



Minnesota Journal

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State has no surplus to spend, needs larger balance to be truly fiscally sound

Does Minnesota government have a lot of unneeded money lying around that should be spent to reduce our taxes or provide additional services? No. But that is hardly obvious to most people in light of the reporting of the economic forecast issued by the Minnesota Department of Finance in November.

Just weeks before, John Brandl and Vin Weber, working at Governor Arne Carlson's request to help us

by John P. James

come to grips with fiscal reality, issued their report, "An Agenda for Reform." In their words:

"Our central conclusion is that in the future, government in Minnesota cannot meet its responsibilities without reforms as sweeping as, and similar to, the perestroika that has been necessary in the formerly communist countries...

"The policy challenges facing Minnesota are unprecedented. Beginning immediately and mounting over the next several years, Minnesota must cope with fiscal deficits of massive proportions."

When the state Finance Department issued its November fiscal

forecast, the two major newspapers in the state responded with front-page articles trumpeting an "\$824 million surplus" and speculating on what might be done with it.

A citizen might reasonably ask, If we have a big surplus, how can we be having a fiscal crisis? With 1996 an election year and politicians feeling the understandable need to cozy up to voters, one might also expect some proposals to use the "surplus" to reduce taxes.

But we almost certainly are headed for big fiscal trouble and our political leaders should resist their understandably almost overwhelming urge to spend the "surplus."

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How much should kids know?

by Ted Kolderie

It seems so simple. Kids aren't learning enough. We need higher standards for what students should know and be able to do. We should shift from inputs (like time spent) to measurable outcomes. There should be accountability for results.

Implementing standards turns out, though, not to be simple at all. It is conceptually difficult, horrendously controversial, beset with delays, probably now going backward. Minnesota's trouble with its "graduation rule" is part of a national pattern.

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Study shows complexity of school choice

by Cheryl Lange

Second of two articles. Findings from an in-depth study of eight Minnesota school districts suggest the complexity of open enrollment and other school choice options. (See "Districts that embrace market approach gain students through open enrollment," in last month's *Minnesota Journal*.)

The study points to many different factors that determine positive or negative consequences when dis-

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Swain: Reform slowdown 'shortsighted'

by Dana Schroeder

Tom Swain believes Minnesota has shifted into neutral on health-care reform. While it's understandable, he says, it's also shortsighted.

"Minnesota has done a better job than almost any other state in dealing with these issues," he said in a recent interview. "But it's a constant process that needs attention continually."

Swain ought to know. For three years the retired St. Paul Companies executive served as chair of Minnesota's Health Care Commission. In 1993 and 1994, the Legislature largely accepted the commission's proposals for creating integrated service networks, health-care entities comprised of all kinds

of providers, and for achieving universal health-care coverage. But the 1995 Legislature rejected the commission's proposal for financing health-care coverage for the uninsured.

Although Swain resigned his post on August 1, he believes health-care reform "is still very important

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Metromarks: Let's see how the region measures up

The media barrage us daily with sound and video bites of events in our region, fragments that do not really add up to a clear picture that can help citizens and elected officials know what to do about the issues of the day. Instead, the pictures and sound bites fuel a sense of anxiety and alienation among viewers and the community. Minneapolis' record homicide rate in 1995 is just one example of a picture fragment that may keep us from grasping the big picture.

At the same time, the United Way of Greater Minneapolis, Greater Saint Paul Tomorrow and other regional groups have produced very useful snapshots of life in the region. The recently issued *Entering the 21st Century: Social Outcomes For Our Community*, published by Greater Saint Paul Tomorrow, describes the status of the East Metro region on such basic building blocks as education, economic opportunity, housing, safety and health. The report is intended to be an impetus to set goals for the East Metro area for the next 15 years.

Such reports can be a very valuable contribution to our "reflective consciousness" as a region, prompting

Viewpoint

by Lyle Wray

the productive dialogue that will be needed as we set community goals for the next few decades. Setting out key areas of concern in a measurable way (with well-crafted graphics that make the information readable for a wide-ranging audience), then tracking and reporting these concerns over time, can help draw out common agendas and focus attention on areas needing priority attention amidst the blizzard of daily events.

We need such reports because we live in a complex region with hundreds of units of government and it is difficult to keep a clear sense of direction on issues such as the economy, environment and the social fabric. A report that encompasses the whole region, covering key issues of interest, could contribute to building more regional consciousness and facilitate discussions about urban growth, transportation and other issues that spill over municipal boundaries (and indeed over the boundary of the statutory metropolitan region).

Information about the "state of the

region" becomes even more valuable if it is related to strategic goals or compared with performance benchmarks set by the "best in class" on a particular measure. The Citizens League of Greater Cleveland, for example, compared 14 metropolitan regions, including the Twin Cities, on five measures of regional quality. (See "Viewpoint," Oct. 17, 1995.) Our region ranked first on a composite of 27 measures related to the economy, but fourth or lower on the measures of education, amenities and government. Seeing how we compare can help us identify areas for improvement.

If it makes sense to proceed to develop benchmarks for the region, who should convene such an effort and who should help with the task? One of the "prime suspects" for such a venture should be the Metropolitan Council. As our regional government, and with its ambitious *Regional Blueprint*, the Metropolitan Council seems the appropriate candidate to convene a steering committee of citizens and business and philanthropic representatives.

The tasks of the "Metromarks" steering committee would be to (1) recommend what regional performance areas to measure against the benchmarks of the best in class (e.g., cumulative high school dropout rates for historically high dropout groups); (2) compile the data, using existing sources of information whenever possible; (3) communicate this information to the public and decision makers and (4) perhaps most critically, continue to update the information over time so that trends—improvements or not—may be noted.

Much has already been done—Minnesota Milestones and the State Economic Blueprint come to mind—but much more could be gained by pulling this work together and focusing on the issues regionwide. Regular reporting of results on "Metromarks" should be part of the "State-of-the-State" and "State-of-the-Region" addresses each year. What better time for the Metropolitan Council to lead a collaborative effort among citizen, philanthropic and business groups to bring our region's realities and aspirations into sharper focus?

Lyle Wray is executive director of the Citizens League.

