



Michael O'Keefe, former Minnesota Commissioner, Human Services

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

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Present: Verne Johnson (Chair); David Broden, Janis Clay, Bill Frenzel, Paul Gilje, Jim Hetland, Jan Hively, Sallie Kemper, Dan Loritz, Joe Mansky, Tim McDonald, Wayne Popham, Clarence Shallbetter, Bob White

Summary of O'Keefe's comments: Former state official and college president Michael O'Keefe visits with the Civic Caucus about the complex nature of the state budget crisis and the need for a balanced response. He advocates restructuring the budgeting process to encourage greater cooperation among the state and local governments, since the majority of public funds are spent locally. He makes recommendations for saving money in health care, and argues that higher education costs are being driven upward by a consumer ability to pay that will not last.

A. Context of the meeting - Michael O'Keefe has a diverse and interesting background, including stints as both public official and private college president. The Civic Caucus is seeking ideas for reform in those areas in which Mr. O'Keefe has worked, and is interested in his perspective on both the challenges in and the prospects for rethinking state services.

B. Welcome and introductions - O'Keefe has served in a variety of roles in government, non-profit, and educational settings. Most recently O'Keefe served as president of the Minneapolis College of Art and Design (MCAD), from 2002 to June 2009. He was commissioner of the Minnesota Department of Human Services during governor Ventura's term, and spent ten years as executive vice president and chief executive officer for the McKnight Foundation. His educational background includes degrees in mathematics and physics.

C. Comments and discussion -During O'Keefe's visit with the Civic Caucus, the following points were raised:

1. A real crisis in the state—O'Keefe thanked the caucus for having these conversations. The state is in a real crisis-there is a \$7 billion deficit counting inflation, which O'Keefe believes should be factored in. The state has shifted money, spent down the tobacco fund and reserves and borrowed money from schools in order to avoid having to do things differently. Without rethinking things, cuts will soon begin occurring across the board.

2. Follow the money: The majority of public spending happens locally — O'Keefe opened his remarks about the budget by saying that the state is in a mess, and "a bigger mess than it needs to be." The problem requires a complex combination of solutions, he continued, and the strategy has to deal with both local and state spending. The state collects a lot of money, he noted, but it doesn't do all the spending. "Follow the money: 41 percent of public spending is by local governments, 27 percent by school districts, and 32 percent by the state. So almost 70 percent of public money is spent by local forms of government."

3. Address the problem with every tool in sight, but do not dig a deeper hole — O'Keefe described how he was in government for "good years," when they had extra money to spend. "Then we hit a bad year. The budget was good before the Legislature got a hold of it. Governor Ventura had actually put together a very reasonable plan that included some taxes and some cuts, and drew down some state reserves with a strategy to replace them."

That's the sound way of handling a budget emergency, O'Keefe argued. "When you have a problem you use every solution in sight," but "do nothing that digs you a deeper hole."

Policy makers deal with the budget in a highly fragmented way. "Each of the candidates is looking at where to cut here, where to cut there-nobody is looking at the budget in a comprehensive way," that includes state and local spending including school districts, counties and municipalities. Everything is interconnected. So while Governor Pawlenty has said he wouldn't raise taxes, in fact he has-not at the state level, but the local level.

"The 'price-of-government' approach is essential," he said of the strategy described by David Osborne and Peter Hutchinson to budget by first outlining desired results, then determining the willingness to pay.

4. Local and state governments need to collaborate to redesign — We have to look at local expenditures, O'Keefe insisted, and begin redesigning services there. We have too many school districts, too many higher education campuses-in part because we're holding onto a model of local control. As a state we need to ease toward a model of collaborative relationships. The local governments have the ability to raise local property taxes. There need to be constraints on that, to force them to rework their delivery of services.

What if the Legislature made it illegal, a participant asked, for the local governments that receive state money to lobby for more state money? "They'd probably lobby against it...and they'd win."

