

An Overview of State Government Spending

**Minnesota Department of Finance
End of Session 2007**

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 information is grouped by omnibus appropriation bill category, reflecting how the Legislature considers and acts on the budget. An introduction to statewide information, can be found in a separate document on our website, titled "State Budget at a Glance."

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:

Expenditure Summary

The spending data shown here reflects current law, as of the close of the 2007 legislative session. No assumptions or projections on future gubernatorial recommendations or legislative action are included.

What is the recent spending, growth, and composition of spending within each area?

How has spending changed over the last ten years?

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?

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?

Recent Significant Issues

Useful Links and Resources

Table of Contents

K-12 Education	1
Higher Education	9
Property Tax Aids & Credits	14
Health & Human Services	18
Public Safety	23
Transportation	27
Environment, Energy & Natural Resources	31
Agriculture & Veterans	35
Economic Development	40
State Government	43

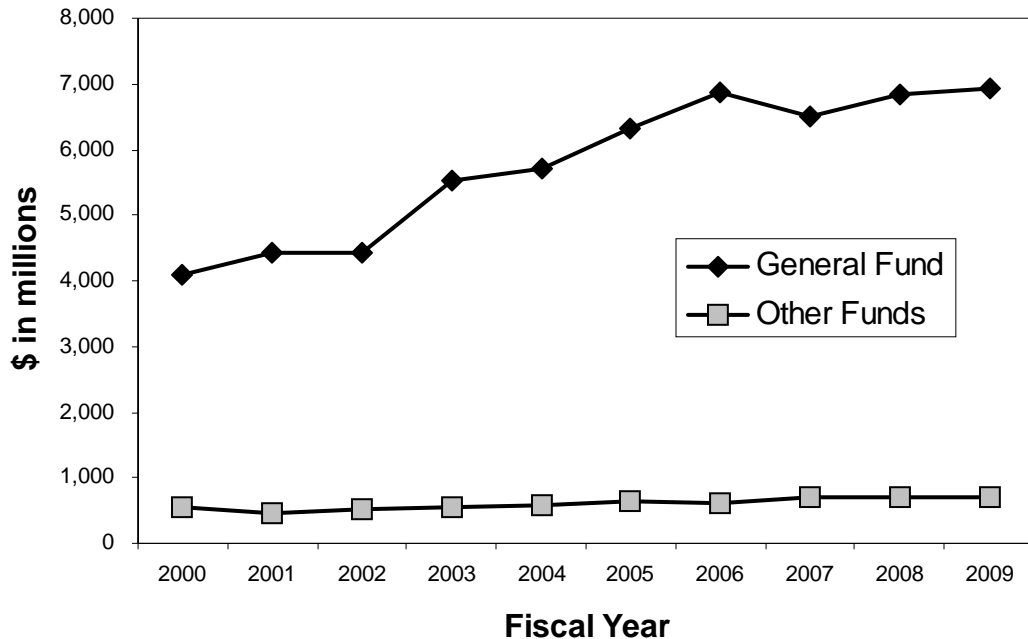
FY 2008-09 Biennial Budget Overview by Omnibus Bill K-12 Education

I. Financing Summary

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 Minnesota State Academies for the Blind and the Deaf in Faribault, and the Perpich Center for Arts Education in Golden Valley.

	General Fund				All Funds			
	FY 2006-07	FY 2008-09	\$ Difference FY 08-9 vs FY 06-7	% of Total FY 2008-09	FY 2006-07	FY 2008-09	\$ Difference FY 08-9 vs FY 06-7	% of Total FY 2008-09
<u>K-12 Education</u>								
Education Aids	13,281.5	13,697.8	416.3	99.4%	14,588.5	15,075.3	486.8	99.4%
Education, Dept of	45.6	44.8	(0.8)	0.3%	45.5	44.8	(0.7)	0.3%
Minnesota State Academies	21.9	23.7	1.8	0.2%	26.1	28.1	2.1	0.2%
Perpich Center For Arts Education	13.3	14.0	0.7	0.1%	16.3	16.5	0.3	0.1%
Total K-12 Education	13,362.3	13,780.4	418.1	100.0%	14,676.4	15,164.8	488.4	100.0%

K-12 Education



*See appendix for more detailed information on Education Aids

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 6.5%.

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 2008-2009 biennium, K-12 education accounts for 39.9% of the state's general fund spending, and 27.4% of the state's all fund spending. In the current biennium, state spending on K-12 is expected to grow by approximately 3.1% over the previous biennium to a total of \$13.78 billion. This percentage would have been higher were it not for K-12 accounting shift buy backs that occurred in FY 2006-2007. Between November 2004 and February 2006 the state bought back nearly \$1.1 billion in shifts, which inflated spending in those years.

Total School Revenues

The clearest picture of school funding comes from looking at revenue per student, because this measure removes the effect of changes in enrollment and removes distortions due to school shifts. While implementing or buying back school shifts result in significant one-time costs or savings, they only serve to change the financing mix of funds at the school district level, and not the overall amount. From 1991 to 2009, district general fund revenue per student (as measured by average daily membership, or ADM) is expected to grow from \$4,767 to \$9,651 - an increase of 102.4% (28.2% after accounting for inflation).

District General Fund Revenue per ADM in Current and Constant Dollars

Fiscal Year	---- Current Dollars per Pupil ----					----Constant (2006) Dollars per Pupil** ----		
	Revenue	State Aid	Levy	Annual	Cumulative	Revenue	Annual	Cumulative
	Per ADM	Per ADM	Per ADM	Percent	Percent	per ADM	Percent	Percent
	current \$	current \$	current \$	Increase	Increase	(2006 \$)	Increase	Increase
1991	4,767	3,210	1,610	n/a	n/a	7,084	n/a	n/a
1992	4,890	3,162	1,782	2.6%	2.6%	7,042	-0.6%	-0.6%
1993	5,010	3,167	1,899	2.5%	5.1%	6,996	-0.6%	-1.2%
1994	5,279	3,249	2,030	5.4%	10.7%	7,183	2.7%	1.4%
1995	5,586	3,554	2,032	5.8%	17.2%	7,389	2.9%	4.3%
1996	5,746	3,644	2,102	2.9%	20.5%	7,400	0.1%	4.5%
1997	5,792	3,629	2,163	0.8%	21.5%	7,252	-2.0%	2.4%
1998	6,068	3,886	2,182	4.8%	27.3%	7,464	2.9%	5.4%
1999	6,276	4,409	1,867	3.4%	31.6%	7,589	1.7%	7.1%
2000	6,650	4,956	1,693	6.0%	39.5%	7,815	3.0%	10.3%
2001	7,057	5,467	1,590	6.1%	48.0%	8,021	2.6%	13.2%
2002	7,247	5,582	1,665	2.7%	52.0%	8,093	0.9%	14.2%
2003	7,712	7,154	558	6.4%	61.8%	8,426	4.1%	19.0%
2004	7,898	7,166	732	2.4%	65.7%	8,445	0.2%	19.2%
2005	7,996	7,161	835	1.2%	67.7%	8,300	-1.7%	17.2%
2006	8,319	7,435	884	4.0%	74.5%	8,319	0.2%	17.4%
2007	8,794	7,675	1,119	5.7%	84.5%	8,606	3.4%	21.5%
2008	9,384	8,127	1,258	6.7%	96.8%	8,999	4.6%	27.0%
2009	9,651	8,190	1,461	2.8%	102.4%	9,078	0.9%	28.2%

Over half of the funding for education is spent on teacher salaries and benefits. Other major district expenses include transportation, administration, curriculum, and facilities.

Recent Financing Changes

The 2007 legislative session brought several significant changes to K-12 funding including increases to the basic formula allowance, special education funding and technology:

- 1) The basic formula allowance was increased by 2% for FY 2008 and 1% for FY 2009 bringing the basic formula allowance per pupil up to \$5,074 in FY 2008 and \$5,124 for FY 2009 and later.
- 2) Special education funding was increased by \$329 million over the forecast base for FY 2008-09. This represents a 25.5% increase over the forecast base for the biennium. The formula for special education payment was also changed to reflect current student populations instead of second prior year student populations.
- 3) Significant onetime funding was used for school technology and deferred maintenance costs. A total of \$91 million will be provided to districts over the course of the FY 2008-09 biennium for these purposes.
- 4) The pupil unit weight for kindergarten students increased from 0.557 to 0.612 for FY 2008-09 and later. This provides increased funding for kindergarten students and is considered the first step toward funding all day kindergarten. The cost for the increased pupil unit weight is \$32.5 million for the biennium. This funding will cover 10% of the cost of extending the kindergarten day from a half day to a full day program. There is no requirement that the funding be used to extend the kindergarten day.

Background

Outcomes & Indicators

- **Minnesota Comprehensive Assessment II.** In 2007, 61% percent of students tested were proficient in math and 68% percent of students tested were proficient in reading.
- **ACT Scores.** Minnesota students have the highest average ACT scores in the nation among states where the majority of students take the test. For the class of 2006 the state average composite score was 22.3.
- **Graduation Rates.** The statewide graduation rate for 2005 was 90% according to the MDE statewide report card.
- **Class Size.** According to Minnesota Department of Education data, Minnesota's average pupil/teacher ratio is 15.9 in 2007 compared to 17.1 in 1996.
- **Teacher Compensation.** For the 2004-05 school year average teacher compensation in Minnesota ranked 16th in the nation at \$46,906.
- **Adequate Yearly Progress (AYP).** No Child Left Behind (NCLB) requires that states set adequate yearly progress (AYP) goals for academic indicators. Of 1,918 Minnesota schools earning an AYP status, including charter schools and alternative learning programs, 1,189 achieved AYP while 729 did not. Of those schools not making AYP, 110 face federal consequences under NCLB. Last year, 1,405 made AYP and 483 did not.
- **School Readiness.** Nationwide research in school readiness supports a relationship between positive early childhood experiences, school success and life achievements. To investigate school readiness in Minnesota, the Department of Education conducted a school readiness indicator study in 2006 to evaluate the skills, knowledge, behaviors, and accomplishments that children know and can do as they enter kindergarten. Children were assessed in the areas of physical development, the arts, personal and social development, language and literacy, and mathematical thinking. The study results indicate that of the five areas, children had the highest levels of proficiency ratings in physical development and the arts and the lowest levels of proficiency ratings in the areas of mathematical thinking, and language and literacy. According to the study, increases in proficient ratings were demonstrated in each of the five developmental domains from the previous representative sample study.

Intergovernmental Relationships

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.

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.

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 focuses on students from families in poverty and is the largest source of federal money in K-12 totaling approximately \$108 million in 2006.
 - New testing requirements including annual math and reading tests for all public school students grades 3-8 began 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 public education (FAPE) to all children in the least restrictive environment (LRE).
 - At the local level, school personnel along with the child’s parents develop an 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 intensive early childhood care and education programs.

Recent Significant Issues

- **Demographics and Enrollment** – 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. Total enrollment in K-12 public schools is relatively stable, with approximately 840,000 students enrolled as of October 2006 (with an additional 81,000 nonpublic and 17,600 home-schooled). However, this statement masks the fact that enrollment in some regions of the state is eroding while other regions are experiencing growth.
- **High School to College Transition** – There has been growing concern that high schools are not adequately preparing students for college. As a result, greater emphasis is being placed on expanding opportunities for students to participate in Advanced Placement, International Baccalaureate, Post Secondary Enrollment Options and other programs that increase the academic rigor of high school courses.
- **Facilities** – Capital costs for education is primarily a local responsibility. However, as a result of declining enrollment, aging buildings and increasing property values, facility issues have garnered more attention in recent years. Facilities raise an equity issue, as some localities do not have the capacity to construct and maintain school buildings. There are

various mechanisms for state contribution to facilities construction and improvement including, health and safety aid, debt service equalization aid, and alternative facilities aid.

