MINNESOTA Management & Budget

2013 Report of Fastest Growing Expenditures

Based on November 2012 Forecast

March 5, 2013

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The Honorable Paul Thissen
Speaker of the House
463 State Office Building
St. Paul, MN 55155

The Honorable Thomas M. Bakk
Majority Leader
226 State Capitol
St. Paul, MN 55155

The Honorable Lyndon Carlson Sr., Chair
House Ways & Means Committee
479 State Office Building
St. Paul, MN 55155

The Honorable Richard Cohen, Chair
Senate Finance Committee
121 State Capitol
St. Paul, MN 55155

The Honorable Kurt Daudt
Minority Leader
267 State Office Building
St. Paul, MN 55155

The Honorable David W. Hann
Minority Leader
147 State Office Building
St. Paul, MN 55155

Subject: 2013 Report of Fastest Growing Expenditures

Dear Senators and Representatives:

In accordance with M.S. 16A.103, subdivision 4, which directs the commissioner of Minnesota Management & Budget to report by January 10 of an odd-numbered year on programs for which expenditures projected for the next biennium (FY 2014-15) under current law exceed by 15% those of the current biennium (FY 2012-13), I have attached the 2013 Report of Fastest Growing Expenditures.

Please direct questions regarding this report to John Pollard at (651) 201-8039 or John.Pollard@state.mn.us.

Sincerely,

Jim Schowalter
Commissioner

Attachment

cc: Senator Michelle L. Fischbach, Eric Nauman, Senate Fiscal Analyst
Representative Mary Liz Holberg, Bill Marx, House Fiscal Analyst

Fastest Growing Expenditures

Reporting Requirement

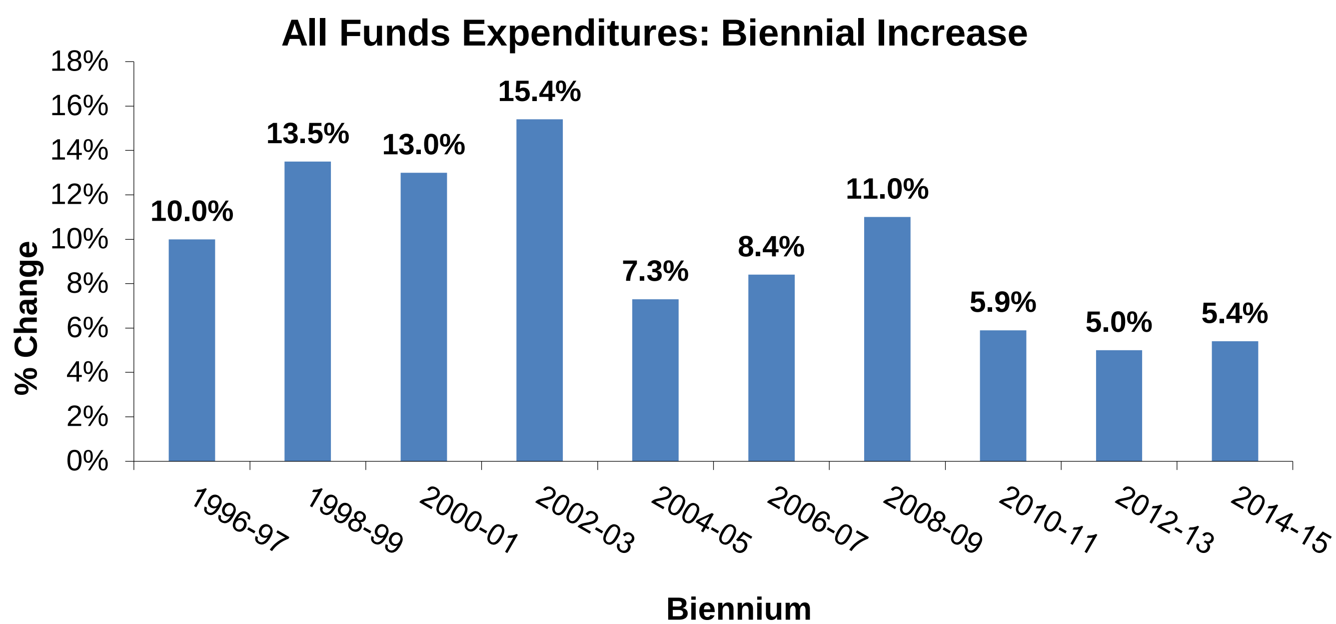
This report identifies the fastest growing elements in Minnesota's state budget and reviews factors that have led to the growth. Information is based on the November 2012 economic and budget forecast.

