



**Blueprint for
Reform**

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MINNESOTA BUSINESS PARTNERSHIP



CONTENTS

Fiscal Policy Reform

Education Reform

Health Care Reform



Blueprint for Fiscal Policy Reform

Innovative and diverse Minnesota businesses are the backbone of the state's economy. But past success does not guarantee future prosperity, and Minnesota's tax code creates burdens that may hinder long-term economic growth. Lawmakers should evaluate policy decisions with a global view, and address present-day challenges with solutions that will enhance Minnesota's future competitiveness in the global economy.

Globalization, technological advances, demographic changes, and other forces are causing fundamental changes to the economy that make existing state spending trends unsustainable. In addition to unsustainable spending trends, Minnesota has an antiquated and burdensome tax structure that forces Minnesota-based businesses to shoulder a heavy and growing load while they compete in a dynamic worldwide economy. Reforms are necessary to position the state for greater economic growth and reduce the effect of economic shocks on the state budget.

Minnesota's Fiscal Challenges

- 1** Spending trends that exceed projections for economic growth.
- 2** A tax structure that contributes to budget volatility and isn't aligned with the modern economy.
- 3** High taxes that disproportionately burden Minnesota-based businesses, hinder growth, and make it more difficult to attract top talent.



The Spending Challenge

It will take more than belt-tightening to create sustainable budgets. The public sector must innovate to maintain essential services and a high quality of life. Developing new and better ways to set budgets, deliver services, and meet public needs will improve the business climate.

Spending growth in the largest areas of Minnesota's general fund budget, including health and human services (HHS), is accelerating far faster than the economy. Although spending growth has been mitigated somewhat through recent reforms, the state is expected to continue to see double-digit increases in the near future. Spending restraint and further reforms will be necessary to address this issue.

The Structural Challenge

Minnesota's tax code was developed to meet the needs of the 20th century's goods-based economy, but our outdated tax system now creates barriers to business investment and job creation in our mobile, global, knowledge-based economy. In addition, Minnesota relies disproportionately on volatile revenue sources like high personal and corporate income taxes, which has contributed to the unpredictable fiscal forecasts that we've seen in recent years. Reforms are needed to construct a simplified, streamlined, 21st century tax system that will generate job growth, promote private-sector investment, and create stable and sustainable budgets.

The Competitiveness Challenge

Minnesota businesses and entrepreneurs are faced with some of the nation's highest tax burdens. The state's tax structure deters business expansion and relocation in Minnesota and discourages companies from locating high-skill, high paying jobs here. Our anti-competitive tax code contributed to Minnesota ranking 46th out of the 50 states in the Tax Foundation's State Business Tax Climate Index.

4th
highest personal
income tax rate

3rd
highest corporate
income tax rate

5th
highest per capita
income tax burden

9th
heaviest business
property tax burden

7th
highest state sales
tax rate

Principle 1

The state should foster private-sector investment and job creation, reduce revenue volatility, strengthen Minnesota's global competitiveness, and ensure that businesses are not penalized for locating, investing, or growing in Minnesota.

Use federal tax reform as an opportunity to improve Minnesota's tax competitiveness.

- Apply state revenue gains from federal tax reform toward improving Minnesota's tax climate.

Reduce employers' property tax burdens.

Minnesota's high business property taxes are a competitive disadvantage for Minnesota-based employers, and are a barrier to investment in the state. Minnesota businesses bear a disproportionate burden because they pay higher local rates than other property types and also pay a state property tax.

- Maintain the repeal of the state business property tax auto-inflator.
- Provide direct tax relief to businesses by reducing the state business property tax levy.
- Do not shift larger portions of local property taxes onto employers.

Reform corporate taxes. Minnesota's high corporate tax rate is a barrier to attracting new business investment and should be reduced. It is regressive, volatile, expensive to administer, and leads to higher prices and lower wages.

- Increase the research and development tax credit to encourage investment and high-paying jobs in Minnesota.
- Maintain sales-only apportionment to encourage businesses to keep and grow jobs in Minnesota.
- Don't penalize Minnesota companies for competing and succeeding in international markets. International success creates good-paying jobs at Minnesota headquarters.

