

Local Government Lobbying Services in 2003

Summary of 2003 Local Government Expenditures on Lobbying Services

According to reports filed with the Office of the State Auditor, local governments spent a total of \$6,082,003 on lobbying activities in 2003. This represents an increase of \$684,423 or 12.7 percent from the amount spent in 2002.

Local governments reported spending \$6,082,003 on lobbying services in 2003.

Sixty-one reporting local governments (8 *more* than in 2002) directly employed or hired contract lobbyists in 2003. These local governments spent a total of \$2,900,118 on staff and contract lobbyists. This was \$99,422 or 3.3 percent *less* than in 2002. Staff and contract lobbyists are paid to influence legislative, administrative, or official action of governmental units in Minnesota. These expenditures do not include dues and membership fees paid to local government organizations.

In addition to the \$2.9 million paid directly to staff and contract lobbyists, local governments paid dues of \$8,955,711 in 2003 to local government associations (hereinafter referred to as associations) that also represented their interests before the legislature. These dues represent an expenditure of taxpayer dollars.¹ These associations spent \$3,181,885 on lobbyists and lobbying in 2003. This represents an increase of 33 percent over 2002. Of the \$3.2 million spent on lobbyists and lobbying, \$2,650,422 was funded exclusively through dues. In 2002, local governments paid association dues of approximately \$7.98 million, of which \$1,915,258 was spent on lobbying activities.

Payments Made to Staff and Contract Lobbyists

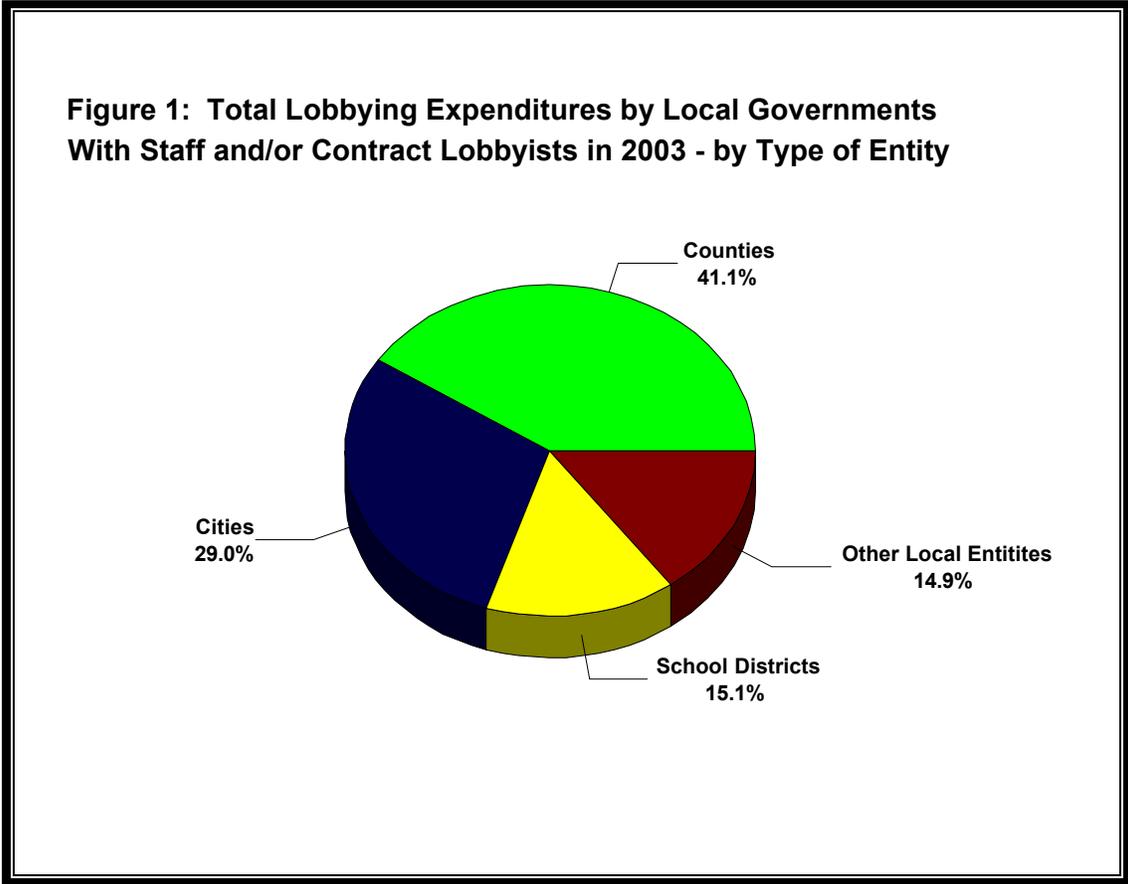
Sixty-one of Minnesota's cities, counties, school districts, and metropolitan agencies directly employed staff and/or contracted with professional lobbyists to represent their interests before the legislature. Tables 1 through 3 detail these lobbying expenditures.

