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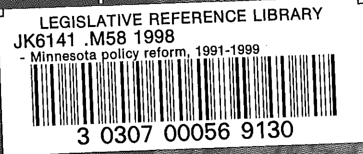

MINNESOTA POLICY REFORM, 1991-1999
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1991–1999

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November 1998

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Minnesota Policy Reform 1991 – 1999

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Overview

Minnesota is often cited for its progressive policies and far-sighted reforms. *Minnesota Policy Reform: 1991–1999* shows some of what Minnesota accomplished and how change happened under the leadership of Governor Arne H. Carlson. Its purpose is to serve as a tool for future leaders, policy-makers and students of the political process in Minnesota and the nation who want to know, "How did they do that?"

Gov. Carlson took office in 1991, having won an extraordinary election that attracted national attention. Only two weeks before Election Day, Carlson, who finished second in the Republican primary, replaced the party's endorsed candidate, who withdrew amid allegations of sexual impropriety.

In November 1990, the nation was in the midst of a recession fueled in part by a foreign policy crisis in the Persian Gulf that was raising oil prices and lowering consumer confidence. At the same time, Minnesota faced a state government budget that was growing faster than inflation or projected revenues.

In his brief campaign, Carlson stressed the need to provide strong financial management, control state spending and increase accountability. He vowed to be a hands-on manager of the state's finances and use the governor's veto power to eliminate unnecessary and wasteful spending. Carlson opposed raising taxes to balance a projected state budget deficit and promised to move aggressively to reduce property taxes on business. He also campaigned to bring greater accountability to local government spending and to reform the bonding process to limit the growth of state debt.

Carlson sought accountability in education as well as in government spending. Recognizing the critical link between the education system and economic development, he believed that schools should be held responsible for student achievement.

His economic development plan focused on creating jobs to spur economic growth. In addition to supporting property tax cuts for business, Carlson saw reforming the workers' compensation system as essential for improving the state's business climate and strengthening the ability of Minnesota companies to compete with those from neighboring states.

Just weeks after Carlson's election, the Department of Finance announced a $197 million shortfall with six months left in the fiscal year and a long-term revenue shortfall of $1.8 billion. Finding a solution to the budget crisis would become Gov. Carlson's top priority in his first term, and the financial practices adopted early in his administration would have long-term effects.

Adding to these challenges was a Legislature controlled by Democrats, whose party had just lost the governor's office. With Governor-elect Carlson promising greater use of the veto pen, both sides expected legislative conflicts to intensify, and they did.

Despite these challenges, in eight years Gov. Carlson and his administration achieved an impressive array of reforms, changing government systems, improving the lives of children, fostering a vibrant economic environment and enhancing the quality of life. *Minnesota Policy Reform: 1991–1999* highlights 10 initiatives that are a legacy of Minnesota's longest-serving Republican governor and examines how they were achieved.

Reforming government systems

Eliminating the budget deficit and making government accountable for spending was a primary focus throughout Carlson's term in office. Efforts in this area led to the passage of "price of government" and "truth in taxation" legislation and resulted in structural reforms that have included long-range budget planning and spending control.

Gov. Carlson's support of the judicial selection process enacted before his election reflected his commitment to a high-quality judiciary and his understanding of the long-term influences of judicial appointees.

The creation of a single department designed to serve children from birth to their entry into the work force was one of the most significant systems reforms achieved by the Carlson administration. Believing that collaboration and cooperation among government programs are necessary to best serve all Minnesotans, Carlson led the effort to combine programs scattered throughout state agencies into a single Department of Children, Families & Learning.

Improving the lives of children

Gov. Carlson's commitment to children also was evident in his education initiatives, which focused on improving school and student performance. The culmination of these efforts was the passage of the Students First initiative in 1997, which included tax credits and deductions for education expenses.

He also worked for the passage of MinnesotaCare, which created a subsidized health insurance program

that ensured that low-income Minnesotans could obtain health care without having to be on welfare. The program also attempted to improve the accountability of the health care system through a comprehensive package of strategies focused on controlling costs and increasing quality.

Finally, Gov. Carlson and First Lady Susan Carlson led efforts to enact legislation aimed at preventing and reducing the harm to children from alcohol use during pregnancy that results in fetal alcohol syndrome and effects.

Fostering a vibrant economic environment

From his election in 1990, Gov. Carlson supported an overhaul of the state's welfare system. The resulting program, the statewide Minnesota Family Investment Program, is designed to provide temporary assistance and reward recipients for work. A strong state economy has helped recipients begin to move from welfare to work.

Creating a competitive business environment has been the impetus for other economic reforms in the state. The Governor sought to reform the workers' compensation system and restructure the property tax classification system. Both reforms have helped to reduce businesses' costs in Minnesota and create a friendlier environment. In addition, taxes on capital equipment were eliminated, bringing Minnesota in line with the policies of other states.

Enhancing the quality of life

Gov. Carlson recognized early in his term the importance of providing continued opportunities for Minnesotans to enjoy a rich variety of cultural events and recreational opportunities. Among his efforts in this area, the first — and one of the most visible — was the creation in 1991 of the Wetland Conservation Act, which has helped halt the loss of critical wetlands throughout the state.

Components of success

An examination of these initiatives of the Carlson administration reveals that many involved several common strategic components.

■ **Timing and patience.** Knowing when the time is ripe to pursue an initiative takes a keen understanding of the underlying issues. Achieving change through the legislative process often goes at a seemingly glacial pace. A year can be spent introducing an idea, another educating legislators and the public on the need for the change and yet a third on getting the legislation passed. The Department of Children, Families & Learning, the Wetland Conservation Act, MinnesotaCare and workers' compensation reform all took three or more years to achieve.

■ **Using the veto.** Gov. Carlson understood the power of the veto and recognized that the threat of its use could be more effective than a veto itself. As a result, he often found an openness to compromise among the legislative leadership. The backing of Republican House members, who successfully upheld all override attempts, strengthened his position and led directly to the successful passage of landmark legislation, such as the 1998 education tax credits and deductions, which were a direct result of the Governor's willingness to use his veto power when early agreement could not be reached.

■ **Bipartisan support.** Support from members of other political parties is critical, especially when different parties control the legislative and executive branches. A hallmark of the Carlson administration has been its ability to work on a bipartisan basis to meet its goals. The creation of a children's department, workers' compensation reform and MinnesotaCare are examples of initiatives in which the cultivation of bipartisan support was imperative.

■ **Strong allies and coalitions outside of government.** Achieving bipartisan support is easier when allies and coalitions of supporters outside of government are identified and enlisted to help lobby for legislation. Coalitions of supporters are often more difficult for lawmakers to ignore than other politicians. Education choice, fetal alcohol syndrome and tax reform legislation were passed in part because coalitions were created to support the effort.

■ **Compromise.** Fetal alcohol syndrome and wetlands legislation are two examples of how a carefully crafted compromise can result in public policy changes. While the ideal goal may be to institute reforms entirely as envisioned, the reality of the political process often dictates that changes must be made incrementally. The Carlson administration recognized that some change is better than none and that public policy often is improved and support for it strengthened when it comes out of compromise.

■ **Working outside the legislative committee process.** The sometimes contentious atmosphere of legislative hearings is not always the best place to craft public policy. While all changes to law must move through the legislative hearing process to give supporters and opponents alike an opportunity to voice their opinions, much of the groundwork for public policy change can be successfully laid by task forces and advisory councils. Participants have endorsed these groups because they offer an atmosphere in which questions can be asked, differences debated and solutions sought.

Minnesota Policy Reform: 1991–1999 reveals a governor with a tough-minded attitude toward government programs and spending who nonetheless appreciated — and used — the power of government to create opportu-

nity, particularly for families and children. Willing to use his veto to control spending and push for policy objectives, Carlson led a remarkable turnaround in the state's economic circumstances, while protecting and expanding programs that emphasized three things of primary importance to him and most Minnesotans: "jobs, kids and quality of life."

Preparing for change

Having decided not to run for a third term as governor and following through on his commitment to good government, Gov. Carlson set a tone of cooperation and committed staff to assist in the transition from his to the next administration. Early in 1998, he directed agency heads to preserve 50 percent of their annual budgets for a new administration and prepare briefing books on the operations and responsibilities of each department to provide an overview for the new governor and his staff. Gov. Carlson also instructed the Department of Administration to prepare transition headquarters with adequate computers and telephones from which the new administration could begin its work.

Restoring fiscal stability

Minnesota's fiscal health is a hallmark of Gov. Carlson's tenure, especially considering the state's financial condition when he assumed the office.

Within weeks of the 1990 election, Minnesota faced a $197 million budget shortfall with six months left in the fiscal year and a $1.8 billion deficit in the coming two-year budget. The deficit was not a complete surprise to Minnesota's new governor, but it was nearly double what he had been warning the state to expect. With the state's fiscal house in disarray, the early work of the Carlson administration focused on erasing the deficit and controlling spending, not on burdening the state with new programs. From the beginning, the Governor's fiscal goals were clear: restore the state's AAA bond rating, maintain spending below the rate of personal income growth, provide for an adequate budget reserve, return money to taxpayers and ensure the state's long-term fiscal stability.

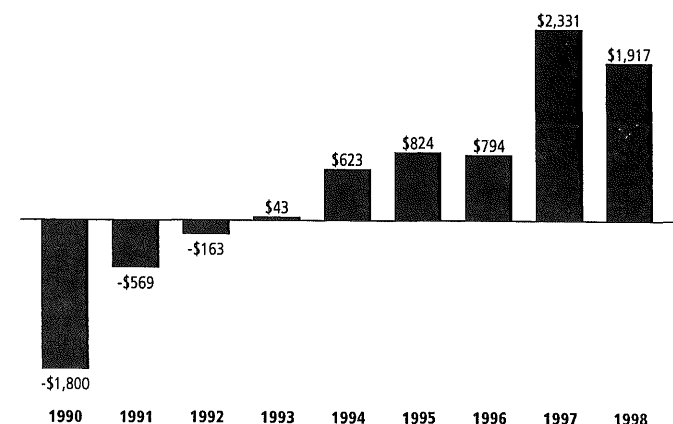
Tight-fisted spending and ample use of the Governor's veto power along with a positive turn in the state's economy led to a budget surplus of nearly $2 billion in February 1998. In addition, the Carlson administration has achieved institutional budget reforms designed to engender long-term fiscal stability, including fiscal accountability and sound management practices, strategic and long-range budget planning, and spending control.

