



# Blueprint for Reform

Creating Minnesota jobs  
and opportunity in the  
coming decade



The Minnesota Business Partnership is comprised of more than 100 men and women representing a broad range of business interests, political perspectives and personal philosophies. As chief executives of Minnesota's largest employers, however, they are united by the Partnership's mission:

Maintain a high quality of life for all Minnesotans by ensuring that the state's economy remains strong, globally competitive, and its prospects for growth bright.



## Executive Committee

Chair: Ken Powell  
Chairman & CEO  
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A new Governor, coupled with new leadership in both the House and Senate, provides an opportunity to take a fresh look at the challenges and opportunities facing our state. The timing couldn't be better. Consider this:

- Economic growth in China — not the U.S. — is pulling the world out of the global recession. The emergence of China, India, Brazil and other markets far from Minnesota pose challenges to our state. But global growth is fueling growth at home. A third of Minnesota's manufactured exports in 2010 were destined for Asia — on par with Minnesota exports to North America and well ahead of our exports to the European Union (EU), according to the Department of Employment and Economic Development.

- The baby boomers begin turning 65 this year. The generation that drove economic growth for the past half century will reshape our economy — including our tax and public-sector spending systems. Increased demands for public-sector spending placed on a proportionately smaller workforce will create tensions that policymakers have not experienced in state history.

### **Global perspective. Minnesota focus.**

The Minnesota Business Partnership — more than 100 CEOs and senior state executives representing Minnesota's largest employers — provides unique and valuable perspectives on this challenge. Partnership members lead organizations that are national — and increasingly global — in scope. Through the Partnership, members bring their knowledge and experience to bear on issues that are critical to Minnesota's economic competitiveness and treasured quality-of-life.

This "Blueprint for Reform" includes recommendations in each of our primary issue areas — education, fiscal policy and health policy. While this blueprint will guide the Partnership's legislative activity this year, it also includes proposals and action steps for the new administration and the private sector that we believe will position Minnesota for long-term prosperity.

As we have for more than 30 years, the Partnership is prepared to help in this work. My staff and I look forward to meeting with you and policymakers across the political spectrum to create jobs and grow Minnesota's economy.

Sincerely,

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## Blueprint for Fiscal Policy Reform: Creating a strong, globally competitive state

### FISCAL POLICY

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### PRINCIPLES FOR REFORM

To balance near-term budget challenges with long-term economic growth, the Partnership bases its fiscal policy priorities on three principles:

- The state should foster private-sector investment and job creation, reduce tax revenue volatility and strengthen our global competitiveness.
- State budget reforms should sharpen the focus on priorities, encourage fiscal restraint, improve service delivery and produce desired results.
- Through public-private partnerships, Minnesota employers can support structural reforms and enhance public-sector programs.

The chart to the right portrays Minnesota's basic budget challenge over the past decade. General Fund revenue (current resources) rose somewhat steadily until the global recession hit in late 2007. Spending, however, typically outpaced revenue. Lawmakers were able to balance budgets over this period by tapping budget reserves, shifting money from other funds and using other available tools.

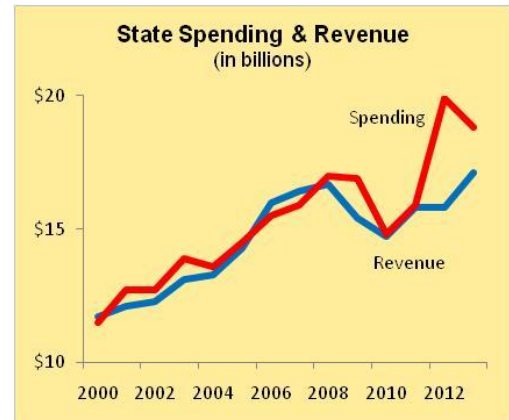
As difficult as the past decade has been for lawmakers, the future promises to be more challenging. Fundamental changes in our economy, driven by an aging population, globalization, advances in technology and other macroeconomic forces, make existing state spending trends unsustainable.

As the bipartisan Budget Trends Commission report pointed out, even if the state were to raise significant additional revenue in the form of new taxes or expanding existing taxes to pay for state programs, this new revenue would only be a short term fix because the state's revenues are growing more slowly than its fastest growing spending areas.

This isn't a surprise. Economists and demographers have warned about the impact of these changes for years. While belt-tightening will be necessary to balance the 2012-13 biennial budget, structural changes in our economy require structural changes to Minnesota's budget-setting, tax and spending systems.

### PRINCIPLES FOR REFORM

In order to balance the near-term budget challenges state lawmakers face with long-term economic growth that would benefit all Minnesotans, the Partnership bases its fiscal policy priorities on three principles that reflect the interaction between public-sector tax-and-spending decisions and private-sector job creation.



