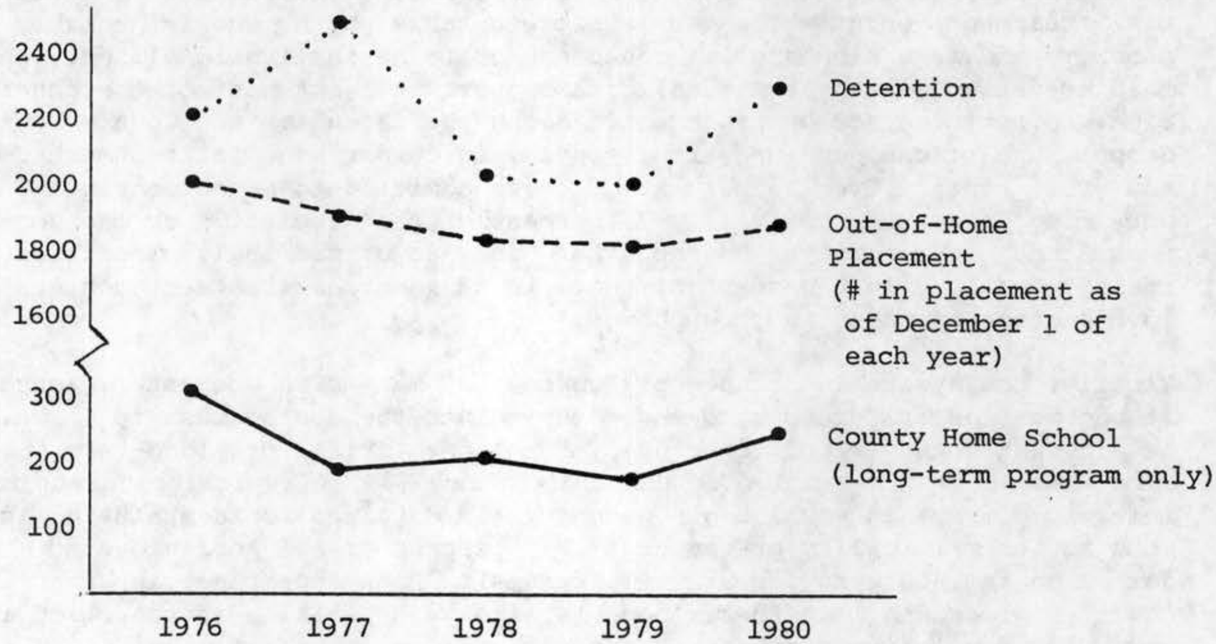
*It should also be noted that violent criminal activity by juveniles -- murder, rape, robbery and aggravated assault -- represented only three percent of all juvenile arrests in Hennepin County in 1980. Moreover, the number of such arrests has declined by 37 percent since 1973. (1980 Hennepin County Crime Analysis -- A Supplement, June, 1981, page 73).

Even as juvenile population and criminal activity have dropped over the past several years, the number of youths in detention, institutions and out-of-home placements has stayed relatively stable or actually increased.

Annual Placements in Detention, the County Home School and Out-of-Home Settings in Hennepin County, 1976-1981



SOURCE: Hennepin County: Court Services Planning & Evaluation; Community Services Department Planning Unit

Statistics of this kind suggest that the juvenile care system in Hennepin County has grown well out of proportion to need and is spiralling further out of control. Aggregate comparisons with other areas of the country underscore this point. For instance, in the entire State of Washington, it is estimated that on any given day there are less than 1100 youth in group homes or residential treatment centers. The number of similar placements in Hennepin County on July 31, 1981, the latest date for which this data is available, was 808. The County, with a quarter of Washington's population, has three-quarters as many children in residential placements. In terms of institutionalization, in 1980 the total number of juveniles sent to the County Home School (long-term and short-term program) plus those referred to state institutions equalled 707, a number exceeding the number of referrals to similar institutions in Cook County, Illinois in that year.*

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*The aggregate comparisons are from a national study of the out-of-home placement of youths being conducted at the Humphrey Institute of Public Affairs and the School of Social Work at the University of Minnesota. Although final results are not yet available, preliminary findings indicate the number of placements in Minnesota generally, and Hennepin and Ramsey Counties in particular, are much higher than placements in similar areas around the country.

Local "practioners" in the juvenile field also believe there is a certain arbitrariness within the system which belies a mantle of expertise; a child's placement depends to a large extent on factors unrelated to criminal activity or the child's need for care, including which of multiple "doors" provides entry to the system (and which facilities are under capacity at any given time). One long-time child advocate, for example, stated that if two youths with similar records committed the same relatively serious offense, the well-dressed and behaved child (who is probably white and suburban according to the advocate) could expect a placement in a residential treatment center while the less presentable youth (who is probably minority and from Minneapolis) could expect to be institutionalized. While this assertion over-generalizes, data support at least part of the observation. Minorities are overrpresented among the detention and County Home School populations, and underrepresented, in comparison, in treatment centers and group homes. Over 33 percent of those admitted to detention in 1980 were minorities. Approximately 25 percent of the population at the County Home School is minority. On the other hand, as of mid-1981, minorities constituted only 16.3 percent of those in residential treatment centers and 15.8 percent of those in group homes.*

Finally, the system is accused of "consuming" many kids who enter: once in, it becomes easier for some to move deeper into the system than to leave. As a recent County report concluded, "unplanned drift into long-term foster care is a pervasive problem in Hennepin County."** A typical progression of multiple placements would begin with a child detained for a status office such as incorrigibility or truancy (17.3 percent of all admissions to detention in 1980 were for status offenses). Upon appearance in Juvenile Court, a placement in a foster home is likely, especially if the child is under 12. Another route to a foster home for the same behavior is via a "voluntary" placement arranged by a child welfare worker and the parents. If the child is unhappy and runs, a more serious offense has been committed. Depending again on the characteristics of the child, the next placement might be in a more structured treatment setting, or it may be straight to the County Home School. In either case, additional difficulties further cement the child's place within the system.

The Coalition and Council had difficulty finding direct evidence of how often successive placements leading deeper and deeper into the system actually occur, but there are data which indicate the frequency of multiple and serial placements in Hennepin County. Looking only at out-of-home placements, not detention or institutionalization, nearly 50 percent of youths awaiting a placement in mid-1981 had been placed at least once previously; 11.5 percent had already been placed three or more times as a juvenile. In addition, among those children awaiting a placement, only 31.7 percent were presently at home, suggesting that close to 70 percent faced at least a second successive placement out-of-home.***

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*Hennepin County: Court Services, Planning and Evaluation; Office of Planning and Development, Child Placement Location crosstabulations, June 6, 1981.

**Child and Youth in Crisis Task Force, "Future Directions in Foster Care," Executive Summary, September, 1979, page 4.

***Hennepin County, Office of Planning and Development, Child Placement Request crosstabulations, June 6, 1981.

In short, experts and practioners in and outside Hennepin County raise serious questions about the operation of the County's juvenile care system. While Hennepin County has long been a leader in providing services and care to children, it seems clear that there is now a lack of needed discrimination in terms of which juvenile care resource are employed for what types of children. This problem is best illustrated by out-of-home placements. In the face of declining youth population and criminal activity, and growing national evidence that many youth can be cared for as effectively through less intrusive and costly non-residential programs or shorter residential stays, the County's out-of-home placement system is expanding.

Admittedly in reciting a litany of facts, figure and anecdotes, the Coalition and Council have "proven" nothing. The Coalition and Council also recognize that the care of juveniles is a highly charged emotional and political issue for the County Board, the Juvenile Court and Child Welfare Workers, children and parents and their families and friends, as well as victims of juvenile crime, and neighborhoods. However, there is, within the information presented above, a clear indication of an area of significant county spending "gone awry" which cannot be ignored.

When scrutiny has been given this issue in the past, it has resulted in volumes of written material and scores of recommendations, but only minor changes which have had little effect on the total system. The Urban Coalition and Council of Churches believe this issue merits aggressive action on the part of the County Board to restructure the system in order to better use existing resources <u>and</u> to better meet the needs of children in Hennepin County. In this way, the Board could also reduce the drain this growing budget area creates on other areas of County spending which are faced with reductions now and in the future. The Coalition and Council recommendations focus on two major parts of the system; out-of-home placements and detention/shelter care.

Out-of-Home Placements

Out-of-home placements are made from two sources in Hennepin County. Most placements, approximately 70 percent, are made through the Community Services Department's child welfare system. County social workers, the schools and other social service agencies (St. Josephs Shelter, for instance) become involved in these placements. Most are considered voluntary in that parents and representatives from these other organizations and agencies mutually agree to the placement (with varying degrees of coersion of parents involved). The child, however, is usually not involved in making this agreement. The other 30 percent of out-of-home placements are made by the juvenile court.

Among the range of available placement alternatives, costs vary significantly.

Cost Comparisons, Out-of-Home Placements
in Hennepin County

	Aggregate Costs			
	1981	1982	per diem*	annual cost*
Foster Homes	$ 5.6m	$ 5.9	$18.03**	$ 6,581
Group Homes	2.8m	3.0	$37	13,505
Residential Treatment Centers	11.6m	12.4	$65	23,725

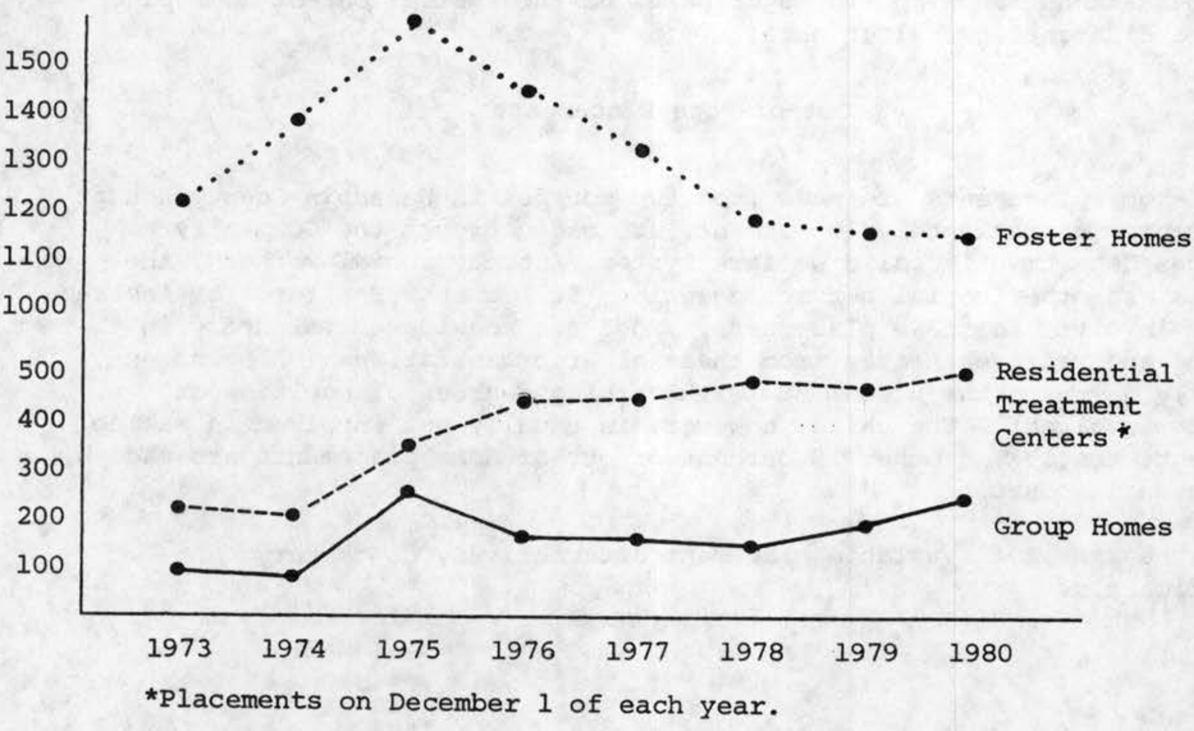
*July, 1981.

**per diem cost for 9-11 year olds plus average "difficulty of care" allowance.

SOURCE: Hennepin County Budget, 1981, 1982; Community Services Department, Accounting.

The trend over the last several years in Hennepin County has been towards increased placement in the higher cost treatment centers and group homes.

Trends in the Placement of Juveniles,
in Hennepin County, 1973 - 1980*



*Placements on December 1 of each year.

SOURCE: Hennepin County: Community Services Department, Planning Unit

Given the decline in youth population and criminal activity, it seems unlikely that the number of "harder-to-deal-with" juveniles, who tend to be placed in treatment centers and group homes, has doubled since 1973.* Likewise, it is unlikely that the decline in available foster homes in the County accounts for all this increased emphasis on group homes and treatment centers. Because younger children tend to be placed in foster homes (74 percent of the youths in foster homes in mid-1981 were 11 or younger), whereas older children tend to go to group homes and treatment centers (youths 12 and older accounted for 100 percent of the population in treatment group homes and 85.7 percent in residential treatment centers), a likely outcome of an increase in foster homes would be an increase in the number of younger children in the system, not a decline in the utilization of group homes and treatment centers.**

The Coalition and Council believe the major contributors to this trend are the belief that the expensive, therapeutic treatment offered in group homes and treatment centers is more effective and therefore should be delivered to more and more kids, despite mounting costs, plus pressure to keep existing capacity fully utilized. On the first point, this emphasis on expensive, residential care for a larger number of children in Hennepin County, while alternative resources go unexplored or underattended, is not warranted by the information the Coalition and Council have reviewed concerning the effectiveness of alternative approaches to the non-institutional care of juveniles.

A number of studies conducted in the middle and late sixties found little evidence that treatment of criminal offenders in institutional or community-based settings had a positive effect on the subsequent behavior of those individuals. In a chapter titled, "Rehabilitation Efforts -- Does Anything Work?", the Hennepin County Children in Crisis Task Force discussed briefly major research efforts which reached this conclusion.

One study conducted in 1966 examined results from 100 research projects concerning the effectiveness of treatment and concluded, "Evidence supporting the efficacy of correctional treatment is slight, inconsistent and of questionable reliability." A similar study completed in 1969 concluded, "The major achievement of research in the field of social psychology and treatment has been negative and has resulted in the undermining of nearly all the current methodology regarding the effectiveness of treatment in any form." Finally, an exhaustive review of 200 treatment programs for adult and juvenile offenders initiated by the New York State Governor's Committee

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*Another apparent anomoly in terms of the most severe out-of-home placement, institutionalization, is the increase in juveniles from the County committed to state secure facilities. Again, with the decline in youth population and criminal activity (particularly arrests for violent crimes), plus the Community Corrections Act in 1978 which was designed to keep children in locally-based institutions, the trend would seemingly run in the opposite direction. Instead, there were more commitments to the state in 1980, a total of 142, then in 1977, when there were only 121 youth from Hennepin County sent to state facilities.

**Hennepin County: Office of Planning and Development, Child Placement Location crosstabulations.

on Criminal Offenders in 1974 stated, "With few and isolated exceptions, the rehabilitation efforts that have been reported so far have no appreciable effort on recedivism."*

A more recent series of studies focusing solely on juveniles in out-of-home settings in Minnesota reached many of the same conclusions. The Governor's Commission on Crime Prevention and Control evaluated the effectiveness of group homes for boys and girls in 1973. With respect to boys, the Commission found "the program successes appear to be about as frequent as program failures (where success was measured by reported "satistfactory adjustment" upon discharge by staff).** In terms of girls, the Commission concluded, "Thus, with respect to whether the girls committed new offenses, there is no difference between those who went through group residence and those who did not."*** And in a major study of residential community corrections programs conducted in 1976, the Commission concluded about juvenile programs, "the data indicate that 40 percent of the juvenile clients managed to satifactorily completed residence and 44.9 percent failed to satisfactorily complete residence.**** (That report also concluded that no new LEAA monies in Minnesota should be devoted to group residences, including those for juveniles). While these findings are arguably not as negative as those reported by the Children in Crisis Task Force, at best the effect of residential treatment could be characterized "a wash" based on the Minnesota studies.

In response to growing evidence that treatment was not highly effective as well as a conviction that residential programs were inappropriate for many juvenile offenders (particularly those committing less serious offenses), the Office of Juvenile Justice in Washington funded a number of demonstration projects in the mid-'70's designed to place juvenile offenders in community-based, non-residential and non-therapeutic programs. Many of these projects were then evaluated to determine their efficacy as alternatives to residential programs. The evaluation of one alternative, the Family Crisis Intervention Program in Clark County, Washington, concluded, "The program resulted in a 7 percent recidivism rate compared to 19.7 percent recidivism in the control group" (which received traditional casework services). Other projects in Sacramento and Alameda County, California, and Virginia Beach, Virginia, focused on diversion of juveniles from the court system as well as reduction of recidivism through family intervention. Evidence from all three projects indicate success in achieving both goals.*****

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*Children and Youth in Crisis Project, "The Violent and Hardcore Juvenile Offender in Hennepin County," May, 1976, page 33.

**Governor's Commission on Crime Prevention and Control, "Group Residence for Boys," June, 1973, page 40.

***Governor's Commission on Crime Prevention and Control, "Group Residence for Girls," June, 1973, page v.

****Governor's Commission on Crime Prevention and Control, "Residential Community Corrections Programs in Minnesota," November, 1976, page 180.

*****Conference on Family Counseling and Juvenile Diversion, National Institute of Law Enforcement and Criminal Justice Conference notebook, Sections 1 and 6.

In summary, there is no preponderance of evidence in favor of treatment in residential settings which requires removing children from the home environment. There is also a clear indication that alternative resources are as effective in preventing repeat offenses and diverting cases from Juvenile Court, especially for youths committing less serious offenses. In light of this information, and given the serious financial problems in Hennepin County in 1982 which will grow more severe in 1983 and beyond, the Coalition and Council believe the number of costly out-of-home placements of juveniles must be reduced.

Along this line, the County should adopt a comprehensive policy that family-oriented responses which keep children in the home and families intact are preferrable to out-of-home placements, the primary exception being those cases where the child faces harm or deprivation. As a top priority in the Juvenile Court and the Community Services Department, Hennepin County should be in the business of keeping families together through non-residential programs and youth diversion from Court (and therefore diversion from a possible placement), not disrupting them through the removal of children from their homes for treatment.

Hennepin County has taken a step toward holding down the number of placements in residential treatment centers, the most costly type of out-of-home placement. A Community Services Department screening committee has been reviewing all treatment center requests from child welfare workers since January, 1979. The Committee has approved only 75 percent of the requests it has heard. However, a recent follow-up to cases heard in the first six months of 1979 showed that in 48 percent of the cases in which a request was disapproved, the child ended up in a treatment center anyway.* This finding suggests the dogged persistance of the current placement system. Moreover, while case-by-case review will prevent some unnecessary placements, the fundamental bias toward more intensive treatment remains.

The Urban Coalition and Council of Churches believe Hennepin County must take more direct action to control expenditures on out-of-home placements. The Coalition and Council also believe the County must move directly toward implementing the comprehensive policy outlined above which mandates less intrusive, restrictive and costly forms of juvenile care which focus on the family as a unit wherever possible.

While short on specific prescriptions, the Coalition and Council would achieve this restructuring by reducing all Child Welfare Payment expenditures from each fund by 25 percent, with the exception of expenditures for the mentally retarded.** This would be a reduction of $4,144,000. The Coalition and Council recommend increasing the Community Services and Economic Assistance -- Child Welfare Services, and the Public Safety and Judiciary budgets by $500,000 each to provide for development of a range

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*Hennepin County: Office of Planning and Development and Office of Budget and Finance, "Interdepartmental Child Placement Issues and Recommendations," June, 1980, page 6.

**The Coalition and Council believe group home and residential treatment center settings are more efficacious as a general rule for the mentally retarded than for others in the juvenile care system. The determination of need for such a placement among this population is also a more definitive decision.

of alternative resources, with the stipulation that at least 50 percent of the funds be earmarked for development of community-based alternatives. The County report "Future Directions in Foster Care" details many of these alternatives, including day treatment and family intervention services. In addition, innovative programs in the areas of restitution, apprenticeships and neighborhood mediation should be explored. Finally, the Coalition and Council believe that two programs consistent with the emphasis on non-residential, family-oriented responses which were not funded in the Administrator's budget, On-Top and Hennepin Area Youth Diversion Project (HAYDP), should be restored with $350,000 in savings from Child Welfare Payments.*

With these changes in the out-of-home placement system, many children in Hennepin County could be reached in as effective a manner without disrupting homes and without generating the significant costs associated with residential treatment. There would also be a net budget savings of $2,794,248 in 1982 which could be devoted to other aras of County spending.

The Coalition and Council also believe better resource control can be achieved through "breaking-up" the massive Child Welfare Payment budget item and assigning a dollar figure to both the Juvenile Court and the Community Services Department for out-of-home placements. Until the Community Services review panel, there was virtually no oversight of spending in this area; this part of the budget was analagous to an open ended entitlement. The Coalition and Council believe better management of this system will occur as a result of the assignment of a separate budget to the key actors within which they must operate. In addition, the fund for placement of mentally retarded children should be removed from the Child Welfare Payment budget and assigned to the Mental Retardation Division within Community Services.

Detention/Shelter Care

Detention and shelter care serve much the same function within the juvenile care system, but for different populations of youth. The American Bar Association defines detention as:

> Temporary care of a child alleged to be delinquent who requires secure custody in a physically restricting facility pending court disposition or execution of a court order.

Shelter is defined as:

> Any public or private facility, other than a juvenile detention or correction facility, designed to provide temporary and emergency placements for children.**

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*On-Top deals with families in which a parent, often a single parent, is away from the home for a time in a treatment program or correctional facility. The program works to, 1) maintain communication between the parent and child, and 2) reunite families when the parent returns home. HAYPD diverts children from court and out-of-home placements where possible and provides non-residential services to youths and their families.

**Hennepin County: Office of Planning and Development, Detention Shelter Study, April, 1980, page 2.

While in definition a clear distinction exists between detention and shelter care, in practice the line is blurred. Until very recently, Hennepin County experienced longer and longer average stays in shelter and had upwards of 70 children per week in shelter care for more than 30 days. Bottlenecks of this sort in the sheltercare system mean many youths waiting for transfer to a final placement in a community facility who do not require "secure custody" are nonetheless held in detention.

Based on data presented in the Juvenile Justice Center Facility Planning Committee's final recommendations, an average of 21.8 youth wait daily in detention for placement. They represent 34.3 percent of all youth detained on a typical day. Of these, 13.1 youth or 21 percent of the total are waiting for a non-correctional placement.* According to a Detention/Shelter study completed recently for the Juvenile Justice Task Force, several one-day random samples indicate that this percentage frequently ranges as high as 30 percent. That study also reported that in November of 1979, 73 juveniles spent a total of 1,013 days in detention while awaiting "non-secure placement destinations," which represented 59 percent of all juveniles detained in that month, an apparent all-time high.** The study committee responsible for the report concluded, "The number of youth admitted to Detention is not increasing. However, the numbers of youth staying in Detention while they are awaiting out-of-home placements is utilizing approximately 25 percent of the Detention beds."***

It is inappropriate for children destined for a non-secure residential placement to be held in a secure setting, although it is understandable why this would occur given shortages in available shelter beds. The Coalition and Council have learned, however, that recent changes in the shelter care system are effectively reducing the average length of stay in such facilities, therefore freeing shelter beds at a faster rate. In a sense, more shelter beds are being created through improved utilization of the existing system.

