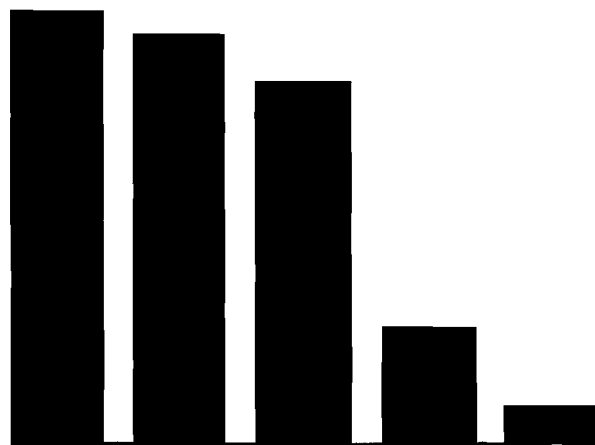


CITIZENS LEAGUE

RESEARCH REPORT

Help Wanted More Opportunities Than People



Projected growth rate of Twin
Cities workers, 1980 - 2030

The Citizens League promotes the public interest in Minnesota by involving citizens in identifying and framing critical public policy choices, forging recommendations and advocating their adoption.

A Citizens League Research Report

Help Wanted

More Opportunities than People

A final report by the Citizens League
Committee on the Labor Shortage in the Twin Cities

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November 1998



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Help Wanted: More Opportunities Than People

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Executive Summary

For decades, public policy has been geared toward a labor surplus — how to create more jobs and how to get people into those jobs. Today, however, the tables have turned and employers are now desperately seeking workers. Three surveys of business employers this year have ranked the labor shortage as the single biggest issue facing businesses in the Twin Cities region and state of Minnesota today.

This report is an effort to realign public policy with the realities of a new economy and a changing labor force. It proposes new ways for the Twin Cities economy to create and sustain growth in the absence of a growing labor pool, while giving disadvantaged workers greater access to jobs.

The source of the labor shortage is two pronged: slow growth in the total labor force and a mismatch in worker skills and available high- and low-skill jobs. While strong economic growth will further exacerbate the labor shortage, the structural nature of the labor shortage assures that it will be a part of the economic and business landscape for several decades.

For instance, the region's labor force will grow much more slowly than it did in heyday of the 1970s, when baby boomers and women of all ages were entering the workforce by the thousands. From 2010 to 2030 — 20 years — the number of net new workers in the region will be barely *half* the number of any one of the previous four decades.

Paradoxically, there still exists significant pools of unemployed and underemployed people — the result of a mismatch between worker skills and available jobs. Part of this phenomenon is due to the new information economy, which puts a premium on high-tech and other information-based skills, as well as

a decreasing emphasis for skills geared toward an industrial economy. But employers are even having trouble finding qualified low-skill workers, in part because these workers often lack even basic work skills.

Failing to address the labor shortage in the Twin Cities will jeopardize the region's global competitiveness, which in turn jeopardizes the standard of living in the region and state. How the Twin Cities community — government, business, and non-profits — handles the labor shortage will dictate the region's success in the global economy, and in turn people's standard of living.

RECOMMENDATIONS

First and foremost, private and public economic development efforts need to shift their focus away from the labor surplus mindset of job creation. In its place, the new mantra of economic development should be improving the productivity of workers and companies in the region and entire state.

One way to do so is through an "industry cluster" strategy for public and private economic development. A cluster approach broadens the focus of this investment from individual businesses to a portfolio of related businesses, and leverage resources to build business' collective and individual competitive advantage in today's global markets.

A second strategy would be for the Legislature to focus statewide tax policy more on technology-based investments and upgrades, while considering new ways to facilitate technology transfer and assistance. Such efforts should spur innovation and improved productivity in the absence of additional workers.

Education and training efforts, both public and private, must also do a much better job preparing new workers and supporting the acquisition of higher skills by existing workers to make each more productive. For starters, worker training programs must become much more effective and responsive to market demands in preparing workers with appropriate hard and soft skills. The current system of training programs is widely criticized as fragmented and insufficient for the changing skill needs of a new economy.

The federal Workforce Reinvestment Act, passed in August, provides the state with an unprecedented opportunity to redesign the training system for tomorrow's economy. Some crucial elements of the new system should include putting training programs at-risk for funding, collecting and publishing performance data on all programs, and retooling programs for low-skill workers into long-term, on-the-job skill development programs.

Similarly, the K-12 education system must do a better job arming students with the basic skills and career-planning information. Some specific areas of attention include improving student access to career counseling, accelerating school-to-work programs, and even guaranteeing free access to state higher education institutions for some students that meet certain educational requirements in high school.

New initiatives in higher education should be linked more closely to the needs of employers and industry clusters. Specifically, more customized and "just-in-time" training programs are needed at vocational and technical institutions. The state should also directly fund industry cluster "councils" that provide advanced training programs and skill development. Attracting more highly-skilled students from throughout the U.S. and abroad (as well as retaining local talent) could also be accomplished by offering tuition waivers or loan forgiveness to high-achieving students.

Significant, systemic obstacles still remain that prevent workers from maximizing their potential and keep employers from fully utilizing available labor. Incentives are needed that attract and retain workers and eliminate these employment barriers.

Employers should embrace "work-life" initiatives that improve productivity and help attract and retain qualified labor. Employers also must fight discrimination in the workplace and find ways to accommodate increased diversity, and keep older workers in the workforce longer. Other efforts that could payoff include "buy-in" programs to Medical Assistance that make health coverage for people with disabilities more affordable. New partnerships for more affordable housing and better transportation access would give many underemployed people new job options.

The region's labor shortage is forcing business, government and non-profit sectors to rethink and redesign workforce and economic development programs that were created under different economic circumstances but are no longer as useful as they once were.

New paradigms must improve productivity, making up through innovation what the regional economy will lack in workers — all with the single goal of improving the standard of living of all residents in the Twin Cities region.

I. Introduction

After years of public policy geared toward a labor surplus — creating more jobs and getting people into those jobs — the tables are turning and employers are now desperately seeking workers.

In a 1998 survey of Twin Cities executives, the labor shortage replaced business and personal taxes as the single most important issue facing companies in the Twin Cities region.¹ Fifty-six percent of executive respondents cited the attraction and retention of skilled workers as the most important issue for their company — double the number just two years earlier. More than 80 percent of executives with large companies (100 or more employees) said attracting skilled labor was a significant concern.

"More importantly, there is universal agreement that this problem may affect companies' abilities to sustain these good times," the survey revealed.² Nearly eight in ten survey respondents said the labor shortage was affecting company operations, financing, or both. The concern over the labor shortage has been mirrored by two other surveys conducted by business groups.³

In short, left unchecked the labor shortage will affect the region's ability to grow. Minnesota is experiencing the labor shortage

ahead of most of the country.⁴ While this puts the state in unfamiliar territory, it also provides the state with an opportunity to get ahead of the national curve regarding the labor shortage.

The region's labor pool is tightening in two distinct ways. First, the workforce is growing more slowly than the economy. Second, the skills of available workers are increasingly mismatched with both high- and low-skill jobs. The situation for employers will get worse before it gets better, but the labor shortage offers significant opportunities as well. For one, it will force employers to think about improving productivity. It also creates an opportunity to address long-term unemployment and underemployment of certain segments of society.

Since the end of World War II, public policy has been focused on a labor *surplus* — how to create more jobs for the influx of baby boomers and women entering the workforce.

Now the task — and the focus of this report — is to devise ways for the Twin Cities economy to sustain growth in the absence of a growing labor pool, to better match the skills of workers with available opportunities (and vice versa), and to maximize the productivity and human capital potential of every worker.

Government, business and non-profit leadership of the Twin Cities region must make fundamental changes to workforce and economic development systems to ensure that the Twin Cities region is positioned for competitiveness and prosperity in a global information economy.

¹ *What Business Thinks: 1998*, published by *Twin Cities Business Monthly*; and co-sponsored with Ernst & Young, GlaxoWellcome and Goldsmith, Agio, Helms, 1998, p. 11.

² *What Business Thinks*, p. 11.

³ In the *1998 Employer Education Survey*, conducted jointly by the Minnesota Business Partnership and the Employers Association Inc., 89 percent of employers surveyed said they have had trouble filling job openings in the last two years. A 1998 *BusinessPulse™* poll by the Greater Minneapolis Chamber of Commerce found that availability of skilled workers was the top concern for the third year in a row.

⁴ Tom Stinson, Minnesota State Economist, Citizens League presentation, March 5, 1998.

II. What has caused the labor shortage?

Demographic shifts and workforce trends show the labor shortage is structural in nature and will be a fact of life for employers for the next few decades.

Many people mistakenly believe the current labor shortage is due solely to a strong economy. The immediate impact of a labor shortage would be lessened by a slower economy, but the labor shortage presents a long-term policy challenge in the Twin Cities and entire state for the next several decades. According to State Economist Tom Stinson:

"The current labor shortage is not a short-run artifact caused by six years of economic growth...It's a simple demographic fact of life...It may ease but it's not going to go away. So we might as well start adjusting our behavior and begin planning on how to deal with it."⁵

In light of steady job growth in the past (which is expected to continue), the labor shortage is the result of:

- slowing growth of the workforce (a function of demographics and workforce participation rates)
- a skill mismatch between available workers and the needs of employers with job openings.

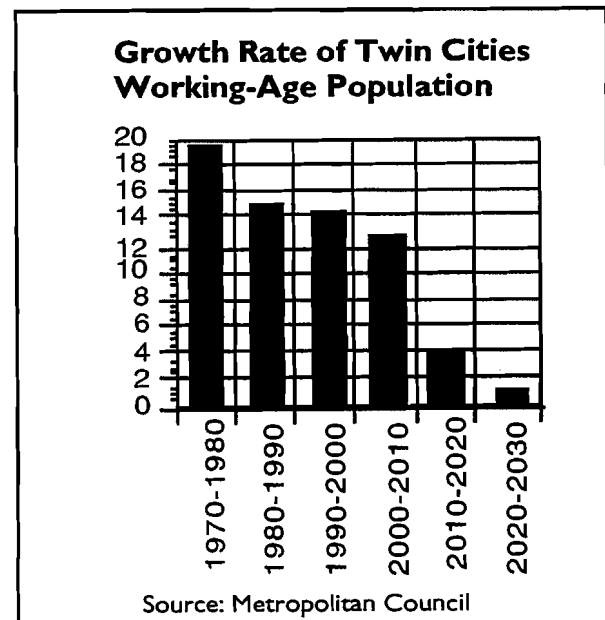
SLOWING LABOR FORCE GROWTH

The size of the region's labor pool is based on two basic elements: the total number of working age adults, and the participation rate of those workers. In the 1990s, the size of the Twin Cities working-age population has grown more slowly than in the past, a pattern

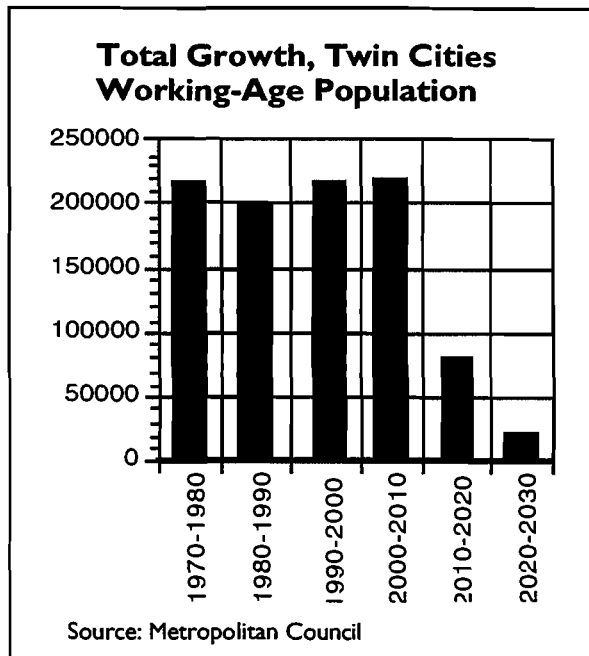
that will worsen in the future. Meanwhile, rapidly rising participation rates have leveled off, leaving fewer opportunities to tap into previously underutilized groups of workers (particularly women).