- **English as a Second Language and Limited English Proficiency** – The number of Limited English Proficiency students increased by 30% from 2001 to 2006. The adult education system is also responding to the needs of an increasingly diverse population.
- **Early Childhood Education** – Increased attention has been paid in recent years to family and early childhood education. Emphasis has been placed on school readiness and improving outcomes in school performance through early education and intervention.
- **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; subject specific Graduation Standards in mathematics, language arts, science, social studies, and the arts; and the MDE “5-Star” rating system for comparing individual schools. At the federal level the No Child Left Behind (NCLB) law was implemented, which sanctions schools that do not make Adequate Yearly Progress (AYP) for specific subgroups.
- **Special Education Cross-Subsidy** – 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. The state increase in special education funding in the 2007 legislative session has decreased the size of this cross subsidy from \$537 million in FY 2007 to an estimated \$435 million in FY 2008; however a cross subsidy still remains.
- **School Choice** – 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 these schools. Currently Minnesota has 143 charter schools serving more than 23,500 students.
- **Inflation** – 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 impacts on district taxpayers and restructuring possibilities.
- **Property Taxes** – The 2001 property tax reform package eliminated the local portion of the General Education program, leaving the state responsible for General Education funding. When these changes took effect in FY 2003, the school portion of the local property tax fell by \$950 million statewide or 49.1%. Although state aid has increased significantly in the current and previous biennium, many schools have passed excess operating levies, putting more of the educational costs 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 \$2 billion by the end of FY 2009, an increase of more than 102% since the low point in FY 2003.

Useful Links and Resources

Minnesota Department of Education - <http://education.state.mn.us/mde/index.html>

Minnesota House Research, various education reports and policy papers – No Child Left Behind,

US Department of Education – <http://www.house.leg.state.mn.us/hrd/hrd.htm>

National Center for Education Statistics, US Department of Education

Education Week - <http://nces.ed.gov/>

Minnesota Taxpayers Association, Understanding Education Financing in Minnesota –

<http://www.mntax.org/>

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

General Fund

<u>K-12 Education</u>	FY 2006-07	FY 2008-09	FY 2010-11
Education Aids*	13,281.5	13,697.8	13,618
1. General Education Aids	11,290.7	11,224.2	11,141.2
2. Other General Education	79.2	84.8	86.2
3. Choice Programs	188.2	217.6	242.2
4. Indian Programs	12.1	9.5	9.9
5. Innovation and Accountability	22.8	31.3	30.3
5. Special Student and Teacher	35.5	55.3	24.2
6. Special Education	1,322.3	1,619.4	1,742.7
7. Facilities & Technology	98.1	178.2	65
8. Nutrition Programs	30.4	35.7	36.8
9. Library Programs	23.8	31.2	36.1
10. Early Childhood & Family Support	95.3	118.2	113.2
11. Community Ed & Prevention	5.6	9.1	2.4
12. Self Sufficiency & Lifelong Learning	77.6	83.6	87.6

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 78% of general education aid -- is the Basic Formula (or “Foundation Aid”). Districts receive a certain amount (\$5,074 in FY 2008) for each pupil unit. Other significant components of general education include Referendum Equalization Aid, Compensatory Aid for students from low-income families, Operating Capital Aid, and Sparsity Aid for districts that cover large geographic areas.

Other General Education: Other General Education includes funding for Nonpublic Pupil Aid and Nonpublic Pupil Transportation Aid as well as Abatement Aid.

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

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

Innovation and Accountability: This category includes Statewide Testing and Best Practices Seminars.

Special Student and Teacher Programs: Major programs include First Grade Preparedness, Advanced Placement/International Baccalaureate (AP/IB), “Get Ready, Get Credit”, Collaborative Urban Educator, Youthworks, Student Organizations, Math and Science Academies and Science, Technology, Engineering and Math Grants.

Special Education: The majority of special education funding is Regular Special Education. The second largest amount is special education excess costs. Excess cost aid 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. The boost in FY 2008-09 is due to onetime school technology and operating capital funding

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, After School Community Learning Grants and School Age Care aid.

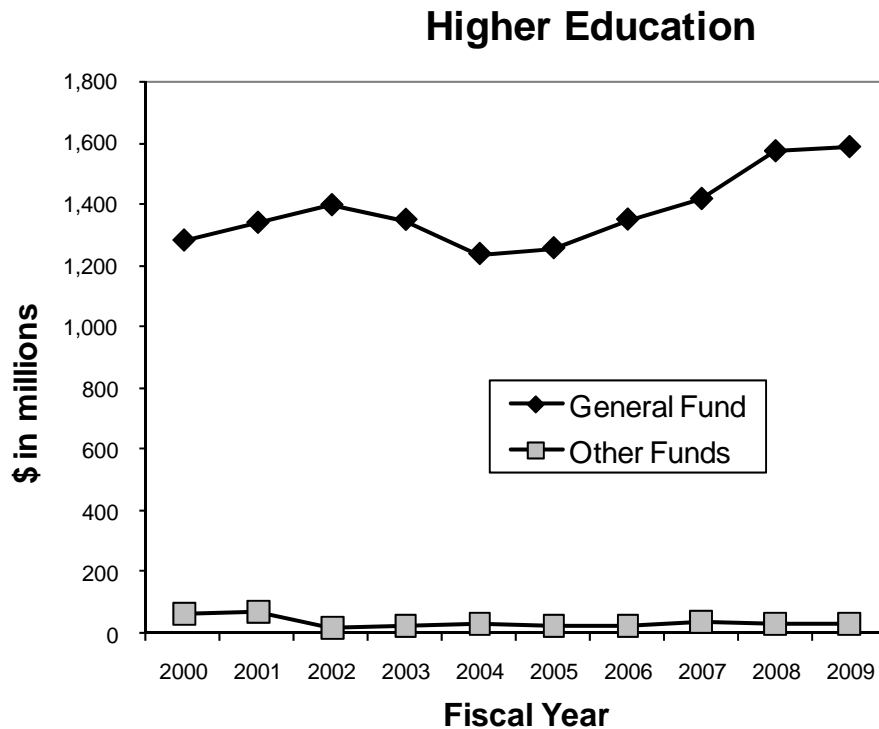
Self Sufficiency & Life Long Learning Adult Basic Education Aid makes up the majority of this total.

FY 2008-09 Biennial Budget Overview by Omnibus Bill Higher Education

I. Financing Summary

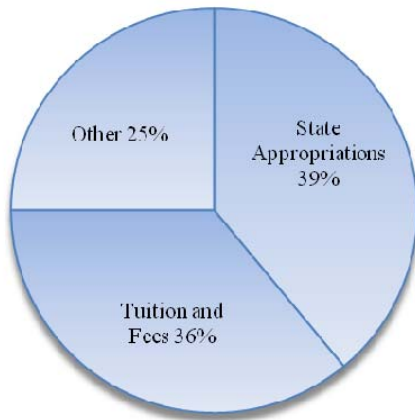
Higher education is financed through a mix of state and federal funds, tuition, private contributions, and institutional funds. For the FY 06-07 biennial budget, the state spent \$2.8 billion dollars on post-secondary education. State appropriations for higher education increased to \$3.2 billion for the FY 2008-09 biennium.

	General Fund				All Funds			
	FY 2006-07	FY 2008-09	\$ Difference FY 08-9 vs FY 06-7	% of Total FY 2008-09	FY 2006-07	FY 2008-09	\$ Difference FY 08-9 vs FY 06-7	% of Total FY 2008-09
Higher Education								
Mayo Medical School	2.8	2.5	(0.3)	0.1%	2.8	2.5	(0.3)	0.1%
MN State Colleges & Universities	1,202.9	1,356.2	153.3	43.0%	1,202.9	1,356.6	153.7	42.2%
Office of Higher Education	346.5	380.7	34.2	12.1%	359.9	391.0	31.1	12.2%
University of Minnesota	1,210.8	1,415.8	205.0	44.9%	1,257.4	1,467.7	210.4	45.6%
Total Higher Education	2,762.9	3,155.2	392.2	100.0%	2,822.9	3,217.7	394.8	100.0%

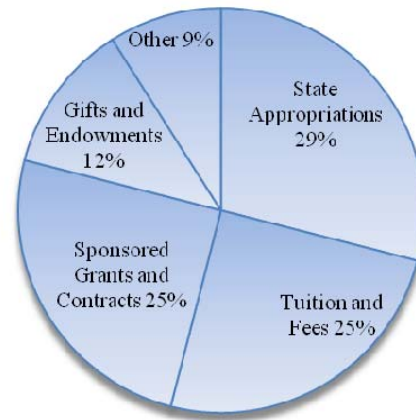


These funds support the education of approximately 387,000 students,¹ who are enrolled in one of the state's twelve four-year public universities, 30 public community and technical colleges, 57 private nonprofit institutions, or 80 for-profit institutions. While most of the state funds go to supporting 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.

State Higher Education Systems: FY2006 Composition of Revenues



MnSCU



University of Minnesota

Tuition and fees paid by students are an important source of funding for higher education. For fiscal year 2006, students at public post-secondary institutions contributed an estimated \$1.1 billion in tuition and fees.²

For fiscal year 2006, Minnesota State Colleges and Universities (MnSCU) had revenues of \$1.5 billion. Of this amount, 39 percent came from state appropriations, 36 percent from tuition and fees (including financial aid), and 25 percent from a variety of smaller revenue streams.

The University of Minnesota has budgeted total revenues of \$2.8 billion for fiscal year 2007: 29 percent from state appropriations,³ 25 percent from tuition and fees (including financial aid), 25 percent from sponsored grants and contracts, 12 percent from gifts, endowments and other restricted sources, and 9 percent from sales and other revenues.

MnSCU and the University also receive a significant amount of funding from the state for capital projects.⁴ MnSCU received \$156 million and \$152 million in state general obligation bond funds in the 2005 and 2006 bonding bills, respectively. The University received \$112 million and \$116 million in state general obligation bond funds in the 2005 and 2006 bonding bills, respectively.

¹ Headcount enrollment for Fall 2006 from Basic Data Series 2006, Minnesota Office of Higher Education (August 2007).

² The tuition and fees total includes federal, state and private financial aid awards to students.

³ State appropriations to the University include funding for the University's Academic Health Center (AHC) from the dedication of \$22.2 million per year of the state's cigarette tax revenues.

⁴ The state generally pays two-thirds of the cost of higher education bonding projects, with the institutions paying the remaining one-third.

The Minnesota Office of Higher Education (OHE) administers state financial aid programs for students and collects, maintains and reports data and analysis on higher education. OHE provides more than \$120 million in need-based financial aid to Minnesota students each year through its core financial aid program, the State Grant program. OHE administers the Minnesota College Savings Plan (the state's 529 plan) and several other smaller programs. The agency also negotiates and administers interstate tuition reciprocity programs.

I. 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 2004, Minnesota's continuation rate of 65.3 percent was 5th highest among all states and almost ten points higher than the national rate of 55.7 percent.⁵

College graduation rate. Minnesota's 2005 completion rate of 58.1 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 55.8 percent.

Affordability.

Minnesota ranked 11th among all states in 2005 in affordability - measured as a percent of family income needed to pay for college expenses minus financial aid. At public two-year colleges in the state an average of 21.9 percent of family income was needed to pay for college expenses net of financial aid. At public four-year colleges and universities, 25.6 percent of family income is needed.

Minnesota's 54 percent of family income needed to pay for education at private four-year colleges and universities, placed it 16th overall and in the upper-middle tier of thirteen states where between 53–61 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 into account) students in the highest income quartile had enough resources to pay for college, but students in the lowest income quartile still paid more than their expected family contribution for college.⁶

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 70 percent of Minnesota's graduating high school seniors who took the ACT test in 2007, the composite score for Minnesota was 22.5—ranking Minnesota first in the nation among the 26 states where the majority of the students take the ACT.

⁵ Data on continuation, college graduation rates and affordability are from the National Information Center for Higher Education Policymaking and Analysis (www.higheredinfo.org); accessed 08/17/2007.

⁶ National Center for Education Statistics, *Paying for College*, (US Dept of Education, June 2004).

