



Minnesota Journal

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A publication of the Citizens League

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Contracting elevates charter boards' role

Contracting with for-profit management organizations—like the Edison Project—remains one of the most politically contentious issues facing the charter school movement both nationally and here in Minnesota.

Early experience has demonstrated that contracting can offer promising opportunities, not just to charter school boards, but to district school boards that might want to offer similar flexibility and accountability to individual district public schools. And, as the charter move-

by Jon Schroeder

ment evolves, a variety of contracting arrangements are emerging that involve organizations other than for-profit businesses.

The common thread in all these arrangements is the need to strengthen the critical role played by the nonprofit boards of these new, more flexible public schools.

Growth despite opposition

Historically, teachers unions have been the most vocal opponents of

contracting with for-profit companies for what is often called "whole school management." They were unsuccessful in blocking an Edison-run charter in Duluth, but were able to turn a proposed Minneapolis Edison charter into a district-contract school.

Union-backed legislation banning contracting with for-profit charter management companies was also approved by the Minnesota House of Representatives in both 1997 and 1998. These legislative efforts

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It's time for unicameral review by League

by George Pillsbury

In Ted Kolderie's article on the Nebraska unicameral legislature ("Nonpartisan, small unicameral legislature works in Nebraska; questions arise here," June 15, 1999, *Minnesota Journal*), one of his sources correctly concludes, "My own sense is simply that it is very difficult any longer to find any real basis for a bicameral institution, now that the courts have thrown out any kind of representation other than population."

Bicameralism, or a two-house system, only came into being when there was a second interest group that required representation in order for the government to have the necessary authority to carry out its responsibilities.

For example, the United States government was founded in 1776 with a unicameral Legislature under the Articles of Confederation. However, the 13 founding states would not delegate enough of their authority to this "peoples" house. Thus, it was unable to properly govern.

Eleven years later, in 1787, leaders

Property tax reform: Diversify revenues

Editor's Note: This article is a response to the article in the June 15, 1999, Minnesota Journal, "'99 property-tax reform: a 'mixed bag'" by Lynn Reed, research director of the Minnesota Taxpayers Association.

The Legislature made numerous changes to the property tax system during the 1997, 1998 and 1999 sessions. These changes provided substantial property tax relief, although not all the changes constituted property tax reform.

Proponents of business tax relief in particular have confused property tax relief with property tax reform. Specifically, some have argued that

by Jeff Van Wychen

class-rate reductions for business properties constitute reform. However, true reform is not achieved by simply shifting taxes from one class of property to another, but by reducing dependence on the property tax entirely.

"Tyranny of the homeowner"

In 1835, Alexis de Tocqueville argued that American democracy would give birth to an all-powerful majority, which could potentially squelch the interests and liberties of the minority. Tocqueville referred to this as the "tyranny of the majority."

As a result of Minnesota's property classification system, homeowners pay less taxes per dollar of taxable market value than do businesses. Many business lobbyists contend that this feature of Minnesota's property-tax system leads to unnecessarily high local government expenditures. As the argument goes, Minnesota homeowners are able to shift the cost of public services onto businesses and thus demand ever increasing levels of services. Elected officials will yield to the will of homeowners, since homeowners vote and businesses do not.

This is a variation of Tocqueville's

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Smart public spending: Build a vision and buy results

Advertisements for financial products often have a little asterisk directing you to fine print at the bottom of the page: "Past results are no guarantee of future success." We should heed this warning for Minnesota's economy as we sit with less than two percent unemployment statewide and scattered labor shortages are holding back an economy pulling on its leash. We would do well to remember that some of our country's wealthiest cities in the steel and manufacturing age in the 1920s are still staggering from tumultuous decline. Decline can happen again and taking steps to avoid such a fate is a core duty of state and local elected officials in Minnesota.

In theory, now is a very good time to set our house in order for future downturns and to position our state for continued future success. We have the resources to make some of the needed changes and to cushion transitions to improved public spending systems. The big if, and this is a big one, is whether we can build up the political momentum for some heavy lifting in public sector reform in the absence of a crisis driving us to take the necessary steps. It has been said of America that we too often "see the light when we feel the heat" and do not act in long-term anticipation of events coming our way.

So far the state and national signs of reform are modest, at best. Most of the recent discussion at the national and state levels is about returning surpluses at the margins to taxpayers and not about either changing major spending systems to get better value in the long term nor about getting our financial house in order for the next down-

turn. Leadership from the Governor, community and business leaders can make a difference. This list is offered to help us build reform momentum.

Build a statewide vision for our future and fund it first. Almost a decade ago, Minnesota's Governor started the Minnesota Milestones process, involving 10,000 Minnesotans in articulating a desirable future for our state. There has been an underwhelming response from our Legislature, which was not involved in the process. It has not caught on like in other states—Oregon's Benchmarks are a good example—where it has been picked up and used by a succession of administrations and by a variety of local governments. In Oregon, the Benchmarks help drive the inherently political budget process. Gov. Jesse Ventura should dust off the first Minnesota version and reach out to legislators and communities around the state. Bottom line is that we should get a credible process together to envision key desirable elements of the state future—on issues such as the global economy, metro and rural issues, quality of life and environment—and then invest state budget and state bonding funds in the vision.

Make results of public service obvious to Minnesotans. The K-12 system, which consumes 1/3 of the state budget, now reports results on statewide testing. Many cities and regions are doing report cards on public goals and services and comparing themselves to their

neighbors (see for example, the county site at <http://icma.org/performance>). A number of states and provinces in Canada issue annual reports on the results achieved in major public spending areas. We should look at the best of them and follow suit.

Link public services results to funding. Incentives for Metro Transit meeting ridership targets have produced renewed energy and ridership has bumped up after decades of deterioration. Higher education has had a set of incentives related to several key targets. We should expand this approach carefully to provide incentives for achievement across K-12 and other big-ticket public programs over time.

