

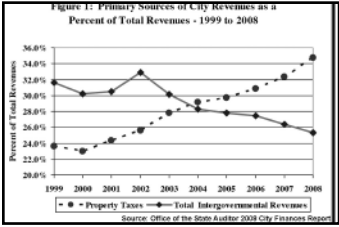


STATE AUDITOR TIMES

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Vol 4, Issue 1 Summer-Fall, 2010 News and views on the most important State office in your home town

Tax Tracker Which taxes & fees are up or down? A6



Otto conducts 3 times as many investigations as predecessor

SAINT PAUL - New results show that State Auditor Rebecca Otto has been nearly three times as productive as her predecessor, former State Auditor Pat Anderson.

Anderson, who is challenging Otto in a 2010 rematch, had claimed that Otto had been "passive and ineffective."

But due to efficiencies she has built into the office, Otto has been able to conduct nearly three times as many investigations as Anderson did during her entire term.

"Pat just hasn't been paying attention," said Otto. "I've done nearly three times as many investigations as she has - and people have been sentenced to time."

A review of the Office of the State Auditor's Web page listing Special Investigations and letters of review bears this out. The years 2003- 2006, when Anderson was State Auditor, lists a total of ten investigations.

OTTO MORE PRODUCTIVE, A4

Rebecca Otto wins national award for 'Excellence in Accountability'

WASHINGTON - The nonpartisan National State Auditors Association (NSAA) has awarded State Auditor Rebecca Otto with the prestigious 2009 Excellence in Accountability Award.

"NSAA is privileged to recognize some of the most innovative thinking in the current state auditing environment," said Tom McTavish, Michigan's Auditor General and Chair of the NSAA Excellence in Accountability Awards Committee.

The award was for the Best Practices Review: Reducing Energy Costs in Local Government.

"Local government budgets are tight and energy costs are a significant part of their expenses," said State Auditor Rebecca Otto.

"Reducing energy costs in our schools, city halls, and county buildings is a common sense solution to



State Auditor Rebecca Otto has emerged as a national leader in innovation and efficiency

find new efficiencies. The money saved can go towards funding public safety, roads and bridges, or for reducing taxes."

The more than 4,300 local governments in Minnesota use a lot of energy. Reducing energy costs can have a major impact on Minnesota taxpayers' pocketbooks and on the environment.

OTTO EXCELLENCE AWARD, A4

Otto leads nine-member council to find new efficiencies in government

Taking a major step forward in efforts to get Minnesota governments working more efficiently, State Auditor Rebecca Otto today announced the formation of the Collaborative Governance Council.

The council was created in the recent legislative session in a bipartisan effort with assistance from Otto and signed into law by the governor. Otto will Chair the initiative.

"With the budget challenges facing all levels of government, it's important that local governments work together to provide services in the most efficient and cost-effective manner," said State Auditor Otto.

"Local governments are already collaborating, but we want to identify other areas where they could collaborate in these tight times. If there are laws in the way of allowing that to happen, we will make recommendations to change that."

NEW EFFICIENCIES, A3

THE LEGACY OF PAT ANDERSON'S "LGA" CUTS City Property Tax Revenues Soar 102% Report shows state's fiscal mess shifted onto property taxes



ST. PAUL - In 2003, then-State Auditor Pat Anderson promoted cutting Local Government Aid, or LGA, saying the state could erase nearly 12 percent of its \$4.2 billion

deficit with a cut of 43 percent in state aid to cities. The result has been far higher property taxes.

"City revenues derived from property taxes have risen 102% since 1999," Otto said when she released a report on Minnesota City Finances for calendar year 2008. The Report examined long-term trends that showed a greater reliance on property taxes at the

PROPERTY TAXES SOAR, A2

Anderson Makes More Math Errors

Consistent pattern of errors over several years raises new concerns

SAINT PAUL - In 2006, then challenger Rebecca Otto found hundreds of millions of dollars of financial errors in official reports issued by then-State

MORE ANDERSON ERRORS, A4

State Auditor an "outdoor woman"

Rebecca Otto bales her own hay. She rides the wagon and stacks the bales herself.

"I love being outdoors," she explains. "I need the fresh air."

Otto lives with her husband Shawn and their son on a 30-acre farm in rural May Township, about 25 minutes north of Stillwater.

The couple designed and built their home with their own hands.

"We like living where we can see the stars, and be surrounded by wildlife. It's a good balance to a busy life. It is one of the reasons we live in Minnesota: the great quality of life."



Rebecca Otto readies her Paso Fino for an evening ride

Property Taxes Soar Otto makes firefighters a top priority

(continued from A1)



very time Minnesotans and the state's economy could least afford it.

"Minnesota cities deliver some of our most essential services like public safety, which includes police and firefighters, as well as street and highway maintenance," said Otto.