The administration insisted on increasing fiscal accountability for both state and local governments through "price of government" and "truth in taxation" legislation. The "price of government" is a measure of all state and local government taxes and other revenues as a percent of individual personal income. Using this standard reinforces the belief that government spending should not outpace growth in personal income. The price of government is targeted to drop 1 percentage point, from 18.1 percent in 1994 to 17.1 percent in 2001. Each one-tenth of a percent equals more than $120 million in annual savings for Minnesota taxpayers.

The "truth in taxation" legislation was designed to give taxpayers a stronger voice in local spending and taxing decisions. It increases accountability by requiring local governments with taxing authority to publicly propose an annual budget and corresponding property tax levy for the following year. Among other things, the legislation requires that county auditors mail each taxpayer a statement of proposed property taxes and each local taxing authority hold a public hearing to discuss the proposed budget and tax levy.

The Carlson administration also supported legislation that encourages sound financial management of the state's resources. As a result, Minnesota now has both a cash flow account and a budget reserve or "rainy day" account. The cash flow account, currently $350 million, or 3.1 percent of annual expenditures, provides a buffer for normal fluctuations in revenues and expenditures,

Minnesota has gone from a $1.8 billion deficit to a $1.9 billion surplus under Governor Carlson



Notes: All amounts shown in millions. The 1997 and 1998 data reflects the February general fund balance forecast. All other data comes from the November annual forecast.

Source: Department of Finance

and allows bills to be paid on time, even when revenue collection is behind schedule. The budget reserve legislation designates the amount of state funds that must be set aside in a reserve account each biennium, currently $613 million, and the conditions that must exist before those funds can be tapped. Today, Minnesota's budget reserve represents 5.4 percent of annual expenditures.

Strategic and long-range budget planning has been the center of fiscal reform during the Carlson administration. This included initiating four- and six-year planning horizons, reforming the capital budget planning process and preparing for federal budget reforms.

Long-term planning horizons furnish advance warning of potential budget problems, providing the legislative and executive branches with a chance to solve problems while they are still manageable. In this kind of planning, the long-term effects of budget decisions are tracked; this has significantly altered how budget decisions are made. When outlining the fiscal implications of proposed legislation, the Finance Department and legislative fiscal staff make a more concerted effort to include the long-term effects, or "fiscal tails." This causes the Legislature to carefully consider not only how an appropriation will affect the current budget but also how it will influence future budget cycles.

The Carlson administration also initiated other important planning tools: base-line budgeting and performance reporting. Base-line budgeting subjects all programs to review. Previous budgeting practices fostered the attitude that historical spending bases were a given, and increases to the base were automatically necessary to fund greater workloads and new programs.

In their 1994-1995 and 1996-1997 biennial budgets, state agencies were required to finance all growth and program changes within their existing base of funds through service redesign and the elimination of low-priority programs. No automatic increases for inflation or higher salary costs were provided.

Combined with other fiscal management reforms, base-line budgeting has altered the fundamental nature of budget discussions. No longer is there an assumption that government revenues and spending will continue to increase indefinitely. Setting "price of government" targets and tax policies now precedes spending decisions. These fiscal reforms have generated a greater awareness and understanding of the limited nature of resources available to government and the need to assess the results of programs.

From the beginning, the Carlson administration focused on results. Measuring progress became a management approach, and *Minnesota Milestones* became a statewide framework for measuring success. Performance-based budgeting expanded the use of performance data in determining program funding. In the past, spending levels were the starting point however the program was working. Performance-based budgeting has shifted the discussion to tying investment to proven success.

The state's capital budget process also was changed to accomplish the goals of making wiser investment decisions and to manage existing assets more effectively. Capital budget proposals are now examined to ensure that they meet the long-term strategic planning goals of state agencies; they also are carefully managed in one year so as not to limit the size of future capital budgets. Planning has become a formal part of the predesign and design stages of any capital proposal.

The revised process has substantially improved the information available to the Governor and the Legislature for capital project decisions. State debt as a percent of the state's general fund budget has remained well below established guidelines.

The Carlson administration also demonstrated foresight in planning for federal budget changes, beginning in 1993 to monitor congressional budget actions and coordinate activities among agencies affected by federal cuts. These efforts made Minnesota a leader among states in preparing for losses in federal funding and dealing with significant changes in federal programs and requirements. Contingency reserves were established that allow Minnesota to plan for potential changes in federal funding, especially in health and human services programs.

A priority for Gov. Carlson was the desire to carefully examine the future of financing public services in Minnesota. To aid in that effort, Minnesota Planning and the Department of Finance worked on two reports examining the cost of government in Minnesota. Minnesota Planning's *Within Our Means: Tough Choices for Government Spending* was widely used by the Legislature, public policy groups and citizens to define and develop choices on how to control government spending.

The second report, *An Agenda for Reform: Competition, Community, Concentration,* was the result of a study conducted in 1995 by Vin Weber, a former Republican congressman, and John Brandl, a former Democratic state senator, at the request of Gov. Carlson. This report, coordinated by Minnesota Planning, identified growing pressures on state finances due to an increasing demand for services. As a result of this study, Minnesota Planning and the Department of Finance collaborated to

develop budget and law modifications needed to implement long-term program and spending changes.

When strategic planning and accountability initiatives failed to engender sound legislative fiscal policy, Gov. Carlson used the veto pen to control government spending and push for particular policies. In his eight years in office, he issued 179 vetoes, more than the combined total of vetoes cast by all Minnesota governors since 1939. None was overridden. By some estimates, more than $1.5 billion in new taxes, spending and fees were avoided by the Governor's vetoes,

In eight years, Gov. Carlson has achieved the financial goals outlined at the start of his administration. The resulting policies, along with a booming state economy, gave investor service organizations the confidence to restore Minnesota's AAA bond rating, which had been lost in the early 1980s. Minnesota is one of only eight states to be rated AAA by all three bond rating services. Over 20 years, this rating will save Minnesotans $1 million for every $100 million of bonds sold.

Ensuring a top-quality judiciary

Through his or her judicial appointments, a governor's influence can extend far into the future. Recognizing this, Gov. Carlson sought to ensure that his choices would improve Minnesota's courts.

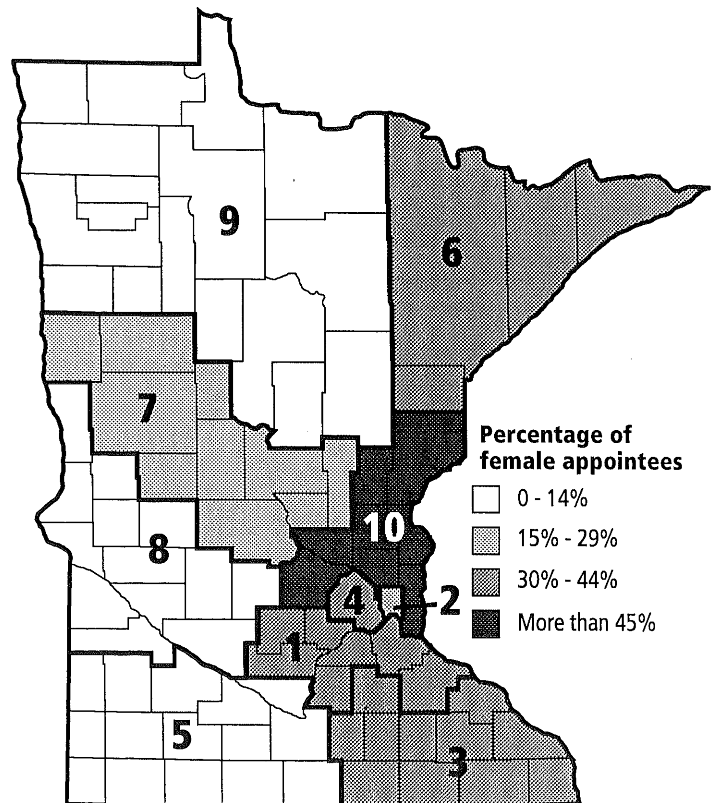
Gov. Carlson's appointments to the bench and his efforts to improve the gender, race and age diversity of the courts have earned him praise and resulted in a judiciary that more closely reflects the makeup of the state as a whole.

To help keep judicial appointments from being caught up in cronyism and political wrangling, the Legislature created the Commission on Judicial Selection in 1990, one year before Gov. Carlson took office. The Legislature was prompted to take this action by a growing understanding that a selection process outlined in statute could improve the recruitment and appointment of qualified judicial candidates, including women and minorities. Realizing that most state judges are appointed by the governor and retain office through uncontested election, the public and the Legislature saw a need for judicial appointments to be based on merit. The commission was charged with recommending three to five candidates that the governor could consider in filling a district court vacancy. This charge was expanded in 1992 to include candidates for the Workers' Compensation Court of Appeals.

While Gov. Carlson did not create this process, he has elevated the commission's role by encouraging it to first identify the needs of the court in which a vacancy has occurred and then to look for candidates who have the skills and experience to meet those needs.

Gov. Carlson has honored the process by basing every one of his 93 appointments to the district court bench on the commission's recommendations. He also has appointed six Supreme Court justices, eight Minnesota Court of Appeals judges, six Workers' Compensation Court of Appeals judges, five Tax Court judges and two Office of Administrative Hearings chief judges.