5. Set up legislative 'super-committees' to make allocation recommendations — Lobbyists work in "silos". They've got their control of certain issues locked in particular committees. This hinders a comprehensive overall view of the budget. A participant asked: Is there any way that the lawmaking body could bring people together so there is more forced cooperation?

"Governor Ventura allowed me to set up committees of all interested parties to figure out how to allocate money, and he would follow their recommendations," he responded. The Legislature could set up a super-committee (including some county commissioners as well as higher education administrators and superintendents) and make allocation recommendations through a multi-way

discussion among committees, with a super-committee having the final say. "This is a model that could work, but you need a governor who supports it."

6. Offset medical costs by accepting federal Medicaid assistance, and find efficiencies — In the area of health, O'Keefe advocates taking the federal Medicaid money-over \$1billion-"because one of our goals of a state is to have a safety net." The state really screwed up when it cut general assistance medical care, he said. Now minor conditions become chronic or more serious and people will show up at emergency rooms that cost someone—the state, the county, insured people— much more than if they had received preventative care.

7. The health care system will need a crisis to change- - He has concerns about the system of care, and its methods of payment. "A third-party-payer marketplace is never going to work unless you have substantial restructuring. We have a system that rewards doctors on volume, on throughput," and on the cleverness of their support staff to classify what it is that went on in the exam room. He described a doctor who told him that whenever he performs a service he cuts and pastes a description for the service directly out of the Medicare guidebook, which guarantees he'll be reimbursed. Instead, O'Keefe said, the state needs more systems like Mayo where doctors are paid salaries.

He expressed skepticism that the system can be reformed piecemeal but feels that it will need to break under crisis before true and comprehensive reform will be acceptable.. "I used to think that I'd work on it and the system could be changed. I've come to believe the medical system is now insoluble. There are so many players, and so many moving parts, that any change to the system will 'gore the ox of enough parties' that they'll join together and stop it." The only way to reform health care is to have a roaring crisis that causes us to remake it from the ground up. "Piecemeal won't work."

A majority of expenses now are incurred at the very end of life, even if they don't significantly affect the outcome. Even so, the Medicaid system allows doctors to provide procedures and get paid. "I don't think there are many answers to that-that's where the salary structure could help, or we could have a Canadian- or British-style process for controlling costs. But that raises the specter of 'death panels.'"

"The problem with health care," he said, is that it is an infinitely desirable good. If it is offered and paid for, people will consume it in greater and greater volume. As technology advances there are more and more medical service offerings. "It's a cultural issue that we need to resolve."

8. Divert nursing home payments to assist with home care — The state has too many nursing home beds, O'Keefe continued. An alternative is to issue modest reimbursements for relatives to care for elderly people in their home. "We're all familiar with the institutional nursing home setting. What the private sector demonstrates as workable is a lower-cost alternative," a communal living environment where other areas of the facility have more intensive care. Lutheran Social Services has facilities like this and non-profit and for-profits have made them work for the middle class.

Many people today are providing care for elderly family members for no money at all. The state could encourage more creative solutions-neighbors, family, retired nurses providing the care-by agreeing to offset some of the personal costs.

A member expressed concern that if the door for payment were opened, it could cause an avalanche of claims. "That would need to be considered," he acknowledged. But something has to be done differently, and not just for costs. "If you think your medical bills are complicated, take a look at the payment structure for nursing homes."

Another option for compensating care might be to offer tax deductions for expenses. "There's a whole set of strategies. The question is how public policy facilitates these without creating a whole new bureaucracy."

Another participant expressed a need to change the notion that life consists of first the nuclear family, then nursing homes. There is a transition, and there are facilities that span the whole range. "But that perception I hope is changing. The incentives are the wrong way-everything's supporting the nursing homes."

9. The state may not need two public post-secondary systems — A participant asked whether the state government really needs two higher education systems. "I don't think so," O'Keefe responded. "Take a look at the administrative over-structure-it's huge." O'Keefe described his hope that new leadership at the University and at MNSCU will be willing to engage in a discussion about reducing the aggregate administrative overhead, admitting that it would be enormously unpopular with their constituents but nevertheless needs to be done."

