



Tim Penny, President, Southern Minnesota Initiative Foundation

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

June 24, 2011

Present : Verne Johnson (chair), Dave Broden, Janis Clay, Paul Gilje, Jim Hetland (phone), Sallie Kemper, Ted Kolderie (phone), Dan Loritz, Tim McDonald, Wayne Popham (phone), Clarence Shallbetter (phone), Fred Zimmerman

Summary of meeting : Former Congressman Tim Penny offers his assessment of the causes and possible solutions to the state budget dilemma. He also addresses the larger challenge of today's political system, which as currently structured inhibits efforts to reach compromise.

A. Welcome and introductions - Tim Penny is former DFL State Senator (1976-1982), and former DFL Congressman serving in the US House from 1983-1995. He was known as a moderate politician, and ran for governor in 2002 as a member of the Independence Party. He is currently President of the Southern Minnesota Initiative Foundation, and is a Senior Fellow at the University of Minnesota's Humphrey Institute.

B. Discussion

Both sides believe they have a mandate.

Both sides believe they have a mandate, Penny said, simply because they hold an election certificate.

Governor Dayton has the power of the governorship and the support of a strong plurality of Minnesotans that wanted him to be in the governor's office. In the Governor's view he has the mandate to hold to the priorities he laid forth in his campaign: To protect public education, to protect the most vulnerable, and to ask the wealthiest Minnesotans to "pay their fair share." The budget he brought forth this year holds true to those principles.

The Republicans having won both chambers of the legislature feel they, too, have a mandate to follow through on their campaign promises to hold spending to no more than the revenue coming in the door, and to deliver a balanced budget with spending restraints alone.

Regardless of the mandates the elected officials thought they got, Penny continued, they were in fact less mandates than mixed messages. They are only mandates in part and in a very nuanced way.

The Republican legislators and Governor Dayton seem unwilling to admit to this fact: that we have a divided government. After five months each side is "holding ground". It is clear that the two sides ultimately must compromise—but how?

The growing budget is driven by demographics and formulas.

The state is facing a deficit that in part is driven by demographics and formulaic increases in services, Penny said. For example when you have more students coming into school and we fund the school system on a per-student basis, costs will rise, no matter what is happening on the revenue side. Also we have used gimmicks to balance past budgets so the deficit is worse than it would be had past real shortfalls been addressed forthrightly.

In the short term, leaders should look to the "three percent solution".

"If there is a solution that is promising," Penny commented in response to a question, "I have to applaud Jim Mulder for offering one in yesterday's Star Tribune" (*The Three Percent Solution*. <http://tinyurl.com/63d3wnh>). "In it Mulder puts forward a balanced approach for dealing with the immediate budget problem that covers all the bases." For the longer term Minnesota needs to admit that we have structural problems with entitlements and other programs like pensions.

Mulder's plan:

- * Make permanent a \$1.8 billion school funding shift.
- * Enact a state budget of about \$35 billion, which is less than a three percent increase in spending and represents reductions in projected spending of about \$2.2 billion.
- * Repeal selective state tax loopholes and special tax breaks totaling about \$933 million.

The two sides are locked-in, Penny continued, and he thinks the Republicans have a very intransigent caucus that is not willing to compromise with the Governor. Both sides are basically preaching to their respective choirs and there is not enough leadership on either side. "People are not stupid," Penny said, "and I think most voters realize that both sides have been unwilling to acknowledge some of these budgetary realities."

The Legislature and Governor should establish a blue-ribbon commission for redesign.

While he was in the U. S. Congress, Penny noted, he was an advocate at the national level for fundamental reform in entitlements that clearly posed a growing hindrance to fiscal stability. To a lesser degree than the federal government, Minnesota also faces a serious, structural deficit. The major areas of opportunity for cost containment for the state are K-12 education and health care. "I do believe we are on a cost trajectory with these programs that is not sustainable," he said, "and we need to rethink our commitments to these programs."