- **Demographics:** Generational demographics have made the labor shortage inevitable. Baby boomers are the largest part of the current workforce. Their entry into the workforce provided a continually growing pool of workers for employers to draw from. But that is changing. The "baby bust" generation (following boomers) is significantly smaller. The "echo boom" generation (the children of boomers) is significantly larger, but their entry into the workforce will be offset by the number of baby boomers retiring from the workforce.

Immigration plays a significant labor role in much of the country. But unless federal law or migration patterns change substantially, immigration will not likely resolve the region's labor shortage.



⁵ Stinson, Citizens League presentation, 1998



International immigration to Minnesota almost doubled from 1988 to 1996 to about 9,000 people, most of whom came to the Twin Cities. But this represents only about 1 percent of annual immigration to the U.S., and is below 1982 state immigration of almost 10,000 people.⁶

The result of these compounding factors will be a significant slowdown in labor force growth. From 1970 to 1980, the working-age population in the Twin Cities region grew almost 20 percent, but has declined steadily ever since. Total growth in the working-age population is expected to increase by 4 percent from 2010 to 2020, and barely 1 percent from 2020 to 2030, netting just 24,000 new working-age people.⁷

- ⁶ Barbara Ronningen, *International Migration to Minnesota*, Minnesota Office of State Demographer, Working Paper 96-9; "Trends in international migration to Minnesota to continue," *PopBites*, Minnesota Planning, July 1998.
- ⁷ Working-age population figures for the Twin Cities region come from preliminary population forecasts from 1970 to 2030, provided by Michael Munson of the Metropolitan Council, and encompass Anoka, Carver, Dakota, Hennepin, Ramsey, Scott and Washington counties. "Working age" is usually defined as 16 to 64 years

- **Workforce participation.** The labor shortage might be more manageable if there were larger pools of untapped labor. Minnesota is second in the country (behind Wisconsin) in the overall rate of labor force participation (75 percent of all workers aged 16 and over) and the participation rate among women. The state is also tied with Montana for the most workers with more than one job (10 percent), and ranks 15th in the percentage of people over age 65 in the workforce (14 percent).⁸

Workforce participation is even higher in the metro region than statewide. A sizable majority of census tracts in the region had labor force participation rates between 70 and 90 percent according to the 1990 Census.⁹ Some experts believe participation rates are at or near their peak among many subgroups (e.g., women), which means there is little excess labor to continue wringing from these once under-employed groups.

MISMATCH OF SKILLS AND AVAILABLE JOBS

Despite the availability of jobs, many go unfilled because job requirements do not fit the skills of available workers. In the 1998 *Employer Education Survey*, nearly 80 percent of employers said that the difficulty of filling available jobs was due in part to lack of skills among applicants.¹⁰

- **High-skill mismatches:** Such positions often require specialized training, work experience, and/or post-secondary degrees. The worker shortage is particularly intense

old. However, Council forecasts addressed age groups in five-year increments, so total figures represent workers aged 15 to 64.

- ⁸ U.S. Bureau of Labor Statistics, *Current Population Survey*, 1996 and 1997; U.S. Bureau of Labor Statistics, *Geographic Profile of Employment and Unemployment*, 1996.
- ⁹ Minnesota Planning, *District Data Book*, March 1993.
- ¹⁰ Minnesota Business Partnership, *Employers Association Inc.*, 1998.

for high-tech jobs, where stories abound about bidding wars for workers. There is substance behind these anecdotes. Between 1994 and 2005, more than 16,000 new jobs are expected in the region in the computer and processing services industry, an increase of about 77 percent.¹¹ Yet, despite a hot job market and high average wages, higher education programs in information technology (IT) attract and graduate only a fraction of the students necessary to fill anticipated job openings.

A survey of IT workers showed that 90 percent of respondents think there is a shortage of qualified IT workers in Minnesota and the Twin Cities. More than 60 percent of Twin Cities respondents believe the shortage is either moderately or extremely serious.¹² But the shortage of high-skill workers cuts across many fields. An informal poll by the Department of Economic Security (MDES) showed systems analysts/computer programmers, welders, electricians, and machinists were needed throughout the state (including the Twin Cities), while the metro region also was experiencing shortages in skilled machine tradespeople, computer support workers, moldmakers, and nurses/lab technicians.¹³

- **Low-skill mismatches:** According to MDES, "low-skill and entry-level openings are actually far greater in number, and the shortage in these less lucrative occupations tends to occur throughout the state on an ongoing basis."¹⁴ For those low-skill workers who cannot find work, the problem is often a lack of "work readiness" skills — understanding the importance of promptness, proper attire, relationships with su-

periors, workplace etiquette, and appropriate language. But job mismatches also occur because of various obstacles that impede either access to or retention of available jobs. Some of the most common obstacles include lack of affordable housing near jobs, language barriers, and poor transit service to suburban jobs and to second and third shift jobs.

There are other factors involved in the worker/job mismatch. K-12 and higher education systems, along with worker training programs, have not adjusted adequately to meet the skill needs of employers.

Workers have difficulty keeping abreast of changing skill needs on their own, particularly in high-tech areas where skill needs change rapidly. Likewise, employer-run, employer-paid training is unevenly provided for many workers, and employers have had difficulty anticipating and communicating new skill needs to education and training institutions. Some employers narrowly define the skills necessary for open positions in hopes of getting the "perfect" employee; some expect public education and training systems to provide employees with job-specific skills that might have low transferability to other jobs.

Many jobs also go unfilled simply because they are not attractive enough to workers. In a good economy, many job seekers know a better offer might be right around the corner, making them more willing "to hold out for a position that offers better pay, more attractive working conditions or more benefits rather than take the first job that comes along."¹⁵ These factors disguise the full extent of the labor shortage and the actual difficulty that companies are having in finding qualified workers for available jobs.

¹¹ Minnesota Department of Economic Security (MDES), *Employment Outlook to 2005*, Nov. 1997.

¹² MDES, *Beyond 2000: Information Technology Workers in Minnesota*, May 1998.

¹³ MDES, *Worker Shortages in Minnesota*, Nov. 1997. The survey polled Workforce Center/Job Service staff.

¹⁴ MDES, *Worker Shortages*, 1997, p. 5.

¹⁵ MDES, *Worker Shortages*, 1997, p. 8.

III. Implications: What happens if we do nothing?

Failing to address the labor shortage in the Twin Cities jeopardizes the global competitiveness of the region and state. This, in turn, threatens the region's quality of life and residents' standard of living.

Left alone, the market will find ways to fill or replace local labor needs, and that process has begun already. Employers will take steps to increase productivity, attract new sources of labor, upgrade worker skills and export work. However, not all employer responses will benefit the region. For example, moving jobs to other regions with available labor might benefit the employer, but it would not help the region.

The state is also faced with serious financial implications if the labor shortage is not addressed. An economic slowdown induced by the labor shortage would collide with a dramatic increase in the elderly dependency ratio when baby boomers begin to retire in about 2010.¹⁶ If this holds true, it could very well strain the economy and standards of living as boomers move from net tax contributors to recipients of public resources.

When baby boomers begin to leave the workforce, stagnant labor force growth could

also create a shortage in the number of goods and service providers, particularly in a rapidly expanding market for senior services, and for labor-intensive services to nursing homes and adult day care.

Put simply, how the Twin Cities community — government, business, and non-profits — handles the labor shortage will determine how successful the Twin Cities will be in the global economy.

The region's position in the global economy depends on *local* actions. These actions — local choices made about human and physical capital investment — will dictate the region's future competitiveness, its relative prosperity and the standard of living for all Twin Cities residents.

The important distinction is that if left to itself the region will find a way to cope with the labor shortage, even if "coping" means stagnant per-capita output and lower service levels. A recent report on nonresidential construction in the Twin Cities region noted that the labor squeeze was responsible for constraining growth in construction, adding that "more of the same appears likely in the future."¹⁷ Firms in the Twin Cities have reported having more difficulty finding qualified IT workers. In one survey, almost half of Twin Cities respondents said the shortage has affected their ability to fill work orders.¹⁸ This represents economic activity left uncaptured, and a lost opportunity to improve the prosperity of companies, their workers, and the entire region.

¹⁶ The elderly dependency ratio is the number of older people receiving some form of public assistance (health and income security benefits, for example) compared with the number of working-age people, which serves as a rough proxy for expected income tax revenue to support these public programs. According to the Department of Human Services, the dependency ratio has been fairly stable since 1960, and will continue to hold at about 20 older people per 100 working-age people until 2010. By 2030, however, the elderly dependency ratio is expected to almost double to 38 older people per 100 working-age people. See Aging Initiative: Project 2030, *Briefing Book*, Department of Human Services, 1998, p. 6.

¹⁷ Metropolitan Council, *Major Nonresidential Construction Projects in the Twin Cities Metropolitan Area: July-December 1997*, April 1998, p. 3.

¹⁸ MDES, *Beyond 2000*, 1998.

How regional leaders address the labor shortage in the near future will determine whether the region steps into the future and takes advantage of new economic opportunities, or is content to maintain the status quo and risk its high standard of living.

A 1996 Citizens League report identified six critical factors for positioning the Twin Cities region for success in the global economy, including:¹⁹

- a highly skilled workforce
- strategic infrastructure investment
- improved productivity in services, trades and government
- more strategic reinvestment in the foundation of prosperity (like education)
- improving the social and civic "quality of life" in the Twin Cities, and
- redesigning the social safety net.

Government, businesses and non-profits all play an important role in investing in the region's future. In light of the labor shortage, each sector will be called upon to do more and be smarter with limited resources, and to build more effective partnerships with each other.

Such efforts should produce better results for everyone — workers, employers, and the state in general. In particular, a strong economy coupled with a labor shortage offers an unparalleled opportunity for the state to provide underemployed populations — welfare recipients, people with disabilities, immigrants, older workers, and low-income workers in general — greater access to better paying jobs.

¹⁹ Citizens League, *Compete Globally, Thrive Locally*, 1996.

IV. What to do? Recommendations

Prosperity for the Twin Cities in a knowledge economy depends on the region's ability to compete globally. Doing so requires many elements discussed at length in the Citizens League's *Compete Globally* report.

But there are special challenges posed by the labor shortage that demand attention. Specifically, we must find ways to improve the overall productivity of workers and companies. This is not a problem that can or should be addressed primarily by government action. The market and private initiatives can be powerful allies to help the region move in the needed direction. Our recommendations are also directed at the private and non-profit sectors, which will need to provide much of the leadership necessary to address the labor shortage problem.

Principle #1

Economic development efforts, both public and private, must shift their focus away from job creation to improving the productivity or "value added" of workers and companies in Minnesota.

This recommendation will not be as easy as it may sound. We are calling for a fundamental paradigm shift in our approach to economic development. Even experts in the labor shortage would frequently refer to its threat as a danger of "losing jobs." It is going to take some serious rethinking to understand that a *shortage of jobs* is no longer the problem.

For the last 40 years, the need to absorb baby boomers and the increased participation of women in the workforce have driven us to do everything we can to attract and create jobs.

Since labor surpluses were most pronounced among low-skilled workers, much activity and public subsidy has been devoted to the creation of low-skilled jobs.

