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Highlights of MCFE's 93rd Annual Meeting of Members and Policy Forum

The debate over Minnesota's economic future and state competitiveness is frequently reminiscent of the old lite beer commercial —– pitting the advocates of "more spending" against the advocates of "less taxes." That kind of simplicity may make for effective political messaging but fails to capture the complexity that business investment decision-making entails. Our 93rd Annual Meeting and Policy Forum, "**The Keys to Minnesota's Competitive Future**" examined the trends, issues, and challenges surrounding state competitiveness, where we stand today, and most importantly what we need to be doing going forward.

THE SITING EXPERT: Location Selection Drivers and Trends
THE NUMBERS: Benchmarking Minnesota's Competitiveness
THE DISCUSSION: State Competitiveness Panel
THE CHANCELLOR: Higher Education's Role, Challenges, and Opportunities

The Siting Expert: Location Selection Drivers and Trends

One of the nation's leading site selection authorities offers his perspective on how business decision-making with respect to locating and expanding operations has changed and continues to change.

With over 30 years of management consulting experience consisting of nearly 400 site selection engagements around the world spanning most every type of industry and business function imaginable, our keynote speaker Phil Schneider offered a depth of experience and perspective few can match. To set the table for the day, he presented a detailed, "behind the scenes" look at how the site selection process works and examined key trends shaping future business decision-making with regard to locating capital and people.

Triggers and Decision Factors

Schneider began by discussing the wide variety of factors that can trigger the need for a new location. The most common influence is the need to improve market access – getting the product or service to customers more efficiently and effectively. Reducing operating costs is another common trigger. Other influential triggers include the introduction of a new product or service (which existing facilities cannot handle), improving access to skilled labor, the need for upgraded infrastructure to handle increased operating demands, and the need to reduce operating risk of all types. Contrary to common perceptions, he noted the business tax and regulatory environment is not the biggest trigger, but that does not mean it is not an important consideration in the site selection process. Some historically influential factors have lost influence over time. Chief among these, he observed, are labor management relations. Whereas thirty years ago "right to work" laws were a major influence moving manufacturing from north to south, it is far less so today.

Phil Schneider

What do companies prioritize and emphasize? Decision factors will vary from industry to industry and function to function, but a number of key issues are always looked at to some extent. At the top of the list is the workforce and talent pool. Schneider emphasized that ability to sustain a high-quality workforce over time is just as important a consideration as developing and attracting that workforce in the first place. Noting that "turnover rates eat a company alive," Schneider pointed out sustaining the workforce requires finding places where talent is and wants to stay and reducing dependence on in-migrating populations. Infrastructure considerations, in all its forms, are a close second. As Schneider stated, "It's the first two things we look at. If you don't have workforce and you don't have infrastructure, you're not getting projects and growth."

With respect to variable operating costs (e.g. cost of work force, taxes, real estate, utilities) Schneider emphasized how important it is to look at these variable costs holistically, since an uncompetitive cost structure in one area can be more than offset by comparative advantages in other cost areas. Taxes in particular, he cautioned, "are often not what they seem." The absence of one particular tax may be more than offset by other, more onerous, taxes. High published rates may be very different from effective tax rates, which in reality could be quite favorable for a specific industry or function.

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One decision location factor which has increased in popularity in recent years is "clustering" – choosing to locate in places where other companies with similar needs and requirements are located. The idea behind clustering is that it creates an environment of increased productivity (through specialized inputs, access to information and knowledge transfer, and access to services and public goods), more rapid innovation (through cooperative research and firm competition), and new business formation. Schneider, however, cautioned that clustering can have several unintended consequences. The injection of thousands of highly paid people in highly connected businesses can disrupt the local economy by stretching infrastructure too thin and driving critical support businesses out of the market, impacting local affordability, and also making it much more difficult to actually sustain a workforce.

A final and often-overlooked decision factor is implementation – can you get the project executed. Schneider stated "you would be shocked" at how many otherwise good places fail this critical final test because local and state government processes are prone to unacceptably long delays or there is a lack of critical implementation services, such as construction.

