The Minnesota Budget:
A Fiscal Policy Analysis

Office of Fiscal Policy Analysis
Minnesota State Senate
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Introduction

This document is the second in a series of reports issued by the Office of Fiscal Policy Analysis that summarize and review the fiscal policy of the State of Minnesota.[1] Typically each legislative session is followed by fiscal reports issued by a number of organizations in the state. These reports describe the appropriations adopted and may explain new programs that were established. This is an important undertaking.

This report is different from those prepared by these organizations. The Legislature does not begin each budget session anew constructing state programs from scratch. There is a great deal of continuity from biennium to biennium in the program structure, the funding levels, and over all fiscal goals of state government. Rather than produce a snapshot of appropriation numbers, the intent of this document is to provide a context to understand this policy. As a fiscal document it certainly contains data on state appropriations. But more importantly, this is an analytical document that describes the current status of state fiscal policy and reviews the action of the last session in light of this status.

Since this document is produced by a legislative fiscal office, it is divided into the same categories as the committee structure of the Senate and House. Section one provides an overview of the state budget, some trends over the last two decades, and the composition of total spending by general spending area. This section is followed by an analysis of each budget area. Each section follows a similar outline. Part one presents an overview of the budget area. This is followed by a fiscal summary of the actions taken in1999. The third part explains major fiscal policy changes made during the session and describes how these changes fit into recent trends. Finally, the section may contain an analysis of a focus topic.

As with any document that contains expenditure and revenue data, the figures in this report are only as current as the next forecast. To make this report more useful for the pending 2000 session, the information from the November 1999 forecast is reflected where it is appropriate.

The staff of the Office of Fiscal Policy Analysis is responsible for preparing each of the sections of this report. The staff and the areas they prepared are as follows: General Overview and Taxes-Mark Misukanis; Criminal Justice-Chris Turner; Family and Early Childhood Funding- Anita Neumann; Economic and Community Development- David Jensen; Environment and Natural Resources- Steve Ernest; Higher Education- David Buelow.; Health and Family Services- Barb Juelich; Elementary and Secondary Funding- Eric Nauman; Government Financing- Kevin Lundeen; Transportation- Amy Vennewitz.

[1] Office of Fiscal Policy Analysis, 1998 Fiscal Summary, Vol. 1

Overall Fiscal Policy Summary

Overview

The spending budget adopted by the Legislature for the 2000-2001 biennium is $36.9 billion. This figure includes the general fund total of $23.6 billion and $13.3 billion in 32 other reported special revenues, expendable trust, and debt service funds.

This $36.9 billion does not include all of the budget responsibilities of the state. Excluded are funds for capital projects, enterprise and internal service funds, fiduciary funds that relate to pensions, certain expendable and non- expendable trust funds such as the Permanent School Fund, and component unit funds such as the Housing Finance Agency. By their nature these areas do not directly deal with the delivery of state services. The Comprehensive Annual Financial Report contains a summary that includes all of these funds.

The funds reported in this section possess another important distinction. They receive direct scrutiny from legislators in the budget process. Typically, the general fund direct appropriations receive more scrutiny than other state funds or standing appropriations. For example, federal funds usually do not receive a great deal of attention in the budget process.

Fiscal Summary

Table 1-1 below summarizes the revenues and expenditures for the Consolidated Fund Statement. The Consolidated Fund Statement reports revenue and spending decisions for a total of $36.9 billion for the 2000-01 biennium.

Table 1-1
Consolidated Fund Statement
(In millions)

	1998-99 Biennium			**2000-01 Biennium**		
	1998	**1999**	**Total**	**2000**	**2001**	**Total**
Adjusted Balance Forward	3,745	4,552	3,824	3,717	3,922	3,727
Net Receipts	16,631	16,346	32,977	18,363	19,170	37,533
Transfers	-165	-153	-318	66	66	132
Total Resources Available	20,212	20,745	36,483	22,146	23,158	41,392
Expenditures	15,613	16,977	32,590	18,154	18,597	36,751
Transfers	126	62	188	79	52	131
Total Uses	15,738	17,038	32,776	18,234	18,649	36,883
Balances Before Reserves	4,473	3,706	3,706	3,912	4,510	4,509
Reserves	2,315	2,049	2,049	2,254	2,675	2,675
Budgetary Balance	2,158	1,657	1,657	1,658	1,835	1,835

Net receipts are expected to grow by $4.6 billion, or 13.8 % between the 1998-99 and 2000-01 biennium. This growth is somewhat deceptive because there were three different rebates (two property tax and one sales tax) that reduced the actual 1998-99 figures. The sum of these three rebates is $2.2 billion. If this amount were added to the 1998-99 total, the biennial difference is about

$2.4 billion, or about a 6.7% growth in net receipts.

Total uses are expected to grow at $4.1 billion, or about 12.5%. This is somewhat slower than the change in actual receipts, but substantially higher than the change in receipts adjusted for the rebates. This means that the state's economy, and in turn the state's budget picture, can support both strong growth in expenditures and substantial tax reduction.

The balances at the end of the budget period remain substantial even with the revenue and expenditure changes. On June 30, 2001 the expected level of Balances Before Reserves is $4.5 billion. This level is more than 12% of Total Biennial Uses of $36.9 billion.

Although the Consolidated Fund Statement reflects the actions by the Legislature, most of the attention during the budget process focuses on the general fund. The general fund is the largest fund in the consolidated fund statement, comprising about 64% of Total Uses. Table 1-2 below summarizes the revenues and expenditures for this fund.

Table 1-2
General Fund Statement
(In millions)

	1998-99 Biennium			**2000-01 Biennium**		
	1998	**1999**	**Total**	**2000**	**2001**	**Total**
Balance Forward	1,995	2,527	1,995	1,921	2,125	1,921
Net Receipts	10,491	10,048	20,539	11,568	12,337	23,905
Transfers from Other Funds	254	327	581	232	237	469
Total Resources Available	12,740	12,902	23,115	13,721	14,699	26,295
Expenditures and Transfers	10,212	10,981	21,193	11,596	11,997	23,593
Balances Before Reserves	2,527	1,921	1,921	2,125	2,701	2,701
Reserves	1,847	1,543	1,543	1,713	2,130	2,130
Budgetary Balance	680	378	378	412	571	571

Net receipts are expected to grow by $3.4 billion, or about 16.4 % between the 1998-99 and 2000-01 biennium. Since the rebates were paid out of the general fund, this comparison suffers from the same deficiency as the figures in Table 1-1. The growth after adjusting for the rebates is about 1.2 billion, or about 6%. Total Expenditures and Transfers are expected to grow somewhat slower at $2.4 billion, or about 11.3%. The general fund is in structural balance in two of the four years shown, most importantly in 2001. The Balance Before Reserves is expected to be about $2.7 billion at the end of FY 2001. This is about 11.4% of total general fund biennial spending. Although general fund spending accounts for about 64% of total consolidated fund spending, the Balances Before Reserves only account for about 60% of the total. The remaining 40%, or $1.8 billion, are in the other non-general funds.

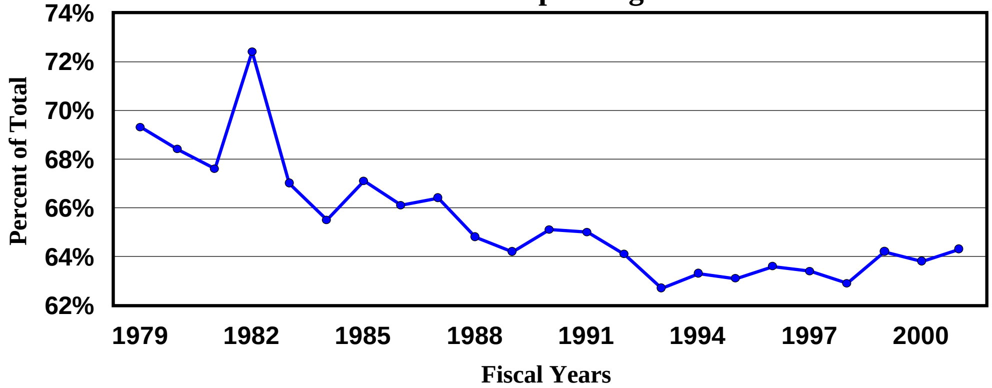
Policy Review

The General Fund Over Time

As indicated above the general fund comprises about 64% of total state spending. Given the public focus on the general fund this may strike some observers as low. An important fiscal policy question is how stable this relationship has been over time? Chart 1-1 below shows this percentage from 1979 through 2001.[2]

Chart 1-1

General Fund Spending As a Percent of Total Spending



The general fund today comprises a lower share of total spending than it did two decades ago. The share declined through the 1980s and early 1990s, has been relatively flat between 1993 and 1998, and has increased slightly from 1999 through 2001. Given the trend observed during the 1980s, one could speculate that this level was even higher prior to 1979, but additional historical information would be needed to answer this question.

The share is about 10 percentage points lower in 1999 than it was in 1979. The level exceeded 72% in 1983, but this was artificially high because of shifts made in appropriations to deal with significant budget shortfalls in the early 1980s. The lowest point over this 23-year period was 62.7 % in 1993, but the share is expected to increase in 2000 and 2001. At current levels each percentage point change means about $185 million is being spent in funds other than the general fund.

Funding Components

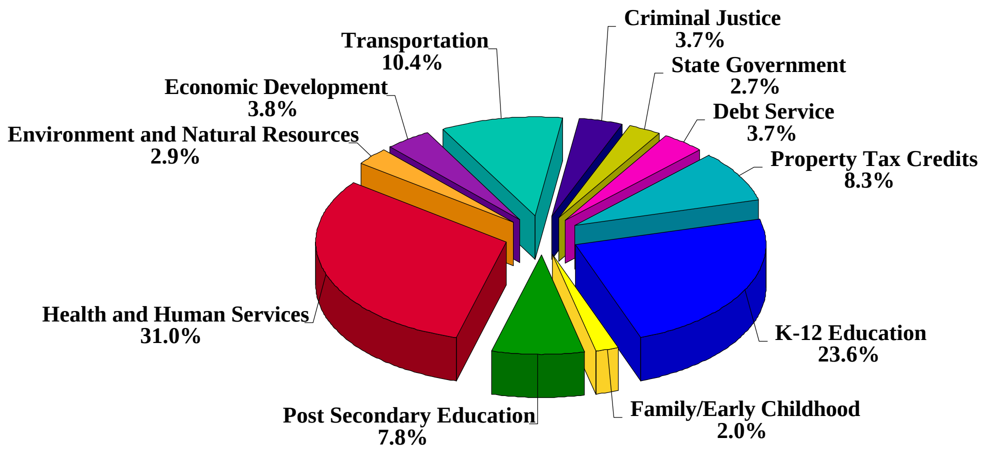
Specific spending decisions in the state budget are determined through the committee process and priorities tend to reflect the concerns, expertise and experience of committee members. How resources are allocated to each budget division reflects the priorities of the Legislature as a whole.

[2] For the purpose of this comparison the general fund number includes spending for regular debt service and the Cambridge bonds. These two are really general fund spending and are included to capture a more accurate measure of the level.

What are these priorities? How are they measured? How have they changed over time?

To partially answer these questions spending components for fiscal year 1999 are analyzed. Charts 1-2 and 1-3 show two pie charts that indicate spending by area for the consolidated fund statement and the general fund. Chart 1-2 reflects data for the Consolidated statement. Chart 1-3 reflects data for the general fund.

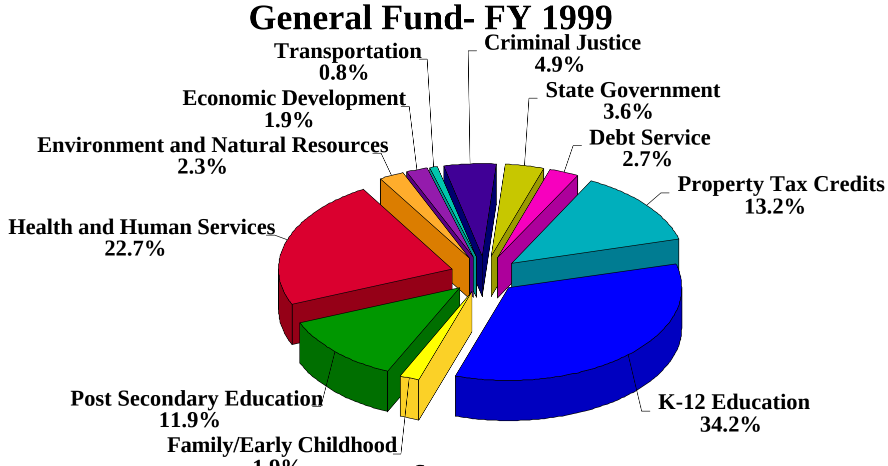
Chart 1-2
Spending by Category
All Funds- FY 1999



The largest spending area in state government is Health and Human Services(31%) at nearly a third of the total budget. Spending for K-12 education (23.6%) and transportation (10.4%) are the only other areas that exceed ten percent of the total. Spending for State Government operations is less than three percent and lower than all of the other categories except for Family and Early Childhood.

Spending for the general fund is shown in Chart 1-3. This is a much different picture than in Chart 1-2. K-12 Education is now the dominant area, more than one third of general fund total spending. Post Secondary Education and Property Tax Credits are also in comparison more important.

Chart 1-3
Spending by Category
General Fund- FY 1999



Transportation comprises less than one-half of one percent, but this is because most of the spending in this area is from trunk highway funds and the federal government. The reduction in Health and Human Services is also due to federal spending.

Comparing the patterns in the two charts, it is clear that Education and Property Tax relief dominates spending more in the general fund budget than these programs do in all of the funds in the state's budget. Although education is still substantial when reviewing all funds, Human Services and Transportation receive relatively more resources in these non-general fund areas.

One should remember that in reality the Legislature tends to make decisions on an incremental basis. Base appropriation levels for existing programs are rarely altered in significant ways, especially in periods of rapid revenue growth. Further, there are certain spending limitations imposed by the federal government and the state constitution restricts the Legislature's ability to allocate resources in different ways.

Forecast Revenue Surpluses

The latest forecast in November 1999 indicates that an additional $1.584 billion will be available for the 2000-01 biennium. According to the Department of Finance, this is the 15th forecast in a row that showed higher resources than expected. Table 1-3 below shows the surplus amounts for the relevant decision period over a period of approximately seven years. The amounts shown are prior to the effect of provisions in current law. For example, there are provisions in chapter 16A that allocated surplus revenues to the budget reserve, the school property tax recognition shift and aid payment schedule, and several property tax reform accounts. The purpose of the table is to show what resources were available before either current law or later decisions took effect. This more accurately indicates what figures the Legislature considered in the budget process.

Table 1-2
Surplus Prior to Giving Effect to Current Law Requirements

Date of Forecast	Surplus Amount
November 92	$215 Million
February 93	606
November 93	414
February 94	193
November 94	138
February 95	115
November 95	824
February 96	49
November 96	793
February 97	344
November 97	1,328
February 98	592
November 98	1,526
February 99	732
November 99	1,584

The sum of these surpluses over this period (excluding November 1999 which will be decided in the 2000 session) is about $7.9 billion. This is a large number, but recall this has occurred over a seven-year period and includes budgets for nine years. Given the myriad ways in which these surpluses were used and the length of time covered it is difficult to accurately identify the programs the money was used for. But it may be useful to simply identify major budget changes that were enacted over this time period which may not have occurred absent a surplus. In some cases these are very rough estimates of changes and should be used with caution. These are shown in Table 1-4.

Table 1-4
Large Budget Change Items Identified From 1992 to 1999

Program	**Amount**
Rebates-Property and Sales Tax	$2,200 Million
Budget Reserve Increases	262
Cash Flow Account	350
Eliminate School tax Shift	733
Cash for Bonding	500
Accelerate School Aid Payments	190
Property Tax Relief- Education Homestead	865
Eliminate FY 96-97 K-12 CAP Gap	213
Other Major Tax Reductions	1,312
Other Spending Increases	1,275

Of the $7.9 billion, about $6.6 billion was used to reduce taxes, increase reserves, pay off shifts, and in the case of the K-12 Cap Gap, eliminate an artificial restriction on K-12 spending enacted for 1996-97. Of course total government spending increased outside of these changes driven simply by a normal growth in state revenues.

The Criminal Justice System

Overview

The criminal justice is system is comprised of three components: law enforcement, the courts and corrections. Each component is itself segmented. Law enforcement includes city police forces, county sheriff departments, the State Patrol, the Bureau of Criminal Apprehension, and local pre-trial facilities. The courts include the judiciary, city and county attorney offices, and the public defender. Corrections includes county jails (which in all but Hennepin and Ramsey counties also provide pre-trial services), the state prison system, and county and state probation officers.

For the system to work as intended, all components must be capable of functioning efficiently. Efficiency in an intentionally adversarial system means there should be no institutional blocks to a constitutional process. This is often not the case. The system breaks down for two reasons. One is ideology; decision makers disagree. The other, related to the first, is funding. Unfortunately, there is no central authority with total control over the details of both decisions. The Legislature is the most influential and publicly accountable body, but it must contend with political decisions made at the local level and the sentencing practices of the courts.

The state, through legislative appropriations, bears the lion's share of the costs. Local costs can be substantial and are usually borne by the property tax. The Minnesota correctional system is based on the Community Corrections Act (CCA) of 1973. This act determines which level of government will bear which costs of the system. Under the CCA, the state is responsible for violent and repeat criminals, while counties sanction and supervise all other offenders. Participation in the Act is voluntary. However, 75 percent of the state's population reside in counties that participate in the program. These include all major urban centers.

Fiscal Summary

The Legislature directly appropriated approximately $1.2 billion for criminal justice purposes for the 2000-01 biennium, a 12.6 percent increase over the 1998-99 biennium. In addition, an open and standing appropriation for county criminal justice aid provides almost $60 million each biennium for distribution to counties to defray county criminal justice costs. The major components of the criminal justice system funded by the state are the Department of Corrections, the Courts, the Department of Public Safety and the State Public Defender. Other, smaller agencies include the Crime Victim Services Center, the Department of Human Rights, the Sentencing Guidelines Commission, the POST Board, the Ombudsman for Crime Victims and the Ombudsman for Corrections.

Two major initiatives in the judiciary system will have extensive future fiscal impacts. First, the Legislature created 13 new judgeships statewide, at an annual cost of approximately $3.5 million. Second, and perhaps more important in the long term, the state assumed all court costs in the fifth, seventh and ninth judicial districts (it assumed the costs of the Eighth District in 1990). These four districts comprise all of western and northern Minnesota with the exception of the Arrowhead. This was accomplished by a $10 million Homestead and Agricultural Credit Aid (HACA) cancellation and the reallocation of all court fines and fees from those counties that make up the four judicial districts to the state general fund. Although this is revenue neutral for the state in the current biennium because of the HACA offset and fine reallocation, future mandated court costs (such as the provision of guardian ad litems) will be absorbed entirely by the state.

The 1999 Legislature consolidated funding for victims' services by creating the Crime Victim Services Center. This stand-alone agency is now responsible for services previously provided by the Department of Public Safety, the Department of Human Services and the Department of Corrections. The intent of this consolidation is to allow the Legislature to track victim services funding under one budget, and will hold one authority accountable for service outcomes.

Compatible information systems are essential for an effective criminal justice system. Law enforcement, the courts and corrections must be able to track offenders through the entire system to provide just sentencing, effective monitoring and meaningful outcome data. To this end, the state has appropriated approximately $23.8 million for information system upgrades in the courts, the Department of Public Safety and the Department of Corrections. These are, by and large, ongoing costs. This is the beginning of a long-term initiative – it is anticipated that systems upgrade requests will continue for the foreseeable future.

Finally, the Legislature continued the funding for a statewide Gang Strike Force that it created in Fiscal Year 1998. Ongoing costs for the Strike Force include $1.6 million in grants to local law enforcement agencies, and $766,000 for state administrative costs.

Table 2-1 is a summary of the criminal justice appropriations by agency.

Table 2-1
Criminal Justice System Appropriation Summary

Agency	1998-99 Appropriation	2000-01 Appropriation	Percent Change
Courts			
Supreme Court	44,742	51,857	13.7%
Court of Appeals	12,475	12,999	4.0%
Trial Courts	144,282	155,999	7.5%
Board of Judicial Standards	561	471	- 19.1%
Tax Court	1,619	1,331	- 21.6%
Courts Total	203,679	222,657	8.5%
Public Safety			
Emergency Management	7,001	7,843	10.7%
Emergency Deficiencies	1,393	2,074	---
Bureau of Criminal Apprehension	52,372	50,755	- 3.1%
Fire Marshall	6,118	6,302	2.9%
Alcohol and Gambling Enforcement	3,398	3,670	7.4%
Law Enforcement and Community	6,755	17,373	61.1%
Public Safety Total	77,037	88,017	12.4%
Corrections			
Institutions	369,788	431,082	14.2%
Juvenile Services	34,860	26,909	- 29.5%
Community Services	167,326	192,923	13.2%
Crime Victim and Prevention	20,518	0	—

Table 2-1(cont.)
Criminal Justice System Appropriation Summary

Agency	1998-99 Appropriation	2000-01 Appropriation	Percent Change
Management Services	18,730	23,935	21.7%
Corrections Total	611,222	674,849	9.4%
Ombudsman for Corrections	1,165	870	- 33.9%
Crime Victim Services	4,302	45,152	---
Crime Victim Ombudsman	1,053	793	- 32.7%
Board of Public Defense	84,630	91,889	7.8%
Sentencing Guidelines	880	1,095	19.6%
Private Detective Board	262	275	4.7%
POST Board	7,530	9,301	19.0%
Auto Theft Prevention Board	3,734	4,163	10.3%
Human Rights	7,653	7,786	1.7%
Uniform Laws Commission	71	75	5.3%
Non-jurisdictional Agencies	2,243	4,554	57.7%
Total Criminal Justice Appropriations by Fund			
General	987,485	1,131,930	12.7%
Special Revenue	14,733	16,160	8.8%
Trunk Highway	3,144	3,282	4.2%
Environmental	85	90	5.5%
State Government Special Revenue	14	14	0.0%
Total All Funds	**1,005,461**	**1,151,476**	**12.6%**

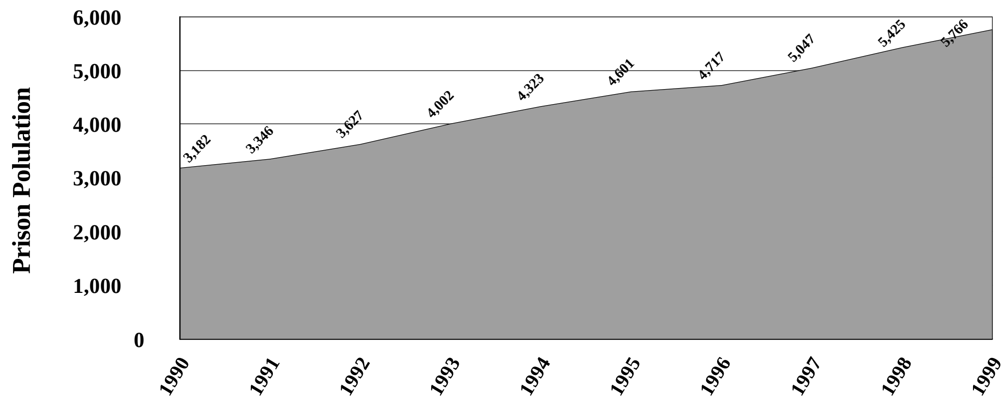
Policy Review

Criminal Justice Budgetary Trends

The criminal justice budget is almost wholly composed of personnel costs – judges and other court officers, corrections personnel and law enforcement officers. In the Department of Corrections, which operates an extensive infrastructure of 11 correctional facilities, approximately 76 percent of their costs are for personnel. These system costs are driven by growing a population and increasing crime rates. Increasing crime rates create a compound impact as policymakers lengthen incarceration times and lower criminal thresholds in response to public pressure.

