

# MINNESOTA Journal

A PUBLIC POLICY MONTHLY FROM THE CITIZENS LEAGUE

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E-training coming. Currently U.S. companies spend \$66 billion a year on training. Web-based and CD-ROM-based training is just \$3 billion each year. According to the November *Business 2.0*, this "e-training" is expected to grow exponentially to about \$46 billion by 2005. —Lyle Wray

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## Governor's plan fits several League positions

by Kris Lyndon Wilson

Several months ago, Gov. Jesse Ventura announced his desire for the state to take over more of the costs of K-12 funding, saying he wants the state to pay for 100 percent of the state-determined property tax levy that provides general funding for schools. At the time, it was unclear how Ventura intended to come up with the estimated \$900 million needed to pay for his plan. However, in recent weeks, Gov. Ventura and his commissioner of revenue, Matt Smith, have started to reveal more.

At a recent Jefferson Center meeting, Commissioner Smith said the administration was considering three methods of raising the money: (1) broadening the sales tax base (and possibly lowering the rate), (2) instituting a statewide business property tax, and (3) reducing state aid to cities and towns.

A review of the Citizens League's volumes of work on tax and budget reform uncovers long-standing League positions related to both the Governor's goal and the means he is considering for achieving that goal.

The League's portfolio of tax positions and recommendations, reflecting the input of hundreds of engaged citizens, has developed under a variety of fiscal circumstances. Even those developed during the significant budget shortfalls of the 1980s and early '90s still have a great deal to offer in today's more optimistic budget context. (See accompanying article on page 4.)

In August 1995, the League outlined a division of state and local funding called the "ABC" plan in its report *Choose Reform, Not Declining Quality*. The plan called for the state to pay 100 percent of the cost of core services, plus compensatory aid for those communities with unique local circumstances. In turn, local governments would fund 100 percent of the cost of those ser-

vices that are purely local, based on the demands of local residents and taxpayers. Ventura's goal of 100 percent state funding of the state-determined school property tax levy seems to follow this principle.

Currently, about 25 percent of K-12 school funding, or about \$1.8 million, comes from local property taxes. The Governor's plan would not remove this entire amount from the property tax. Approximately half of the \$1.8 million levied on property owners is the result of state-mandated levies on local school districts. This is the portion Ventura wants to remove from the local property tax and fund with state dollars. The remaining half is the result of the decisions and priorities of local school districts, some through locally approved referenda. Under Ventura's plan, local school districts would continue to collect local property taxes to pay for these locally determined purposes.

### Expanding the sales tax

One way the Ventura administration is considering raising the money to pay more costs of K-12 education is by expanding the sales tax. Currently, Minnesota's sales tax has a relatively high rate, compared to other states, but yields only a modest amount of revenue, due to the large number of exemptions. In addition to exemptions for food and clothing, Minnesota's sales tax also exempts a majority of services, including accounting, advertising and legal services, and sales by nonprofit entities. The Department of Revenue is seriously considering expanding the sales tax to more services and to sales made by nonprofits. Although the League has no position on expanding the sales tax to services provided by for-profit companies, in a 1988 report the League supported expansion of the sales tax to sales by nonprofits. (See accom-



panying article below.)

#### Statewide business property tax

A second proposal for raising some of the money needed to take on more school funding is to institute a statewide business property tax. If the state-determined school levy were taken off the local property tax,

business property owners would benefit the most, because they currently pay higher property taxes per dollar of market value than owners of other types of property. A state-levied business property tax would recapture some of this money and allow all school districts to benefit from Minnesota's

commercial/industrial tax base.

In its 1995 report, which included the ABC plan outlined above, the League also called for a statewide property tax to support full state funding of core services, but on all property—not just business property.

*Tax plan continued on page 4*

## We've been down this road of taxing exempt entities before

It's *déjà vu* all over again for the Citizens League.

Gov. Jesse Ventura's Big Plan has a number of provisions that would affect tax-exempt organizations. In a recent briefing session Department of Revenue Commissioner Matt Smith outlined several options for reform. The options relate both to sales tax paid, and charged, by exempt organizations, and to property-tax exemptions for certain types of organizations.

Specifically, proposals being considered would:

1. Exempt more *purchases* made by exempt entities. Currently, meals, lodging and motor vehicle purchases are not exempt. This proposal would expand the exemption to all purchases.
2. But the Department of Revenue is considering taxing more *sales* made by exempt entities. Under current law some sales by exempt entities are exempt, if the sale meets certain requirements. But similar sales by nonexempt entities are taxable. The Department believes removing these exemptions would make the system fairer and less complicated.
3. A property-tax reform proposal under consideration is to give local governments the option of charging exempt properties a fee for local services. The Minnesota Constitution provided property-tax exemption, because, at the time, the property tax was the major tax. But it also provided the Legislature with authority to limit exemptions, except for public schools and religious properties, which are constitutionally protected. Exempt property in Minnesota totaled over \$35 billion in 1998 and accounts for an average of 13.5 percent of total market value, although in some jurisdictions more than half the tax base is exempt.
4. In addition, the Revenue Department believes exempt properties should be more narrowly defined. The state Constitution gives the Legislature the power to "define or limit" the property-tax exemption for institutions of "purely public charity." However, the Legislature has left most of the definitions to the courts. Commissioner Smith suggests the Legislature adopt an objective set of criteria to more narrowly define the standard.

These proposals promise to unleash a firestorm of opposition. The Minnesota Council of Nonprofits has already girded for battle, sending alerts to its members to beat back "this attack on nonprofits."

Advancing this part of the Big Plan will undoubtedly generate as much heat as any other part of the Governor's plan, especially if recent history is any guide.