"To put this into perspective, we are in a foreclosure crisis and an economic downturn, Minnesotans have suffered from wage deflation, the state has a large budget deficit, and we are increasing our reliance on property taxes," said Otto.

"This report clearly shows how the state has shifted its financial mess onto property taxes at a time when many Minnesotans can least afford it," warned Otto.

The report shows that over the last 10 years, as state government cut aid to cities, a proportional increase in property taxes has followed. "Pat Anderson's no-new-taxes LGA cuts, which are really no-new-state-taxes, have really impacted Minnesota fami-

lies property tax bills," said Otto.

The Report shows that between 1999 and 2008, actual revenues from property taxes grew by 102 percent, compared to just 10 percent for revenues from the state and federal government.

The report also shows that city revenues have decreased by 7 percent after inflation between 1999 and 2008. Some feel that cities just need to cut their budgets. The report points out that when adjusted for inflation, city expenditures have actually decreased by 7 percent between 1999 and 2008. "Cities have been cutting their budgets and building in efficiencies.

State Auditor Otto met with legislative leaders and the Governor. "I warned them again that cutting state aids to solve the deficit would have a further impact in property taxes. And, it is important to note that these are for 2008. They cut more state aid to cities in '09 and '10. The property taxpayers will be picking up the state's budget deficit again," Otto cautioned.

SAINT PAUL - State Auditor Rebecca Otto has annually convened and chaired the Volunteer Fire Relief Association Working Group to make the fire relief pension process easier and more effective.

Many firefighters are volunteers compensated with pensions, so the work of this Group is supporting the current very efficient firefighting system used by the State of Minnesota.

"If your home is on fire, and you call the Fire Department, we need to ensure that there are firefighters to respond," said Otto.

"Every year the Working Group produces a bill that updates antiquated laws to reflect today's reality for firefighters and their pension plans. The results are better laws that help the Relief Trustees be successful in managing and safeguarding their pension funds."

The Working Group meetings have also identified areas for the Office to do training, and has led to better educational materials that assist the trustees of these plans to be successful.

Saint Paul Firefighters Local 21 has endorsed Rebecca Otto for re-election for State Auditor for her "track record of bridging the partisan divide and uniting our elected officials," said Local 21 president Michael Smith.

Rebecca Otto Commentary: Cleaning up after Pat Anderson

When I took office after Pat Anderson, I had a lot of clean up to do. Anderson cut the office staff significantly before she was in office long enough to understand where to cut and whether it protected the taxpayers' best interest



or not. The result was inefficiency and the loss of well-seasoned auditors and middle staff who were critical to retain, as they were going to

the future leaders of the Office when retirements began to occur. Morale was low. Finally, shortly before Anderson left office, a whole

division was gutted.

New risk-based national auditing standards went into place as I took office that changed the auditing

world. These new standards greatly increased the work that auditors have to perform. It also increased the amount of work that local governments had to perform in order to prepare for an audit. Anderson's short-sighted cuts to the Office made it more difficult to complete the major increase in workload, especially since the Office lost many seasoned veterans.

I immediately went to work to

improve staff morale and retention. I did succession planning, rebuilt a division, and restructured another division to help with the increased workload and retirements at the top.

I also responded by introducing several innovations and efficiencies that improved productivity. These included a much-improved web site that reduced the number of calls coming into the Office so staff could

CLEANING UP AFTER PAT, A5



Rebecca Otto argues a point in Local Government Policy Committee

Rebecca Otto to Lead National State Auditors Executive Committee election puts Otto on 4-year track to presidency

WASHINGTON, D.C. - Minnesota State Auditor Rebecca Otto has been elected to the Executive Committee of the National State Auditors Association (NSAA).

The position puts Otto on a 4-year track to assume the presidency of the national organization.

State Auditor Otto's peers of both parties chose her for this position to help lead the the National State Auditor's Association. The membership recognized Otto's leader-

ship skills, and her focus on excellence in accountability, transparency and efficiency of government over the last several years.

"I'm very honored," said Otto of the appointment. "In tight times government needs to find new efficiencies and new innovation. This appointment will give me the opportunity to implement a vision that will help states meet these tough challenges in a time when workloads and standards are up, and budgets and staffing are down."

New Efficiencies

(continued from A1)

The Council will bring together key stakeholders from local governments, including cities, counties, towns, and school districts, and also from three major unions that represent local government employees.

The Council will focus on finding ways to increase government innovation and collaboration at all levels.

"The key players who know the issues will be at the table. We will call in experts as needed as we work to find common-sense changes that can be made which will benefit all of our communities, and

our state," said Auditor Otto.

"Often bills of this sort can simply be more bloated government," Otto said. She said she was pleased with the efficiencies of this measure. "The beauty of this bill is that it was crafted so there was no cost, no one will get a per diem, or reimbursements. That was the only way it survived this last session."