Unlike the courts, public defender and law enforcement, the Department of Corrections differs in that its costs may rise even in a period of level or falling crime rates. There are two reasons for this. The first is that the 1990s were a decade in which criminal justice philosophy in the state shifted from the therapeutic model of the 1970s and 1980s toward a more punitive model. Because many sentences were lengthened, the number of offenders committed to prison could remain the same, but prison populations would rise as the number of releases declined. A second reason is that Minnesota never totally abandoned the therapeutic model of corrections. The state is

Chart 2-1
Adult Prison Populations

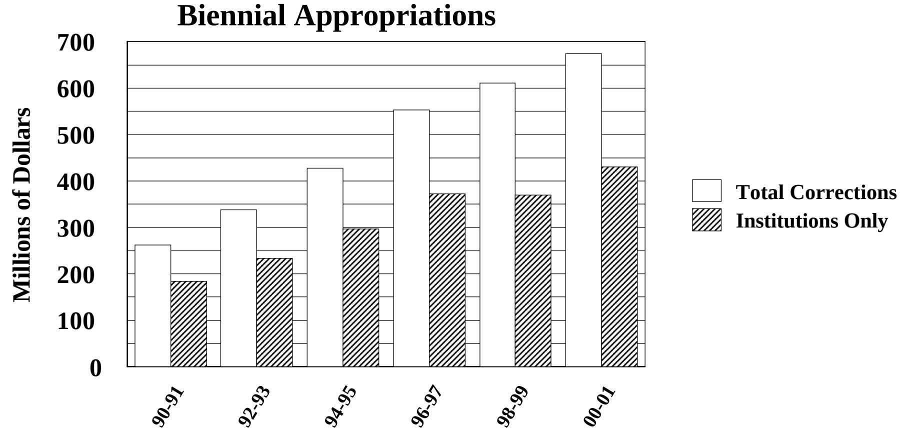


Prison population represents capacity as of June 30 of each fiscal year

now incarcerating more criminals for longer periods of time while simultaneously offering more therapeutic services in the system than ever before. This is why, in a period of falling crime rates, prison populations and attendant costs are rising.

Since 1994, the violent crime rate in Minnesota has been stable, and the property crime rate has slightly declined. However, as Charts 2-1 and 2-2 show, even with the stabilization of crime rates, prison populations have continued to rise and corrections spending has continued to swell.

Chart 2-2
Department of Corrections
Biennial Appropriations



Total Corrections includes Institutions, Probation and Local Aids

Because the corrections budget is so heavily based on personnel, there are only two ways to hold down corrections costs: incarcerate criminals at lower cost or incarcerate fewer criminals.

Minnesota, through the use of Community Corrections, has chosen the latter. The state has the lowest incarceration rate in the country (criminals incarcerated per 100,000 people). By contrast, we have the fourth highest cost per inmate in the country. The national daily average for housing an inmate in 1997 was $54.25. Minnesota's per inmate per diem was $84.35.

With 115,000 offenders on probation or supervised release (parole), Minnesota has the sixth largest criminal population on probation in the country behind New York, California, Texas, Florida and Georgia. These offenders are supervised by approximately 1,000 agents. The Legislature has been concerned about probation caseloads for most of the decade and has appropriated an additional $24 million since 1995 for probation caseload reduction. It is likely that caseload pressures will continue to mount over the next decade and will result in additional caseload reduction requests.

Minnesota will open its new 952-bed flagship prison in Rush City in January 2000. The 2000-01 budget funded the startup and operating costs of the prison for the next biennium. Full capacity operating costs will be requested next biennium as the prison fills up. Therefore, for this reason alone, there will be an increase in corrections funding in the 2002-03 biennium.

Economic and Community Programs

Overview

The 1999 Legislature, in Minnesota Laws Chapter 223, appropriated almost $500 million to support economic and community development efforts for the 2000-2001 biennium. This is a 17% increase, or about $71 million, over the 1998-1999 biennium. The two largest increases are for additional funds for the training of workers in the state, and housing programs to retain existing rental units along with new housing efforts tied to economic development programs. Of the $500 million total, housing programs received $120 million, or about 24%; promotion and regulation of business, including assisting workers in employment and training, some $327 million; and efforts to preserve the cultures of our communities some $53 million. Increases in fees and transfers offset this new spending by $4.7 million, with most of the revenue from regulated industries where the agencies are fee-supported, such as Commerce, the Public Service Commission and Department.

Non-profit agencies and grantees whose funding was eliminated by the Governor had their first year and some second year funding restored by the Legislature. These agencies and programs now must go through an evaluation process by the Minnesota Planning Office. Although the direct appropriations are some $500 million, the total budgets from all funds in the Jobs, Economic and Community Development Funding Division total about $1.7 billion, primarily from special funds such as workers compensation, petroleum tank release cleanup, housing finance, IRRRB and special revenue and federal funds.

Fiscal Summary

As noted above, $500 million was appropriated in the Economic and Community Development Funding Division. Table 3-1 lists the agencies receiving funds and compares the biennial funding changes.

Table 3-1
Economic and Community Programs Summary
(000's)

Agency	1998-1999	2000-2001	Percent Change
Trade and Economic Development	93,932	102,936	9.6%
Minnesota Technology, Inc.	19,574	13, 650	-30.3
World Trade Center	233		-100.0
Economic Security	78,503	84,689	7.9
Housing Finance Agency	62,356	120,540	93.3
Commerce	32,371	36,387	12.4
Accountancy Board	1,159	1,231	6.2
Arch, Eng, Surveying, Inter Design Bd	1,384	1,564	13.0
Barbers Board	276	293	6.2
Boxing Board	161	84	-47.8
Labor and Industry	50,278	49,570	1.4
Labor Interpretive Center	421	400	-5.0

Table 3-1(cont.)

Agency	1998-1999	2000-2001	Percent Change
Mediation Services	4,135	4,310	4.2
Public Utilities Commission	7,119	7,661	7.6
Public Service Department	18,124	19,418	7.1
Historical Society	48,437	49,728	2.7
Municipal Board-Merge with Planning	622	650	4.5
Council on Black Minnesotans	642	649	1.1
Chicano Latino Affairs Council	605	638	5.4
Council on Asian-Pacific Minnesotans	541	563	4.1
Indian Affairs Council	1,058	1,118	5.7
Workers Comp Court of Appeals	2,962	3,128	5.6
Other Agencies- Various Studies/Grants	3,210	120	-96.3
Totals	428,103	499,327	16.6

NOTE: The 1999 Legislature approved about $15 million in new spending for the 1998-1999 biennium, the single largest amount being $4.8 million for operating loans for farms and business affected by tornadoes. Some items were not continued in the 2000-2001 biennium. Also, base adjustments such as annualization of appropriations and one-time appropriations distort the usefulness of the columns of changes and percent of changes for most of these agencies. The details of these adjustments can be found on the fiscal page summaries of the 2000-2001 biennial budget document for these agencies.

Policy Review

Trade and Economic Development

Within the Department of Trade and Economic Development (DTED) $20 million was added to the Job Skills Partnership Board (JSPB) to increase the states efforts for training of employees. This was one of the Legislature's initiatives to support the growing demand for workers caused in part by the expanding economy with lower than normal unemployment rates, as well as the welfare reform efforts. To support the welfare reform effort, $3 million of Temporary Assistance to Needy Families (TANF) monies was appropriated to the JSPB to train those who are eligible for the Pathways Program. Unemployment trends are depicted in Table 3-2 indicating the change, and the general reduction of readily available labor as a resource to business and industry. Minnesota is experiencing a lower unemployment rate than the rest of the United States.

Table 3-2
Unemployment Trends

UNITED STATES
(000's Omitted)

Totals	Labor Force	Employment	Unemployment	Rate
1980	106,940	99,303	7,637	7.1%
1985	115,461	107,150	8,312	7.2%
1990	124,788	117,914	6,874	5.5%
1995	132,304	124,900	7,404	5.6%
1999*	139,895	134,515	5,380	3.8%

MINNESOTA

State Totals	Labor Force	Employment	Unemployment	Rate
1980	2,110,003	1,985,023	125,161	5.9%
1985	2,224,023	2,084,483	133,810	6.0%
1990	2,385,761	2,268,787	116,991	4.9%
1995	2,588,880	2,493,023	95,864	3.7%
1999*	2,744,264	2,686,915	57,349	2.1%

* 1999 numbers through November. These statistics will be slightly higher when seasonally adjusted.

Other increases for DTED were $1 million to strengthen the Minnesota Investment Fund-loans to small and medium sized business for job creation and capital investments; a $5 million increase, or 33%, for the states tourism marketing programs. Also, to aid in business and community development projects the Legislature added $2 million to the contaminated site cleanup program, and $3 million to the redevelopment account. To evaluate the possibility of building a new steel producing facility in northern Minnesota, the Legislature created and funded the Minerals 21st Century Fund to be used along with funding from the IRRRB. In addition to these budget adjustments, the World Trade Center functions will receive more of its support from DTED's Trade Office.

Minnesota Technology, Incorporated

The Technology Partnership Funding of $4 million was eliminated from Minnesota Technology, Inc.'s budget by the legislature. This project, established in 1997, was to facilitate transfers of technology between universities and businesses.

Economic Security

The base budgets for the Department of Economic Security were continued with new funds in three workforce training and employment areas. First, a 12% increase was provided for displaced homemakers who need training to transition to the workplace. Second, a $5 million increase was provided by the Legislature as a match to federal dollars for welfare to work activities. A third increase, of about $2 million, or 8%, was provided to increase reimbursement rates for individuals in the extended employment programs.

Housing Finance Agency

Within the Housing Finance Agency, several of the state's housing programs received significant funding increases to partially meet increasing housing demands for decent, safe, affordable housing and stronger communities for the 2000-2001 biennium. These are explained in more detail below.

Other Agencies

The Commerce Department's budget was increased by 12%, but the increase in revenues from fees and licenses from the financial services industries, which Commerce regulates, offset the budget increase. Some of the non-health related boards received small increases for the biennium. However, the Boxing Board was sunset in the second year of the biennium. The base funding for the Labor and Industry Department was continued, including the apprenticeship program that was eliminated by the Governor's budget recommendation. The $400,000 for operational costs provided by the Legislature for the new Labor Interpretative Center was vetoed by the Governor.

The Mediation Services Bureau, Public Utilities Commission (PUC), Public Service Department (PSD), and the Workers Compensation Court of Appeals, received their base budgets. Budgets for the PUC and PSD were increased for change items equal to the amount of fees that are billed back to the regulated industries. The Historical Society also received its base funding, plus a salary base adjustment it had requested, and a small increase in its information technology budget.

As required by separate legislation, the Municipal Board was sunset and its duties and funding transferred to the Office of Long Range and Strategic Planning.

The Council for Asian-Pacific, Council for Black Minnesotans, Council for Chicano Latino Affairs, and Indians received their base operating budgets, with the Martin Luther King, Jr. Holiday event receiving a $50,000 increase through the Black Minnesotans Council.

The Military Affairs Department's funding of $100,000 for coordination of state training programs at Camp Ripley was continued, and the Department of Administration received $20,000 for a study on the future of low-income energy assistance programs, with a report due to the Legislature by January 15, 2000.

Focus Area

Housing Finance Agency

Over the years the Minnesota Housing Finance Agency has provided $5.2 billion in housing loans and subsidies. Since its creation in 1971, more than 253,000 Minnesota households have received program assistance to make their housing more affordable, improve the condition or quality, or make the housing more accessible or energy efficient. The agency focuses its resources on low-income households. Nearly 50% of all households which received assistance in 1997 had annual incomes of less than $24,000, which is less than the Department of Housing and Urban Development (HUD) definition for a very low-income household.

For the 1998-1999 biennial Affordable Housing Plan, the agency provided funding for approximately 88 programs and other budget items totaling $780 million in new activity. Economic factors such as very low vacancy rates (2 % versus industry standard of 5% for a healthy environment), possible loss of federal subsidies, along with affordability and value gaps in new housing, has put substantial pressure on the availability of decent, safe housing for low-income people. The 1999 Legislature provided the agency with some $120 million of funding for a variety of base and new funding. The highlights of the legislative action are as follows:

- The affordable rental investment fund was increased by $10 million, or 30%. This fund assists low income people who may lose their rental housing due to the reduction in long term federal housing subsidies.
- The rental assistance program for the mentally ill was increased by 10%, from $3 million to $3.3 million
- The rental assistance program for the family stabilization program was increased from $4 million to $4.25 million, a 6% increase.
- The family homelessness prevention program was increased from $5.75 to $6.5 million, a 13% increase.
- Also, to assist renters/families with the difficulties of moving during the school year, the school stability project was funded at $1 million.
- The community rehabilitation fund received the largest funding increase. With a base of $5.8 million, the legislature added $6 million for the biennium.
- A new program, called innovative/inclusionary housing - basically to provide a mix of incomes in a housing project - was approved with funding set at $8 million for the biennium.
- The employer match housing grant appropriation was continued and increased from $250,000 to $1.6 million for the biennium.
- Another new program approved by the Legislature was the Housing Challenge Program. This new program changed certain items, i.e., the requirement for match monies was changed to contributions, and sponsors of larger scale projects are encouraged to apply for the funding. The Legislature approved $20 million for this new program.

NOTE: The summary data of the agency's activity is extensive. Also, the agency produces very detailed, informative annual reports which explain eligibility and income requirements, to the legislature. These can be reviewed at the legislative reference library, or a copy can be obtained from the agency.

Elementary and Secondary Education

Overview

This section examines the status of overall K-12 education programs as a result of the 1999 legislative session. The appropriations at the end of the session have been updated through the November forecast and provide a starting point for the 2000 legislative session. In addition to the general overview of K-12 fiscal activity, this analysis pinpoints five specific policy areas where the K-12 committee took action in 1999. The general formula allowance, class size reduction, marginal cost pupil units, equity revenue and special education cross subsidy are examined in detail because of the importance that these issues had during the 1999 session. These issues are placed into a policy context and also provide an analytical starting point for the 2000 session.

Fiscal Summary

The 1999 K-12 Education Finance Omnibus Act (1999 Laws of Minnesota, Chapter 241) authorized over $7.9 billion to finance the Minnesota K-12 education system in the 2000 and 2001 fiscal years. Of this total, the legislature approved nearly $3.9 billion in fiscal year 2000 and over $4.1 billion in FY 2001. The FY 2000 appropriation reflects a 10.5 percent increase over FY 1999. The FY 2001 appropriation is a 4.1 percent increase over FY 2000.

Table 4-1
K-12 Education Finance
Total General Fund Appropriations
(000s of dollars, as of November 99 forecast)

Program	FY 98-99 Forecast	FY 2000-01 Approp.	Percent Difference
General Education	$5,500,974	$6,268,674	13.96%
Special Programs	$806,971	$1,224,685	51.76%
Lifework Development	$38,556	$26,785	-30.53%
Facilities and Technology	$163,181	$147,874	-9.38%
Education Excellence	$18,973	$51,701	172.50%
Other Programs	$59,522	$86,814	45.85%
Nutrition Programs	$16,234	$22,612	39.29%
Libraries	$17,406	$21,983	26.30%
Children Families and Learning	$62,985	$62,059	-1.47%
Perpich School for the Arts	$11,488	$14,639	27.43%
State Academies	$18,886	$20,297	7.47%
Discontinued Programs	$198,300	$0	-100.00%
Total General Fund	$6,913,476	$7,948,123	14.97%
Property Tax Shift	$108,905	$0	-100.00%
GRAND TOTAL	$7,022,381	$7,948,123	13.18%

General Education Program Summary

- The Legislature placed the majority of new K-12 funds in the general education program. The primary increase came in a 4.7% and 3.2% increase in the basic formula allowance for the two years of the biennium. This foundation amount (discussed in detail below) when multiplied by the number of pupils provides $3.6 billion for school districts, an increase of $260.8 million over the prior biennium.
- The 1999 legislature also appropriated $42 million for a new revenue equity proposal which provides districts with lower property wealth additional revenue. This proposal (discussed in greater detail below) was designed to reduce the disparity between school districts whose property wealth continues to provide certain school districts with higher per pupil revenues. The revenue equity proposal attempts to reduce that inequity.
- Two primary changes were also made to the calculation of pupil units by the 1999 legislature. First, the legislature increased pupil weighting for students in grades K-3. In so doing, it allocated over $86 million for class size reduction in the lower grades. Second, a separate calculation was made to reduce the impact of declining pupils on school districts across the state. Both changes are discussed below.
- To accommodate the anticipated levy increases in operating referendums to pay for class size reductions by school districts, the equalization level of the operating referendum is increased from $350 to $415 in the second year of the biennium.
- Effective in FY 2000 the $300 subtraction to the referendum allowance cap is removed. Previously, the referendum cap was calculated as 25% the formula allowance minus $300. The elimination of the subtraction increases the cap. When combined with the formula allowance increase, the referendum cap increases from $807.50 in FY 1999 to $935 in FY 2000. The formula growth in FY 2001 will increase the cap further to $981. The original referendum cap, approved by the 1991 Legislature, allowed districts who were above the original cap when the legislation was passed to continue at their existing level. However, as the cap increases through increases fewer numbers of school districts are covered by the "grandfather".
- The legislature appropriated a $16.3 million increase for the Limited English Proficiency program and $8.5 million to increase the pre-kindergarten weighting from 1.0 to 1.25.

Special Education Program Summary

The second area where the legislature allocated a large proportion of resources was an increase of $59.6 million to increase regular special education and $36.1 million for excess cost revenue. These additional funds were designed to help reduce the what is known as special education cross-subsidy. (The cross subsidy in special education is examined in greater detail in the proposal analysis below.)

The regular special education revenue was spent by increasing the program growth factor from 1.0 to 1.012. As a cost-based formula, this means that the amount of costs covered under special education will increase as a faster rate year-to-year. The increased regular special education funds will generally benefit all school districts.

The additional excess cost revenue was spent by reducing the excess cost threshold rate from 5.7 % to 4.4 % and by increasing the reimbursement rate from 70 % to 75 %. The excess cost formula is designed to provide additional special education revenue to school districts that have high special education costs. Therefore, a reduction of the threshold rate will include greater number of districts into the formula. So, districts that previously did not qualify for excess cost revenue will qualify due to the threshold rate reduction. The increase of the reimbursement rate will increase the %age of special education costs that are paid by the formula (for those districts that qualify for this formula) from 70 % to 75 %.

Summary of Changes in Other Programs

- $14 million was appropriated for First Grade Preparedness programs (also known as All Day Kindergarten). This appropriation continues the state commitment at current levels and generally allows the existing programs to continue operating.
- The Legislature heard several proposals to provide up to $40 million in telecommunications access grants (TAG). With most resources in the state being allocated to the formula and the special education cross subsidy, the Legislature did not fund this program at its full request. The legislature provided $5 million for TAG.
- Continuing a trend in recent years, the legislature has provided robust funding to support graduation standards and statewide testing. In the next biennium it provided $13 million to support these efforts including $2.3 million for a Clearinghouse of Best Practices and $600,000 or Graduation Rule Resource Grants.
- The legislature supported improved nutritional funding the public schools. It provided $5 million to support the governor's new "Fast Break to Learning" proposal. This program provides grants to ensure that elementary students start the day with access to a nutritious breakfast.

Policy Review

General Education Formula Allowance

The general education formula allowance increased from $3,530 per pupil unit in FY 1999 to $3,740 in FY 2000 and $3,925 in FY 2001. Based upon pupil counts in the November 1999 forecast, these increases added $575 million in new revenues above the 1999 base year to the general education basic formula.

The FY 2001 formula allowance figure was made contingent upon the November forecast. The legislature was concerned during the 1999 session that the level of revenues in FY 2001 may not be sufficient to support the higher formula allowance so it created a contingent formula allowance for FY 2001. The November forecast provided sufficient revenues to support the higher level. The additional $50 on the formula allowance increases the cost of the basic revenue by $43 million according to estimates by the Department of Finance.[3]

The 2000 and 2001 formula allowances also include two "roll-ins" to reach the per pupil amounts described. In the 1998 legislative session, the legislature agreed to roll the district cooperation revenue stream into the general education formula. This decision will become effective

[3]"November Forecast," Minnesota Department of Finance, November 1999, p. 51.

in for the FY 2001 formula allowance. The value of the district cooperation revenue is equal to $67 per pupil unit. Also, in the 1998 legislative session, school districts requested additional revenue to implement the graduation rule. To meet that need the legislature created the "graduation standards implementation revenue." This revenue equaled $66 per pupil unit in FY 1999 and dropped to approximately $43 per pupil unit in FY 2000.[4] This program was rolled into the basic formula allowance in the 1999 legislation. After accounting for the roll-ins the 1999 legislature increased the formula allowance in FY 2000 by $167 per pupil unit and an additional $118 in FY 2001. Table 4-2 below shows these calculations.

Table 4-2
General Education Formula Allowance Increase
FY 2000 and FY 2001

Prior Year Formula	$3,530	$3,740
Roll-Ins	$43	$67
Increase	$167	$118
TOTAL	$3,740	$3,925

Class Size Reduction

During the 1998 gubernatorial election, candidate Jesse Ventura made the reduction of class sizes throughout the K-12 system a priority of his candidacy. He argued that a lower number of students per teacher would improve learning throughout the state. In the governor's budget submission, this view was reflected with a $150 million appropriation request to reduce K-3 class sizes to a ratio of 17 students to every teacher in every classroom in the state. The legislature ultimately approved over $85 million appropriation for class size.

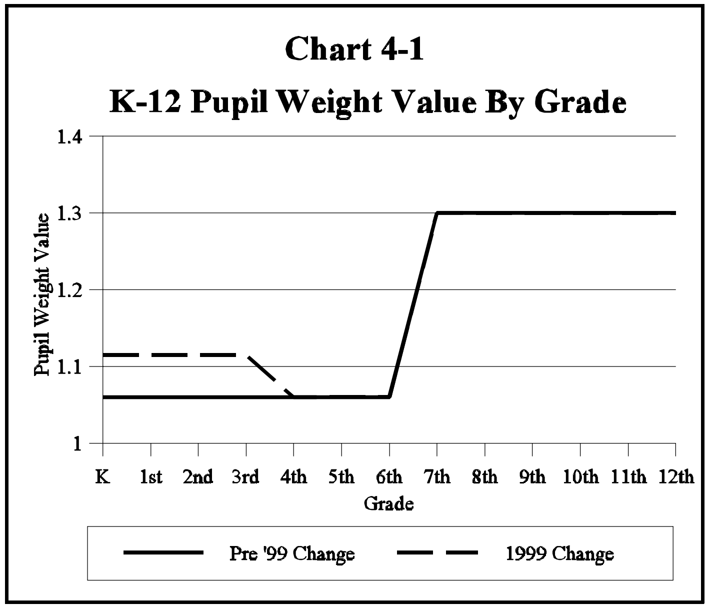
Aside from the overall dollar difference from the governor, the legislature changed the manner in which the new revenues were appropriated. The governor recommended that a new program be created for class size reduction. However, in 1993, the legislature had already created the learning and development revenue program. Between 1993 and 1999, the learning and development revenue program provided over $450 million[5] to reduce class sizes in grades K-6 throughout the state. Because an existing program already existed to provide class size reduction revenue to school districts, 1999 K-12 finance conference committee members decided to use the existing learning and development program structure and increase the revenue in the program. This would eliminate the need for a separate program to accomplish an identical purpose.