10. Post-secondary costs are being driven up faster than inflation — Higher education costs have been rising at double the rate of inflation for 25 years, he said, and that's not sustainable. Part of the cost-driver has been on the administrative side, and part because of increased complication caused by increased requirements of the federal government. "But a huge increase has been a market phenomenon driven by students and families: they want more, and they're willing to pay for it."

Expectations have increased. "You can't sell a dorm room with three beds anymore. What students and their families want is an apartment suite with living area, kitchen, laundry etc. And, they're willing to pay for it. Witness private developers who are putting up such style dorms and making them profitable."

O'Keefe recalled many years ago that The George Washington University was considered "middling" in terms of quality. They brought in a consultant whose recommendation was that they double tuition. They increased it by 40 percent in the face of deep concern that applications would go down; instead they went up by 60 percent. "People were willing to pay more because of the perception of quality implied by the higher tuition."

Perception is a major contributor to the increase in price, O'Keefe said, and so long as people are willing to pay, colleges will compete with each other to increase offerings, amenities and, in turn, tuition. "With the endowment Harvard has, they wouldn't need to charge any tuition. But if they didn't it would be embarrassing-people would think the education must not be worth much."

11. Virtual education has significant, widespread potential- - To a question about virtual education, O'Keefe said he thinks it has huge potential to bring students rich experiences without having to first bring them together in person.

At the college of Art and Design he described a professor who taught via the internet from South Africa. The students were satisfied, he said, with a balance of internet-conferencing, faxing images to each other, and working face-to-face in groups on campus. "I was very surprised; it resulted in a quality experience."

Even so, the application of technology has increased costs: "So far when new technologies have been added they haven't reduced costs, as some had promised. I'd argue you have to change the system of teaching for that to happen."

12. Sex offender treatment programs ineffective and costly — O'Keefe offered a final area for potential savings that he acknowledged is attractive from a policy analyst's perspective but political dynamite: the state's sex offender treatment program. Offenders who have served their prison time but are still judged (by the courts on petition from local prosecutors) dangerous to the community are confined by the state but at huge cost. The number of people in such facilities is growing such that we're building a new facility about every five years. The intent is rehabilitation then release into the community but the record is that only a couple of people have been released since the program began and both were re-admitted. "The whole underlying model doesn't work." People feel sex-offenders can be treated successfully but they're not. O'Keefe said that his proposal would be to reform the justice system so that when sex-offenders are finished with their sentences, if they're able to rejoin the community they should be let go.

"The problem is that the odds are, in a situation like this, some of them are going to re-offend. And the politics are that when one of them offends you'll get pressure to say 'I don't care how much it costs... retain them.' I don't have a solution, but this is something that must be resolved. People go into treatment programs but don't come out," and that is not financially sustainable.

"That brings me to sentencing reform," he continued. Minnesota has one of the highest prison populations in a country that has among the highest prison population ratio in the world. The state has got to look at what people are being sentenced for.

13. Simply maintain the status quo on budgeting? —A participant asked O'Keefe what the situation would look like if the state simply maintained the status quo? "We will go through a process that will lead to across-the-board cuts." This would not be strategic, he said-instead of targeting cuts, or forcing redesign, it would be like using a blunt instrument to cut everything.

14. Importance of leadership by the Governor — O'Keefe closed with thoughts about the coming role of the governor. "The question is whether we have the will to solve the budget crisis. The Governor I'd like to see in office is a person with a comprehensive view who and understands what direction we need to go and then begins to prod others to move in that direction.

"Some of these things you won't see in the campaign. But I think a Governor needs to come in and open a community conversation in the state about what our values are, and where we're going to go. Otherwise the process will be blunt, and we are going to get cutbacks in areas where we don't want cutbacks. What we need is a reassertion of our values and priorities, perhaps even a change in the whole way we think about government and government services."

Thank you to Michael O'Keefe, for a good discussion.