Public has invested little in state's major league sports

Edited excerpts of remarks by Wheelock Whitney, chairman, Whitney Management Company, and part owner, Minnesota Vikings, to the Citizens League on Dec. 19.

Sports writers have unwittingly misled people about the level of taxpayer involvement in professional sports. I think that has contributed to the development of this very strong mindset against any public involvement in professional sports.

The sports fan who buys a ticket to a game is one thing. The public is another. The public is the taxpayer. There's a myth that says the public has been pushed to the limit to make major league sports possible in Minnesota. The facts are something else.

First of all, Minnesota's major league teams are all privately

owned. The public has never invested a penny in the teams themselves.

Secondly, there are the facilities in which these teams play. The cost to the taxpayer for Metropolitan Stadium was absolutely nothing. It was all paid for by the people who bought tickets to events at Met Stadium. The Met Sports Center: What was the cost to the taxpayer? Nothing.

Let's look at the Metrodome. Most Minnesota taxpayers paid nothing. The bonds were all retired by the ticket buyers. The only taxes that were ever levied for the Metrodome were modest taxes on on-sale liquor and hotel/motel rooms. Those applied to the metro area only and mostly to Minneapolis.

The Target Center is the only pro-

fessional team facility for which taxpayers have made an investment. For \$54 million the taxpayers of just Minneapolis own a facility that was built for \$120 million. Furthermore, the debt is being paid down almost entirely by the users of the facility, with a tax on tickets to events at the Target Center.

The ticket buyers have paid for the benefits of major league sports that we all enjoy. Investment by the public in major league sports in Minnesota is minimal and what investment there is, is tightly confined.

Major league sports create well paying jobs. The players and others who hold these jobs pay millions of dollars in state income and sales taxes. The three teams we now have are generating over \$7 million a year in state income taxes. If we had an NHL team, we'd have another \$1.7 million.

There are intangible benefits: the joy of the sports, the enrichment of our people through the shared pride in our teams and the shared interest in their progress.

The competition for major league teams has escalated tremendously. You read about it: Charlotte, Nashville, Phoenix, St. Louis, Denver, Milwaukee, Seattle. Taxpayers have made or will make substantial investments in those cities to obtain or keep those teams. In doing so, they have raised the ante for all of us.

Don't be misled by what I call a temporary disillusionment with professional sports. I believe a limited public investment in professional sports would be good for Minnesota. Professional sports will not remain in Minnesota without some level of public support.

Editors laud Carlson's move to end airport planning

On Balance

Opinions that seeped in through the soundproofing.

Duluth News-Tribune said (Jan. 8) the state graduation rule should not be eased too much, but scaling back the rule may have been necessary for practical and political reasons. "The political reason for accepting lower demands is the risk that all the standards would be watered down by legislators if too many parents complained when their children didn't graduate. For the standards (and thus diplomas) to mean something, we must accept that not all students will graduate." **Post-Bulletin** called (Dec. 19) establishing graduation standards "a pioneering project" that will take time. **Fergus Falls Daily Journal** praised (Dec. 12) the graduation standards effort and said "it serves no one's purpose to make the test unrealistically difficult. But it serves no student's purpose to make the requirements a cake walk. The real world certainly isn't an easy ride."

St. Paul Pioneer Press praised (Dec. 11) some of Gov. Arne Carlson's education initiatives: merit pay for teachers, making it easier to get rid of poor teachers and loosening certification requirements. It said vouchers for private schools should not be part of the reform.

Public should provide sports 'hardware'

Edited excerpts of remarks by Jay Weiner, staff writer, Star Tribune, to the Citizens League on Dec. 12.

There is a difference between subsidizing a team and an owner and building a facility or funding a facility. The Target Center buyout, for all its controversy, and the new directions of the Sports Facilities Commission in focusing in on the facility and not the owner, suggest that what government has to do, if it wants to get involved at all, is infrastructure. It can do no more than that. It should create an environment, but it can't give cash to the teams.

We, the government, provide this "hardware" for the owners and the hardware is the environment that

"(S)teps should be taken to improve the system rather than encourage students to leave it." **Fargo Forum** said (Dec. 14) vouchers are worth trying, as long as the competition between private and public schools is fair. It praised merit pay and reviewing tenure laws, but did not favor loosening teacher certification requirements. It favors longer school days only if student learning is enhanced. "Doing so simply to keep kids out of trouble is absurd." **St. Cloud Times** said (Jan. 6) a pilot school voucher program deserves a try. "The ultimate act of parental involvement in education is giving the parent the ability to choose that school which best fits the child."

Mankato Free Press said (Dec. 9) legislators should vote to raise the speed limit on all interstates and on four-lane highways to 65 mph. **Fergus Falls Daily Journal** said (Dec. 15) speed limits should not be increased. The "new-found power to raise speed limits doesn't mean doing so is a good idea." **Pioneer Press** said (Dec. 28) "a compelling case for any boost in Minnesota speed limits remains elusive...Raising limits on interstates is defensible, if not neces-

sary. Raising them on two-lane highways would be reckless public policy." **Duluth News-Tribune** said (Jan. 8) Rep. David Bishop's proposal to raise speed limits is "sensible," except two-lane highways should stay at 55, and 60 would be better than 65 on urban freeways. **St. Cloud Times** said (Jan. 8) speed limits "should be raised to more realistic levels on those highways where design allows safe travel at higher speeds. But new limits also should be at levels the state intends to enforce."

The movement of teams will probably be the way of the world for awhile, until a number of teams actually go bankrupt and the emerging cities, like the Charlottes, the Jacksonvilles, the Nashvilles, are all used up. What we have remaining is the hardware.

Should we own the teams? The leagues now will not allow public ownership of teams. But as we move into the 21st century, I see

Duluth News-Tribune said (Dec. 11) the state should scrap or change the Jan. 15 deadline for setting teacher contracts. "If boards hate the idea and unions like it, it clearly isn't neutral...Reaching agreement on a contract isn't always the same thing as success." **St. Cloud Times** criticized (Jan. 4) school and union officials for attempting to keep secret the terms of a tentative contract agreement. "The taxpayers of the St. Cloud school district...are entitled to the chance to consider how their elected officials have agreed to spend their tax dollars and to make their ideas known." **Pioneer Press** praised (Dec. 26) negotiators of the new St. Paul teacher contract for reducing the district's liability for retiree health benefits, which it called a "crucial cost-saving measure."

cities or regions beginning to acquire this software to put into their hardware.

