



JOURNAL

Expanding the Civic Imagination

 **Citizens
League**

Common ground. Common good.

Volume 27 • Issue 1
January/
February 2010
www.citizensleague.org



Instead of cutting or spending, try redesigning Some new and some “renewable” ideas for getting more from current public programs

By Janna Caywood

In difficult economic times, when state budgets are strained seemingly to the breaking point, it is easy to become myopic and tell ourselves we have only two choices: make drastic cuts to public services or raise taxes. There is a third, more desirable response: redesign current systems with an eye towards more efficient delivery of services at a more affordable price.

Ted Kolderie of Education Evolving put this kind of thinking into perspective for us in his 2004 *Minnesota Journal* article, “**State Budget Deficit Requires Resetting the Mechanism Inside the Box.**” He says many of us

There is always the option to
reset that mechanism so it will
work better, will get greater
value for the money.

picture our public service system as a machine—there is a hopper on top where the inputs go (dollars and people), and a spigot on the bottom where the outputs emerge (services and benefits). Such a picture, he explains, makes us think there are only two ways to adjust the system. “If you put less in, people say you’re bound to get less out. If you want more out, you have to put more in.” We forget, he says, that “Inside the box of any system there is some mechanism that turns resources into results. It can work well or badly, efficiently or inefficiently. There is always the option to reset that mechanism so it will work better, will get greater value for the money.”

Redesign of government systems is something the Citizens League has a lot of experience with. Over the

years, study committees have dissected a variety of public policy problems and come up with innovative redesign recommendations. We’ve culled a few examples from the report annals that illustrate three important themes in system redesign:

- Establishing (or re-establishing) a direct connection between incentives and behaviors—for individuals, organizations, and institutions.
- Maintaining a view of the whole, dynamically interacting system and the contextual environment in which it manifests.
- Ensuring transparency in how a system functions, who is accountable for outcomes, and who benefits.

Minnesota Journal readers and Citizens League members have added a few of their own suggestions for redesign ideas that are efficient not expensive. We hope these ideas will help reframe the discussion, and help all of us to see the “machine” that produces our public services differently and think more creatively as we work toward finding solutions to our pressing problems.

A NEW URBAN COLLEGE (APRIL 1971)

As the 1960s came to a close, the demand for higher education was dramatically increasing in Minnesota, raising the alarm that enrollment demands might exceed available higher education opportunities. This was especially true for the St. Paul/Minneapolis area,



INSIDE

As requested, we’ve added a new section called *Engagement* on page 3 to keep you informed about Citizens League policy and civic work and all the ways that you can get and stay involved.

Connections	2
Engagement	3
Viewpoint: The Wizard is us	5
Property tax affordability and fairness	6
With MnPASS Express flowing smoothly, Mn/DOT’s next move	8
Minnesota Idea Open taps the wisdom of citizens	13
Perspectives: Twenty years after school charter reform, two views of the future	14

continued on page 4

CONNECTIONS

Building a League of Citizens



Citizens League member Gene Tsao talking with Lincoln Hughes at the Black Forest Inn in Minneapolis. Members, staff, and friends get together for happy hour on the second Wednesday of each month at rotating locations.

UPCOMING EVENTS

FEBRUARY 19 AT NOON.

Friday Forum: Minnesota's Waters (Rochester)

MARCH 10 FROM 5:30 TO 7:30 P.M.

Happy Hour (Twin Cities)

For more information or to register for these and other upcoming events, go to www.citizensleague.org.

Prefer to read the *Minnesota Journal* online?

Members can choose to receive the Minnesota Journal in print, by email, or both. To sign up for electronic delivery, contact Catherine Beltmann at 651-293-0575 ext. 10 or cbeltmann@citizensleague.org

CHALLENGE GRANT DOUBLES INDIVIDUAL CONTRIBUTIONS

The Pohlad Family Foundation has awarded the Citizens League a \$10,000 matching grant for the first few months of 2010. All new memberships and any increase in contribution from last year will be matched dollar-for-dollar up to \$500. Now is the chance to double your impact.

Donate by visiting www.givemn.org/story/citizens-league or by sending a contribution to 555 N. Wabasha Street, Suite 240, St. Paul, MN 55102.

The Citizens League depends on the time, effort, relationships, and donations of its members. Thank you for all of the contributions that make the Citizens League possible.

YOUR CONTRIBUTIONS MAKE IT HAPPEN

- **\$500** pays for the delivery of one Quantum Civics course, our civic leadership development program, which combines information on big ideas about democracy, justice, and civics with practical skill-building.
- **\$1,200** helps to fund a Mind Opener, a breakfast discussion on a topic central to the Citizens League's policy agenda.
- **\$2,500** enables the printing and distribution of our policy reports to public policy leaders and decision makers.
- **\$5,000** funds an entire year of Action Groups, self-led projects for emerging leaders in their 20s and 30s on policy issues of their choosing. This year, action groups are working on financial literacy, poverty, and education.
- **\$10,000** funds a portion of a Study Committee, the hallmark of the Citizens League engagement process. Study committees are made up of Citizens League members who meet to learn about, analyze, and develop recommendations for action on an important issue.

New and rejoining members, recruiters, and volunteers

Individual members

Athena Adkins
Susan Ahlquist
Robert Armstrong
Deborah Bendzick
Brad Blackett
Thomas Brown Wiese
Paul Cumings
John Davies
Theresa DeGeest
Richard Dietman
Virginia Edelstein
Deborah Ellsworth
Dawn Erlandson

Mike Erlandson
Patrick Farrell
Steven Foldes
Patricia Freeman
Richard Gehrman
Susanne Griffin-Ziebart
Valerie Halverson Pace
Mike Harley
Jennifer Huang
Jeffrey Huggett
Lois Johnson
Carol Kamper
Sandy Keith
Scott Kiesling
Ann Kirby McGill

Mary Koppel
Thomas LaForce
Wendy Meadly
Marilyn Morem
Mary Musielewicz
Dana Nelson
Jeanne Nitchals
Lance Patrick
Tom Pettus
Jenna Rasmusson
Herbert Reiman
Jane Reiman
Haley Rekucki
Karen Ricklefs
Merlin Ricklefs
Thomas Ruen

Elizabeth Ryan
David Schaaf
Susan T. Schuster
Harlan Smith
Kathleen Stack
Vladimir Sulc
Anne Swartz
Jason Tamminen
Rico Vallejos
Judy Walter
William Walter
Patricia Ward
Jonathan Watson
Pamela Weaver
Karel Weigel
Mary Anne Welch

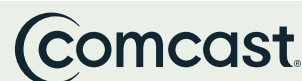
Jame Wellik
Jeanne Wilson
Steve Wilson

Firms and organizations
Allianz
Allina Health Systems
Blue Cross & Blue Shield of Minnesota
CenterPoint Energy
Delta Dental of MN
Ecolab
Faegre & Benson Foundation
Faribault Foods

FOCUS St. Louis
Fredrikson & Byron
Grassroots Solutions
Keystone Search
Lutheran Social Services
Metropolitan Library Service Agency
Minnesota Business Partnership
Mortenson Construction
Neerland and Oyaas
Pentair Foundation
Portico Healthnet
Rochester Post Bulletin

St. Paul Public Housing Agency
Target
The McKnight Foundation
The St. Paul Foundation
Tunheim Partners
University Extension Services
US Bank
Winona State University
Volunteers
Cal Clark
Sheila Graham

The Comcast Foundation has provided a generous three-year grant to help increase the involvement of young adults in the Citizens League. Our new Action Groups, StudentsSpeakOut.org, and our civic leadership programs have been made possible, in part, with Comcast's support since 2006.