General Fund revenue (current resources) rose 35%, from \$23.8 billion in 2000-01 to \$32.1 billion in 2008-09. Meanwhile, General Fund spending grew 40%, from \$24.2 billion in the 2000-01 biennium to \$33.9 billion in 2008-09. The global recession caused a sharp drop in revenue. To balance the current 2010-11 biennium, lawmakers relied largely on 1) temporary spending cuts offset by one-time federal stimulus funds and 2) delayed payments to school districts. While these helped bridge the 2010-11 budget gap, they also contribute to the projected \$6.2 billion shortfall for 2012-13.

## Principle 1. The state should foster private-sector investment and job creation, reduce tax revenue volatility and strengthen Minnesota's global competitiveness.

**COMPETITIVE TAX STRUCTURE:** Minnesota's tax burden remains high, and the overall structure, developed to meet the needs of a 20<sup>th</sup> century, goods-based economy, creates barriers to business investment and job creation in a mobile, global, knowledge-based economy. As lawmakers address immediate budget shortfalls, they should be mindful of Minnesota's global competitiveness and pursue opportunities to update Minnesota's tax system to better reflect the new global economy without raising the overall tax burden.

**Corporate income tax:** At 9.8%, Minnesota has the fourth highest corporate income tax rate in the nation. The high rate often eliminates Minnesota from consideration for business expansion and relocation. The corporate income tax is increasingly viewed as an archaic source of revenue which is:

- Regressive, because it is passed to individuals through higher prices and lower wages
- Expensive to administer for the state and for employers
- Volatile, contributing disproportionately to state budget boom-and-bust cycles

**Recommendation:** To encourage business investment, job creation and retention, phase out, or substantially reduce, Minnesota's corporate income tax. In the interim, accelerate the phase-in to single sales apportionment and reject proposals that penalize Minnesota companies for competing and succeeding in foreign markets.

**Business property tax:** Through a combination of state and local property taxes, Minnesota employers shoulder some of the heaviest property tax burdens in the nation. For location-based businesses, property taxes go directly to the bottom line. For businesses not dependent upon location, Minnesota's high property taxes become yet another barrier to investing in Minnesota.

**Recommendation:** Reject proposals to increase the statewide business property tax or to shift a larger proportion of local property taxes onto employers.

**Personal income tax:** Minnesota has the fifth heaviest personal income tax burden per person in the nation. Overall, Minnesota receives 26% of state revenue from personal income taxes, far more than the 18% U.S. average. Minnesota's already high income tax rates discourage large employers with operations across the country and around the world from locating high-skilled, high-paying jobs in Minnesota. In addition, states like California, New Jersey and Maryland have learned after raising income taxes that high-income people are very mobile.

**Recommendation:** Reject proposals that increase Minnesota's reliance on personal income taxes and raise even higher barriers to creating and retaining high-paying jobs in the state.

*As lawmakers address immediate budget shortfalls, they should be mindful of Minnesota's global competitiveness and pursue opportunities to update Minnesota's tax system to better reflect the new global economy without raising the overall tax burden.*

**Sales tax:** The sales tax is among the most stable sources of revenue for the state. But Minnesota's sales tax is increasingly top heavy. At 6.875%, Minnesota has the seventh highest sales tax rate in the nation. But the tax falls on such a narrow base, that Minnesota ranks 18<sup>th</sup> in state sales tax revenue per capita.

**Recommendation:** Update Minnesota's sales tax. Lower the tax rate and broaden the tax base to include additional goods and services. To avoid "tax pyramiding," exempt business inputs. To mitigate any tax regressivity, enact a personal income tax reduction/credit for low-income people. Also convert the sales tax refund on capital equipment purchased by employers to an upfront exemption and extend the exemption to non-manufacturing businesses.

**REGULATORY REFORM:** Minnesota's regulatory burden contributes substantially to the cost of doing business in Minnesota and the perception that our business climate is hostile to employers.

**Recommendation:** Reduce the duplicative layers of federal, state and local regulations that complicate and lengthen the permitting process and develop a more uniform, streamlined and predictable application of regulations.

**Principle 2. State budget reforms should sharpen the focus on priorities, encourage fiscal restraint, improve service delivery and produce desired results.**

*In a competitive global economy, fiscal restraint needs to be about more than budget cuts and lower expectations of government. Those regions around the world with innovative public sectors that develop new and better ways to meet public needs will generate economic growth and job creation.*

In a competitive global economy, fiscal restraint needs to be about more than budget cuts and lower expectations of government. Quality of life, essential public services and amenities still matter. Those regions around the world with innovative public sectors that develop new and better ways to meet public needs will generate economic growth and job creation.

**BUDGET SETTING REFORM:** An era of slower economic growth and increased global competitiveness will require new budgeting tools to help adapt to new economic realities.

**Recommendation:**

- Adopt priority-based budgeting. Set clear and specific public policy priorities, identify indicators to monitor progress and purchase services to advance the desired outcomes.
- Base permanent spending decisions on trend line revenue growth, and restrict the use of any "excess revenue" to one-time spending or replenishing budget reserves.