I rarely see the public benefiting from the public/private partnership. The private end of the sports equation never gives back to the public end of the sports equation, other than income taxes and sales taxes like every other business in town.

Any Twins new stadium, any lease agreements with the teams, must, from the get-go, have social exchanges for public credit at the beginning. There would actually be formal exchanges between the public and the teams to give social value to the arrangement and, frankly, to do some rounding on the political edges of any new stadium.

Standards

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The newspapers suggest the trouble in Minnesota is bureaucratic incompetence or political timidity (or meddling). Maybe. But perhaps it's a failure to think through the basic questions that have to be answered about "accountability".

These questions have to do first with standards, second with measurement and third with consequences.

● The **standards** question asks us to decide *what* kids should know and be able to do, and *how well*.

Early in the talk about "outcome-based education" there was a lot of "soft stuff" about what students should be and believe. Traditional parents, legislators, the governor, others had a fit. Quickly "transformational outcomes" was dropped.

"Basics" is easier: Kids should know how to read a timetable, how to write a letter, what government is and does.

But when you try to shorten the list, you hit a jobs issue. Every subject has teachers, who want their subject still to be required. A few years ago librarians produced a whole book just on what kids should know about libraries.

Beyond basics the questions get tougher. What else are students to know? And *all* kids equally well?



In its August 1995 statement, Building a Legacy of Better Value: Choose Reform, Not Declining Quality, the Citizens League recommended creating an independent state-level function to conduct annual assessments of Minnesota students' academic performance and creating a process for measuring, rewarding and publicizing improvement of schools. Copies of the statement are available from the Citizens League at 338-0791.

When Marc Tucker came to St. Paul to try to get this state to join the New Standards Project (which he directs) he argued for high standards for all kids. He was told we can't expect as much from "disadvantaged" kids. Tucker objected that this was wrong: patronizing and discriminatory.

There may be a case for standards set *relative to ability*. In gym a boy should be able to jump chest high. How high that is depends on how tall he is. Now decide: For academics what's the equivalent of "tall?"

In this case the "how well" standard would be set as progress. And a school that moved low-performing kids ahead a lot during the year might be a better school than one with high-performing kids who gained little. Unfortunately "gain" is hard to measure, especially when school populations turn over rapidly.

● The **measurement** question has become a debate about "paper-and-pencil" tests vs. "authentic" assessment. Think about the exam for a driver's license: There's a written test, but also an "authentic" assessment: the behind-the-wheel exam.

Paper-and-pencil tests produce "hard" measures. Adults like them. They can be counted, like credit-hours. Results can be compared. They're cheap. You can afford to test for a lot of things.

You'd want "authentic" assessment if you believe education is about things harder to measure: young people being able to use their minds well, knowing how to *apply* facts, becoming responsible adults. Or if you believe the object is for kids to come out of school knowing how to learn and *wanting* to learn the rest of their lives. Those assessments are harder, and not cheap.

Clearly what you decide about measurement must be consistent with what you decide about standards.

● The **consequences** question asks: What happens if the students do or don't meet standards? And happens to whom?

Subtly, the standards movement has become about standards for kids. Graduation is "at stake." Students can argue it's unfair to hold them responsible in a teacher-centered, "batch-processing" system. But they do have some responsibility. And it seems to help if they have a clear idea what's expected for graduation.

It's tougher about "high" standards. Maybe there could be one diploma for meeting basic standards and another for passing an "external" exam with tougher standards. (Bruce Johnson, the new commissioner for Children, Families and Learning, seemed to suggest this in legislative testimony January 9.)

Even the best teachers often argue they cannot fairly be held responsible for what the student learns. What the student learns, they feel, depends mainly on the student and on the family and the youth culture. (This explains the resistance to any public comparison of test results by district or school. Educators fear they will be blamed if scores look low. When the Minneapolis *Tribune* did print SAT scores some years back, there was a firestorm.)

So the concept of standards for districts is fuzzier. Stakes are lower. A popular notion is: "If you do well, you get more money; if you do badly, you get more training."

Educators would agree, though, that schools make a difference. Perhaps they can be held accountable for that. No shortshop fields 1,000, but he is accountable for the difference between .985 and .885.

So *consequences* are beginning to appear for schools. Some states now provide for low-performing schools to be closed or to be left open but "reconstituted" with all new staff. Some provide for state takeover of an entire district. Some (like Minnesota) simply let others

start new public schools and let kids go there if they wish (taking the money with them). This may be the most effective consequence of all.

It's worth asking, too:

● Do we really need all this? The assumption is that standards don't exist today. But those are "exit" standards: to get out of school. All around school are standards (often with "authentic" assessments) that kids have to meet to get *in* to anything else: college, a job, the Army. Why not just get realistic with students about what's required for the things they might do next?

● If we are going to have exit standards, should the schools do the measurement? Normally we don't let an institution be the sole judge of its own performance. The schools teach drivers training, but they don't give the license exam. The Citizens League has suggested assessment be transferred to a *Minnesota* Assessment of Educational Progress, independent of the K-12 system.

● Who's the "we" in "what *we* want kids to know and be able to do?" The school? The district? The state? The country? Do the family and the student get a say, too? The broader and more diverse the community that tries to set standards, the more difficult (and delayed) the decision is likely to be.

● Whose interest is served by all this, anyway? The testing and scoring may not be the best way to get kids to learn. Many educators don't want it; they fear it, in fact. Parents want more than just academics. Are we maybe too preoccupied with test scores? Is it because educator-politicians feel they have to be credible with people who think numbers are everything?

In the late '80s Gov. Rudy Perpich was being pressed to support a major accountability program. "I'm not going to do that," he told associates. "I've seen too many kids who passed tests and failed life and too many kids who failed tests and passed life. I'm not going to make testing that important."

Ted Kolderie is contributing editor of the Minnesota Journal.

Swain

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and critical."