Governor Carlson has appointed more women to the district court bench than any other governor



Judicial district	1	2	3	4	5	6	7	8	9	10
Total appointees	11	13	5	22	4	7	8	7	8	8
Female appointees	4	3	2	9	0	3	2	1	1	4

Note: Data reflects the total number of appointments for each district through October 14, 1998.

Source: Governor's Office

Gov. Carlson has appointed more women in percentage (31 percent) and in number (29) to the district court bench than any previous governor, and he named Kathleen Blatz to be the first female chief justice of the Supreme Court. He also appointed the first female, Anne Simonett, to be chief judge of the Minnesota Court of Appeals, followed by the first African American, Edward Toussaint, Jr. In addition, he named the first Asian American, Tony Leung, and the only current sitting American Indian, Robert Blaeser, to the district court bench.

Integrating children's services

An intensive focus on children's issues by the executive and legislative branches that began in 1991 and lasted well into Gov. Carlson's second term led to several innovations, the most significant being the creation of a single agency to integrate the delivery of educational and social services to Minnesota's children.

Shortly after his election, Gov. Carlson appointed a commission to study children's issues. The Action for Children Commission, co-chaired by US West executive Ron James and First Lady Susan Carlson, set out to develop a vision of what children's lives should be like in Minnesota and recommend ways the state could achieve that vision.

At the same time, the Legislature created the Legislative Commission on Children, Youth and Their Families to make recommendations on how to ensure and promote the present and future well-being of Minnesota children, youth and their families, including ways to help state and local agencies collaborate to provide better service.

The Action for Children Commission met with hundreds of citizens around the state before it issued its first report in February 1992. The report outlined a long-range plan with six recommendations and 37 strategies to help shape the future Minnesotans wanted for their children and families.

Recognizing the need to bring the various children's service programs together into an integrated delivery system, the commission recommended the creation of a Children's Cabinet made up of the heads of state agencies that had responsibility for children's programs. The cabinet, created by the Governor in 1992 and established statutorily in 1993, was responsible for developing and overseeing children's policy and creating an integrated children's budget for the 1993-1994 biennium.

In the midst of these efforts, The Pew Charitable Trusts invited Minnesota through the Governor's office to compete with other states for a grant of up to $2 million a year over nine years to reform service delivery systems for children. With the help of state agencies, communities and members of the Legislative Commission on Children, Youth and Their Families and the Children's Cabinet, Minnesota Planning developed the application that resulted in the state receiving a planning grant in December 1992.

The Pew Charitable Trusts required that the implementation plan show both legislative and executive branch commitment to systemic change of service delivery systems, so work on the plan became a joint project of the legislative commission and the Children's Cabinet — one of the first cooperative efforts between the legislative and executive branches to address children's issues. The working relationships between legislators and key Carlson administration leaders that developed out of this effort would prove invaluable in creating a children's department.

Both the Action for Children Commission and the Children's Cabinet had found evidence supporting the idea that to help children succeed, many state government services should be integrated. Gov. Carlson agreed and in his 1993 State of the State address proposed creating a single department that could address all the needs of children and offer families easy access to the programs they needed.

The Carlson administration also was interested in encouraging collaboration at the local level by creating "family centers" that would offer one-stop access to programs. At the same time, the legislative commission was proposing family services collaboratives as a way of coordinating funding and service delivery between agencies. The two approaches were combined, and with strong bipartisan support, legislation authorizing the creation of the family services collaboratives was enacted in 1993. In a year when state agency budgets were cut across the board, $8 million was appropriated for grants to family services collaboratives. Gov. Carlson's proposal for a new children's department, however, failed that year and in 1994.

A 1994 change in leadership at The Pew Charitable Trusts led to the cancellation of its Children's Initiative, along with the opportunity for grant money. But the work Minnesota had done in anticipation of this opportunity yielded solid proof of how collaboration and

cooperation at the local level could help children and youth. Numerous examples of success generated new interest in a single children's department to accomplish at the state level what was under way at the local level through the family services collaboratives. Having worked together so well to create the collaboratives, the Children's Cabinet and the legislative commission decided to jointly tackle the challenge of creating a single department for children.

The two bodies agreed on goals, developed a vision and drafted legislation for a single children's department. In 1995 Gov. Carlson proposed replacing the Department of Education with a Department of Children and Education Services. This time, there was bipartisan support, especially in the Senate, and the bill began to move forward.

The journey, however, would be indirect and contentious. The bill was heard and voted on in numerous Senate committees, but it received only one hearing and was not brought to a committee vote in the House because the leadership thought it did not have the momentum to pass. They underestimated, however, the determination of Gov. Carlson and the Senate leadership. Opposition to the bill came from many corners. Some senators feared losing influence over policy decisions for certain programs that were slated to move to the new department; some agency staff voiced concern over what would happen to various programs; and advocacy groups were afraid consolidation would make future cuts in children's programs easier to achieve. A reorganization would bring various programs under one roof, leaving some agencies with fewer resources, and this meant some legislative committees would have fewer dollars to appropriate.

The bill nearly died numerous times as it traveled to a Senate floor vote, but its final drama came on the last day of the 1995 legislative session. Administration supporters of the bill and Senate authors realized that the only hope for keeping the reorganization effort alive was to attach it to a bill that was headed to a conference committee and slated to be resolved in an upcoming special session. At the last moment, Senate authors amended it onto the omnibus education bill. Seeing the strong support for a new department that existed in the Senate and the administration, the House attached a pared-down version of the bill to its omnibus education bill. Encouraged by the Children's Cabinet, Gov. Carlson stood firm for the

Creating a children's department took commitment and tenacity

1991

Gov. Carlson appoints the Action for Children Commission.

Legislature creates the Legislative Commission on Children, Youth and Their Families.

1992

Action for Children releases its report, *Kids Can't Wait*, containing six recommendations and 37 strategies.

Carrying out a strategy of the Action for Children Commission, Gov. Carlson creates the Children's Cabinet.

Minnesota is invited to apply to The Pew Charitable Trusts for funds to improve the service delivery system for children and families. In December 1992, Minnesota becomes one of five states to receive one of the foundation's planning grants. The Pew Charitable Trusts' Children's Initiative becomes a joint project of the Children's Cabinet and the Legislative Commission on Children, Youth and Their Families.

1993

Gov. Carlson proposes the creation of a new state agency, the Department of Children and Education Services. The proposal gets no support in the Legislature.

Bipartisan legislation to create grants for family services collaboratives is introduced.

The Legislature formalizes the membership of the Children's Cabinet, provides funding and assigns to the cabinet the administration of $8 million in family services collaborative grants.

1994

The Pew Charitable Trusts changes leadership and cancels its Children's Initiative. In place of the funding that might have come from that, Minnesota receives $1.5 million for a scaled-back plan to integrate children's services.

Gov. Carlson pushes the idea of a single children's department for a second year, again finding no support in the Legislature.

The Children's Cabinet and the Commission on Children, Youth and Their Families jointly hire a facilitator to help them examine the creation of a single department for children's services.

1995

Gov. Carlson proposes creating a new children's department for a third time, this time with the support of the Legislative Commission on Children, Youth and Their Families and the Children's Cabinet.

Legislation creating the Department of Children, Families & Learning is enacted. The Department of Education is abolished on September 30, and the new department is born on October 1. Selected children's programs in the departments of Human Services, Economic Security, Corrections, and Public Safety, as well as Minnesota Planning transfer to the new department between July 1, 1996, and July 1, 1997.

Senate version, and the Senate did not waiver. Bowing to pressure, the House gave in, and the omnibus education bill, with language creating the Department of Children, Families & Learning, was passed.

On September 30, 1995, the Department of Education was abolished, and on October 1, 1995, the Department of Children, Families & Learning was created. Programs from the Department of Education moved to the new department immediately, while selected children's programs from the departments of Economic Security, Human Services, Corrections and Public Safety, and Minnesota Planning were transferred between July 1, 1996, and July 1, 1997.

The creation of the new agency also resulted in changes at the Legislature, especially in the Senate, which created a single children, families and learning policy committee, with separate budget divisions to address family and early childhood education, kindergarten-through-12th-grade education and postsecondary education. The House maintained an education policy committee but has finance divisions that mirror the budget divisions in the Senate. These changes have resulted in a more centralized and focused legislative approach for dealing with children's issues.

While other states have improved the collaboration between children's programs at the state level, Minnesota was hailed nationally for combining education and key children's programs from other agencies into a single children's department. The abolition of the Department of Education was powerfully symbolic. It signaled that Minnesota was serious about addressing the needs of the whole child and showed that problems can be solved — indeed, need to be solved — by looking for comprehensive, cooperative solutions.

Giving parents choices in their children's education

Gov. Carlson first outlined his vision of school choice in his 1996 State of the State address. Built on the state's policy of open enrollment for public schools and the overall need for more education options for families, his vision was to expand choice for low- and moderate-income families to include private and parochial schools. "With choice, we not only get more freedom, we get more competition. And we want to promote competition between schools," he declared in that address. "The truth is that competition spurs excellence. Competition keeps the focus on outcomes."

The school choice initiative was a key component of the education reforms that Gov. Carlson began when he first took office in 1991. The impetus for these reforms came out of growing evidence that Minnesota's education system was not preparing students for the world of the 21st century and a conviction that education should not be a one-size-fits-all endeavor. Testing of public school students by an independent company in 1996 produced disturbing results. In some urban districts, 53 percent of students performed below a passing score in math, and 60 percent had less than a passing score in reading.

The Carlson administration believed that competition, through school choice, could improve public education by encouraging top performance and compelling districts to focus on student learning and achievement. In June 1997 Minnesota became the first state in the nation to enact statewide school choice. In reporting on this historic reform, the *Wall Street Journal* called Minnesota a "model for the nation," and numerous states have sought Minnesota's guidance on how to achieve this reform of their own systems.

