Resolving the budget shortfall:
We need a transitional fix, not the Big Fix

by Tom Tripllett

The November 2001 budget forecast issued by the Department of Finance projected a state budget shortfall of $1.95 billion by June 30, 2003. A shortfall of this magnitude would be unprecedented. The task of resolving a shortfall of this size — about 15 percent of the approved state budget for FY2003 — is formidable.

Both the nature of the forecast and its size are daunting. The Department of Finance estimates that as much as two-thirds of the $1.95 billion shortfall is "structural," or permanent, in nature. For that portion, it is not enough to do a one-time tax surcharge or a one-time slash of state and local reserves. Permanent service cuts and/or tax increases are required.

In the January 1, 2002 Pioneer Press I summarized the forecast process and identified its weaknesses. I argued that the state is placing far too heavy a reliance on the projections of the Massachusetts economic consulting firm (DRI-WEFA) whose national economic projections are the building blocks for each Minnesota state forecast.

I noted how DRI-WEFA's forecasts in recent years have been far too pessimistic. As each of their projections were shown to underestimate revenues, the state responded to this "found money" with rebates, permanent tax cuts, and spending increases.

Now DRI-WEFA tells us the tables have turned. In a big way. Instead of surpluses, they say we are faced with a massive projected shortfall.

How should our elected officials respond? First out of the box was Governor Jesse Ventura. His suggestions for resolving the shortfall include $700 million in spending cuts, $400 million in new taxes, and depleting the state's rainy day fund.

As lawmakers consider Ventura’s and other ideas, legislators should begin their deliberations with an analysis of the forecast process itself. They should ask, “Are we prepared to make massive permanent adjustments such as the Governor proposed on the basis of national projections which have proven to be so wrong in recent years?”

Until the forecast system is overhauled, we will rely on the national economic projections as the starting point for budget decision-making. And if we respond to what those forecasts say, the result this year will be major service cuts, decimation of state and local rainy day funds, and tax increases.

I do not suggest that the Legislature should ignore current economic realities. The forecasters' evaluation of the current economic situation is correct. Our nation and state are indeed in a recession. But the severity of that recession, its length, and its resulting impact on our budget are not at all clear.

Governor Ventura and the Legislature should appoint a task force to review the forecast process and suggest alternative methods by the end of 2002. The task force should include a broad cross section of members, not only economists who make their living issuing forecasts.

While the task force is doing its work, the Legislature should resist significant, permanent service cuts or tax increases.

Making permanent budget adjustments on the basis of the current imprecise forecasts would be unconscionable. Instead, lawmakers should put in place mechanisms for gradual budget adjustments that are tied to actual revenues received and more frequent updated projections.
Keeping our edge: Minnesota’s Cold Sunbelt must draw on state’s history of collective action, vision and courage

This is the final installment of a three-part series examining Minnesota’s past and future role as a public policy innovator. To read the entire story visit www.citizensleague.net.
Print copies are available from the League office. Cold Sunbelt is the first in a series of Journal articles published in recognition of the League’s 50th anniversary.

by Ted Kolderie

Change is inevitable. There is a lifecycle to organizations. The question is: are we replacing what we lose? Are we keeping our edge? Are we making progress in the face of the causes of problems. Other states are as good at building projects and setting up programs. This state has an unusual ability to understand and to deal with institutional development that began about 1940 and ran into the mid-1970s. Somehow Minnesota needs to retain the ability to understand and to reflect on the causes of problems. Without this ability to think in systems people are not good at building projects and setting up organizations (or, alternatively, changing the people who run them, or investing in more professional service, or in some kind of big machine.)