The Council's work may include:

- The review of statutes, laws and rules that slow or prevent collaborative efforts;

- The use of collaboration to improve the delivery of governmental services;

- The use of technology to connect entities and share information;

The story of Rebecca Otto

From small business success to teacher to elected local and statewide office, Otto says "next generation" is what drives her

MAY TOWNSHIP - "I guess it all started with volunteering for the PTO Board," laughs Rebecca Otto. "It's a slippery slope!"

Rebecca and her husband Shawn started a business 14 years before she entered into public service. Otto wanted more than business success; she wanted to give back to the community, so she left her position as president of the company, got her Master's of Education, and became a public school teacher. She worked for 5 years in the Mounds View Schools, and knew firsthand how teachers were spending their own money for basic supplies in their classroom. "I too was buying supplies for my classroom," she says.

Shortly after her son entered school she was asked to join the local parent-teacher organization. They needed a Secretary so Otto volunteered. The topic of cuts to school funding came up, and the PTO worked to raise money to provide what the schools and teachers couldn't.

EXPERIENCE AND VISION, A5

The modernization of financial transactions and oversight by facilitating credit and debit card transactions, and electronic fund transfers;

The creation of model forms for joint power agreements.

The final recommendations from the Council will most likely be recommended legislative changes in the form of a bill. They will be presented to the governor and certain legislative committees by early next year. The Council will hold regular meetings, which will be public. Meeting notices will be posted on the Office of the State Auditor website at www.auditor.state.mn.us.

YOUR PRIVACY

Legislative Auditor faults Pat Anderson in social security scandal

Judgment error led to exposure of Minnesotans' social security numbers on internet

SAINT PAUL - An Office of the Legislative Auditor (OLA) report implicates the Republican-endorsed candidate for State Auditor, former State Auditor and former Minnesota Department of Employee Relations (DOER) Commissioner Pat Anderson, in a recent internet security breach that led to the public exposure of Minnesotans' social security numbers and other "not public" data.

Anderson "did not adequately address data security" in contracting with a private firm to handle sensitive data of thousands of Minnesotans, the OLA investigation found.

After losing her 2006 re-election bid to State Auditor Rebecca Otto, Anderson was appointed by Governor Tim Pawlenty to temporarily head DOER before it was merged with the Minnesota Department of Finance. She was Commissioner from January of 2007 to June 1, 2008, when the merger occurred.

In January 2008, Pawlenty ordered

ANDERSON INVESTIGATED, A4

YOUR PRIVACY

Anderson Investigated

(continued from A3)

the state to use E-Verify, a federal Web-based system run by the U.S. Department of Homeland Security, to verify whether newly hired employees are eligible to work in the United States. Primary responsibility for implementation was assigned to Anderson as the then-Commissioner of DOER.

Use of the E-Verify system requires the transmission of data classified by law as not public, including social security numbers.

To implement the governor's order, Anderson could have allowed state agencies to connect directly to E-Verify via the free Web site administered by Homeland Security.

Anderson chose instead hire a private vendor, Lookout Services, Inc, to facilitate the implementation.

The Legislative Auditor's investigation found that Anderson made only "a limited assessment of Lookout Services before signing an agreement... and the agreement did not adequately address data security."

Anderson also failed to conduct any formal assessment of the data security risks involved with using any E-Verify vendor and failed to conduct an independent security review specifically of Lookout Services, according to the OLA report.

Anderson's own staff expressed concerns, telling the OLA that there was no budget for the program. In addition, documents provided by Lookout Services to DOER's information security staff were only the "advertising version" of what companies claim to have as security. Anderson could have obtained

copies of the vendor's security policies and procedures and evidence that they were being followed, but did not.

Despite these issues, Anderson approved moving forward, saying in an e-mail, "Let's get this done," and signing an agreement with Lookout Services on April 4, 2008. The contract said in part that "Licensor [Lookout Services] assumes no responsibility for Licensee's [State of Minnesota's] encrypted data that is sent to, stored on, or retrieved off of a Licensor's server." Anderson signed the agreement "without additions, amendments, or restrictions that reflected the state's data security interests," said the OLA report.

After the program was implemented, a reporter for Minnesota Public Radio was able to access Minnesotans' names, birth dates, and social security numbers simply by Googling Lookout Services, leading to a major scandal.

The state has since cancelled its contract with Lookout Services and is involved in a lawsuit with the firm.

The breach is part of an ongoing pattern of mistakes that Anderson has been embroiled in. In 2006, Anderson failed to take security measures after a computer laptop was stolen from the Office of the State Auditor. A month later, three more laptop computers were stolen containing the names, birthdates, social security numbers, and other not public data of hundreds of Minnesotans.

Anderson lost her reelection bid to Rebecca Otto in part because of this judgment error.