In a labor surplus, such activities are justifiable. But in a labor shortage, they are a poor use of public resources and are counter-productive as well. Subsidies to attract new businesses and create new jobs must necessarily be at the expense of existing taxpayers, including existing businesses. When such efforts serve the important social purpose of alleviating job shortages they may be acceptable. But to tax existing businesses to attract new businesses that will compete with them for a scarce labor force is fundamentally unfair.

Furthermore, this type of economic development is likely to be counter-productive since most economic growth in regions like the Twin Cities comes from the growth, expansion and spin-off of *existing* businesses. To weaken those efforts with taxes to subsidize efforts which are likely to be less productive is not only unfair, it is foolish.

In a context where the major threat to increased economic growth is an inadequate supply of workers, public and private economic development efforts must turn to improving the skill levels and productivity of existing workers and companies as well as the skill levels of the next generation of workers. While physical plant and real estate infrastructure will continue to be important in the future, economic development strategies must focus on ways to increase productivity in business, government and non-profit sectors.

RECOMMENDATION #1

Economic development strategies can focus public and private investment and subsidies most effectively by focusing on industry clusters which are already strong in the Twin Cities.

In the global economy, geographic regions have become the central economic unit. Growth and health of regions, in turn, are based largely on the health of clusters of related industries. As such, a general approach to economic development in the future will not provide the necessary impetus for value-added growth because it treats all new growth as economically equal.²⁰ For this reason, public economic development should shift from a general approach to one of high-value industry clusters.

Industry clusters are groups of interdependent firms operating in related lines of business. Collectively, such clusters create pools of experienced workers, stimulate innovative ideas and partnerships, and promote inter-industry efficiency through tough competition as well as cooperation. Successful industry clusters in the Twin Cities region include computers and software, printing and publishing, financial services, medical devices, and machinery and metalwork.²¹

The value of an industry cluster lies in the ability of government to target limited public resources in high-value, high-growth industries, and by relation, in the growth of high-

skill, high-paying jobs. Similarly, a cluster approach proactively identifies and nurtures emerging clusters that show high-growth potential, and provides the critical mass of employers needed to pursue innovative new strategies related to economic development. For example, public-private collaborations for workforce training are more feasible, and likely have a more systemic benefit, through a cluster approach because entire industries are involved rather than individual businesses (see page 16 for a related recommendation).

Industry clusters also improve the region's competitiveness. Clusters offer companies a comparative advantage in exporting products to world markets by allowing them to compete (at least in part) on the collective strength and sophistication of their industry cluster, along with individual company competencies. In turn, industry sophistication and competitiveness provide the base for expanded job opportunities and premium wages for local workers with the right skills.

Average 1997 wages in five Twin Cities industry clusters (computers and software, medical devices, financial services, and machining and metalworking) were significantly higher than average wages for all Twin Cities jobs, with jobs in the computer and software cluster almost 50 percent higher than the average (see chart on next page).²² From 1992 to 1997, four of the region's five clusters saw significantly higher wage increases compared with the regional average.

Critics of the cluster approach argue that it puts government in the position of picking "winners and losers." But traditional economic development routinely picks winners and losers by virtue of giving subsidies directly to individual businesses in a wide variety of fields, often with little analysis as to the economic benefit or return on the public investment.

²⁰ Tax increment financing, for example, is widely criticized for shifting jobs throughout the region and creating comparatively little net economic growth. See the Office of the Legislative Auditor. *Description of Selected Tax Increment Districts* [supplement to Auditor's *Tax Increment Financing* report], March 1996. This report briefly profiles over 400 TIF districts in 43 cities and 3 counties throughout Minnesota.

²¹ *Twin Cities Industry Cluster Study*, a joint project by the Metropolitan Council and the State and Local Policy Program, Humphrey Institute of Public Affairs, 1995.

²² MDES, "Covered Employment and Wages Data (ES-202)," Research and Statistics Office, 1998.

A cluster approach changes the focus of this investment to a broader scale. It attempts to understand a portfolio of businesses and determine a way to best leverage available resources to help them build collective and individual competitive advantage.

An industry cluster approach, while sometimes subsidizing individual companies, makes investments that benefit an entire network of businesses — such as the installation of fiber optic networks for the computer/software and printing/publishing industries. This is particularly critical as an investment strategy for the multitude of small and medium-sized companies in the region, who are responsible for a majority of economic growth but often struggle to find the capital necessary for growth.

A number of states have begun using the cluster approach more aggressively. Oregon, for example, has identified 14 key industries. California has a cluster-based approach in major economic regions of the state.

Average Wage Comparison

<u>Twin Cities Cluster</u>	<u>Average 1997 wages</u>	<u>% over ave. TC wages</u>	<u>Wage increase 1992-97</u>
Computer/Software	\$50,473	48%	25%
Medical Devices	\$49,445	45%	32%
Financial Services	\$47,413	39%	29%
Machinery/Metalwork	\$42,215	23%	19%
Printing/Publishing	\$38,030	11%	30%

Twin Cities average	\$34,194	—	20%
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Source: Department of Economic Security

The Minnesota Department of Trade and Economic Development (DTED) has used the industry cluster approach for over a decade, but in limited fashion. The industry-specific assistance program has grown from two to five industries, but each industry cluster is staffed by a single person.²³

As the lead public entity for most economic development, cities must also be involved in this transition. Municipal economic development agencies, most of which have very limited resources, should collaborate strategically on an appropriate cluster approach. The Metropolitan Council should play a leadership role in promoting cluster development in Minneapolis, St. Paul, groups of suburban cities, and the entire Twin Cities region.

Such efforts help target and leverage public subsidies at all levels in the name of better

Average Job Growth

<u>Twin Cities Cluster</u>	<u>Total Growth 1992-97</u>	<u>% Growth 1992-97</u>
Computer/Software	15,126	23%
Medical Devices	4,580	32%
Financial Services	12,235	12%
Machinery/Metalwork	7,959	14%
Printing/Publishing	2,642	7%
Clusters total	42,542	15%
Twin Cities total (all "non-cluster" jobs)	143,312	12%

Source: Department of Economic Security

²³ The five state-wide clusters include computers and electrical components, health care and medical products, printing and publishing, tourism, and wood products, plastics and composites. To put the staffing issue into context, according to two DTED officials, the business and community development department of DTED (under which cluster-specific programs are organized) employs 67 people, while the entire agency employs 230 people.

jobs and higher overall productivity, instead of using limited resources to attract new business without thought to overall value to the region or state.

RECOMMENDATION #2

The Legislature should focus statewide tax policies on technology-based investments and upgrades, and find new ways to facilitate technology transfer.

Employers will always need capital investment in the traditional sense of buildings and equipment that make organizations work. But technology investment will become the critical component of capital investment in the future, particularly for small and medium-sized companies which offer huge potential for growth, but often do not have the financial capacity to invest in new technology.

State tax policy should encourage technology investments with exemptions and credits. The golden eggs they lay in the form of increased productivity from workers will more

than offset any lost revenues. Specifically, the Legislature should change the existing sales tax credit for capital equipment purchases with an upfront exemption on such purchases, making technological and other capital investments more immediately affordable. The Legislature should also consider expanding the capital equipment exemption to non-manufacturing businesses, along with targeted investment tax credits and other incentives.

Other efforts toward this goal might include expanding on the Minnesota Technology, Inc. (MTI) model of technology transfer and assistance for business. MTI's mission is to boost technology (and by relation, productivity) in small and mid-sized manufacturing companies, mostly in Greater Minnesota.

The new economy will put a premium on such efforts literally in every industry throughout the state, including in the Twin Cities region. Expanding MTI's mission and financing could pay off well in upgrading technology throughout the Twin Cities and state economy.

Important input on the labor shortage from other stakeholders

During the Citizens League's study committee, League staff helped organize and worked with two stakeholder groups to gain better insight into the labor shortage.

To give Greater Minnesota a voice in this report, the Citizens League, in cooperation with the Fergus Falls Community College, The Workforce Center, and the West Central Initiative Fund, established a subcommittee in Fergus Falls to consider labor shortage issues outside the metro region. The League also organized a group of urban high school students — a Youth Citizens League — to give these youth hands-on experience in policy issues that concern them, and to offer them a forum to express their views about career training and work opportunities.

See Appendix A for the "Rural Perspective on the Labor Shortage," and Appendix B for more information on the Youth Citizens League project.

Principle #2

Regional education and training efforts, both public and private, must do a much better job preparing new workers and supporting the acquisition of higher skills by existing workers to prepare them for better and more productive opportunities in the future workforce.

Although education serves other vital purposes besides skill training for employment, its role in preparing people for productive careers in a knowledge economy becomes critical to the future of both the economy and society. The challenge is to find ways to upgrade the skills of all workers — existing workers, underemployed workers and future workers — so each contributes toward improved productivity. Employers must do their part in keeping workers' skills up to date through in-house training and by clearly defining and communicating to education institutions the basic skills that workers need for the workplace.

Change is particularly important in public and non-profit education and training programs in order to adapt to new economic conditions and skill needs, and to improve related outcomes for workers and employers.

RECOMMENDATION #3

Worker training programs must be much more effective and responsive to market demands in preparing workers with appropriate transferable skills.

In an economy short on labor, there is little excuse for low placement, poor retention and slow advancement rates for graduates of any training program, whether they be job readiness programs targeting disadvantaged popu-

lations or customized training programs at vocational and technical schools.

Evidence suggests that public and non-profit worker training programs, particularly for low-skilled, underemployed people, provide little long-term value for workers or employers. In 1997, the Northwest Area Foundation evaluated employment training and worker development programs in six states, including Minnesota. The report pointed out that "the results of evaluation [of worker training programs] over the last 30 years have been constant in their conclusions that any positive outcomes from job training programs have been minimal, short-term and inconsistent."²⁴

That is not to say there are no good training programs. But there is widespread belief that the current system is not serving workers or employers very well. For example, a new employer-based, non-profit employment corporation in Ramsey County was recently created out of frustration over the fragmented and insufficient training and placement network now in place, and is currently being test-piloted.²⁵

Ineffective training programs will magnify problems created by an economy demanding high skills and a churning job market experiencing simultaneous growth and downsizing. Retraining for downsized and dislocated workers will be just as important as training for traditionally underemployed people such as welfare recipients, people with disabilities, and immigrants with language barriers. All training programs must be geared toward the fundamental goal of developing marketable, transferable skills in participants.

²⁴ Northwest Area Foundation, *Workforce Development: A Brief History, State of the Practice, and Promising Programs in the Northwest*, January 1997. Quotation is taken from "Selected Highlights" of report distributed at an economic development forum at the Humphrey Institute of Public Affairs, June 11, 1997. See p. 2.

²⁵ Lynda McDonnell, "Group pushes job agency redesign," *Pioneer Press*, April 22, 1998.

One way to improve the entire worker training system is to introduce more competition. Without competition, there is little incentive for programs at all skill levels to give workers and employers top-notch training services. Competition can be introduced by giving funding directly to workers and students (possibly through a voucher system) instead of to organizations and institutions. Such a system also empowers workers to take responsibility for their own training outcomes, and promotes the development of niche programs to serve the skill needs of different employers and workers instead of the generic programs common today.

Some efforts to improve worker-training outcomes are already in progress. The Minnesota Department of Economic Security's Workforce Center model — which brings together state, county and private non-profit employment and training-related services under one roof — has been praised nation-wide as the next-generation model in linking employers, workers and training programs. A total of 53 Workforce Centers are expected to be in operation by the end of this year.

However, the state now has a prime opportunity now to introduce more competition and put "performance teeth" into the worker training system. The federal Workforce Investment Act approved in August consolidates the morass of 100-plus federal programs into three block grant programs to states, and gives considerable flexibility and authority to states regarding spending and program design.

The State of Minnesota — working cooperatively with employers and training providers — must take advantage of this opportunity by refocusing its worker training system for better results, holding programs accountable for improving the skills and job options of workers, and meeting the skill needs of employers.