A Look at Process

Shifting attention to the process employed in location decision-making, Schneider argued two misperceptions permeate the general public about how this is accomplished. The first is that site selection is fundamentally a task of identification. Instead, it's a task of elimination, or in his words, "systematically eliminating places that sub-optimize critical goals, objectives and specifications." He presented an inverted pyramid "filter" in which at every stage flaws and problems are identified and candidates are removed from consideration. Once the pool is reduced through this initial screening – to maybe 3-5 potential locations – then the deep dive into finding the optimal operating conditions begin. And only then do any negotiations begin with respect to incentives.

Schneider hypothesized that Amazon's recent regional headquarters solicitation was as much a data gathering effort as a site selection effort.

That leads to the second public misconception – that site selection is little more than shopping for tax incentives and credits. He noted, "the places that have greatest incentives are places that need them because they are some of the worst places to do business or they have some sort of fundamental flaw." Conceding that some recent high-profile case studies in the news create that appearance, he argued decision making focused on incentives is exceedingly rare – perhaps constituting 1-2% of projects – and is an awful way to approach business decision making. As he said, "Incentives are here today and gone tomorrow, while operating conditions exist for years."

Instead, sophisticated site selection decision models are used to bring analytical discipline to a decision process that inherently features significant emotional investment and internal company departmental biases. These models employ factor weights, scores, and model scenarios to inject necessary objectivity and allow capital requests to be backed up by solid evidence.

Site Selection Trends

Schneider observed that how consultants approach site selection and how clients perceive projects has changed dramatically. Much of this has to do with globalization. Thirty years ago, international projects for Schneider were rare and exotic. Recently, however, he went five years without a project that looked solely at the U.S.

Schneider identified three trends that have accompanied the ever-increasing complexity of the business decision-making ecosystem. First is the insatiable desire for more data so firms can better manage the risk of projects over time. Second, decision making models are getting more and more sophisticated – more scenario building and "what if" analyses. Finally, there is an expectation that the process be done faster. An analysis that used to be put together in 12-18 months is now expected to be completed in 4-6 weeks. For this reason, there is a major effort to automate the process as much as possible and obtain the necessary site data even before a client requires it. As an example of this, Schneider hypothesized that Amazon's recent regional headquarters solicitation was as much a data gathering effort as a site selection effort. Amazon now has an invaluable database and the best economic development ideas from hundreds of cities across the United States enabling them to potentially build an automated selection process for themselves.

What are the challenges for site selectors? In addition to acute talent shortages and serious infrastructure woes, Schneider also identified an anti-incentives backlash. Confessing that most in his business "wished they would go away too and projects would be based on their merits," he noted this is how free market capitalism has existed for decades, and incentives exist all over the world. He said it's important to recognize that location decisions reflect a public-private partnership with both sides eventually getting something from the relationship. By providing incentives, governments are essentially recognizing the payoff over time and investing a portion of that upfront to win the project. In the press, however, it is portrayed as a handout to companies. Unfortunately, some recent failed high-profile projects do merit that criticism. But he argued these cases are the exception, and there is no question that a decision by any state to rid itself of all credits and incentives would be welcomed by its neighbors.

What are the common features of site selection project and negotiation failure? Schneider identified three reasons: lack of transparency, surprise, and greed – with greed being most prevalent. Companies may try to extract concessions and commitments that reach far beyond what they are contributing to the community, or refuse to get involved in the civic culture of the community. Similarly, governments seek to "win" by failing to accommodate reasonable company requests to make the project work given the jobs, investment and local spending benefits the community will realize. The likelihood of project success, he maintained, improves where there is a balanced public-private partnership and the business has made efforts to be inclusive with other community stakeholders.

A Closer Look at the Workforce Challenge

Schneider concluded by returning to his primary concern, our acute workforce shortage. He noted the mounting skills shortage is not only pervasive across the spectrum of businesses but it is also getting more serious because jobs are changing frequently and expectation of needed skill sets is constantly evolving. Advanced processes are rapidly changing workforce demand. He remarked there is no longer any manufacturing out there that isn't "advanced" manufacturing, and described what goes on today on plant floors and even basic warehousing operations as "mindblowing" due to the constant march of automation and technology. But the growing gap in workforce expectations versus workforce capabilities extends far beyond technical skills to include soft skills like communication, critical thinking, team building, adaptability and cultural awareness. The result of all this is a simultaneous displacement of existing workers while critical workforce needs go unfilled.