"Fastest Growing Expenditures" is required under Minnesota statutes 16A.103, subdivision 4, first enacted in the 2005 legislative session.

> *Subd. 4.* ***Report on expenditure increases.*** *By January 10 of an odd-numbered year, the commissioner of management and budget must report on those programs or components of programs for which expenditures for the next biennium according to the forecast issued the previous November are projected to increase more than 15 percent over the expenditures for that program in the current biennium. The report must include an analysis of the factors that are causing the increases in expenditures.*

All Funds Expenditure Trends

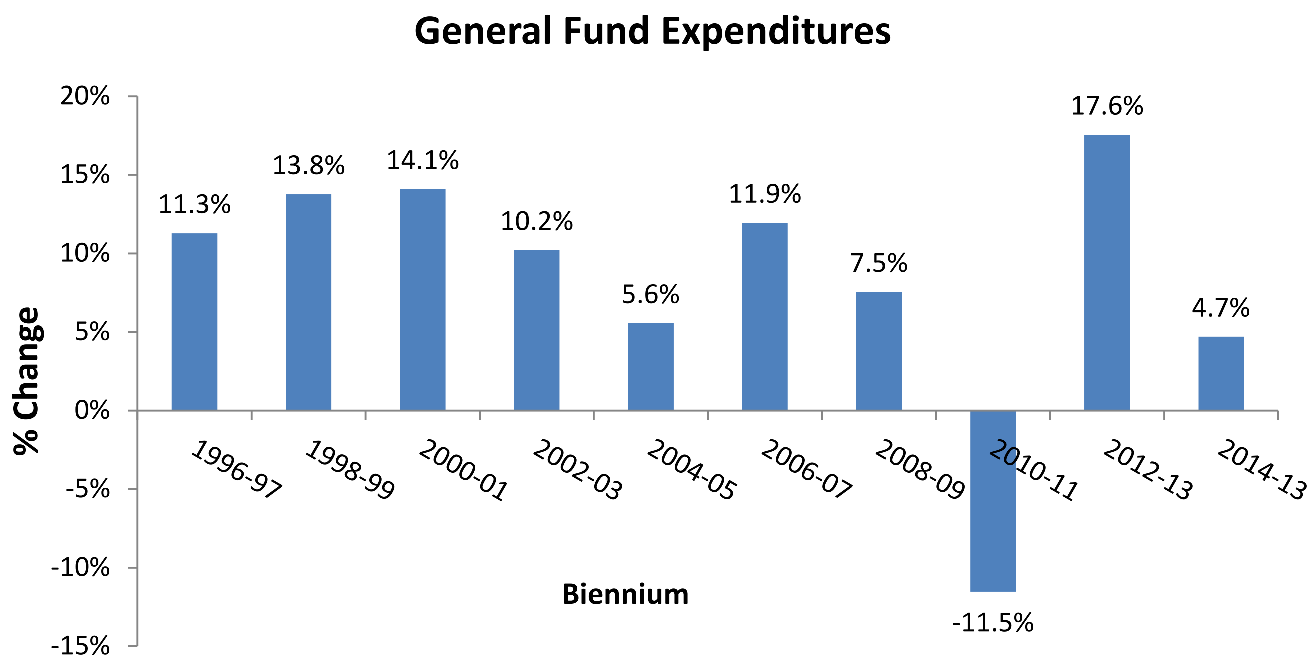
The current forecast for the budget for the current biennium (FY 2012-13) reflects an 5 percent increase over the previous biennium, while projected all funds spending for the upcoming biennium (FY 2014-15) will increase 5.4 percent over the current biennium. Over the last decade, the growth in state spending has averaged 7.5 percent per biennium, and 10.5 percent over the last twenty years.



Many factors can contribute to growth in spending. In the last decade human services program costs have been among the most prominent - driven largely by health care enrollment growth and increasing medical costs. Legislative budget decisions to spend more on particular programs are another primary factor. Legislative action to consolidate Information Technology services represents a significant portion of the increases in this edition of the report. Increases in other areas may be less apparent, often representing a much smaller share of the overall budget.