[4] The impact of changing pupil calculations from Weighted Average Daily Membership (WADMs) to Adjusted Marginal Cost Pupil Units (AMCPUs) in FY 2000 will alter the value of this roll-in FY 2000. See the discussion below for a detailed examination of AMCPUs.

[5] Department of Children, Families and Learning, Education Funding Division estimate, July 1998.

Learning and development revenue is calculated through a pupil unit weighting calculation based upon the number of pupils in grades K-6. Prior to the 1999 legislative session, each pupil in those grades was counted as 1.06 pupils. The additional .06 value assigned to each pupil, was reserved for learning and development revenue. So, when the pupil units were multiplied by the formula allowance, the cumulative value of the .06 for all the pupils in a school district equaled the amount of revenue allocated for class size reduction in each school district. Statewide,this cumulative value in FY 1999 was nearly $87 million.

The 1999 Legislature used this basic structure of pupil unit weights to increase the amount of revenue that was available annually for class size reduction. The Governor's original program was designed to provide additional class size reduction for students in grades K-3. The existing program provided learning and development revenue to grades K-6, so to use the existing program a separate weighting for grades K-3 had to be created to accomplish the Governor's intent of focusing class size reduction funds at grades K-3. Grades 4-6 were left unchanged and the learning and development revenue for students in these grades remains at .06 discussed above. However, the weights for students in grades K-3 increased from 1.06 to 1.115. This increase provides an additional 85 million annually for K-3 class size reduction.



The primary result of this change is to increase class size reduction funds for students in grades K-3, however in so doing it also creates a separate weighting calculation for students in lower grades and achieves the additional policy goal of focusing K-12 education spending at the lower grades. Much of the education research in the last ten years supports the public policy idea that dollars spent on education in the early grades is far more effective at preventing educational problems in later years.

During the 1999 session, the Legislature received substantial testimony that focusing revenue at the younger grades would provide greater educational benefits than paying for education based upon the "cost" of providing an education. Under a more cost-based model, greater funds are focused at the high school grades. Minnesota's pupil unit weights (as reflected in the Chart 4-1) show that the weighting of the higher grades is higher, resulting in greater revenue generated by those students. The changes in the learning and development program continue a change in focus and begin to target revenue at grades K-3 in support of recent educational research.

Marginal Cost Pupil Units

Beginning in FY 2001, the number of pupils on a statewide basis will begin to decline from the prior year rather than increase as has been the trend since 1985. As a result, the number of pupils in FY 2000 will represent a high water mark and the overall number of pupils will begin to decline. Demographically, this trend is occurring nation-wide and results from the fact that children born to "Baby Boom" generation parents are completing their K-12 education. The Baby Boom generation was a large population cohort and they had large numbers of children. However, as their children complete their K-12 education years, there are smaller numbers of children entering the K-12 system to replace the exiting "Baby Boom Echo" cohort.

Although this trend will mean an overall decline in statewide enrollments in FY 2001, many districts throughout the state are already experiencing this trend. Most of these districts are located in rural areas of the state. Still other districts mostly in the suburbs of the Twin City metropolitan area, will continue to experience growth. However, the trend line suggests that demographic declines can be expected in most districts, regardless of location, in the years ahead. Because a large proportion of school district revenues in Minnesota are allocated on a per pupil basis, a school district that experiences a decline in the number of pupils will translate into a net reduction of total revenues. (The per pupil revenue will not be affected as a result of this trend.)

During the 1999 legislative session, districts that anticipated declining enrollments argued that a policy response was needed to soften the impact of declining enrollment revenue losses. In past years, similar issues had been handled by a method allowing districts to count the pupils that existed in the largest year for the past three years. The process often allowed districts to count pupils that did not exist. These "phantom" pupil calculations gradually received substantial opposition from the Legislature and were omitted from the funding formula in 1981. Therefore, a different alternative was sought to address the issue.

The 1999 Legislature adopted a solution that computed districts' pupils as the sum of 90% of a district's current year pupil units and 10% of a district's prior year pupil units. In so doing, a district with declining pupil units will have the impact of the loss reduced by 10%. The example in Table 4-3 illustrates how a district that is experiencing declines in pupils will have the losses reduced through this method. Similarly, however, a district that is growing will see that growth controlled as well.

Table 4-3
Impact of Marginal Cost Pupil Units
On Hypothetical Declining Enrollment School District

	Pupil Unit Counts With No AMCPU Adjustment	Pupil Unit Counts With AMCPU Adjustment	Difference
FY 1999	6,000.0	6,000.0	0.0
FY 2000	5,925.0	5,932.5	7.5
FY 2001	5,850.0	5,880.0	5.0
FY 2002	5,790.0	5,798.5	8.5

This solution, dubbed Adjusted Marginal Cost Pupil Units, has its roots in the 1993 legislative session. In that year the governor's budget recommendation included a change to the calculation of pupil units that said that a district's pupil units were the sum of 50% of the current year's pupil units and 50% of the prior year's pupil units. At the time, pupil units statewide were increasing and this measure was a way to reduce the impact of increasing pupils. The governor's budget recommendation achieved $68 million in savings by controlling the growth of the number of pupils.[6]

Economically, the notion of reducing the growth in pupils rested on the theory that for every student added, a school district did not add the cost of a complete student. For example, a classroom that is up and running and adds another student does not incur the cost of the full value of another classroom, complete with a new teacher, a whole set of new desks, books and all other costs. Instead the new student is added to the existing classroom and the cost of that student is only the amount of resources that the new student will consume. Therefore, the cost of adding an additional student increases the cost of education, in economic parlance, only at the margin.

The governor's 1993 proposal recommended that school districts would only receive funding for 50% of the growth between school years resulting in savings for the cost of education. When the Senate considered this proposal, in that year, additional research revealed that the marginal cost of adding an additional student was 77% of the total value of a student. Therefore, the Senate included the governor's recommendation in its bill, but altered the marginal cost pupil calculation from 50%/50% to 77% of the pupils in the current year and 33% of the pupils in the prior year.[7] This calculation more accurately reflected the marginal cost of adding a student to a school. The Senate bill saved less money than the governor's proposal, but ultimately, the provision was not included in the final 1993 K-12 bill because the proposal *reduced* growing school district revenue and most districts were growing. It worked to the disadvantage of school districts who sought more revenue.

In the 1999 legislative session the proposal was revived because the economic theory of marginal costs *assisted* districts that were experiencing pupil declines. The economic principal works in reverse for declining districts. For every student lost, the school is unable to reduce its costs commiserate with the value of the per pupil revenue that the state provides for that student. The marginal cost of a lost student (using the 1993 Senate analysis) was 33% of a full student. Therefore, by weighting students at 77% current year and 33% prior year, school districts would receive *more* revenue under marginal cost funding when the number of pupils was declining. Table 4-4 illustrates this point.

Table 4-4

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[6]Governor's Budget Recommendation, Department of Education, FY 1993.

[7]Journal of the Senate, 78th Legislature, Volume 2, p. 2702.

Impact of Marginal Cost Pupil Units
On Hypothetical Growing Enrollment School District

	Pupil Unit Counts With No AMCPU Adjustment	Pupil Unit Counts With AMCPU Adjustment	Difference
FY 1999	6,000.0	6,000.0	0.0
FY 2000	6,055.0	6,049.5	(5.5)
FY 2001	6,125.0	6,118.0	(7.0)
FY 2002	6,205.0	6,197.0	(8.0)

The Legislature adopted marginal cost funding as a way to provide school districts with a cushion against the impact of declining students. Debate on the issue revealed that legislators thought this method to be more favorable to confront the declining pupil issue than to respond with providing funding for “phantom” pupils that had been used in the past. Furthermore, legislators believed that the economic theory which undergirds the marginal cost pupil funding is sound in both a growing and a declining pupil environment. However, because there continue to some districts in Minnesota – mostly concentrated in the Twin City suburbs – that continue to experience pupil growth and would have received less revenue due to marginal cost funding, the allocation of 77%/33% was altered to 90% current year and 10% prior year. In the years ahead, though, it can be expected that the issue will be revisited and the percentages may be altered again as additional school districts begin to feel the financial pressure of declining numbers of pupils.

Equity Revenue

The 1999 Legislature approved $42 million in equity revenue to create a new program to reduce the disparity between school districts whose property wealth provides higher per pupil funding than districts with lower property wealth. A formula was created to provide school districts with equity revenue on a sliding scale based upon their revenue per pupil. First, districts are grouped into two regions (the seven county metro area and the remainder of the state). Then, districts are ranked (within each region) based upon the sum of their basic, supplemental, referendum and transition revenue (BSRT revenue) per pupil. Districts whose BSRT revenue per pupil is ranked below the 90th percentile of all the districts in their region qualify for equity revenue with two exceptions (described later).

Equity revenue for qualifying districts is allocated to school districts based upon a district’s distance from the 90th percentile. The further a district’s BSRT revenue is from the 90th percentile district’s BSRT revenue, the more equity revenue a district will receive. This is determined by a calculated equity index. The equity index is a computed ratio of the BSRT revenue for a district relative to the 90th percentile district and the gap between each region’s 90th percentile district and its 5th percentile district. Effectively, the further a district’s BSRT revenue per pupil lies from the 90th percentile district, the higher its equity index.

A district’s equity index is multiplied by $30 and the product of that calculation is added to

$10. The result of that formula is then multiplied by a district's AMCPUs to generate its equity revenue. Districts that have the lowest wealth (as measured by the equity index) will receive a maximum of $40 per AMCPU.

As mentioned above, there are two exceptions to this formula. School districts that do not have an excess levy referendum do not qualify for the equity formula, but do receive a flat $22 per pupil. Further, the school districts of Duluth, St. Paul and Minneapolis are ineligible for any revenue under this program.

In FY 2000 the disparity between the districts with the highest BSRT revenue per pupil and the lowest is $1,090 in the metro region and $735 in the out-state region. Therefore, at a maximum of $40 per AMCPU the equity revenue program is insufficient to eliminate per pupil inequities between districts. However, this formula does provide a structure to address the concern of many legislators that certain districts have sufficient wealth to provide a disproportionately advantaged education relative to other districts in the state.

Special Education Cross Subsidy

In recent years the cost of providing special education services in the schools has increased faster than the increase in special education revenues. As a result, schools have paid for these cost increases by using general education formula funds. As this "cross subsidy" of special education from general education increases, school districts with financial pressure in general education areas. Therefore, the Legislature, at the recommendation of the Governor, provided an additional $95 million for special education to reduce the cross-subsidy.

The Department of Children, Families and Learning estimates that the total cross subsidy in FY 1998 (the most recent year for which data was available) was $226.9 million for all school districts in Minnesota and grew to $257.7 million in FY 1999.[8] [9] Therefore, the cross subsidy cross subsidy has not been eliminated by these funding increases included in the 1999 K-12 bill. Certainly, the additional funds will reduce the cross subsidy, but it will not eliminate the financing problem in this area.

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[8]Office of Program Finance, Department of Children, Families and Learning, "Special Education Cross-Subsidies Report, FY 1998", September 1, 1998.

[9] Melcher, Tom, "Special Education Cross Subsidies: State Totals", testimony before the Minnesota Senate K-12 Budget Division, January 6, 2000.

Environment, Natural Resources, and Agriculture

Overview

The 1999 Legislature appropriated $706.738 million for the operations of Environment, Natural Resources, and Agriculture agencies for the 2000-01 biennium and $991,000 in supplemental appropriations for fiscal year 1999. These appropriations are contained in Laws of Minnesota, 1999, Chapter 231. After the Governor's vetoes of $4.381 million, $702.357 million was made available for the 2000-01 biennium. This budget is approximately five percent larger than the budget appropriated for these agencies for the 1998-99 biennium (see Table 5-2, below). The General Fund portion of this budget, after vetoes of $2.631 million, is $421.587 million, or 60% of all direct appropriations. Table 5-1 lists amounts appropriated in Chapter 231 by fund, and the relative percent of the budget represented by each fund.

Table 5-1: Direct Appropriations For 2000-2001 Biennium, by Fund

Fund		$Thousands	%
General	$	421,587	60 %
Petro Tank Release	$	6,976	1 %
State Government	$	89	-
Special Revenue	$	723	-
Environmental	$	43,928	6 %
Solid Waste	$	14,382	2 %
Natural Resources	$	52,238	7 %
Game and Fish	$	121,934	18 %

In addition to the amounts directly appropriated in Chapter 231 of the session law, statutory language enacted in Chapter 231 and previous laws are expected to appropriate another $410 million, more than half again as much as the direct appropriations. Statutory appropriations may be fixed amounts, fluctuating amounts based on revenues generated by fees, or fluctuating depending on level of need. These appropriations are considered on-going commitments of the state. The largest statutory appropriations for the biennium are expected to be:

- $109 million from the General Fund,
- $83 million in Federal Funds,
- $77 million from the Solid Waste Fund (mostly money from the Solid Waste Management Tax),
- $64 million from the Special Revenue Fund (mostly fee revenues),
- $34 million from the newly-created Agricultural Fund (agricultural fees), and
- $17 million from the Environmental Fund (pollution control fees).

The $109 million in statutory appropriations from the General Fund includes approximately $34 million each year for payments to Ethanol Producers, $7.5 million each year for payments in lieu of taxes to counties, $6.2 million per year for treaty payments to tribes, and $6 million per year for emergency forest fire fighting expenses. The $83 million in statutory Federal fund appropriations does not include approximately $16 million each year in Federal grants for Fish and Wildlife management because these funds are deposited directly to the Game and Fish Fund and are appropriated from that fund. Together, direct and statutory appropriations will provide over $1.1

billion for Environmental, Natural Resources, and Agricultural programs in the state during the 2000-01 biennium.

Fiscal Summary

Table 5-2 compares direct appropriations for the 1998-99 biennium with direct appropriations for the 2000-01 biennium by agency. Appropriations to "other agencies" are mostly state contributions in partnership with other governments or with private, non-profit organizations. These organizations are the Science Museum of Minnesota (non-state), the Minnesota-Wisconsin Boundary Area Commission (a Minnesota-Wisconsin partnership), the Citizens Committee on Voyageurs National Park (a Minnesota-Federal liaison group), the Minnesota Horticultural Society (non-state) and the Minnesota Academy of Science (non-state).

It should be noted that the decrease in direct appropriations to the Department of Agriculture is off-set by an increase in statutory appropriations to the Department, through the creation (in Chapter 231) of the statutorily appropriated Agricultural Fund. The amount shifted is from agricultural fees.

Equalizing the bienniums by counting the $20 million in agricultural fees shifted to statutory in 2000-01 would result in a more accurate picture of the change in the Department of Agriculture budget. Instead of a decrease of 20%, the Department's budget would show an

Table 5-2: Direct Appropriations by Agency

($Thousands)	1998-99	2000-01	Change
Pollution Control Agency			
General Fund	28,801	33,749	17%
Environmental Fund	38,719	40,709	5%
Solid Waste Fund	12,307	14,182	15%
Other Funds	8,261	7,388	-11%
total	88,088	96,028	9%
Office of Environmental Assistance			
General Fund	38,488	40,773	6%
Other Funds	2,604	2,541	-2%
total	41,092	43,314	5%
Department of Natural Resources			
General Fund	221,883	233,410	5%
Game & Fish Fund	110,340	121,934	11%
Natural Resources Fund	46,811	52,171	11%
Other Funds	200	200	0%
total	379,234	407,715	8%
Board of Water and Soil Resources			
General Fund	32,327	37,124	15%
Department of Agriculture			
General Fund	36,111	45,491	26%
Other Funds	21,056	678	-97%
total	57,167	46,169	-20%
Ag Utilization and Animal Health			
General Fund	13,271	13,334	0%
Other Funds	400	400	0%
total	13,671	13,734	0%
Minnesota Zoo			
General Fund	13,203	14,378	9%
Minnesota Resources Projects			
Environmental Trust Fund	23,261	25,460	9%
Future Resources Fund	14,668	14,840	1%
Grt Lakes Protection Fund	120	200	67%
Oil Overcharge Money	150	0	-100%
total	38,199	40,500	6%
Other Agencies			
General Fund	3,601	3,282	-9%
Other Funds	63	67	6%

increase of 16%. This would also mean the increase in the overall budget would be 8% instead of 5%. [10] [11]

Policy Review
Pollution Control Agency

Direct Appropriations:		Statutory Appropriations:	
General Fund	33,749,000	Environmental Fund	13,722,000
Environmental Fund	40,709,000	Solid Waste Fund	77,443,000
Solid Waste Fund	14,182,000	Federal Funds	43,735,000
Other Funds	7,388,000	Other Funds	19,939,000
	96,028,000		154,839,000

The Pollution Control Agency (PCA) is charged with the protection of Minnesota's air, land, and water from pollution. The agency accomplishes this mission through evaluation, education, assistance, and enforcement activities.

Forty-two percent of direct appropriations to the PCA are from the Environmental Fund. This fund receives fee revenues from a wide variety of sources. For the 2000-01 biennium, the funding level remains approximately the same as as it was in the 1998-99 biennium. A slight reduction of 5% in direct appropriations is the result of a $3.2 million annual appropriation to the Superfund account being moved from direct to statutory.

Thirty-five percent of direct appropriations to the PCA are from the General Fund. The main reason the agency's General Fund appropriation grew by approximately 17% is due to $2.75 million increase in the Clean Water Partnership grant program. This will more than double the money available for grants and technical assistance to local units of government for watershed-based management projects. The next largest General Fund increase is $901,000 for grants to counties to undertake environmental evaluations of feedlots. The feedlot issue was perhaps the most debated pollution issue during the 1999 legislative session and this appropriation increases funding for the feedlot permit program by 37%.

Fifteen percent of direct appropriations to the PCA are from the Solid Waste Fund. The main reason the agency's Solid Waste Fund appropriation grew approximately 15% is a $965,000 initiative for an expanded Closed Landfill Program. As part of this initiative, Minnesota Statutes, Chapter 115B was amended to allow an estimated seven new landfills into the program. The implication for the biennium is expected to be an increase of approximately $400,000 in site evaluation costs.

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[10] Appropriations for 1998-99 are included in Laws of 1997 (Chapter 216), Laws of 1998 in (Chapter 401), and Laws of 1999 in (Chapters 141 and 231). For 2000-01, appropriations are included in Laws of 1999, Chapter 231.

[11] Other Agency appropriations for 2000-01 also include $293,000 to the University of Minnesota for alternative hog production programs and $350,000 to the Department of Administration for a water craft gasoline use study. Other Agency appropriations include $200,000 to the Department of Transportation for a Savage fen highway study and $250,000 to the Department of Trade and Economic Development for an agricultural processing facility grant.

In the long term, the change in the Closed Landfill Program increases the state's responsibility for eventual cleanup of landfills in the program. To better prepare the agency to meet this future challenge, M.S. 115B was also amended to create a Closed Landfill Investment Fund. Each year from fiscal years 2000 through 2003, $5.1 million will be transferred from the Solid Waste Fund to the investment fund, where it will be invested for maximum long-term gain. Part of the reason balances in the Solid Waste Fund will be sufficient to make these transfers is that the new landfills entering the program are required to make "financial assurance" deposits to the fund. During the next four years, these deposits will total an estimated $12 million.

The other significant new appropriation from the Solid Waste Fund is $396,000 for the biennium to be transferred to the Department of Health for monitoring of private water supplies in areas contaminated by unpermitted solid waste disposal sites (dumps) statewide. This activity was previously funded with the Metropolitan Landfill Contingency Action Trust (MLCAT) Fund and as such was limited to activities in the metro area.

Partly as a result of the above changes, solid waste activities continue to be the fastest-growing area of the PCA's budget. These activities are funded mostly through the Solid Waste Generator Tax, which provides over $22 million annually to the Solid Waste Fund. Statutory appropriations from the Solid Waste Fund during the 2000-01 biennium (mostly for cleanup activities) are estimated to be over $77 million, which is more than twice the 1998-99 amount.

While these increases represent a continuing rise in the pollution control needs of the state, one program was able to be removed from the PCA's activities. Following Federal re-designation of the metro area, the vehicle inspection program came to an end in fiscal year 2000 (see box). The elimination of this program is the main reason appropriations from other funds decreased by 11%.

The largest other fund appropriated to the PCA is the Petroleum Tank Release Cleanup Fund. Including new initiatives of $1.1 million to continue the Leaking Underground Storage Tank program and $250,000 for a one-time purchase and distribution of emergency spill response equipment, the biennial appropriation from this fund totals almost $7 million.

Emissions Testing Program Repealed

The budget of the Pollution Control Agency was also effected by Chapter 178 of 1999. After re-designation of the Twin Cities area by the U.S. Environmental Protection Agency as being in attainment for carbon monoxide pollution, this law ends the metropolitan area vehicle emission inspection program. The elimination of this testing requirement, with its $8 fee, is reduces fee collections by approximately $8 million per year. While over 90% of this fee revenue was statutorily appropriated to the operators of the inspection stations, the PCA's budget will be reduced by over $700,000 per year, which funded the equivalent of 6.5 full-time positions.

Office of Environmental Assistance
Direct Appropriations:

		Statutory Appropriations:	
General Fund	40,773,000	Environmental Fund	2,595,000
Environmental Fund	2,541,000	Federal Funds	583,000
	43,314,000	Other Funds	316,000
			3,494,000

The mission of the Office of Environmental Assistance (OEA) is to encourage waste prevention and resource conservation, including recycling activities. The OEA works with businesses, schools, community organizations and individual citizens. In addition to research and education, the OEA uses grants and loans as financial incentives to accomplish its mission. For the 2000-01 biennium, the OEA's General Fund appropriation was increased by $1.614 million for financial assistance and $350,000 for education assistance. Though not directly connected by statute, the source of the OEA's General Fund appropriations is attributed to deposits to the General Fund from the Solid Waste Management Tax.

The OEA also receives appropriations from the Environmental Fund. A direct appropriation of approximately $1.2 million per year is for pollution prevention activities pursuant to M.S. 115D. A statutory appropriation of approximately $1.3 million per year from metropolitan solid waste fees is for metropolitan landfill abatement activities.

Department of Natural Resources

Direct Appropriations:		Statutory Appropriations:	
General Fund	233,410,000	General Fund	40,364,000
Game & Fish Fund	121,934,000	Federal Funds	33,245,000
Natural Resources Fund	52,171,000	Game & Fish Fund	5,446,000
Other Funds	200	Natural Resources Fund	2,994,000
	407,715,000	Other Funds	25,046,000
			107,095,000

The mission of the Department of Natural Resources (DNR) is to manage the state's public lands, parks, timber, waters, minerals and wild animals for their commercial and recreational use.

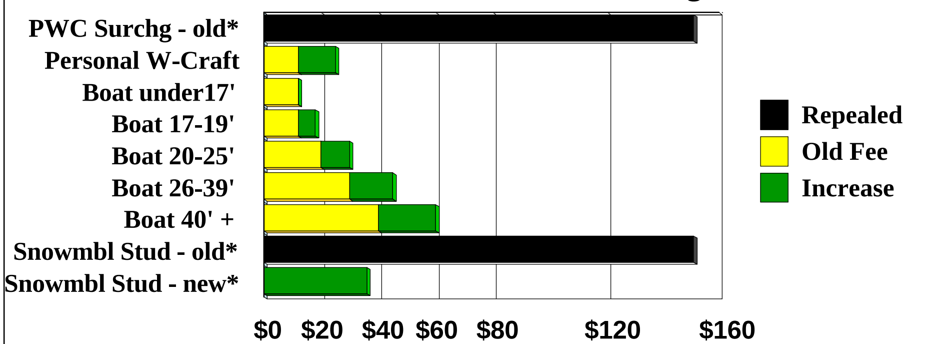
Fifty-seven percent of direct appropriations to the DNR are from the General Fund. For the 2000-01 biennium, the department's General Fund appropriation increased by approximately 5%. Over $3 million was appropriated for flood control activities on the Red River. Another $3 million was appropriated for capital asset preservation activities. The State Park operations budget was increased by $850,000 per year and grants to the Metropolitan Council for metro park operations were increased by $1.5 million per year. An increase of over $2 million for fish and wildlife management activities, including $500,000 for walleye stocking, was appropriated in the first year of the biennium but a similar increase for the second year was vetoed by the Governor pending discussions on hunting and fishing license fee increases.