He argued the talent problem is complex and rooted in a number of interrelated causes at the public, private, and individual level. Ultimately, it demands a massive collaborative planning effort and dedication of resources, along with close partnership between the public, private, institutional, and non-profit sectors. "It has taken decades to get into this workforce dilemma," he noted, "and it will probably take decades to get out." ■

The Numbers: Benchmarking Minnesota's Competitiveness

We revisit our 2013 report on Minnesota competitiveness to see where we stand and what has and hasn't changed.

Several years ago, MCFE published a report entitled "Finding Our Balance: Taxes, Spending and Minnesota Competitiveness" which reviewed and summarized the results from a number of national performance and ranking studies on state competitiveness and state business climate. Given the significant changes which have occurred over the state and federal policy landscape in recent years – and to provide additional grist for our annual meeting discussion – we revisited these studies and their findings to see where Minnesota's relative performance stands today and how the state is trending.

The accompanying table presents how our review is organized. It is decision-input oriented rather than economic performance oriented. While we recognize that "success can breed success" and having a robust, growing economy can by itself be a business attractor, our analysis emphasizes the type of business siting factors and considerations highlighted by our annual meeting keynote speaker.

A few caveats in presenting and interpreting the findings below merit recognition. First, state level findings will feature aggregation effects, meaning state findings can be very different from local / regional realities. In many cases metropolitan area measurements and comparisons are more likely to do a better job of presenting a more accurate understanding of competitive position.[1] We also recognize the existence of potentially better measures for these competitiveness issues and the availability of more recent information. For trend evaluation we relied heavily on revisiting the studies we examined in our previous report, but recognize that competitiveness "dashboard" and benchmarking efforts are increasing in both number and sophistication. Other studies may well shed greater light and accuracy on the issues and factors we examine. Finally, there are other important competitiveness issues (e.g. regulatory environment) that are important to business decision making but do not readily lend themselves to quantitative comparisons. We focus on indicators that can be quantified and compared to national averages.

The following is a preview and short summary of our findings – we will be publishing our full report early next year in advance of the 2020 legislative session.

Workforce Quality – Minnesota's reputation for having a high-quality workforce is backed by the numbers, and our relative performance compared to national averages over the past few years has actually improved in several important areas. Minnesota's population share with high school degrees and with associate degrees or higher both rank in the top 5 in the nation, a full standard deviation above national averages. The educational attainment of both foreign immigrants into the state and immigrants from other states are both above national averages (7% and 6% respectively) and Minnesota's managerial, professional, and technical share of private sector employment has moved into the top five in the nation. However, one potential issue to keep an eye on is the relative decline of the share of students enrolled in degree granting institutions. Minnesota has gone from 28% above the national average to 1% below the national average on this measure in a few short years. A recent article offers one perspective on what might be contributing to this trend.[2]

Physical Infrastructure – For all the concerns expressed about the state of our transportation and communication infrastructure and associated unmet needs, Minnesota can apparently take some perverse satisfaction in knowing a lot of states are more challenged than we are. Share of deficient roads and bridges are 28% and 36% below national averages respectively. While broadband access is modestly 2% above the national average, population access to highest speeds is 40% above national average. And flight access has gone from 2% below to 11% above national average in a few years' time placing the state 14th in the nation.

Innovation Infrastructure – Minnesota's intellectual and research foundation for

Foundational Competitiveness	Investment Attractiveness / Business Cost
Workforce Quality	State Fiscal Condition
Physical Infrastructure	Taxes
Innovation "Infrastructure"	Other Business Costs
Quality of Life	
Affordability	
Supportive Demographics	

[1] For an excellent example, see Greater MSP's Regional Indicators Dashboard *https://www.greatermsp.org/regional-indicators-2019/*. Our final report will include some of these intrastate and inter-regional findings.

[2] "The Students Disappearing Fastest from American Campuses? Middle-Class Ones." The Hechinger Report, October 2, 2019

innovation remains strong. Both company and independent patent performance rank in the top ten in the nation as does industry investment in research and development – 20%-70% above national averages. Non-industry research and development has remained 43% below the national average but is likely influenced by the lack of federal research presence in the state. Employment levels in "traded industry clusters," which academic research has found to promote innovation and productivity growth, continue to be significantly below national averages. However, our innovation capacity does not seem to be negatively affected, perhaps for the reasons discussed by Phil Schneider in his keynote address.

