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Minnesota Journal

A publication of the Citizens League

Volume 10, Number 1
January 26, 1993

Inside This Issue

Hospital, HMO mergers raise competition issues

by Allan Baumgarten

First of two articles.

Mergers of hospitals and large health maintenance organizations (HMOs) in Minnesota have raised the question, "How big is too big?" in health-care delivery and financing.

Merger opponents argue that lack of competing choices makes it impossible for consumers to discipline the prices charged by hospitals or health plans. Advocates say creating strong entities ensures vigorous competition.

Both hospitals and HMOs offer the same reason for merging: the need to create larger entities to maintain market share. The mergers, they say, were driven by the demands of employers who insist on good access to providers in all parts of the Twin Cities area.

By the mid-1980's, most of the larger private hospitals in the Twin Cities area formed four hospital systems: Health One, Lifespan, HealthEast and Fairview. North Memorial remained independent, as did the Hennepin County, St. Paul-Ramsey and University of Minnesota hospitals.

Many hospitals lost money in the late 1980's, prompting Health One, Lifespan and Fairview to explore a variety of combinations. In January

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Charter school law needs strengthening this session

by Ember Reichgott

The goal of outcome-based charter school legislation approved by the Minnesota Legislature in 1991 was to create new opportunities for Minnesota students, teachers and parents by expanding the principles of public school choice. Charter schools were intended as a tool for innovative entrepreneurs to do the job differently in times of scarce resources and demanding public agendas.

Unexpectedly, the initiative also created a framework for national debate in education reform as a public school choice alternative to private school vouchers. So far 10 states either have or are considering charter school legislation. Start-up charter school funding passed the floor of the U.S. Senate in 1992. President Bill Clinton and his education secretary, Richard W. Riley, have publicly endorsed the concept.

A charter school is for those teachers who think they can do it better. With proposal in hand, these teachers and supportive parents apply to a local school board for a charter. The successful applicants must also obtain approval from the State Board of Education. The teachers will then operate their school with total control of budget, staffing, curriculum and teaching methods.

The charter schools are open to all and funding follows the student,

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State's care system leans toward large, expensive institutions

by Estelle Brouwer

As we all know by now, the 1993 Minnesota Legislature faces another in a series of serious budget shortfalls.

The Minnesota Department of Finance now projects that in the next two years, the state's health-care spending will increase by nearly 36 percent over the current biennium, with growth in Medical Assistance (Minnesota's Medicaid program) accounting for the lion's share of the increase. We spend a huge amount on Medical Assistance—approximately $890 million in state general fund dollars in fiscal 1992. Unfortunately, however, there simply is no easy way to reduce that spending by even a small percentage.

Medical Assistance is in reality many programs. It pays for hospital, physician and dental services for families and children who cannot afford to pay themselves, for nursing home and other forms of long-term care for the elderly, for institutional and community care for people with developmental disabilities or mental illness, for medical transportation, for prescription drugs and medical supplies, for physical, speech and occupational therapy, for hospice care and more.

A few categories of Medical Assistance spending stand out by virtue of their very large total cost. Nursing home care, for example, cost the Medical Assistance program nearly $675 million in state and federal dollars in 1992. Inpatient hospital services cost another $250 million. Group homes for people

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Building a strong economy requires coherent effort

Viewpoint

by Lyle Wray

The Citizens League's most recent comprehensive look at economic development was the 1984 report *Building on Strength: A Competitive Minnesota Economic Strategy*. Since that report was published, there has been a growing interest in economic development and improving our competitive position both in the state and the nation. The recent economic summit convened by President Bill Clinton brought before a large audience a number of ideas on strengthening the economic base of the United States.

While much needs to be done at the national level to put our economic house in order, much also can be done at the state and local level. A number of initiatives are underway or planned in the public and private sectors, but the efforts need greater coherence.

Three broad steps can help assure future progress.

First, take stock of where we are. Many current economic development programs cut across a variety of state and local agencies. What value are we getting for these expenditures? We should audit the effect of present economic development strategies. We need to look at a variety of levels: state, regional, and areas such as impacted neighborhoods. Where is the money being spent and what is being achieved? Assign the task to the Legislative Auditor.

At the same time, use a public and private partnership that draws in foundations with knowledge of other parts of the country to look at practical programs around the country and at new thinking on economic development. Analyze and synthesize recommendations from work as diverse as the League's 1984 report, the 1987 Governor's Commission on the Economic Future of Minnesota and the current Department of Trade and Economic Development *Blueprint*. Compile examples of what has worked in *youth transition* to work apprenticeships and technology transfer. See how these pieces could fit together into an overall flow of strategy.

Have the Department of Trade and Economic Development do a strategic audit by geographic region in the state to identify what businesses are growing and have the potential for creating more highly paid jobs for the future.

Second, build a statewide vision for economic development. How can we develop a coherent vision and stick with it long enough to make a difference?

Convene key opinion leaders—the governor, the Legislature, business and other groups—to build a comprehensive framework or vision as a starting point. Get a neutral, credible convener and do a good deal of preparatory thinking on the comparative advantages of Minnesota as an economic player. Pay special attention to human capital, demographics and various types of infrastructure needs.

Make an inclusion agenda a major part of this framework. Bringing less advantaged communities and people into the economic mainstream is a significant challenge. How can we appropriately address inclusion, neighborhood development issues and community development in the context of a global marketplace? *How might this get* done? The foundation community could convene and help support such a venture. Laying out a strategy—an economic development summit—in format, content and expected results is a considerable task. Government and nongovernmental organizations could help move the process along.

Third, line up priorities with the vision. A key challenge, once a vision has been adopted, is to align state spending, administrative priorities and major institutions—such as K-12 education, higher education and state and local infrastructure — with the vision.

Once a vision has been adopted, put strategy elements in place. Get executive and legislative leadership to use the vision and strategy elements like a checklist to develop an action plan for implementing the vision. Create a blue-ribbon Economic Future Commission to advise the Legislature on aligning policy and funding with the economic development goals.

Maintaining focus on a vision and strategy over time is difficult. Have the Economic Future Commission track priority actions relating to the vision and report annually to the Legislature on the strategy elements in an economic development strategy. Use the Minnesota Milestones process as one important part of a tracking effort.

The road ahead

We face significant challenges in developing and implementing an economic development strategic plan:

- Maintaining a systems perspective on how the many pieces of the puzzle fit together;
- Maintaining a long-term focus;
- Building and maintaining consensus and a sense of ownership among key constituencies;
- Setting priorities and developing a strategic approach;
- Making strategic investments that may go against the path of least resistance in policy-making;
- Involving and engaging the private sector.