General Fund Expenditure Trends

The current forecast for general fund spending for the current biennium (FY 2012-13) reflects a 17.6 percent increase from the previous biennium, while projected general fund spending for the upcoming biennium (FY 2014-15) will increase 4.7 percent over the current biennium. Over the last decade, the growth in general fund spending has averaged 11.4 percent per biennium, and 10.8 percent over the last twenty years.



Spending estimates have been reduced in both the 2012-13 and 2014-15 biennia. General fund spending for the current biennium is forecast to be $34 billion, down $262 million (0.7 percent), from end-of-session estimates before additional spending is added reflecting the K-12 shift buyback. FY 2014-15 spending is projected to be $100 million below prior estimates.

While a fairly significant amount of FY 2012-13 revenues do not continue into FY 2014-15 one-time spending reductions used in FY 2012-13 also distort spending growth projections. General fund spending for FY 2014-15 is estimated to total $37 billion, $1.6 billion more than FY 2012-13.

Forecast spending in health and human services is estimated to be $743 million (6.9 percent) more than FY 2012-13 while K-12 spending estimated to be $795 million higher (5.5 percent). Furthermore, the one-time use of tobacco bond proceeds to pay general obligation debt service artificially reduced spending by $646 million in FY 2012-13. In FY 2014-15 general obligation debt service is once again paid for from the general fund.

After the increases in K-12 education and property tax aids and credits spending related to the school shift buyback are accounted for state general fund spending for FY 2014-15 is $37 billion, a 4.7 percent increase over the current biennium.

Timing and Reporting Period

For this report, the biennial comparison includes FY 2012-13 and FY 2014-15 current law projections as shown in the November 2012 expenditure forecast.

"Fastest growing" items were identified if the change in expenditures was 15 percent or more, biennium to biennium. This should not be confused with 15% *annual* increases. For a program to grow 15% biennium to biennium, its average annual growth rates would be closer to seven or eight percent.

Report Format

The body of the report lists budget activities that met the initial threshold of 15 percent growth. Comments are displayed that explain the nature of the unique factors contributing to the expenditure growth.

In a significant number of instances, the explanation points to a one-time budget action or new programs funded by the legislature.

How the items in the body of the report were identified

Total state spending, involves approximately 6000 separate appropriation identification codes, of which 1000 are in the general fund. Generally, this report represents budget activity level spending authorizations, which may include multiple appropriations.

This level of reporting is substantially comparable to prior year reporting. Prior year reporting referred to program-level spending, however, the components presented were budget activities for many agencies.

To identify initial data on expenditure increases, information from the state budget system on actual spending for FY 2012 and budgeted spending for FY 2013 was used and compared to budgeted spending for FY 2014-15.

The following criteria were applied:

- All state operating funds – excluding federally funded appropriations - were included.
- Spending at the program and budget activity levels was reviewed. Budget activities to be reported were determined by comparing:
  - 2012 actual data plus 2013 modified budget (to represent the 2012-2013 biennium),
  - 2014 and 2015 forecast budget amounts (to represent the 2014-2015 biennium).

The data was drawn from the state budget system. This report covers forecast and non-forecast spending changes.

- Small items, those with biennial changes under $250,000, were excluded.
- Items that resulted solely from budget structure changes within an agency are excluded from the report.
- Items resulting from accounting treatment differences between the accounting and budget systems were excluded.

Does the report identify specific categories of state expenditures?

