

An Overview of State Government Spending

**Minnesota Department of Finance
September 2005**

An Overview of State Government Spending

This document provides a brief introduction to the state's major operating budget spending areas (excluding debt service). The charts, tables, and narratives are designed to provide an orientation to the scope, magnitude, and relative size of the various components of state spending. The budget data included here is as of the end of the 2005 legislative session. All agency information is grouped by omnibus appropriation bill category, which is how the Legislature considers and acts on the budget. For an introduction to statewide information, see the separate document "Minnesota's Budget at a Glance".

The spending information shown here is based upon the February 2005 forecast and subsequent legislative action. It makes no assumptions about future budget proposals from the Governor or the Legislature.

We've tried to answer some basic questions that describe each spending area's past and present issues. Each of the bill sections follows this basic format:

I. Expenditure Summary

What is the recent spending, growth, and composition of spending within each area?
How has spending changed over the last ten years?

II. Scope and Financing

What services are provided in this area and how are they financed?
How much has spending changed recently?
What proportion of the general fund is spent in this area?

III. Background

Outcomes & Indicators

What measures are available and what do they show?
How does Minnesota compare with other states?

Critical Factors

Are there significant demographic or economic changes that will affect this area?

Intergovernmental Relationships

Are there other levels of government that play a significant role in this area?

IV. Recent Significant Issues

V. Useful Links and Resources

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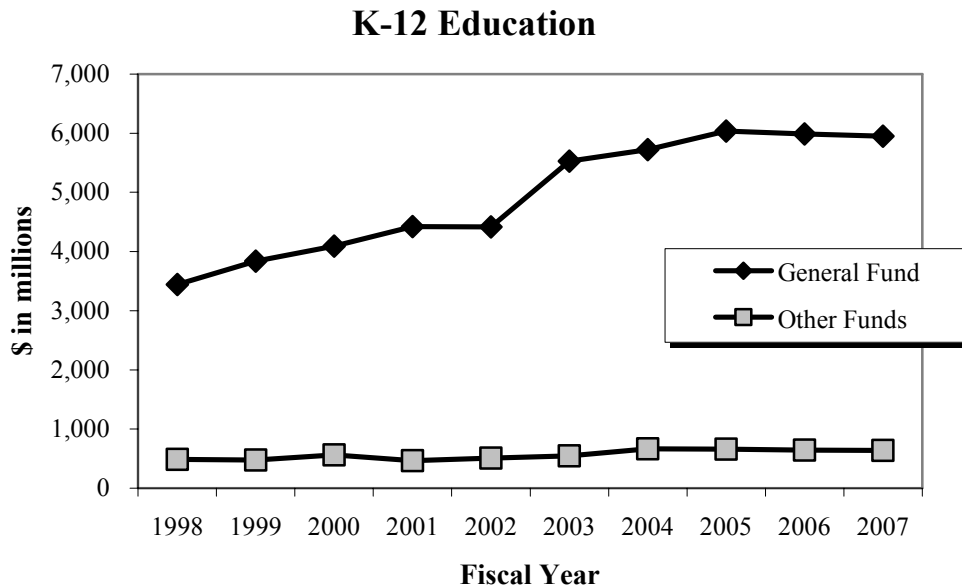
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FY 2006-07 Biennial Budget Overview by Omnibus Bill K-12 Education

I. Expenditure Summary (\$ in millions)

| | General Fund | | | | All Funds | | | |
|-----------------------------------|-----------------|-----------------|-------------------------------------|--------------------------|-----------------|-----------------|-------------------------------------|--------------------------|
| | FY 2004-05 | FY 2006-07 | \$ Difference FY 06-7 vs FY 04-5 | % of Total FY 2006-07 | FY 2004-05 | FY 2006-07 | \$ Difference FY 06-7 vs FY 04-5 | % of Total FY 2006-07 |
| <u>K-12 Education</u> | | | | | | | | |
| Education Aids | 11,943.5 | 12,475.3 | 531.8 | 99.2% | 13,149.0 | 13,754.3 | 605.3 | 99.2% |
| Education, Dept of | 66.7 | 67.7 | 1.1 | 0.5% | 66.6 | 67.7 | 1.1 | 0.5% |
| Minnesota State Academies | 20.9 | 21.9 | 1.1 | 0.2% | 24.5 | 25.6 | 1.0 | 0.2% |
| Perpich Center For Arts Education | 13.9 | 13.2 | (0.6) | 0.1% | 16.7 | 14.8 | (1.8) | 0.1% |
| Total K-12 Education | 12,044.9 | 12,578.2 | 533.3 | 100.0% | 13,256.8 | 13,862.4 | 605.6 | 100.0% |

*See appendix for more detailed information on Education Aids



II. General Scope and Financing

This area of the state budget consists of aid payments to school districts to operate traditional K-12 education activities in public schools, as well as “non-traditional” education activities such as programs for special populations, choice programs, and accountability programs. This portion of the budget also includes operating funds for the Minnesota Department of Education (MDE), the State Residential Academies for the Blind and the Deaf in Faribault, and the Perpich Center for Arts Education in Golden Valley.

Financing Background

In Minnesota, K-12 education is financed through a combination of state aid, local property taxes, federal aid, and local non-tax receipts. Like most states, federal funds supply only a relatively small portion of the money coming to schools in Minnesota – about 6%.

Minnesota's education funding system is based on a "foundation" dollar amount for each pupil multiplied by the average daily membership of a school. Districts receive additional funds for greater needs due to special populations, geographic isolation, or other special characteristics. The school finance system is designed so that a district with little property wealth will have a similar tax burden to a district with high property wealth. State aid goes to districts with relatively low property value per pupil, to "equalize" the tax effort needed to raise a given level of revenue.

In the FY 2006-2007 biennium, K-12 education accounts for 41.1% of the state's general fund spending, and 28% of the state's all fund spending. In the FY 2008-09 biennium, state spending on K-12 is expected to grow by 2.21% above the current biennium. It will represent 40% of general fund spending, and 27% of state all funds spending.

Recent Financing Changes

The 2005 legislative session brought several significant changes to K-12 funding including increasing the basic formula allowance, expanding the alternative compensation system, and increasing the referendum cap:

- 1) The basic formula allowance is increased by 4% in FY 2006 and 4% in FY 2007 bringing the basic formula allowance per pupil up to \$4,783 in FY 2006 and \$4,974 in FY 2007 and later.
- 2) "Q-Comp" or Quality Compensation for Teachers, expands the alternative teacher compensation program by providing revenue of \$260 per pupil in FY 2006 (aid) and \$260 per pupil in FY 2007 (aid + levy) for qualifying districts. The Q-Comp program has funding for up to 9% of state total enrollment in FY 2006 and up to 48% of the state total enrollment in FY 2007 and later.
- 3) The referendum cap is increased from 18.6% to 26% of the basic formula allowance. The general referendum allowance limit is estimated at \$905 per pupil for FY 2006 and \$1,389 per pupil for FY 2007.

The 2004-2005 spending level represented a 26% increase in state spending on K-12 from the 2002-2003 biennium. This increase was largely the result of two significant budget decisions from the 2001 and 2002 legislative sessions:

- 1) The property tax reform of 2001 "took over" the state-mandated local General Education property tax levy, resulting in lower local property taxes and a higher level of state aid spending. This change alone increased state paid K-12 aids spending by \$1.4 billion over the 2004-2005 biennium.
- 2) In the 2002 session, the Legislature delayed a portion of state aid payments to districts from state fiscal year 2003 into 2004, shifting \$454 million from one budget period to the next.

The 2002-03 school year was the first in which no local General Education property tax levy was required by the state. Many districts still have building related local levies and some board-discretionary local levies, and some districts have chosen to seek voter approval for additional

operating resources. These “operating referenda” or “excess operating levies” are subject to voter approval.

Total School Revenues

For schools, the growth in revenue per student is often a more relevant measure than the gross levels of state funding. Between 1991 and 2005, district general fund revenue per student (as measured by average daily membership, or ADM) grew from \$4,767 to \$7,915—an increase of 66.0% (17.8% after accounting for inflation). These values do not include debt service, community service, or food service. Average revenue per student continues to increase in FY 2006-07. The average revenue per student for districts not participating in the “Q-Comp” program is \$8,331 per student for FY 2006 and \$8,831 for FY 2007. For districts that choose to participate in the “Q-Comp” program, the average revenue is \$8,586 in FY 2006 and \$9,091 for FY 2007.

At the local level, the majority of funding for education (approximately 62%) is spent on teacher salaries and benefits. Other major district expenses include transportation, administration, curriculum, and facilities.

Critical Factors

- Total enrollment in public schools is expected to remain relatively stable with approximately 842,000 students (additional 86,000 nonpublic, 16,500 home-schooled).
- From 1990 to 2000 the number of children in Minnesota under age eleven was relatively stable, growing by only 2%, to a total of approximately 836,000. During this period, the preschool age population declined slightly to approximately 330,000. Between 2000 and 2005 the preschool age population is projected to increase approximately 2.5% while the number children under age ten is expected to decline slightly. Approximately 116,000 of these students receive special education services.
- The adult education system is responding to the needs of an increasingly diverse population. More than 200,000 Minnesota residents are immigrants or refugees in need of English skills, and enrollment in English as a Second Language programs has doubled in the past five years. The 2000 U.S. Census reports that 12% of Minnesota residents over age 25 lack high school equivalency (approximately 380,000 people).
- Over 50,000 students are learning English as a second language.
- Policy decisions related to early childhood education have focused on how early childhood care and education affect a child’s future academic performance. This concern is driven by research confirming that early experiences shape a child’s ability to learn as well as his or her ability to regulate emotions.

III. Outcomes & Indicators

K-12

- **Basic Skills Tests.** In 2004, 70% percent of eighth graders passed the basic skills math tests, 81% passed the basic skills reading tests, and 91% passed the basic skills writing tests.
- **ACT Scores.** Minnesota students have the highest average ACT scores in the nation among states where the majority of students take the test.
- **Graduation Rates.** 84% of the class of 2002 graduated four years after starting ninth grade.

- **Class Size.** According to U.S. Dept. of Education data, Minnesota's average pupil/teacher ratio is 15.9, compared to 16.0 nationally.
- **Equity.** Minnesota ranks 8th in the nation in equity measures according to Education Week. Equity measures the extent to which spending is equalized across districts.
- **Adequate Yearly Progress (AYP).** No Child Left Behind (NCLB) requires that states set adequate yearly progress (AYP) goals for academic indicators. In 2004 Minnesota surpassed reading and math proficiency targets for statewide performance. However, Minnesota did not meet math and reading proficiency targets for some student groups, including students with disabilities, limited English proficient students, blacks, and Hispanics. The most recent school level data for the state shows improvement not only in the number of schools making AYP, but the data also indicates that the achievement gap is narrowing. Some of the improvement in scores may be attributable to the increased flexibility under NCLB for special education students and English language learners.

Early Childhood

- **School Readiness.** One of the most common outcomes used to evaluate the success of early childhood care and education is school readiness. The Department of Education conducted a School Readiness indicator study in 2003. The purposes of the study were to assess kindergarten readiness and to engage communities in increasing the percentage of children considered ready for school. Children were assessed in the areas of physical development, the arts, personal and social development, language and literacy, and mathematical thinking. The study results show that of the five areas, children had the lowest levels of average proficiency ratings in mathematical thinking, and language and literacy.