But the stakes are high enough that we must find ways to meet these challenges head on.

Lyle Wray is executive director of the Citizens League.

State financial problem not 'disaster'

Edited excerpts of remarks by Bernard Brommer, president, Minnesota AFL-CIO, to the Citizens League on Dec. 8.

The current financial situation is not a whole lot different than the financial situation we've viewed in the past in the state of Minnesota. From the standpoint of organized labor, we're not looking at any kind of financial disaster. But it's a problem that needs to be addressed in a fair, deliberate and rational manner.

How can the problem be managed?

I think we're going to see some analysis of tax brackets by our policymakers both in Washington and St. Paul. The Minnesota AFL-CIO is on record supporting what has become known as "the four percent solution," where we talk about increasing individual income taxes for those folks in the higher income brackets.

Let me just quickly reaffirm some principles of the Minnesota AFL-CIO that are going to guide our involvement in this debate:

- We support progressive taxation.
- We oppose extending the sales tax to food and clothing.
- We oppose the shifting of commercial-industrial property taxes onto homeowners and renters.
- We oppose "no tax increase" policies.

The Minnesota Journal

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The Minnesota Journal (ISSN 0741-9449) is a publication of the Citizens League, a nonprofit nonpartisan Twin Cities public affairs organization, 708 S. Third St., Suite 50, Minneapolis, MN 55415, John Brandl, president. Articles and commentary are drawn from a broad range of perspectives and do not necessarily reflect League positions on policy questions. The Journal is published once a month. Second class postage paid at Minneapolis, MN.

Annual subscription rate for nonmembers is $40 for 12 issues. Orders may be placed at [illegible]/338-0791 or by mail at the above address.

Postmaster: Send address changes to The Minnesota Journal, 708 S. Third St., Suite 500, Minneapolis, MN 55415

Constitutional spending limit draws mixed reviews

On Balance

To limit? To freeze? State spending, perhaps, but not opinions...nor Kirby.

St. Cloud Times was dubious (Dec. 16) of Gov. Carlson's proposed constitutional amendment to limit the growth of state spending: "Elected officials on both the state and federal levels should exercise fiscal control on their own, not because of controls imposed by outside forces." **Bemidji Pioneer** agreed (Dec. 16), saying, "Such a proposal could actually create more severe budget situations than the state now experiences."

On the other hand, the Fergus Falls **Daily Journal** supported (Dec. 16) Carlson's proposals for the state spending measure and two other amendments that would create a unicameral legislature and limit terms of elected officials. **Duluth News-Tribune** also liked (Dec. 17) the thinking in Carlson's proposals and hoped that "state legislators act on them in the 1993 session." **St. Paul Pioneer Press** said (Dec. 17) that "the governor has correctly diagnosed some political ills that urgently require education. But he advises several shock treatments that would do the patient more harm than good."

Bemidji Pioneer said (Dec. 15) "So far we have not been convinced of the need of another four-year college (at Crookston) in the region when higher education cooperatives...seem to work more efficiently." It opposed the proposal to increase tuition and financial aid resources for post-secondary systems: "The best solution to ensure access to higher education in Minnesota is to set the lowest possible tuition." Similarly, the Fargo **Forum** called (Dec. 17) the tuition proposal "ridiculous" and "outrageous."

Star Tribune called on the governor (Dec. 14) and Legislature to learn the lessons of European countries and some Minnesota pilot programs and "figure out how a Minnesota-style apprenticeship program can spread to schools and businesses statewide."

Brainerd Daily Dispatch looked favorably (Dec. 29) on Gov. Carlson's trial balloon to freeze public employee pay for two years: "Public employees, just like workers at...other private enterprises should be subjected to the ups and downs of the economy." So did the **St. Cloud Daily Times**, commenting (Dec. 29) that "opposition arguments ignore the reality that budget shortfalls can't be fixed without pain."

Washington County **Bulletin** said (Dec. 16) a merger of the Newport and St. Paul Park police departments was a good idea. On the other hand, **Hibbing Daily Tribune** called (Dec. 15) the City Council's decision to contract with St. Louis County for assessment services, "precipitous," even though that measure was expected to save $78,000 to $164,000. **Rochester Post- Bulletin** commended (Dec. 1) Olmsted County officials for contracting out its recycling operation. **Mankato Free Press** criticized (Dec. 11) Blue Earth County's "snail's pace progress" in setting up curbside recycling programs. International Falls **Daily Journal** commended (January 12) three towns for joining forces to meet a new state mandate on employee safety.

St. Cloud Times said (January 4) that State Auditor Mark Dayton "deserves a lot of credit for not giving up in his efforts to fire" an employee found to have padded his expense account. **Red Wing Republican Eagle** criticized (January 4) Attorney General Hubert Humphrey III for a sting operation, which it said was "uncalled for and excessive."

St. Cloud Times said (Dec. 20) that fears expressed by some local providers about the University of Minnesota Hospital's proposal to buy a St. Cloud group practice are "not only premature, but overblown...Investments in outstate medical groups could yield more physicians who train and settle in communities outside the Twin Cites metropolitan area."

Republican Eagle said (Dec. 7) that, even though professional athletes are overpaid for their services, credit should be give to Kirby Puckett, who turned down lucrative offers and chose "a smaller contract, loyalty and higher quality of life in Minnesota." International Falls **Daily Journal** agreed (Dec. 7), noting that "Puckett has provided so many uplifting moments for us all, particularly those two World Series championships, that quibbling over a few million dollars might even seem mean-spirited."

Met Council taking stock of school building plans

by Ted Kolderie

Slowly the outlines of a big program of school-building in the Twin Cities area are beginning to appear—partly in the press, as districts move toward land acquisition and bond referenda, and partly as a result of a new interest by the Metropolitan Council in public education.

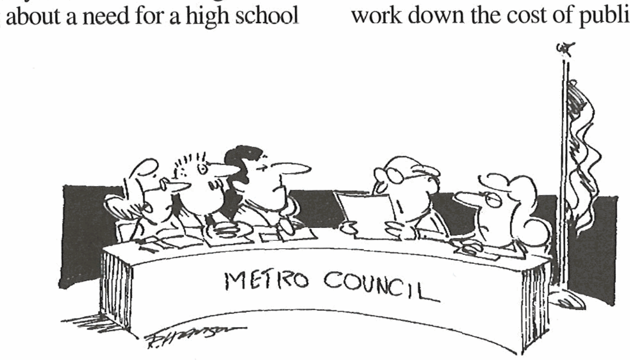
Nobody really has a clear fix yet on the overall scope of the capital program triggered by the recent upturn in enrollment. Districts show the Minnesota Department of Education their plans one at a time and usually only just before they go to referendum.