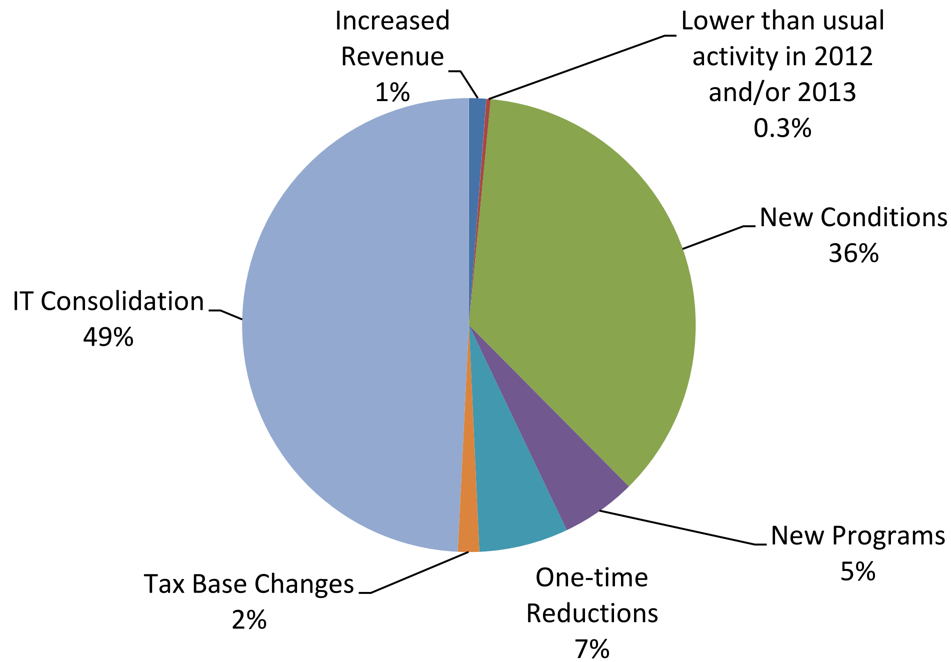
Please note that this report organizes data by specific budget activities. The report does not analyze expenditures by categories (e.g. payroll expense, operating costs). Some specific expenditure categories may grow rapidly but are not highlighted. The requirements for this report specify the perspective for analysis: components of agencies' budget structure.

For example, the cost of prescription drugs is included in the spending for health care programs, state operated services, and correctional facilities. While these costs may contribute to overall program growth, they are not identified separately in this report.

Additional Information

Information in this report has been prepared by the Budget Services Division, Minnesota Management and Budget (MMB). In some instances explanatory information and data presented is based on analysis by financial staff in the relevant agency.

Type of Increase, for item s covered in this report ($1.4 billion)



Many factors can contribute to growth in spending. Not all increases are reflected in this report or the graph above – only those programs and their components increasing above 15% from 2012-2013 to 2014-2015 current law base. An attempt to categorize the items in this report highlights eight major factors in play for the subset of increases in this report:

Information Technology Consolidation: In 2011, the Legislature adopted measures to consolidate information technology within the State's IT agency (now called MN.IT). The measures included consolidating agency IT spending and personnel. This impact is seen in MN.IT budget activities.

New Conditions: Current law allows for changes in base funding for many activities statewide based on changes in underlying program usage and related economic conditions. In the last decade human services program costs have been among the most prominent - driven largely by health care enrollment growth and increasing medical costs.

One-time Reductions: Budget reductions in 2012-13 included components that were one-time in nature. As these reductions are reinstated in the current law base, increases above the percentage set in statute for display in this report result.

Lower than usual activity in 2012 and/or 2013: Data in this report for 2012 represent actual spending. Agencies may not spend the full amount of their appropriations. Data in this report for 2013 represent the current modified budget as entered by agencies in the budget system. In the modified budget, agencies may reallocate funding within their agency, as allowed in law. Both of these conditions may result in comparative amounts for 2012 or 2013 being lower than the ongoing anticipated activity in the program.

Increased Revenue Estimates: Some programs' expenditures are set by the amount of revenue collected. These increases are allowed within current law.

New Programs funded by the Legislature: The Legislature may decide each biennium to create new programs.

Property Tax Base Changes: Within in current law, increases related to changes in property tax bases changes statewide may result in changes to programs in the tax policy aids and credits area.

Increased Program Funding by the Legislature: The Legislature may decide each biennium to increase funding over for particular programs that already exist, over and above current law.