ENGAGEMENT

What We're Doing and How You Can Get Involved

PUBLIC POLICY

We work to develop and advance a "civic policy agenda" where all individuals and institutions have a role in defining problems and recommending and advancing solutions through a variety of processes and opportunities to participate. Our current policy work includes:

"To the Source: Moving Minnesota's Water Governance Upstream," published in November, concludes that we need a collaborative governance model in which the people and organizations that contribute to problems like water pollution play a central role in addressing those problems. We are now looking for opportunities for citizens, farmers, businesses, and other organizations to collaborate with local and state governments.

▶ **Get involved:** Help the Citizens League connect with partners to advance recommendations.

Pathways to Prosperity: A study committee looking at **reducing poverty** will issue recommendations in early 2010. See updates on the project at www.citizensleague.org/blogs/policy.

▶ **Get involved:** Sign up for emails to track the committee's progress and learn about future policy design opportunities.

Aging: Creating a new **long-term care financing model** that restores individual responsibility and collective financial stability.

▶ **Get involved:** Watch Citizens League emails for more information and for opportunities to advance this work after the recommendations are issued.

The Citizens League is also working to build upon policy work in the following areas:

- **Transportation finance:** Examining and recommending positions regarding **value capture**; working toward regional transportation solutions based on the 2005 report "**Driving Blind**."
- **Health and medical care:** Based on the 2006 "**Developing Informed Decision**" report, we're looking at the question: Has our supplier-driven market eroded access to care and how should the Citizens League respond?
- **Judicial selection:** Changing judicial elections to insure the impartiality of Minnesota courts, based on our **2008 statement**.
- **Education reform:** Building on the **final report** issued by last year's Charter School Policy Review Group, evaluate current reform efforts and position of the Citizens League based on past and recent positions. This will include evaluation of federal and state initiatives.
- **Regional governance:** Advancing the Common Ground process that resulted from the 2008 **Regional Policy Workshop**. Reviewing Citizens League policy and evaluating federal initiatives related to regional governance.

- **Energy:** Reviewing 2001 Citizens League report "**Powering Up Minnesota's Energy Future**." Update and position the Citizens League in light of today's energy developments.

If you're interested in our policy process, join the **Policy Advisory Committee**, which examines proposals for study; forms small groups to take on specific tasks; evaluates policy processes; and advises committees, staff, and the Board of Directors.

ACTIVE CITIZENSHIP AND CIVIC LEADERSHIP

Civic leadership development: **Quantum Civics**, our new civic leadership development program.

▶ **Get involved:** Sign up for the next 10-week course, beginning in early March.

Action Groups: Opportunities for emerging leaders to create and manage their own policy project.

▶ **Get involved:** Watch email updates to get involved in the next round of action groups later this year.

Students Speak Out: Involving high school students in high school policy reform.

▶ **Get involved:** Join the discussion at www.studentsspeakout.org

Membership and Engagement Committee: Growing the Citizens League membership and providing more opportunities for members to get involved.

▶ **Get involved:** Join the committee.

SOME OF OUR RECENT ACCOMPLISHMENTS

- Members and community participants donated about **12,000** hours toward accomplishing the Citizens League work plan in 2009. Of that, **3,300** hours went toward policy development.
- We organized leadership and support to pursue the **Urban Partnership Agreement**, resulting in \$133 million in federal funding to reduce congestion through transit improvements and "free-flow pricing" in the I-35W south corridor. See www.citizensleague.org/blogs/policy for a recent update.
- The **Minnesota Mental Health Action Group's** work culminated in 2007 with the most comprehensive mental health legislation and funding reform in two decades.
- We created an **online library** of nearly 500 Citizens League policy reports and recommendations as a resource for researching, evaluating, and advancing public policy issues.

Find more information about all of our work at www.citizensleague.org.

To get involved, contact Catherine Beltmann at cbeltmann@citizensleague.org or 651-293-0575 ext. 10

which was experiencing the greatest population growth. Students seeking higher education in the Twin Cities were not necessarily new high school graduates, but rather working adults trying to keep pace with a professionalized job market. In order to meet the needs of this “non-traditional” student, a 1971 Citizens League report recommended creation of a new Urban College to increase access to post-secondary education for this new kind of student.

This college “without a campus” would hold classes in a variety of existing facilities, including under-used space at private colleges, high schools, industrial buildings, government buildings, and other facilities. The Urban College would provide new teaching approaches and modernized curricula, and bring the classroom to where urban students live and work. It would avoid duplicating the education provided by junior and technical colleges, focusing instead on upper division courses for transfer students. Also, technologies such as “television” would be used to bring education

into the home (a novel use back then). The curricula would emphasize, in addition to academic studies, training in new professions such as health care and “electronics.”

As a public institution, the Urban College would provide targeted educational opportunities for a growing niche of students, working adults seeking 4-year degrees with professional emphasis. Today, Metropolitan State University fills the role of this new Urban College.

A RISK-SHARED BASIS FOR PENSIONS (DECEMBER 1978)

In 1978, nearly all Minnesota public pension plans were based on a “defined benefit plan.” Two numbers determined the amount a pensioner would be paid: total years of service and salary during the last five years of employment. The retiree was guaranteed pension payments based on this formula regardless of how much he or she or the employer contributed towards the pension during

continued on page 10



EFFICIENT NOT EXPENSIVE

Raise the bar on eligibility for publicly-funded services

By LaRhae Grindal Knatterud

In our human service programs, there are three basic options for reducing costs: reduce benefits, reduce the rates paid to providers, or change the eligibility to reduce the number of individuals who qualify for services. The Department of Human Services has utilized all of these options in one way or another to reduce program costs.

The idea below was proposed by the Department of Human Services, included in the governor's 2009 budget proposals, and enacted by the Legislature. It is included here as an option that could perhaps be used to trim the costs of public programs in other areas where service needs are high and categorical programs require comprehensive benefits, special education and health care, for example. It uses a combination of approaches, raising the eligibility bar for services and substituting less intensive, less expensive services for “less needy” individuals who no longer qualify.

The federal government requires that states establish criteria for determining whether an individual is in need of a nursing home “level of care,” in order to access the Medical Assistance (MA) program, and a set of waivers to MA that provide home and community-based services to individuals considered “at risk” of institutionalization. An analysis of Minnesota's current criteria indicated that we could better target benefits to people with higher needs by applying more rigorous standards for determining access to these programs. For example, under earlier criteria, individuals who went to a nursing home for rehab after a hospital stay were not routinely reassessed for their ability to return home where services cost less. In addition, assessments were subject to variation across counties and population groups.

Under the newly-enacted provision, to qualify for long-term care services, a person must be assessed to need at least one of the following:

- assistance with four or more activities of daily living (ADLs), or need for assistance that cannot be scheduled, e.g., toileting, transferring
- need for clinical monitoring at least once a day
- a significant cognitive impairment or behavioral needs
- at institutional risk (a **qualifying** nursing facility admission of at least 90 days or living alone and at risk of maltreatment, including abuse, neglect, or exploitation; self-neglect; falls; or substantial sensory impairment).

In Minnesota, 58,000 people currently receive home and community-based services or nursing home services and are determined to be at risk of needing a nursing home level of care. The vast majority of those 58,000 individuals will continue to be served under the eligibility change.