Similarly, individual workers must take responsibility for their own training or retraining, and be empowered to make informed choices. Employers must also take a lead role in any system redesign, understanding employee skill needs, explicitly communicating these needs to training and education programs, and rewarding through patronage those programs that are serving their employment needs.

The newly-designed worker training system should include the following elements:

A. Put programs "at-risk" for funding.

Funding for training programs is held largely by government, the philanthropic community, and private industry. As such, these entities control the means necessary to introduce more competition and improve outcomes. In addition to a voucher approach, funders could also establish "pay for performance" models that continue program support based on rigorous performance measurements.

B. Collect and publish performance data on all programs and their results.

Both funders and clients of training services must have accurate, comprehensive information on the types of programs available to them and the results achieved by various programs.

The national Workforce Investment Act establishes some performance measurements for training programs, but comprehensive state data should be collected to give workers, students, and employers necessary data to make informed decisions about skill needs and appropriate training programs. Such performance information might include average length and intensity of the program, placement and retention rates in the field of training, average starting wages by job type and five-year average wages.

In fact, inroads are being made in getting better information to the public on workforce training programs and the labor market in general. For instance, since 1996, MDES has published the *Consumer Report on Vocational Technical College Programs*, which includes program information and placement rates.

MDES also has embarked on a project to catalogue the many different worker training programs funded wholly or partly with public money, along with their target customers and program objectives. The project expects to have initial results on how providers evaluate their programs in May or June of next year, according to a source at MDES. Future project work will also include annual updates and collection of more comprehensive data on program outcomes.

This and additional efforts are needed to help untangle the web of training programs and provide valuable information to funders and policy makers.

C. Initiate a "best practices" review to identify gaps, eliminate duplication, and allow training programs to learn from the successes and failures of other programs.

Despite the lack of confidence in many worker training programs, good programs do exist.²⁶ Research has already identified a handful of characteristics of successful (non-higher education) training programs, including:²⁷

- focus on skill development in addition to job placement (see below)
- understanding the existing job market, and linking training to available job opportunities
- designing programs to respond to the needs of employers and workers
- proper assessment of trainees' current and potential abilities and interests
- partnerships between government, business and non-profit sectors
- sustained contact with participants after placement
- continual evaluation to redesign for changing conditions.

Establishing a best practices review — through a state agency, foundation or appropriate non-profit — would formalize a regular review process that recognizes innovative programs, and provides valuable information for providers, funders and customers so they can make informed choices regarding their involvement in various training programs.

D. Training programs for low-skilled workers should combine short-term "work readiness" training with long-term support for skills development to satisfy both immediate needs for self-sufficiency and long-term prospects for self-improvement.

By many measures, training programs for displaced and disadvantaged workers have served people poorly. For example, a 1994 report found 141 different job assistance and training programs and related organizations in the Twin Cities. A comprehensive program analysis showed that "the system serves only a small fraction of those who need training, and even when it does, it is not designed to provide the kind of skills training and support services needed to ensure the transition from poverty to long-term job stability."²⁸

²⁶ One example, though not without its critics, is Twin Cities RISE!, a resource-intensive program that spends about \$20,000 to \$30,000 per participant, but has been successful in training and placing young, unemployed minority males living in the central cities.

²⁷ See reports by Northwest Area Foundation, Twin Cities RISE!, *Closing the Work Skills Gap*, March 1994, and the General Accounting Office, *Employment Training, Successful Projects Share Common Strategy*, May 7, 1996.

²⁸ Twin Cities RISE!, *Closing the Work Skills Gap*, March 1994, p. i of executive summary.

For people with no work experience, the most fundamental skills are those that can only be learned on the job. Initial training for these workers should concentrate on searching for and obtaining jobs, along with "work readiness" training (often referred to as "soft" skills).

The problem, however, is that additional skill development for these workers is critical, and training programs usually lose contact with trainees after they are placed in a job. This often leaves low-skill workers in jobs with few career ladders or opportunities for better paying jobs in the future.

For this reason, training programs for low-skill workers must be re-designed and melded with the workplace. Today, jobs and skill training for low-skill workers are wrongly seen as mutually exclusive. On-the-job skill training is a must for all low-skill workers just entering the workforce.

The state and other funders can help greatly by subsidizing ongoing training for low-skill individuals while they are in a job. This might entail night schooling, or subsidizing wages of an employee working half-time and training half-time.

RECOMMENDATION #4

K-12 must do a much better job arming students with the basic skills and information they will need to succeed in the workforce.

Because workers are the key resource for employers in the future, the quality of the region's K-12 system will dictate much of the region's future competitiveness. In that light, low test scores for central city K-12 school districts are particularly ominous. Failure to markedly improve K-12 outcomes for *all* students will foreshadow dire consequences for

the region's future competitiveness, and render moot all other efforts to address the labor shortage.

The K-12 system provides students with both general education and skill training. The Citizens League recently issued a report on improving general K-12 education outcomes in February 1997.²⁹ As it relates specifically to the labor shortage and skill training, the K-12 system must ensure that students have access to quality career and skill development programs, as well as up to date information on the job market.

A. Improve student access to career counseling and job market information. A group of Minneapolis high school students told the committee that career development services are often lacking in schools.³⁰ Despite a red-hot job market, students were unaware of job opportunities and felt disconnected from the job market. The students said better information was needed to give high school students a clear idea about the opportunities that exist in the workplace, the education and training requirements necessary to obtain different types of jobs, and salaries in different occupations.

Career counseling appears particularly thin for those students *not* on the traditional four-year college track, despite the availability of many good jobs for those with two-year degrees, and still other good job opportunities through apprenticeships and formal and informal training settings.

The Minnesota Department of Economic Security (MDES) currently publishes a wealth of labor market information which is sent to schools, guidance counselors

²⁹ See the Citizens League's report, *Straight A's for Minnesota Schools*, 1997.

³⁰ Youth Citizens League presentation to committee on May 21, 1998. See Appendix B.

and students.³¹ New strategies for engaging students, parents and guidance departments must be investigated to ensure that available information is incorporated into student career planning.

One new model is the Internet System for Employment and Education Knowledge (ISEEK), which is a cooperative on-line project of 11 state agencies assisting in career development and/or transition for people of all ages, including K-12 students. As part of ISEEK, the Minnesota Career Information System is implementing a middle school career assessment test and providing information for kids and parents for early-stage career planning.³²

- B. Accelerate school-to-work programs.** The K-12 education system has historically been removed from the workplace, despite an obvious mutual relationship. As a result, potential benefits are left uncaptured by both students and employers.

Despite significant improvement in and presence of school-to-work programs in districts throughout the region, there should be still more crossover between the classroom and the workplace to give students more hands-on experience and training.

Today, there are a number of school-to-work models to choose from. The Anoka School District has opened a "Quality Center" that gives 50 students experience in identifying and solving real problems

faced by local employers. Recently, Cisco Systems, a national computer networking company, established a partnership with ten Minnesota school districts to provide computer networking technician training through an industry-recognized certification program — all of which is being paid for by Cisco, along with federal school-to-work grants to train teachers.

Such efforts should be replicated throughout both K-12 and higher education programs to incorporate workplace training into the education process.

- C. Guarantee targeted free access to any state higher education institution if certain educational requirements are met while in high school.** It is in the state's best interest for young adults to pursue additional post-secondary, high-skill training. State resources, however, should be targeted to provide better access for low-income students to higher education, and for those students pursuing careers in specific high-skill, high-demand areas (like high-tech industries). Students, however, should first have to demonstrate achievement in high school.

Just such a program is being hailed in Georgia. Called "Georgia HOPE," it promises two-year scholarships to state-run four- and two-year higher education institutions, as well as a handful of private colleges and universities, to all state high school students who graduate with a "B" average. While not directly targeted at high-skill careers, Georgia HOPE sends a clear message to students about the need for high achievement, and offers valuable rewards for earning high grades.

³¹ One good example of relevant labor market information available to schools and students is *Minnesota Careers*, which breaks down jobs into career fields, and discusses the size of the occupation, starting and average salaries, growth rate, job openings and necessary training. MDES estimates that 100,000 copies of *Minnesota Careers* are distributed annually.

³² Daniel Wagner, director of MCIS, personal communication. ISEEK and MCIS are run by the Department of Children Families and Learning.

RECOMMENDATION #5

Link new higher education initiatives more closely to the needs of employers and industry clusters.

A. Create more customized and "just-in-time" training programs in technical and vocational fields. Higher education institutions will play a critical role for employers trying to keep their workers' skills up to date. Private and public technical and vocational programs must meet this challenge by diversifying programs and working closely with employers and industry clusters to redesign programs considered too slow-moving and ill-focused to be useful.

The Job Skills Partnership, run through the state Department of Trade and Economic Development, is one example of a unique partnership that has contributed to greater customized training. The program couples employers with specific training needs with educational or non-profit educational institutions. From 1984 to 1996, the program provided about \$8 million in grants — which leveraged an additional \$19 million from employers — for customized training programs for 320 companies at various education and training institutions.³³ Such efforts must be replicated and scaled up in size to have a real impact on the skills gap in the labor pool today.

As the state's single largest provider of technical and vocational programs, the Minnesota System of Colleges and Universities (MnSCU) will need to skillfully and frequently adapt its programs to the changing skill needs of employers. MnSCU has already made progress in this area.³⁴ But there is a significant amount of

cultural inertia that must be overcome with a system of this size, which annually handles about 145,000 full-time equivalent students. This committee urges MnSCU's technical and vocational programs to pursue more customized training contracts with private employers, and recommends that the Legislature investigate ways to facilitate this transition to a more market-oriented mindset for programs.

B. The Legislature should directly fund industry cluster "councils" or "institutes," and empower these organizations to design specialized training programs geared toward skill needs of the industry.

For example, the region's computer industry cluster might create an education institute where students would learn state-of-the-art technologies on equipment made available by sponsoring firms, and taught by industry experts.³⁵ (See discussion of industry clusters on p. 8.) Cluster institutes might also be viable private education entities if funding were allowed to go with the students, and education organizations and institutions were allowed to compete for the students based on performance.

Partnerships between these industry councils and public or private post-secondary institutions would provide yet another option — and in fact such partnerships are already taking place. In October of this year, Dunwoody Institute and the Printing Industry of Minnesota Education Foundation (PIMEF) unveiled a joint program called the Printing and Graphic Arts Advanced Technical Education Center.

MnSCU has created more than 1,000 short and accelerated programs, along with more certificate programs (such as Novell, Cisco, Microsoft) to meet changing demands for training. MnSCU is also looking to expand customized training, which is currently provided to 1,700 private employees.

³⁵ This recommendation was first put forth in the Citizens League's *Compete Globally* (1996), p. 145.

³³ Minnesota Job Skills Partnership, *1997 Progress Report*, Department of Economic Security.

³⁴ According to resource testimony given by MnSCU Chancellor Morrie Anderson on June 25, 1998,

Started up with \$350 million worth of new equipment provided by PIMEF and its members, the center is funded entirely by private money.³⁶

MnSCU also received funding this year to pursue partnerships with five state-based industry clusters (software programming, precision manufacturing, printing and graphics, health care and taconite production).

C. Create tuition waivers or loan forgiveness to attract high achieving out-of-state and international students, and to retain talented Minnesota students. Attracting top-notch talent to the region from other states and countries is not an easy sell given the area's well-publicized climate.

According to testimony, such individuals are much easier to attract to Minnesota for a short-term stay like a stint in undergraduate or graduate school. Once here, many find the Twin Cities an attractive place with a high quality of life (the weather notwithstanding), and frequently choose to stay.³⁷

But the state discourages such behavior by charging out-of-state students higher tuition than our own residents. It is a false economy to do so, at least for many technical programs. We should offer these students the same low resident tuition now offered through reciprocity agreements to any student in a high-tech program who wants to come to state institution and can meet the qualifications for admission.