So far the Metropolitan Council has asked districts only, "What buildings have you got today?" In February it will begin asking, "What are you planning?"

The proposed building programs are substantial: $44 million in South Washington County, $38 million for Champlin Park High in Anoka-Hennepin, $75 million in North St. Paul, $47 million coming up for vote again in Osseo next month. Not much was heard in St. Paul about buildings until after November's vote on operating money. Then officials began talking about a need for a high school for as many as 3,000 students and a building program of $90 million or more.

A law the Council has never really used—never having been involved much in education—requires Council review of proposed school capital projects. Pressed now by Gov. Arne Carlson to find ways to work down the cost of public systems in the Twin Cities area, the Council may begin asking if there aren't perhaps less expensive ways to accommodate a short-term peak of student demand. A high school could be closed before the bonds are paid off. Getting an overall picture of what districts are planning will make that analysis possible.

If the districts say there are not many buildings available for schools of 2,000, the question will be, Arc 2,000-student schools a good idea? At a meeting of school officials to review the Council's initial "inventory," Robbinsdale Superintendent Linda Powell suggested rethinking that question. "Schools of that size work well," she said, "for maybe 20 per cent of the students."



...call it silly but what's really needed here is building schools with wheels!

Ted Kolderie is contributing editor of the Minnesota Journal.

Charter

Continued from page 1

just as in open enrollment. All charter schools are nonsectarian and nondiscriminatory in their admission and employment policies. No tuition may be charged. The school is exempted from nearly all state and local regulations, with certain exceptions, such as desegregation and special education. In return, the teachers must meet outcome-based performance standards agreed to in the charter.

It's simple. No results, no charter. Teachers trade regulation for results, bureaucracy for accountability. In short, a charter school is a new kind of public school that rewards innovation, empowers teachers and parents, and meets special student needs without turning our existing school system upside down.

The progress

It has been 18 months since eight charter schools were authorized by the Minnesota legislature. Last September, City Academy of St. Paul was the first charter school to begin operating. Five charter schools, representing a broad variety of constituencies, have been approved by local school boards and the State Board of Education:

- City Academy in St. Paul, chartered by the St. Paul School Board. The Academy serves 30-plus students who have dropped out of traditional and alternative educational programs. The experience is community-based, and classes are usually no more than five students.

- Metro Deaf School, chartered by the Forest Lake School Board. The school will serve deaf and hearing-impaired children, will offer all subjects in American Sign Language, and will probably operate in Minneapolis.

- Bluffview Montessori School in Winona, chartered by the Winona School Board. An existing private school, Bluffview was created by local parents years ago when the local district would not create a Montessori alternative. The new charter brings these students back to the public school system, and more importantly, ensures that the Montessori alternative will be available to *all* Winona children, *regardless of economic means.*

- Toivola-Meadowlands, a rural school chartered by the St. Louis County School Board. It will focus on environmental and agricultural themes.

- Skills for Tomorrow High School, a vocational school chartered by the Rockford School District for operation in Minneapolis. Proposed in part by the Minnesota Teamsters Service Bureau, the school will focus on training students to fill the shortage of technical skills in the workplace. It represents a unique partnership between labor, business and education.

"The road to change has been a rocky one."

While City Academy of St. Paul is the only school currently in operation, the others are expected to open by fall of 1993.

A number of other proposals are currently under discussion, including those in Stillwater, the Ortonville area, Minneapolis (focusing on the West Bank Development Group), and western Hennepin County. More charter proposals may also be among the applicants for the St. Paul-based Public Schools Incentives (PSI) project, which recently received a multi-million dollar grant from the New American Schools Development Corporation. Proposals are due January 22 for 10 pilot sites PSI hopes to establish in Minnesota and elsewhere by 1993-94. PSI will focus on charter, contract and other alternative school structure proposals.

The problem

While there have been successes, the road to change has been a rocky one. Some excellent proposals just have not made it. They have been rejected by school boards reluctant to take risks and give up control. As one charter applicant described the process, "we are truly on the *bleeding edge* of change."

Proposals in Northfield, Emily, St. Cloud and Rochester, to name a few, have met resistance from school board members, teachers' unions, and superintendents concerned about protecting the traditional budget bottom line. The painful process has caused more than one applicant—including an award-winning teacher from Princeton—to throw in the towel in frustration.

Two key changes must occur this legislative session for charter schools to move ahead in Minnesota. We must increase the number of schools authorized, and we must provide chartering authority to the State Board of Education *independent of* local school boards. Indeed, the original bill introduced in the Legislature and passed three different years in the Senate allowed *either* body to sponsor charters; there was no cap on the number of schools authorized. The restrictions came about as hurried compromises in conference committee, which were viewed as necessary to pass the legislation, given strong opposition by educational groups.

The proposal

The time has come to return to the original intent of the charter school law. Legislation will be introduced this session to increase the number of schools authorized, and to allow the state board to serve as an independent chartering body.

With the maximum eight charter schools now either approved or possibly "in the pipeline," opponents suggest we "wait and see" before authorizing more. However, that would be a disservice to the many groups around the state who have worked on quality proposals, but who didn't win the "race to the State Board," or who had to struggle over time to receive local board approval.

More importantly, if no further schools are authorized, the creative pipeline stops. These proposals take months and even years to develop. Do we really want to wait another legislative session to authorize more schools at the risk of great disincentive to the already ongoing creative process? And what about the charter proposals soon to be submitted for the New American Schools (PSI) project, a nationally funded opportunity for innovation?

Eight schools are too few to adequately serve all geographic areas of our state and all children of diverse need. Of the five charters approved, all have a different focus. How many other constituencies are out there? Need there be onl[illegible] school in a focus area?

In September 1992, California's Charter School Act was signed into law, authorizing 100 public charter schools like those in Minnesota. Hopefully, the Legislature will see fit to expand Minnesota's limited number of eight schools to at least ensure that the creative pipeline continues.

The California law also contains an appeals process for petitions that are rejected by local school boards—an option lacking in Minnesota. The appeals process enables a county board of education to grant a charter if a local school board twice rejects it. Though the original Minnesota legislation authorizing the state board and local school board as independent sponsors allows more flexibility, an appeals process may also give some excellent proposals a second chance.

Without the option of an inde[illegible]dent sponsor or an appeal, local school boards have veto power over charter proposals, with little incentive to approve them. So far, unfortunately, a number of school boards have focused on charter schools' "diversion" of public school dollars from the bureaucracy, rather than the fact that any "diversion" of dollars will follow the very students they were intended to educate. After all, if a student's needs are being met a little differently, with a little more success, isn't that the best reallocation possible for those dollars?

