



Summary of Discussion with Tom Triplett

Civic Caucus, 8301 Creekside Circle, Bloomington, MN 55437

Friday, December 18, 2009

Present: David Broden, Janis Clay, Marianne Curry, Paul Gilje, Jim Hetland (phone), Dan Loritz (chair), Tim McDonald, Wayne Popham (phone), Clarence Shallbetter, and Bob White

A. Context of the meeting -Having served in many capacities during his career in state government, including Commissioner of the Departments of Finance and Revenue, Tom Triplett is in a prime position to speak to the implications of the current state forecast, and to provide his ideas to deal with it.

B. Welcome and introductions - Dan and Paul welcomed and introduced **Tom Triplett**, principal consultant, Fieldstone Alliance, where he focuses on the financial restructuring of nonprofits and social sector systems with an emphasis on revenue streams, collaborations, and strategy development. He has served as CEO of four nonprofits, Commissioner of three Minnesota state agencies (Finance, Revenue and Planning), and as an attorney with two of the Twin Cities' largest law firms as well as the Minnesota Attorney General's office. He is an adjunct faculty member of the Opus College of Business of the University of St. Thomas where he teaches nonprofit finance. Triplett also participates on several nonprofit boards and is chair of the Washington County Housing and Redevelopment Authority.

C. Comments and discussion -During Triplett's comments and in discussion with the Civic Caucus, the following points were raised:

1. Focus on a limited number of issues for redesigning —Responding to *Different Choices*, the Civic Caucus statement on redesign of public systems, "I'd suggest focusing in on a couple of issues," he responded. "Find a horse and ride it. People are compelled to redesign by hardship. There will be a willingness now that is not otherwise there."

"People are going to be discouraged and angry with only taxing and cutting. We need also to look to the future. If the Legislature is redesigning to improve performance or cut costs, let the public know. Build in incentives for changes."

He singled out Public Strategies Group, a locally-based consulting group, as "probably the best in the nation on redesign."

2. State budget forecasts not wildly popular with Governors— On December 2 the Minnesota Management and Budget office forecast a budget shortfall of \$1.203 billion for the remainder of the biennium ending June 30, 2011. The budget gap for the following biennium, ending June 30, 2013, is

projected at \$5.426 billion-\$995 million larger than previous projections. See the press release here: <http://www.doer.state.mn.us/press12-02> .

"Governors have historically disliked it," Triplett said of the forecast. "They say, and they're right, 'It's three people sitting over at Finance (now Management and Budget) telling me how much money I have.'"

Tom Stinson, state economist, has said that the only sure thing about the forecast is that it will be wrong. And former Governor Rudy Perpich had his "Crane Theory": Driving through the commercial centers, he'd look to see whether there were construction cranes, and if so, whether they were moving. "Don't tell me about the budget deficit," he'd say, "There's X-number of cranes working!"

"What we're seeing now," Triplett said, "is a delay of economic start-up. It takes some time for that to register. And that was the issue with Rudy - he was right that the sight of cranes indicated a recovery was underway, but it takes time for the fruits of the recovery to show up in tax receipts."

3. Don't keep shifting expenses to the next biennium —"A big chunk of the shortfall for the next biennium is a result of shifting a portion of this biennium's deficit into the next biennium. We could keep shifting expenses, legally, from one biennium to the next." For the sake of argument, what would stop us from doing that, a member asked? "Our bond rating would eventually be affected," Triplett responded, "and we'd be subject to an increasingly heavy burden for debt service.

4. Future "good times" won't be good enough to offset today's "bad times" —"We have a structural imbalance," Triplett said. "During the usual ebb and flow of economic life a government experiences times of abundance and times of shortfall. One can offset the other. But we cannot reconcile the gap now with the returns from good times: Because of health care spending, especially, as well as the permanent tax cuts enacted when Ventura was in office."

"A popular sense of urgency is lagging," he added. "We've got to have a major restructuring. It will be helpful after the elections, when we have a new, fresh governor of either party. Not that Pawlenty can't get involved now-he certainly can."

Triplett emphasized that the public does not understand the seriousness of the problem.

5. A two-part plan to undo the 'Minnesota Miracle'— Asked for his ideas on resolving the budget problem, Triplett unveiled what he called a "nuclear option". "I'd like to undo the Minnesota Miracle." His idea has two components.

a. Discontinue state tax relief aid to local governments— First he drew attention to the statistic that 9.2 percent of state revenue is sent back to localities in some form of tax relief. "We tax, only to redistribute." This comes in the form of the homestead credit, LGA, state assistance for property owners, and other local aids.

