



State Representative Mary Liz Holberg

Civic Caucus, 8301 Creekside Circle #920, Bloomington, MN 55437

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Present: David Broden (phone), Janis Clay, Paul Gilje, Jim Hetland (phone), Sallie Kemper, Dan Loritz, Wayne Popham (phone), and Clarence Shallbetter (phone)

Summary: As a pro-jobs strategy, Holberg favors a state budget without tax rate increases. She calls for restructuring human services, a realignment of the state's relationship with local government, and using student choice to help decide the fate of higher education institutions.

Welcome and introductions: Dan and Paul welcomed and introduced **State Rep. Mary Liz Holberg**, Lakeville, assistant House majority leader and chair of the House Ways and Means Committee. Holberg was first elected to the House in 1998 and is now serving her seventh two-year term. She served as chair of the Civil Law Committee in 2003-2004, and chair of the Transportation Finance Committee 2005-2006. Before her election to the Minnesota House, Holberg served first on the Lakeville Planning Commission and then on the Lakeville City Council.

Comments and Discussion: During Holberg's discussion with the Civic Caucus the following points were raised:

* **House budgetary response just released** —Holberg, through whose committee, tax and appropriations bills pass, discussed the response of the GOP majority in the House of Representatives to the Governor's budget. The Governor proposed a \$37.1 billion budget. The House GOP leadership has responded with \$34 billion, a 4.2 percent increase in spending. The Governor's revised budget, not yet released, is likely to be changed because the \$37.1 billion hasn't been modified to reflect a billion-dollar increase in forecasted revenues.

* **Minnesota is slower than other states in responding to smaller revenue growth** —Holberg said she was present a meeting in Chicago two weeks ago with legislators from other states and learned that Minnesota is further behind in undertaking structural reforms that respond to tightened revenues.

* **Structural reforms urgently needed in human services** —Responding to a question, Holberg said reforms are urgently needed in human services, where the state needs to begin paying for results, or outcomes, and to stop just reimbursing vendors for delivering services. A prototype for how the state might start paying for results is contained in a recent change made in General Assistance Medical Care (GAMC), which covers poor single adults, she said. The change in GAMC provides

lump sum payments to trauma hospitals for care of poor single adults, with the expectation that the hospitals would work to keep individuals healthier, thereby avoiding expensive trips to the emergency room.

Holberg said she's seen extensive evidence—even in her own extended family—of cases where the state keeps paying again and again for human services that prove to be ineffective. She said she's impressed that non-profit providers have been approaching the Legislature this session with new ideas for paying for outcomes.

*** Local option sales taxes might be considered** —Responding to a question, Holberg acknowledged the House majority budget plan involves considerable reduction in state aid to cities. It's possible, she said, that some kind of local option sales tax via referendum might emerge to offset loss of state aid. However, this option isn't as easy to accomplish as might appear at first blush. Without any fiscal disparities adjustment, certain retail-rich cities would receive much more revenue from local sales taxes than would cities without large shopping complexes.

*** Does the state recognize the value of relying on revenue sources that are deductible on federal income taxes?** —A Civic Caucus member noted that state income taxes and property taxes are deductible from federal income taxes, meaning that, in effect, the federal government helps citizens pay for income and property taxes imposed within states. But sales taxes aren't deductible.

*** Mal-distribution of state aids to cities** —Returning to the question of reducing Local Government Aid (LGA) to cities, Holberg said because of the historical way in which LGA is distributed, only one-half of the citizens in the state receive LGA benefit now. A reduction in state aid isn't automatically made up by dollar-for-dollar increases in local property taxes, she said. Usually, not more than one-half of such reductions are made up by property tax increases, she said.

*** Cities stressed for funds make necessary decisions** —Holberg noted that her community of Lakeville receives no LGA. Last year, pressed by lack of funds, Lakeville had to close one-half of its outdoor skating rinks. Meanwhile, St. Paul, which receives LGA was building rinks. She contended that communities that receive substantial aid from the state are not as prudent in the use of tax dollars.

*** Balancing the need to promote growth with the need to hold down spending** —A Civic Caucus member observed that a balanced approach is needed so that cities can invest in projects that promote growth while also avoiding high spending.

*** Channel higher education dollars where opportunity for subsequent employment is favorable** —It doesn't make sense, Holberg said, for the state to subsidize higher education courses in fields with few job opportunities for graduates. There's much better potential to channel limited higher education dollars where jobs are more plentiful, such as high technology, biotechnology, or nanotechnology, she said.

*** Should any campuses be closed?**— Holberg acknowledged a particularly difficult task facing the Legislature over whether to close low-enrollment higher education campuses. A local college

inevitably is an important source of jobs for the community. Perhaps, she said, Minnesota might consider an equivalent to the practice Congress follows in closing obsolete military bases. In that case, she said, a commission makes the closing decision, subject only to a Congressional override.

With a larger state grant-in-aid program, students will help decide the fate of institutions by their decisions of where to attend, Holberg said.

*** Tough choices on transit need to be made** —The Legislature faces a tough decision on where to find dollars to cover operating expenses for transit that don't come from the fare box, Holberg said. She anticipates that the state will put the brakes on new light rail lines. The North Star commuter rail line is under-performing. Holberg believes it's much smarter to invest in Bus Rapid Transit (BRT) as already in place on 35W and as being built on Cedar Avenue north from Lakeville.

*** Establishing a vision for the state** —It's very difficult in the stress of tight budgets to talk much about a vision for the state, Holberg said. The current message from the House majority a vision for creating jobs. Thus the state isn't going to raise taxes.

*** Potential for private investment in human services** —She's attracted to the idea of stimulating private capital investment in human services, as contemplated in the proposal by Steve Rothschild for human capital bonds.

*** Setting priorities on K-12 education: what works**— Asked about K-12 education, the largest piece of the state budget, Holberg said the Legislature needs to invest limited dollars in those areas of demonstrated accomplishment. She hopes for significant investment in the lower grades.

Thanks —On behalf of the Civic Caucus, Dan thanked Holberg for meeting with us today.