Minnesota has been really good at what they call “large-system architecture.” People understood why a health-care system was necessary. They understood that land-use and school finance systems are struggling to find the resources they need. They are uncertain about a school in a school system that is responsible mainly to the districts’ parent constituency of staff and local investors. Or a school of the teachers and their unions. Or a failure in the design of the system. The structure and incentives exist in law. It is conceivable that they cannot be changed by changing state law. Legislators do understand the problem, and they do not know how they are going to be reconstituting the structure. They are making it possible for people to start new schools and try new approaches. It is possible that the job that needs to be done is to encourage urban and low-income kids cannot be done by the organizations we have; the districts cannot change their mission. Or that they cannot politically generate new schools as different as may be required to recruit the kids today who simply quit. But legislators remain slowed by an intense resistance. It would be easier for legislators to move faster if the leaders in public education would say in public what they know — any way in private — about the districts’ own difficulty with change. It would help if the greatest value from state spending. First, state spending should be targeted to assure long-term economic growth. While Minnesota ranks well in per capita income, largely on the basis of the number of jobs and jobs worked, there are threats to the state’s long-term growth. For instance:

- In recent years, fourteen of our top 20 corporations have been acquired or merged, and more companies have a national or international focus than before. Just barely half the ninth graders in our two core cities finish high school on time.
- Low-income students’ access to post-secondary education in this state is not improving.
- According to recent surveys, Minnesota ranks poorly in the development of “e-governance” — using the Internet to transform public service, stimulate small business and improve customer service.
- State budget decisions and efforts to reduce spending without cutting funds influencing by what factors really contribute to economic growth in our state. But that can happen if the state doesn’t have a clear, overall strategy. In the coming months.
- A second key principle suggests the state should make greater use of competition to improve public services. State government is not a service delivery system; it is a way, with little assurance of more or better results. Economic downturns often lead to a “circle of the wagons” mindset among the major beneficiaries of public spending. Sharp-elbowed lobbyists taking care of their own can often edge out the chance for reform.

Targeting spending to the most-needy, or to those who directly benefit from these services, enhancing the intelligible use of competition in education and public services, and working from an investment plan for the future growth of the economy are principles that easily can get lost in the shuffle. Minnesota’s long-term growth may be helped if:
- The decisions about spending to the most-needy are made by a group of people who are well-informed about the choices.
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by Ted Kolderie

The greatest test of our ability to raise and resolve issues currently is public education. “Half the kids in high school are on a treadmill to nowhere,” states Judy Codding, a long-time observer of education. “People understood why a health-care system was necessary. They understood that land-use and school finance systems are struggling to find the resources they need. They are uncertain about a school in a school system that is responsible mainly to the districts’ parent constituency of staff and local investors. Or a school of the teachers and their unions. Or a failure in the design of the system. The structure and incentives exist in law. It is conceivable that they cannot be changed by changing state law. Legislators do understand the problem, and they do not know how they are going to be reconstituting the structure. They are making it possible for people to start new schools and try new approaches. It is possible that the job that needs to be done is to encourage urban and low-income kids cannot be done by the organizations we have; the districts cannot change their mission. Or that they cannot politically generate new schools as different as may be required to recruit the kids today who simply quit. But legislators remain slowed by an intense resistance. It would be easier for legislators to move faster if the leaders in public education would say in public what they know — any way in private — about the districts’ own difficulty with change. It would help if...
Cold Sunbelt continued from page 2

Media would be as candid about the reasons for that resistance to change as they are about the power of private interests in other systems. If they did not accept quite at face value the assumptions that everything would be all right if districts just had loyal support and additional financing. Would it help if business executives could understand that no groundswell of public opinion is not a problem in the management of the organization but is, fundamentally, a problem in the structuring of the ‘industry’.

Prospects

We should talk about all this over the next year or so. Perhaps there is no problem, but I do not think I am alone in raising essentially these concerns. If there is a problem perhaps we can do something about it. It’s pretty clear, generally, what needs to be done.

There needs to be a continuing effort to develop leadership that is committed and devoted to this place; using the talents of people not previously involved.

Clearly, the foundations are a major hope if the right design and development of our policy process and its institutions something like the priority they now give to human-service programs and to issue-resolving. The Legislature remains in a 1985 for open enrollment and the post-secondary option. The public support came afterward.

We need to find new discussion mechanisms for turning ‘problems’ into ‘issues’, and for generating proposals for action. Perhaps web sites and e-mail will provide new and low-cost forums for reporting and discussing public issues, filling in the gap left by the change in the commercial press. Jason Epstein’s “Book Business” offers a little hope. Just when everyone had decided that quality publishing and independent book selling had been blown to the wind, good books are coming along that make it possible to publish books on the web and print books on-demand. The reasons to get service back to what I said at the beginning: go back to the fundamentals.