Affordability – From a state-level perspective the cost of living in Minnesota is 7% below the national average, but regional comparisons offer a much more useful viewpoint. The Minneapolis/St. Paul MSA is 2.2% above the national average while Minnesota's seven other metropolitan statistical areas offer a cost of living 7-10% below the national average and 9-13% below the Minneapolis/St. Paul MSA. Looking more closely at a couple of higher profile affordability concerns, Minnesota employees benefit from having some of the lowest health insurance costs in the nation (22% below the national average) although the ranking has slipped a bit from 3rd to 6th in the nation. On the other hand, concerns over child care costs in the state have support from state benchmarking findings – 10% above the national average.

Quality of Life – Unsurprisingly, public school quality as measured by test scores rank high in the nation but come with a huge asterisk. Aggregated math and reading scores are well above national average – in one case at nearly two standard deviations above average – but when performance is disaggregated by grade, subject area, and ethnicity, Minnesota's ranking plummets to 33rd in the nation. Performance in other areas such as air quality, commute times and public safety score above national averages, albeit the performance advantage relative to national averages has decreased somewhat.

Supportive Demographics – Relative performance in population growth, whether defined in total by resident (net birth/death) or by state to state migration, has improved over the past several years. Prime workforce share of the population (25-44) is right at the national average as it has been for several years. One potential area of concern in Minnesota's "dependency ratio" (0-14 and 65+ per 100 workers) has swung from 4% below the national average to 2% above the national average over the last several years suggesting that state general fund competition for productivity-related spending and investment may be growing relative to other states.

State Fiscal Condition – Ratio analysis from state consolidated annual financial reports measuring various dimensions of state solvency were prepared for us by the University of Minnesota Humphrey School. They confirm Minnesota's above average fiscal health relative to other states. Minnesota is also above average in minimizing risk and exposure to the supply of federal funds in supporting government operations. However, Minnesota's "off balance sheet" performance with respect to public pension liabilities indicates potential future competitive concerns. Public pension dependency on investment returns is 11th highest in the nation while at the same time our adequacy of contributions ranks 45th.

Taxes – Minnesota's consistently above-average performance on foundational competitiveness measures needs to be paid for, so it should not be too surprising that tax competitiveness is an area where the state lags. Total state and local taxes as a percent of money income is now 14% above the national average versus 9% several years ago. Business taxes paid per private sector employee ranks 25th, actually 7% below the national average (although business severance taxes to some extent distort the numbers and perspective this provides). Looking more closely at specific types of business operations and comparing them to findings from our previous report,[3] Minnesota continues to offer a tax-advantaged business climate for both capital and labor intensive manufacturing operations and research and development facilities. On the other hand, call centers, distribution facilities, retail establishments and headquarters operations are tax disadvantaged in Minnesota. Notably, unlike other states, Minnesota offers comparatively few offerings/little reliance on statutory incentives. As a result, whereas other states' effective tax rates for these types of facilities often swing wildly between new and established operations, Minnesota's are relatively consistent. A longer-term perspective on taxes frequently improves Minnesota's competitive position at least to some extent.

Other Business Costs – The states reluctance to raise the gas tax in recent years has reduced gas tax disparity from 18% to 4% above the national average, although it should be noted that some states also apply sales taxes to gas purchases and Minnesota does not. At the same time electricity prices have increased from 8% below the national average to 3% above the national average. The cost of providing health to private sector employees has remained essentially steady now at 3% below the national average.

In short, our findings from the past generally hold true today. Minnesota's foundational competitiveness remains strong with little evidence of state slippage (although some demographic issues present challenges.) But we do pay more for the level and quality of these services.

