



Budget Plan

To: Interested Parties
From: Communications; Matt Entenza for Governor
Date: July 18, 2010
Subject: Budget

I am committed to addressing the looming budget deficit with a balanced approach. I will address roughly 1/3 of the deficit by raising new revenue; approximately 1/3 by reducing spending and finding new efficiencies in state government; and around 1/3 through deferring state spending. In addition, I will not be adding to our budget challenges by promising new education spending or a transition to a government-run, single-payer healthcare system in the next biennium.

My approach is outlined below, beginning with efforts to increase efficiencies in state government without reducing services.

The Public Strategies Group (PSG), a national Minnesota-based government consulting firm, released a report on March 18, 2009, outlining several strategies for dealing with Minnesota's budget crisis. The report was commissioned by the Bush Foundation, the Minneapolis Foundation, the Northwest Area Foundation, the Minnesota Community Foundation, and the Saint Paul Foundation. The 70-page report highlighted areas where PSG felt the state could maintain or improve outcomes while saving substantial amounts of money.

Extensive summaries of 7 "alternatives" for the state suggest that Minnesota could save approximately \$8.435 billion between 2010 and 2013. Two additional alternatives examine tax expenditures and service sharing among state, county and local governments, but don't provide savings estimates. Among the "alternatives suggested," the ones I am particularly interested in exploring are the following, which would save the state several billion dollars over the next biennium.

- **Reducing Health Care Costs by Rewarding Value, not Volume:** By spending state health care dollars on a total-cost-of-care system that encourages *better* care, rather than a fee-for-service system that simply encourages *more* care, PSG estimates that the state could save several billion dollars. Included in PSG's analysis are steps to:
 - Increase transparency of both price and quality for consumers
 - Streamline billing and processing.
 - Improve healthy outcomes/cost ratios by encouraging preventative and primary care, reducing the need for specialty care, drugs and surgeries.

- PSG's savings estimate for this approach for 2010-2013 is approximately \$3.7 billion.
- **Improving Coordination Among States and Counties:** By changing state-county relationships from a focus on controlling inputs to a focus on producing outcomes, PSG estimates that the state could save nearly a billion dollars. PSG recommends:
 - Allowing counties to elect to receive less state funding in exchange for:
 - Increased flexibility through the removal of levy limits, property tax restrictions, maintenance of effort (MOE) requirements and other state mandates.
 - Transparent reporting of results in critical service areas.
 - PSG's savings estimate for this approach for 2010-2013 is approximately \$984 million.
- **Improving Special Education Outcomes While Reducing Spending:** By improving special education screening and reducing unnecessary red tape, PSG estimates that Minnesota can save hundreds of millions of dollars. PSG recommends:
 - Improving our identification of special needs kids.
 - Stipulating a fixed level of support for special needs students, to reduce conflict between schools and parents.
 - Reducing reporting and forms requirements.
 - PSG's savings estimate for these changes for 2010-2013 is approximately \$645 million.
- **Improving Coordination Among Counties to Better Meet the Needs of Vulnerable Children and Families:** By switching from a county-based approach to a regional approach for delivering human services, PSG estimates that Minnesota could save several hundred million dollars. PSG recommends:
 - Creating regional Human Services Boards (HSBs) to coordinate the delivery of human services.
 - PSG's savings estimate for these changes for 2010-2013 is approximately \$455 million.

I will also explore several cost-saving ideas suggested by the Minnesota Association of Professional Employers. In January, MAPE reported that the state currently spends approximately \$1.9 billion on outside contracts each year. I would aggressively seek out areas where this outsourced work should be done by state employees. MAPE also suggests that we can save millions of dollars by eliminating new, unnecessary management positions created in the last years of the Pawlenty Administration. I will examine these positions and eliminate any that are not an efficient use of our tax dollars.

In addition, I plan to increase efficiency and add value in the state's oversight of education, by merging the Department of Education and the Office of Higher Education into one department. That department would be designed to focus on the overall

educational process, from early childhood education through higher education and life-long learning opportunities.

These strategies to add efficiency will supplement additional steps to balance the budget, including the raising of new revenue and the deferral of some state expenses. The revenue-raising steps will include returning the tax rates for couples making more than \$250,000 to the rates in place in 1998, and expanding the sales tax to sales occurring online. They will also include the elimination of tax loopholes for foreign operating corporations; increased enforcement efforts to address the estimated \$1 billion in tax liabilities that goes unreported each year; and the elimination of the ineffective JOBZ tax credits.

Finally, I will pay back the deferred payments to schools over time, and seek other ways to defer expenses that have as minimal an impact on core government services as possible. The specific amount of money that we need to defer will depend on how much savings we are able to achieve through the efficiency improvements outlined above. If we achieve greater than \$2 billion in savings, those deferrals will be significantly small