Other General Fund additions for the biennium include $1.2 million for computer information systems, $1 million for the continuation of the Forest Resources Council, $1.1 million for a newly created stream protection and improvement loan program, and $900,000 for a grant to the city of St. Paul to acquire a portion of the Trout Brook Corridor.

Thirty percent of direct appropriations to the DNR are from the Game and Fish Fund. This Fund receives the revenues of hunting and fishing license fees and has several individual accounts for stamp and surcharge revenues which are dedicated to specific purposes. While appropriations from the Game and Fish Fund increased by approximately 11% for the biennium, much of the increase came from actions of previous legislatures or for specific purposes. Over $3 million in costs which were given a one-time appropriation from the General Fund for the 1998-99 biennium reverted to the Game and Fish Fund budget in 2000-01; $1.5 million was added to the budget for enforcement as required by the pension act (Chapter 233) of 1997; and $1.4 million was appropriated from the accumulated balances of dedicated accounts in the Fund. While Federal grants to the Fund increased by $1.4 million, license revenues were below amounts necessary to support the growth in costs on current activities. Over $2 million had to be reduced from a variety of areas.

Approximately thirteen percent of direct appropriations to the DNR are from the Natural Resources Fund. This fund is made up of various dedicated accounts. Chapter 231 changed several fees (see Chart 5-1). Watercraft fees deposited to the Water Recreation Account in the Fund were increased for most categories but the $50 annual personal watercraft surcharge was repealed. The net effect of these changes is that revenues to the account remain at approximately the same level as they would be without the changes. The $50 annual fee to use metal traction devices (studs) on snowmobiles was repealed in Chapter 4 of Laws of 1999, but later re-established in Chapter 231 at $12 per year. Revenues from these fees are deposited in the Snowmobile Trails and Enforcement Account in the Fund.

Chart 5-1
Natural Resources Fund Fee and Surcharge Changes
Three Year Fees and Surcharges



* Three Annual Amounts

Board of Water and Soil Resources

Direct Appropriations:		Statutory Appropriations:	
General Fund	37,124,000	Federal and Other Funds	1,302,000

The mission of the Board of Water and Soil Resources (BWSR) is to help local units of government manage and conserve soil and water resources. The Board's budget for 2000-01 increased by 15%. The largest new appropriation is $1.653 million for the administrative costs of the Reinvest In Minnesota (RIM) public easement and enhancement programs. In previous years these costs were appropriated with the capital budget.

Most of the appropriation increases are for grants to local units of government. The most significant increase is an additional $1 million per year for Soil and Water Conservation District (SWCD) cost-sharing contracts. This appropriation increases base funding for cost-sharing to $4.12 million per year and specifies that at least $1.5 million per year must be for water quality management on feedlots. An increase of $228,000 per year was added to the general purpose grants given to SWCDs. The grant to the Minnesota River Basin Joint Powers Board was increased from $63,000 to $100,000 per year. Also a $100,000 per year grant was added for the Red River Basin Board. With these appropriations, the Board's budget continues to consist of approximately 78% grants.

Department of Agriculture

Direct Appropriations:		Statutory Appropriations:	
General Fund	45,491,000	General Fund	68,447,000
Environmental Fund	678,000	Agricultural Fund	33,713,000
Natural Resources Fund	46,169,000	Federal Funds	3,096,000
		Other Funds	16,541,000
			121,797,000

The mission of the Department of Agriculture (MDA) is to protect public health and safety regarding the content and quality of food and agricultural products and to insure and promote orderly commerce in agricultural and food products. As agricultural activities now rise and fall in the global marketplace, this mission has become a greater challenge.

To better meet the increasing challenge, the MDA's General Fund appropriation was increased by 26%. The agency's information technology was significantly strengthened with new computer hardware and software funding of $2.55 million for the biennium. A new risk-based food protection program received $1.75 million for the biennium, which will support ten new positions in dairy and food inspection, six new positions in laboratory and analytical work, and three new positions in research, planning and outreach. Export certification and exotic pest management activities were given an increase of $750,000 per year. Also, food inspection activities were given an increase of $450,000 per year to fund seven new positions. This increase is partially off-set by increases in food handling and sales certification fees, which will raise approximately $200,000 per year for the General Fund. Other General Fund changes totaling over $4 million for the biennium add funding for a variety of new and existing research, education, and grant programs.

The department's statutory appropriation of $68.447 million from the General Fund is larger than the direct General Fund appropriation, but the entire statutory amount is for payments to ethanol producers. The Agricultural Fund (see the Focus Area below) consists of agricultural fee revenues.

Agricultural Utilization Research Institute

Direct Appropriations:	
General Fund	7,761,000
Special Revenue Fund	400,000
	8,160,000

The mission of the Agricultural Utilization Research Institute (AURI) is to identify and expand markets for new or existing commodities, ingredients and products, and to develop new uses or value improvements for Minnesota agricultural commodities. AURI works with clients in lab and pilot facilities in Crookston, Marshall and Waseca, and helps link clients with markets and businesses at offices in St. Paul. Except for a one-time reduction of $500,000 for fiscal year 2000 operations, AURI's budget remains unchanged from the 1998-99 biennium.

Board of Animal Health

Direct Appropriations:		Statutory Appropriations:	
General Fund	5,574,000	Federal Funds	766,000

The Board of Animal Health seeks to protect, maintain and improve the health of the state's domestic animals. For the 2000-01 biennium, the Board's budget includes a new appropriation of $236,000 to investigate avian pneumovirus, which currently appears to be found only in turkeys and only in Minnesota. Also, the appropriation for testing cattle herds for paratuberculosis ("Johne's Disease") is increased by a one-time appropriation in fiscal year 2000 of $100,000. This is in addition to the ongoing appropriation of $200,000 per year for this activity.

> Emergency Pseudorabies Appropriation
>
> In addition to the Animal Health Board's operating budget, Chapter 45 of 1999 appropriates $1.255 million to continue the Board's efforts to control pseudorabies in swine. This emergency appropriation was made early in the session to make the urgently needed money available as quickly as possible.

Minnesota Zoo

Direct Appropriations:		Statutory Appropriations:	
General Fund	15,178,000	Other Funds	17,814,000

The Minnesota Zoo is a state recreation, education and conservation resource. While it is a state agency, the Zoo has a statutory goal of operating independently. Towards this end, revenues from admission fees, food and beverage sales, retail sales, special programs and gifts are statutorily appropriated for Zoo operations. The Zoo also actively pursues partnerships with the private sector. In recent years, however, lower than expected attendance has moved the Zoo further from its goal of independence.

During the 1999 session, the Zoo requested an emergency appropriation to relieve an operating deficiency of over $1 million. Chapter 141 of 1999 appropriated $800,000 to solve budgetary problems for fiscal year 1999. This chapter also authorized to the Zoo to raise admission fees after April 1, 2000, and required the Zoo to do a study of how alternative governing structures might move the Zoo towards greater self-sufficiency.

In the mean time, the Zoo's dependence on its General Fund appropriation was increased from approximately 36% of its budget to approximately 46%. Chapter 231 increased the General Fund appropriation by $1.7 million per year, which is a 9% increase over the supplemented 1998-99 biennium but a 22% increase over the base funding level.

Minnesota-Wisconsin Boundary Area Commission

Direct Appropriations:

General Fund	304,000
Natural Resources Fund	67,000
	371,000

The Minnesota-Wisconsin Boundary Area Commission is a joint activity between the two states to promote cooperation in the use, protection, and development of the 266-miles of St. Croix and Mississippi river boundary areas. The Commission's budget remains unchanged from last biennium.

Citizens Council on Voyageurs National Park

The Citizens Council on Voyageurs National Park has acted over the years as a liaison between Minnesotans and the Federal government on the management of Voyageurs National Park. The Council, made up of 13 citizen members and 4 legislative members, has been involved in park development and water level control issues. Stating that the Council has fulfilled its mission, the Governor vetoed the $134,000 biennial appropriation that Chapter 231 would have authorized.

Minnesota Resources Projects

Direct Appropriations:

Environmental Trust Fund	25,460,000
Future Resources Fund	14,840,000
Great Lakes Protection Fund	200,000
	40,500,000

Table 5-3: LCMR Appropriations

LCMR Project Categories and Appropriation Levels

	$thousands
Recreation	11,127
Historic	690
Water Quality	3,000
Ag & Natural Resources Industries	6,100
Urbanization Impacts	1,373
Energy & Transportation Innovation	325
Decision-Making Tools	1,355
Environmental Education	2,655
Benchmarks & Indicators	4,230
Critical Lands or Habitats	6,230
Native Species Planting	1,540
Native Fish Species	458
Exotic Species	550
Commission Administration	867
	40,500

Every two years, the Legislative Commission on Minnesota Resources (LCMR) issues a request for proposals to identify new, innovative or accelerative natural resources projects that help sustain, enhance and wisely utilize the state's natural resources. This request is open to anyone, but groups that typically pursue LCMR funds include local units of government, private/non-profit organizations, state agencies and higher education institutions.

The two main sources of funding for LCMR projects are the Environment and Natural Resources Trust Fund and the Minnesota Future Resources Fund. Trust Fund money comes from the sale of Minnesota Lottery games and Future Resources Fund money comes from cigarette tax revenue. Table 5-3 lists appropriation levels for the 2000-01 biennium by topic.[12]

Table 5-4: State-Private Partnerships

Biennial State Appropriations as a Percent of Non-State Organization Budgets (approximate)

	$Thousands	%
Science Museum of Minnesota	2,328	7%
Minnesota Horticultural Society	164	10%
Minnesota Academy of Science	82	24%

State-Private Partnerships

Chapter 231 includes General Fund appropriations totaling $2.574 million to three non-state organizations. These appropriations represent state partnerships with three organizations that have played significant roles in the environmental, natural resources and agricultural activities of the state. The three organizations are the Science Museum of Minnesota, the Minnesota Horticultural Society, and the Minnesota Academy of Science. Table 4 lists each state appropriation and the approximate % of each organization's operating budget that the state appropriation represents.

Focus Area

Agricultural Fund Created

For the 2000-01 biennium, the state has a new fund from which statutory appropriations are made. The Agricultural Fund is created in Chapter 231 but is made up of eighteen accounts which previously existed in the state's Special Revenue Fund (see Table 5-5). Nine of these accounts already had statutory appropriations while the other nine had direct appropriations for estimated amounts of necessary expenditures. While the direct appropriations provided for regular legislative review of the activities of these accounts, it also made management difficult. Unexpectedly high fee revenues (due to increased requests for inspections, for instance) could not be expended without amending the appropriation law. Unexpectedly low fee revenues did not necessarily trigger reduced spending, since spending was planned at the levels directly appropriated. Because of these problems, the Department of Agriculture requested that these nine accounts be given statutory appropriations, which is standard practice for fee-driven activities. The language in Chapter 231 creating the Agricultural Fund provides both the statutory appropriations sought by the MDA and the regular review desired by the legislature, with semiannual reports required by October 15 and April 15 of

[12] A detailed list of LCMR projects can be found on the LCMR web page at: www.commissions.leg.state.mn.us/lcmr.

each year. To help ease past difficulties in two of these accounts, Chapter 231 also made one-time appropriations of $250,000 to the Dairy Services Account and $100,000 to the Seed Potato Inspection Account.

Table 5-5

AGRICULTURAL FUND

STATUTORY APPROPRIATIONS FOR 2000-2001

Account	$Thousands
Pesticide Regulatory	***9,020***
Grain Inspection and Weighing	7,828
Ag Chemical Response & Reimbursement	4,150
Dairy Services	***3,318***
Fertilizer Inspection	***2,089***
Seed Inspection	***1,548***
Commercial Feed Inspection	***1,543***
Fruit & Vegetable Inspection	***1,083***
Grain Buyers and Storage	990
Seed Potato Inspection	***754***
Livestock Weighing	***670***
Laboratory Services	351
Commodities Research and Promotion	***283***
Egg Law Inspection	68
Statistical Services	12
Minnesota Grown Labeling	6
Eurasian Wild Pig	0
Minnesota Grown Matching	*
TOTAL	33,713

accounts in italics previously appropriated directly

*$71,000/yr directly appropriated to account from the General Fund (to avoid double-counting, this amount not shown)

Family and Early Childhood

Overview

The Family and Early Childhood division is comprised of four distinct program areas: children and family support; community and systems change; prevention and intervention; and self-sufficiency and lifelong learning.

Initiatives in the children and family support area target programs and services to enhance the social, physical, cognitive and emotional development of all young children and to support the needs of working families through high quality and affordable child care. Specific programs include Early Childhood Family Education (ECFE), Head Start, Early Childhood Screening, School Readiness, and Way to Grow. In addition, the state's two largest subsidized child care programs–Minnesota Family Investment Program (MFIP) and Basic Sliding Fee (BSF) child care are also included within this category.

The community and systems change policy area encompasses services available to the entire community. It comprises Community Education, Adults with Disabilities, Hearing Impaired Adults, Family Collaborative and First Call for Help programs.

Programs within the prevention and intervention area are generally designed to the need and or/duration of remedial or special education services, interaction with the criminal justice or juvenile justice system or other public services including welfare. Prevention and intervention efforts include education based support for students who are parents, constructive after school activities to middle and high school student, during the hours when the potential for juvenile crime is at it greatest, access to safe environments where children at risk due to acrimonious custody arrangements may visit non-custodial parents; school based programs that teach non-violent conflict resolution and services that attempt to prevent child abuse and address the needs of abused children.

One of the greatest challenges in the current welfare reform effort is how to obtain and retain employment that provides for a livable wage for those who are homeless, have not completed high school, do not have safe or adequate housing, reliable transportation or when family crises arise. Policy initiatives in self-sufficiency and lifelong learning are designed for those who need help in providing for themselves through adult diploma and GED programs, family literacy activities, and a wide array of anti-poverty activities.

Clearly, the family and early childhood area encompasses a broad array of philosophies, programs and services. This broad perspective previously crossed several different agencies. Beginning in 1996, however, the consolidation of services that were deemed basic to promoting healthy, self-sufficient families was undertaken in an attempt to make their accessibility to families much easier than it had previously been.

Fiscal Summary

The 1999 Legislature appropriated $456.7 million in general fund resources to finance the programs and services in the family and early childhood area for fiscal years 2000 and 2001. This compares with a spending level of $369 million for the previous biennium-- fiscal years 1998 and 1999. While this comparison between spending in the 1998-1999 biennium and that authorized for 2000-2001 shows a $87.7 million increase or 23 % increase, ending the comparison at this point would paint an incomplete picture of what really transpired during the 1999 session.

For example, if the Legislature had made no changes during the 1999 session in the Family and Early Childhood area, the current law spending level for fiscal years 2000-2001 (established in 1997 and 1998) would have been $515 from the general fund. Thus, a comparison between FY 1998-1999 spending and what would have occurred in the absence of legislative changes in the 1999 session would have resulted in a spending increase of $146 million (or 39 %) between 1998-1999 and 2000-2001.

Several critical changes occurred during the 1999 session that dramatically altered general fund spending for programs in this area. The key features of the 1999 bill that merit closer examination include:

- Minnesota Family Investment Program (MFIP) Child Care assistance is a forecasted program. The forecast growth in the program due primarily to welfare reform increased the state's commitment by $84 million between 1998-1999 and 2000-2001 as of the November 1999 forecast. The 1999 Legislature also increased the amount of money families must contribute to the cost of caring for their children. These factors combined brought the budget amount to $156 million for this program in fiscal years 2000-21;

- Levy Simplification enacted in the 1998 K-12 Omnibus Education bill reduced local categorical levies and replaced them dollar- for-dollar with state general fund money in the amount of $50 million;

- The Governor's recommendation to "fully fund" the existing statutory formulas for five long-standing programs; and

- The Governor's recommendation to supplant $60 million of state general fund revenue currently used to finance the Basic Sliding Fee Child Care program with $60 million of federal TANF (Temporary Assistance for Needy Families) dollars.

In addition to the changes outlined above, the legislature, spent $5 million of general fund money to finance increases in the Early Childhood Family Education program (ECFE) in 2000; the Adolescent Parenting Program; Male Responsibility Grants; Adult Basic Education Per Capita Aid; the Family Assets for Independence program; Food Shelves and Food Banks; GED on TV (vetoed); Housing programs (partially vetoed); and Lead Abatement activities.

Table 6-1

Family and Early Childhood Appropriation Summary
(000's)

Program Area	1998-1999 Appropriation	2000-2001 Appropriation	% Change
Children and Family Support			
School Age Child Care	649	519	-20%
ECFE	29,713	40,432	36
Preschool Screening	3,089	5,100	65
Way to Grow	950	950	0
School Readiness	20,700	20,790	0
Head Start	36,943	36,750	0
MFIP Child Care	74,552	156,040	109
BSF Child Care	94,491	43,998	-53
Child Care Development	7,729	3,730	-52
Subtotal	268,816	308,309	15
Community and Systems Change			
Community Education	3,170	29,409	828
Adults with Disabilities	1,397	1,340	-4
Hearing Impaired Adults	140	140	0
Family Service Collabs*	14,203	7,312	-48
First Call for Help	0	50	
Subtotal	18,910	38,251	102
Prevention and Intervention			
Violence Prevention	2,900	2,900	0
Male Responsibility	500	500	0
After School Enrichment	9,519	10,520	11
Family Visitation Centers	400	400	0
Abused Children	1,848	1,890	2
Office of Drug Policy**	4,875	0	
Children's Trust Fund	235	450	92
Adolescent Parenting	799	1,000	25
Non-recurring Programs***	3,684		
Subtotal	24,760	17,660	-29
Self-Sufficiency and Lifelong Learning			
Adult Basic Education	25,185	56,741	125
ABE Per Capita Aid	0	1,973	
Adult Graduation Aid	5,126	8,215	60
GED Tests	250	250	0
MN Econ. Opportunity	16,968	17,028	0
Transitional Housing	3,568	3,975	11
Food Banks/Shelves	2,459	2,556	4
Emergency Services	298	700	135
Lead Abatement	300	500	67
Other	2,302	500	-78
Subtotal	56,456	92,438	64
Grand Total	368,942	456,658	24

Other Funds	1998-1999 Appropriation	2000-2001 Appropriation

TANF Transfers	0	80,400
Special Revenue	1,816	1,816
State Government Special Revenue	192	192

Notes to tables 6-1

* Reflects five-year phase out of state support

** The Office of Drug Policy was transferred back to the Dept. of Public Safety effective for FY 2000.

***Non-recurring programs include: Child Guides, ESL for Citizenship, Infant Development Grants, Fetal Alcohol, Meadowbrook Housing and Tornado Disaster Relief.

Policy Review

Child Care Assistance

The Minnesota Family Investments Program (MFIP), child care assistance, like its predecessor the AFDC (and similar) child care programs, is treated as a forecasted program. This means that each time the Department of Finance prepares a forecast of projected state revenues and expenditures, any estimated changes in MFIP caseloads and service costs are calculated and a revised cost estimate for the child care assistance program available to MFIP clients is incorporated into the forecast. The forecast growth in the MFIP child care assistance program increased the state's financial commitment from $74.6 million in fiscal 1998 and 1999 to an estimated $156 million for fiscal years 2000 and 2001. This meant that even before legislators began to consider any discretionary spending changes during the 1999 legislative session, they were obligated to appropriate an additional $84 million for MFIP child care in order to maintain the program's status quo level of assistance to those eligible.

Legislators did, however, make some additional changes to publicly subsidized child care by increasing the amount of money families who receive child care assistance are required to contribute toward the cost of caring for their children. These co-payment changes decreased the state's cost for subsidized child care. The savings–an estimated $12 million for the biennium (including savings from applying the co-payment changes to the Basic Sliding Fee programs)-- were subsequently put into the Basic Sliding Fee program to provide child care assistance for up to1,133 additional working families in 2000 and 1161 new families in 2001. The legislature's policy was clear in requiring those already receiving assistance to contribute slightly more toward the cost of care for their children, thereby allowing significant number of similarly situated low-income families who previously were on waiting lists and not receiving child care assistance would be able to get help in paying their child care costs.

Levy Simplification

Levy simplification means replacing all or a significant portion of local levy revenue with state revenue. In the Early Childhood Family Education budget area, levy simplification affected three major programs: Adult Basic Education, Community Education and Early Childhood Family Education. The "levy simplification" changes in the bill were enacted by the K-12 finance committee in the 1998 Omnibus Education Funding Bill as part of broad-based changes in the state's level of direct support for public education programs at all levels and in all areas of the state.

Levy simplification reduced local special purpose (or categorical) property tax levies by $50 million and replaced those property tax revenues with state general fund money on a dollar-for-dollar basis. Although this change boosted general fund spending on the affected programs, it did not actually increase total revenues available for the programs because it substituted state general fund dollars for local property tax dollars.

In addition to the direct swap of state dollars for local property tax dollars, levy simplification had significant effects on the distribution of program money throughout the state. Adult Basic Education is one program where experience has highlighted the effects of eliminating a local source of revenue for local programs and replacing it with state money which is distributed to programs based on numbers of program participants as measured by the concept of full time equivalents (FTE's). Under the old system, programs no matter how small or geographically isolated had the ability to generate money at the local level. In addition to generating revenue, the levy could be used as a bargaining tool to convince the consortium to locate ABE sites within the levying district. Under levy simplification a local levy option is no longer available and some programs are too small to make up the loss of the levy (and more importantly a grandfather provision that guaranteed minimum aid based on a 1992 level) with state money. The distribution of state aid is controlled by the FTE funding formula which tends to concentrate aid in districts with high FTE counts. This is generally in the metro area and in regional centers of greater Minnesota.

Full Funding of Statutory Formulas

One of the Governor's recommendations in the Family and Early Childhood program budget area was to fully fund five programs for which formulas had existed in statute, but for which general fund money in amounts sufficient to fund those formulas had in the past not generally been provided by the legislature. The five programs whose formulas will now be "fully funded" include: Adult Basic Education, Community Education, Early Childhood Family Education, Adult Graduation Aid, and the School Age Care (formerly known as Extended Day) program. The move to fully fund these programs came with an original price tag of $6.6 million. When the final bill was developed, however, the cost was increased by $4.4 million due to errors discovered in the forecast of ECFE and ABE program costs very late in the session.

Some additional funding was beyond the effects of levies and forecasted formulas was provided to the Adult Basic Education and Early Childhood Family Education programs for fiscal year 2000 only. The ABE program received nearly $2 million in additional general fund money to provide extra money to small school districts whose small pupil counts make it very difficult to operate a financially viable program. This aid in the amount of an additional $4000 or $1 times the district's population, whichever is greater.

The ECFE program received an aid increase for fiscal year 2000 only to raise the formula amount from $113.50 per child under the age of five years to $115.96. In the absence of legislative action in 2000, the formula amount will revert to $113.50 per child in 2001. A permanent formula increase to $120 per child will go into effect for fiscal year 2002 and thereafter.