Similar strategies are needed to keep our brightest students in the state and region. One option (also applicable to out-of-state and international students) would be to forgive student loans in certain high-demand occupations in return for agreeing to stay in-state for a defined length of time (say, three years). Costs of this program could potentially be shared by the state and employers that hire these individuals.

Subsidies to attract and retain high achieving students should also be applied to professions in the non-profit and public sectors.

Specifically, the K-12 education system has suffered a severe loss of talent since employment opportunities for teachers have expanded over the last several decades. The situation will be compounded in the future by the fact that a large number of teachers are nearing retirement age.

With heavy competition from better-paying private jobs, schools might have difficulty finding the talent to meet the education needs of the region and state, particularly in scientific and technical subjects. Compromising on the quality of our state's teachers would be a critical error in dealing with the long-term ramifications of a labor shortage.

³⁶ Jan Curtis, PIMEF Director of Education and Development, personal communication.

³⁷ Kenneth Keller, senior fellow, Humphrey Institute of Public Affairs, testimony given to the committee on May 14, 1998.

Principle #3

Provide incentives that attract and retain workers and eliminate barriers that cause mismatches and underutilization within the labor market.

Along with specific efforts to improve worker skills and productivity, the region's competitiveness will also be determined by its ability to attract more people to the region's labor force, reduce costly turnover, and overcome obstacles that prevent workers from entering and remaining in the workforce. Such efforts benefit all parties: employers receive needed workers, workers are afforded a better work environment, and those people not currently in the workforce are given a legitimate opportunity to reap the financial benefits of work.

RECOMMENDATION #6

Twin Cities employers should implement "work-life" initiatives that improve productivity and help attract and retain workers.

Work-life initiatives offer a range of new strategies to help employers meet the challenges of a labor shortage and to adapt to a changing workplace. Specifically, work-life benefits can help improve worker productivity, cut down on turnover costs, and attract new employees.

Work-life initiatives allow employees to balance work and personal responsibilities. Common work-life initiatives include child care, elder care, resource and referral service, flexible scheduling, tuition reimbursement, telecommuting, on-site health and wellness programs, job sharing, concierge services and still others. There are bottom-line reasons why employers need a comprehensive work-life program.

The main argument for work-life is its positive impact on worker productivity. According to a national work-life expert, companies that have studied the results of their work-life programs have experienced reduced absenteeism and increased productivity. The Scott Paper Company reported that its work-life programs increased production by 35 percent.³⁸

Simple and small work-life changes can have a big payoff. Studies on telecommuting have also consistently found that productivity goes up when employees work at home for even a few days a month. To reduce absenteeism companies have had success shifting to flexible, worker-controlled "personal time off" instead of strict, supervisor-approved vacation and sick time. This gives workers greater freedom and responsibility to use their allotted leave time for whatever they choose, which reduces the need for unplanned absences from work.³⁹

Work-life programs are also effective at attracting new workers (including those previously not in the labor force) which, in turn, improves productivity by filling open positions. Today's job seekers, with new-found leverage in the current labor shortage, have many employment options to choose from. Especially where there is salary parity among competitors, work-life benefits can be the best recruiting tool available to employers.

A third bottom-line benefit of work-life is employee retention. A national study found that the quality of employees' jobs and the supportive nature of their workplaces "are far more important predictors" than salary or traditional benefits in determining job satis-

³⁸ Susan Seitel, owner of Work & Family Connection, Inc., testimony to the committee on July 9, 1998.

³⁹ Sarah Kirshner, "A new way to look at work/family benefits" *St. Louis Business Journal*, Sept. 9, 1997.

faction and commitment, loyalty to employer, job performance and retention.⁴⁰

Turnover is very costly to companies, particularly when positions cannot be easily refilled. A 1996 study of Wisconsin businesses found that 75 percent of demand for new employees "is simply to replace workers who have left the company."⁴¹ Even for entry-level, non-exempt positions, the cost of turnover ranges from \$4,000 to \$10,000 per position, according to one local study.⁴² Turnover costs for high-skill and executive positions can be many times that total.

Merck found that turnover cost the company 150 percent of an exempt person's yearly salary and 75 percent of a non-exempt person's salary.⁴³ A landmark study by Aetna in 1987 showed that turnover cost the company about \$100 million in lost productivity, recruiting, and training costs.⁴⁴ A study by MCI showed that a new worker can accomplish only 60 percent as much in the first three months as an experienced worker, and a resulting drop in efficiency of just 5 percent can

cut company revenue by hundreds of millions of dollars.⁴⁵

Many employers wrongly believe that they cannot afford work-life initiatives. While this might be the case with some work-life benefits, such as on-site daycare, many work-life initiatives cost no money at all, including flexible scheduling and job sharing. But these efforts can also be challenging to implement because they require organizational changes, which can be even more difficult than freeing up resources.

For some workers, simple but enormous roadblocks prevent them from capitalizing on the employment opportunities offered them by the labor shortage. For these workers, work-life benefits can be a bridge to greater participation and retention. For example, daycare expenses alone can convince welfare mothers that working is not worth the personal and financial hassle. Businesses can remove this obstacle for such workers by helping to coordinate and pay for (or at least subsidize) daycare as part of an employee's benefit package.

It is not the intent of this report to recommend what specific work-life initiatives would best help regional employers improve productivity, attract new workers and retain existing workers. That is for employers to decide after assessing the needs of their employees and weighing the real costs versus benefits of any new workplace initiative — a decision-making process that should also include unions. Whatever the case, work-life offers all employers important new tools that can help companies and organizations become more productive, and adapt to a changing workforce.

⁴⁰ James T. Bond, Ellen Galinsky, and Jennifer Swanber, *The 1997 National Study of the Changing Workforce*, Families And Work Institute, 1997. The study used data collected in the U.S. Department of Labor's *Quality of Employment Survey* from 1977, 1992 and 1997.

⁴¹ William Pinkovitz, Joseph Moskal and Gary Green, "How much does your employee turnover cost?" Center for Community Economic Development, University of Wisconsin-Cooperative Extension, 1997. The authors interviewed 78 companies in Rock County, Wis., that represented 20 percent of that county's total workforce.

⁴² Twin Cities Rise! "The real cost of employee turnover: Preliminary report," March 1997.

⁴³ Susan Seitel, Owner of Work & Family Connection, Inc., and editor of *Work Family Connection*, testimony to the committee on July 9, 1998.

⁴⁴ Kirshner, 1997. Of this total, \$47 million was for non-exempt staff, and \$55 million was for exempt staff. Policy changes by Aetna focusing just on retaining women on maternity leave produced savings of \$2 million in 1991-92.

⁴⁵ Sue Shellenbarger, "Companies are finding it really pays to be nice to employees," *Wall Street Journal*, July 22, 1998.

RECOMMENDATION #7

New strategies and partnerships are needed to overcome systemic obstacles that prevent some workers from entering and staying in the workforce.

There are a number of systemic obstacles that impede access to the workplace for some people. For example, transportation, health care, and affordable housing influence the ability of welfare recipients and low-income people to "make work pay" at the jobs and pay scales for which they are qualified.⁴⁶ Similarly, immigrants and older workers offer important new sources of labor, but both face adversity in entering the local workforce.

Any discussion of access to work must also address race, gender and age discrimination by employers. About 80 percent of the total population growth in Minnesota in the next 30 years will be among nonwhite populations. Nonwhites, currently and in the future, make up a larger share of younger age groups than of older age groups, which means they will comprise a larger share of the region's future workforce.⁴⁷

⁴⁶ The State of Minnesota has, in fact, taken the lead in helping to "make work pay" even for low-wage jobs, providing subsidized child care and health insurance even after people leave public assistance. The State also offers welfare recipients wage supplements and disregards a portion of earned income in order to increase total discretionary income. For example, a family of three with no wage earner would receive \$763 in monthly welfare benefits. With just part-time, minimum wage work, the same family's monthly income rises to \$1,168. Full-time minimum wage work raises this household's income to over \$1,400. Once families are over the poverty level, subsidies are cut as wages increase. With full-time work at \$9 an hour, the family of three earns about \$1,475. See Gregory Acs, Norma Coe, Keith Watson, Robert Lerman, *Does Work Pay? An Analysis of the Work Incentives under TANF*, Occasional Paper Number 9, The Urban Institute, July 1998.

⁴⁷ Minnesota Planning, *A Changing Population: The Next 30 Years*, 1993.

The future workforce will be older as well. From the year 2000 to 2030, the population of between the ages of 15 and 64 years old will remain unchanged, while the number of people over the age of 65 is expected to double. The median age of Minnesotans during this time will rise from 36 to 42 years old.⁴⁸

Yet, unfortunately, discrimination by race, as well as by age, gender and ability is still present in today's workplace. Employers must — for their own sake if no other reason — shed stereotypes and discriminatory hiring practices and workplace environments. Failure to do so will dramatically limit an employer's ability to find and retain workers.

Additional efforts by all sectors must target specific obstacles that block access to the workplace for some workers.

A. The state should lobby Congress for the necessary waivers to create a "buy-in" program to Medical Assistance to make health coverage affordable for working people with disabilities.

Access to the job market for people with disabilities has improved significantly over the years. Exhaustive individual therapy and training, improved attitudes toward people with disabilities, and the Americans with Disabilities Act have given people with disabilities unprecedented work opportunities.

Tragically, many opportunities are closed off by federal and state health care policy. Monthly personal care and other long-term health costs for people with disabilities can reach \$2,000 to \$3,000 a month, much of which is covered by Medicaid, called "Medical Assistance" in Minnesota (Medicare offers very little coverage for people with disabilities). Once in the workforce, people with disabilities lose

⁴⁸ Aging Initiative: Project 2030, *Briefing Book*, Department of Human Services, 1998

most of these personal care and long-term care benefits because employers' insurance plans usually do not offer such coverage and Medicaid eligibility requires a certain level of poverty.

To retain Medicaid benefits, a worker with disabilities can earn only \$440 per month — a mere 11 hours a week at \$10 an hour. Once over this threshold, Medicaid recipients must contribute 50 percent of everything they earn toward monthly health care bills. As income rises, people with disabilities also lose eligibility for Food Stamps and subsidized housing. According to the Courage Center, a rehabilitation center for people with disabilities, "It won't be long before the net result of working becomes a negative number in your checkbook. What would be the point of working?"⁴⁹

For this reason, the state should continue lobbying Congress for waivers to the Medicaid program allowing people with disabilities to "buy-in" to Medicaid coverage in return for a monthly fee based on monthly earnings. The Minnesota Legislature passed a resolution to this extent earlier in the year, and should continue efforts to gain the necessary federal waivers.⁵⁰

The benefits of doing so are win-win-win: a significant health care deterrent is removed for workers with disabilities; employers have access to a new pool of workers; and the state receives bonus revenue in the form of payments toward Medicaid costs (which otherwise would not have been received), along with in-

come taxes from persons previously unemployed.

B. New portable models are needed for health care coverage and pensions.

Many workers, especially those with children, have poor mobility because they cannot afford to go without employer-sponsored health insurance. In turn, this limits the ability of workers to take risks and invest in their own skills, whether it be to retrain for a new career or to seek employment elsewhere.

One solution is to remove the traditional link between employers and health insurance, and invent new portable health care insurance that gives workers more freedom to pursue new opportunities while lessening the financial risk associated with lack of health care coverage.

One possibility would be to mimic the "pass-through" payment system similar to 401(k) retirement accounts, whereby employers make payments on behalf of employees but hold no control over the accounts themselves. Such a new model could also include unemployment health insurance consisting of small fees paid while employed for health coverage during transitional periods when unemployed.