Reduce personal income taxes. Minnesota has the nation's second highest income tax rate for joint filers at the \$260,000 income level and the fourth highest rate overall. These extraordinarily high rates suppress business expansion because business income often flows through personal income tax returns. High rates also make it difficult to attract top talent to the state and make it more expensive for businesses to locate high paying jobs in Minnesota.

- Reduce Minnesota's reliance on volatile income taxes and reduce personal income tax rates.

Ease regulatory burdens and workplace mandates. State and local regulations and mandates substantially increase business costs and complexity, and create a perception that Minnesota is hostile to business.

- Do not impose rigid workplace mandates that discourage job growth and limit flexibility.
- Support uniform labor standards by explicitly preempting local governments from enacting workplace mandates.
- Do not make Minnesota's regulatory burden an outlier compared to other states.
- Provide administrative relief to businesses burdened by a growing patchwork of local workplace mandates.

Focus on the big picture. Tax incentives or subsidies for particular businesses may occasionally help attract and retain jobs, but policymakers should focus on improving the overall business tax climate and promoting broad-based economic vitality.

Principle 2

State budget reforms should focus on outcomes and priorities, encourage fiscal restraint, improve service delivery, and produce desired results.

Build sustainable budgets based on priorities and outcomes.

- Base spending priorities on whether expenditures are achieving expected outcomes and supporting long-term economic competitiveness.
- Align state spending with long-term economic growth.
- Reduce reliance on highly volatile personal and corporate income taxes and move toward a broader, consumption-based sales tax on final retail purchases, without taxing business-to-business services.

Emphasize efficiency and economic growth when evaluating transportation infrastructure spending. Efficient movement of people, goods, and services is critical to Minnesota's economic competitiveness, but according to MnDOT, current projected revenues will be insufficient to meet the needs of our transportation system.

- Make transportation a high priority when setting the general fund budget by dedicating all transportation-related general fund revenues to transportation.
- Address transportation funding on a longer-term, consistent basis, including the metro-area bus transit system.
- Identify and implement efficiencies to help fund additional transportation investments.
- Consider the impact of funding proposals on Minnesota's competitiveness and overall tax burden.
- Direct additional transportation investments to projects with the highest return on investment and the greatest positive impact on economic growth.

- Explore alternative funding sources and models, such as value/benefit capture and public-private partnerships.

Leverage public-private partnerships.

Policymakers should leverage private-sector expertise and innovations to increase efficiency and quality in areas such as strategic sourcing, information technology, health care, transportation, and economic development.

Promote productivity and efficiency in government programs and services to provide greater value for tax dollars. Pursue innovative approaches that focus on saving time, effort, and resources.

- Encourage local governments and state agencies to collaborate, consolidate, share services, and streamline administration.
- Use competitive bidding and strategic sourcing to deliver state and local services.
- Compare Minnesota's health care program benefits to national benchmarks and consider aligning Minnesota to high performing states.
- Evaluate and compare economic development programs and prioritize funding for the most effective programs.
- Align public sector compensation with the private sector.

MBP Fiscal Policy Committee

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Blueprint for Education Policy Reform

Historically, Minnesota’s K-12 public education system has been recognized as one of the top performing systems in the nation, with our students generally performing well on national exams. However, Minnesota’s demographics have masked large achievement gaps between white, non-white, and low-income students.

In addition, as the state continues to focus on reducing economic disparities the connection between education and economic opportunity becomes more obvious, and the urgency to eliminate education gaps between groups of students rises. This urgency is heightened by the pressures of a global, knowledge-based economy that increasingly requires people to complete at least some level of post-secondary education.

There is significant room for improvement given that only about half of Minnesota high school graduates complete a post-secondary certificate or degree within six years of high school graduation.

The gaps in post-secondary attainment reflect the achievement gaps we see in our K-12 system (see Tables 1 and 2). As a result, by closing K-12 student achievement gaps we can help more graduates be better prepared to complete a post-secondary education – and begin to address growing concerns about workforce shortages and economic disparities.

To help create a world-class education system, the MBP follows four guiding principles. Below each of the four principles are priority actions for the 2018 legislative session.

