



# Bill Blazar, Business Leader

Civic Caucus, 8301 Creekside Circle, Bloomington, MN 55437

*Friday, July 30, 2010*

**Present:** Verne Johnson (Chair); David Broden, Janis Clay, Paul Gilje, Jim Hetland, Dwight Johnson, Joe Mansky, Tim McDonald, John Mooty (phone), Jim Olson (phone), Wayne Popham (phone), Bob White

**Summary of Blazar's comments :** healthiest Minnesota companies market their goods world-wide; tax rates are very significant in a global economy; redesign services to get more productivity for less; bring market forces to bear on Medicaid, transportation and higher education; look closely at pay freezes and pension changes in the public sector; discontinue automatic entitlements, such as homestead credits and low higher ed tuition; instead means-test everything; push candidates for governor on redesign strategy; don't accept simple "tax" or "cut" options.

**A. Context of the meeting** -In the work of balancing budgets and planning for state finances, there are short term tools and there are long term tools. Over the short term to raise revenue a government may levy new and larger taxes; to cut spending they may cut services. Over the long term, to raise revenue a government may seek economic growth through the design of public policies.

But to address spending over the long term there will need to be redesign of services. That is the challenge Bill Blazar has for the gubernatorial candidates: To resolve Minnesota's public finances, do not raise taxes and do not cut services. Instead relentlessly innovate to seek ways to get better quality for less cost.

**B. Welcome and introductions** - Bill Blazar is Senior Vice President of Public Affairs and Business Development at the Minnesota Chamber of Commerce. Blazar is responsible for the Chamber's public affairs program, including policy development, lobbying and elections. He also manages *Grow Minnesota*, the Chamber's business retention and expansion program. He is a member and past chair of the board of the Minnesota Government Relations Council. Prior to joining the Chamber Bill was Manager of Government Affairs for Target Corporation, an independent consultant, and worked for the Citizens League in the 1970's.

**C. Comments and discussion** -This summary is divided into three sections: Introductory content about the state chamber of commerce today, an assessment of the economy, and Blazar's proposals for redesign. It went like this:

## INTRODUCTORY CONTENT

**1. The evolving character of the chamber of commerce**— The state chamber has been around for 101 years, Blazar explained. For the first 94 of those years they were exclusively a lobbying organization. Through a series of meetings and requests that illuminated the important of individual service to members, the chamber moved into retention and retaining of business as well. 'Grow Minnesota' is an effort at this: [http://www.mnchamber.com/research\\_economy/](http://www.mnchamber.com/research_economy/) .

To think about chambers of commerce, he said, understand there are three levels and though they talk to each other a lot they are not related. There are about 130 local chambers that have a staff. "We work very closely with them but they are by no means obliged to follow what we say." Before adopting a policy the state chamber shares it with the local chambers and ask for input in hopes that they'll come along. Nine times out of ten they do.

Blazer said that the state chamber sees 900 businesses a year on a one-on-one basis. They visit, tour, and share information. "When we meet with them we thank them for having a business in Minnesota," he said. "Until this there was nobody in the thank you business." It sounds simple, he said, but is actually very significant.

"We learn about what they do in Minnesota, and their plans for the future. We ask if there is anything we can help with." About one in seven companies have something they ask for help with. Most do not. But Blazer said the chamber has found just by asking you improve the relations with the company, and over time their region.

## THE STATE OF THE ECONOMY

**2. Minnesota will not regain its lost jobs until 2014** — Blazar said that the chamber believes it will be until 2014 that Minnesota gains back all the jobs lost in the economy. "That's what makes this recession so unique," he said. This is a tough one to pull out of. But the businesses that have reached into the global market have the best outlook. The good news is that the world's economy is strengthening.

**3. Those companies weathering the recession best have customers outside the United States** — The companies that are doing the best right now—that are climbing their way out of the recession—are those that have clients outside of the United States. Those that are not doing well are those with clients exclusively in the United States, and are particularly those reliant on construction. Glass, for example. Minnesota has a large cluster of industries around glass that are being reduced.

"The challenge is that to be competitive in a global economy than to be competitive in the United States alone." First a company has got to get whatever their product is to a global market, and even if they are shipping bits and bites they must compete with wages and working conditions. The competitive pressures are very difficult.

Blazar illustrated his point with a story of a software company that used to do all of its work in Minnesota, then opened a new facility in China. They reported that the workers in China were just as efficient as in Minnesota, but at much less cost. A while later they opened another facility in India, and

observed that the workers there were more educated and more efficient than the Chinese at a comparable cost. Recently they opened a newer facility in Indonesia, and said they are proving even better workers, at the lowest cost yet.