The desire runs very deep in this state to be ‘major league’ as we said in the ‘60s. But it is in no way ordained that the 15th largest metropolitan area in America is bound to be located where the Minnesota River flows into the Mississippi River. If we can succeed in this cold-sunbelt location we will have to keep up all those elements of ‘livability’ that attract people to come here and stay here. To do that, we will have to maintain our historic competitive advantage in collective action. An advantage created by community institutions that can see ahead, that know how to get to the causes of things, that can explain the choices the public faces, and that can act with vision and with courage.

These institutions are simply necessary.

People talk a lot in politics about what is possible, about what is realistic. What can be more realistic than to do what is necessary? When the country was a little more open to the new and low-cost forums for reporting and discussing public issues, filling in the gap left by the change in the commercial press. Jason Epstein’s “Book Business” offers a little hope. Just when everyone had decided that quality publishing and independent book selling had been blown to the wind, good books are coming along that make it possible to publish books on the web and print books on-demand. The reasons to get service back to what I said at the beginning: go back to the fundamentals.

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certain spending cuts or tax increases that automatically trigger if revenues drop below certain levels if we find that the math works.

Either of these approaches would enable the 2002 Legislature to trim state spending or raise taxes by less than would otherwise be required by the forecast. As the budget period proceeds, if deeper cuts are needed, the above approach would enable subsequent adjustments within the budget period.

A temptation for the 2002 Legislature will be to avoid spending cuts or tax increases that would mean using or raising taxes by less than would otherwise be required by the forecast. As the budget period proceeds, if deeper cuts are needed, the above approach would enable subsequent adjustments within the budget period.

The Sunset Commission report would be to tighten the state's budgeting or fiscal rules, which could help to avoid substantial forecast errors or tax increases that are based on a forecast system that has proven so inaccurate. In the May 1999 Legislature, the sunset commission helped to implement a revised forecast system that will mitigate the effect of these forecast errors.

Tom Tipple, a St. Paul attorney, is a former Commissioner of Finance and Commissioner of Revenue for the State of Minnesota. He can be reached at ttipple@bloomnet.net.

What is the chief problem facing the Twin Cities metropolitan area?

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The Menashi Daily News (1/15) thinks time isn't the essence of the budget discussion... "...there is no need to hurry and get a bill drafted within a week. We have a problem. And it does need a sense of urgency.

Let's start with the basics... that should help us to navigate more successfully toward a precarious post-9/11 world. But there is also a growing anxiety about the region's economy, a greater sense of personal financial insecurity, and a set of difficult regional problems that have so far defied coordinated, effective strategies.

Society continues to be no better at facing the challenges that have plagued us. The result is a growing sense of frustration and despair.

The Western Tribune (2/12) does not think the governor's plan is completely correct... "There are areas of Ventura's proposal that need to be fixed. The gas tax is a case in point. While the additional five-cent-per-gallon tax allows some revenue to be transferred from roads and bridges to the general fund to help the deficit, it does not do anything to improve roads and bridges in the state. A few more cents to help improve and maintain our roads and bridges is in order.

Some communities are worried about local impacts of the deficit...

"For our region none of this is good news," explains the Marshall Independent (2/21). "Although he is admittedly short on details now, Gov. Jesse Ventura is embracing the right approach in dealing with the state's potential budget shortfall. From spending cuts to tax increases, there should be no sacred cows. Legislatures must look beyond quick fixes and examine even more fundamental changes in the structure of government in their efforts to address the $1.95 billion problem. And they should do so in a professional, non-political manner with a race to the bottom a challenge for the state during uncertain economic times.

Not everyone is as confident with the Governor's way of dealing with the deficit. The Rochester Post-Bulletin (12/4) writes, "We also hope Ventura's plan is completely correct--that he did when past budget controversies centered on how best to spend state surpluses. During past legislative sessions his battle plan was to make a budget proposal and then disappear while the two major parties fought over the state's financial future. Ventura, a Navy veteran, has always portrayed himself as a tough leader who can lead in times of crises. Now, governor, is your time to shine."