Remediation. Based on an August 2005 report on Minnesota public high school graduates,⁷ 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 2002 high school graduating class who enrolled at the University took one or more developmental course. Ninety-nine percent of the developmental credits taken by these students were in mathematics courses. In the MnSCU system, 42 percent of the students from the 2002 high school graduating class 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. Approximately 63,000 students graduated from Minnesota public and non-public high schools in 2004. The Minnesota Office of Higher Education projects that the number of high school graduates will increase slightly until it hits a peak of 64,000 in 2009.

High school graduates enrolling in post-secondary institutions. In 2005, an estimated 66 percent of Minnesota high school graduates enrolled in a post-secondary institution within one year of graduation, with 50 percent attending a Minnesota institution.

Students of color. In Fall 2006, 15 percent of all post-secondary enrollments in the state were students of color.

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 some post-secondary education and training.⁸

II. Recent Significant Issues

- *Expansion of the University of Minnesota Rochester (UMR).* The 2006 legislature acted on the recommendations of the Rochester Higher Education Development Committee and appropriated new ongoing annual funding for the University of Minnesota to expand academic programs at UMR “to serve the educational needs of and to foster the economic goals of the region and the state.” The legislature identified several areas upon which the UMR expansion will focus: biomedical technologies, engineering, computer technologies, health care administration and allied health programs. The University formally established the Rochester campus in December 2006, and hired the campus’ first Chancellor in August 2007.
- *Transforming the University of Minnesota.* The University is engaged in a comprehensive strategic initiative, begun in August 2004, to make the University one of the top three research universities in the world within ten years. The Board of Regents has endorsed the President’s recommendations, which are designed to support the University in meeting that

⁷ 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>

⁸ “Minnesota Job Outlook by Industry,” *Minnesota Employment Review* (Supplement, August 2003), Minnesota Department of Employment and Economic Development.

goal, and has authorized the University administration to implement the recommendations. Thirty-four strategic tasks forces developed specific recommendations for implementation. Several recommendations have already been implemented, including combining several colleges to reduce the total number of colleges on the Twin Cities campus and establishing the Department of Writing Studies and the Baccalaureate Writing Initiative.

Accountability. In the 2006-07 biennium the Minnesota Office of Higher Education (OHE) received funding to develop and implement a process to measure and report on the effectiveness of all postsecondary institutions in the state. OHE worked with a national consultant, the National Center for Higher Education Management Systems (NCHEMS) to design this accountability system to measure and report on the higher education sector’s effectiveness in meeting key state goals. In February 2007 the Office issued its first accountability report, *Minnesota Measures* available at: <http://www.ohe.state.mn.us/pdf/MinnesotaMeasures.pdf>.

- *ACHIEVE.* The Minnesota Office of Higher Education (OHE) received \$10.8 million in funding for the 2008-2009 biennium to provide scholarships to low- and middle-income high school students who complete a set of college-preparatory courses. Students who successfully complete a set of courses in high school can earn \$1,200 to be used at a public or private postsecondary institution in Minnesota.
- *State Grant Forecasts.* The Office of Higher Education (OHE) reports twice per year on its projections for the State Grant program. Accurate projects for the State Grant program continue to be problematic. Because of an unexpectedly large surplus in FY 2005 the legislature allowed OHE to use projected surplus dollars after the first year of a biennium to temporarily increase the Living and Miscellaneous Expense allowance figure used in award calculations, which in turn temporarily increases state grant awards for all eligible students. This “surplus capture” provision will sunset on June 30, 2009.
- *Centers of Excellence.* Originally suggested by the Citizens League Task Force on Higher Education, the Governor’s recommendation to provide funding for MnSCU to create centers of excellence was approved by the legislature and funded with an annual ongoing appropriation of \$5 million per year. The MnSCU Board of Trustees approved four centers: information technology, healthcare education, engineering, and manufacturing. Each center is led by a state university and has at least two two-year colleges as partners. In the 2006 and 2007 legislative sessions MnSCU sought, but did not receive, additional state appropriations to add a fifth center of excellence in the biosciences area.

Center Name	Lead University
Center for Strategic Information and Security	Metropolitan State University
Center for Integrated Health Science Education and Practice	Winona State University
Center for Engineering and Manufacturing Excellence	Minnesota State University, Mankato
Minnesota Consortium for Manufacturing and Applied Engineering	Bemidji State University

III. 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
www.mnscu.edu

University of Minnesota, Office of Institutional Research and Reporting
www.irr.umn.edu

“Transforming the U” (University of Minnesota strategic positioning process)
www1.umn.edu/systemwide/strategic_positioning/

The National Information Center for Higher Education Policymaking and Analysis
www.higheredinfo.org

The College Board
www.collegeboard.com

**FY 2008-09 Biennial Budget
Overview by Omnibus Bill
Property Tax Aids & Credits**

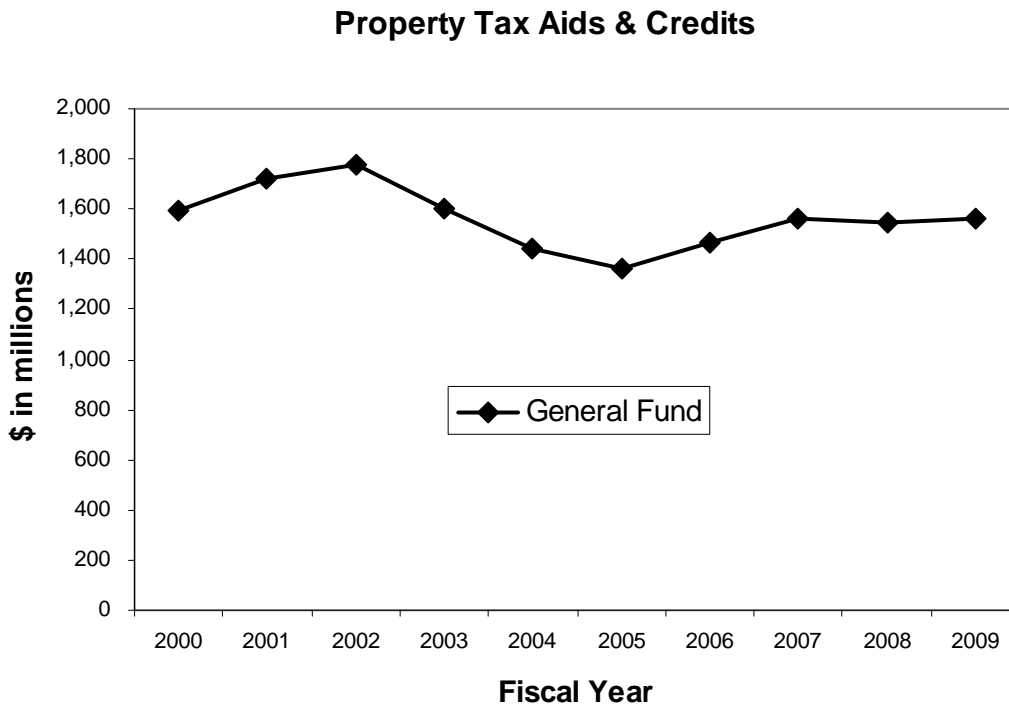
General Fund

	FY 2006-07	FY 2008-09	\$ Difference FY 08-9 vs FY 06-7	% of Total FY 2008-09
<i>Property Tax Aids & Credits</i>				
Payments to Individuals	748.9	838.0	89.0	27.0%
Forest Land Credit Program	5.4	7.3	1.9	0.2%
Political Contribution Refunds	11.9	12.8	0.9	0.4%
Property Tax Refund	385.6	456.6	71.0	14.7%
Property Tax Refund - Targeted	16.5	10.2	(6.2)	0.3%
Renters Credit	302.6	312.0	9.4	10.0%
Tax Refund Interest (OPEN)	27.0	39.0	12.0	1.3%
Payments to Local Governments	2,074.6	2,056.5	(18.1)	66.2%
Border City Credit - NonSchool	8.4	8.9	0.4	0.3%
Border City Credit - School	1.5	1.7	0.2	0.1%
City Aid	921.4	969.1	47.7	31.2%
County Program Aid	411.1	409.8	(1.3)	13.2%
County Transition Aid	0.9	0.5	(0.5)	0.0%
Criminal Justice Aid Admin	1.2	1.4	0.2	0.0%
Disparity Reduction Aid - NonSchool	20.9	21.9	1.0	0.7%
Disparity Reduction Aid - School	16.6	17.3	0.7	0.6%
Local Police & Fire Amort Aid	9.9	9.3	(0.6)	0.3%
Miscellaneous Aids & Credits	3.2	4.6	1.4	0.1%
MV Hmstd Cr Agric Land	38.5	38.4	(0.1)	1.2%
MV Hmstd Cr Agric Land-Schl	11.2	11.3	0.2	0.4%
MV Homestead Credit	437.4	423.0	(14.4)	13.6%
MV Homestead Credit-Schl	125.3	108.8	(16.5)	3.5%
Payments to Counties with Indian Casinos	1.3	1.3	0.0	0.0%
PILT for DNR & DOT Owned Lands	33.1	0.0	(33.0)	0.0%
Repl Taconite Prod Tax Red	16.8	17.5	0.7	0.6%
Suppl Homestead Prop Tax	10.2	10.4	0.2	0.3%
Taconite Aid Reimb	1.1	1.1	0.0	0.0%
Temporary Court Aid	4.7	0.0	(4.7)	0.0%
Pension Related Payments	204.2	213.2	9.0	6.9%
Aid to Police & Fire (Pension)	175.1	184.1	9.0	5.9%
PERA Pension Aid	29.1	29.1	(0.0)	0.9%
Total Property Tax Aids & Credits	3,027.8	3,107.7	80.0	100.0%

I. Financing Summary

Nine percent of the state's general fund budget is devoted to property tax aids and credits paid to local governments (cities, counties, towns, public schools, and special taxing 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. Payments to individuals, like property tax refunds for homeowners and renters, are also included in this category because they reduce property tax burdens.

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



Background

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 2008 estimates that total property taxes collected in the state will be \$6.8 billion, or 28 percent of total state and local tax collections. In addition, Minnesota Department of Revenue calculations using U.S. Census Bureau data from FY 2005 show that while Minnesota ranks

22nd in total tax burden as a percentage of personal income, the state ranks 35th in property tax burden.

- Do state aid and credit expenditures make the property tax system more progressive?**
 State and local property taxes in Minnesota are regressive, meaning individual tax burden is not directly related to ability to pay. According to the Minnesota Department of Revenue’s 2007 Tax Incidence Study, the state property tax refund program for homeowners and renters contributes to making property taxes less regressive.
- Are property tax aids accountable? Do they deliver measurable results?**
 In contrast to other state programs delivered at the local level, 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 2000 total local non-school revenues (a surrogate for local spending) have grown by an average of 4.1 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 4.6 percent annually.

Intergovernmental Relationships

Property tax aid and credit payments are directly paid by the state to local governments. This local funding mechanism 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 costs. The financial relationship is illustrated in the table below.

Summary of Calendar 2006 Revenues		
Local Unit	Revenue from Local Taxes, Fees Assessments, etc.	Revenue from State Payments
Counties	61.5%	25.7%
Cities	75.3%	20.7%
<small>Note: Revenues do not equal 100% because other intergovernmental transfers (e.g. federal grants) are not included. Source: State Auditor’s Office</small>		

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.

Recent Significant Issues

Growth in the Property Tax Refund Program

Over the last few years, the homeowner's property tax refund program has been one of the fastest growing expenditures in state government. Spending for the program in FY 2008-2009 is expected to increase \$71.0 million, or 18.4%, over expenditures for the program in FY 2006-2007.

The main reason for the significant growth in this program is that residential homestead property taxes have been steadily increasing. Some of the causes of higher property taxes include rising property values and continued decreases in homestead market value credit amounts as the average market value of homes increase.