Intergovernmental Relationships

State

- The state sets revenue expectations for local school districts, including both state aid and local levy components.
- The state sets a number of standards or requirements that all public school districts must work toward or achieve.
- The state provides centralized resources for use by citizens, districts, and policy makers. These include such things as central financial comparison, accountability measures such as school report cards, and NCLB status.

Local

- Local districts have a great deal of autonomy in choosing how to operate and meet state and federal standards. These include setting budget priorities, selecting curriculum, and negotiating teacher contracts.
- Within limits, local districts can seek voter approval to levy for additional revenue, and can levy some local taxes for specific activities.
- School districts administer some of the primary early education programs including Early Childhood Family Education, Health and Development Screening, and School Readiness.
- Many life-long learning and prevention programs, including community and adult education, are administered through school districts. Others are administered by school/community partnerships or community-based organizations.

Federal

- In 2001, Congress reauthorized the Elementary and Secondary Education Act, often referred to as the “No Child Left Behind” (NCLB) Act of 2001.
 - Title I of NCLB, focused on students from families in poverty, is the largest source of federal money in K-12, totaling \$114 million per year.
 - New testing requirements include annual math and reading tests for all public school students grades 3-8 beginning in the 2005-06 school year.
 - Students must be allowed to transfer out of under-performing schools.
- In 2004, Congress reauthorized the Individuals with Disabilities Education Act (IDEA).
 - IDEA provides federal funding to states and local school districts for federally mandated special education and related services. Federal funding covers less than one fifth of the cost of providing special education services.
 - Minnesota is required to provide a “free and appropriate education” to all children (FAPE) in the least restrictive environment (LRE).
 - At the local level, school personnel along with the child’s parents develop and individualized education plan (IEP) for each child determined to be eligible for special education services.
- Federal funds are also important resources in areas with significant American Indian populations.
- Federal grantees administer Head Start, which provides some of the most intensive early childhood care and education programs.

Recent Significant Issues

Accountability

Over the last several years, accountability has been a growing concern and focus in the educational community. This accountability movement has included:

- increased use of standardized tests for evaluation and comparison,
- “high stakes” tests for graduation,
- development of subject specific Graduation Standards in mathematics, language arts, science, social studies, and the arts.
- The MDE “5-Star” rating system for comparing individual schools.
- The federal No Child Left Behind (NCLB) law that sanctions schools that do not make Adequate Yearly Progress (AYP) for specific subgroups.

Name Change and Reorganization

During the 2003 session, legislation was passed to change the name of the Department of Children, Families and Learning back to the Department of Education. Several social services programs and functions were moved to the Department of Human Services, including income-based child care programs and services, Minnesota Family Assets for Independence and neighborhood-based services for children and families.

Budgetary Issues

- Recent overall enrollment declines. Because education revenues are generally calculated on a per pupil basis, districts with declining enrollment receive less state assistance, and often face challenges of excess space or staffing that cannot be quickly or easily reduced.
- Special education cross-subsidization. The original federal commitment to fund a significant portion of special education costs has not materialized, leaving districts to subsidize special education from other portions of their budget.

- Technology. Technology offers both opportunities through on-line learning, sharing teachers through teleconferencing and expanded curricula and the challenges of higher up-front installation and ongoing maintenance costs.
- General Inflationary Pressures. Local schools face general inflationary pressures, as do all state programs. With the majority of their budgets in labor costs, they also face significant pressure from increased health care costs. Districts face difficult decisions related to teacher contracts, staffing and class size levels, programmatic offerings, local levy burdens on district taxpayers and restructuring possibilities.

School Choice

- Charter schools: Minnesota was the first state to pass legislation allowing public charter schools and continues to grapple with the state's role in overseeing and supporting charter schools. Currently Minnesota has 102 charter schools serving more than 19,000 students.
- Tax Credits: Education tax credits are available to families below a certain income threshold and can be used to reimburse them for certain educational expenses including tutoring, academic summer camps, enrichment programs, textbooks and instructional materials, home computer hardware, educational software, and some expenses associated with individual school. All families may qualify for tax deductions to be used for the education expenses listed above.

Role of the Property Tax in Funding Education

The 2001 property tax reform package eliminated the local portion of the General Education program, leaving the state responsible for the entire basic portion of General Education funding. When these changes took effect in FY 2003, the school portion of the local property tax fell by \$939 million statewide or nearly 49%. Although state aid has increased significantly in the current biennium, many schools have passed excess operating levies, putting more of the educational cost burden on the local property tax. In addition, rising property values, particularly in the Twin Cities metropolitan area, have resulted in substantial growth in the tax base. As a result, local school district property taxes are expected to total nearly \$1.7 billion by the end of FY 2007, an increase of more than 70% since the low point in FY 2003.

IV. Useful Links and Resources

[Minnesota Department of Education](#)

[Minnesota House research](#), various education reports and policy papers

[No Child Left Behind](#), US Department of Education

[National Center for Education Statistics](#), US Department of Education

[Education Week](#), Independent

[Minnesota Taxpayers Association](#), Understanding Education Financing in Minnesota

**Appendix:
Education Aids-State Spending Detail**

General Fund

| <u>K-12 Education</u> | FY 2004-05 | FY 2006-07 | FY 2008-09 |
|--|-----------------|-----------------|-----------------|
| Education Aids* | 11,943.5 | 12,475.3 | 12,761.8 |
| 1. General Education Aids | 10,029.5 | 10,544.2 | 10,795.1 |
| 2. Other General Education | 89.9 | 97.4 | 102.4 |
| 3. Choice Programs | 164.8 | 195.5 | 223.6 |
| 4. Indian Programs | 12.1 | 13.5 | 14.1 |
| 5. Special Student and Teacher | 5.6 | 17.7 | 18.5 |
| 6. Special Education | 1,294.5 | 1,286.1 | 1,288.5 |
| 7. Facilities & Technology | 114.3 | 97.3 | 94.2 |
| 8. Nutrition Programs | 24.6 | 28.2 | 28.9 |
| 9. Library Programs | 22.1 | 23.1 | 23.1 |
| 10. Early Childhood & Family Support | 90.7 | 93.4 | 94.7 |
| 11. Community Ed & Prevention | 10.2 | 5.3 | 4.9 |
| 12. Self Sufficiency & Lifelong Learning | 72.9 | 73.5 | 73.5 |

General Education: General Education Aid consists of several funding streams that together provide districts with general purpose funds. The most significant of these funding streams – approximately 87% of general education aid -- is the Basic Formula (or “Foundation Aid”). Districts receive a certain amount (\$4,783 in FY 2006 and \$4,974 in FY 2007) for each pupil unit. Other significant components of general education include Referendum Equalization Aid, Compensatory Aid for students from families in poverty, Operating Capital Aid, and Sparsity Aid from districts that cover large geographic areas. Overall, the State’s General Education aid payments are expected to increase by 5.1 % in FY 2006-07 and 9.2% in FY 2008-09 over February Forecast projections (DOF).

Other General Education: Other General Education includes funding for Nonpublic Pupil Aid and Nonpublic Pupil Transportation Aid as well as First Grade Preparedness (All-Day Kindergarten) and Abatement Aid.

Choice Programs: This category includes programs for Charter School Lease-Aid, Charter School Start-Up Aid, Desegregation, Online Learning, and Magnet Schools.

Indian Programs: The major programs include Tribal Contract Schools, Success for the Future, and Indian Scholarships.

Special Student and Teacher Programs: Major programs include Advanced Placement/International Baccalaureate (AP/IB), “Get Ready, Get Credit”, Collaborative Urban Educator, Youthworks, and Student Organizations.

Special Education: The majority of special education funding is Regular Special Education. The second largest amount is special education excess costs. This program provides a “safety net” for districts that experience high costs for special education services, which are not reimbursed by regular special education aid.

Facilities and Technology: Debt Service Equalization and Alternative Facilities Revenue account for the majority of the state spending in this area. Telecommunications Access and Health & Safety Aid make up the remainder.

Nutrition Programs: Funding for the School Lunch and School Breakfast programs are the primary programs in this area.

Libraries: The primary program in this area is Basic Support grants for libraries. The remainder is for specialty services like multi-county libraries, regional library telecommunication aid, and electronic library services.

Early Childhood & Family Support: This area includes four main programs: School Readiness, Early Childhood Family Education (ECFE), Health and Development Screening, and the Head Start Program.

Community Education & Prevention: This category includes Community Education, Adults with Disabilities Program aid, services for Hearing Impaired Adults, and School Age Care aid.

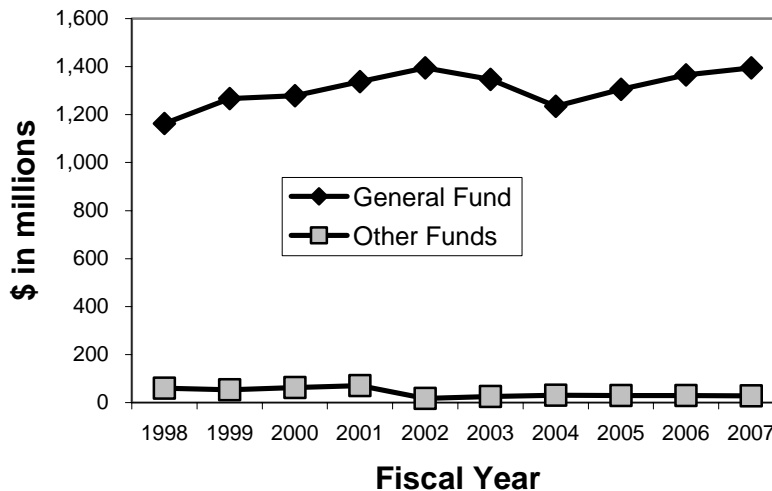
Self Sufficiency & Life Long Learning Adult Basic Education Aid makes up the majority of this total.

FY 2006-07 Biennial Budget Overview by Omnibus Bill Higher Education

I. Expenditure Summary (\$ in millions)

| | General Fund | | | | All Funds | | | |
|----------------------------------|----------------|----------------|-------------------------------------|--------------------------|----------------|----------------|-------------------------------------|--------------------------|
| | FY 2004-05 | FY 2006-07 | \$ Difference FY 06-7 vs FY 04-5 | % of Total FY 2006-07 | FY 2004-05 | FY 2006-07 | \$ Difference FY 06-7 vs FY 04-5 | % of Total FY 2006-07 |
| Higher Education | | | | | | | | |
| Mayo Medical School | 2.7 | 2.8 | 0.1 | 0.1% | 2.7 | 2.8 | 0.1 | 0.1% |
| MN State Colleges & Universities | 1,106.1 | 1,202.9 | 96.8 | 43.6% | 1,106.1 | 1,202.9 | 96.8 | 42.7% |
| Office of Higher Education | 353.0 | 349.3 | (3.6) | 12.7% | 362.0 | 358.8 | (3.2) | 12.7% |
| University of Minnesota | 1,080.0 | 1,205.8 | 125.8 | 43.7% | 1,129.6 | 1,254.0 | 124.4 | 44.5% |
| 05, CH 107 Health Dept | 0.0 | 0.3 | 0.3 | 0.0% | 0.0 | 0.3 | 0.3 | 0.0% |
| Total Higher Education | 2,541.7 | 2,761.0 | 219.3 | 100.0% | 2,600.4 | 2,818.7 | 218.3 | 100.0% |

Higher Education



II. Scope and Financing

Higher education is financed through a mix of state and federal funds, tuition, private and institutional funds. For the FY 04-05 biennial budget, the state spent \$2.5 billion dollars on post-secondary education, nine percent of its general fund budget. State appropriations for higher education increased to \$2.7 billion for the FY 2006-07 biennium.