The Twin Cities metropolitan area... "Take me out to the ballgame... Buy me some peanuts and crackerjack, try to spur the economy back!

"It's easy to understand the local government's axe-grinding, so that teams like the Twins can continue to thrive. However, it's also important to remember that the Twins are more than just a metro asset. The Twins are not just a metro asset. The Twins are not just a metro asset. The Twins are not just a metro asset. The Twins are not just a metro asset.

"Nowadays, professional sports is about the money. Just like the players who go where the biggest check is being offered, owners gravitate toward markets with the most money," argues the St. Cloud Times (12/5). "Amending or eliminating baseball's anti-trust exemption won't change that. So, even if this congressional effort succeeds, Minnesota still will be handicapped to keep the Twins. Why, then, pursue this particular option?"
The noticeable lengthening of daylight raises spirits and quickens our steps. Let's just hope these observations don't prolong winter by frightening Punxsutawney Phil.

Through the magic of modern communications our May 18, 1999 Minnesota Journal article on 'Adolescence' got to a person we don't know who lives we-don't-know-where. She emailed this response:

"Thank you so much for the article. It concisely articulates just about everything I felt as a teenager in a large suburban high school: disconnection, alienation, a total erosion of self-confidence, no sense of mastery, self-sufficiency or direction towards adulthood.

"Now at 30 I'm only beginning to understand why those years were so miserable. Adolescence is a post-modern sham, an artificial creation born of (adult) material concerns. It keeps unemployment figures down and young men off the streets. Most girls can bear children by the age of 12 but must suppress this natural urge in order to sit on their butts for another decade taking tests. More teenagers should be learning trades, not sitting passively in cages during the most vital years of their lives. We've become an infantilized nation. It all makes me so angry."

—Ted Kolderie

When a budget crisis is hard upon them, legislators often say their only choices are 'cut' and 'tax'. The say they haven't time now to deal with the fundamentals that are causing the budget crisis.

But experienced legislators know that it's only the pressure of a crisis that creates the opportunity to get at the fundamentals.

Nothing raises this question for the Minnesota Legislature this year like the financing of K-12 education. As it's currently configured, costs simply grow faster than revenues can be raised, and it is virtually impossible to 'cut'. It is an old-fashioned, high-cost system that still does not personalize learning in the way that students want. Unless its fundamentals are changed it will go on cutting, shrinking, deteriorating.

It's possible today to begin the shift to a lower-cost, more personalized kind of learning. The districts won't do it. For them it is entirely an effort to get the revenues up. Only the Legislature can do it.—T.K.

Most economic development conversations about Twin Cities clusters—geographically concentrated groups of companies and institutions linked by common technologies and skills—center on the region's preeminence in bio-medical devices. Less well known perhaps is the Twin Cities international reputation in advertising and creative design.

For the past 10 years, the international design magazine, I.D., has annually spotlighted 40 designers or companies that influence "the world through great design." This year, the magazine departed from focusing on the who and instead recognized the where of international design. Minneapolis was one of 40 featured cities on an international list that included traditional design powerhouses like New York, London, Milan and Paris.

The section on Minneapolis is called "Big Houses on the Prairie" in tongue-in-cheek recognition of the region's many internationally recognized design "houses." The article notes that Minneapolis has the second-largest chapter of the American Institute of Graphic Arts (AIGA) and is firmly anchored on the "big-idea map" of design. For more information, check out www.idonline.com.—Phil Jenni

Great strides are being made in "clean transportation" across the nation, but Minnesota seems to be behind the curve in these innovations.

The organization National Clean Cities recently announced their "Top Ten Coalitions" for best performance in 2000. The list is based on a number of factors, including data collected from the Clean Cities Coordinator surveys which track the number of alternative fuel vehicles (AFVs), refueling stations added during the year for those vehicles, and the total number of AFVs and refilling stations in the service area. Places on the top ten list include: North Jersey, Northeast Ohio, Commonwealth Kentucky, Atlanta, Greater Tulsa, Dallas/Ft. Worth, Metro Denver, San Joaquin Valley California, Los Angeles and the San Diego Region. Minnesota is conspicuously absent from the list.