To State Auditor Rebecca Otto, the latest mistake is part of an "ongoing pattern of careless errors and inattention to detail, and we simply can't afford this in the state's top numbers job. 'Getting it done' should never come ahead of getting it right. Minnesotans depend on the State Auditor to be their line of defense against this kind of thing."

The Office of the State Auditor oversees the spending of over \$20 billion per year by local governments.

Otto Excellence Award

(continued from A1)

ment," Otto said.

"When we surveyed local governments for this Review, they reported that an obstacle to reducing energy costs was lack of financial resources. The Review has live links that get them directly to financial resources. We get them to the green," said State Auditor Otto.

The Review is designed to assist local officials in making informed decisions. It provides recommendations for steps to best practices, and cost/benefit analyses on different types of technologies and services to reduce energy costs. The Review is also designed to be easy to use. The online version is interactive. A Follow-Up Report has been issued since the first Review. It shows how much local governments are actually saving from their energy reducing projects.

Otto more productive

(continued from A1)

The years 2007-2010, Rebecca Otto's first term, shows nearly thirty – and Otto says there will be more.

"This is because of my focus on innovation and efficiency," Otto said.

"Pat Anderson slashed the office budget then focused on partisan grandstanding. She was inefficient, she made a lot of errors, and she didn't get very much done as a result.

"I put my nose to the grindstone, and we built in efficiencies and better processes that have saved staff time so they can focus on the important work. In tight economic times and tighter budgets, the taxpayers have gotten far more productivity out of the Office."

More Anderson Errors

(continued from A1)

Auditor Pat Anderson. Otto won that race, unseating Anderson by the largest margin over an incumbent State Auditor in 112 years.

Anderson wants her old job back, but State Auditor Rebecca Otto said she is still finding errors – this time throughout campaign finance reports that Anderson personally signed off on.

In February, Otto announced that Anderson had made financial errors in her 2009 Gubernatorial campaign finance report. Anderson subsequently amended her report to reflect Otto's corrections.

Now, Otto has announced more financial errors by Anderson, this time in campaign finance reports dating back to her first run for State Auditor in 2002 all the way up through her campaign's 2008 return.

"Anyone can make a mistake, but Anderson has a consistent pattern of errors in the numbers, both in and out of office," said Otto. "We can't afford a State

Auditor who makes error after error, year after year, to the tune of hundreds of millions of dollars. As State Auditor, you oversee over \$20 billion per year and every taxpayer dollar counts."

"That's her thing, and I'm ignoring her," Anderson told the Bemidji Pioneer when confronted about the errors, "because it's so stupid."

In contrast to Anderson, Auditor Otto won the National Excellence in Accountability Award from her peers in the non-partisan National State Auditors Association, and has been elected to their executive committee.

"The choice in November is very clear," said Otto. "We can go backwards to a partisan grandstander who simply bashes government while making hundreds of millions of dollars in errors, year in and year out, or we can go forward with achieving excellence and efficiency in government, and make Minnesota a national leader again."

Cleaning up after Pat Anderson

(continued from A2)

focus on their work. Web-based meetings and trainings have reduced windshield time and costs for both my staff, and local government staff. I conducted outreach and provided training for local officials around the new auditing standards to help them work to actively reduce their audit costs, and get a more timely audit.

Anderson was reactive with local officials when she was State Auditor. Her grandstanding at the expense of local officials to get a headline eroded any trust that existed between local governments and the State Auditor. They did not want to call the Office with questions for fear Anderson would unfairly use them for a headline for her political gain. I

While Anderson was out grandstanding about how government was bad, I have had my nose to the grindstone to make it better, and have been nearly three times as productive.

have been proactive to help local officials get it right in the first place when spending taxpayer dollars rather just catching them doing the wrong thing. We developed educational materials to help local officials in a variety of areas that we saw problems in, and we conducted very targeted trainings to reduce recurring problems. The result has been far more efficient government, and better stewardship of tax dollars. Economic downturns historically have produced more fraud, and our educational efforts helped avert a lot more fraud from occurring.

While Anderson was out grandstanding about how government

was bad, I have had my nose to the grindstone to make it better. Because of the many efficiencies built into the office, staff has been able to conduct nearly three times as many investigations as Anderson did in her entire 4 years. I have worked successfully to regain trust with local officials, and now they call the Office with questions so they get things right in the first place. However, if someone misuses public funds, I am tough, and people have been sentenced to time.

We have an important choice this November. We can either go back to Anderson's political grandstanding and simply saying that government is bad. Or we can go forward and find more efficiencies, have greater transparency, do more investigations, have greater accuracy, and make Minnesota a national leader again.

Finding nearly \$300 million in a pattern of errors, Rebecca Otto unseated Pat Anderson by largest upset in 112 years

Rebecca Otto won the race to become Minnesota's State Auditor by a margin of nearly 11%, with a majority of the votes in a 4-candidate race, and with more votes than any State Auditor in Minnesota history.