Provide more choice for public officials and more choices for citizens. Much of the developed world is massively expanding, and in some cases requiring, competitive bidding of public services to assure good value for tax dollars. The Saint Paul Mayor's Compete Saint Paul program has drawn a lot of press. From a global perspective, we are behind the curve—Australia and New Zealand are well along, as is the UK. We need a framework for moving ahead on this. Market testing leads to activity-based costing, so we will know what particular results actually cost to produce. Laws that stand in the way must be removed. Consumers of public services, too, need more choices. We have in place some systems, such as the sliding-fee child-care model

that allows wide consumer choice, but many others provide a take it or leave it approach. The UK has a powerful initiative to improve customer service called the Service First initiative (<http://servicefirst.gov.uk>). We should not lag behind.

These five points require leadership to put us on a sound footing before we see the light by feeling the heat of our next financial crisis. The Governor has a real opportunity to move the state forward with a sound economic legacy. The time is now.

Lyle Wray is executive director of the Citizens League. The League's detailed recommendations for reform of major spending systems can be found at the Citizens League website at <http://citizensleague.net/cl/index4.htm>.

son wrote in his *Notes on Virginia* that "The senate is...too homogeneous with the house of delegates. Being chosen by the same electors...and out of the same subjects, the choice falls on men of the same description. The purpose of establishing different houses of legislation is to introduce the influence of different interests or different principles...But with us, wealth and wisdom have equal chance for admission into both houses. We do not, therefore, derive from the separation of the two houses any advantage and for a term that is twice as long.

The desirability of a two-house system in the states was questioned from the very beginning. Benjamin Franklin opposed the change both at the Constitutional Convention and then shortly thereafter in the State of Pennsylvania. To the end of his life, Franklin remained a staunch defender of the one-house chamber.

More significantly, Thomas Jefferson

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Ventura takes hits for security costs, serving as ref

Duluth News-Tribune called on (July 24) legislators to set a clear policy for the state's responsibility protecting the governor. When they act, lawmakers should limit out-of-town security expenses to state business, and not personal business, by a governor...particularly if they are associated with any profit-making ventures a governor might have going." **Red Wing Republic Eagle** agreed (July 28) with the legislative auditor that Ventura "overstepped the boundaries of the law" in using taxpayer-financed security for personal business. "Ventura appears to be using public office for personal profit." **St. Cloud Times** said (July 30) when Ventura is "out making hundreds of thousands of dollars to line his own pockets, he ought to consider reimbursing the treasury for his security. We don't need a law for this. We need a governor with a sense of propriety."

Republican Eagle said (July 15) Gov. Ventura's return to the wrestling ring has probably tarnished the governorship. But, the paper said, "[I]t sometimes is necessary for the values of an institution to spiral to the depths before they can be resurrected to a level of respect." **West Central Tribune (Willmar)** said (July 15) people knew Ventura was going to be different from other politicians. "But now that the governor is getting back into the wrestling ring as a referee—evidently for big

The Minnesota Journal

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August 24, 1999

On Balance

"He that wrestles with us strengthens our nerves, and sharpens our skill. Our antagonist is our helper."—E. Burke

bucks—his behavior is, more than ever, looking simply like good old-fashioned, self-serving greed." **Mankato Free Press** said (July 15) Minnesotans should get used to Ventura's "unorthodox behavior," saying "it is his on-the-job performance that matters." **Star Tribune** said (July 21) it's "unethical" when "a washed-up wrestler stands to make a million bucks because he's gained fame as a gadfly governor...Ventura can make a spectacle of himself any day he chooses. But he ought to give away every extra penny he makes in the process." **Fergus Falls Daily Journal** agreed (July 22). "Ventura can do things differently as governor and even have a little fun along the way. He still should play by the rules of ethics, however, and those rules demand that he give away whatever money comes his way from his return to wrestling."

Fergus Falls Daily Journal said (July 23) a recent poll "made it clearer than ever that a vast majority of Minnesotans do not want their tax dollars used to build luxurious

and profitable new stadiums for privately owned sports teams." **Star Tribune** said (July 22) the Minnesota Poll delivered "a chilling message" that opposition to public money for a new Twins ballpark is "overwhelming and growing." It said (July 28) that Common Cause is "wrongheaded" to try to rein in St. Paul Mayor Norm Coleman's stadium advocacy. **St. Paul Pioneer Press** said (Aug. 4), "St. Paul voters who thought it would be easy to reject a new Twins stadium in November ought to be disquieted by this week's deal, since it chips away commendably at some of the negatives. This deal can't be casually clobbered." **Star Tribune** calculated (Aug. 8) it would cost most Minnesotans three cents a week to build a new ballpark, under Mayor Norm Coleman's plan. "Most Minnesotans wouldn't miss the 3 cents a week...Many thousands of Minnesotans would miss the Twins."

Duluth News-Tribune commented (July 31) that Vikings owner Red McCombs' "bawling out" of

Unicameral

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ration of our legislature into two houses, those benefits which a proper complication of principles are capable of producing, and those which alone can compensate the evils which may be produced by their dissensions."

In 1983, Senator Jerome Hughes, President of the Senate, contacted Royce Hanson, who had just been appointed Associate Dean of the University of Minnesota's Humphrey Institute of Public Affairs. With support from Harry Sieben, Speaker of the House, a study of the Minnesota Legislature was initiated. Six years later, the University of Minnesota Press published the findings of this study in a book entitled *Tribune of the People: The Minnesota Legislature and Its Leadership*. It includes sugges-

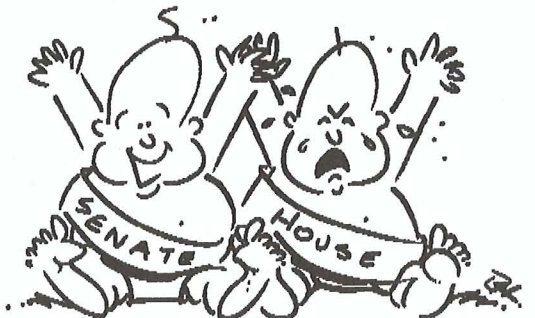
tions on how a bicameral legislature could improve its operations, but more importantly, Dr. Hanson's conclusion is as follows:

"Given the history and imbedded practices detailed in this study, tinkering with the rules seems unlikely to suffice. More basic change is needed, not only to correct the problems that have been documented, but to give the Legislature a new start and to raise the level of public- and self-expectations of it. Minnesota should amend its constitution to provide for a unicameral legislature."