In other AFV news, campuses across the nation are switching transportation fleets to alternative fuel vehicles. The University of Kentucky and Murray State University use vehicles that run on 85 percent ethanol-fuel. The University of Louisville recently started replacing older vehicles with zero-emission neighborhood electric vehicles. Emory University is using electric vehicles in addition to a fleet of natural gas-fueled vehicles. Maybe the University of Minnesota could start a program like this for shuttles.

—Scott McMahon

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

New and returning members

Dean Abrahamson
Mary Kay Brenner
Chris Burns
Max DeLong
Charlie and Lois
Durenberger
David and Heather
Durenberger
Kay Gudmestad
Robbin and Kris Johnson
Arnold P. Kaplan
Robert J. King
Jon McGee
David Mech
Dick and Lila Moberg
David Newhall
Louis Newman
Oan O'Neil
Walter A. Parlow
Daniel N. Pfeiffer
Lyall A. and Inez
Schwarzkopf
Melanie Soucheray
Vera E Sparkes
Thomas N. Watson

The Citizens League celebrates its 50th birthday in 2002

The Citizens League is celebrating its 50th anniversary with a glimpse back at past achievements and by looking forward to coming challenges.

The roots of the Citizens League go back a full decade before the League's incorporation in 1952. In the early 1940s a group of young Minneapolis business leaders, concerned about the increasing impact of government on individuals, decided to work together to influence elected officials and government actions.

In November 1942, Felton Colwell, Leslie Park, Bradshaw Mintener, James Slocum, Roger Gurley, Austin Caswell, Lloyd Hale and Stuart Leck decided to set up a political action group. The Good Government Group was adopted along with the slogan, "Instead of Beeving, Let's Act."

According to the group’s statement of purpose, "The American citizen is being convinced...that democracy is failing because government is controlled by the politicians, and the individual citizen is left bewildered. ... Our city, county and state needs a strong group devoted solely to good government, effectively organized to compete with the many pressure groups already long entrenched and now aggressively functioning in behalf of self interests."

In January 1951 the executive committee of the Good Government Group, which had grown to 127 members, discussed expanding into a broadly based membership of 2,000 to 3,000 people representing all of Minneapolis and Hennepin County.

Under the leadership of Stanley Platt, the executive committee studied other cities that had "outstanding political action and research organizations." The group decided to use the Seattle-King County Citizens League as a model.

In November 1951 a temporary office for the new organization was established at 901 Foshay Tower with Florence Lehmann as acting Executive Secretary. A statement of purpose for a "Minneapolis Municipal League" was signed in December 1951.

The formal organizational meeting of the Citizens League was held on February 14, 1952, in the auditorium of the North American Life and Casualty building. Leonard Ramberg, chair of the Good Government Group steering committee, presided. Over 250 people attended the meeting; 142 joined the new organization.

Next month: The fledging Citizens League gets organized and expands its membership and scope under first Executive Director Ray Block.

Citizens, creating good ideas, for a better Minnesota

The Citizens League celebrates its 50th birthday in 2002

League activities in 2002

A 50th anniversary planning committee, led by League Board member Christine Roberts, has laid out a series of activities, and events, to mark the League’s 50th birthday.

The celebration will begin in February with the announcement of a "blue ribbon" task force, chaired by Sean Kershaw and Jean King, to look at how the community should respond to policy challenges facing the region. The task force will meet through the spring, after which its recommendations will be shared with the community in a series of meetings, culminating in an "official" anniversary meeting in September.

Several other events, concentrating on the changing nature of the civic process, will be held this spring in conjunction with the Humphrey Policy Forum and the Active Citizenship School.

In addition, the Board has developed several groups to shore up League finances (see other side). By the end of the year the League hopes to use the information from both the internal and external projects to help it respond to new realities. The anniversary celebration will conclude in February 2003 with the announcement of a new permanent League project.

Lyle Wray marks his 10th anniversary as Executive Director of the Citizens League on February 10, 2002. He is only the fifth Executive Director in the League’s 50 years; a testament to the quality and stability of the League’s leadership.