Of the 61 entities reporting to have had employed lobbying staff or hired contract lobbyists in 2003:

- Twenty-two cities and city component units reported a combined total of \$1,191,595 in lobbying services expenditures;
- Twenty counties and county component units reported a combined total of \$850,388 in lobbying services expenditures;
- Thirteen education entities reported a combined total of \$36,815 in lobbying services expenditures; and,
- Six metropolitan or joint powers entities reported a combined total of \$430,967 in lobbying services expenditures.

¹ Dues are the main source of revenues for associations of local governments, but they also receive other public dollars.

Figure 1 shows 2003 total expenditures on staff and contract lobbyists by type of jurisdiction.



Local Governments Spending the Most on Staff and Contract Lobbyists

Eight of the 61 local governments that directly employed lobbying staff or hired contract lobbyists reported over \$100,000 in lobbying services expenditures, for a total of \$1,429,267. These eight local governments accounted for 49.3 percent of the total amount paid to contract and staff lobbyists in 2003. The eight local governments are:

Hennepin County	\$448,033	Anoka County	\$118,694
City of Minneapolis	\$264,221	Minneapolis Parks & Recreation Board	\$116,383
Metropolitan Airports Commission	\$137,703	City of St. Paul	\$109,837
Metropolitan Sports Facilities Commission	\$124,989	Ramsey County	\$109,407

Trends in Expenditures for Staff and Contract Lobbyists

The number of entities that reported expenditures on contract and staff lobbyists went from 53 in 2002 to 61 in 2003. Despite an increase in the number of entities reporting lobbying services expenditures, the amount spent on contract and staff lobbyists decreased by 3.3 percent in 2003. This was the second year in a row that expenditures on employee and contract lobbyist decreased.

Figure 2 shows expenditures on staff and contract lobbyists for the years 1999 to 2003.

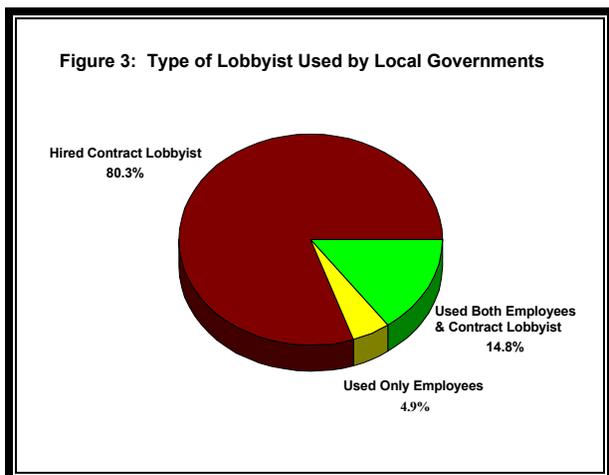


Reliance on Contract Lobbyists

The use of contract lobbyists was more common than having employee lobbyists for those governments that utilized these types of lobbying services. Contract lobbyists accounted for \$1,806,690 or 65.5 percent of the total amount spent by those governments using contract or staff lobbyists. Local governments spent \$953,303 on employee lobbyists to represent the local government's interests before the legislature and other bodies. In addition, local governments reported an additional \$140,125 on overhead costs related to lobbying services.