TANF Transfers

The TANF transfer refers to the substitution of $60 million of federal TANF money for state general fund dollars in the state child care assistance program. The "freed up" state general dollars as a result of this substitution reduce the state's general fund commitment to family and early childhood programs in 2000 and 2001. It is important to note that while this money "fell" to the general fund bottom line and was reallocated for spending in other areas of the state budget, including the reserve, it will either have to be replaced with general fund money for the programs to continue in 2002 and 2003 or if TANF money is still available, another substitution of federal money for state money will have to be authorized by the legislature.

An additional $20.4 million of federal TANF money were made available to finance direct child care assistance, the development of child care capacity, child care fraud prevention activities and other outreach and administrative activities. Unlike the $60 million that was "swapped" with state money, the $20.4 million in additional TANF resources is anticipated to be available into the 2002-2003 biennium.

Governmental Operations

Overview

The Governmental Operations Budget Act (1999 Laws of Minnesota, Chapter 250), as passed by the 1999 Legislature, authorized General Fund expenditures of $750.173 million. This includes $658.451 million in direct General Fund appropriations, $71.622 million in open appropriations, $20 million for a Year 2000 revolving loan fund for local governments and a $100,000 carryforward appropriation from the FY 98-99 biennium. Offsetting new revenues to the General Fund totaled $21.384 million, $20 million of which are the repayments of Year 2000 revolving loans from local governments. The net effect on the General Fund totaled $728.789 million. Of this amount, the Governor line-item vetoed $7.433 million. This reduced total net spending to $721.356 million for biennium.

The Government Operations Budget includes appropriations to the Legislature, Constitutional Offices, and a variety of state agencies and boards and funds that focus on the administration of state duties. The agencies are listed in Table 7-2.

Fiscal Summary

General Fund spending in Government Operations for the 2000-01 biennium decreased by 1.9% compared to the 1998-99 spending levels. Decreases in funding are largely due to adjustments to the base eliminating one time spending. Other base adjustments that affected spending include a three % increase for salaries and benefits each year, small agency increase of three % per year, adjustments for Attorney General costs to partner agencies and pension uniformity bill reductions. Table 7-2 compares the general fund open and direct appropriations for the 1998-99 and 2000-01 biennia after the Governor's vetoes. Table 7-1 details the Governor's vetoes.

Table 7-1

Governor's Vetoes

Amount	Item
220	Intergovernmental Information Systems Advisory Council (IISAC)
100	Bleacher Safety Grants
113	Public Television Digital TV Grant
4,000	Mighty Ducks Ice Arena Grants
2,000	Mighty Kids Amateur Athletic Facilities Grants
1,000	Humanities Commission Motheread/Fatheread Program
7,433	Total *$ 000s*

Table 7-2

GOVERNMENTAL OPERATIONS/STATE GOVERNMENT FINANCE GENERAL FUND SPENDING - Open and Direct Appropriations Only *$ 000s*	*FY 1998-99**	*FY 2000-01***	*Change from FY 1998-99*
Legislature	117,046	121,079	3.4%
Governor	7,700	8,223	6.8%
State Auditor	15,618	18,278	17.0%
State Treasurer	5,814	4,846	-16.6%
Attorney General	56,884	51,397	-9.6%
Secretary of State	11,843	18,104	52.9%
Public Disc. Campaign Finance Bd [1]	5,132	5,523	7.6%
State Board of Investment	4,410	4,686	6.3%
Administrative Hearings	0	400	N/A
MN Planning	11,570	11,308	-2.3%
Administration (includes Office of Technology) [1]	96,078	67,987	-29.2%
Public Broadcasting	8,296	6,660	-19.7%
Capitol Area Arch Planning Bd	871	1,194	37.1%
Finance	47,972	42,373	-11.7%
Finance Non-Operating [1, 2]	8,145	20,000	145.5%
Indirect Cost Receipts Offset [1]	(46,407)	(42,819)	-7.7%
Employee Relations [1]	16,519	21,528	30.3%
Revenue [1]	169,449	184,983	9.2%
Political Contributions Refunds [1]	9,312	7,903	-15.1%
Tax Refund Interest [1]	35,878	47,000	31.0%
Military Affairs	22,352	21,937	-1.9%
Veterans Affairs	20,768	10,254	-50.6%
Veterans Service Organizations	148	148	0.0%
Minnesota Racing Commission	742	792	6.7%
Lawful Gambling Control Board	4,450	4,424	-0.6%
Amateur Sports Commission [1]	8,624	2,758	-68.0%
Contingent Accounts/Tort Claims	3,405	750	-78.0%
Public-Local Employees Retirement Funds [1]	84,026	71,028	-15.5%
Gov't Innovation & Cooperation Bd	2,321	2,032	-12.5%
State Arts Board	26,202	26,158	-0.2%
Humanities Commission	1,772	1,806	1.9%
Total General Fund	756,940	742,740	-1.9%

Estimated new revenues in FY 2000-01 offset spending by $21,384,000 for net spending of $721,356,000

* Department of Finance Fund Balance Analysis - General Fund, June 14, 1999

**Enacted Laws of Minnesota, Chapter 250 and Open Appropriations

[1] Open Appropriations included

[2] refers to misc. budget transactions, FY 2000-01 reflects Year 2000 Loan Program

Policy Review
Legislature
General Fund - $121,079,000
Other Funds - $378,000

The appropriation for the Legislature includes the Senate, House, and Legislative Coordinating Commission. The 3.4% increase in funding is attributed mostly to salary and benefit increases.

Constitutional Officers
General Fund - $100,848,000
Other Funds - $4,633,000
Carry Forward - $100,000

The Constitutional Offices appropriations include funding for the Governor's Office, State Auditor, State Treasurer, Attorney General and the Secretary of State. Overall general fund appropriations increased by about 3.1% or about $3 million. This includes a 6.8% ($500,000) increase to the Governor's Office, 17% ($2.7 million) increase to the State Auditor and a 52% ($6.3) increase to the Secretary of State paired with decreases of 16.6% ($1 million) and 9.6% ($5.5 million) to the State Treasurer and the Attorney General.

Other Funds represent appropriations to the Office of the Attorney General for providing legal services to health licensing boards, landfill clean up programs and assisting local governments with lawsuits related to solid waste, and investigating and prosecuting environmental crime.

The $100,000 carry forward reflects money previously appropriated to the Secretary of State related to changes to the voter registration system due to redistricting. The money is available through FY 2000.

State Auditor

Among the increases to the State Auditor was an appropriation of $1.32 million to increase compensation to attract and retain auditors. By statute, the state auditor must recover all of its direct costs of audit examinations through fees charged to audit clients. These non-dedicated revenues are deposited in the Cambridge Deposit Fund. The attrition rate among auditors has been 50 % over the past four years.

State Treasurer

The reduction in the State Treasurer's budget is due to an adjustment for a one time appropriation transfer to the transportation revolving fund.

Attorney General

The Office of the Attorney General (AGO) received a one-time appropriation totaling $1.903 million for the biennium. This appropriation builds upon the $1.4 million technology appropriation the office received for the FY 1998-99 biennium and will allow the AGO to maintain and upgrade the existing network and e-mail system, provide laptop access for attorneys who are in court or in trial in greater Minnesota, add an automated litigation support system, pilot a voice recognition software program and add imaging for document retrieval. The AGO estimated that approximately two-thirds of the total initiative would be dedicated to technology maintenance.

The AGO enters into partnerships agreements with several state agencies for legal services. The funding for these agreements is transferred from the partner agency to the AGO based upon mutually established partnership contracts. It is the responsibility of the partner agencies to secure funding from the legislature, therefore this funding is not reflected in the AGO's appropriation. The AGO also has statutory authority to enter into agreements for legal services with other "non-partner" agencies which also would not be reflected in the AGO's appropriation.

Concerns during the 1998 session with the funding of legal services led to the establishment of a joint executive-legislative task force (Laws 1998, Chapter 366, Sec. 3) to review the current funding mechanism for legal services and report back to legislature during the 1999 session. Chapter 250 requires a continuation of this review by the AGO and the Department of Finance with a second report due to the legislature by February 15, 2000.

Other changes in the funding level of the AGO are due to a re-organization of duties, adjustments for one-time technology expenditures and how partner agency transfers are reflected in the budget.

Secretary of State

The Office of the Secretary of State (OSS) received $5.963 million for one-time technology related expenditures for the FY 2000-01 biennium. (See the Focus Area)

The repeal of the presidential primary (M.S. 207A) resulted in the elimination of a $3.5 million base adjustment. In place of the 2000 primary, the OSS was appropriated $8,000 in FY 2000 for a presidential straw ballot to be conducted during the March 2000 precinct caucuses. $100,000 in new spending for election related training and materials was also appropriated.

Executive Branch Agencies

Boards and Commissions

General Fund - $43,769,000
Open General Fund -$5,604,000

Boards and Commissions include the Public Disclosure and Campaign Finance Board, State Board of Investments, Capitol Area Architectural and Planning Board, Minnesota Racing Commission, Lawful Gambling Control Board, Amateur Sports Commission, Government Innovation and Cooperation Board, the State Arts Board, and the Humanities Commission. Spending on Boards and Commissions decreased by about $5.1 million or 9.4% between the 98-99 biennium and the 2000-01 biennium.

The main reason for the spending reduction in this area is decreased funding for the Amateur Sports Commission. The Minnesota Amateur Sports Commission (MASC) was appropriated $6 million in new grant funding above the base operations level for the biennium. $4 million of the grant dollars were for the Mighty Ducks ice arena program and $2 million for the creation of the Mighty Kids program for amateur athletic facilities and events. This entire grant appropriation was vetoed by the governor who in his veto letter said it is "more appropriately considered as part of a capital bonding request." and promised to consider it for inclusion in the 2000 capital budget.

General Fund spending also includes $4.1 million in an open appropriation for the Campaign Finance and Public Disclosure Board and $1.5 million to the Amateur Sports Commission for amateur sports events at the Target Center.

Accounts
General Fund - $71,778,000

Special Accounts includes Contingency Accounts/Tort Claims and Public-Local Employees Retirement Funds. Ninety-nine % of the funding in this area is for the retirement funds. The Public-Local Employees Retirement Funds decreased by nearly $13 million or 15.5% from the 98-99 biennium to the 2000-01 biennium.

Funding within the retirement fund breaks out as follows:

- Minnesota State Retirement System (MSRS): $8.012 million for legislators and constitutional officers retirement
- Minneapolis Employees Retirement Fund (MERF): $12.884 million, after a $6.216 million actuarial reduction to the base level.
- Local Police and Fire Amortization Aid - $12.598 million.
- Teacher's State Aid - First Class Cities: $37.534 million open General Fund appropriation.

Veterans/Military Agencies
General Fund - $32,339,000

The Offices of Military Affairs, Veterans Affairs, and Veterans Services Organizations funding decreased by $10.9 million or 25% from the 98-99 biennium to the 00-01 biennium. This is primarily due to a 50% reduction in Veterans Affairs. In the FY 1998-99 biennium, $17.09 million was appropriated to Veteran Affairs for bonuses and $500,000 for administering the program. State voters approved a constitutional amendment in 1996 in support of the bonus program. Expenditures for the bonus program in FY 1998-99 are estimated to be $7.358 million with an unspent portion of the appropriation estimated to be $10.231 million which will be returned to the general fund at the end of the biennium. The number of bonuses awarded to date is 16,844.

Revenue Department
General Fund: $181,183,000
Other Funds: $8,320,000
Open General Fund: $58,703,000 (Collections, Seized Property, Recording Fees, Political Contribution Refund, Tax Refund Interest)

The Department of Revenue's general fund appropriations increased by $25 million or 9.2% from the 98-99 biennium to the 2000-01 biennium. Over half of the increase is for a one-time $12 million direct appropriation for an income tax re-engineering initiative. This money is available until June 30, 2003. The carry forward from one biennium to the next is subject to approval by the Commissioner of Finance after receiving the recommendation's of the funding committees overseeing the department and in accordance with the Department of Revenue's technology plan approved by the Commissioner of Administration. Failure or refusal to make a recommendation promptly is deemed a negative recommendation. The Commissioner of Revenue is required to report on the progress of the project to the funding committee chairs responsible for the budget item by January 15, 2000, 2001 and 2002.

The current individual income tax system which serves 3 million taxpayers and generates over $5 billion in annual receipts is built upon processes and systems that are nearly 30 years old. The Department of Revenue expends approximately $37 million of its annual operating budget to administer the income tax system.

The department's plan calls for a system redesign/implementation process that is staged over several years and follows the redesign model used for the sales tax reegineering effort in 1992-94.

The remaining portion of the increase is largely due to a forecasted change in the tax refund interest open appropriation account.

Finance Department
General Fund: $62,373,000
Open General Fund: ($42,819,000) (Indirect Cost Receipts)

Direct General Fund appropriations increased by $6.2 million or 11.1% from the 1998-99 biennium to the 2000-01 biennium. This includes a decrease of $5.6 million for the Department's ongoing operations and a one time $20 million dollar appropriation for the Year 2000 Local Government Loan Fund. (The loan fund is discussed in the Focus Area). Indirect Cost Receipts refers to the general fund reimbursement from the billing of state agencies that utilize statewide administrative services. This reimbursement reduces total spending by $42.819 million for the biennium.

The Department of Finance received an appropriation of $6,839,000 over the next four fiscal years to provide system upgrade maintenance to the Statewide Employee Management System for payroll, human resources, interfacing and reporting (SEMA4). The SEMA4 system serves all state agencies in the executive branch by producing paychecks for approximately 50,000 state employees. The system is also responsible for employee information related to job skills, disciplinary actions, grievances, ADA, training, and education records within state agencies. The state purchased the system software licensed by PeopleSoft in 1993 and modified it to meet the requirements of the state. A version upgrade has not been performed since implementation in 1995. New FTEs will allow the set up of a support structure to focus on keeping the current systems running, and will allow current staff to focus on the upgrade project. It is expected that the new version support unit will work to align the state's customized version of PeopleSoft software with the standard version of PeopleSoft software with the intent of installing version upgrades more often and at a lower cost in the future.

In addition to the human resource and payroll components, the state's PeopleSoft package also included an insurance component. The use of this component was delayed due to the additional risk and costs of adding this function when SEMA4 was originally implemented. Currently within the Department of Employee Relations, employee insurance processing occurs in a ten-year-old system separate from SEMA4. As the insurance component is incorporated into SEMA4, the state moves closer to making SEMA4 a complete human resource system. The insurance component, which was dependent on funding for the upgrade of the human resources payroll system, will be financed by a loan to the insurance trust fund to be repaid over a five-year period by administrative fees charged to state agency users. The Department of Employee Relations has authority under M.S. 43A.30 Subd. 5 to set fees that agencies pay for managing the benefits system. It is assumed that the Department of Employee of Relations will work with the Department of Finance and user agencies to assure the project has agency support and understanding of the cost implications. The cost of the insurance component is estimated to be $4.4 million. The ongoing costs are estimated to be $1.5 million in FY 2002 and $1.7 million in FY 2003.

The decrease in funding to the Department of Finance is mainly due to the establishment of the statewide systems account in the general fund. This permits the commissioner to bill users of the system up to $15.04 million for the biennium and replaces the previous direct appropriation to the department. Also contributing to the change in the funding level is a base adjustment removing funds related to Accounts Receivable Project/Minnesota Collection Enterprise that were appropriated to the Department of Finance and later transferred to other agencies. The funds are now directly appropriated to the agencies.

Administrative Hearings
General Fund - $400,000
Other Funds - $13,523,000

The Office of Administrative Hearings (OAH) consists of two divisions. The first is the Workers Compensation Division which contains both a hearing and a settlement section. In the 1998 session, the legislature transferred the Department of Labor and Industry's Judicial Services Unit to the OAH where it has become part of the settlement section (Laws 1998, Chapter 366, Section 80). An appropriation from the Workers Compensation Special Fund supports the activities of the division.

The second division, the Administrative Law Division, originally was made up of the Administrative Procedure Act Section and the Child Support Division and was operated as a revolving fund supported by fees billed to agencies and local governments for services. The Minnesota Supreme court ruled in early 1999 that the legislatively established system for administrative enforcement of child support obligations was an unconstitutional delegation of judicial power to the executive branch. Due to the loss of this function, a one-time general fund appropriation of $400,000 was given to cover general office overhead that the child support function previously covered. Had general fund dollars not been made available, the result would have been a sharp rise in the rates charged to agencies. Chapter 250 requires the chief administrative law judge, in cooperation with the state court administrator, to develop a plan for funding the cost of child support hearings out of appropriations to the judicial branch without increasing those appropriations, for presentation to the Legislature by January 15, 2000.

Minnesota Planning
General Fund - $11,308,000

Minnesota Planning appropriations decreased by $260,000 or 2.3% from the 1998-99 biennium to the 2000-01 biennium. This change was due to the adjustments for one time spending related to teen courts and community based planning grants and increased spending on an assortment of planning grants, program evaluation and information technology.

Administration Department
General Fund $55,987,000
Other Funds - $23,900,000
Open General Fund - $12,000,000 Internal Services Fund loan

The Department of Administration general funds were reduced by $28 million or 29.2% from the 1998-99 biennium to the 2000-01 biennium. This change was mainly due to one time spending related to the Year 2000 problem as well as facilities repair and renovation. Revenues generated by Internal Service Fund activities are not reflected in the above appropriations.

Electronic Government Services

The Department received appropriations totaling $4.99 million for four initiatives related to Electronic Government Services (EGS). These initiatives are as follows:

- Directory Services: The Department of Administration received $2,750,000 to cover the four year costs of providing a directory services infrastructure. This project will result in the establishment of government "white pages" and "yellow pages", single sign-on for identification, authentication and authorization to systems. Another benefit will be that numerous dissimilar e-mail systems will be linked to allow greater communication between state agencies. This project will also serve as enabling technology capable of supporting future EGS initiatives. Progress reports to the legislature are required by January 15, 2000, 2001 and 2002.

- Security Information Technology***:*** $340,000 was given to the Department of Administration to provide the necessary funding to conduct coordinated security impact analysis and planning in state agencies for the next two biennia. At the conclusion of this project, agencies will have developed the safeguards to conduct secure electronic government services. Progress reports to the legislature are required by January 15, 2000, 2001 and 2002.

- Security Infrastructure: This Department of Administration project will provide a common security framework for all state agencies. The $1,400,000 appropriation available until the end of FY 2003 will cover the fundamental security architecture elements of encryption, public key infrastructure, secure socket layers, secure electronic transactions and firewall technology. Progress reports to the legislature are required by January 15, 2000, 2001 and 2002.

- One Stop Licensing: A $500,000 one-time appropriation for the continuation of a project that the Office of Technology first received funding for in the FY 98-99 biennium. This effort will provide automated business licensing and permitting capabilities to a select number of small agencies and will build upon the foundation of the Department of Trade and Economic Development's database of business licenses and permits. At the conclusion of this pilot, it is expected the effort will be undertaken for all state agencies. Progress reports to the legislature are required by January 15, 2000 and 2001.

Telecommunication Collaboration

The Telecommunications Collaboration Project was formed in October 1995 by state agencies to demonstrate that the sharing of bandwidth and network equipment by agencies would result in access to increased capacity at a lower cost per unit of service. Two counties, Clay and Sibley, participated in the successful demonstration. In the 1997 legislative session the collaboration project received $1.66 million for the FY 1998-99 biennium to cover the costs of the four participating agencies.

A one-time $2.26 million appropriation for FY 2000 was provided to the Department of Administration for the ongoing costs incurred by state agencies participating in the state-county collaboration project. These dollars cover the costs of the Departments of Public Safety, Revenue, Health and Economic Security. For the FY 2002-03 biennium and thereafter the costs of this initiative must be requested by and included in the budgets of these agencies.

Other agencies involved in this collaboration that are not covered by this appropriation and are billed directly by the Department of Administration for services used include: Human Services, Supreme Court, Secretary of State, Transportation and the participating counties. State agencies cover approximately 90 % of the total one time and recurring costs of the collaboration network model. The counties are responsible for the remaining 10 % ($300 per month) and the local LAN infrastructure. As of April 1, 1999, 84 counties share the costs with the eight participating agencies.

Office of Technology

The Legislature made a number of changes to the Office of Technology during the 1999 session. The most significant was to make the office a bureau within the Department of Administration rather than a free-standing agency. This change was advocated by the Governor's office. The responsibility for serving as the state's chief information officer and technology advisor to the Governor was also transferred from the Executive Director of the Office of Technology to the Commissioner of Administration. The Commissioner is authorized to appoint an additional deputy commissioner that will be responsible for the Office of Technology. Rider language in Chapter 250, Article 1, Section 12, Subd. 3 requires the Commissioner to develop and submit to the chairs of the Senate Governmental Operations Budget Division and House State Government Finance Committee a long-range plan identifying the missions and goals of the Office of Technology. The plan is due January 15, 2000, with the second year appropriation of the Office not available until the plan has been approved by a law enacted at the 2000 regular session. Chapter 250 also repealed the trade point, internet center and community technology resource development programs operated by the Office of Technology. Base level appropriations to the Office total $5.858 million for the biennium with $936,000 going towards North Star II, the state's website.

Total dollars appropriated to the Office of Technology for the technology infrastructure needs of the small agencies were $2,128,000 to cover basic network and desktop infrastructure, such as e-mail, word processing capabilities, agency websites, and to establish life cycle replacement plans.

Public Broadcasting

General Fund: $6,660,000

The Department of Administration serves as the fiscal agent for all public broadcasting appropriations. A $1.636 million or 19.7 % decrease in funding was due to adjustments for one time appropriations in the 1998-99 biennium.

Public Television

The phase out of state funding proposed in the governor's budget was restored to the base level of $4.1 million for the biennium. This funding supports stations in Austin, Appleton/Chandler, Bemidji/Brainerd, Fargo/Moorhead, Duluth and the Twin Cities.

In addition to the base level of funding, public noncommercial television stations were appropriated $113,000 for FY 2000 to assist with the conversion to a high definition digital broadcast signal as mandated by the federal government. This was in addition to a previous $750,000 appropriation given for FY 1998 to develop, build and pilot an early demonstration/experimental digital broadcast station.

The Governor, however, felt digital television should be provided by the private sector and choose to line-item veto the appropriation. The Governor's veto letter stated that "This is an expansion of the state's role and is in addition to substantial support already provided by the state for public television. This conversion should be funded by non-state sources."

It is expected that public television will have future requests for construction, interconnection and local origination costs based on a projected transition timeline. The Federal Communications Commission (FCC) requires all noncommercial educational stations to start digital transmission by May 1, 2003.

Public Radio

Public radio received the base level of funding despite the phase out of funding proposed by the governor. Appropriations totaled $1.628 million for the biennium, and are split between Minnesota Public Radio (MPR) and Association of Minnesota Public Educational Radio Stations (AMPERS).

AMPERS is a voluntary association of 12 independently licensed, community-based noncommercial radio stations. Funding for AMPERS stations is used for both operating and equipment grants. Language in Chapter 250 allowed WTIP-FM in Grand Marais to receive $30,000 each year of the total AMPERS funding. Without this stipulation, WTIP-FM does not qualify for funding under MS 129D.14.

MPR uses the funding it receives for equipment grants only. State funding does not support the ongoing operating expenses of the 24 stations. The dollars received in the FY 2000-01 biennium will be used for the equipment costs of new five stations located in Brainerd, Fergus Falls, Grand Marias, Roseau, and International Falls.

Twin Cities Regional Cable Channel

The Twin Cities Regional Cable Channel/Metro Cable Channel (MCN/6) has received a $25,000 state grant each fiscal year. MCN/6 has received this grant amount since 1988.

Legislative Television

A grant totaling $882,000 for the biennium was appropriated for public information television transmission of legislative activities. At least one-half of the grant must go for programming in rural Minnesota.