The education reforms of the Carlson administration occurred in several areas, including spending, technology, testing and graduation standards, and charter and lab schools. Total funding per pupil has increased by 38 percent, before inflation, since Gov. Carlson took office, giving Minnesota an annual education budget exceeding $6.7 billion. To prepare students for the future, the state invested $130 million in new computer technology, which will give it the highest ratio of students to computers of any state by the year 2000.

Statewide testing was implemented so student and school performance by school site could be measured. New graduation standards were also put in place to ensure that students have mastered basic skills such as

reading, math and writing by the time they graduate from high school. Scores on eighth-grade basic standards tests have already shown improvement. Overall, 68 percent of eighth-graders passed the reading test in 1998 — the first year testing was mandatory — compared with 59 percent in 1997.

Minnesota created the first charter schools in the nation in 1991, with the first school opening in September 1992. Each charter school offers a unique educational program. Funding to help charter schools pay for building leases and additional funding for school startups was approved during the 1997 legislative session, and the number of charter schools allowed by law was increased. Other changes allowed public and private higher education institutions to sponsor charter schools and public schools to become charter schools with the approval of a majority of their teachers.

Many of these reforms reflect recommendations made by former state Sen. John Brandl and former U.S. Rep. Vin Weber in a report commissioned by Gov. Carlson in 1995. In that report, *An Agenda for Reform: Competition, Community, Concentration*, Brandl and Weber called for education vouchers that could be used by low-income families at private and parochial schools and for independent learning and home schooling. They also recommended removing the cap on the number of charter schools, amending legislation to encourage their development and establishing a mechanism to monitor and report on school performance.

Minnesota's plan for school choice did not come easy. The first school choice proposal, brought forward during the 1996 legislative session, was a voucher plan that received only one vote of support. The plan would have created a pilot project in which low-income families in some communities would receive money from the state to send their children to private schools. Opponents saw the voucher plan as a direct assault on public education funds and as a way for private schools to draw off the best students, leaving the public schools to deal with more challenging children. In addition, concerns were raised over the constitutionality of the voucher proposal, and the plan lacked a broad base of grass-roots support because Minnesotans did not understand how it would benefit them. The effort also taught an important lesson about the power of language: parents and policy-makers were uncomfortable with the term *voucher* and more open to such names as "scholarship program" or "education certificates."

In 1997 Gov. Carlson proposed "Students First," a comprehensive package that paired education reform plans with a proposal for expanded tax deductions and new tax credits for low-income families. The package contained a proposal for a statewide testing program in which every school would test students and publish the results, allowing parents to compare school performance. It also included proposals for site-based management of schools, strengthening opportunities for charter schools to succeed, establishing lab school grants to test the very best educational practices and increasing spending on technology.

The tax deduction and credit plan sought to triple the existing education tax deductions, allowing parents to take up to $3,000 a year off their taxes for qualifying educational expenses. The plan also proposed giving parents earning less than $39,000 a year an educational tax credit of up to $1,000 per child. Those who were schooling their children at home also could receive a credit of up to $1,000. The plan aimed to improve overall student achievement by allowing the deduction or credit to be used for computers and software, educational camps, tutors and educational enrichment programs, in addition to private school tuition.

The shift to a plan for tax deductions and credits was an attempt to overcome the objections and concerns of voucher opponents by allowing parents to choose what educational options would work best for their children. It also had a firm constitutional foundation, since the U.S. Supreme Court in 1983 had upheld a Minnesota statute allowing parents with children in private or public schools to take tax deductions for transportation, books and tuition.

The Democratic-controlled Legislature balked at the proposal. Teachers' unions and school boards flooded legislators with faxes and phone calls, voicing their opposition to the plan. The proposal was attacked as being against public schools and public school teachers. A coalition of proposal supporters called Minnesotans for School Choice countered with its own lobbying effort, joined by a group of 12 leading state business organizations. Also backing the plan were members of minority communities whose support was gained when proposal supporters bypassed the leaders in those communities and went directly to the members to learn their concerns.

While many of the elements in the Governor's Students First proposal moved forward, the plan to expand tax deductions and create tax credits received, at best, lukewarm support from the Legislature. When the final education bill was passed, it contained everything in the Students First proposal, except the deductions and credits. As a result, Gov. Carlson vetoed it, saying that while the bill makes "important steps forward in reforming our education system, [it] does not empower parents and provide needed choice and competition. Therefore,

it does not achieve this administration's fundamental goal of reforming the education system and allowing choices for all Minnesota families."

The Governor's veto began a month-long standoff with the legislative leadership. In May 1997, Minnesotans for School Choice commissioned a survey that found that 65 percent of respondents favored the Governor's proposal to use a tax credit or deduction for tutoring, summer school, home education, home computer equipment or private school tuition. Despite growing public support for the governor's plan, the debate remained intense. The administration still had to overcome the argument that tax credits and deductions would take money out of public schools and thereby weaken them. The Governor argued that choice and accountability would benefit all students and all schools, and that the Students First plan used new money to pay for the tax credits and deductions and did not take money from public school funding.

In the midst of this tension, Rep. LeRoy Koppendrayer, a Republican and staunch supporter of the Governor's school choice efforts, and Rep. Becky Kelso, Democratic chair of the House K-12 Education Finance Committee, were working behind the scenes to forge a compromise. While Kelso did not support the governor's school choice plan, she and Koppendrayer, who had worked together in the past, wanted to see the debate progress. Each acted as a messenger and kept the debate moving, quietly bringing proposals from their respective camps. As the two sides got closer, legislative leaders and the Governor's office held direct negotiations to iron out details.

Progress remained slow, however, and was complicated by the impending shutdown of the Department of Children, Families & Learning and the layoff of hundreds of state employees, along with the potential delay of funding for schools. With the veto, the department's funding would expire on June 30, and school districts could not plan for the coming school year. To force a resolution, Gov. Carlson set June 25 as the date for a special session.

Then, on the evening before the special session was to convene, Gov. Carlson, House Speaker Phil Carruthers and Senate Majority Leader Roger Moe announced a compromise on the school choice issue. Families earning less than $33,500 per year would be eligible for a $1,000 refundable tax credit to be used for various education expenses, except private school tuition. In addition, the education tax deduction was increased from $1,000 to $2,500 for each child in junior or senior high school and to $1,625 for others. The deduction could be used for any purpose, including private school tuition.

Despite vehement opposition from the teachers' unions, the Legislature approved with strong bipartisan support a two-year education package that raised funding for public education by nearly 15 percent, implemented statewide testing and graduation standards, and provided $260 million in new money for tax deductions and credits.

In July 1998 the departments of Children, Families & Learning and Revenue launched a campaign called "Take Credit for Learning" to make families aware of the new tax credits and deductions. In addition, bridge loan programs are being developed to help families avoid the financial hardship of having to pay tuition bills in the fall but wait until the following spring for the tax refund.

Helping all Minnesotans obtain health care

By the time the nation's health care system became a primary campaign issue in the 1992 presidential election, Minnesota's subsidized health insurance program — MinnesotaCare — was already up and running.

Minnesota leaders had been discussing health care reform since the 1980s, and in 1987 Minnesota became the first state to implement an insurance plan for children who are ineligible for Medicaid. The Children's Health Plan, as the program was called, went through changes in the following two years and became the model for the MinnesotaCare legislation of 1992.

Legislation to provide universal access to health care for adults as well as children was first introduced in 1988, but it took four years of study and debate to become law. HealthRight legislation, later renamed the MinnesotaCare Act, was signed by Gov. Carlson in 1992; it provided a comprehensive package of strategies focused on controlling costs and improving quality. The act also created MinnesotaCare, a subsidized health insurance program for Minnesotans who do not have health insurance. There are no health condition barriers, but applicants must meet income and program guidelines to qualify and must pay a premium based on their family size and income.

In 1988, the first universal health care access bill, Healthspan, called for expanding existing programs to provide a more comprehensive and cost-effective benefit

package for all uninsured Minnesotans. The bill got bogged down in side issues and never made it through committees; many legislators also opposed expanding programs at that time.

A second Healthspan bill was put forward in 1989, this time with the support of major health organizations, but it failed to advance in part due to opposition from businesses. The Legislature did, however, form the Minnesota Health Care Access Commission to develop a plan to provide universal access to health care. The commission was composed of 28 members representing consumers, employers, labor unions, health care providers, health plan companies and state agencies.

After 15 months of research into the problem of access to health care in Minnesota, the commission reported in January 1991 that 370,000 Minnesotans were uninsured, 11,000 were refused health care and 50,000 delayed seeking medical care because they had no insurance. The commission recommended sweeping reform measures and called on the state to play a pivotal role in ensuring access to needed health care.

Legislation based in part on the commission's recommendations passed both the House and the Senate in 1991 but was vetoed by Gov. Carlson in a politically unpopular move. Although the Governor supported comprehensive reform of the health care system, he had grave concerns that the bill did not provide a stable funding mechanism and would place Minnesota's taxpayers at long-term financial risk. The financing plan for the 1991 bill was a new 5-cent-a-pack tax on cigarettes that would take effect July 1, 1992, and a 2 percent tax on medical receipts that would be levied on hospitals beginning January 1, 1993, and on other medical providers a year later. Since the state was in the midst of dealing with a $1.8 billion budget deficit over the coming two-year cycle, Gov. Carlson felt compelled to veto the bill.

After the veto, Gov. Carlson took a more active role through the Department of Health and senior staff in his office to come up with a workable plan for Minnesota. In his view, health care reform legislation had to address three key issues: access to affordable quality health care, the control of skyrocketing health care costs and the development of a funding mechanism that would keep the state free of huge fiscal burdens in the future.