During 2003:

- 3 local units of government relied entirely upon their employees to represent them at the legislature;
- 49 units of government relied entirely upon contract lobbyists to represent their interests; and,
- 9 local units of government hired contract lobbyists and used their own employees for lobbying the legislature.



Lobbying Services Expenditures by Associations of Local Governments

While 61 local governments opted to hire lobbyists or use employees to lobby on their behalf, most local governments relied on various local government organizations to represent their interests at the legislature.² These local government organizations receive the majority of their funding from membership dues and other public funds. Some associations representing local governments not only lobby on behalf of their members, but also act as service organizations. Groups such as the League of Minnesota Cities and the Association of Minnesota Counties provide a wide range of services to their members. For these associations, lobbying services account for a smaller share of their overall expenditures.

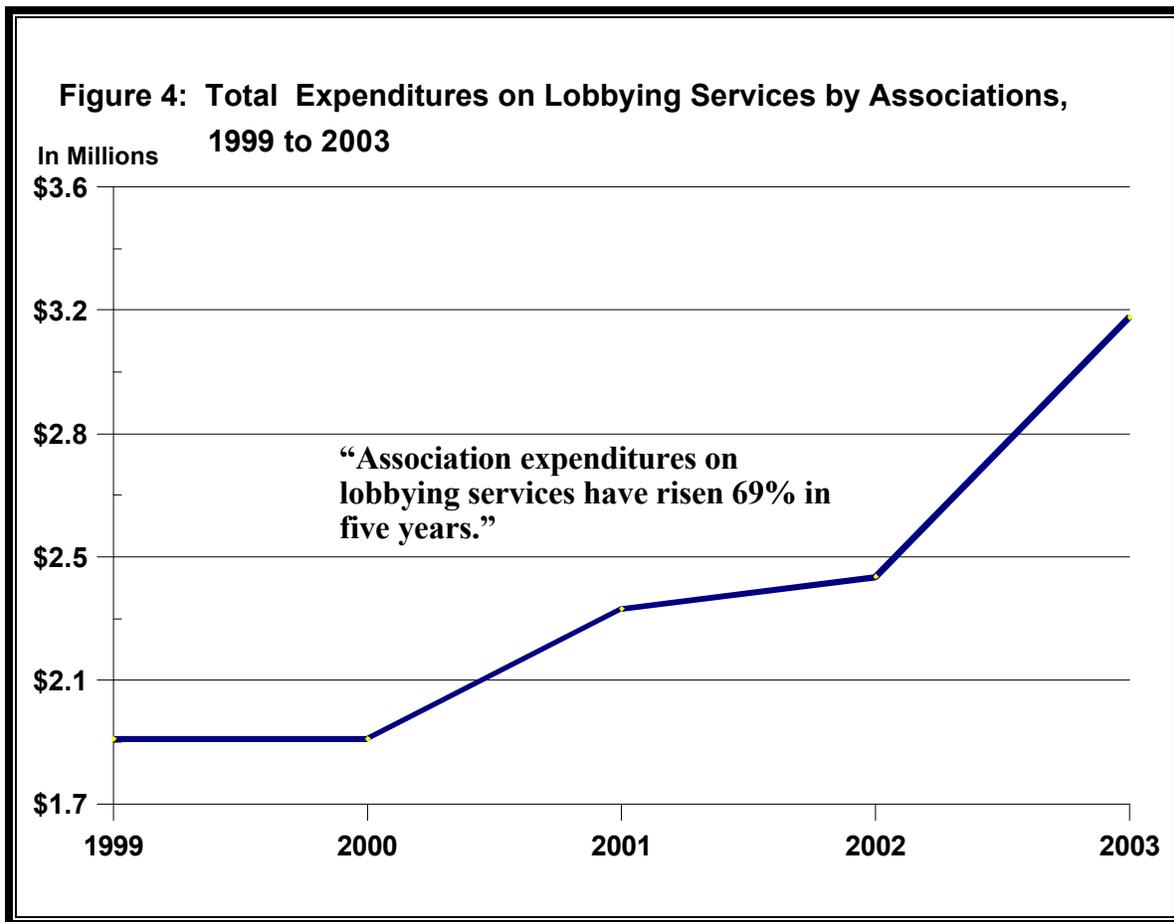
Other associations are formed for the explicit purpose of lobbying the legislature on a specific issue or range of issues for which the members share a common interest. Most of these associations hire a lobbyist or a lobbying firm to influence legislative, administrative, or other official actions at the state, regional or metropolitan level of government. The dues paid by members of these associations generally represent a percentage of the total amount paid to a contracted lobbyist. While it is expected that most member dues from these arrangements are used for lobbying, some associations reported that less than ten percent of dues were used for lobbying services.