During the time of the Humphrey Institute study, the Citizens League undertook a case study of how to

Minneapolis and Hennepin County officials for not doing enough to promote a new Vikings stadium was at least aimed in the right direction—"at the public officials in the venue that stand to gain the most from any new stadium." But, the paper said, McCombs should not try to go beyond seeking local assistance to statewide funding. **Republican Eagle** said (Aug. 5) St. Paul's stadium proposal is "credible," though "far from perfect," and provides a foundation for advancing the plan to the Legislature. It said the position of contributing no public funds toward a stadium is "unrealistic, and short-sighted, if this state really wants to keep professional sports."

Free Press said (July 23) voters should decide whether to switch the Minnesota Legislature from a bicameral to a unicameral body. "If lawmakers can be convinced to put this issue on the ballot, there is little doubt that the already-intriguing debate will be taken far more seriously." **Duluth News-Tribune** agreed (Aug. 6). "Minnesota should settle this question once and for all...There are strong arguments on both sides of this issue. It's time for Minnesotans to hear them."



"I guess Thomas Jefferson was right. We do look a lot alike!"

improve the decision-making process and procedures of the Minnesota Legislature. However, it did not identify "problems of sufficient magnitude to support a structural change as significant as moving to a unicameral body." So the League concluded that consideration of a unicameral body was unnecessary at that time.

Now, almost 15 years later, the

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Unicameral

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from the various states met in Philadelphia and ultimately drafted a plan for governing the new nation—the Constitution of the United States—which was ratified in 1789. It included the Senate, where the states would have equal representation.

Ultimately, the individual states all

Property tax

Continued from page 1

"tyranny of the majority," which we will refer to as the "tyranny of the homeowner." According to many in the business community, changes in the property-tax system which reduce the business share of the property tax burden, while increasing the homeowner share, are the only remedy to the "tyranny of the homeowner."

The "tyranny of the homeowner" theory is premised on the fact that businesses cannot vote and therefore have minimal influence in the political process. However, the business community is informed, active, organized, well-connected and well-funded and is therefore able to effectively advocate on behalf of its interests at both the state and local level. In short, business interests have political influence beyond their numbers. The premise that the business community is politically impotent should not be accepted uncritically.

If the "tyranny of the homeowner" theory was correct, we would expect the levels of government that are most dependent on the property tax to have the highest rate of expenditure growth. In fact, we observe the opposite. The two levels of government that are most dependent on the property tax—counties and cities—have a lower rate of expenditure growth than other levels of government. Since 1990, the total spending of Minnesota counties and cities has declined in real dollars per capita.

Census of Government data allows us to make comparisons in the rate of growth in local government spending in Minnesota relative to other states. If the "tyranny of the homeowner" argument is correct, the spending of counties, cities, and school districts in Minnesota should grow more rapidly than the national average, because of the preferential tax treatment afforded to Minnesota homeowners. However, for each of these three levels of government, since 1957, the rate of growth in total expenditures per capita or per student is below the national average in Minnesota.

Local elected officials are generally skeptical of the "tyranny of the

homeowner" argument. These officials would not be inclined to impose exorbitant property taxes on businesses, since to do so would create an uncompetitive business environment within their communities. This, in turn, would lead to a loss of jobs and tax base to the ultimate detriment of the local economy and the local governments. In short, it is in the enlightened self-interest of local elected officials not to over-tax businesses.

All taxpayers want tax relief. However, the rationale for providing additional business property tax relief should be based on something more plausible than the "tyranny of the homeowner" argument.

Level of business taxation

Even if preferential tax treatment for homestead taxes does not lead to more government expenditures, additional tax relief for businesses could be justified on the grounds that high business taxes are hurting the state's business climate.

In support of the contention that business property taxes in Minnesota are high relative to other states, the business community generally cites a report produced periodically by the Minnesota Taxpayers Association (MTA). According to the payable 1998 edition of this report, Minnesota ranks seventh highest in the nation in terms of the effective tax rate on a \$2 million industrial property, consisting of \$1 million real property and \$1 million personal property.

The problem with this information is that there appear to be very few types of industrial property in which personal property value comprises as little as 50 percent of total value. The assumptions regarding the mix of real versus personal property are critical, since—unlike a number of states—Minnesota generally does not tax personal property. Thus, an analysis which understates the actual percentage of personal property will overstate business tax burdens in Minnesota relative to other states.

As part of its corporate tax climate study, the Wisconsin Department of Revenue does an empirical analysis of seven different types of industrial properties to determine the mix of real versus personal property. On average for these

types of properties, personal value comprises 78 percent of all value, while real value comprises 22 percent.

Fortunately, the MTA report does contain information on the effective tax rate for industrial properties in which 80 percent of all value is personal property, which is very close to the average of 78 percent. Based on this information, a \$5 million industrial property (\$4 million personal, \$1 million real) in Minnesota has an effective tax rate 10.9 percent below the national average and ranks 29th among the 50 states.

According to the MTA report, Minnesota ranks third highest in the nation in terms of the effective tax rate on a \$1.2 million commercial property consisting of \$1 million real and \$200,000 personal property; unfortunately, we do not have a good indication whether this is an accurate assumption regarding the actual mix of real versus personal value for commercial properties. In the absence of such information, it is impossible to determine whether the MTA's ranking of commercial property effective tax rates is a meaningful reflection of reality.

However, a comparison of the payable 1995 version of the MTA report and the payable 1998 version indicates that there has been a substantial reduction in the effective tax rates for both commercial and industrial properties in Minnesota relative to the national averages. Furthermore, it should be noted that the payable 1998 property-tax report reflects none of the substantial business property-tax relief enacted in the 1998 session and—due to the year lag in the metropolitan fiscal disparity program—only about 76 percent of the relief enacted in 1997.