Employee Relations Department
General Fund: $20,928,000
Open General Fund: $600,000

Appropriations to the Department of Employee Relations increased by slightly over $5 million or 30.3 % from the 1998-99 biennium. In addition to base adjustments, the five initiatives below were responsible for the change.

- $310,000 to prepare to implement an optional, participant-paid, long term care insurance program to be available to state employees and their spouses and parents, as provided in new Minnesota Statutes 43A.318. The commissioner of Employee Relations may not implement the plan until April 1, 2000.

- $4.751 million for transfer to the state employees insurance fund to self-insure all medical coverage provided through the state employees group insurance program (SEGIP), including the University of Minnesota. This funding would be used entirely for rate stabilization. The governor originally requested $20 million; $11 million for rate stabilization and $9 million for the contingency reserve. Reductions in this amount were made largely to fund additional technology requests by the governor. The commissioner is required to conform to consumer protection and benefit mandates that apply to private health insurance plans.

Open appropriation authority for Workers Compensation Reinsurance Association (WCRA) estimated to be $300,000 per fiscal year was re-authorized by statute. Rider language in Laws 1997, Chapter 202, Art. 1, Sec. 16, Subd. 3 provided this authority for the FY 1998-99 biennium.

- A $238,000 grant was appropriated to the Government Training Service. This amount includes a one-time grant of $88,000 for Y2K compliance and technology software and hardware upgrades, and a one-time amount of $50,000 for conducting conferences for state and local governments. The remaining $100,000 is ongoing base level funding available for conducting conferences. The Department of Employee Relations serves as the fiscal agent for the grants.

- The Employee Assistance Program (EAP), which was formerly part of the Department of Administration, was transferred to the Department of Employee Relations. EAP received a $200,000 increase in funding for the biennium to meet the needs of increased use by state employees of its services. Total funding for the biennium is $1.062 million.

Focus Area
Year 2000

Since 1996, state agencies have been focused on the Year 2000 computer program and have been involved in assessing, fixing and testing computer code, computers, software packages and electronics. Previous state agency Y2K related appropriations given to the Year 2000 Project Office for Fiscal Years 1997 through Fiscal Year 1999 totaled $28.637 million. Seventy-seven % of this funding went to meet agency budget requests which the Project Office coordinated. The remaining funds were used for system assurance, risk assessments and abatements, the project office and communication/public awareness. This is in addition to an estimated $22 million that agencies used out of their operational funds for the problem.

Department of Administration

The Y2K Project Office within the Department of Administration received a one time appropriation of $2.5 million for FY 2000. Of this amount, $350,000 is earmarked for the ongoing costs related to the operation of the project office. The remaining $2.15 million is to be available as a contingency fund for the business continuation of mission-critical systems of the state. An additional $150,000 may be allocated for project office costs with approval from the Commissioner of Finance. This approval may be given after the Commissioner has determined that all the other funds allocated for replacement or enhancement of existing technology for Year 2000 compliance will be expended. The unexpended balance of this appropriation remaining after all Year 2000 problems have been addressed may be transferred and added to any of the appropriations for information technology projects in Chapter 250. Any dollars transferred would be available until June 30, 2003. Notice of transfers must be reported to the chairs of the House and Senate funding committees.

Secretary of State

The Office of the Secretary of State received $5.963 million for upgrading information technology and assuring all systems were Y2K compatible. The breakdown of this funding is as follows:

- $543,000 for completion of the Y2K compliance project. These dollars are in addition to approximately $1.23 million that the OSS has received from the Y2K Project Office in the FY 1998-99 biennium.

- $2.75 million for Phase II of the computer system which will be used to start the migration of four computer modules - voter registration, election night reporting, the central notification system, and the tax lien module - from the office's antiquated mainframe, to an up-to-date, client-server system. Ongoing upgrades and maintenance costs are not included in this appropriation.

- $150,000 for hardware and software upgrades necessary to implement legislative redistricting in the biennium. In Fiscal Year 1999, the OSS received $100,000 to make necessary changes to the statewide voter registration system to facilitate reassignment of voters to the correct precinct and election district following legislative redistricting in 2002. This FY 1999 appropriation is available until June 30, 2000.

- $10,000 for costs related to Geographical Information System (GIS) license fees, plotter paper and GIS pens and other plotter supplies.

- $2.51 million for image conversion to convert microfilm document images to a digital image format. Current costs to store and covert documents to fiche are approximately $120,000 per year with a system that does not meet the needs of the OSS. The image conversion, along with the client server computer system, will largely eliminate the need for this service. Increased office space as a result of the removal of storage machines and reader-printer stations and increased customer service are additional benefits.

The Secretary of State is required to report to the chairs of the legislative committees responsible for this budget item by January 15, 2000 and 2001 on the status of the image conversion, Y2K and phase II computer projects.

Year 2000 Loan Fund

Twenty million dollars were appropriated to the Commissioner of Finance to establish a fund to make loans to school districts, counties, joint powers boards, cities and towns for Y2K problems. Loans are not finalized until the Department of Administration's Year 2000 Project Office has certified that the proposed use of the loan is related to Y2K remediation, that the local government has insufficient resources to address Y2K problems and that the loan would be used to correct problems that are likely to affect public health and safety or cause catastrophic loss to property or the environment. Local political subdivisions are required to repay the loans by June 30, 2001, with interest charged at the rate earned on the invested treasurer's cash fund. If the Commissioner of Administration determines that the loan funds were used in a manner not consistent with the law, local governments are required to pay 12 % interest on the loan.

Reports

Other key features of the Y2K language incorporated from SF 2 include reports on Y2K readiness and status by the Department of Health, Public Utilities Commission and Department of Public Service. These reports are due on July 1 and October 1 and will be provided to the Minnesota Division of Emergency Management to assist in its efforts to monitor the statewide risks. Local governments are also afforded an exemption from the Uniform Municipal Contracting law and relief from debt limits for remediation costs related to the Y2K problem.

Year 2000 Readiness and Contingency Plans

According to the risk report summary released by the Year 2000 Project Office in October, the State of Minnesota is 100 % Y2K ready and no interruptions in service are anticipated. In preparation for the new year, all agencies are required to have contingency plans for business continuation and systems at risk. Additional staffing plans have been made for the date change and the State Emergency Operations Center will be activated. [13]

[13] For additional information the web address for the Year 2000 Project Office is http://www.admin.state.mn.us/ipo/2000/2000.html

Health and Family Services

Overview

The Health and Family Services Omnibus bill appropriates funds to the Department of Human Services (DHS), Department of Health, Veterans Nursing Homes, Health Boards, Council of Disabilities, Ombusperson for Mental Health and Mental Retardation and the Ombudsperson for Families. For the 2000-01 biennium, over $5.8 billion in state funds were directly appropriated through the bill along with over $500 million in federal Temporary Assistance to Needy Families (TANF) funds. Table 8-1 details the 2000-2001 direct appropriations.

Table 8-1
FY 2000-01 Direct Appropriations

Fund	Amount (in 000s)
General	5,425,105
State Government Special Revenue	72,527
Health Care Access	321,241
Trunk Highway	3,499
Lottery	2,600
Federal TANF	505,947
Total	6,330,919

In addition to direct appropriations, there are two additional sources of funds. First, around $7 billion is available through statutory appropriations with over $5 billion associated with federal funds to DHS. Second the legislation created two endowments with tobacco settlement proceeds. Money received through Fiscal Year 2001, totaling around $922 million, will be split between the Tobacco Prevention and Local Public Health Endowment (61%) and the Medical Education and Research Endowment (39%). End-of-Session estimates for Tobacco Endowments were reduced from $968 million to $922 million in the November forecast.

Please note that the numbers shown reflect end of session appropriations. The November forecast showed decreases in FY 1999 and increases in the 2000-01 biennium that affect appropriations. The 2000 Legislature will be asked to make those adjustments. The FY1999 decrease of about $36 million is mostly from lower than anticipated expenditures in the entitlements ($25 million) and unspent funds in other grants and administration. The net increase for the 2000-01 biennium is about $36 million as well. This is due to a $50 million increase in the health care forecast for Medical Assistance (MA) and General Assistance Medical Care (GAMC) and a $25 million decrease in the economic assistance forecast. Over half of the health care increase is due to a decline in federal financial participation in the MA program. Other changes include authorized carry forwards of unspent funds into the 2000-2001 biennium.

Fiscal Summary

General Fund

The $5.4 billion general fund appropriation represents a 12.2% increase over the 1998-99 biennium spending estimates (1998 actual and 1999 estimate).

Table 8-2
General Fund Direct Appropriations

Agency	98-99 (in 000s)	00-01 (in 000s)	Amount changed	% changed
Department of Human Services	4,668,605	5,237,639	569,034	12.19%
Department of Health	117,622	128,481	10,859	9.23%
EMS Board	1,959	2,443	484	24.71%
Veterans Homes	43,761	53,224	9,463	21.62%
Council on Disability	1,275	1,320	45	6.53%
Ombudsperson for MH/MR	2,711	2,716	5	0.18%
Ombudsperson for Families	318	337	19	5.98%
Total	4,836,251	5,426,160	589,909	12.20%

The 12.2%, or $590 million can be broken down into four categories.

1. Biennial Base growth ($330.2 million or 6.8%)
2. Base Adjustments (-$25.8 million or -.53%)
3. Forecast Changes ($151 million or 3.12%
4. Budget Decision Items ($134.2 million or 2.78%)

Base Growth and Base Adjustments

Over half of the general fund growth from the 1998-99 biennium to the 2000-01 biennium can be attributed to biennial base growth. This occurs when money appropriated in the previous biennium is higher in the second year of the biennium. For example: A grant is increased $500 in the first year of the biennium and $1000 in the second year for a total of $1500 for the biennium. The base for the next biennium will be $1000 in both years for a total of $2000 for the biennium, this equals a 33% base increase from one biennium to the next. The Health and Family Services Budget is more apt to incur base growth between biennia because of entitlement programs. Entitlement programs tend to have higher projected spending in the second year of the biennium due to rising caseloads. This is the major cause of base growth. Changes to entitlement programs also lead to growth in the second year as fiscal notes generally show higher caseload affect and/or utilization with time. Supplemental budgets also attribute to the base growth.

Base adjustments had little effect on the growth in spending in the Health and Family Services Budget. The Department of Finance authorizes a number of technical and policy base adjustments. Technical base adjustments reflect adjustments made to the tails by the previous Legislature. Legislative budget tracking sheets have reflected these changes, however, a base adjusted is performed to the accounting system to account for the adjustments. Policy base adjustments have not been seen by prior Legislatures.

Policy adjustments include salary adjustments, rent increase, rental space increases, and other administrative costs. Policy base adjustments have been budget decision pages in the past. Although there were large adjustments for salary and rent for the 2000-01 biennium, these increases were offset by adjustments for one-time spending, program sunsets, and other downward adjustments. Negative adjustments counteract biennial base growth. One-time appropriations in the second year of the biennium will cause base growth, however, the base adjustment counters the affect.

Forecast Changes

Another set of increases prior to legislative action are forecast changes. The forecast mainly affects Health and Family Services and K-12 budgets. The November Forecast in even numbered years will usually reflect an increase in the forecast, because the upcoming biennium's base is established by taking the last year of the previous biennium's appropriation multiplied by two. For example, the 2000-01 biennium base is established by multiplying the FY1999 appropriation by two. Therefore, even though the November forecast shows a decrease in expected expenditures for the upcoming biennium compared with the previous forecast, the forecast in an even number year will reflect an increase rather than a decrease. Continuing the example, in the February 1998 forecast, the 2000-01 biennium forecast may have been higher than the November 1998 forecast for that biennium, however, compared to the 2000-01 base, the forecast is an increase not a decrease.

Forecast changes made up about 3% of the growth. MA Long-term Care Waivers and MA-Elderly and Disabled increased by about $250 million due primarily to continued increases in enrollment and cost per recipient. Decreases due to lower than expected enrollment in Medical Assistance Long Term Care Facilities, General Assistance Medical Care, Minnesota Family Investment Program, and General Assistance reduced overall forecast growth.

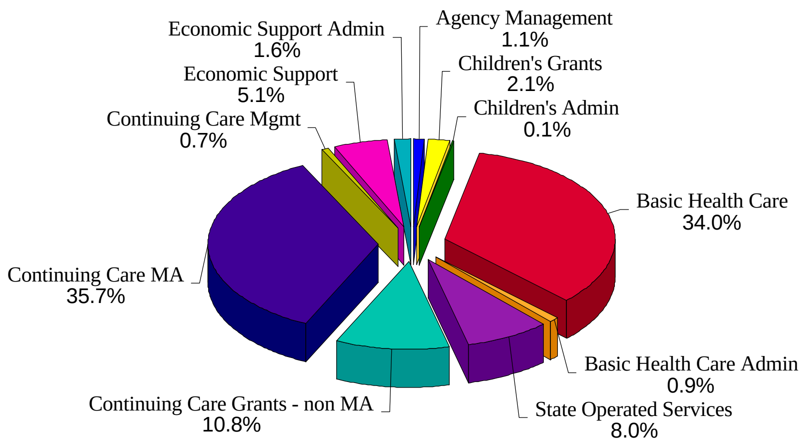
Budget change items made by the 1999 Legislature account for less than 3% of the General Fund growth. Of the $134 million appropriated, 97% was for the Department of Human Services. The next section offers a brief analysis of some of policy/fiscal decisions passed by the 1999 Legislature.

Policy Review

Department Of Human Services

The Department of Human Services provides health care, economic assistance, and social services to elderly, disabled, low income, and children in need of services. Most programs are means tested and are supervised by DHS, but administered by the county human service agencies.

Chart 8-1
DHS General Fund Allocations



Total: $5,237,639,000

Chart 8-1 shows the allocation of DHS

spending for the General Fund. Over 70% of spending is in the health care area. Similar to overall General Fund spending at DHS, the majority of new spending for DHS programs went into health care programs. Of the $131 million that went to increases for DHS, around $100 million went for a cost of living adjustment for nursing home, ICF/MR, and home health care workers. Rates were increased by 4% in FY 2000 and 3% in FY 2001. An additional $16 million was appropriated for rate increases to hospitals, dentist, physicians, and other health professionals. Rate increases authorized by the legislature are discussed in the focus area of this part of the document.

Over $7 million was provided to increase the number of DD waiver slots available to counties. Funds were also provided to increase grants under the DD Family Support Program ($3.5 million) and the Semi-Independent Living Skills Program ($2 million). The increases in the DD area were to counteract the growing waiting list for DD waivered services. The February 1999 Forecast for MA accounted for a growth of 600 new slots a year. Even with the forecasted increases in slots, the waiting list was projected to remain around 3,300. In the past, once an appropriation was set by the legislature, DHS would manage the waiver slots to keep expenditures within the appropriation. The 1999 Legislature allows for an additional 100 slots per year to be added to the 600 slot growth in the forecast. If in the current year spending shows less than 700 new slots were used, the forecast for the next year will still assume the previous years 700 slots plus an additional 700 slots.

The senior drug program was fully funded for the biennium, receiving over $19 million in increased grant funds bringing total funding for the program to around $27 million for the biennium. Because the senior drug program is not an entitlement, and is not included in the forecast, should an increase in demand on the program occur in the future, the legislature will need to appropriate additional funds or limit the program enrollment and/or services. However, as of December 1999 just over $1.3 million had been used. Enrollment for January is just over 2,000. The 1999 Legislature made adjustments in the enrollment procedure to assist senior citizens. The effect of these changes may not be fully seen in the December figures. DHS is also beginning an outreach program, in hopes of getting more seniors to enroll in the program.

Savings in DHS were tied to a base adjustment reduction for new rental space and refinancing of MA school reimbursement and TANF/CSSA (Community Social Services Act) Block Grant.

Health Care Access Fund

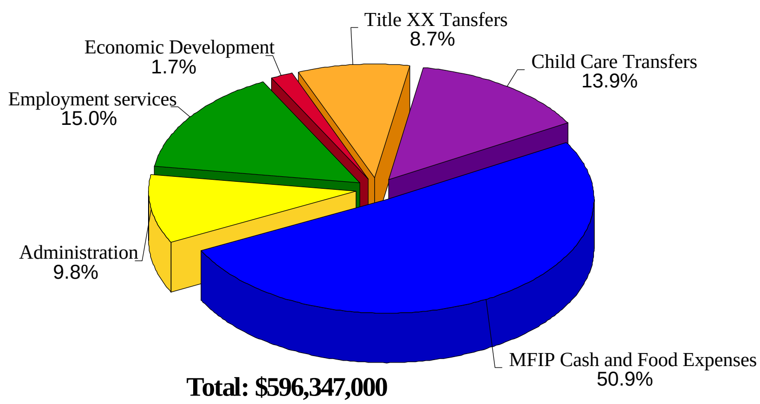
Health Care Access Fund appropriations for the 2000-01 biennium increased by 37.64% or $88 million compared to the 1998-99 biennium. This is mostly due to eligibility changes taking effect during the 1998-99 biennium but not reaching a full cost effect until the 2000-01 biennium, a combination of biennial base growth and forecast changes. Budget initiatives for DHS and Health Department are just under $10 million. For DHS rate increases to hospitals, dentists, physicians and other health professionals total $5.5 million, and an additional $2.7 million was appropriated for improving MnCare processing and policy clarifications. A savings of $5 million was recognized with the elimination of the 100 hour rule for MA. This change allows MA recipients to work more than 100 hours in a month and maintain MA eligibility provided there income does not exceed the eligibility levels.

Federal Temporary Assistance to Needy Families (TANF)

TANF spending increased by $96 million, or 23.5%, from the 1998-99 biennium to the 2000-

01 biennium. However, base adjustments in TANF decreased base spending by $25 million. Therefore, budget initiatives passed by the legislature totaled over $121 million. Other funding bills appropriated an additional $90 million. Total TANF spending in all bills is just under $600 million compared to $409 million in 1998-99. The allocation for TANF spending is shown in Chart 8-2.

Chart 8-2
TANF Allocations



In the legislation relating to Health and Family Services, spending increases can be broken down into three areas: 1) Employment and Training; 2) Cash Grants; and 3) Refinancing/Transfers to other programs. All appropriations in the Health and Family Services bill were allocated to DHS.

Employment and Training grants were increased by $25 million or 42%. This accounts for about 21% of the new TANF spending in the Health and Family Services bill. Funding of cash grants was increased by $40 million or 15%. Over $28 million was allocated for delaying the implementation of counting $100 of housing subsidy as income and exempting certain families from the $100 housing rule. Increasing the exit level for MFIP to 120% of the current year's federal poverty standards added $6 million to the appropriations, and allowing food assistance for MFIP non-citizens added $5 million. These increases in cash grants account for about 33% of the Health and Family Services TANF budget items.

The remaining 46% of spending in TANF in Health and Family Services legislation is tied to the refinancing of a variety of general fund programs and additional transfers to Title XX (Federal Social Service Block Grant). Over $52 million was transferred to Title XX with over $30 million being used to refinance the general fund CSSA program. An additional $2 million was used to refinance general fund language and employment training programs.

The November Forecast reduces federal TANF uses by over $70 million for the 2000-01 biennium. This is a net product from increases due to refinancing of the Maintenance of Effort programs and decreases due to a federal food stamp decision and lower caseloads.

The majority of the decrease in federal TANF uses is from a federal decision recognizing Minnesota's food stamp program as meeting cost neutrality requirements. Because of this decision, the federal food stamp program is picking up about $17 million more per year under food stamps versus under TANF. This decision affected prior years, therefore, the TANF carryforward from FY99 was increased by $25 million and $17 million per year was taken out of TANF spending in the forecast. Other spending decreases are due to continued lower caseloads.

The increases in the forecast are from a Department of Finance decision to use Basic Sliding Fee Child Care as Maintenance of Effort (MOE) under the TANF program. Final TANF rules were issued October 1, 1999 and opened the door for states to use additional sources of funding for MOE. With more state programs available to meet MOE, fewer state resources are needed for the MFIP cash assistance program. The Department of Finance chose to use the Basic Sliding Fee Program as MOE in place of a general fund spending for MFIP cash assistance. TANF funds were then increased to meet the forecast demands of the cash assistance program.

Although other state programs also meet the MOE requirement, such as the Working Family Credit, the Department of Finance chose to use only Child Care since it continued past practices of using child care as much as possible as MOE. If child care spending does not meet the forecasted levels, other sources will be needed to meet MOE.

Minnesota Department of Health(MDH)

MDH provides services for disease prevention and health promotion for all Minnesotans. The department also monitors and regulates a variety of health related industries. MDH is funded through a variety of funds with the General Fund representing about 25% of their total funds. Appropriations to the Department of Health include grants for local public health agencies.

General Fund

The Department of Health's budget change items accounted for a decrease of .75% or about $1 million. Decreases of $1.1 million for new rental space and $2.5 million for FAS administration were offset by increases of $2.2 million for vaccination programs and $800,000 for the Office of Minority Health.

State Government Special Revenue Fund

The State Goverment Special Revenue Fund was increased by approximately 12.5 % above the base. Budget initiatives in this area were primarily for increasing funds for administrative costs. Funding in many regulatory areas were requested to maintain or improve services without increasing fees. However, fee increases were authorized for HMO, speech pathology, food managers certification and plumbing regulation.

Health Care Access Fund

The Department of Health received $5.6 million from the Health Care Access Fund for rural hospital capital improvement grants.

Tobacco Endowments

A Fiscal Issue Brief was issued in July 1999 describing the tobacco settlement and the actions taken by 1999 Legislature. [14] The November 1999 forecast assumes a reduction in anticipated revenue from the tobacco settlement. The tobacco settlement agreement calls for a reduction in payments if national tobacco consumption declines. The first payment subject to this reduction is the December 1999 annual payment. For the 2000-01 biennium, the forecast assumes $23 million less in annual payments than what was anticipated at the end of session. For 2002-03 the annual payments

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[14] Copies of that document are available on the world wide web at www.senate.leg.state.mn.us/departments/Fiscal Analyst/Reports.htm

are $46 million less than previously projected.

The settlement payments are estimated to be reduced by $46 million for the 2000-01 biennium. This affects both the Medical Education Endowment and the Tobacco Prevention and Local Public Health Endowment. When all payments have been received, the $922 million in endowments will earn about $2.5 million less than what was anticipated at the end of session. About 61% or $1.5 million will be in the estimated earnings for the Tobacco Prevention and Local Public Health Endowment. The remaining 39% or $1 million will in the earnings for the Medical Education Endowment.

For the 2002-03 biennium tobacco payments are reduced by $96 million ($50 million for settlement payments and $46 million for annual payments) due to further estimates of continued declines in tobacco sales. The $96 million reduction in anticipated revenue does not affect the endowments, however, the reduction did affect the general fund revenue projections.

Veterans Homes

Veterans homes provide board and care and skilled nursing care services to Minnesota veterans. Homes are located in Minneapolis, Hastings, Silver Bay, Luverne, and Fergus Falls. State appropriations make up about 50% of veteran homes funding. The other 50% comes from federal aid, fees, and gifts.

Budget increases to veteran homes account for 3% or $4.2 million of the total general fund decision items. Appropriations for asset preservation and repair to Luverne for clean up of mold totalled $2.6 million. An additional $1.7 million was appropriated to the home located in Fergus Falls for a phase up to full capacity.

Other Agencies

Other agencies include the Council on Disabilities, Ombudsman for Persons with Mental Health or Mental Retardation, Ombudsman for Families, Emergency Medical Services Board, and the Health Related Boards.

With the exception of the health related boards, the funding for these agencies is primarily from the general fund. The Emergency Medical Services Board receives about 20% of its funds through a general fund direct appropriation. The balance of their funds comes from the Trunk Highway Fund (about 45%), and statutory appropriations. The health related boards are funded through the state government special revenue fund and are fee supported.