The estimated 1,100 current recipients who would no longer qualify for services under MA would instead qualify for a new limited set of benefits under a state-funded grant (at a cost of \$7 million per year) called Essential Community Services. This grant would include the services most utilized by recipients over time, including Lifeline service, caregiver support and education, homemaker and chore services, and service coordination. These are also services that are less expensive to provide.

This proposal is expected to save nearly \$87 million per biennium when fully implemented.

LaRhae Grindal Knatterud is the director for Aging Transformation at the Minnesota Department of Human Services



The Wizard is us

What we find when we pull back the curtain on government spending

by Sean Kershaw

This is not a column about which issues to prioritize at the legislature, nor where we should invest our precious political capital. It's not about addressing this year's budget gap, next year's budget chasm, or the increasing level of public anger at public spending. Not really...

This column is about a policy mechanism that exemplifies *why* our politics and policymaking are stuck, and why we need to harness the public's frustration to achieve real policy reform.

This column is about...*tax expenditures*.

HOLES IN THE BUCKET

The Department of Revenue defines tax expenditures as preferential "statutory provisions that reduce the amount of revenue that would otherwise be generated, including exemptions, deductions, credits, and lower tax rates."

Tax expenditures are decisions *not* to collect tax revenue, or, as a former finance commissioner described them, "holes in the bucket" of state revenue. Depending on your point of view, they are tax breaks for special interests or justifiable economic stimulus measures. The list includes **hundreds** of items, such as exemptions for employer contributions to health care, the mortgage interest deduction, and a wide variety of sales tax exemptions.

Once approved, tax expenditures do not need to be re-approved every budget cycle, so they disappear into the fine print of Revenue Department reports. Many do not have clear policy objectives. And even for those that do, it is often difficult to assess how well those objectives are met. The beneficiaries of tax expenditures can easily defend against their elimination by claiming the elimination is a tax increase.

When we had budget surpluses, this wasn't a problem. But these exemptions add up to an *enormous hole in our budget*. The state's projected deficit for the 2011-12 biennium is more than \$5 billion. The loss

The loss in revenue created by tax expenditures for 2009 alone totaled more than \$11 billion!

in revenue created by tax expenditures for 2009 alone totaled more than \$11 billion!

Who benefits from these budget black holes? All of us, but mostly middle and upper-middle income Minnesotans.

TRANSPARENCY AND INFORMATION

For a variety of reasons, we don't talk much about tax expenditures. We need to—especially if we aspire to make state spending decisions more transparent. Without accurate information, Minnesotans cannot fully understand the scope of the problem or their role in creating or perpetuating it, nor can they fully participate in the debate over ways to address it. This lack of transparency is contributing to the rising level of public frustration and alienation over our lack of fiscal stability.

PLUGGING THE HOLES IN OUR BUCKET

With better information and greater transparency, Minnesotans can have an honest—if still difficult—debate about how we prioritize *all* state spending and benefits, something much more productive than the current debate over increasing taxes or cutting spending.

We need to put everything on the table, not just the \$17 billion that the state spends each year, but the \$11 billion we choose not to collect. Only then can we accurately weigh whether spending for safer roads or teacher salaries is more important than a gasoline sales tax exemption (\$600 million). Or whether we should cut access to medical services for ultra-low income people, or offer mortgage interest deductions to (mostly) upper-income hom-

owners (\$500 million), or reduce the exemption for employer contributions to health care (\$1 billion). If we eliminated some of these exemptions, could we lower tax rates for everyone and promote much-needed job and income growth?

THE PUBLIC IN PUBLIC POLICY

Read the papers and you might think our fiscal and political problems are "out there," caused and solved by politicians and bureaucrats. We've turned our politicians into The Great and Powerful Wizard of Oz.

But our budget shortfall isn't only the fault of politicians or the economy, the problem is woven into the infrastructure of our entire state finance system; it's the result of policies made over 150 years, and our elected officials are only partly to blame. All of us have quietly benefitted from this status quo.

But the status quo is breaking the bank, and it's time to stop looking for a solution from someone or somewhere else. If we pull back the curtain on state spending, it's clear that the wizard is us.

Admitting this can serve as a beginning for needed policy reforms and a genuine and genuinely more-productive debate about how much to spend and where to spend it.

We know *how* to do this: the **Bottom Line** project from a year ago suggests some potential strategies. The critical first step is realizing that we *need* to do this.

Do we have the courage, the compassion, and the intellect to do so? I believe we do. We're not in Kansas anymore when it comes to policymaking. It's time to pull back the curtain on The Great and Powerful Oz. Maybe we'll find we're even more powerful when we work together honestly, free of the tricks, stagecraft, and theater that characterize our current debate about the budget. ●

Sean Kershaw is the Citizens League's Executive Director. He can be reached at skershaw@citizensleague.org, [@seankershaw](https://twitter.com/seankershaw) (Twitter), Facebook, or his blog at citizensleague.org/blogs/sean/.



The return of Voss

New insights on property tax affordability and fairness

By Mark Haveman

Lost in the attention surrounding the release of the state economic forecast was the publication of a long-awaited report by the Minnesota Department of Revenue. The report, **“Residential Homestead Property Tax Burden Report: Taxes Payable 2007,”** includes findings from the re-creation of the Voss database, the database that matches property taxes paid with actual incomes of Minnesota homeowners. Such information could not come at a more opportune time. Property tax affordability is front and center in current state and local budget debates. For the first time in more than a decade, data is available to help us understand the magnitude and severity of the ability-to-pay problem with respect to property taxes.

Obviously, whether these rates are affordable or not is a subjective matter; 3 percent of homeowner income may be a source of outrage to one person but entirely reasonable to the next door neighbor.

Eighty-three of Minnesota’s 87 counties provided the data to develop the report, representing about 94 percent of the total residential homestead market value in the state. Because of data confidentiality requirements, the report aggregates the information into 20 regions roughly corresponding to the state’s economic development regions. Summary statistics on estimated market values, tax burdens, homestead incomes, tax refunds, and effective tax rates are provided for each area.

QUANTIFYING THE ISSUES

Much of the report confirms what we already know about property taxes in Minnesota while adding new perspective and color. Chief among these issues are the regressivity of the tax and the crucial role the state property tax refund program plays in reducing this regressivity. Before the property tax refund (PTR) is included, the median property tax burden for homeowners statewide with household incomes in the \$10,000 to \$30,000 range is 6.2 percent. This rate declines steadily as incomes rise to only 1.8 percent for homeowners with incomes above \$125,000. However, the influence of the state’s property tax refund program in mitigating this regressivity is also clearly evident. After property tax refunds, the median burden for homeowners in the \$10,000 to \$30,000 income range falls 40 percent to a rate of 3.7 percent, with more modest declines for all incomes up to \$90,000. It’s powerful evidence that refund programs targeted to those least able to pay have great value in reducing a tax’s structural regressivity.