In 1987, the Citizens League Board of Directors decided to weigh in on a legislative controversy of the time: how to define an organization that should be eligible for tax exemption. The 1987 Legislature considered, but did not pass, proposals to extend property and sales taxes to a broad array of tax-exempt groups. Ultimately, the only major change in exemptions was to extend the sales tax to purchases of state government.

Nonetheless, the issue was far from resolved. At the League's 35th annual meeting in the summer of 1987, Harlan Cleveland, then Dean of the Humphrey Institute, talked about the blurring distinction between the profit, nonprofit and public sectors.

Adding to the discussion were the 1986 tax law changes adding

sales tax to health-club memberships, but not to places such as the YMCA, YWCA or community centers. At the same time many nonprofits were being encouraged by their funders to act more entrepreneurial and "earn" more of their revenue.

The League Board asked a League committee to consider the following questions: Should entities be exempt for services or products that directly compete with for-profit entities? If nonprofits lose their exemptions, do governments then have an unfair advantage in delivering services? How should the state define a nonprofit for the purpose of being exempt?

A study committee, chaired by former North Dakota Gov. Allen Olson and Piper Jaffray stockbroker Craig Olson, spent much of 1988 struggling with those questions. The committee concluded the policy of exempting government and nonprofits from most taxes was unfair, because it raised taxes on those who already pay taxes, sent the wrong economic signals to those who don't and ignored the "blurring distinction" between the nonprofit and for-profit sectors.

The committee report said the Legislature should:

1. Apply the sales tax to all purchases made by, and from, all nonprofits and governments, but provide a two-year transition period. The committee was particularly concerned about activities, such as sales of computers and other electronic equipment by University book stores, that directly competed with for-profit businesses.
2. Require government agencies and nonprofit organizations that are exempt from property taxes to pay fees for property-related services provided by local governments.
3. Tax the income of business activities of exempt organizations that are unrelated to their exempt purpose—the so-called UBIT tax on unrelated business income.

To compensate for any negative financial impact of these recommendations, the committee also recommended that the Legislature provide an income-tax credit (rather than just deduction) for individual contributions to nonprofit organizations.

It should be noted, however, that the committee's recommendations were far from unanimous. In fact, this study was one of the most contentious in recent memory. There were three minority reports by committee members—ranging from the committee went too far to the committee didn't go far enough.

The League Board needed three meetings before finally adopting the report in October 1988. There was particular concern that the increased tax burden would fall disproportionately hard on the smaller nonprofits already struggling to make ends meet. The Board discussed the idea of a \$3,000 rebate on taxes paid to soften the blow. But it was noted that sales taxes accounted for less than one percent of the total budgets of most nonprofits, so the proposal was not adopted.

But despite the agony the positions on this issue produced for the League, they went nowhere. Powerful forces, from major cultural institutions to hospitals to large nonprofits, organized to prevent any further discussion by the Legislature. It will be interesting to see what happens this time around. MJ

—Phil Jenni, Citizens League finance director

# Viewpoint

From the Executive Director

## Rebooting Minnesota policies for the knowledge economy

by Lyle Wray

It is widely agreed that we are entering a time in which developing and applying new knowledge quickly and well will be a major competitive advantage for any region in the world. In February of this year the Asian Pacific Economic Council (APEC), issued a statement suggesting a few critical success factors for the emerging "knowledge economy:" (1) a very strong research, development and knowledge utilization capacity in higher education and business; (2) an adequate number of people who are highly educated, skilled and adaptable; (3) excellent infrastructure in telecommunications and information technology and logistics for moving goods, services and people; and (4) a supportive business environment in terms of high-performing public services and a favorable tax climate for investment and business expansion.

This list, interestingly enough, fits well with a number of conversations going on in Minnesota—from the Governor's Big Plan on Competitive Minnesota to the follow-up to the University of Minnesota summit on the economy to work last spring by the Great North Alliance to the five reports and statements on these issues done by Citizens League committees over the past five years ([www.citizensleague.net](http://www.citizensleague.net)).

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Publisher—Lyle Wray

Editor—Dana M. Schroeder

Contributing Editor—Ted Kolderie

Sketches—Ray Hanson

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In many ways, Minnesota is sitting pretty as the knowledge economy broadens and deepens in the world. We have a highly educated workforce by national standards, we have good infrastructure and we have a number of clusters of highly competitive global firms in significant and emerging fields of new technology, from telecommunications to medical devices to high value-added agriculture.

At the same time, it is clear that much more work needs to be done to identify and respond to changes in the economy that will position Minnesota well for longer-range success. Many policies in place were developed decades ago and are now ripe for review. Here are some nominations for priorities to position Minnesota for future prosperity in the knowledge economy:

**Emphasis on higher education and basic research.** While there is an emerging consensus on the critical importance of the quality and numbers of highly skilled workers, in Minnesota we maintain high out-of-state tuition barriers for students. Although this made sense in the 1970s, while we were absorbing 1.3 million baby boomers into the Minnesota economy, this policy is ripe for change. In 2000, we will fill less than one-half of the information technology vacancies nationally. Similarly, paying public subsidies to higher education based on seat time of full-time degree students will fit less and less well with a sharply increased focus on quickly and conveniently increasing the skills of workers already in the work force. Perhaps most importantly, it is time to begin significant investments in the Citizens League concept of the Northstar Research Coalition—in eminent scholars in critical areas, research infrastructure and private/public partnerships for research and commercialization.

**Rethinking economic development and "rural" development.** The rise of the knowledge economy provides new opportunities for thinking about how we invest in economic development and how we can assure that Greater Minnesota is not left

behind. Much of current economic development is real estate development-oriented. Do we need to rethink this and put a greater emphasis on developing the skills of new and existing workers?