**4. In a global economy tax rates are very meaningful**— The type of tax matters. Increasingly, Blazar said, the corporate income tax is assuming the form of a personal income tax. Revenues are being passed through as dividends via S-corporations, and so corporate profits are being taxed as personal income. (S-corporations are very popular in the state.)

He cited a company whose new ownership has taken issue with the personal income tax, and since they are not native to Minnesota aren't sure they want to step foot in the state.

There are a growing number of Minnesota companies that are, A) increasingly able to move elsewhere, and B) under growing competitive pressures from the global economy. Compounding this, the executive leadership of companies do not have local roots in Minnesota.

As one executive has told Blazar, 'I could have the headquarters in North Carolina, and its only a plane ride from my cabin on the Minnesota lake.' When you fix the budget problem, Blazar said of policy makers, you've got to have this in mind.

Taxes are part of the cost of doing business, like the price of energy or labor. "When we did our Grow Minnesota visit to a company planning to relocate the executive looked David Olson (MN Chamber President) in the eye and said: 'You've got to figure out how to lower our cost of doing business in Minnesota by \$5 million.' He not only had thought about it, but had a number.

Another person who hasn't lived in Minnesota long looked at David Olson and said "You're nuts." He asked what do you mean? 'You Minnesotans think you can just tax people whatever you want and that it won't affect you."

## **PUBLIC SECTOR REDESIGN**

Blazar opened his remarks by saying he reads all the summaries the Civic Caucus prepares, and so knows people have laid out the financial position of the state. "Let me provide you with some answers."

**5. Do not raise taxes, but do not cut services, either-instead, redesign** — "We just finished 26 focus groups with chamber members around the state, Blazar said. They all know about the budget problem, and say: 'You can't raise our taxes,' citing the competitive pressures, then in the same breath say with a straight face, 'and you can't cut our services.' They also need a qualified work force, good infrastructure, and like to go fishing every now and then.

Understand their frame of mind, Blazar pressed: "They are coming from a world where they are continually delivering more value at the same or lower price. They are not saying run government like business-they do not know how to run a government-but they do know the pressures of needing to improve the quality of services without raising cost, and expect government to do the same thing."

**6. Be like Target: more for less** — Why should public services be any different? "I think that when people look at state and local government they think about Target: they want more for less." They are

very value conscious. I was talking with a CEO recently who said he won't go into Macy's without a coupon. That is what we have come to expect as a society.

Redesign is partly the responsibility of the governor, Blazar said. On the back end, a governor may redesign processes to measure outcomes and base choices off of the results. On the front end, they may direct agencies to align priorities and use competitive sourcing.

## **7. The Minnesota Chamber's agenda: target the spending-side of public finances —**

A couple of years ago when the statewide chamber directors had their planning conference they spent some time talking about the budget issues. After some years of beating our heads about the tax-side, Blazar said, we thought we may make more progress on taxes if we address the spending-side instead.

"The challenge is to reshape or redesign services so the government can get more for the same or lower cost. This takes purposeful work. We have a couple of ideas we're working with, including a statewide effort."

They came up with what Blazar described as a four-part strategy:

**a. Base the budget process on outcomes** . "We want the state to change the process it uses for budgeting to a system based on outcomes." Instead of putting a shopping list to the agencies of what it will do, it gives them a goal, provides the money, and assesses on outcomes. What if people don't meet goals? "We need to get past the idea that if you don't make the mark you go to jail; in real life if you don't make the mark you go to plan B. Resiliency. That's an entrepreneurial spirit that needs to be taught."

**b. Focus redesign on Medicaid and health care, transportation, and higher ed.** "Our association is focused on three areas in particular: Medicaid and health care; transportation; and higher ed. We've got to look at these key state services and figure out a way to reshape them so we get more for less dollars." There are opportunities: The work done in the Minnesota Bottom Line report we could restructure Medicaid to save \$3.7 billion over two years. (See below.)

**c. Structure and support redesign efforts at the local level** . Get those in the best position to know how to improve things working on the problem. Blazar reported that his office just put out an RFP to about 40 local chambers of commerce to lead local service redesign efforts in their community. In six pilot locations city managers, local administrators, superintendents of schools, and administrators of hospitals will all sit around the table. They know this budget problem will end up in their lap. So they can sit around and wait for the state legislature to do something to them, or they can take the bull by the horns and think about ways to change the way services are delivered. A recent grant from the Bush Foundation will enable the chambers to convene and help staff the work. Once we get the results of the groups, Blazar said, we'll publish their work state wide (around November).

**d. Target current public expenses.** "You can't just look at how the services are delivered," Blazar said, but you've got to look at the expense." And that gets at the levels of public sector compensation and benefits. The chamber has commissioned a study on the topic with the help of partners. They will have final results at the end of September.