A major barrier to effective use of shelter resources is difficulty in rapidly moving youths from an interim shelter facility to their final placement in a foster home, group home or residential treatment center.**** In response to this problem, Hennepin County created a staff position to act essentially as a shelter facilitator. Where bottlenecks caused by final placement delays occur, the facilitator's role is to expedite those cases through resolution of the difficulty. Whether directly related to this staff position or not, the Coalition and Council have learned of impressive progress recently in the use of shelter resources in the County.

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*Hennepin County: Facility Planning Committee, "Hennepin County Juvenile Justice Center," July, 1980, page 4.

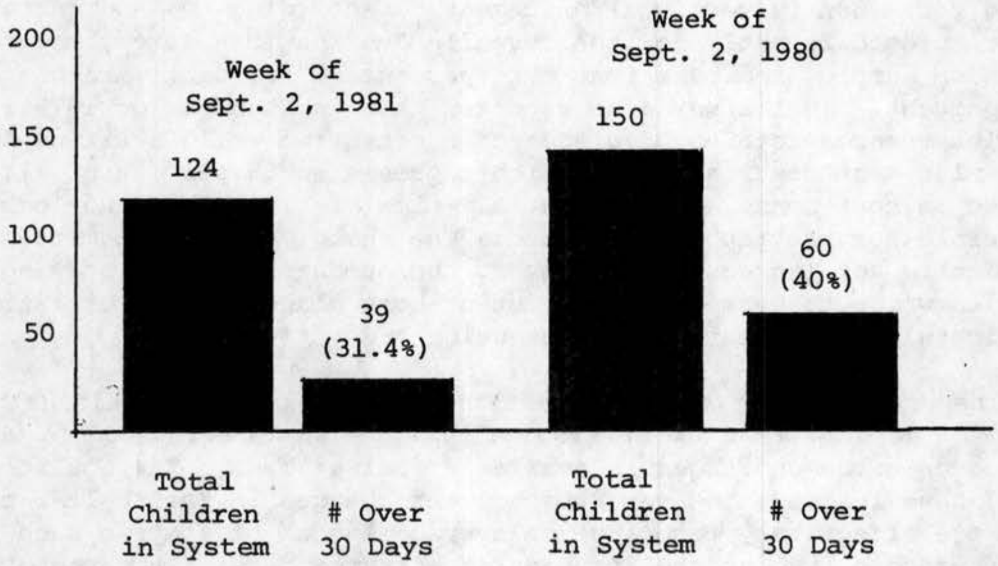
**"Detention/Shelter Study," page 3.

***"Detention/Shelter Study," page 4.

****Commonly cited reasons for delays include paperwork problems, transportation delays and the use of shelter care as temporary "respite care" by some parents.

During the week ending on September 2, there were a total of 124 youths in shelter, only 39 of whom had been in the system longer than 30 or more days. The comparable figures for the same period last year were 150 children total in shelter, with 60 in for at least 30 days.* It is reported that there are now occasionally empty shelter beds in the County. Both the reduced total and the reduction in the number of children in shelter care for a long period of time indicate that youths are moving from shelter resources to other placements more rapidly; in some cases too rapidly to keep all shelter beds full.

Comparative Usage of Shelter Care Beds



SOURCE: Hennepin County: Office of Planning and Development

The Coalition and Council believe recommendations concerning an emphasis on non-residential juvenile care will further lighten the load on the shelter care system by reducing the number of children who will need temporary shelter prior to moving to a final out-of-home placement. There are also steps the County could take in addition to creation of the shelter facilitator which will enhance effective and efficient use of existing shelter resources.

- Case aides could be used to transport children from shelter facilities to final placements when caseworkers are tied-up. This situation often occurs when a caseworker is in Court with another youth, and results in an additional day and/or night in shelter for the child waiting to be transferred. Case aids could provide transportation in these cases, allowing the caseworkers to check-in with the child when time permits.

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*Hennepin County: Office of Planning and Development, phone conversation, September 8, 1981.

- Parents should contribute to the cost of shelter care on an ability-to-pay basis. The recent County Board decision to implement a fee schedule for shelter care in accordance with existing schedules for chemical dependency and mental health is a positive move. Parental participation in paying the cost will provide a disincentive to parents to use shelter as an short-term "vacation" from their child. Fees can also help pay the cost of this program, although net revenues from shelter care fees are only expected to be $3,100 in 1982. Every effort should be made to increase this amount, especially through collection efforts, which are currently anticipated to be only 40 percent successful.

- Judicial orders for an out-of-home placement should use general language rather than name a specific resource. While a specific resource is sometimes preferred by the Court, if no vacancy exists or other problems with that particular facility emerge, an additional appearance is required to ammend the order, delaying the child's final placement. Such delays can be minimized and avoided entirely by the use of general language, as there are often facilities with openings comparable to the preferred resource.

With reductions in the number of residential placements of children in Hennepin County, and continued better use of available shelter resources, the Coalition and Council believe the Juvenile Justice Center can be reduced by one 12-bed residential unit back to the original 75-bed facility recommended by the National Center for State Courts/Ellerbe Architects consultant team. If the County will commit to a policy of not placing in secure custody any juvenile not in need of such custody (which in turn would require an ongoing commitment to improve the shelter care system along the lines suggested above), a 75-bed facility should be adequate to meet other, more appropriate detention needs.

By eliminating a 12-bed module, the County would save $653,000 in one-time capital costs and $180,000 annually in operating costs for each year of the facility's life, not counting inflation. Operational savings from this change would not be realized in 1982, but the capital costs could be saved in the '82 budget. Twenty eight percent of projected 1982 expenditures on the Juvenile Justice Center are from '82 revenue sharing funds. Assuming all savings realized from this recommendation are revenue sharing dollars, the total capital savings from that source next year would equal $653,000.

This recommendation to eliminate a questionable expenditure of County money where a viable alternative exists through better use of existing resources is consistent with the Coalition and Council's belief that the County must consider this budget year an opportunity to make changes which will pay off with short- and long-term fiscal savings.

Chemical Dependency Treatment

The treatment of chemically dependent individuals is something of a Minnesota hallmark. In fact, as reported last year by the Citizens League, chemical dependency treatment is essentially a Minnesota concept; at the federal level alcoholism is generally separated from drug abuse, with separate agencies administering programs in each area. Outside Minnesota the term chemical dependency is not commonly used.

In Minnesota and Hennepin County, an "accepted" method of treatment has emerged over the years. As described to the Coalition and Council by a long-time professional in the field, the treatment cycle involves a stay for up to 72 hours in a detoxification center, thirty days in primary in-patient treatment, and six months in a less intensive half-way house setting before moving back to self-sufficiency or a family environment. (A variation of this cycle, twelve to eighteen months in a therapeutic community, exists for those in need of total "habilitative" services).

Basic Chemical Dependency Treatment Model

Detoxification →	Primary In-Patient Treatment →	Residential Half-Way House
72 hours	30 days	6 months

While there is widespread agreement that the treatment of chemically dependent people is highly successful in many cases, questions about the efficacy of the accepted approach described briefly above are being raised. The current system is often inflexible; most people, including repeaters, must move through the entire seven to eight month cycle even when less intensive and time consuming care might be as appropriate. Along this line, the question of the effectiveness of in-patient versus out-patient care is being re-examined by many professionals. The 30-day in-patient stay may be no more effective than other approaches in many cases. One review considered 20 years of literature techniques on alcoholism treatment and concludes, "No differences were found in the effectiveness of different kinds of treatment regimens."* Another stated, "Most current assumptions concerning the treatment of alcoholism must be open to question," and concluded, "There is little evidence that costly and intensive therapeutic interventions are more efficacious than more economic and simpler approaches in bringing about remission."** Finally, a local researcher in the field reports that a systematic review of literature on chemical dependency treatment indicates that a "supportive environment" is most consistently identified as an important "success" variable.*** Clearly, a supportive environment can be provided in ways other than in-patient treatment.

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*Frederick Backelund, "Evaluation of Treatment Methods in Chronic Alcoholism," in Biology of Alcoholism, vol. 5, Kissin and Begleiter, page 427.

**Anthony Clare, "How Good is Treatment?" in Alcoholism: New Knowledge and New Responses, Edwards and Grant, 1977, page 287.

***Citizens League, "Next Steps in the Evaluation of Chemical Dependency Care in Minnesota," June 13, 1980, page 10.

In summary, as the Citizens League noted, "there is a lack of evidence indicating one form of treatment is better than another."* In a time of budget constraints, the Coalition and Council believe Hennepin County should consider changes in the accepted method of chemical dependency treatment which deliver effective care in a less costly way.

Because the Urban Coalition and Council of Churches are not chemical dependency (CD) experts, it was necessary to seek extensive input from professionals in the field concerning the nature of constructive changes in the CD delivery system. The recommendations which follow reflect that extensive review, and are therefore detailed beyond the level of expertise the Coalition and Council bring to this issue. The detailed recommendations are presented for two reasons. First, they are consistent with the COUNTY COUNTER BUDGET theme of re-structuring programs to provide effective service in the least restrictive and costly manner possible. Second, the redesigned CD system is more flexible and better able to meet the diverse needs of chemically dependent people in the County. The Coalition and Council are not wedded to specific details in the recommendations; the strong commitment is to these general principles.

Before considering the recommendations in detail, it should be noted that one major change has been included in the County Administrator's budget. The County in-patient program at 18th and Chicago, the second step in the current system, has been eliminated, which is consistent with the Coalition and Council's de-emphasis of this intensive type of treatment where possible. However, other similar programs were upgraded (although the total residential CD budget was reduced), and other aspects of the treatment system were left untouched. The Coalition and Council believe Hennepin County must re-think and re-structure the entire system along the lines presented graphically and discussed below rather than reduce a specific program here and increase another somewhere else, all within the existing framework.

Re-Structured Chemical Dependency
Treatment System

• Detoxification No "longer" than 72 hours →	• Therapeutic Communities No longer than 18 months • Residential Treatment Phase I: Primary Treatment; Out Patient — 14 days Phase II: Half-Way House — 3½ months → • Non-Residential Treatment (access, methadone, antibuse)	• Shelter Care • Out-Patient After Care (post-treatment support)

*Next Steps in the Evaluation of Chemical Dependency Care in Minnesota," page 8.

CD Cost Comparison:
County Administrator's Budget and
COUNTY COUNTER BUDGET

	Administrator	COUNTY COUNTER BUDGET
Detoxification	$2,713,138	$1,400,000
Residential Programs	2,696,315	4,400,000*
Non-Residential Programs	3,251,706	2,200,000
TOTALS	$8,661,159	$8,000,000

*This figure includes "Phase I" residential treatment, which includes a two-week primary treatment outpatient program at 18th & Chicago. The 18th & Chicago program is counted under Non-Residential programs in the Administrator's budget, accounting for the large discrepancy between the COUNTY COUNTER BUDGET and the Administrator with respect to Residential programs.

DETOXIFICATION: Detoxification programs should de-emphasize medical supervision at all levels. The criteria for admission to detox programs should be how functional the individual is and what other resources are available to the person, not just intoxification. Along this line, detox personnel reductions for chemical abuse intervention and treatment placement services should be made. These activities should be assumed by community-based access programs. The cost of re-structured detoxification activities should equal $1.4 million in 1982.

NON-RESIDENTIAL: Access programs are non-residential services which provide immediate care, intervention, diagnostic assessment, referral and follow-up. These programs should be continued at approximately the current level. Funding for these activities in 1982 should not exceed $880,000.

Non-residential treatment programs provide a variety of treatment activities on an out-patient basis, directed at the social rehabilitation of individuals whose problems are related to chemical abuse. Treatment plans are designed in the least restrictive manner possible. Costs for such programming should equal $680,000 next year.

RESIDENTIAL: Changes here include:

1. Elimination of in-patient care at 18th and Chicago.

2. Placement of all people assessed as needing in-patient care in facilities other than Therapeutic Communities (see below) in what Hennepin County currently funds as halfway houses.

3. During the first two weeks in the re-structured half-way houses, people will be transported to 18th and Chicago for primary treatment on an "out-patient" basis -- this is Phase I.

4. Phase II involves 3½ months solely in a half way house environment, during which time the emphasis is on educational activities, developing work related skills and finding employment.

It should be noted that people would only enter Phase II of the Residential program if their chemical abuse problem warrants such care. It is anticipated that many individuals could be referred directly to Out-Patient Aftercare (see below) after successful completion of Phase I. It should also be noted that the recommended changes do not constitute a total abandonment of in-patient treatment. While the 30 day in-patient stay would be eliminated, the same type of primary treatment services would be offered during the day for a two week period. In addition, close supervision plus culture and gender specific programming would be offered in the restructured half-way houses at night during this initial period.

Cost for this restructured Residential treatment system should equal $3.48 million in 1982.

SHELTER CARE: After successful completion of Phase I and II, some individuals would be placed in a shelter care facility. Shelter care provides non-structured board and care lodging with minimal supervision. The purpose of shelter care is to give individuals leaving chemical dependency treatment essentially a "transitional" environment prior to total self-sufficiency. It should be noted that many people could be placed in this setting directly from Access and Non-Residential out-patient programs. One or more of Hennepin County's current half-way houses could be modified to provide this service. Costs for such programming in 1982 should equal $120,000 next year.

THERAPEUTIC COMMUNITIES: It is recommended Hennepin County continue to provide funds for therapuetic communities for people who are in need of total habilitative services focusing on psychosocial behaviors, where the primary cause is chemically related and the person needs an intensely structured and supportive environment. Programs should not exceed 18 months. Costs in 1982 should equal $800,000.

OUT-PATIENT AFTERCARE: Out-patient aftercare provides support services for those in post-treatment recovery which are culturally specific and occur in the least restrictive environment possible. These services are currently provided by Access programs, and should be continued at approximately the current levels. Cost should not exceed $640,000 next year.

These changes in the County's chemical dependency system, if implemented, would in most cases shorten the current eight-month cycle of treatment to less than five months. The potential for flexible responses based on needs of the individual would also be enhanced. For instance, where non-structured board and lodging available at a shelter care facility is sufficient after "detox," such a referral could be made independent of more therapeutic aspects of the system. Where even less structure is required, a referral directly to Out-Patient Aftercare could be made. Finally, by virtue of shortening the usual course of treatment and de-emphasizing in-patient treatment, Hennepin County could serve its chemically dependent population at a net savings of $660,000 over the recommended CD budget.

B. Restorations and New Expenditures

Day Care

If Hennepin County's goal for families is self-sufficiency and minimal governmental support, it is not reflected in the treatment of day care in the proposed 1982 budget. Day care experienced a cut of 206 slots and over $900,000 from 1981 levels.

Despite the overall decline in the birth rate, the number of children with working mothers has rapidly increased. So has the number of children in single-headed households. Currently one in three marriages is ending in divorce, and 50 percent of all children will live in a single-parent household at some time before they reach age 18. Among children between ages three and five, 50 percent have mothers in the workforce; school age children with working mothers are now the rule, not the exception.

To meet the needs of low-income families, Hennepin County provides free day care to families earning 0-60 percent of the State median income (SMI -- $10,813 for a family of three), and subsidized care for families earning 60-70 percent of the SMI. Slots have consistently been full, with waiting lists for some programs. 1982 presents special needs because of federal changes in Aid to Families With Dependent Children eligibility. It is expected that about 1,300 Hennepin County AFDC mothers who now work will be forced to choose between quitting their jobs, or trying to find another way to pay for day care so that they can work. Any mother with two children who grosses more than $8,028 a year will face this dilemma. This presents the County with a policy question: should provision of one source of support enabling families to remain self-sufficient and also contribute to the tax base be expanded, or should families be forced to choose between work and welfare, with the County picking up some of the expense when the latter is chosen.

Here is one example. A mother with two children currently grossing $8,500 a year must find subsidized day care or quit her job and receive welfare. If she chooses welfare, the taxpayers must find approximately $9,000 a year for subsistence, medical care and administrative costs, and the tax coffers lose perhaps $1,000 in lost payroll taxes, a net cost of $10,000. If the mother chooses subsidized day care and leaves the welfare rolls, taxpayers will pay approximately $2,200 for day care, and the mother will return $1,000 in payroll taxes, a net cost of only $1,200.

Admittedly, the County's share of the welfare costs is low, 7 percent of the total with the State paying 37% and the Federal Government picking up the other 56% for AFDC. One could argue that the county should encourage families to become totally dependent on welfare since it is cheaper in the short run than paying for day care. We find the argument unpersuasive at best. If the mother is allowed to retain employment, she is in a position to work her way up and out of any need for day care subsidy. If she is forced back to full dependence on welfare, she and we are looking at longer and deeper dependence on public assistance.

Rather than supporting efforts toward self sufficiency, the County has proposed a policy limiting day care to one month for a parent looking for work (and then only if the parent has been employed in the last 30 days), limiting day care to two months for a parent pursuing a GED, and prohibiting day care funding for low-income families in college. The County has also cut back day care funds for parents in other forms of training, and shifted savings in day care to other parts of the budget. We believe this policy to be penny wise and pound foolish. The Coalition and Council day care recommendations are presented below.

- Adopt state staffing ratios and use cost savings to fund new slots. Because federal mandates have been removed, the County Administrator is proposing to move to the larger child to staff ratios. We support the move, with the provision that the $300,000 saved be used to create 128 new slots.

- Adopt voucher placement system. Under the old system, slots were awarded to providers, and families chose among current openings. Under the new system, families will take their eligibility voucher to the licensed provider of their choice. We caution the County, however, to build in incentives for the family to choose lower-cost options. This could be done, for example, by providing rebates to the family, or by granting extra eligibility to be "spent" after the family becomes technically ineligible. Failing to look toward incentives for cost containment in this new system could easily place the County in the position that the state and federal governments now find themselves, i.e. with huge, burgeoning medical expenditures, and no incentive for users to choose low-cost options.

  The County estimates that the voucher system, as currently envisioned, will produce a $50,000 savings. These savings should remain in the day care budget to create 21 new slots.

- Create 145 new slots by adding $344,000 to the day care budget.

- Maintain eligibility for low-income parents in college and other training and restore the $297,000 cut by proposed eligibility restrictions. This could restore funds for 121 slots.

- Maintain eligibility for parents seeking a GED or pursuing job-search activities and restore the $200,000 cut by proposed eligibility restrictions. This will restore 85 slots.

- Restore the $230,000 discretionary fund that helps new programs to start up and others to meet codes and other licensing requirements.

The Coalition and Council's recommendations on the day care budget will enable Hennepin County to restore 206 slots and create 149 slots with program savings and 145 with new spending. This is a total of 500 more than proposed for 1982 and 379 more than in 1981. These 500 slots barely scratch the surface of the need created when 1,300 welfare families, because of changes in AFDC rules, must find subsidized day care or quit their jobs and remain on welfare. However, the fund restorations and creation of new slots will at least move the County toward increased support for family self-sufficiency for work, not welfare.

500 Additional Day Care Slots

21 slots*	128 slots	85 slots	121 slots	145 slots
	Staffing Ratio Savings	Parents Seeking GED or a Job	Parents in College or Training	New Spending
	$300,000	$200,000	$297,000	$344,000

* Voucher System Savings

$50,000

A New "Crisis" Fund

Though it will be several months before the full effects of federal and state spending reductions are felt locally, there is wide agreement that cuts in a broad range of social programs can only mean increased economic hardship for the County's poorest citizens. Among the areas that have been cut are:

- Economic Assistance Programs (AFDC, General Assistance, minimum social securities benefits, Food Stamps);
- Work and Training Programs (CETA);
- Title XX Social Services ($4.2 million in Hennepin County alone);
- Child nutrition and health programs;
- Energy Assistance (fuel aid and weatherization), and
- Subsidized housing

No one can predict the exact dollar impact of these cuts or the number of people affected in Hennepin County. Yet it is clear that the loss of these services, which assist the poor and working poor create and maintain a minimum lifestyle, will throw many into crisis. People who barely made it from month to month will no longer find their resources adequate to pay the rent and to buy food. Others will find their resources just adequate, but will be unable to cope with emergencies and unexpected expenditures. Already churches and other voluntary helping institutions have experienced a great increase in people needing emergency help. It is clear that private, voluntary efforts cannot bear the full burden.

Though many in the County resent the shifting of fiscal responsibility from federal and state to local coffers, the Coalition and Council believe Hennepin County must recognize that for the very poor, there will inevitably be crises requiring an effective County response. Hennepin County must have the capacity to respond to these individual economic emergencies.

As Hennepin County administrators struggle with shrinking revenues and retrenchment, one topic of discussion has been the appropriate role for the County in service provision. They speak of the County standing "downstream", pulling out drowning people, meeting emergency needs. They posit the resolution of life-threatening situations as the first priority of the 1982 budget.

If this is indeed the County's top priority, it is not reflected in the budget for 1982. Currently, the County will not help a citizen in crisis unless that person is eligible for a welfare program, and hence the County is eligible for cost reimbursement. For 1982, no County dollars have been allocated for emergencies.

The Coalition and Council believe that this is a crass abandonment of those in our midst who are coldest, hungriest, and poorest.

Though Hennepin County did not ask for its increased responsibilities, it is clearly the last line of defense in crisis, the keeper of the ultimate safety net. The Coalition and Council believe that the County Board has the moral duty to respond.

The Coalition and Council propose that the Board create a new line in the social services budget, the Crisis Fund. Eligibility would be open to any County resident in an economic crisis which has created an acute need for:

- food
- shelter
- clothing
- emergency transportation
- utility payments; if threatrened with shutoff
- other emergencies on a case-by-case basis

In the vast majority of cases, eligibility would be limited to one time in any calendar year, though we recognize that in isolated instances, individuals may need help more often. The Coalition and Council also note the problem of defining County residency. Though we understand and respect the County's fear of attracting individuals from elsewhere, who would draw upon this fund, we also appreciate the difficulty of defining and proving residency, as well as the administrative costs of such efforts. Ultimately, we assert the need for this expenditure in Hennepin County, despite the risks.

It is extremely difficult to predict the number of emergency cases that may arise once the effects of state and federal cutbacks are felt. We do know, however, that during the first half of 1981, emergency cases in Hennepin County fluctuated between 900 and 1,500 monthly. We do know that during the same period, average cost to resolve those emergencies ranged between $30 and $39. However, during that period, people often were eligible for other programs, enabling the County to offer help for a day or two until another program could take over. Since many poor citizens have been made totally inelgible for the help they so desperately need, (approximately 2,500 from GA alone), the cost per case could rise dramatically as the County picks up full responsibility for utility shutoffs, evictions, food, etc. In addition, reductions in the breadth of programs mentioned above, plus deteriorating economic conditions, will cause hardship for an entirely new group of County residents; those who have been independent of direct assistance in the past but who now face serious difficulties. Hennepin County must be prepared to respond to the emergencies of this group of people as well. Therefore, the Coalition and Council suggest that $2 million be allocated to the Crisis Fund with the understanding that any unspent dollars be carried over into 1983, when cumulative effects of cutbacks will accelerate the need for crisis help.

Refusing to provide an ultimate safety net is a choice, not a necessity. The County has the money to avert crises. We need not have people begging, people sleeping in cars, people going without lights, without heat.