Telecommunications can afford many opportunities in Greater Minnesota and broadband communication access is on the way, under administration initiatives. We need to rethink and retool economic development and rural development.

**More efficient public services.** There is a major push in developed countries to move many government services to the Web to save money and provide better service to citizens. This "e-Government" was the subject of a conference three weeks ago in Hong Kong, which showcased very strong commitments from Hong Kong and Singapore to dramatically improve government services through advanced information technology and use of the Web. The use of systems that can recognize the human voice, the use of expert systems to help in decision-making and the implementation of online payment systems are but a few of the major developments underway around the world. Improved citizen services and savings in government purchasing are being demonstrated in many locations around the country and the world. Minnesota has begun on this path but we will likely need to move more quickly to keep up with the front-runners.

These are but a few examples of the need to review and sharpen policies from a fading era of plentiful workers and limited competition for our future success. We need to forge many of the thoughtful efforts in play now, from the follow-up to the economic summit at the University to the Great North Alliance to the Citizens League, into proposals for changed state policy in the coming sessions of the Minnesota Legislature. MJ

Lyle Wray is executive director of the Citizens League. Readers may respond to "Viewpoint" or any Journal article at 612-338-0791 or [info@citizensleague.net](mailto:info@citizensleague.net).



However, in a 1987 report, *A First Class Property Tax System*, the League had called for a statewide property tax specifically on commercial-industrial property. It even suggested as one possible design of this statewide business property tax for commercial-industrial property to pay a higher rate for the state-required school tax, while other property paid a lower rate.

But in both cases, the League's recommendations for a statewide property tax were tied to recommendations to base the property tax on full market value, rather than tax capacity, for all types of property. At this time, it doesn't appear the Ventura administration is contemplating such a major change.

#### Reducing state aid to cities and towns

The state of Minnesota currently spends 14 percent of its budget on nonschool property-tax aids and credits. There are two large aid programs that pass money collected by the state to local governments—local government aid (LGA) and homestead and agricultural credit aid

(HACA). Both of these programs reduce the amount of money local governments must collect in property taxes.

Commissioner Smith has indicated that while the LGA program will continue, the administration is considering using money now distributed to cities and towns through HACA to pay for school costs and more closely aligning county HACA to specific services, rather than administering it as a general-purpose aid program.

The Citizens League has commented on state aids to local governments in numerous reports. In 1990 the League recommended in *Remaking the Minnesota Miracle* that the state stop providing general aid to local governments, in order to increase their accountability; in 1993 the League recommended in *Minnesota's Budget Problem: A Crisis of Quality, Cost and Fairness* reducing aid programs such as LGA and HACA. The League's 1995 ABC plan also called for eliminating general purpose state aid. In any case, the League has long believed that general-pur-

pose state aid for local governments hampers accountability by essentially buying down local property taxes, leaving local taxpayers unaware of the true costs of local government services.

#### A broad discussion

The Governor's proposals for reforming Minnesota's state-local fiscal system offer an opportunity for—indeed, they deserve—broad discussion. The proposals are likely to be fleshed out further in the coming weeks and then changed even further once they reach the Legislature.

The Citizens League will be looking for opportunities to join this important discussion by advancing the relevant positions it has taken over the years—positions based on the best thinking and hard work of the citizens who have served on its tax, finance and budgeting study committees. **MJ**

*Kris Lyndon Wilson is a research associate at the Citizens League. She can be reached at klyndon@citizensleague.net.*

## Citizens League budget principles relevant for shortfalls and surpluses

Throughout the late 1970s and 1980s, Minnesota faced periodic shortfalls in the state budget, resulting in repeated and often messy struggles to find enough spending cuts and tax hikes to get through another biennium. Fundamentally short-term in nature, most of the steps taken to balance the state's budget during this time did little more than give opposing sides a chance to nurse their wounds until the next crisis erupted. Even as the economy began to turn up at the start of the 1990s, the state continued to see revenues fall well below the levels needed to meet the state's spending obligations.

In 1992, the Citizens League decided the time had come to develop a new way of thinking about state budgeting that went beyond short-term, cycle-to-cycle fixes. The Board of Directors charged a committee with the task of examining the state's budget and identifying long-term, structural reforms to stabilize the state's budget process and avoid the traditional choices of "cut, shift or tax." The committee was chaired by Ed Dirkswager and Jean King and met from July 1992 through April 1993.

In the report based on that committee's work, *Minnesota's Budget Problem: A Crisis of Quality, Cost, and Fairness*, the League concluded the fundamental flaw in the existing state budget process was the lack of any relationship between spending and results. The League called for a new design for state budgets based on five major principles:

- ▲ Target public subsidies directly to people who are financially needy.
- ▲ Use competition to align institutional self-interest with the public's interest in the quality and cost of services.
- ▲ Allow prices of public services to reflect true costs, including the social cost of individual decisions.
- ▲ Meet more public responsibilities through nongovernmental communities in which people already have relationships of mutual obligation.
- ▲ Consider long-term economic growth to be one of the objec-

tives of state spending.

Realigning state budget policy along these principles, the League argued, could save money in the long run. More important, it would help ensure that citizens get the best value for the money spent.