**SERVICE DELIVERY REFORM:** Legislation and administrative rules, though well intentioned, can create barriers to implementing better, faster, more cost-effective processes.

**Recommendation:**

- Require or incent state agencies and local governments to enter into service-sharing arrangements to improve quality and reduce costs.

- Remove statutory barriers and increase the use of competitive bidding and strategic sourcing in the delivery of state and local government services (examples include payroll, accounting, food service, maintenance, etc.).
- Support continued development of the “Service Delivery Authority” model currently being implemented by Minnesota counties to improve the quality and reduce the cost of providing human services.
- Review existing state mandates, and where appropriate repeal, modify or replace them with performance and outcome-based programs.
- Align public-sector compensation with the private sector by increasing employee cost-sharing for health care benefits and shifting to a defined contribution pension plan for all new hires.

**PROGRAM REFORM:** In addition to improving the delivery of services within existing programs, entire programs may benefit from extensive reviews to determine if they are meeting their goals, if those goals continue to be priorities and if there are opportunities to reform, refocus or eliminate those programs.

**Recommendation:**

- Review economic development programs to evaluate their effectiveness in attracting and retaining employers and jobs. Redirect or increase funding to the most effective programs. Consider giving DEED the flexibility, authority and tools to compete with other locations for business expansion projects.
- Review all agency programs for effectiveness and examine options to consolidate and/or streamline agencies to improve service, eliminate duplication and reduce administrative costs.
- Examine eligibility criteria and target funding only to those most in need with direct subsidies to individuals rather than funding for systems or institutions. For example:
  - Finance higher education by directing state aid to tuition assistance rather than institutions.
  - Consider making Minnesota health care programs more comparable to other states and seek federal waivers to redesign Medicaid (MA) programs based on outcomes.
  - Reform local government aid programs by providing property tax relief directly to taxpayers rather than sending state aid to local governments.

**Principle 3. Through public-private partnerships, Minnesota employers can support structural reforms and enhance public-sector programs.**

In order to compete in their respective industries and survive in today’s competitive global economy, Partnership members constantly innovate and re-evaluate their processes and procedures, always seeking better ways to reduce costs and increase the overall quality of their goods and services. Through the Partnership, professionals from Minnesota’s leading companies have connected with public officials to share their expertise and bring private-sector practices to the public sector. Recent and ongoing examples include:

- The Department of Administration’s Enterprise Lean Program, which has reduced lead time, task time and expense in numerous agencies over the past three years.

- The Commission on Service Innovation includes business, labor union, city and county representatives. Established by the Legislature, the commission is charged with making recommendations to reengineer the delivery of state and local government services.
- The Department of Education's State Longitudinal Education Data System Steering Committee includes business, K-12 and higher education representatives to help define the kinds of data the system should collect, how that data should be portrayed and how best to use that data to improve outcomes.
- The Health Care Access Commission has several workgroups that bring private-sector expertise and perspectives to advance the commission's work.

**Recommendation:** Minnesota Business Partnership members, the new Administration and the Legislature should work together to continue existing initiatives, such as those above, and actively pursue additional opportunities to share best practices, provide expertise and leverage resources in areas such as strategic sourcing, information technology, health care cost containment, and economic development.



# Blueprint for Education Reform: Achieving world-class education and closing the achievement gaps

## EDUCATION POLICY

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## PRINCIPLES FOR REFORM

As active advocates for strengthening Minnesota's education system for more than 30 years, the MBP has been guided by four Principles for Education Reform:

- Set rigorous, world-class, academic standards for all students.
- Measure and report student progress – individually and by school – on a uniform and comparable basis.
- Give educators flexibility to offer the programs they believe will be most effective for their students.
- Provide families with the ability to choose the programs that best meet their children's academic needs.

To compete in a global economy that prizes innovation and rewards higher level skills, Minnesota must transform its approach to raising student achievement and closing the achievement gaps.

In 2008, the Minnesota Business Partnership, the Itasca Project, the Minnesota Chamber of Commerce and the Bush Foundation established the Minnesota's Future Initiative and asked McKinsey & Company to answer two questions:

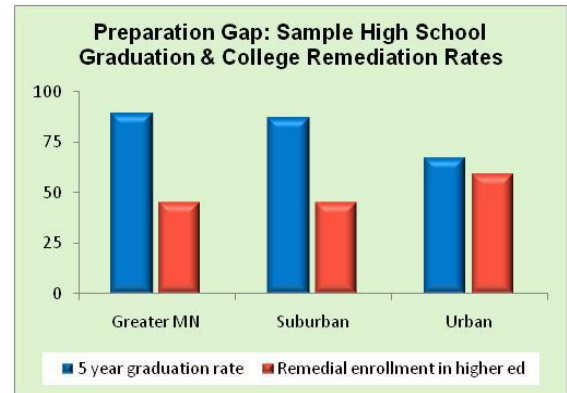
**1. How does Minnesota's K – 12 education system compare with the best in the world?**

**2. What can we learn from top-performing systems to deliver a better education to Minnesota students?**

McKinsey's report, "World-class Schools, World-class Jobs," revealed that in many ways Minnesota's education system matches up with the best in the world. "The state has implemented rigorous standards, led the U.S. in providing educational choices for parents and has equitably invested in education," the report said.