<u>Pilot City Regional Center</u>

Pilot City Regional Center was formed by community residents of Bryn Mawr and North Minneapolis to meet needs as the community sees them. It is controlled by a community board, and employs community residents. The determination of needs by the community has resulted in self-help programs such as a tool lending library and medical transportation provided by community residents which are not available from the County. One other unique aspect of the Center is the fact that it has brought together City, County and State services under one roof, proof that the fragmented, duplicative nature of social service delivery that has exasperated clients and professionals for years can be overcome.

Pilot City's community based, one-step social service delivery model stands in sharp contrast to the highly professionalized model employed by the County's Child Welfare and Adults Services units. In these units, social workers, usually with advanced degrees and usually residing outside their service area, spend much of their time transporting individuals from program to program, all at different locations, to meet all of the client's needs.

Because Pilot City does not fit the prevailing delivery mode, it has been seen as a threat by some. However, the Coalition and the Council believe that the health of our delivery system depends in part on promoting a mix; a mix that fosters self-examination, periodic rethinking, even some healthy competition.

A mix of delivery models provides a mix of costs as well. In this case the difference is startling: the average cost at Pilot City for a full-time position is $17,200 per year.* The average costs in Child Welfare and Adult Services Field units for each full-time position are $36,205 and $37,018 respectively.** As long as a competitive mix exists, there is an incentive for the more costly delivery systems to contain and even cut costs. Once the comparisons can no longer be made, cost containment becomes much more difficult.

Pilot City Regional Center's budget has been steadily cut by the County Board since 1973. If this year's proposed cut is sustained, 50 percent of it's present caseload, about 800 people a month, will no longer be served.

Because Pilot City Regional Center provides an alternative to the prevailing delivery model in both method and cost, the Coalition and Council propose that its funds be restored from the much more expensive Child Welfare and Adult Services budgets. Since most of the cases at Pilot City come from the same population served by Child Welfare, we propose that $160,000 be taken from there, and $53,000 be taken from Adult Services (a 3/4:1/4 split) to realize the $213,000 cut by the Administrator's budget. These fund reductions can be accomplished by attribution of 4.4 positions in the Child Welfare Field (from the 138.8 current complement) and 1.4 positions in Adult Services Field (from the 38.6 current complement)

The eroding County support for Pilot City Regional Center exhibited since 1973 is further evident in the 1982 budget recommendations from the Administrator. This erosion is an unfortunate move toward monopolistic delivery of basic social services. If the recommended cut for next year is sustained, the reduced level of services provided at the Regional Center will move the Center close to a point where it is no longer a viable provider of needed services. The potential loss of alternatives

*Cost information provided by Pilot City Regional Center.

**Community Services budget, August 24, 1981.

like Pilot City to the prevailing, expensive delivery system could have very costly consequences in the long term.

Citizen Participation

In a period of federal and state budget reductions for human services and in a time when fundamental decisions about meeting human needs will increasingly be made at a local level, the Coalition and Council believe it is essential that citizens play an important and appropriate role in planning for the delivery of human services in Hennepin County. We note that the proposed 1982 Budget eliminates funding for the Human Service Councils in the suburbs, organizations which have served as community-based advisory committees for human service planning. We also note with dismay that this year's United Way Campaign will involve several thousand citizens in the raising and allocating of $15 million, while the County's proposed process provides for no formal citizen participation in allocating $510 million, a budget 34 times as large.

The Minnesota Community Social Services Act, which gives a great deal of discretion to the County Board in determining and implementing social services, requires a process and a mechanism for citizen participation in the planning of social services. The Act encourages counties to involve three types of citizen groups in community social service planning: (1) consumers and potential consumers of services; (2) providers of services; (3) the general population. The Hennepin County Office of Planning and Development developed a proposal for the organization of citizen participation which was adopted by the County Board, with several amendments, on September 30, 1980.

Essentially, the plan calls for eight geographically-based human services councils, each representing an area containing at least 50,000 residents. A county-wide coordinating council would also be formed, drawn from the 8 area councils and augmented by County Board appointees, to coordinate the work of the 8 councils and address issues having a county-wide impact.

The focus of these councils would be to participate in a variety of County needs and opportunities for citizen participation by performing:

- needs assessment
- priority setting
- comment on expansion or reduction of services
- evaluation of services
- community education
- development and review of legislation

We believe that the citizen participation plan adopted by the County should be implemented. The plan identifies each council's need for staff, as well as funds for office space, office costs and per diem allowances so that advisory group members may participate. Though the plan sets no dollar figure for council activity, the Coalition and Council suggest that $200,000 be allocated in 1982 for citizen participation activities. If this money were divided evenly among the 8 councils, it would allow $25,000 per council, enough to operate with part-time staff.

Because the county is the major funder and provider of social services and because local government will have more and more responsibility for decisions about what needs will be met, it is crucial that citizens be as involved as possible in county government. Implementing the citizen participation plan and investing $200,000 are useful steps toward increasing that involvement.

Revolving Loan Fund for Non-Profit Energy Conservation Loans

Hennepin County contracts with a number of non-profit organizations which operate programs in residential settings, for example, group homes for juveniles and half-way houses for the chemically dependent. There are approximately 40 such contracts in the County at the present time.

The cost of energy represents a major and growing operational expense for many of these agencies. A recent Urban Coalition survey of nine residential non-profits indicated that energy averaged 12 percent of operational costs in 1979 compared to 9.5 percent in 1977. Energy as a percentage of total operational costs increased by 26 percent over the two year period. With natural gas prices expected to triple from 1979 levels by 1985, energy will continue to grow as a percentage of operational costs, as well as increase the total costs facing non-profits.

As operational costs increase, requests for increased County funding to meet these costs grow as well. But in a time of reduced funds for social services programs, these requests go unmet in many cases. Reductions in the level of service to program recipients or the actual closing of facilities are frequent consequences of this problem.

The Urban Coalition and Council of Churches believe Hennepin County should create a revolving loan fund for non-profit agencies which would enable them to make energy conservation improvements. $100,000 in new capital expenditures should be earmarked for this purpose in 1982. This amount would be sufficient to make 20 initial loans at $4000-$5000 per loan. With a loan term of 3 to 4 years, up to 10 additional loans could be made per year in subsequent years.

Many non-profits rent the facilities they occupy. Only those with expected length of occupany equalling the loan term should be eligible for participation in this program.

Estimates developed by the Urban Coalition's Non-Profit Energy Services Project indicate that conservation loans to residential facilities generally "pay-back" through reduced energy savings within 2 to 5 years. For example, a $3012 conservation investment at the Katahdin youth home would pay-back in 3.7 years, and after the initial investment would save the agency a total of $5168 over a 10 year period at current energy prices. Assuming a modest 10 percent increase in the cost of energy over the decade, the net savings increase to $10,108.*

A County initiative to help reduce the long-term energy operating costs for many of its contracted service providers would lower requirements for appropriated County dollars in the future. It should also be noted that the initial $100,000 capital investment would not be lost; those dollars would continuously be returned to the County through loan repayments.

Social Service Reserve

The County Administrator best summarized the 1982 budgetmaking process in a letter introducing the recommended budget to the County Board. "The proposed 1982 budget is substantially different from budgets submitted in recent years. For the first time in many years, reduced availability of Federal and State revenues, combined with restricted ability to raise the property tax levy, has required a significantly reduced level of County services, program and employees." The Administrator went on to state "More than any other area of county government, social service programs and activities have borne the brunt of reductions."

The budgetmaking process for 1982 remains fraught with uncertainty about federal revenues. Reports from Washington indicate further reductions in social service programs are emminent. The picture for 1983 and '84 is worse. It is estimated that federal revenues for many programs will decline by 30 to 70 percent by 1984 from current levels.

At the same time, demands for social services provided at the County Level will accelerate, partly as a consequence of federal and state withdrawal.

The Coalition and Council believe Hennepin County must anticipate substantial revenue shortfalls and increased need for county services into the future in this budget year. Savings from COUNTY COUNTER BUDGET program changes and revenue recommendations (see Section II, Revenue Proposals) need not all be allocated in 1982. The Coalition and Council therefore recommend that the Board create a Social Service Reserve fund, to be held in the Community Services and Economic Assistance budget to meet needs created by future revenue shortfalls after 1982.

This reserve, which the County COUNTER BUDGET funds at $2,033,000, is a prudent preparation for the "storms" ahead.

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*Urban Coalition of Minneapolis Non-profit Energy Services Project, Energy audit of Katahdin -- A Workshop for Youth, Dave Nelson, 1 July, 1981.

** Letter to the Hennepin County Board of Commissioners from Dale Ackmann, p. 4, 7.

C. Future Considerations

Health

As the budget before you states it, the purpose of the County's Health activities is "To maintain and improve the physical well-being of all County residents by reducing the number of illnesses and disabilities, or by lessening their severity." This suggests two areas of effort: preventive health work, including environmental, consumer education and preventive and maintenance family practice medicine, and treatment after an illness or injury has appeared.

Yet, most County dollars for health care are being devoted to the Hennepin County Medical Center (HCMC), an extremely costly delivery mechanism.

As federal and state support of health care for the poor is withdrawn, more and more pressure will be put on the County to provide care. Care of the indigent at HCMC is mandated by state law. Since we must care for the poor who arrive at the hospital's door, it becomes critically important to make this a cost-efficient operation. Currently hospitals (HCMC is no exception) are experiencing sharp cost increases. The Medical Center has requested a 15 percent budget increase for the next year alone. It is for this reason that the Coalition and Council suggest the Board re-ask some hard questions about the HCMC, going back to what is being done there, why, and how much do these activities cost.

The Medical Center is a large teaching hospital, with over 200 residents. The teaching function requires special equipment, special labs and research facilities, all of which make care at teaching hospitals more expensive than at non-teaching hospitals.* The question that must be asked is: What does the County get for subsidizing this function?

Examination of the State Health Board's rate review material on HCMC, and conversations with experts in the field have flagged some issues for further scrutiny.

- HCMC has a high staff-to-patient ratio compared to other hospitals in its group.**
- HCMC has high staff salaries compared to other similar hospitals.***
- While HCMC does a great deal of surgery, virtually none is done on the less expensive out-patient basis.****

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*Metropolitan Health Board Phase IV Report on General Acute In-Patient and Speciality Services, June, 1981.

**Minnesota Hospital Association Rate Review letter, February 9, 1979.

***Ibid.

****Metropolitan Health Board Phase IV Report on General Acute In-Patient and Speciality Services, June, 1981.

- The Health Board's occupancy rate goal for all hospitals is 80 percent. HCMC is running at 65 percent of its licensed capacity.*

It appears that HCMC is suffering from a common malady -- it has a very large, expensive building on its hands which must be kept full to support the capital outlay. This dynamic prevents the County from sending indigent patients to other hospitals that have lower costs for the same diagnosis. Need to finance the building also argues against giving up the licenses for unused beds. Likewise, it works against moving appropriate out-patient services into the community.

However, the building is a reality. The challenge now is to make creative, and cost effective, use of it.

One possibility is to raise occupancy by increased coordination with the University of Minnesota Hospitals. A mix of teaching and care already exists and the County and University mix budgets to finance senior medical staff. Perhaps the County could make the Board of Regents at the University "an offer they can't refuse," maybe something like this:

- Open 35 of the HCMC's currently licensed but unused beds.
- Allow the University of Minnesota to use them as it wills, enabling the University to cut these 35 beds from its proposed new facility, saving $33.6 million in construction and financing costs.
- Split operating costs of these beds not funded by user fees between the County and University.

This proposal might please several parties:

- The County which would increase use and thus lower unit costs at HCMC.
- Legislators, who have serious doubts about the proposed size of the new University facility.
- The Health Board, which is trying to minimize the number of unused beds area wide.
- Students at the University, who would pay for the new University facility if fears of underutilization are realized.
- State taxpayers who are also fiscally responsible for the new University facility if it proves to be too large.
- County taxpayers, whose responsibilities for HCMC would be reduced.

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*Metropolitan Health Board Phase IV Report on General Acute In-Patient and Special Services, June, 1981.

The Coalition and Council are not experts in health care, and our suggestions are far from the final word on possibilities at HCMC. However, it seems clear that an opportunity exists. We hope the County Board will charge staff with the development and evaluation of options for offering some facilities to the University Hospitals.

Currently, most of the County's health dollars are being spent to provide care at the Hennepin County Medical Center. In the coming years there will be increasing use of the facility as more and more low-income residents use the hospital as their primary care provider. These two facts, coupled with the very expensive nature of hospital care, make cost containment at HCMC imperative. Therefore, the Coalition and Council also suggest that the County Board initiate a major study of the future of HCMC, emphasizing cost containment possibilities. Such a study may yield important new directions for cost containment. If the study can be completed before the 1983 budget-making process begins, information developed there could be used to ease budget pressures.

Mental Health Programming

Prompted by a lawsuit challenging Hennepin County's heavy use of commitment to Anoka State Hospital to treat chronically and seriously mentally ill adults, Hennepin County has obtained from the McKnight Foundation a pledge of $5 million over a five-year period to aid in providing a continuum of mental health care for the citizens of Hennepin County. The County has agreed to match this sum with at least $11.5 million from other sources of revenue.

These efforts in mental health programming represents a large part of the new services that can be funded by the County in the coming years of tight budgets. For 1982, County spending for non-residential mental health services will increase 49 percent over 1981 levels. The increase for residential mental health spending is 201 percent. Because these may be among the few new programs funded, it is important to step back from the first frenetic year of the McKnight effort to make sure the plans represent the best use of revenues to meet under-attended County needs as well as complement other areas of County spending.

The lawsuit that spurred the McKnight grant application focused solely on adults involved in the mental commitment process. It pointed up the need for residential treatment facilities and other community alternatives to commitment at a State hospital. As part of the settlement of the suit, the County prepared a Five Year Directional Statement and Plan for Mental Health Services for the Adult Chronically and Seriously Mentally Ill. This too focused on the needs of mentally ill adults, particularly additional community residential treatment facilities.

The Urban Coalition and the Greater Minneapolis Council of Churches do not dispute the need for better community services for mentally ill adults. We applaud the McKnight Foundation for helping the County deal with a newly highlighted problem. However, we call on the County Board to take another look at this programming.

The thrust of the lawsuit and Directional Statement is services for seriously mentally ill adults. The application to the McKnight Foundation also states that "the first priority should be to respond to the needs of the adult chronically and seriously mentally ill." A major piece of that effort is the development of new community residential facilities for this population. Though one year of the five-year grant has passed, the County has made little progress in this area. There is a need to upgrade this effort and to make establishment of these facilities the major thrust of this grant during the five-year period.

A good deal of the new mental health programming, $458,000 or 40 percent of the $1.2 million in new "McKnight money" for 1982 is being spent on children's programs. These programs for children and adolescents should be viewed in the context of all the County's financial and programmatic commitments to this population.

In a previous section, the Coalition and Council recommended an increased emphasis on non-residential, family-based alternatives for children with problems. The McKnight programs should complement this effort. Therefore, emphasis should be placed on in-home programs for adolescents who tend now to go to the expensive residential treatment facilities.

D. Cuts Supported by the Urban Coalition and Council of Churches

Most discussions of budget making in times of reduction focus on proposed cuts about which the commentor is unhappy. These dialogues stress disagreements, often consisting of "Don't do it" or "You didn't do it right." We want to highlight briefly some proposed cuts that make sense, cuts we support.

Information and Referral Services. This cut of $632,287 and 20 positions is a good example of true duplication of services. The United Way's First Call For Help is an effective, comprehensive information and referral service available to Hennepin County residents. We also note that the County continues to fund population- and disability-specific information and referral as part of the programming done by community contractors, a service not duplicated elsewhere.

General Assistance Staff. Because of changes in eligibility requirements, monthly caseloads are projected to fall from 4,590 in the first half of 1981 to about 3,125 in 1982, a 32 percent decrease. The General Assistance work program, which helped clients increase their job-seeking skills or placed them on community work projects, was abolished by changes in State law. In response, staff levels in General Assistance have been pared from 117.6 to 68.0, a 42 percent decrease. It is too often the easier course to maintain positions despite reduced caseloads. This can have painful and costly consequences, as the recent bloodletting over closing Rochester State Hospital attests. The Coalition and Council believe this $866,000 can be better used elsewhere.

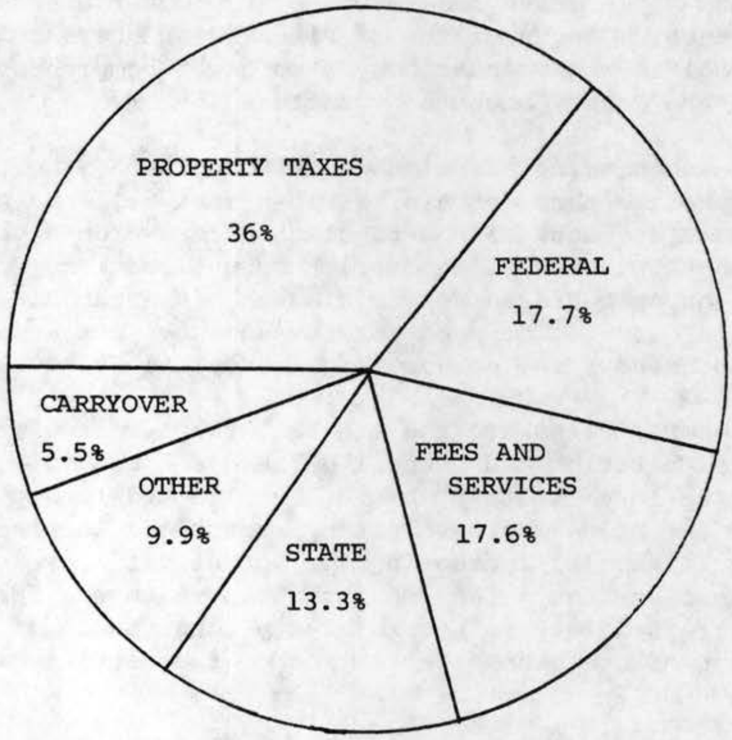
Residential Chemical Dependency Treatment Center. As we discussed in more detail earlier in this report, the prevailing evidence indicates that the supportive environment necessary for chemical dependency treatment can be provided at half-way houses rather than at the 1800 Chicago facility. Moreover, it can be achieved at a much lower cost, allowing this facility to close and providing a savings of $580,609 and 16.5 positions.

III. REVENUE PROPOSALS

Hennepin County receives revenue from a wide variety of sources.

1982 REVENUES

$509,134,256



In 1982, total revenues are expected to increase by 9.9 percent. This aggregate increase, however, masks reductions in the funding of social service and economic assistance programs from the federal and state governments, and new, more stringent constraints on the County's ability to levy property taxes to support its programs. Moreover, it seems clear Hennepin County is facing a prolonged period in which fewer and fewer resources will be available from other levels of government.

It is crucial in this situation that the County make the best use possible of available revenues from sources it does not control as well as maximize revenues from tax and other sources over which it does exert influence.

As a revenue measure, the Coalition and Council support the inclusion of some $2 million in service charges and fees in the County Administrator's budget and urge the Board to adopt those proposed changes not yet approved. The effort to find additional revenues in this way should continue. The list of fees and charges requiring legislative action in the Office of Budget & Finance (OBF) report "Hennepin County Fees and Other Non-Property Tax Revenues" is a good starting point. It it estimated that if all of those changes were implemented, the revenue gain would amount to $2.5 - 3.5 million in 1983. Not all of these changes may prove feasible or desirable (an increased County share of Municipal Court fines, for instance, would increase County revenues at the expense of municipalities), but those which are should be actively pursued.

It is important to point out that while 17.6 percent of the County's anticipated revenues for 1982 will come from fees and charges, Hennepin County still ranks slightly below the national average and well below the state average in terms of local revenues derived from this source (the national average is 19 percent while local governments in Minnesota average 22 percent).* That, coupled with the fact that over 88 percent of the fees to be collected next year will come from the Medical Center, suggests there is room to increase fee revenues from other areas of County spending. A 1979 Hennepin County Office of Planning and Development (OPD) study offers specific recommendations as to how a comprehensive fee for service schedule in the County might be structured.

In encouraging adoption of this approach, the Coalition and Council wish to emphasize that certain services must still be provided free of charge to those segments of the population for which a charge of any kind would constitute a serious barrier to utilization. Also, ability to pay must be the major criteria in determining the fee schedule for those above the "free care" line. The need for revenue does not supplant the need for equity in designing a fee schedule for essential County services.

Property taxes are the single largest source of revenue for Henenpin County. The Coalition and Council believe all possible property taxes under new state levy limits** should be collected to support social services, the area of the budget hardest hit by reductions in other sources of revenues. This would require increasing the social services levy by $1.4 million over the Administrator's recommendation to reach the full 18 percent limit.*** This increased levy is possible as a consequence of a recent state ruling on the cost of state hospitalization of the mentally ill.****

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*United States Department of Commerce, Government Finance in 1977-78, "State and Local Revenues as a Percentage of Revenue From Own Sources."

**Basically the levy limitation law consists of three categories: an 18 percent property tax increase limitation which generally covers all social service and public assistance payments with the exception of Economic Assistance administrative costs; special levies which are not subject to any limitation such as GAMC and hospitalization costs of indigents, costs associated with lawful orders issued before 1977, debt service and certain matching fund programs; and an 8 percent limitation covering all other County services which are not subject to the 18 percent and unlimited levy category.

***The $1.4 million figure is the latest estimate available to the Coalition and Council. The Coalition and Council understand that it may be necessary to commit some amount of this total to spending mandated by federal and state economic assistance program requirements as of now unspecified. In the absence of final information on this possibility, however, the COUNTY COUNTER BUDGET treats the entire $1.4 million as unencumbered revenue for social service programs.

****The state ruled that such costs should be classified as a special levy not subject to the 18 percent social service limit.

A proposal to increase property taxes is not made without trepidation. The property tax is clearly a regressive instrument which is not based on ability to pay. Although property tax bills have stayed relatively stable or declined for many in the County recently, and although State Homestead Credit and Circuit Breaker payments "soften the blow" of property taxes, increases remain regressive in nature. But in the judgement of the Coalition and Council, if the choice is between property tax and reducing essential services for those most in need of assistance, taxes must be raised.

The Coalition and Council believe there is an additional source of revenue the County can and should employ to offset reductions in social service funding. Federal revenue sharing funds have traditionally been allocated 70 percent to capital and 30 percent to operating budgets in Hennepin County. Within the 30 percent devoted to operations, no revenue sharing dollars reflects a County policy decision; there are no federal mandates which dictate this pattern of expenditures.

Given the reduction in outside funding for social services, and the County's inability to make up these shortages through property taxes, the Coalition and Council believe 10 percent or $900,000 of the $9 million the County expects in revenue sharing funds for 1982 should be devoted to meeting human needs through social service programs. This recommendation would necessitate that the County Board "find" capital projects or operational activities from which $900,000 in revenue sharing funds can be withdrawn, and/or levy additional property taxes to replace revenue sharing dollars withdrawn from projects and activities the Board considers essential.

According to OBF estimates, the County can levy an additional $2.7 million in property taxes above the $182 million recommended in the Administrator's budget without increasing the mill rate, as dictated in an April Board resolution, and without exceeding aggregate levy limits. The Coalition and Council's first revenue recommendation is that $1.4 million of this amount be devoted directly to social services to bring the levy in that area to the 18 percent limit. $900,000 in additional property taxes clearly could be levied to restore funds lost to social services from capital projects and other operational activities per the Coalition and Council's second recommendation. The Coalition and Council suggest, however, that such restorations not occur as a matter of course. Rather, this recommendation presents an opportunity to scrutinize the proposed use of revenue sharing funds, particularly for capital expenditures.