Three critical questions surround the competitive implications of Minnesota's historic higher tax/higher service model going forward. First, does federal tax reform – especially the limit on state income tax deductibility – affect the sustainability of the current approach to our high tax/high service model (and if so, what are the implications for state tax design)? Second, how do we preserve and protect our foundational advantages from demographic-driven budget competition, especially from health and economic support spending? And finally, does the value proposition to business of Minnesota's higher levels of taxation remain intact and – even more importantly —- how do we improve on it? ■

The Discussion: State Competitiveness Panel

A distinguished group of panelists representing different disciplines and perspectives examine Minnesota's supply and demand for talent, the sustainability of our higher tax/higher service approach to competitiveness, and whether placing our chips on the "tech economy" makes sense.

What does this competitive landscape mean for Minnesota and state policy makers go-

[3] We use editions of the "model firm" studies from the Tax Foundation and KPMG which calculate total effective tax rates for an identical hypothetical operation in all 50 states. Rankings and total effective tax rate calculations can be very sensitive to the assumptions used to construct these hypothetical business operations.

The Panelists

ing forward? Our discussion panel brought scholarly, practitioner and policy perspectives together to offer insights, conclusions and recommendations. Moderated by Star Tribune business columnist Lee Schafer, our panelists included Shawntera Hardy, entrepreneur and former DEED commissioner; Patrick Meenan, General Partner with the venture capital firm Arthur Ventures; Tim Penny, President and CEO of the Southern Minnesota Initiative Foundation; and Dr. Myles Shaver, Professor, University of Minnesota Carlson School of Management, and author of *Headquarters Economy: Managers, Mobility, and Migration.*

Schafer began by asking panelists if they saw any areas of concern in regard to losing competitive advantage, or areas where the Minnesota advantage is not as great as we may perceive it to be. Shaver argued what sets us apart from every other major metropolitan area in this country is how highly educated people move into the region and then stay in the region – our high concentration of highly educated, high earning talent "doesn't leave." However, there have been several indications that our growth is now being constrained by availability of that very talent pool. The key issue is whether we will continue to attract enough talent into the state while also building that talent within the state to grow at the speed we want to grow.

Building on this idea, Hardy reflected on the fact that many Minnesotans are not participating in this talent development process. Emphasizing the need for inclusive economic growth, she argued our greatest competitive challenge is ensuring communities of color, individuals with disabilities, and rural communities are part of the talent building, acquisition, and retention theme. Currently "it's the difference between being great and good," but looking forward, she saw a continuing failure to address this need having much more sobering competitive implications.

Penny reflected that some of the seeds of our talent problem can be traced back to earlier decades when we pushed to turn two-year educational institutions into college prep institutions and in many cases lost relevance to the job skills we need in this economy. As a result, with respect to technical training, "we are way behind the curve and need to catch up." He maintained we need to refocus on job needs and also be more adaptable and responsive to the needs of employers. Building on Hardy's comments, Penny added that challenges of economic inclusion with respect to talent creation can't ignore the importance of early childhood education. This is why the Southern Minnesota Initiative Foundation spends $1.5 million per year in this area as a long-term workforce investment.

Government's value proposition, he maintained, is determined by how the money is used, and we typically do not get adequate cost/benefit analysis of tax dollars because "politics drives the decisions instead of logic."

How do we keep our current workforce shortage problem from becoming a long-term enduring competitiveness problem? Shaver contended in the pursuit of talent that it's important to communicate the economic benefits offered by our high tax/high service model. As one example, he recently asked an audience of business executives from Oklahoma to guess what percentage of their Minnesota peers send their children to public schools. Guesses ranged from a quarter to a third, whereas Shaver's research found that number to be 85%. Benchmarking against the east coast, that translates into $60,000 in savings per year for two kids after taxes. This type of benefit can often be hidden while our high marginal tax rates are quite visible. Aside from ensuring benefits and types of returns we expect from tax dollars, he argued, we also must be more effective in communicating them to the world.

Is the talent pool here sufficient to support the start-up and emerging companies so important to state economic growth? Meenan stated for most part it is - especially at the non-managerial level. Where his firm struggles, he continued, is with executive level positions for which they may have to hunt for people to come and move to the Twin Cities. In his experience working with a business-to-business IT company portfolio, nobody has declined because they expressed concern about taxes being too high; these individuals are "typically more focused on growing their top line than managing their bottom line." Rather, the decision tree features three main branches: 1) how interesting the company is 2) how progressive is the culture in attracting a diverse workforce and 3) the general economic climate.

