



REGIONAL COUNCIL OF MAYORS

January 11, 2010

INFORMATION AND DISCUSSION

SPECIAL PRESENTATIONS: TOM STINSON, STATE ECONOMIST

JOHN GUNYOU, CITY MANAGER, MINNETONKA

Minnesota Economic Forecast

Despite Tom Stinson's assurance that the short-term and mid-range budget outlook for Minnesota would be "a little more upbeat than last year," he first presented the sobering \$1.2 billion deficit forecast for the state in 2009 and followed with equally daunting statistics.

- In fiscal year 2010-2011, revenues will be down \$1.156 billion as a result of decreased sales, income, and corporate tax collections.
- It will take until the end of 2011 for the economy to reach its pre-recession level of late 2007 (GDP). It will take until 2013 for employment to recover. For most of 2010, the national unemployment rate is expected to stay at 10%, with a slight improvement forecast in 2011.
- Total US wages have declined over the past three quarters and are expected to decline in the fourth. This is only time that there have been consecutive wage decreases since 1970. In Minnesota, we have had a 4.4% year over year decline in wages and mirroring the nation, wages have fallen for the past four quarters.
- Housing recovery will be slower in MN as the crisis hit the state earlier and deeper than the rest of the US. In 2008, fewer than 1 million units were constructed nationally. This is the lowest number of housing starts since World War II, but in 2009, there will only be 550,000-600,000 units constructed.

The Great Recession and what it means for Minnesota

Stinson pointed out that "we have gone through a great recession, the longest and deepest since the second world war. Getting out of this recession is going to be a long, slow climb." The major problem is that the recession has permanently reduced the base for future revenues. In fact, Stinson posited that the outlook for 2012-13 is worse: the gap between revenues and expenditures will rise to \$5.4 billion—and this assumes that Minnesota's economy grows by 10% and that taxes rise. To fully eliminate this deficit, revenues would have to increase by 20%, making it very unlikely that the state will grow its way out of this shortfall.

Minnesota faces a fiscal trap—Fundamental changes are necessary

Minnesota is in a tough spot. Trend growth won't be sufficient to address the state's budget gap; revenue growth will slow; and elected officials and the public will resist tax increases. As the state's population ages, public investment focus will shift from education and infrastructure—two investments that spur economic growth—to health care and caring for the aging. Stinson concluded with the conundrum facing the state: "if we don't make public investments in human capital, research, and infrastructure, then we won't have the productivity gains needed to provide the resources to make those investments."

John Gunyou: Facing Our Fiscal Challenges

Gunyou outlined the three fiscal challenges facing the state: the immediate \$1.2b shortfall, the near-term (2012-2013) projected shortfall of \$5.4b accompanied by rising inflation; and what this means for the state in the coming decades. While other states are facing similar budgetary challenges, on a per capita basis, debt as a percentage of our budget, puts Minnesota in the top 10.

Gunyou pointed out that popular places to raise revenue—sin taxes and fees and charges—make up a very small portion of the revenue pie. Similarly when thinking about where in the budget to make cuts—he points out that reducing government spending on travel or conferences, while sound practice, doesn't amount to any major savings.

The long-term challenge

Gunyou showed an annual growth rate graph running from 2008 to 2033. Spending grows 5.4%/year and revenue grows at 4%/year, leaving a 1.5%/year structural gap. When this is compounded over 20 years, this is a "big deal." On healthcare spending alone, if the state follows its current trendline, in 25 years it will consume *the entire* budget—leaving no money for anything else. By 2020, there will be more seniors than juniors in the state and this growing demographic dependency requires that the state take a new approach. Gunyou suggests the state do the following:

- Balance the budget for the long-term, have an ongoing structural balance that doesn't rely on accounting shifts and one-time fixes
- Reform major cost drivers: healthcare, long-term care...since small changes are meaningless in light of these big issues.
- Invest in productivity: public infrastructure, education and incenting private development are key to spurring more economic growth. Responsibly govern for the long-term.

Finding the "new normal"

Gunyou suggests that local governments "break the cycle of codependency and wean off an unreliable state partner." Gunyou believes that looking forward, the local aid portion of the state's budget is going to decrease and that cities are better off using this funding for one-time capital expenditures rather than operating expenses. By adjusting to this "new normal" cities should plan on "permanently resetting the

base” which can mean staff cuts, program changes and making sure that budgets have an on-going structural balance. Gunyou’s concluding advice: “Invest in productivity, focus on customer service, and make sure to plant the trees today that will grow the fruit tomorrow.”

After the sobering presentations, attendees suggested possible tax reform scenarios including keeping more of the regionally-collected sales taxes within the region; diversifying sales taxes to reflect the current economy; and finding ways to reduce the volatility of the tax base. Gunyou pointed out that there is no simple solution to address the structural imbalance—he encourages the state to focus on first principles and spending on things that contribute to productivity.