The corporate tax climate report from the Wisconsin Department of Revenue referred to above ranks Minnesota eighth out of 19 states in terms of property taxes on manufacturing firms and ninth in terms of total tax liability. A 1995 report from the Institute on Taxation and Economic Policy shows that the percentage of total state and local taxes borne by businesses in Minnesota is 42.1 percent, only slightly above the national average of 40.7 percent. Furthermore, it should be

noted that both of these studies reflect none of the substantial business property-tax relief enacted in 1997 and 1998.

Whatever the tax situation is in Minnesota, it does not appear to have hurt the state's business climate:

- According to the Corporation for Enterprise Development, Minnesota ranks third in the nation in terms of economic strength and potential for future economic growth.

- Minnesota ranks toward the bottom of the nation in the rate of business failures.

- Minnesota's unemployment rate is 40 percent below the national average.

In light of these facts, it is difficult to make a case for relief targeted exclusively to commercial and industrial property. The outcome of the 1999 legislative session indicates that many legislators agree with this conclusion. While a small reduction in business class rates was enacted, the amount of property-tax relief received by businesses as a result of the 1999 tax bill was less than that received by homestead and nonhomestead residential, apartment, agricultural and cabin properties.

Problems with the property tax

At one time, a person's wealth or the ability to generate wealth was directly related to the property that the person owned. During this era, a tax on property made sense, because property equated with wealth and the ability to pay.

However, this era is rapidly passing. For example, the large fortunes made in the computer industry were not so much generated by property, but by ideas and technologies. Bill Gates did not become the world's wealthiest person because he owned huge tracts of land or large industrial plants, but because of his mastery of computer technology and his vision of the information revolution.

As the connection between property and wealth diminishes, the rationale for the property tax also diminishes. There is a growing consensus that the property tax is the most outdated of the major

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Citizens League Matters

August 24, 1999

News for Citizens League Members

Welcome

New and returning members

Peter Hovde
Margee Johnson
David Mech
Wayne H. Olson
Mitchell Pearlstein
Fred H. Speece
Michael Weber
Patrice Wehner
Gretchen Wheelwright
Paul Thissen and Karen Wilson

CITIZENS LEAGUE

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The Citizens League promotes the public interest in Minnesota by involving citizens in identifying and framing critical public policy choices, forging recommendations and advocating their adoption.

The Citizens League is an open membership organization. Suggested dues for membership are \$50 for individuals and \$75 for families. Please call 612-338-0791 for more information about membership.

Don't forget to make a financial contribution during the League's fiscal year-end drive. Our goal is \$20,000; as of August 12 we've received contributions of just over \$11,000. We can make it, but we need your help. Consider a gift of appreciated assets, like stocks. The tax advantages are favorable to you and the League benefits by the larger gift.

Coleman, Sayles-Belton, Harvey and Johnson to help kick-off the new Mind-Opener season

The 1999-2000 Mind-Opener season will kick-off with a September series featuring the mayors and public school superintendents of both Minneapolis and St. Paul. Minneapolis Mayor Sharon Sayles Belton and Superintendent Carol Johnson, along with St. Paul Mayor Norm Coleman and Superintendent Patricia Harvey will all address issues related to urban education.

With crime and unemployment at historic lows, affordable housing and public education remain as two of the biggest challenges facing our urban centers today. And they are clearly inter-related. Recent studies have shown the critical link between the availability of stable, affordable housing and the academic performance of low-income students. Conversely, improving public schools is a key step in revitalizing urban centers, attracting middle-income homeowners back to the city and reducing the concentration of poverty.

We will ask both mayors what they see as the city's

role in improving educational outcomes for children in their cities. What can or should their city do to address achievement related factors outside the classroom, such as the lack of affordable housing? The two superintendents will be asked to outline their plans for improving student achievement, especially of low-income students, in K-12 public schools.

The series will begin with meetings on September 14 and 16 at the Zurah Shrine Center on Park Avenue in Minneapolis. Sharon Sayles Belton has been invited for September 14 and Carol Johnson has agreed to speak on the 16th.

The series switches to St. Paul on Tuesday, September 21 when Norm Coleman will be our guest. Newly appointed superintendent Patricia Harvey will close the series on September 23. The St. Paul meetings will be at the University Club on Summit Ave. in St. Paul. All four meetings will run from 7:30 - 8:30 a.m. Watch your mail for details.

The Citizens League has sponsored policy breakfasts from Labor Day to Memorial Day every year since 1962. The Mind-Opener series format was inaugurated in the fall of 1987.

The goal of Mind-Opener meetings is to: surface policy issues that might be good candidates for the deeper analysis of a study committee; provide a more in-depth look at different viewpoints of current policy discussions; give regular citizens a chance to meet and ask questions of policymakers and opinion-shapers; and provide a place for citizens to come together to talk about public problems and opportunities.

Other topics being considered for this year include unicameralism, trends in crime and public safety, and the 2000 census. If you have any suggestions for topics or speakers you would like to see included in our Mind-Opener programming, please feel free to call the League at (612)338-0791 or email info@citizensleague.net.

Have an idea for a Mind-Opener series?

Call us at 612-338-0791 or email us at info@citizensleague.net

MIND-OPENER POLICY FORUMS

Cities and Schools

Tuesday, September 14

Sharon Sayles-Belton

Mayor, City of Minneapolis
(invited)

Thursday, September 16

Carol Johnson

Superintendent, Minneapolis Public Schools

Tuesday, September 21

Norm Coleman

Mayor, City of St. Paul

Thursday, September 23

Patricia Harvey

Superintendent, St. Paul Public Schools

All meetings will run from 7:30 - 8:30 a.m. The meetings with Minneapolis officials will be at the Zurah Shrine Center, 2540 Park Avenue, Minneapolis. In St. Paul, the meetings will be at the University Club, 420 Summit Avenue, St. Paul. Cost is \$10 for Citizens League members, \$15 for non-members and includes a continental breakfast. Registrations can be made by calling (612)338-0791 or emailing info@citizensleague.net.