Two years later, facing another record gap in the state budget, the Citizens League convened a second committee of volunteers to reexamine the earlier recommendations, identify reform proposals based on those recommendations and suggest further steps for their implementation. Chaired by Becky Malkerson and Chuck Neerland, this committee focused its attention on applying the League's 1993 design principles to four of the state's main program responsibilities: K-12 education, postsecondary education, aid to local governments and long-term care for the elderly. Aiming to create a more efficient system of public services in each of these areas, the League in the report *Choose Reform, Not Declining Quality* called for:

- ▲ A reformed K-12 system that funds learners rather than institutions (including the use of vouchers for nongovernmental schools) and gives teachers, parents and staff greater flexibility at each school site.
- ▲ A postsecondary system in which 60 percent of appropriated funds flow to students rather than institutions.
- ▲ An "ABC" plan for local government finance. (See accompanying article on page 1.)
- ▲ A managed-care system for the elderly that saves money through greater use of flexible, community-based alternatives to institutional care.

Even though these reports were produced to address a budget crisis, the League believes its budgeting principles—tying spending with results and creating a more efficient system of public services in the state's main program responsibilities—still make sense in our current budget surplus situation. **MJ**

—Dave Chadwick, Citizens League research associate

## Reichgott Junge plans to continue policy work 'from the outside'

by Dana Schroeder

**Editor's note:** State Senator Ember Reichgott Junge (DFL-New Hope) is leaving the Legislature after five terms, or 18 years. The 47-year-old assistant Senate majority leader leaves on a high note, having been honored in October as a sponsor of Minnesota's pioneering charter school law, which was named one of 10 winners of the national Innovations in Government Award competition. The award carries with it a \$100,000 grant. Another creation of legislation sponsored by Junge, the Board of Government Innovation and Cooperation, was named one of 25 finalists, winning a \$20,000 grant.

The Minnesota Journal spoke with Junge recently about her reflections on her legislative work and the Legislature as an institution and her plans for the future.

**Minnesota Journal:** Now that you're leaving the Legislature, what are your thoughts about your accomplishments and your plans for continuing that work?

**Ember Reichgott Junge:** We can't give up. We have to continue to work on things. We have to find new and different ways to approach these problems. I want to try to do that from the outside now. I believe I've done as much as I can from the inside, from being a member. I think sometimes you can generate discussion and new ideas from the outside, as well. That's why I would like to transition into some writing and policy development and continuing to push the envelope from the outside.

What gave me the most joy in this process was the opportunity to create new ideas, to create new things, to find different approaches to problems to try to solve them. That's why the Citizens League has been such an ally, because that's what they do, too.

I realized very early on that I was a policy-oriented person and a strategy person. How do we best bring people together to solve that problem and think out of the box? My staff would say, "She's got one of those ideas again." A lot of them never went anywhere but a few of them did.

I loved every minute of it, so I'm still going to be involved. Education reform and continuing to work in that area, as well as family violence and crime prevention, are my key passions right now.

**MJ:** What do you have in mind for writing and policy work?

**ERJ:** I'd like to do some editorial writing, that type of thing. The trick will be to find a place to do that and still support myself by practicing law and in a new business I'm starting. I have lots of things I'm interested in doing.

**MJ:** What's the new business?

**ERJ:** The new business is called Video on Wings. It's a startup business, where we're providing new, low-cost video to Web services—much less expensive and easier than any video streaming service that's on the market today. A political commercial would be \$65 to put up to five minutes of video streaming on the Web and it would come up right away. You don't have to wait for it to download.

I think there's a great opportunity here for people to use this service to get their ideas out.

**MJ:** What lessons have you learned?

**ERJ:** In November I was invited as one of the innovations winners to speak at the Kennedy School Public Service Celebration. I told them I'd learned three lessons about the gift of public service: ▲ First, there is more than one right answer. It's not about my right answer and your wrong answer. It's about bringing people together to find the next right answer. ▲ Second, let citizens take the lead. Remove the barriers. Encourage risks. Reward new ideas. Yes, learn from the inevitable mistakes. ▲ Third, celebrate the small victories. Change in the public forum can be frustratingly slow. But that's how mountains are built.

I talked with them about how the vast majority of public servants are hardworking people of integrity. This audience was a very distinguished group of public servants and we're all struggling with how we make government relevant to the public. How do we connect better with the public?

I also talked about Jesse Ventura. One of the concerns I have is when people run against the institution to which they want to be elected. That's, in some ways, what has been the element of success for Jesse. I am writing a book to record the first two years of Minnesota's triparty government. I call it *Two Parties and a Jesse*.

How do we involve younger people in public service, when they just hear these negative things about government? On the one hand, young people are very service-oriented. They'll serve soup at a soup

kitchen, but it doesn't connect to them to get involved on the political side to determine what government policies are resulting in such need for soup kitchens.

**MJ:** As you look back over 18 years, is it harder today to do the kinds of things you've been talking about?

**ERJ:** The change is there's more to do and less time to do it and less time to sit back and be thoughtful.

**MJ:** Why is there less time?

**ERJ:** Because there are more issues, more demands on public servants from various issue groups and organizations to be responsive to many different areas, rather than focusing in a particular issue. Also, we're more responsive as a body now. We're more reactive than proactive.

It's more strategy. How do we strategize to get positioned best for conference committee? You don't realize it at the time, you really think you're thinking it through, but it's just that everything does happen very quickly.

Another concern I have is that the media don't give you a lot of breathing room. It kind of locks people in, even when there's not a lot to report on.

**MJ:** Is it more political?

**ERJ:** Yes, it's more political. And this year, definitely everything will be more political, because you have a two-year term for everyone and you have redistricting. You've got a three-party government. It's going to be difficult to achieve a lot of new and different change under these circumstances, unless there's something that brings it up from the outside that they have to react to.

**MJ:** We've been through two years of the triparty approach. Have you come to any conclusions about what difference that has made in terms of achieving positive things within the legislature?