HOUSING INITIATIVE

A letter of invitation to participate in the second round of Opportunity Cities was distributed at the meeting. Cathy Bennett Capone will also be sending out a copy to city managers. Applications are due 4:30 on February 16. 2-3 cities will be selected in the March-April timeframe. Feel free to contact Cathy Bennett at 612.670.8147 or the five Mayors from the first round of the Opportunity City Program to learn more (Brooklyn Park, Minnetonka, Richfield, Rosemount and Shoreview.)

JOBS/ECONOMIC DEVELOPMENT

MSP selected to participate in new Brookings Institution initiative

Mayor Harpstead shared news of the Minneapolis-Saint Paul region’s selection to participate in the Brookings Institution Metropolitan Business Plan initiative. We are one of three regions selected nationally, along with Cleveland and Seattle. Each region will be focusing on a “detailed development initiative” and the Twin Cities will be looking at how to create a more entrepreneurial culture and spur innovation, generally and likely with a particular focus in the medical device sector. A steering committee has been formed and they are building capacity for project implementation.

Itasca Project Jobs Task Force and RCM Regional Competitiveness Project

The Brookings Institution work is building on the work underway at the Itasca Project which is looking to identify the enablers that cultivate innovation and entrepreneurship. Another key focus of the groups is the concept of creating a unified regional economic vision and mechanism to promulgate it. This will also play out in the Brookings work.

The Regional Competitiveness Project is coordinating with mayors to schedule interviews between mayors and business executives to learn their views about doing business in the region. Snezhana Bessonov, ULI Minnesota’s new program assistant will be helping to coordinate this work. The mayors discussed the importance of these conversations and as well as the need to think about value versus bottom-line costs and the balance of assets and strengths versus costs of labor.

US CONFERENCE OF MAYORS REPORT

Congratulations to Mayor Elizabeth Kautz who became the 68th President of the US Conference of Mayors (USCM) on January 5, 2010. Mayor Kautz was commended for a great inaugural speech. (available at: <http://usmayors.org/pressreleases/uploads/20100105-inauguration-speech.pdf>) Mayor

Kautz reported that a group of Mayors will be meeting White House cabinet members and the President the week of January 18th. The USCM agenda is focused on growing regional economies and stimulating job growth; looking for opportunities to direct federal funding (especially transportation dollars) to metropolitan regions as opposed to through the state; and to pass a climate/energy bill. Mayor Kautz indicated that each RCM agenda will allow for time to raise issues that she can bring back to USCM.

COMPLETE STREETS RESOLUTION

A revised, model resolution on complete streets was provided at the meeting. Mayor Hovland and the Edina transportation commission developed a short version that was adopted by their City Council. Caren Dewar will e-mail this version to the mayors. Action on this needs to occur by mid-February, please let Dewar know if your city council adopts a similar resolution.

RCM BUSINESS

ULI MN Welcomes Snezhana Bessonov to the team. Snezhana joined ULI in January and will be staffing the initiatives and providing overall support for the organization. Welcome Snezhana! Her e-mail is: snezhana.bessonov@uli.org.

Coming Up

The next RCM meeting will be Monday, February 8, 11:30am-1:30pm, Dorsey & Whitney, 50 S. 6th St., Minneapolis, 15th floor-Minnesota Room.

ATTENDEES

Mayors

Tom Furlong, Chanhassen, Sandy Martin, Shoreview; Bill Droste, Rosemount; Elizabeth Kautz, Burnsville; Terry Schneider, Minnetonka; Stan Harpstead, Arden Hills; Jim Hovland, Edina; Mark Steffenson, Maple Grove; Steve Lampi, Brooklyn Park; Debbie Goettel, Richfield; Marvin Johnson, Independence; Mike Maguire, Eagan; Mary Hershberger Thun, Victoria; Doug Anderson, Dayton; Gene Winstead, Bloomington; Chris Coleman, Saint Paul; John Sweeney, Maple Plain; Peter Lindstrom, Falcon Heights; Bill Hargis, Woodbury; Ken Wilcox, Wayzata.

Staff and Contractors

Caren Dewar, executive director, ULI Minnesota; Cathy Bennett, Housing Initiative; Snezhana Bessonov, ULI Minnesota; Mary Kay Bailey, ULI Minnesota Communications.

Advisors and guests

John Adams, University of Minnesota; John Bailey, 1,000 Friends of Minnesota; Patricia Nauman, Metro Cities; Elizabeth Ryan, Family Housing Fund; Todd Klingel, Minnesota Chamber of Commerce; Carol Nielsen, Target; Ethan Fawley, Fresh Energy; Jeremy Hanson, City of Minneapolis; Ann Mulholland, City of Saint Paul; Kevin Frazell, League of Minnesota Cities; Michael Huber, Blue Cross Blue Shield of Minnesota; Hon. John Doll, Minnesota Senate; Gretchen Nicholls, LISC; Mia Adams, University of Minnesota; Alisha Cowell, University of Minnesota; Burke Murphy, DEED; Jon Commers, Donjek; Luke Weisberg, Twin Cities Greater Metropolitan Workforce Council; Brian Paulson, Greater Twin Cities Unite Way; Carolyn Roby, Wells Fargo/Minneapolis Workforce Council.