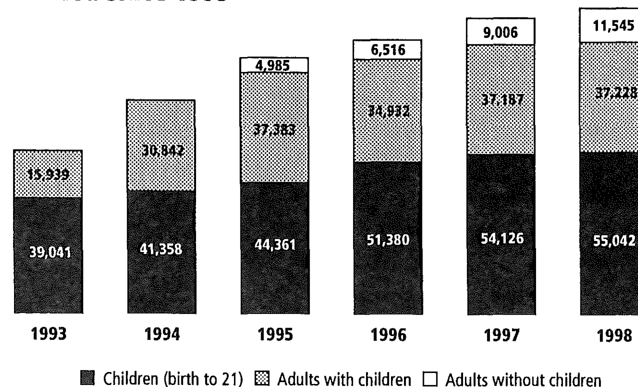
In November 1991, the Carlson administration, led by the Department of Health, unveiled its health care reform proposal — called the HEART plan, for "Healthcare Efficiency and Reform Today" — which outlined what the Governor required from health care legislation and provided a starting point for negotiations.

Also that fall, Dave Gruenes, a Republican representative, approached a House colleague, Paul Ogren, a Democrat, to seek ways to bridge the differences in the debate over health care reform. The two men brought together five other legislators who wanted comprehensive health care reform — Republicans Sen. Duane Benson and Rep. Brad Stanius and Democrats Sen. Linda Berglin, Sen. Pat Piper and Rep. Lee Greenfield. This group, which became known as the Gang of Seven, began working to create a reform bill that would be acceptable to the Legislature and Gov. Carlson.

Early negotiations among the Gang of Seven took place without the involvement of the Carlson administration, though proceedings were followed by Health Department staff. According to Sen. Linda Berglin, the group's early efforts focused on developing a common base of understanding and then shifted to searching for ways to bridge the gaps in how to approach the problems. From all accounts, this was a thoughtful and deliberative process away from the heat of legislative committees.

The financing plan for the 1992 bill included a short-term cigarette tax, enrollees' premiums and health care provider taxes. The latter included a 2 percent tax on gross patient revenues of hospitals and surgical centers beginning in 1993 and was expanded in 1994 to the gross revenues of licensed health care providers. In 1996, a 1 percent gross premium tax on nonprofit health maintenance organizations and health service companies was added and later repealed. Legislation in 1997 cut the 2 percent MinnesotaCare tax to 1.5 percent for the 1997-1998 budget cycle, although this tax will return to 2

Annual enrollment in MinnesotaCare has nearly doubled since 1993



Notes: Data reflects annual enrollment for fiscal years ending June 30 from 1993 through 1998. Adults without children were not eligible for MinnesotaCare until 1995.

Source: Department of Human Services

percent on January 1, 1999. In addition, beginning fiscal year 1996, Minnesota won approval for Medicaid funding for payments it makes for children and pregnant women enrolled in MinnesotaCare. This federal contribution covered about 55 percent of MinnesotaCare's enrollees in July 1996.

When the Gang of Seven's bill was drafted and introduced, it faced tight committee deadlines. To prevent possible snags from dooming the whole bill, the group divided the bill into small, categorical sections that could be steered through the various committees and reassembled in higher-level policy committees. While this process kept legislative committees focused on specific sections of the bill, lobbyists complained that the strategy was unfair. Supporters of the process, however, countered that too many special-interest groups were involved for the bill to be written in legislative committees. Drafting the bill in closed-door meetings allowed legislators to try out ideas and ask questions, they maintained, and the Gang of Seven meetings provided an atmosphere of cooperation and collaboration that is rarely found in legislative committees.

The Gang of Seven continued to meet regularly once the HealthRight bill, as it was called, was introduced and began traveling through committees. This allowed for regular checkups on the progress of the bill and a chance to troubleshoot problems and efforts to defeat the bill. The Legislature passed the HealthRight legislation, later renamed MinnesotaCare, in April 1992, and Gov. Carlson signed it shortly after.

MinnesotaCare has proven to be an important tool for moving Minnesotans to self-sufficiency. Welfare caseloads declined as a result of this law, according to a 1996 study by the Minnesota Department of Human Services. The study found that 4,600 fewer families were on welfare than would have been had MinnesotaCare not been in operation, resulting in net savings of $2.5 million per month, after subtracting the monthly MinnesotaCare subsidies for these families.

In addition, Minnesota's rates of uninsured individuals have remained steady over the past several years, while national rates have climbed. In 1996 Minnesota ranked fourth nationally in the overall number of insured residents. Today, more than 100,000 people receive their insurance coverage through MinnesotaCare.

Minnesota pioneers in providing universal access to health care

1987

Minnesota Legislature creates the Children's Health Plan to provide health care to pregnant women and children under the age of 6 who meet certain eligibility requirements.

1988

Spurred by changes at the national level, the Legislature changes Children's Health Plan eligibility to exclude pregnant women and infants under age 1 (now covered by Medicaid) and include children age 1 through 8.

Minnesota's first universal health care access bill, Healthspan, is introduced but fails to pass.

1989

Children's Health Plan is again revised to expand eligibility to include children between the ages of 1 and 18 and alter service coverage. As a result of this expansion, enrollment grows to more than 29,000 by the end of 1991.

Healthspan again introduced and again fails to gain approval of legislators. The Minnesota Health Care Access Commission is formed to recommend to the Legislature a plan to provide access to health care for all Minnesotans.

1991

Based in part on the recommendations of the Minnesota Health Care Access Commission, Minnesota's third health care access bill, House File 2, passes but is vetoed by Gov. Carlson because it lacks cost-control provisions and an adequate funding source.

1992

"Gang of Seven" legislators work with Carlson administration to craft a health care reform plan, called HealthRight and later renamed MinnesotaCare, that includes a subsidized health care program for uninsured Minnesotans. The bill is passed and signed into law.

Health care access is a hot-button issue in the presidential election.

1993 – 1995

Various amendments to MinnesotaCare are enacted, and the program is expanded to include adults without children.

1995 – 1996

Minnesota gets approval for federal Medicaid funding for pregnant women and children enrolled in MinnesotaCare.

Preventing the tragedy of fetal alcohol syndrome

Minnesota took significant strides in 1998 to address the preventable tragedy of fetal alcohol syndrome, becoming one of only a few states to approach this problem comprehensively. This was the result of efforts spearheaded by First Lady Susan Carlson. Her concern for children affected by prenatal exposure to alcohol stemmed from her work as a Hennepin County juvenile court referee, where she witnessed the devastation caused by drinking by pregnant women.

Fetal alcohol syndrome and fetal alcohol effects — a condition that includes some but not all of the characteristics of the syndrome — can occur when pregnant women drink alcohol. Fetal alcohol syndrome is characterized by abnormal facial features, slow growth and permanent brain damage; its traits include poor impulse control and social skills, and problems with memory, attention or judgment. Children do not outgrow fetal alcohol syndrome or effects. They often have trouble communicating and getting along with others, and fail to consider the consequences of their actions. Many have problems that make it difficult for them to function independently as maturing teens and adults.

While the prevalence of fetal alcohol syndrome and effects has only been estimated, the annual costs of providing health care and support services for Minnesotans who suffer prenatal alcohol exposure is believed to run into the millions of dollars.

Susan Carlson sought to raise public awareness of this problem and to obtain legislative funding for programs designed to prevent fetal alcohol syndrome. Gov. Carlson was a staunch supporter, making an impassioned plea in his final State of the State address for funding a comprehensive initiative. "The tragedy is that it's all preventable," he said. "The bottom line is this: pregnant women cannot drink alcohol."

In 1997, Susan Carlson led an effort that resulted in a legislative appropriation of $1.25 million to provide transitional chemical dependency services for pregnant women and to educate medical professionals on how to conduct alcohol screening and referrals for pregnant women and identify affected children so they could get appropriate services. An additional $500,000 was earmarked for a public awareness campaign. While this was a step in the right direction, it did not go far enough in Mrs. Carlson's eyes.

In July of that year, Gov. Carlson created the Task Force on Fetal Alcohol Syndrome to recommend a comprehensive approach to preventing and reducing the harm from prenatal alcohol exposure. Co-chaired by Susan Carlson and Hennepin County Juvenile Court Judge Joan Ericksen Lancaster and initially staffed by the Department of Health with assistance later from Minnesota Planning, the task force was made up of state agency commissioners, legislators, community advocates, health care professionals, judges and lawyers, family members of affected individuals, media representatives and an alcohol industry representative.

In hearings around the state, the task force learned, among other things, that Minnesota lacks adequate data on the breadth and severity of the problem, key professionals have too little knowledge of fetal alcohol syndrome and effects, and poor coordination of programs hampers prevention, diagnosis and services.

The task force detailed nine findings and 62 recommendations in a report to the governor in January 1998 called *Suffer the Children: The Preventable Tragedy of Fetal Alcohol Syndrome.* These recommendations became the basis for proposed legislation.

Focusing on prevention and intervention strategies, the executive committee of the task force decided to push for a controversial recommendation to expand the Civil Commitment Act and mandatory reporting provisions to require medical and other professionals who suspect alcohol abuse by a pregnant woman to refer her for chemical screening and assessment. Under the proposed change, a positive test showing alcohol use and a failure to follow a physician's recommendations to cease using alcohol would result in an emergency commitment to a treatment program. Minnesota already had a law on the books that required pregnant women who were using illicit drugs to be committed to a treatment program.

Expanding the Civil Commitment Act was certain to encounter stiff opposition, so the executive committee decided to have the legislation introduced in two pieces, one containing commitment expansion and the other a request for $5 million to fund various programs.

The proposed changes were opposed by medical professionals and women's groups out of fear that they would keep pregnant women from seeking critical prenatal care. Advocates of these changes argued that something had to be done to prevent the potential for irreversible damage to the unborn children of women who continued to use alcohol during pregnancy. In the first hearing in the House Judiciary Committee, a compromise was crafted: changes in the Civil Commitment Act were dropped and the mandatory reporting requirement became a voluntary one,

allowing health care and other professionals to refer for further testing and possible treatment women who they believed were at risk of doing lasting harm to their child. With this compromise, the legislation moved forward and passage seemed imminent.

On the floor of the Senate, however, an attempt was made to amend the bill with a ban on partial-birth abortions. This led to a week-long delay until the amendment was withdrawn. The bill to include voluntary reporting of alcohol abuse during pregnancy passed unanimously, and Gov. Carlson signed it on April 6, 1998.