Forse there has been a slowdown in health-care cost increases, he said, "the issue, for the moment, doesn't command the same sense of urgency. Some, who would rather not tackle it, conveniently say, Let's set it aside for awhile. Some go so far as to say, We've addressed the issue; we've solved it, and declare victory."

"That's pretty shortsighted," he said. "Costs have not been solved by any stretch of the imagination."

He explained that health-care cost increases have subsided, at least in the private sector, where they've been in the single digits or almost flat in the last year or two. But in the public sector, increases are still running at 10 percent. "With a CPI of three percent, the proportion we're investing in health care is ever increasing. It takes more and more of our total domestic product," he said.

Swain is proud of the commission's work—both its substance and its approach. "We approached health-care reform on a sequential, or incremental, basis," he said. "We did it out in the open and we had all the players at the table. I contrast it with the federal effort. They tried to do the whole thing behind closed doors and they let it become partisan. The endeavor in Minnesota clearly had a strong bipartisan tone in its early stages.

"This very diverse group of folks... left the hatchets at the door and came together. They recognized that if we didn't come up with a sensible plan, we'd leave it to others with a questionable thought process and the solution would be far more Draconian."

When the commission was created in 1992, it was charged with coming up with a plan in six months for reducing the rate of increase in health-care costs by 10 percent a year for five years, beginning in 1994. At that time, Swain said, health-care cost increases were in the double digits. The savings from the proscribed cost reduction over five years would be \$7 billion.

"We developed a plan which, I think, if implemented, would have accomplished that," he said. The plan was the creation of integrated service networks, groups of providers that would offer a continuum of care, charge a capitated rate and be at financial risk for operating effectively and efficiently.

"The Legislature bought the plan," Swain said. It then asked the commission to perfect the integrated service network concept and to attack the issue of universal coverage.

"Minnesota does not have universal coverage, but we have universal *treatment*," he said. "Without some kind of plan for prepaid coverage, people who take sick end up frequently in hospital emergency rooms. The case is more complicated and the whole situation is more costly. It's just good, sound public policy to somehow provide for everyone in a sensible fashion."

MinnesotaCare, which was enacted in 1992, was designed to do that, Swain said, but its reach was limited to only 40 to 50 percent of the uninsured. "It's doing a good job, he said. "It's kept a lot of people off welfare. But it wasn't intended to reach them all."

The commission came up with the criteria for a plan that would achieve universal coverage by 1997. The 1994 Legislature, after some modifications, bought the commission's plan and put into statute the strategy and the commitment to achieve universal coverage. It then asked the commission to develop a plan for financing.

The commission worked on the financing question in the last half of 1994. "The political climate changed considerably," Swain said. "The 1994 election certainly sent a signal on the public's willingness to be taxed. We recognized this and provided for a phasing in of what we felt was a program. Our principal means of financing was to be raising the cigarette tax \$2 a pack overall, 40 cents a year over five years.

"The theory was win/win, because people who smoke use the system much more extensively. This is asking those people who use the health-care system more extensively by a conscious process of smoking to

help subsidize the costs of those who can't afford full coverage."

Another part of the commission's approach was encouraging those who can afford coverage but choose not to buy it—the "voluntarily uninsured"—to buy coverage. The commission estimated about 31 percent of the 390,000 uninsured in Minnesota were voluntarily uninsured, largely single males, aged 18 to 35.

"The whole theory of universal coverage is everybody should have access to and help whenever they need it in paying for coverage," he said. "But there's also an obligation for those who don't have coverage but can afford it to buy it."

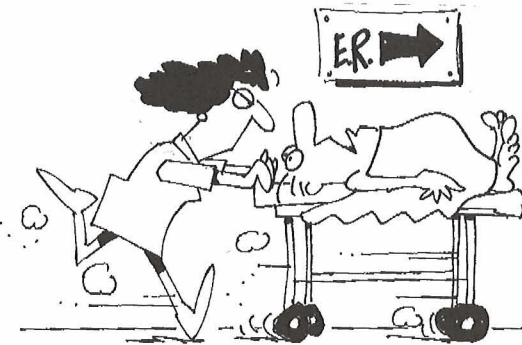
Swain said the commission favored the goals of mandating community rating—charging the same rates for everyone, regardless of their demographic health risk—eliminating any kind of a prior condition surcharge and guaranteed issuance and renewability of insurance. But moving to community rating would raise the rates for young, single individuals—the very people who make up the voluntarily uninsured.

These conditions might tempt people to drop their coverage and, with guaranteed issuance, buy coverage "when you're being wheeled into the hospital." These incentives could result in fewer people being insured.

To attack this problem the commission proposed a "freeloader" penalty. People without insurance would be assessed a penalty of one or two percent of their gross income. The penalty, which was to become effective in 1997, would phase up each year an individual remained uninsured.

Some people argued that this was governmental intrusion on an individual's right to be uninsured. "It got some conceptual nodding of the head but didn't fly very well," he said.

The 1995 Legislature rejected the commission's proposals and did the following:



"...Know a good health insurance agent?"

● Modified the statutory commitment of the previous year to universal coverage to one of a *goal* by 2000.

● Extended MinnesotaCare to cover adults up to 150 percent of the poverty line (eligibility had previously been at 125 percent), if enough funds from the previously enacted two percent tax on health-care providers are available.

● Made no further movement to cover the uninsured, but told the commission to study it and look at the long-term care issue.

Swain believes increasing pressure on health-care costs may lead to a single-payer system unless "sensible" reform efforts continue. And he believes health-care consumers have a strong responsibility to help cure the system's ills.

"We are not free to demand the ultimate of the system irrespective of the chances for recovery or improvement, without limitation," he said. "Yes, there is overutilization in certain areas. Yes, there are inefficiencies. Putting providers at risk economically is one of the ways of addressing this. But it's also easy to dump on providers, insurance companies, the pharmaceutical companies and say, These are the bad guys; you've got to reform them.

"But 70 percent of health costs today are the result of you and me not taking satisfactory care of ourselves. It's weight, smoking, drinking to excess, seat belts, motorcycle helmets, safe sex, exercise. We could all do a better job there."

"People think it ought to be simple," he said of health-care reform. "But it is just enormously complex."

Dana Schroeder is editor of the Minnesota Journal.