The discussion about charter schools is only beginning. Without legislative changes outlined above, we risk ending the debate started in Minnesota before it has hardly begun.

Ember Reichgott (DFL-New Hope), Minnesota Senate majority whip, is serving her 11th year on the Senate Education Committe[illegible] In 1991 she sponsored charte[illegible] school legislation with Rep. Becky Kelso (DFL-Shakopee).

Medicaid

Continued from page 1

with developmental disabilities cost $147 million. The state's eight r[illegible]al treatment centers (formerly [illegible] state hospitals) cost $121 million. The state general fund portion of these Medical Assistance costs is about 47 percent.

One example of the difficult choices facing Minnesota lawmakers is how best to provide residential and community services for people with developmental disabilities or mental illness.

Despite the deinstitutionalization movement of the last decade, compared to other states, Minnesota has a high rate of institutionalization of both its developmentally disabled and mentally ill populations.

In 1990, Minnesota ranked second nationally—after Louisiana—in the number of residents per 100,000 living in intermediate care facilities, or group homes, for the mentally retarded; Minnesota had 129 compared to a national average of 58.

M[illegible]esota also ranked third nation-a[illegible] 1990 on expenditures per state resident on intermediate care facilities for the mentally retarded—$53.12 compared to a national average of $29.92. (These particular statistics include the regional treatment centers.)

A recent assessment of states' service systems for people with mental illness said this about Minnesota: "[The state has a] heavily institutional system, a basic orientation that must change if the state is to move forward."

While people with developmental disabilities and people with mental illness have unique care and treatment needs, it is important to note what they have in common in Minnesota—that their needs are more often addressed in institutional settings here than in many other states. The largest, most expensive institutions providing care for these two populations are the state's eight regional treatment centers, or RTCs.

In 1990, the average daily population of people with mental illness or developmental disabilities at Minnesota's RTCs was 2,691 (1,312 with mental illness and 1,379 with developmental disabilities). The daily rate in 1990 for a mentally ill, Medicaid-eligible resident of a RTC ranged from $273 at Willmar to $401 at Fergus Falls—or from $99,645 to $146,365 annually. The average daily cost of residential, medical care and day services for a RTC resident with a developmental disability was $227, or approximately $83,000 per year.

Community care, on the other hand, is generally much less expensive. (See the accompanying tables for comparisons.) For example, in 1991, the average cost of services for a person with mental illness living in supported housing was $31,000 per year. In 1990, the average cost of community services for a person with a developmental disability ranged from $19,000 per year for semi- independent living services to $71,200 for "enhanced waiver" services—a special funding category created for former RTC residents with developmental disabilities who require intensive services in the community.

It would not be accurate to say that every client could be served less expensively in the community. It is interesting, however, to note that even enhanced waiver services—designed for people needing intensive community services—on average cost less than RTCs, state-operated community services, and new intermediate care facilities for the mentally retarded.

COST OF COMMUNITY VS. INSTITUTIONAL SERVICES FOR PEOPLE WITH DEVELOPMENTAL DISABILITIES, 1990

Service	Cost Per Client Daily	Annual
State-operated community facilities	$236	$86,100
Regional treatment centers	227	82,900
New ICFs-MR*	205	74,800
Enhanced waiver services	195	71,200
Existing ICFs-MR*	112	40,900
[illegible]e and community-based services waiver program	80	29,200
Semi-independent living services	53	19,300

*ICFs-MR are Intermediate Care Facilities for the Mentally Retarded, or private group homes.

SOURCES: Minnesota Department of Administration, Management Analysis Division; Center on Residential Services and Community Living, University of Minnesota

COST OF COMMUNITY VS. INSTITUTIONAL SERVICES FOR PEOPLE WITH MENTAL ILLNESS, 1991

Service	Cost Per Client Daily	Annual
Regional treatment centers	$273-$401	$99,600-$146,400
Small community facility*	106	38,700
Supported housing	82	29,900
Larger community facility*	85	31,000

*A small facility has 16 or fewer beds; a larger facility has more than 16 beds.

SOURCE: Minnesota Department of Human Services Mental Health Division

Minnesota has made some progress over the past decade in moving RTC residents into the community. From 1980 to 1991, the RTCs' developmentally disabled population dropped from 2,688 to 1,268 and is expected to drop to 901 by fiscal 1993. This represents a 66 percent reduction over 13 years. On the other hand, the RTCs' mentally ill population is expected over the same period to drop only 15 percent—from 1,524 in 1980 to 1,289 in 1993. The RTCs housed 1,301 residents with mental illness in 1991.

The state's relative success at moving RTC residents with developmental disabilities into the community and its relative failure at achieving the same goal for residents with mental illness is in part a reflection of the unique care needs of the two populations. But it is also a reflection of the legislative successes and failures of advocacy groups representing the two groups, of biases and fears related to mental illness that are still widely held in our society, and of the fact that adequate community services for people with mental illness do not yet exist in Minnesota.

All of Minnesota's RTCs have been downsized in recent years, but none has been closed in a decade. (Rochester State Hospital was closed in 1982.) As RTC resident populations have dropped, per resident costs have increased because fixed costs have remained constant and staffing ratios have increased. According to Department of Human Services data, the RTCs in 1991 employed 4,952 FTE to care for 2,773 residents (1.79 FTE per resident). In 1980, they employed 5,153 FTE to care for 4,392 residents. (1.17 FTE per resident.)

This increase in staffing is at least in part the result of a court order. In 1980, the Welsch Consent Decree required Minnesota to reduce the number of persons with mental retardation in RTCs to improve conditions and increase staff-to- resident ratios.

As RTC resident numbers continue to decline, it becomes increasingly important for the state to determine the line beyond which it is no longer efficient to continue to operate all eight RTCs. The data indicate that we have already crossed that line. In fact, a preliminary analysis indicates that, when space alone is considered, the four largest RTCs— Willmar, Moose Lake, St. Peter and Faribault—could easily accommodate the residents of all the existing RTCs.

Closing regional treatment centers, gradually or all at once, will be a painful process. If community placements are in short supply, some residents might be moved to locations far away from their families. Some state employees will probably lose their jobs; others might be re-employed at lower pay. Unless economic development efforts are simultaneously undertaken, the RTCs' home communities will suffer economic distress.

But with careful planning and adequate resources devoted to building up the community services system, all of these negative side-effects can be minimized or avoided. And the pay-off will be a system that is less institutionally biased, more cost-effective and, most importantly, more focused on meeting the needs of individual clients.