But the research, however, indicated that improvements were needed in the following areas for Minnesota to compete with the world's top-performing systems:

- Teacher preparation
- Recruiting top talent and innovation
- School leadership development
- Using data to drive performance improvement



Minnesota suffers from a substantial gap between a high school diploma and preparation for higher education. In a sample of suburban and greater Minnesota schools, nearly 90% of high school students graduate within five years. Of those who enroll in higher education, nearly half (45%) will take at least one remedial class. Meanwhile, 68% of urban high school students in a sample school earned a diploma in five years, and 59% of those enrolling in higher education will take at least one remedial class.

## LEGISLATIVE AND NON-LEGISLATIVE RECOMMENDATIONS

In addition to legislative recommendations, the Minnesota's Future Initiative (MFI) has identified reforms that could be accomplished through non-legislation actions (e.g. administrative actions, district-level changes or by leveraging foundation and private-sector support).

Progress is being made on efforts outside the Legislature. The Bush Foundation has partnered with 11 teacher training programs to begin transforming how teachers are recruited, trained and placed. MFI members have raised more than \$3 million to support Teach for America, which has provisional authority to operate in Minnesota but continues to seek legislative approval for alternative teacher licensure. MFI has supported two statewide principal training programs and is working with the Department of Education to develop the state's Longitudinal Data System.

Legislative progress, however, has been limited. Broad, bipartisan support for systemic reform was most apparent in 2010 when members of the Minnesota's Future Initiative gathered signatures from more than 100 business, foundation, community and education leaders urging state lawmakers to pass reforms that would strengthen Minnesota's application for a federal Race to the Top grant. While the legislation failed to pass, support remains. And many of those reforms are reflected in the following recommendations.

*Broad, bipartisan support for systemic reform was most apparent in 2010 when members of the Minnesota's Future Initiative gathered signatures from more than 100 business, foundation, community and education leaders urging state lawmakers to pass reforms.*

## Teacher Quality

**Our aspiration:** Effective teachers in every classroom – teachers that can achieve at least a year's worth of growth in learning every year for every student and close the achievement gap.

**The rationale:** Teachers matter more than any other in-school factor.

**Our opportunity:** Half of all teachers are expected to retire over the next 10 years.

**Recommendations:** Transform how new teachers are recruited, prepared, placed and supported.

✍ *Indicates the recommendation is a priority for the Partnership.*

- ✍ Provide statutory authority for any teacher preparation program that's willing to guarantee the effectiveness of their graduates and support them through the first two to five years of teaching.
- ✍ Develop a definition of teacher effectiveness, substantially based on student achievement.
- ✍ Modify teacher licensure, hiring, tenure and compensation practices to incorporate effectiveness (e.g. provisional and renewable continuing licenses, and compensation based on effectiveness)
- Expand access to the Teacher Academies in Math and Science.
  - In conjunction with expanding access, conduct program evaluation to measure impact on student achievement and identify program improvements.
- Provide incentives for teacher candidates to enter shortage areas (e.g. STEM, rural schools).

- Provide incentives for teachers and principals who work, and succeed in “challenging” schools.
- Raise graduation expectations by requiring teacher candidates to demonstrate their effectiveness as a condition of graduation (e.g. Teacher Performance Assessment, passing Basic Skills tests).
- Link state funding for teacher preparation programs to the number of teachers each program will guarantee as effective, with a priority on shortage areas (e.g. STEM, rural schools and teachers of color). Additionally, creating an Office of Effective Teaching can:
  - Coordinate a statewide campaign to recruit our best into teaching; and
  - ‘Buy’ teacher preparation from those programs willing to guarantee effectiveness and based on their continuing performance.

## School Leadership

**Our aspiration:** Effective principals in every school.

**The rationale:** Principals matter more than any other in-school factor except teachers, and efforts to grow and retain effective teachers will fail if they are placed in dysfunctional school environments.

**Our opportunity:** We’re able to reform recruitment and preparation of school leaders through the renewed focus on the importance of school leadership, and substantial expected retirements.

**Recommendations:** Transform how new principals are recruited, prepared, placed and supported.

📌 *Indicates the recommendation is a priority for the Partnership.*

- 📌 Develop a definition of principal effectiveness, substantially based on student achievement.
  - 📌 Modify school leadership licensing, hiring, tenure and compensation practices, based on effectiveness (e.g. provisional and renewable continuing licenses, and compensation based on effectiveness).
- Provide statutory authority for any alternative principal preparation program that’s willing to guarantee the effectiveness of their graduates and support them through their first two to five years of practice.
- Expand access to the two statewide school leadership development academies (and other programs, if warranted).
  - In conjunction with expanding access to the leadership academies, conduct program evaluations to measure impact on student achievement, identify program improvements and corresponding changes to licensure requirements.