The second piece of legislation — the $5 million appropriation — also got snagged in the abortion debate. The same amendment banning partial-birth abortions that had been defeated in the Senate was backed by a majority of House members in that chamber's version of the health and human services appropriation bill, which contained the funding for fetal alcohol syndrome programs. With the Senate and House at odds over this appropriations bill, the fetal alcohol syndrome appropriation seemed doomed. To get around this, the funding measure was attached to the education supplemental appropriation bill with a rare clause that would void the appropriation if the money also were included in the health and human services supplemental appropriation bill. As it happened, the health and humans services bill made it through conference committee with the $5 million appropriation for fetal alcohol syndrome programs intact and was signed by Gov. Carlson.

The $5 million will be used for a variety of purposes, including:

- Funding a statewide public awareness campaign
- Studying the prevalence and incidence of fetal alcohol syndrome and effects
- Expanding maternal-child substance abuse projects
- Providing intervention and advocacy programs for at-risk and chemically dependant women
- Creating a statewide network of regional diagnostic clinics
- Developing professional training about fetal alcohol syndrome and effects

The legislation also created a fetal alcohol syndrome coordinating board, made up of representatives from the public and private sectors. Unique to Minnesota, the board will help ensure an integrated, comprehensive and statewide approach to preventing fetal alcohol syndrome and effects and to providing services for those affected.

The legislative victory was largely due to an expanded coalition that included advocates, legislators, commissioners, the First Lady and Gov. Carlson. This strategy of bringing together a broad range of interest groups and participants to work cooperatively for a common goal was used often by the Carlson administration.

Moving Minnesotans from welfare to work

Gov. Carlson has long supported efforts to help families move out of poverty and to reduce dependence on welfare. This vision, developed into a plan over many years by the Department of Human Services and other state agency staff, was the foundation for welfare reform legislation crafted by a bipartisan group of legislators and signed into law by Gov. Carlson in 1997.

The sweeping 1996 federal reform of welfare led Minnesota and other states to make historic changes in their assistance programs. In revamping the nation's 60-year-old system, Congress declared that welfare will be a program of temporary assistance, not a lifetime entitlement, except for families with serious hardships.

Minnesota was well positioned to act on the federal changes. It had begun planning a new model for welfare 10 years earlier, after the Legislature had threatened to cut welfare benefits that were the fifth highest in the nation. A bipartisan commission on welfare reform was created to debate benefit levels, but the group of county officials, nonprofit providers and advocates for the poor undertook a broader task and studied the Aid to Families with Dependent Children welfare program and identified ways to improve how government responds to families in crisis. The commission's key findings were instrumental in shaping the objectives for restructuring welfare in Minnesota. It recommended shifting the focus of AFDC from an income maintenance program to a transitional program to help long-term recipients move toward self-sufficiency.

In 1987 the newly created Office of Jobs Policy was assigned the task of implementing the commission's recommendations, and under its leadership an inter-agency team examined how Minnesota would reform welfare if there were no federal restrictions. The group developed an initial plan that evolved into the Minnesota Family Investment Program. The Legislature authorized the program in 1989, and Congress passed legislation allowing Minnesota to test it.

In January 1991, despite budget worries, the Carlson administration made the Minnesota Family Investment Program a priority and supported efforts to fund pilot projects in seven counties. Gov. Carlson saw the pilots as an important early step that could lead to long-term, comprehensive reform of the state's welfare system. Eighteen months after the pilot projects began in 1994, 52 percent of long-term urban participants were working, an increase of almost 40 percent over the control group, who were receiving traditional AFDC payments.

In this trial program, assistance was fundamentally redefined. Recipients did not lose financial help once they got a job. Families continued to receive a state grant until their income reached 137 percent of the federal poverty level. In addition, the state increased funding for subsidized child care and created access to health care through the MinnesotaCare program so that families no longer eligible for welfare assistance still had support for maintaining their independence.

The Carlson administration continued to work to advance and enact the ideals of the Minnesota Family Investment Program until the program finally became the model for statewide welfare reform in 1997.

Federal welfare reform legislation passed in August 1996 was to take effect in January 1998, leaving little time for legislators, administrators and advocates to understand and study the mandated changes and craft a plan for Minnesota. Fortunately, Minnesota already had a successful model in place — the Minnesota Family Investment Program pilot projects — that could be the foundation for comprehensive reform.

To help the state craft a welfare reform plan, Minnesota Planning worked to educate legislators and bring constituents together to discuss Minnesota's options. It issued a report, *Work in Progress: Federal Welfare Reform in Minnesota*, in January 1997 that focused on the potential impact of the federal law's work requirements and the implications for Minnesota's children and immigrants.

The report brought together the information a broad audience needed to understand the implications of this reform for welfare recipients, institutions, organizations and the state as a whole. It tackled the jargon and mechanics of welfare reform to explain the ramifications of the changes, the reasons the changes were made and their anticipated effects.

As part of its *Work in Progress* effort, Minnesota Planning co-sponsored with the Minnesota Legislature a conference on welfare reform aimed at creating a broad awareness of the choices available for reforming the state's welfare program. Legislative leaders canceled all floor sessions and committee hearings for the day of the conference and encouraged legislators to attend. At the conference, legislators, advocates, government agency staff and welfare recipients together discussed the pending changes.

While the conference helped highlight the issues facing the state and generate ideas, the detailed work of designing Minnesota's reform plan remained to be done. Policy-makers had to examine the lessons from the Minnesota Family Investment Program pilot projects and determine how to include elements of that program into a comprehensive, affordable reform plan that would meet all the federal requirements.

At the invitation of Gov. Carlson, Senate and House leaders were asked to send a small group of key legislators to meet with agency commissioners in closed-door sessions away from the Capitol to discuss options for welfare reform and draft a bill. This task force was loosely modeled after the bipartisan Gang of Seven that crafted the MinnesotaCare legislation. Unlike that effort, however, the Carlson administration from the start participated actively in the welfare reform negotiations.

The administration through the Department of Human Services also provided a starting point for welfare reform discussions — a statewide expansion of the Minnesota Family Investment Program. In these meetings, legislators were able to examine and discuss each issue thoroughly, along with related technical and policy issues. State agency staff helped them crunch numbers for various policy options.

The task force's work generated some controversy. Opponents of the welfare reform effort accused the task force of violating Minnesota's open meeting law and crafting state policy without public input. After the protestors came to a task force meeting to complain about the process, the task force opened the meeting to them and then completed its work in legislative committees.

It was not the intent of the Legislature or the Carlson administration to bypass the public legislative committee process. Working under a tight federal deadline for a state plan, the task force wanted to have broad agreement on the elements of a welfare reform bill before sending it through the committee process. The Department of Human Services had sought broad community and local government support in developing the initial Minnesota Family Investment Program pilot projects and the proposed statewide plan modeled on the program. In addition, legislators held daily hearings on welfare reform while they crafted the reform plan.

The bill was passed by the Legislature and signed by Gov. Carlson on April 30, 1997. The statewide Minnesota Family Investment Program, which took effect January 1, 1998, transformed the state's welfare system into one that expects, supports and rewards work. Participants are expected to work to support their children, while the state helps with quick job placement, child and health care, and an income supplement. Families leave the program when their income is 120 percent above the poverty level. There also is a five-year lifetime limit on receiving assistance.

The success of the Minnesota Family Investment Program pilot projects in moving people off welfare and into jobs was bolstered by other programs and policies. This same success is expected under the statewide welfare reform plan adopted in 1997. Early data shows that the number of families enrolled in public assistance has fallen from an average of 64,000 in 1994 to 49,000 in April 1998, a decrease of 23 percent.

In addition, the state's strong child care subsidy program helps welfare recipients go to work and working parents remain independent, and its low-cost health insurance program, MinnesotaCare, helps people get off and avoid welfare. The state's national leadership in child support collection measures, which were in place before the federal reforms, have been augmented by new tools, including a law under which the state can suspend the driver's license of a parent who owes child support. Minnesota counties collected a record $396 million in child support payments in fiscal year 1998.

Making the workers' compensation system fair and affordable

From the beginning, the Carlson administration promoted efforts to make the state's workers' compensation system a fair system, competitive with those of neighboring states and affordable to businesses. Gov. Carlson viewed the workers' compensation system of the early 1990s as a barrier to the creation of jobs and a successful economic future. He vowed in his first State of the State address to work for worker's compensation reforms that had passed in prior sessions only to be vetoed.

The need for meaningful workers' compensation reform was made more urgent by anecdotal evidence that the state was losing some of its more mobile industries, such as trucking, in part because of the costs of workers' compensation. In addition, firms located near Minnesota's borders complained about the high cost of doing business in Minnesota, particularly workers' compensation insurance rates, and the competitive disadvantage they had in bidding for jobs against businesses from neighboring states.

The 1992 Legislature enacted a reform bill that provided permanent savings by implementing systems that helped cut workers' compensation medical and rehabilitation costs. The reforms included using state-certified managed care organizations, treatment parameters and a medical fee schedule based on the Medicare fee schedule. Both business and labor supported these changes.

The Carlson administration continued to push for additional changes. Minnesota's benefit costs remained high, especially compared to Wisconsin's. Businesses continued to leave the state, citing high workers' compensation costs or taxes as the most significant factor in their decision to move.

In 1995, fresh from his re-election, Gov. Carlson moved aggressively for reform. In his State of the State address that year, he declared, "I want Minnesota to enact meaningful reform that addresses the major cost drivers in the system. Let's vow not to lose one more employer to high workers' compensation costs."

The Carlson administration, through the Department of Labor and Industry and with support from key Democratic and Republican legislators, proposed legislation to

change the system by reducing litigation, requiring more oversight of insurance rates, controlling the cost of benefits and increasing compliance provisions for insurers and employers.