The EMS board received $216,000 for the Advanced Life Support Education program. There was also $7,000 in base reductions in rent for the Council on Disabilities and the Ombudsperson for MH/MR. The total budget changes in these agencies makes up about .12% or $209,000 of the total budget decision items for the general fund.

State Government Special Revenue appropriations for the health boards followed the governor's recommendations plus added a new board of Physical Therapy. Money was transferred form the board of medical practice for this new board.

Focus Area

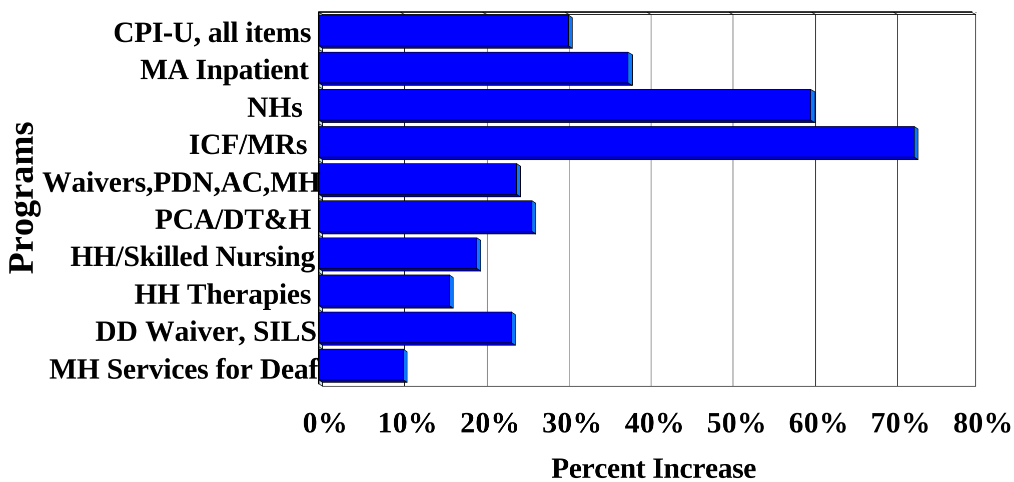
Inflationary Increases/COLAs

Rate increases authorized by the Legislature can be broken into three categories; 1)hospitals and long term care, 2) home health services, and 3) other professional services. As stated previously, the 1999 Legislature appropriated around $100 million for a cost of living/rate adjustment for home health care and long term care workers, or services under the first two categories. An addition $16 million was appropriated for rate increases to hospitals, dentists, physicians and other health professionals.

Hospitals, Long Term Care, and Home Health Care

Historically, rate increases have been given to inpatient hospital, nursing home and ICF/MR rates based on the federal Boren Amendment. This amendment required that states must allow for a sufficient rate for efficiently operated hospitals, nursing homes and ICF/MRs to operate economically. Even though the Boren Amendment was repealed in 1997, annual rate increases continued for these facilities. In recent years rate increases for home health services have occurred annually as well. Chart 8-3 shows the accumulative rate increases authorized by the legislature over the past 10 years for hospital, nursing home, ICF/MR, and home health services. Around $100 million was appropriated by the 1999 Legislature for a 4% rate increase effective July 1, 1999 and a 3% increase effective July 1, 2000.

Chart 8-3
Inflationary Increases From Fiscal Years 1992 to 2



The first bar in Chart 3 shows the Consumer Price Index for all items from FY 1992 though the estimate for FY 01, 30.4%. The CPI figures are from the DRI-McGraw Hill Health Care Cost Review, Third Quarter 1999. The next three bars, MA inpatient (37.7%), Nursing Homes (59.9%), and ICF/MRs (72.5%) have received rate increases/COLAs over that same time period at an amount over CPI. The primary reason for this is that these three services were covered under the federal Boren Amendment. The rate increases for nursing facilities and ICF/MRs also include adjustements for case-mix changes, property increases, and spend-up and administrative limits.

The next six bars include services that have received inflationary increases but were not covered by the Boren Amendment. These increases were not received annually and in some cases were received in less than half of the years. All services, except mental health for the deaf have received a rate increase for FYs 1998 through 2001.

The bars include services for:

Bar 4 - 24.1%, includes all waivers (except the Developmental Disability Waiver) Private Duty Nursing, Alternative Care, and Adult and Children Mental Health Grants;

Bar 5 - 26%, includes Personal Care Services and Day Training and Habilitation
Bar 6 - 19.3%, includes home health aides and skilled nursing visits;
Bar 7 - 15.9% includes home health therapies;
Bar 8 - 23.5% includes DD waivers and Semi-independent Living Skills;
Bar 9 - 10.3% includes mental health services for deaf. This program was separated from other mental health programs in FY 1998 and began receiving rate increases in FY 1999.

For services in Bars 4 through 9, the 1997 and 1998 riders in the Health and Family Services legislation stated that it was the intention that the compensation packages of staff within each service be increased. Since many of these services have other sources of revenue, a 5% increase in state funds would not necessarily equal a 5% wage increase for the worker. Also increases in non-wage compensation costs such as health insurance may have affected how the rate increase was allocated by the provider.

In the 1999 legislation, providers were directed to use at least 80% of the revenue from the rate increase for compensation increase to employees other than administrative and central office staff. Similar language was added for nursing homes and ICF/MRs.

Other Professional Services

Other services, which are not shown on the chart, have received increases over the past 10 years as well. These include chemical dependency, physicians, dentists, non-home therapies, and other professional services.

Chemical Dependency

Prior to 1995, chemical dependency rates were negotiated individually by each county with each provider. The 1995 Legislature froze CD rates from January 1, 1995 through December 31, 1995. The 1997 Legislature allowed counties to negotiate up to a 3% increase for calendar year 1998 and an additional 3% for 1999. Rate limits were eliminated by the 1999 Legislature and are projected to be 4% for each year of the 2000-01 biennium. This is one of the few rate increases included in the forecast.

Medical Assistance/General Assistance Medical Care MA/GAMC

MA and GAMC services other than inpatient, long-term care, and home care did not receive increases from October 1992 through July 1997. These services would include physician, non-home care therapies physical, occupational, speech, and respiratory, dental, day treatment, child mental health skills training and other professionals (chiropratic, psychologists, social workers, etc.)

During this time, payment for these services was the lower of:

1.) the submitted charge; or
2.) a) 50^{th} percentile of 1989 less 25% (8.4% for dental); or
    b) State agency established rate

These services received a 3% increase effective January 1, 2000. The increase has an estimated cost of $16 million for the biennium. This rate increase has been added to part 2a of the funding formula listed above. Prior rate increases include:

Physician services - 15.4% FY 93
Therapies - 5% in FY 98 and
Dental - 5% in FY 98

Higher Education

Overview

The legislature appropriated over $2.6 billion of General Fund dollars for higher education (Laws 1999, Chapter 214). That is approximately 7% over the previous biennium (Laws 1999, Chapter 214).

The Higher Education Bill appropriated money to four recipients: The Higher Education Services Office, the Minnesota State Colleges & Universities (MNSCU), the University of Minnesota, and the Mayo Medical School.

In the last decade, 1989 Session to the 1999 session, the Higher Education budget has gone from $1,919,880,000 to $2,615,440,000, for a 36% increase. The State General Fund Budget has gone from $13,018,000,000 in 1989 to $23,384,394,000 for a 79.6% increase.

Fiscal Summary

As mentioned above, appropriations grew 7% for higher education. Table 9-1 compares the previous appropriations to the current appropriations for the 2000-1 biennium 00 & 01:

Table 9-1
Higher Education Appropriations

	FY98 & 99	FY 00 & 01	% Difference
HESO	$278,508,000	$310,453,000	11.5%
MNSCU	$1,051,636,000	$1,115,791,000	6.1%
U of M	$1,111,548,000	$1,186,013,000	6.7%
MAYO	$2,431,000	$3,183,000	30.9%
TOTAL	$2,444,123,000	$2,615,440,000	7.0%

Less than half of the revenue received by MnSCU and less than one-third of the revenue for the U of M is from general fund appropriations. Charts 9-1 and 9-2 represent an overall picture of Higher Education spending by the two systems. The “All Other Revenue" category is comprised of federal monies, Athletic Department revenues, bookstores, housing, food services, research revenues, & tuition. Within the “Other Revenue”category, the money is spent for the same purposes for which it is received.

Chart 9-1

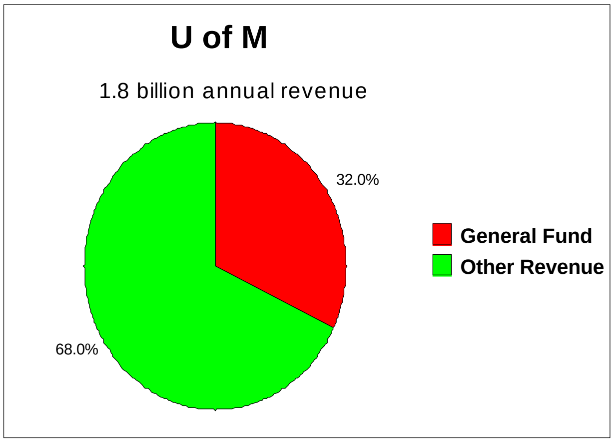
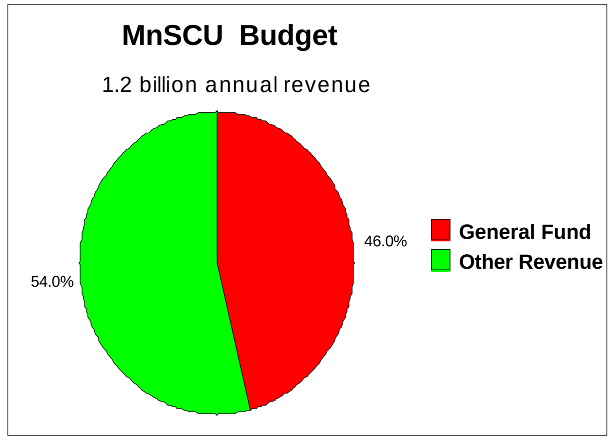


Chart 9-2



Policy Review

Higher Education Services Office

The purpose of this agency is primarily to provide knowledge of and to distribute student financial aid. The majority of the $310.4 million appropriated to this agency is for student financial aid and libraries. This is an increase of $28.9 million (10.3%) above the adjusted base of $281.5 million. The student financial aid went primarily for grants (State Grant Program, $246 million) and the remainder for Interstate Reciprocity payments ($9 million), State Work Study ($25 million) and the Edvest Program ($3 million). The Minitex Library program for sending and receiving library materials ($10 million) and the Learning Network of Minnesota ($10 million) are the other two program areas receiving funding.

The number of students expected to receive State Grants was 61,475. That number was anticipated to reflect an increase of 63,245 students in FY2000, and 64,391 in FY2001, due to legislative decisions and to enrollment changes. Over 75% of the appropriation will go to students whose family has an family adjusted gross income of $39,999 or less. Over 91% of the appropriation will go to students whose family's adjusted gross income is $49,999 or less. The Legislature anticipated a 3% tuition increase when it funded the State Grant program.

The significant changes in financial aid are: $4.6 million for increasing grants for students who attend public colleges and universities, to offset the increases in tuition and $5.4 million for grants to students in private colleges to offset a portion of the tuition increases. The Legislature sets the maximum amount of tuition that can be used to calculate the grants for private college students also included is $4.1 million to reduce the share (from 47% to 46%) of the cost that a student is expected to provide, $13.2 million to recognize the costs of books, room and board, transportation, etc, $3 million for the Work Study program to provide for additional students and for internships.

The Minitex Library Program received $4.7 million for increasing services, providing an online table of contents, staffing for the new library access center, additional journals and periodicals, and money to provide a data access program and begin operations of the Minnesota Library Information Network (MnLINK)

The Learning Network of Minnesota received $1.5 million for modernization and infrastructure. Two programs were sunsetted, the Nurses of Color program and the Ladders in

Nursing program for a total savings of $550,000.

Minnesota State Colleges and Universities

$1,115,791,000 is appropriated to the system from the General Fund. This is $104 million (10.3)% above the adjusted base of $1,011,835,000 for operating the 37 campuses. Of this $104 million, the major areas of increases are: $9.2 million for a variety of technology improvements (including Y2K, the Virtual U & a reporting system)., $10 million for customized training and equipment purchases, $55.6 million for the pay plan, $10 million for campuses experiencing financial distress (as defined by the Board), and $16 million for repairs and betterments of buildings.

Table 9-2
Enrollment History (In Full Year Equivalent)

Fiscal Year	Students Enrolled
FY 89	114,155
FY 90	118,692
FY 91	121,739
FY 92	120,862
FY 93	122,667
FY 94	119,725
FY 95	115,763
FY 96	111,604
FY 97	110,327
FY 98	111,409
FY 99	106,627

University of Minnesota

$1,186 million is appropriated to the U of M from the General Fund. This is $104 million (9.6%) above the adjusted base of $1,082,057,000.

Of the $104 million, the major areas of increases are: $15 million for improvements (such as academic advising, Freshman seminars, computers, etc.) for undergraduates, $6.5 million to help the University's connections to the communities, $4.6 million for various electronic improvements (including the Virtual University, Rochester, digital library resources, and wireless technology), $9.1 million for repairs and betterments for the buildings, and $69.4 million for the pay plan. The County Papers program was sunset, which reduced the appropriation by $668,000.

Mayo Medical Foundation

$3,183,000 is appropriated to the Mayo Foundation from the General Fund. This is an increase of $619,000 (24.1%) above the adjusted base of $2,564,000.

The number of Minnesota residents who receive state money for one half of their tuition increases from 40 to 42 and the state continues to pay 50% of tuition costs. This appropriation is to pay a portion of the cost for medical students of Minnesota residents who are medical students in the Mayo Medical School.

The State share of stipends for Family Practice Residency Students was increased from 38% to 50%. That amounts to $21,455 for FY2000 for 26 residents, and $22,313 in FY2001. Also, one rural training resident was added for Fairmont, Minnesota. The goal is have 65% of it's graduates practice in Minnesota and 35% in rural Minnesota. The program places emphasis on rural and smaller communities.

For the St. Cloud Family Medicine Residency, the stipend was maintained at 76% which is $94,000 for the 12 residents. This program focuses on serving smaller and rural communities in central Minnesota. The goal is to have 75% of the graduates practice in Minnesota, and 50% practice in rural Minnesota.

Focus Issues

Beginning in 1993, the Legislature became pro-active in encouraging the higher education systems to provide educational services to a broader range of Minnesotans. Several legislators witnessed how the K-12 system provided classes at sites other than classrooms by using interactive television. Some legislators believed higher education should do likewise. Technical colleges had been doing a small amount of interactive television teaching, but that was confined to that system's usage.

In the 1993 session, $4,800,000 was appropriated to the Higher Education Coordinating Board to initiate electronic teaching. Money has been appropriated to higher education systems in most subsequent legislative sessions, for expanding and improving the delivery system. The money has been used for equipment, setting up special classrooms, training teachers, creating new courses, etc. Currently, the money designated for this purpose is appropriated directly to the systems, rather than the Higher Education Services Office (the successor to the Higher Education Coordinating Board). The U of M & MNSCU each received $1,500,000 in the current biennium for the "Virtual University". The appropriation is supplemented by ongoing operations expenditures.

Tax Aids and Credits

Overview

The Legislature appropriates substantial resources for property tax relief, renters' credits and aid to local units of government. For fiscal year 2001, this amount is expected to exceed $1.7 billion. The continuing revenue surpluses experienced by the state over the past few years have resulted in significant changes in tax rates and in tax relief. These changes have been both one-time, as with the sales tax rebate, and permanent, as with reductions in income tax rates. In a recent report the National Conference of State Legislatures indicated that 32 states have enacted tax reductions effective for fiscal year 2000. When measured as a percent of previous years tax collections, reductions in all but five states where less than two percent of the previous years total collections. The percent reduction in Colorado was 15.8% and in Minnesota 18.1%.

The Fiscal Summary reviews the appropriations for the recent and current biennium. The Policy Review discusses all of the significant positions in this area, but will focus on two major components, income tax rate and base changes, and adjustments in the property tax capacity rates. The Focus Area discusses the property tax and sales tax rebates the Legislature has enacted the last three years.

Fiscal Summary

All spending in tax aids and credits are from the general fund. Table 10-1 below shows this spending for the 1998-99 and 2000-01 bienniums for programs broadly defined.

Table 10-1
Tax Aids and Credits
(In millions)

Program	1998-99	2000-01	% Change
Property Tax Refunds	356	385	8.1%
Local Government Aid	810	844	4.2%
Homestead and Agriculture Credit	1,057	996	-5.8%
Education Homestead Credit	145	679	468%
Farm Aid	32	39	21.9%
Mineral 21st Century		20	
Other Local Aids and Credits	230	331	43.9%
Total Tax Aids and Credits	2,629	2,963	12.7%

Tax aids and credits represent about 13% of the total general fund spending on a biennial basis. Spending will increase by $334 million, or about 13% over the two years. The spending program with the largest increase is clearly the Education Homestead Credit which will be more than four and one-half times larger in the current biennium than in 1998-99. The program was only recently established in 1999 which accounts for part of this increase. But more importantly, this is the tool used by the Legislature to offset property tax shifts as tax capacity rates are reduced for certain types of property.

Other local aids are also increasing significantly. This area comprises a number of smaller programs, but the four that are driving growth are the new charity care aid that supports hospitals with substantial unreimbursed care, aid to counties to pay for district courts, family preservation aid and PERA pension aids. The decline in the Homestead and Agriculture Credit reflects a shift in this funding for school districts to education programs and not a reduction in state aid.

The appropriation of $20 million for the Minerals 21st Century Fund is to provide resources for loans or equity investments in a new mineral processing plant on the Iron Range. The plant is expected to utilize an advanced direct reduction process of iron ore. The IRRRB must provide an equal match for the facility.

There has been particular attention paid to the farm crisis in the last two legislative sessions. This is likely to continue in the 2000 session and at the Congressional level.

One other development of note is the lack of use of the education tax credit and deduction. In 1997 the expansion of this program was the reason a special session was held over the K-12 bill which had been vetoed by Governor Carlson. It was estimated at that time that the cost of the expansion would be about $38 million annually. The cost in the first year was only about $14 million.

Policy Review

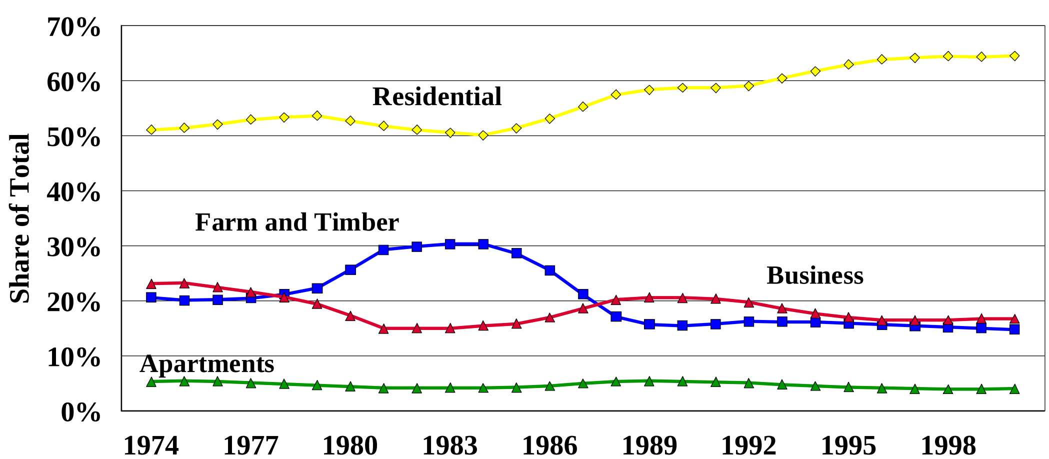
Property Taxes

Although there are always policy adjustments in some of the state determined taxes, the property tax has probably received the most attention and experienced the most change over the last four to six years. The state controls the relative gross tax burdens of different types of property by setting tax capacity rates. Once a levy is set by a local taxing jurisdiction, it is spread to individual property based on these rates and the property's market value. The state also controls the net levies through property tax credits for certain kinds of property.

One major policy goal of the last few sessions has been to reduce overall property tax burdens. But in addition, the debate has also focused on the share of local levies borne by a particular property type. While there are over 100 different class rates for property, the debate centers on the shares of residential, agricultural, business and apartment property. To simplify the discussion, tax and market values have been aggregated into these four categories. The three charts below present information from 1974 through 2000. The data through pay 1998 is actual and for the last two years estimates are used.

Chart 10-1 shows the share of market value by type of property. Residential property is by far the largest property type in the state. It is also the fastest growing type. Since 1974, residential property has grown at an average annual compound rate of nearly 9%.

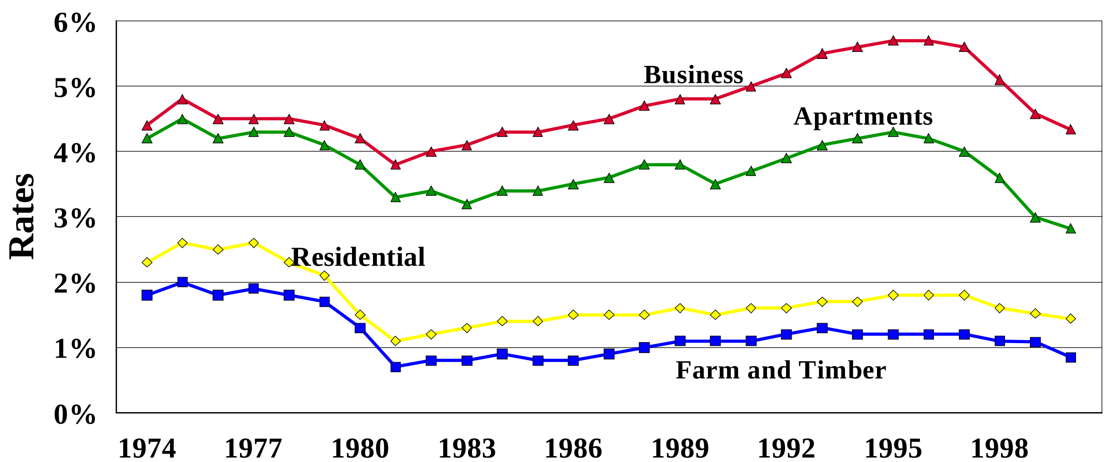
Chart 10-1
Share of Market Value by Property Type



This growth is not unexpected when one considers the health of the Minnesota economy and the fact that home ownership rates in this state are near the top in national rankings. The other three types have grown at only about 6.5% annually. This relative difference in market value growth creates two important dynamics. First, property tax burdens will shift to residents from other property types as homes become a bigger part of the tax base. Second, as residential property becomes a larger part of the base, property tax relief becomes more expensive. The shares are expected to remain fairly constant in 1999 and 2000

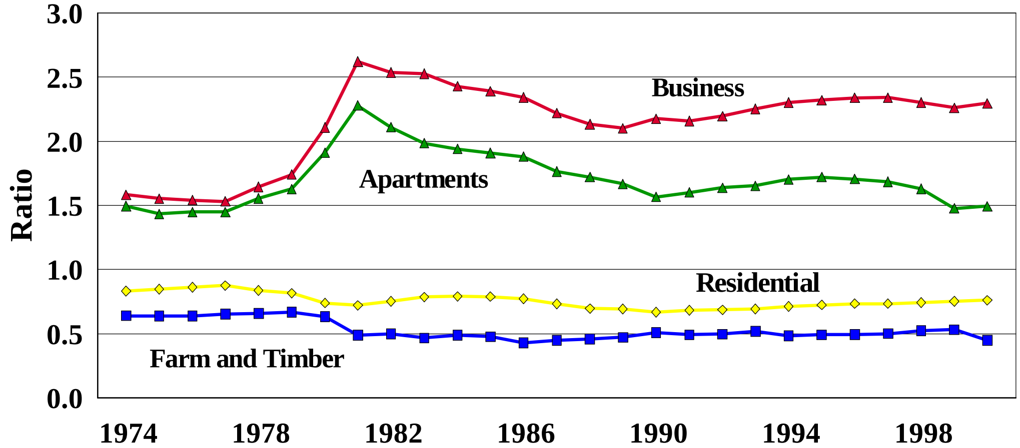
Chart 10-2 shows effective tax rates by property type. Effective tax rates are simply total net levies divided by total market value. They reflect the actual tax burden against a consistent measure of value. Since these are net levies they reflect both the influence of tax capacity rates and tax credits. Clearly from the chart effective tax rates for business and apartments exceed those for residents and apartments. This has been the policy position of the Legislature for at least the last 25 years and probably well before then. The trend since 1995 has been to reduce the effective rates and to incrementally reduce the differential between the property types. This policy direction was continued in the 1999 session through a number of changes. With some exceptions, almost all tax capacity rates for taxes payable in 2000 were reduced. In addition, the education homestead credit was increased from 66.2% to 83% of the levy with the maximum credit amount increased from $320 to $390. A new education agriculture credit was also instituted for pay 2000.