## Data to Drive Improvement

**Our aspiration:** Timely and actionable student performance data is available and effectively used at every level of the education system to continually improve practices and outcomes.

**The rationale:** Without comparable measures, student performance can’t be tracked and system strengths and weaknesses can’t be reliably identified.

**Our opportunity:** As better student and system data becomes available we can be more strategic in replicating successful practices and reducing performance gaps.

**Recommendations:** Effectively use data to recognize success and support improvement.

✎ *Indicates the recommendation is a priority for the Partnership.*

- ✎ Ensure Minnesota's standards are globally competitive, and high school graduates are college and career ready.
- Using student academic performance data (e.g. MCA results, graduation rates) identify top-performing schools. Highlight and disseminate successful practices of these schools for others.
- Link student data to teachers, and to the teachers' preparation programs. Use the data for preparation programs to:
  - Receive feedback for program improvement; and
  - Determine their eligibility for state funding.
- Grant specific authority for the MN Commissioner of Education to intervene in persistently low-performing schools, after district-level interventions are unsuccessful.

## Innovation & Efficiency

**Our aspiration:** Encourage and support school boards in effectively managing their resources and create opportunities to continuously improve student achievement.

**The rationale:** School boards need the flexibility to act according to their unique circumstances, and options for addressing projected budget limitations.

**Our opportunity:** Public demand for improved delivery of public services supports alternative strategies, and technology will continue to provide new options.

**Recommendations:** Give school boards greater autonomy over the management of available resources, flexibility for restructuring the delivery of services and expand effective options for families.

✎ *Indicates the recommendation is a priority for the Partnership.*

- ✎ Support the Minnesota Early Learning Foundation (MELF) recommendations to improve family access to effective early education programs and services.
- ✎ Give school boards greater authority to limit the growth in expenditures (e.g. costs of contract settlements within available revenues).
- ✎ Encourage consolidation of district administrative offices and services (e.g. rural – countywide districts, metro – consolidate non-classroom services).
- ✎ Expand education options for families (MBP priority, not specified in MFI report).
  - Enhance development of on-line learning courses and programs (e.g. professional development programs for educators, state virtual high school for students).

# Blueprint for Health Care Reform: Aligning incentives to deliver greater value

## HEALTH POLICY

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## PRINCIPLES FOR REFORM

As advocates of systemic health reform, the Partnership relies on the following principles:

- Provide price and quality information that is relevant and useful to patients.
- Pay for results and outcomes, not volume of procedures.
- Eliminate regulations and mandates that inhibit innovation in insurance.
- Expand and create incentives for healthy lifestyles and wellness.
- Develop and implement appropriate infrastructure for health information.

*Goal: To ensure a functioning, responsive health care marketplace that will achieve optimal health outcomes, reduce the cost of health care, reduce the rate of future cost increases, and increase access to affordable health care for Minnesotans.*

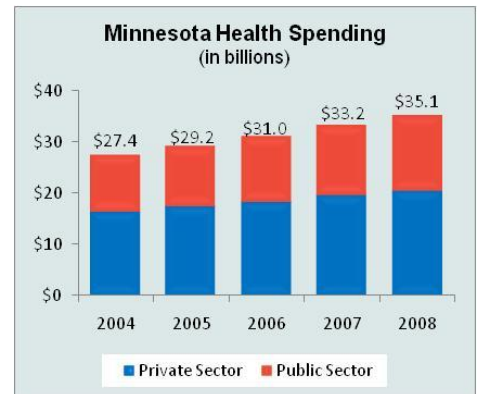
Minnesota is a national leader in health care. We have among the lowest rate of uninsured (9 percent<sup>1</sup>), a high rate of private insurance (67 percent<sup>2</sup>), and a relatively healthy population (7<sup>th</sup> healthiest state<sup>3</sup>). As we watch other states' health care reform efforts, they are often just beginning to catch up to Minnesota. And while the Patient Protection and Affordable Care Act (PPACA) signed by President Obama makes progress on some fronts, Minnesota is still ahead nationally in terms of bending the cost curve.

However, our health care system in Minnesota and the United States is far from healthy. A RAND study found that only 50 percent of patients, both children and adults, received recommended care regardless of socioeconomic status. The Institute of Medicine estimates that 50,000 to 100,000 people nationally die every year due to medical mistakes in hospitals.

### Disincentives for improvement

A McKinsey Global Institute report released in January 2007 points to the lack of incentives for patients and consumers to be value-conscious in their demand decisions as one of the main reasons for the high health care cost in the United States. Consumers remain divorced from the cost of health benefits and health care. Meanwhile, health plan and health care services are provided and priced in ways that are unintelligible, preventing value-conscious consumers from accessing useful cost and quality comparisons.

