



Susan Heegaard , Vice President, Bush Foundation

Civic Caucus, 8301 Creekside Circle, #920, Bloomington, MN 55437

Friday, June 18, 2010

Present : Verne Johnson (Chair); Dave Beal, Janice Clay, Marianne Curry, Jim Hetland (phone), Jan Hively (phone), Dwight Johnson, Sally Kemper, Dan Loritz, Wayne Popham (phone), Bob White.

Summary : Today's summary covers a Civic Caucus meeting with Susan Heegaard, Vice President and Educational Achievement Team Leader for the Bush Foundation. She worked for the Minnesota Planning Agency in 1995, when Gov. Carlson, faced with a mounting budget deficit, asked the agency to help develop and coordinate a report that would recommend fundamental changes in the way government delivers services. The result was the Brandl-Weber Report, which urged adoption significant changes in budgeting practices and for delivery of services in five major spending areas — K-12 education, post-secondary education, criminal justice, property taxes/local government aid and healthcare. Taken as a package, the proposed recommendations were so sweeping that they could have put the state's fiscal situation on a solid footing for years to come.

A. Context of the Meeting — We invited Heegaard, the project manager, to give us a fresh perspective on the Brandl-Weber report - titled An Agenda for Reform — by summarizing its recommendations and particularly those among them that have been adopted. This 32-page report is posted at <http://bit.ly/d8aOLI> . John Brandl, who died in 2008, was a DFL state legislator (first as a member of the House of Representatives, later as a Senator) representing South Minneapolis from 1977 to 1990. He was the dean at the Humphrey Institute from 1997 until 2002 and a faculty member at the University of Minnesota from 1968 until his death. Vin Weber, a Republican, represented Minnesota's 2nd District in Congress from 1981 until 1993. He is a partner at Clark & Weinstock, a Washington, D.C. management consulting firm, and co-chair of the university's Policy Forum.

B. Welcome and Introduction - Dan welcomed and introduced Susan Heegaard. While noting her current job at the Bush Foundation, he said she was invited largely for her many years of work on state and federal government policies. She worked at the State Planning Agency and the Minnesota Department of Education and, from 2004 to 2009, was the director of the Minnesota Office of Higher Education. Earlier, she served as a policy advisor to Governors Tim Pawlenty and Arne Carlson and to Sen. David Durenberger. She holds a BA from Skidmore College and a JD from William Mitchell College of Law, serves on the site council for the Capitol Hill Magnet School in St. Paul and is on the board of the Minnesota Humanities Commission. She lives in St. Paul with her husband and two

children.

C. Comments and discussion - In Heegaard's presentation and in discussion with the Civic Caucus, the following points were raised:

1. The atmosphere that led to the Brandl-Weber Report and how the report got done - In the mid-1990s, with the prospect of sustained budget deficits looming, policy leaders in and out of government were thinking harder about ways to stabilize the state's fiscal ship. In 1995, the Minnesota Planning Agency weighed in with a report - "Within our Means: Tough Choices for Government Spending." Then, a concerned Gov. Carlson, who in Heegaard's words "wanted to create a little distance" between himself and potentially sensitive recommendations, turned to the planning agency for another report. "We wanted to find a respected Republican and a respected Democratic leader. We needed to be partisan in that respect, because we needed political support for the report. We put together working groups of five to ten people in each of these five (spending) areas, a good cross section, some people inside government and some outside. Then there was smaller kitchen cabinet that John and Vin pulled together. They had a lot of flexibility. We wanted them to just go forward and sort of think outside the box, but there were some fundamental principles. We met a lot. This was hard work. The Department of Finance did a lot of runs, and the number-crunching, for us." Heegaard recalled Brandl saying that while many politicians talk about how they can manage their way out of the problems by consolidating governments to make them smaller, "John felt this was about rearranging services and finding ways to serve people better, not just about moving the boxes around and shrinking government."

2. Themes and principles underlying the report -

- *An overall target should be set for spending and separate targets set for all major spending areas.
- *Eligibility for government benefits should be limited to the most needy.
- *Generally, funds should go to citizens, not bureaucracies.
- *Choices and competition should be expanded for public officials providing services and for users of those services.
- *Government should enable families and communities to provide some services.

3. Avoid 'deficit committing' - Heegaard said that in some important areas, not much has changed while the problems have gotten bigger. For example, the report recommended that the state should stop its practice of "deficit committing" - making commitments with budgetary "tails" that obligate the state to higher spending in later years.. Instead, the state should limit its expenditures over each of the next four years to what would be spent if current law and policies remained in place in each of the major spending areas, limited by the funds that would be available based on current projections of revenue growth. That hasn't happened. The report did help contribute to the conversation about the practice of structural budget that continues today. When resources have been scarce, structural budgeting tends to take a back seat to shorter term solutions. There still isn't public leadership and consensus about making the major decisions and adjustments necessary to reach long term structural balance. This report also urged that the state's budget reserve be fully funded. Current deficits mean that the reserves are not fully funded and at present, completely depleted.