League staff (and ex-staff) updates

Former League staffer Janet Dudrow was recently hired by Dorsey and Whitney to serve as executive assistant to former vice president and ambassador to Japan Walter Mondale. Dudrow worked at the League from 1993 until leaving in the summer of 1998. Old League friends can now reach Janet at 612-340-7846

Meanwhile Janet's replacement at the League, Kris Lyndon, is now Kris Lyndon **Wilson**. Kris married Matt Wilson on July 24. The couple makes their home in the Ramsey Hill district of St. Paul. Kris' husband Matt is employed by the Department of Children Families and Learning as a communications specialist.

Congratulations to both Janet and Kris!

www.citizensleague.net

Citizens League News

Workforce committee enters final stages

The workforce training study committee recently wrapped up its consideration of resource testimony and moved into the discussion phase of the committee process. Over more than two months of meetings, the committee heard testimony from individuals representing employers, training providers, educators, and public agencies. Smaller groups of committee members also attended focus groups to explore particular topics in greater detail.

The workforce training committee has been meeting since April, under the chairmanship of Roger Hale, the former CEO of Tennant Company and the newly-appointed chair of the Governor's Workforce Development Council. The committee is scheduled to wrap up its work in September, with the aim of generating recommendations for the 2000 legislative session.

Last year's League report on the labor shortage, *Help Wanted: More Opportunities than People*, argued that in an economy short on workers the single most important action to maintain economic growth is to improve per-worker productivity. The surest way to do so is to give workers the right skills to be productive in the workplace, and to continue upgrading their skills while in the workforce.

The current League committee charge is to identify how Minnesota's workforce training system can be improved to address the state's labor shortage and better prepare workers for success in the new economy.

Individuals interested in following the committee's work can view minutes of the committee's meetings, issue papers, and other information on the League's homepage at www.citizensleague.net.

Public Agenda report now available

The report from the Public Agenda Project, co-chaired by Joan Growe and Peter Hutchinson, was approved by the League Board earlier this year and is now available. The Project was the concluding part of the Public Leadership Initiative which the League launched in 1997 to investigate the state of public leadership in Minnesota.

The Public Agenda steering committee and League Board members conducted 48 interviews with current public office holders, both elected and appointed. The newly released report does four things—it summarizes the results of the interviews conducted in the summer of 1998, compares them with the round of interviews done the previous summer, highlights three "promising practices" or keys to success, and suggests areas for further research.

For more information or to order a copy of the report please contact the League office at 612-338-0791. The report can also be found on the League's web site at www.citizensleague.net.

Property tax

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Unlike sales and income taxes, there is frequently dramatic growth in residential property-tax burdens without commensurate growth in the taxpayer's ability to pay. For this reason, the property tax is generally considered the most unpopular and unfair of the major taxes.

The argument that the property tax is the best way to pay for property-related services is tenuous. The level of property taxes bears no clear relationship to the property services consumed. For example, earlier in this decade there was a large increase in residential taxes in many Minnesota communities due to a decline in commercial and industrial property values. For the most part, this increase in property taxes was not accompanied by increased consumption of property services. In short, there is frequently no relationship between changes in property-tax burdens and consumption of property services.

When reform is not reform

We have argued that the way to reform Minnesota's property tax system is to shift tax burdens paid by some property owners onto other property owners.

Class-rate reductions are an example of this approach to property-tax reform. This approach by itself results in no net reduction in property taxes, but merely shifts burdens from business property onto homeowners. This outcome would be justifiable if it directed relief toward those classes of property that needed it most or resulted in

more efficient government; however, there is little indication that this is the case.

"Limited market value" proposals seek to restrict the growth in a property's taxable market value to a specified percentage. Like the class-rate reduction approach, restrictions on growth in taxable market value shift tax burdens from some properties onto others. Tax relief is received by those properties subject to the value growth limitations that have experienced rapid growth in value; all other properties, including properties with valuation declines or less rapid valuation growth, experience tax increases.

Limits on the growth in taxable market value target relief to those who own properties with rapidly growing values, but do nothing to target relief to those with the least ability to pay. Since limited market value proposals generally require that a property return to full taxable market value upon sale, these proposals can result in serious tax inequities caused when similar properties pay drastically different taxes, based upon when the property was last sold. Under a number of proposals, the restrictions on growth in taxable market value do not apply to business property, thus resulting in large tax shifts on to businesses.

The extent to which class-rate reductions or limited market value approaches constitute true property-tax reform is questionable. In general, these approaches shift tax burdens from one type of property to another, but do not address the fundamental problem that is inherent to residential property taxation—the fact that the incidence of the tax is

unrelated to the ability to pay.

In some instances, class-rate reductions for classes of property that have demonstrated a need for immediate relief—such as apartments—is warranted. However, in general, solutions that shift tax burdens from one taxpayer to another are like rearranging the deck chairs on the Titanic; the activity may make some folks feel better, but the problems with the sinking ship are not solved.

Meaningful property tax reform

The revenue diversification approach to property tax reform seeks to reduce dependence on the property tax by relying on alternative sources of revenue. This type of reform recognizes that the problems with the property tax are inherent to the tax itself and can only be mitigated by reducing dependence on the tax.

The goal of revenue diversification is to reduce local government dependence on an obsolete tax—the property tax—by increasing access to other more modern taxes, such as sales and income taxes. Unlike the property tax, the incidence of sales and income tax burdens tends to grow as a taxpayer's ability to pay grows.

A tax system is out of balance when one level of government is funded through rapidly growing (though more volatile), modern, progressive taxes, while other levels are funded through slow growing (though less volatile), obsolete, regressive taxes. Revenue diversification helps to ensure greater balance and stability in the statewide tax system by ensuring that all levels of government have equal access to growing revenue sources.