A similar model is needed for pension plans. Anecdotal evidence suggests that workers, particularly in the public sector, stay with an employer because they don't want to forfeit accrued pension benefits. In fact, there are new, portable models that are catching on, including "cash-balance" accounts that share investment characteristics of a traditional pension plan and the portability and "cash-value" characteristics of 401(k) plans. One expert in the field estimated that about 10 percent of all companies with over 5,000 employees na-

⁴⁹ Anita Boucher, "Working is Mathematically Impossible," Courage Center, no date.

⁵⁰ The original idea for the buy-in program came from the Minnesota Consortium for Citizens with Disabilities; see also HF3258/SF2699, "A Resolution Memorializing the Congress of the United States to Remove Medicaid Policy Barriers to Employment for People with Disabilities," 1998 Legislative session.

tionwide have switched to this "cash-balance" approach.⁵¹

It appears, however, that this new model for retirement/investment accounts has yet to be introduced to or implemented by smaller private employers or the public sector which, combined, employ a majority of the workforce. The state, along with employer associations, should lobby Congress to amend existing Employee Retirement Income Security Act (ERISA) laws to encourage the development of new, flexible and portable pension plans.

C. New partnerships and strategies are critical for improving affordable housing and transportation systems.

1. Businesses must become more involved and vocal about affordable housing initiatives.

Businesses have often eschewed the spotlight on public policy issues, sometimes for fear of not wanting to offend potential or existing customers, and other times because they felt it outside the realm of business to get involved. But the business community can be the lever breaking the logjam on affordable housing in the metro region, advocating for affordable housing on the basis that it is a critical component to the health of local business.

Suburban businesses are having difficulty finding workers, especially for low-skill positions, and the lack of affordable housing in suburban communities is widely cited as one of the responsible factors. The end result for employers is poorer service, an inability to fill job orders, and other prob-

lems that have a very real impact on the bottom line for businesses.

Businesses will have to play a higher-profile leadership role on the issue of affordable housing than they have in the past. This will be especially true in the suburbs, where much of the job growth is occurring, where affordable housing is in very short supply, and where such housing developments often meet intense opposition.

2. Transportation alternatives must expand for workers to have genuine access to available jobs.

Many reports have demonstrated that the Twin Cities regional transportation system serves car owners very well, and transit-dependent and low-income people very poorly. For example, reverse commute routes are expanding, but are nonetheless insufficient to provide people living in the central city with convenient access to job growth in the suburbs.

Proposed investments in light rail transit, while benefiting some suburban commuters and linking downtown to the airport and the Mall of America, will do little to improve overall access of low-income people to available jobs.

People do not desire mobility as such. Rather, they demand access to social and economic interaction that mobility can provide. New partnerships and pilot demonstrations must be created and tested that provide disadvantaged workers (among others) with flexible transportation options and genuine access to jobs throughout the region.

This means leaving no stone unturned, from regulations on taxis and other private transportation, to rethinking

⁵¹ Margaret Boitano, "Companies' pension plans looking more like 401(k)s," *StarTribune* (from the Dow Jones News Service), August 23, 1998.

land use patterns, full-cost pricing of highways, telecommuting, expanding existing bus service (including dedicated roads for high-speed buses), public-private transportation collaborations, and even redefining the transit system to include more than just big buses.⁵²

There are instances of such activity, but it must be done on a much larger, systematic scale to have any real impact on the labor shortage.⁵³ Employers must also rethink their role in providing private transportation for employees.

For example, Mystic Lake Casino has successfully tapped underused labor by running shuttle buses between the central cities and its Shakopee location in Scott County. Understanding such fundamental work-life issues will improve access to new and different worker pools. The public sector could assist by coordinating private transportation initiatives without providing the service itself.

3. New or expanding businesses must align locational decisions with access to workers.

In a labor surplus environment, employers could base their locational decisions exclusively on factors like real

estate costs, access to markets, tax climate, and highway access for product distribution. Faced with a labor shortage, however, employers who locate their businesses irrespective of access to public transportation and affordable housing will have considerable difficulty in attracting workers, particularly critical support personnel (e.g., clerical and janitorial), and many assembly positions in light manufacturing.

In deciding where to start up new operations or expand existing operations, businesses must consider proximity to population centers and access to public transit and affordable housing. This means giving careful thought to the availability of good infrastructure, as is found in the urban core and fully-developed area of the Twin Cities region. For example, the quickening pace of "brownfield" clean up in the fully-developed area of the Twin Cities offers employers new location options with excellent access to metropolitan infrastructure.

4. Local comprehensive plans must include and integrate public transportation and affordable housing into plans for economic growth.

Twin Cities communities, especially outlying suburbs, must understand that their economic growth is linked to the availability of affordable housing and efficiency of transportation systems, each of which improves access of the general labor market to local jobs. Local comprehensive plans should therefore incorporate and integrate plans for economic growth and employment centers (e.g. industrial parks, new commercial centers) with housing and transportation systems.

⁵² Citizens League, *Effective Transit: Invest in Access to Jobs and Services*, January 1995.

⁵³ For example, the Metropolitan Council has created the "metropass" targeted to metro employers that gives employees either free or deeply discounted bus passes. The program is expected to help downtown companies attract workers by removing the car-related hassles like finding and paying for parking, and congested commutes. Employers can also take a tax deduction for these bus passes. The program is modeled after the "Eco Pass" in Denver, which showed employee ridership increases within participating companies of 20-50 percent.

D. The state must take steps to encourage immigration, especially for high-skill workers.

Because the labor shortage is a demographic problem, government and employers should embrace immigrants (those already here and those coming in the future) as an existing and renewable source of workers.

Executives from Cargill and Medtronic told the committee that diversity contributes to competitive advantage in a global economy.⁵⁴ Employers must adapt their hiring practices and workplaces to recruit and integrate workers of different races and cultures if they hope to be successful. Although immigration policy is clearly a federal issue, the region should foster a climate where immigrants are welcome and their skills appropriately utilized.

The non-profit community — specifically faith and social service organizations — also plays an important part in making immigrants feel safe, welcome, comfortable and connected to their new communities.

Highly-educated, highly-skilled immigrants: Many foreign nationals are educated at higher education institutions in the U.S. and possess highly sought-after skills — so much so that the number of H-1B visas for immigrants with high-tech skills were temporarily increased by almost 80 percent (50,000). But this recent legislation will likely have a limited impact on the long-term labor shortage facing the region and state.

Minnesota businesses also have been interested in recruiting such talent but have

been stymied to an extent by a lagging state certification process. From 1993 to 1997, Alien Labor Certification requests to the Minnesota Department of Economic Security (MDES) have increased almost 500 percent — most of them for professional or technical workers.⁵⁵

Yet MDES staffing in this area has been cut to just one person, which has resulted in a considerable backlog of certification applications.⁵⁶ The state and MDES must rectify the situation and make the entire application process easier so businesses can compete for international talent.

Limited education, lower-skilled immigrants: Many of the immigrants to Minnesota have limited education and lower-level skills. These individuals consist mainly of refugees, people seeking asylum, and migrant workers. Employment problems for these workers are much different than those experienced by high-skill immigrants. Many immigrants come from cultures with a different concept of work. Language barriers also can be major obstacles for low-skill immigrants in finding and retaining jobs.

This workforce segment offers untapped potential for employers, and given current welfare-to-work laws, the state should have all the motivation it needs to help low-skill immigrants overcome cultural obstacles and productively contribute to the state's economy.

⁵⁵ MDES, *Beyond 2000*, 1998.

⁵⁶ Jane Brown, MDES commissioner, testimony to the committee on June 25, 1998. The situation regarding immigrants appears exacerbated by the fact that the federal Department of Labor cut the number of analysts reviewing H-1B visas from nine to six, resulting in a backlog of approximately 1,200 applications for Minnesota alone. See Henry Breimhurst, "Visa cap snarls process of hiring high-tech talent," *CityBusiness*, July 31, 1998.

⁵⁴ Jim Larsen, Cargill human resources manager, and Daniel Luthringshauser, Medtronic vice president of international development, in testimony to the committee on April 30, 1998.

In particular, the state should evaluate its English as a Second Language (ESL) programs, and fund those that demonstrate results in improving this critical skill for immigrants. Efforts must also be made to alert immigrants of the changes and limitations of today's welfare programs, and to make them aware of available language and skill training programs.

E. Employers must find ways to tap the potential of older workers who otherwise will retire.

If baby boomers begin to retire at normal retirement ages they will contribute to a dramatic increase in the non-working population beginning in about 2020. Evidence suggests that many baby boomers have the desire and economic capacity to retire early and are planning to do so.

The effects of such early retirements won't be felt at first as the baby boomers who retire will presumably be able to live on savings and retirement income for some time. However, once away from the workforce for an extended period of time, they will lose much of their value as employees, making workforce re-entry difficult even in a labor shortage.

The limited skills older workers offer after having been away from the workforce for years also will not help them significantly in supplementing their incomes if inflation has devastated their savings. This could happen if too many retired baby boomers draw down their savings while competing with each other for labor-intensive health care and other home services.

Compounding the matter is a rising elderly dependency ratio, with a stagnant number of workers supporting a rapidly growing number of non-working older people.

To avoid this, employers and the region as a whole need to find ways to retain people in the workforce after traditional retirement age. To do so requires changing employers' attitudes about older workers. It will also be necessary to pay particular attention to the non-economic reasons people work. Older workers who do not feel the need to work will be reluctant to continue in jobs that do not offer other forms of gratification.

This is the kind of area where private sector competition and innovation will likely be the most effective at finding the right combination of incentives and benefits to make full use of the productivity of older workers. But it seems clear that employers offering older workers part-time, seasonal, temporary and consulting jobs gives workers the added leisure time they desire and also relieves the employer of full-time compensation. Such an approach also makes the experience of older workers available to guide energetic, full-time, younger workers.

The public sector also has a role in keeping older workers in the labor force. In reforming the Social Security system, government should address the penalties older workers pay in benefits for continuing to work past retirement age. At the same time, normal retirement age for Social Security purposes should be increased to balance an individual's contributions and benefits in the face of rising life expectancy without raising the tax on younger workers.

Minnesota education and training institutions in particular should make greater use of educators coming from outside the traditional educational system who could provide a better connection with and understanding of the workplace. To do so will require more flexible hiring requirements, accepting work experience in place

of traditional academic accomplishments, and creating more opportunities for part-time instructors with suitable rank and compensation but at lower cost than for full-time career educators.

Summary

Given the current labor shortage in the Twin Cities region — a phenomenon expected to continue for the next few decades — business, government and non-profit sectors must collaborate on new models that help employers and workers be productive and successful in the new economy.

This means rethinking and redesigning workforce and economic development programs that were originally created under completely different circumstances, but no longer serve employers, workers or the region very well today.

New paradigms, programs and collaboratives should look to improve the productivity of the regional economy, making up through innovation what it will lack in terms of sheer numbers of workers.

But make no mistake, all efforts should concentrate on a single end goal: to improve the standard of living of residents in the Twin Cities region. This report, and the strategies and recommendations outlined in it, is hopefully a first step toward that goal.

Appendix A

Labor Shortage Task Force Report

"A Rural Perspective on the Labor Shortage"

***Reaction and Supplement to the Citizens League's Help Wanted report
from representatives of West Central Minnesota***

This report has been compiled from meetings held in Fergus Falls, Minnesota and represents the views and ideas of people from West Central Minnesota.

BACKGROUND

The Twin Cities Citizens League was well into its study of the Labor Shortage in the Twin Cities when representatives of businesses and organizations in West Central Minnesota were pulled together to look at the background information and recommendations compiled by the Citizens League.

Three organizations, The Workforce Center, West Central Initiative Fund and Fergus Falls Community College, all based in Fergus Falls, took responsibility for recruiting committee members, chairing the meetings, and keeping records of the discussion.