4. Avoid tax increases — The report also specified that any spending increases be financed from

existing taxes rather than tax increases. The authors of the report argued that "any plan based on tax increases is almost certain to be frustrated by a tax-weary public" and that "a tax-neutral approach is the only way the political will can be summoned to make the needed policy innovations." Heegaard said that in reading anew the report, she was surprised that it found no appetite for raising any taxes in the mid-1990s — the report recommended at several points that taxes not be increased. In discussion, a member of the Civic Caucus suggested that the only way to get significant improvements in the delivery of government services would be to discipline government by starving it of tax revenues.

5. Promote more choice in K-12 education - Heegaard said that one way or another, many of these recommendations have been realized. One the group felt strongly about was providing vouchers for low-income parents statewide to use in sending their children to private and parochial schools. Legislators didn't approve such a voucher, but a low income tax deduction was created for non-public school tuition and a credit allowed for other school expenses. Another recommendation, approved by legislators, eased restrictions on the open enrollment legislation passed during the Perpich administration. A recommendation to strengthen rather than weaken the post-secondary options program, which allows high-school juniors and seniors to take courses at post-secondary institutions, was approved. Also, the report urged removal of the cap on the number of charter schools and a broadening of the sponsorship for these schools. The cap was removed, and nonprofits and higher education institutions were allowed to become sponsors.

There was a recommendation to give credit to students who meet standards regardless of where the learning takes place. No such legislation passed but the growth of online learning has opened up new opportunities for students. Technology advances, rather than legislation, has led another recommendation to be realized: providing comprehensive, user-friendly information to students and parents about all of the schools, programs and options available to them. "So much more is available to people now," Heegaard said. "You can just Google something and get lots of recommendations." Another recommendation, to establish a mechanism to monitor and report on school performance, has been realized through reporting of statewide testing results. Statewide testing was not allowed until the late 1990s. But in the case of another recommendation, to allow more site-based management, St. Paul's school system has recently chosen to pull back on site based decision making by centralizing more decisions.

6. Steer more funds directly to students in higher education - The report strongly urged the state to steer more funds directly to students instead of their institutions. Heegaard said this balance may be shifting more toward the students because of all the state cuts of funds going directly to colleges and universities. She said there has been movement on a recommendation that governing boards set standards for higher ed institutions, citing the move by the Minnesota State Colleges and Universities system to bind its chancellor to a performance contract for a portion of his salary. Heegaard called a recommendation that college and university presidents be given more authority "a tough one" because many legislators have a MNSCU institution in their backyard and can "for lack of a better term, micromanage." The U, on the other hand, is more autonomous because of its land grant status.

7. Responding to competition from online institutions — In the discussion, she noted that public higher education is "slowly responding" to new competition from for-profit online institutions such as

Capella and Phoenix, which are making significant inroads - particularly with graduate programs. She singled out Lake Superior College in Duluth as an example of a small, public community college that has responded. It offers at least a third of its courses online now. A member said that even within the traditional system, glitches on transferability of courses are costing students more money.

8. Prospects for greater U of M-MNSCU cooperation — A member asked about the prospects for MNSCU and the U to talk more with one another about proposals for redesign of public higher education in Minnesota. Heegaard replied that part of the problem is that the two institutions "are quite different animals" in their structure. MNSCU is heavily unionized, very local and effectively a state agency. The U is largely independent. "There's not anybody kind of really looking out for the whole thing. The office I headed up tried to do some of that by having an accountability report and publishing outcomes information in a number of areas, so we got to get information out there. But in terms of some kind of board that oversees the whole — we don't have that in our state." but one member voiced skepticism that any single board could oversee both institutions given that the governance structures of the two institutions are so different. Heegaard called "challenging" the fact that no part of the Legislature oversees both the K-12 and higher Education systems.

9. Difficulty in closing higher ed institutions — Heegaard noted that "it's really hard to close a higher-ed institution" in Minnesota. "MNSCU serves a very important purpose in our state - the tech colleges, the community colleges, the four-year schools — that's where the bulk of our students are educated right now. But at many of the four-year schools, there's pressure to feel competition with the University of Minnesota. Part of that's good, but you don't want duplication. You want complementary work going on, not necessarily competitive." Noting that "there are a lot of empty rooms" on MNSCU's campuses, Heegaard questioned whether having so many sites is sustainable. She asked if there are different ways to use the space. "Senior housing," a member replied.

As for the U, a member noted that only three of the 15 search committee members seeking a successor to U president Robert Bruininks are not members of the University's faculty. Thus it's hard to imagine the committee choosing a successor who will push for major changes. Heegaard said the main way the Legislature can have an impact on the University is through the budget process.

10. Criminal Justice - Drug use more a disease than a crime? - Heegaard conceded that she isn't as familiar with this area as with education. She said elements of the recommendations have been picked up, but some of the changes could have occurred because of budget pressures rather than legislation. There has been progress on keeping the courts focused on cases through various intervention strategies, one of the report's recommendations. Members noted there were no recommendations to decriminalize drug use, but that much of the nation has come to view drug use more as a disease than a crime. Heegaard agreed.