For example, in Section II A the Coalition and Council recommend reducing the size of the Juvenile Justice Center by a 12-bed residential unit. This would save $653,000 in capital costs. Assuming all savings realized from this action are revenue sharing dollars (over 28 percent of the $8 million in 1982 project costs are financed through revenue sharing), this one reduction in capital expenditures from revenue sharing alone would reduce the amount to be "made up" through property taxes under the Coalition and Council's second revenue recommendation to under $250,000. There are undoubtedly other examples of revenue sharing dollars devoted to unnecessary and non-essential projects or activities in 1982 which may well add up to the remaining $250,000, eliminating the need for additional property tax increases (above the $1.4 million social service levy) altogether.

IV. BALANCE SHEET

The COUNTY COUNTER BUDGET recommends a number of program restorations as well as expenditure of County funds on new programs. Some of these expenditures are made from savings located elsewhere in the Administrator's budget, others from revenues recommended by the Urban Coalition and Council of Churches.

All COUNTY COUNTER BUDGET recommendations are summarized below. As the table indicates, the COUNTY COUNTER BUDGET is "in balance;" suggested revenues equal recommended expenditures.

COUNTY COUNTER BUDGET

Balance Sheet

1. <u>Revenues</u>

• Net programmatic savings	$3,454,000
-- out-of-home juvenile placements ($2,794,000)	
-- chemical dependency ($660,000)	
• Property tax levy for social services	1,400,000
• Revenue sharing funds for social services	900,000
TOTAL REVENUE CHANGES	$5,754,000

2. <u>Programmatic Restorations/New Expenditures</u>

a. Operational	
• Day care	$1,421,000
• Crisis fund	2,000,000
• Social service reserve	2,033,000
• Community planning	200,000
b. Capital	
• Energy conservation revolving loan fund for non-profits	100,000
TOTAL EXPENDITURE CHANGES	$5,754,000

3. <u>Restorations/New Expenditures Funded From Specific Sources</u>

Expenditure		Source of Funds
• Alternative child resources	$1,350,000	reduction in Child Welfare Payments
-- Child Welfare Services/ Public Safety and Judiciary ($1,000,000)		
-- On-Top ($30,000)		
-- HAYDP ($320,000)		
• Pilot City Regional Center	$213,000	reduction in Child Welfare and Adult Services budgets

4. Additional Savings

	Savings	Use of Savings
• Juvenile Justice Center -- reduction of 12 beds	\$653,000 (1982 capital costs)	reduces property taxes required to "offset" proposed shift of revenue sharing funds to social services

Minneapolis Tribune

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8A

Wednesday, March 18, 1981

The Urban Coalition's 'audacious' budget'

"A rather audacious undertaking," the Urban Coalition of Minneapolis said of its state "counter budget." The coalition is right: Its alternative budget is delightfully audacious — a fresh breeze pushing through stagnant Statehouse air.

The alternative budget is a detailed response to the "retreat from the problems of low-income and minority people" that the coalition saw in Gov. Al Quie's proposed 1981-83 budget. The response is not complete. Nor is it objective. Where direct welfare payments affecting the Urban Coalition constituency are concerned, the coalition suspends the powers of judgment it uses to good advantage elsewhere.

But where the coalition is analyzing instead of advocating, its critique is crisp. Because it need not observe political constraints and institutional inertia — the "we've always done it that way" syndrome — the alternative budget is able to raise important, common-sense questions about state spending. Among them:

- It challenges keeping all eight non-security state hospitals open. Consolidate, the coalition argues. It's a good point.

- The coalition argues that the medical assistance system encourages too many elderly Minnesotans to live in nursing homes. Many could remain in their own homes, the coalition says, if the state would provide in-home services, at half the cost.

- It seeks a more aggressive child-support collection effort. Of one-parent families receiving Aid to Families with Dependent Children, 83 percent receive no support from the absent parent, which means they get larger AFDC payments. Only one-third of families entitled to court-ordered support receive it. More vigorous collection efforts would reduce government spending and free families from reliance on public welfare, the coalition says. In Michigan, a collection rate of 75 percent has been achieved. If Minnesota achieved a similar collection rate in 1983, the coalition estimates the state would save $33.4 million.

- The coalition agrees that the cost of medical care for welfare recipients must be contained. But rather than cut benefits and tighten eligibility, it proposes that medical assistance be provided through health maintenance organizations. Switching to HMOs would reverse the budgeting process. Instead of open-ended reimbursements, the state would create an incentive to hold down cost by contracting with HMOs to provide care for a specified amount.

The Urban Coalition's proposals — particularly for HMO-based medical assistance — demonstrate impressive, creative problem-solving, a quality sadly lacking in the Quie administration budget and the Legislature's response thus far. With great vitality but limited resources, the coalition was unable to provide many final answers. But it commendably raised a host of cogent questions to which the Quie administration and Legislature ought pay attention. Minnesota needs more audaciousness of the Urban Coalition brand.

URBAN
COALITION
OF MINNEAPOLIS

EARL D. CRAIG, JR.
President

September 22, 1981

TO: UCM Board of Directors

FROM: Earl D. Craig, Jr. EDC

RE: Hennepin County COUNTER BUDGET

Enclosed are a number of items related to the Coalition and Minneapolis Council of Churches' recent COUNTY COUNTER BUDGET: the full report, an Executive Summary and a copy of the September 16 Tribune article reporting the presentation of the document to the Hennepin County Board. The article and Executive Summary will provide a good overview of the COUNTY COUNTER BUDGET, while the document goes into detail on each of the recommendations.

I should note that the UCM Executive Committee approved the COUNTY COUNTER BUDGET in a meeting held on September 14, 1981.

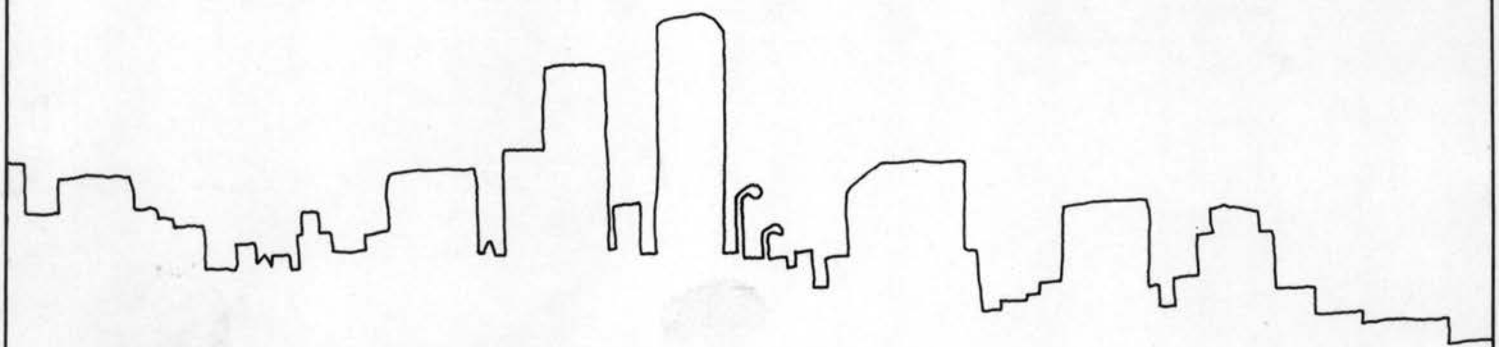
If you have any questions regarding the COUNTY COUNTER BUDGET, please don't hesitate to call me or Peter McLaughlin, Luanne Nyberg or Steve Cramer (348-8550) before the October Board meeting.

/cda

Enclosures

89 South 10th Street, Minneapolis, Minnesota 55403 • Telephone (612) 348-8550

State Counter Budget



Urban Coalition of Minneapolis

March 1981

INTRODUCTION

Presentation of a State COUNTER BUDGET is a rather audacious undertaking for a small non-profit organization such as the Urban Coalition of Minneapolis.

The Coalition has chosen to do so, however, because of the serious situation confronting the Coalition's constituency, low-income and minority people. We attempt through the COUNTER BUDGET to speak for their interests in the state government's largest, most significant, priority-setting activity, enactment of the state budget. We seek to have their interests incorporated in this critical process by presenting their views in a comprehensive, public fashion.

In past budgetary debates, advocates of poor and minority peoples have concentrated on the appropriations side of the public ledger. While such efforts are essential, they become increasingly less effective in times of overall revenue shortage and adverse political pressure on the public and the recipients of public services.

Moreover, in times of tight budgets, as public services become more and more costly, it is essential that the means of delivering public services be reexamined. There is a potential to seize the budgetary problems as an opportunity to modify outdated or overly costly means of providing services.

The COUNTER BUDGET is the Urban Coalition's attempt to provide a comprehensive, alternative state budget revised explicitly from the perspective of lower-income and minority Minnesotans. As such, it attempts to incorporate modifications in the means of providing state services and tax proposals as well as revised levels of state spending.

The COUNTER BUDGET should not be viewed as a partisan attack.* Rather, the Coalition hopes it is a clear, concise statement of the interests of lower-income and minority people that should be incorporated in any fair final state budget.

Before going on, the Coalition's one bias, as stated previously, is poor, working class and non-white people. This is consistent with our historical mission. The Coalition's one vested interest is low-income weatherization, a program we operate in Minneapolis as a delegate agency of the Minneapolis Community Action Agency.

The COUNTER BUDGET

The primary goals, assumptions and principles of the COUNTER BUDGET serve as the framework from which the proposal was derived. As such, they provide insight into the document itself.

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*In that regard, we have attempted to limit the amount of overt finger-pointing and inflammatory language and substituted as complete a presentation of facts as possible.

Goals of the COUNTER BUDGET

The primary goals of the COUNTER BUDGET are:

- To provide governmental services efficiently while guaranteeing that the problems of those most in need are met humanely and effectively.

- To prevent significant hardship to the working poor, who often do not benefit from direct governmental service but bear a significant tax burden.

- To return the state to a prudent financial base and compliance with the state constitution's requirement for a balanced budget.

- To raise the necessary revenues in a fair and equitable fashion that does not jeopardize the economic well-being of the state's residents or businesses.

- To provide accountability and governmental services essential to the long-term health and vitality of the state's people and the public sector itself.

Assumptions of the COUNTER BUDGET

The primary assumptions underlying the COUNTER BUDGET are:

- The State Administration's budget will serve as the basis from which the COUNTER BUDGET is developed.

- Inflation will continue at a relatively high level throughout the biennium.

- Economic recovery in the state will proceed at a modest rate.

- Revenue projections will be predicted at a moderate rate.

- Budget projections will be predicted at a moderate level.

- The Reagan tax proposals will be substantially adopted.

- The Reagan budget proposals will be substantially adopted.

- Poor people are not the only or even the predominant beneficiaries of government spending.

- All the proposed cuts, including some for UCM's constituency, are not bad.

- It is still an important function of government to provide people with the means of escaping economic dependence and hardship.

- The quality of life in Minnesota would be imperiled by cuts in vital elements of public sector activity.

The major components of the COUNTER BUDGET are as follows:

- Revenue projections.
- Programmatic changes.
- Restoration of program cuts.
- Tax proposals.

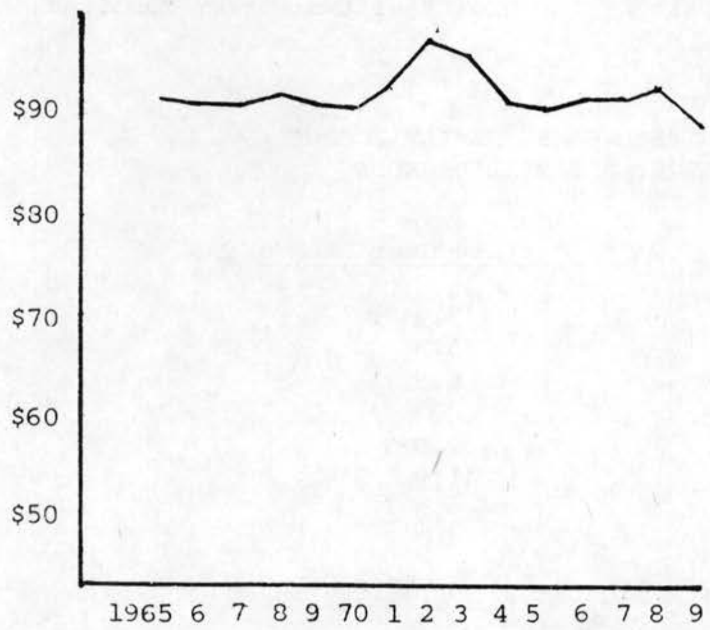
The Economic and Political Context

The COUNTER BUDGET is presented in what should be considered historic times. The major media of this country are proclaiming, and rightly so in our view, that the recently installed federal administration is attempting to create a new political and policy consensus for the first time in almost half a century. At the same time, the current state administration is confronted with a large budget deficit for the current biennium and seemingly massive shortfalls in the coming biennium. These public sector events occur while economic and political conditions are in a state of great flux and uncertainty.

The litany of economic problems is now a familiar one. Inflation is, in the minds of most people, the single most difficult problem confronting the nation.[1]

Economic growth has slowed from the robust days of the early Sixties when a U. S. President could declare that poverty was a thing of the past; and that we, as a nation, need to develop effective means of sharing the bounty of this society.[2]

Workers' real earnings have remained virtually stable since 1965.



SPENDABLE AVERAGE WEEKLY EARNINGS OF WORKERS WITH THREE DEPENDENTS IN CONSTANT (1967) DOLLARS, 1965-1979

SOURCE: Bureau of Labor Statistics

GROSS AND SPENDABLE WEEKLY EARNING OF
PRODUCTION OR NONSUPERVISORY WORKERS
ON PRIVATE NONAGRICULTURAL PAYROLLS, 1965-1979

Year	Gross Average Weekly Earnings (Current Dollars)	Spendable Average Weekly Earnings, Workers with Three Dependents[a] (Current Dollars)	(1967 Dollars)
1965	95.45	86.63	91.67
1966	98.82	88.66	91.21
1967	101.84	90.86	90.86
1968	107.73	95.28	91.44
1969	114.61	99.99	91.07
1970	119.83	104.90	90.20
1971	127.31	112.43	92.69
1972	136.90	121.68	97.11
1973	145.39	127.38	95.70
1974	154.76	134.61	91.14
1975	163.53	145.65	90.35
1976	175.45	155.87	91.42
1977	189.00	169.83	93.63
1978	203.70	180.71	92.53
1979	219.91	194.82	89.49

SOURCES: U. S. Department of Labor, Bureau of Labor Statistics, Employment and Earnings, United States 1909-78 (Washington, D. C., 1979); Employment and Earnings (March 1980).

[a] Spendable earnings are derived by subtracting estimated Social Security and Federal income taxes from gross earnings.

Real family income, fueled in part by the growth of two worker families, has drastically slowed.

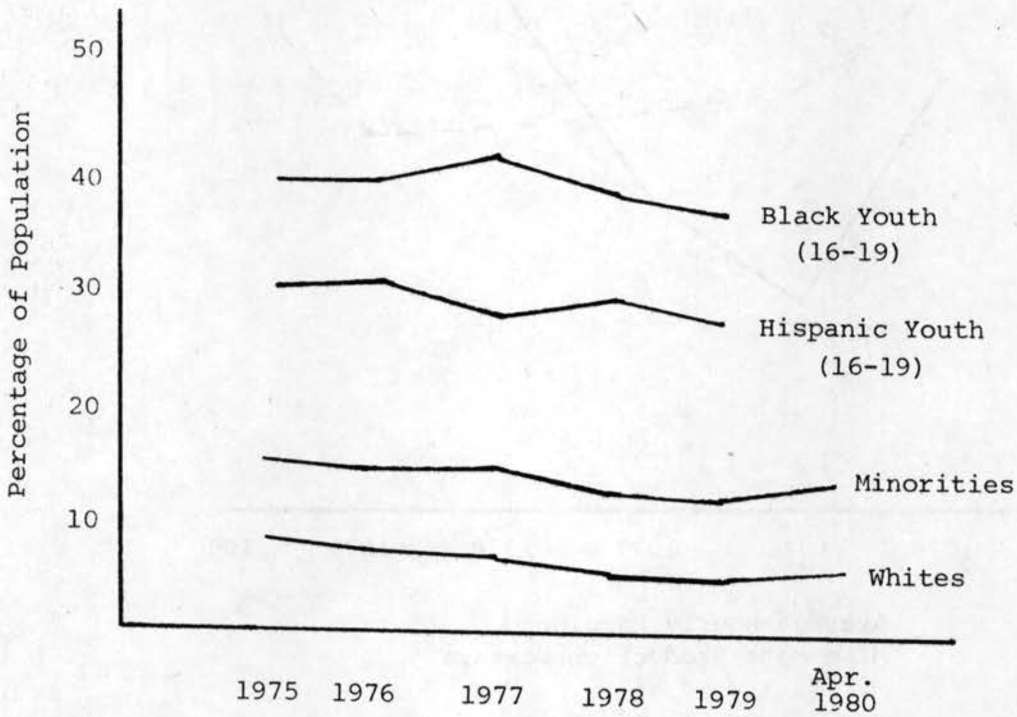
INCREASE IN REAL GROSS FAMILY INCOME
1948-1978, SELECTED DECADES

Decade	% Increase Over Decade
1950-1960	39.9%
1960-1970	33.9
1970-1978	6.5
1948-1958	32.9
1958-1968	41.9
1968-1978	9.0

SOURCE: Paul Blumberg, Inequality in An Age of Decline

Unemployment continues at recession levels for many and depression levels for non-white and many rural people. UCM, moreover, has serious doubts that the private sector can provide in the near future the jobs for those who want them as well as those now employed under CETA or other public sector job programs.

UNEMPLOYMENT RATES

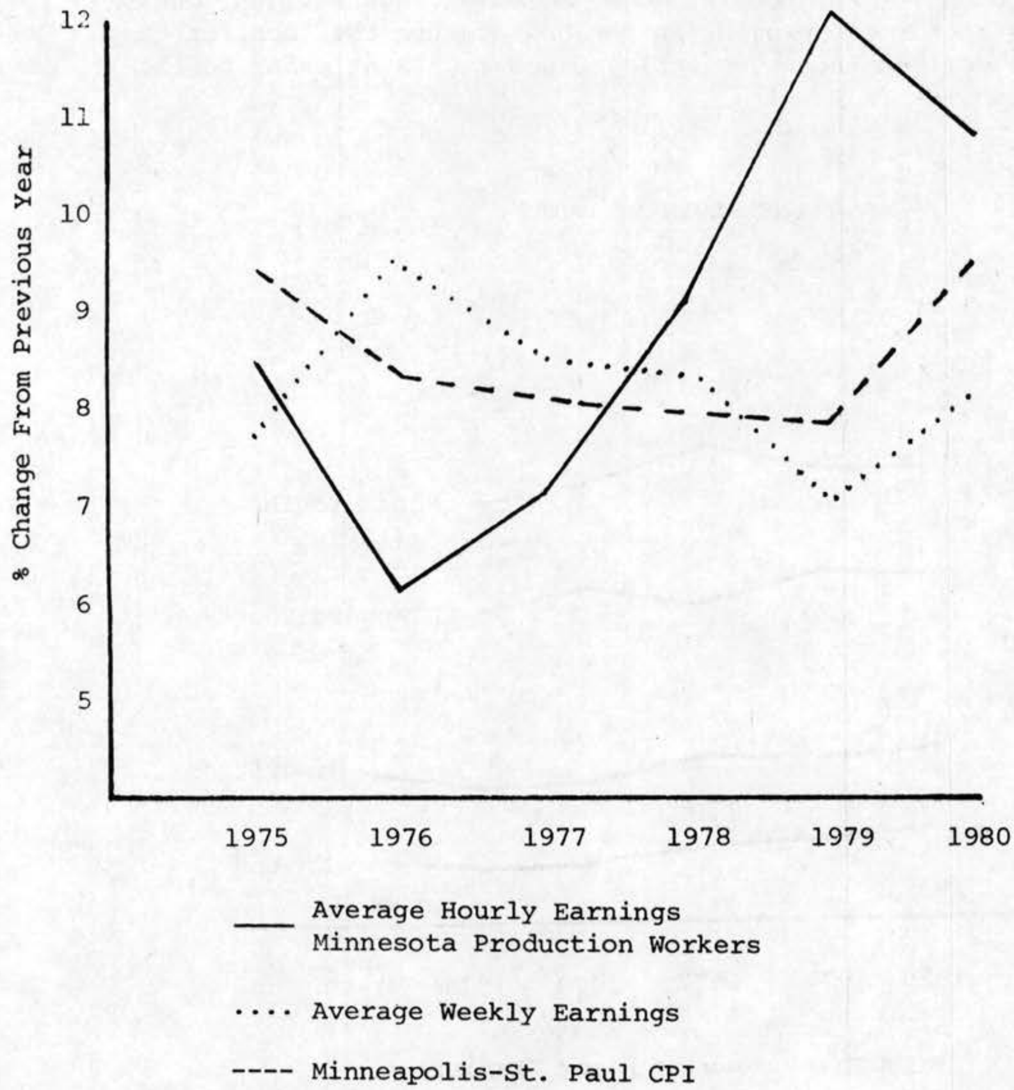


SOURCE: Bureau of Labor Statistics

The unemployment rate for Whites and Minorities, Black Youth and Hispanic Youth have remained fairly constant relative to one another in recent years. The annual unemployment rate for minorities averaged 2 times that of whites from 1975-1980. Black and Hispanic youth unemployment rates have consistently been even higher.

After almost a generation of nearly uninterrupted and unprecedented improvement, the economic condition of the average workers has deteriorated in the last four years.

INFLATION & EARNINGS



SOURCE: Department of Economic Security

From 1978 to 1979, inflation rose 9 percent faster than Minnesota worker's weekly earnings. This slackened somewhat between 1979 to 1980 but, still, inflation rose 7.5 percent faster.

The political scene is likewise in turmoil. Opposition to government spending and taxation combines with attacks on governmental regulations to form a solid core of criticism of government. When combined with attacks on many past and existing public sector endeavors, they create a fundamental critique of the role of the public sector in American society.

Another strong theme spreading throughout the land was first expressed by management expert Peter Drucker, who urged us as a nation to "starve our problems and feed our opportunities." When contrasted with attitudes toward those experiencing economic and social problems that have evolved over the last 50 years, these sentiments represent a fundamental change in direction.