With respect to Minnesota's high tax/high service model, Schafer asked if are we getting the returns we should be expecting right now. If not, what should we be doing differently? Hardy argued in the big picture the answer is yes, but the issue of "who" is getting the returns needs more attention. In addition, she continued, we need to be paying more attention to evaluating outcomes. More time and effort needs to be spent on understanding just who is being served by our spending, finding out just what is being accomplished, and if it's not working, "stop doing it."

Picking up on the idea of "who" is being served with our spending, Penny reflected on his experience in Washington where the lion's share of federal spending went to people who were retired and served by programs in which costs escalated automatically with no discussion about why or the justification for it. Meanwhile, everything else – constituting 15% of federal budget – was fought over, including critical areas such as spending on children and workforce age adults. Government's value proposition, he maintained, is determined by how the money is used, and we typically do not get adequate cost/benefit analysis of tax dollars because "politics drives the decisions instead of logic." He cited the recent state debate over how to approach early childhood education as an example of this problem. The push to put all 4-year-olds into the public school system is an example of an effort where Minnesota would spend 4-6 times more money than targeted early childhood programs and still not solve the problem.

Based on his survey work Shaver commented he thought there was general acceptance of the current "deal" created by Minnesota's high tax, high service model among Minnesota headquarters talent. When headquarters respondents were asked what were the worst things about living in Minnesota, the answer was weather and taxes. Yet when also asked if they had to move what qualities or characteristics would be most important to them in a relocation decision, lower taxes were near the very bottom of the list while the things taxes purchased, like quality schools and good transportation, ranked higher. It's clear, he observed, that people intuitively assess this value proposition. But he cautioned if that return on spending or value proposition declines or "gets out of whack" our primary source of competitive advantage can be jeopardized. Talent pools have skills which are desired in other places and also have means to move.

Whether it's considered a state competitive disadvantage or a chronic business management and economic growth problem, both Hardy and Penny communicated that affordable housing and child care join talent access as the topics they come across deserving priority attention. Penny argued it's important to be more flexible, adaptable, and collaborative in programs and policies designed to address these issues, as one-size-fits-all solutions do not work.

Are there different competitive challenges in the metro versus rural Minnesota? Penny noted two major differences, both affecting access to high-end talent. In rural Minnesota there is not a lot of equity capital dedicated to these regions, so getting new business starts are difficult because businesses locate where the money is. Amenity differences also make leadership transitions more challenging as it is more difficult to get people to move to rural areas. Compounding the challenge is the difficulty finding suitable opportunities for spouses. Shaver noted his research bears this latter concern out. If you compare the Twin Cities to the 30 biggest metro areas in the country, the highest percentage of dual career couples reside here. The share of married couples both having college degrees are at all time highs and continue to climb. As a result, dual career opportunities are becoming an increasingly important talent attraction consideration which enhances the competitive position of the Twin Cities region.

How can Minnesota continue its notable legacy of building and sustaining globally competitive rural based companies? Meenan said he is a big proponent of regional early stage investment funds which we are seeing more of around the state. Penny said one critical key is succession planning and keeping leadership local. He repeated his earlier concern about equity challenges in rural parts of the state. The Southern Minnesota Initiative created its own small equity fund three years ago knowing it would not fill the gap but hoping to stimulate the attention and creation of other equity groups in the region, which has occurred.

Schafer noted there is a current emphasis within DEED and elsewhere to make Minnesota a bigger player in the tech economy. Critics have said a push to bolster MN's tech economy is a low return public investment at best. Are we late to the party? Is this a good use and focus of government money to drive a tech economy in our region?

Hardy began by saying "becoming a player in the tech economy" should absolutely not be interpreted as trying to emulate Silicon Valley. She described a recent trip there featuring an amazing Google campus "surrounded by 1970 Winnebagos owned by engineers who can't afford housing." It's important, she continued, not to look at technology as "a shiny separate thing," but rather as an increasingly integral and essential part of our existing industry base. Our efforts at developing a "tech economy" should focus on weaving tech advancements into all aspect of our existing diverse industry base to make them more productive and competitive. These types of tech economy initiatives are, in fact, essential. "We have the nucleus of almost every industry in terms of where it was built and where it can go," she said. "Imagine what technology entrepreneurs can do with that foundation to take us to the next level." Penny concurred saying this is precisely the way to look at this issue. For Greater Minnesota's three predominate industry sectors – agriculture, health care, and manufacturing – it is technological advancements that are positioning us for the future.