The complete elimination of the property tax as a major revenue source is not a realistic goal, given the fact that it is impossible to generate revenues from nonproperty tax sources to completely replace the property tax. However, a gradual reduction in local government dependence upon the property tax is obtainable. In fact, the Legislature has taken significant steps in this direction during the last several legislative sessions through:

- Dramatic reductions in the general education levy;

- Increases in state aid targeted to school districts with special needs;

- Increases in county Family Preservation Aid;

- State assumption of various court administration expenses.

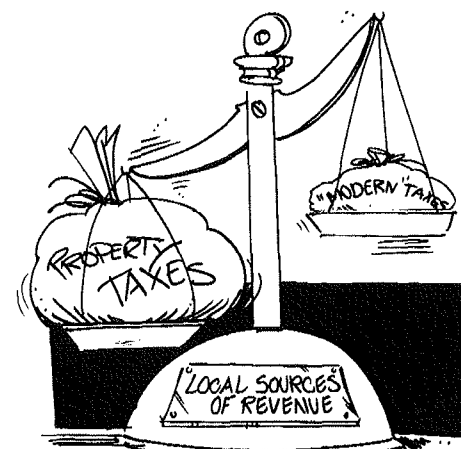
Each of these reforms reduces dependence on the property tax—either immediately or over time. Furthermore, each of these reforms does not favor a particular class of property, but rather reduces property taxes for all types of property.

The problem with the property tax will not be resolved by merely shifting property tax burdens from one category of property to another, but through a revenue diversification strategy that reduces dependence on the property tax entirely. As noted above, significant progress in this area has already been accomplished. However, more needs to be done.

The pursuit of revenue diversification presents many challenges for policymakers. One such challenge will be to implement revenue diversification in a way that ensures the impact of local spending decisions will be felt locally and will not be shifted to the state. However, there are numerous ways of implementing revenue diversification that will ensure local accountability for spending decisions is maintained.

Other challenges to the implementation of revenue diversification will no doubt arise. Specific revenue diversification strategies should not be undertaken prior to extensive evaluation and discussion. However, revenue diversification offers the only meaningful way of reforming Minnesota's property tax system. The problems posed by implementing revenue diversification should not deter us from making the effort.

Jeff Van Wychen is staff of the Property Tax Study Project, a collaborative effort of Minnesota's three first-class cities (Minneapolis, St. Paul and Duluth) and their respective counties (Hennepin, Ramsey and St. Louis) and the Minneapolis and St. Paul school districts. He can be reached at 612-379-2060.



It's out of balance!

Contracting

Continued from page 1

were ultimately beaten back in conference committee and no serious effort to limit contracting with for-profit management companies was initiated in 1999. Meanwhile, the number of Minnesota charters with contracted management has continued to grow. At least 12 of the 60+ charters that have been approved are contracting for management services. Those twelve charters have total current or projected enrollments of about 2,600 students. (See accompanying chart.)

Most contracting is 'local'
Much of the local media attention has gone to the New York-based Edison Project, which is or will be managing two Minnesota charters on four campuses—the Duluth Public Schools Academies and a new school in Roseville scheduled to open next fall.

But, despite the focus on the Edison Project, home-grown organizations actually account for the large majority of management contracts now in place.

The best established is Designs for Learning, a local firm headed by long-time St. Paul public educator Wayne Jennings. Jennings' company now has contracts to manage five charter schools—all in St. Paul—and is actively pursuing others.

Public Academy is a second locally-based, for-profit management company that currently manages the two-campus Success Academy, also located in St. Paul.

At the same time, the EdVisions Cooperative is evidence that contracting for management services isn't done exclusively with traditionally defined for-profit businesses. Originally founded by 13 education professionals, EdVisions runs Minnesota New Country School, sponsored by the LeSueur-Henderson School District. Just recently, the EdVisions Cooperative entered into less comprehensive management agreements with three new charters opening this fall in Lafayette, Hanska and Nerstrand.

The PEAKS Charter Schools, headed by veteran Brainerd area

APPROVED MINNESOTA CHARTERS WITH MANAGEMENT CONTRACTS		
Charter School, Location	Contracted Management	Sponsor, Grade Levels, Enrollment*
St. Paul Family Learning Center, St. Paul	Designs for Learning	St. Paul School Board; K-5; 130
Learning Adventures Middle School, St. Paul	Designs for Learning	Central Lakes College, Brainerd; 6-8; 65
Minnesota Technology High School, St. Paul	Designs for Learning	Inver Hills Community College; 9-12; 90
Concordia Creative Learning Academy, St. Paul	Designs for Learning	Concordia University, St. Paul; K-6; 90
High School for the Recording Arts, St. Paul	Designs for Learning	St. Paul School Board; 9-12; 65
Success Academy, St. Paul	Public Academy	St. Paul School Board; K-6; 500
Duluth Public School Academies, Duluth	Edison Project	Duluth School Board; K-8; 800
Roseville Charter School, Roseville	Edison Project	Intermediate District 916; K-8; 500
Minnesota New Country School, Henderson	EdVisions Cooperative	LeSueur-Henderson School Board; 7-12; 130
Hanska Charter School, Hanska	EdVisions Cooperative**	New Ulm School Board; K-5; 50
LaFayette Charter School, Lafayette	EdVisions Cooperative**	New Ulm School Board; K-5; 30
Nerstrand Charter School, Nerstrand	EdVisions Cooperative**	Faribault School Board; K-5; 150

* Projected for 1999-2000 school year, except Roseville Charter School, which is scheduled to open in the fall of 2000.
** Contracting arrangements still being developed, services provided may vary.
Sources: Minnesota Association of Charter Schools, individual charter schools and management organizations

teachers Bruce and Cathy Martin, are another set of charters to watch for evolving management arrangements. This past year, the Martins opened their first PEAKS Charter in Pillager. Four additional charters have now been granted to open similar alternative high schools in Faribault, Alexandria, Duluth and St. Cloud.

The Martins haven't said what type of organizational structure they will ultimately use to provide curriculum and management support to these five charter schools. One option is using Adventure North, a pre-existing business they own that provides professional development and training opportunities for teachers.