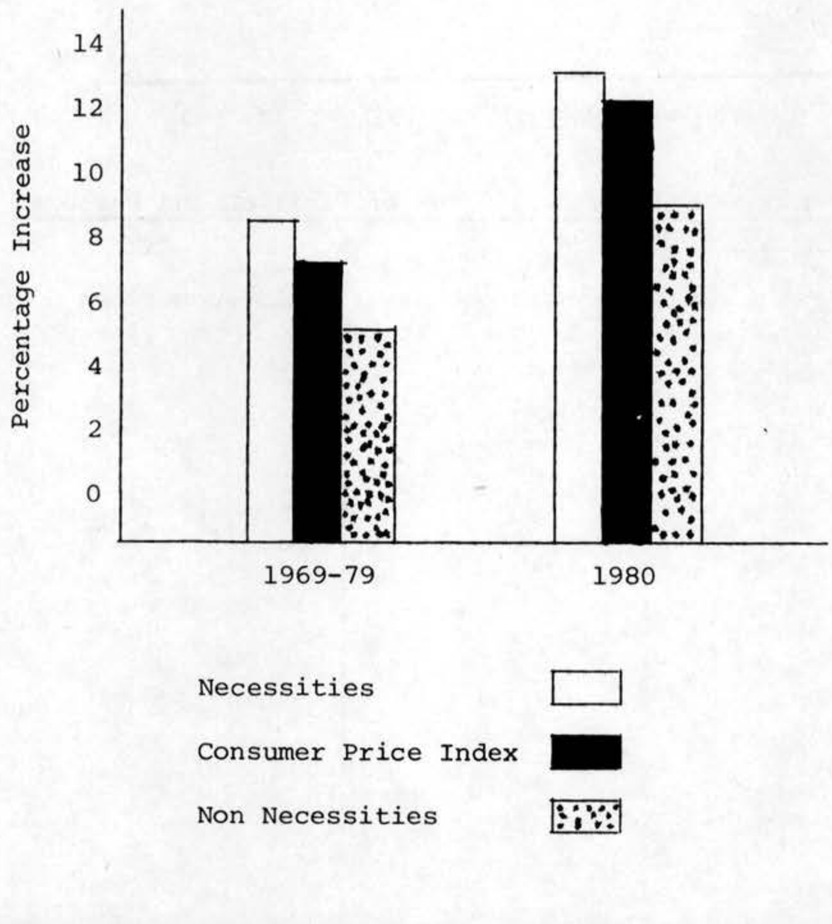
Economic and political conditions faced by lower-income and minority people are even more foreboding.

Inflation hits the poor and working class harder than the rest of the population. Since 1969 the rate of inflation in the price of the basic necessities (food, shelter, medical care and energy) has outstripped increases in the consumer price index and the price of non-necessities in every year but 1975.

PERCENTAGE INCREASE IN PRICES

	Average Annual Rate 12/69 - 12/79	Annual Rate 1980
Necessities	8.7	13.8
Food	8.1	10.2
Shelter	8.3	15.1
Medical Care	8.1	10.0
Energy	12.0	18.1
Non Necessities	5.3	9.8
Consumer Price Index	7.4	12.4

SOURCE: Bureau of Labor Statistics; National Center for Economic Alternatives

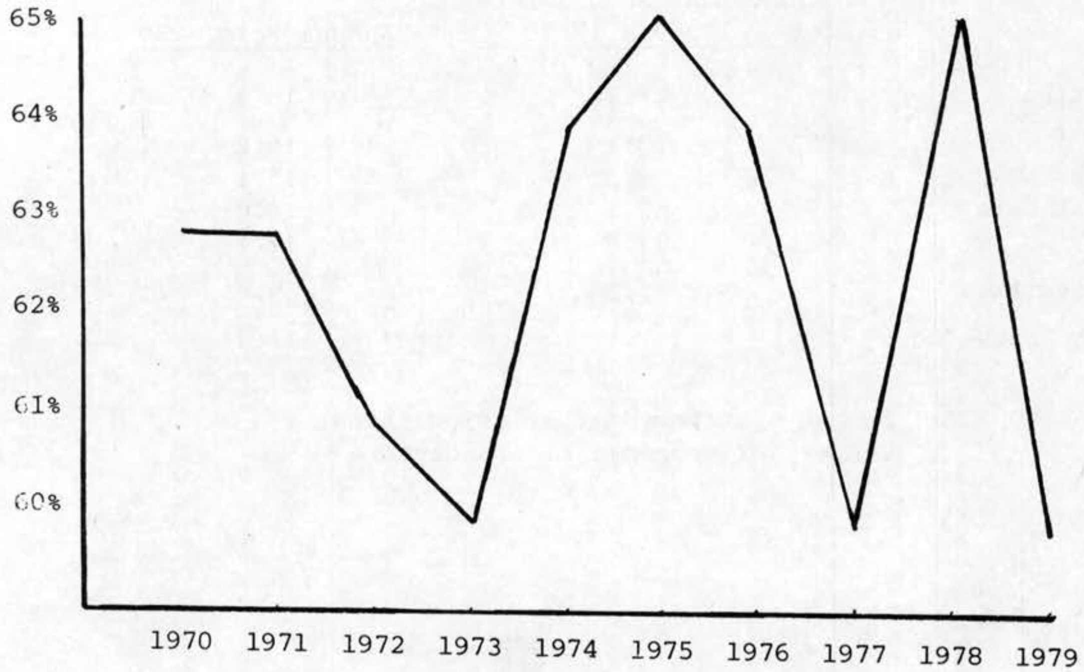


The percentage of income spent on necessities decreases significantly as income increases. Because necessities have increased faster than non-necessities, the impact on the poor is magnified.

The lack of economic growth causes increased unemployment and severe deterioration in the economic conditions of lower-income and minority families.

Minority peoples' income remains well below that of whites and the gap near the bottom of the income ladder widens.

MINORITY MEDIAN INCOME AS A PERCENTAGE
OF WHITE MEDIAN INCOME



SOURCE: <u>Money Income and Poverty Status of Families and Persons in the United States</u>

In the last 10 years minority median income has fluctuated between 60 percent and 65 percent of the white median income. It reached a near low point in 1979 at 60 percent.

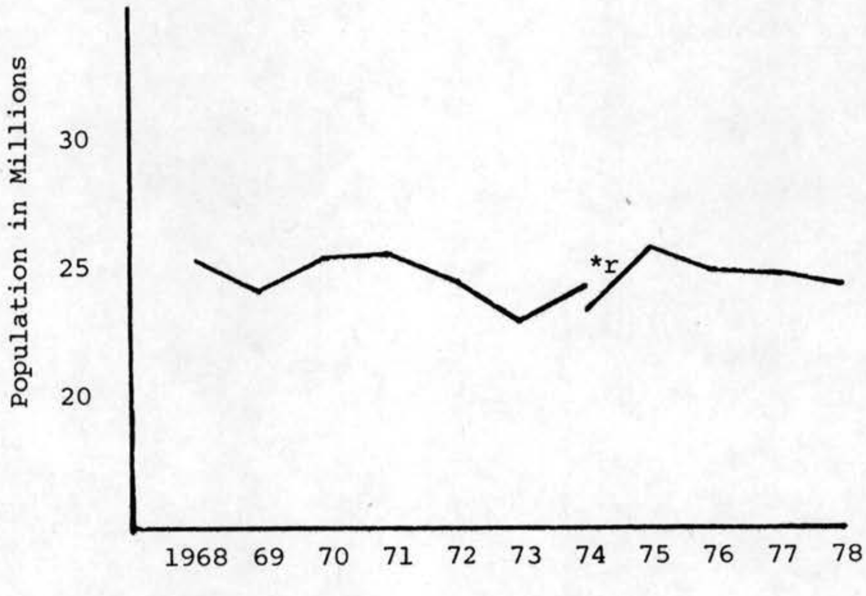
Total Income	1975 Whites	1975 Minorities	1979 Whites	1979 Minorities
Under $2,500	2.8%	8.5%	1.7%	5.8%
$2,500 - 4,999	7.4	17.7	3.7	12.1
$5,000 - 7,499	10.0	14.6	5.6	12.1
$7,500 - 9,999	10.4	12.5	6.6	10.4
$10,000 - 12,499	11.4	11.3	8.1	10.2
$12,500 - 14,999	11.2	8.8	7.3	7.3
$15,000 - 19,999	19.5	13.2	15.3	12.3
$20,000 - 24,999	12.2	6.8	14.9	10.2
$25,000 - 34,999	10.1	4.9	20.1	12.5
$35,000 - 49,000	3.4	1.2	10.9	5.4
Over $50,000	1.5	0.3	5.7	1.8

SOURCE: Money, Income and Poverty Status of Families and Persons in the United States

In 1975, most (nearly 2/3) households had incomes under $12,500 a year while most white households were at or above $12,500. In 1979 the pattern remained the same but the transition point was $15,000.

The number of people with income below the federal poverty guidelines has remained near 25 million since 1968, after a dramatic decrease in the previous decade.

POPULATION BELOW THE OFFICIAL
U. S. POVERTY LEVEL, 1968-1978



*r = revised methodology

SOURCE: Money, Income and Poverty Status of Families and Persons in the United States

The so-called "trickle down" theory is again in vogue. The shopworn view that benefits and jobs will get to the poor and long-term unemployed without targeted efforts is more readily accepted. Likewise we hear a rising crescendo saying "there is a shortage of workers," when data and experience and the recent State Planning Agency study on Indians* indicate a huge unemployment and underemployment problem among minority people. It appears there may be an emerging shortage of workers whom employers are willing to hire.

Taxes are cut to force curbs in spending under the pressure of revenue shortfalls. Critiques of government programs are done in terms of welfare abuse, food stamp hustlers, and medicare fraud by patients. All of these occur to a degree, but other abuses by suppliers remain unnoticed in what seems to be a conscious attempt to pit the poor against working taxpayers, the truly needy against the alleged chiselers. These critiques have spawned a response based on abandonment of governmental efforts with no further attempts to gain accountability of performance in favor of supposedly more effective provision. The question remains: more effective for whom?

Programs for the poor are in fact blamed by many as the cause for inflation and subsequent "destruction" of the heretofore robust American economy. This argument overlooks the many non-poor people who benefit directly from government spending. It likewise omits all references to the providers of government services, the medical profession, construction industries and "helping professions" who reap great benefits from their part in addressing the needs of the poor.

The poor have become a problem to be starved, not an opportunity to be fed.

Earl D. Craig, Jr.

Earl D. Craig, Jr.
President
Urban Coalition of Minneapolis

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*Minnesota State Planning Agency report to the Legislature.

URBAN
COALITION
OF MINNEAPOLIS

COUNTER BUDGET

REVENUE PROJECTIONS

Any Administration's proposed budget must contain estimates of revenues and expenditures for the coming biennium. This requirement is admittedly difficult to meet with complete accuracy because of the nearly 30 months between the budget address and the end of the biennium, and the multitude of factors that could significantly alter revenues or expenditures.

Bearing in mind these caveats, the Urban Coalition still believes the current Administration's budget contains a number of imprudent, ill-advised and potentially irresponsible elements that would, in effect, consume much of the fiscal cushion now available.

The COUNTER BUDGET questions the following fiscal proposals contained in the Administration's budget.

	($ millions)
1. Use of "optimistic" projection by Data Resources, Inc. (DRI) ($184.6)	
a. Use of optimistic versus baseline projections	$184.6
2. Use of shifts in expenditures ($248.0)	
a. Shift renters credit payment for those under 64 from April to October	107.4
b. Shift local government aid payment from beginning of March to beginning of July	67.4
c. Increase the October final school aid payment from 10 percent to 15 percent of the total aid due	61.9
d. Shift payments made to compensate local governments for loss due to DNR lands from January to July	5.0
e. Shift payment of Taconite Homestead Credit	6.3
3. Use of one-time windfalls through changes in tax collections ($88.4)	
a. Shift payment of telephone and telegraph tax	37.0
b. Change in treatment of federal income tax (actual federal tax deducted in 1982, not total withholding)	51.4
4. Use of unrealistic assumption that local property taxes will not increase in response to state and federal budget cuts	89.6

	($ millions)
5. Loss of interest income by state from shifts in expenditures and collections	$ 3.0
	$613.6

Each of the elements deemed imprudent in the COUNTER BUDGET is discussed briefly below.

1. The Governor's use of DRI's "optimistic" rather than its "baseline" projection results in $184.6 million in additional anticipated revenues. This decision places the state in jeopardy of another eleventh hour deficit and emergency cutbacks in spending. As such, its use in a prudent budgeting process is ill advised. The Governor has earlier indicated his desire to establish a so-called "rainy day fund" to deal with unexpected problems. Any additional revenue gained from better-than-expected performance by the economy should be used for that purpose. It should not, however, be incorporated in the basic budget for the biennium.

   A second layer of overestimation results from a failure to use either of two available updated DRI projections of economic performance. Both are less optimistic than the one chosen by the Governor. This sort of selective use of data undermines the integrity of the budget itself by overestimating likely tax collections by upwards of $200 million.

   If one assumes a major federal tax cut sometime in 1981, the proposed budget also contains a potential underestimation of revenues. Because the content and timing of the cuts is unclear, the COUNTER BUDGET assumes that this underestimation will basically cover the overestimation inherent in the use of outdated economic projections. Obviously, this situation could change, but for now this judgement seems reasonable.

2. The Governor's proposal to shift $248.0 million in state payments to the 1983-85 biennium should be rejected as bad fiscal policy. Expenditures in the 1981-83 biennium would be based on the one-time windfall from these changes. In 1983-85, this windfall would be unavailable. The Governor's proposal would in effect postpone the revenue problem for two years while consuming some of the cushion now available in the budget for truly unexpected problems. Imprudent fiscal stewardship of this sort represents a particular threat to lower-income recipients of state services and assistance because of their lack of political clout. It merely postpones the day of reckoning. The problem should be faced squarely in 1981.

   The direct impact of the changes on recipients of the various forms of state assistance is of secondary importance. However, the various shifts would entail significant interest income losses and potentially create cash flow problems for the affected communities. Shifting payment of the renters' credit for those under 65 could create serious cash flow problems for them also. (The Coalition must question the substantive basis for the distinction between seniors and non-senior renters. It is at best obscure and more likely political in nature). These reasons are secondary to the maintenance of a sound fiscal base in the COUNTER BUDGET's incorporation of the proposed shifts in the state revenue base.

In the interest of fiscal propriety, the COUNTER BUDGET proposes that the expenditures foregone in the biennium for payments to all renters be placed in the proposed rainy day fund. In this way the benefits of the shift will be usable without consuming the existing cushion.

3. Use of one-time revenue windfalls through early collection of the telephone and telegraph tax and changes in the treatment of federal income tax withholding would produce the same one-time windfall as postponed expenditures.

   The COUNTER BUDGET rejects both ploys as fiscally imprudent for the same reasons as cited above.

4. It is unrealistic to assume that local units of government will simply reduce spending in proportion to the reduction in local aids and social welfare cutbacks in the Governor's budget. The ability of county hospitals, for example, to turn away indigent patients is questionable legally as well as morally, despite the Governor's proposal to eliminate the legal requirement. Many of the cuts would, of necessity, be restored by cities and counties, resulting in property tax increases.

   The fiscal impact of local property tax increases on the state arises from state property tax relief formulas. The League of Municipalities estimates property taxes in cities will increase by 10.5 percent in 1982, and 15.9 percent in 1983 in response to the Administration's budget. This would mean an additional $99.0 million in municipal and $215.4 million in county (assumes county restoration of $215.4 million in federal and state M.A. and G.A. cutbacks) property taxes over the biennium. Assuming the state pays 38¢ of every $1 of local property tax (the current rate), this would amount to an additional $119.4 million in state property tax relief. The Coalition is in a difficult position to assess these estimates. Assuming that only 75 percent of these increase will actually occur because of changes in federal proposals and belt-tightening by municipalities seems reasonable given the level of uncertainty. This produces an increase of $89.6 million.

5. The State will lose an estimated $3 million in interest income from the earlier-than-proposed disbursements and later-than-proposed collections.* Such losses should be incorporated in any prudent budget estimate.

UCM COUNTER BUDGET

The sum of the changes in revenue projections needed, in the Coalition's estimation, to produce a prudent budget is $613.6 million. This sum must be covered by a combination of reduced expenditures and increased taxes.

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*Based on the Revenue Department's expected annual rate of return of 12 percent.

Any budget that fails to account for this shortfall must be deemed irresponsible in the short and long run. It sows the seeds of serious future problems in a state whose finances have been extremely sound for over a decade. Any additional revenues generated by a better-than-average performance by the economy should be deposited in the Governor's proposed Rainy Day Fund.

PROGRAMMATIC CHANGES

Any analysis of the over $8 billion in projected spending would reveal that persons other than those of low- and moderate-income are the primary beneficiaries of state spending. The huge expenditure for school aids and property tax relief, for example, provides assistance to virtually every Minnesotan.

Low- and moderate-income people, however, experience the effects of state spending in ways that directly affect their lives, because it concerns essential day-to-day functions -- their health care, housing, child care or income. As a result, low- and moderate-income people have the greatest interest in efficient, humane delivery of governmental services.

This section of the COUNTER BUDGET will suggest changes in procedures for providing state services. These changes are designed to reduce the cost of the service without affecting seriously the quality of service. It will also attempt to maintain the scope of households served, except in those instances where substantial need does not exist.

The COUNTER BUDGET proposals are based on the view that the budget crisis is an opportunity to constructively change a number of major public sector activities. The COUNTER BUDGET rejects the option of simply cutting expenditures in a crude and mechanistic fashion without attempting to improve state government. Unfortunately, this is the basic approach adopted by the Governor. His budget missed a major opportunity to enhance the quality of public sector performance during a time of adversity. The COUNTER BUDGET attempts to rectify that circumstance.

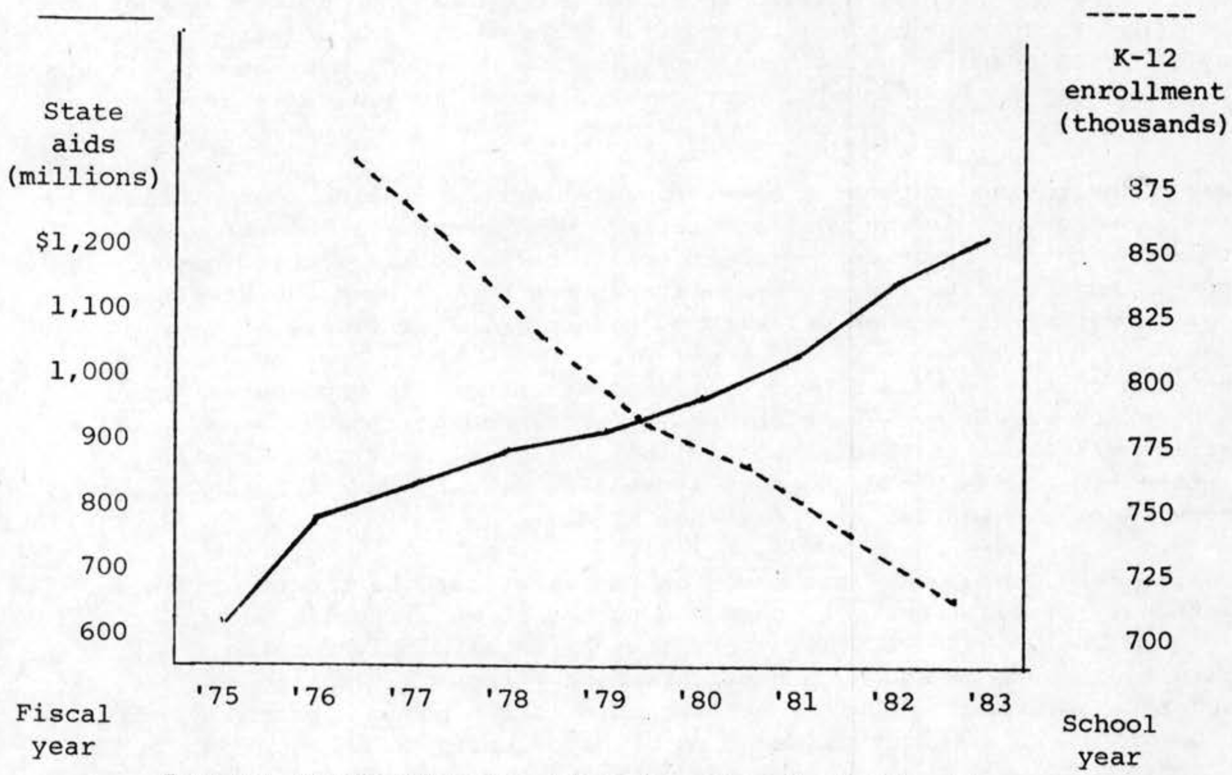
Education: School Aids

School aids ($2.5 billion) comprise 29 percent of the proposed state budget. This represents a 22 percent increase ($458 million) over expenditures in the current biennium, which compares to an overall budget increase of 18.6 percent in 1981-83, the second smallest increase in the past 16 years.

Included in the proposed budget are increases in foundation aid (per pupil aid changing from $1,265 this year, to $1,354 next year and $1,499 in 1982-83), Vocational Aid, Transportation Aids ($128 million next year and $130 million in 1982-83), Special and Compensatory Education. In addition the budget calls for increases for elementary and secondary teaching salaries (9.1 percent next year and 8.6 percent during 1982-83).

Since the 1975-77 biennium, school aids have increased 80 percent. These increases have come during a time of declining enrollment across the state and can show no direct relationship to the improvement of educational programming.

COMPARISON OF TOTAL SCHOOL ENROLLMENT
TO STATE EDUCATION AIDS, 1975-1983



Source: Senate Finance; State Department of Education

In his budget address the Governor stated that "more money is no guarantee of quality in education programs," and he encouraged schools, parents and the community to be responsible for ensuring that public education is accomplishing its goals. The Coalition agrees that additional money does not necessarily produce additional quality. We believe, however, the Governor has neglected his responsibility for public education by increasing education aids while taking no direct initiative to improve the quality of education in in general, and improve student achievement in particular.

The Coalition does not argue that these increases are not essential to the operation of quality education programming. We do argue, however, that the state has a responsibility to demand that educational programs and educational staff, both administrative and instructional, be accountable for the quality of the programs they provide with public funds.

In the current legislature the Teacher's Unions (MEA and MFT) are moving to gain support for two efforts. One is to increase the authority of teachers to remove students from the classroom for limited periods of time. The second is to increase teacher's salaries by 28 percent during the coming biennium (9.5 percent higher than the Governor's proposal).

These efforts in conjunction with the Governor's proposal point to what the Coalition sees as a dangerous trend in education -- expanding budgets and increased authority without commensurate accountability.

It must be made clear that the Coalition strongly supports quality education in the public schools of Minnesota and that effective discipline must be a part of it. Local and national groups and individuals are calling for voucher systems which supposedly would provide more competition and therefore better quality in education. The Coalition rejects this as a serious threat to quality education for all and encourages the state to continue its wholehearted support for the public schools.

But the Coalition further encourages the state to stop thinking of money as its only resource and use its legislative authority to demand accountability and quality in the public schools. This would represent a major shift in emphasis regarding the single largest appropriation item in the budget.

The COUNTER BUDGET therefore proposes that the state mandate in conjunction with school aids increases that each school district develop, in accordance with locally determined needs, a comprehensive system of teacher and administrator performance appraisal and educational program evaluation; that these systems be operational by the 1982-83 school year; and that timely reporting from these systems be used in future state appropriations processes.

If the State of Minnesota truly wishes to guarantee quality and equality in elementary and secondary education, the mandate must be strong and clear -- increased financial support will be contingent upon quality of service.

Any such mandate would probably be met with financing concerns from the districts. Therefore, the COUNTER BUDGET incorporates the Legislature's restoration of the full $89 million recission from FY '81 without its being subtracted from the School Aids being proposed for the coming biennium. An adequate portion of the $89 million should be specifically earmarked to finance the development and implementation of accountability systems in districts throughout the state.