These funds support the education of approximately 340,000 students, who are enrolled in one of the state's eleven four-year public universities, 30 public community and technical colleges, 57 private nonprofit institutions, or 80 for-profit institutions. While most of the state funds go to supporting the state's public institutions, the state appropriation for financial aid programs also provides financial aid assistance to eligible students attending Minnesota private post-secondary institutions.

Tuition and fees paid by students are an important source of funding for higher education. For fiscal year 2005, students at public post-secondary institutions contributed an estimated \$1.0 billion in tuition and fees.¹

For fiscal year 2004, Minnesota State Colleges and Universities (MnSCU) had revenues of \$1.5 billion. Of this amount, 36 percent came from state appropriations, 43 percent from tuition (including financial aid), and 21 percent from a variety of smaller revenue streams, including fees. The University of Minnesota, with total revenues of \$2.3 billion, received 25 percent from state appropriations,² 21 percent from tuition and fees (including financial aid), 21 percent from sponsored research, 7 percent from grants and contracts, 5 percent from gifts and endowments, and 21 percent from a variety of other revenue streams.

MnSCU and the University also receive a significant amount of funding from the state for capital projects. The state generally pays two-thirds of the debt service on higher education bonding projects, with the institutions paying the remaining third. The University received \$91 million and \$112 million in general obligation bond funds in the 2002 and 2005 bonding bills, respectively. MnSCU received \$126 million and \$214 million in general obligation bond funds in the 2002 and 2005 bonding bills, respectively.

III. Background

Outcomes & Indicators

- *Continuation Rate.* The college continuation rate measures the percentage of recent high school graduates who go directly to a public or private two- or four-year college in the United States. For 2002, Minnesota's continuation rate of 62.9 percent was higher than the national rate of 56.6 percent.³
- *College graduation rate.* Minnesota's 2003 completion rate of 58 percent, measured as first-time, full-time students completing a bachelor's degree within six years of high school completion, was slightly above the national average of 54.3 percent.
- *Affordability.*
 - Measured as a percent of family income needed to pay for college expenses minus financial aid, in 2004 Minnesota ranked within the top eight states at 19.2 percent for public two-year colleges and 22.6 percent for public four-year colleges and universities.
 - At private four-year colleges and universities, Minnesota's 49.7 percent placed it 12th overall and in a lower-middle tier of nine states where between 40–49 percent of family income is needed to pay for college.
 - Financial barriers continue to be an issue for low-income families and students. According to a U.S. Department of Education national report that looked at changes in paying for college from 1990 to 2000, on average (after taking grants and loans

¹ The tuition and fees total includes federal, state and private financial aid awards to students.

² Included in the state appropriations to the University are payments to the Academic Health Center (AHC) from the dedication of 6.5 cents per pack of cigarette tax revenues (\$23.3 million in FY04). Beginning with FY06, this appropriation for the AHC changed to a specified flat amount of \$22.2 million per year from cigarette tax revenues.

³ Data on continuation, college graduation rates and affordability are from the National Information Center for Higher Education Policymaking and Analysis (www.higheredinfo.org); accessed 09/23/2005.

into account) students in the highest income quarter had enough resources to pay for college, but students in the lowest income quarter still paid more than their expected family contribution for college.⁴

- *Educational attainment.* According to the 2000 Census, Minnesota is ranked 10th in the nation in percentage of the population with a bachelor's degree or higher (27 percent), up from 15th nationally in 1990.
- *Readiness.* Many colleges look at ACT scores to determine readiness. Based on the 68 percent of Minnesota's high school seniors who took the ACT test in 2005, the composite score for Minnesota was 22.3—ranking Minnesota first in the nation among the 25 states where the majority of the students take the ACT.
- *Remediation.* Based on an August 2005 report on Minnesota public high school graduates,⁵ 36 percent of the graduates who attended a public post-secondary institution within two years of high school graduation took one or more developmental courses. At the University of Minnesota, eight percent of the students from the high school class 2002 who enrolled at the U took one or more developmental course. Ninety-nine percent of the developmental credits taken by these students were in mathematics courses. At the MnSCU system, 42 percent of the students from the high school class of 2002 who enrolled at a MnSCU campus took one or more developmental course. Fifty-five percent of the developmental credits taken by these students were in mathematics courses and another 25 percent were in writing courses.

Critical Factors

- *Population.* The number of public and non-public high school graduates in Minnesota is expected to have peaked at about 63,000 in the spring of 2004, with any growth concentrated in the Twin Cities metropolitan area.
- *Jobs requiring higher education.* The Minnesota Department of Employment and Economic Development projected that half of job openings between 2004 and 2010 will require at least post-secondary education and training.⁶
- *High school graduates enrolling in post-secondary institutions.* In 2003, an estimated 65 percent of Minnesota high school graduates enrolled in a post-secondary institution within one year of graduation.
- *Job placement after two-year college.* In 1999, 91.6 percent of two-year college graduates obtained a job related to their training within nine months of graduation.
- *Students of color.* In 2002, 11 percent of all post-secondary enrollments in the state were students of color.

⁴ National Center for Education Statistics, *Paying for College*, (US Dept of Education, June 2004).

⁵ The University and MnSCU are required to report on students attending remedial classes. The 2005 report, "Getting Prepared," is at <http://www.mnscu.edu/media/publications/pdf/gettingprepared05.pdf>

⁶ "Minnesota Job Outlook by Industry," *Minnesota Employment Review* (Supplement, August 2003), Minnesota Department of Employment and Economic Development.

IV. Recent Significant Issues

- *Rochester Higher Education Development Committee.* The 2005 Higher Education Omnibus bill created an eleven-member committee to research and make recommendations on the creation of mission-driven higher education programs or institutions in the Rochester area. The committee must specifically consider whether expanding the University of Minnesota's presence in Rochester is the most appropriate way of meeting the region's needs. The committee began meeting in July 2005. The committee must issue its recommendations to the Governor and legislature by mid-January, 2006.
- *State Grant forecasts.* Accurate projections for the State Grant Program continue to be problematic. Because of a shortfall in funding for the program in FY2003, the legislature increased the funding for the State Grant Program for the 2004–05 biennium by reallocating \$40 million from the U of M and MnSCU appropriations to the State Grant Program. Some of the aid formula criteria and features were also modified to contain costs. The State Grant Program ended FY2005 with a surplus of \$42 million. In the 2005 Higher Education Omnibus the legislature included a temporary provision that allows projected State Grant surplus dollars after the first year of the 2006-07 biennium to be used to increase the Living and Miscellaneous Expense figure used in the calculation of state grants in FY2007. If the Minnesota Office of Higher Education (OHE) implements this provision, state grant awards for all eligible students will be increased for the one year.
- *Accountability.* MnSCU and the University are required to prepare two reports to the Legislature on: 1) the allocation of resources (state appropriations, tuition, and other sources) and 2) the curricular priorities of the institution, reallocation of funds, and other details about the students served. Each report must be prepared every other year. The University and MnSCU must also prepare a joint report on a master academic plan for the metropolitan area. The 2005 Higher Education Omnibus requires the Office of Higher Education (OHE) to report quarterly on its financial aid expenditures and unexpended balances, and twice per year on its projections for the State Grant Program. OHE was also appropriated \$400,000 for the 2006-07 biennium to develop and implement a process to measure and report on the effectiveness of higher education institutions in the state.
- *Transforming the University of Minnesota.* The University initiated a comprehensive strategic planning process in August 2004. This process resulted in a strategic positioning report that set out the goal of making the University of Minnesota one of the top three public research institutions in the world within ten years. The Board of Regents unanimously endorsed the strategic positioning report in March 2005. The University developed a set of President's recommendations designed to support the University in meeting that goal. The Board of Regents endorsed the President's recommendations in June, and has authorized the University administration to implement the recommendations.

V. Useful Links and Resources

Minnesota Office of Higher Education (formerly the Higher Education Services Office)
www.ohe.state.mn.us

Minnesota State Colleges and Universities
Higher Education
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www.mnscu.edu

University of Minnesota, Office of Institutional Research and Reporting

www.irr.umn.edu

The National Information Center for Higher Education Policymaking and Analysis

www.higheredinfo.org

FY 2006-07 Biennial Budget Overview by Omnibus Bill Property Tax Aids & Credits

I. Expenditure Summary (\$ in millions)

| | General Fund | | | |
|---|---------------------|----------------|-------------------------------------|--------------------------|
| | FY 2004-05 | FY 2006-07 | \$ Difference FY 06-7 vs FY 04-5 | % of Total FY 2006-07 |
| <u>Property Tax Aids & Credits</u> | | | | |
| Payments to Individuals | 642.3 | 717.1 | 74.8 | 24.0% |
| Forest Land Credit Program | 3.5 | 4.1 | 0.6 | 0.1% |
| Political Contribution Refunds | 10.6 | 11.0 | 0.4 | 0.4% |
| Property Tax Refund | 281.3 | 356.2 | 74.9 | 11.9% |
| Property Tax Refund - Targeted | 20.7 | 13.8 | (7.0) | 0.5% |
| Renters Credit | 291.0 | 302.1 | 11.1 | 10.1% |
| Tax Refund Interest (OPEN) | 35.2 | 30.0 | (5.2) | 1.0% |
| Payments to Local Governments | 1,971.0 | 2,044.4 | 73.3 | 68.5% |
| Attached Machinery Aid - NonSchool | 0.4 | 0.0 | (0.4) | 0.0% |
| Attached Machinery Aid - School | 0.1 | 0.0 | (0.1) | 0.0% |
| Border City Credit - NonSchool | 9.1 | 9.2 | 0.1 | 0.3% |
| Border City Credit - School | 1.3 | 1.4 | 0.1 | 0.0% |
| Border City Enterprise Zone | 0.0 | 1.5 | 1.5 | 0.1% |
| City Aid | 902.5 | 921.4 | 18.9 | 30.9% |
| County Program Aid | 111.6 | 409.8 | 298.2 | 13.7% |
| County Transition Aid | 0.0 | 2.3 | 2.3 | 0.1% |
| Criminal Justice Aid | 33.3 | 1.4 | (31.8) | 0.0% |
| Disaster Credit - NonSchool | 0.1 | 0.0 | (0.1) | 0.0% |
| Disaster Credit - School | 0.0 | 0.0 | (0.0) | 0.0% |
| Disparity Reduction Aid - NonSchool | 21.7 | 22.0 | 0.3 | 0.7% |
| Disparity Reduction Aid - School | 16.7 | 17.4 | 0.7 | 0.6% |
| Education Homestead Credit | 0.2 | 0.0 | (0.2) | 0.0% |
| Family Preservation Aid | 23.9 | 0.0 | (23.9) | 0.0% |
| Homestead Agric Credit Aid | 134.7 | 0.0 | (134.7) | 0.0% |
| Local Police & Fire Amort Aid | 10.0 | 9.3 | (0.7) | 0.3% |
| Low Income Housing Aid | 2.2 | 0.6 | (1.6) | 0.0% |
| Miscellaneous Aids & Credits | 0.0 | 1.4 | 1.4 | 0.0% |
| MV Hmstd Cr Agric Land | 37.2 | 37.4 | 0.2 | 1.3% |
| MV Hmstd Cr Agric Land-Schl | 10.4 | 10.1 | (0.3) | 0.3% |
| MV Homestead Credit | 452.7 | 444.0 | (8.7) | 14.9% |
| MV Homestead Credit-Schl | 136.0 | 119.5 | (16.5) | 4.0% |
| Payments to Counties with Indian Casinos | 1.4 | 1.4 | 0.0 | 0.0% |
| PILT for DNR & DOT Owned Lands | 25.7 | 0.0 | (25.7) | 0.0% |
| Prior Year Credits | 0.9 | 0.8 | (0.1) | 0.0% |
| Repl Taconite Prod Tax Red | 11.5 | 16.5 | 5.0 | 0.6% |
| Revenue Dept - Tax Administration | 0.0 | 1.3 | 1.3 | 0.0% |
| Suppl Homestead Prop Tax | 9.9 | 10.0 | 0.1 | 0.3% |
| Taconite Aid Reimb | 0.6 | 1.1 | 0.6 | 0.0% |
| Temporary Court Aid | 17.1 | 4.6 | (12.5) | 0.2% |
| Pension Related Payments | 193.4 | 222.2 | 28.8 | 7.4% |
| Aid to Police & Fire (Pension) | 164.2 | 193.0 | 28.8 | 6.5% |
| PERA Pension Aid | 29.2 | 29.2 | (0.0) | 1.0% |
| Total Property Tax Aids & Credits | 2,806.8 | 2,983.7 | 177.0 | 100.0% |

II. Scope and Financing

Nearly 10 percent of the state’s general fund budget is devoted to property tax aids and credits paid to local governments (public schools, cities, counties, towns and special districts). These aids and credits help offset costs of service delivery, defray costs of state mandates, and reduce local property taxes by substituting state funds for revenues that would otherwise need to be raised locally. Some payments to individuals, like property tax refunds for homeowners and renters, are also included in this category because they reduce property tax burdens.