Otto win was the largest upset of an incumbent State Auditor in 112 years, since 1894, and she became the first female Democrat to be elected to the post. When Pat Anderson won the post in 2002, she won by less than 3/4%.

Rebecca Otto became the 18th State Auditor of Minnesota.

Experience And Vision (continued from A3)

Rebecca became co-chair of the district's ad-hoc finance committee, and reviewed the district's finances. What she found was that the district was efficient - but was going into statutory operating debt, and so needed a levy referendum. Otto garnered hundreds of volunteers, passing the levy with bipartisan support, keeping teachers in the classroom - and the quality of education in the district.

At the same time, she was asked to run for the school board due to her background in education, business and finance, and ended up being the top vote getter in every precinct except one.

On the school board Rebecca testified before the legislature and was "surprised to see how little many leg-

islators understood about school and local government funding. Here they were, voting on key issues, and they didn't understand the outcomes," she says.



Rebecca Otto with former Gov. Arne Carlson, co-chair of her famous "One Minnesota Get-Together"

After working to bring the district out of statutory operating debt and improve efficiencies, Rebecca was asked to run for the State Legislature. She was hesitant because as she puts it, "I am not a politician". She decided the future was too important, and was strongly encouraged by her fam-

ily to run. "Relying on levy school referendums is not a sustainable way to fund education", said Otto. "Something had to change at the state level."

Rebecca was elected State Representative in a 2003 special election, the only Democrat in a very Republican area where Michele Bachmann was the state senator. She focused on balance and reason, and sound fiscal policy. "I received bipartisan support, and was very honored to win the seat by 11 points," Otto said.

Otto quickly distinguished herself as a budget hawk, publicizing the fiscally irresponsible state budget practice of including inflation in revenue projections but not in expenses. She was one of the early legislators to publicize the Foreign Operating Corporations tax loophole, which eventually saved the state \$320 million per biennium. And she was the first to bring former finance commissioners Republican John Gunyou and Democrat Jay Kiedrowski

together to talk about good state fiscal policy "because there was too much rhetoric, and not enough facts." Gunyou and Kiedrowski then took the forum to 54 communities around the state.

Along the way, Rebecca made other unlikely allies. She brought together former Governor Arne Carlson and former Vice President Walter Mondale to co-chair her famous "One Minnesota Get Together".

When Otto ran for State Auditor in 2006, Governor Carlson crossed party lines to endorse her, along with two other former State Auditors: Judi Dutcher and Mark Dayton.

"I will continue to stand up for good fiscal policy that protects the interests of Minnesotans. Good fiscal policy is not a partisan issue," she said. "Politicians need to get away from the prayer of 'Lord get me through the next election' and get back to 'What about the next generation.' I thank you for the honor of allowing me to serve you as Minnesota's State Auditor."

"No new taxes" and LGA in Minnesota: Ideological policy drove up taxes and fees; weakened state's finances

2002. Pat Anderson signs the "no new taxes" pledge

Candidates Tim Pawlenty, Patricia Anderson, and several legislative candidates sign a "no new taxes" pledge. The pledge is controversial because it caters to a special interest group funded by wealthy conservatives rather than to the best interests of all the citizens of Minnesota.

2003. Pat Anderson sets up "no new taxes" agenda with historic cuts to LGA

A month after taking office, State Auditor Patricia Anderson issues a report recommending historic cuts to local government aid, "softening up the opposition" for the Governor's controversial 2003 "no new taxes" budget proposal.

Minnesota Public Radio says "A report from Republican State Auditor Pat Awada (Anderson) concluded that local government aid could be trimmed by 43 percent without affecting essential programs or prompting local property tax increases."

Not included in Anderson's "essential programs" are things like public health, parks, and libraries.

The League of Minnesota Cities is harshly critical of

Anderson's competence, saying her report uses "faulty methodology and suspect data to reach sweeping conclusions."

Nevertheless, the "no new state taxes" agenda is largely implemented with the help of a wide Republican majority in the state House of Representatives, most of whom are also pledge signers who refuse to compromise. The Governor dismisses critics as "victims du jour."