Public Assistance

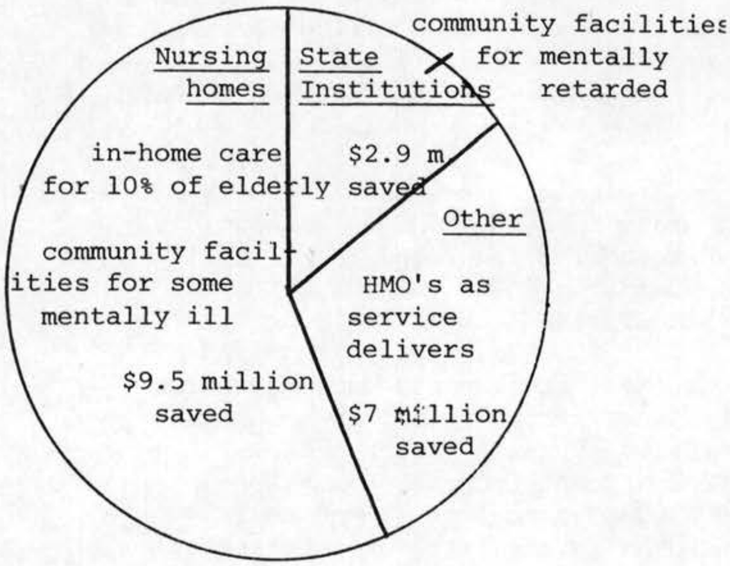
Public assistance is by far the most politically volatile of the state's expenditures. Charges of abuse are regularly leveled, raising the specter of backlash against recipients. Because of this climate it is especially important that the most efficient means of public assistance are used.

The Coalition has several suggestions to make in this regard. The total savings to be realized from the proposed changes is $52.8 million.

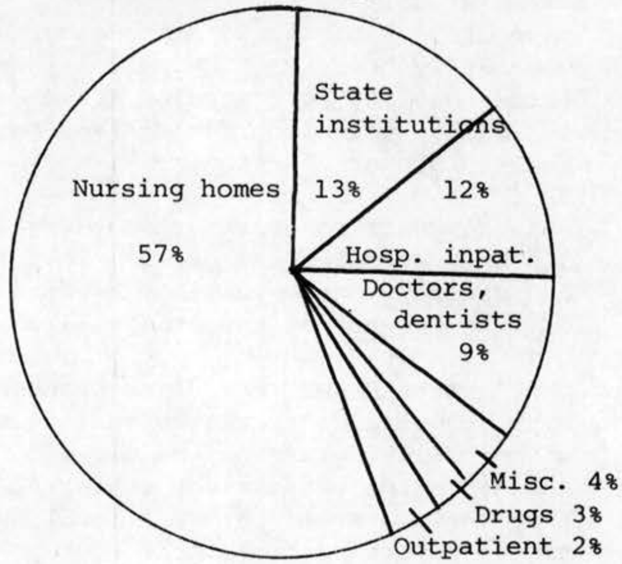
Use of Health Maintenance Organizations to Provide Medical Assistance

Seventy percent of the State Medical Assistance (M.A.) expenditures currently go to nursing homes and state institutions. The remaining 30 percent are expended for services normally included in health maintenance organization (HMO) coverage (e.g., hospital inpatient, physicians, dentists, drugs) for individuals.

Medical savings though program changes



Medical costs by type of service



The same rationale that convinced private employers in the Twin Cities that an aggressive effort to establish HMO's was necessary to reduce spiraling medical costs applies to M.A. The Coalition contends that the public sector should be no less committed to medical cost containment than the private sector was and continues to be. Thus, the savings from HMO's through prevention and intelligent use of scarce resources within the HMO's overall commitment to excellent health care standards should be pursued.

Massachusetts and Oregon have experimented with several models for rewarding cost containment and preventive efforts without adopting the complete HMO model. Other areas, such as Seattle, have adopted it more fully. Preliminary estimates of cost savings to be derived from use of the HMO model is 15 percent of the current costs for M.A. recipients. Current HMO experiments with Medicare recipients in the Twin Cities are set up with a built-in savings of 5 percent in public expenditures.

If the HMO approach to provision of M.A. were implemented in the second year of the biennium, a reasonable timetable, a savings of five to fifteen percent should be anticipated. Using the midpoint in the range, ten percent, and applying it to the 30 percent of state M.A. expenditures covered by normal HMO services and subtracting $1 million to restore the base of service that had been cut by the Governor (podiatrist visits and unlimited doctor visits) yield a savings of $7 million. This savings would be realized while services were improved and would set the stage for further savings in years to come. At the same time the health of M.A. recipients would be improved.

Medical Costs and State Institutions

The state budget problems and a recent lawsuit ordering the state to discharge to community facilities many of the mentally retarded residents of state hospitals combine to form a strong impetus for fundamental changes in the state hospital system.

In 1980, Minnesota spent $68,314,000 to support 2,700 mentally retarded persons in 8 state hospitals, at an average cost of $71.00 per day. At the same time, we spent only $39,766,000 to support 3,700 retarded citizens in community facilities. Treatment costs came to another $13,300,000, or a total of $61.00 a day.

Over the last 10 years, costs of state hospitals have doubled while the population has shrunk by 90 percent. Yet all 8 hospitals remain open, with 1,200 empty beds being maintained, and many buildings and wings closed. Isn't it time we faced the problem of consolidating this function? A bond was just floated to bring parts of Faribault State Hospital up to code while idle (if history be our guide) discussions take place about closing Anoka, a hospital that is up to code. Some retardation experts feel that almost everyone in the 8 non-security state hospitals are appropriate to community living.

If the state were to move aggressively at this time to achieve a complete change by 1985, the effective date of the court order, significant savings could be reaped in the second year of the coming biennium and in all subsequent years and an orderly plan for attaining legal compliance would be in place. The estimated savings in the second year of the coming biennium from the transfer of 20 percent of the current patients to community facilities would be $2.9 million.*The legislature could begin by looking at Faribault and Fergus Falls hospitals for closure. Both are in need of large capital outlays.

Our state hospitals suffer from:

1) No rate/cost mechanism to hold costs down.

2) No clear consensus on what types of patients should be served.

3) No capital plan or budget.

Action must be taken to replace this costly and inefficient system with community facilities.

Medical Costs and Nursing Homes for Mentally Ill Persons

The state will expend $165 million in the coming biennium for nursing home care for the mentally ill. It is estimated that provision of care through community care facilities could save 15 percent of the existing cost for each patient. The Mental Health Advocates Coalition estimates that 5,500 of the 13,000 mentally ill residents of nursing homes who are funded through M.A. could be treated through community facilities.

While this change is not easily achieved immediately, state action to cut costs while maintaining the quality of service could begin in the coming biennium. If 25 percent of the 5,500 persons could be transferred during

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*580 patients x $33,060 (83' cost per person in state hospital) x 15 percent savings = $2.9 million.

the second year of the biennium, state expenditures for nursing homes for the mentally ill could be reduced by $1.4 million.*

M.A. Costs for the Elderly in Nursing Homes

The average number of M.A. recipients in nursing homes in Minnesota is 31,600. Public health researchers at the University of Minnesota find that an estimated 10 percent could (and would) remain in their homes if medical and chore services were provided in the home, at an average savings of 50 percent per case. If 3,100 people were brought home in the second year of the biennium, this would save taxpayers $18 million, of which the state would save $8 million.

We support the Governor's call for a 8 percent cap on nursing home reimbursement increases. Let's look at the record over the last 5 years:

1977 -- $527 average cost per month

1978 -- $604, a 14.7 percent increase

1979 -- $697, a 15.4 percent increase

1980 -- $828, a 18.8 percent increase

1981 -- $961, a 16.1 percent increase

And, the Department of Public Welfare estimates that (under the current system) nursing home costs would increase 15.3 percent in '82 and 13.2 percent in '83. These costs must be contained.

Aggressive Child Support Collection

Currently there are 49,169 AFDC households with one parent absent. 40,810 (83.0%) receive no child support. Of those receiving no child support, approximately half have no support order and only approximately one third of those with orders receive any payments, according to the Department of Public Welfare.

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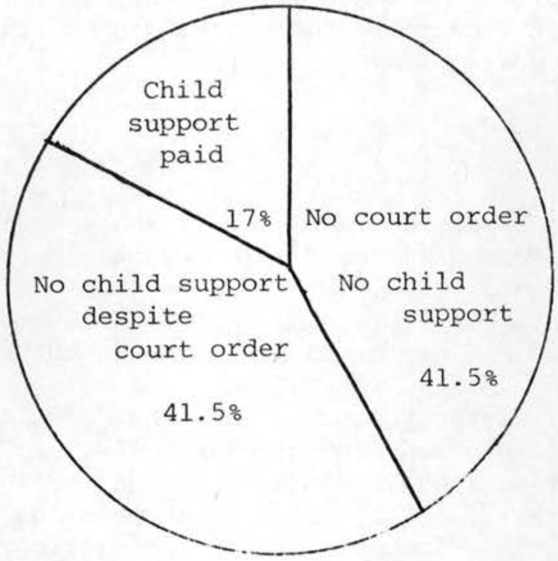
*1,375 patients x $15,060 (83' cost per person in nursing homes) x 15 percent savings = $3.1 million x 45 percent state share = $1.4 million.

Minnesota AFDC single-parent families



AFDC payments are basically substituted for child support payments. AFDC funding comes from the federal, state and county governments. Any increase in child support payments to AFDC recipients would reduce governmental spending and reduce or eliminate the current recipients' dependence on public assistance. Both of these desirable objectives could be attained through aggressive state action to achieve high levels of child support payments. Recently enacted state efforts, such as the Revenue Recapture Act and increased use of wage authorizations for collections, are a step in the right direction, but additional savings could be achieved through a uniform child support collection system. Such a system would not only reduce public assistance payments to current recipients but prevent additional parents from having to become recipients.

The State of Michigan now operates such an aggressive uniform system of collection through its county governments. Every court order for child support and visitation is enforced through an arm of the court. The absent parent pays the court which then disburses the payment to the family or social services department if the family is on AFDC. If payment is late, collection procedures begin automatically. No court appearance is necessary. The system features uniform contempt procedures for non-payers, and an employment program for parents unable to pay support.

If Minnesota were to adopt in the second year of the coming biennium a similar system, achieved a comparable rate of collection (75 percent), and collected the national average payment of $1,800 per year, a $51.3 million reduction in AFDC payments would result. Based on federal formulas, Minnesota would retain 65 percent of these funds ($33.4 million). The remainder would be transferred to the federal and county governments. Such savings would cover 39 percent of the projected State AFDC payments in fiscal 1983.

The administrative costs associated with the system could be covered through fees levied on absent parent and Federal reimbursement. If the Michigan experience were duplicated, collection itself could produce a surplus. The other fiscal impact, not included in this estimate, is the savings to be derived from preventing parents from becoming AFDC recipients by providing them with adequate income.

Transportation

Transportation is a major area of state policy and spending. It serves as the backbone of commerce in Minnesota and moves people from their place of residence to all other activities. Minnesota's transportation sector is almost totally dependent upon petroleum. This exposes the state to the vagaries of price and supply decisions made outside of Minnesota.

The benefits of increased support and use of urban mass transit services includes less traffic congestion, reduced air pollution, greater conservation of scarce energy resources, and a more cost effective system of moving people from one place to the next. Since transportation accounts for a disproportionate share of our state's energy consumption, the benefits to Minnesota's general economic vitality are furthered by increased transit ridership.

According to the Minnesota Energy Agency, transportation accounted for 26.9 percent of total primary energy use in Minnesota during 1978 and consumed over one-half of the state's petroleum. Private autos are the largest consumers in the transportation sector (54%). Money spent on petroleum creates the least subsequent economic activity in Minnesota of all energy sources (in economic jargon, it has the lowest economic multipliers).

The COUNTER BUDGET supports some of the Governor's proposals, such as the consolidation of all operating subsidies for public transportation into one account, use of the Trunk Highway Fund to finance Minnesota Rideshare and increases in gas taxes and license fees.* Both represent efforts to create a more integrated, effective system of public support for transportation.

Because changes in the pattern of fuel consumption, the decontrol of fuel prices and the evolution of various license fee structures represent a major shift in the factors affecting the transportation system, the Governor's transportation budget seems misguided in several important respects.

Mass Transit Funding

The Reagan Administration has proposed a federal retreat from mass transit funding at the same time the Governor is cutting back state subsidies. In combination these changes could seriously impair the effectiveness of mass transit in Minnesota.

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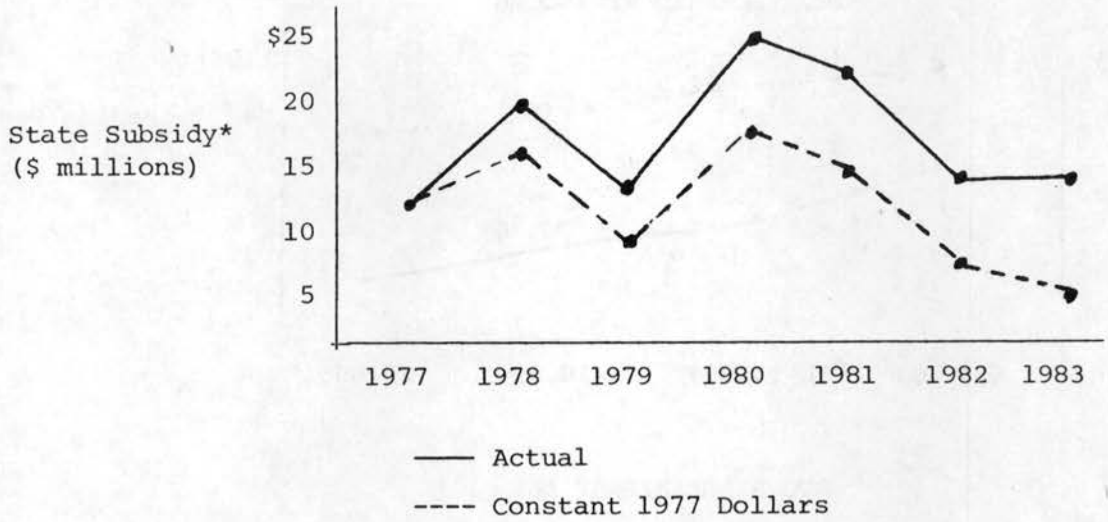
*However, the constitutionality of diverting these funds from highway construction and maintenance is in doubt.

STATE OPERATING SUBSIDIES TO MTC, 1977-83



*State performance funding and social fares

The Governor has proposed a ten cent increase in Metropolitan Transit Commission fares in each of the next two years. An additional ten cent increase may, however, be necessary to compensate for anticipated losses in federal operating subsidies for mass transit. This proposal is consistent with the Governor's declared goal of having fares cover 50 percent of the overall cost of operating the MTC.

<u>The Transit Subsidy Bias</u>

A 1979 MTC marketing survey* found among other things that those who rode the bus most often were:

1) People who live in households with incomes of $10,000 or less;

2) The young and the old;

3) Residents of Minneapolis and St. Paul;

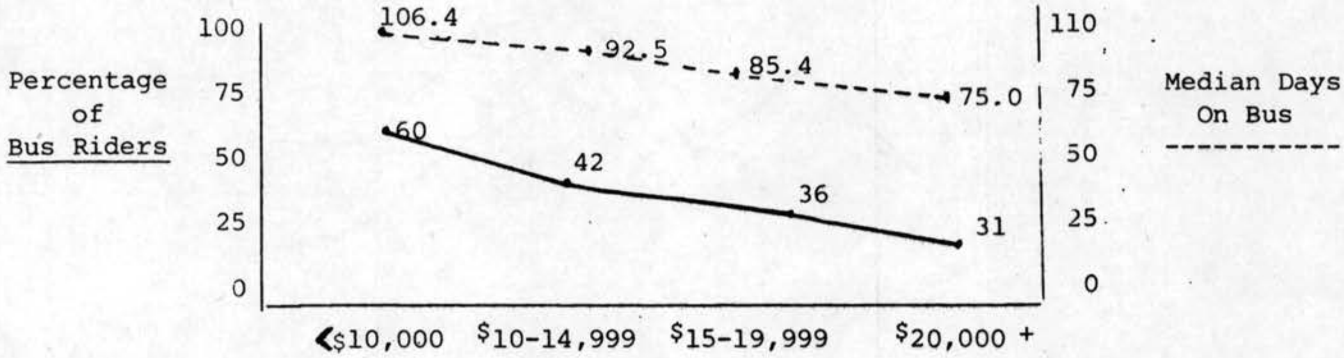
4) Those who live close to downtown; and, as you would expect,

5) Those who do not own a car.

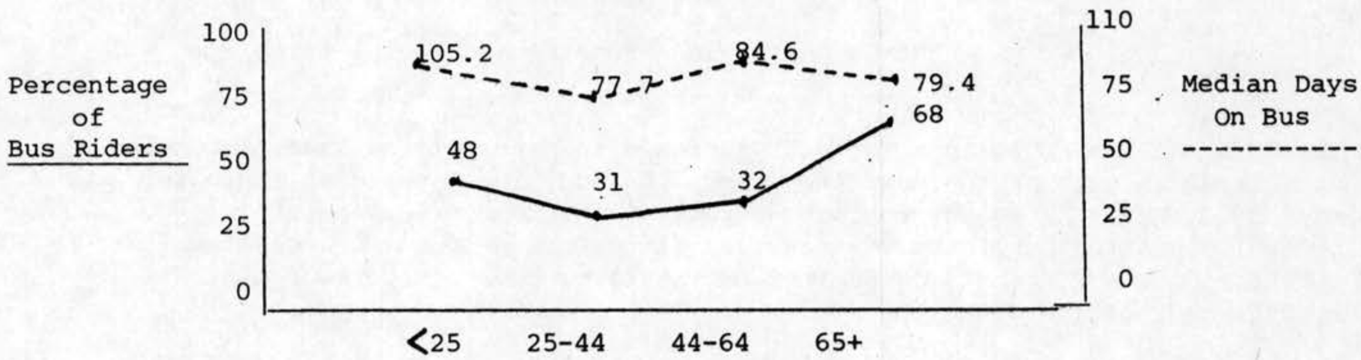
*Source: Metropolitan Transit Commission Marketing Survey, November 1979.

MTC RIDERSHIP FROM NOVEMBER 1, 1978 THROUGH NOVEMBER 1, 1979

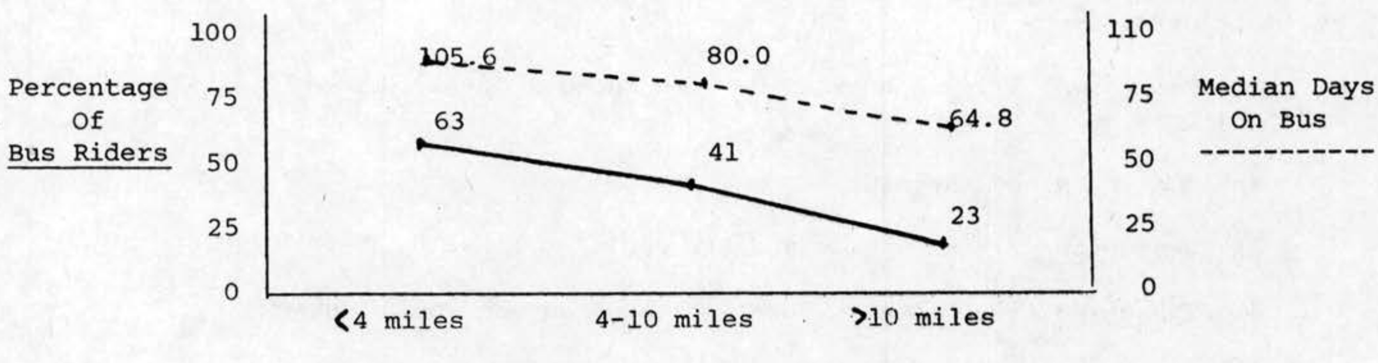
MTC RIDERSHIP BY INCOME



MTC RIDERSHIP BY AGE

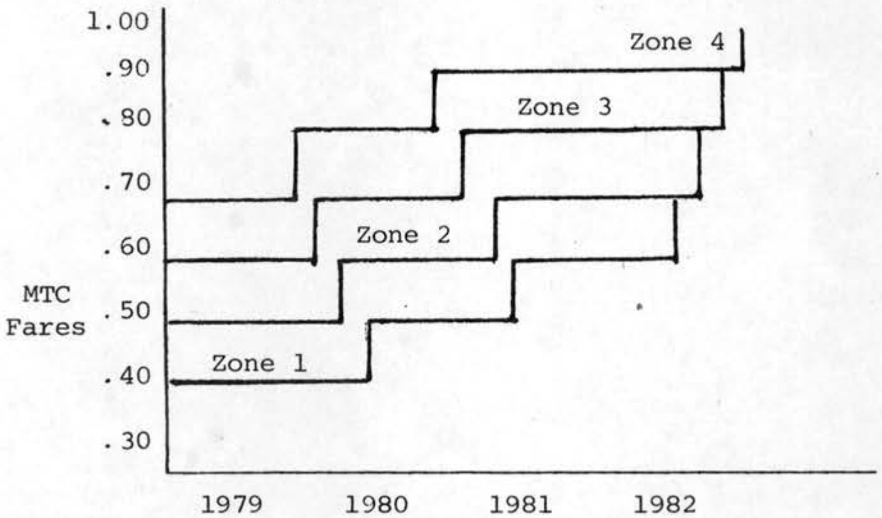


MTC RIDERSHIP BY DISTANCE FROM DOWNTOWN



A recent study, Patronage Impacts of Changes in Transit Fares and Services, completed in September, 1980, by Econosemetrics, Inc., found that lower-income users of transit, i.e., those with incomes below $15,000, were less likely to reduce transit usage in response to price increases than higher income users.* Consequently, they simply continue to ride the buses and pay the higher fares because they have no readily available alternatives. The research found a similar pattern for seniors.

Because of the high level of usage of MTC by poor and working class people, the fare increase will hit them hardest. This is compounded by the likely distribution of the increases. Since 1979, MTC fare increases have been uniformly allocated in dime increments for passengers in all zones. So, for a regular user of the bus system, the aggregate increase in fares since 1979 at the end of the coming biennium under the Governor's proposal would be 40¢ per ride. This will represent a 133 percent increase for the rider in the first zone, 100 percent in the next zone, 80 percent in Zone 3, and 67 percent in Zone 4. One need only look at geographical distribution of income to realize that this system is strongly biased against modest income riders. This remains true despite the fact that inner city routes are less costly and require significantly less subsidy per rider than suburban routes. The 16A bus route on University Avenue in Minneapolis and St. Paul requires only 3¢ per passenger in subsidy. In contrast there are 26 routes which require a subsidy of $1.00 or more per passenger.



MTC TRANSIT FARES BY ZONE, 1979-82

Source: Metropolitan Transit Commission

Admittedly, the suburban portion of the $58.8 million in property tax support for MTC is disproportionate to the level of service received. The entire system could collapse, however, if this funding mechanism is permitted to dictate the nature of bus service in the metropolitan area. Failure to eliminate low ridership routes and substitute less costly alternatives would represent poor use of public funds and a disservice to all Minnesotans in terms of energy and transportation policies.

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*In economic jargon, lower-income users had a lower price elasticity of demand.

Federal grants	$ 21.0
State performance funding	24.4
Local property taxes	58.8
TOTAL PUBLIC SUBSIDIES FOR BUSES	$104.2M
Total Available Resources	$173.7

The special subsidy for MTC paratransit substitutes for eliminated routes would bring the total budget to $173.7 million.