Most aids and credits are based on complex formulas written into law. To administer these formulas, the Department of Revenue collects local levy and assessment information, calculates levy limits and required aid payments, and distributes aid payments to local governments. In the case of school-related aids, the Department of Education makes the payments to local districts.

Property tax aids and credits are financed entirely from the state’s general fund.

III. Background

The State of Minnesota uses property tax aids and credits to keep property taxes low, offset the cost of state mandates, reduce service and tax burden disparities between property rich and poor jurisdictions, and mitigate the regressive nature of property taxes. This has led to an extensive working and financial relationship between Minnesota’s state and local governments. Many state programs are delivered at the local level, and local governments depend on state funds to offset operating cost burden. The financial relationship is illustrated in the following table.

| Summary of Calendar 2005 Revenues | | |
|--|---|------------------------------------|
| Local Unit | Revenue from Local Taxes, Fees Assessments, etc. | Revenue from State Payments |
| Counties | 61.1% | 25.9% |
| Cities | 75.7% | 19.4% |
| Note: Revenues do not equal 100% because other intergovernmental transfers (e.g. federal grants) are not included. Source: State Auditor’s Office | | |

When there are great disparities in local delivery of state priorities (e.g. court services), the state may move beyond local aid programs to directly finance that service. This is often referred to as a “state takeover” and generally occurs when services should be available regardless of property wealth, and when the cost of providing equitable service would make property taxes extremely onerous in many jurisdictions. For example, the 2001 tax bill initiated takeover of the local general education levy and specific parts of school operating levies, phased takeover of all district courts and takeover of some out-of-home placement costs previously borne by counties. When the state takes over a local service, the cost of the takeover is often offset by a reduction in one of the local aid programs.

The 2001 and 2003 tax bills also contained other major reforms that provided relief in the property tax system. These changes reduced overall dependence on property taxes and also affected property tax aids and credits. Highlights included:

- Over \$900 million in property tax relief for all types of property,
- A new statewide property tax on commercial/industrial and seasonal recreational property,
- Creation of new Market Value Homestead and Agricultural property tax credits that benefit all local governments,
- Significant realignment and revision of formulas for City Aid (formerly Local Government Aid) and County Need Capacity Aid (formerly Homestead and Agricultural Credit Aid, Criminal Justice Aid, and Family Preservation Aid), and
- Creation of tax-free Job Opportunity Building Zones (JOBZ) to stimulate economic development in rural Minnesota.

Outcomes & Indicators

- *Are property taxes low in Minnesota?*
There is evidence that property taxes are low relative to other state taxes, and relative to property taxes in other states. The most recent Price of Government data for FY 2006 estimates that total property taxes collected in the state will be \$5.7 billion, or 27 percent, of total state and local tax collections. In addition, information compiled by the Minnesota Taxpayers Association for FY 2002 shows that while Minnesota ranks 10th in total tax burden per \$1,000 of income, the state ranks 26th in property tax burden (3rd in income tax and 34th in sales tax).
- *Do state aid and credit expenditures make the property tax system more progressive?*
The property tax is generally considered regressive because individual tax burden is not directly related to ability to pay. The Suits Index is used to measure whether a particular tax is progressive or regressive. This index is explained and analyzed in the Department of Revenue's Tax Incidence Study. That analysis shows that certain aids add progressive elements to the overall property tax system. It also explains how reducing property taxes (regressive) and emphasizing revenue sources like income taxes (progressive) make the overall state and local tax system more progressive.
- *Are property tax aids accountable? Do they deliver measurable results?*
In contrast to other state programs delivered through counties, property tax aid and credit programs do not report details of spending or outcomes to any state agency. Therefore, there are no indicators available to measure the direct impact of these funds.
- *How fast are local government revenues growing?*
Since FY 1998 total local non-school revenues (a surrogate for local spending) have grown by an average of 4.2 percent annually. Spending growth puts pressure on both tax and aid components of the property tax system. During this same period of time, personal income has grown by an average of 5.1 percent annually.

IV. Recent Significant Issues

The cost of keeping property taxes low. Property tax aids and credits reduce the property tax burden on citizens. However, they do not reduce the amount of revenue collected by state and

local government. Policymakers generally try to keep property taxes low because they are a regressive tax type. State officials do this by increasing state aids, while local officials do this by turning to other local revenue sources (e.g. assessments, permits, fees for service). Since FY 1998 local non-school taxes have grown by an average of 4.5 percent annually, while intergovernmental aids and other local income sources have grown by an average of 2.8 percent and 5.0 percent respectively.

Reducing local disparities. Some property tax aid programs are designed to address a specific local disparity (e.g. disaster credits, border city programs). However, a common criticism of the larger aid programs has been that they are not responsive to changing local conditions, and are based too much on historical practice and not enough on need. In response, the 2003 tax bill significantly revised the major aid program formulas (City Aid, County Need Capacity Aid) to place more emphasis on need.

Mandates/Clarifying State and Local Responsibility. For many years, local governments have complained that the state imposes unfunded mandates and should pay the associated costs. However, some state policymakers counter that local spending decisions and local government lobbying put extensive pressure on the property tax system. A fundamental question remains: Are state or local actions the primary driver of property tax system pressures?

V. Useful Links and Resources

State Auditor: *Summary Budget Information for Minnesota Cities*

http://www.auditor.state.mn.us/reports/gid/2005/ciBudget/ciBudget_05_report.pdf

State Auditor: *Summary Budget Information for Minnesota Counties*

http://www.auditor.state.mn.us/reports/gid/2003/coBudget/coBudget_03_report.pdf

Department of Employment and Economic Development: Information on JOBZ Program

<http://www.deed.state.mn.us/bizdev/jobz.htm>

Department of Finance: *Price of Government*

http://www.budget.state.mn.us/budget/summary/pog/050125_pog.pdf

Minnesota Taxpayers Association: *How Does Minnesota Compare?* (2002 Edition)

<http://www.mntax.org/research/hdmc02.pdf>

Department of Revenue: *2003 Tax Incidence Study*

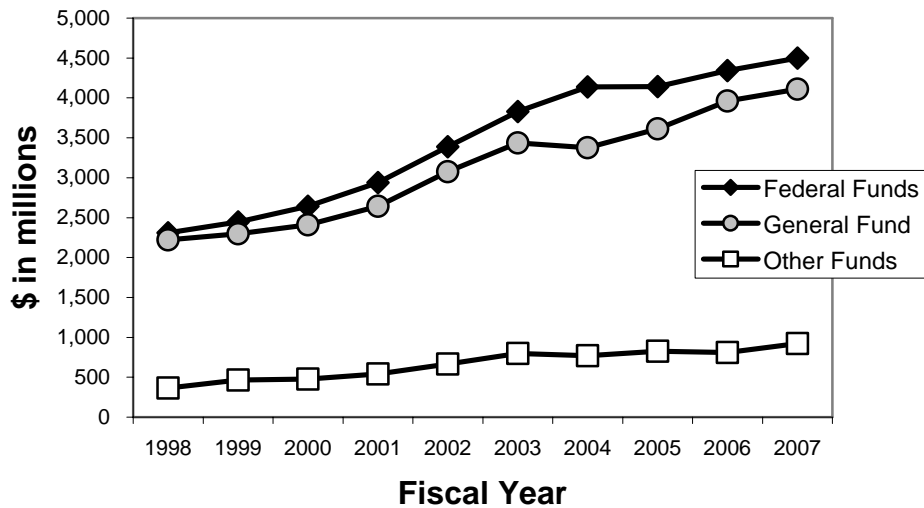
http://www.taxes.state.mn.us/taxes/legal_policy/other_supporting_content/05_incidence_report.pdf

FY 2006-07 Biennial Budget Overview by Omnibus Bill Health & Human Services

I. Expenditure Summary (\$ in millions)

| | General Fund | | | | All Funds | | | |
|--|----------------|----------------|-------------------------------------|--------------------------|-----------------|-----------------|-------------------------------------|--------------------------|
| | FY 2004-05 | FY 2006-07 | \$ Difference FY 06-7 vs FY 04-5 | % of Total FY 2006-07 | FY 2004-05 | FY 2006-07 | \$ Difference FY 06-7 vs FY 04-5 | % of Total FY 2006-07 |
| Health & Human Services | | | | | | | | |
| Health Dept | 122.9 | 133.8 | 10.9 | 1.6% | 815.2 | 839.9 | 24.7 | 4.5% |
| Human Services Dept | 7,067.2 | 8,059.4 | 992.2 | 97.5% | 15,886.7 | 17,633.9 | 1,747.3 | 94.6% |
| Veterans Homes Board | 59.8 | 60.1 | 0.2 | 0.7% | 122.1 | 130.1 | 8.0 | 0.7% |
| Health Boards & Other Agencies | 11.5 | 11.2 | (0.4) | 0.1% | 38.4 | 43.4 | 5.0 | 0.2% |
| Total Health & Human Services | 7,261.6 | 8,264.4 | 1,002.9 | 100.0% | 16,862.3 | 18,647.3 | 1,785.0 | 100.0% |

Health & Human Services



II. Scope and Financing

This portion of the budget pays for hospital and physician visits, nursing home and community-based care, cash assistance payments, child care, employment training, care at state institutions, regulatory activities, and public health services. For the most part, funding for these services is a shared responsibility of the state, the federal government, and Minnesota's 87 counties. Responsibility is generally divided so that the state and federal governments pay for benefits and the counties pay for the cost of local administration. This arrangement will vary by program and is influenced by the beneficiary's ability to pay, historic government roles and other factors.

Health and human services spending constitutes approximately 27 percent of total State general fund spending. Spending in this area tends to grow faster than other parts of the state budget. The recently enacted budget for the 2006-07 biennium is expected to be almost \$1.3 billion higher than in the 2004-05 biennium, an increase of 15 percent. Most of this growth is attributable to larger health care costs resulting from increased program enrollment, utilization and payments to providers in public programs.