Chart 10-2
Effective Tax Rates



But effective tax rates can change for reasons other than policy changes so it is important to identify all of the causes of declining rates. The rates for a particular property type may drop because of economic changes in the market. If market values are increasing faster than net levies, the effective rate will decline. Indeed, the decreasing differential in effective rates may be due to this phenomenon. One way to address this is to standardize for market value changes. Chart 10-3 shows the relationship between the share of market value and the share of levies. This chart adjusts for the

Chart 10-3
Share of Net Levy Divided by
Share of Market Value



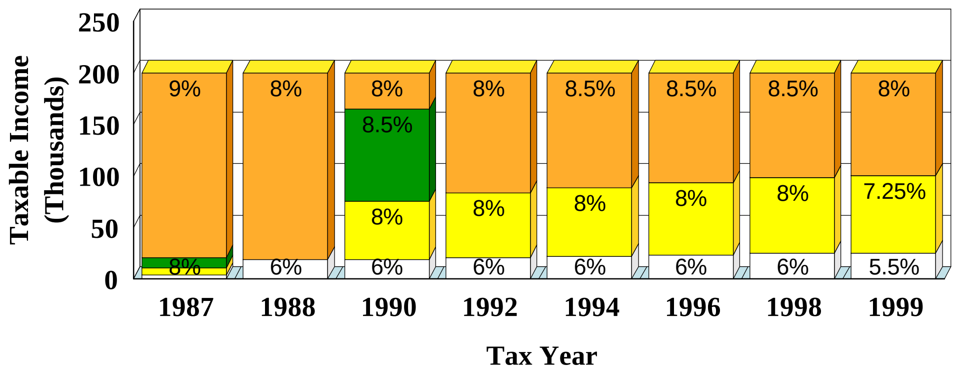
impact of value changes by standardizing by the share of market values. Both business and apartments pay a larger share of net levies than their respective shares of market value. On the other hand, residential and farm property pays a lower share. This relative difference is not surprising and has historically been the policy position of the Legislature.

There have been incremental changes in the relative position of property types over the last ten years. The ratio for residential property was at its lowest point in 1990 and has increased each year since. The ratio for business property peaked in 1997 and for apartments peaked in 1995. For both types, there is a slight increase expected for taxes payable in 2000. The ratio for farm property is expected to decline significantly in 2000.

Income Taxes

During each session adjustments are always made to the income tax structure. There are annual updates to federal laws. Often there will be some minor adjustments to various taxable items. There was dramatic activity in this tax area in the 1999 session. The two largest changes were a reduction in the income tax rates and a new credit for the so-called marriage penalty. The last time such significant change occurred was in 1987. Chart 10-4 shows the rates and brackets for a married joint filer for various years. The other filer types would differ, but this type is representative of the major shifts in the structure. In 1987 there were four brackets and rates. (Note that the upper bracket has no top bound but is set here at $200,000 for graphing purposes.) This was reduced to two brackets for 1988, four for 1990, and three since 1992. The width of the brackets has been annually adjusted for inflation since 1991.

Chart 10-4
Individual Income Tax Rates
Married Couples Filing Jointly



The rates for the first two brackets in 1987 were 4% and 6%

The cost of changing the brackets was $723 million in FY 2000 but will drop to $495 million in fiscal 2001. The first year of implementation included 18 months of impact. This cost will grow as incomes increase in the future.

The marriage penalty credit is equal to the additional income tax imposed on a married couple compared to single filers because of the width of Minnesota's income tax brackets. The cost of the marriage penalty credit is about $48 million annually and is expected to increase.

Focus Area

Sales and Property Tax Rebates

Part of the surpluses discussed in section one have been used by the Legislature to provide one time rebates to taxpayers. One time tax relief of this nature was required since a portion of each surplus was estimated to be non-recurring. Because this spending shows up in lower taxes, it is not reflected in the fiscal summary above. There have been three rounds of rebates. The first two in 1997 and 1998 were based on property taxes. In those years twenty % of homeowner's or renter's property tax from the prior year were credited against their income taxes for that year. This was refundable and either increased refunds or reduced payments due the state. At the time they were enacted it was estimated that both rebates would cost about $500 million. The final costs were $445 for 1998 and $450 for 1999 with a small amount falling into fiscal year 2000.

The third rebate took the form of a sales tax rebate. A significant problem with the first two rebates is that a substantial portion of the funds were actually shifted to the federal government. Since income taxes are a deduction against federal taxes, any reduction in the deduction increases federal tax liability. For a middle income taxpayer, this could amount to one-third of the total rebate. Administratively, the rebate was disbursed through a separate check issued to taxpayers in the summer of 1999. To determine the amount due to taxpayers, an estimate of sales tax paid by income class was made by the Department of Revenue. The rebate was higher for higher income people.

The table below shows the rebate by income class for a married filer. The average rebate paid was $652.

Table 10-2
Sales Tax Rebate Amounts for Married Filers

Income Class	Rebate Amount
Less than $2,500	$371
2,500 - $4,999	486
5,000 - 9,999	521
10,000 - 14,999	569
15,000 - 19,999	626
20,000 - 24,999	665
25,000 - 29,999	716
30,000 - 34,999	790
35,000 - 39,999	850
40,000 - 44,999	906
45,000 - 49,999	955
50,000 - 59,999	1,005
60 ,000 - 69,999	1,111
70,000 - 79,999	1,205
80,000 - 89,999	1,323
90,000 - 99,999	1,470
100,000 - 119,999	1,592
120,000 - 139,999	1,744
140,000 - 159,999	1,885
160,000 - 179,999	2,018
180,000 - 199,999	2,144
200,000 - 399,999	2,742
400,000 - 599,999	3,608
600,000 - 799,999	4,330
800,000 - 999,999	4,963
1,000,000 and over	5,186

Transportation Programs

Overview

The Legislature appropriated almost $3.3 billion for transportation programs for the 2000-2001 biennium. There are three central agencies that administer the programs in the transportation funding area: the Department of Transportation (MnDOT), the Department of Public Safety (DPS) and the Metropolitan Council. Other agencies receive a very small share of the total appropriation. The largest programs funded from this appropriation are road construction and maintenance for state trunk highways and local roads. Other significant programs are metropolitan and rural transit, aeronautics, state patrol and driver and vehicle services.

Fiscal Summary

Table 11-1 is a summary of the transportation appropriations by agency. These figures include all funds from which appropriations are made and a fund summary is shown at the bottom of the table.

Table 11-1
Transportation Programs Appropriation Summary

Agency	1998-99 Appropriation	2000-01 Appropriation	Percent Change
Department of Transportation			
State Road Construction and Operations	1,671,826	1,830,394	9.5%
Local Road Construction	841,645	944,630	12.2%
Greater Minnesota Transit	29,585	32,430	9.6%
Aeronautics	36,315	38,737	6.7%
General Support	77,978	82,177	5.4%
Freight, Railroads & Waterways	3,936	3,188	-19.0%
Motor Carrier Regulation	4,924	5,716	16.1%
Buildings	12,271	7,551	-38.5%
Department Total	2,678,480	2,944,823	9.9%
Metropolitan Council			
Transit Operations	100,702	109,902	9.1%
Department of Public Safety			
Administration & Related Services	22,599	25,716	13.8%
State Patrol	106,867	114,689	7.3%
Driver & Vehicle Services	70,286	77,891	10.8%
Traffic Safety	708	614	-13.3%
Pipeline Safety	1,839	1,912	4.0%
Department Total	202,299	220,822	9.2%
Minnesota Safety Council	134	134	0.0%
Other Agencies	1,975	1,950	-1.3%
Agency Total	2,983,590	3,277,631	9.9%
Total Transportation Appropriations by Fund			
General	151,102	166,084	9.9%
Airports Fund	36,094	38,855	7.6%
Trunk Highway	1,924,392	2,095,095	8.9%
County State Aid Highway Fund	645,801	731,687	13.3%
Municipal State Aid Street Fund	195,844	212,943	8.7%
Highway User Tax Distribution Fund	28,518	31,055	8.9%
Special Revenue Fund	1,839	1,912	4.0%
Total All Funds	2,983,590	3,277,631	9.9%

The figures include only direct legislative appropriations and do not reflect open and statutory appropriations. Open and statutory appropriations total approximately $600 million for the biennium, and are composed primarily of federal funds for local roads (federal funds for state trunk highways are included in the direct appropriations shown in table X1), transit, and airports and state funds for agency indirect costs.

Department of Transportation

The Department of Transportation received an appropriation of $2.945 billion for the biennium. Of this amount, $2.0 billion is for activities of the department and $945 million are pass-through funds for local road construction and maintenance. These funds are distributed by MnDOT on a formula basis to the state's 87 counties and cities with a population over 5,000 for expenditure on the county state-aid highway and municipal state-aid street systems.

MnDOT's largest program is road construction and operations. The appropriation for 2000-01 of $1.830 billion is almost 92% of the department total. Table 11-2 shows a detailed breakdown of the road construction and operations appropriation. The construction appropriation of $1.038 billion represents the largest construction program in the state's history and is an increase of approximately $77 million (8 %) over the actual construction expenditures for the 1998-99 biennium.

Table 11-2
MnDOT Road Construction and Operations Program

Activity	2000-01 Appropriation	% of Total
Construction	$ 1,038,391	51.9%
Highway Debt Service	27,124	1.3%
Research & Investment Mgmt.	25,047	1.2%
Engineering Services	139,503	7.0%
Design & Construction Engineering	163,838	8.2%
State Road Operations	425,264	21.3%
Electronic Communications	11,227	.6%
Subtotal	$ 1,830,394	91.5%
All Other Programs (1)	$ 169,799	8.5%
Total	$ 2,000,193	100.0%

(1) All other programs include transit, aeronautics, agency general support, freight, railroads and waterways, motor carrier regulation and buildings (see Table X1).

Metropolitan Council Transit

The Legislature appropriated $109.9 million from the general fund to the Metropolitan Council for metropolitan transit planning and operations. This is an increase of about $9.2 million, or 9 %, over the previous biennium. This appropriation is used by the Council to fund metropolitan transit planning, regular route operations, Metro Mobility operations and provide grants to community-based transit systems.

The state funding for metropolitan transit provides approximately 27 % of the total operating costs of the system. The remaining portion of the system's operating revenues are from a metropolitan area property tax, which provides approximately 37 % of the total revenues; passenger fares, which account for 28 %; investment income and contract revenues which provide 4 %; and, federal revenue which accounts for 4 % of the total.

Since 1990, the state share of the total metropolitan operating revenues has increased from approximately 17 % of the total revenues to 27 % in fiscal year 2000. This shift is due to a decrease in the availability of federal transit operating revenues, which formerly provided approximately 7% of the operating revenues, and a decrease in the share derived from the property tax, from approximately 44 % of the total revenues in 1990 to the current 37 %.

As part of the Capital Budget bill, the 1999 Legislature also appropriated $60 million in general obligation bond funds for the construction of light rail transit (LRT) along the Hiawatha Avenue corridor. This is in addition to $40 million in general obligation bond funds appropriated during the 1998 session. The $100 million will provide the state's portion of the estimated $540 million total cost of the system. The remaining funds are anticipated to come from the federal transit administration ($273 million), Hennepin county ($100 million) and the Metropolitan Airports Commission ($70 million). The Airports Commission contribution will fund the underground stations and tunnels necessary to serve the airport.

The legislative appropriation specified that the $60 million in state funds are not available until the Hiawatha Avenue corridor has received a final design designation and executed a full-funding agreement for not less than $223 million with the Federal Transit Administration (FTA). In addition, the commissioner of transportation must make a determination that no part of the construction costs will be paid from a metropolitan area, county or regional rail authority property tax, other than from the Hennepin County regional rail authority. The commissioner and chair of the metropolitan council must also jointly submit a report to the Legislature specifying how the operating costs of LRT will be paid.

Department of Public Safety

The Omnibus Transportation Bill included approximately $221 million for the Department of Public Safety (DPS) for transportation-related activities. DPS conducts two major transportation-related activities including operation of the state patrol and driver and vehicle services. Driver and vehicle services is responsible for administering driver licensing and examinations and the vehicle registration program. DPS also receives a small amount of funding for traffic and pipeline safety activities.

The 2000-01 appropriation of $115 for the state patrol was approximately a $7.8 million increase, or 7 %, over the previous biennium. During the 1998-99 biennium the state patrol also received significant funding increases to hire 29 additional troopers and support staff, and to implement wage increases. When compared to the 1996-97 biennium, the state patrol appropriation is an increase of over 30%.

The 2000-01 appropriation of $78 million for driver and vehicle services was an increase of approximately $7.6 million or 11 % over the previous biennium. This funding increase was primarily aimed at improving the provision of driver testing services by hiring 18 additional examination agents. Driver and vehicle services also provides a major service to the other transportation programs through its collection of the vehicle registration tax. This tax provides approximately one half of the revenues that are dedicated to funding transportation programs.

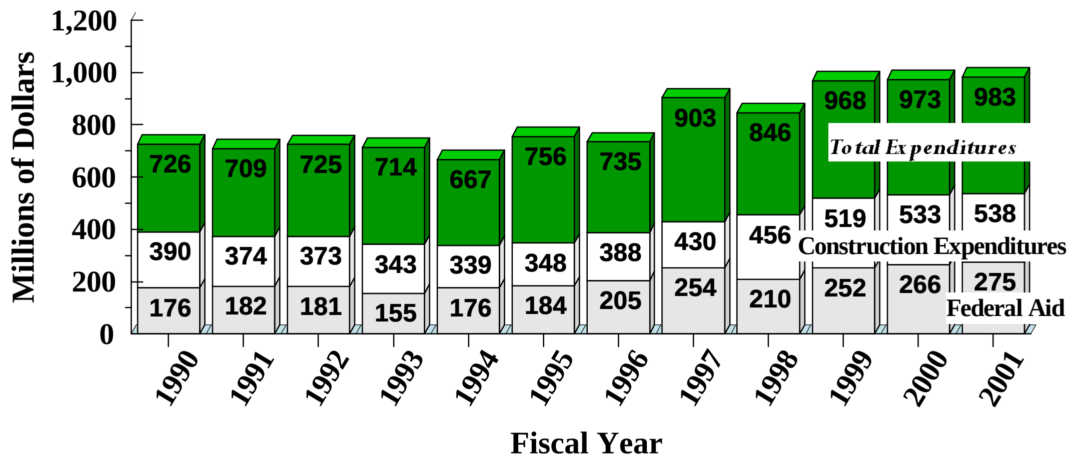
Policy Review

Department of Transportation and Road Construction Spending

For approximately the past decade, the Legislature has been discussing various funding proposals for transportation -- the gas tax was last changed in 1988 when it was raised to the current 20 cents per gallon. During the fist half of the 1990's MnDOT's total trunk highway spending and construction spending remained fairly constant -- fluctuating between a low of $667 million in 1994 to a high of $756 million in 1995. Beginning in 1997 however, the department began to see fairly significant funding increases particularly in its construction program funding even without the passage of a legislative funding package. The funding increases are due in part to increases in federal highway funding and to increased highway revenue from the vehicle registration tax, which is tied to the exceptional performance of the state's economy. These revenue increases allowed for increased transportation spending in the latter half of the decade, while holding gas tax levels constant.

Chart 11-1shows MnDOT's historical trunk highway fund expenditures between 1990 and 2001. It also shows a breakdown for the construction program expenditures and the federal highway-aid share of the construction program. These figures exclude department expenditures from the general fund and state airports fund, which are primarily for non-highway activities including transit, motor carrier and airports. As the chart demonstrates, MnDOT's spending levels remained virtually unchanged between 1990 and 1996, but have increased over 30 % between 1996 and1 999.

Chart 11-1
Historical Department of Transportation
Trunk Highway Fund Expenditures



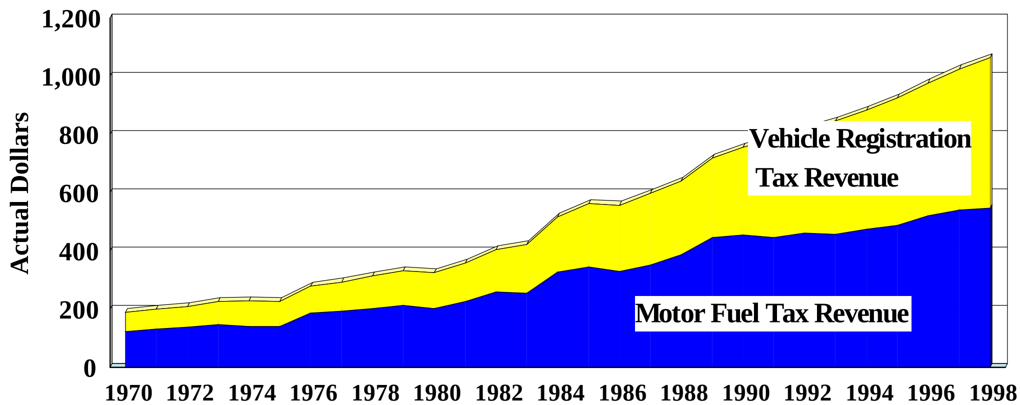
Focus Issue
Transportation Funding and
The Vehicle Registration Tax

During the 1999 Legislative session there was extensive discussion about a reduction in the vehicle registration tax. The Governor's budget included a proposal to cap registration renewals at $75 per year, resulting in a tax savings of nearly $200 million per year for 45 % of Minnesota's vehicle owners. The Legislature debated a number of alternative proposals for reducing the registration tax and the Senate included a smaller reduction of approximately $100 million per year in its omnibus tax bill. The provision was eventually dropped in the conference committee and the registration tax remained unchanged.

The vehicle registration tax is one of two sources of dedicated revenue deposited in the Highway User Tax Distribution fund (HUTDF). The other is the motor fuel tax (the gas tax). The HUTDF is established in the Minnesota Constitution. Under the constitution, revenues in the fund must be used solely for “highway purposes” and are distributed to the state trunk highways (62%), county state-aid highways (29 %) and municipal state-aid streets (9 %).

Chart 11-2 shows the total HUTDF revenues collected and the total contribution from the vehicle registration and gas taxes between 1970 and 1998. The registration tax produces significant revenue for the HUTDF, approximately $516 million in 1998, or about 50 % of the total. Notably, this percentage has increased continually over the past thirty years. In 1970 vehicle registration taxes accounted for only about 35 % of the total revenues. In 2001, registration tax revenues are expected to surpass the amount collected from the gas tax.

Chart 11-2
Highway User Tax Distribution Fund Revenues
Actual Dollars



HUTDF revenues have traditionally been viewed as “user-fee” revenues, i.e. fees paid by those using the transportation system. Since the gas tax is directly related to miles driven, it has the conventional characteristics of a user fee. Gas tax revenues increase as gas consumption increases (i.e. travel increases) or when the legislature increases the per gallon tax rate and do not correlate with inflationary increases. The current gas tax rate of 20 cents per gallon was established in 1988 and has not changed in the past twelve years. On the other hand, because the vehicle registration tax is based on the vehicle’s value, it more closely resembles a personal property tax. The revenue raised by the registration tax has increased considerably as the average value of passenger vehicles has increased (particularly with the introduction of SUVs), with no direct relationship to the amount of travel and road usage taking place. In addition, legislative changes in the mid-80's which slowed the rate of vehicle value depreciation also resulted in increased revenue collection. Because of the traditional view of transportation funding, this shifting of the tax burden away from the gas tax and onto the registration tax has become problematic.

Chart 11-3
Highway User Tax Distribution Fund Reven
Constant 1998 Dollars

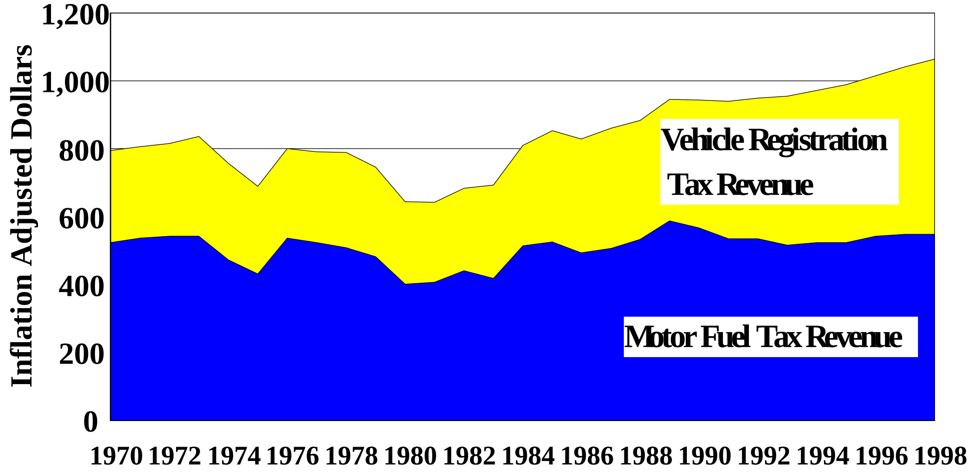


Chart 11-3 shows the HUTDF revenues in constant 1998 dollars. In general, the revenues have kept pace with, and at times surpassed, the rate of inflation. All of the real increases however, can be attributed to growth in vehicle registration tax revenues. In inflation adjusted dollars, registration tax revenues were $270 million in 1970 and $516 million in 1998. On the other hand, motor fuel tax revenues have essentially just kept pace with the rate of inflation. In inflation adjusted dollars motor fuel revenues totaled $523 million in 1970 and $548 million in 1998.

While HUTDF revenues have increased in real terms since 1970, this increase has been offset by the dramatic increase in travel which has taken place over this same time period. Since 1970, total vehicle miles traveled on the state's roadways have more than doubled. In 1970, our highway systems provided for approximately 22.4 billion miles of vehicle travel. By 1998, this figure had climbed to almost 50 billion vehicle miles. As shown in Chart 11-4, this has resulted in a substantial decrease in revenues per vehicle mile traveled. In 1970, the HUTDF provided approximately 3.5 cents per vehicle mile traveled and in 1998, this figure was 2.2 cents per mile – indicating a significant reduction in the "buying" power of the HUTDF revenues.

Chart 11-4
Price of Minnesota Highways
Real Highway User Tax Revenues Per Vehicle Mile Traveled