New information is also available on the affordability of the property tax in the state. As might be expected, there is considerable variation across incomes and regions of the state with respect to how much homeowner income is consumed by property taxes. Median net property taxes (after PTR) ranged from \$726 per year in the far southwest corner of the state to \$3,257 per year in southwest Hennepin County. Median net property tax rates ranged from 1.72 percent in the far southwest to 3.60 percent in Minneapolis. Statewide, more than 55 percent of Minnesota homeowners pay 3 percent or less of their income (after the PTR) for county and city services and some portion of school operations. Nearly 80 percent pay 4 percent or less. (The study does not include regional counts for homeowners earning less than \$10,000.) Of the 20 regions in the report, only in Minneapolis do median homeowner property taxes exceed 4 percent of income prior to the PTR. Post-refund, the median rate falls to 3.6 percent. Obviously, whether these rates are affordable or not is a subjective matter; 3 percent of homeowner income may be a source of outrage to one person but entirely reasonable to the next door neighbor. It is worth noting that future reports capturing the effects of the recession and higher levels of unemployment are likely to yield a jump in these rates.

THE METRO VS. GREATER MINNESOTA

The real eye-catching finding concerns the differences in tax rates between metro cities and greater Minnesota. The study reports a median property tax burden (after PTR) of 3.17 percent of income for the metro region but 2.3 percent of income for greater Minnesota. In other words, the median property tax burden in greater Minnesota would have to increase by nearly 38 percent to equal the median property tax burden paid in the seven-county metro area. Some might argue that greater metro area incomes make this higher burden easier to assume, but this neglects to account for the higher cost of living in the metro—driven largely by housing costs. According to the report, the median metro home value is 68 percent higher than in greater Minnesota. An analysis that factors in higher mortgage and interest payments would show total housing costs as a percent of homeowner income to be much higher for metro homeowners compared to most outstate areas. (Assuming a 30-year fixed, 5 percent mortgage on the median value home in each region, total cost of housing as a percent of income averages 35 percent higher in the metro.)

Most telling is the variation in property tax burdens among income equals across the state. To illustrate, Table 1 compares the median property tax burdens (after PTR) for one income cohort—the \$45,000 to \$65,000 household income range—across all 20 regions. For these incomes (which includes the state median income), property taxes in the metro region consume almost 50 percent more household income than in greater Minnesota at the median. Similar results are found for all income strata. Also of note is the geographical difference in the proportion of homeowners experiencing what might be called “property tax stress” (tax burden greater than 5 percent of income after PTR). The frequency of

homeowners above this threshold in the metro region is over four times that of greater Minnesota.

IMPLICATIONS FOR STATE AID PROGRAMS AND PROPERTY TAX RELIEF

Such findings have important implications for current state aid debates and for finding the best mechanisms for property tax relief. Advocates of state aid to cities have long argued that Local Government Aid (LGA) creates greater fairness in property taxation across the state. In 2007, the year of this study, Minneapolis and St. Paul received approximately 30 percent of the LGA pool, but of the remaining amount, 93.2 percent went to communities in Greater Minnesota, while only 6.8 percent went to cities in the metro region. Comparing this aid distribution to the findings highlighted above, it's difficult to understand just what kind of fairness is being accomplished. It is certainly not the tax fairness

In other words, the median property tax burden in greater Minnesota would have to increase by nearly 38 percent to equal the median property tax burden paid in the seven-county metro area.

principle of “horizontal equity”—treating equals equally. The significant geographic disparities in homeowner effective property tax rates are attributable to many factors but are undoubtedly influenced by LGA. If ensuring adequate services at reasonable tax prices is the goal of LGA, then this report suggests many metro area cities are also “needy” and the LGA formula is in need of serious overhaul.

LGA cuts—past, present, and future—have triggered a firestorm of criticism, especially among city officials in greater Minnesota and their advocates. It's been argued that critical service cuts are inevitable because local citizens simply cannot afford the property tax increases needed to fully make up for aid cuts. One recent report on the damaging effects of LGA cuts in greater Minnesota was titled “**Bleeding Communities Dry.**” Are greater Minnesota taxpayers at or already beyond the tolerable threshold of property tax affordability? It might be worthwhile to ask metro homeowners whose median property tax burden is commonly 40 percent more than their outstate counterparts of equivalent income.

More fundamentally, this report once again brings an important philosophical debate regarding property taxation into sharp relief. There are two potential paths to assure good local public services at reasonable tax prices. The first is to let local governments control their own property tax destiny and establish whatever levy they determine necessary to deliver on their citizens' desires and expectations concerning public services. The state assists in

Property tax burden (after PTR) as a percentage of income, by region, for homeowners earning \$45,000 to \$60,000

Property tax burden after property tax refund (PTR)

Metro Region	Median Burden	No. of homesteads with tax burden > 5%	% of homesteads with tax burden > 5%
Anoka	3.2%	969	5.2%
Carver/Scott	3.6%	1,398	15.8%
Dakota	3.3%	1,925	9.8%
Washington	3.3%	1,073	9.6%
Minneapolis	3.6%	2,490	17.9%
North Hennepin	3.6%	1,694	11.9%
Southeast Hennepin	3.7%	1,836	14.6%
Southwest Hennepin	3.8%	2,196	24.7%
Saint Paul	3.1%	782	7.0%
Suburban Ramsey	3.5%	1,145	10.1%
Metro Region Total	3.4%	15,508	11.9%

Greater Minnesota			
Northwest/Headwaters	1.9%	132	1.8%
Arrowhead	1.7%	325	2.0%
West Central	2.0%	213	1.8%
North Central	2.0%	195	2.2%
Central	3.0%	941	4.7%
East Central	3.0%	455	5.2%
Minnesota Valley	2.1%	197	2.2%
Southwest	1.5%	NA	NA
South Central	2.2%	NA	NA
Southeast	2.5%	751	3.1%
Greater Minnesota Total	2.3%	3,396	2.8%

this goal by providing targeted relief based on ability-to-pay. The other path involves the direct subsidization of city services through state aids and credits. Some of this subsidy may accrue to property tax payers; some may accrue to the public sector (e.g., more public sector jobs or higher compensated jobs). But any property tax relief that actually materializes will be shared equally among rich and poor in the community. It's ironic that in a state that values fairness in its tax system above all else, so much effort is invested in advocating and defending the more regressive approach. ●

Mark Haveman is Executive Director of the Minnesota Taxpayers Association, an independent, non-partisan research and education organization advocating efficient government and sound tax policy. This article originally appeared in the November/December 2009 issue of the MTA member newsletter *Fiscal Focus*.



With MnPASS Express Lanes operational, Mn/DOT looks to the future

Phase 2 System Study will evaluate options for Minnesota's most congested highways

By Kenneth R. Buckeye

Transportation agencies across the nation are increasingly pressed to deliver more capacity with a funding stream that has remained stagnant or is diminishing in the face of rising construction costs. Measures such as High Occupancy Toll (HOT) lanes, managed lanes, and active traffic management are being deployed to increase throughput of passengers and vehicles. It is paramount that transportation agencies achieve this goal without diminishing the level of service for transit and carpools or compromising safety.

That is the goal for the MnPASS System Study Phase 2 currently being developed by the Department of Transportation and the Metropolitan Council, to achieve greater efficiency in the region through better use of existing infrastructure and to optimize highway system performance. The study is scheduled for completion by Fall 2010.

Minnesota now has two operational MnPASS Express Lane corridors; I-394 opened in 2005 and I-35W launched in September 2009. The MnPASS lanes, which evolved from high occupancy vehicle (HOV) lanes, help reduce delays, save time for toll-paying customers, and continue to provide transit and carpools with reliable travel times. Mn/DOT manages the corridors so traffic moves at speeds of 50 to 55 mph, providing a "congestion free" driving experience for all customers. Other parts of the country are emulating Minnesota's significant innovations.