The unions were split over the bill. The Teamsters, which had endorsed the Governor in his re-election bid, came to support the proposal near the end of the session, while the Minnesota AFL-CIO opposed it. Trial lawyers also objected to it.

With Republicans in the minority in both the House and Senate, the administration had to work hard to make sure the votes were in place in committees and on the floor. To do this, it used three specific strategies:

- **Establish goals and principles.** Gov. Carlson set out goals and principles that legislation would have to reflect if he were to sign it. These expectations formed the basis for all the administration's efforts with legislators and lobbyists to pass a bill.
- **Build a bipartisan coalition.** Staff from the Department of Labor and Industry and the Governor's legislative relations office regularly held one-on-one conversations with legislators to build a bipartisan coalition in support of the bill. Staff also developed briefing books to help legislators debate issues during committee and floor sessions.
- **Enlist the help of business lobbyists.** Staff also developed and met regularly with a coalition of business lobbyists. This spread the lobbying effort out among a large group of people and kept efforts focused on passing a bill the governor would approve.

Despite these efforts, passage of the bill was not certain. Authors managed to get a bill through the committees, but it was not one the governor wanted to sign. When finally called to the floor, the committee bill was amended to reflect the Governor's desires. No advance copies of the amendments had been available for review, which led to criticism of the administration. To combat this charge of secrecy, the administration held open meetings on the provisions included in the bill that had been passed by the House until the Senate was ready to consider it.

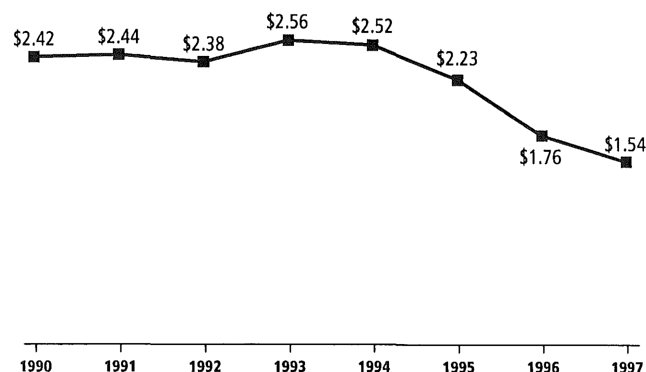
The outcome in the Senate, which had a larger Democratic majority than the House, was uncertain because the administration needed the support of at least 10 Democrats. Despite hard lobbying against it by labor and trial lawyers, the bill passed with only minor amendments.

Along with reforms affecting litigation, insurance rates, benefit levels and compliance, the legislation provided safety incentives for employers and focused on getting injured workers back to work more quickly. The safety incentives have reduced workplace accidents and significantly lowered workers' compensation costs. The 1992 and 1995 reforms have resulted in total systems savings of $360 million since 1994. Preliminary 1997 data suggests that estimated total systems costs have dropped 26 percent, to slightly more than $1 billion, since 1994.

Evidence also exists that the reforms of 1992 and 1995 have helped to improve Minnesota's business climate. The Department of Trade and Economic Development reported that among businesses moving out of the state, the percent citing high workers' compensation costs as the most significant reasons for their move decreased in recent years. In addition, an annual *Twin Cities Business Monthly* survey showed the percent of business executives citing federal and state business regulations as the most important issue facing companies in the Twin Cities fell from 26 percent in 1995 to 10 percent in 1997.

Besides accomplishing reforms that give Minnesota a more favorable business climate, the Carlson administration learned how to build cross-sector, bipartisan coalitions for effecting change. This knowledge proved invaluable in Gov. Carlson's final term as he pushed for changes in public education and the property tax system.

Cost of workers' compensation insurance per $100 of covered payroll has dropped



Note: Data for 1996 and 1997 is preliminary.
Source: Department of Labor and Industry

Tackling taxes to improve Minnesota's business environment

Throughout his term in office, Gov. Carlson regularly promoted increasing jobs and improving the quality of life. Reforming Minnesota's overall tax policy and returning money to taxpayers were important underlying strategies for accomplishing these two goals.

The Carlson administration through the Department of Revenue pushed for reform of the state's property tax classification rate structure and the elimination of the tax on new and replacement capital equipment for production industries. Both actions will continue to significantly affect Minnesota businesses.

Tax cuts expected to total nearly $2.8 billion from 1991 through 2001 have come from property tax rebates, education tax credits and deductions, the working family credit, reductions in the capital equipment replacement tax and levies on miscellaneous small business expenses.

For Gov. Carlson, property tax reform was fundamental to making the state's system more fair and equitable. In 1991 his administration proposed a comprehensive plan to lower the tax burden on businesses and rental properties. At the time, Minnesota ranked first among all states in commercial property taxes and second in property taxes on apartments. The heavy tax burdens on businesses undermined Minnesota's competitiveness, and those on rental residential properties adversely affected the state's quantity and quality of affordable rental housing.

The administration proposed but received little support for increasing taxes on lower-priced homes while lowering them on rental and business properties. The defeat of this reform effort in 1991 showed the way to success in 1997 and 1998.

The primary obstacle to property tax reform was political: legislators on both sides of the political fence did not want to be responsible for raising the property taxes of their constituents, and any change that cut taxes on business and rental properties would boost them for homeowners and meet with intense resistance.

Having learned from the 1995 workers' compensation reform effort that a strong coalition of supporters could help convince legislators of the need for change, the Carlson administration put together such a group of supporters of property tax reform. With Minnesota having a projected surplus of nearly $800 million in November 1996, many groups felt the time was right to again seek property tax reform. The Department of Revenue began sifting through the numerous legislative, business and local government plans on the table and pulled out what it viewed as the strongest piece of each proposal. These pieces were then combined into a single property tax reform plan. By taking the best each plan had to offer, the administration had a built-in network of lobbyists who could advocate for the bill.

The primary objectives of the property tax policies adopted in 1997 and 1998 were to begin reforming the property classification system and reduce the state's reliance on the property tax in funding public education. The reform plan, passed over a two-year period, shifted the structural tax burden from businesses and rental properties to homeowners. To protect homeowners from these initial tax shifts, the Education Homestead Credit was implemented to give back to homeowners between 1998 and 2000 a portion of their taxes used for public education. The state's share of funding for public education will increase to nearly 70 percent in the year 2000, up from about 60 percent in the mid-1980s. This increase in state funding will lower the demand on local property taxes to pay for public education.

The reforms are expected to reduce property taxes by $510 million, or more than 10 percent. The largest reductions occurred for rental residential properties of one to three units, where taxes are estimated to be reduced by $54 million, or 29 percent. The two-year tax reduction for apartments of four or more units is expected to total $35 million, a cut of almost 15 percent. Business property tax cuts are estimated to total $168 million, or nearly 11 percent, and homestead tax relief is estimated at $186 million, or more than 9 percent.

Recent estimates also indicate that as a result of these new policies, the property tax will no longer be the most significant source of state and local tax revenue. Current revenue projections show that by fiscal year 2001, the property tax will generate about 26 percent of total state and local tax revenues and the individual income tax, 32 percent. This is significant because a tax on income is more progressive and fair than one on property.

To improve the state's competitiveness and enhance investment incentives for production industries, Gov. Carlson supported the elimination of the sales tax on machinery and equipment. With capital increasingly mobile in a global economy, Minnesota risked becoming a less attractive place for business investment. Most other states have reduced or eliminated this tax.

All sales of capital equipment were taxable at one rate in Minnesota until 1984, when a 2 percent refund was enacted for machinery and equipment used directly in making a product at a new or expanded facility; sales of replacement equipment remained fully taxable. Capital equipment purchased and installed for a business by a construction contractor did not qualify, a restriction that limited the reduction's effectiveness. This 2 percent refund was expanded to a full refund in 1989, but none of the other definitions or exclusions was changed.

Fiscal concerns were the main obstacle to further reform of this tax. Although many legislators understood the need for broader action, there was a reluctance to accept the revenue loss that would come with expanding the capital equipment refund program. Changes began to be made incrementally in the early 1990s, however.

The Department of Revenue in 1992 began allowing the sales tax exemption for capital equipment to be used for research and development of products, and in 1993 the Legislature amended the law to exempt new and replacement equipment used in taconite mining and production and new equipment used in providing computerized online data retrieval services, such as Westlaw and Lexis.

The next year, the Legislature established a Capital Equipment Advisory Council composed of six legislators, the commissioner of Revenue and eight members of the public to evaluate the capital equipment program and recommend modifications of the exemption. Several of its recommendations were adopted by the 1994 Legislature, including:

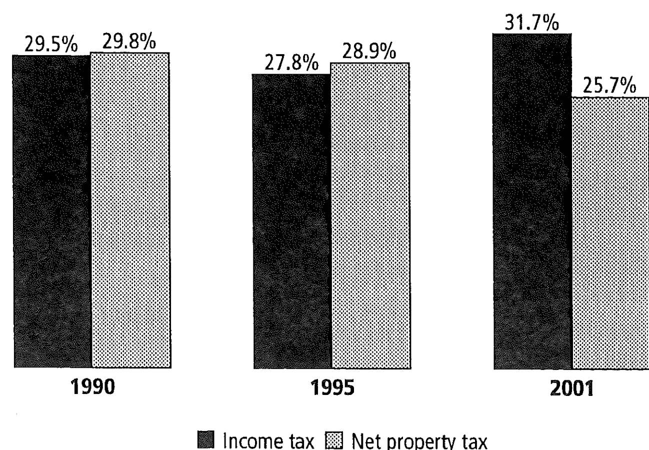
- More precise definitions of such terms as *equipment* and *manufacturing*
- Adoption of an "integrated production process" standard for capital equipment. Under this standard, machinery and equipment used or required to operate, control, or regulate the actual production equipment also qualify for the exemption. This change broadened the tax relief given in Minnesota compared to many states that give sales tax breaks only to capital equipment that directly affects the product.
- A new sales tax benefit for replacement capital equipment. Besides machinery, replacement equipment was defined to include repair and replacement parts and accessories, certain kinds of software, foundation materials that support machinery and equipment, and special-purpose buildings used in the production process.
- The Legislature rejected the council's recommendation of a complete exemption but did reduce the tax on replacement equipment in phases until a 2 percent rate would be reached in fiscal year 1999.