In addition, the rise in property taxes has not been accompanied by similar growth in homeowner income, leading to higher refund amounts. Participation in this program has also grown – going from 300,000 claimants in FY 2006 to 340,000 in FY 2007. With property taxes becoming a more visible issue in recent years and counties directly advertising the state's property tax refund program, awareness of property tax relief options has increased as well. All of these factors combined have contributed to significant increases in spending for the homeowner's property tax refund program.

Changes to Major State Aid Programs

In 2003, the city local government aid (LGA) program underwent significant changes. The changes included eliminating the majority of the grandfathered portion of city aid and developing a new need-based formula to distribute 95 percent of the LGA appropriation. The total appropriation was also cut at this time and the automatic inflation adjustment to the LGA appropriation was eliminated. Limits were also placed on annual increases and decreases in payments to individual cities. All of these changes have resulted in greater year-to-year fluctuations in LGA payments to local governments.

Property tax aids to counties were also reformed beginning with aids payable in 2004. Several aid programs to counties were eliminated and consolidated into a single program entitled county program aid. The homestead and agricultural aid credit, county criminal justice aid, family preservation aid, and attached machinery aid were all consolidated into county program aid.

Useful Links and Resources

State Auditor: *Summary Budget Information for Minnesota Cities*

http://www.osa.state.mn.us/reports/gid/2006/ciBudget/ciBudget_06_report.pdf

State Auditor: *Summary Budget Information for Minnesota Counties*

http://www.osa.state.mn.us/reports/gid/2004/county/county_04_budgetsummaries.pdf

Department of Finance: *Price of Government*

http://www.budget.state.mn.us/budget/summary/pog/070628_pog.pdf

Department of Revenue: *2007 Tax Incidence Study*

http://www.taxes.state.mn.us/legal_policy/other_supporting_content/07_incidence_report.pdf

Department of Revenue: *Minnesota State and Local Tax Rankings*

http://www.taxes.state.mn.us/legal_policy/research_reports/content/04_summary_ranking_state_and_local.pdf

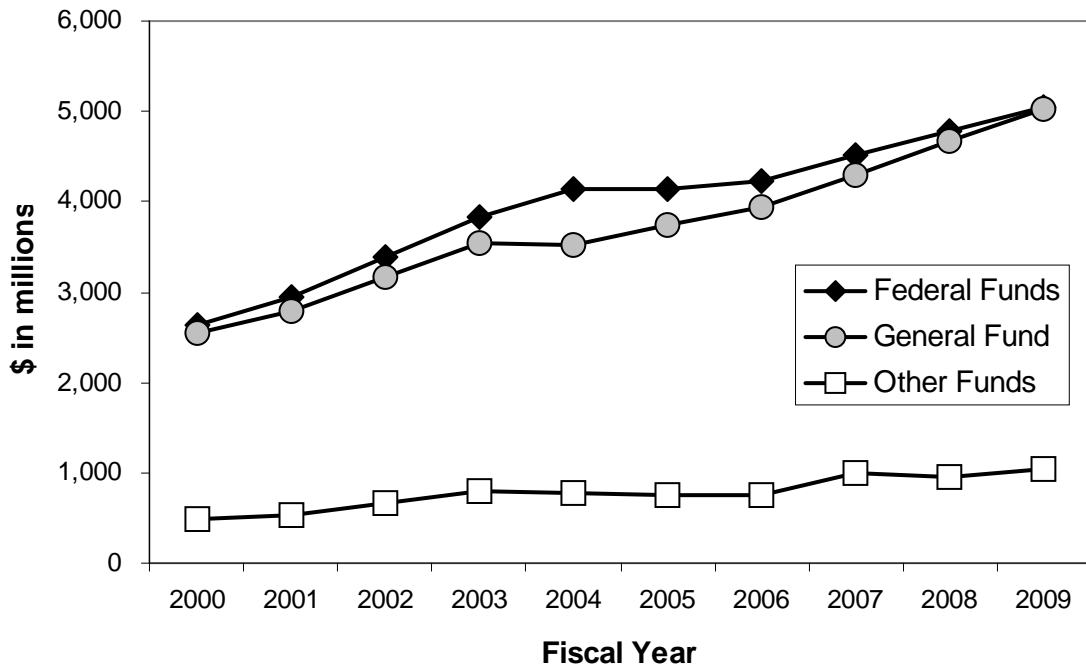
FY 2008-09 Biennial Budget Overview by Omnibus Bill Health & Human Services

I. Financing Summary

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.

	General Fund				All Funds			
	FY 2006-07	FY 2008-09	\$ Difference FY 08-9 vs FY 06-7	% of Total FY 2008-09	FY 2006-07	FY 2008-09	\$ Difference FY 08-9 vs FY 06-7	% of Total FY 2008-09
Health & Human Services								
Health Dept	138.4	164.1	25.7	1.7%	913.5	935.1	21.6	4.4%
Human Services Dept	8,025.9	9,429.9	1,404.0	97.3%	17,371.3	20,121.2	2,750.0	94.7%
Veterans Homes Board	66.3	88.4	22.1	0.9%	135.4	153.6	18.2	0.7%
Health Boards & Other Agencies	11.5	12.4	0.9	0.1%	41.2	47.3	6.1	0.2%
Total Health & Human Services	8,242.1	9,694.8	1,452.7	100.0%	18,461.3	21,257.2	2,795.9	100.0%

Health & Human Services



Health and human services spending constitutes approximately 28 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 2008-09 biennium is expected to be almost \$1.5 billion higher than in the 2006-07 biennium – an increase of almost 18 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.

Background

Outcomes & Indicators

State health ranking. Minnesota continues to rank as the healthiest state in the nation in 2006, according to the United Health Foundation. The foundation cited a high health insurance rate, a low rate of cardiovascular deaths, a low premature death rate, and a low infant mortality rate as a few of the factors that attributed to the top ranking.⁹

Uninsured Population. Minnesota's percentage of population without health insurance has consistently been one of the lowest in the country. In 2005, 7.9 percent of the population lacked coverage – still one of the lowest¹⁰. The most recent state-level data, collected in 2004, found 7.4 percent of the population lacked coverage. While the number of uninsured is relatively low, the rate has steadily increased, rising from 5.6 percent in 2000. The changes in level of employment and the characteristics of employment help explain some of this change. Employers are less likely to offer health insurance coverage than in the past. Also, enrollment in public health care programs has increased. In 2000, 72.0 percent of Minnesotans received coverage in the private market, but by 2004 private coverage fell to 67.5 percent. During the same period, the percent of Minnesotans enrolled in public programs increased from 22.4 percent to 25.1 percent.¹¹

Welfare reform objectives. Minnesota's welfare caseload fell 52 percent from August 1996 through March 2006. 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.¹²

State Medical Assistance Spending. In 2004 Minnesota's Medical Assistance (MA) spending per beneficiary was higher than the national average of state Medicaid programs (\$6,130 per beneficiary in Minnesota versus \$4,248 per beneficiary in the US). While Minnesota's expenditures per beneficiary are higher than the national average for all population groups except the elderly, (children, adults, and persons with disabilities), they are particularly higher for children and people with disabilities.¹³

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

⁹ United Health Group Foundation; <http://www.unitedhealthfoundation.org/ahr2006/states/Minnesota.html>

¹⁰ U.S. Census Bureau, Current Population Survey, 2006 Annual Social and Economic Supplement; http://pubdb3.census.gov/marcro/032006/health/h06_000.htm

¹¹ Minnesota Department of Health; <http://www.health.state.mn.us/divs/hpsc/hep/publications/coverage/2006-04.pdf>

¹² US Department of Health & Human Services, Administration for Children and Families, http://www.acf.hhs.gov/programs/ofa/caseload/2006/TANFCaseloadReport_family_080106.htm

¹³ The Kaiser Commission on Medicaid and the Uninsured; <http://www.kff.org/medicaid/upload/kcmu032106atable2.pdf>

during economic downturns, demand for service increases, resulting in significant challenges to the state's budget.

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 30 percent of program enrollment in fiscal year 2006 they accounted for 76 percent of program expenditures.¹⁴

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. The concentration of health care spending among a small group of high-cost users (for example, the elderly and disabled in public programs) is also common across public and private sectors.

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. The federal government plays a large role in health and human services programs. For example, Medicaid (Medical Assistance) is a joint federal and state program whereby the federal government pays a portion of the state's Medicaid benefit cost. The state's Federal Medical Assistance Percentages (FMAP) determines the amount the federal government pays, which is currently 50 percent for Minnesota. The total amount of federal dollars received in the current biennium for all health and human services programs is expected to be \$9.4 billion.¹⁵ Because of the significant role the federal government has in this area, state flexibility is oftentimes limited by federal policy and guidelines. Furthermore, reductions in state commitments frequently result in lost federal matching dollars to the state.

Recent Significant Issues

Health and Human Services Growth. Health and Human Services is one of the fastest growing portions of Minnesota's budget. Total spending in the health and services budget is expected to be \$21.3 billion in the current biennium on an all funds basis, 38.4 percent of all spending. That amount is estimated to increase to \$23.9 billion in the next biennium, 41.6 percent of total spending.¹⁶

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, rewarding providers for optimum care, provider-directed care coordination, and patient incentives to reward clients who meet certain health care goals.

¹⁴ Medical Assistance expenditures include both basic care and long-term care and are based on 2006 end-of-session figures.

¹⁵ 2007 End-of-Session Consolidated Fund Statement

¹⁶ Ibid.

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 (Part D) was implemented in January 2006. Medicare recipients who were previously receiving prescription drug coverage through Medical Assistance and the state's prescription drug program are now covered through Medicare, shifting responsibility from the state to the federal government. However, the financial impact on the state's budget is minimal due to a provision in the law that requires states to repay the federal government the vast majority of the savings.

Mental Health Reform. Recently enacted legislation alters coverage of and payment for mental health services provided by public programs. As a result, all public programs will now cover the same mental health services, mental health will be integrated with other health care services, and additional capacity for the mental health system will be added. For the 2008-09 biennium, the cost of these reforms for all funds is \$34.1 million.

Long-Term Care Provider Rate Adjustments. State law sets reimbursement rates for long-term care providers. For the current biennium, long-term care providers will receive a 2.0 percent annual increase. Also, nursing home provider rates will be rebased using a new cost-based formula, starting in October of 2008. 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 2008-09 biennium, the 2.0 percent rate increase and changes to the reimbursement formula is estimated to cost \$92 million.

Sex Offender Program. Recent increases in the number of individuals civilly committed as sex offenders continue. The department continues to refine efforts to accurately project future expansion and developing options to slow the growth of the sex offender population. Changes to sentencing laws will eventually lead to fewer commitments, but the effects are not seen for several years. The department continues to seek solutions for providing physical capacity, as well as reducing operating costs.

Useful Links and Resources

Minnesota Department of Finance
<http://www.finance.state.mn.us/>

Minnesota Department of Human Services
<http://www.dhs.state.mn.us/>

Minnesota Department of Health
<http://www.health.state.mn.us/>

U.S. Department of Health and Human Services
<http://www.hhs.gov/>

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

Kaiser Family Foundation
<http://www.kff.org/>

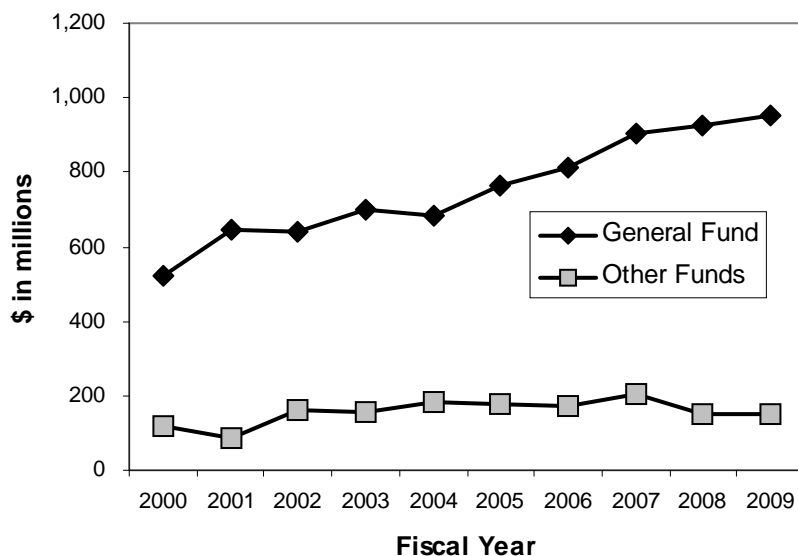
FY 2008-09 Biennial Budget Overview by Omnibus Bill Public Safety

I. Financing Summary

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.