² The local government organizations identified in this report do not include various professional organizations that lobby on behalf of specific professional occupations within local governments. For example, Education Minnesota is registered with the Campaign Finance and Public Disclosure Board. However, because the organization does not directly represent school districts or school district management personnel, its lobbying expenditures are not included in this report.

Trends in Expenditures on Lobbying Services by Associations of Local Governments

Twenty-five associations representing local governments reported expenditures on lobbying services totaling \$3,181,885 for 2003. Of the \$3.2 million spent on lobbying, \$2,650,422 or 83 percent was funded through the dues of the association members. Total expenditures for lobbying/lobbyists by associations increased \$783,845 or 33 percent over 2002. Expenditures on lobbying/lobbyists by associations have risen 69 percent in five years. Some of the growth may reflect the efforts of the State Auditor to better define lobbying activities.

Figure 4 shows expenditures on lobbying services by associations for the years 1999 to 2003.



Association Lobbying by Type of Entity

The associations reporting lobbying expenditures included:

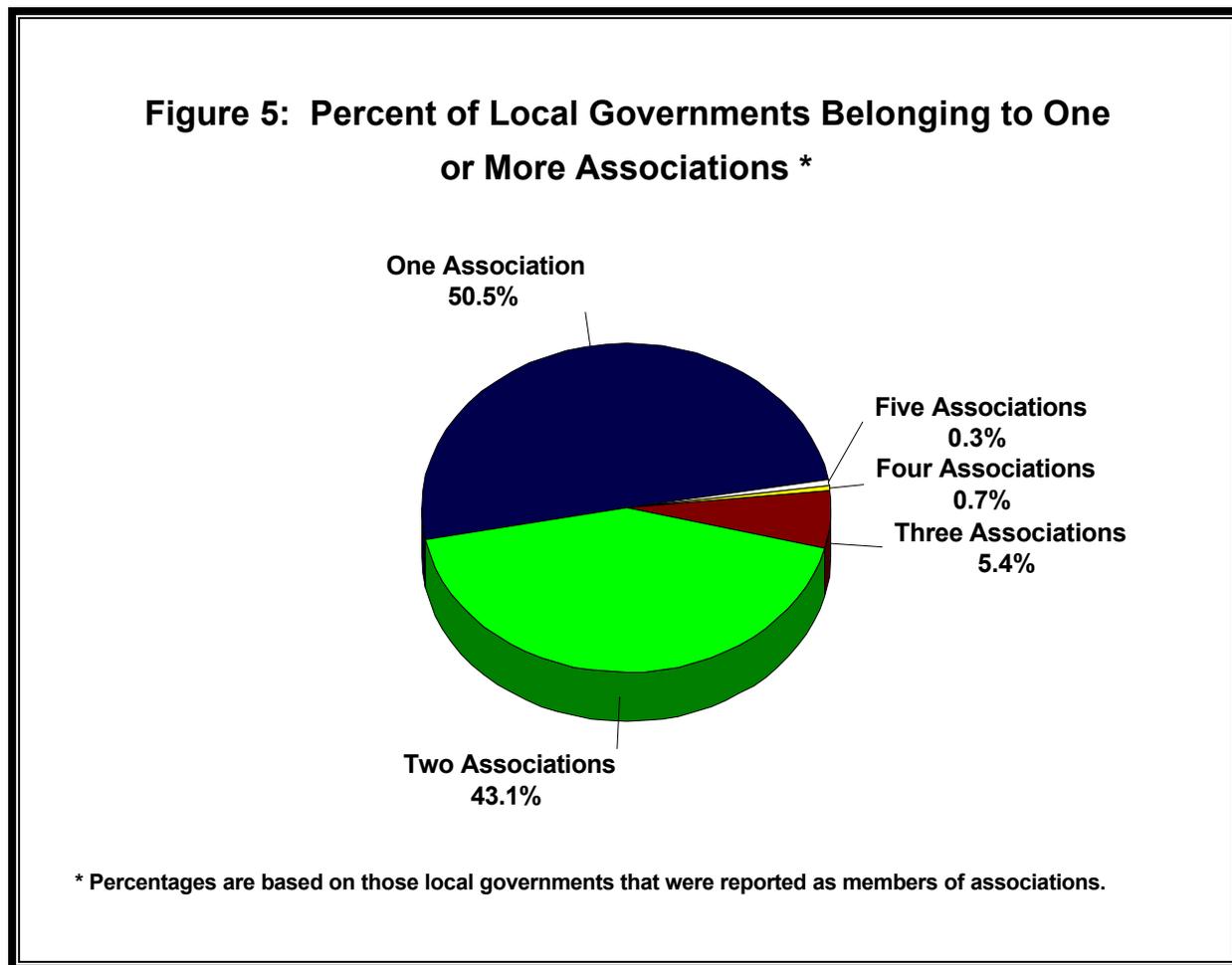
- Eight organizations that represented the interests of cities;
- Four organizations that represented the interests of counties;

- Five organizations that represented the interests of school districts;
- One organization that represented the interests of townships;
- Two organizations that represented other local government interests; and
- Five organizations that represented more than one type of local government.