A 1997 law change eliminated the 2 percent minimum rate for replacement equipment. As of July 1, 1998, both new and replacement capital equipment for production industries are fully exempt. Reduction of the tax on replacement capital equipment put $10.3 million in the hands of Minnesota employers in 1996 and 1997. Regular capital equipment refunds totaled $152 million in those two years.

The Carlson administration has made other administrative reforms since 1994, including allowing a business to have its construction contractor act as a purchasing agent when the contractor purchases and installs capital equipment. In this situation, the business may apply for a refund in the same way as if it had acquired the equipment directly. Within the limits of the law, the Department of Revenue takes a liberal view about the activities and machinery that qualify for the exemption.

Reforming the tax system in Minnesota has led to a friendlier environment in the state for business. While the state's specific tax-burden rankings will not be known for several years, the tax reforms made during the Carlson administration likely will go far to improving the competitiveness of Minnesota companies in a global economy.

Income tax is expected to replace property tax as the largest single source of state revenue



Note: Data for 2001 is estimated.
Source: Department of Revenue

Enhancing the arts, recreation and the environment

Maintaining the state's vibrant communities has been a priority of Gov. Carlson, and his efforts have been far-reaching. In 1997 the Governor proposed an arts initiative that resulted in $12 million to help nonprofit arts organizations provide cultural resources to all Minnesotans. The arts initiative will expand opportunities for all Minnesotans to enjoy the arts first-hand. The funding will:

- Enable arts groups to increase their touring activities outside the Twin Cities area, allowing people in rural Minnesota to experience the performing arts resources of the metropolitan area
- Help communities create their own arts festivals to celebrate and strengthen their cultural identity
- Boost Minnesota State Arts Board grant programs for connecting arts institutions and artists with school children
- Support 11 regional arts councils, which assist community and small arts organizations throughout Minnesota

In addition to his arts initiative, Gov. Carlson has worked to improve recreational opportunities for Minnesotans and to clean up the environment. In 1992 he vowed to make the state's polluted Minnesota River fishable and swimmable within 10 years. Since then, phosphorous and sediment levels have declined, and in 1998 the Minnesota River was removed from a list of the 20 U.S. rivers "most endangered" by pollution. Also in 1998 Carlson proposed and signed a $141 million "Access to the Outdoors" legislative package — the largest, most comprehensive environmental initiative in state history. The funding will:

- Provide for improvements to all state parks, including new visitor/interpretive centers at Itasca, Forestville and Mille Lacs Kathio state parks
- Create 70 miles of new trails and improve access to waterways with new boat launch sites, fishing piers and shoreline fishing areas
- Provide for flood control and mitigation projects and helps to bridge the gap in federal funding. Minnesota cities ravaged by the floods of 1997 will receive grant assistance to reduce future flood damage.
- Result in the acquisition of vital wildlife, fish and native plant habitats through the Reinvest in Minnesota Critical Habitat Match program

Gov. Carlson's strong support for the environment has earned him awards from the National Audubon Society and the North American Waterfowl Management Plan.

One of Gov. Carlson's greatest environmental achievements was the passage of the Wetland Conservation Act. A severe drought in 1988 raised public awareness of a dangerous decline in the state's wetlands. These lands cleanse water before it re-enters the surface and ground water supply, serve to help control climate fluctuations of wet and dry weather, and provide important habitat for fish and wildlife. By some estimates, 60 percent of Minnesota's wetlands were lost to development and agriculture between 1950 and 1980.

Recognizing that Minnesotans need to act as stewards of the land for future generations, Gov. Carlson made the passage of a no-net-loss wetlands bill his top environmental priority when he took office in January 1991. "No net loss" meant that any loss of wetland acres had to be made up for with at least an equal number of new or restored acres.

The original wetlands proposal came from an advisory group of representatives of farm, environmental, hunting and fishing, and conservation groups, as well as state agencies, that was convened by the Department of Natural Resources in 1988. Attempts were made in 1989 and 1990 to enact this legislation, but they were unsuccessful. This changed under Gov. Carlson's leadership, when state agencies that had held differing views on the no-net-loss issue united to back the legislation.

The goal of the legislation was not only to halt the loss of wetlands but also to accelerate restoration for a net gain in the state's wetlands resources. Passage was not easy. Some farm groups worried that attempts to restore wetlands would take critical farmland out of production, and developers feared that land ripe for development would become untouchable. Local officials and environmentalists were concerned about who would implement the program. Local officials wanted the power to make decisions, but environmentalists, uncertain of the ability and willingness of local governments to carry out the act, preferred implementation at the state level.

Resolving these questions and differences took the full 1991 legislative session, with the final compromise bill passing on the last day.

The Minnesota Wetland Conservation Act signed by Gov. Carlson on June 4, 1991, contained a no-net-loss policy, provided for mitigation of drained or filled wetlands, gave administrative authority to local units of government, authorized the Minnesota Board of Water and Soil Resources to adopt administrative rules and appropriated funds for tax incentives to maintain wetlands.

Almost immediately after the law's passage, opponents began suggesting changes. Both the executive and legislative branches wanted to give the new law time to work before making significant alterations, although some fine-tuning was done between 1991 and 1995. Legislation was passed in 1993 that allowed counties or watersheds that still had 80 percent or more of their wetlands that existed before the area was settled to replace drained or filled wetlands on a one-to-one-acre basis. It also exempted from wetland replacement requirements projects involving up to 400 square feet of wetlands. In 1994 legislation was passed giving local governments some flexibility in adopting a comprehensive wetland management plan and allowing the upgrading of roadways to current construction and safety standards as long as less than one-half acre of wetlands was affected and the impacts were minimized.

An attempt to make more significant changes came in 1995. The Board of Water and Soil Resources, the state agency with oversight of the act, identified six issues that needed attention:

- Regulations on exempt projects
- Balance between state oversight and local control
- Repair and rehabilitation of existing roads
- Drainage ditch repair exemptions
- Streamlining the administrative process
- Compensation and incentives for landowners

The House and Senate each passed bills to address these issues. Late in the 1995 session, the conference committee reached an agreement that the House passed but the Senate rejected.

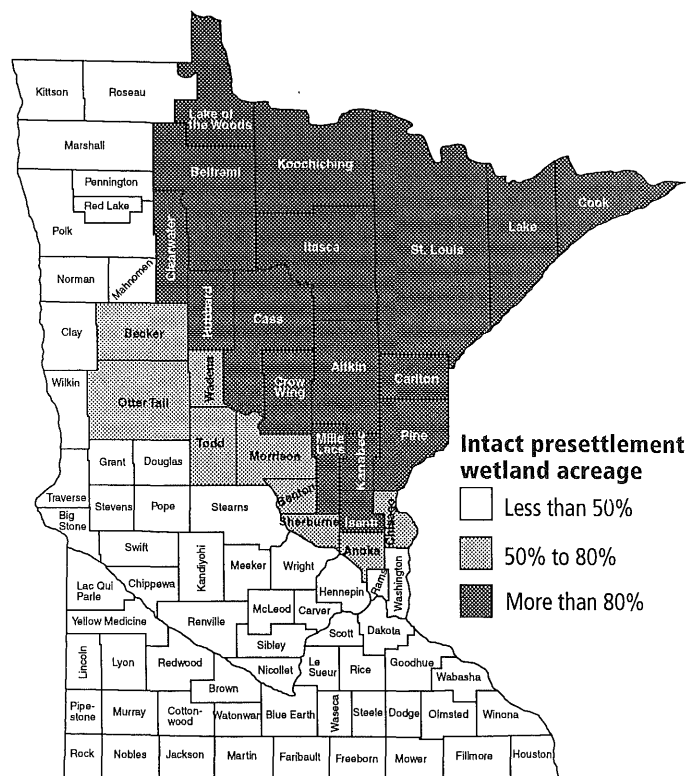
A split vote on the conference committee report left the conference committee open to resume its work at the start of the 1996 session. Gov. Carlson wanted a resolution of the remaining issues, but reaching that was uncertain. In early January 1996, the Governor invited interested groups, legislators and state agency staff to a Wetlands Roundtable in St. Cloud to seek a consensus out of which legislation could be shaped. A member of the Governor's staff also attended to help promote a compromise. The group succeeded in reaching consensus on several of the unresolved issues.

Legislative leadership also sought to bridge the differences. To that end, the Senate replaced two members of the conference committee. When the newly structured conference committee reconvened in 1996, its first act was to adopt as a working draft the agreements that had been reached in the interim. Once the committee reached a final agreement, the Legislature adopted the amendments to the Wetland Conservation Act.

The amendments provided more incentives and flexibility in managing wetlands while maintaining the no-net-loss provision. Local governments have more authority to develop county- or watershed-based comprehensive wetland management plans rather than ones based on a broad statewide standard. Other changes to the law included raising the minimum wetland area that must be replaced based on the state's wetland diversity and distribution, requiring the state to replace wetlands eliminated by road work, allowing certain wetlands to be drained if they affect farmland operations and providing additional financial incentives to protect wetlands.

As a result of Minnesota's efforts to protect its wetlands, Gov. Carlson became the first governor to receive a prestigious national award for protecting and restoring wildlife habitat. In presenting its "Great Blue Heron Award" in April 1995, the U.S. Fish and Wildlife Service lauded Gov. Carlson for advocating strong wetland and watershed protections, citing in particular his leadership in enacting the Minnesota Wetland Conservation Act.

More presettlement wetlands survive in the north



Notes: Wetland areas are derived from data in the 1860s and 1980s. In both data sets, Houston, Wabasha and Winona counties were reported to have no presettlement wetlands.

Source: Minnesota Board of Water and Soil Resources