Estelle Brouwer, a research fellow with the University of Minnesota's Humphrey Institute of Public Affairs and the Minnesota Extension Service, recently completed a study of Minnesota's Medical Assistance program for the Minnesota Business Partnership. For a copy of the report, call 625-8575.

'Touch brakes lightly' now to slow spending growth

Edited excerpts from remarks by Roger Hale, president and CEO, Tennant Corp., to the Citizens League on Dec. 15.

We do not have a revenue gathering problem in the state of Minnesota. We are one of the highest revenue gatherers per capita by any measure in the U.S. We do have a spending problem in the state of Minnesota, which is both immediate and structural.

Everyone here is very familiar with the dysfunctional nature of our fiscal process in Minnesota, whereby 43 percent of the revenues are collected at the local level, but 75 percent of the spending is done at the local level, thus reducing accountability and greatly encouraging and driving spending.

Everyone here is quite familiar with the exceptionally complex nature of some of our tax and local government aid formulas. The ancient mandarins in China designed a written language that was so difficult only they could understand it. Thus they could retain a great deal of power for themselves. They would be very appreciative of some of our formulas here in Minnesota.

We have a challenge in Minnesota. In 1981 there were 364,000 manufacturing jobs in the state of Minnesota. In 1991 there were 396,000 manufacturing jobs in the state of Minnesota. That is less than a one percent compound growth rate during a 10-year period.

There has been employment growth in the state of Minnesota during the past few years, but not as much as in the states that surround us. The states surrounding us during the past three years have had employment growth of 6.1 percent. In Minnesota our employment growth has been only 5.1 percent during that same period of time. As Tony Carideo recently pointed out in the *Star Tribune*, much of our employment growth has been in service and the government sectors.

> *"We are all trying to make choices and tradeoffs."*

During the past three years, two percent of new jobs created in Minnesota were in manufacturing. During that same period of time, 24 percent of new jobs created in Minnesota were in government. We have a big machining operation in Maple Grove and those piece parts are trucked 20 minutes to our assembly plants in Golden Valley. The people who work on those machines are now earning an average of $15 an hour, $30,000 a year. And they have a benefit package that amounts to an average of 27 percent. So that's about $38,000 a year that those people are earning. Those are very good jobs and we don't want those jobs to leave Minnesota.

When 3M made the announcement they were moving their central research function to Austin, Texas, some years ago, that was a devastating blow to the economy in Minnesota, because those are terrific jobs.

In Minnesota we have the sixth highest overall per capita tax rate in the country. We are the 18th in the country in per capita income. We rank 46th out of 50 states in the after-tax disposable income in this state. That is not something to be proud of.

At our company today we are struggling with our 1993 plan. We are having to make trade-offs. Should we add to our service mechanic force in Australia? Putting on three more engineers than we'd planned at this time will accelerate new product development. Is the time right to create a sales office in eastern Europe? Can we afford laptop computers and car phones for our 300 sales and service reps in North America? How are we going to maintain our extensive training programs when other administrative costs, like health care, are going through the roof?

All of these are very real issues. We are all trying to make choices and tradeoffs. They're difficult and complex, just as they are in government.

When we discipline ourselves at our company to evaluate the outcomes and not just the inputs, we stand on firmer ground. How much revenue will we get for the proposed service rep expansion in Australia? How will they weigh out against other projects we have? What is the overall context for that? How does this fit with our total strategy at Tennant, not only this year, but as we go forward in the next two, three, four, five years?

When driving in difficult driving conditions, I feel it's much better to touch the brakes early and lightly than to slam them on later on.

There are two ways to solve a fiscal shortfall. One is to reduce spending. The other is to raise taxes. At this time, taxes are very high in Minnesota. Raising taxes simply drives productive people and productive businesses out of the state, which will exacerbate the problem. Once that decline picks up speed, it will be extraordinarily hard to reverse.

The other solution is to reduce the growth of spending. Minnesota's spending has been growing far faster than inflation for many years. The 1994-95 projections call for spending growth of 16 percent and revenue growth of 11 percent. That revenue growth of 11 percent is considerably more than the projected inflation rate of six to seven percent.

There is probably still time to touch the brakes lightly, and we urge the state to do that before we have to slam them on in the next biennium.

Merger

Continued from page 1

1992, Health One and Lifespan agreed to merge. Neither Minneapolis Children's Medical Center nor Methodist Hospital (both part of the Lifespan group) was included in the merger plans. In 1992, Methodist and Park Nicollet Medical Center agreed to form a parent company to operate the two units, contracting directly with self-funded employers.

Attorney General Hubert Humphrey III objected to the hospital merger and filed suit in federal court to block it as a violation of federal antitrust laws. Humphrey, like attorneys general in several other states, began actively pursuing antitrust investigations of health-care providers in the mid-1980's.

Since 1986, Humphrey's office has investigated possible antitrust violations in cities such as Mankato, St. Cloud, Alexandria and Brainerd. In each case, Humphrey accused providers of illegally blocking the entry of HMOs or other plans into their areas. An investigation of providers in Duluth is now underway.

As a large employer, the state had a direct interest in those cases. The state's contribution to employee health plan premiums is tied to the lowest-cost plan in each county. If, as alleged, providers had blocked entry by lower-cost HMOs in those cities, the cost to the state would be substantial.

Each of the cases to date has been settled out of court. The providers did not admit any violations but agreed to cease certain practices, dissolve organizations created to negotiate with HMOs and provide some free medical care.

The dispute in the Lifespan/Health One hospital merger turned on conflicting views of what the markets were, defined two ways: *geographic* markets and *product* markets. The sides also disagreed on which statistical index best measured the extent of market concentration.

The hospitals argued that the market for hospital services is an 11-county area from western Wisconsin into central Minnesota. In their view, virtually all hospitals in the area, including community hospitals in cities like Baldwin and Waconia, were in one market, competing for patients. If prices at

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Merger

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the merged hospitals were too high, buyers of health care could turn to the community hospitals as reasonable substitutes. By that view of the market, the concentration created by the merger would not be too high.

The Attorney General argued for a much narrower definition of the market, limited to general, acute inpatient hospital care for people living in Hennepin, Ramsey, southern Anoka and northern Dakota counties. The community hospitals, because of their location and limited services, were not reasonable substitutes. And, while the Attorney General excluded the specialized pediatric hospitals from his definition of the product market, the hospitals argued that those specialized hospitals should be included, since pediatric admissions are an important part of the general hospitals' business.

