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State Aid to Cities Enables Greater Spending on Employee Health Care Benefits

June 9, 2009, St. Paul, Minnesota – While most tax experts agree that local government aid (LGA) is provided to ensure that all municipalities in Minnesota can afford similar basic services, a report released today by the Minnesota Center for Public Finance Research (MCPFR) concludes that cities receiving LGA provide more generous health care benefits to their employees than other Minnesota cities.

The report, *"Health Care Spending By Minnesota's Cities -- Costs, Efficiencies, and the Role of Local Government Aid"* examines the diversity in health care spending and benefit plans among Minnesota cities and investigates how state aids affect local government health care spending levels. The study is based on city self-reported data from the Minnesota Local Government Salary and Benefits Survey for 2008 – a project coordinated and sponsored by the League of Minnesota Cities, the Association of Minnesota Counties, and the Association of Metropolitan Municipalities.

MCPFR, the supporting research and education arm of the Minnesota Taxpayers Association, analyzed the spending and plan data from 182 cities with population of at least 2,500 and employed standard statistical methods to determine average effects on city health care expenditures resulting from increases in LGA. The research concluded that Cities receiving LGA in 2008 reported spending, on average, \$103 (12%) more per month, per employee, on family health care premiums; and also covered a greater share of the premium cost. In addition, local government aid had a bigger influence on city contributions to employee health care coverage than property taxes or other local revenues.

"It's ironic that a program intended to foster greater equity in local government service delivery across the state creates greater inequity among public employees with respect to health care benefits," notes Mark Haveman, Executive Director of the Minnesota Taxpayers Association. "Based on one year of data, LGA is a far greater determinant of differences in health care benefits than any other revenue source."

Among the report's other findings:

- ***City expenditures on employee health care coverage varies greatly.*** Over half of cities reported spending between \$600 and \$900 per employee per month for family health care premiums. However, 31 cities reported spending over \$1,000 per month and 4 cities spent over \$1,500 per month. Conversely, 11 cities reported spending less than \$500 per employee per month.
- ***Employee contributions for health care coverage also varies greatly.*** The average Minnesota city contributed slightly less than 75% of the cost of the average family health care premium. However, 11 Minnesota cities reported covering 100% of the family premium cost and 22 additional cities assumed between 90% and 100% of the family premium cost.
- ***LGA is a greater factor in health care expenditure differences than other revenue sources.*** For every additional \$1 of LGA received per capita, there was on average, holding other factors constant, a \$1.03 increase in monthly city contributions to family health care premiums per employee. In comparison, a \$1 increase in property tax levy per capita increased employer spending on monthly premiums on average by only \$.43 per employee and a \$1 increase in other local revenues per capita increased employer spending on family health premiums by \$.25 per employee.

The report makes a number of recommendations to improve the public transparency of government spending in this area as well as changes in LGA program design and distribution. The primary recommendations include:

- Prioritize any necessary LGA cuts by targeting those cities which are significantly subsidizing employee health care plans relative to state averages.
- Create a health care spending offset in the LGA distribution formula that incentivizes efficiency improvements in city health care plan offerings.
- Require local governments to report expenditures by spending type as well as by spending program to the State Auditor.
- Disclose descriptive details of government employee health plan coverage to a public agency, such as the State Auditor.
- Reexamine statutory provisions that mandate higher levels of local government health care spending.

"Local government employees deserve access to high quality health care, but state taxpayer dollars should not be used to subsidize a city's ability to assume disproportionately large shares of employee health insurance costs or retain very high cost plan features," said Haveman. "Many cities can be commended for adopting strategies which help reduce the use of high-cost medical goods and services and improve spending efficiencies. It is unfair for cities that have taken these steps to suffer the same aid cut fate as those cities which have made little or no effort to implement plan design changes or engage employees in greater cost sharing."

Haveman concluded, "As anticipated cuts in local government aid to cities (LGA) are debated, it's important for taxpayers to understand this less-visible dimension of city spending and how state aids are related to it."

The full report is available on the Minnesota Taxpayers Association website, www.mntax.org/cpfr.

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Since 1926 the Minnesota Taxpayers Association has been an independent voice for good government and sound tax policy. MTA is a non-profit, non-partisan organization and membership is statewide, open to all, and representative of every category of taxpayer. MTA provides state and local policy makers with objective non-partisan research about the impacts of tax and spending policies; and advocates for the adoption of rational public fiscal policy. The Minnesota Center for Public Finance Research is the supporting research and education organization for the Minnesota Taxpayers Association.