**ERJ:** I believe that triparty government can work. I think two things have to happen. One is it can't be about your right answer and my wrong answer. It has to be everyone looking for the next right answer.

Particularly the Governor has used that approach. It's us against them. I think that's destructive. What the Governor needs to do is build bridges to the Legislature, not bomb bridges. To the extent he can do that, we could do a lot of things.

There are some good things in the Governor's Big Plan. But he's got to work

*Reichgott Junge, continued on page 6*



with people, because change is not easy.

I think the second thing we need to do is to reconnect with the people. The Governor does that effectively. I don't think the Legislature's doing a good job of that. We need to reconnect with them and put a human face on the issues we deal with at the Capitol.

**MJ:** How do you better connect with people?

**ERJ:** I don't know. The Governor connects through celebrity, but that's a problem. We have to develop how you connect when you're not a celebrity.

We've really got to think about our relationship with the people, because the trust in government still is low. That's not changed over the last decade. What do we do? It's not going to help by spending billions of dollars on negative campaign advertising every two years. That only adds to the cynicism.

I'm working with the Minnesota Women's Political Caucus, which is a multi-partisan organization, to promote issues affecting women and families and also promote women leaders in our state. That helps to put a human face on the Capitol—just that alone.

One of the things we're doing to connect with young people, particularly young women, is to have a new e-mail network. We're saying, Let us send you issue updates so you can see what's going on.

When election times come, we can say, If you care about all the things on the issue updates, you need to vote.

**MJ:** Let's talk about charter schools. What was the vision when charter schools were first proposed? Has that vision been realized? What do we need to do to bring the vision further?

**ERJ:** The early vision was very limited to Minnesota. So it's a surprise to most of us that it has evolved to the extent it has, nationally and internationally (with Canada, as well).

The roots of charter schools were in open enrollment, which Gov. Rudy Perpich championed. Once open enrollment passed, we were all at this education conference—the Itasca Seminar of the Minneapolis Foundation. Members attended from the Citizens League, as well as the Legislature—the open enrollment authors, Ken Nelson and myself—and a number of business people to talk about education

reform. The vision was simply this: Now that we had more access to choices, how could we create more good schools and different schools to choose from?

Some of the folks there sat down and started to map out ideas on a dinner napkin to define a law that might create these choices. It had very humble beginnings.

It kind of grew, because we were able to utilize resources from the outside for about three years. It took three years—'89, '90, '91. Leadership came from Ted Kolderie, particularly, in setting up groups to try to revise it so we could eliminate some of the objections. The late Betsy Rice, Senate Counsel, deserves recognition. Her words are now being repeated in laws across the country.

Finally, when it was in pretty good shape, some of the senators were pretty comfortable with it and we were able to get allies in the House. We got to the conference committee and it looked like it was actually going to be passed. The night it did pass the conference committee in '91, I was so disappointed in it I had to leave the room or they would see the tears coming down my cheeks. I honestly thought no charter school would ever result from the watered-down law.

Despite the fact it was watered down, the opposition unleashed all its forces to defeat it. Only with the incredible courage and help of former Rep. Becky Kelso (DFL-Shakopee) were we able to still get that through the House, with just a two-vote margin.

In retrospect, that was the most difficult decision: To decide whether we go ahead in a weakened form or wait again another year. We decided to go ahead, because the next year was an election year, so that would have made it more difficult. We'd really put a lot of work into it. So we made a decision to move forward.

That was the right decision. One, it immediately was picked up by Jon Schroeder (then a member of Sen. Dave Durenberger's (R-Minn.) staff), who took it to Washington. I think Durenberger introduced it two months later. The idea had been launched.

The second thing that occurred is that we were able to come back and improve our law two years later.

I think the launching by Durenberger was critical to the expansion of charter schools. Joe Lieberman took it on the

Democratic side and then Bill Clinton supported it in the election. Those were critical supporters, who helped charter schools become legitimate, give them credibility and helped us to improve our law. California was second the next year. By that time it was really on its way.

But the vision, really, was simply a response to our open enrollment law. It emerged from that vision to a different strategy. It was a public school choice alternative to private school vouchers, which was an issue gripping the nation at that point. That was another factor that caused it to be part of the national discussion so quickly. Once it got there, it was here to stay.

We knew that three or four years down the line when the teachers' unions changed their position from outright opposition to, Well, we support it, but in certain, different ways.

Not only was the law innovative, but it also spawned innovation. So we are getting many innovative charter schools. You have two levels of innovation and two levels of replication. One is the charter school law has been replicated and, secondly, some of the charter schools are being replicated—most recently by the Gates Foundation nationally, which put \$4.5 million into replicating the structure of the New Country School in Henderson.

Ten years from now, I can't even imagine what kinds of charter schools there will be. As times change, so will they. And the law keeps changing.

States come up with new ideas and then we come back and put them in our law. So the law evolves and innovates around the country and then that spreads around. And then the types of schools spread around. I just read that in Florida the teachers' unions are now chartering 10 schools.

So the union themselves now have become charter schools operators. I really went into this thinking this would empower teachers and I still believe that it does.

**MJ:** Talk a bit about the bipartisan effort behind charter schools.

**ERJ:** Charter schools is very bipartisan. Lt. Gov. Mae Shunk has been a strong supporter of charter schools. It would never have passed without bipartisan support. Sen. Gen Olson (R-Minnetrista) was the other leader at the time in the Senate and she needs to get some credit.

What also helped was when Sen. Durenberger, a Republican, was able to

*Reichgott Junge, continued on page 7*

take it to Washington, to get bipartisan support and eventually to get startup funding in 1994 from a Republican Congress. It really took away that partisanship.