Locally, MnPASS lanes have become generally accepted as a technique to manage congested roads. Wider application, as is envisioned under the MnPASS System Study Phase 2, will require a thorough analysis of benefits and costs as well as operational, safety, and performance trade-offs. Although the development of new MnPASS lanes on the existing system may be considered, their cost is extremely high, the lanes often require a long development period and may necessitate new right-of-way acquisitions. Most importantly, MnPASS lanes will need to become a regional priority to compete successfully for the region's limited transportation funds. From a toll-financing perspective, it is doubtful that MnPASS lanes will ever fully cover their development and operational costs because of their inherent "optional" nature. During uncongested periods, travel in the MnPASS lanes is normally free for all users, reducing the revenue these lanes generate.

With both of the region's HOV lanes now converted to high occupancy tolls (HOT) under MnPASS, we must now consider new designs, technologies, and operational plans if the region is to affordably expand its MnPASS system. That may include the expanded use of shoulders as travel lanes during peak periods, restriping of highways to provide more lanes within the existing right-of-way, and deployment of active traffic management (ATM), currently in use on I-35W. ATM provides drivers with an array of information, such as estimated travel times, safety alerts on lane closures during incidents, and speed advisories. (See sidebar) Some transportation experts have suggested converting some free lanes to toll lanes, but that strategy has never been successful



anywhere. Although that option may still be considered, it would likely be recommended on short segments only and for the purpose of system continuity.

CONGESTION PRICING AT WORK

Market pricing on roads is itself an innovation that enables Mn/DOT to manage demand in the MnPASS corridors. As demand increases on the toll lane, the price rises for those considering entering the lane. Once a driver enters the lane, the price remains

unchanged even if the price rises while they are on the lane. MnPASS lanes are always free for carpools, buses, and motorcycles. Single drivers can use the lane legally if they have a MnPASS Express Lane account. Tolls are deducted electronically from a users account via a windshield-mounted transponder, and the price varies depending on demand, rising from 25 cents to \$8. Although the existing MnPASS lanes generate enough revenue to cover their operations costs, the main benefit is enhanced performance and improved efficiency. Vehicle throughput in the I-394 HOV lane improved by as much as 33 percent during the peak period after the lane was converted to a MnPASS Express lane in 2005.

MNPASS SYSTEM STUDY 2

Mn/DOT recognizes that the region can afford few highway expansions to resolve congestion given the forecast for transportation revenue in coming years. It is imperative that the region define cost effective techniques, projects, and policies to optimize the performance of the highway system for users and modes. Through better use of current highway designs, pavements, and shoulders, as well as rights-of-way and low-cost congestion management measures, MnPASS Express Lanes may enable Mn/DOT to affordably add capacity to the region's system.

The MnPASS System Study Phase 2 is not a stand-alone planning effort. It is bolstered by other research and an important planning effort called the Metropolitan Highway System Investment Study, data from which is being used by the Met Council and Mn/DOT in the regional transportation plan update, scheduled for adoption in late 2010.

The Metropolitan Highway study will address how the region might optimize its investments given significant financial constraints expected for transportation funding in the next 20 to 50 years. Identifying low-cost and high-return improvements on the most congested parts of the highway system will be particularly important.

GAINING PUBLIC SUPPORT IS CRUCIAL

Although gaining public and political support for toll lanes was initially a significant challenge, a broad base of support seems to be emerging for MnPASS lanes based on customer surveys and discussions. A recent [survey](#) of MnPASS lane customers showed an exceptionally high degree of satisfaction in almost all phases of operations. And because the MnPASS lanes developed so far have not converted any general purpose lanes to toll lanes during peak periods, they are not a take-away for drivers in the general purpose lanes.

The MnPASS System Study Phase 2 will set the stage for a discussion about expanding MnPASS lanes in the region over the next 10 to 20 years. Ultimately, improved performance of the system through this expansion will enhance the region's competitiveness by reducing congestion and delays, reducing green house gases, improving system performance for transit and toll customers, and generating revenue for operations and development. ●

Kenneth R. Buckeye is Congestion Pricing Program Manager at the Minnesota Department of Transportation.

HOV lane innovations

MnPASS has introduced several ground-breaking features that are now being adopted for other road improvement projects around the country. These features include:

- tolling on lanes directly adjacent to free lanes
- dynamic pricing on multiple segments
- technology applications to assist enforcement
- active traffic management

Optional toll lanes adjacent to free lanes

Prior to creation of the I-394 MnPASS Express Lanes, all previous attempts at implementing optional toll lanes in the United States had been on roads physically separated from general purpose lanes by concrete barriers or plastic pylons. Barrier-separated roadways are expensive and Minnesota weather makes plastic pylons impractical—snowplows would destroy them. As an alternative, Mn/DOT introduced the double white stripe buffer with designated points for entering and exiting. During peak periods, drivers of single-occupant vehicles must be equipped with a transponder. Carpools, buses, and motorcycles are always allowed free access to the lanes. It is always illegal to cross the double white line.

Dynamic pricing on multiple lane segments

The dynamic pricing system on the MnPASS lanes is an essential tool that allows the price to be adjusted as frequently as every three minutes depending upon the traffic speeds and density in the lane. An innovation introduced with the first MnPASS project was the use of dynamic pricing on multiple road segments on I-394. While segmented pricing is common on traditional toll roads, no other toll lane project had attempted to introduce multiple and dynamically-priced segments until the MnPASS Express Lanes. A similar multi-segment pricing plan is also now in place on I-35W.

Technology and enforcement

Safe, efficient, and effective enforcement is essential in order to manage traffic in the toll lanes using dynamic pricing. While visual enforcement is still the primary tool, the state patrol also uses mobile transponder enforcement readers in patrol vehicles that can read the transponder in passing vehicles to determine if they are activated and valid.

Active Traffic Management

Active traffic management (ATM) includes a wide range of operations and technology to help optimize the performance of a highway. In the Twin Cities, the most sophisticated ATM corridor is now I-35W. Arrays of informational signs provide drivers with real-time information and advice to help them better navigate traffic and to deliver realistic expectations about travel times.

Priced dynamic shoulder lanes introduced on I-35W are also a major innovation. During peak periods this lane looks and feels like a MnPASS Express lane, but off-peak it reverts to shoulder status. The performance of this lane is being monitored closely, but if successful, it may become a model for future MnPASS Express Lanes.

the years of service and regardless of whether the state's taxpayers could afford the payments.

By contrast, a "defined contribution plan" did not guarantee a set benefit, but rather guaranteed that during the employment

While defined benefit plans were thought to be far too expensive for the state to fund, defined contribution plans were also thought to be woefully inadequate for most retirees. To address both problems, the Citizens League proposed a combination plan.

A *basic* guaranteed defined benefit provided to all public employees, regardless of salary range. Those with higher salaried positions could augment the basic benefit with a defined contribution plan, with payout determined by the amount contributed.

The committee's essential idea was for public employees, like their private sector counterparts, to have a combination defined benefit and defined contribution pension plan. In the private sector that's evolved into a combination of Social Security and 401k. Some private sector

The redesign opportunity for Minnesota is to create a new pension system for all new public sector hires. That system would consist of Social Security and a 401k.

employees still have defined benefit plans, but those are on the decline. And, all too often, employees dependent on defined benefit plans lose everything when they change jobs or are laid off or their company goes out of business or is purchased by a firm that does not want to continue the defined benefit. For proof, look at

years a certain amount in contributions would be deposited to an individual account that would accumulate interest. Upon retirement, the retiree would receive regular payments based on the amount in this individual account. University of Minnesota faculty members had such a plan back then.