Table 1: Post-secondary attainment (2011 high school graduating class)

	Total HS graduates	Total completing post-secondary within 6 years	Post-secondary completion rate
All students	59,245	28,455	48%
White	48,246	25,253	52%
Students of color	10,999	3,202	29%
Low-income students	14,839	4,096	28%

Table 2: High school students meeting state standards in reading and math (2017 MCA results)

	Reading	Math
All students	60%	48%
White	68%	55%
Students of color	41%	30%
Low-income students	39%	26%

Principle 1

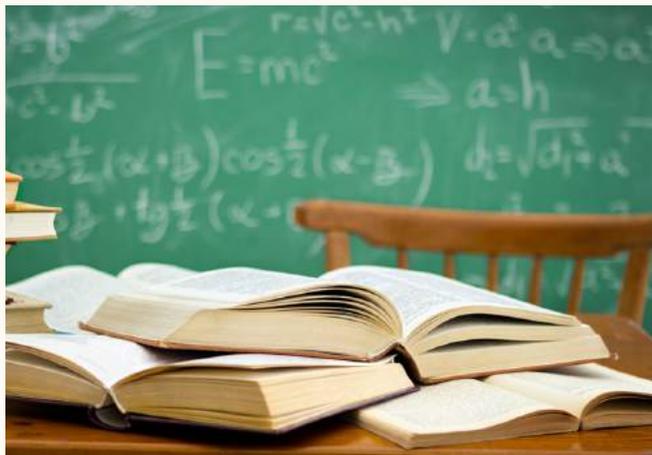
Set rigorous, world-class academic standards for students.

At a minimum, school and district professional development should ensure teachers understand and can incorporate state standards in their instructional practices.

Minnesota has developed some of the best student academic standards in the country through cooperative efforts with K-12 and post-secondary educators, employers and the public. By adopting a standards-based strategy the state not only created more flexibility for teachers to provide instruction, but also increased expectations and opportunities for all students.

Unfortunately, according to a 2015 survey by the Minnesota Department of education (MDE), only 17% of students are in a district that has fully implemented the state's English language arts standards. We cannot close our student achievement gaps if all students are not given an opportunity to learn our standards.

The state and school districts should encourage student participation in Minnesota Comprehensive Assessments (MCAs). The state's MCAs are the only assessments specifically aligned to Minnesota's academic standards, so student participation in the MCAs is critical to accurately gauge student performance and progress.



Principle 2

Measure and report student progress towards Minnesota standards.

Require school districts to use one of four state-designated school readiness assessments. A key goal for early education services is to help ensure children are prepared to enter kindergarten. In addition, the state requires all school districts to report the number of children entering kindergarten that are prepared for school.

Unfortunately, there is no consistency in measuring and reporting school readiness by school districts since the state has left this process up to district discretion. As a result, families, the public and policymakers have no common base of information on child preparation.

Implement OLA recommendations that streamline state early education programs to better serve eligible families and their children. The Office of Legislative Auditor (OLA) is evaluating selected early education programs to determine how effectively the programs are coordinated so eligible families can maximize their intended benefits (e.g. access to quality early education services on a full-time basis). Based on the OLA recommendations, policymakers should adopt changes that improve the delivery of early education services.

Create performance-based summative ratings as the primary component of school and district report cards. The state should create a concise, understandable rating system for families and the public to assess the relative performance of schools and districts. Ratings should be based on key student outcomes and help families prioritize the schools and districts they want to learn more about.

Principle 3

Give educators the flexibility to offer the programs they believe will be most effective.

Work with the new Professional Educator Licensing and Standards Board to ensure the teacher licensure reforms are implemented consistent with law. Following the Legislative Auditor's finding that the state's teacher licensure system was "broken", the legislature and governor passed significant improvements in 2017. These reforms streamlined the governance of teacher licensure by consolidating responsibilities into a new Board, and created a new tiered licensure system to provide clarity about requirements.

Principle 4

Give families the ability to choose the programs that best meet their children's academic needs.

Expand school choice for families. A number of independent evaluations have shown that expanding school options for low-income families can improve educational outcomes and encourage school districts to improve school performance.

Minnesota currently provides an education tax credit to about 55,000 low-income families to help with a variety of education-related expenses, but it does not cover expenses associated with non-public school tuition.

- Expand the current education tax credit to include tuition expenses.