Many Local Governments Belong to Multiple Associations

Just under half of the local governments (49.5 percent) paid dues to more than one association. Seven percent or 97 local governments belonged to three or more associations. While there are no restrictions regarding the number of associations to which local governments may belong, good fiscal policy would dictate that local governments evaluate whether they are receiving overlapping services.

Figure 5 details the distribution of local government memberships to associations.



Associations with the Highest Expenditures on Lobbying Services

Among the 25 local government organizations that lobbied the legislature on behalf of their local government members, eleven organizations reported expenditures on lobbying/lobbyists in excess of \$100,000.

The organizations that reported total lobbying expenditures exceeding \$100,000 in 2003 were:

Coalition of Greater MN Cities	\$628,195	Association of Metropolitan School Districts	\$132,750
League of Minnesota Cities	\$441,716	Schools for Equity in Education	\$132,099
Minnesota School Boards Association	\$328,362	Minnesota Association of Small Cities	\$128,589
Association of Minnesota Counties	\$303,742	North Metro Crossing Coalition	\$127,500
Metropolitan Inter-County Association	\$212,324	North Metro Mayors' Association	\$108,550
Association of Metropolitan Municipalities	\$134,537		

Compensation Paid to Firms or Employees for Lobbying and Non-lobbying Services

In 2003, Minnesota local governments or associations of local governments paid seven firms \$100,000 or more to provide lobbying services. The 7 firms receiving the largest payments from local governments or associations of local governments were:

Flaherty & Hood, P.A.	\$1,576,432	Goff & Howard	\$122,151
Messerli & Kramer	\$252,300	Capital Gains, Inc.	\$117,694
McGrann, Shea, Anderson, Carnival, Straughn, & Lamb	\$170,926	Rice, Michels & Johnson	\$111,383
Government & Enterprises Services	\$139,500		

Compensation Paid to Firms for “Non-Lobbying” Activities

Several firms, in addition to lobbying services, billed their clients substantial additional amounts for “non-lobbying” services. For example, Flaherty and Hood billed local governments and their associations \$744,181 in lobbying services and an additional \$832,251 in “non-lobbying” services for

a total of \$1,576,432. Messerli and Kramer billed \$179,942 in lobbying services and an additional \$72,358 in “non-lobbying” services for a total of \$252,300. These payments paid to lobbying/law firms that are designated as “non-lobbying” expenditures may represent a possible understatement of lobbying/lobbyist expenditures.

Expenditures on Lobbying Services by Associations May Be Greatly Understated

While some of the reported expenditures on lobbying services may already seem high, the State Auditor’s Office believes that the actual amount spent on lobbying activities could be much higher than reported here. Although the State Auditor broadened the scope of services that should be counted as a lobbying expenditure for 2003, there still seems to be an understatement of the true costs. There appears to be a significant difference in the calculation of costs incurred depending upon how the definition of “lobbying” is interpreted when reporting costs to this office, and how a “lobbyist” is defined under Minnesota Statutes depending whether or not the lobbyist is an employee of a political subdivision.³ The Auditor’s Office believes that the standard for reporting lobbying costs should include all the expenses incurred for activities that support lobbying and lobbyists to better show the actual costs of the lobbying effort. The following example highlights the State Auditor’s concern.

Coalition of Greater Minnesota Cities Example

For example, the Coalition of Greater Minnesota Cities (hereinafter “the Coalition”) is an organization that represents 72 cities in Greater Minnesota. To assist in their mission, the Coalition hired the lobbying/law firm of Flaherty and Hood, PA to perform most of its lobbying activities. According to the contract between the Coalition and Flaherty and Hood, the scope of the services include:

- 1.) “Assist the Coalition in developing its legislative program and strategy for implementing its legislative program.
- 2.) Provide services to Coalition committees and the full membership, including administrative, research, analysis, bill and amendment drafting, monitoring and advocacy services.
- 3.) Update the existing local government aid and property tax data bases with current data and projected future year data as it becomes available.

³ A “lobbyist” as defined in Minn. Stat. § 10A.01, Subd. 21, is a person who is paid “for the purpose of attempting to influence legislative or administrative action, or the official action of a metropolitan governmental unit, by communicating or urging others to communicate with public or local officials.” This definition is broadened if the person is an employee of a local government to also include, “time spent monitoring legislative or administrative action...and related research, analysis, compilation and dissemination of information relating to legislative or administrative policies in the state or the policies of metropolitan governmental units.” “Lobbying” includes not only communication, but also “any activity that directly supports this communication.” Minn. Rule 4511.0100, Subp. 3.

- 4.) Coordinate the Coalition's activities with other groups, and represent the Coalition in meetings with these groups.
- 5.) Coordinate and manage any consultants retained to provide services to the Coalition."

Arguably, all provisions for which Flaherty and Hood were contracted would be considered lobbying services. However, according to forms filed with the State Auditor, Flaherty and Hood billed the Coalition \$1,281,278 in 2003, of which \$628,195 was classified as lobbying. Thus, according to Flaherty and Hood, over 51 percent of the services provided to the Coalition were for "non-lobbying" activities. Based on the services for which Flaherty and Hood were contracted, and the definition of lobbying services prescribed by the Auditor's Office, the proportion of expenditures designated as "non-lobbying" by Flaherty and Hood seem high. (see Appendix B for the definition of lobbying services prescribed by the State Auditor).