**MJ:** How do you plan to spend the \$100,000 innovations award grant?

**ERJ:** The Ford Foundation grant will help us to replicate the law and help it to evolve to the next stage. It will probably be replication on both levels—the law and the kinds of schools that can be created.

I'd like to have a big thank-you party to thank the thousands of people in Minnesota who made this a reality, from policymakers to educators to students to parents to school board members to sponsors, the department. I think we're looking at early February for that.

We've talked about doing some sort of charter school fair, where legislators and parents and everyone else can see the good work charter schools are doing. Personally, I'd like to see a competition of innovations in charter schools in Minnesota and around the country.

I think we want to focus a lot in our state and through Web sites work on laws in other states. It is related to what's going on in other states, because when other states do something with their law, we can sometimes learn from that. But I think there's also a desire to work to solve some of the problems we have here in Minnesota.

**MJ:** What are some things that need to be done to improve the charter school climate in Minnesota?

**ERJ:** We need to build our relationship with the Department of Children, Families and Learning. And we need to build our relationship with sponsors. We need to educate sponsors, train them, alert them to the pitfalls and help sponsors understand charter schools are an opportunity and not a monetary burden. They are a real opportunity for them to try some new things they might be able to use in their other schools.

I'm not sure the Governor is sold on charter schools. But I do know that Mae Shunk is. I'm hoping to work through her to try to find a way the Department can be more meaningful in this. I have always wanted to have the Department be more of a resource center for charter schools, possibly give them some funds to do that. I actually introduced that last year. It was totally shot down because there was some question that on the one hand, you don't want the schools to be monitored by the

Department and then, on the other hand, you want to involve them through technical assistance.

**MJ:** Do you think the negative remarks coming out of St. Paul lately about how much time and money it's taken to review all the charter school proposals are problematic? St. Paul's been a very willing sponsor up to this point.

**ERJ:** St. Paul's done far more than their share. They've taken on more than any other sponsor in the country that I know of. It's probably appropriate for them to stand back and say, If we're going to do this effectively, we need to direct these folks to other sponsors. We can't do all charter schools in Minnesota.

I credit them tremendously for the role they have taken. The Mayor and the school board together really did create a terrific choice of charter schools in St. Paul.

But I do think there are limits for any sponsor. So I don't think it's inappropriate at all for them to put limits on it at this point. I also think that they can probably help other sponsors learn from their experiences. Maybe we can develop some training standards that could be used around the state and the country.

**MJ:** Is there anything else you'd like to see done with the charter schools law?

**ERJ:** I would love to see charter districts. I've tried that three or four times now and haven't gotten very far. I'll go back again from the outside. I want a school district to have the option to create all charter schools within their district. The bill I introduced would have allowed for a referendum.

If it passed, they would all be charter schools, so that basically the money would follow to each individual school. Each school would be in charge of their own curriculum, or whatever.

There are always new frontiers.

**MJ:** What about the Board of Government Innovation and Cooperation, created by another law you authored, which was a finalist, but not a winner, for the innovations award?

**ERJ:** They were again a Citizens League creation, to some extent. I would have expected the Board to be replicated by now. To my knowledge, it's still unique. I hope the finalist money (\$20,000) will help them to replicate. In many ways it's exactly the same principle as charter schools, but for local governments. It helps

them to waive mandates in return for results and lets local officials take the lead with new ideas and creative ideas.

I think the Board has done an outstanding job. I hope they go back to the competition next year, because I think they could be a winner, as well.

**MJ:** Is Minnesota the best governed state in the nation?

**ERJ:** It's certainly one of the best. From the perspective of being willing to innovate, to lead the country on certain measures, yes, we have had good success. I want to continue that. I hope triparty government doesn't stalemate that.

I am concerned that we may actually move away from that, rather than improve on it, because of the earlier factors we discussed—having to respond so quickly, less time to think and innovate. The strategy takes all of our time basically at this point. The politics. That's a concern.

We have the best opportunity we've ever had with surplus after surplus. This is the time. We didn't take that opportunity to do some major changes in the property tax system or whatever this last time. If we don't do it with this kind of economy, we'll never do it.

**MJ:** What about the quality of the people willing to serve in the Legislature under the atmosphere you're describing?

**ERJ:** If this year is any indication, we had some of the best candidates we have ever had running for the state senate. Minnesota has a real ethic of wanting to make a difference, wanting to serve. I just caution that, number one, they don't get frustrated, and two, I hope that Jesse Ventura doesn't hurt that ethic by continually running against government and running against the very people he serves with.

**MJ:** Any advice to the upcoming legislative session?

**ERJ:** Maybe we should have a joint finance commission that sets targets together to start and then the budget committees don't make any real major decisions until those targets are set. Limit the commission's role to setting the targets with a deadline of February 1 or March 1. They could take testimony on the budget forecast and get that all worked out.

*Dana Schroeder is editor of the Minnesota Journal. She can be reached at [info@citizensleague.net](mailto:info@citizensleague.net).*



# TakeNote

## Policy Tidbits

*Bright policy bits as we approach the winter solstice.*

**What constitutes** a public good? Art Rolnick, Senior Vice President and Director of Research at the Ninth Federal Reserve District, defined it at George Latimer's Urban Issues class at Macalester College: Once a public good is produced, no one can be excluded from its consumption and one person's consumption doesn't diminish another's. Examples included national defense, police protection, education and public parks.

Rolnick said cities and regions that prosper do a better job of delivering public goods and should compete on the value and price of public goods. He was very critical of smokestack, or even microchip, chasing by governments. The market will determine the right mix of low-tech and high-tech.