Expand the Parent Aware quality rating system and related scholarships. The Parent Aware rating system helps early education providers improve their services while also giving families information on program effectiveness. Low-income families that choose a Parent Aware rated provider are also eligible for financial assistance through scholarships.

- If funding is available, expand scholarships so more eligible families have access to Parent Aware providers.

Give families a stronger voice in deciding when and how our lowest performing schools should improve. The federal ESSA law requires the state to identify the lowest performing 5% of public schools that receive Title 1 funds. The state, on a three-year cycle, will identify these schools and provide support so they can improve. If student performance at these schools fails to sufficiently improve, the schools will be re-identified and receive extra state support.

While it's appropriate to provide state support to improve the lowest performing schools, families at these schools should have a stronger voice in directing changes in school leadership and staff and the use of Title 1 funds.

MBP Education Committee

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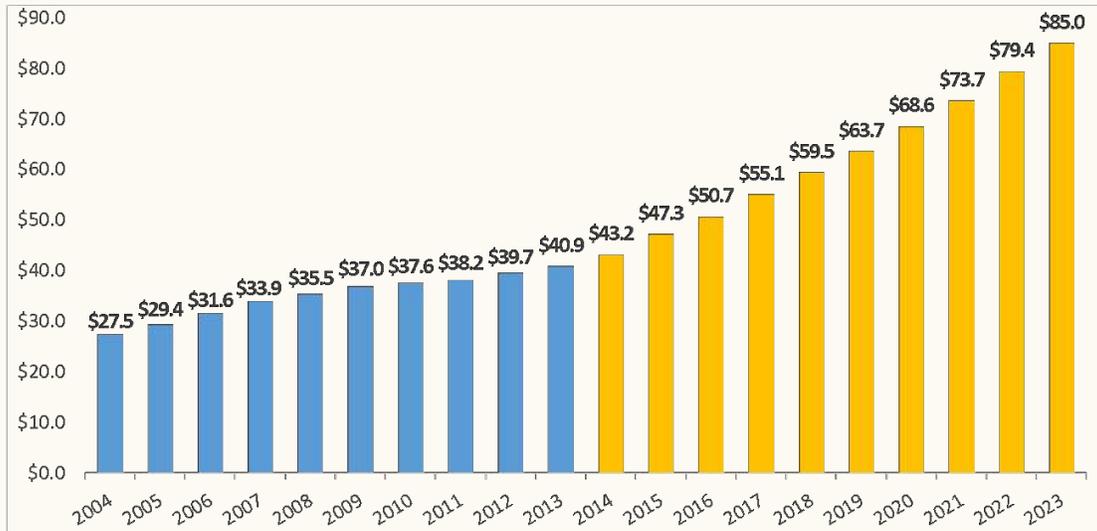
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Blueprint for Health Care Reform

Minnesota is a national leader in health care with high quality of care, low rate of uninsured, high rate of private insurance, and a comparatively healthy population. Still, rising costs remain an enormous challenge for Minnesota employers, individuals, and state government. Projections show total health care spending in Minnesota doubling between 2013 and 2023, when it will account for one-fifth of the state's economic activity.



Numerous factors are causing the ongoing cost explosion:

Price, Utilization & Eligibility: Increases in prices for medical services and growth in utilization are the main drivers of spending. State program eligibility expansion has also generated significant enrollment growth in public programs.

Demographics: Illnesses and corresponding costs rise with age, and by 2020 seniors will outnumber schoolchildren in Minnesota.

Technology & Drugs: New technologies and expensive pharmaceutical products are constantly emerging and consumers frequently try every treatment available regardless of whether it is likely to improve their care or quality of life.

Inefficiency: Wasteful spending is caused by defensive medicine; redundant, inappropriate, or unnecessary tests and procedures; and individuals maintaining unhealthy lifestyles and not adhering to medical advice and prescriptions.

To create a sustainable system with improved quality and lower costs, comprehensive reforms are needed to engage consumers, align purchasers, and reorient providers and insurers to find and deliver market-driven efficiencies.

Minnesota should pursue a balanced approach to reform to ensure a functioning and responsive health care marketplace that achieves optimal health outcomes, reduces costs, and increases access to affordable care. Our rich tradition of health care leadership and market-based innovation can create new solutions to meet the specific needs of patients and providers.