Choice

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tricts gain or lose students through open enrollment: the overall financial health of a district; school district size relative to surrounding districts; attitude of administrators toward open enrollment; and external factors, such as shape of the district, real estate purchasing patterns, residents' socio-economic status, strength of community affiliation, consolidation concerns, viability of the business community and population growth patterns.

Together with parent motivations, teacher involvement and response, and community impact, these factors hold the key to the potential success or failure of open enrollment or any market-driven option as a process that will change schools. The study's findings have implications for all the stakeholders in school choice policy:

- **Policymakers** need to review the intent of current or proposed legislation to determine if school choice policies are impacting school districts, communities and families in the manner intended. They should make decisions with the full knowledge that external characteristics, such as school district shape and size relative to neighboring districts, may influence the impact of the option. They should also understand that choice may have community consequences, affecting the local business community and even impacting real estate development.
- **Administrators** must also understand the role of external characteristics and the importance of good administrative strategies and strong programs and services in the impact of open enrollment and other market-driven options on their school districts. Strategies that enhance external factors, such as community affiliation, will make a difference in how open enrollment impacts a school district. Administrators should routinely review program and curriculum decisions, marketing of school district strengths to residents and home-school communication efforts. They must consider school choice options as they establish strategic plans for their districts and carefully consider the changing political role of parents. In addition, district-

- wide evaluation of programs and services, as well as demographic studies, will help administrators reduce possible negative consequences of open enrollment and enhance the positive consequences.
- **Teachers** need to become more aware of their role in open enrollment. The study suggests they are not aware of open enrollment's impact or of their role in student transfers. Administrators must communicate open enrollment's impact to teachers and staff. Administrators should survey parents who enter or leave the district for the reasons students transfer and provide this information to teachers. Teachers need to enter the policymaking loop and take responsibility for their role in open enrollment and other school choice transfers. Their actions may be central to open enrollment decisions; but if they are never informed of the impact or considered a part of the problem or of solutions, little will change.
 - **Parents** need to know that their transfer decision may impact the community in which they reside. Open enrollment and other market-driven options may be a precursor to drawing up new boundaries or looking at communities in a new way. If parents are making decisions based on only community affiliation, this has implications for the way district boundaries are now drawn. Open enrollment may be setting the stage for changing the way in which we consider local control issues and parents should be cognizant of long-range effects as they make their decisions.
 - **Community residents** must understand that communities are impacted by open enrollment. As is the case with many social policies, open enrollment does not occur within a vacuum. It has the capacity to affect how communities are structured. This potential outcome of school choice options is rarely discussed. We ought to acknowledge it and decide if we are comfortable with it.
- Many questions arise after talking with administrators, teachers and other school personnel that should be addressed as we discuss school choice options. Why were teachers disenfranchised from policy decision making? Will their inclusion in this aspect of education make a

difference in the systemic reform of schools? What difference do transfer patterns make in student outcomes? What role does school choice play in an era of declining financial resources for schools? What role are administrators going to play in influencing the impact of open enrollment in their districts? What role will school choice options such as open enrollment play in the evolution of consolidation, community affiliation and our public school system?

Understanding the complexity of school choice and elevating the discussion from the simplistic notion that competition breeds change is a needed step in furthering the school choice debate. School choice policies must be viewed from within the context of the school district, with its many external and internal factors that influence parents' decision making. With so many claims being made about its effectiveness, the many variables found to impact school districts and parents' transfer patterns must be further examined. The interaction between these factors and the strategies of school administrators must also be investigated.

Finally, open enrollment is only one type of school choice option. The findings from this study cannot be used to provide a blanket evaluation of all choice options. Second chance programs that are available

The forecast states, truthfully, but in very misleading fashion when it comes to policy implications, that there is "an \$824 million improvement in the 1996-97 biennial forecast." This is rightly big news, and very good news, but it does not mean there is money that can responsibly be spent.

Even after taking this \$824 million improvement into account, we are left with the following fiscal facts of life:



"The problem is the shape of our school district ... long, skinny and vulnerable."

to the most disenfranchised within our system operate very differently from open enrollment and must be evaluated differently.

However, open enrollment does share many of the same potential areas of impact for school districts and communities as some of the most popular school choice options discussed today. Vouchers, charter schools and postsecondary enrollment options have the potential to impact school districts in a manner similar to open enrollment. As policymakers, legislators and researchers contemplate these options, the information provided from the interviews in this study of open enrollment can provide a foundation from which to ask the necessary and pertinent questions about these policies and their potential impact on school districts.

Cheryl Lange, Ph.D., is coordinator of the Enrollment Options Project at the University of Minnesota's College of Education. Summaries of her study, Open Enrollment and Its Impact on Selected School Districts, are available for \$14 by calling 612-624-5832.

- **First, Minnesota's fiscal situation is, in fact, still deteriorating, even though it is not deteriorating nearly as quickly as was projected last spring.**

General fund expenditures are growing more quickly than revenues. Current expenditures are projected to grow by 9.5 percent in the 1996-97 biennium; in the 1998-99 biennium, expenditure growth (assuming a large cut in education aid, which was enacted in 1995 but is not likely to survive) is projected at 6.1 percent and revenue growth at 5.1 percent.

Continued on page 7

Fiscal

Continued from page 1

Minnesota's general fund income exceeded its general fund outgo by \$1.1 billion in the 1994-95 biennium. That cushion is projected to shrink, as income is expected to exceed outgo by only \$135 million in the 1996-97 biennium (in which we now are living). By the 1998-99 biennium (which is what the legislators we elect next year will deal with when they arrive at the Capitol), outgo is projected to exceed income by \$43 million.

But that \$43 million "deficit" assumes substantial savings (\$467 million) from a planned cut in state per pupil aid for K-12 education in the 1998-99 biennium agreed to by the 1995 Legislature. If, as most people think, the Legislature reverses itself on this planned aid reduction, general fund spending could exceed revenues not by \$43 million, but by over \$500 million in 1998-99.