	General Fund				All Funds			
	FY 2006-07	FY 2008-09	\$ Difference FY 08-9 vs FY 06-7	% of Total FY 2008-09	FY 2006-07	FY 2008-09	\$ Difference FY 08-9 vs FY 06-7	% of Total FY 2008-09
Public Safety								
Corrections Dept	841.4	935.1	93.7	49.8%	885.7	984.6	98.9	45.2%
Court of Appeals	16.4	20.4	4.0	1.1%	16.4	20.4	4.0	0.9%
Public Defense Board	122.7	135.9	13.2	7.2%	122.9	136.0	13.1	6.2%
Public Safety Dept	174.9	181.2	6.3	9.7%	476.9	403.0	(73.9)	18.5%
Supreme Court	85.4	90.5	5.1	4.8%	97.1	101.9	4.8	4.7%
Trial Courts	462.2	501.0	38.8	26.7%	463.5	502.1	38.6	23.0%
All Others	10.8	12.9	2.1	0.7%	30.0	31.9	1.9	1.5%
Total Public Safety	1,713.7	1,877.0	163.3	100.0%	2,092.5	2,179.8	87.4	100.0%

Public Safety



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 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 on July 1, 2005. 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.

II. Background (Corrections)

Outcomes & Indicators

Crime rates. Recent data shows general declines in crime rates over the last decade, although they have leveled off or slightly increased in the last three to four years. In 2005, the national violent crime rate per 100,000 inhabitants was 469.2, and the state rate was 297.0. The national rate increased 1.3% in 2006 (state data not yet available). In 2005, the national property crime rate was 3,429.8 per 100,000 inhabitants and the state rate was 3,084.1. The national rate decreased by 2.9% in 2006 (state data not yet available). (FBI: Crime in the United States, 2005) (FBI: Preliminary Uniform Crime Reports, January-December, 2006) (Note: Issues were raised about violent crime rates reported from Minneapolis in 2005, which would have affected the state rate.)

Incarceration Rates. As of June 30, 2006, the incarceration rate for offenders under the jurisdiction of the state was 189 per 100,000 residents. The national rate for states was 440. Minnesota had the second lowest incarceration rate to Maine's 141. (Bureau of Justice Statistics: Prison and Jail Inmates at Midyear 2006)

Intergovernmental Relationships

Counties generally provide jail space to non-felony offenders and others with short-term sentences. Most county jails are full. Additional state funds have been provided to partially support the costs of short-term offenders in the jails.

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.

III. 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 35% since 2002 to 8,900 on January 1, 2007. 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.
- Improving the reentry process for offenders leaving prison and reentering the community.
- Continuing the development of 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.
- Addressing increasing caseloads experienced by the courts, public defenders, and probation officers. With increases in sentencing and additional requirements placed on offenders in institutions and the community, the systems processing, protecting, and supervising those offenders incur additional responsibilities and costs.

IV. 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

V. 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 2007 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 replacement of Livescan terminals, funding to add 15 BCA lab personnel, added funding for the Gang Strike Force, and additional grants for a variety of local public safety activities.

The statewide 911 telephone fee was authorized to be increase in the future by up to 30 cents per month per phone line to 95 cents per month. The additional revenue will be used to provide debt service on revenue bonds to complete the statewide backbone of the 800 mhz radio system into the remainder of the state.

Useful Links and Resources

Department of Corrections
<http://www.corr.state.mn.us/>

Department of Correction 2005-2006 Strategic Plan
<http://www.corr.state.mn.us/publications/documents/Strategicplan2005.pdf>

Department of Public Safety
<http://www.dps.state.mn.us/>

Department of Public Safety 2006-06 Strategic Plan
http://www.dps.state.mn.us/Commissioner/2006_2007_Strategic_Plan.pdf

Minnesota State Court System
<http://www.mncourts.gov/default.aspx>

Minnesota Board of Public Defense
<http://www.pubdef.state.mn.us/>

Minnesota Sentencing Guidelines Commission
<http://www.msgc.state.mn.us/>

Minnesota Department of Human Rights
<http://www.humanrights.state.mn.us/>

Federal Bureau of Investigation: Uniform Crime Reports
<http://www.fbi.gov/ucr/ucr.htm#cius>

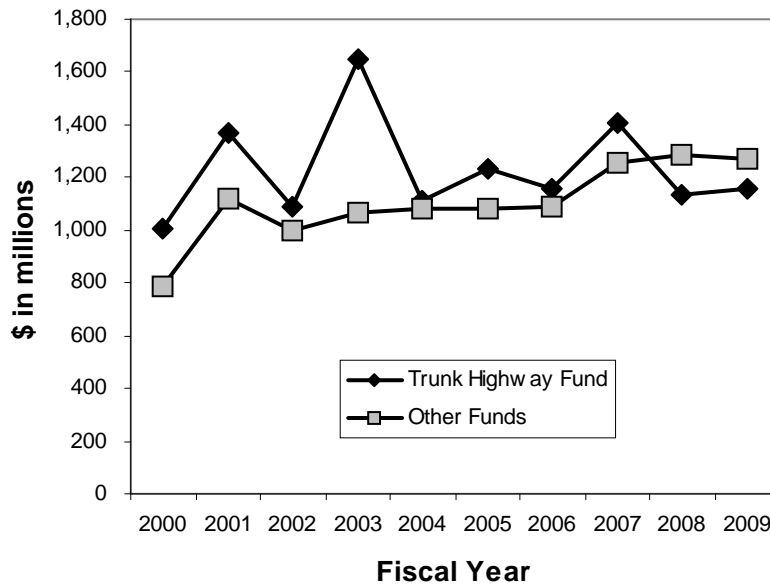
FY 2008-09 Biennial Budget Overview by Omnibus Bill Transportation

I. Financing Summary

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.

	General Fund				All Funds			
	FY 2006-07	FY 2008-09	\$ Difference FY 08-9 vs FY 06-7	% of Total FY 2008-09	FY 2006-07	FY 2008-09	\$ Difference FY 08-9 vs FY 06-7	% of Total FY 2008-09
Transportation								
Metropolitan Transit Council	164.1	177.5	13.4	71.2%	391.9	441.2	49.3	9.1%
Public Safety Dept	12.7	15.9	3.2	6.4%	357.3	372.4	15.1	7.7%
Transportation Dept	39.4	56.0	16.6	22.4%	4,160.7	4,022.5	(138.3)	83.2%
Total Transportation	216.1	249.4	33.3	100.0%	4,910.0	4,836.1	(73.9)	100.0%

Transportation



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. At the November 2006 general election, voters in Minnesota passed a constitutional amendment that dedicates all of the revenue from motor vehicle sales tax to transportation purposes, with full dedication taking place from fiscal year 2012. This change adds funding to both the HUTD and to a separate fund for transit assistance in the metropolitan and in Greater Minnesota.

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.

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.

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 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.¹⁷

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.

Recent Significant Issues

In 2007, the legislature debated a number of proposals to change transportation funding in Minnesota. No significant legislation was enacted. A "lights-on" funding bill was enacted at the end of session that continued base funding for the major transportation agencies. The bill also included statutory provisions to implement the constitutional dedication of MVST to transportation. An additional \$20 million was appropriated for Metropolitan Transit. The fees for drivers' licenses and vehicle titles were increased to provide funding to begin the renewal of the state computer systems for driver and vehicle records.

Useful Links and Resources

Department of Public Safety 2006-06 Strategic Plan

http://www.dps.state.mn.us/Commissioner/2006_2007_Strategic_Plan.pdf

Mn/DOT's 2003 Strategic Plan (statewide plan is currently being updated)

<http://www.dot.state.mn.us/information/statplan00/index.html>

Minnesota House of Representatives Research Department

<http://www.house.leg.state.mn.us/hrd/issinfo/trans.htm>

National Transportation data

<http://www.transtats.bts.gov/>

University of Minnesota Center for Transportation Studies

<http://www.cts.umn.edu/>

¹⁷ <http://www.dot.state.mn.us/newsrels/05/08/10highwaybill.html>

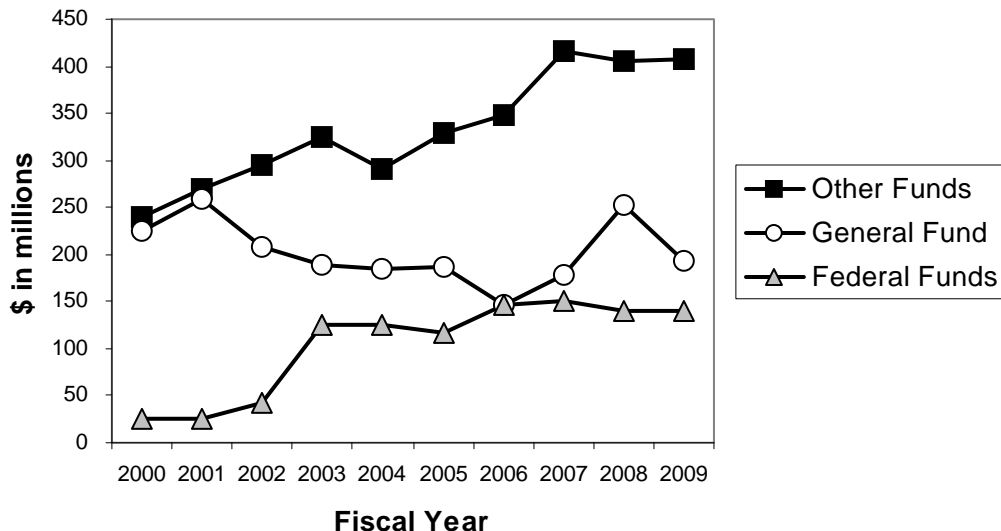
FY 2008-09 Biennial Budget Overview by Omnibus Bill Environment, Energy & Natural Resources

I. Financing Summary

The Environment and Natural Resources, program area includes the Pollution Control Agency (PCA), the Department of Natural Resources (DNR), the Board of Soil and Water Resources, the Department of Commerce and others. Their mission is to protect and enhance the quality of the environment and the natural resource base for multiple uses, while supporting the advancement of economic vitality in Minnesota.

	General Fund				All Funds			
	FY 2006-07	FY 2008-09	\$ Difference		FY 2006-07	FY 2008-09	\$ Difference	
			FY 08-9 vs FY 06-7	% of Total FY 2008-09			FY 08-9 vs FY 06-7	% of Total FY 2008-09
<u>Environment, Energy & Natural Resources</u>								
Commerce Dept	40.2	55.5	15.3	12.5%	313.5	341.8	28.3	22.2%
Metropolitan Council Parks	6.6	8.1	1.5	1.8%	17.7	19.7	2.0	1.3%
Natural Resources Dept	188.0	246.1	58.1	55.4%	643.3	702.7	59.4	45.7%
Pollution Control Agency	28.1	56.9	28.8	12.8%	313.6	335.7	22.2	21.8%
Public Utilities Comm	8.5	10.8	2.3	2.4%	14.1	15.0	0.9	1.0%
Water & Soil Resources Board	38.9	49.4	10.5	11.1%	44.6	54.0	9.3	3.5%
Zoological Board	12.9	14.2	1.3	3.2%	34.4	39.0	4.6	2.5%
All Others	2.2	3.5	1.3	0.8%	3.7	29.2	25.5	1.9%
Total Environment, Energy & Natural Resources	325.5	444.5	119.1	100.0%	1,385.0	1,537.2	152.2	100.0%

Environment, Energy & Natural Resources



State activities in this area attempt to meet the varied interests of Minnesota citizens. To accomplish this, the state must balance the need to preserve the natural heritage and environmental quality while providing access to the state's natural resources for hunting, fishing,

and other recreation. The state must also balance the need for protecting resources and the environment while allowing for sustainable economic opportunities.