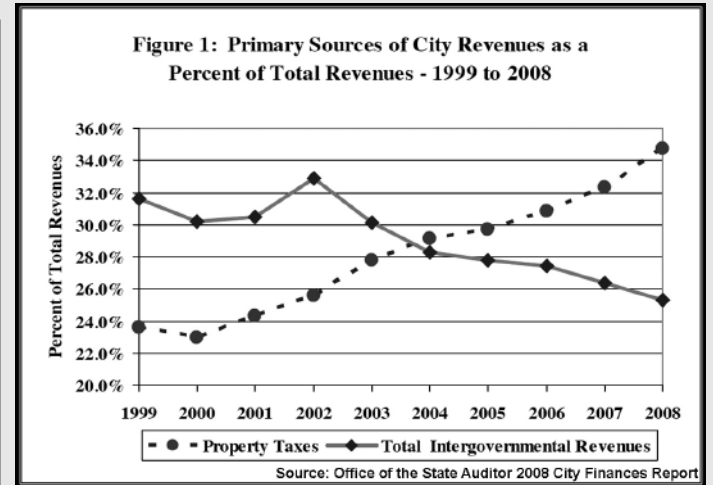
Unprecedented financial shifts, gimmicks, and other maneuvers are implemented in order to adhere to the rhetoric of the pledge, but this tactic tends to undermine financial stability. They include relabeling taxes as fees, spending down public assets, borrowing heavily, and shifting revenues and expenses from one year to the next.

Minnesota loses its AAA bond rating and property taxes, fees, and tuition begin to soar.

2010. A Report Card on Pat Anderson and her "no new taxes," LGA cuts agenda: it drove property taxes up

After 8 years of "no new taxes" we have financial data to see how it performed. The data show that it did not hold taxes down; it simply shifted them to other places.

City property tax revenues up 102%



The cuts to Local Government Aid recommended in early 2003 by State Auditor Patricia Anderson were indeed "sweeping." Using "faulty methodology and suspect data," she advocated for cuts of 43%, much larger than those eventually enacted. Her recommendations included classifying such things as libraries,

parks, and public health as "non-essential" and targeting them for cuts, *arguing this would not prompt local property tax increases.* But local governments, which run more efficiently than the state, struggled to make ends meet. They cut services, and raised property taxes to fill the gap.

Why don't they trim expenses?

Table 2: Total City Expenditures in Constant Dollars

Expenditures	1999	2003	2004	2008	1999 - 03 5-Year Change	2004 - 08 5-Year Change	10-Year Change
General Government	\$374,032,916	\$443,527,282	\$387,349,893	\$370,014,730	18.6%	-4.5%	-1.1%
Public Safety	810,673,779	883,501,828	894,901,865	953,690,363	9.0%	6.6%	17.6%
Streets and Highways	794,277,980	867,668,183	904,530,734	766,192,581	9.2%	-15.3%	-3.5%
Sanitation	18,232,981	15,403,522	19,709,393	18,738,224	-15.5%	-4.9%	2.8%
Health	35,041,592	29,467,434	20,014,469	16,368,911	-15.9%	-18.2%	-53.3%
Culture and Recreation	527,275,475	460,914,841	498,836,274	470,504,600	-12.6%	-5.7%	-10.8%
Housing/Economic Development	483,840,743	375,295,496	350,217,723	362,018,431	-22.4%	3.4%	-25.2%
Conservation of Natural Resources	3,632,173	3,382,477	1,602,445	2,313,234	-6.9%	44.4%	-36.3%
Airport	21,912,288	32,303,735	38,339,068	27,263,399	47.4%	-28.9%	24.4%
All Other Expenditures	254,476,597	221,402,060	178,668,319	158,528,289	-13.0%	-11.3%	-37.7%
Debt Service	690,157,473	721,446,249	719,235,882	598,622,031	4.5%	-16.8%	-13.3%
Total Expenditures	\$4,013,553,997	\$4,054,313,105	\$4,013,406,065	\$3,744,254,790	1.0%	-6.7%	-6.7%
Total Current Expenditures	\$1,980,088,290	\$2,182,008,390	\$2,157,130,153	\$2,249,993,210	10.2%	4.3%	13.6%
Total Capital Outlay	1,343,308,234	1,150,838,467	1,137,040,030	895,639,550	-14.3%	-21.2%	-33.3%
Total Debt Service	690,157,473	721,446,249	719,235,882	598,622,031	4.5%	-16.8%	-13.3%
Total Expenditures	\$4,013,553,997	\$4,054,313,105	\$4,013,406,065	\$3,744,254,790	1.0%	-6.7%	-6.7%

Source: Office of the State Auditor 2008 City Finance Report

They have. In fact, over the last 10 years, inflation-adjusted city spending *decreased* by about 7%, which is substantial considering increasing cost drivers like energy

and healthcare over that same term. The decrease was not enough to make up for the historic cuts to Local Government Aid.

continued next page

A State Auditor

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“No new taxes” and LGA in Minnesota:

Ideological policy drove up taxes and fees; weakened state’s finances

continued from previous page

What’s wrong with property tax?

