Bridges to a Better Bottom Line: An Outside Look at Minnesota's Budget Dilemma

Minnesota is a great place. Our business, governmental and non-profit organizations regularly respond swiftly and cooperatively when our state and its communities face challenges.

Recently, five of Minnesota's largest foundations – Northwest Area Foundation, Minneapolis Foundation, Saint Paul Foundation, Minnesota Community Foundation and Bush Foundation – came together to launch a search for ideas in response to budget and economic challenges facing the state today. The foundations partnered with Public Strategies Group (PSG), a Minnesota company nationally recognized for developing creative solutions to public problems, to compile a collection of ideas that offer promise for Minnesota's future.

The executive summary below outlines the core components of the ideas presented by PSG. The ideas are a beginning; not an end. They are intended to spark new thinking about how public services are delivered and funded in Minnesota. And they are intended to spark more ideas – and conversation – across the state.

The following nine segments are an overview of the potential policy changes conceived by the PSG team, and their resulting potential budget savings. Each idea aims to improve the ratio of results Minnesotans receive for dollars spent – Minnesota's bottom line; each estimates dollar savings over the next two biennia.

Executive Summary

1. ***"<u>Buying Health, Not Sickness</u>": Improve the health of citizens while spending $3.7 billion less.*** *Buying Health, Not Sickness* suggests that by spending state money on health outcomes rather than fee-for-services, we can improve the state's health while reducing care costs. First, this item suggests that Minnesota – with its current portfolio of publicly paid health care – can team with others to fundamentally change the health care marketplace. Collectively, these purchasers could agree to move from piecemeal purchase of services to paying doctors annual fees for keeping people healthy, greatly improving the integration of needed care. This idea is projected to save $740 million in the second biennium, and is consistent with a key aspect of the 2008 Governor's Health Care Transformation Task Force. This idea also suggests that Minnesota stop excluding the value of employer-provided health insurance premiums from employee income, achieving parity with those, mostly low-income, workers who do not have employer-provided coverage. One billion dollars per year could be redirected to investments needed for health care payment reform and closing the budget gap.

2. ***"<u>Delivering Integrated Human Services: Multi-County Shared Services</u>": Meet the needs of vulnerable children and families at costs $455 million less.*** *Delivering Integrated Human Services: Multi-County Shared Services* suggests that taking a regional approach to integrate services around the needs of individuals and families can improve Minnesota's human service bottom line. This idea builds on a form of Human Service regionalization -- an idea previously advanced by the Minnesota Association of Counties, the Legislative Auditor, and the Governor. It suggests Minnesota use existing state law to form Regional Human Service Boards. These Boards become "steerers," or purchasers, of outcomes for the area's individuals in need. Funds from human service, housing, corrections, and health would be un-mandated, giving these Boards additional flexibility to integrate child or family-centric services. The Boards would not provide services directly, but could purchase from existing County delivery systems, from non-profits, or from consortia of both – looking for the best results for children and families.

3. ***"<u>Better Value for Housing Subsidies</u>": Improve housing outcomes while spending $2.1 billion less.*** *Better Value for Housing Subsidies* examines ways to invest state resources more wisely to improve housing outcomes. The ability to deduct mortgage interest is a tax expenditure equaling $1 billion in FY 2010-2011. Yet research show that it has little or no effect in promoting home ownership, an original intent of the law. Less than one-third of Minnesotans use it, as most don't itemize their deductions or own their home outright. If eliminated, the state could target these dollars to housing subsidies for those in greatest need, redirect them to other home ownership appropriations, such as foreclosure prevention or down payment assistance, or use them to address budgetary needs.

4. ***"Freeing Counties to Focus on Results": Deliver better county services while reducing state aid by $984 million.*** *Freeing Counties to Focus on Results* suggests that holding counties accountable for results in return for increased flexibility will improve the efficiency and effectiveness of county services. This idea uses this economic crisis to craft a new State-County relationship built around outcomes, instead of mandates. The "new deal" has five parts: 1) eliminating most state aid to counties; 2) eliminating state control over inputs; 3) focusing both the state and counties on outcomes – and public reporting of those outcomes; 4) giving counties additional flexibility in how to produce the results; and 5) removing levy limits.