Bryan Dowd and Roger Feldman, faculty members at the University of Minnesota's Institute for Health Services Research, opposed the hospital and HMO mergers and advised Humphrey's office. By their calculation, the merged hospitals would control 28.3 percent of the hospital admissions in the market. Concentration in the market would increase substantially, resulting in some combination of price increases, output reductions and service deterioration. The merger would reduce the need for hospitals to hold their prices down and pass savings to consumers.

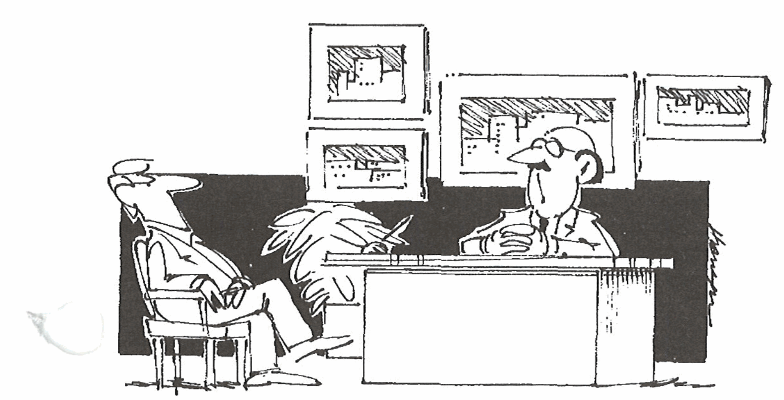
In August 1992, Humphrey and the hospitals reached a settlement. The merger would go through, but would be reviewed by the Commissioner of Health when new antitrust exemption review rules (discussed below) are adopted.

Under the settlement, the merged group (called HealthSpan) commits to reducing net revenues from inpatient care by $12 million in 1994—that is, less than two percent of the base revenues of the combined hospitals. Chief Executive Officer Gordon Sprenger expects savings to result in several ways. First, the new corporation will save by combining functions such as human resources, information system or laboratories. In addition, the hospitals will reduce major equipment purchases and will centralize certain practices, such as opthamology, at one site.

HMO merger

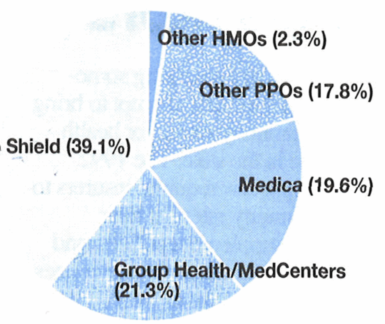
Like the hospitals merger, the recent merger of Group Health and MedCenters was pushed by the marketplace. According to George Halverson, head of the new parent company, Medica and Blue Cross and Blue Shield of Minnesota were aggressively marketing "replacement" health insurance plans, insisting that employers offer only their plan and not offer a choice of HMOs or other plans. Group Health had already lost large employee groups, such as the Hopkins School District and the City of St. Paul, which had accepted proposals for replacement coverage.

Because neither MedCenters nor Group Health was seen as having a strong network throughout the metro area, each needed partners. They first joined together to bid successfully for the contract with the Business HealthCare Action Group, a buying coalition of large self-funded firms. Enrollment in that plan began this month.



...*probably the only thing bigger than our hospital merger is your HMO merger.*

MARKET SHARE FOR MANAGED CARE COMPANIES



Source: Citezens League, *Minnesota Managed Care Review 1992*

The U.S. Department of Justice studied the merger, but eventually announced it had no objections. Humphrey's office also studied the issue, but raised no objections. Deputy Attorney General Thomas Purcell, who oversees Humphrey's antitrust attorneys, said the office had concerns about the merger and concentration in HMO enrollment. However, challenges to HMO mergers in other states have failed, with courts holding that there is no separate HMO or managed-care market; the market is all modes of health financing, including indemnity coverage and self-funding. Dowd and Feldman argue here as well that reducing the number of competing health plans is likely to increase the prices paid for coverage.

The latest merger, a year after the merger of two other HMOs—Physicians Health Plan and Share—resulted in three large players in Minnesota's health plan market. The accompanying chart shows the market share for managed health-care plans, based on enrollment at the end of 1991. The three largest companies, Blue Cross and Blue Shield of Minnesota, Group Health/MedCenters and Medica, and their affiliates, account for 80 percent of the 2.7 million Minnesotans enrolled in managed-care plans.

The two HMOs officially merged last fall and have begun the long process of merging their networks, products, staffs and corporate cultures. According to Halverson, employers in the market have approved of the merger. Group Health/MedCenters recently won the St. Paul School District employees group, beating out Medica.

The 1992 HealthRight law creates a new approach to issues of competition and collaboration. Legislators were concerned by competition that leads to "too many" hospitals purchasing high- technology equipment or opening specialized treatment programs.

One way HealthRight seeks to contain costs and expand access to health care is to promote cooperation by providers and health plans. Since some arrangements would be prohibited by state or federal antitrust laws, the Legislature directed the Commissioner of Health to review such arrangements and determine if they should be immune from antitrust prosecution. The law directs the commissioner "to substitute regulation for competition when an arrangement is likely to result in lower costs, or greater access or quality, than would otherwise occur in the competitive marketplace."

Rep. Lee Greenfield, one of the chief negotiators of the HealthRight bill, said the antitrust exemption is one of several cost containment tools created in the bill. Regional advisory groups will develop a community consensus on how to best locate new equipment or buildings. When the regional boards determine that collaboration by providers is in the public interest, they will recommend that the commissioner approve the arrangement.

Purcell takes a narrower view of the intent of the law. The ultimate test, in his view, is not whether the proposed arrangement is convenient for providers or saves them money. Instead, the issue is, Does the proposed arrangement save money for the buyers of care?

Mergers on both the health plan and provider side have transformed the Twin Cities market. An article in next month's *Journal* will describe cost-containment proposals that would further change the health-care marketplace.

Allan Baumgarten is associate director of the Citizens League.

Legislators retreat from insurance community rating

Legislators are retreating somewhat from their first attempt to bring back community rating for health insurance in the state. The 1992 HealthRight law required insurers to use community rates for their Medicare supplement policies and to apply those rates to new enrollees and policies already in force. Younger seniors would have been hit with premium increases of 30 to 50 percent, while the oldest seniors would have seen corresponding decreases. The Legislature is quickly enacting a bill to cushion the impact of those increases.

Some insurers are dropping out of the Medicare supplement market in Minnesota. They apparently decided the shift to community rating and the need to comply with separate state and federal regulations was not worth the business. State Commerce Department officials expect the number of insurers to drop from 33 to 12 in the next few years.