Principle 1

Pay for results and outcomes, not volume of procedures.

Incentives should be realigned to deliver and reward optimal outcomes, not volume of procedures. Fostering a culture of innovation will create efficiencies and cost savings through improved and coordinated care delivery and will reduce the demand for costly procedures and hospitalizations.

- Replace outdated and inefficient fee-for-service payment models with innovative value-based payment models that reward quality, consumer satisfaction, and cost savings.
- Structure payment reform initiatives to reallocate current resources, not just add more money into the system.
- Ensure innovations are market-based, not mandated.
- Encourage collaboration on individual patient care, but maintain antitrust policies in insurance and provider sectors to avoid anti-competitive pricing practices.
- Make utilization data uniformly available to providers to facilitate coordinated care focused on high risk populations with multiple chronic conditions.
- Reform medical malpractice laws to reduce the practice of defensive medicine while ensuring adequate patient protection.



Principle 2

Identify the appropriate role for government in health care.

Our health care system should be private, market-based, patient-centered, and offer broad competitive choice of provider, insurer, and coverage. Government should enhance a strong and functional health care marketplace by providing safety net programs, setting standards for the health care sector, and supporting delivery and payment innovations.

Streamline government programs.

- Empower beneficiaries to use providers and plans that deliver cost-effective, quality care.
- Address uncompensated care costs directly and transparently – not by cost-shifting to the private sector through higher private reimbursement rates.
- Maximize federal matching funds for public programs to expand coverage to individuals who might otherwise further the cost-shift to the private sector. Prepare contingency plans for future decreases, both expected and unexpected, in federal matching funds.
- Evaluate Minnesota's public health care program benefits according to national and peer state benchmarks; consider aligning Minnesota to other high performing states.
- Rely on broad-based, equitable revenue sources to fund public health care spending.
- Use designated health care revenue only for health care purposes.
- Government should not limit reserves of private companies under business contracts with the State. Reserves protect consumers and ensure businesses' solvency and should not be used to finance government operations.

Support innovation and flexibility in the private sector.

- Reject restrictions, regulations, or taxes on self-insured employers that may inhibit

market-based, patient-centered innovation or hinder employers' ability to address unique challenges of cross-border employee populations.

- Encourage plans, providers, and employers to create market-based, patient-centered advances that promote well-being.
- Avoid one-size-fits-all service and payment models that stifle innovation and freeze ideas in place. Focus on creating an environment that fosters new ideas and initiatives.

Support development and use of health information technology (HIT).

- Support Minnesota's coordinated HIT implementation and development efforts, consistent with both ongoing state initiatives as well as the federal HITECH act.
- Support statewide IT protocol for sharing appropriate clinical data among providers to improve quality, safety, and efficiency.

Principle 3

Provide price and quality information that is relevant and actionable to enhance informed decisions by all stakeholders.

Cost and quality measurements are not always transparent or meaningful to health coverage purchasers. Providing understandable information will engage consumers and help them make value-based decisions.

- Encourage plans, providers, and employers to create market-based, patient-centered advances that promote well-being.
- Support the work of existing nationally recognized community-based organizations (including the Institute for Clinical Systems Improvement and Minnesota Community Measurement) to define common expectations and measurements for plans and providers. Rather than duplicate private sector efforts in this area, the State should use them for its own programs.

- Measure providers and care systems on their ability to keep patients healthy and avoid unnecessary services and costs.
- Support provider cost and quality comparisons and make them available to consumers. Ensure that the data and methodologies used to develop such measurements are valid, verifiable, and produce meaningful results. Include consumer measurements for patient satisfaction and accountability.

Principle 4

Develop, use, and expand incentives for health and well-being.

To restrain health care cost trends, the Partnership endorses effective primary and preventive care that can prevent costly procedures and hospitalizations. Wellness programs should be promoted and expanded in our communities.

- Follow accepted guidelines for preventive care endorsed by groups like the Institute for Clinical Systems Improvement.
- Educate individuals on the availability and benefit of primary and preventive services in their existing health coverage.
- Ensure that public programs offer proven primary and preventive care coverage.
- Create and promote appropriate incentives for people to use primary and preventive services in both public and private plans. Support initiatives that would contribute to healthy communities.

MBP Health Policy Committee

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