($'s in Thousands)

Bill Area	Agency	Program	Fund	Budget Activity	FY12	FY13	FY12 & FY13	FY14	FY15	FY14 & FY15	DIFF	%DIFF	Description of Increase	Type of Increase
E-12 Education														
	Education	Other General Education	General	Abatement Revenue	1,406	2,417	3,823	3,015	3,252	6,267	2,444	63.93%	Due to the recession and declining commercial and residential property values, abatements have increase 26%, 59% and 52% each year in the last 3 years. There is an expectation that abatement growth will continue but at a slower rate of growth. Also contributing to the forecasted growth is a pending claim in the tax court for the St. Paul Ford Plant (estimated taxes abated of $3M).	Tax Base Changes
	Education	Other General Education	General	Consolidation Transition	145	248	393	469	484	953	560	142.49%	Consolidation Aid is based on estimated number of districts that will consolidate. Aid is allowed for two years after consolidating. FY 2012-13 is artificially low due to no consolidations occurring in FY 2012, reducing slightly FY 2013 funding. FY 2014-15 funding levels are consistent with historical experience.	Lower than usual activity in 2012 and/or 2013
	Education	Special Student & Teacher	General	Literacy Incentive Aid	-	40,083	40,083	52,359	53,836	106,195	66,112	164.94%	Funding for the new Literacy Incentive aid started in the second year of the current biennium, therefore only 82.5% of one year is included in FY 2012-13 biennium total.	New Program
	Education	Facilities & Technology	General	Health & Safety Revenue	92	189	281	450	437	887	606	215.66%	Red Lake and Houston school districts have low property value per pupil and receive the vast majority of their health and safety revenue in the form of aid. Both of these districts have added new health and safety projects in recent years and thus the state aid increases significantly.	New Conditions
	Education	Facilities & Technology	General	Debt Service Equalization	11,449	19,452	30,901	19,539	24,653	44,192	13,291	43.01%	Aid for Debt Service Equalization relates to declining Adjusted Net Tax Capacity (ANTC) in some districts. The decline is driven by the elimination of the homestead credit and by lower residential property valuations in the wake of the recession. Districts with lower ANTC will receive larger aid payments.	Tax Base Changes

($'s in Thousands)

Bill Area	Agency	Program	Fund	Budget Activity	FY12	FY13	FY12 & FY13	FY14	FY15	FY14 & FY15	DIFF	%DIFF	Description of Increase	Type of Increase
	Education	Facilities & Technology	General	Deferred Maintenance	2,287	3,842	6,129	3,680	3,807	7,487	1,358	22.16%	Deferred Maintenance Aid relates to declining Adjusted Net Tax Capacity (ANTC) in some districts. The decline is driven by the elimination of the homestead credit and by lower residential property valuations in the wake of the recession. Districts with lower ANTC will receive larger aid payments.	Tax Base Changes
	Education	Early Childhood & Family Support	General	Access to Quality Early Learning	-	2,000	2,000	3,000	3,000	6,000	4,000	200.00%	Funding for the new Early Learning Scholarships started in FY 2013 at $2 million. The program grows to $3 million each year based on current law appropriations.	New Program
	Education	Community Education	General	Community Education	442	905	1,347	930	1,047	1,977	630	46.78%	Funding for Community Education is expected to increase as more districts report that they are operating youth after-school enrichment programs.	New Conditions
Property Tax Aids and Credits														
	Tax Policy Aids and Credits	Refunds	General	Prop. Tax Refund - Special	2,217	3,249	5,466	4,400	5,060	9,460	3,994	73.05%	The targeted property tax refund program is very volatile; the level of growth depends on how many local jurisdictions have property tax levy increases and on shifting market valuations. In the current biennium local levy increases have been lower than initially expected and the current forecast for future years project levy increases to return to historical norms. Future increases or decreases in the targeted homeowner's property tax refund program depend on localized levy and market value changes.	Tax Base Changes
	Tax Policy Aids and Credits	Other Local Government Payments	General	Senior Prop Tax Deferral Reimbursement	1,202	1,370	2,572	1,660	2,170	3,830	1,258	48.92%	As demographic changes continue, participation in the senior property tax deferral program increases.	New Conditions

($'s in Thousands)