- **Second, with Minnesota already heading for a deficit, it would be doubly irresponsible to spend more money now, with the threat of substantial cuts in federal funding still looming.**

The forecast properly notes that "the effect of the federal budget on Minnesota's residents has been, and continues to be, a major unknown in this forecast." Based on the congressional Budget Resolution and subsequent congressional committee actions, Minnesota state and local governments could receive \$3.2 billion less federal money than current baseline funding would provide over the next seven years. Congress and the President have not yet resolved the federal budget for the federal fiscal year that began on October 1. When they do, it could well mean additional problems for Minnesota within either or both the 1996-97 and the 1998-99 bienniums, not to speak of the future.

- **Third, some of the elements of improvement in the forecast are**

In its August 1995 statement, Building A Legacy of Better Value: Case Reform, Not Declining Quality, the Citizens League outlined four of the state's major responsibilities: K-12 education, postsecondary education, aid to local governments and long-term care. Copies of the statement are available from the Citizens League at 338-0791.

GENERAL FUND FISCAL MANAGEMENT POOL — NOVEMBER 1995 FORECAST			
	'94-'95 Biennium	'96-'97 Biennium	'98-'99 Biennium
Beginning general fund balance	\$876,435	\$1,056,795	\$585,228
Less cash cycle need	-350,000	-350,000	-350,000
Remaining for other fiscal needs	526,435	706,795	235,228
Current operating surplus (deficit)	+352,360	+135,033	+(510,519)
Available for other needs	878,795	841,828	(275,291) ***
Reverse property tax recognition shift	-172,000	-606,600	—
Remainder available for other needs	706,795	235,228	(275,291)
Other fiscal needs			
Budget reserve*	-829,000	-908,000	-987,000
Shifts to reverse**	-706,600	-100,000	-100,000
Net fiscal management surplus (shortfall)	(\$828,805)	(\$772,772)	(\$1,362,291)

*Budget reserve at five percent of biennial expenditures. Current law provides only \$220 million.
**Required by sensible policy, but not by law.
***Reflects additional spending of \$467,000 on K-12 education to put education on same footing as other expenditure categories.
SOURCE: John P. James

one-time events, making at least \$120 million in expenditure reduction very iffy on a long-term basis.

Ongoing tax revenues are projected to be some \$390 million higher than previously forecast; that is very good news. But it mainly closes the gap that had already developed between revenues and expenditures. On the expenditure reduction side, \$59 million is due to a nonrecurring delay in receipt of reimbursement from counties, \$28 million is from individuals failing to sign up for benefits to which they are entitled, and \$33 million is from an apparent, but unexplained, failure of MinnesotaCare enrollment growth to cause increases in General Assistance Medical Care costs.

- **Fourth, Minnesota's general fund is still \$750 million to \$1.4 billion dollars short of the funds it needs to have to put Minnesota in truly sound financial condition.**

As the accompanying chart shows, the additional funds would allow the state to: pay off various accounting gimmicks adopted in past years, maintain an adequate cash cycle balance (about \$350 million as of June 30 of each year) to prevent the state from running out of cash and provide for a budget reserve of five percent of projected biennial expenditures. A reserve of that magnitude would provide substantial fiscal protection in a recession. A reserve at the current statutory level of \$220 million would be grossly inadequate in the event of even a mild recession.

The major accounting gimmick the state needs to eliminate—and this is required under current law—is the "property tax recognition shift." This shift, first used in the early 1980s, has allowed the Legislature to cover the state's fiscal troubles in any given year by delaying state aid payments to school districts. Districts were required to apply local property tax funds meant for the following school year to the current year to cover the delayed aid payments. Many districts were then forced to borrow money in the following year in order to cover their expenses.

Paying off the property tax recognition shift is the right thing to do. The shift is nothing other than accounting chicanery engaged in by state government. This practice wreaks havoc with the financial planning of every school district in the state. Paying off the shift does not increase education spending; it merely stops a type of accounting game playing that never should have been started.

Article 6 of S.F. 1568, a major tax and fiscal system reform bill now before the Legislature, would require these very things:

- The state would have to match current expenditures with current revenues, except in times of economic downturn.
- The state would have to keep enough cash on hand at the beginning of the biennium to prevent the need for borrowing at the low point in the cash cycle.
- The state would be required to target the budget reserve at five percent of biennial expenditures and use future surpluses to fund the reserve at that level.
- And, if the state were ever so lucky as to accumulate more money than is required for responsible fiscal management, Article 6 would provide for the return of up to 50 percent of the excess to taxpayers as "fiscal dividends" in the form of income tax credits.

In sum, there is no \$824 million surplus that can responsibly be spent. The Legislature should pay off the property tax recognition shift, increase the reserve and go home—unless it wants to reform our fiscal system so that we do not face illusory surpluses in the future. Article 6 of S.F. 1568 could be adopted on a stand-alone basis and put a permanent end to the nonsensical and potentially gravely irresponsible interpretations of Minnesota's fiscal situation that have been the norm and that result in the claim that we now have a "surplus" of \$824 million.

John P. James is a Minneapolis attorney with Fredrikson and Byron, P.A., and former Minnesota Commissioner of Revenue. He has worked with the Minnesota Education Association and Sen. Steve Novak (DFL-New Brighton) to develop S.F. 1568.

Decision on MUSA line linked to capacity of Hwy. 61

Sign of the times? For perhaps the first time in Minnesota history, a comprehensive plan review has been directly linked to the adequacy of transportation infrastructure.

The City of Cottage Grove is requesting a 568-acre expansion of the Metropolitan Urban Service Area (MUSA). The majority of the expansion is in a unique 530-acre development in the northwest part of the city. This month, the Community Development Committee of the Metro Council will review the adequate public facilities ordinance, which links development to available infrastructure, such as sewers and highways.

At issue is whether the already congested Highway 61 has the capacity to handle the new development. Approval of the expansion will depend, in part, on a transportation plan that connects a *reduction* in trips on Highway 61 with the new development.

Rather than building a development and then adding the infrastructure to serve it, the Cottage Grove case asks first if there are adequate existing facilities to serve the development. This could have an interesting and long-lasting effect on the MUSA line and future regional development. Stay tuned.—*Phil Jenni*.

Sen. Tom Neuville (R-Northfield), a cosponsor of Gov. Arne Carlson's private school voucher bill, along with Sen. Gen Olson (R-Minnetrista) says its chances of passage this session depend on how hard the governor is willing to fight for it.