The Department of Administration says this about Local Government Aid (LGA), and the homestead credit:

Minnesota's cities, counties, townships and school districts receive state aid from two major programs — local government aid and homestead and agriculture credit aid. Both types of aid are general-purpose funds that local units of government can use for any local purpose.

Local government aid is distributed to cities and townships based on need and past aid levels. Communities with higher populations, declining populations, older housing, and less commercial and industrial property are considered higher-need. So-called "grandfather provisions" protect local governmental units from declines in their allocations; this practice directs higher payments to local governments that historically have received the most aid.

Homestead and agriculture credit aid is subtracted from a taxing jurisdiction's property tax levy, reducing the actual levy against property owners. Homestead and agriculture aid was originally intended to replace pre-1990 credits to individual taxpayers' bills. Now it is based on a jurisdiction's payment in the previous year and the tax base lost because of any legislative change in the tax rate on a certain class of property (for example, residential, commercial or industrial). For counties, the aid is also affected by growth in new households. Homestead and agriculture credit funds also have been used by the state to offset welfare program costs. In such cases, the state pays for the program but reduces the amount of homestead and agricultural credit aid to that jurisdiction.

"This is a question of buying things down," Triplett said. "Part of Minnesota's high state tax rate is that we are lessening the impact of cost: transit assistance, property tax relief for senior citizens, rent credit, homestead credit, LGA, others. Add them all together and they amount to closer to 20 percent of the state's budget.

"The idea of the Minnesota Miracle was equalization," he said. Is it now coming back to snap us? Half of LGA cost is the result of grandfathering-in municipalities, when the formulas change. "The state says, 'We are going to tinker with the formula, but nobody will get less.' It is no longer equalization then—that's been history," for some time.

"We do need equalization," Triplett concedes. "It would be unfair for low-property wealth local governments to tax their people at exorbitant rates simply because they do not have much commercial /industrial property. But today we're spending much more than we need to - much beyond what's required for "pure" equalization. Years ago, LGA and the other local relief programs were highly valued by the locals, but now they're not sure they can count on the aids from year to year.

b. Allow localities to impose local income taxes if approved in referenda— The second part of the plan follows doing away with much of local government aid and property tax relief programs. The state couldn't just take away payments to localities without any replacement. "Let the cities have a referendum," Triplett proposed, "whether to have local option income or sales taxes as alternatives to property taxes" to make up the resulting gap. He cited the ability of local governments and school districts in Iowa to hold referenda on local income taxes as a precedent for his proposal. He noted that about 80% of Iowa's school districts now have an increment of income tax added to the state income tax.

With the growth of local option sales taxes in the state and the addition of a state property tax levy, Minnesota has been gradually moving away from the notion that some taxes are "reserved" for the

state (e.g. income and sales taxes) and for the locals (the property tax). Triplett sees his proposal as a continuation of what is already happening in a haphazard fashion.

Triplett wasn't sure whether all local units of government—cities, schools, and counties—would have such referendum authority. In response to a question about whether the local-income-tax-referendum proposal might be designed to stimulate localities or levels of government to merge, Triplett said that's an interesting question, but he's not thought about it.

6. Don't be afraid to talk openly about the biggest cost-pressures in health care —We might not like to face the reality—but we should—a Civic Caucus member said, that "A small, narrow band of people are making demands on the public and on the insurance systems in the last six weeks of life."

7. What Minnesota needs from its next Governor — A member asked Triplett what he thinks of the notion of a Watershed Governor—someone who can navigate the present crisis while setting a vision into the future. "After being around elected office for so long," he replied, "It's going to be hard." Party endorsement matters much, and the caucus system is a challenge itself.

"It's hard these days for a strategic, forward-thinking governor to emerge from our electoral system which relies so heavily on party caucuses. There's no reward for being visionary. Today it is politics first, good government second. It didn't used to be that way—they were reversed."

8. The importance of good ideas in overcoming political realities— "This is Kolderie's theory," a member said, "that politics is politics and doesn't change much. But the power of politics is dampened when there are good policy ideas to chew on. Consensus occurs more frequently. Ted's idea is that we are at a low point in the presence of ideas."

"The public has a responsibility as much as, if not more than, party leadership," Triplett said. "We have got to get people involved beyond the caucus. People get very creative when there is economic squeeze. There are many examples of creative problem solving going on, but we don't hear about it."

"If I'm a candidate for Governor," a member said, "I'm spending 85 percent of my time getting delegates," indicating there is a lack of time for discussion of issues affecting the entire state.

"Yep," Triplett said.

What we are saying here, Triplett closed, is that we need significant structural changes. Can we bring in redesign of service delivery to reconcile this structural imbalance? We'll have to try.

9. Thanks —On behalf of the Civic Caucus, Dan thanked Triplett for meeting with us today.