Funding in this area is complex, with 29 percent of spending coming from the general fund, and the remainder from federal funds and a wide variety of user fees. Overall, the environment and natural resources areas represent approximately 1.3% percent of the state's general fund expenditures.

Background

Outcomes & Indicators

- Since the Pollution Control Agency was created in 1967, sources of pollution from large stationary sources (smokestacks, waste pipes, and landfills) have largely been addressed. From 1990 to 2005, state sources of mercury emissions have been reduced 70%; management of closed landfills has achieved 80% of its pollution reduction goals and Minnesota is in compliance with all federal air quality standards.
- 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.
- 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, data is available on only 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, reduce soil erosion and restore habitat, environmental easements have been used to retire nearly 200,000 acres of marginal farmland. Another 1.3 million acres has been directly acquired by the state to preserve and protect natural resources and provide for outdoor recreational opportunities.
- In 1998 Minnesota recycled approximately 48 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.
- Minnesota enacted an aggressive effort to reduce oil based energy consumption by 25% by the year 2025, making the state a leader in the drive to a sustainable economy. This ambitious goal will be achieved through development of alternative fuels and by increased efforts at conservation.
- The state has also established a goal of reducing greenhouse gases from all sources by 30% by the year 2050.

Critical Factors

- 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.
- Existing federal and state resources are not adequate to remediate the impaired water bodies in Minnesota. Minnesota's 2006 list shows 2,250 impairments on 284 rivers and 1,013 lakes. The PCA and its partners have evaluated the importance of and approaches to addressing Minnesota's impaired waters and preserving its high quality waters.
- Energy consumption is a growing environmental concern. Sustainable sources and responsible usage are keys to a healthy environment and economy. The state is investing significant resources into finding sustainable ways to produce and deliver energy from alternative sources at the same time it encourages citizens to make the most efficient use of the energy they consume.
- 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.
- Recent cases of Avian Influenza internationally and Bovine T.B. locally have the potential to threaten wild animal populations. Disease surveillance has become a larger issue for agencies involved in protecting vulnerable wildlife.
- To achieve the energy goals of reduced greenhouse gas emissions, the state will explore the feasibility of a cap and trade system for trading pollution credits.

Intergovernmental Relationships

- All levels of government have strong interests and important roles to play in environmental and natural resource 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 then 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.

Recent Significant Issues

- *Impaired waters.* The 2006 legislature enacted the “Clean Water Legacy Act” to provide for the protection, restoration and preservation of the quality of water in Minnesota. In 2007, the legislature appropriated \$50 million in one-time funding for the identification and cleanup of impaired waters as required by the federal Clean Water Act. Permanent funding for this program has yet to be determined.

In June of 2007, the Minnesota Supreme Court determined that the state has authority to allow municipal or industrial discharge into impaired waters from new facilities as long as that discharge is balanced by reductions at another facility within the same watershed. While the court’s decision allows the state some flexibility to allow for development of new or expanded facilities on or near impaired waters, continued action to comply with the Clean Water Act remains a priority for environmental quality and economic development reasons.

- *New dedicated funding for environmental programs.* The House and Senate of the 2007 legislature reached agreement on, but did not enact, a proposal for a constitutional amendment to increase state sales tax by 3/8 of 1% and to dedicate more than \$200 million per year in new revenue to environment, natural resources, and arts programs. Continued action on this initiative is expected during the 2008 session. The amendment could be placed before the public as early as the 2008 general election.
- *Reform of the Legislative Commission on Minnesota Resources (LCMR).* The 2006 legislature restructured the LCMR to provide for broader citizen input. The newly formed Legislative-Citizen’s Commission on Minnesota Resources (LCCMR) successfully recommended FY 2008 funding of land and water projects totaling nearly \$23 million. The Commission also has contracted for development a long-range strategic plan for developing future funding recommendations.
- *Fragmentation of natural areas.* Preserving natural lands is increasingly challenged by land-use changes and habitat disruptions. Increasing land development pressures have divided habitats into fragments too small to support healthy wildlife populations, sustain important ecological areas or provide sustainable recreation or commercial use of natural resources. Interests in developing natural lands for private use must be balanced against the desire to preserve Minnesota’s natural heritage.
- *Dedicated ATV trails.* One of the biggest problems DNR faces is keeping the peace between trail users. 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. The 2007 legislature also increased ATV user fees by \$2.4 million for development of more dedicated ATV trails.
- *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.

Useful Links and Resources

Department Of Natural Resources

Strategic Conservation Agenda

<http://www.dnr.state.mn.us/conservationagenda/index.html>

Board of Water and Soil Resources

Minnesota Board of Water and Soil Resources Strategic Plan.

Publication Date: September 1997.

<http://www.bwsr.state.mn.us/aboutbwsr/bwsrplan.pdf>

Water and Soil Conservation 2007.

Coverage Date: 2007.

<http://www.bwsr.state.mn.us/publications/watersoil07.pdf>

Pollution Control Agency

Clean Water Legacy Act

<http://www.pca.state.mn.us/publications/wq-iw3-08.pdf>

Performance measures for state departments. (<http://www.departmentresults.state.mn.us/>)

Department of Commerce - <http://www.state.mn.us/portal/mn/jsp/home.do?agency=Commerce>

Public Utilities Commission - <http://www.puc.state.mn.us/>

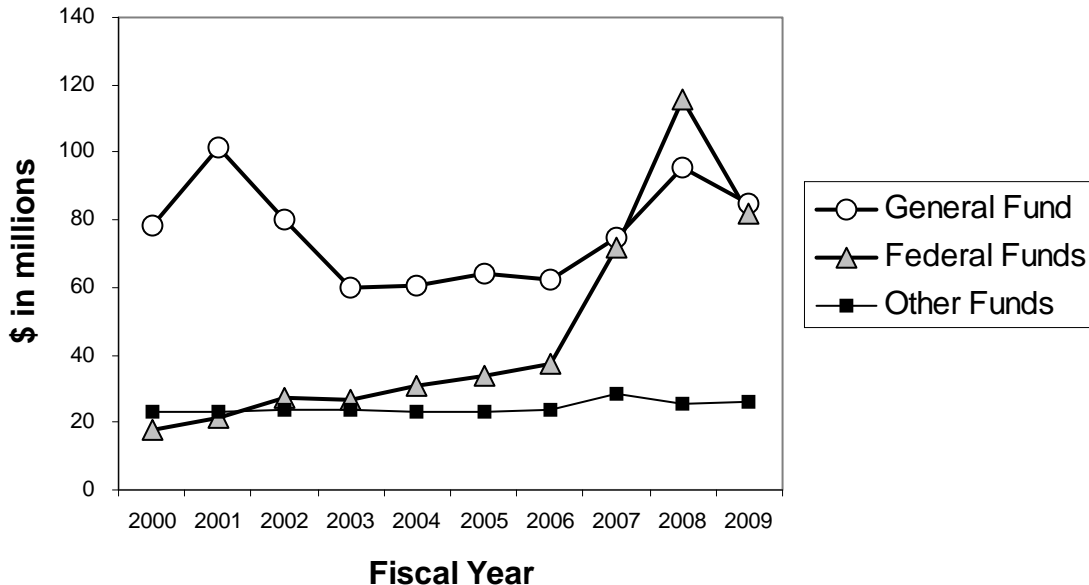
FY 2008-09 Biennial Budget Overview by Omnibus Bill Agriculture & Veterans

I. Financing Summary

The Agriculture, Veterans and Military Affairs bill includes the departments of Agriculture, Veterans Affairs, and Military Affairs as well as the Board of Animal Health and the Agricultural Utilization Research Institute. Their missions are to work toward a diverse and productive agricultural industry; to protect the health and safety of humans and animals; to provide care and benefits to Minnesota veterans and their dependents; and to support the Minnesota National Guard.

	General Fund				All Funds			
	FY 2006-07	FY 2008-09	\$ Difference	% of Total	FY 2006-07	FY 2008-09	\$ Difference	% of Total
			FY 08-9 vs FY 06-7	FY 2008-09			FY 08-9 vs FY 06-7	FY 2008-09
<u>Agriculture & Veterans</u>								
Agriculture Dept	79.8	89.7	9.9	49.8%	138.5	149.6	11.1	34.8%
Agriculture Utilization Resrch	3.2	6.2	3.0	3.4%	3.2	6.2	3.0	1.4%
Animal Health Board	7.3	7.0	(0.2)	3.9%	12.0	11.3	(0.7)	2.6%
Military Affairs Dept	34.0	40.6	6.6	22.5%	128.8	223.6	94.8	52.1%
Veterans Affairs Dept	12.5	36.8	24.3	20.4%	13.9	38.7	24.8	9.0%
Total Agriculture & Veterans	136.7	180.3	43.6	100.0%	296.4	429.4	133.1	100.0%

Agriculture & Veterans



Services Provided and Financing

For the FY 2008-2009 biennium, spending in this area totals approximately \$429 million, of which \$180 million comes from the state general fund. Overall, the agriculture and veterans affairs area represents approximately 0.5 percent of the state's general fund expenditures.

The Department of Agriculture offers a variety of services and programs to the agriculture industry of Minnesota. It works to protect against invasive species; ensures our food is safe; promotes conservation within agriculture; supports locally grown products; and invests in alternative forms of energy. Forty-nine percent of their funding supports Protection Services, which includes pesticide and fertilizer management, plant protection, and dairy and food inspection. The other program areas: Ethanol Producer Payments, Promotion and Marketing, and Administrative and Financial Assistance account for the remaining 51 percent of funding.

The Department of Military Affairs provides facilities and general support to the Minnesota National Guard. The Guard consists of the 34th Infantry Division of the Army National Guard headquartered at Camp Ripley; and the 133rd Airlift Wing and the 148th Fighter Wing of the Air National Guard based in the Twin Cities and Duluth, respectively. Over 80 percent of agency funding supports the construction and maintenance of military facilities, with the remainder going toward enlistment incentives, state emergency operations, and general support functions. Federal funds account for 80 percent of the agency budget, with the rest coming from the state general fund and dedicated receipts.

The Department of Veterans Affairs provides outreach and service to veterans in Minnesota. Outreach programs educate veterans about their benefits and connect them to services. Service programs provide claims assistance, cash grants, tuition reimbursement, cemetery operations, and other benefits to veterans. Over 90 percent of agency funding comes from the state general fund.

Background

Outcomes & Indicators

- **Renewable Energy 25 by 25.** Recent legislation established the following renewable energy resources goal: by January 1, 2025, the state's agricultural, forestry, and working land should provide from renewable resources at least 25 percent of the total energy consumed in this state while continuing to produce safe, abundant, and affordable food, feed, and fiber.
- **Clean water.** To improve water quality in Minnesota, the Department of Agriculture has issued \$52 million in Best Management Practices loans towards preventing agricultural water pollution and other environmental problems. Each year, the Department of Agriculture provides loans for 600-1000 projects in 85 counties throughout Minnesota. Over 6,700 projects have been completed in the areas of erosion control, agricultural waste management, and septic systems.
- **MN Grown.** The Minnesota Grown label was developed to promote consumer interest in locally grown products. Nearly 1,000 Minnesota producers are licensed to use the logo. Minnesota consumers prefer to buy local, fresh products for their quality and because many consumers also have an interest in supporting small farms, diversified agriculture and rural communities.