"I sense he has a real passion for it. It's in his heart and not just a political issue," says Neuville. But unless the governor is willing to hold other bills hostage and "go to the wall," Neuville says he'd be surprised if the so-called school choice bill gets a serious hearing in the House, where teachers' union opponents are strong.

The Northfield lawmaker is confident of getting a hearing in the Senate Education Committee, where he says he's converting some DFLers to the idea. In the House, Neuville says, "The ball is in the governor's court."—*Betty Wilson*.

Take Note

*"This truth keep in sight—every man on the planet
Has just as much right as yourself to the road."—J.B. O'Reilly*

The real privatization of education: For the first time in Minnesota history, private colleges and universities had the largest single share of Minnesota higher education enrollment with 22 percent, according to the Minnesota Higher Education Services Office.

It takes a little creative categorizing, but for the first time, in fall 1995, this group edged out state universities (20 percent), the University of Minnesota (18 percent), community colleges (18 percent) and technical colleges (15 percent).—*Ron Wirtz*.

Attention, mall rats: Economic guru Anthony Downs, in town last month to speak about real estate trends, predicted tough times ahead for regional shopping malls.

The dominance of regional malls is being threatened by several trends, according to Downs. Real household incomes have stagnated for most middle-income folks and lower-income households' incomes have declined. Increasingly strapped families care less about high fashion and more about price and durability. The trend toward casual attire also works against fashion retailing. As the population ages, what people need and want to buy is changing. Meanwhile, new retailing formats—catalogs, TV and telephone shopping, even computer shopping—are gaining market share.

Downs predicted that the best-performing 25 percent of malls will get stronger, while the rest will have serious problems. Makes us wonder what the future holds for the Twin Cities' regional malls.—*Janet Dudrow*.

Visitors to the World Wide Web can now download a listing of HMOs that have passed muster with the National Committee on Quality Assurance (NCQA), a Washington, D.C., organization that accredits HMOs. The address is <http://www.ncqa.org>.

Among Minnesota HMOs, NCQA's Dec. 15, 1995, list shows that Group Health received full

NCQA accreditation, good for three years, and that three other HMOs—Blue Plus, MedCenters and Medica—received a one-year accreditation. Group Health and MedCenters have now merged to form HealthPartners.

Accreditation was envisioned as a source of uniform information for employers and employees shopping for health plans. However, the process had a different application last month, when the \$1.7 billion merger of two California-based HMO companies, WellPoint Health Networks and Health Systems International (HSI) fell apart. HSI said one reason for the collapse was that NCQA had denied accreditation to CaliforniaCare, a WellPoint HMO. In addition, HSI was "shocked" to learn that WellPoint, in turn, had sued NCQA over the denial, alleging flaws in the review process.—*Allan Baumgarten*.

Ugh, MEN! It may not be indicative of overall use, but a recent Department of Human Services report on drug abuse emergencies and hospital admissions shows that substance abusers in the Twin Cities region are predominantly male, and usually white, regardless of the substance.

A December report by the Chemical Dependency Division of DHS showed that through the first six months of 1995, abusers of five common substances were overwhelmingly male. Men accounted

for 73 percent of emergencies and admissions for alcohol, and 63 percent of those for cocaine, 76 percent for marijuana, 59 percent for heroin and 62 percent for methamphetamine (speed).

The three drugs with the most admissions—easily—were alcohol (5,097), marijuana (1,681) and cocaine (1,352). Broken down by race, 80 percent of all people treated for alcohol abuse were white, as were 75 percent of those admitted for marijuana abuse. More than half of those admitted for marijuana abuse were under the age of 18.

Cocaine abuse was the only treatment/admission area not dominated by whites, as 59 percent of all cases involved African Americans, as did 25 percent of all heroin cases.—*R.W.*

From Citizens League Finance Director Phil Jenni's Apocalypse Watch, featuring sundry evidence that the end of the world is nigh:

In a commentary in the January issue of *NonProfit Times*, Rosann A. Staplins recounts that she recently received a notice from a *scrooge* she had contributed to last year, asking her to renew her gift. The renewal slip included a note explaining how time consuming and expensive thank-you notes are, "and would I please check this box only if I really wanted one."—*J.D.*

"Take Note" contributors this month include Citizens League staff members; Allan Baumgarten, a health-care policy and finance consultant; and Betty Wilson, a freelance writer and former Star Tribune political writer.

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Citizens League Matters

January 23, 1996

News for Citizens League Members

Welcome New Members

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Nathan Eklund
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James Korn
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John Persico, Jr.
Monique M. Regard
Jill Swenson
Susan Voigt
Jay Weiner

Citizens League

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The Citizens League is an independent, non-profit, non-partisan metropolitan organization studying statewide issues. An open membership organization, it is distinguished by the use of volunteers in developing innovative policy solutions. The suggested dues for membership are \$50 for individuals and \$75 for a family membership. Other categories are also available. For more information on membership please call 338-0791.

Third annual Health Policy Forum set for Feb. 21

What will be the impact of Congressional Medicare changes on providers, health plans and consumers in Minnesota?

A distinguished group of health care experts will analyze that question at the Citizens League's third annual Health Policy Forum on Wednesday morning, February 21, from 7:30 - 11:30.

The forum, co-sponsored this year by the Institute for Health Care Integration, will feature a keynote address by **Dr. John Wennberg**, Director of the Center for Evaluative Clinical Sciences at Dartmouth Medical School.

Dr. Wennberg received his medical degree from McGill University and his Master's in Public Health from Johns Hopkins University. He has been on the Dartmouth Medical School faculty since 1980 and has won several awards for his research.

Dr. Wennberg is well-known for his pioneering work in small area analysis, examining geographic variations in utilization and distribution of health care resources.

His research on local differences in cost and practice has been applied in the current debate on Medicare funding. Under the current system, Medicare payment rates in some parts of Florida and California are two or three times as high as the rates in most Minnesota counties.

Following Wennberg's address, **Susan Foote** will provide a detailed analysis of the bills in Congress and their likely implications for Minnesota. Foote, now Senior Vice President at Apco Associates in Washington, DC, was senior health policy analyst in the office of former U.S. Senator Dave Durenberger. She will explain the impact of the bill on payment rates and on provider-sponsored networks.