In addition, state support for the route improvement program for other bus systems should be restored to its previous level of $600,000. This program is needed in other localities to aggressively explore new routes that can in the long run reduce energy consumption and transportation costs in the state.*

Thus, the COUNTER BUDGET changes would result in the following changes in state support:

State Paid Social Fares	($3.4 million)
State Performance Funding	$11.9
Compensatory Paratransit Support for Eliminated Routes	2.0
Route Improvement Program	0.6
Increase in Transportation Spending	$11.1 Million

Energy

The Minnesota Energy Agency has used a combination of federal and state appropriations to carry out its research, planning, information dissemination, regulation and community outreach functions. Mandates for these services have come from both the federal and state governments.

The Governor has proposed that 80 percent of the existing state funding for MEA be eliminated. Proposed cuts in appropriations to the Minnesota Housing Finance Agency (MHFA) coupled with impending federal changes in low-income weatherization and fuel assistance funding threaten to eviscerate the widespread effort now being undertaken to promote residential conservation among low- and moderate-income Minnesotans. As MEA's Biennial Report documents, such investments not only partially protect recipient households from the

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*The Coalition was unable to conduct a thorough review of non-MTC bus operations beyond this restoration. Thus, the COUNTER BUDGET will include no further proposed changes without implying that none are needed.

ravages of increasing energy costs, but save the state's economy millions of dollars annually.

The Coalition believes state energy funds should be used to finance actual development of conservation and alternative energy investments and small businesses. The need now is for implementation efforts by local units of government, small businesses, and families.

In keeping with this objective the COUNTER BUDGET proposes that MEA establish new internal priorities for energy-related activity while the MHFA and Department of Economic Security continue to concentrate on the needs of lower-income households.

Specifically, the COUNTER BUDGET proposes:

1) Maintaining most of the Governor's proposed cuts in MEA's budget.

2) Reorienting the information gathering and dissemination to concentrate on inducements to conservation investment, and supply and demand forecasting. Less emphasis should be placed on development of alternative energy technologies. Specific development initiatives should be left to the private sector.

3) Redirecting $1.1 million in MEA cutbacks to provide support for the proposed Minnesota Energy Financing Commission, which would nurture investment in conservation and alternative energy by small businesses, nonprofits, and municipalities and provide needed financing for emerging alternative energy businesses. Provision of capital in this way is an effective role for the state to play in a time of tight funds.

4) MHFA funds for loans and grants should be restored to provide the highest possible level of conservation investment in low- and moderate-income homes. (See Housing section for more details).

5) Creating a state capability to respond to impending reductions and changes in federal low-income fuel assistance and weatherization. That capability should take the form of continuing state appropriations at the level of the current biennium and establishment of special priority for tapping regular surpluses or the Rainy Day Fund in the event of drastic federal cutbacks. An appropriation of $2 million will be required to maintain weatherization at current levels. Five million dollars should be specifically allocated to the Legislative Advisory Commission for energy fuel assistance or weatherization usage.

The total changes in state energy programs contained in the COUNTER BUDGET are as follows:

Energy Financing Commission	$1.1 million
MHFA Restorations ($28 million, some of which is for energy-related improvements -- included in housing section)	--
Supplemental Low-Income Weatherization and Energy Assistance	7.0
TOTAL	$8.1 million

Property Taxes

Great effort in a variety of forms has been expended over the last decade to reduce property taxes. The reasons for this effort included:

1) The onerous burden property taxes placed on individuals and households;

2) The regressive pattern of the property tax burden;

3) The political sensitivity of the property tax;

4) The effect of property taxes on the fiscal viability of municipalities and schools;

5) The potential disparities property taxes create in the ability of localities to provide public education; and

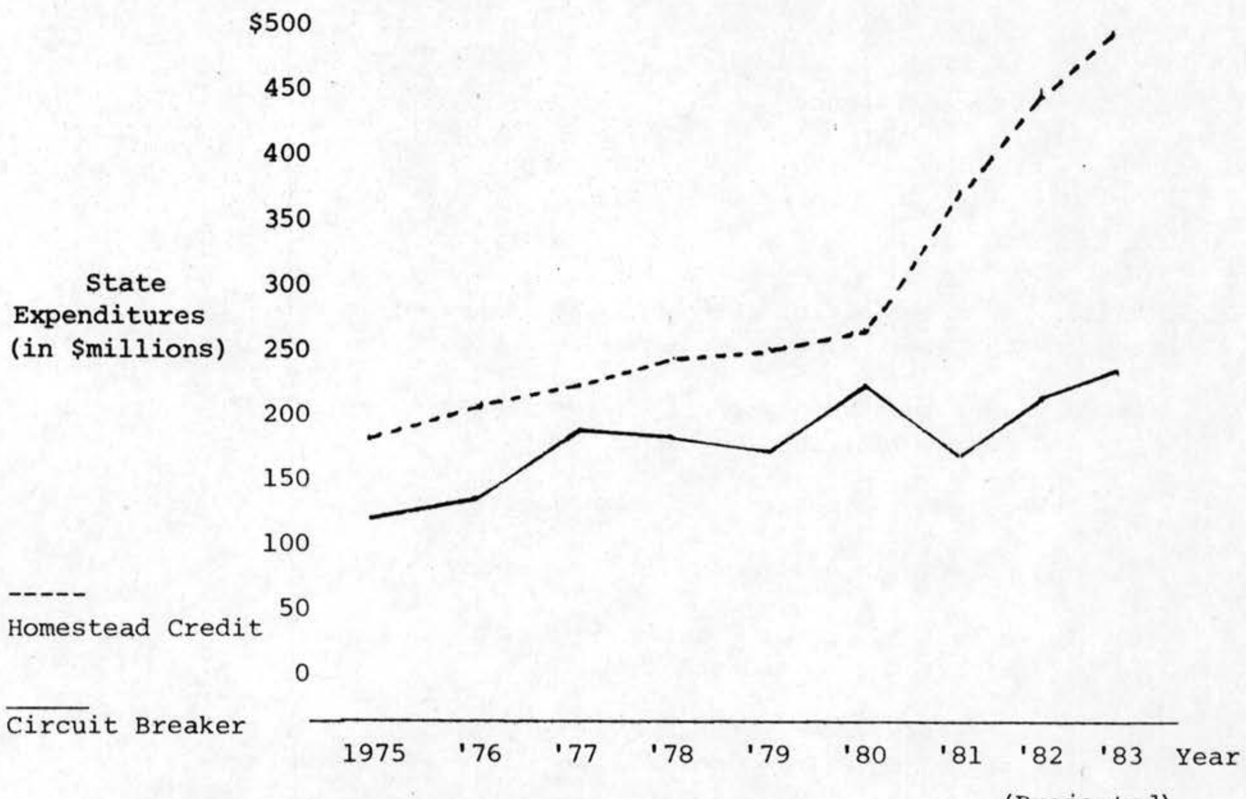
6) The disparities in the cost of living and doing business in various municipalities, which distorts development and settlement patterns.

In the Coalition's view, these reasons remain important justifications for continuing attempts to keep property taxes at reasonable levels. Foremost among these for the Coalition's constituency is the disproportionate burden the property tax places on lower-income people.

The major forms of property tax relief include state categorical funding of local services such as education, direct aid payments such as Municipal Aid, and payments to individuals such as the Circuit Breaker and Homestead Credit. The beneficiaries of the relief vary drastically depending on the form.

Since 1975 the Homestead Credit has increased almost twice as much as the Circuit Breaker (91.5 percent and 49.5 percent, respectively). The pattern will persist through 1982 and 1983.

HOMESTEAD CREDIT AND CIRCUIT BREAKER
PROPERTY TAX RELIEF, 1975-1983



SOURCE: Minnesota Department of Revenue

The Circuit Breaker is income-sensitive, i.e., more relief is provided to those with lower income. The Homestead Credit, on the other hand, to all homeowners regardless of income.

Shifting the responsibility for funding of programs to local governments will be by far the greatest source of property tax increases in the coming biennium. The COUNTER BUDGET proposals to rectify these shifts are included in other sections. The fundamental principles underlying the COUNTER BUDGET's approach to property taxes are as follows:

1) Property taxes should not be permitted to increase through wholesale shifting of responsibility for financing services to local units of government. Specific proposals for maintaining these services are provided in the Program Modification and Restoration sections.

2) To the extent that additional property tax relief is necessary because of rising costs and decreasing federal assistance, the state should shift existing property tax relief from the Homestead Credit to the Circuit Breaker. In this way assistance would be better targeted by income class and be available to renters as well as homeowners.

The COUNTER BUDGET proposals regarding property taxes therefore have no net fiscal impact beyond those already outlined in the program and restoration sections.

RESTORATION OF PROGRAM CUTS

The COUNTER BUDGET proposes two basic kinds of program restorations:

1. Programs that provide minimum survival for people in need

2. Programs that contribute to self-sufficiency and enable recipients to avoid long-term dependence on welfare

Clearly, this is a difficult time for all Minnesotans. But, it is also clear that (even before considering the impact of the proposed cuts in federal and state programs) some people in our nation and in our state are having a more difficult time than others. Rents are rising, heat bills are rising, food costs are rising but incomes are not rising commensurately. And for those unable to work, it is not a recession but a depression. It is for these people (the sick and poor, the disabled, the children in poor,single parent families) that the COUNTER BUDGET makes its major program cut restorations.

A second set of programs currently funded by the State enable low income Minnesotans to avoid on-going dependency. Weatherization to hold down fuel bills, day care to allow parents to work full time, CHEPP to keep families off welfare and out of bankruptcy court --- these are the kind of programs that the COUNTER BUDGET supports as a means of helping people help themselves.

Eliminate Proposed "Cap" on AFDC funds ($17.3 million)

The Governor has proposed that total state AFDC expenditures for the biennium be limited, no matter what the caseload. This cap on expenditures would simply mean lower grants for eligible families.

The AFDC caseload (currently 53,000 families, overwhelmingly female-headed households, most with one or two children under the age of six) fluctuates with the economy. In bad economic times, families break up more frequently and employed female heads of households lose their jobs. There is currently great uncertainty regarding Minnesota's economy. If the state's economy remains sluggish or worsens, the governor's budget would not allow the state to respond to the increased need.

The Governor's budget also includes a 7% increase for AFDC families in each year of the biennium. Even these increases, which are well below the rate of inflation, could easily be eliminated if capped funds were spread among more and more poor families. This would represent a intolerable burden for families already living at more than 15% below the federal poverty guideline, and subsisting on an average monthly payment of $325 per household or $3,900 per year.

The COUNTER BUDGET proposes that the $17.3 million in additional AFDC funding requested by the Department of Public Welfare be restored. This change would help to assure an adequate program to respond to the state's continuing economic problems.

Drop proposal to pay AFDC grants from date of application ($4 miilion)

The Governor proposes to pay the first AFDC grant from the date of application rather than for the full month in which the family is eligible. The idea seems reasonable on its face. But let's look further.

Families most often are deeply in debt and completely impoverished before they turn to welfare for the first time. Typically, they are behind in basic payments like rent. To pay the first month's grant only from the date of application deprives the family of enough money to pay the full month's rent and utility bills that are due. This proposal would further encourage welfare administrators to delay taking applications. This practice, although illegal, now occurs all too frequently around the state.

The COUNTER BUDGET proposes that the $4 million in additional AFDC funding proposed by the Department of Public Welfare be restored.

Drop "employables" exclusion from General Assistance ($7.5 million)

The Governor proposes to provide General Assistance (G.A.) only to those certified by a doctor as totally unable to work, even one hour a week.

The General Assistance program pays clients a pittance --- the current average grant is $1,812 per year. This is hardly an incentive to remain unemployed. It is a short term program for people with no other resources. Implicit in the Governor's proposal and in the minds of many people is the notion that G.A. recipients are really employable but are unwilling to work.

The current Ramsey county G. A. profile shows that over half of the recipients are women and over half are over 26 years of age. They include displaced homemakers with no income and no skills; battered women in shelters with their children; persons waiting for certification for Supplemental Security Income (SSI) grants; people living in community mental health facilities; chemically dependent individuals; chronically mentally ill; people with heart conditions, arthritis, paralysis, cancer; people who speak poor or no English; people with very little education and no job skills. Yet will a doctor swear that these people are completely unable to work for an hour a week?

The COUNTER BUDGET proposes that the $7.5 million in additional G.A. funding requested by DPW be restored. Rather than this arbitrary approach of cutting all of these people off, the program should provide training (where appropriate) along with this short term assistance.

Restore General Assistance Medical Care ($75.6 million)

The Governor proposes to limit medical care for those on General Assistance to two emergencies a year. The current program funds any needed medical service.

Many of the 13,000 G.A.recipients have medical problems. And in their current situation, they have absolutely no way to pay for medical care. It is unfathomable what these people are supposed to do beyond two "emergencies" per year.

If this cut is maintained, it will impose a great burden on the Hennepin, Ramsey and St. Louis county hospitals. The cost of this care will be borne by already high property taxes, notwithstanding the effort to end the requirement of the county hospitals to serve indigents. This is of questionable constitutionality. If work and self reliance are our goals, how will the withdrawal of medical care serve these ends? Sick people cannot work!

The COUNTER BUDGET proposes that General Assistance Medical Care be restored. The Coalition, recognizing that spiraling medical costs must be contained, recommends that appropriate care can be delivered through existing HMO's or other pre-paid and contained systems. Our research indicated that HMO's provide cost savings between 5% and 15%. Using a 10% savings figure, the cost of restoration under the COUNTER BUDGET would be $75.6 million rather than the $79.6 million requested by the Department of Public Welfare.

Restore the Catastrophic Health Expense Protection Program ($25 million)

CHEPP is a three-year old program designed to protect families from unusually large medical bills, that go beyond their insurance coverage. The Governor has proposed that the program be eliminated.

Data regarding program participants indicates that it serves working families with incomes below $15,000 per year (85% of the participants) who without the program would have become impoverished, gone on public assistance or filed for bankruptcy.

Because of its relatively modest cost and the protection it provides working families of modest income, the COUNTER BUDGET proposes that CHEPP be continued. There is one modification in the program, with a negligible fiscal impact, which we believe should be made: before a household with an income over $35,000 per year can participate in the program 35 percent of that income must have been devoted to medical costs beyond insurance.

Sliding Fee Day Care Program ($1.5 million)

The current sliding fee day care system was enacted as a modest pilot program ($1.5 million) to assist working families needing day care who were ineligible for assistance. Many of these families were faced with the prospect of having to quit their jobs and go on some form of public assistance, if full cost day care were their only alternative. It would not be economically possible to continue in a low paying job while using most of that pay for child care.

The Governor has proposed that the existing categorical funding for this program should be eliminated in the 22 counties where it is now operating. The Administration budget indicates that this activity could be funded under the Community Social Services Act block grant funding available throughout the state, but it would not be mandatory. Because CSSA dollars are being cut, this relatively new program will probaby be among the first to be eliminated.

There are currently 585 families using the program. Twenty-five percent of these families were previously on welfare and would return to it if the program were eliminated. The cost of the program to the state for these families was $85,959. The families now pay $34,940 in state taxes. If all 25 percent were to return to welfare, it would cost the state $74,588 in income maintenance payments alone. Medical care cost would add to the state's fiscal burden. The total of lost taxes and welfare expenditures for one year would be $109,528, $23,569 more than the cost of the day care program for these people.

The Coalition believes it would be penny wise and pound foolish to discard such a program. Mounting fiscal pressures on county governments will make it unlikely for funding at that level. In addition, discarding the program would perpetuate for participants their dependence on the public assistance system and deny them a chance to function independently.

Because of its potential for keeping people in regular, paid employment, the COUNTER BUDGET proposes that the sliding fee day care program be preserved as a categorical program funded for $1.5 million. (Because CSSA is already being cut, this $1.5 million should be additional appropriated dollars). It offers the opportunity for lower-income people to gain a solid toehold of self-sufficiency and avoid reliance on public assistance.

Education -- Higher Education Grants/Scholarships (\$15.7 million)

It is difficult to understand how the same budget can propose substantial increases in one area of education while making such debilitating cuts in another.

The Governor noted that post-secondary enrollment growth since 1977 has been greater than anticipated, and therefore proposed the same level or increases in funding for post secondary institutions. These expenditures would allow growth at the University of Minnesota, state universities, community colleges and AVTIs to accomodate the increases in student enrollment.

The Governor has also proposed that tuition be allowed to increase 9.1 percent during FY '82 and 8.6 percent during FY '83.

While maintaining the commitment to the institutions, however, the budget contains a significant reduction of commitment to individuals who use these systems.

The proposal for grants and scholarships falls $15.7 short of the conservative estimate of need put forward by the Higher Education Coordinating Board. This estimate was based on: 1) Federal Basic Educational Opportunity Grants (BEOG) providing a maximum grant of $1,800 per student (based on need), 2) a maximum state grant of $1,800 per student as mandated by statute, and 3) an increase of 8.4 percent and 7.7 percent in awards for FY '82 and FY '83, respectively.

It is important at this juncture to examine the overall financial aid climate in the United States and the rapidly increasing costs at post secondary institutions in order to fully understand the negative effects the proposed budget will have on low and moderate income people who wish to pursue post secondary education.

Notwithstanding the Governor's allowed tuition increases for state institutions, it is estimated that overall post secondary educational costs will increase 10-12 percent each year of the biennium.

Emerging Federal policy in financial aid is to shift the responsibility for student financing to the states, and re-structure eligibility formulas, which could effectively destroy gains attained in the Middle Income Assistance Act of 1978, and severely affect the poorest peoples' access to funds for post secondary education.

Proposed changes in Basic Educational Opportunity Grants (BEOG) and Guaranteed Student loans proposed by the Reagan Administration may have the following ramifications for students in Minnesota:

a) Potential decrease of $7 million in BEOG funding for Minnesota students next year.

b) From the Office of Management and Budget it is logical to assume that the average BEOG award would be reduced approximately 20 percent.

c) The proposal to reduce maximum award to $1,300 from $1,800 would certainly have the most negative effect on the poorest students since they are the ones who would bear this 28 percent decrease.

d) The Higher Education Coordinating Board (HECB) estimates that 4,500 Minnesota students who currently receive BEOG would be denied future grants (mostly moderate need students) and that 5,500 students would receive reduced awards of up to $500 (mostly lower income, needier students).

e) Decreased BEOG will cause added strain on institutional financial aid budgets and will require increases in the already high student "self-help" packages (loans, work study and contribution). Bemidji State University reports that 26.6 percent of financial aid is loan and 12 percent is work study.

f) The proposed set rate student contribution of $750 is certain to have a more negative effect on poor students, because it will represent a greater percentage of the family's resources.

g) Lower income students will not have access to the full $750 since they already are embedded in the poverty cycle and do not have access to additional funds or work to earn the funds.

h) An increase of Guaranteed Student Loan interest from 7 percent to 9 percent.

i) Elimination of Federal in-school subsidies in combination with the $750 student contribution (see f) will result in school financial obligations, for a typical student as summarized in the table below.

	In School GSL (interest)	+	BEOG Self-Help**	=	
Freshman	$154*	+	750	=	$ 904
Sophomore	$308*	+	750	=	$1,058
Junior	$462*	+	750	=	$1,212
Senior	$616*	+	750	=	$1,366

*The above figures based on 9 percent interest per year for the average GSL taken by Minnesota students of $1,700 per year.

**The student self-help could conceivably be covered by GSL. If that was done, an additional loan commitment of $3,000 over a four-year period would result in $675 in additional interest while the student was in school.

j) The Federal Administration's proposal to disallow state authority to use tax exempt bonds to finance educational loans could destroy the state guaranteed loan program. The HECB has stated publicly that the state would no longer be able to provide loans for students.

k) Requirements on private lenders will cause them to leave the educational loan market as they did in 1975.

l) Students could be discouraged from attending graduate school because of their increased undergraduate debt.

It is impossible at this time to assume accurately what the Reagan Administration will finally propose in the above areas.

It is reasonable, however, to assume a 20 percent reduction in dollars available for Federal financial aid and a resulting 20 percent reduction in Federal dollars flowing into Minnesota. It is also reasonable to assume a $500 decrease in maximum BEOG and decreased availability of student loans.

The Governor has proposed a cut of $15.7 million from the State Grants and Scholarships. If this recommendation stands, there are two possible avenues for the HECB to follow -- 1) adhere strictly to a March 2 deadline for consideration of applications, or 2) ask the Legislature to change the statutory maximum award from $1,400 to $1,250 and decrease average awards.

In light of the substantial Federal cuts, the Coalition strongly opposes both methods. If the deadline were imposed, it is estimated that 21,000 applicants would not even have their applications reviewed regardless of eligibility.

Decreasing maximum grant and average awards would merely widen the gap between cost and student aid which has already been severely affected by the Federal cuts.

As this gap between cost and aid expands, the state must accept the responsibility abdicated by the Federal government to provide access to educational opportunities for its citizens.

The following tables show the negative impact of these changes on the average Minnesota student in three different systems. These tables are for the average student as compiled by the HECB and use a conservative estimate of 10 percent in educational cost and a 20 percent decrease in BEOG and state grant awards for 1981-82.

The category "unmet needs" represents the portion of a student loan package, work study and institutional grant.

University of Minnesota

1980-81		1981-82
$ 807	Student Contribution	$ 887
734	Parent Contribution	807
1,188	Unmet Needs	1,669
$2,729 (69.4%)		$3,336 (77.7%)
569	BEOG	455
635	State Grant	508
$1,204 (30.6%)		$ 963 (22.3%)
$3,933	Average Total Costs	$4,326

Community Colleges

1980-81		1981-82
$ 781	Student Contribution	$ 859
491	Parent Contribution	540
984	Unmet Needs	1,413
$2,256 (67.2%)		$2,812 (76.1%)
606	BEOG	485
496	State Grant	397
$1,102 (32.8%)		$ 882 (23.9%)
$3,358	Average Total Costs	$3,694

4-Year Private

1980-81		1981-82
$ 862	Student Contribution	$ 948
1,317	Parent Contribution	1,449
2,606	Unmet Needs	3,342
$4,785 (75.1%)		$5,739 (81.9%)
471	BEOG	377
1,114	State Grant	891
$1,585 (24.9%)		$1,268 (18.1%)
$6,370	Average Total Costs	$7,007

As can be seen in the above "average" example, there would be a substantial upward shift in percentage of cost borne by student and family through contribution, loan and work study.

The following example shows the specific effect of these changes on a student who comes from a family of four, with $8,000 annual income, $10,000 in assets and is attending Macalester College. (This represents the effect on a poor student).

Macalester

1980-81		1981-82
$ 500	Student Contribution	$ 900
0	Parent Contribution	0
1,100	Unmet Needs: a) Loan	1,300
1,150	b) Work Study	1,200
$2,750 (38.3%)		$3,400 (42.7%)
1,750	BEOG	1,300
1,250	State Grant	1,250
1,425	Institutional Grant	2,025
$4,425 (61.7%)		$4,575 (57.3%)
$7,175	Average Student Costs	$7,975

It can clearly be seen that the percentage of change for this poor student (see above) from grant assistance toward "self help" closely parallels the percentage for the average student (see Pages 39 and 40).

But even more devastating is the actual dollar amounts that create this percentage change. In the above case, the poor Macalester student is expected to assume contribution; loan and work study that is 42 percent of the total family income of $8,000. This is clearly not what could be defined as a "reasonable self help" effort as the Governor mentioned it in his budget address.