In addition to the wrong incentives for consumers, there are perverse incentives for providers. Our system rewards quantity of services over



Total health spending in Minnesota from \$27.4 billion in 2004 to \$35.1 billion in 2008, a 28% increase over five years. Public-sector spending (Medicare, Medical Assistance and other programs) increased 32% compared to a 25% increase in private-sector spending.

<sup>1</sup> Kaiser Family Foundation, State Health Facts 2009 – Insurance coverage of total population

<sup>2</sup> 2010 MDH Health Economics Program – Minnesota Health Care Markets Chartbook

<sup>3</sup> According to 2010 America's Health Rankings

quality of care with economic disincentives to improve care and little accountability for results. Avoidable admissions generate revenue for doctors and hospitals. Complications require additional care generating additional provider income.

Under the current system, providers who invest in improvements in care often face economic challenges. There are many examples of providers in Minnesota and across the country who have implemented innovative care delivery initiatives which improved quality and lowered cost, only to be penalized financially because their revenue is based on service volume, not quality outcomes.

### **Cost pressures eroding coverage, straining budgets**

Cost of health services and insurance coverage are continuing to grow faster than inflation, making our current health care system unsustainable for employers, individuals and public safety net programs. While employers continue to be the major source of health insurance for Minnesotans, double-digit premium increases and higher cost-sharing with employees are causing a decline in employer-based coverage. Employer-sponsored insurance dropped from 68.4 percent in 2001 to 58 percent in 2009<sup>4</sup>. That figure likely declined further during the recession, while adding more people to state public insurance programs, including Medicaid and MinnesotaCare.

While Minnesota's public-sector programs are facing the same cost pressures as the private-sector, the impact on public-sector programs is magnified by increasing enrollment. Minnesota should maximize federal matching funds for public programs to enhance our ability to cover individuals who might otherwise further the cost-shift of public programs to the private sector.

Individuals without employer-sponsored coverage can purchase coverage through the individual insurance market. However, current law allows underwriting, which means individuals with high claims histories pay higher premiums or can be rejected outright. The Minnesota Comprehensive Health Association (MCHA) is the state's safety net program for this high-risk population. Because MCHA is funded through insurance premiums, it further drives up costs for employers and individuals.

The federal PPACA is enacting systemic reforms that will impact all avenues to obtain health coverage. This includes individual and employer mandates for insurance coverage in 2014 and creation of health insurance exchanges with subsidies available to certain individuals. Minnesota has the option of creating our own exchange, but if we do not, the federal government will establish an exchange for Minnesota.

*A McKinsey Global Institute report released in January 2007 points to the lack of incentives for patients and consumers to be value-conscious in their demand decisions as one of the main reasons for the high health care cost in the United States. Consumers remain divorced from the cost of health benefits and health care.*

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<sup>4</sup> Kaiser Family Foundation, State Health Facts 2009 – Insurance coverage of total population

## PRINCIPLES FOR COMPREHENSIVE REFORM

Our current health care coverage and delivery system is unsustainable. To create a sustainable system that provides higher quality care at lower cost, the Minnesota Business Partnership advocates comprehensive reforms that engage consumers, align purchasers, and reorient providers and insurers to find and deliver market-driven efficiencies and permanent health care savings.

### Principle 1: Provide price and quality information that is relevant and useful to patients.

Neither pricing in health care nor comparable quality measurements are always transparent or meaningful to patients or purchasers of health coverage such as employers. Providers' prices are primarily for individual units of service and frequently do not take into account the full episode of care. Although the market is shifting to other payment methodologies such as gain-sharing and total cost of care performance, payments to each provider are still negotiated and lack transparency for consumer use. The actual price paid for a service is often not provided to the patient until long after the care is provided. Meanwhile quality measurements are beginning to be used for benchmarking providers; however, these tools are rarely used by consumers in determining which provider to use.

*The Minnesota Business Partnership advocates comprehensive reforms that engage consumers, align purchasers, and reorient providers and insurers to find and deliver market-driven efficiencies and permanent health care savings.*

#### Recommendations

In order to help people – individuals seeking care and purchasers of health coverage – make value-based decisions for health care, the Partnership advocates reforms that will engage consumers by providing understandable information. Minnesota's 2008 health care reform legislation, which the Partnership actively supported, initiated efforts to advance transparent pricing of health care services. The legislation established eight initial baskets of care: asthma, diabetes, pre-diabetes, back pain, obstetric care, preventive care kids and adults, and knee replacement. These baskets also include common quality measures reported and Minnesota Department of Health will publish comparative information on the baskets available. In addition, payers and providers are jointly working to develop additional episode-based or basket-based payments.