5. ***"Medical Assistance: Improve Public Health and Lower Public Costs": Improve the health of elderly and low-income Minnesotans with $497 fewer dollars.*** With General Fund expenditures growing by $1.5 billion a biennium, Medical Assistance needs to be redesigned for greater success. *Medical Assistance: Improve Public Health and Lower Public Costs* suggests asking the Federal government for the ability to conduct a top-to-bottom redesign. Those engaged in redesigning Medical Assistance under this essentially full-scale waiver would be asked to accomplish these objectives: *improve the health* of the lowest income Minnesotans, offer the elderly *greater choice* in where to receive care, *assist more* Minnesotans burdened with poverty, and *spend five percent less*. Promising ideas are showcased, but a concerted fresh look will uncover many more.

6. ***"Staying Safe: Shifting Resources from Prisons to Community Interventions": Preserve public safety and reduce recidivism at a $54 million cost-savings, and avoid building a prison.*** *Staying Safe: Shifting Resources from Prisons to Community Interventions* suggests how we can use evidenced-based approaches to improving Minnesota's corrections bottom line. For lower-risk, nonviolent offenders, this idea proposes moving from a model of incarceration to community interventions that are proven to reduce recidivism. While not offering as great of immediate cost-savings as other ideas presented, this idea does avoid the future costs of a projected 30% rise in Minnesota's prison population by addressing chemical dependency as a key driver of criminality. Lower-risk offenders are both diverted from prison, and released earlier into evidence-based community interventions. In-prison treatment programming is expanded, as well. Multiple streams of state corrections dollars to counties are merged into one, with reduced recidivism as the key performance expectation.

7. ***"Special Education: Modest Changes, Better Education, Major Savings": Improve educational outcomes for children with disabilities while spending $645 million less.*** *Special Education: Modest Changes, Better Education, Major Savings* suggests ways to improve special education screening and reduce red tape to improve student services while cutting costs. $1.7 billion in spending is projected for Special Education in 2010-2011, over and above regular school aids. Even then, districts say they must subsidize. This idea suggests that Minnesota can lower the "price" of Special Education by:
   - Lowering the "price" of compliance with paperwork by lessening the time spent on Minnesota-specific reporting requirements.
   - Lowering the "price" of an adversarial system where disagreements too often are not resolved short of lawsuits. We suggest the state consider a "flat grant" payment per Diagnostically Related Group (DRG) of children. Parents, individually or in groups, could choose to purchase services within a customized portfolio of services.
   - Lowering the "price" of mis-identifying youth as Special Education students by unraveling Minnesota-specific definitions and through systematic prevention.

8. ***"Tax Expenditures: Minnesota's Hidden Spending": Clarify the value received for all spending.*** *Tax Expenditures: Minnesota's Hidden Spending* suggests that all state spending, rather than just appropriated funds, be evaluated based on their intended outcomes. More than 40 percent of general fund revenue capacity is not appropriated – that is 222 tax expenditures that add up to $11.4 billion *each year*. This idea suggests tax expenditures be evaluated in terms of the results they are intended to achieve, and reauthorized biennially in an open and transparent process, and offers one approach for doing so.

9. ***"Local Service Sharing": Providing choice and competition in local governments to improve quality and costs.*** *Local Service Sharing* examines opportunities for cost-sharing among local units of government. The Metro Area's 170 cities and the state's 347 school districts all have similar administrative operations that could be shared. It is important that service-sharing arrangements improve quality while also reducing costs. Two ideas are presented: either forbid local governments from providing services directly, but allow them to contract with whomever they want; or limit the suppliers to a reasonable number and have local governments compete to be among that number.