Examination of Association Contracts and Agreements with Members and Firms Hired to Provide Lobbying Services

In order to examine whether associations were underreporting their lobbying service expenses, we initially examined the purpose of the associations and found that some were primarily service organizations with a small lobbying function, while others existed primarily as a lobbying agent for their members. Those that we identified as primarily service organizations included the League of Minnesota Cities, the Association of Minnesota Counties, the Minnesota School Boards Association, and other smaller groups such as the Minnesota Association of Watershed Districts. For those associations such as the Coalition of Greater Minnesota Cities that exist primarily to provide lobbying services for their membership, the Auditor's Office requested that 14 primarily lobbying service associations provide copies of their contracts with lobbying firms to get a better understanding of the types of "non-lobbying" services that were being provided by firms. In addition, the State Auditor requested member agreements, association mission statements and bylaws, and recruitment materials so that we could better understand the stated purpose of each of these types of associations. Based on the information in the contracts, most if not all services provided by firms should have been considered part of lobbying services as defined by the State Auditor's Office. The most frequently non-reported activities included legislative monitoring, conferences (at which legislative agendas were considered), member communication, and bill summaries.⁴

Again, if the Coalition of Greater Minnesota Cities' proportion spent on lobbying services were to be raised to 80 percent (4 of 5 services Flaherty and Hood provide), the amount spent on lobbying would rise from \$628,195 to \$1,025,022. Although this example shows the largest discrepancy, others such as the Metropolitan Inter-County Association, which only classified 47 percent of its activities as lobbying services, present similar situations.

⁴ Specific words and phrases are not required to classify material as a lobbying disbursement. Rather, the controlling factor is whether "the purpose of the material is tied to some action of the legislature," even if the association may view it as educational. See Campaign Finance and Disclosure Board, Advisory Opinion 347.

Another way to look at the issue of underreporting lobbying services expenses is to consider the difference between what local governments report as lobbying services and what associations report. In 2003, all local governments that reported contracts with firms or individuals for lobbying services reported the full value of the contract as a lobbying expenditure. These local governments presume that all compensation paid to the lobbying firm or lobbyist is part of the lobbying effort. In contrast, many associations actually have their lobbying firm complete the lobbying form. These firms appear to exclude many of the services they provide from the total cost of the lobbying effort. If associations are being billed for something other than what the contract says, the membership of the associations should demand greater oversight of the contracts and billing. Again, the Auditor's Office would argue that these firms are primarily hired to provide lobbying services and the full value of the contracts are a better reflection of the true costs of lobbying services.

Conclusion

In the role as watchdog for Minnesota taxpayers, it is the State Auditors' responsibility to examine how taxpayer dollars are spent. Many Minnesotans find it troubling that local governments spend taxpayer dollars in hopes of securing more taxpayer dollars. The lobbying activities of local governments and associations of local governments are an oversight concern because these entities are funded with taxpayer dollars. In its examination of local government lobbying services, the State Auditor has identified some areas of concern.

The State Auditor's Office believes that because taxpayer dollars are involved, the public has an inherent interest in knowing the amount spent by associations of local governments to influence public policies. The State Auditor would argue that all of the spending of associations primarily organized to provide lobbying services furthers the lobbying effort. The State Auditor's Office has broadened the scope and definition of activities that constitute lobbying services. The definition of lobbying services includes costs such as salaries and benefits, research, analysis, compilation and dissemination of information, legislation monitoring, web sites, membership activities, and conferences. However, many associations appear to still be excluding activities that contribute to the furtherance of the lobbying effort. The public should know the full costs of activities used to support lobbying services.

The Office of the State Auditor believes that local governments have a right to have their interests, and the interests of their citizens, represented at the legislature and other bodies of government. However, local governments would be well served to evaluate the amount they are spending on these activities. Local governments need to explore whether their level of expenditures on lobbying services hinders their ability to fund other priorities. For example, local governments that have their own intergovernmental relations staff, and hire outside lobbyists, and belong to multiple associations, could eliminate some expenditures and still have their interests represented. Like all other services, lobbying activities must be evaluated against the other priorities of the local government.