At the same time, some new options are emerging. For the past three years, Blue Cross and Blue Shield has been selling a supplement policy that is tied to its preferred provider arrangement (PPO) network. MedCenters Health Plan is awaiting approval from state regulators to sell a PPO/Medicare supplement policy.—*Allan Baumgarten.*

A bus rider in St. Paul, Lisa Lee, has been trying to convey to editors and others her sense of the implications light-rail transit will have for the bus service on which low-income neighborhoods and individuals depend.

Her concern was reinforced the other day by the comment of a Washington consultant who studies transit systems around the country. "Show me a city with light rail," he said, "and I'll show you a bus system that's starving."—*Ted Kolderie.*

Minnesota's reputation as a high-tax state may be only partly accurate, according to a study published in the Fall 1992 issue of *Spectrum: The Journal of State Government*. Economist Stephen E. Lile compared the 1990 tax burden faced by a hypothetical family living in the largest city of each of the 48 contiguous states and looked at how the tax bill varied with family income. His findings suggest that Minnesota's high-tax reputation is borne out only at higher income levels.

Take Note

"Laws are sand, customs are rock."—M. Twain

For households with annual gross income of $15,000, just over five percent of income was spent on state and local government services, placing the state 42nd in the country. However, the tax bite increased steadily, and Minnesota's ranking climbed, as household income increased. For families with incomes over $90,000, the tax bill was 9.7 percent of income, placing Minnesota ninth in the nation.

Minnesota's tax structure was one of the most progressive, Lile found. In South Dakota, by contrast, the tax burden faced by low- income families was the seventh highest nationally. High-income households paid only 3.7 percent of their income in state and local taxes, placing South Dakota 40th in the rankings.—*Janet Dudrow.*

Appointment of Susan Albright as editorial page editor for the *Star Tribune* gives graduates of Kent State University a monopoly on daily newspaper editorial page editorships in the Twin Cities. Ronald D. Clark, editorial page editor of the St. Paul Pioneer Press, is also a Kent Stater.

Clark, 49, and Albright, 44, did not meet at Kent State but, said Clark, have since met at editorial-writing conferences. Albright, editorial page editor of the *Arizona Daily Star*, Tucson, will join the *Star Tribune* Feb. 1. She succeeds Robert J. White, who resigned as editorial page editor but will continue to write a column for the newspaper. Albright also holds a master's degree from Syracuse University. Kent State University? It's in Kent, Ohio, a few miles east and a little north of Akron.— *Stephen Alnes*

Local interest in apprenticeship programs was stimulated when a group of Minnesotans went to Germany and Denmark in November to study youth apprenticeship programs. One member of the group, Urban Coalition President Yusef Mgeni, told a Citizens League committee that over 400 occupations in Germany and 230 in Denmark require both school and work-based training.

Students are trained at work sites and also study English, history and math. Teachers are retained based on their performance, which gives them a powerful incentive to see that their students succeed. Students are tested individually and in team exams at the work place. At one factory, the team exam was to set up an operating Coca-Cola bottling machine.

Back home, Minnesota Technology, Inc., has provided technical assistance to create apprenticeship projects in printing, metal and electric with small and large firms in the state.—*Marilou Fallis.*

Newly retired from the Minnesota Legislature, former Senate President Jerry Hughes is continuing to tackle education issues as president of the new Minnesota Education Foundation. The foundation hopes to bring together government, corporate and education leaders to develop a consensus on the direction of education policy. Founding board members are Hughes, former Governor Elmer Andersen, Minneapolis Mayor Don Fraser, former University of Minnesota Board of Regents Chair Wenda Moore, and former Minnesota Supreme Court Chief Justice Peter Popovich.

The foundation's focus this year will be an Institute on Education Finance, to be presented in three seminars in March, September, and November. The seminars will background leaders on education finance issues, with the goal of developing a consensus document for action.—*Dana Schroeder.*

Looking back on how your investments performed in 1992, you might wish you had bought a portfolio of stocks of companies operating health maintenance organizations (HMOs) across the country. Hindsight is always 20/20, but consider this. During 1992, 21 HMO stocks increased in price by 70.9 percent. Minnesota-based United HealthCare went up by 52.7 percent.

By comparison, the NASDAQ composite index increased by 15.5 percent last year, and the Standard & Poors index of 500 stocks went up by 4.5 percent.—*A.B.*

People in Colorado interested in charter schools met recently to design a bill for their '93 session. The lobbyist for the school boards association expressed some cautions.

"We have to be sure they're q[illegible] schools," he said. "*Existing schools, too?*" came a voice from the back of the room. "There'll have to be a way to close them down if they don't work," he said. *"Existing schools, too?"* came the chorus.

It went on and on. It made a fair point—relevant to the discussion in Minnesota, too.—*T.K.*

Contributors to "Take Note" this month include Minnesota Journal *and Citizens League staff members and Stephen Alnes, former editor of the* Journal.

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SECOND CLASS
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Citizens League Matters

January 26, 1993 | *News for Citizens League Members*

Welcome new members

David T. Anderson, Dale Carrison, Bruce Carlson, Paul Ciernia, Walter E. Cooney, Lynn Dacey, Robert J. Dayton, Margaret Donohue, Harriet Duerre, Rich Duerre and Jeanne Duffy.

Melvina Fairbanks, David Fey, Brian Field, Lucy Heegaard, Stephen D. Hinze, Patrick Hirigoyen, Ruth Hopperstad, Susan Klaseus, Andrew Kozak, Molly Koivumaki, Paul D. Kralovec and Leslie Kraus.

_.uce McBeath, Rosemary McGlynn, Darcia F. Narvaez, Tom O'Connell, Cordelia Pierson, Cynthia Schaedig, Tim Slade, Dale Stofer, Dana M. Wells and James Ysseldyke.

Thanks to solicitors: Ed McGlynn and Jeff Heegaard.

January firm renewals

We thank these Minnesota companies for reaffirming their support for the Citizens League:

Paragon Cable, Villaume Industries, MTI Distributing, Flour City Brush Company, M.A. Gedney Co., Maple Island, Inc., Charles B. Sweatt Foundation, H.B. Fuller, Messerli & Kramer, Capitol Hill Associates, Inc., ollins Buckley Sauntry & Haugh and Jim Newland Engineering and Management Consultants.

Region's future, governance on League agenda

New Mind-Opener series asks: Where's the vision?

Representative **Myron Orfield** and new Metropolitan Council chair **Dottie Rietow** will be among the speakers in a new Mind-Opener series on the future of the Twin Cities metropolitan area. The series, beginning Tuesday, February 9, will analyze the problems facing the region and the tools that can be used to solve those problems.

How can we break the cycle of urban decline?