Contracting growth likely
The overall number of charter schools operating in Minnesota has more than doubled in the past two years, partly due to the continually improving fiscal treatment of charters and growing number of alternative chartering authorities. Because of this more favorable policy environment, it's likely that other local and national management companies, cooperatives and nonprofits will be seeing Minnesota as fertile territory for expansion in the future.

One option worth watching is whether entrepreneurial charter school founders will see financial and other advantages to creating management companies or employee cooperatives of their

own—after charters have been granted and after their schools have opened.

Such arrangements will require close scrutiny to ensure the independence of charter school boards and to preserve ultimate accountability to each school's chartering authority.

Establishing clear lines of accountability is an extra challenge in Minnesota because of a unique feature in our state's charter law requiring that a majority of each charter board be made up of teachers in that school. This provision creates a potentially awkward arrangement in cases where the school board contracts with a management company that hires and supervises the school's staff.

Partly to deal with this potential conflict of interest, the Minnesota charter law was amended in 1999 to allow the State Board of Education to waive this "teacher majority" requirement. The State Board is now developing guidelines to use in granting any waivers it's asked to consider.

Avoid simplistic rhetoric
As contracting for "whole school management" continues to grow, charter school founders—and both supporters and critics—will need to approach this option in a careful and thoughtful manner.

First, it's important to refrain from unconstructive rhetoric about

whether the profit motive has any place in public education. It already does, through billions of dollars spent on textbooks, computers and other products and services by every public school district in the country.

Administrators, teachers and other employees are also not normally employed in public education with the idea of losing money. And, with the emergence of both nonprofit management organizations and cooperatives, not all contracting will be with for-profit organizations anyway.

Second, it's not accurate to say that Edison or other contracted charters are "for-profit schools." Under Minnesota law, all charter schools must operate either as nonprofit organizations or cooperatives. In fact, of the 37 state charter laws that have now been adopted, only Arizona allows charters to be granted directly to for-profit organizations.

Just like traditional school districts, however, charters may contract with other organizations—including for-profits—for all or parts of their school operations. Such contracting ranges from specific functions like food service and transportation to the kind of overall management services provided by the Edison Project, Designs for Learning and others.

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Contracting

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where "whole school" management is involved, the nature of the arrangements vary. Some management companies—including Edison—bring specific standards, curricula and assessment methods to the school. Others are more flexible in adapting what the schools' founders want taught and focus on "back office" functions like bookkeeping or business and facilities management.

In either case, overall policy setting and accountability to parents, students and the school district or other chartering authority remains with the board of directors of the nonprofit charter school. That board, in turn, is accountable to a school district or other chartering authority. Maintaining this line of accountability is the critical policy objective to worry about—not the organizational model each school uses to provide day-to-day management of the charter.

Roseville Edison good example
Although still in its infancy, the Roseville Edison Academy is a good example of how this kind of appropriate contractual relationship can and should be established between founders—who evolve

into a charter school board—and an outside management organization.

The Roseville charter proposal was not initiated by the Edison Project. Rather, a group of parents and others in the local community identified some significant changes they wanted in their kids' education. Among their goals were longer school days and years, increased focus on reading skills and more effective use of technology.

The Roseville parent group initially tried to work with district officials to get those changes in existing district schools. Along the way, they identified the Edison Project as a resource that shared many of the same goals. They tried to get the district to contract with Edison to operate one of its own schools. And failing in all of these efforts, they decided to seek a charter and contract with the Edison Project to manage the school.

This approach to contracting is in contrast with experiences with some for-profit management companies in some other states. A worst-case scenario is an outside management company "parachuting" into town, creating a "shell" nonprofit board, helping that board obtain a charter and then governing and operating the school much like they would run a private business.

KEY ISSUES TO CONSIDER
IN CONTRACTING FOR SCHOOL MANAGEMENT SERVICES

- Which services are being purchased—from bookkeeping and "back office" administration to the entire school operation?
- Who has responsibility and decision making authority in key areas like curriculum and instruction, personnel hiring and firing, budgets, legal compliance, student recruitment, fundraising and public relations?
- What is the term (one year, multiple years) of the relationship and how may it be changed, renewed or terminated?
- How will the contractor's performance be monitored, including establishing clear goals for student learning, determining measures to be used to assess progress and timelines for oversight, evaluation and intervention if the agreed-upon goals are not being met?
- How will the management company be compensated; how will the budget be set and revised; and how will surpluses, deficits and debts to the management organization be handled?
- Who owns the physical and intellectual property associated with the school and how will property be divided if the contract is terminated or if the school's charter is terminated or not renewed?



"O.K. We've ordered new textbooks, computers, library books and other supplies and budgeted a three percent increase in staff salaries... By the way, did you hear about the proposed contract with a for-profit management company? Imagine anyone trying to make a profit from educating our children!"

Key contracting issues
To discourage such arrangements, each group of charter school founders needs to determine first the mission and general goals of its school. They should then look at alternative ways of meeting those goals—including hiring their own administrative leadership or contracting with others.

If the school's founders choose the second option, there are a number of issues they will need to formally agree to in a contract with the outside management company, including those listed in the accompanying box.

This list of complex issues is not meant to discourage charter schools—or school districts, for that matter—from contracting for some or all management services. Indeed, contracting can be a way for charter or district school boards to focus more time on their most important responsibilities, including general policy and goal setting, monitoring improvements in school and student academic performance and intervening when the school's overall goals aren't being met.

But to work properly, these contractual arrangements must be "done right." The district or charter school board must be clearly and appropriately "in charge." In the case of charters, the school district or other sponsor must ensure a strong charter board is in place that has the capacity to both hold the outside contractor accountable and ultimately be accountable for the terms of its charter.

If these principles are followed, there should be no question that charter schools with contracted

management services are public schools that are both effectively managed and firmly part of public education.

And, by creating new, effective models for school management, charters can demonstrate ways to improve performance of district public schools, as well.