III. Background

Outcomes & Indicators

State health ranking. The United Health Foundation ranked Minnesota as the healthiest state in the nation in its 2004 State Health Rankings. The foundation cited a high health insurance rate and strong support for public health programs as a few of the factors that attributed to the top ranking.⁷

Rate of uninsurance. In 2004 Minnesota's 6.7 percent uninsurance rate was one of the lowest in the country; however, that is an increase from 5.4 percent in 2001. The increase is primarily due to a decrease in employer-based health coverage. In 2001, 69.7 percent of Minnesotans were covered by group or employer-based coverage, but in 2004 that number fell to 63.4 percent. During the same period, the percent of Minnesotans enrolled in public programs increased from 20.1 percent to 25.2 percent.⁸

Welfare reform objectives. Minnesota's welfare caseload fell 43 percent from 1994 through 2002. This is less than the national decline of 59 percent, but evaluations of the state's reform effort – Minnesota Family Investment Program – have shown other benefits. Compared to the start of welfare reform, welfare recipients are working in greater numbers, working more hours and are moving out of poverty by increasing their incomes.

State Medical Assistance spending. In 2000, Minnesota's Medical Assistance (MA) spending per beneficiary was higher than the national average of state Medicaid programs (\$5,857 per beneficiary in Minnesota versus \$3,936 per beneficiary in the US). While Minnesota's expenditures per beneficiary are higher than the national average for all population groups (children, adults, the elderly, and persons with disabilities), they are particularly higher for the elderly and people with disabilities.¹⁴

Critical Factors

Economic Cycles. The economic cycle directly impacts enrollment in many health and human services programs. Economic growth tends to mitigate growth trends in program participation, while economic downturns increase program enrollment. As revenue to the state decreases during economic downturns, demand for service increases, resulting in significant challenges to the state's budget.

⁷ United Health Group Foundation;
<http://www.unitedhealthfoundation.org/shr2004/Findings.html>

⁸ Minnesota Department of Health

Changing demographics and enrollee mix. The mix of Medical Assistance enrollees is a key factor in program cost. The elderly and disabled are a high-cost population whose enrollment continues to grow. As a result, expenditures for the elderly and people with disabilities account for a disproportionate share of the state's MA budget. While these populations accounted for 40 percent of program enrollment in fiscal year 2003, they accounted for 78 percent of program expenditures.⁹

Health care cost growth. State public health care programs and private health insurance markets face similar cost increases. A variety of factors increase the overall cost of health care, including expanded benefits, increased service utilization among recipients, increased medical service prices, and the availability of new and more expensive technology. However, unlike the private insurance market, the state has little control over the number of participants in public health care programs.

Intergovernmental Relationships

Counties. Most of Minnesota's human services programs are administered at the county level. Local property tax levies play a key role in financing local program administration, public health, child welfare, and child protection services.

Federal government. Most of Minnesota's spending in this area of state finances is matched by federal government contributions, worth \$3.5 billion in fiscal year 2003. State flexibility in these programs is limited by federal policy and guidelines. Often, reductions in state commitments in these areas will result in lost federal matching dollars to the state.

IV. Recent Significant Issues

Health and Human Services Growth. Total spending in the health and services budget is expected to be \$18.6 billion in the current biennium on an all funds basis, 37.2 percent of all spending. That amount is estimated to increase to \$20.8 billion in the next biennium, 39.4 percent of total spending. There are differing views about the sustainability of this growth and the responses by policy makers. Throughout much of the 1990s, decisions were made to expand public health care program eligibility and benefits to new populations. As budgets have tightened, policy makers have shifted their focus from expanding coverage to preserving or reducing eligibility and benefits as well as increasing cost sharing on the part of beneficiaries.

Health Care Reform Efforts. Recently enacted legislation has attempted to curb the cost of health care by improving the cost-effectiveness of coverage through the use of evidence-based guidelines, requiring prior authorization for certain services, and improving the methods the state uses to purchase prescription medications. Also, the nature of two state-only funded health care programs was changed. The General Assistance Medical Care (GAMC) program was altered, shifting a significant number of

⁹ Medical Assistance expenditures include both basic care and long-term care and are based on the February 2005 Economic Forecast.

current recipients to MinnesotaCare. This change will shift costs out of the general fund into the health care access fund.

HealthMatch. The Department of Human Services is developing an automated eligibility determination system called HealthMatch for Minnesota's public health care programs. HealthMatch is designed to streamline eligibility determination, provide the applicant with information to make informed choices, and enroll applicants in the most appropriate health care program.

Health care taxes. There are widely divergent opinions about the role of provider and gross premium taxes in funding MinnesotaCare and general fund expenditures. The provider tax rate returned to two percent and the gross premium tax returned to one percent on January 1, 2004 from 1.5 and zero percent, respectively.

Prescription drugs. A Medicare prescription drug benefit was created in December 2003 and is scheduled to be implemented in January 2006. Medicare recipients who are currently receiving prescription drug coverage through Medical Assistance and the state's prescription drug program will receive coverage through Medicare, shifting responsibility from the state to the federal government. However, minimal savings in the state's Medical Assistance budget is expected due to provisions in the new law.

Long-Term Care Provider Rate Adjustments. Reimbursement rates for long-term care providers are set by state law. For the current biennium, long-term care providers will receive a 2.25 percent annual increase. Given the cost of providing long-term care, small percentage increases in rates can be among the most expensive budget decisions in the health and human services budget. For the 2006-07 biennium, the 2.25 percent rate increase is estimated to cost \$76 million.

Diversionsary Work Program. Minnesota has recently implemented the Diversionsary Work Program that places most applicants for welfare in a four-month program that pays for some household expenses in lieu of direct cash grants and requires participation in an intense workforce program. Since the program's inception in July 2004, approximately 10,000 parents have gone through the program and almost 50 percent have found work within the four-month timeframe.

Downsizing Regional Treatment Centers. The Department of Human Services is continuing the process of downsizing the remaining regional treatment centers and transitioning to community-based treatment for adult mental health. The Department has already broken ground on several smaller treatment facilities and will continue to work with local communities to redevelop each treatment center campus for alternative uses.

Sex Offender Program. Recent changes in referral policies for civil commitment of sex offenders has resulted in a significant increase in the number of sex offenders committed to the Sex Offender Program. The increased rate of commitments is creating challenges for the programs physical capacity, as well as its operating costs.

V. Useful Links and Resources

Minnesota Health Information
<http://www.minnesotahealthinfo.org/>

Minnesota Department of Human Services
www.dhs.state.mn.us

Minnesota Department of Health
www.health.state.mn.us

Department of Health and Human Services
www.hhs.gov

Kaiser Family Foundation
www.kff.org

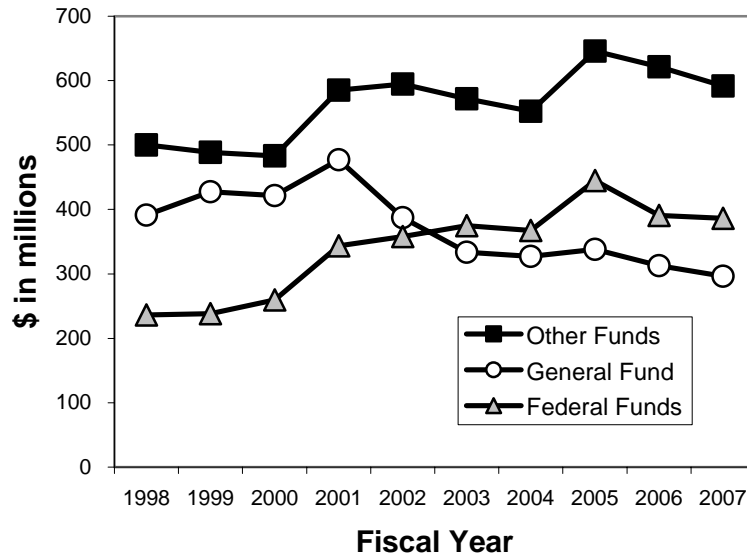
Urban Institute
www.urban.org

FY 2006-07 Biennial Budget Overview by Omnibus Bill Environment, Agriculture and Economic Development

I. Expenditure Summary (\$ in millions)

| | General Fund | | | | All Funds | | | |
|---|--------------|--------------|--------------------|---------------|----------------|----------------|--------------------|---------------|
| | FY 2004-05 | FY 2006-07 | \$ Difference | % of Total | FY 2004-05 | FY 2006-07 | \$ Difference | % of Total |
| | | | FY 06-7 vs FY 04-5 | FY 2006-07 | | | FY 06-7 vs FY 04-5 | FY 2006-07 |
| <i>Environment, Agriculture & Economic Development</i> | | | | | | | | |
| Agriculture Dept | 81.5 | 76.7 | (4.8) | 11.3% | 140.4 | 138.3 | (2.1) | 5.2% |
| Commerce Dept | 56.8 | 40.3 | (16.6) | 5.9% | 307.2 | 312.3 | 5.1 | 11.7% |
| Employment & Econ Development Dept | 110.9 | 90.8 | (20.2) | 13.3% | 790.5 | 715.1 | (75.4) | 26.8% |
| Environmental Assistance | 23.4 | 0.0 | (23.4) | 0.0% | 52.1 | 0.0 | (52.1) | 0.0% |
| Historical Society | 44.7 | 46.5 | 1.8 | 6.8% | 46.6 | 48.3 | 1.7 | 1.8% |
| Housing Finance Agency | 70.0 | 70.5 | 0.5 | 10.4% | 70.3 | 70.5 | 0.3 | 2.6% |
| Labor & Industry Dept | 5.7 | 5.7 | 0.0 | 0.8% | 233.9 | 222.4 | (11.5) | 8.3% |
| Metropolitan Council Parks | 0.0 | 6.6 | 6.6 | 1.0% | 0.0 | 6.6 | 6.6 | 0.2% |
| MN Conservation Corps | 0.7 | 0.7 | 0.0 | 0.1% | 1.7 | 1.7 | 0.0 | 0.1% |
| Natural Resources Dept | 216.0 | 212.7 | (3.3) | 31.3% | 628.5 | 651.4 | 22.9 | 24.4% |
| Pollution Control Agency | 29.6 | 22.7 | (6.9) | 3.3% | 245.2 | 275.9 | 30.7 | 10.3% |
| Public Utilities Comm | 8.4 | 8.3 | (0.1) | 1.2% | 11.3 | 14.6 | 3.3 | 0.5% |
| Water & Soil Resources Board | 30.9 | 30.7 | (0.3) | 4.5% | 34.6 | 34.2 | (0.4) | 1.3% |
| Zoological Board | 12.8 | 12.9 | 0.1 | 1.9% | 33.0 | 34.0 | 1.1 | 1.3% |
| All Others | 47.8 | 55.2 | 7.5 | 8.1% | 150.3 | 143.8 | (6.5) | 5.4% |
| Total Environment, Agric & Econ Dev | 739.3 | 680.3 | (59.0) | 100.0% | 2,745.5 | 2,669.1 | (76.5) | 100.0% |

Environment, Agriculture & Economic Development



II. Scope and Financing

The Environment, Natural Resources, Economic Development, and Agriculture program area includes the Pollution Control Agency (PCA), the Department of Natural Resources (DNR), the

Department of Economic Development, the Department of Agriculture, the Board of Soil and Water Resources and others. Their mission is to protect and enhance the quality of the environment, and human and animal health, while supporting the advancement of economic vitality in Minnesota.