11. Give tax relief to individuals or local governments? - One of the recommendations was to concentrate property tax relief on needy people rather than local governments. Heegaard didn't know if the tax relief is focused more on the needy, but "local governments would argue that they have taken a big hit in the last several years." Another recommendation was to establish a new form of government, the village, to foster local competitive contracting. That didn't happen. "We already have so many governments," one member commented. Another member said "the name of the game" on

property taxes is having competent assessors.

12. Provide incentives for healthy living - One recommendation, to give consumers incentives to pursue healthy conduct, is being realized widely as health insurers grant discounts to policyholders based on the frequency of their visits to fitness clubs for workouts. Heegaard noted that club members can also meet with health coaches trainers to get professional advice on how to get and stay in shape.

Progress on another recommendation, to focus more on outcomes, has been achieved thanks to technology that has made more information on health plans and hospitals available to consumers. But a member noted that the payment system for healthcare services has not moved very far toward outcomes because insured patients still don't pay directly for their services. "I go back far enough that I remember when no one had health insurance," this member said. "We all were personally responsible for our health. We paid our doctor directly. That made all the difference in how we take care of ourselves." A member noted that in the 15 years since the Brandl-Weber Report, the nation has seen an "epidemic of obesity and diabetes."

13. Lack of promotion of report's recommendations? - Heegaard said Brandl was frustrated that the report wasn't promoted more heavily when it was announced and that Gov. Carlson didn't say the recommendations would go into bills. "What happened is the economy turned," she said. "It got a lot better. Like any astute politician, he (Carlson) is not going to say things are bad when they are getting good, even though they may get bad again, and they did. I think John later felt much better about it because he saw some of the things that he suggested come into being."

14. Internet impact, immigrant influx not foreseen - Heegaard felt that while various other studies have picked up on significant parts of the Brandl-Weber Report, none has been as comprehensive. In the discussion, she agreed with members that at least two significant changes generally unforeseen by the teams that did the report have occurred since 1995. One is technology. The Internet was not much of a factor then, but today it makes much more information available to consumers of government services. The other is demographics. While the aging of the state's population has occurred pretty much as expected, the heavy influx of Somali and Hmong immigrants was not anticipated.

15. Changes in the Bush Foundation - Members asked Heegaard if the Bush Foundation is shifting its focus to put more emphasis on the need for redesigns of government services. She explained that the foundation has made many changes in the last two years. It has a new president (Peter Hutchinson). Over half of its staffers are newcomers, as are a number of its board members. Like many other foundations across the country, it is exploring ways to use its resources more effectively. The Bush Foundation recently decided to focus more on education, but it continues its interests in leadership and in supporting elected tribal officials in the 23 native governments active in Minnesota and the Dakotas. Heegaard said that "leadership has been sort of a brand" at Bush for years and the focus it is best known for. In her job at Bush, she is focusing on teacher preparation and colleges of education.

16. Importance of redesigning services — Heegaard said there is a lot of discussion at Bush about

how to redesign government services, given the sense that governments are operating in a more challenging fiscal environment likely to continue for some time. She described this new climate as one where "the recession's over, but the 'new normal' will make it feel like it will never end and we've got to do things differently for the same amount of money or less."

Heegaard said understanding this is important for Minnesota..."because of the divisiveness that's occurred in the Legislature and in other legislative bodies, the middle has disappeared. The place where you can discuss these things regardless of where you come from has shrunken. So there's a feeling that there's a place (needed) for others who are not from government to come in and help with that. The focus will be on trying to build courageous leadership among both elected and appointed officials and individuals in communities so that they can get together and help problem-solve and try to figure out a way that's more effective and efficient."

A member suggested that any strategy formulated by a "high-powered commission of experts," instead of focusing on the decentralized successes already existing, won't work. Heegaard stressed that Bush's approach is to get out into communities around the state to find out what people think and then engage with them in their work. "We call it shining the light on the successes," the member replied. Heegaard agreed. "There are a lot of good ideas out there - in rural communities, in some of these reports. We just need to collect them, shine the light and figure out a way to get them out there. Then, because the Legislature is stuck, they're going to need some help. We've got to figure out how to help them, in a way that they want to open up the door. They're really going to need help, whether they know it or not, and I think a lot of them know it."

17. Where are today's Brandls and Webers? - A member suggested that today, it would be hard to find people like John Brandl and Vin Weber to lead a team to undertake a 2010 version of their report. Heegaard's reply: "Who would do that today? Who has the capacity and then who would you get in government to do that? We need to think about that. The fact that you all can't think of who the new Brandl and Weber might be — it's troubling to me." A member noted that "anybody we ask to participate for us usually says yes." Heegaard concluded by saying she's an optimist.

18. Thanks — Sincere thanks to Heegaard for meeting with us today.