Meenan said the two fastest growing private companies in the state of Minnesota – which combined to grow from 30 to 350 employees in just two years – both occupy this intersection of technology and productivity enhancement for major Minnesota industry sectors. They are building business, hiring lots of young workers, fostering an inclusive culture, "and not complaining about taxes yet." Shaver noted people have different definitions of what they mean by "tech." Tech skills should be the focus, he said, as they are not industry bound. He argued that we should let the market and entrepreneurs best figure out how to put those skills to use. Deciding to champion an industry or sector is not the way we should be thinking or approaching this. ■

Closing achievement gaps is not just a moral imperative, "it is an economic imperative."

The Chancellor: Higher Education's Role, Challenges and Opportunities

Chancellor Devinder Malhotra of Minnesota State Colleges and Universities highlighted the critical role, challenges, and opportunities state colleges and universities play in supplying the necessary talent to Minnesota, both now and in the future.

With workforce-related issues and challenges being such a dominant theme in the morning's state competitiveness discussions, questions of how our higher education system is prepared to help meet that demand and deliver that talent naturally arise. MCFE was honored to have Chancellor Devinder Malhotra of Minnesota State Colleges and Universities as our luncheon speaker to provide insights on what the Minnesota state system currently offers, what it strives to offer in the future, and what it takes to deliver on that vision.

Devinder Malhotra

The Chancellor began by describing Minnesota's State Colleges and Universities significant – and often underrecognized – contribution to the state's workforce. Consisting of 37 colleges and universities on 54 campuses located in 47 communities across the state, the system serves over 350,000 students annually. Importantly, the system serves especially significant numbers of students in both rural and underserved communities. Nearly 60% of the system's students reside in greater Minnesota. Enrollment consists of 80,000 students from low income families, nearly 25,000 students 25 years old or older, and 50,000 first generation students. The system's 63,000 students of color or native origin is greater than the entire enrollment on the University of Minnesota Twin Cities campus.

Such diversity, he said, speaks to the system's strength and an impending challenge. The Minnesota State system is already aligned to the state's rapidly changing demographics and the demand for customized occupational training and skills. Of the system's 38,000 degrees, certificates and diplomas awarded each year, nearly 20,000 come from the system's career and technical programs. 50% of all state IT professionals, business graduates and teachers come from the system. But he said "we are not even close to where we need to be."

To meet the needs of the future, the Chancellor described several important initiatives under way. First is the nature of the relationship between the schools and private sector employees. He noted this historically transactional relationship is increasingly partnership-oriented. He described several examples of how partner companies are now part of educational delivery by "extending the landscape of learning" from the classrooms to the workplace. This, he remarked, is the beginning of a more ambitious effort to position the Minnesota State system to meet the needs of tomorrow. This new initiative, "Reimagining Minnesota State" –convened national experts and an advisory group of state thought leaders for a year long process to identify critical success factors to meet the needs of students, Minnesota employers, communities, and the state economy.

Chief among the conclusions was the absolute imperative to close educational equity gaps wherever they exist. Our gaps, he noted, have persisted for two decades and have hardly moved, but not from lack of trying. Students often come to the system with economic fragility and many other barriers which makes access and commitment to post-secondary education difficult. Between first and second years, Minnesota State Colleges and Universities experiences about 30% attrition, but in the overwhelming majority of those cases, he observed, the individuals are in good academic standing. Economic circumstances and related issues get in the way. Students face food insecurity and mental health issues. One in 10 face homelessness while in college. Seventy percent of Minnesota population increases in the future will come from diverse communities; in the Twin Cities that number is nearly 100%.