Bill Area	Agency	Program	Fund	Budget Activity	FY12	FY13	FY12 & FY13	FY14	FY15	FY14 & FY15	DIFF	%DIFF	Description of Increase	Type of Increase
Health and Human Services														
	Human Services	Forecasted Programs	Health Care Access	MinnesotaCare	263,973	281,167	545,140	453,770	534,754	988,524	443,384	81.33%	Two factors drive expenditure growth. First, federal health care reform mandates that individuals obtain insurance coverage, so the forecast for MinnesotaCare assumes higher enrollment. In addition, DHS's 1115 PMAP waiver, which allows the state to share the cost of the MinnesotaCare program with the federal government, expires on January 1, 2014, which means the state will receive less federal funding, while continuing to incur the same level of cost.	New Conditions
	Human Services	Grant Programs	General	Aging & Adult Services Grants	12,154	12,455	24,609	22,043	22,909	44,952	20,343	82.66%	This growth reflects the restoration of base funding levels for FY2014/15 for Essential Community Support grants after there were large one-time reductions of this funding for FY2012/13. The implementation of this new program could not occur in FY2012/13 because needed federal approval hadn't been received. The large percentage increase also reflects one-time reductions in another grant program within this BACT, the Community Service/Service Development. Again, the increase in FY2014/15 is due to restoring base funding.	One-time Reduction
	Human Services	Grant Programs	Restricted Misc Special Rev	CD Treatment Support Grants	607	900	1,507	900	900	1,800	293	19.48%	This reflects a return to base funding levels for FY2014/15. There was a one-time cancellation of funding that was not able to be used in 2012, because there was a reduction in the number of available providers in 2012.	Lower than usual activity in 2012 and/or 2013
Public Safety														
	Corrections	Correctional Institutions	General	Institution Support Services	11,147	13,112	24,260	16,909	18,333	35,243	10,983	45.27%	This budget activity includes funding for a forecast increase in prison population. The anticipated growth is approximately 400 offenders from the currently funded level in FY 2013 to 9620 offenders in FY 2015. In FY 2014-15, $12.4 million is added to this activity to partially fund that anticipated increase. This is partly offset by other one-time transfers into the activity in the FY 12-13 biennium.	New Conditions

($'s in Thousands)

Bill Area	Agency	Program	Fund	Budget Activity	FY12	FY13	FY12 & FY13	FY14	FY15	FY14 & FY15	DIFF	%DIFF	Description of Increase	Type of Increase
	Public Safety - Public Safety	Homeland Security & Emergency Management	Restricted Misc Special Rev	Nuclear Plant Preparedness	2,723	4,291	7,014	4,613	4,500	9,113	2,099	29.93%	The increase results from a negotiated agreement with Excel Energy for preparedness planning for nuclear disasters.	Increased Revenue
	Public Safety - Public Safety	Gambling & Alcohol Enforcement	Restricted Misc Special Rev	Gambling Enforcement	331	1,138	1,469	1,009	1,009	2,018	549	37.33%	The increase was due to lower than anticipated spending in FY 2012 and an increase in electronic pull-tab receipts.	Lower than usual activity in 2012 and/or 2013; Increased Revenue
	Public Safety - Public Safety	Office Of Justice Programs	Restricted Misc Special Rev	Crime Victims Services	359	644	1,003	678	680	1,358	355	35.40%	The increase is from an increase in funds from the Department of Corrections for inmate restitution.	Increased Revenue
	Public Safety - Public Safety	Minnesota Firefighters Training & Education	Restricted Misc Special Rev	Minnesota Firefighters Training & Education	2,393	1,661	4,054	2,764	2,764	5,528	1,474	36.37%	The increase results from additional legislative appropriations from the Fire Safety Account for firefighter training.	Increased Program Funding by Legislature
Transportation Bill Area														
	Transportation	Multimodal Systems	Hangar Loan Revolving	Aeronautics	260	531	791	536	536	1,072	281	35.59%	The increase results from the forecast increase of loan activity (receipts and expenditures) within the hangar revolving loan fund. All receipts are appropriated for additional construction of hangar buildings.	Increased Revenue
	Transportation	Multimodal Systems	Transit Assistance	Transit	22,043	39,171	61,214	36,118	39,195	75,313	14,099	23.03%	The increase results from the forecast increase in car sales and the resulting increase in Motor Vehicle Sales Tax and Motor Vehicle Lease Sales Tax.	Increased Revenue
	Metropolitan Council-Transportation	Transit	General	Met Council Transit	39,038	39,038	78,076	64,889	64,970	129,859	51,783	66.32%	The increase reflects a return to the base after one-time reductions in '12-13.	One-time Reduction
	Public Safety - Transportation	Driver & Vehicle Services	Restricted Misc Special Rev	DVS Support	7,425	17,370	24,795	28,226	16,659	44,885	20,090	81.03%	The increase results from higher spending projections for the MNLARS Project as it progresses through implementation phases.	New Conditions
	Public Safety - Transportation	Pipeline Safety	Restricted Misc Special Rev	Pipeline Safety	608	1,454	2,062	1,454	1,454	2,908	846	41.05%	The increase results from lower than anticipated spending in FY 2012. Pipeline Safety bills operators only for actual cost incurred for inspection and enforcement.	Lower than usual activity in 2012 and/or 2013
Agriculture Bill Area														
	Agriculture	Value-added Products	General	Value-Added	2,308	3,223	5,530	10,235	10,235	20,470	14,940	270.13%	This program received a one-time base reduction in FY12 & FY13. FY14 & FY15 returns to base funding levels.	One-time Reduction