Jon Schroeder is director of Charter Friends National Network, a project of the Center for Policy Studies in cooperation with Hamline University. The Minnesota-based project has recently produced a resource guide for charter schools on contracting for management services. For further information, see the project's Web site at <http://www.charterfriends.org>.

Unicameral

Continued from page3

Humphrey Institute's report is complete, Ted Kolderie has done a review of the Nebraska Legislature and the Governor and legislative leaders from both parties in both houses support the change to a unicameral body. It seems that it would be time for the Citizens League to review this issue and ultimately encourage legislators when they reconvene early next year to put the question on the November 2000 ballot and give the people a choice.

George Pillsbury, a former Minnesota state senator, is cochair of Minnesotans for a Single House Legislature. The organization can be reached at 612-338-3873 or 612-336-9266.

Merged teacher union faces national flap, hefty dues

Minnesota provided one of the most dramatic moments at the 1999 Representative Assembly of the National Education Association (NEA). Education Minnesota (EM), the only fully merged state affiliate of the NEA and the American Federation of Teachers (AFT), requested forgiveness of a \$2.3 million loan. Education Minnesota was disaffiliated from the NEA after the merger because state affiliates were not supposed to act until national guidelines were established. EM was later readmitted as long as it committed to pay NEA full national dues for the entire membership, including the merged AFT members. The agreement specified that the \$2,354,000 plus interest be paid over 10 years.

In a heated two-hour debate EM lost its bid for the loan to be forgiven by the razor-thin margin of 40 votes—out of 8,222 cast. Thus EM must come up with an additional \$240,000 per year to maintain its relationship to the NEA; this despite EM's pledge to its members that the merger would not require a dues increase. So far the entire issue seems to have eluded media attention.—*Phil Jenni*.

The Pioneer Press reported recently that the Eagan-Mendota-West St. Paul district is now offering full-day kindergarten, for a fee. The district may not say so (the newspaper story didn't) but that's probably on the understanding that parents can now get those costs reimbursed from the tax-credit enacted in 1997. That credit did not get enacted for private schools. Districts, and teachers, are now beginning to see that as a market to which they can sell.

Peter Hutchinson of Public Strategies, Inc. was talking recently about Faribault, where the district and a local bank worked out a way for lower-income families to borrow the up-front costs, then get reimbursed by the tax-credit a year later. This way all families can benefit.—*Ted Kolderie*.

Since California deregulated its energy market in 1998, more than half of the residential customers who have changed energy providers have chosen companies offering energy from renewable sources, like wind, solar, and geo-

thermal. The City of Santa Monica has also caught the renewable energy wave by becoming the first city in the world to power all of its municipal facilities, from City Hall to the airport, with green energy. Other municipalities in the region are expected to follow suit.—*Dave Chadwick*.

The Urban Coalition and Roy Wilkins Center for Human Relations and Social Justice at the University of Minnesota's Humphrey Institute have just completed a two-year research initiative on home ownership among people of color. The project's final report highlights many of the traditional reasons why home ownership is a "good thing," for both communities and families.

But the report also mentions an often overlooked benefit of home ownership—it provides people of color with access to home equity loans, apparently the primary method of financing higher education in Minnesota. So, increasing home ownership among families of color might also increase college attendance among students of color.—*Kris Lyndon Wilson*.

In the end the Legislature let the Municipal Board go, this past session, in favor of a process in which disputes about how to extend city boundaries, as urban areas expand, will be settled in some process of mediation and arbitration.

There is a problem with this, which was clear in the mid-1960s, as the Twin Cities area was expanding rapidly. It is that the cities (which want to annex land in the unincorporated areas) and the people in the townships (who often resist annexation) are not the only parties at interest.

The farmers will eventually sell and the large-lot owners will in time subdivide. There will need to be city government competent enough, then, to handle the services required as the land becomes fully urban. Generations afterward will have to live with the decisions made about the pattern of local

Take Note

Cool policy Popsicles for the dog days of summer.

boundaries. The question has always been: Who will speak for the interests of those future residents?

The answer, in 1959, when Joe Robbie (better known later as managing general partner of the Miami Dolphins) persuaded the Legislature to revise the annexation and incorporation laws was: "The state will." That produced the Municipal Board. How to include that larger public interest is still a concern. Can "dispute resolution" really represent the interests of a party not present?—*T.K.*

According to a survey by the National Conference of State Legislatures, the 44 states that provided information ended fiscal 1999 with a total surplus of \$33.4 billion. That represents 9.4 percent of state general-fund spending, the highest percentage since the survey began in 1978. Thirty-two of the 44 states exceeded a five percent balance; 17 topped out over 10 percent. Minnesota was one of those 17 with a combined year-end fund balance and reserve of 12.5 percent of general-fund spending. Iowa led the way with 17.3 percent. Nebraska was one of only two states to raise taxes, despite a 13.7 percent surplus. Minnesota, on the other hand, was leader of the 20 states that cut taxes to reduce excess revenues.—*P.J.*

Effective June 1, MnDOT has closed its telecommuting center in Cambridge. The center was the subject of a recent evaluation by

the Center for Urban and Regional Affairs (CURA) at the University of Minnesota. CURA found that both employees and supervisors were happy with the center, but that time saved from shorter commutes went into personal time rather than increased work time. According to MnDOT, the center, which cost approximately \$100,000 a year to operate, was closed because the department is focusing on home-based telecommuting and does not have the resources to open sites serving other areas of the state.—*K.L.W.*

It's always worth watching out for the unintended effects of good intentions—as, for example, with the effort now to reduce class size. This requires hiring more teachers. And in a period when good teachers are scarce, as some in education are now pointing out, the effect might well be to lower the quality of instruction to kids overall, offsetting the (presumed) benefit of lower class size.

Officials from the Department of Children, Families and Learning, by the way, in the regional meetings after the close of the legislative session, pointed out that there is no legislation literally reducing class size. There is no concept of "class size" in law. There is a program for improving the staff-to-pupil ratio *for the district*. That program got some additional financing. That's all.—*T.K.*

"Take Note" contributors include Minnesota Journal and Citizens League staff members.

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