The labor shortage issue is a concern for many businesses in the Central Minnesota region and is becoming an increasing problem. For years, we have talked about the shortage of skilled, educated workers, but there are now businesses that are saying they cannot expand or may have to close their doors if they cannot find workers. The background information compiled by the Citizens League indicates that the labor shortage is not a short-term problem and because of population trends, will become more severe in the future.

Task force members were recruited to attend four, two-hour meetings held during August and September 1998. The first two meetings

were spent reviewing the background material used by the Citizens League, a report from the Minnesota Department of Economic Security, and a report of the regional work-force compiled by the West Central Initiative Fund. The last two meetings were used to look at the draft recommendations of the Citizens League and discuss them in the context of the demographics and experiences in West Central Minnesota.

Task Force members came from business, manufacturing, government, education, utilities, and nonprofit organizations from several communities, including Morris, Pelican Rapids, Perham, and Fergus Falls.

COMMITTEE CHARGE

The Citizens League charge: to devise ways for the Twin Cities economy to sustain growth in the absence of a growing labor pool, to better match the skills of workers with available opportunities (and vice versa), and to maximize the productivity and human potential of every worker.

West Central Minnesota Charge: to review the background materials regarding the labor shortage in Minnesota and this region and to discuss the Citizens League recommendations from a rural Minnesota perspective. The Task Force will provide comment to the recommendations of the Citizens League and suggest ideas for additional action.

CAUSES OF THE LABOR SHORTAGE

The Citizens League report says the labor shortage is structural in nature, and will be a fact of life for employers for the next few decades because of changing demographics, lack of excess labor due to high workforce participation rates, and mismatches of worker skills and available high- and low-skill jobs (see pages 2-4 of *Help Wanted* report).

RURAL RESPONSE

Demographic and the workforce trends listed by the Citizens League apply to this region as well. Worker participation rates are high and the number of available workers is growing very slowly. We believe the following exacerbates the situation in this region:

1. Because the definition of workforce does not take into account the age of workers or potential workers, areas with high percentages of older persons have, in fact fewer workers than the numbers indicate. This region of Minnesota, as does most of rural Minnesota, has a higher percentage of persons 65+ than does the Metro area.
2. We assume a higher level of out-migration of youth in rural areas than the Twin Cities. The move of young people to metro areas, particularly those that have a college education, has been perceived as a problem for years.
3. A report of the West Central Initiative Fund indicates that the participation rate of women in the workforce is higher in this region than it is statewide.
4. The contraction of available workers may have already begun in this region and will occur more rapidly than in the Twin Cities.
5. High numbers of workers in seasonal jobs such as tourism and agriculture have an

impact on the availability of workers for other jobs.

6. Attitudes — such as “success occurs elsewhere,” “to be successful you must live in a large city,” “white collar is better work” — encourage workers to go elsewhere.
7. The metropolitan focus of mass media (newspaper and broadcast) makes it difficult to communicate the opportunities in rural areas.
8. Accessibility to flexible educational opportunities for the full-time worker and to a range of work force training and retraining resources as well as the complete lack of public transportation are additional barriers.
9. The attractiveness of jobs in rural areas is diminished by the lack of opportunities for advancement in small companies and communities, and by the lack of opportunity for spouses.

IMPLICATIONS OF A LABOR SHORTAGE: WHAT HAPPENS IF WE DO NOTHING?

We agree with the implications and conclusions given in the Citizens League report:

- Failing to address the labor shortage jeopardizes the state's global competitiveness, and in turn, the Twin Cities quality of life and people's standard of living.
- How the Twin Cities community responds to the labor shortage will determine how successful the Twin Cities will be in a global economy.

However, we believe that the entire State of Minnesota will suffer the consequences as well as the Twin Cities.

REACTION AND RESPONSES TO THE CITIZENS LEAGUE RECOMMENDATIONS

PRINCIPAL #1: *Economic development efforts, both public and private, must shift their focus away from job creation to improving the productivity or "value added" of workers and companies in Minnesota.*

RURAL RESPONSE: We agree that the current economic development efforts that just focus on creating jobs in a particular community are outdated and no longer productive. Our recommendations are:

1. State economic development policy should be geographically neutral. If state policy encourages everyone from rural areas to move to the Twin Cities, we don't believe that is in the best interests of either rural or metro areas.
2. State and Federal program rules and regulations that require job creation for economic development monies to be invested must be changed. We believe there are millions of dollars going unused because of this requirement.
3. State of Minnesota jobs should, where feasible, be equitably allocated around the State rather than concentrated in the Twin Cities. This would be a benefit to rural areas by providing more white-collar job opportunities for spouses. Employment for spouses is often mentioned as a barrier to the recruitment of people to fill professional and managerial jobs.

Included under this principle were two recommendations.

RECOMMENDATION #1: *Economic development strategies can focus public and private investment and subsidies most effectively by focusing on industry clusters which are already strong in the Twin Cities.*

RURAL RESPONSE: There was much discussion of this recommendation, as most small communities do not have anything resembling industry clusters, however areas or regions may have. We believe there are benefits to focus on industry clusters, however, they are likely to cover a much wider geographic area in greater Minnesota. Telecommunications technology, in many instances, reduces the need for geographic proximity for industry collaboration.

Smaller communities are particularly vulnerable to economic volatility if they become over dependent on the health of one industry. It may be more beneficial to a rural area's stability to focus on industries with different business cycles than the existing businesses and to diversify into new and emerging industries.

RECOMMENDATION #2: *The Legislature should focus statewide tax policies on technology-based investments and upgrades, and find new ways to facilitate technology transfer.*

RURAL RESPONSE: There was unanimous agreement with this recommendation. Because rural areas are not as technologically advanced, there may even be a greater return on investment for dollars invested in technology in rural areas. Dollars will be needed for infrastructure as well as high-tech capital equipment. Smaller businesses will need to be technologically advanced to ease the labor shortage and to compete in the global market.

PRINCIPLE #2: *Regional education and training efforts, both public and private, must do a much better job preparing new workers and supporting the acquisition of higher skills by existing workers to prepare them for better and more productive opportunities in the future workforce.*

Included under this principle are three recommendations (listed on next page), along

with additional sub-recommendations (not listed here, starting on p. 12).

RECOMMENDATION #3: *Worker training programs must be much more effective and responsive to market demands in preparing workers with appropriate transferable skills.*

RECOMMENDATION #4: *K-12 must do a much better job arming students with the basic skills and information they will need to succeed in the workforce.*

RECOMMENDATION #5: *Link new higher education initiatives more closely to the needs of employers and industry clusters.*

RURAL RESPONSE: We generally concur with these recommendations with several additional ideas:

1. The business/industry community must find ways to interact with educational institutions to insure that training programs are relevant.
2. Educational institutions could respond more effectively if there were financial incentives for developing and sustaining post secondary educational programs focused on fields with long term shortages of skilled labor in Minnesota. The existing reimbursement system for higher education does not encourage this.
3. There needs to be a comprehensive effort to reduce administrative, regulatory and other barriers to innovation and program adaptation among post-secondary institutions.
4. Competition, by training programs, for students in less-populated areas does not have the same outcome that it may in areas with a larger population. Splitting a small pie does not usually create excellence.
5. Access to free higher education may be a good idea — some other states do this — can we afford it? Minnesota has the post-secondary option program that does make it possible to attend high school and college at the same time, earning credit in both places. We are cautious about using high school achievement as criteria for free education.
6. Creating programs that show K-12 students how their learning can be applied to work and life situations is certainly a positive step to connecting business, industry, and education. There needs to be a way for the business community to benefit from the investment in its schools and to create jobs that use the education of area graduates. Vouchers to an employer for on the job training is recommended.
7. We recommend block grants to areas/communities for flexible, creative economic development initiatives that encourage cooperation between education and industry.
8. There are too many regulations in most job training programs that create barriers for businesses to participate. Incentives for employers to participate would be a better approach. Small businesses have particular difficulty dealing with the paperwork and regulations.

PRINCIPLE #3: *Provide incentives that attract and retain workers and eliminate barriers that cause mismatches and underutilization within the labor market.*

There are two related recommendations, each of which will be addressed separately.

RECOMMENDATION #6: *Twin Cities employers should implement "work-life" initiatives that improve productivity and help attract and retain workers.*

RURAL RESPONSE: This recommendation is very relevant to the situation in west central Minnesota. Small organizations with few employees have not always provided work-life programs and benefits that allow employees to balance work and personal responsibilities. It will be critical to the survival of these organizations to recruit and, just as importantly, retain the workers they have.

However small organizations have difficulty providing a menu of these benefits so there was a considerable discussion about how communities can assist to make the region more inviting to employees and employers. Our recommendations are:

1. People from the region must work together to provide the programs and services needed by employees – convenient, quality child care is particularly important.
2. Because people are attracted to live in an area for reasons other than just employment, communities in this region must work together to see that the area has amenities that encourage people to live here.
3. State policies that encourage businesses to voluntarily adopt work-life initiatives are considered to be preferable to mandatory laws and rules.
4. Small businesses will need incentives or a way to form coalitions with other small businesses to provide some of these programs. We recommend that public and private funders, help address this area.

RECOMMENDATION #7: *New strategies and partnerships are needed to overcome systemic obstacles that prevent some workers from entering and staying in the workforce.*

[Included in this recommendation are a number of sub-recommendations having to do with portability for health insurance and pen-

sions, new strategies for affordable housing and transportation, and rethinking our approach to immigration and utilization of older workers.]

RURAL RESPONSE: We concur with these recommendations and wish to highlight several of them as being particularly critical to this region.

1. Transportation problems — unreliable or lack of personal transportation — are constantly mentioned by potential workers and potential students. There is little or no public transportation in rural areas. Some cities will have a service for its older citizens but generally there is nothing for others.
2. The disincentive for those who are receiving Social Security to work impacts heavily on rural areas and is counterproductive. We encourage State and Federal changes that would remove the penalties that older workers pay in benefits for continuing to work past retirement age.
3. Immigration is occurring in this homogeneous region. Communities will need to work together to provide language education and an understanding of the social change that comes with a diverse population.
4. Removing barriers or creating incentives for people on unemployment to work during layoffs could provide workers for some seasonal industries. Alliances between industries to create year-around work may be necessary.
5. Social Security Disability rules create barriers for people receiving this benefit to work more than a limited amount. Again, these rules need to be adjusted to encourage people to be as self-sufficient as possible.

CLOSE

This study involved over thirty people from West Central Minnesota. They include:

Bryce Anderson	Joan Moerke
Jackie Buboltz	Yvonne Burt
George Hanson	Cheryl Buck
Rob Jergenson	Marilyn Moen
Greg Bergman	Susan Tate
Bob Russell	Oscar Sorlie
John Weller	Harold Stanislawski
Jim Nitchals	Larry Krohn
Ann Christenson	Rod Scheels
Dave Churchill	John Richards
Robert Duncan	Lona Back
Ken Peeders	Chris Nelson
Richard Smestad	Bob Perry
Steve Guttormson	Eric Ahlgren
Virginia Portmann	Richard Field
Dacia Johnson	Gerry Nelson
Warren Satterlee	Buzz Lundeen
Donna Walkup	Nancy Straw
Jan Jones	Richard Long
Laurel Sorlie	John Molinaro

For questions regarding this report, contact:

- Laurel Sorlie, Fergus Falls Community College – (218) 739-7473
- John Molinaro, West Central Initiative Fund – (218) 739-2239
- Richard Long, Workforce Center – (218) 739-7560.

It has been an interesting and valuable experience to research the labor shortage issue in cooperation with the Citizens League. We appreciate the background information provided to us and the encouragement to look into the issue from a rural perspective.

The study has also been a stimulus for further action. The report will be disseminated and discussed in this part of Minnesota to create an awareness of the issue and to bring forward additional ideas for preparing for the future. Also, we will continue to meet to implement the ideas and recommendations of this report.