In conjunction with these and other existing efforts, the Partnership recommends the following:

- Measure providers and care systems on their ability to keep patients healthy and avoid unnecessary services and costs. Use existing community, state and federal resources, such as the Institute for Clinical Systems Improvement (ICSI), to define common expectations and measurements for health plans and providers.
- Pursue quality reporting by health plans using a common tool to give purchasers access to uniform, comparable quality and cost information on health plans to facilitate purchasing on value.
- Create and make available to consumers quality comparisons, consistent with the benefit packages to enable consumers to make decisions based on cost and quality.
- Create and make available to consumers measures for patient satisfaction as well as patient accountability.

- Pursue provider reporting on quality using process measures and outcomes measures, instead of claims data, where appropriate.
- Define common service ranges for comparable services (i.e. maternity care, joint replacement, etc.).
- Define a general time period for packages of care, health care home services or global payment arrangements.
- Set and publish prices for services, including unit, packaged/bundled, and global payment, or “total cost of care.”
- Couple appropriate application of evidence-based care with an individual provider price for a service.

## **Principle 2: Pay for results and outcomes, not volume of procedures.**

Typically, our health care system does not reward services outside the traditional office visit setting such as education and follow-up. Yet, almost 80 percent of health care costs are used by patients with chronic illness, and optimal management of chronic illness requires provider-patient interactions. Meanwhile, repeated episodes of care, infections and adverse outcomes caused by system failures and the practice of “defensive medicine” result in additional payments to providers. In addition, capacity for high-margin, preference-sensitive services such as imaging and procedures, is skyrocketing, driving up utilization and overall cost to the system. The result is an unsustainable cycle of investments that drives up cost while failing to direct resources to where they would be used more efficiently and effectively.

*The Partnership advocates reforms that realign incentives within the system to deliver and reward value, not volume.*

### **Recommendations**

The Partnership advocates reforms that realign incentives within the system to deliver and reward value, not volume; drive efficiencies and cost savings through improved and coordinated care delivery; reduce the demand for costly procedures and hospitalizations; and reward providers of all sizes based on results and outcomes, not just volume of patients served and their ability to negotiate with health plans.

- Structure payment reform initiatives to reallocate current resources, not just add more money into the system. Target the savings achieved through reform to shifting from a fee-for-service system to a performance-risk system.
- Base provider contracts on superior results. Health plans should continue to pursue contracts with providers based on results and outcomes, not just discounts. Align financial incentives to reward reductions in total cost, improved quality and consumer satisfaction.
- Reimburse providers based on levels of service and global payments for full continuum of care under Accountable Care Organizations.
- Encourage providers and payers, including Medicaid and Medicare, to develop innovative, outcome-based payment structures that reflect the unique positions of providers across the state.
- Maintain strong antitrust policies in both the health plan market and health care delivery market to avoid anti-competitive pricing practices while encouraging collaboration on individual patient care.
- Make utilization data uniformly available to providers to facilitate care coordination focusing on high risk populations with multiple chronic conditions.

- Review the current license and scope of practice laws for all members of a medical team to ensure that each may practice from bottom to top of their licenses – thus delivering care more efficiently, at lower cost and with less risk of complications.
- Support public policies that will discourage and minimize medical mistakes and other avoidable events that add to the cost of care.
- Reform medical malpractice laws in order to reduce the practice of defensive medicine while ensuring adequate patient protection.
- Encourage and support health care providers who incorporate Lean Management principles and other proven business practices that will provide greater efficiencies, not only in the care they deliver, but also in the management of their business.

### **Principle 3: Eliminate regulations and mandates that inhibit innovation in insurance.**

All too often, government regulations and mandates add to the cost of health coverage, create incentives that encourage cost shifting and cost avoidance, and discourage – even prohibit – activity that could increase efficiency, reduce overall costs and improve quality of care. For example, Minnesota has 63 mandated benefits which add to the cost of health care for those in the fully insured market, and may add to the cost of public programs depending on what essential benefit set is established by the federal government.

#### **Recommendations**

The Partnership advocates a functioning individual insurance market with tax parity that would provide employers with a choice of offering specific insurance programs for their employees to help with recruitment and retention of employees, or help employees purchase coverage in the individual market through compensation and administrative supports.

- Provide comparable insurance coverage and tax fairness for individuals by providing the same tax benefits as those covered in the group market.
- Develop a Minnesota-based Health Insurance Exchange to enhance Minnesota's individual insurance market.
- Create a commission to 1) compare Minnesota's state-mandated benefits for public and private programs to mandates in other states, and 2) review current and proposed mandates to assess the scientific evidence, medical effectiveness and impact on resource allocation and health coverage affordability.
- Eliminate regulatory requirements that discourage insurance product innovation and delivery in order to provide more options for employers, employees and individuals.