State activities attempt to meet the many interests of Minnesota citizens. To accomplish this, the state must balance the need to preserve our natural heritage while promoting sustainable economic growth. Providing access to the state's natural resources for hunting, fishing, and other recreation is additional consideration that is a component of our quality of life.

Funding in this area is complex, with 28 percent of spending coming from the general fund, 24 percent from federal funds and 48 percent from a wide variety of user fees. Overall, the natural resources, economic development, and agricultural area represent approximately 3 percent of the state's general fund expenditures.

Further discussion of economic development activities is found later in the document.

III. Background (Environment and Natural Resources)

Outcomes & Indicators

- Since the Pollution Control Agency was created in 1967, visible sources of pollution from large stationary sources (smokestacks, waste pipes, and garbage dumps) have largely been addressed. Today, the greatest sources of pollution come from non-point sources such as vehicle emissions, lawn fertilizers, agricultural practices, logging, soil erosion, urban development, and small gas and diesel engines.

Among the challenges in this second wave of environmental protection is how to finance non-point source pollution control efforts. The typical permit fees charged to large polluters will not work with non-point source polluters because there are so many of them, and individually they emit relatively low levels of pollution.

- Clean water is a top priority for most Minnesotans. A key indicator of water quality is our ability to meet standards established for lakes, streams, and rivers. The PCA has monitoring data on approximately 62 percent of the 3.2 million acres of lake surface in the state. However, they only have data on 4.8 percent of the state's 92,000 miles of rivers and streams. Almost 90 percent of lakes monitored through the Citizen Lake Monitoring Program show steady or improving water clarity, which is also a useful indicator.
- To improve water quality and restore habitat in the Minnesota River watershed, \$70 million of state funds and \$168 million of federal funds were used in FY 2001-03 to retire up to 100,000 acres of environmentally sensitive land along the river's banks.
- In 1998 Minnesota recycled approximately 46 percent of the waste stream, one of the highest recycling rates in the nation. However, those rates have leveled off while municipal solid waste generation has grown. Since 1992, the generation of municipal solid waste has increased statewide by 30 percent, while population has only grown by 7 percent.

Critical Factors

- Existing federal and state resources are not adequate to remediate the 1,115 impaired water bodies in Minnesota. The PCA and its partners have evaluated the importance of and approaches to addressing Minnesota's impaired waters and preserving its high quality waters.
- The growing size of livestock, hog and poultry feedlot operations has heightened environmental concerns and prompted the state to revise its feedlot regulations. The threat of manure runoff and feedlot odors must be balanced against the ability of farmers to bear the financial costs of mitigation.
- There has been growing controversy at the federal level over purchasing permanent environmental easements on sensitive agricultural land. State law requires that permanent easements be purchased for wetland preservation.

Intergovernmental Relationships

- All levels of government have strong interests and important roles to play in environmental and agricultural issues. Over the past 20 years the number of collaborative partnerships between different levels of government has grown dramatically. The trend in the majority of agencies is for the state to set policy, provide resources, and monitor, analyze, and distribute information, and rely on local government to use this information to implement the state programs locally.
- Local units of government are the primary delivery mechanism for achieving state soil and water resource management goals. For example, state block grants fund local program administration for water planning, shore land management and enforcement of the Wetland Conservation Act.

IV. Recent Significant Issues

- *Impaired Waters.* Federal law requires the PCA to identify impaired waters and develop a clean-up plan before allowing discharge of additional pollutants into area waters. A recent court decision has prompted PCA to reevaluate 6 local projects involving wastewater infrastructure and/or business expansion due to their location on or near impaired waters. This issue will continue to be significant both for environmental quality and economic development reasons.
- *CREP.* The Conservation Reserve Enhancement Program is a federal/state/local partnership aimed at reducing pollution and sediment in lakes and rivers by buying easements (land use rights) from landowners on marginal farmland. The 2005 bonding bill appropriated \$23 million to implement Phase II of the program.
- *Dedicated ATV trail parks.* One of the biggest problems DNR faces is keeping the peace between trail users. Trail damage caused by ATVs is serious and widespread. To protect the state trail system and also recognize the rights of ATV owners to have a place to recreate, the DNR is making an inventory of all forest roads and trails and designating them as open or closed to motorized use.

- *Ethanol payments.* In an effort to expand the market for state grown corn, the state dedicated \$35 million per year for 10 years to subsidize the construction of ethanol plants. Originally intended to encourage groups of farmers to pool their resources and build locally owned plants, most have now been sold to large corporations (ADM, Cargill, etc.). As the need for production subsidies declines, recently enacted legislation provides that money not used for ethanol payments be used for value-added ethanol product processing and marketing programs.
- *Targets for use of ethanol-blended fuels.* Recent legislation establishes the following petroleum replacement goal: By December 31, 2015, 20% of all liquid fuel sold in Minnesota will be derived from renewable resources. The Department of Agriculture, in consultation with other agencies and the petroleum and automobile industries is directed to implement strategies that promote widespread use of renewable fuels.
- *New dedicated funding for environmental programs.* Proposals were considered in the last four legislative sessions to dedicate of 3/16ths of 1 percent of taxable sales to environmental programs. This proposal would have statewide budget implications since the sales tax is already collected and being used elsewhere.
- *Non-Point Source Pollution fees.* Proposals to broaden fees to include non-point polluters have been considered in light of the fact that the majority of pollution currently comes from small users. Developing an equitable small-user fee will be important to continuing PCA's pollution control efforts.
- *PCA/OEA Merger.* The Office of Environmental Assistance was recently merged into the Pollution Control Agency to provide better integration of regulatory, financial and technical assistance pollution control programs. While only minor budget savings were realized through the merger, more coordinated programming may result in more effective use of available funds.
- *Allocating funds from the Environmental Trust Fund.* The Environmental Trust Fund currently provides \$18 million per year for environmental projects. In 10 years, that number will grow to \$60-\$70 million per year. Currently, the Legislative Advisory Commission (LCMR) makes recommendations once during the biennium to the full legislature who appropriates funds for specific projects. Recent legislation mandates a study of the LCMR process and sunsets their authority to recommend Trust Fund expenditures effective June 30, 2006. The process used to allocate Trust Fund proceeds will become increasingly important as available project dollars increase.
- *Decreased Reliance on the General Fund for Environmental Programs.* Due to budget constraints, funding for environmental programs has become increasingly reliant on non-general fund sources of revenue. In the coming biennium, the General Fund funds only 32% of current spending by environmental agencies. Examples of alternate funding sources include increased use of the solid waste tax, more reliance on School Trust Funds and expanded use of user fees. It is important that these expenditures receive the same level of review as general fund expenditures in order to ensure the continued efficiency and effectiveness of programs.

V. Scope and Financing (Economic Development)

To promote a healthy economy, the state provides tax incentives and financing for business expansions and job-related training, rehabilitation, and workers compensation services for workforce development. This area also includes the unemployment insurance program, tourism and the world trade office.

VI. Background (Economic Development)

Outcomes & Indicators

- Ongoing efforts to develop Minnesota's workforce will result in improvements in the quality of Minnesota's jobs. Existing efforts to expand exports and encourage domestic and international travel within the state will also contribute to a strong, sustainable, economy.
- Minnesota's laws governing employers and employees will ensure a safe and productive environment in all Minnesota workplaces.
- The need for decent, safe, affordable homes and stronger communities will be met by providing housing opportunities for households not being adequately served by the private market alone.

Intergovernmental Relationships

- All levels of government have strong interests and important roles to play in the economic development arena. Over the past 20 years the number of collaborative partnerships between different levels of government has grown dramatically. The trend in the majority of agencies is for the state to set policy, provide resources, and monitor, analyze, and distribute information, and rely on local government to use this information to implement the state programs locally.
- Local governments are primarily responsible for distributing federal Section 8 housing certificates and vouchers, the primary source of affordable housing funding for the lowest income Minnesotans.
- The Minnesota Workforce Center system provides co-location for many state, local and private employment services in 52 locations across Minnesota.

VII. Recent Significant Issues

- *Minimum Wage Increase* The minimum wage was increased from \$5.15 to \$6.15 effective August 1, 2005.

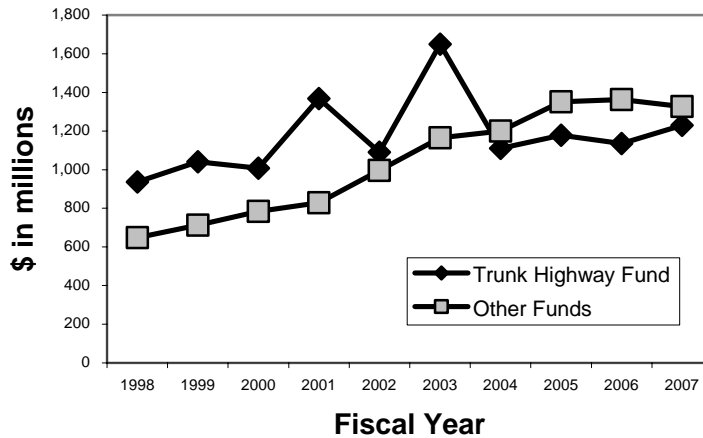
- *Public Facilities Authority Receives \$46,280,000* in the recent bonding bill to match federal grants for the state's water pollution control revolving fund, the drinking water revolving fund, the wastewater infrastructure fund (WIF), and for Total Maximum Daily Load Grants.
- *Bioscience Infrastructure* received \$55,226,000 to build on the Governor's past efforts to strengthen the collaborative efforts between the Mayo Clinic and the University of Minnesota, and to develop new bioscience infrastructure in the state.
- *The Methamphetamine Laboratory Clean-Up Revolving Loan Program* was created and \$250,000 was appropriated to help local governments deal with this growing public health problem.
- *The International Economic Development Zone* was created and \$750,000 was appropriated for incentive grants for businesses to relocate in the zone.

FY 2006-07 Biennial Budget Overview by Omnibus Bill Transportation

I. Expenditure Summary (\$ in millions)

| | General Fund | | | | All Funds | | | |
|------------------------------|--------------|--------------|--------------------|---------------|----------------|----------------|--------------------|---------------|
| | FY 2004-05 | FY 2006-07 | \$ Difference | % of Total | FY 2004-05 | FY 2006-07 | \$ Difference | % of Total |
| | | | FY 06-7 vs FY 04-5 | FY 2006-07 | | | FY 06-7 vs FY 04-5 | FY 2006-07 |
| <u>Transportation</u> | | | | | | | | |
| Metropolitan Transit Council | 112.1 | 156.3 | 44.2 | 76.2% | 361.9 | 403.1 | 41.2 | 8.0% |
| Public Safety Dept | 14.3 | 10.5 | (3.8) | 5.1% | 342.0 | 349.7 | 7.7 | 6.9% |
| Transportation Dept | 32.4 | 38.4 | 6.0 | 18.7% | 4,134.2 | 4,301.9 | 167.7 | 85.1% |
| Total Transportation | 158.7 | 205.2 | 46.5 | 100.0% | 4,838.1 | 5,054.6 | 216.6 | 100.0% |

Transportation



II. Scope and Financing

This portion of the state budget provides for the design, construction, maintenance, and management of state highways and bridges, financing of county state aid and municipal state aid roads, state aid for metropolitan and Greater Minnesota transit operations, and the development and maintenance of airports. It also includes the transportation-related functions of the Department of Public Safety. A discussion of public safety activities is found later in this document.