Thanks, Lyle!
Property tax survey makes waves

The League’s 35th annual property tax survey received a great deal of attention and generated quite a bit of discussion. The report was covered on the front page of the metro section in both the Pioneer Press and the Star Tribune. Pioneer Press business reporter Dave Beal also mentioned the study in his Saturday column.

The report was featured in an Eric Eskola interview with Lyle Wray on WCCO-830. The Minnesota News Network also distributed a story on the report to its member radio stations throughout the state. Alan Cox of WCCO-TV interviewed Lyle Wray on the 5 o’clock news; and Lyle also bracketed the day with an early morning appearance on ‘CCO’S The Early Show.

While it’s always nice to get such healthy news coverage, this year’s tax survey also generated several calls from local units of government. Two township boards and a city council used the report at their planning retreats. One of the professed goals of the report is to inform local government officials of where their community stacks up relative to other communities. From the responses we’ve received so far, we’re confident that this goal has been achieved.

We also hope to inform citizens, and provide them with vital information to discuss with their elected officials. Again we’ve received numerous calls from people throughout the metro area, and thanks to the power of the internet we’re even getting responses from people outside Minnesota. Here’s what we heard via email from a gentleman in Iowa:

Dear Citizens League:

Found your web site and really appreciate the work your group is doing. I live in Des Moines, Iowa and we have some of the highest property taxes around. I reviewed your Metro Minneapolis property tax comparison, and we are 40% higher than Chanhassen.

I would really appreciate it if one of your analysts could take a look at our tax bill and help me understand how DM can be so much higher than the Minneapolis area. I know this is a lot to ask, but perhaps there may be something you folks can learn too.

I am very impressed with the Citizens League’s work, and only wish we had something similar locally. Thanks very much!

Kent Carlson
Des Moines, Iowa

Board addresses CL budget problem

In this space last month we related the importance of individual contributions to the League. Robust support from individual members is needed to fill a large budget hole created by the substantial decrease in corporate support for the League. Through a variety of reasons, mostly mergers, acquisitions and company misfortunes, the League has lost more than $100,000 in support from the corporate community in the last two years. That means trying to replace nearly a quarter of the League’s budget. Contract projects have helped some and individual support was strong at year-end but not enough to close the $65,000 shortfall in last year’s League budget.

The League Board of Directors held a special two-hour meeting on January 14 to consider the problem. President Dave Durenberger walked the Board through several financial trends and concluded that the League cannot continue under current trends. The Board reviewed several internal reports that have been done the last couple of years. They decided that because of the financial urgency, a broader discussion of the League’s mission and programs should be held off, or at least done concurrently with a Board plan to tackle the immediate financial challenge.

The Board appointed an action group to take the lead in five areas of resource development including 1) improving the Board’s capacity for fundraising, 2) corporate development, 3) earned income, 4) foundation underwriting and 5) individual membership and planned giving.

Specifically, the Board Capacity Action Group will recommend ways to improve the Board’s institutional capacity to raise money. They will consider options such as creating a two-tier Board, one advisory/emeritus for fundraising, another for operations; adding new members with specific fundraising skills; reducing the overall size of the Board; and creating a Funding Strategy Committee.

The Corporate Strategy Action Group will consider strategies to retain current corporate support and attract new companies to the League and think about different segments of corporate support and what kind of support, will appeal to different targets.

The Earned Income Action Group will develop and help implement a strategy for pursuing earned income for the League. They’ll review past activities, consider what kinds of projects have the most potential, develop a marketing plan and determine appropriate role of the Board in soliciting prospects.

The Foundation Partners Action Group will recommend targets, tailor the League message and take a lead role in contacting potential foundations for long-term underwriting of the League.

The Individual Strategy Action Group will consider the League’s dues structure and annual appeal strategy. They will also plan and help implement a national foundation challenge grant for endowment gifts to stabilize finances of the League and other similar organizations in the country.

The annual property tax survey is an enormous undertaking involving literally thousands of pages of data. Each year the League relies heavily on information from the Minnesota Department of Revenue. Special thanks go to Revenuers Kristina Coles, Dean Carter and Jerry Silkey. Also our thanks go to Kris Wilson, former League staffer and to Lynn Reed of the Minnesota Taxpayers Association, for their counsel and support.