"To give you an idea about the potential savings: We lined up public sector compensation next to comparable positions in the private sector in 1992 and 1996. We found that for low and medium skilled work, compensation is much higher in the public sector. Comparable to the private sector however, city administrators and city managers are underpaid. The top people in the public sector are significantly underpaid and the bottom guys are significantly overpaid. That's how it was in the early '90s, and we suspect it's more exacerbated now.

**8. A public sector pay freeze could save \$350 million over the next biennium .** The Minnesota Taxpayers Association has figured if the state instituted a pay freeze-halting only their inflationary adjustment and steps and lanes, but not legitimate promotions-over the next biennium we would save \$350 million. If you go around the private sector almost everyone has had pay freezes and/or layoffs. It is not unreasonable to expect public sector employees to contribute fairly."

**9. Modifying public sector retirement plans could save \$700 million —** Another opportunity on the compensation front is to move from defined benefit retirement to a defined contribution. Particularly, as an austerity measure when Governor Quie managed the budget crisis in the 1980's for a couple of years they split the contribution 50/50 with employees. "If we were to implement that again now, the state could save in the biennium almost \$700 million.

"When we get these results we need to figure out how we talk about these things in a way that can be helpful," Blazar said. Otherwise people will just say we're going after public employees and why don't we look at CEO's.

**10. Save \$500 million+ by means-testing everything** (redesign in processes). Including property taxes and higher education. The homestead tax credit is unnecessary for many people that receive it. Unnecessary, and unjust.

With both the MNSCU and University of Minnesota systems, figure: What does it cost to educate a student? Beef up the state grant program...we don't need to help everybody. The benefit to everyone else is that we're helping move society forward. "If you price tuition at cost you could probably save about \$500 million, because right now you're subsidizing people that could be paying more." It is true that to get these programs started-as was the case with the GI bill and social security-we probably needed to give it to everybody to earn credibility. But that was before the global economy, Blazar argued.

**11. Huge savings potential: Bring market forces to bear on key state services, including Medicaid** (redesign in health and human services). We could go to a tiered system, where we take medical providers and put them into categories by cost and outcomes. To incentivize them to choose to marry that choice with the creation of a health savings account so when a person picks the lower-cost /better-quality provider they will also be saving money in a health savings account. When a person leaves Medicaid-which many do-they are leaving with the beginnings of a health savings account. That's good because when they enter a workplace most are entering a health savings account environment instead of the type of environment of Medicaid, with little or low cost sharing.

Who sets this up? The state health plan includes a three-tier system, so we have an example. Deloitte consultants designed the state health plan. Get them to talk about applying that to Medicaid.

Blazar attributed this progress to Walt McClure's work that originated in the 1980's. Tiered system; communicate cost and quality; incentivize people to choose. McClure has shown that the best-quality providers in fact operate at a 20 percent lower cost. So, he reasons, if all providers are as efficient as the best quality not only will costs drop but we will cut (likely by attrition) 20 percent of the system. Communities in Minnesota can move on this, beginning with the Twin Cities. Despite much fanfare indicating to the contrary, health care is essentially a regional system. The challenge now and in the future is to communicate information to consumers and insurers.

**12. The need for redesign needs to be communicated to the gubernatorial candidates** — These are very prescient ideas. What matters is how they are communicated. "We've been thinking about this, and have been talking with some PR people but haven't devised a purposeful strategy." He referred the group to [www.MyMinnesota.org](http://www.MyMinnesota.org) where the chamber documents visits around the state talking with people about the state budget and how to fix it. "There is a lot of support for doing things differently," Blazar observed, "probably more than public leaders realize. If we can get more public leaders to recognize this they may feel the support to do it."

**13. Hold the candidates to redesign-remove the 'cut and tax' options from rhetoric** — It is too easy to spar over cut and tax. Naming *what* to cut and *who* to tax is being mistaken for substance. "Any time a candidate comes to your door, speaks at a forum, asks you a question, say 'I'm against taxes, I'm against cutting services,' and look them in the eye and ask what they are going to do to redesign services." Blazar is simply convinced there is a sea of alternatives that has hardly been explored. "You've got to raise this during the election, and be direct and persistent."

#### **D. Closing**

To close a participant asked Blazar what, come the end of the next session, would leave him with a smile and what would leave him frustrated?

He answered that he would be happy if the state had taken a giant leap toward resolving the budget imbalance through methods of improving the value of services instead of merely spending more and getting less.

The biggest frustration would be if the state continues doing what it has been doing, raising taxes and cutting services. "We've run out of excuses. I don't think there is a justification because even when times were good in 2006 we were talking about doing things differently."

There have been a groundswell growing in the state around redesigning public services, but it must be put to action. "A Jesuit Priest told me once, 'the spirit is strong but the flesh is weak.' We've got to get beyond just the concept."

With that, thank you Mr. Blazar for an insightful meeting.