Most transportation funding is found outside of the General Fund. Article XIV of the Minnesota Constitution provides that all revenues derived from the taxation of motor vehicles and the taxation of motor fuel must be deposited in the Highway User Tax Distribution (HUTD) Fund. The proceeds of the HUTD Fund are constitutionally divided with 62 percent going to the Trunk Highway Fund for support of the state owned road system, 29 percent to the County State Aid Highway (CSAH) Fund for the road system developed and maintained by counties and municipalities under 5,000 population, and 9 percent to the Municipal State Aid Street (MSAS)

Fund for the road system developed and maintained by municipalities with population greater than 5,000.

Certain activities in the Department of Public Safety are funded through the Trunk Highway or HUTD Funds. These activities include the State Patrol and Traffic Safety. Starting with the 2006-07 biennium, the Legislature directed that fees and charges that support Driver and Vehicle Services program will no longer be deposited in the Trunk Highway Fund but in separate special revenue accounts, and this program will be essentially funded out of these accounts.

The General Fund supports certain non-highway, multi-modal activities including the railroad and waterways activities, motor carrier regulation, and certain activities in the Department of Public Safety, such as Capitol Security and administrative functions. It also supports the development and operations of transit services in the Twin Cities metropolitan area and in Greater Minnesota. Beginning in FY2003, the legislature replaced funding for Metro Transit and Greater Minnesota Transit that had formerly been provided through local property taxes with dedications from revenues of the Motor Vehicle Sales Tax that will be 21.5 percent and 1.43 percent, respectively for the 2006-07 biennium.

III. Background

Outcomes & Indicators

Agencies in this budget area have presented their key outcome indicators during the Departmental Results process.

Mn/DOT's current performance goals

- To ensure that corridors of statewide significance link the state's regional trade centers.
- To streamline the highway construction and maintenance process while improving quality and cost-effectiveness.
- To increase travel options for moving people and goods.
- To listen to our customers and respond with accurate, timely and reliable information.
- To sustain an infrastructure that meets customer needs.
- Customer satisfaction with road maintenance.

Met Council's current performance goals

- The Twin Cities region is one of the best places to live, work, raise a family and do business
- Increase lifecycle and affordable housing
- Preserve and protect natural resources
- Support rural communities and preserve agricultural lands
- Provide greater transportation choices linked to development patterns and jobs
- Increase reinvestment in fully developed and older communities; invest in new, developing communities; and focus growth and redevelopment in urban and rural centers and along corridors

Intergovernmental Relationships

Mn/DOT has important relationships with both the Federal government and with local governments involving highways, transit and other transportation activities. At the federal level, Congress in July 2005 reauthorized surface transportation programs until September 30, 2009. This reauthorization should have happened two years ago, and in the interim, a series of short-

term extensions to the previous six-year funding bill have been made. The amount of funds that the state of Minnesota will receive is about \$3.5 billion through 2009, an increase of about 46 percent over the previous six-year bill. Mn/DOT notes that the funding increases have long been anticipated, and Mn/DOT's current and long-range highway construction programs already reflect these higher funding levels.¹⁰

Mn/DOT also administers funds for the CSAH and MSAS system. These funds receive additional resources if constitutional taxing sources are increased.

DPS has major relationships with local governments and is looking to the Federal government to supply additional funding for homeland security. The amount and scope of this funding has grown significantly since 9/11 and has provided important funds for projects such as shared radio infrastructure, first responder training and equipment acquisition.

IV. Recent Significant Issues

In 2005, the legislature debated a number of proposals to change transportation funding in Minnesota. The legislature passed a transportation bill in the regular session that Governor Pawlenty vetoed since it included an increase in the gas tax, as well as for other reasons. The bill also included an amendment to the state constitution that will be voted on in 2006 to fully dedicate the proceeds of the motor vehicle sales tax to transportation by 2012. Despite the Governor's veto of the entire bill, the constitutional amendment provisions are not affected and the vote will take place.

During the 2005 special session, the legislature passed a transportation funding bill that included the following elements:

- Increased funding for rural transit by \$3 million per year and for metropolitan transit by \$20 million per year.
- Changed the funding mechanism for the Driver and Vehicle Services program in the Department of Public Safety. Fees and charges related to drivers' licenses and motor vehicle titles and transfers will no longer be deposited in the Trunk Highway or Highway User Tax Distribution funds but instead to new special revenue fund accounts. Spending will now be appropriated from the new funds rather than the highway funds. The amount of resources available for highway spending was not changed by this reorganization.

In 2005, Metropolitan Council Transit began its first year of full operations on the Hiawatha Light Rail Transit line, linking downtown Minneapolis with the Mall of America via the MSP airport. The line had opened in stages during 2004.

In the 2005 regular session, the legislature completed work on a bonding bill that had originally been expected to be passed in the 2004 session. Significant transportation projects included in the bill are:

- \$40 million for Local Bridges and \$10 million for Local Road Improvements
- \$2 million for Port Development
- \$37.5 million for the Northstar Commuter rail line
- \$2.5 million for the Rail Service Improvement program
- \$10 million for Cedar Avenue Bus Rapid Transit

¹⁰ <http://www.dot.state.mn.us/newsrels/05/08/10highwaybill.html>

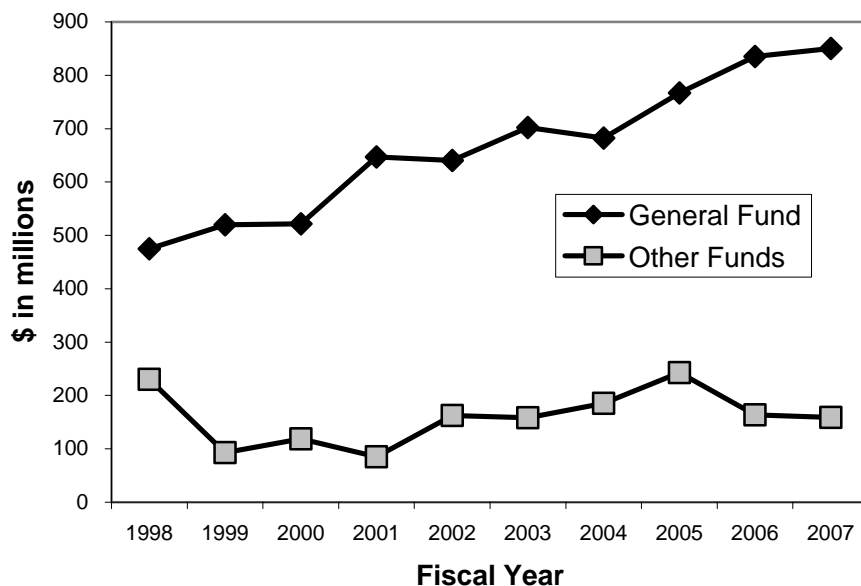
- \$5.25 million for Central Corridor Transit Way
- \$1 million for Red Rock and Rush Line corridors

FY 2006-07 Biennial Budget Overview by Omnibus Bill Public Safety

I. Expenditure Summary (\$ in millions)

| | General Fund | | | | All Funds | | | |
|-----------------------------|----------------|----------------|-------------------------------------|--------------------------|----------------|----------------|-------------------------------------|--------------------------|
| | FY 2004-05 | FY 2006-07 | \$ Difference FY 06-7 vs FY 04-5 | % of Total FY 2006-07 | FY 2004-05 | FY 2006-07 | \$ Difference FY 06-7 vs FY 04-5 | % of Total FY 2006-07 |
| <i>Public Safety</i> | | | | | | | | |
| Corrections Dept | 727.8 | 825.9 | 98.2 | 49.0% | 788.4 | 869.5 | 81.1 | 43.3% |
| Court of Appeals | 15.8 | 16.4 | 0.5 | 1.0% | 15.8 | 16.4 | 0.5 | 0.8% |
| Public Defense Board | 107.5 | 122.5 | 15.0 | 7.3% | 107.7 | 122.5 | 14.8 | 6.1% |
| Public Safety Dept | 141.3 | 162.9 | 21.6 | 9.7% | 480.2 | 412.1 | (68.1) | 20.5% |
| Supreme Court | 74.9 | 84.8 | 9.9 | 5.0% | 84.8 | 94.3 | 9.5 | 4.7% |
| Trial Courts | 371.9 | 462.2 | 90.3 | 27.4% | 372.9 | 462.8 | 90.0 | 23.0% |
| All Others | 10.4 | 10.3 | (0.1) | 0.6% | 28.3 | 30.5 | 2.2 | 1.5% |
| Total Public Safety | 1,449.7 | 1,685.0 | 235.4 | 100.0% | 1,878.0 | 2,008.1 | 130.1 | 100.0% |

Public Safety



II. Scope and Financing

Criminal Justice. This area includes the Department of Corrections, crime-related programs of the Department of Public Safety (Division of Emergency Management, the Bureau of Criminal Apprehension; the state Fire Marshall; Alcohol and Gambling Enforcement; Crime Victims Services and local Law Enforcement grants) as well as state courts and public defenders.

In recent years, a number of agencies in this budget area (primarily Public Safety, Corrections and the Courts) have moved forward with the implementation of a statewide-integrated criminal justice information system, known as CrimNet. This system is designed to allow law

enforcement officials to exchange criminal-justice related information between agencies expeditiously so that current and relevant information is available to people that need it to protect Minnesota's citizens from violence and crime.

The state has traditionally paid the full costs for the Supreme Court and the Court of Appeals and has shared costs with the counties for trial courts. The state has just finished the process of taking over virtually all trial courts costs with the final takeover of judicial districts northeast of the Twin Cities metropolitan area. To offset reduced local funding responsibilities in districts that have been taken over by the state, reductions have been made in tax aids paid to the counties in those districts. Other cost factors include salary increases for judges, new judges, and investments in technology infrastructure.

III. Background (Corrections)

Outcomes & Indicators

Crime rates. Recent data shows general declines in crime rates over the last decade. In 2003, the national violent crime index rate per 100,000 inhabitants was 475.0, and the state rate was 262.6. The national rate declined 3.9 percent from 2002 and the state rate declined 1.7 percent over that time period. (FBI: Crime in the United States, 2003)

Costs per Prison Day. Minnesota prison costs per day per inmate have moved from 3rd highest (1999) in the country to 8th highest (2002). (The 2002 Corrections Yearbook, Criminal Justice Institute, Inc.) The high rate is mostly attributed to the high ratio of felons committing serious person offenses who are in the Minnesota prison system. Other states tend to incarcerate higher ratios of non-person offenders in their state prisons.

Intergovernmental Relationships

Counties generally provide jail space to non-felony offenders and others with short-term sentences. Most county jails are full.

Counties partially fund community corrections activities, such as supervised release and probation. There are three separate service delivery and funding mechanisms for providing these services within counties. The state provides partial funding for a wide variety of correctional activities in 31 Community Corrections Act (CCA) counties. The state also provides for the supervision of offenders on probation, supervised release, and parole in the 56 counties that are not part of CCA. In some of these counties, the state pays for up to half the cost of probation officers working for the counties.

IV. Recent Significant Issues

- Increasing prison sentences, supervision, and treatment for certain classes of offenders, especially sex offenders, methamphetamine offenders, and drunk drivers.
- Finding bedspace for felons committed to the Commissioner of Corrections. The state prison population has increased about 45% since 1999. State prison beds are full, so the state must contract with counties or private prisons for bedspace. Additional prison beds have been authorized in the capital budget. Growth in the number of offenders will continue to be a pressure for both the operating and capital budgets.
- Ensuring that the Minnesota Sentencing Guidelines comply with requirements recently set by the U.S. Supreme Court.