- **Veterans services.** The Department of Veterans Affairs helps Minnesota veterans obtain federal benefits for which they are eligible, including more than \$162 million in benefits during state fiscal year 2006. The State Soldiers Assistance Program also provides direct financial assistance to veterans and their dependents, serving over 2,000 people in 2006. Newer outreach programs targeted at college students and underserved populations have served an additional 2,000 people since 2004.
- **Military operations.** The Minnesota National Guard is recognized as an elite force among reserve units. The 148th Fighter Wing from Duluth was recently awarded the 2006 Outstanding Air National Guard Flying Unit honor from the national Air Force Association. Minnesota's 34th Infantry Division (known as the "Red Bulls") is routinely recognized as the best division-sized unit in the Army National Guard structure. During 2006, the 1st Brigade Combat Team of the 34th Infantry Division was the only Army National Guard brigade serving in Iraq. In 2006, Minnesota exceeded a nation-wide recruiting record by enlisting over 2,000 soldiers and ending that year with the highest personnel strength in state history.

Critical Factors

- **Renewable energy sources.** There is a strong commitment to examine the future of biofuels and bioenergy throughout the country. Minnesota has been on the forefront of the renewable energy debate, researching and developing energy sources to displace fossil fuels.
 - o *Cellulosic Biofuel.* The state has implemented a cellulosic biofuel production goal of 25% of the total amount necessary for ethanol use by 2015 or when cellulosic biofuel facilities in the state attain a total annual production level of 60 million gallons, whichever is first.
 - o *NextGen Energy Board.* The Board was created to work with other state entities and federal programs to develop a clean energy program to efficiently achieve energy independence and economic vitality.
 - o *NextGen Energy Grants.* Grants totaling \$1.4 million for biomass and biofuel research will be awarded to investigate the feasibility of renewable energy demonstration facilities and a biomass fuel supply depot.
 - o *Renewable Energy Roundtable.* Through the Renewable Energy Roundtable, AURI has worked in collaboration with various organizations to facilitate the discussion of renewable energy efforts and opportunities in the state.
- **Emergency preparedness.** To improve the state's ability to keep harmful natural and man-made threats out of the food supply for both humans and animals, the Department of Agriculture has invested in emergency preparation and response planning of food inspection activities and is collecting inspection information electronically. In addition, a premise identification system was created so that if emergencies do arise they can be dealt with rapidly and efficiently.
- **Facility maintenance.** The Department of Military Affairs maintains over 5 million square feet of space spread over hundreds of acres, including training sites, logistical facilities, and airbases. As with other state resources, these facilities are heavily used and aging rapidly. Each year the department assesses the backlog of maintenance, which reached \$22 million in 2007.

- **Outreach to veterans.** Statistics show that less than 50% of veterans apply for and receive the full benefits to which they are entitled, so the Department of Veterans Affairs faces a significant challenge in reaching out to the state's 460,000 veterans. Outreach becomes more challenging and important as the veteran population continues to shift toward veterans of conflicts in Iraq and Afghanistan. Since recent veterans are younger and increasingly represent underserved groups such as women and minority cultures, they demand new and often high-tech outreach methods.

Intergovernmental Relationships

Agencies in this area receive a significant portion of their funding from the federal government. It is estimated that the Department of Agriculture will receive over \$6.4 million in federal funds to support agricultural programs and activities. The Department of Agriculture receives federal funds for cooperative grants, project grants, and fee-for-service contracts. Cooperative grants provide reoccurring funding for federal programs administered at the state level, while project grants are awarded on a competitive basis. The Department of Military Affairs receives federal matching dollars for the construction and maintenance of military facilities in the state. The federal government also pays salaries and benefits directly to National Guard members when they train or serve on federal missions.

Agencies in the military and veterans area also maintain a complex set of relationships with federal and local governments, educational institutions, and nonprofit organizations. The Department of Veterans Affairs works closely with County Veteran Service Officers and Congressionally chartered veteran service organizations, shares space and operation with federal claims offices, and maintains outreach programs on college campuses and tribal lands. The Minnesota National Guard serves both federal and state missions, while also supporting local community projects. Most of its armories are built on land donated by local governments, and many serve dual purposes as training facilities and community centers. Both the departments provide tuition assistance for veterans and Guard members to attend Minnesota colleges and universities.

Recent Significant Issues

- **Bovine Tuberculosis.** In 2005, bovine tuberculosis (TB) was detected in a cattle herd in northwest Minnesota. The Board of Animal Health has been working to uncover all infected herds by tracing and testing animals in the region to eliminate the disease in the state and return Minnesota to TB-free status. In collaboration with the USDA, the Board has depopulated several TB-positive herds and continues to monitor the situation with further tracing and testing.
- **Impaired waters.** The 2006 legislature enacted the "Clean Water Legacy Act" to provide for the protection, restoration and preservation of the quality of water in Minnesota. In 2007, the legislature appropriated \$50 million in one-time funding for the identification and cleanup of impaired waters as required by the federal Clean Water Act. The Department of Agriculture is responsible for the development, promotion and evaluation of voluntary Best Management Practices that prevent and minimize contamination of ground water and surface water. In addition, the Department of Agriculture currently oversees several research and evaluation projects investigating effective cleanup efforts of agricultural lands.

- **Extended deployments.** From 2001 through 2006, National Guard members collectively served over 12,000 days on federal missions, largely in the Balkans and Iraq. From 2003 through 2006, Guard members served an additional 6,500 days on state missions. In response to extended deployments for the Guard and other military branches, broad packages of initiatives to support military members and veterans were enacted in each of the last three years. These initiatives include increased tuition reimbursement for National Guard members and a state “GI Bill” for veterans, an expanded soldiers assistance program, grants for county outreach to veterans, reenlistment bonuses, outreach offices on college campuses and tribal lands, and a new “Support Our Troops” license plate.
- **Troop reintegration.** Over the last few years, the Minnesota National Guard has used start up funding from federal and state sources to create a pilot reintegration program for returning troops. Minnesota’s Beyond the Yellow Ribbon program brings together resources from a network of organizations, including the Minnesota Department of Veterans Affairs, to ensure successful reintegration into civilian life. After reviewing early results of the program, U.S. Defense Secretary Robert Gates agreed to continue federal funding and use it as a model for national implementation.

Useful Links and Resources

Minnesota Department Results: Performance accountability measures for 26 state departments. (<http://www.departmentresults.state.mn.us/>)

National Agricultural Statistics: U.S. and state level statistical agricultural data. (<http://www.nass.usda.gov/>)

Minnesota Agriculture Statistics Service: Includes Minnesota information from the USDA Census of Agriculture 2002. (http://www.nass.usda.gov/Statistics_by_State/Minnesota/index.asp)

Minnesota Farm and Food Coalition: An economic advocacy group made up of various food and livestock producer associations. (<http://www.mnfarmandfood.org/>)

MN Grown: A marketing program to promote Minnesota grown and raised crops and livestock. (<http://www.mda.state.mn.us/food/minnesotagrown/default.htm>)

Minnesota Institute for Sustainable Agriculture: Promotes cooperative efforts to develop and promote sustainable agriculture. (<http://www.misa.umn.edu/>)

Minnesota Farm Bureau Federation: Includes a list of county Farm Bureau offices and a list of State Priority Issues. (<http://fbmn.org/>)

Land Stewardship Project: Encourages sustainable agriculture and an ethic of land stewardship. (<http://www.landstewardshipproject.org/>)

Veteran Data and Information: U.S. Department of Veterans Affairs source for national demographic data and findings about veterans (<http://www1.va.gov/vetdata/>)

Minnesota Veteran One-Stop: Provides veterans and their families and employers a one stop location for veteran-related information (<http://www.minnesotaveteran.org/>)

Minnesota National Guard Current Operations: Current snapshot of deployment in state and federal missions (http://www.minnesotanationalguard.org/current_operations/index.php)

U.S. Department of Defense Reserve Affairs: Provides information on federal programs for reserve and guard forces (<http://www.defenselink.mil/ra/>)

National Guard Association of the United States: Nonpartisan organization representing 45,000 current and former Army and Air National Guard officers (<http://www.ngaus.org/>)

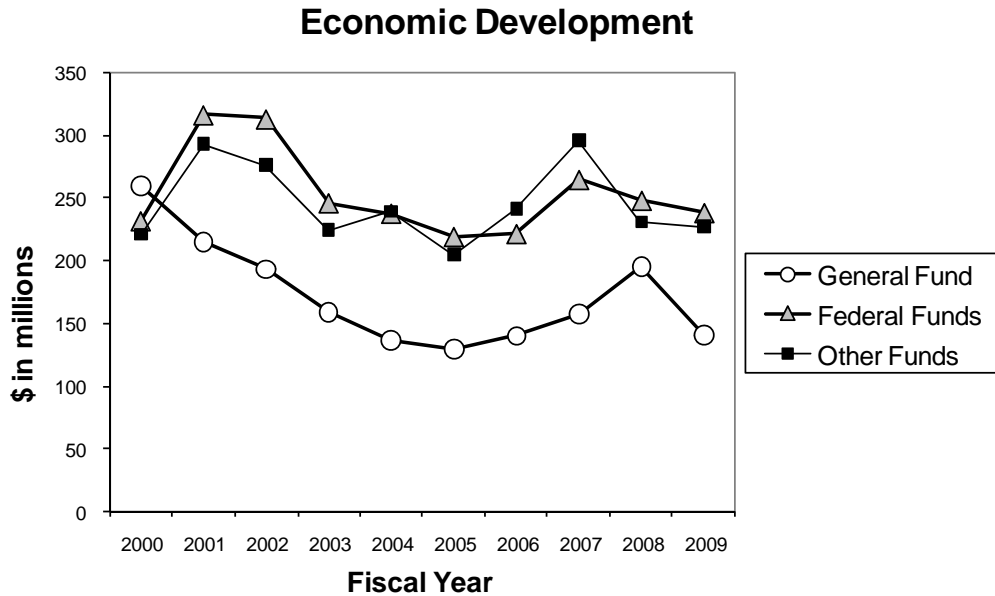
Minnesota Military Family Foundation: Provides emergency financial support to deployed Minnesota military personnel and their families (<http://www.minnesotamilitaryfamilyfoundation.org/>)

FY 2008-09 Biennial Budget Overview by Omnibus Bill Economic Development

I. Financing Summary

The Economic Development program area includes the Departments of Employment and Economic Development, Labor and Industry, the Housing Finance agency, the Office of Tourism, and others. Their mission is to support the economic success of individuals, businesses, and communities by improving opportunities for growth.

	General Fund				All Funds			
	FY 2006-07	FY 2008-09	\$ Difference FY 08-9 vs FY 06-7	% of Total FY 2008-09	FY 2006-07	FY 2008-09	\$ Difference FY 08-9 vs FY 06-7	% of Total FY 2008-09
<i>Economic Development</i>								
Arts Board	17.2	20.4	3.3	6.1%	18.9	21.9	3.0	1.7%
Employment & Econ Development Dept	125.1	116.6	(8.5)	34.7%	778.8	711.3	(67.5)	55.6%
Explore Minnesota Tourism	21.2	22.3	1.2	6.6%	24.4	25.0	0.6	2.0%
Historical Society	46.7	50.2	3.6	15.0%	48.4	52.0	3.6	4.1%
Housing Finance Agency	70.5	114.6	44.1	34.1%	70.5	114.6	44.1	9.0%
Iron Range Resources & Rehab	0.0	0.0	0.0	0.0%	97.9	71.3	(26.5)	5.6%
Labor & Industry Dept	7.3	2.1	(5.2)	0.6%	256.8	271.2	14.4	21.2%
All Others	9.4	9.6	0.3	2.9%	11.5	11.9	0.4	0.9%
Total Economic Development	297.3	335.9	38.6	100.0%	1,307.2	1,279.2	(28.0)	100.0%



Scope and Financing

The purview of economic development programs is very wide. To promote a healthy economy, the state provides a variety of resources ranging from tax incentives and financing for business expansions to funding for contaminated site cleanup and redevelopment of old industrial sites. The creation of jobs and economic growth are the primary criteria for this funding, which comes primarily from the general fund and bond sales.

The state also plays a role in preparing and maintaining a skilled workforce to attract and retain employers by partnering with them and the state college and university system to share the costs of upgrading the skills employees need in rapidly changing industries. Employers and citizens both benefit from a state supported job bank that lists available jobs in every corner of the state, and in the event of layoffs or downsizing, the state administers the federal unemployment insurance program to provide some stability to the displaced workers and to the economy. Injured and disabled citizens are also eligible for a variety of rehabilitation and job skills training programs.