EFFICIENT NOT EXPENSIVE

Smaller, simpler ways to save on long-term care

By Stacy Becker

At first blush, it's hard to imagine "savings" can be found in long-term care without reducing services, given that the service needs are so large and unprecedented (see "In search of sustainable funding for long-term care," *Minnesota Journal*, November/December 2009). But if you let your mind wander away from the major systems questions, like who is going to pay for all of this care, many possibilities arise. Collectively, these opportunities could produce considerable savings and improve the health and care of seniors.

For example, I learned from my colleague, Dr. Edward Ratner, an associate professor at the University of Minnesota Medical School, that one common cause of falls among the elderly is standing on chairs to change light bulbs. As we know, falls often end up in costly trips to the hospital and can initiate a cascading series of health problems. Washington endlessly debates whether or not to cut Medicare reimbursement rates. In the meantime, has anyone tried to solve the much simpler problem of how to help the frail elderly change their light bulbs? I'll leave it to you to imagine how we might solve this one. It's not so hard, is it?

Dr. Ratner has also led an effort to solve a much more sensitive problem—how to enforce the wishes of the elderly as stated in their advance health care directives and do not resuscitate orders. Unfortunately,

emergency medical technicians lack the legal authority not to resuscitate, even if the patient has a legal directive stating otherwise. Dr. Ratner and his committee have developed a user-friendly form that is legally enforceable. It is well documented that the highest medical costs a person incurs over his or her lifetime are in the last few months of life. So the development of this single piece of paper not only can save millions of dollars, but more important, it can help people live and die in the manner they want, not in the manner that the medical establishment or bureaucracy have determined is most appropriate.

Finally, during our workshops last summer, family caregivers described how difficult it is to find the services, advice, and equipment they need. They suggested that a dedicated Website, similar to craigslist but limited to long-term care, could help caregivers manage their task more efficiently and expertly. Such a Website could save money in all sorts of ways—offering donated, used equipment (like wheelchairs or lifts), information that can help avoid accidents from untrained care, and encouragement, which would ease the burden and isolation of providing care.

Stacy Becker is the manager of the Citizens League's Long-term Care Financing Project.

the growth in the number of retirees who are now getting pension payments via the Federal Pension Guarantee Board that are substantially lower than what “they were promised.”

The redesign opportunity for Minnesota is to create a new pension system for all new public sector hires. That system would consist of Social Security and a 401k. The advantages to employees are that they have their own pension account and the risk of unfunded or underfunded future benefits is gone. After the vesting period, the entire sum is theirs, and it remains theirs for their entire career, regardless of job changes. The advantage to the taxpayer is there are no future unfunded liabilities for new hires and over time, all unfunded liabilities will be eliminated. The mutual advantage is that state and local government pension liabilities are far more predictable and can be budgeted with certainty.

A FIRST CLASS PROPERTY TAX SYSTEM (MARCH 1987)

Keeping property taxes low is important to Minnesotans. Because of this, Minnesota state government provides aid to local governments (LGA) so municipal governments do not need to raise local property taxes to fund locally provided public services. The problem is this arrangement puts both state and local governments in vulnerable positions. The state’s budget is heavily reliant on income and sales taxes, but during a recession, both of these revenue sources are seriously reduced, straining state coffers. This can result in sudden and dramatic cuts to LGA, leaving local governments in a lurch with no time to adjust to the sudden loss of aid.

A 1987 Citizens League report recommended changing this arrangement to reduce these vulnerabilities. “While change requires courage, the alternatives appear no easier. The existing property tax relief system constantly needs more money just like an addict needs more drugs. In the absence of reform, the state would have to increase state sales or income taxes to satisfy the existing system’s demand.”

The report recommended state government move away from commitments to LGA and at the same time remove property tax limitations placed on local governments. The report also recommended a revamped and simplified classification system that would more equitably distribute the tax burden and broaden the types of properties subject to tax, adding many commercial and industrial properties previously exempt from taxation. The intended result would be local revenues tied more directly to local services and a more stable source of revenue in times of recession. Additionally, the new system would put an end to taxpayer confusion as to which level of government was accountable for property tax decisions.

ACCESS, NOT MORE MANDATES: A NEW FOCUS FOR MINNESOTA HEALTH POLICY (SEPTEMBER 1989)

The best of intentions can sometimes have unintended consequences. That was the case for several Minnesota statutes mandat-

ing health care plans cover specific treatments.

The intention was to ensure “most Minnesotans” would be guaranteed adequate and appropriate medical treatments. Unfortunately, the statutes as written often applied only to specific types of health plans or to specific types of health insurers, creating a strange collection of inconsistent coverage and in some cases unequal coverage between plans. Perhaps even more unfortunate, the mandates only helped those Minnesotans who had health coverage and did nothing for the uninsured.

“Instead of broadening access to health care coverage, mandates can actually contribute to the growing ranks of the uninsured. Increased costs of insurance, attributable in part to mandates, can cause some people to drop sufficient coverage, cause price-sensitive employers to increase the share of health

In 1993, the Citizens League asked the question,
“Why is it that citizens keep spending more for public services, while seemingly getting less?”

premiums paid by the employee, or force some employers to forego offering coverage. Mandates do nothing to help those with high risk health problems who have been shut out altogether from the private health insurance market.”

To remedy this, the Citizens League report recommended a moratorium on new mandated benefits and instead directed health care expenditures towards addressing the basic health care insurance needs of uninsured Minnesotans.

MINNESOTA'S BUDGET PROBLEM: A CRISIS OF QUALITY, COST, AND FAIRNESS (JULY 1993)

In 1993, the Citizens League asked the question, “Why is it that citizens keep spending more for public services, while seemingly getting less?” The concern, as articulated in the 1995 follow-up report, “**Building a Legacy of Better Value: Choose Reform, Not Declining Quality**,” is that “Minnesota is on a path to higher taxes, creeping decline in the quality of its public services, or widening inequities in who gets services—or, probably, all three.”

The fundamental flaw in our public system that allows this to happen, according to the 1993 report, is that “there is nothing in the current design of government policies that necessarily links spending with results.” Public agencies are rewarded for repair or remedial services, rather than for prevention. And government often assumes it should control all aspects of whatever service it provides, becoming, in essence, a monopoly. Correcting these fundamental flaws will require a new view of government, a new role for government. We won’t get there through incremental

change; we need fundamental reform of the underlying design of our systems.

The 1995 report reiterates five design principles from the 1993 report that would, if enacted, amount to a fundamental reshaping of government:

1. **Target public subsidies directly to people who are financially needy.** Rather than spreading subsidy around randomly, or providing aid to institutions or units of government.
2. **Use competition to align institutional self-interest with the public's interest in the quality and cost of services.** Give consumers choices so that suppliers must respond to their preferences, such as giving citizens tax dollars to buy their own public services from an array of public and private suppliers. In this way, government splits its policymaker role from that of operator.
3. **Allow prices of public services to reflect true costs, including the social costs of individual decisions.** Current policies often disguise the true cost of public services, and distort citizens' choices about how to spend their money.

4. **Meet more public responsibilities through non-governmental communities in which people already have relationships of mutual obligation.** Work with families, ethnic groups, and neighborhoods to achieve public goals, rather than relying only on professionalized "services."
5. **Consider long-term economic growth to be one of the objectives of state spending.** Make sure expenditures on infrastructure, research, and education are met with results that are rigorously and impartially evaluated.