The following example illustrates the change for a student who comes from a family of four, with $24,000 of annual income, $10,000 in assets and is also attending Macalester.

Macalester

1980-81		
$1,950	Student Contribution	$1,320
800	Parent Contribution	900
1,100	Unmet Needs: a) Loan	1,300
1,150	Work Study	1,200
$5,000 (69.7%)		$4,720 (59.2%)
676	BEOG	541
1,000	State Grant	1,250
499	Institutional Grant	1,464
$2,175 (30.3%)		$3,255 (40.8%)
$7,175	Annual Total Costs	$7,975

It can be seen by comparing this "$24,000 family income student" to the "$10,000 family income student" that all of the changes mentioned previously would serve to benefit students from higher income families at the expense of low-income students.

Looking closely, it can be seen that the percentage of "self help" for a $24,000 family actually decreases by 15 percent from 1980-81 to 1981-82 while the same percentage for a poor student in the same circumstances increases by 11.5 percent.

These discrepancies are the result of three factors: 1) federal efforts to decrease moderate income parental contributions; 2) equalizing student contributions regardless of income; and 3) decreasing overall federal expenditures. The glaring result, if we compare the two previous examples (Pages 40 and 41), is that while an "$8,000 family" is forced to provide "self help" equal to 42 percent of their income, a "$24,000 family" need only provide "self help" equal to 20 percent of their income -- less than half the effective percentage expenditures.

The COUNTER BUDGET proposes that the Legislature approve funding of state grants and scholarships at the $37.2 million and $37.8 million level requested for FY '82 and FY '83, respectively, by the HECB, a $15.7 million increase. This funding level would at least prevent a portion of the fiscal strain on low- and moderate-income students who seek to pursue postsecondary education. The COUNTER BUDGET proposes that the Legislature and HECB work to modify state grant/scholarship funding formulas to provide greater assistance to the poor and working class while retaining needed support to middle-income families.

In the past, forced reliance on national eligibility formulas and needs assessments have restricted Minnesota from placing grant/scholarship dollars where they are most needed.

In this time of belt tightening it seems appropriate that the state accept some of the autonomy being forced by Federal budget cuts, and develop a Minnesota eligibility formula and needs assessment system which can provide for the post-secondary needs of its students in a prudent and equitable manner.

Post-Secondary Planning Program ($300,000)

If we are to believe the rhetoric of the traditional American model -- that individuals can improve themselves through education, and that personal initiative is an important element in success -- it is difficult to understand the elimination of increased funding for the Post Secondary Planning Program (PSPP) which provides improved career planning within Minnesota's secondary schools.

In the request for PSPP, $291,400 was included to allow the Higher Education Coordinating Board to provide the Career Planning Program (CPP) to all high school juniors in the State of Minnesota to assist them in making educational and career choices.

The importance of career and educational planning is very well understood by everyone in our rapidly changing society. In the past, planning for careers was a product of informal conversation with parents and school personnel. Often only those who were motivated by someone close to them truly explored a wide range of options.

It is certainly within the best interest of the state to prepare its youth for careers that they will enjoy and in which they can be successful. It is more important that all youth have the same opportunity to explore career options and find their appropriate place in the American model.

We believe the proposal for funds to provide CPP should be an integral part of the statewide Post Secondary Planning Program.

The proposed cost sharing formula would require state appropriations to cover one half ($1.75) of the cost per student, while the other half would be covered by the school districts or other contributors. Enabling funds are included in the biennial budget request of HECB.

The COUNTER BUDGET proposes increased state funding of $291,400 to cover the costs of CPP implementation across the state.

Housing

The Governor has proposed that the current level of support for loan and grant subsidies for housing administered through the Minnesota Housing Finance Agency (MHFA) be reduced by 56 percent. This proposal comes at a time when the federal commitment to low- and moderate-income housing is in grave doubt and the private market is virtually unable to produce new, modest housing units affordable to a household with income below $25,000 per year.

The MHFA has responded to the proposed cut with a number of creative means of stretching available funds, such as creation of a high risk loan fund for increases in interest rates for lower-income households and use of income from existing revolving funds. This approach can give the appearance of robust activity for a time, but in the absence of new funding, serious problems would arise within three to four years. Here, as elsewhere in the proposed budget, the entire fiscal cushion is to be dissipated within a single biennium. In addition, the cuts forced the virtual elimination of all grant programs for the lowest income households. This change, following the cutbacks, follows a recent, common pattern in housing, provision of most assistance to moderate and middle income households to the exclusion of the more difficult and costly low-income households projects.

The effect of the proposed cuts on residential energy conservation efforts is particularly troublesome. The low-interest loan, grant and emergency weatherization programs all contributed to increasing the energy efficiency of the state's housing stock and reducing the energy bills of low- and moderate-income households.

In response to these circumstances, the COUNTER BUDGET proposes restoration of all funds requested by the MHFA ($28.1 million). Many of the programmatic responses to the anticipated shortfall should be continued. The additional funds should be used in part to continue to provide for emergency repairs associated with weatherization and to reinstate the low-income grant program. Special effort should also be made to expand the level of assistance for the weatherization of lower-income rental property. Other initiatives should be proposed by the MHFA.

Additional Cuts

The COUNTER BUDGET did not incorporate a review of every line of the state budget. While such an undertaking is essential, it is well beyond the capability of the Urban Coalition. The Coalition believes that additional cuts and perhaps increases in less prominent components of the proposed budget can and should be made. The magnitude of the additional changes is unclear, but decision-makers are urged to pursue them diligently.

One calculation illustrates the potential for further savings:

If one starts with the State Departments' part of the Budget in Brief and subtracts the legislature, the constitutional officers, tort claims, legislative claims, and what's called the finance non-operating, one is left with $215.9 million for FY '81 and $203.5 million for FY '82. Administrative spokespeople are claiming that this represents a 5.7 percent reduction.

Looking more closely one notices that this purported savings was achieved by including the Department of Agriculture's shade tree disease program (simply a cut in a grant to local government) and the reduction in the Energy Agency (consisting mostly of the cut in energy conservation to local government). Accordingly, if the Department of Agriculture and the Energy Agency are not included, the numbers are: $170,706,000 for FY '81 and $176,794,000 for FY '82. That's an increase of 3.63 percent in contrast to the Governor's claim of a 5.7 percent reduction.

Now, recall that salary increases are not included in the Governor's estimate. If one assumes that salaries constitute about 70 percent of costs and that the salary increase will be on the order of 8 percent, multiplying 70 percent times $170,706,000 times 8 percent one gets $9,559,536. Add that to the $136,794,000 and one gets $186,353,586. That's an increase of just over 9 percent from FY '81 to FY '82. That is the figure which should be used in describing the state government's costs for administering itself from FY '81 to FY '82. It's likewise the place to look for potential additional cuts.

TAX CHANGES

In order to restore the state to a sound fiscal footing and fund the programs outlined in the previous section, taxes in Minnesota must be increased.

As everyone knows, proposals for increasing taxes are not taken lightly. The Coalition understands this is especially true in times of inflation and sluggish economic performance. For this reason, it is particularly important that any tax increase be imposed in an equitable fashion.

The following COUNTER BUDGET proposals attempt to raise necessary revenues in a fair manner while not harming the overall economy of the state.

		($ millions)
1.	Sales tax on business, legal, engineering, and architectural services (non-medical services)	$139.4
2.	Elimination of state income tax deduction for motor fuel taxes	33.0
3.	Changes in the computation of corporate income tax for major oil companies in Minnesota	70.0
4.	Suspending income tax indexing for 1982 (one year impact)	400.0
5.	Reducing deductibility of federal income tax by one-half in 1983 (half-year impact on 1981-83 biennium)	227.5
	TOTAL TAX INCREASES	$869.9*
6.	Indexing low-income workers credit in 1983 (half-year impact on 1981-83 biennium)	-7.1
	TOTAL TAX CHANGES	$862.8

As indicated below, 75.4 percent of the tax changes are needed to maintain the state's sound fiscal standing by eliminating the over-optimistic forecasts and imprudent shifts in taxes and expenditures in the Governor's baseline budget. The remaining tax changes generate revenue for programmatic changes and program restorations as discussed in previous sections, and indexing of the low-income workers credit as discussed below.

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*Because the Governor's budget recommends an increase in income taxes of $51.4 million due to changes in the treatment of federal income tax withholding, the COUNTER BUDGET proposals in effect represent an increase in taxes of $818.5 million over the Administration's plan.

REVENUE NEEDS IN RELATION TO
TAX CHANGES IN UCM COUNTER BUDGET
($ million)

Elimination of optimistic revenue projection, tax and expenditure shifts, loss of interest income, and additional property tax payments	Programmatic Changes	Restorations	Indexing the Low-Income Credit
$613.6	$109.2	$124.2	$7.1

REVENUE NEEDS = $854.1

Sales Tax	Fuel Tax Deduction	Oil Corp. Tax Changes	Reduction of Deductibility	Suspension of Indexing
$139.4	$33.	$70.0	$227.5	$400.0

TOTAL TAX INCREASES = $869.9

Each of the COUNTER BUDGET tax changes is considered briefly below.

1. Broadening the sales tax base is one way to increase state revenues. In 1979, Minnesota ranked 36th in the nation in sales tax collected per $1,000 of personal income. Taxing business services such as advertising, accounting and computer software, and other non-medical services such as legal, engineering and architectural services, would raise significant revenue (approximately $140 million) without greatly changing Minnesota's standing relative to other states. In addition, this change would not impose a major additional burden on lower and middle-income households, because businesses and higher-income households tend to be the primary consumers of these services. Expanding the sales tax base in this way would constitute a progressive change in Minnesota's tax system.

2. In a time of scarce energy resources it makes little sense to encourage in effect the use of gasoline and other fuels through a state fuel tax deduction. The state's tight revenue picture simply underscores the necessity of eliminating this tax provision, which would yield $33 million in the coming biennium. In addition, this change would promote consistency between Minnesota's tax laws and the federal tax code.

3. Recent research has indicated multi-state oil companies doing business in Minnesota pay an effective corporate income tax of four to five percent,* well below the 12 percent statutory rate. This is largely due to two factors. First, allowable exemptions from total income significantly reduce the worldwide net income figure reported by oil companies for computation of corporate taxes in Minnesota. Second, the way in which worldwide net income is then apportioned to the state to determine Minnesota taxable income further reduces oil company tax liability.** As a result, multi-state oil companies pay a lower percentage of net income in taxes when compared to other types of corporations. Changing the method oil company income tax is computed in these two areas would reduce this disparity, result in oil companies bearing a more equitable share of the state tax burden, and yield $70 million in the coming biennium.

4. Indexing of the state income tax will reduce state tax revenues by over $900 million in the coming biennium. During times of slow economic and personal income growth, indexing creates a built-in revenue shortfall and potential budgetary crisis at the very time public sector spending is most necessary. In such times, state revenues not only grow at a rate slower than the index, but revenues also grow more slowly than income. Many believe this is the precarious situation in which Minnesota finds itself at present.

   Because of the fiscal impact of the existing indexing system, the COUNTER BUDGET suspends income tax indexing for 1982. This would result in approximately $400 million in additional state tax revenues. Several modifications should be examined during 1982 and enacted with the reinstatement of indexing for 1983 and thereafter. Foremost among those is automatic indexing of the low-income workers credit.

5. Minnesota is one of only 16 states that allows federal income taxes to be deducted from gross income for purposes of the state income tax. Federal deductibility is a problem in Minnesota for several reasons.

   a. Deductibility is very costly, reducing state revenues by $607 million in 1980 alone.

   b. Deductibility has a regressive impact. The size of the deduction increases in percentage terms as income increases. Thus, higher income taxpayers benefit more than lower-income people.

   c. Because the federal income tax system is not indexed, deductions from Minnesota taxable income are growing rapidly. Since the Minnesota income tax system is indexed, there is no corresponding growth in state tax liability. This

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*Citizens Organizations Acting Together (COACT)

**This effect occurs because of the nature of multi-state oil company business in Minnesota (extremely high sales relative to property holdings and payroll costs) in relation to the optional formula these and other multi-state companies elect to use to allocate worldwide income to the state.

translates to significant revenue losses for Minnesota. In effect, this combination creates a structural revenue drain on the state's income tax system.

It is important to act in this biennium to mitigate some of the losses from federal deductibility. By eliminating one-half of deductibility in 1983, the state would realize $227.5 million in additional revenue in this biennium.* This change would also prove beneficial to the indexing system which the COUNTER BUDGET proposes to reinstate in 1983.

6. The low-income credit should be indexed automatically rather than by legislative action when income tax indexing is reinstated in 1983. Both the maximum standard deduction and personal credits are now indexed in this way in Minnesota. Indexing the low-income credit would further enhance the progressivity of indexing in 1983. The resulting reduction in state revenue in the biennium would be $7.1 million.**

UCM COUNTER BUDGET

The total tax changes proposed by the COUNTER BUDGET equals $862.2 million. This amount is needed to return the state to a prudent fiscal basis and fund essential state activities outlined earlier in this document.

In addition to these tax changes, the Coalition recommends that significant modifications be made to the state's indexing system in 1982 before it is re-instated in 1983. One tax change already discussed, reduction of federal deductibility, would remove what was characterized as a structural revenue drain in the state's income tax system because of the interaction between indexing and deductibility. Another change would automatically index the low-income credit.

Additional modifications address two issues: the relative tax burden associated with indexing and safeguarding the state from built-in revenue shortfalls and potential budgetary crises in the future as a result of indexing.

Other modifications that should be enacted are:

a. A "weighted" bracket-indexing plan should be implemented in 1983. As noted in the introduction, inflation hits the poor and working class hardest. So instead of adjusting each bracket by the same percentages, lower-income brackets would be adjusted more for inflation than upper-income brackets.

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*For all of 1983, elimination of one-half of federal deductibility would increase Minnesota revenues by $405 million, assuming inflation of 10.4 percent and substantial passage of President Reagan's tax-cut proposals. One-half of this amount, or $227.5 million, would be saved in the 1981-83 biennium.

**For all of 1983, indexing of the low-income credit would reduce state revenues by $14.2 million, assuming inflation of 10.4 percent. One-half of this amount, or $7.1 million, would be foregone in the 1981-83 biennium.

The following table compares the income tax bracket for 1983 under the existing and proposed weighted indexing scheme. A 10.4 percent rate of inflation for 1983 is assumed, resulting in an 8.84 percent (85 percent of 10.4 percent) increase in bracket width.

COMPARISON OF EXISTING &
WEIGHTED BRACKET -- INDEXING PLANS

Brackets Under Existing Indexing 1982	1983	Weighted Bracket 1983	Weighted Index
0- 710	0- 773	0- 794	11.84
711- 1,423	774- 1,549	795- 1,584	11.34
1,424- 2,843	1,550- 3,094	1,585- 3,151	10.84
2,844- 4,263	3,095- 4,640	3,152- 4,704	10.34
4,264- 5,684	4,641- 6,186	4,705- 6,243	9.84
5,685- 7,104	6,187- 7,732	6,244- 7,768	9.34
7,105- 9,944	7,733-10,823	7,769-10,823	8.84
9,945-12,784	10,824-13,914	10,824-13,850	8.34
12,785-17,755	13,915-19,325	13,851-19,147	7.84
17,756-28,405	19,326-30,916	19,148-30,490	7.34
28,406-39,055	30,917-42,507	30,491-41,726	6.84
39,056 & over	42,508 & over	41,727 & over	

A hypothetical range of weighted indexes is shown above. (The existing 1983 brackets are adjusted upward by the percentage indicated in the last column). In practice, the pattern would be adjusted to raise the same revenue as the normal 85 percent of CPI adjustment in brackets. Thus, the pattern reflected in this example, with the normal 8.84 adjustment made to the $7,105-9,944 bracket, would not necessarily occur.

b. Although not an income tax modification, Minnesota's circuit breaker system should be indexed so working-poor households do not lose property tax refunds due solely to the effect of inflation.

Two other changes in indexing should be considered during the one year hiatus:

a. Use an index which more closely reflects the rate of growth in personal income in Minnesota than the current index (85 percent of the CPI). This modification would help prevent shortfalls in revenue during sluggish economic periods.

b. Indexing only during tax years when the state has a substantial surplus at the end of the corresponding fiscal year. The "rainy day fund" proposed earlier in the COUNTER BUDGET would constitute such a surplus. The proposal consists of additional revenue gained from better-than-expected performance by the state's economy, and expenditures foregone in biennium for payments to renters which are shifted to the 1984-85 biennium.

In summary, after suspending indexing for 1982 to help meet revenue needs, a revised, more progressive indexing system could be reinstated in 1983. This would protect individual taxpayers in part of this biennium and in all likelihood in each biennium thereafter.

UCM COUNTER BUDGET

SUMMARY OF PROPOSED CHANGES

		($ millions)
Revenue Needs		
Imprudent Budget Elements		
1. Optimistic revenue projections and budget shifts		$613.6
	Subtotal	613.6
Programmatic Changes		
1. Education funding at original level proposed by Governor for 1981-83		89.0
2. Public Assistance		see net figure below
3. Transportation		11.1
4. Energy		9.1
	Subtotal	109.2
Restorations		
1. Public Assistance		80.1
2. Education		16.0
3. Housing		28.1
	Subtotal	124.2
	TOTAL REVENUE NEEDS	847.0

Tax Changes		
1. Sales tax on services		139.4
2. Elimination of fuel tax deduction		33.0
3. Change in oil corporation taxation		70.0
4. Suspension of indexing in 1982		400.0
5. 50 percent reduction of federal deductibility in 1983		227.5
	TOTAL TAX CHANGES	869.9
6. Indexing low-income workers' credit		-7.1
	NET TAX CHANGE	862.8

APPENDIX

WHO IS ON WELFARE?

AFDC:*

- Twenty three percent of the State's income maintenance budget.
- There are currently 53,000 families; 47,000 have one parent absent.
- Seventy-eight percent of the families have only one or two children.
- A majority of the parents have been married and are separated or divorced.
- Fifty-five percent of the cases have at least one child under six.
- The average payment per family is $325.00 a month or $3,900 a year.
- Thirty-two percent of the adults on AFDC are working full or part time, and 2/3 of those work full time. This is the highest number of working adults on AFDC in the nation.
- The average length of time on AFDC is 2.9 years.
- Only 52 percent of AFDC families use Food Stamps. In Minnesota, only 35 percent of all those eligible use Food Stamps.
- Only 30 percent of AFDC families own a car. The average value of those cars is $743.00.

*Department of Welfare Figures

General Assistance (GA):

- Accounts for 3 percent of the State's income maintenance budget.
- 13,500 clients.
- Eighty-nine percent of cases are one person only.
- Forty-six percent of recipients are over 27 years of age.*
- Fifty-six percent are women.*

*This and following figures taken from Ramsey County GA profile, Feb. 19, 1981.

General Assistance (GA) -- cont.):

- Thirty percent are unable to work.
- Seventy-three percent of those able to work were on the program 0 - 5 months.
- Average grant is $151 a month, or $1,812 a year.

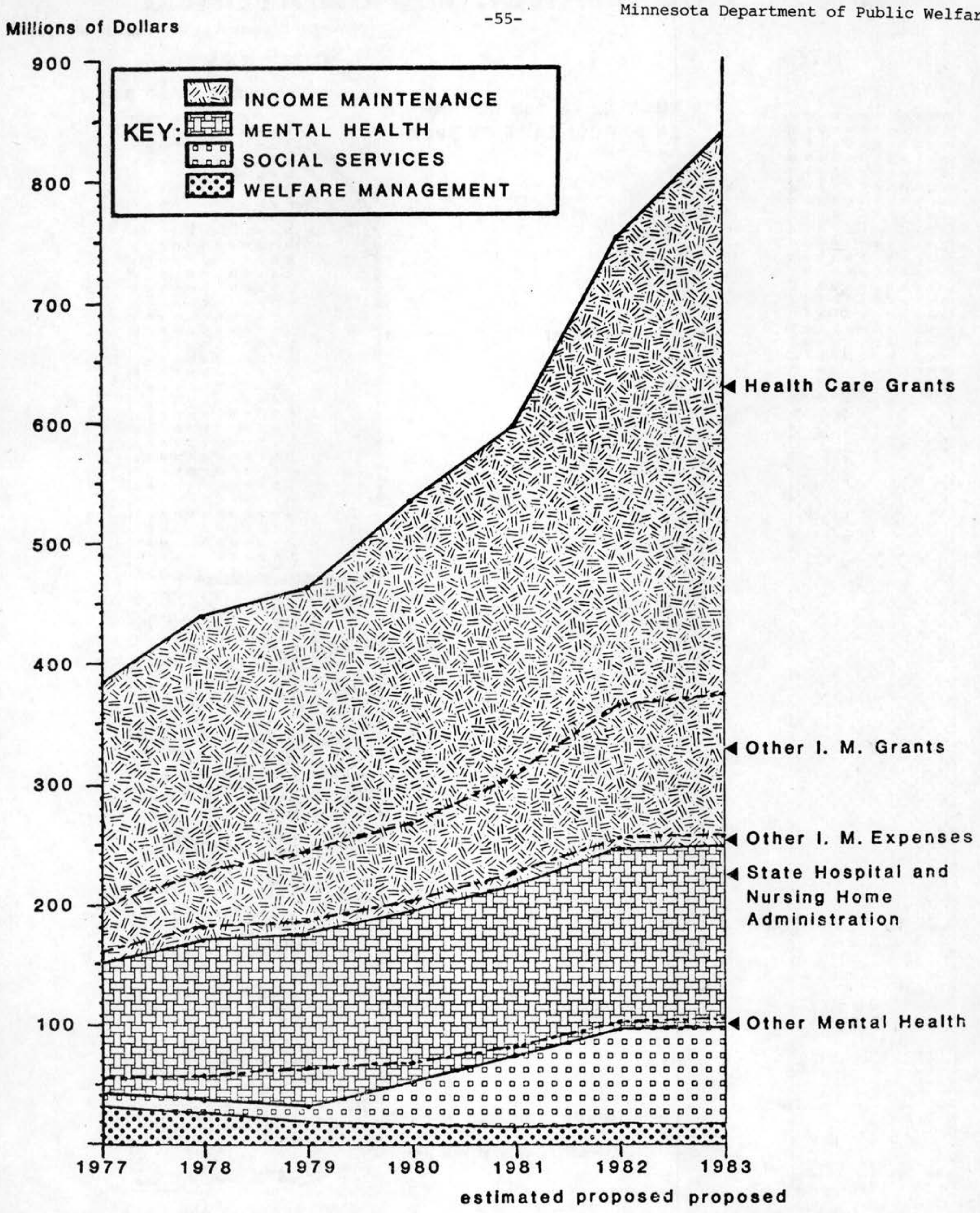
Medical Assistance (MA)*:

- Accounts for 68 percent of the State's income maintenance budget.
- 134,500 recipients.
- 34,900 recipients are in nursing homes, at an average cost of $961.00 per month, or $11,532 per year.
- 26.1 percent of MA recipients are 65 or older, but they account for 45.6% of expenditures.
- Sixteen percent of MA recipients are blind or disabled, but they account for 35.2% of expenditures.
- 51.6% of MA recipients are in AFDC families, but they account for only 13.8% of expenditures.

*Department of Public Welfare figures.

GENERAL FUND EXPENDITURES BY PROGRAM

Minnesota Department of Public Welfare



MEDICAL ASSISTANCE EXPENDITURES