Government's job is not to recruit industries, but to worry about the quality of the workforce and the quality and price of other public goods.—*Phil Jenni.*

**Our own** Ted Kolderie, former Citizens League executive director and current contributing editor to the *Minnesota Journal*—among a host of things he does—was honored recently by the University of Minnesota's Humphrey Institute Dean John Brandl. Writing in a special Summer 2000 issue of the academic journal *Daedalus* devoted to Minnesota, Brandl named Kolderie "the most influential Minnesotan of recent decades." Calling Kolderie "an independent policy entrepreneur," Brandl said, "It is hard to find a major policy reform in the last third of a century in which Kolderie did not have a hand. He was one of the inventors of the Minnesota Miracle, and for two decades he has been working on the fiscal and education policies that are replacing it."

In the Nov. 26 *St. Paul Pioneer Press*, editorial page editor Ronald D. Clark picked up on Brandl's praise. "Were it not for Kolderie and others like him, who are challenged every day to find ways to improve the quality and value of public services, Minnesota would not enjoy the reputation it does nationally for public policy innovation."

Beyond the accolades for Kolderie, Brandl's chapter, "Policy and Politics in Minnesota," is well worth reading. He paints an engaging history of the state's parties, leaders, innovators and policies of the 20th century, as he develops four themes: (1) the two major political parties are no longer innovators or com-

promisers; (2) governors innovate; (3) many important ideas advanced by governors come from policy entrepreneurs outside government; and (4) policies that thrive in some systematic way orient individuals to accomplish the desired public purpose. For a copy, call Brandl's office at 612-625-0669.—*Dana Schroeder.*

**More than 1.5 million** Americans live in 17,300 nursing homes and nearly two million workers are employed in these nursing homes, according to the November *Update* of the Kennedy School of Government. The industry grossed \$87.5 billion dollars in 1996, with a projection of more than \$100 billion for 2000. That's \$58,333.33 per person per year in "The Home" in 1996 dollars.—*Lyle Wray.*

**Except possibly** for an east-side desire to get its share of transit dollars, too, it's been hard to make much sense of the idea for transit in the Shepard Road/West Seventh corridor, between the airport/Mall of America and Saint Paul downtown. A comment recently by a person who follows airport affairs may suggest an answer to the puzzle.

He thinks aircraft operations at Wold-Chamberlain field may be rising faster than projections by the Metropolitan Airports Commission (MAC) at the time of the decision in favor of expanding the current airport. If so, MAC could be looking for relief for its increasingly-crowded runways.

What's at the other end of that Shepard Road/West Seventh corridor? Downtown Saint Paul, of course—but also Saint Paul's downtown airport. A high-speed connection between that field and Wold-Chamberlain, even with buses in reserved right-of-way, could let the two fields operate as one; in

much the same way, the Intercampus Busway lets the University of Minnesota operate its Saint Paul and Minneapolis campuses to a significant degree as one.

High-capacity transit—rubber-tire or steel-wheel—is emerging in the region partly as an internal circulator (new "horizontal elevators" are under construction at Wold-Chamberlain to link the terminal with parking ramps, etc.), but largely as a connector. The light-rail line between the airport/Mall of America and downtown Minneapolis will serve as a connector for those two retail-convention-entertainment-hotel complexes. A transit "line" between eastern Bloomington and central Saint Paul would be a connector, too—potentially for the two airports.—*Ted Kolderie.*

**Three states**—Maine, Vermont and Arizona—just completed the first campaign cycle in which candidates had the option of full public financing. After collecting a qualifying number of small campaign contributions to demonstrate reasonable voter support, candidates can elect to receive enough public money to conduct a modest campaign. In return, they pledge to forego additional fund-raising for the duration of the campaign.

The results? According to the *New York Times*, 116 of the 352 candidates who ran for the Maine Legislature chose to accept full public financing and 54 percent of them won. Additionally, more women ran for office and the number of contested primaries increased 40 percent over previous elections.—*Kris Lyndon Wilson.*

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

The Minnesota Journal  
Citizens League  
708 S. Third Street, Suite 500  
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## Welcome New and returning members

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*This is an excellent time to donate gifts of appreciated assets, like stocks. Or to consider a gift membership to the League. Or to think about making a permanent gift to the League endowment fund. You can also transfer funds electronically at Dain Rauscher, #1101-5317-1984, DTC#235. For more information on gift options please call the League office.*

## CITIZENS LEAGUE

708 South 3rd St. Suite 500  
Minneapolis, MN 55415  
612-338-0791 Fax 612-337-5919  
[www.citizensleague.net](http://www.citizensleague.net)

*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 are \$50 for individuals and \$75 for families. Please call 612-338-0791 for more information.

## League's budget balanced, but remains flat

For the fourth year in a row the Citizens League has stayed within its means. Unfortunately, those means are not growing very much. In fact, the League budget has remained about the same for more than a decade.

The League ended fiscal year 2000 with an operating surplus of \$8,993. Operating revenue for the year was \$487,003, which was \$31,265 less than FY1999, but about \$1,000 over budget. Operating expenses for the year were \$478,011, a decrease of \$23,700 (5%) over last year.

The League's historical sources of core support—individual dues and contributions and corporate grants—declined slightly this year. General operating support from corporations was about the same as FY1999. On the

other hand revenue from special projects and contract studies easily exceeded the budget.

Sponsorship revenue for League events, endowment income, honoraria and earned income all contributed to the surplus. It's also worth noting that the League's endowment fund has more than doubled in the last two years and now stands at about \$266,000.

Overall, total net assets decreased, as expected, by \$24,447. The Operating Fund surplus increased unrestricted net assets, but restricted assets declined by \$33,439. The decrease was a result of spending down the funds from the Sloan Foundation which were dedicated to the League's performance measurement project (see the League's web site for more

information on this project). While the grant was received in FY1999, resulting in a growth of restricted assets, the expenses associated with the grant were recorded in FY2000.