Most people don’t like to pay taxes, but taxes are how we fund government – such as schools, roads, and public safety. Property taxes are considered regressive because they are unrelated to your ability to pay. If you lose your job or your business has a down year, the amount of income tax you pay reflects this, but

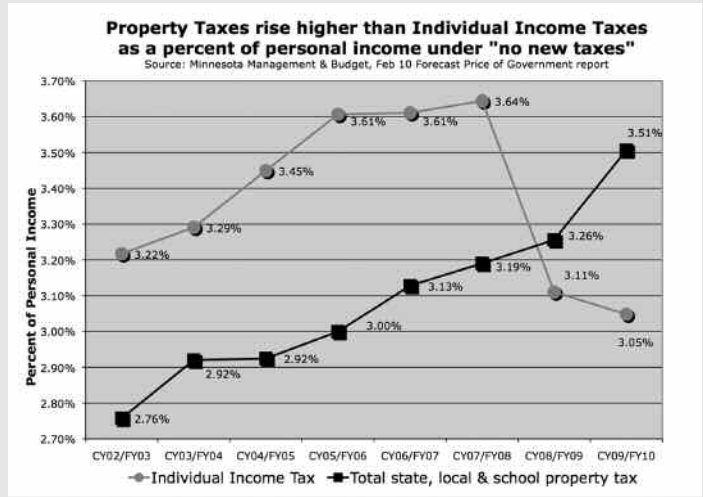
your property tax bill does not. Additionally, about 40% of area homeowners currently owe more on their home than it is worth. By the state shifting its fiscal mess onto property taxes, more people will likely be forced into foreclosure, further delaying a full economic recovery for the state.

What is Local Government Aid for?

The basic idea of LGA was to even the playing field so no matter where you traveled or lived in the state there was a basic threshold of services like well-maintained roads and bridges, and adequate public safety. It was about quality of life,

and the common good. Some areas have lower property wealth, and other areas have higher expenses because of their population or higher level of use, so a formula was developed to equalize these services, and that’s local government aid.

Property tax tops income tax



What about fees and tuition?

In the drive to adhere to the rhetoric of the no-new-state-taxes pledge, there are many new "fees." Ronald Reagan once said that another way to spell "fee" is T-A-X. Once again, the problem is that this is regressive - meaning it is unrelated to ability to pay. The same goes for tuition,

which has been raised at Minnesota’s public colleges and universities. Making college less affordable for kids or job-changing moms and dads expands the achievement and economic gap between the haves and have-nots, and makes Minnesota less competitive economically.

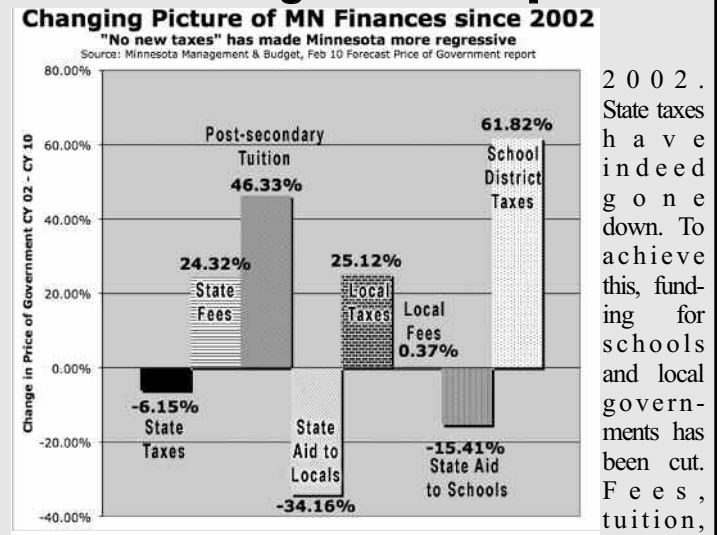
Are schools just inefficient?

Most schools run efficiently - often more efficiently than businesses. But most of their expenses are teachers in the classroom, so health care is a major cost driver. At the same time expenses have risen, state aid has been frozen or declined, forcing schools to choose

between increasing class size and cutting opportunities for kids, or levying more property taxes. Kids in lower-property wealth communities wind up with less opportunities, and levy referendums eat up resources and often divide communities.



What’s wrong with this picture?



2002. State taxes have indeed gone down. To achieve this, funding for schools and local governments has been cut. Fees, tuition, local prop-

erty taxes (cities, counties and schools), and local fees have all increased. It’s all revenue and it is being raised. Overall, the effect of the “no-new-state-taxes” policies of Tim Pawlenty and former State Auditor Patricia Anderson has been to make Minnesota a more regressive state. The above chart shows in a single compelling image how our state and local finances have shifted since

Anderson has made Minnesota taxation far more regressive, and could delay our economic recovery.



Pat Anderson Err-o-meter

Former State Auditor Pat Anderson's errors of math and judgment are troubling in someone who wants the state's top numbers job.

2010. A Legislative Auditor's report finds that Anderson's error in judgment as Commissioner of DOER led to the exposure of Minnesotans' social security numbers on the internet.