We need to look at appointing a long-term reform commission, he argued, that can find long-term improvements. Over the short term, "My sense is on the spending side Dayton needs to look at some of the proposals from Republicans that deal with cost control," he said. "And on the revenue side, Republicans will need to take a hard look at eliminating some tax credits that are less than equitable."

Penny told the group that he thinks the Republicans made a good faith effort to deal with some cost containment, and believes Dayton has a history of thinking government can be streamlined, and so he should show some openness there-but, unfortunately, there's not enough commonality there to make major strides.

Minnesota needs stronger and more definitive leadership.

"We need leadership to get this done," Penny stated. A commission for the long term can be a sign of leadership because it demonstrates how you can make divided government work. The 1982 federal Social Security commission could be used as a model for such a commission. It included key leadership from the caucuses, the executive branch, and the private sector. For a blue-ribbon committee to work there must be buy-in from both political parties.

The courts should not relieve the pressure on the situation.

Referring to the story this morning of the 4th District Court's hearing of the suits to continue state services during a shut-down, a participant noted there are a couple of theories presented: One is that the court ought to override the governor's veto and keep funds flowing. The other theory is that this is a policy matter between the executive and legislature, and should be left that way.

Penny responded that he would prefer that the court stay out of it now at this stage because intervening gives politicians a fallback-the feeling that it won't be that bad because the court will inevitably save the day.

"I'm reluctant to see the court step in because there has been no appropriation bill passed, and therefore the government has no authority to run. Are there some services that are so essential? Probably, but I don't want the court to take any pressure off the politicians."

Intransigence has its roots in lower party participation.

Participation in the Democratic Party caucuses-those Penny knows best from his political days-has declined significantly, Penny said. "A few decades ago, when I used to go to events there were farmers, professionals, small business owners, and laborers. When you'd look at who was pro-choice or pro-life it would be roughly 50/50. Now the small group that shows up is not as diverse and is more ideological. The same is true for the Republicans. These are the narrow groups that now select the candidates."

Also, he observed, interest groups now are far more demanding and far less compromising. Interest groups are more frequently saying that you are either with us all the time or you're not with us at all.

"Today we're not having a serious debate about these budget issues," he said, "instead we're authorizing our interest groups to put on 30-second TV commercials on the issues." For the Democrats these commercials say that we can just tax away the problem. We cannot. For the Republicans, they say we're going to hold spending to no more than what's coming in the door. But this belies the fact that because of increases in demographics we cannot do that either; since the programs are tied to demographics and we are tied in to federal programs, spending cannot simply be cut to some arbitrary figure. "So both sides are essentially lying to us."

There are revenue options.

A participant asked whether there is any possibility for "small knobs to be turned"-for example, taxes levied on internet retailers or on soft drinks because of the obesity problem.

Penny responded that he has always thought that the notion of expanding the sales tax might be something that both parties could support. "There are a lot of exemptions in our sales tax," he observed. "However, I'm not sure you could get agreement from some of the Republicans on that, given some of the constraints they face. I also know that some Democrats have a lot of heartburn over the effect that increasing the sales tax would have on lower-income people."

According to Penny, another option to consider are short-term, "blink-on blink-off" tax increases only for the duration of the coming biennium.

Getting to better government will require reform.

How can we get back to operating more like a republic with representative governing, a participant asked, rather than purely "small-d" democratically where everyone tries to say what should happen? Does this affect whether elected officials accept more responsibility to act in the best interest of the state?

"You have to understand that your constituency is greater than only those who voted for you," Penny replied. We need election reform that allows you to donate to a person in a state only if you are a registered voter in that state. We also need to take partisanship out of the reapportionment process.

Three major reforms can assist this-Instant Runoff Voting, campaign spending reform that gets us collecting money only from voters that are from our state, and non-partisan reapportionment by commission.

C. Closing

"Just to restate," Penny closed, "we have got to find a way to get a fix in the near term. What's going on today is the result of a political system that is just not structured for the kind of problems that we face today or for producing the kind of solutions that are required for these problems."

Given today's political environment, he reiterated, a blue ribbon commission on government programs is the best way to begin reforming government "toward the center."