



Minnesota State Senator David Hann

Civic Caucus, 8301 Creekside Circle, Bloomington, MN 55437

February 25, 2011

Present: Verne Johnson (chair), David Broden, Paul Gilje, Tim McDonald, Clarence Schallbetter, Bob White

Phone: Janis Clay, Jim Hetland, Dan Loritz, Wayne Popham

Summary of meeting: State Senator and chair of the Health and Human Services committee, David Hann, describes his goals for the legislative session; how to slow rising costs of health services by moving to models of more personal participation and contribution; and his vision for the state.

A. Welcome and introductions - Elected first in 2002, Senator Hann is in his third term representing Eden Prairie and Minnetonka in the Minnesota State Senate. He is assistant majority leader and chair of the Senate Health and Human Services Committee. He is now a business process consultant after spending 25 years with Eden Prairie based E.A. Sween Company.

In his second year at Gustavus Adolphus College, Hann enlisted in the U.S. Army and served a tour of duty in Vietnam. After completing his degree in Religion, he did graduate work at the University of Chicago. He served eight years on the Eden Prairie School Board prior to his election to the State Senate. Hann has been recognized by the Minnesota School Board Association for his service to education in the legislature, and has been named "Best Friend of the Taxpayer" four times by the Taxpayers League. He and his wife, Anne, have four children.

B. Comments and discussion -

Two principal goals for session

A participant opened the meeting by asking the Senator if he had any major, principal outcomes he hoped for this session.

First, he responded, the main task faced this year is to produce a budget under some very difficult circumstances. Internally, the Republican caucus has made a commitment that they don't need to create a budget that adds revenue. Changes in tax expenditures need to be looked at closely, but not in this session, he said. Changes in tax expenditures ought to be considered in a overall reform of the tax system, which will have to come after this session, he said. A "tax expenditure" occurs in connection with statutory exemptions from all or part of a tax. Such exemptions, which have the effect of reducing revenue, are regarded as tax expenditures.

Hann said the state budget should be adopted by relying only on revenues from existing taxes at existing rates which allows about a 5 percent increase in spending.. Most businesses would see that as a good thing, he said. "Only in Minnesota would that be seen as a bad thing, where there is an expectation of 30 percent." Past rates of spending growth are not sustainable, he said.

Quick ways to lessen the budget shortfall

Make the unallowment permanent (\$1 billion) -Part of the problem, Hann said, is that last year the Legislature kept certain spending cuts temporary. Those spending cuts originally had been made by then-Governor Pawlenty as "unallowments", to bring revenue and spending into balance. When the courts ruled that such unallowments exceeded the Governor's authority, the Legislature approved the unallowments as temporary cuts. The budget projection assumes that spending will come back.

Shift (cash flow) -By delaying some state aid payments to schools, the Legislature can postpone certain appropriations to the upcoming biennium, thereby helping reduce appropriations needed in the current biennium. For the biennium ending June 30, 2011, 30 percent of state aid payments to schools is being delayed until the upcoming biennium, with a stipulation that such a shift would be paid back to schools quickly. Hann said he does not think there is reason why it has to be paid back all at once. This is a common practice of business, paying 70 percent now and the balance at a later date. It's part of managing cash flow.

"If we had done something considered more normal to most people, we'd have a deficit closer to Wisconsin's. The strategy to pay back all at once was chosen by opponents as a political tactic to argue later on for raised taxes."

Slow down cost inflation in HHS

Senator Hann told the group he is also interested in making changes in policy and structure to slow down the pace of growth in Health and Human Services. "We have to do this differently."

One way, he suggested, is through a plan that he and State Rep. Steve Gottwalt have been working on that would change a health insurance program called "Minnesota Care" that is designed to provide health insurance for Minnesota residents who otherwise would not have access to affordable health care coverage. A drawback of the program, he said, is that all levels of care are provided, but with a very limited cap on total amounts paid. The result, he said, is that people having reached the cap will show up at a hospital emergency room, receive treatment, but payments for the emergency care aren't available.

"What we do in HHS today is not an insurance structure; we just pay bills. In the present structure there is a disconnect between what people do and no incentive on consumer or provider."

"We have areas of our economy that are very complex-but health care is the only place that we've decided to run like the Soviet Union where we form committees and control everything." He described meeting with the Chamber of Commerce last week where they shared a plan and he questioned whether the plan does anything to move people off state programs.

Instead the state needs to create the incentives for people to care for themselves through true insurance providers. "If we tried to apply the principles to other industries we apply to health care they would fail."

How, a participant asked, would you apply these principles to other areas of HHS? "There are private insurance mechanisms to pay for things. Most people expect the government to care for them. I ask people all the time, do you have long term care insurance? Few people do; people don't think a lot about it."

He described a mechanism at his previous company that very successfully utilized a tax-guarded account. An employee benefits plan was offered where the employees would buy in and the employer would match contributions. "We need to enable those incentives."

A participant observed that Hann is saying that instead of raising more revenue, the state needs to fundamentally change things. Some people advocate that the state needs to figure out what it wants to do and then figure out how much revenue is needed. Hann believes that the state should start from the revenue it has.

Minnesota already has a vision

Responding to a question regarding whether Minnesota needs a common vision for where the state wants to go, Hann said that Minnesota already has one-a longstanding one.

"We need to go back and acquaint ourselves with the founding fathers. They outlined a very specific vision of people being free, people making decisions, people having the opportunity to make choices and pursue their own vision. We have become so used to the government constraining things, he continued, that we think the smart people in the Legislature like me should be making decisions."

A major part of Minnesota's vision is education, he said, as stipulated in the third article of the Northwest Ordinance (<http://1.usa.gov/icWdlb>): "Religion, morality, and knowledge, being necessary to good government and the happiness of mankind, schools and the means of education shall forever be encouraged.'

"I don't think we're going to be able to tell people how to live in 100 years," Hann said. A participant responded that he didn't think the people that wrote the constitution and Northwest Ordinance were trying to tell people how to live their lives. "But whatever you do," Hann replied, "you can't violate the way people are. For example interfering in the marketplace."

Erosion of local control

The vision for local control has been eroded, Hann contended. In 1958 the state budget for transportation was significantly larger than the state budget for education-something like 10 times. In 1958 most of the cost of education was paid for by local communities. Now 70 percent of education funding comes from the general fund; one of the highest percentages among the 50 states. So the decisions are made away from the local officials.

"My concern frankly is nobody ever anticipated the size and scope of federal government role in budgetary questions over how the state will operate. We almost created a dynamic where the cities are dependent upon the state, and the states on the fed. If we don't decide where responsibility for decisions lay, we have problems.

"We're constantly trying to make waivers from the federal government because we know how to do things better. We have people in the federal government that have exceeded their self-constraint that the founders thought they would have through education."

Thanks

On behalf of the Civic Caucus, Dan thanked Hann for meeting with us today.