The alarms raised in the mid-'90s remain relevant today. Trying to tweak the public service delivery systems we already have without fundamentally reforming their underlying design will simply give us more of the same. Change is hard. And it takes courage from decision-makers and the public alike. But it is something we can and must do, together as Minnesotans. ●

Citizens League member Bill Blazer contributed to this report.

Janna Caywood is a Citizens League member and policy assistant for the Pathways to Prosperity Committee. She can be reached at JCaywood@citizensleague.org.



EFFICIENT NOT EXPENSIVE

Mining the gold: Payment reform

By Maureen K. Reed, M.D., F.A.C.

Minnesota is awash in red ink. Ditto for America. We only need to look as far as health care to find a gold mine of solutions. And the better news? The mother lode lies right under our feet.

Currently we pay for health care with a "fee for service" (FFS) approach. Doctors and hospitals are paid when they perform a service or a procedure. They are not paid to think, to prevent disease, to coordinate care, or to deliver high value care. FFS drives over-use and over-capacity. It requires armies of experts to code and bill, and it de-values health professionals who do not bill.

As the primary engine of over-use, FFS fuels the budget woes of states, businesses, and families. With health care consuming a larger portion of every budget, less is available for transportation, education, business development, and real wages.

So are there better solutions than FFS? Yes, there are many. All are imperfect. Several (global payment, bundled payment, capitation, all-payer, single-payer, and value-based payment) have been discussed in recent medical and business journals. One, the "total cost of care" method, was recommended by the 2008 [Minnesota Health Care Transformation Task Force](#). Analysis of that same method estimated state budget savings of \$2.7 billion in the 2012 biennium.

If alternatives to FFS exist, why are we stuck? Resistance often takes the form of technical criticism of the alternative. But resistance has less to

do with technical challenges of a new method and far more to do with human challenges: fear of the unknown and fear of losing income, status, and power.

How do we shift from the technical debate and address payment reform as a political and human dilemma? First, let's analyze the problem through the classic political prism of "Who benefits? Who pays? Who decides?"

Second, let's link payment reform to other political issues that demand immediate resolution. Robust payment reform should be included in current federal health care reform and coupled with current urgent state budget remedies.

Third, regardless of what occurs with federal health care reform, Minnesota should insist on a broad Medicare waiver that allows our state or region to engage in extensive and immediate payment reform that we are uniquely capable of undertaking.

Finally, we should not be so wedded to our own favorite method of payment reform that we fail to engage in the political compromise necessary to get off the FFS system. We're going broke. We just need to grab the pickax.

Maureen K. Reed, M.D., F.A.C.P. is the former Medical Director at HealthPartners, member of the Health Care Transformation Task Force, and a candidate for Congress in Minnesota's 6th District.

Minnesota's got problems, do citizens have the answers?

Minnesota Idea Open taps the wisdom of citizens for big ideas to help solve some of the state's challenging problems

by Mandy Ellerton

Minnesotans are feeling the effects of high unemployment, mortgage foreclosures, rising health care costs, and changing demographics. Given the complexity of these problems, citizens typically look to government and the public service sector for solutions.

But what if citizens began to see themselves as part of the solution?

Minnesota Idea Open is built on that premise. Recognizing there is value in finding fresh approaches—and that some of the best ideas may come from untapped sources—Minnesota Idea Open puts Minnesotans at the center of the community problem-solving equation.

Minnesota Idea Open is a collaborative initiative led by the Minnesota Community Foundation and its partners, the **Bush Foundation**, the **Citizens League**, the **John S. and James L. Knight Foundation**, and **Minnesota Public Radio**. Minnesota Idea Open will use technology to give Minnesotans the opportunity to share their good ideas and the potential to change their communities.

HERE'S HOW IT WORKS

Minnesota Idea Open (MN IdeaOpen.org) will host two statewide challenges a year beginning this spring. The statewide topics will be selected by Minnesota Idea Open partners to ensure that the topics are relevant and wide-ranging, and that the final ideas can be realistically implemented.



Check the Citizens League website for launch and kick-off event dates. Afterward, Minnesotans can submit ideas on the website. Webinars and toolkits will provide information on how to use the website and tips for leading local discussions on the issue—at local churches, in coffee shops, at book clubs, over dinner, and at community gatherings across the state.

A panel of judges will review all of the ideas submitted and select finalists. Those ideas will be posted on MN IdeaOpen.org and the public will be asked to vote for their favorite. The idea with the most votes will receive up to \$15,000 to move from idea to implementation.

THE IMPACT

Part of the idea behind Minnesota Idea Open is to get as many Minnesotans as possible thinking about and discussing issues in order to move our state toward viable solutions, and to involve citizens as decision-makers and leaders in the problem solving process.

All Minnesotans benefits when that happens.

HOW TO PARTICIPATE

Help spread the word about Minnesota Idea Open and encourage your networks to join other Minnesotans at MN IdeaOpen.org to share their ideas. Find us on Facebook, follow us on Twitter @MN IdeaOpen and sign up for updates and information beginning February 15 at www.MN IdeaOpen.org. For questions about Minnesota Idea Open, please contact the Minnesota Idea Open coordinator, Mandy Ellerton, at info@mnideaopen.org. ●

Double your contribution



Thanks to a matching grant from the Pohlad Family Foundation, all new memberships and any increase in contribution from last year will be matched dollar-for-dollar up to \$500 per individual during the first few months of 2010. Not a member yet? This is a great time to join. If you are already a member, you can make an additional contribution and double your impact.

Donate online at www.givemn.org/story/citizens-league or mail your contribution to 555 N Wabasha Street, Suite 240, St. Paul, MN 55102.

The Citizens League depends on the time, effort, relationships, and donations of members. Thank you to all of you who contribute to make the Citizens League possible.

PERSPECTIVES

Expanding Minnesota's Conversation



Beyond inputs

It is time to shift the focus on education from what we spend to how we spend it

by Tim McDonald

For all the attention school chartering has received lately, one aspect of the law has gone under-recognized: chartering was a good government innovation that dealt first with the design of the education system, not simply how much was put into it. This characteristic of the law is important. It is key to understanding the full range of options available to the legislature as it works to address the challenges facing our state.

Minnesota is experiencing a crisis in government more fundamental than budgeting through an economic downturn or correction. The recession has exposed a structural imbalance in the public sector. In normal economic cycles the periods of abundance can offset times of shortfall. But as costs continue to rise in education and health and human services, we will not be able to reconcile the state budget with increased spending now or economic growth when times turn good again.

The situation is reflected in K-12 education. We have a productivity paradox: absent increases in productivity, the education system has a built-in cost inflator of 5 to 8 percent per year. For labor intensive industries right now this inflationary component is inherent. If schools are not increasing productivity we can rightly assume their real cost to the public is increasing. This relationship is not sustainable.

To reconcile this problem of productivity, schools will need to be designed differently. The potential for efficiency gains in the course-and-class model of school is effectively tapped out. Productivity increases will be found through improvements in the "technology" of school—in its design, and, as with other industries, through the incorporation of new electronics. Fewer people doing the same amount of work, or the same number of people doing more or better work.

The question of revenue for education and other public services cannot be resolved

by taxing and cutting alone. We need to rethink how we do things as a state. That is where the future lies.

DISTRICTS ARE INNOVATING

Districts are beginning to consider creating new schools as part of their strategy for improvement. Led by the Minneapolis Federation of Teachers, teacher unions are staking a claim in the reform movement and—amazingly but logically—are shaping it instead of being directed by it.