Speakers in the series will address the spread of social instability and poverty in the region. Does the region have the right tools and governance structure to meet the challenge?

Orfield, now in his second term in the House of Representatives, has been writing and speaking about the implications of major demographic shifts in the region. He'll open the series February 9.

Rietow, formerly a Council member and Director of the Office of Waste Management, was recently appointed Council chair by Governor Arne Carlson. She'll speak on Tuesday, February 23. Speakers for the other sessions will be announced in a flyer.

The new Mind-Opener series will be held at the University Club, 420 Summit Avenue in St. Paul. Attendance at one meeting this year set a new record. More than 100 people came in November to hear Senator Gene Merriam address the state's fiscal problems.

Even when eight inches of snow fell in mid-January, 60 people turned out to hear **Bryan Dowd** and **Roger Feldman** talk about health care cost containment and competition.

Tom Swain, chair of the Minnesota Health Care Commission, will wrap up the series on cost containment on Tuesday, February 2. Call 338-0791 to reserve.

Johnstone to chair governance review

Minnesota legislators are expected to consider several bills in 1993 that would address the organization, powers and responsibilities of the Metropolitan Council.

Wendy McDowall and **David Rodbourne**, Program/Strategy Committee co-chairs, have asked **Bill Johnstone** to chair an ad hoc subcommittee to review and update the League's positions on these issues. Questions about whether the Council should be elected and what issues should be on its agenda are likely to be considered. Watch the *Matters* for details.

New round of Speak Ups! in February

The League is sponsoring a second round of Speak Ups! in conjunction with the State Spending Committee, co-chaired by George Latimer and Jean King. At the first Speak Ups! in November, nearly 100 League members discussed the scope of the state's budget problem and learned about the major forces driving spending increases.

In February, League members will review the committee's preliminary recommendations and discuss the impact of those recommendations on the major state spending areas: education, health care and local government aid.

Speak Up! meetings will be held the last two weeks of February. Once again League members will host the meetings in their homes (which will be determined based on participant sign-ups) around the region. Please watch your mail for an invitation.

The League is also co-sponsoring Speak Ups! with groups that work in minority communities. Meetings are scheduled with the Council of Asian-Pacific Minnesotans (February 3) and the Urban Coalition (January 28).

A Speak Up! planning session will be held soon with the Indian Affairs Council. We have also intitiated discussions with the Council on Black Minnesotans, the Spanish Speaking Affairs Council and C.L.U.E.S.

Members respond generously to year-end appeal

Other development initiatives underway

In the past month, 125 members made year-end contributions to the League totaling nearly $12,000. Contributions matched last year's total and marked the fourth time in two years that members contributed $12,000 during the League's semi-annual fund drives.

Financial patterns stable

The League's financial condition remains guarded. December 31 marked the end of the first four months of the League's 1993 fiscal year (which ends August 31). Because of the pattern of contributions from the largest corporate members, the League raises less than 25 percent of its annual budget during this first third of the fiscal year.

Expenses run steady throughout the year, creating an average cash shortfall during the first four months of the year of about eight percent, or about $40,000 for an annual budget of $500,000.

This year has been no different than the usual pattern. Revenue is slightly ahead of the projection, and spending is average. However, accumulated deficits over the past two years have depleted the League's reserves, and the League is operating right at the margin.

The League must, at a minimum, balance its budget this year. Vice-president **Kent Eklund** is leading an aggressive development effort to sustain the League's new direction and to provide an appropriate cash reserve.

Foundation proposal is key

The League has recently submitted a grant request to the McKnight Foundation for $175,000. The proposal is based on the assumption that vigorous citizen participation is essential to maintain a healthy democratic society.

The League's new strategic direction is focused on finding new and more effective ways of carrying out the League's mission of involving citizens in studying issues and developing innovative policy solutions.

Specifically, the League has asked the McKnight Foundation for funding to help launch and sustain this new strategic direction. In addition, the League has requested the McKnight Foundation's assistance to expand the League's individual base of support through a matching grant program.

This proposal is a major part of the League's development plan. The McKnight Foundation's decision on the proposal is expected in early March.

Had any good study ideas lately?

As the Program/Strategy Committee begins to set the League's new research agenda, co-chairs Wendy McDowall and David Rodbourne would like to hear members' ideas for new League studies. Jot down a few notes on possible research issues, the resources available to address those issues and the possible impact of a League study.

Call the co-chairs with your thoughts, or send your notes to Allan Baumgarten at the League office. Fax your ideas to us at 337-5919..

CITIZENS LEAGUE

A community resource

For more than 40 years, the Citizens League has helped shape the unique character of this metropolitan region. Here are just a few examples of how the League contributes to improving the public life of this region.

Citizens League on the air

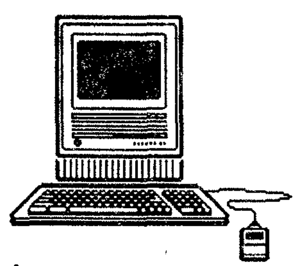
Regional cable TV channel 6 will broadcast tapes of meetings sponsored by the Citizens League. In February, Channel 6 expects to show last fall's Mind-Opener series on work force training and economic competitiveness. It will also show tapes of the Citizens League/Hamline University conference on initiatives in design and structure of local government services.

Watch for details on broadcast dates and times.

Citizens League On-Line

A few months ago, the League launched Citizens League On-Line, an electronic public affairs bulletin board. It uses common technology to help people connect with the Citizens League and with public policy debate.

Use of the new service has grown steadily, and League staff are uploading new materials and striving to make the service more useful. To help improve the bulletin board, let us know what you think.



Tell us if you are using the service, what you like about it and what you would like to see added. Are you having any problems. To comment or to learn how to use the service, contact Marilou Fallis at the League.

Presentations and legislative testimony

League volunteers and staff are frequently called on to present the League's perspective. In just the past few weeks:

- **Nancy Zingale** testified to the Senate Committee on Ethics and Elections about the League's report *Reform the Electoral Process, Restore the Public Trust.* Zingale co-chaired the study committee that developed that report.

- **Lyle Wray** spoke about human service integration to a session sponsored by the Minneapolis Foundation and addresse state legislators on state econom policy at the annual Minnesota Horizons Conference.

Citizens League research

League staff produce periodic analyses in key policy areas: local government finance and health care. The *Minnesota Homestead Property Tax Review* and *Minnesota Managed Care Review* are invaluable sources of clear, objective data.

In addition, the League now sells disks with the data files developed to produce the reports, so that people can use their computers to analyze the data. For additional information about thes reports, the data sets or th League's *Public Affairs Directory*, call the League office at 338-0791.