A panel of Minnesota health care leaders will discuss the impact of Medicare changes on hospitals and health plans, as well as what Medicare can learn from employer purchasing initiatives and state health care initiatives for seniors.

A second panel will describe the likely impact of the bill on the Minnesota market and ana-

lyze the business opportunities it creates. Presenters include **Keith Halleland**, chair of the health care practice at Popham Haik; **Randy Herman** of Reden & Anders; **Allan Baumgarten**, health policy consultant and author of Minnesota Managed Care Review; and **Olivia Mastry**, head of the Center for Healthy Aging at Allina Health System.

Dr. Wennberg's appearance at the forum is made possible by grants from the Allina Foundation, the Popham Haik law firm, and the actuarial consulting firm of Reden & Anders.

Additional details about time, location and cost of the program will be included in a mailing that League members will receive next week.

CL volunteers and staff stump for reform

Citizens League volunteers have been busy speaking to community groups about the League's newest statement, *Choose Reform, Not Declining Value*. The statement recommends steps for reforming Minnesota's public spending on education, long-term care for seniors and property-tax relief and aid to local governments.

Jon Schroeder spoke about the League's recommendations for elementary and secondary education at the Minnesota School Boards Association Delegate Assembly on December 3.

Buzz Cummins, **Chuck Neerland** and **Tony Morley** presented the League's proposal for reforming higher education finance at a meeting of the board of Minnesota's State Colleges and Universities (MnSCU) December 20.

Executive Director **Lyle Wray** participated in a panel presentation at a December 5 conference on health care reform sponsored by the Minnesota Chamber of Commerce. Wray presented the League's recommendations for a managed-care approach to long-term care for the elderly.

1996 Citizens League legislative agenda and legislative breakfasts

The Minnesota Legislature convened on January 16. All indicators point to a fast-moving session with little expected in terms of major initiatives.

Still the League expects to play a role in several long-term reform issues. The League is actively involved in discussions on higher education funding, property tax reform, and long-term care and is monitoring K-12 educational reform efforts.

The League is also involved in the aftermath of last year's Livable Communities Act. We expect the debate about affordable housing and metropolitan development to surface again this year. Other related areas of League interest include transit and transportation funding.

The League's Board of Directors has approved a flexible strategy

this year to testify on behalf of the issues above and other reform ideas outlined in the most recent League statement on the state budget. Other issues that the League has studied in the past may emerge during the session and may require attention. Much more substantive activity is expected in the 1997 budget session of the Legislature and a lot of activity should be expected in preparing ideas for action in that session.

Here is a summary of some of the issues on our agenda:

Government Performance. Monitoring the Board of Government Innovation and Review, Best Practices Review, performance budgeting and reporting and Minnesota Milestones.

Economic Development.

Involved in Minneapolis Chamber, Metropolitan Council and Humphrey Institute efforts to develop state and regional strategies for economic development. The League's global economy study is wrapping up soon.

Urban Issues. Monitoring implementation of the Metropolitan Livable Communities Act. Focus on access, not just mobility, for effective transit policy. League study committee on Building Livable Communities, with Don Fraser and Sally Evert as co-chairs, is underway.

Real Metropolitan Region. Monitoring regional government reforms of 1994. The League is one of the few players in the discussion of the boundaries of the region and a governance structure that recognizes those boundaries.

State Budget Problem. Advocating reforms on major spending systems, recommended in 1995 League state budget statement.

Legislative Breakfasts resume

For the past several years we have sponsored the Legislative Network Breakfasts. Held every other Friday during the session these breakfasts are an insiders view of Legislative activities, particularly of issues that are of interest to the League.

Last year, **Mary Anderson** and **Bob de la Vega** provided Board leadership on the breakfasts. This year seven Board members — **Jim Dorsey, Marie Grimm, Ruby Hunt, Sarah Janeczek, Chris Roberts, Steve Young** and **Jane Vanderpoel** — have volunteered to help with this program.

Holiday cash brings League cheer

The League ended the 1995 calendar year on an upbeat financial note. Last month we reported that the Board had adopted a budget for FY96 that depended in part on a \$50,000 grant from the McKnight Foundation. We are happy to announce that McKnight did approve the grant.

End of year contributions from individual members are strong. As of January 16 we had received contributions totaling \$20,540 from 121 members, which topped our previous best calendar year-end of \$19,815, which came from 145 people. Thank you to all who made a contribution!

The League also received a special grant of \$32,500 from First Bank System to complete the next stage of our office automation plan. We are especially grateful to Board member **Becky Malkerson** for steering the grant through FBS. Money for increased automation isn't always easy to sell. We appreciate the vision shown by First Bank in recognizing the importance of this kind of funding.

Finally, thanks to **Bill Johnstone** who donated his Macintosh 140 Powerbook to the League. This will be a big help to the League staff. If you have similar computer equipment you'd like to donate to the League please call the office at 338-0791.

Upcoming events

Minnesota Journal editor **Dana Schroeder** will speak about issues in tax-base sharing at the quarterly meeting of the Council of Metropolitan Area League of Women Voters January 25.

The meeting, scheduled for 9:30 a.m.-1:30 p.m. at the Phalen Golf Course Clubhouse, also includes a panel discussion featuring **Steve Hinze**, an analyst with the Minnesota House of Representatives Research Department; **Mark Bernhardson**, city manager of Bloomington; **Joy Tierney**, mayor of Plymouth; and **Elwyn Tinklenberg**, mayor of Blaine. For information about the meeting, call 222-1215.

The League is also cosponsoring the next Landmark Series, "Regional Challenges of Affordable Housing" on Monday, January 29 from 12:30 to 2:00 p.m. Metro Council Chair **Curt Johnson** will give the keynote address. A panel discussion will follow featuring **Tom Hoch**, MN Public Housing Authority; **Gary Peltier**, Housing Division of St. Paul PED; and **Mark Ulfers**, Dakota County Housing and Redevelopment Authority. The free program is in the Weyerhaeuser Auditorium of Landmark Center, 75 W. Fifth St., St. Paul. For more information call 292-3285.