Workplace safety is another important area of state responsibility, met by working with industry to develop guidelines and standards for employee safety, enforcing prevailing wage laws, establishing building codes and regulating apprenticeship programs. State programs in this area help reduce workplace injuries, and ensure that injured workers receive prompt medical services and help in returning to work.

Housing is also a critical factor in maintaining a robust economy, and the state partners with the federal and local governments and private nonprofits and foundations to ensure that there is adequate housing for all income levels.

The economic development umbrella also covers a wide variety of other activities, including labor/management mediation, tourism promotion, regulation of professional occupations, promotion of arts and culture, and the preservation of our historic sites and artifacts.

Background

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.

- Redeveloping old industrial sites promotes growth at minimal cost by taking advantage of existing electrical, sewer, water, road, and natural gas infrastructure, and reduces sprawl by providing jobs where workers and schools are already located.

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 of many state, local and private employment services in 47 locations across Minnesota. The unemployment insurance program is a partnership of federal, state, and local government, allowing workers to apply for benefits and seek new employment right in their own communities.

Recent Significant Issues

- *Construction Codes and Licensing.* In an effort to streamline government and simplify compliance for industry and workers, the licensing and building code operations of five separate state agencies were consolidated into one agency. This change is expected to make it easier for businesses and employees to navigate the rules and regulations they must comply with by providing all related information from a single source.
- *Public Facilities Authority Received \$75 million* in the last 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, Clean Water Legacy projects, and a host of other water related projects.
- *Minnesota 21st Century Minerals Fund* received \$14.9 million to invest in jobs and economic development projects in the iron range area to help transition that part of the state to a stable, growing area to live and invest.
- *Housing Finance Agency* received \$115 million in the continued effort to end long term homelessness and ensure the supply of adequate housing in the state.

Useful Links and Resources

Agency Performance measures: <http://www.departmentresults.state.mn.us>.

Agency Websites:

Arts Board - <http://www.arts.state.mn.us/>

DEED - <http://www.deed.state.mn.us/>
Explore MN Tourism - <http://www.arts.state.mn.us/>
Historical Society - <http://www.mnhs.org/index.htm>
Housing Finance Agency - <http://www.mhfa.state.mn.us/index.asp>
Iron Range Resources - <http://www.irrrb.org/>
Labor and Industry – <http://www.doli.state.mn.us/>
Mediation Services – <http://www.bms.state.mn.us/>

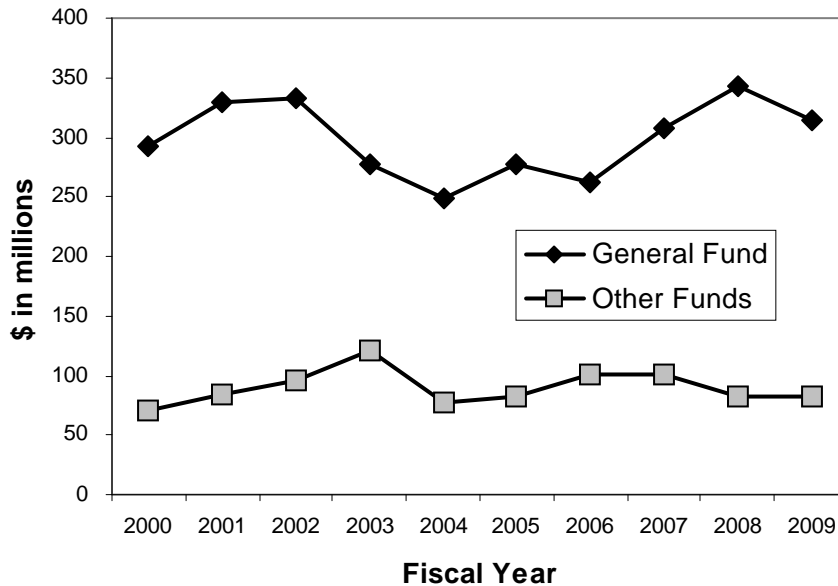
FY 2008-09 Biennial Budget Overview by Omnibus Bill State Government

I. Financing Summary

Agencies financed through this portion of the state budget include constitutional officers, the Legislature, five major staff agencies including the departments of Administration, Employee Relations, Finance, Revenue, and the Office of Enterprise Technology as well as the public pension systems and a number of other boards and commissions. Collectively these offices and agencies provide the basic infrastructure for state policy development and business operations.

	General Fund				All Funds			
			\$ Difference	% of Total			\$ Difference	% of Total
	FY 2006-07	FY 2008-09	FY 08-9 vs FY 06-7	FY 2008-09	FY 2006-07	FY 2008-09	FY 08-9 vs FY 06-7	FY 2008-09
State Government								
Administration Dept	22.1	27.9	5.8	4.3%	45.0	51.1	6.1	6.3%
Attorney General	54.2	49.0	(5.2)	7.5%	62.9	56.1	(6.7)	7.0%
Employee Relations Dept	12.3	12.2	(0.2)	1.9%	62.7	64.1	1.4	8.0%
Finance Dept	31.8	31.4	(0.4)	4.8%	45.5	45.1	(0.4)	5.6%
Governors Office	7.5	7.5	0.0	1.1%	8.2	8.3	0.1	1.0%
Legislature	124.5	145.9	21.3	22.2%	124.8	146.2	21.4	18.1%
Office of Enterprise Technology	5.5	24.3	18.8	3.7%	7.3	25.3	18.0	3.1%
Pensions and Retirement	63.6	58.8	(4.8)	9.0%	63.6	58.8	(4.8)	7.3%
Revenue Dept	207.7	248.1	40.4	37.8%	222.8	261.2	38.4	32.4%
Secretary of State	12.0	12.7	0.7	1.9%	52.5	20.7	(31.8)	2.6%
State Auditor	16.8	18.5	1.6	2.8%	16.9	18.5	1.6	2.3%
All Others	11.8	20.0	8.2	3.0%	43.6	50.8	7.2	6.3%
Total State Government	569.9	656.1	86.2	100.0%	755.8	806.3	50.5	100.0%

State Government



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 2008-09 biennium, spending on these agencies totals approximately \$806 million, of which \$656 million (81%) 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.

Appropriations to these agencies increased by \$86 million for the 2008-09 biennium after several years of budget reductions to relieve general fund shortfalls. New spending in 2008-09 is targeted largely to technology systems projects, state employee compensation increases, and legislature operating increases. This higher spending is offset by increased revenues and projected savings from merging the Department of Employee Relations into three other agencies by June 2008. For the third consecutive biennium, additional investments have been made in tax compliance activities to generate an estimated \$104 million in 2008-09.

Background

Outcomes & Indicators

General

- 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's expenditures per capita for governmental administration were 16 percent below the national average, a significant reduction from higher than average expenditures in the year 2000 (update based on 2004 Census data).

Financial Management

- Minnesota has achieved top ratings from two major bond-rating agencies and has achieved the second highest rating from a third agency.
- Minnesota ranked in the top 6 states for tax system management in the Government Performance Project review of state tax systems (Governing Magazine, February 2003).

State Employment & Compensation

- Minnesota ranked 35th in the nation in the number of state government employees per 10,000 residents (U.S. Census Bureau, 2007 Statistical Abstract of the U.S.).
- Minnesota's cost of human resources service per employee was \$768 in 2005, compared to a state/local government median of \$912 (Society for Human Resource Management, 2005).
- Minnesota's Advantage Health Plan, a cost-tiered employee health benefits plan serving 120,000 members of the State Employee Group Insurance Program, received the 2004 Innovations Award from the Council of State Governments Midwest Region. Advantage Plan premiums have increased an average of 8.5% per year over the last four years, compared to a 10.3% average increase for employer-based health insurance premiums nationwide. Due to lower than expected costs in 2005 and 2006, the Advantage Health Plan was able to offer a 0% premium increase and a one-time premium rebate in 2006.

Infrastructure & Operations

- Minnesota ranked 11th overall in a study of the most digitally advanced state governments, up 6 spots from two years prior (Center for Digital Government, 2006).
- In fiscal year 2007, the Department of Administration successfully negotiated leases that held increases to only 1.1% (out of their goal of 2%) and automated 93.6 percent of federal mail, saving state agencies \$832,279. (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 technology investments will continue to be a challenge as uses and expectations 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 an increasing number of relationships with other levels of government. The State Auditor, the Attorney General, the offices of Administrative Hearings and Enterprise Technology, and the departments of Administration and Employee Relations have regular interaction with local governments. For example, the Cooperative Purchasing Program within Administration encourages local governments to save money by participating in state purchasing contracts for computers, supplies, and vehicles, along with other goods and services. Employee Relations monitors local government pay equity and operates an insurance pool with local governments so they can purchase health care and other benefits. The Office of Enterprise Technology provides a range of telecommunications and other technology services to cities, counties, and school districts.

Agencies in this area do not receive much funding from the federal government, and pass a relatively small amount of funding on to localities as grants.

Recent Significant Issues

- The 2005 Legislature established the Office of Enterprise Technology (OET) to provide a statewide, coordinated approach to the information technology used by state agencies. In response to concerns about security breaches in state agency IT systems, the 2006 and 2007 legislatures appropriated an additional \$5.9 million per year to administer a state IT security program. Following the lead of many private and public sector entities, OET launched a collaborative process with state agencies to consolidate several core technology services.
- As health care costs rise, discussion continues on consolidating and improving health care purchasing across all levels of government in the state. State agencies are participating in a number of coalitions and programs that have formed around this issue, including the Governor's Health Care Cabinet, the Smart Buy Alliance, the Buyers' Health Care Action Group, the QCare initiative, and the Center for Health Care Purchasing Improvement. (transferred to the Health Department in 2007). In addition, various proposals have been advanced to bring school districts and other local governments into state insurance programs.
- Under legislation effective on July 1, 2006, the State Teacher's Retirement Association (TRA) assumed the assets and liabilities of the former Minneapolis Teacher's Retirement

Fund Association (MFTRA) and took on responsibility for the approximately 14,000 MFTRA members. Future employee and employer contributions will help offset TRA's additional unfunded liability due to the merger.

- To further streamline state government, the state is in the process of eliminating the Department of Employee Relations, and merging its activities into the departments of Finance, Administration and Health. The mergers will be completed by June 2008.
- Minnesota established the Drive to Excellence in 2005 to make government more efficient by managing common functions across the enterprise. Based on work by multi-agency Drive to Excellence teams, the state has created a new model for enterprise technology governance including the new Office of Enterprise Technology, consolidated construction code licensing responsibilities from five agencies into the Department of Labor and Industry, and launched a pilot program to provide business and technical licenses online. Most recently, the state created a new grants management office at the Department of Administration. This office will improve state grant-making by standardizing grant policies, raising oversight standards, and improving grant services across state agencies.
- In 2007, the State of Minnesota and others reached a settlement with Northwest Airlines to repay a \$36 million debt owed to the state for construction of the Northwest Maintenance Facility at the Duluth Airport.

Useful Links and Resources

Performance measures for individual agencies: <http://www.departmentresults.state.mn.us>.

Census data: <http://www.demography.state.mn.us/>
<http://www.census.gov/compendia/statab/rankings.html>

Drive to Excellence: <http://www.excellence.state.mn.us/>

Governing Magazine Online: <http://www.governing.com/>

Government Performance Project: <http://www.gpponline.org/>

Governing Sourcebook: <http://sourcebook.governing.com/index.jsp>

National Council of State Legislatures: <http://www.ncsl.org>

Council of State Governments – Midwest Region: <http://www.csgmidwest.org/>

Center for Digital Government: <http://www.centerdigitalgov.com/index.php>

National Association of State Chief Information Officers - Publications:
<http://www.nascio.org/publications/>

Society for Human Resource Management – Public Sector HR: <http://www.shrm.org/issues/ps/>