At the same time, he noted, 75% of emergent jobs will require some post-secondary credentials requiring us to draw workers from places with historically low participation rates in post-secondary education. That is why, he argued, closing achievement gaps is not just a moral imperative, "it is an economic imperative." Malhotra sees no way out of our workforce challenges or the ability to sustain and enhance our economic vibrancy without dramatically increasing the proportion of population within diverse communities with post-secondary credentials. For this reason, the Minnesota state colleges and universities board adopted what Chancellor Malhotra called a "moonshot" goal – to close all education equity gaps at every state college and university by 2030. To accomplish

From The Director

Mark Haveman

Our thanks again to our distinguished presenters and panelists, our event sponsors, and our members and guests for making our 93rd Annual Meeting of Members and Policy Forum such a success.

At our morning business session, MCFE members elected board members to serve three-year terms to expire in 2022 (and in a couple of circumstances to serve the remainder of a three-year term to fill an existing vacancy):

Katina Peterson	Dorsey & Whitney
John Armbruster	Allete
Pat Mascia	Briggs and Morgan
Tom Gottwalt	TCF
Mike Engelmeyer	Individual Member
Jerry Morris	General Mills
Dan Kidney	Clifton Larson Allen
Sarah Gette	PWC
Sandy Navin	Individual Member
Kevin Lewis	BOMA Greater Minneapolis
Andrew Bosl	CHS
Jed Larkin	3M
Brett Boutwell	nVent
Caroline Balfour	KPMG
Don Brown	Cargill
David Johnson	Faegre Baker Daniels

MCFE officers elected by the Board of Directors for 2019-2020 are:

President:	Jerry Morris, General Mills
Vice President:	Sarah Gette, PWC
Treasurer:	Tom Gottwalt, TCF
Secretary:	Jim Girard, Cook Girard

On behalf of all MCFE members and supporters, I want to thank these individuals for their support of the organization, for their contribution of time and talent to its governance, and for their commitment to the mission of the MCFE and the principles underlying our work.

— M. H.

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this, he concluded, will require unprecedented levels of cooperation among the private sector, public sector, communities, and college and university campuses.

Audience questions offered additional perspective and color on his presentation. Are training programs keeping up with the rapid changes occurring in manufacturing and IT? Chancellor Malhotra said to meet this challenge it's critical to concentrate not just on the work of the future but also the future of the work. The latter is becoming more and more vital. For example, "operating a machine" – or for that matter most any type of technical service – requires digital literacy, data analytics and data usage in real time, and understanding of business processing and supply chain management. The educational system, curriculum designs, and program delivery must be able to readily and quickly adapt to developments and changes in those three core areas. That is happening right now.

Keynote speaker Phil Schneider offered that from his experience, employers are facing two sets of skill related challenges: technical understanding and job readiness (i.e. "softer") skills. He said the latter (communication, critical thinking, leadership, teamwork, initiative, cultural awareness, etc.) often prove to be no less a hurdle than the former. What can/is the educational system doing to address them? The Chancellor replied we have long focused on the academic rigor of the programs but haven't adequately focused on the relevancy of these softer skills to the work and life of students. He offered three ways they are tackling this issue. The first is to extend the landscape of education from classrooms into the workplace with their company partners. Through experiential learning, the relevance and importance of these complementary and vital "soft" skill sets are much more evident and tangible. Second is to emphasize cross disciplinary programming in curriculum design and delivery. More and more liberal arts content, critical thinking, and problem solving is being embedded in the curriculum to mimic what the student will face in the workplace. Finally, the Minnesota state system is looking at opportunities to increase credit for prior learning – trying to figure out ways to give student credit for experiential learning in previous jobs. Why, he asked, should we make a student sit for weeks in a classroom just to certify the understanding the student already has?

How is the "Reimagining Minnesota State" initiative obtaining the support of internal stakeholders, such as faculty, which are no less critical to success? The Chancellor observed that this challenge is really no different than the challenge faced by any large organization seeking to respond and reposition to new realities and falls under the heading of change management. "Reimagining" raised the level of urgency and immediacy of the issues Minnesota State had to deal with. Change management was embedded into the process by including the participation and soliciting the feedback of all segments of the university system. Now the task is one of building alliances within the system to create critical momentum for implementing change. He concluded by noting the "one-third rule" of change – in any change effort, one-third are supporters and believers, one-third are strongly opposed, and one-third are on the fence and can be persuaded. Right now, he said the task is focused on that last segment to bring them to the "supporters" side which creates the needed mass for making change happen. ■