- Raising fines and other surcharges on criminal and traffic violations to partially offset increased costs of the criminal justice system.
- Reducing daily costs, usually referred to as per diems, of inmates in the state prison system.
- Developing the CriMNet system, which is intended to increase the sharing of vital criminal justice information across jurisdictions, branches, and levels of government by criminal justice agencies in the state.
- Reducing caseloads of probation officers across the state to meet caseload standards. Continuous increases in cases have negated most of the caseload reduction efforts.

V. III. Background (Public Safety)

Outcomes & Indicators

Public Safety's current performance goals are:

Goal: Implement Prevention Strategies to Reduce Fatalities in Minnesota Related to Traffic Crashes and Fires

- Decrease traffic deaths by increasing seat belt usage
- Decrease fire deaths by providing educational programs
- Maintain zero deaths from utility line excavations by offering educational opportunities

Goal: Coordinate Homeland Security and Emergency Preparedness for Minnesotans

- Increase the capacity of state and local governments in preparing for and responding to all types of disasters by training emergency responders
- Increase collaboration efforts to improve public safety communication and interoperability by expanding the Statewide Radio System

Goal: Support the Criminal Justice System Through the Use of Technology

- Provide vital assistance to the criminal justice community
- Provide essential electronic data to criminal justice partners

Goal: Increase Compliance With Minnesota Laws Relating to Driving, Fires, Pipeline Regulations, and Alcohol and Gambling

- Enforce Minnesota roadway laws to decrease the number of alcohol related fatalities
- Enforce Minnesota utility identification regulations by increasing the number of calls to the Gopher State One-Call system for utility identification
- Enforce Minnesota alcohol and gambling statutes by increasing alcohol establishment compliance checks

VI. Recent Significant Issues

Within public safety, major legislative issues in the last few years have included measures to address methamphetamine addiction, sex offender penalties and registration, and building the information sharing CriMNet system.

In the 2005 session, the legislature funded a number of important initiatives in the department of Public Safety. These initiatives include improvements and upgrades to criminal justice information systems such as the Automated Fingerprint Information System and Livescan terminals, funding to analyze additional DNA samples in the BCA lab, improved tracking of Predatory Offenders, and an additional ten BCA agents to address the methamphetamine issue statewide.

Additional funding was also provided for Battered Women's and other Crime Victim programs. Funding was also added for both the Criminal Gang Strike Force, which will be realigned with Drug Task Forces statewide, as well as for the Financial Crimes Task Force.

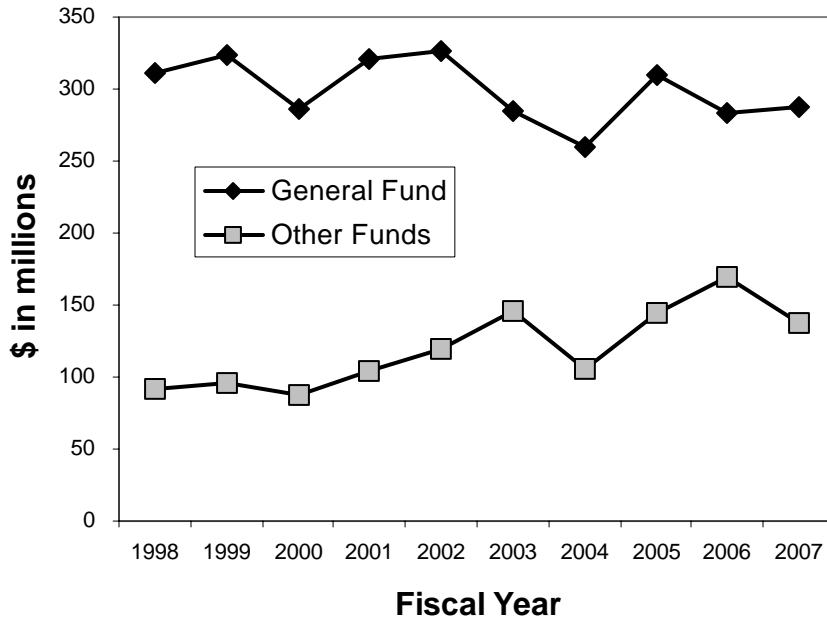
The statewide 911 telephone fee was increased from 40 cents per month per phone line to 65 cents per month. The additional revenue will be used to increase grants to Public Safety Answering Points that handle 911 calls, and also to provide funding for the development of statewide backbone of the 800 mhz radio system into the Rochester and St Cloud areas of the state.

FY 2006-07 Biennial Budget Overview by Omnibus Bill State Government

I. Expenditure Summary (\$ in millions)

| | General Fund | | | | All Funds | | | |
|-------------------------------|--------------|--------------|-------------------------------------|--------------------------|--------------|--------------|-------------------------------------|--------------------------|
| | FY 2004-05 | FY 2006-07 | \$ Difference FY 06-7 vs FY 04-5 | % of Total FY 2006-07 | FY 2004-05 | FY 2006-07 | \$ Difference FY 06-7 vs FY 04-5 | % of Total FY 2006-07 |
| State Government | | | | | | | | |
| Administration Dept | 34.1 | 26.7 | (7.4) | 4.6% | 72.2 | 67.3 | (4.8) | 7.7% |
| Attorney General | 53.3 | 45.5 | (7.8) | 7.8% | 62.1 | 53.3 | (8.8) | 6.1% |
| Employee Relations Dept | 12.9 | 12.3 | (0.7) | 2.1% | 63.2 | 63.9 | 0.7 | 7.3% |
| Finance Dept | 30.8 | 29.6 | (1.2) | 5.1% | 44.7 | 43.8 | (0.9) | 5.0% |
| Governors Office | 7.3 | 7.2 | (0.1) | 1.2% | 7.8 | 7.7 | (0.1) | 0.9% |
| Legislature | 130.6 | 116.1 | (14.5) | 19.9% | 131.7 | 116.3 | (15.3) | 13.3% |
| Military Affairs Dept | 26.9 | 36.0 | 9.1 | 6.2% | 102.1 | 134.5 | 32.4 | 15.3% |
| Pensions and Retirement | 53.4 | 56.0 | 2.7 | 9.6% | 53.4 | 56.0 | 2.7 | 6.4% |
| Revenue Dept | 186.6 | 202.8 | 16.2 | 34.7% | 201.2 | 216.0 | 14.8 | 24.6% |
| Secretary of State | 12.2 | 12.0 | (0.2) | 2.1% | 20.7 | 52.1 | 31.5 | 5.9% |
| State Auditor | 16.7 | 16.5 | (0.2) | 2.8% | 16.8 | 16.5 | (0.2) | 1.9% |
| Veterans Affairs Dept | 8.7 | 8.5 | (0.2) | 1.5% | 9.8 | 11.0 | 1.2 | 1.3% |
| All Others | 11.2 | 14.4 | 3.2 | 2.5% | 33.5 | 38.8 | 5.3 | 4.4% |
| Total State Government | 584.8 | 583.7 | (1.2) | 100.0% | 819.0 | 877.4 | 58.4 | 100.0% |

State Government



II. Scope and Financing

Agencies financed through this portion of the state budget include constitutional officers, the Legislature, four major staff agencies including the departments of Administration, Employee Relations, Finance, and Revenue, as well as Military Affairs, Veterans Affairs, and a number of

other boards and commissions. Collectively these offices and agencies provide the basic infrastructure for state policy development and business operations.

The State Government portion of the budget funds the general operations of the government, including levying and collection of non-school taxes, protection of public assets and resources, and the institutions of the executive and legislative branches of government.

For the 2006-07 biennium, spending on these agencies will total approximately \$877 million, of which \$584 million (67%) comes from the state general fund. This represents 1.9 percent of the State of Minnesota's general fund budget. The remainder of the funding is financed through special sources, including service fees charged to other state agencies for centralized services such as transportation, computer services and communications. These agencies will also receive approximately \$111 million from the federal government, primarily for support of military reserve preparedness and facilities in the Department of Military Affairs.

General fund appropriations to these agencies have been decreased during recent legislative sessions to alleviate biennial general fund shortfalls. For the 2006-07 biennium, overall funding for administrative state agencies was reduced by an average of 9%. At the same time, additional investments have been made in tax compliance activities, which will generate an estimated \$90.7 million for the 2006-07 biennium.

III. Background

Outcomes & Indicators

- Minnesota ranked 33rd in the nation in the number of state government employees per 10,000 residents (U.S. Census Bureau, July 2005).
- Minnesota's expenditures per capita for governmental administration were 15% below the national average, a significant reduction from higher than average expenditures in the year 2000 (update based on 2003 Census data).
- Minnesota state employee turnover in 2003 was 4.2 percent compared to a 1999 average of 8.1 percent for all states (Department of Employee Relations department results web site).
- Minnesota ranked 20th overall in a study by the Center for Digital Government of eight areas of technological applications in the 50 states (2002 Digital State Survey).
- Minnesota ranked 8th in the digital democracy category of the study by the Center for Digital Government (2002 Digital State Survey).
- Minnesota ranked in the top 7 states overall in the 50 state Government Performance Project grading of states' performance in managing money, people, infrastructure, and information, (Governing Magazine, February 2005).
- Minnesota has achieved top ratings from two major bond-rating agencies and an Aa1 rating, the second highest bond rating, from the third agency.
- Lease negotiations and reverse auction purchasing for state agencies have yielded savings of over \$2.3 million through the first two quarters of the 2005 fiscal year (Department of Administration department results website).

Critical Factors

- *Technology.* Information technology is an increasingly important function for state agencies, whether it's used to manage information, deliver services, or simplify operations. Managing this growth will continue to be a challenge as uses and expectations continue to grow.
- *Workforce.* State employees are getting older – the median age rose from 38 in 1984 to 45 by 2000. By the end of this decade, one-third of all state employees will be above the typical retirement age (State Demographer).

Intergovernmental Relationships

This area has relatively few relationships with other levels of government. Only State Auditor's Office, the Attorney General, the Office of Administrative Hearings, and the Department of Employee Relations have regular interaction with local government. Relatively small amounts of this area's funding is passed on to localities as grants, and with the exception of federal funding for Military Affairs, not much is received in federal funds, either.

IV. Recent Significant Issues

- In July of 2004, the Minnesota Advantage Health Plan, the cost-tiered employee health benefits plan serving 120,000 members of the State Employee Group Insurance Program, was awarded the 2004 Innovations Award from the Council of State Governments Midwest Region. This plan has created new levels of competition and incentives for efficiency in the health care market and has saved the state and its employees millions of dollars.
- The 2005 Legislature established the Office of Enterprise Technology (OET) that will provide a statewide, coordinated approach to the information technology used by the State of Minnesota. The office is integral to the Executive branch's Drive to Excellence, an effort to provide fast and reliable services to citizens.
- In response to the ongoing issue of the growing number of Minnesota's National Guard called to active military duty, the 2005 Legislature created a broad package of initiatives to support Minnesota military members and veterans including; full funding of tuition reimbursement for National Guard Members, reenlistment bonuses, and a new "Support Our Troops" license plate.
- State Government weathered its first ever eight-day partial state government shutdown in July 2005 temporarily furloughing nearly 9,000 state employees.

V. Useful Links and Resources

Performance measures for individual agencies:

<http://www.departmentresults.state.mn.us>.

Census data:

<http://www.demography.state.mn.us/>

Drive to Excellence:

<http://www.excellence.state.mn.us/>