The League's Board of Directors recently adopted a \$487,500 budget for FY2001. As in past years, this is a very conservative budget, based on the assumption that current revenue and spending patterns will continue. League President Matthew Ramadan says that while the League Board is not willing to commit to spending beyond last year's revenues, that does not mean that the League should be content with the current revenue levels. Ramadan believes the League should exceed those levels.

## Use your head: Make a year-end gift to the Citizens League

This is the time of the year that many nonprofits solicit contributions, and the Citizens League is no different. Copies of the League's annual report, along with contribution cards, are currently on their way to all League members.

This is also the time of year that the attorney general and other charitable watchdog organizations warn people to use their heads not just their hearts when making donations.

The Minnesota Charities Review Council suggests that charities spend no more than 30 percent of their budgets on administration and fundraising, leaving at least 70 percent for programs.

The Citizens League easily surpasses this threshold, spending only 8.8 percent on administration and fundraising. This means 91.2 cents of every dollar you donate to the League goes directly to programs.

At the League, we traditionally haven't spent a lot of money just to raise money. That's because League members have consistently demonstrated their support for the League's mission and programs by making an extra contribution at this time of year. With your ongoing support, we will continue to see that your contributions go directly to the programs that make this a better, more prosperous place to live.

## Three committees at full throttle

The Citizens League currently has three citizen-based study committees underway.

After nine meetings, numerous resource speakers and good discussion, the committee examining mental health and employment issues, co-chaired by Mike Christenson and Jan Smaby, is expected to conclude its work with approval of a final report on December 20.

Meanwhile, the children's mental health committee, co-chaired by Marcia Avner and Keith Halleland, has received an extension to continue its work into January. The committee will conclude the information gathering and resource testimony phase at its December 18 meeting, take a short break over the holidays and then return in January to prepare its report.

The reports of both committees will go to the Department of Human Services (DHS) and the Department of Health (MDH), for inclusion in their "Toward Better

Mental Health" strategic planning initiative.

A special breakfast meeting on January 17, featuring Dr. Mary Jane England, president of the Washington Business Group on Health, will conclude the League's work for DHS and MDH (see below).

Finally, the study committee on school completion rates, chaired by George Latimer and Gary Cunningham, continues to hear resource testimony. Recent meetings have addressed alternative schools, technical and career education, and other issues related to student engagement and motivation. The committee is scheduled to continue hearing resource testimony through December and January.

Individuals interested in following the progress of all three studies can find minutes of committee meetings and other informational links on the web at [www.citizensleague.net/studies](http://www.citizensleague.net/studies).

*Mark your calendars for a special event*

**Mary Jane England, M.D.**

President, Washington Business Group on Health

Wednesday, January 17, 2001

7:30—9:30 a.m.

University Club of St. Paul

420 Summit Avenue, St. Paul

*Details will be mailed right after the first of the year.*

### **League of Women Voters to sponsor annual Citizens In Action Conference**

Citizens League members are invited to attend the 2001 Citizens In Action Conference, sponsored by the League of Women Voters of Minnesota Education Fund, on Saturday, February 3 from 9:00 am to 1:00 pm. The conference is designed to help average citizens learn strategies and techniques for influencing the legislative process. Participants can attend either a two-hour beginner's workshop or any two individual sessions on grassroots organizing, working with legislators and staff, and the rules and regulations of lobbying. For more information, contact the League of Women Voters at 651-224-5445.

## High speed internet arrives at the League

As mentioned in last month's issue, a \$10,000 grant from the Best Buy Foundation and a new laptop donated by IBM have resulted in a major increase in the League's productivity. This month, we're happy to report that the League now has a dedicated high speed (128k) internet line. No more busy fax line, painfully slow dial up or inability to access data or graphic rich websites.

As a result of the new technology, we are now able to update our web page constantly and access more policy research and reports. League study committee members should notice the improvement immediately. For instance, committee minutes are available right away and we even have links to maps of meeting locations. Plus we've dramatically decreased our postage costs.

League President Matthew Ramadan has asked League Board members to make a special contribution to a "technology fund" for further enhancements, ongoing maintenance and training. So far, nearly \$2,000 has been added to the nice start provided by Best Buy.

We hope you'll do your part by contributing to the League year-end fund appeal.

## Notes from the League archives

This month's issue of the *Minnesota Journal*, contains an article about the League's 1988 report, "Cut Tax Exemptions, Boost Equity and Accountability" which dealt with tax exemptions for governments and non-profits. At the time the League Board authorized the study, it seemed to be the least controversial of the topics approved. The program slate adopted that fall included: 1) eligibility for tax exempt status; 2) early childhood development for at risk children; 3) school districts and changing demographics; and a controversial fourth study.

The discussions of both the Program Committee and the Board were dominated by a possible fourth study on the legal issues surrounding AIDS and the conflict between individual rights and public health interests. Some Board members objected to the topic because it seemed to wander away from the League's core emphasis areas. But the Board decided that the study would make the League more relevant by addressing what seemed to be a pressing issue of the day. In addition, the public was becoming alarmed by the problem, and it was thought that the League could add an important mainstream voice to the debate.

Today the tax exempt issue is back as part of the "Big Plan," the charter school legislation that came out of the school district study has spread throughout the country, and early childhood education has emerged as a key issue in later school performance. But interestingly, the topic that fueled the most discussion in 1987 is the one that remains a major health issue in many parts of the world, but has virtually dropped off the policy radar screen in Minnesota.