Reform the Minnesota Comprehensive Health Association (MCHA), the state high-risk pool, by supporting:

- Ensuring MCHA rates do not compete and in no case are lower than rates in the private market. Premium rate increases for MCHA enrollees should be consistent with rate increases seen in the private sector based on comparable plan design.
- A broader-based funding source for MCHA. The MCHA assessment accounted for more than 2 percent of premium for the fully insured market in 2009. The fully insured market is mainly made up of small- and medium-size employers and individuals.

## **Principle 4: Expand and create incentives for healthy lifestyles and wellness through insurance products, health care providers, employers, schools, etc.**

According to the Centers for Disease Control and Prevention, costly chronic diseases, such as diabetes and heart disease, are among the most common and preventable of all health problems in the U.S. today. One in two adults in the US has at least one chronic disease. One in three adults is obese, as is one in five youths. Approximately one in five adults smoke. Less than a quarter report eating the recommended servings of fruits and vegetables per day or getting the recommended activity. Tobacco use, physical activity and nutrition are behaviors that can be modified by an individual to reduce the likelihood of becoming obese, suffering a stroke, or developing heart disease or arthritis.

### **Recommendations**

To restrain health care cost trends, the Partnership advocates the use of effective primary and preventive care that, based on strength of evidence and magnitude of net benefit, can prevent costly procedures and hospitalizations. We should promote the use and expand the availability of wellness programs in our communities. Wellness programs available through health plans, health care providers, employers, schools and many other organizations are focused on these factors.

Efforts that will support and promote effective primary and preventive care include:

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

Efforts that will support individual and community wellness:

- Measure Return on Investment (ROI) of wellness programs.
- Educate employers and other potential investors of the ROI of wellness efforts.
- Coordinate a forum for wellness best practice-sharing, mentoring, education, etc.
- Educate the public about the availability of existing wellness programs.

## **Principle 5: Develop and implement appropriate infrastructure for health information sharing between providers that is portable for individual patients with appropriate information.**

While the health care sector is on the leading edge of advances in medical technology, the industry lags in the application of information technology (IT). Despite rapid evolution in data transmission, aggregation and storage, personal health information remains fractured. Pertinent health information is in the hands of multiple providers who have treated people at different points in their lives instead of in one secure but accessible location.

## Recommendations

The Partnership recommends a health IT infrastructure where information could be easily shared to improve quality and reduce medical errors; decrease costs by improving efficiencies, reducing medical errors and coordinating care; and, improve provider/patient decision-making.

- Continue to support Minnesota's efforts on coordinated HIT implementation and development, and that policies moving forward should be consistent with both ongoing state initiatives as well as the federal HITECH act.
- Develop and implement a statewide IT protocol for sharing clinical data among providers to improve quality of care, increase patient safety and utilize our health care dollars better (i.e. not perform the same test at multiple sites).
- Provide financial incentives and support to help providers, particularly smaller, independent providers, adopt IT tools.
- Make personal health records portable and available for all Minnesotans to improve care, reduce duplicate tests and redundant data collection, and help consumers play a more active role in their care.

## ROLE OF GOVERNMENT

In addition to the principles above, the Partnership has identified the following roles for government to enhance a strong, functioning marketplace for health care.

**Set standards:** Within this framework, the role of government should be to set standards for the health care sector – and take down barriers to cost-effective health care, allowing for market innovation to lead reform efforts consistent with our Blueprint. Appropriate state and federal regulations should be in place to protect consumers and reinforce the incentives in a functioning market-based, patient-centered system. Standards should address issues such as insurance underwriting, individual affordability, benefit coverage and provider quality.

**Provide a safety net:** State and federal health care programs, such as Medicare, Medicaid, MinnesotaCare and General Assistance Medical Care, play a distinct and important role as payers for a large portion of the population. These programs should be structured as part of a functioning market, and should be streamlined for maximum administrative efficiency and value to the individuals covered.

- Beneficiaries should be empowered to use providers/plans that deliver cost effective, quality care.
- Reimbursement systems and levels should include incentives for high-quality, cost-effective care without shifting cost to the private sector.
- The cost of uncompensated care should be addressed directly and transparently – not simply shifted to the private sector through higher private reimbursement rates.
- Revenue to fund public health care spending should rely on broad based, equitable sources.
- Revenue designated for health care should be used only for health care purposes.

**Minnesota Impact from Federal Reform:** Traditionally, the Partnership does not lobby at the federal level. However, the debate over national health care reform – with its potential impact on Partnership members and Minnesota – led the Partnership to work with members of Minnesota's congressional delegation on the issue. As federal health care reform in the Patient Protection and Affordable Care Act (PPACA) is implemented, the Partnership will continue to work with our key congressional members and state policy leaders to ensure that Minnesota's makes the most of opportunities provided and that our advances in health care reform are not negatively impacted.

**Innovation in the Private Sector:** The state should enable plans, providers and employers to create a market-based, patient-centered system and to promote healthy lifestyle choices. Rather than attempt to restrict self-insured organizations, which are governed at the federal level by ERISA, the state should look to them as valuable vehicles for innovation and flexibility in health care.

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