Appendix B

Youth Citizens League

One of the Citizens League's long term goals is to diversify its membership by reaching out demographically, geographically and to people of color. In 1997, the League began exploring a project with inner city youths that addressed these objectives and was connected to the Citizens League's nationally-renowned citizen-based policy committee. The principal goals of the project were to:

- Cultivate the "next generation" of civic leaders in the Twin Cities by showing young people that they can make a difference, and introduce them to the Citizens League as a vehicle for involvement in the policy process.
- Give youth hands-on experience in developing policy recommendations on issues of concern to them. Educate them about how one goes about understanding a policy problem, developing a proposal, and influencing policy makers and public opinion.
- Give young people a high-stakes forum to express their recommendations about policy issues related to youth and provide them with important contacts in the broader community.
- Improve the Citizens League's understanding of policy issues of concern to youth and communities of color, and improve the League's ability to involve younger people and communities of color in its study process.

In order to meet these objectives, we also wanted to offer an experience that the young people would see as interesting, fun and of immediate benefit to them. Our secondary goals were to provide teens with leadership opportunities; gain practical information, con-

tacts and advice that can help them meet their long-term employment or college goals; and build a sense of community among their peers.

The Youth Citizens League pilot project focused on the implications for young adults of the labor shortage. The group was given two assignments: First, develop proposals for how teen leaders can participate with leaders from business, government and the community to address the state's labor shortage. Second, develop a plan for building awareness among teens in their community about the career opportunities available as a result of the labor shortage.

The Citizens League initiated the project by forming a partnership with the Downtown Minneapolis YMCA and Summit Academy OIC. Makeda Zulu-Gillespie, director of community programs at the YMCA, and Terrall Lewis, director of Summit OIC's Positive Force program, recruited 21 high school students from Minneapolis. They also provided transportation, coordination and other support for the program.

The Citizens League staff, with advice from the Minnesota Center for Community Legal Education and other curriculum experts, developed the curriculum for the project. A small group of Citizens League adult members served as mentors to the youth as they worked on their proposals.

The teens attended a three-part public briefing series on Minnesota's labor shortage in March. The series, co-sponsored by the League and the University of Minnesota's Humphrey Institute of Public Affairs, featured the following speakers: Tom Stinson, Minnesota's state economist; Tom Gillaspay, Minnesota's state demographer; Hazel

Reinhardt, a strategic planning consultant; George Garnett, vice president of the Minneapolis Foundation; and Rick Krueger, president of the Minnesota High Technology Association.

After the public meetings the youth group met six times. In addition to the group meetings, they did some work on their own, especially at the end as they prepared a powerpoint presentation for the Citizens League committee. The group also took a related field trip to Dunwoody Industrial Institute, a two-year vocational training school located in Minneapolis.

The group presented their proposals to the Citizens League's adult study committee in May. The youth group also made a presentation to the Twin Cities Economic Development Group, a new organization whose mission is to establish a regional vision and strategy that enables low and moderate income people to benefit from a strong regional economy.

The Citizens League thanks the following students and project coordinators for their work and participation:

STUDENTS

From the DT YMCA

Maurice Evans
North High School

Oumkarn Isreepersaud
Washburn High School

Richard Keys
Henry High School

Cameron Taylor
Cooper High School

Lela Trammel
Henry High School

from Summit Academy OIC

Monique Barnes
South High School

Victoria Bates
South High School

Latasha Branch
Roosevelt High School

Darius Bryant
Roosevelt High School

Marcial Clerk
Roosevelt High School

Terri Ervin
Roosevelt High School

Monique Faulkner
Edison High School

Tyesha Harris
South High School

La'Anna Johnson
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Chrishenda Kazee
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Summit Academy OIC

MENTORS

Gary Cunningham
Jim Dorsey
Matthew Ramadan
Archie Spencer

Appendix C

Work of the Committee

BACKGROUND FOR COMMITTEE CHARGE

Minnesota's employers are short of workers, especially workers with certain advanced skills. The vigorous economy, demographic pressures and Minnesota's patterns of labor participation all contribute to the current labor shortage.

While a sharp economic downturn could quickly turn the labor shortage into a labor surplus, demographic pressures will continue to plague the state's labor force for years to come. Minnesota's labor force grew 30 percent between 1970 and 1980 and by 16 percent between 1980 and 1990 — a gain of nearly 319,000 people during the 1980s. Only about 46,000 people will be added between 2010 and 2020.

Added to these population trends are the shifts in the state's skill requirements. Minnesota's labor market is shifting in favor of jobs that require advanced education and skills, and the earnings premium for post-secondary education is increasing here as elsewhere in the U.S. There is not simply a shortage of potential workers, but a mismatch between the skills of potential workers and the skill requirements of the jobs available.

A shortage of workers — or workers with certain skills — might not appear to be a problem. Certainly, from workers' perspectives the prospect of ample good job opportunities, rising wages and increased job security is a welcome one. But from the perspective of the community as a whole, a labor shortage — if it persists over a long period — is troublesome. Some of the potential economic effects include inflation, slower economic growth, inefficiency, and the danger that local employers might expand their busi-

nesses elsewhere. There are social effects, too — for example, when high wages prompt teenagers to substitute too many study hours for paid employment, or when employers import high-skill workers at the same time large numbers of lower-skill, inner-city residents are unable to find jobs.

Despite the fact that many stakeholders have the labor shortage issue on their radar screens, surprisingly little is being done to address the problem from a policy standpoint. It's not hard to see why because the problem is multi-faceted and solutions are long-term rather than immediate. But the difficulty of mobilizing public leaders to address the labor shortage also reflects the troubled state of the art of public leadership in general.

In keeping with the Citizens League's historic niche and its current interest in public leadership, the next study committee will examine the practice of leadership in the context of public policy-making. The study will focus not *just* on leadership, or *just* on a substantive policy problem, but on an intersection point between the two. The policy problem is Minnesota's labor shortage. The leadership problem is mobilizing public leaders to address it effectively.

CHARGE TO THE COMMITTEE

The charge to the study committee is to answer the question: How should Minnesota's public leadership—which includes the government, business and civic sectors — address the issue of Minnesota's labor shortage?

The board anticipates that in order to answer this question, the committee will:

- review the facts about the situation—including demographic, labor market and occupational trends; the anticipated effects of recent welfare reforms; and the changing skill requirements of a global, high-tech marketplace;
- briefly review what education institutions, public-sector employment assistance systems, employers and non-profit organizations are currently doing to address the problem; and
- briefly review the major strategies for addressing a labor and/or skill shortage (e.g., increase productivity, bid workers away from other places, import workers and export tasks, tap underutilized workers, or accept lower expectations of economic growth) and roughly assess the potential of each to solve Minnesota's problem.

The final product of the study should:

- identify who is currently responsible for addressing various pieces of the labor/skill shortage problem (for example, related to job training, post-secondary education, school-to-work, welfare-to-work transition, telecommunications);
- identify gaps in leadership or barriers that prevent current leaders from addressing the labor shortage appropriately;
- identify innovative strategies that Minnesota might pursue; and
- describe what steps would be needed to mobilize leadership from the government, business and civic sectors to create and implement a strategy.

COMMITTEE MEMBERSHIP

The committee on the Twin Cities Labor Shortage was co-chaired by Gary Cunningham and Steve Keefe. A total of 51 Citizens League members took an active part in the work of the committee. In addition to the chairs, they were:

Jim Bartholomew	John Mullen
Wendy Brower	Jim Myott
Scott Carlson	Patrick O'Leary
Cal Clark	Steve O'Malley
Ken Dols	Ginny Pease
Ann Duff	Mark Pridgeon
Linda Ewen	Jim Scheu
Charles Frisch	Jim Schneider
Mike Gair	Erika Sitz
Tony Goddard	Joel Spoonheim
Todd Graham	Evan Stanley
Kay Gudmestad	Libby Starling
Erin Hanson	Robert Streetar
Guy Harper	Steve Studt
Donna Herbel	Joy Svoboda
Tom Hesse	Dale Swanson
Jan Hively	Liz Templin
Jill Jacoby	Blair Tremere
Nathan Johnson	Richard Tvedten
Beth Kadoun	Bob Webber
Tom Keljik	Dan Wietecha
Larry Kelley	Alice Wilcox
Janna King	Hoa Young
Sarah Kraabel	Jonette Zuercher
Beth Lewis	

MEETINGS AND RESOURCE TESTIMONY

The committee met for the first time on April 7, 1998 and concluded its deliberations on September 3, 1998. The Citizens League Board of Directors approved the final report of the committee on September 22, 1998. As a preface to the committee's work, and to solicit people to participate in the committee, the Citizens League held three public forums, and heard from the following speakers:

George Garnett: vice president, programs,
Minneapolis Foundation
Tom Gillaspay: Minnesota State Demographer
Rick Krueger: president, Minnesota High-Tech
Association
Hazel Reinhardt: president, Hazel Reinhardt
Consulting
Tom Stinson: Minnesota State Economist.

The full committee met 17 times, studied a large and varied amount of printed materials, and heard from the following resource speakers:

Morrie Anderson: chancellor, Minnesota State
Colleges and Universities
Bernard Brommer: president, Minnesota AFL-
CIO
R. Jane Brown: commissioner, Minnesota
Department of Economic Security
Candace Campbell: principal, CDC Associates
Emmett Carson: president and CEO,
Minneapolis Foundation
Lori Christianson: director, CareQuest
Noor Doja: executive director, Minnesota
Trade Office
Joe Graba: dean, Graduate School of Education,
Hamline University
Kristine Jacobs: executive director, JOBS
NOW Coalition
Kenneth Keller: senior fellow, Humphrey
Institute of Public Affairs
Jacques Koppel: president, Minnesota
Technology, Inc.
Jim Larsen: human resource manager, Cargill,
Inc.
Daniel Luthringhauser: vice president, interna-
tional development, Medtronic, Inc.
Carlos Mariani: executive director, Minnesota
Minority Education Partnership
Lee Munnich: director, State and Local Policy
Project, Humphrey Institute of Public Affairs
Arthur Norberg: professor, Program in the
History of Science and Technology, University
of Minnesota
Gene Piccolo: assistant commissioner and di-
rector, Office of Lifework Development,
Minnesota Department of Children, Families
and Learning
David Rhees: executive director, The Bakken
Library and Museum
Susan Seitel: owner, Work & Family
Connection, Inc.

Bruce Steuernagel: research consultant, JOBS
NOW Coalition.

In addition, several committee members also acted as resource guests and shared their expertise with the committee, including:

Jim Bartholomew: Minnesota Business
Partnership
Wendy Brower: The Disability Institute
Bob Feneis: MINNCOR Industries
Todd Graham: Minnesota Department of
Economic Security
Beth Kadoun: Minnesota Business Partnership
Bob Streetar: job training program, City of
Oakdale
Liz Templin: University of Minnesota Extension
Service.

MEETING SPACE

Meeting space was generously donated by Honeywell and the University of Minnesota's Humphrey Institute of Public Affairs. The League greatly appreciates such in-kind contributions to its study committees.

STAFFING

This report was prepared by Ron Wirtz. Research and other committee tasks were provided by Janet Dudrow and Kris Lyndon. Trudy Koroschetz provided administrative support.

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The Citizens League has been an active and effective public affairs research and education organization in the Twin Cities metropolitan area for more than 40 years.

Volunteer research committees of League members study policy issues in depth and develop informational reports that propose specific workable solutions to public issues. Recommendations in these reports often become law. Over the years, League reports have been a reliable source of information for governmental officials, community leaders, and citizens concerned with public policy issues of our area.

The League depends upon the support of individual members and contributions from businesses, foundations, and other organizations throughout the metropolitan area.

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