2009. Anderson made basic math errors in her 2009 Gubernatorial campaign finance report.

2008. Anderson made basic math errors in her 2008 State Auditor campaign finance report.

2006. As State Auditor, Anderson's judgment error in not securing her office after a theft led to the exposure of Minnesotans' social security numbers to thieves.

2005. Anderson was off by over \$80 million in a 2005 report on schools.

2004. Anderson was forced to correct more than \$180 million in errors in her 2004 County Finances Report after Otto pointed them out.

2004. Dozens of errors found in Anderson's 2004 Special Districts Report.

2002. Anderson made basic math errors in her 2002 State Auditor campaign finance report.

Minnesota can't afford Pat Anderson's pattern of making hundreds of millions of dollars in repeated math and judgment errors.

More at www.rebeccaotto.com

The Otto powerhouse

Super-efficient home toured by thousands

MAY TOWNSHIP - Some people talk-the-talk when it comes to conservation, but State Auditor Rebecca Otto walks-the-walk. She drives a hybrid car, and she and her husband, movie writer and science advocate Shawn Lawrence Otto, designed and built a renewable energy home with their own hands that has been featured

nationally and locally, and toured by thousands of people as an example of green design.

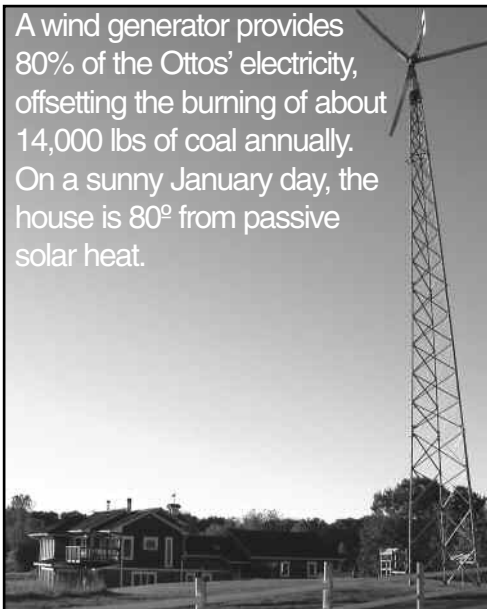
"The Ottos' home is a model of smart design and renewable energy technology that works," said Dan Moring, spokesman for the Midwest Renewable Energy Society, who sponsored the Otto's home on the Twin Cities Solar Home Tour. "We're very excited about the opportunity to include it in this year's tour."

The Ottos built the home they call "Breezy" over a two year period. It features passive solar design, superinsulation, airtight construction, a masonry wood heater, low consumption appliances, geothermal heating and cooling, and an eighty-foot tall wind generator that produces most of the home's non-geothermal electricity.

"We wanted to show that being good to the environment doesn't have to mean a sacrifice in lifestyle," Otto said. "You don't have to live in a hay bale house or a tire house to do this. It can be mainstream and beautiful."

The couple researched and

A wind generator provides 80% of the Ottos' electricity, offsetting the burning of about 14,000 lbs of coal annually. On a sunny January day, the house is 80° from passive solar heat.



designed the home together. "Smart design means making an investment in higher quality, and better planning up front that can pay huge dividends over the life of the home."

State Auditor Otto says that's a philosophy of responsibility that makes sense. "I used to teach science to 190 7th-graders, and I brought my students out for a field trip to our home as we were building. It became one of the most popular events of the year. Our kids are the ones who are going to have to live in the world we leave behind, and we have been fortunate to be able to make the investments that we have."

"We built this house with the next generation in mind. We care about the future, and about being good stewards of the environment. It is a moral obligation like the boy scouts teach, to leave the earth in better shape than we found it. It also makes financial sense."

For more info visit rebeccaotto.com

Otto named National Women's History Month honoree

Joins Hillary Clinton, Sally Ride, Jane Goodall, as a 'Woman taking the lead to save our planet'

WASHINGTON - Minnesota State Auditor Rebecca Otto is an honoree of the National Women's History Project.

Otto was recognized for her work as a "Woman Taking the Lead to Save Our Planet," the theme of the 2009

National Women's History Month. Other honorees included Hillary Clinton, Sally Ride and Jane Goodall.

As a legislator Otto worked to protect ecosystems, limit mercury emissions, protect groundwater, develop wind power, and ban the use cancer-causing arsenic-treated wood in playgrounds. As State Auditor she issued a nationally award-winning report on reducing energy costs in local government.

Otto lives in a passive solar, wind-powered, geothermal home she and her husband, screenwriter Shawn Lawrence Otto, designed and built with their own hands.

The home has been featured nationally and toured by thousands of people. The couple have been billed as "perhaps Minnesota's highest-profile environmental couple," and have worked to raise environmental awareness for years.