($'s in Thousands)

Bill Area	Agency	Program	Fund	Budget Activity	FY12	FY13	FY12 & FY13	FY14	FY15	FY14 & FY15	DIFF	%DIFF	Description of Increase	Type of Increase
Economic Development														
	Iron Range Resources and Rehabilitation Board	Operations	Iron Range Resources	Operations - IRRRB	2,058	2,860	4,919	2,860	2,860	5,720	802	16.30%	Difference from FY 2012 to FY 2013 is due to expenditures coming in below budget in FY 2012. Operations budget is constant through FY2015.	Lower than usual activity in 2012 and/or 2013
	Iron Range Resources and Rehabilitation Board	Pass-through Funding	Iron Range Resources	Pass-through Funding	7,746	17,195	24,941	14,719	14,786	29,505	4,564	18.30%	Due to increases in taconite production for 2012-2013 (FY 2014-2015), IRRRB will receive additional resources for the Taconite Economic Development Fund.	New Conditions
	Iron Range Resources and Rehabilitation Board	Projects	Iron Range Resources	Projects	9,249	7,500	16,749	13,000	14,500	27,500	10,751	64.19%	Due to increases in taconite production for 2012-2013 (FY 2014-2015), IRRRB will receive additional resources for programs.	New Conditions
State Government														
	MN.IT Services	IT For Minnesota Government	Enterprise Technologies	IT Standard Services	37,046	36,565	73,611	128,039	125,321	253,359	179,749	244.19%	This increase is due to IT consolidation.	IT Consolidation
	MN.IT Services	IT For Minnesota Government	Enterprise Technologies	Application Development/ Support	31,034	36,045	67,078	177,674	189,563	367,238	300,159	447.48%	This increase is due to IT consolidation.	IT Consolidation
	MN.IT Services	IT For Minnesota Government	Enterprise Technologies	Projects/ Initiatives	5,872	8,214	14,086	54,335	58,765	113,100	99,015	702.95%	This increase is due to IT consolidation.	IT Consolidation
	MN.IT Services	IT For Minnesota Government	Master Lease	Leadership	3,782	5,900	9,682	14,310	14,310	28,620	18,938	195.61%	This increase is due to IT consolidation.	IT Consolidation
	MN.IT Services	IT For Minnesota Government	Enterprise Technologies	Leadership	16,880	19,411	36,291	57,339	55,639	112,978	76,686	211.31%	This increase is due to IT consolidation.	IT Consolidation
	Management and Budget	Statewide Services	General	Treasury	1,744	1,615	3,358	1,981	1,981	3,961	603	17.96%	The increase in expenditures is based on the assumption existing vacancies will be filled in fiscal year 2014.	Lower than usual activity in 2012 and/or 2013
	Management and Budget	Statewide Services	Management Analysis	Human Resource Management	743	1,918	2,662	2,118	2,118	4,237	1,575	59.17%	The increase in expenditures is based on an increased activity in Enterprise Learning and Development--a fee-for-service unit within MMB.	New Conditions
	Veterans Affairs	Veterans Health Care	Other Misc Special Rev	Veterans Health Care	3,273	4,205	7,478	5,308	5,313	10,621	3,143	42.02%	This increase in spending is due to efforts to modernize and update IT services and support at the veterans homes in order to bring them in to industry-level standards of care.	New Program
	MMB Non-operating	Tort Claim	Trunk Highway	Tort Claim	28	600	628	600	600	1,200	572	91.04%	Tort claims payments in 2012 were relatively low. The forecast assumes a level of anticipated activity more comparable to historical trends.	Lower than usual activity in 2012 and/or 2013