It is possible to design schools that run more efficiently and effectively at a lower cost. It is possible to significantly personalize learning without hiring additional expensive professionals.

These require getting more effort out of students and changing (improving) the role of teachers in schools. Both can be done, and are being done, in this state. One thing is for certain: the schools that can get us more for less often do not look anything like those we are used to.

Innovation is necessary to discover fundamentally new models. Last year's Site-Governed Schools law allows districts to create schools with autonomy reflective of chartered schools. Let there be no mistake about it, school districts are now in the business of innovating, too.

THREE THINGS THE LEGISLATURE CAN DO

The legislature is moving again this session on design-work of the system. Here are three actions it might take:

First, identify everything in current law and state regulation that gets in the way of innovation. This will turn up some surprises. It will unsettle some people opposed to changing the way things are done. But this is a necessary step. Remove the excuses for trying things that would work better.

Second, describe a strategy for the many small school districts in Minnesota to do more than just survive. Point to what they can do—using the state's joint powers statute, for example, allowing for cooperation among different units of government. Allow collaboration that does not depend on geography. Remove barriers to the adoption of learning models that are fundamentally different than the course-and-class arrangement that is becoming less and less viable for small and rural districts.

Schools will look and operate differently than what we are used to.

Third, establish basic infrastructure to provide leadership and support for the creation of many different kinds of schools. Set up a state-level, legislatively authorized nonprofit organization that is separate from, but with a vital connection to, government. Charge it with fostering innovation and providing technical assistance to school entrepreneurs. Make it responsible for identifying the most qualified authorizers of new schools, and for managing federal and other funds to facilitate planning and start-ups. This model has proven exceptionally effective at driving improvement in Boston. Let's apply a version of it here.

Looking ahead, the momentum will lie with those able to improve the effectiveness and efficiency of schools without spending more money. Schools will look and operate differently than what we are used to. Minnesota showed the country how to make change possible inside a standardized public utility. Now it is time to begin moving the needle on redesigning school. ●

Tim McDonald is an associate with EducationEvolving, and author of the forthcoming book *UNSUSTAINABLE*, from Rowman & Littlefield Education.



Charter schools twenty years later

It is time for a new way of looking at public education

by Alberto Monserrate

The world has changed dramatically since Minnesota passed the first school charter law in 1991 and we need to view education differently than we did then. Countries like China, India, and Brazil are becoming economic powerhouses, effectively competing with the United States and Europe.

We can now communicate easily with friends around the globe for free and carry portable phones that are more powerful than the room-sized computers of the 1980s. The big engine of economic growth around the world is technology. Knowledge is the gold and the oil of the 21st century.

More than ever before, post secondary education will determine future earning power and the number of people who receive an adequate education will determine the economic future of our nation. It's time in Minnesota to look at education differently.

Conservatives in the past have focused on school choice and increased achievement standards to reduce the learning gap. But school choice and high standards alone do not guarantee good schools. We also need enough of the right school leaders, teachers, school cultures, and teaching methods to improve achievement.

Liberals have suggested increasing funding in the neediest school districts, increasing teacher pay, funding for early education, and reducing class sizes. But while funding for low-income, English-learning students has increased substantially in the past three decades, student achievement among at-risk kids is still inadequate.

It's time to find a non-ideological, non-partisan way to look at public education that is based on sound research. We need to stop looking at public schools as charter, district, self-governed, and alternative and simply focus on effective schools that adequately teach all of our kids.

Research shows several factors that together are key to increasing achievement among at-risk kids.

The average Latino and African American third and fifth grader in Minnesota's urban schools is two years behind in reading and math. The United States has one of the shortest school years in the world. Getting our kids caught up requires longer school days and longer school years. Most schools around the country that are reducing the learning gap have one or both. In order to increase teaching time and attract the best and brightest, the state needs to better compensate teachers who work longer and are effective.

We need to do a better job of attracting the best and brightest college students to the teaching profession and we need them to teach in our most vulnerable schools. We also need some of those teachers to become school leaders. Then those teachers and school leaders need to be trained and mentored by principals and teachers that have succeeded at teaching at-risk kids. School leaders and teachers need to have clear student achievement expectations for the school year and be data driven. Student discipline needs to be a priority so that all kids can focus on achievement. Teachers have to keep high expectations for their students.

District and charter schools that have effectively reduced the learning gap must be encouraged to collaborate with those that haven't been so effective, including partnering and mentoring. Districts could sponsor schools that will share funding, buildings, and test scores, but allow separate boards and budgets.

We need alternative teacher certification to effectively recruit and retain the best teachers. Currently teachers trained by organizations like Teach for America, The New Teacher Project's Teaching Fellows program, and Chicago's Academy for Urban School Leadership face a burdensome licensing process in Minnesota.

Once a well-trained school leader is hired, union contracts should allow that

principal to hire the best teachers and let go of those who are not effective. Once a principal is able to hire the right people, very little firing will be needed.

There must be a relatively simple process for letting go of ineffective school leaders and teachers. We should do as Chicago does: Provide public schools with an unlimited waiver to the state teacher and principal tenure act to enable districts to remove teachers, principals, and assistant principals whom no principal or superintendent desires to select.

Most of these reforms require no extra money. Some, such as adding compensation for effective teachers and extra training and fellowships, will require extra resources. We will need to be innovative in how we pay for improving our school leaders and teachers.

Reforms tied to increased accountability for education spending could attract more philanthropy to public schools. We can also look at programs that serve at-risk kids that don't work and reallocate those funds to programs proven to work.

We can also take advantage of the unique opportunity presented by President Obama's Race to the Top. Minnesota could be eligible for close to \$200 million in federal funds. These funds will go only to states that look favorably at reforms, that are friendly to charter schools, and that ask for more accountability and allow for flexibility in turning around failing schools. But before we can take advantage of that opportunity, we must convince the groups that represent people who work at public schools to support these reforms.

Our states and our nation's standard of living and our future are at stake if we don't act now. ●

Alberto Monserrate is President and CEO of the Latino Communications Network (LCN Media) and is a Citizens League Board Member.

2/19

Friday Forum: Minnesota's Waters

Rochester. Noon

3/10

Happy Hour

Twin Cities. 5:30 p.m.

*For more information on these and other
upcoming events, visit www.citizensleague.org*



555 North Wabasha Street, Suite 240
Saint Paul, MN 55102

PERIODICALS

The Minnesota Journal
Publisher – Sean Kershaw
Editor – J. Trout Lowen
Managing Editor – Bob DeBoer

The Minnesota Journal (ISSN 0741-9449) is a publication of the Citizens League, a nonprofit nonpartisan Twin Cities public affairs organization, 555 North Wabasha St., Suite 240, Saint Paul, MN 55102. Phone: (651) 293-0575. Fax: (651) 293-0576. Email: info@citizensleague.org. Website: www.citizensleague.org. Kevin Goodno, chair. Articles and commentary are drawn from a broad range of perspectives and do not necessarily reflect Citizens League positions on policy questions. The Journal is published 6 times a year. Periodicals postage paid at Saint Paul, MN and additional offices. Annual subscription rate for nonmembers is \$25 for 6 issues. Orders may be placed at (651) 293-0575 or by mail at the above address. Postmaster: Send address changes to the Minnesota Journal, 555 North Wabasha St., Suite 240, Saint Paul, MN 55102.